

# Risk Management Programs for Forage and Livestock Producers

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# Let's talk about risk

- It is NOT uncertainty!
- It is the negative outcome associated with an unforeseen event.
- Good risk managers
  - Know the odds
  - Don't risk a lot to make a little.
  - Don't risk more than they can afford to lose.



# Developing a “Good” Risk Management Plan

1. Identify your major risks
  1. Price
  2. Production
  3. Legal
  4. Financial
  5. Labor
2. Determine what constitutes a “wreck” for you
3. Learn about the alternatives to minimize or manage this risk
4. Develop and implement a risk management plan



# Do-it Yourself Risk Management

- Management strategies to reduce risk
  - Price → become a low-cost producer
    - Rotational grazing
    - Legumes
    - Reduced stocking rates
    - Purchase feeds during seasonal lows
  - Production → find ways to improve or maintain production
    - Irrigation
    - Soil testing
    - Rotational grazing



# Risk Management Programs Available to Producers

Price

LRP

LGM-Dairy

Production/Financial

NAP

Rainfall Index



Production/Financial Risk Management

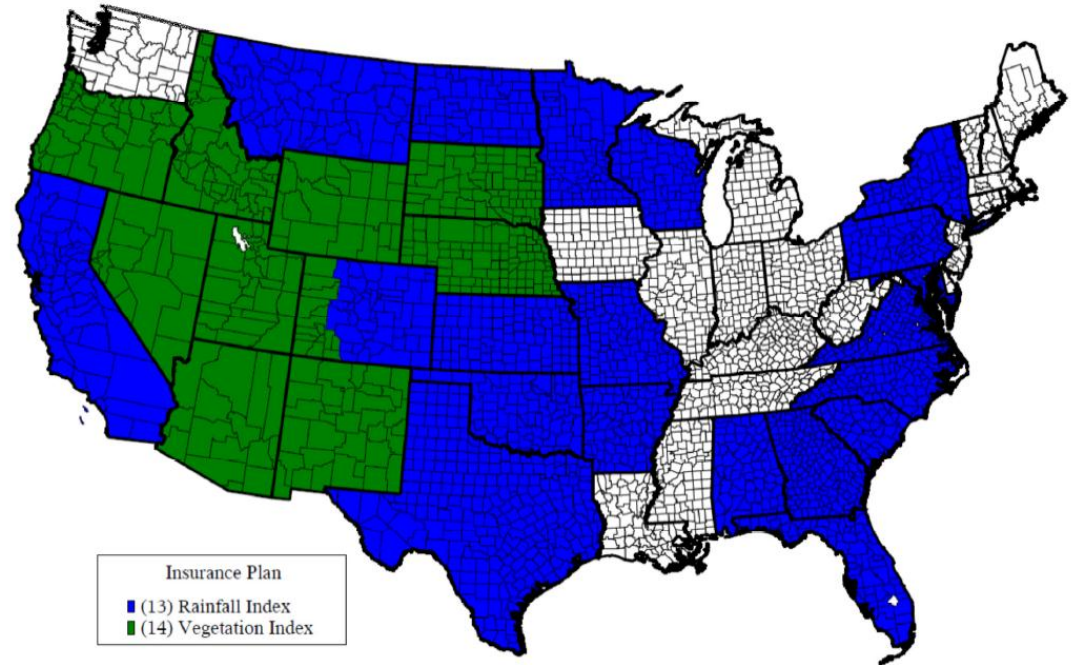
# RAINFALL INDEX INSURANCE



# Rainfall Index Insurance

2012 and Succeeding Crop Years - Pasture, Rangeland, Forage Availability

- New for 2012 in select states and counties.
- Based on a rainfall **index** as calculated by NOAA.
- Producers insure a grid-area = .25 degrees latitude X .25 degrees longitude → approximately 12 mi. X 12 mi.
- Producers insure for specific 2-month time periods



# Rainfall Index Insurance

- Participants choose PRODUCTION levels from 70-90% and PAYMENT levels from 100-150%.
- Indemnity triggers when your GRID rainfall index falls below your coverage level.





