Managing Risk

Insurance provides a means to lessen the risk for cattlemen buying seedstock or traveling with their cattle to an event.

Story & photos by ***Corinne Blender***

Angus seedstock can be a huge financial investment, especially when they are first purchased. Whether a premium is paid for a bull with outstanding carcass traits or a female is purchased for use as a donor cow, a producer has the option of protecting that investment through livestock mortality insurance.

American Live Stock Insurance Co., Geneva, Ill., was founded 50 years ago when the need arose to insure the high-valued animals that cattlemen were buying at big shows, such as the Chicago International, says Jim Bessler. The company has evolved into protecting high-valued, proven genetics.

"Twenty years ago people were buying calves prior to EPDs (expected progeny differences) and performance information. They would go out and buy a calf out of a national show champion, and they were buying younger cattle that were unproven. They were placing more of an investment on income potential from the unknown," he says. "At this point in time the cattle that have the highest market value are older cattle because EPDs and EPD accuracy are required to determine those higher values. So we are seeing the age of insured animals increase slightly due to the impact of performance records."

The niche that livestock mortality insurance fills is the protection of higher valued cattle against all causes of loss. Individual cattle are scheduled on a full mortality policy so that the insured value can correctly reflect the individual market values of the individuals covered by the policy — insuring them for the purchased or appraised value.

"We are working with higher-valued animals. When people insure against fire and lighting and/or other limited perils on their farm blanket, that coverage provides a flat value on all animals insured on that farm," Bessler says. "But because some of the animals we are insuring are $100,000 bulls or donor cows and others are $5,000 heifers, we need to understand and accept individual values at the inception of coverage, when the cattle are scheduled on the policy."

Premiums are rated as a percentage of those insured values. The exact percentage charged depends on the risk and term or period of time for which they are insured.

►There are many sales that offer top Angus genetics at the National Western Stock Show in Denver, Colo. Jim Bessler, with American Live Stock Insurance Co., says the best time to purchase livestock insurance is when a producer has not had an opportunity to make a return on investment of a newly purchased animal.

Terms and conditions

"Insurance is best used prior to receiving any return on that investment — such as pregnancies from a donor cow, or semen on and a calf crop out of a new herd sire. At the time of purchase, the owner has the most significant unprotected investment," Bessler explains.

The most common type of insurance selected by breeders at shows and sales is transportation coverage. This protects their investment from the time of purchase for a

►**Right:** When your heifer or bull is named grand champion of a show such as the NWSS, its value increases. This is a good time to think about livestock insurance to protect your investment.

stated insured period, which should allow the insured animal to be delivered to the new owner's farm or ranch. The shortest period an animal may be insured for is 15 days. During that period the owner is protected with full mortality coverage on the new animal.

"Full mortality covers all natural and accidental causes of death, including a life-threatening injury — such as a broken leg — where the veterinarian would recommend destruction for humane reasons. It does not include a loss-of-use injury."

Fifteen-day coverage is considered transportation-only coverage and is generally used by breeders who purchase older animals that aren't as susceptible to disease as younger calves. He warns, however, that 15 days might not be long enough to cover an animal from time of purchase until it arrives at its new home.

"Sometimes at a show, particularly when the cattle are going on someone else's truck and travelers are coordinating loads, it might take more than 15 days to get the cattle home. That's why we offer 30 days as a second option," he says. Thirty-day coverage will also provide some additional protection on younger cattle through the sickness period from transportation.

"Young cattle, particularly at a show where the barns are a little stale, can be exposed to bugs that can incubate 28 days and result in a respiratory illness that could lead to death as a result of being at the show," Bessler explains.

Breeders can also select 60-day or 90-day full mortality coverage to give animals more time to acclimate to their new owner's farm or ranch. The next step up in most insurance plans would be a six-month policy. Policy options go up to a full year and are renewable in most situations.

"A lot of people buying bulls will take the six-month coverage because it will get them through one breeding season. If the bull dies or injures himself in a life-threatening way, they'd have coverage through that first season," Bessler says. "The higher-valued animals are the ones we encourage producers to buy annual coverage on one year at a time, and then possibly to renew."

