



RI-PRF pilot insurance minimizes feed risk for Z-F

Early fall on the Z-F Ranch found owners Bob and Betsy Zomer assessing risk management strategies for their cow-calf and yearling operation. The Zomers are situated on 12,000 acres of pasture and 200 acres of native hay in Fremont County. Both husband and wife were concerned about the coming production year. This year's late summer and early fall had been dry, and they were worried it would carry over into next year.

The Zomers looked at several options for addressing their production risks. They could:

1. Buy alfalfa hay to supplement native hay production. They knew this option might become expensive, though, with hay prices high and up-front cost tying up operating capital.
2. Rent additional pasture. Unfortunately, this option would be difficult to achieve (and expensive) due to the lack of locally available pasture. Plus, the Zomers would

prefer not to travel long distances to their cattle.

3. Send the yearlings to a custom feed yard or sell them early. With high feed prices, this may or may not be economically viable.
4. Use the new Rainfall Index Pasture, Rangeland, Forage (RI-PRF) insurance Bob recently became aware of at a local extension meeting.
5. Insure against drought using Non-insured Crop Disaster Assistance Program (NAP) coverage.

Like many producers, the Zomers decided on a combination of options. They selected RI-PRF insurance for 3,400 acres from Apr. 1 to May 30; 5,600 acres from Aug. 1 to Sept. 30; and for hay land coverage, 60 acres from May 1 to June 30 and 120 acres from July 1 to Aug. 30. They also chose to budget \$20,000 to purchase 200

tons of alfalfa hay. In addition, the Zomers bought RI-PRF insurance, which qualified their insured acres for federal disaster assistance programs.

The Zomers guessed correctly the drought would worsen, which ultimately resulted in a disaster declaration for Fremont County. The winter was cold, late, and dry, with the exception of a late spring snowstorm that delayed their turnout to pasture.

Table 1 shows the result of using the RI-PRF insurance for drought protection. The Zomers did not receive any indemnity payments for their spring

interval but did receive indemnities totaling \$69,860 for acres insured through the summer months and \$2,529 for their hay acreage. Their total insurance premiums were \$15,956; add this to their \$20,000 hay purchase and it resulted in a total up front cost of \$35,956. This total was then subtracted from the indemnity payments, resulting in a net gain for the Zomers of \$36,433.

Future planning

Although the Zomers were proactive in their strategic risk management, they could consider using NAP coverage in addition to their RI-PRF policy in the future. Details of how NAP works, however, are subject to change each year with farm bill legislation.

Generally, NAP coverage is low cost and would provide an additional drought payment. NAP coverage also applies to all of the farmer's acreage, which makes everything eligible for disaster assistance (as compared to only the acres insured under RI-PRF). NAP protects against total production losses of 50 percent or greater and is limited to a total payment of \$100,000.

The Livestock Forage Disaster Program (LFP) exists as part of the 2008 Farm Bill to aid livestock producers in the event of drought or fire. This program and the details for how it is applied is also subject to changes made in farm bill legislation.

Currently, to be eligible for LFP, a producer must have owned the livestock for at least 60 days prior to the disaster. The qualifying loss must have taken place in a declared disaster county (in cases of drought) or a recognized major fire area. A producer must have either purchased NAP coverage or RI-PRF insurance. Like all disaster programs, income limitations apply.

In the Zomers' case, the county received a "D2" drought declaration for 10 weeks. They were eligible for one month's indemnity payment under LFP because they purchased RI-PRF coverage for their spring and summer pastures. Any disaster assistance payment would be separate from a RI-PRF indemnity payment, as the payments are triggered by independent criteria.





Table 1. Z-F Ranch RI-PRF policy results.

Interval	Acreage	Coverage/ acre	Premium/acre	Indemnity/ acre	Total indemnity	Total cost
April 1 to May 30	3,400	\$16.20	\$1.00	\$0.00	\$0	\$5,379
August 1 to September 30	5,600	\$14.75	\$1.78	\$12.48	\$69,860	\$9,987
Hay: May 1 to June 30	40	\$56.25	\$5.48	\$4.81	\$770	\$219
Hay: July 1 to August 30	160	\$21.09	\$2.32	\$10.99	\$1,759	\$371
				Total	\$72,389	\$15,956

LFP payments are determined by the smaller amount resulting from either:

- 60 percent of the FSA payment rate multiplied by the number of head or
- the average carrying capacity multiplied by 30 days multiplied by the approved feed cost.

Using the first method, assume the payment rate from FSA is \$40.04 for cows/pairs, bulls, and yearlings that are older than 1 year. The monthly feed cost multiplied by the number of head (\$40.04 x 456

head) multiplied by 60 percent equals \$10,954.94.

With the second method, calculate the carrying capacity of 19.48 acres per AU (or a normal carrying capacity of 462 AUs) multiplied by 30 days (\$13,860) multiplied by the daily feed cost (\$40.04/30 = \$1.334) multiplied by 60 percent to find a total payment of \$11,093.54. Therefore, the first calculation provides the smaller amount.

If the Zomers had utilized NAP coverage in 2010, they would have received two added benefits.

Primarily, the total acreage considered for a disaster payment would have been higher, assuming their fall and winter pasture was also affected by the drought for another eight weeks. If the Zomers had sold the yearlings and ran their cowherd on their fall and winter pasture, it would have added another 3,000 acres to the total acreage considered for forage loss and raised the LFP payment by an additional \$7,351.34 (306 head x \$40.04 x 60 percent).

Secondly, the Zomers would have received a NAP payment. A 55 percent reduction in forage across the Zomers' pastures and FSA's value of \$2 per acre for pasture would mean the payment rate per acre would have been 55 percent of the approved value or \$1.10 per acre ($\2×0.55). NAP coverage for the Zomers' situation would have been calculated as 6,600 acres of lost production (12,000 total acres x 0.55) multiplied

by \$1.10 per acre. This would equal \$7,260 in total NAP payments, in addition to any RI-PRF payments received.

For more information on insurance products, see the RMA website at www.rma.usda.gov. For information on other risk management topics, visit the "Resources" tab at RightRisk.org.



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