Using AGR-Lite insurance in livestock operations

By James Sedman, John Hewlett, and Duane Griffith

Livestock producers in Wyoming, Montana, and other states have a growing selection of risk management products under the Federal Crop Insurance Corporation (FCIC).

One relatively new type of insurance is Adjusted Gross Revenue-Lite (AGR-Lite) – a whole-farm, revenue-based insurance product. AGR-Lite can protect a livestock producer's revenue level from changes in price and yields. AGR-Lite was developed to provide insurance when traditional crop insurance programs may not be the best fit for effectively managing risk. There are many producers who may not be able to receive coverage under traditional programs for a variety of reasons, such as size of operation, low or no actual production history (APH) yield records, or too little coverage for small losses.

AGR-Lite differs from multi-peril crop insurance (MPCI) and revenue-based policies due to its whole-farm approach rather than insuring specific crops or livestock. Livestock producers know price risk is not the only significant risk affecting total revenue. While traditional policies such as Livestock Risk Protection (LRP) protect against price risk, AGR-Lite can protect against losses in total income caused by reduced livestock weights, loss of feed, and other risk factors. AGR-Lite may also be used in conjunction with other insurance products that may be more effective in many cases when compared to such programs as the Non-insured Crop Disaster Assistance program (NAP).

This article will discuss the requirements and provisions of AGR-Lite as it applies to livestock producers, how it works, and examples of coverage compared with other livestock and feed insurance.

AGR-Lite Provisions

AGR-Lite is available to producers actively engaged in farming or ranching under any form of business organization and have at least a 10-percent ownership interest in the business. To be eligible, a producer must have five consecutive years of Internal Revenue Service (IRS) tax form 1040, Schedule F, or other tax returns (filed as the same entity for seven years), and total adjusted annual gross income of less than $2,051,282 ($1 million of liability coverage). An eligible producer's income from agricultural commodities purchased for resale (such as feeder cattle) must be less than 50 percent of total income.

AGR-Lite differs from more traditional crop insurance plans because it covers multiple commodities for the producer's fiscal year, not just individual commodities for the crop or livestock production period.

An AGR-Lite insurance policy consists of two main parts – a producer's adjusted gross revenue (AGR) determined from the last five consecutive years of IRS tax returns and the annual farm report[1] that determines allowable income and expenses used to determine the estimated base-year revenue guarantee[2]. The farm report is used to determine the values for the insurance year for each business enterprise, including the total production expected (the number of head in this case), expected sales price, and the total value of each commodity. This value may also include the inventory value of crops produced for feed, such as hay. A completed farm report determines the total expected income to be used as the revenue guarantee.

How AGR-Lite Works

While other types of crop insurance focus on individual crops and livestock and determine indemnities accordingly, AGR-Lite pays indemnities when whole-farm revenue declines below a target level.

Once a producer has filed the annual farm report and determined the AGR for the coming year, the coverage level and payment rate are determined. Coverage levels of 65, 75, and 80 percent are allowed; however, to obtain the 80-percent coverage level, at least three commodities must be specified in the annual farm report. For the 65- and 75-percent coverage, only one commodity is necessary. Payment rates are available at 75- and 90-percent of the revenue guarantee. These values are summarized in Table 1. Indemnities are paid when actual income drops below the AGR times the coverage level. Premiums for AGR-Lite policies are subsidized (like other FCIC programs) at varying rates shown in Table 1.

Premiums are determined by multiplying the subsidy rate times the total premium and subtracting that amount from the total premium. The total premium is determined by the U.S. Department of Agriculture's Risk Management Agency (RMA). It is important to note that, in completing a farm report, the average of approved expenses over the previous five-year period are calculated as well as the approved expected expense level for the coming insurance period. If actual expenses are 70 percent less than expected, the AGR is adjusted to reflect the difference.