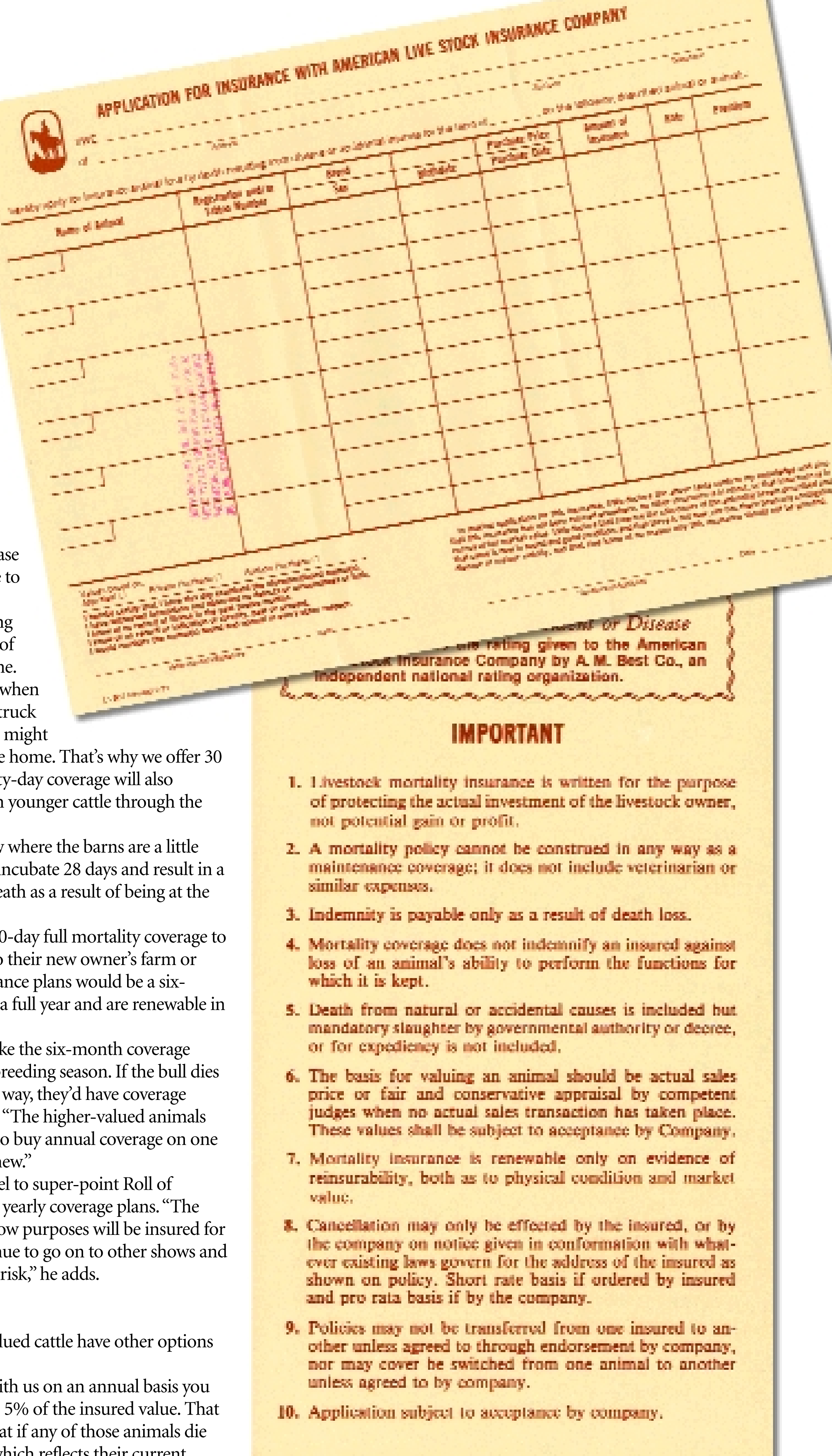
Many times show animals that travel to super-point Roll of Victory (ROV) Angus shows will have yearly coverage plans. "The heifers that people have bought for show purposes will be insured for a year because they are going to continue to go on to other shows and be on the road where there is a higher risk," he adds.

Volume discounts

Cattlemen who have many high-valued cattle have other options based on group rates.

"If you insure at least six animals with us on an annual basis you can lower that annual rate from 6% to 5% of the insured value. That is toward a nondeductible policy so that if any of those animals die you would receive the insured value, which reflects their current market value," Bessler says.

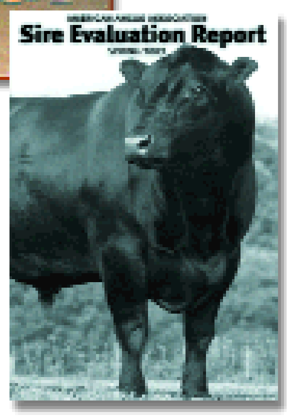
CONTINUED ON PAGE 182



►It's important that breeders research and understand exactly what is being offered through the insurance company.

