Forage insurance: Which option fits your operation?

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One of the primary strategies for managing risk is transferring risk outside the farm or ranch through insurance products or other mechanisms.

Crop insurance dates back to the 1930s in the U.S. However, under those programs, there have not been many insurance options available to forage producers. That has changed considerably in recent years. This article provides a brief summary of the options currently available offering protection to forage producers.

Forage Production and Forage Seed Insurance

The USDA Risk Management Agency (RMA) offers insurance coverage for forage production and forage seed in all counties of Montana, North Dakota, South Dakota and Wyoming, along with select counties in 19 other states. Coverage is based on average production history

(APH) under the Forage Production program.

The Forage Seed program coverage is based on the plant population in the resulting established stand.

Rainfall Index – Pasture, Rangeland, Forage Insurance

Rainfall Index – Pasture, Rangeland, Forage (RI-PRF) is an RMA pilot insurance product designed to protect against deficits in precipitation for forage intended for livestock grazing or mechanical harvest. RI-PRF first became available in 2007 in a few selected states but has since been expanded and updated multiple times. It is now available in all 48 contiguous states.

The sign-up period for RI-PRF ends Nov. 15, and the resulting insurance provides protection in selected portions of the following calendar year. RI-PRF is based on precipitation data from the National Oceanic and Atmospheric Administration Climate Prediction Center (NOAA-CPC).

The insurance provides producers with the opportunity to insure up to 90 percent of expected precipitation for selected two-month intervals within a year. It is a group insurance policy based on grids roughly 17 miles by 17 miles. Productive value is determined by county and perennial forage type. Producers can adjust coverage levels to best fit their risk protection needs.

Annual Forage Insurance

Annual Forage Insurance is another RMA pilot insurance program based on precipitation index data provided by NOAA-CPC. It is designed to meet the needs of producers planting annual forage crops for use as livestock feed or fodder. Annual Forage Insurance is available for four different growing seasons, tied to three-month planting periods that cover the entire year, starting July 16 and running through to July 15 the following year.

Each growing season is a six- to seven-month period offering coverage against reduced precipitation levels in selected two-month intervals. The sign-up deadline is July 15 for all growing seasons in the following year. Annual Forage Insurance is currently available in Colorado, Kansas, Nebraska, North Dakota, New Mexico, Oklahoma, South Dakota and Texas.

Noninsured Crop Disaster Assistance Program

The Noninsured Crop Disaster Assistance Program (NAP) is administered by the USDA Farm Service Agency (FSA). It provides producers of noninsurable crops with basic or catastrophic coverage when low yield, loss of inventory or prevented planting occurs due to a qualifying natural disaster. NAP coverage is available only on crops that cannot be insured at the catastrophic level, including crops grown for livestock consumption.

When purchasing NAP, producers pay a service fee of $250 per crop per county for catastrophic coverage: 50 percent of the approved yield covered at 55 percent of the approved market price. The 2014 Farm Bill authorized “buy-up coverage” for higher levels of yield protection (55, 60 or 65 percent) at 100 percent price coverage. (Note that buy-up coverage is not available for crops and forages intended for grazing.)

NAP coverage is available for alfalfa, alfalfa mixture, native grass rangeland and other forage acreage. The coverage price for grazing is established nationally on a per-animal-unit basis, and stocking rates are set by respective FSA state committees.

Livestock Forage Disaster Program

The Livestock Forage Disaster Program (LFP) is also administered by FSA. Under LFP, livestock producers can receive compensation for grazing losses when pasture or rangeland under their control falls within a county classified by the U.S. Drought Monitor as experiencing a qualifying drought-related event. This is a single peril (drought) disaster assistance program.

Payment rates are established by FSA on a per-head basis. LFP payments are capped at 60 percent of the monthly feed cost for up to five months of grazing losses due to a qualifying drought event.

Historical use of forage insurance and disaster programs

Access to RMA forage insurance products hinges on availability. RI-PRF, available in all 48 contiguous states, reported $1.74 billion of liability (value of enrolled forage) in 2017, with a corresponding $341 million in indemnity payments (**Table 1**).

TABLE 1 2017 forage and rainfall index crop insurance policy data

	Forage production	Forage seeding	RI-PRF	Annual forage
Policies sold	12,904	14,553	28,477	5,038
Liabilities	$278 million	$25.6 million	$1.74 billion	$134 million
Indemnity	$44.7 million	$390,512	$341 million	$41 million
Loss ratio	1.73	0.12	0.90	1.21

Source: USDA Risk Management Agency Summary of Business Reports and Data

Annual Forage Insurance, available in just eight states, reported $134 million in liability coverage and a total of $41 million in indemnity payments. The Forage Production program had the highest loss ratio in 2017, with indemnity payments exceeding premiums by 73 percent.

The 2014 Farm Bill retroactively authorized the LFP program to provide financial assistance to cover losses back to Oct. 1, 2011. Financial assistance provided to livestock producers under LFP was substantial for 2012-14 due to widespread drought conditions (**Table 2**).

TABLE 2 Livestock Forage Disaster Program (LFP) payments 2011-17

Year	Claims processed	LFP payout amount (dollars in millions)	Estimated forage losses (dollars in millions)
2011	96,567	$286.5	$477.5
2012	287,204	$2,620.4	$4,367.3
2013	165,212	$1,651.1	$2,751.8
2014	98,388	$925	$1,541.7
2015	80,806	$536.2	$893.7
2016	74,466	$287.8	$479.7
2017	57,634	$348.5	$580.8
Total	**860,277**	**$6,655.6**	**$11,092.7**

Source: www.fsa.usda.gov/programs-and-services/disaster-assistance-program/index

Since then, payments under LFP have stabilized nationally around the $250 million to $350 million range. The 2014 Farm Bill permanently authorized the FSA disaster programs, so availability should continue even where future farm bill authorization is delayed.

Transferring forage production risk outside the farm or ranch business can be accomplished using any of the individual tools described here. Some may also be used in combination. RMA insurance offers a greater range of control over the amount of risk to transfer, while the FSA disaster programs provide lower levels of protection at a lower cost to the producer.

Each program has its benefits, and it is important to carefully consider how they fit into an overall risk management strategy.

ILLUSTRATION: *Illustration by Ray Merritt.*

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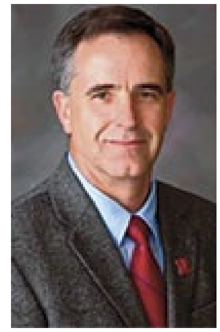

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