Table 1. AGR-Lite Coverage Level Information

Coverage Level (%)	Payment Rate (%)	Min. Commodities Required	Subsidy (%)
65	75	1	59
65	90	1	59
75	75	1	55
75	90	1	55
80	75	3	48
80	90	3	48

Livestock Production Example

The best way to show how an AGR-Lite policy might fit a livestock operation is to look at an example. Assume a south-central Montana, north-central Wyoming ranch that includes cow-calf, alfalfa hay, and feeder cattle enterprises is seeking AGR-Lite coverage with no other insurance coverage. The production listed in the AGR-Lite annual farm report includes 200 calves for sale, 500 tons of alfalfa hay for feed, and 100 calves in the feedlot for backgrounding. The estimated AGR is $250,000 and allowable expenses total $165,000. The ranch chooses an 80-percent coverage level and 90-percent payment rate. This equates to a trigger level of $200,000 and coverage of $180,000.

Now assume a combined drought and bear market reduces actual income to $175,000, due to hay production of only 150 tons and calf and feeder revenues falling to $500 and $600 per head respectively resulting in an AGR of $175,000, which is less than the coverage level of $200,000. The resulting revenue deficiency is $25,000 below the coverage level of $200,000. Actual expenses remained in the acceptable range (80 percent of $165,000), so no adjustment of expenses is required. The revenue deficiency is then multiplied by the payment rate of 90 percent. The total indemnity payment (before the premium) equals $22,500. A summary of this example is shown in Table 3. Note that these values are before premium costs; premium rates will vary by region and time, so producers should consult their crop insurance representative for premium costs. An online premium calculator is available at the RMA Web site for estimating specific premium values for individual operations[3].

Summary

The Montana/Wyoming ranch example demonstrates that AGR-Lite insurance can protect against variable income and production over several different enterprises. Producers looking to add AGR-Lite to their risk management plan should first determine their risk management needs and whether AGR-Lite can meet those needs as a stand-alone product or used in conjunction with other insurance products.

For the example ranch, LRP and forage insurance may also be used in conjunction with AGR-Lite coverage. This would result in a reduced premium and better insurance for covered perils. It is also important to remember that income received from other crop insurance policies counts toward a producer's AGR.

Contact your local crop insurance agent for more information on AGR-Lite coverage. An agent will be able to assist in risk management planning to determine the best coverage level for a specific situation.

For more information on this and other risk management topics on the Web, visit the Western Risk Management Library at http://agecon.uwyo.edu/riskmgt or the RMA at www.rma.usda.gov.

James Sedman is a consultant to the University of Wyoming Department of Agricultural and Applied Economics, John Hewlett is a farm and ranch management specialist in the department, and Duane Griffith is a farm management specialist in the Department of Agricultural Economics and Economics at Montana State University.

Table 2. Example Ranch Coverage With AGR-Lite	Value
Approved AGR (Adjusted Gross Revenue) from Annual Farm Report	$250,000
Approved Expenses from Farm Report	$165,000
Coverage Level (80% level selected – $250,000 x 0.8 = $200,000)	$200,000
Payment Rate (90% level selected – $200,000 x 0.9 = $180,000)	$180,000
Assume:	
Sell 200 calves @ $600 per head	$120,000
Feed 500 ton of alfalfa valued @ $100 per ton	$50,000
Feed and sell 100 calves @ $800 per head	$80,000

Table 3. AGR Calculations Used to Determine Payment Levels	Value
Actual AGR after adjustments to Farm Report Estimates*	$175,000
Actual Expenses	$150,000
Coverage Level selected (80%)	$200,000
Revenue Deficiency (Coverage Level minus Actual AGR)	$25,000
Indemnity Payment (Revenue Deficiency times 90% or $25,000 x 0.90)	$22,500

** Calf price @ $500; Feeder price @ $600; 150 tons of alfalfa production for a total of $175,000 gross revenue.*

[1] The RMA annual farm report form, located in the AGR Standards Handbook, may be downloaded from the RMA Web site at www.rma.usda.gov/policies/agr-lite.html or may be obtained from your crop insurance agent.

[2] For further explanation of what are allowable income and expenses under AGR-Lite, consult your crop insurance agent or *Adjusted Gross Revenue-Lite: A Whole Farm Revenue Insurance Available in Wyoming* (Johnson, et al., 2007) available soon in the *Western Risk Management Library* (http://agecon.uwyo.edu/riskmgt).

[3] The RMA online premium calculator is at www3.rma.usda.gov/apps/premcalc/