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ECONOMICS

USDA Rainfall Insurance Protects Against Dry Weather

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Farmers and ranchers can control many aspects of the farm or ranch business. For instance, a rancher can dictate the calving season, controlling when and how their cattle are bred. They can determine what types of health care programs their cattle receive and the types of forages used for grazing and hay production. However, one production variable that ranchers have no control over is the weather, which creates substantial production risk.

In Oklahoma and Texas, dry spells and prolonged drought create the greatest threat of production risk for cattle producers. During dry spells and drought, available forage becomes scarce and sometimes nonexistent. Consequently, baled hay becomes very expensive. In some cases, it becomes too expensive to purchase, forcing ranchers to reduce cattle numbers.

In response to the production risk caused by dry weather and prolonged drought, a relatively new program sponsored by the Risk Management Agency (RMA) of the United States Department of Agriculture (USDA) provides pasture, rangeland and forage insurance for pastures that

are grazed or used to produce hay. The programs are based on either a vegetation index or rainfall index. This article focuses on the potential benefits and costs associated with the rainfall index, the index used by RMA for ranchers operating in Oklahoma and Texas (Figure 1).

How does the program work?

Base land production values for hay and pasture are assigned by RMA for each county in terms of dollars per acre. Producers determine the value of their hay and pasture acres compared to the county base value, choosing between 60 and 150 percent. Then producers decide what percent of normal rainfall they would like to insure. The producer can choose a percent of normal rainfall between 70 and 90. Finally, a decision needs to be made on which months to insure the property. The insurance is taken out with an approved private insurance company in two-month intervals with a minimum of two intervals for a single year.

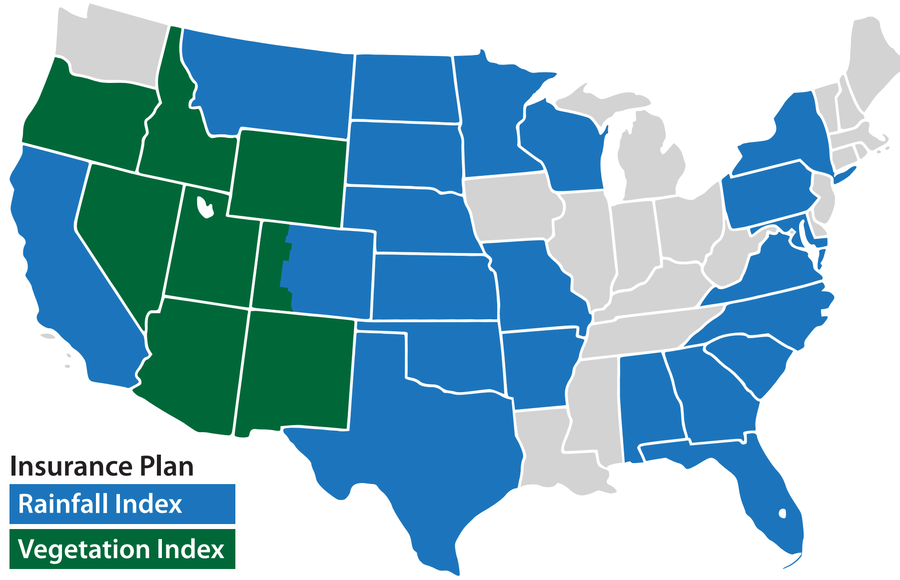
The rainfall index is based upon a rainfall grid system, with each grid being approximately 12 miles by 12 miles. Normal rainfall for each grid is based upon records that date back to 1948. For each two-month interval, if the rainfall was below the specified percent of normal, a payment is mailed automatically to the rancher within 60 days of the end of that period.

Who should use this product?

Normally, insurance products do not make financial sense long-term if a rancher can meet the cash flow needs of the enterprise in the short run. However, every producer that has land that is used for grazing or hay production should consider using this insurance product because a substantial portion of the premium is subsidized by the USDA. The subsidy ranges between 51 and 59 percent of the total premium, depending on the percent of normal rainfall chosen to insure by the rancher.

Figure 1.

2013 and Succeeding Crop Years - Pasture, Rangeland, Forage Availability



Where to get more information?

There is an Internet-based tool available that shows farmers and ranchers what the program would have paid them in previous years for different coverage levels had they participated in the program. The tool can be found at http://agforceusa.com/rma/ri/prf/ maps. The deadline for participation in this program is September of each year, so I strongly encourage anyone who is interested to give me a call at (580) 224-6443 or email me at jdspringer@noble.org to get more information about this insurance program. ■