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.

Unstable 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 added 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-10 year yield history and include traditional yield-based programs such as multi-peril (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 vegetative greenness and thus the insurance coverage for a specific 4.8 x 4.8-mile grid area. Producers can insure both pasture and hay land. 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 (feeder 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 crop 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 example Wyoming operations, read *Risk Management Options for Wyoming Ranchers*. This article is available online in the Western Risk Management library at agecon.uwyo.edu/riskmgt. 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 College of Agriculture and Natural Resources, and John Hewlett is a farm and ranch management specialist in the department. Hewlett may be reached at (307) 766-2166 or hewlett@uwyo.edu.

Originally published in the Barnyards & Backyards April 2010 newspaper insert. Found at insuringsuccess.org