Livestock producers have insurance options to reduce risk

By James Sedman and John Hewlett

Proper risk management is essential to success in the livestock business. Unfavorable input prices, weather events, and limited availability or high-priced feed can be hard enough to deal with, but livestock producers must also address the market risk associated with pricing livestock.

Until a few years ago, livestock operators had limited options for protecting against the risk of loss. Now, a wide array of options is available under the umbrella of the Federal Crop Insurance Corporation. These policy options range from insuring against livestock prices falling, to insuring crops/feed supplies and insuring pasture and forages against losses.

Traditional Crop Insurance Policies

Livestock producers who utilize crops in their operation have the option of using different types of crop insurance policies. Actual production history (APH) based policies are the most common. These policies are based on a producer's four-year yield history and include traditional yield-based programs such as multiple peril crop insurance (MPCI) and revenue-based programs such as crop revenue coverage (CRC).

MPCI policies insure against losses in yield whereas revenue-based programs like CRC insure against losses in revenue due to declining prices as well as yield. These policies may also be available as group policies and pay indemnities based on county yield data and losses.

Pasture, Range and Forage Insurance (PRF)

PRF insurance was designed to combine the best aspects of the former pasture group risk plan with a site specific system to determine losses. PRF Vegetative Index utilizes imagery from the U.S. Geological Survey to determine vegetation greenness and thus the insurance coverage for a specific 4.8 x 4.8-mile grid area. Producers can insure both pasture and hayland. Losses are determined by comparing actual greenness against the indexed greenness for a three-month interval. This policy will recognize forage losses in a much smaller area compared to the county production values used to determine losses with traditional group plans.

Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM) Insurance

LRP policies are designed to prevent losses associated with declining market prices and are available for beef and dairy cattle (feedlot and fed cattle), swine, and lambs. Prices for coverage are determined by Chicago Mercantile Exchange prices, and indemnities occur if the actual value (determined by the current price) drops below the insured value determined by the expected weight and insured price. LGM policies are designed to protect the gross margins on feeder and fed cattle. They take the protection offered by LRP one step further by protecting against negative feeding margins as well as the value of the cattle.

Adjusted Gross Revenue-Lite (AGR-Lite)

Since 2007, livestock producers in Wyoming have had the option of using a whole-farm revenue insurance option called AGR-Lite. This product provides indemnities to producers when a ranch's adjusted gross income from multiple crops or livestock enterprises is either low relative to historical levels or low relative to an expected revenue level. All of the above discussed insurance options can be used in conjunction with AGR-Lite to provide more complete coverage.

For More Information

For more detailed information on the livestock insurance options discussed in this article and how they would apply in different scenarios on Wyoming operations, read Risk Management Options for Wyoming Ranchers. This article is available online in the Western Risk Management Library at agecon.uwyo.edu/riskmgmt. To view the article, click the Production link and scroll down. The Western Risk Management Library online also contains a wide variety of articles, presentations, and software addressing many other risk management topics.

James Sedman is a consultant to the Department of Agricultural and Applied Economics in the University of Wyoming. John Hewlett is a farm and ranch management specialist in the department. Hewlett may be reached at (307) 766-2166 or hewlett@uwyo.edu.

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Crop insurance strategies for Wyoming farms

By James Sedman and John Hewlett

Risk is an inherent factor in production agriculture. Today’s farm operators and managers must not only make good management decisions but also must have an effective plan for dealing with risk in its many forms. Failure to properly plan for and manage risk can often be the determining factor in profitability of a farm.

Adapting management and production techniques (such as crop rotations, tillage practices, or planting methods) along with sound marketing decisions can be part of a risk management strategy. Any risk management plan should address production risk, which is the risk of loss of a crop or low yields due to perils such as hail, drought, and market risk, which is the risk of loss due to fluctuating prices and markets.

To better manage risk associated with price fluctuations and production losses, many producers are turning to crop insurance policies backed by the Federal Crop Insurance Corporation. These policies vary widely and can be tailored to fit an individual producer’s risk management plan.

Actual Production History (APH) Policies

APH policies are multi-peril and are based upon a producer’s production yield history or APH. This history must cover at least four years. These policies can be production or yield based, in which case they are called multiple peril crop insurance (MPCI). These policies insure against losses in yield only. MPCI policies can be for different units of production: optional, basic, and enterprise units. Enterprise units are an operator’s entire acreage in a particular county, while basic and optional units are more site-specific to individual sections.

Yield-based policies can be individual or group in nature. In the case of group policies, indemnities are determined by yield losses on a group level and not just for an individual producer.

APH policies can also insure against losses in revenue caused by a decline in either prices or yields. One of the most common of these types is Crop Revenue Coverage (CRC). CRC insurance uses a producer’s APH yield along with a predetermined base price to insure against losses caused by price fluctuations and yield losses. Group Risk Income Protection plans are also available depending on crop and location. These policies pay indemnities if the expected revenue for a countywide crop drops below a producer’s selected trigger yield.

Adjusted Gross Revenue-Lite Insurance (AGR-Lite)

AGR-Lite insurance is a different and relatively new approach to insurance crop producers might consider. AGR-Lite is a whole-farm, revenue-based insurance policy that can protect a producer’s total farm revenue level against changes in price and yields. AGR-Lite is unique among crop insurance policies because it can be used as a standalone policy or an umbrella program in conjunction with other crop insurance policies for more complete coverage and lower premiums.

Coverage is based on the lower of either a producer’s most recent five-year average gross revenue as reported on the Schedule F tax form or the producer’s expected revenue for the current production year computed using the farm’s expected yields, planted acreage, and expected prices for all crops and crop products.

For More Information

For a more detailed explanation of the various crop insurance products available to producers, take a look at Risk Management Options for Wyoming Farms available at the Western Risk Management Library online at agecon.uwyo.edu/riskmgmt. Click on Production and scroll down to view the article. The library also contains a wide assortment of information on this and other risk management topics.

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