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How Much Risk is Right for You?

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Drought Risk Management and Tools to Evaluate Your Strategy

RightRisk recently offered a program covering drought risk in Aneth Utah. Topics included current conditions faced by livestock producers across the west and a forecast for southern San Juan County.

Two of the many insurance programs available for transferring risk to a third party (backed by the USDA Risk Management Agency) were discussed in detail. These programs included Livestock Risk Protection (LRP) for cattle and Vegetation Index-Pasture, Rangeland, Forage insurance (VI-PRF).

Dr. Jay Parsons a Risk Management Specialist with Colorado State University, stated "LRP could be a very valuable tool for managing market risk over the coming year, where calf prices will be somewhat volatile."

His examples showed that Utah calf producers (under 600 lbs.) could effectively guarantee a price of $152.60/cwt after covering insurance premiums. These prices were estimated using current RMA coverage prices listed at www.rma.usda.gov. They can be accessed through the Information Browser under Quick Links and by selecting Livestock Reports (LRP and LGM). Livestock Risk Protection (LRP) is also available to cover lambs and cattle weighing 600-900 lbs.

A second insurance product is available to help producers protect against forage losses known as Vegetation Index-Pasture, Rangeland Forage insurance. John Hewlett, Ranch/Farm Management Specialist with the University of Wyoming noted that "VI-PRF may be used to protect against losses in forage production due to natural hazards such as drought."

He explained that the product is based on an index estimated for local grids, using satellite images collected by the U.S. Geological Survey. Coverage levels are flexible and managers may select the time period during the year when policy protection is in place.

Hewlett's slide presentation demonstrated how VI-PRF would work if coverage had been in place for an example property in southern San Juan County. Purchasing insurance on a section (640 acres) of grazing land might leave a producer with $7,007 after covering all premium costs through purchase of the insurance every year since 1989. Using a similar level of VI-PRF to protect against forage losses on 100 acres of hayland in a similar area of the county could leave the manager with $78,434 after covering premium costs.

Individuals may investigate coverage for their operations by using the VI-PRF decision tools found at http://agforceusa.com/rma/vi/prf/maps.

The Drought Risk Management program concluded with a discussion of three electronic tools from RightRisk for evaluating risk management strategies. These include a partial budget tool, an enterprise analysis tool, and a whole farm financial analysis tool. All three are available with an accompanying guide on how a producer may enter their own data for analysis.

Handouts, electronic tools to help evaluate drought management strategies and more are available at http://Utah.eRightRisk.com. Or contact RightRisk directly at Information@eRightRisk.com.

Program sponsors: RightRisk, LLC, Custom Ag Solutions, DINÉ, Inc., USU San Juan County Extension, and the USDA Risk Management Agency (RMA).