The Risk Management Agency (RMA), an agency within USDA, has an insurance product designed to help producers manage their risk of pasture and hay loss due to drought. This product is called the Rainfall Index.

How the Rainfall Index Works
The Rainfall Index uses the National Oceanic and Atmospheric Administration Climate Prediction Center (NOAA CPC) data for a series of grids across the U.S. Each grid is roughly 5 square miles and not based on county lines or township boundaries. Producers must first determine which grid their pasture and hay acreage is in.

Once the grid is determined producers can then choose an index interval. An index interval is a two month time period during the production year. An example of an index interval is January-February or March-April. A producer can choose to insure in all six index intervals, but must choose at least two intervals to insure. No two intervals can have the same month. These intervals need to be the time of the year a producer expects to have and/or use the grass produced on their acreage.

After choosing the index intervals a producer must pick a trigger index value. This value will be between 70 and 90. The higher index trigger value, the more the protection against a drought and the higher the premium. If the index value falls below the chosen index trigger value the producer will be owed an indemnity.

The next choice is the value of coverage. Each grid has a predetermined value for pasture and hay acreage. If a producer feels that value is too low or high they can choose to increase or decrease that value. This is done by picking a production level. A producer can pick a level between 60% and 150% predetermined value. Choosing a higher production level will increase the premium while choosing a lower production level will decrease the premium.

A producer then determines the amount of insurable acreage and then divides that acreage into the selected index intervals. No one index interval can have more than 60% of the total insurable acres.

RMA has a grid locator and decision tool on their website located at www.rma.usda.gov/policies/pasturerangeforage. This decision tool allows producers to enter pasture and hay acreage information and see what the insurance would have cost and if any indemnity would have been paid for any years in the past. A screenshot of the decision tool is shown below.

The screenshot above has the example of what a producer in grid # 17533 in Pontotoc County that insured 100 acres (50 acres in June-July and 50 acres in August-September) would have paid in premiums and received in indemnity payments. In this example the producer chose to insure the acreage at the 90% level with a production factor of 100%. The premium for the June-July index interval would $1.10/acre or $55 (shown in the highlighted box). The indemnity the producer
would have received is $11.02/acre or $551. The premium for the August-September index interval would have been $1.18/acre or $59 (shown in the highlighted box). The indemnity would have been $8.58/acre or $429. Overall the producer would have paid $114 in premium and received $980 in an indemnity (shown in the highlighted box).

How to purchase Rainfall Index Insurance

Producers wanting to use Rainfall Index Insurance must purchase the policies through a licensed insurance agent. RMA has an agent/agency locator section of their website located at www.rma.usda.gov/tools/agent.html. Producers must sign up for this insurance and provide an acreage report by November 15, 2012 for the 2013 crop year. Payments of insurance premiums are due by September 1, 2013.

Producers wanting more information about Rainfall Index insurance should contact their crop insurance company or the OSU Extension office for more information.