

Veterinary Services Webinar



Options for Federal Indemnity Payments in the TB and Brucellosis Programs



Safeguarding Animal Health



Options for Federal Indemnity Payments in APHIS' Tuberculosis and Brucellosis Programs

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Federal Indemnity for Animals Destroyed Because of Disease

Indemnity is an important part of APHIS' animal health programs. It is the process through which APHIS compensates producers for animals that are destroyed as part of a disease control effort. Indemnity may be paid for individual animals that are destroyed for diagnostic purposes or for an entire herd, if APHIS determines that depopulating a whole herd is an appropriate and necessary action. Details on how indemnity values are determined and producers are compensated are specific to each disease program and are generally described in the Code of Federal Regulations (CFR) and in program guidance documents.

Proposed Approach for Indemnity

The Bovine Tuberculosis and Brucellosis Draft Regulatory framework document described the objectives and underlying concepts for indemnity as envisioned for the proposed comprehensive bovine tuberculosis and brucellosis rule that is under development. Key points outlined in the framework document included:

- Indemnity will continue to be contingent upon the availability of Federal funds.
- A calculator will be used to determine the fair market value of an animal.
- There will not be provisions for a separate appraisal or an appeal of the value determined for the animal(s).
- In addition to compensating the producer for the animal's or animals' fair market value, APHIS proposes to pay up to 100 percent of the transportation and disposal costs.

Fair Market Value and Appraisals

Federal indemnity payments are based on the fair market value (FMV) of the animal or animals that will be destroyed. An appraisal determines the FMV. Indemnity is the actual payment a producer receives and is a function of FMV with the actual amount based on regulations and policies.

In the Bovine Tuberculosis and Brucellosis Draft Regulatory Framework, APHIS proposed to use calculators to determine the fair market value of animals in place of the traditional appraisal. The use of a calculator to appraise the value of an animal is discussed in a companion document.

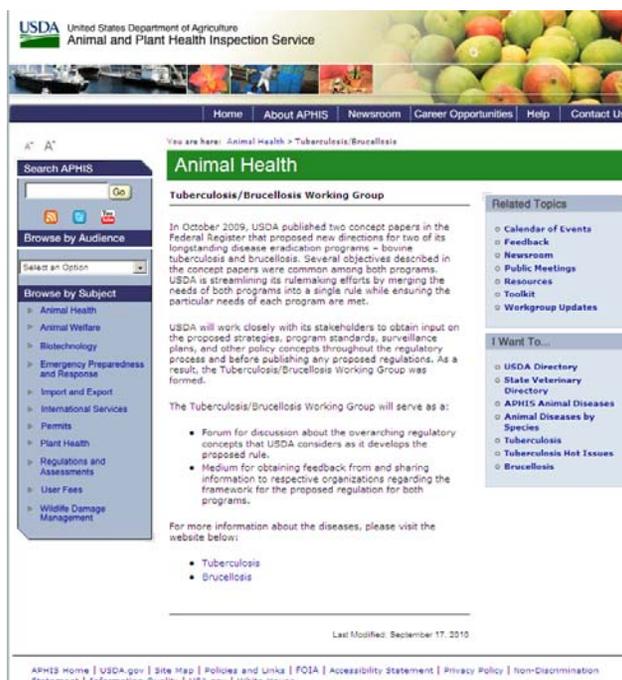
Options for Federal Indemnity Payments

APHIS is seeking feedback on potential options for federal indemnity that would impact the actual indemnity payment that producers receive when animals are destroyed because of TB or brucellosis. One or a combination of more than one of the proposed options below may be used to determine the amount of the Federal indemnity payment that a producer receives in the future.

1. **Combined Federal indemnity payments and non-federal payments will total the fair market value of the animal(s).**
This approach would allow the producer to receive full fair market value for each animal. The Federal indemnity payment would be calculated as the fair market value minus any salvage value, State indemnity payments, insurance payments,



Bovine Tuberculosis and Brucellosis Regulatory Framework: Proposed Approach for Indemnity



- Contingent upon the availability of Federal funds
- A calculator to determine fair market value
- No provisions for a separate appraisal or an appeal
- Also pay transportation and disposal costs.

http://www.aphis.usda.gov/animal_health/tb_bruc/



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Options for Federal Indemnity Payments

Option 1:

Combined Federal indemnity payments and non-federal payments will total the fair market value of the animal(s).

$$\text{Federal indemnity payment} = \text{Fair Market Value} - \left\{ \begin{array}{l} \text{Salvage value + State indemnity} \\ \text{payments + insurance payments +} \\ \text{other incentive payments} \end{array} \right\}$$

