The Cattleman

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RESEARCH REPORT

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IN FULL VIEW

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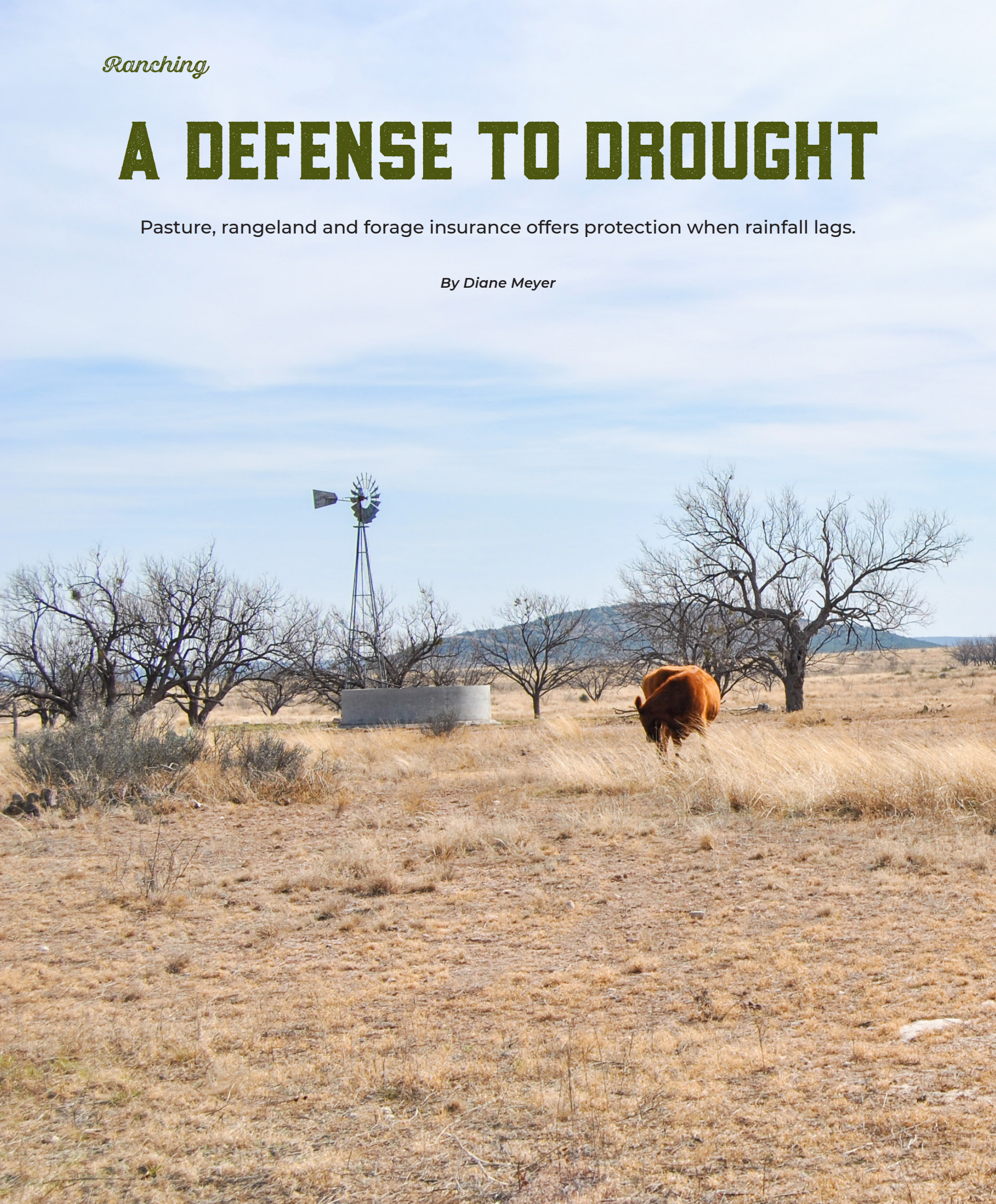
Ranching

A DEFENSE TO DROUGHT

Pasture, rangeland and forage insurance offers protection when rainfall lags.

