



GRP Rangeland Pilot Insurance Program Pilot Program Overview

2005 Version



Background

- The Group Risk Plan (GRP) of insurance for rangeland relies on area data rather than individual producer data.
- The original pilot was implemented for the 1999 grazing season (crop year) in 12 Montana counties.
- Over 9.5 million acres were insured for crop year 2003.
- Producers became concerned that the data did not reflect rangeland conditions accurately.
- An evaluation of the existing pilot was completed.



Background (cont.)

- The evaluation and further research confirmed that the Hay Yield Index did not accurately reflect rangeland conditions in dry years for three main reasons:
 - CRP hay
 - Grain hay
 - Abandoned acres
- Alternatives for the triggering mechanism were evaluated.
- A modification or replacement for the trigger mechanism and accompanying rates was recommended.



Background (cont.)

- Trigger alternatives reviewed:
 - Method 1 – Hay yield adjusted by hay acres (production index)
 - Method 2 – Hay yield adjusted by the ratio of harvested to planted winter wheat acres
 - Method 3 – All wheat planted yields
 - Method 4 – Hay production adjusted for CRP and grain hay production
 - Method 5 – Seasonal precipitation
- Method 4, Net Hay Production, was chosen as the most applicable trigger mechanism for GRP.
- New insurance materials were developed for implementation of the new trigger.



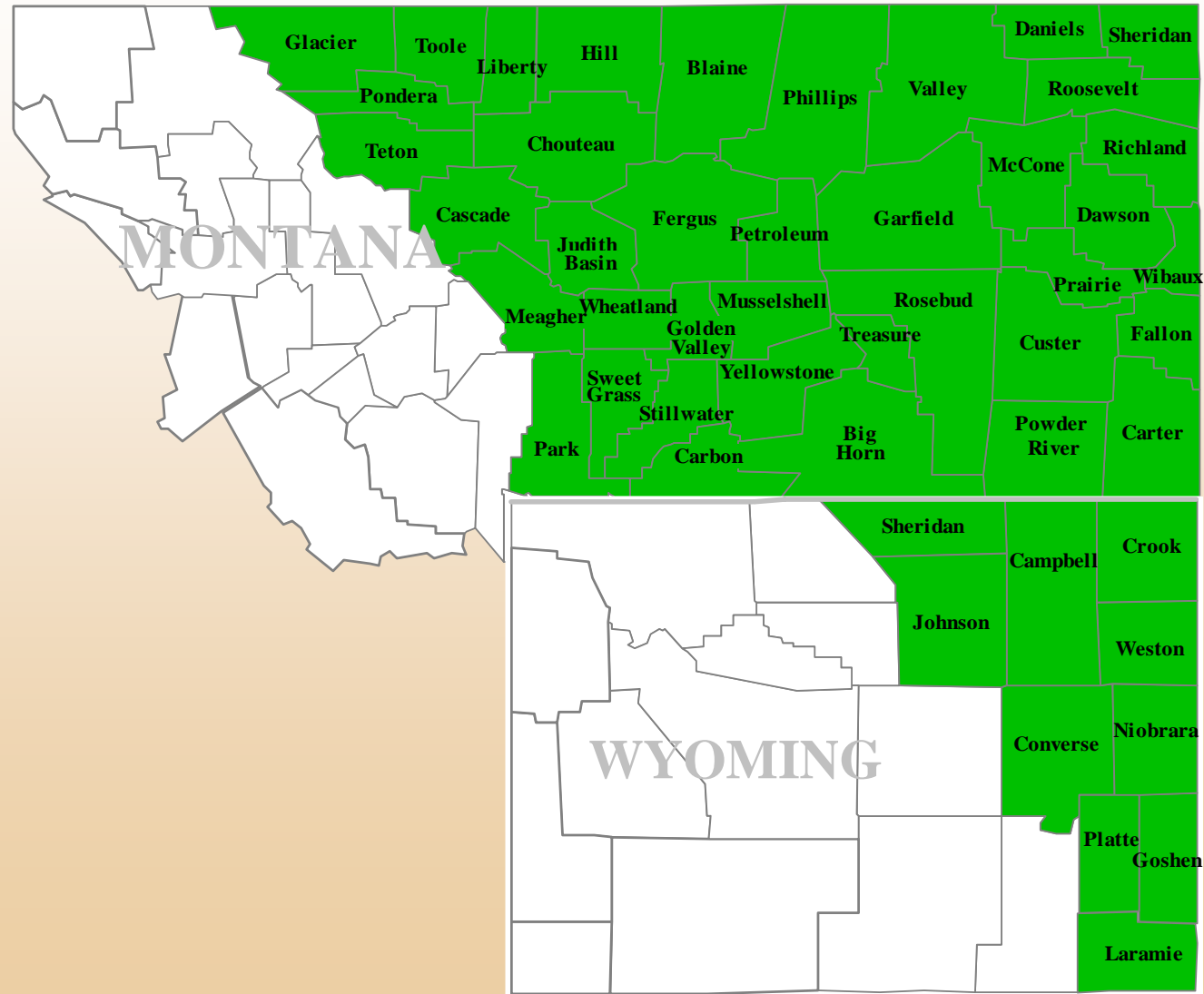
GRP Rangeland Pilot Insurance Program

- The original pilot was terminated in 2004 and the new pilot was implemented for the 2005 grazing season.
- The pilot for the 2005 grazing season will be implemented in 39 Montana counties and 10 Wyoming counties.
- There are approximately 62 million eligible acres in the new pilot area.