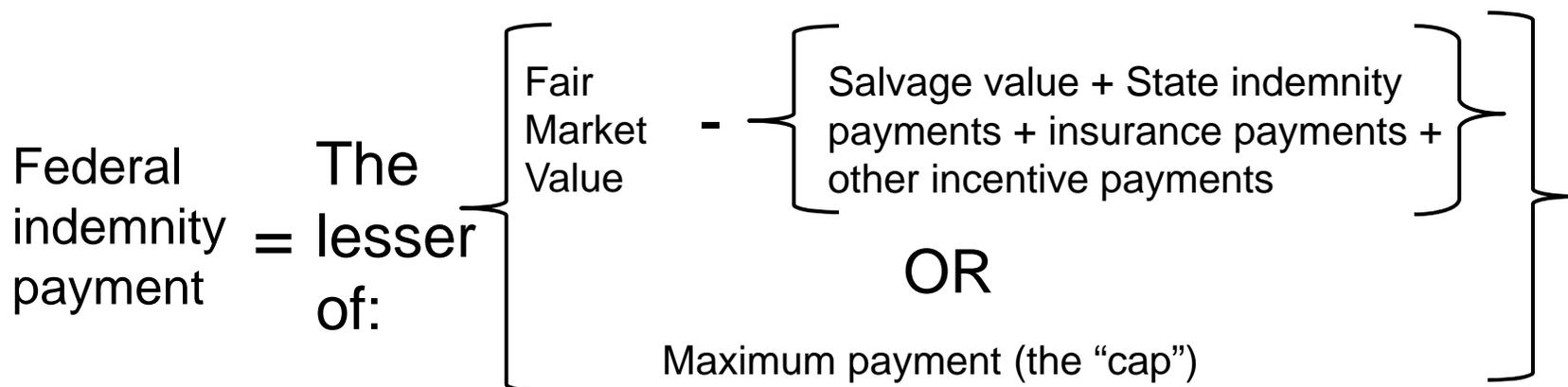
| Advantages | Disadvantages |
|---|---|
| <ul style="list-style-type: none"> • Largest possible Federal indemnity payment to the producer. • Many of APHIS' animal health programs use some alternative of this approach. | <ul style="list-style-type: none"> • Fewer total animals removed (assuming a fixed amount of indemnity funding). • May expend all available Federal indemnity funds earlier in the year than with other approaches. |



Options for Federal Indemnity Payments

Option 2:

Establish a maximum payment (i.e., a “cap”) for the amount of Federal indemnity paid per animal.



| Advantages | Disadvantages |
|--|--|
| <ul style="list-style-type: none"> • Most producers would receive full fair market value. • Balances payment amount with ability to remove greater number of animals. • “Cap” could be changed over time to reflect changes in market values • Currently used in TB Program. | <ul style="list-style-type: none"> • Producers would not receive full fair market value for highly valuable animals. • Setting “cap” may be controversial. |

Options for Federal Indemnity Payments

Option 3:

Establish a “fixed rate” for the amount of Federal indemnity paid per animal.

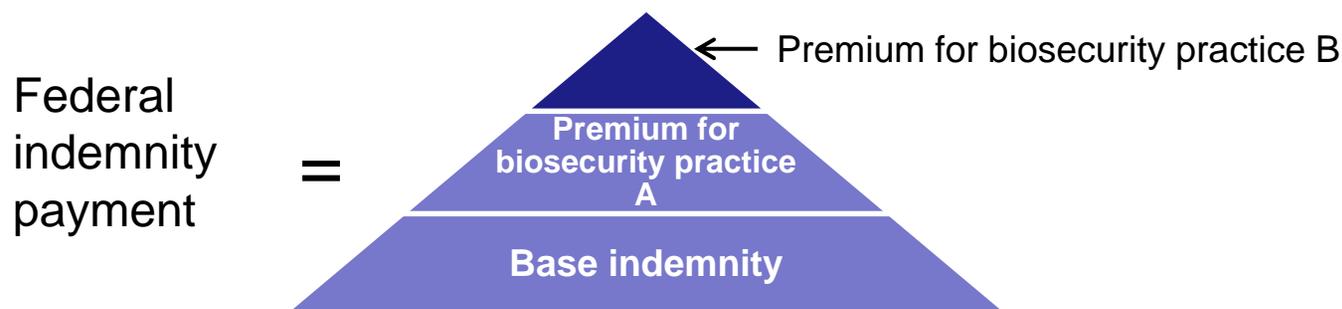
$$\text{Federal indemnity payment} = \text{“Fixed rate”}$$

| Advantages | Disadvantages |
|---|--|
| <ul style="list-style-type: none"> • Producers may receive more than fair market value for some animals. • Increases the total number of animals that could be removed with Federal indemnity. • Does not require appraisal. • Limited use in current Brucellosis program | <ul style="list-style-type: none"> • Most producers will only receive a portion of the fair market value of some animals. • Setting amount may be controversial. |

Options for Federal Indemnity Payments

Option 4:

Link Federal indemnity payments to certain biosecurity measures (i.e., multi-tiered compensation).



| Advantages | Disadvantages |
|---|---|
| <ul style="list-style-type: none"> Rewards producers with “good” biosecurity by receiving fair market value for animals. APHIS currently uses this approach in its Low Pathogenic Avian Influenza Program (9 CFR, Part 56). | <ul style="list-style-type: none"> Some producers will only receive a portion of the fair market value of animals. Identifying biosecurity practices that link to disease risk may be difficult Assigning indemnity amounts may be controversial. Verifying biosecurity practices may be challenging. |

Feedback on Options for Federal Indemnity Payments

- Given the limited availability of indemnity funds, which of the following do you consider to be the highest priority and why?
 - (A) Provide the largest indemnity payment possible for each animal; or
 - (B) Provide indemnity for as many animals as possible.
- Which specific option or combination of options do you prefer and why?
- If option 1 were adopted, do you envision any other sources of payments?



Feedback on Options for Federal Indemnity Payments

- If option 2 were adopted, what do you think the maximum payment (i.e., a “cap”) paid per animal should be? How should the maximum payment be determined?
- If option 3 were adopted, what do you think the fixed payment per animal should be? How should the fixed rate be determined?
- If option 4 were adopted, what biosecurity practices should be linked to the indemnity payment? How should the indemnity payment be determined (i.e., what percent of fair market value should be linked to a certain practice?) How should APHIS determine if these practices are in place?