By Diane Meyer



It's been another dry summer. Forage left standing may not be enough to keep pounds on the cows. If shipping in feed is imminent, it begs the common question, "Can my business handle these extra costs?"

That's where pasture, rangeland and forage insurance can help, assures Austin Tucker of Specialized Crop Insurance. He presented an overview of this coverage March 24 during the School for Successful Ranching at the 2023 Cattle Raisers Convention & Expo in Fort Worth.

Tucker, a Texas native now living in Alabama, works exclusively with this type of insurance to help ranchers and farmers across the country mitigate risks during drier-than-normal months.

The premise of pasture, rangeland and forage insurance is simple, he explains: "You receive payment if the expected amount of rain is less than the historical average and falls below your coverage level."

Established in 2007, the USDA government-subsidized pilot insurance program helps offset costs incurred from drought. Owned and rented acres are eligible under the policy.

Coverage rates and productive values are assigned by USDA's Risk Management Agency and based on precipitation documented in the National Oceanic and Atmospheric Admiration's Climate Prediction Center Rainfall Index.

Specifically, pasture, rangeland and forage insurance protects land used for grazing and haying. The policy defines grazing land as acreage used solely as pasture for livestock to roam and feed. Haying ground is classified as being mechanically harvestable and cured.

Available in the 48 contiguous states, Tucker recommends considering pasture, rangeland and forage insurance, especially those in drought-prone areas.

He breaks down the four components of this insurance program — location, time periods, productivity factor and coverage level — in more detail.

Cami Froneberger

1. LOCATION.

When selecting pasture, rangeland and forage coverage, acreage value is determined with an established area-based grid system. The grids do not follow geographical boundaries like county or state lines. Insured land may occupy space in a single grid, or multiple grids. Each grid stands alone with unique premiums, and/or value per acre, associated with it.

Tucker describes the insurance grid layout using a projector screen analogy — imagine one slide as a map of the U.S., and then overlaying the map with a slide of the gridlines. Essentially, the country is divided into squares, or grids.

Each grid measures 0.25 degrees in longitude by 0.25 degrees in latitude. Longitude and latitude lines originate at the equator, at which point each grid measures approximately 17 miles by 17 miles. As lines move north following the curvature of the globe, the distance between them closes. So, grid lines span 12 miles by 12 miles across the U.S.

2. TIME PERIODS.

Insured parties must select at least two, two-month periods, called index intervals, where rainfall is especially important to an operation.

Protection can represent a minimum of four months up to the entire year. There are 11 annual intervals to select from. Gaps in coverage are allowed, but intervals cannot overlap.

For example, coverage can be selected from January to February and from March to April, or spaced out from January to February and May to June. However, overlapping intervals like January to February and February to March is prohibited.

In any one interval, at least 10% of acreage must be insured, with a maximum of 50% to 70% insured. Maximum coverage level varies by state.

Austin Tucker, of Specialized Crop Insurance, presents during the School for Successful Ranching at the 2023 Cattle Raisers Convention & Expo.

INDEX INTERVALS FOR COVERAGE

When enrolling in pasture, rangeland and forage insurance policies, parties must select at least two, two-month periods. Intervals cannot overlap, but protection can be purchased up to the entire year.

JAN./FEB.	MARCH/APRIL	MAY/JUNE	JULY/AUG.	SEPT./OCT.	NOV./DEC.

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3. PRODUCTIVITY FACTOR.

Offered from 60% to 150% in 1% increments, the productivity factor is intended to offset higher input costs.

For example, if perceived acreage value is equivalent with USDA's assigned value, that may signify selecting a 100% productivity factor. With current input costs, Tucker says selecting the higher productivity factor to help more accurately reflect costs due to losses.

4. COVERAGE LEVELS.

Those insured can select coverage for 70% to 90% of average rainfall. Levels are offered in 5% increments — 70, 75, 80, 85 and 90.