 CONTINUED FROM PAGE 181

►American Live Stock Insurance Co. donates 30 days of free insurance to the purchaser of the Angus Foundation Heifer Package. The heifer is sold before the National Western Angus Bull Sale. This coverage insures that the heifer will make it to the new owner's farm or ranch safely, or that the owner will be compensated for any loss.



►**Right:** An animal's value may increase based on the release of a new *Sire Evaluation Report* revealing markedly improved expected progeny differences, Jim Bessler says.

"If you insure at least 10 animals with us, we have a plan that includes a deductible amount. You can lower your cost of insurance to about 3% of the insured value, but that policy would have a deductible that would also be 3% of the insured value," he continues. "For instance, if you have $100,000 worth of cattle insured, the 3% that you pay is a $3,000 per year premium, and then you would stand the first $3,000 of loss in that policy year. So, if the first animal loss was a $5,000 animal, the policy would pay $2,000 on that first claim, but any additional claims would be paid at the full-insured value of the animal."

Something that has recently been added to all livestock insurance coverage is protection against terrorism. Bessler says the government mandated that insurance companies offer this kind of protection. "Traditionally, insurance policies had excluded losses resulting from war or terrorism," he says. It is just an added bonus to the coverage he was already offering and didn't affect the rates.

For whom, for what and for how long?

Bessler says certain circumstances may deserve an insurance policy more than others.

Junior members often don't have high net worths, but they want to buy the best animals they can for show purposes, Bessler says. "I think that is a great time to protect the investment. That junior member is probably spending a sizable portion of his or her savings on that heifer and will assume the additional risk of having the animal traveling to shows.

"Everybody has a different threshold of risk that they can stand. It depends on your financial situation in your operation," Bessler says. "We work with some people who have been in business a long time, and they don't have borrowed money. They are operating on their own funds and can decide how much they can afford to lose. Whenever you are working in a partnership situation or you are borrowing money from a bank for the animal, it is a real good idea to insure in those situations to protect that investment so that if the animal dies you still have the ability to make the partners whole or to pay off the loan."

Producers should also consider the value of the animal and how long it would take to recover the investment by selling either semen, eggs or calf crops. "The larger the investment the longer they need to consider insuring the animal for. Some people can easily recover their investment in the first six months," Bessler advises, recommending a two- or three-year plan if that animal's worth cannot be quickly recovered.

Animals may only be insured up to a certain age. "The mortality coverage is available at the regular rate on animals through 7 years of age. By the time the donor cows have proven themselves they may be 6 or 7 years old. One of your limits is that they can be insured at 8 and 9 years with an additional premium, but at 10 years of age full mortality coverage is no longer available."

If you are at a sale and seek insurance, a fieldman will generally be able to assist you. If there are no insurance representatives present, Bessler says, his company can be contacted within two weeks of the auction, and the animal can still be insured before it is moved from the sale site. He also says that animals sold private treaty may be insured, but that requires a veterinarian to sign the insurance application to confirm the animal is sound and in good health at the time insurance is requested.

Commercial benefits

Bessler says that his company has offered a loss-of-use plan designed to benefit commercial cattlemen. This plan came about when seedstock breeders requested some type of insurance to offer at their sales.

"If you are selling at least 50 fertility-tested Angus bulls at auction, we will offer our first breeding season loss-of-use coverage," Bessler says. "For 7.5% of the purchase price, the bulls are insured from the date of the sale until the following Sept. 1."

The policy includes the traditional mortality coverage, so if the animal dies, the buyer will receive 100% of the purchase price. The additional loss of use coverage will return 80% of the purchase price less any salvage early in the season, or 60% late in the season if a veterinarian confirms the bull cannot breed cows for at least two consecutive weeks.

Bessler says when this option is offered they get a higher take of insurance on lower-valued commercial bulls where the mortality plans probably don't fit the needs of those commercial cattlemen as well.

While livestock insurance may not be for everyone, Bessler says if you plan to buy cattle that require transporting or plan to travel with a show string, you may want to look into it.

"Young couples starting out in a new enterprise and individuals borrowing money from the bank or buying animals on contract, where they are putting down part of the money now and paying the remainder of the money after a certain period of time, should consider insurance so they don't run into a problem," he says.