# Rainfall Index Insurance

- Deadline for sign-up is September 30, 2011.

# Example for Clarke County (Athens, GA)

Cov. / Acre: \$56.11  
Prem. / Acre: \$4.07

Year  
2007

Interval	% Acres	Ins. Acres	Actual Index	Est. Loss
1 - Jan/Feb	0	0	71.4	\$0
2 - Feb/Mar	20	47	62.3	\$812
3 - Mar/Apr	0	0	56.1	\$0
4 - Apr/May	20	47	36.2	\$1,576
5 - May/Jun	0	0	41.3	\$0
6 - Jun/Jul	20	47	66.2	\$697
7 - Jul/Aug	0	0	63.6	\$0
8 - Aug/Sep	20	47	32.8	\$1,676
9 - Sep/Oct	0	0	41.2	\$0
10 - Oct/Nov	20	47	61.3	\$841
11 - Nov/Dec	0	0	97.1	\$0
Totals:	100	235	Calculate	

Summary
Generated: 9/20/2011 9:17:51 AM

Total Payment: \$5,602  
Total Premium: \$956  
\$ Net Payment: \$4,646  
\$ Net Acre: \$19.77  
Total Coverage: \$13,186

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Cov. / Acre: \$56.11  
Prem. / Acre: \$4.07

Year  
2010

Interval	% Acres	Ins. Acres	Actual Index	Est. Loss
1 - Jan/Feb	0	0	115.9	\$0
2 - Feb/Mar	20	47	72.4	\$516
3 - Mar/Apr	0	0	50.5	\$0
4 - Apr/May	20	47	86.4	\$105
5 - May/Jun	0	0	121.5	\$0
6 - Jun/Jul	20	47	85.6	\$129
7 - Jul/Aug	0	0	109.7	\$0
8 - Aug/Sep	20	47	161.5	\$0
9 - Sep/Oct	0	0	107.5	\$0
10 - Oct/Nov	20	47	66.5	\$689
11 - Nov/Dec	0	0	80.5	\$0
Totals:	100	235	Calculate	

Summary
Generated: 9/20/2011 9:14:14 AM

Total Payment: \$1,439  
Total Premium: \$956  
\$ Net Payment: \$483  
\$ Net Acre: \$2.05  
Total Coverage: \$13,186

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# Trigger levels of Rainfall Index Insurance at 90% coverage since 2000

Year	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-Jul	Jul-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec
2011	78.5	118.5	113.1	43.1	51.3	57.8					
2010	116.2	72.5	50.6	86.4	121.6	86.5	109.8	157	104.2	65.7	79.6
2009	65.9	120	142.1	108.9	77.9	49.4	85.9	213.6	284.5	209.3	190.1
2008	71	78.8	74.9	76.3	56.1	75.3	99.7	70.3	93.5	113.5	89.6
2007	71.2	62.6	56.5	36.2	41.2	66.4	63.5	32.5	41.2	61.6	97.4
2006	99.8	80.5	54.6	52.4	58	67.7	86	105.4	105.6	95.9	88.1
2005	91.3	118.7	129.4	118.6	126.7	165.9	158.7	78.4	55.2	100.7	97.5
2004	78.3	57.5	22.8	40	98.9	106.5	82.9	202.2	180.5	127.7	136.9
2003	81.1	103	90.7	146.6	180	182.1	159.5	81	59	66.2	68.1
2002	77.2	61.7	60.2	57.8	80.7	67.7	39.7	108.5	153.3	126.6	130.9
2001	65	123.6	116	64.7	108.5	153.1	105.3	35.3	29.5	13.9	29.7
2000	76.3	55.8	58.2	45.4	44.8	48.3	73.4	121.2	77	64.8	94.9

# Practical Suggestions for Selecting Rainfall Index Insurance

- Choose those 2-month intervals that are critical to your forage production.
- Evaluate the appropriate coverage level.
- Choose the appropriate payment level.



