



Article
12 min read time

Crop and Livestock Insurance Basics

Crop and livestock insurance is a financial safety net that can protect your farm business against crop and livestock losses. Is it a priority for your farm or ranch?

Table of Contents

Crop and Livestock Insurance Basics	0
How Can Crop and Livestock Insurance Increase My Resilience?	2
Rate Your Risk	2
How Does Coverage Work?	4
Reflect to Take Action	6
Moving Forward	7

How Can Crop and Livestock Insurance Increase My Resilience?

Crop and livestock insurance is a financial safety net that can protect your farm or ranch business against crop and livestock losses, paying out money to help stabilize income in the event of a loss. This can provide the peace of mind that farmers need to manage existing production in an increasingly unpredictable climate, or the confidence needed to scale up. Crop and livestock insurance can mean different things to different people. To some farmers, they can't imagine growing food without this financial safety net. To others, it's a burdensome cost associated with a cumbersome process. And still others find themselves somewhere in between. Keep reading to identify where you land.

Rate Your Risk

Crop and livestock loss can result from damaging weather events, disease spread, and pest pressure, as well as downturns in market prices. These are all risks that insurance can help you manage, but whether or not you decide to get insurance will depend on your risk tolerance, as well as your budget and appetite for paperwork. But let's start by assessing what crop and livestock risks concern you and whether those concerns are a priority for you to get covered.

1. Take a moment to reflect on the threats to your crops and/or livestock that worry you. This could be related to weather, climate change, pest pressure, fire, disease, theft, or something else.

2. Then, write down the top 3 risks to your crops and/or livestock that concern you.
3. For each risk, what is your level of confidence in your ability to recover if this were to happen with the resources you have on hand right now? Rate your confidence from 1 to 5, with 1 being the lowest confidence and 5 being the highest.

If you rated each risk with a 4 or 5, it looks like you've got decent confidence that you can manage the financial fallout of crop and livestock loss, perhaps by using funds from cash on hand, savings, or debt, as well as current insurance coverage. You can move forward with that confidence or continue reading to firm up your understanding of how crop and livestock insurance policies typically work.

If you rated any risk with a 3 or less, your confidence could use a boost. Pursuing crop or livestock insurance may be the right move for you.

How Does Coverage Work?

While the value of crop and livestock insurance is that it provides money to recover from a loss, it's important to understand what kind of losses we're talking about.

To back up for just a moment, federally subsidized crop and livestock insurance comes in a huge variety of forms, including coverage for lack of rain, a drop in market prices, failed spring planting, etc. But for our purposes in this guide, we'll be focusing on "multi-peril" policies—those that cover a wide variety of losses from uncontrollable natural causes like weather and disease.

Generally speaking, these crop and livestock insurance policies provide coverage for two kinds of losses: **loss of yield** and **loss of revenue**. These losses can be connected, so it's helpful to think of yield and revenue as two sides of the same coin (The Coin of Loss!). On one side, there's yield, which is the actual amount of the crop (measured in bushels, pounds, etc.) or livestock (measured as hanging weight, etc.) that you take to market. When damaging weather, disease, or pests lead to a decrease in the amount you can sell, that is a loss in yield. Of course, a loss in yield means less to sell, leading to a loss in revenue, which is the other side of the coin.

Crop insurance is available to cover yield-based loss or revenue-based loss, as follows:

- 1. Yield protection** policies insure you for the average yield you would normally harvest from your production activities. For example, if you normally get 180 bushels of corn per acre, you can insure against a drought year that brings you just 120 bushels of corn per acre. The insurance policy would pay you for the lost 60 bushels of corn per acre at a price determined by general commodity market prices. To use another example, say you normally raise 8,000 turkeys in a year.

If a blizzard kills 2,000 and the average fair market value for turkeys is \$18.00 per head, you could potentially receive \$18 for each of the 2,000 dead turkeys.

- 2. Actual Revenue protection** policies also insure you against losses you suffer while producing your crop or raising your livestock. Let's use the same examples as above to illustrate the difference. Let's say you average 180 bushels of corn per acre, but weather and disease reduce your yield to 120 acres. Under a revenue-based policy, the value of the lost 60 bushels per acre is determined according to the price you typically get for your corn, not according to general commodity market prices. If you are the turkey producer, you would receive compensation based on your average price received for your farm's turkeys, as determined by your historic sales price received in years prior. Because the policy is based on your individual prices received, you need to document and provide evidence of your sales prices to secure a revenue-based policy.

Let's explore this in the context of two farmers, Mika and Todd.

*Farmer Mika grows produce and raises meat chickens on 5 acres in Florida. She grosses \$75,000 per year through farmers' market and restaurant sales. Given the increased rate of damaging storm events in the area, Mika is concerned about unavoidable damage to her crops and chickens. In the worst-case scenario, where all of her crops are wiped out and chickens die, she would be left with no income. This could spell the end of her business, as she might need to take an in-town job for income. Mika receives much higher prices at the farmers' market and through restaurant sales than the commodity market could ever pay. If her crops and chickens die, compensation at commodity market prices isn't nearly enough to get her back on her feet. She wants an indemnity (the legal term for a sum of money paid on a successful insurance claim) based on the historic price she has actually received for her products in years prior. Therefore, a policy offering actual **revenue protection** is an attractive safety net to buffer these risks.*

*Farmer Todd grows 25 acres of tart cherries in Wisconsin. He typically produces 95 tons of cherries each year. He sells his cherry harvest to commodity buyers, primarily juice and jam companies. Spring storms have become more unpredictable, and he's worried about loss from a hailstorm. Todd is also depending on a harvest near his historic level to be able to make payments on a new piece of equipment he financed. When Todd sells his product, the price is determined based on the national and global market for tart cherries at that time. Because of this, Todd is fine with a **yield protection** policy. An indemnity based on the commodity market is exactly what he'd get anyway, and he doesn't want the extra work of submitting documentation of his actual prices received in prior years.*

Reflect to Take Action

In considering Mika and Todd's scenarios, where do you find yourself?

- *Is having a financial safety net for your actual revenue from crop and/or livestock sales a priority for you?*
- *Or are you more concerned with protecting your baseline income from your planned yield?*

If you're more like Mika and your actual revenue is a priority to protect, then a **revenue-based policy** may be the right fit for you. If you're more like Todd and you want to protect your planned yield, then a **yield-based policy** may be a better fit.

Moving Forward

Good work! So far, you've identified that pursuing crop and livestock insurance is a priority for you, and you have an idea of whether revenue protection or yield protection is a better fit for you. Consider these next steps:

- 1. Contact a crop and livestock insurance agent to discuss getting coverage.** If you don't have a relationship with an agent, ask your peers and mentors for referrals of agents they know and trust.
- 2.** If you want to **build your knowledge on revenue protection policies** before making the call, read [Crop and Livestock Insurance Options for Diversified Operations](#).

Farm Commons' mission is to empower communities to resolve their own legal vulnerabilities, within an ecosystem of support.

Find legal workshops, timely resources, and a community for farmers, ranchers, and their service providers online at farmcommons.org.

 @farmcommons

 @farm.common

 /FarmCommons

 /farm-commons