For instance, a grid's designated average rainfall from January-February is 10 inches. Ten inches of rain is identified as 100% of the historical average rainfall for the grid. It rains eight inches.

With a 90% coverage level, the plan pays for one inch of missed precipitation. If it rains two inches, the plan pays for 7 inches. If it rains 11 inches, no payment is owed to the insured — the policy covers one thing only, lack of rain.

Tucker recommends selecting coverage at 90% with a 150% productivity factor to best offset input costs associated with diminished precipitation. Likewise, he works closely with every client to identify the index intervals that work best based on their grid. "How you set this up matters," he stresses.

For example, knowing how El Niño and La Niña climate patterns affect rainfall in a specific region will help predict rainfall levels.

Nodding to professional hockey player Wayne Gretzky's famous quote, "I skate to where the puck is going to be, not where it has been," Tucker echoes, "I believe that's how we should set these policies up. Let's set it up to where the weather's going to be and not where it's been."

ENROLLMENT AND PAYMENT

Pasture, rangeland and forage insurance policies are sold once per year: from Sept. 1 through Dec. 1, providing coverage for the following year.

USDA assesses new rainfall index data and updates rates accordingly before the Aug. 31 deadline, before the next enrollment period begins Sept. 1. While rates almost always change, Tucker notes adjustments are typically minimal.

Since USDA sets rates, agents can only compete based on their customer service and policy knowledge.

Tucker emphasizes the importance of working with an agent who communicates regularly and invests time in updating policies to reflect premium changes and predicted weather patterns.

"Do not settle for 'cookie-cutter' policies that never change," he cautions.

If a loss occurs, payments are processed automatically without having to submit a claim. Any indemnity owed is first deducted from the premium before a cash payout.

The USDA reports that pasture, rangeland and forages cover approximately 55% of all U.S. lands. Photo by Cami Froneberger.

UNDERSTANDING PRECIPITATION VARIATION

The National Oceanic and Atmospheric Admiration's Climate Prediction Center Rainfall Index is a tool developed to assess and quantify agricultural risk associated with precipitation changes. The index focuses on measuring rainfall deviations from historical norms in specific geographic regions across the U.S.

With data dating to 1948, it provides valuable information to farmers, ranchers and policymakers about the likelihood of droughts and floods in a given area. The rainfall index helps stakeholders comprehend the severity and frequency of weather extremes they might encounter by analyzing long-term rainfall data and categorizing regions into five different zones ranging from extremely dry to excessively wet.

The index forms the basis for pasture, rangeland and forage insurance.

Under the program, agricultural producers can purchase insurance coverage based on the NOAA CPC Rainfall Index. If the index's rainfall deviation falls below a chosen threshold, eligible farmers receive indemnity payments to offset losses caused by weather-related challenges.

Understanding and managing these risks are essential for sustainable agriculture applications and the NOAA CPC Rainfall Index empowers the agricultural community to make informed decisions to protect against future climate patterns.

Visit rma.usda.gov to learn more.

For instance, if a premium is $5,000 and a plan warrants $7,000 in payment, the premium is automatically paid and the insured receives the remaining $2,000.

If an additional loss occurs later in the year, and all of the premium was paid in the first loss, then the insured receives the entire indemnity payment.

Alternately, if payments totaled $4,500 with a $5,000 premium plan, the total premium is reduced to $500 instead of $5,000.

Billing occurs at the end of the policy, roughly the first of September. Those enrolling in coverage this year would receive a bill in September 2024.

There are no strings attached to how the indemnity payment is used. For example, ranchers who have added costs of diesel from hauling water to cattle can use insurance money for added fuel costs.

Tucker also notes policyholders do not have to insure all their acres — they can select coverage based on budgetary needs.

"I get a lot of 'thank god,'" Tucker says of feedback on the coverage. Still, heeding a lesson from a ranching friend that "a good cattleman never complains about too much rain or too many calves," he reminds it is only intended as a band-aid.

He says, "The money is in the field, it's not in the PRF checks."

Diane Meyer *is the associate director of content for Grant Company based in St. Joseph, Missouri.*

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