# Rainfall Index Insurance

- Deadline for sign-up is September 30, 2011.



# Insurance Agents

- Available Through Crop Insurance Agent System
- Agent Locator Tool On USDA Website
- <http://www3.rma.usda.gov/apps/agents/>



# Rainfall Index Insurance

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Production/Financial Risk Management

**NAP**

# NAP Insurance

- Purchased through FSA.
- Required to be eligible for most federal disaster programs.
- \$250/crop (hay and pasture separate)/\$1,750 maximum per year.
- Indemnity triggered once crop reaches <50% crop APH.
- RECORDS are REQUIRED!



# NAP Insurance Example

Producer has APH of 5.0 tons per acre. In severe drought or other weather event yields were decreased to 2.0 tons.

Indemnity =  $5.0 \times .5 - 2.0 = .5$  tons X payment rate



# NAP vs. Rainfall Index

## NAP

- Requires records
- Requires disaster declaration (any declared disaster)
- Cheaper (total dollars) expense?
- Only triggers at 50% or less

## Rainfall Index

- No records required
- Rainfall index ONLY for your grid area.
- Insure any number of acres.
- Producers choose trigger payment.

# Using Livestock Risk Protection (LRP) insurance to set a floor price



# LRP Is Price Risk Protection

- Establishes A Floor Selling Price For Livestock
- Pays Producers If A Regional/National Cash Price Index Falls Below A Set Price
  - Does Not Guarantee A Cash Price Received
  - Basis Risk Must Still Be Considered
- Covers Feeder Cattle, Fed Cattle, & Swine

# Key Points

- All Owners Of Eligible Livestock In LRP States
- Once Enrolled, Producers Have The Right *But Not The Obligation* To Purchase Coverage
- Coverage Obtained With A Specific Coverage Endorsement (SCE)
- Livestock Has To Be In Eligible State
  - Owners Can Be In Other States

# Eligible Cattle

- Feeder Cattle
  - Feeder Steers, Bulls, & Heifers < 600 lbs
  - Feeder Steers & Heifers From 600-900 lbs
  - Includes Dairy & Brahman Breeds
- Fed Cattle
  - Steers & Heifers
  - Select Or Higher, Yield Grade 1-3
  - Weight: 1,000-1,400 lbs.



# Coverage Availability

- Coverage Available About 5pm To 9am CST
  - Available Sat Mornings Until 9am, But Not Sun, Mon, & Holidays
- Coverage Initiated With Specific Coverage Endorsement (SCE)
  - No Limit On Number Of SCEs
- Producers Have Flexibility On The:
  - Timing Of Purchase
  - Time Length Of The SCE
  - Number Of Head Covered

# Limitations On Number Of Head Insured

	Fed Cattle	Feeder Cattle
Per Specific Coverage Endorsement	2,000	1,000
Per Crop Year July 1-June 30	4,000	2,000

# LRP Compared to Hedging or Options

- Advantages
  - No need to establish brokerage accounts
  - Can insure animals on individual basis
  - “Guaranteed” availability for price protection for far-off futures contracts
  - May be less expensive for deferred months
- Disadvantages
  - Paperwork can take a while
  - Available only for animals in certain states
  - Can’t “lock-in” a price
  - Can’t exercise or “sell back” contract if market goes up
  - May be more expensive for nearer months

Price Risk Management

# LGM-DAIRY



# LGM Dairy

- Allows producers to insure against changes in “milk-margin.”
- Fairly involved program.
- For more details contact Dr. Lacy or your local crop insurance agent.



# Summary

- Good managers know their risks
- Better managers manage their risks
- Being a low-cost producer is one form of risk management.
- There are other tools available to help livestock and forage producers manage their price and production risk.

# Risk Management Programs for Livestock and Forage Programs

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