Published on *The National Law Review* https://natlawreview.com

Coverage for Rotten Eggs: Livestock Coverage in the Event of a Crisis

Article By:

Scott P. DeVries

Jorge R. Aviles

The surge in prices for eggs—the fourth most-purchased US grocery item—over the past months has surprised many American shoppers. Last December, a dozen eggs cost $4.25 on average; 120% higher than at the same time in 2021. The price hike stems from many factors, including supply chain issues and inflation. But the primary culprit is the outbreak of the deadliest bird flu in US history, which has killed millions of chickens. Grocery shoppers, however, are not the only ones feeling the economic impact of the ravage to poultry flocks. Livestock owners and businesses are also feeling the economic pinch, particularly in areas hit hardest by the bird flu. Insurance is a key component of risk management for livestock businesses and owners. Here, we explore how insurance can mitigate the risks to livestock owners and businesses of accidental or unexpected events that result in the death of animals or economic losses.

Livestock-Related Risks

Many unforeseeable risks related to raising livestock can lead to significant business losses. For example, the death of animals because of disease, weather events, fires, and transporting accidents. In addition, livestock owners and businesses face risks of suffering losses when unanticipated market conditions cause a decline in livestock market prices, or when the cost to feed livestock exceeds the market value of the animals (or the market value of their product). Thus, livestock owners and businesses need tools to mitigate the losses that can follow such costly events. Fortunately, different lines of insurance can cover such losses.

Livestock Insurance and Mortality Policies

Livestock insurance provides protection against accidents and unexpected events that may affect a farmer or rancher's animals. Livestock insurance often covers the death of livestock because of flooding, earthquakes, or injury during transport. In addition, livestock insurance can protect against more extreme perils, such as a boulder falling on the animals, an attack from predators, or even accidental shootings. While livestock insurance policies are usually meant for standard farm animals such as horses, poultry, and cattle, they can also cover losses related to exotic and aquatic animals. In addition, livestock insurance can cover liabilities caused by the insured animals, such as bodily injury and property damage.

Importantly, however, livestock insurance policies rarely, if ever, cover animal deaths caused by diseases or natural causes like old age. Insurance for such losses is nonetheless still available as part of specialized livestock “mortality” coverage offerings, which policyholders can purchase to insure against animal deaths from illness and intentional destruction, when necessary. Livestock owners and businesses should still be aware that mortality policies are often carefully tailored to exclude many risks, including if the animals die from a preexisting condition or if the death is owner-caused.

Livestock Gross Margin and Livestock Risk Protection Policies

Some insurance offerings also protect against the risk of loss due to market conditions that impact livestock businesses and owners. Livestock “gross margin” insurance policies, which are part of a federal risk-management program, protect against the loss of gross margins when the feeding costs exceed the market value of the livestock. The goal is to protect livestock businesses and owners from declining prices and increasing feed costs, which can be impacted by, for instance, seasonal trends. This type of coverage uses futures prices to determine the expected gross margin and the actual gross margin. If a loss occurs, policyholders receive a payment accounting for the difference between the gross margin guarantee and actual gross margin. Livestock businesses and owners can purchase gross margin policies for cattle, dairy cattle, and swine. Livestock gross margin policies do not protect policyholders against losses caused by disease, death, or any other loss or damage to the livestock.

In addition, livestock “risk protection” insurance policies, also a federal risk-management tool, provide coverage against declining livestock prices if the price, as specified in the insurance policy, drops below the policyholder’s selected coverage price. Livestock businesses and owners often can select a variety of coverage levels and periods to match when the livestock will be marketed. If the final value is below the coverage price at the end of the covered period, the policyholder is paid for a percentage of the difference. Livestock businesses and owners can purchase risk protection policies for fed cattle, feeder cattle, lamb, and swine. Like gross margin policies, risk protection policies do not protect against any other loss or damage to the livestock.

Takeaways

It is key for livestock businesses and owners to understand how to manage the unique risks associated with unforeseen events, such as the outbreak of disease and market swings, that can impact their animals and bottom line. Livestock businesses and owners must therefore have a plan to maximize their coverage options if such a loss occurs.

National Law Review, Volume XIII, Number 54

Source URL:https://natlawreview.com/article/coverage-rotten-eggs-livestock-coverage-event-crisis