Combining AGR-Lite with other insurance plans

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Variability in farm and ranch income is ultimately a greater threat than variation in yield or fluctuation in market prices.

Adjusted Gross Revenue-Lite insurance (AGR-Lite) can be an effective tool for managing such risks. AGR-Lite is a whole-farm, revenue insurance policy available under the Federal Crop Insurance Corporation program. Where many crop insurance policies protect against losses in yield or revenue for a certain commodity, AGR-Lite provides protection against declines in gross revenue for an entire farm or ranch business.

AGR-Lite provides coverage for crop and livestock producers alike. It is even available for enterprises that may not be covered under traditional insurance programs, such as certified organic commodities. Perhaps even more importantly, AGR-Lite may also be used with other crop insurance products. This allows an operator to purchase basic revenue insurance, in addition to insurance protection from the source of risk perceived as the greatest threat.

AGR-Lite Used With Other Insurance

The benefit of using AGR-Lite in combination with other insurance products is that the combination of insurance coverages can provide more effective protection from threats to the farm or ranch than is possible with a single policy. For example, purchase of Group Risk Plan (GRP) Rangeland insurance provides many livestock operators across Wyoming and Montana protection against the loss of range forage due to drought and other causes. This would be an effective risk management strategy where drought is the only source of risk; however, where market risks also represent a threat to stable income, purchase of additional insurance is needed.

AGR-Lite used in conjunction with GRP Rangeland may offer the protection desired against both the loss of forage and downturns in market prices. Markets in this case could include calf, cull cow, yearling, and feeder cattle markets, as well as hay or other feedstuffs if they are routinely produced for sale by the operation.

Using AGR-Lite may provide better coverage for ranch revenue than purchasing GRP Rangeland in conjunction with Livestock Risk Protection (LRP) for feeder cattle, another type of price risk insurance. In the latter case, the two insurance products would protect against loss of range forage and changes in feeder cattle prices but would offer no protection against changes in other important livestock prices. Currently, only the AGR-Lite policy would offer the added protection for losses in revenue across a whole farm or ranch, including multiple classes of livestock, multiple enterprises, or enterprise activities not covered by traditional insurance, such as direct-to-consumer sales or niche products.

Combination Example

Perhaps the best way to show how AGR-Lite works when purchased in conjunction with other insurance policies is to use an example of a south-central Montana/north-central Wyoming farm/ranch. The operation includes 400 acres of alfalfa/grass hay, a 250-head cow/calf enterprise, and 200 acres of irrigated wheat.

The five-year average adjusted gross revenue is $150,000 from cattle (250 head at $600/head), $136,000 for hay (both for sale and consumption), and $70,000 from wheat resulting in a total income average of $356,000. This farm uses an AGR-Lite policy with an 80-percent coverage level and a 90-percent payment rate. This equates to a revenue guarantee of $256,320 (or $356,000 times the 80-percent coverage level, then times the 90-percent payment rate).

For the purposes of this example, we will assume allowable expenses remain constant. Also assume the farm purchases an LRP contract for further protection against downward price swings in the calf market. The price guarantee on calves assures the farm of a trigger level of $150,000 at a payment rate of 95 percent. Further assume the farm carries no additional insurance on the wheat. This information is summarized in Table 1 at right.

Table 1. Example Farm using AGR-Lite	Value
Approved AGR	$356,000
Trigger Level (80%)	$284,800
AGR-Lite Coverage Level (90% of coverage)	$256,320
LRP Coverage Level	$150,000
Assume:	
Sell 250 calves (@$600/head)	$150,000
Hay Inventory Value	$136,000
Sell Wheat	$70,000
Total AGR	**$356,000**

Table 2. Indemnity Scenarios for Example Farm	Value
Approved AGR	$228,000
Trigger Level (80%)	$284,800
AGR-Lite Coverage Level (90% of coverage)	$256,320
LRP Coverage Level	$150,000
Assume:	
Sell 250 calves (@$500/head)	$125,000
Hay Inventory Value	$68,000
Sell Wheat	$35,000
Total AGR	**$228,000**
LRP Indemnity ($25,000 x 95% payment rate)	$23,750
Whole Farm Revenue Deficiency	$128,000
Minus LRP Payments ($23,750)	$104,250
Coverage level ($259,920) minus remaining deficiency	$152,070
Total AGR-Lite Indemnity (90% payment rate)	**$136,863**

Several indemnity scenarios are possible under this example. Consider a "perfect storm" of trouble. Drought causes hay yields to suffer dramatically, reducing the inventory value by half to $68,000. The irrigated wheat also suffers, dropping yields by half and the total revenue to $35,000. Cattle prices also suffer due to high feed prices caused by the drought, causing the farm to receive only $500 per head instead of $600 resulting in total cattle revenue of $125,000. Total actual farm revenue for the year is $228,000. This is a revenue deficiency of $128,000.

Before the AGR-Lite indemnity can be calculated, income must be adjusted by the indemnity received from the LRP policy. Cattle revenue was $25,000 less than the LRP trigger revenue. This, coupled with the 95-percent payment rate selected, resulted in an indemnity of $23,750. The whole-farm revenue deficiency was thereby reduced to $104,250. Subtract this from the whole-farm revenue guarantee and multiply it by the 90-percent payment rate to get the AGR-Lite indemnity payment equal to $136,863. These results are summarized in Table 2.

Advantages and Disadvantages of using AGR-Lite in Combination

As shown in the detailed example, one advantage of the whole-farm revenue coverage offered by AGR-Lite policies is the capacity to insure against losses of uninsured crops, such as the irrigated wheat. Although it was not presented in the example, large changes in expenses are also taken into account by this policy, a feature not available under most individual crop insurance plans.

Disadvantages arise where indemnity payments from other crop insurance policies count against income losses, so there is some risk of overlapping coverage; however, this is partially offset through reductions in AGR-Lite premiums.

Proper planning and examination of records are essential when deciding the type of crop insurance coverage that offers the most effective protection for a given operation. It is important to keep in mind the purpose of crop insurance should be to effectively reduce risk to acceptable levels, not to maximize indemnity payments.

Contact a local crop insurance agent for more information on AGR-Lite coverage. An agent can assist in developing a risk management plan and in determining the best coverage for a specific operation.

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 U.S. Department of Agriculture's Risk Management Agency at www.rma.usda.gov.

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