

Risk Management Profiles: Nine Risk Management Scenarios



RISK MANAGEMENT PROFILES



VI-PRF pilot insurance minimizes feed risk for Z-F

Early fall 2010 on the Z-F Ranch found owners Bob and Betsy Zomer assessing risk management strategies for their cow-calf and yearling operation. The Zomers are situated on 12,000 acres of pasture and 200 acres of native hay in Fremont County. Both husband and wife were concerned about the coming production year. This year's late summer and early fall had been dry, and they were worried it would carry over into next year.

The Zomers looked at several options for addressing their production risks. They could:

1. Buy alfalfa hay to supplement native hay production. They knew this option might become expensive, though, with hay prices high and up-front cost tying up operating capital.
2. Rent additional pasture. Unfortunately, this option would be difficult to achieve (and expensive) due to the lack of locally available pasture. Plus, the Zomers would

prefer not to travel long distances to their cattle.

3. Send the yearlings to a custom feed yard or sell them early. With high feed prices, this may or may not be economically viable.
4. Use the new Vegetative Index Pasture, Rangeland, Forage (VI-PRF) insurance Bob recently became aware of at a local extension meeting.
5. Insure against drought using Non-insured Crop Disaster Assistance Program (NAP) coverage.

Like many producers, the Zomers decided on a combination of available options. They chose to utilize VI-PRF insurance for 3,500 acres from April 1 to June 30; 5,500 acres from July 1 to September 30; and 200 acres of hay land from June 1 to August 30. They also chose to budget \$20,000 to purchase 200



Premium/acre	Indemnity/acre	Total indemnity	Total cost/acre
\$0.28	\$0.00	\$0	\$980
\$0.58	\$6.51	\$35,805	\$3,190
\$9.15	\$57.27	\$11,454	\$1,830
Total		\$47,259	\$6,000

er head) multiplied by 60 percent equals \$10,954.94.
With the second method, calculate the carrying capacity of 19.48 acres per AU (or a normal carrying capacity of 462 AUs) multiplied by 30 days (\$13,860) multiplied by the daily feed cost (\$40.04/30 = \$1.334) multiplied by 60 percent to find a total payment of \$11,093.54. Therefore, the first calculation provides the smaller amount.
If the Zomers had utilized NAP coverage...

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