Pasture, Rangeland and Forage Program

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The United States Department of Agriculture offers several programs to crop and livestock producers to help manage risk. A program often discussed is Livestock Risk Protection Insurance (LRP). LRP is a price insurance that livestock producers can use to protect the price of a future sale of animals. Another program available to livestock producers that has just been expanded to all 48 contiguous states is the Rainfall Index (RI) Insurance Plan for Pasture, Rangeland and Forage (PRF).

The RI insurance plan is a pilot area insurance plan for PRF produced for grazing livestock or haying. The RI-PRF insurance plan is a risk management tool designed to protect producers from a decline in an index value based on long-term, historical, average precipitation for an area of land for a period of time. The program does not utilize actual crop production information in any way, but it is designed to protect against losses of forage produced for grazing or harvested for hay that result in increased feed costs, destocking, depopulating, or other actions.

The RI-PRF program uses a numbered grid system (grid ID) created by the National Oceanic and Atmospheric Administration Climate Prediction Center (NOAA CPC) and precipitation data collected by NOAA CPC. The precipitation data is obtained for 11 2-month time periods (Jan-Feb, Feb-Mar … Nov-Dec) referred to as index intervals for each grid ID during the year. Historical data from 1948 to present is used to calculate an Expected Grid Index for each grid ID which represents the average precipitation for the specific grid ID. A Final Grid Index is calculated for each index interval and is expressed as a percentage. Thus, an index of 100 represents average precipitation while an index below 100 represents below average precipitation and an index value exceeding 100 represents above average precipitation. Precipitation data is collected across multiple reporting stations within a grid ID area and cannot be traced back to a specific reporting station since it is an interpolated value for the entire grid area.

Indemnity payments for the RI-PRF program are earned by eligible producers when the Final Grid Index is less than Expected Grid Index multiplied by the producer selected coverage level. Thus, a producer could have a loss and not receive an indemnity payment or a producer could receive a payment without experiencing a loss. Coverage levels include 70, 75, 80, 85, and 90 percent of the RI with federal government subsidies of 59, 59, 55, 55, and 51 percent respectively. The insurance premium is based on the grid in which the land is located. The producer has the decision to select the number of acres covered, the coverage level, and the 2-month time period in which to purchase insurance coverage. The 2-month time periods correspond with the 11 2-month time periods that precipitation data is collected by NOAA CPC. RI-PRF insurance is provided by and can be purchased from crop insurance providers, many of who also sale LRP insurance.

This insurance product is new to several states for the 2016 crop year including Tennessee. Producers are encouraged to educate themselves about this product because feed cost make up 50 to 70 percent of the total cost of carrying a cow. Thus, in months when forage availability is seasonally below average, producers are often forced to purchase more feed, depopulate or destock the herd. The increased cost incurred in times of drought can cut into profits significantly and many times can result in losses instead of profits.

The RI-PRF insurance program may not fit every operation, but it is meant to provide livestock and forage producers a risk management tool to alleviate some of the risks associated with pasture, rangeland and forage production. The program offers 11 insurable index intervals. Selecting the appropriate intervals to insure is important to effectively utilize the tool and to manage risk. Thus, producers should only select index intervals that cover time periods when precipitation is needed to produce forage under normal growing conditions.

The RI-PRF insurance program is not a complete risk management program for forage and feed production. However, it is a tool that can be used as a component of a risk management plan. Tools such as RI-PRF insurance and LRP insurance can be used to mitigate several high valued risk experienced in cattle production. It is prudent for producers to educate themselves about available programs in order to implement them if necessary.