GRP Rangeland Pilot Insurance Program

Eligible Pilot Counties





GRP Rangeland Pilot Insurance Program Rangeland Acres and Production Value

	Eligible Acres	Estimated Annual Rangeland Production Value
Eligible Counties	62 million* (9% of total eligible acres)	\$316 million

* Eligible acres in the pilot area include 3.4 million acres of tribal rangeland and 16.4 million acres of rangeland in an underserved state.



GRP Rangeland Pilot Insurance Program Expected Program Participation and Liability

	Program Participation (acres)	Program Liability
Eligible Counties*	47%	\$118 million

* Values for eligible counties are estimates of expected participation, based on current trends.



GRP Rangeland Pilot Insurance Program New Trigger Mechanism

- Net Hay Production: the estimated quantity of non-irrigated hay produced for the crop year calculated as stated in the Special Provision.
 - This trigger reduces the impact of abandoned acres by changing from yield (production/acre) to production.
 - Producers supported Net Hay Production as the method best reflecting actual rangeland conditions.
 - National Agriculture Statistics Service (NASS) data is used to produce the index with funding provided by RMA.



GRP Rangeland Pilot Insurance Program

Example 1. Amount of Protection

Scenario:

The insured producer has 5,000 acres in a county where the County Base Revenue per acre equals \$5.32.

If the producer chooses catastrophic coverage (CAT):

(a) Dollar Amount of Insurance per acre =

$$\$5.32 \times .65 \text{ coverage level} \times .45 \text{ price election} = \$1.56.$$

(b) Policy Protection = $\$1.56/\text{acre} \times 5,000 \text{ acres} = \$7,800.$

If the producer chooses 90% coverage and an 80% price election:

(a) Dollar Amount of Insurance per acre =

$$\$5.32 \times .90 \text{ coverage level} \times .80 \text{ price election} = \$3.83.$$

(b) Policy Protection = $\$3.83/\text{acre} \times 5,000 \text{ acres} = \$19,150.$



GRP Rangeland Pilot Insurance Program

Example 2. Trigger Calculation

Scenario:

County Base Production equals 19,719 tons. During the crop year, total non-irrigated hay production is 19,719 tons, including 0 tons of CRP hay and 0 tons of grain hay. Therefore, net hay production (payment yield) is 19,719 tons (total non-irrigated hay production – CRP hay – grain hay).

If the producer chooses catastrophic coverage (CAT):

- (a) Trigger yield at 65% coverage = $0.65 \times 19,719 = 12,817$.
- (b) Because the payment yield is greater than the trigger yield, no indemnity is due.

If the producer chooses 90% coverage:

- (a) Trigger yield at 90% coverage = $0.90 \times 19,719 = 17,747$.
- (b) Because the payment yield is greater than the trigger yield, no indemnity is due.



GRP Rangeland Pilot Insurance Program

Example 3. Trigger Calculation

Scenario:

County Base Production equals 19,719 tons. During the crop year, total non-irrigated hay production is 14,000 tons, including 2,400 tons of CRP hay and 3,600 tons of grain hay. Therefore, net hay production (payment yield) is 8,000 tons (total non-irrigated hay production – CRP hay – grain hay).

Situation A:

- (a) Trigger yield = $0.65 \times 19,719 = 12,817$.
- (b) Payment calculation factor = $(12,817 - 8,000) / 12,817 = 0.376$
- (c) Payment due = $\$7,800 \times 0.376 = \$2,933$.

Situation B:

- (a) Trigger yield = $0.90 \times 19,719 = 17,747$.
- (b) Payment calculation factor = $(17,747 - 8,000) / 17,747 = 0.549$.
- (c) Payment due = $\$19,150 \times 0.549 = \$10,513$.



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Rating Method

- All counties are considered as a single risk region, offering one set of premium rates.
- NASS data from 1964 to 2003 is available for use.
- Rates range from 6.50 at the 65% coverage level to 12.40 at the 90% coverage level.



GRP Rangeland Pilot Insurance Program

Major Changes

- Net Hay Production replaces Harvested Hay Yield as trigger mechanism.
- Effective for 2006 crop year, sales closing date will be Sept. 30 preceding the crop year (March 15 for the 2005 crop year).
- Leases where grazing is limited to a specified number of AUMs will be insurable as the number of acres determined by dividing the specified number of AUMs by the rangeland productivity factor for the county.



GRP Rangeland Pilot Insurance Program

Producer Benefits

- Coverage is not based on APH; hence, the producer can purchase maximum GRP without proving yields.
- Only one policy is offered per entity per county.
- The claim process is much simpler.
- Damaged crops do not have to be appraised to determine the amount of payment.
- Higher dollar amounts of protection and higher levels of coverage are available, compared to individually adjusted coverage.
- Premium rates per dollar of protection often are lower and paperwork is reduced relative to other crop insurance plans.



Program Dates

- **Sales Closing Date** – March 15, 2005 (September 30 preceding the crop year for Crop Years 2006 and thereafter).
- **Acreage Reporting Date** – May 15, 2005 (November 15 preceding the crop year for Crop Years 2006 and thereafter).
- **Billing Date** – October 1 of the Crop Year.
- **Cancellation Date** – September 30 preceding the crop year.
- **Termination Date** – March 15, 2005 (December 31 preceding the crop year for Crop Years 2006 and thereafter).
- **Contract Change Date** – June 30 preceding the crop year.