Strategies for livestock producers utilizing disaster aid programs with crop insurance

By James Sedman and John Hewlett

Crop and livestock producers have a variety of risk management options at their disposal. Several new programs are meant to provide disaster relief passed as part of the 2008 Farm Bill.

Most of these programs require some level of crop insurance for Farm Service Agency (FSA) verification of loss. Enrolling in these programs is a logical first step to ensure the operation is qualified to receive any disaster assistance payments should they become available.

Producers who choose to utilize these programs may also be able to adjust insurance coverage levels and perhaps lower overall premium costs while raising the level of protection against catastrophic losses. These disaster programs can, with planning, be used to fill gaps in coverage of crop and livestock insurance policies. The strategy selected will depend on individual risk preferences.

Strategies for Indifference or High Risk Tolerance

Livestock producers with a high-risk tolerance or who are comfortable with higher levels of risk may choose to self-insure using options such as increased stored forage or grass inventories as well as setting aside cash reserves to cover any disasters or emergencies. Producers who choose this strategy are eligible for the Livestock Indemnity Program (LIP). This program covers losses of livestock due to extreme weather at 75 percent of market value. A producer using Livestock Risk Protection Insurance (LRP) is not covered for any event resulting in loss of cattle – only against a decrease in price. Producers should apply within 30 days of any loss and document those losses through veterinarian records, rendering truck receipts, or other FSA-approved documentation methods to qualify.

Strategies to Manage Risk with Insurance Coupled with Disaster Programs

Livestock producers seeking to manage their risk through crop insurance policies have several options. The Supplemental Revenue Assistance Program (SURE) assists crop and livestock producers who suffer a greater than 50-percent loss in production in a county-declared disaster. This program requires enrollment in either appropriate crop insurance or the Non-Insured Disaster Assistance Program (NAP) for each commodity, although forage crops intended for grazing do not require coverage. The SURE program covers 60 percent of the difference of a farm's total revenue and the disaster revenue guarantee. Thus, for a minimum premium payment ($250 per commodity for NAP coverage or low per-acre cost for a Pasture, Rangeland and Forage [PRF] policy), operators will have an increased level of catastrophic coverage with no additional direct costs.

For instance, a ranch with an income guarantee under a PRF policy at $100,000 that sustains a loss resulting in actual revenue of $60,000 could receive a SURE payment of approximately $24,000. (Note, this is a rough estimate and does not account for other revenue taken into consideration for payment calculations.)

The Livestock Forage Disaster Program (LFP) was designed to provide assistance to producers during times of drought and should be considered for use along with appropriate crop insurance policies. Qualification under this program is determined by the U.S. Drought Monitor Index – areas of severe, extreme, or exceptional drought qualify. This program also requires enrollment for either NAP or PRF coverage. Any indemnities paid will be 60 percent of the monthly feed cost for the number of cattle covered. This payment would not be directly tied to the insured value (PRF or NAP) but rather to the carrying capacity of the insured land.

Under these new disaster-aid provisions, Adjusted Gross Revenue-Lite (AGR-Lite) is approved as a qualifying crop insurance policy. Utilizing this whole-farm income insurance may be a good fit for certain operations to ensure they would qualify for any disaster assistance. Disaster payments received may affect indemnities paid by the AGR-Lite policy and will also depend on the level of coverage selected.

For More Information

In these challenging times, it is a good idea to carry some minimum level of crop insurance to be eligible for any disaster payments in the event a natural disaster occurs. Most of the new federal disaster programs require this, and it puts an operation in a better position to manage risk.

For more information on how crop insurance policies qualify an operation for disaster payments, contact a crop insurance agent. For more information on this and other risk management topics on the Web, including three recently completed bulletins on disaster assistance programs for Wyoming, visit the Western Risk Management Library online at agecon.uwyo.edu/riskmgt.

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Meeting insurance needs

Some insurance options cover crops or livestock only, while some are available to both.