
Livestock Risk Protection (LRP)

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Is There Risk In The Cattle Market?



Is There Risk In The Cattle Market?



LRP Is Price Risk Protection

- Establishes A Floor Selling Price For Livestock
 - Pays Producers If A Regional/National Cash Price Index Falls Below A Set Price
 - Does Not Guarantee A Cash Price received
 - Covers Feeder Cattle, Fed Cattle & Swine
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What Is LRP

- LRP Can Be Viewed As “Price Insurance”
 - LRP Is A Risk Management Tool
 - Protects Against Catastrophic Price Declines
 - NOT Designed To Enhance Profit
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Who Can Participate?

- All Owners Of Eligible Livestock In LRP States
 - Once Enrolled, Producers Have The Right But Not The Obligation To Purchase Coverage
 - Livestock Has To Be In A State Offering LRP
 - Owners Can Be In Other States
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Where Do You Buy LRP Insurance?

- Available Through Crop Insurance Agent System
- Agent Locator Tool On USDA Website
 - <http://www3.rma.usda.gov/apps/agents/>



Single Peril Insurance

- Policy Provides Protection Against Price Declines During Insurance Period
 - Policy Does Not Cover Any Other Peril, Including Mortality, Condemnations, Physical Damage, Disease, Individual Marketing Decisions, Local Price Aberrations, Poor Performance, Or Any Other Cause Of Loss Other Than Stated
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Limitations On Number Of Head Insured

	Fed Cattle	Feeder Cattle
Per Specific Coverage Endorsement	2,000	1,000
Per Crop Year July 1-June 30	4,000	2,000

- Covered Livestock Counted In Crop Year When Coverage Is Purchased
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Eligible Cattle

- Feeder Cattle

- ❑ Includes Dairy & Brahman Breeds

- Fed Cattle

- ❑ Steers & Heifers
 - ❑ Select Or Higher, Yield Grade 1-3
 - ❑ Weight: 1,000-1,400 lbs.
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Actual Ending Value (AEV) Feeder Cattle

- CME Feeder Cattle Cash Index Price
 - National Average Cash Market Price
 - 650-850 lb. Steers
 - Reported Index Is 7-Day Average
 - http://www.cme.com/trading/dta/hist/cash_settled_commodity_prices.html
 - If Insuring Heifers Or Different Weight Range, LRP Insurance Contract Still Indemnified On CME Index (650-850 lb. Steer Price)
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CME Feeder Cattle Index™

- Used To Cash Settle Feeder Cattle Futures
 - A 7 Day Weighted Average Of USDA Reported Prices From A 12 State Region: Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas & Wyoming
 - Prices From Auctions, Video & Internet Sales And Direct Trades
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Actual Ending Value (AEV)

Fed Cattle

- 5-Area Weekly Weighted Average Direct Slaughter Steer Price
 - TX/OK, KS, NE, CO, IA/MN
 - 35-65% Choice Steers, Live Weight Basis
 - FOB Feedyard
 - Represents National Average Cash Price
 - AMS-USDA Report LM_CT150.txt
 - http://www.ams.usda.gov/mnreports/lm_ct150.txt
 - If Insuring Heifers, LRP Insurance Contract Still Indemnified On 5-Area Steer Price
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5 Area Weekly Weighted Average Direct Slaughter Cattle

Texas/Oklahoma/New Mexico; Kansas; Nebraska; Colorado; Iowa/Minnesota
feedlots for week ending 7/28/2008

LIVE FOB BASIS - Beef Breeds

	Head count	Weight Range	Price Range	Avg Weight	Wtd Avg Price
STEERS					
Over 80% Choice	1,912	1,275-1,400	94.50-95.50	1,353	95.01
65 - 80% Choice	6,538	1,200-1,411	93.00-95.50	1,349	94.88
35 - 65% Choice	21,883	1,100-1,450	94.00-95.50	1,321	94.75
0 - 35% Choice	1,280	1,240-1,405	94.00-95.00	1,285	94.91
Total all grades	31,613	1,100-1,450	93.00-95.50	1,327	94.80
HEIFERS					
Over 80% Choice	2,488	1,125-1,300	93.50-95.50	1,221	95.10
65 - 80% Choice	3,955	1,078-1,300	94.00-95.50	1,223	94.82
35 - 65% Choice	11,374	1,050-1,325	94.00-95.50	1,170	94.71
0 - 35% Choice	255	1,180-1,250	94.50-95.00	1,222	94.70
Total all grades	18,072	1,050-1,325	93.50-95.50	1,189	94.79

Coverage Availability

- Coverage Available About 3:30 pm To 9 am CST
 - Available Sat Morning Until 9am, But Not Sun, Mon & Holidays
 - Coverage Initiated With Specific Coverage Endorsement (SCE)
 - No Limit On Number Of SCEs
 - Producers Have Flexibility On The:
 - Timing Of Purchase
 - Time Length Of The SCE
 - Number Of Head Covered
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LRP Is A Pilot Program

- Risk Management Agency
 - Pays Insurance Commission – 5 Percent
 - Pays Administrative Cost
 - Pays 13% of Premium Cost
 - Pays Agents Less Than Crop Insurance
 - Agent Has Incentive To Sell Higher Coverage Prices
 - Premium Must Be Paid Up Front
 - The Check/money Must Be Good
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Let's Work Through The Math

Insured Value and Premium Computation

1. The Insured Value = Number of Head multiplied by the Target Weight (live weight, in cwt.) multiplied by the Coverage Price multiplied by Ownership Share. The Insured Value is rounded to the nearest whole dollar.

Number of Head (whole number)	X	Target Weight At End Date (cwt. per head)	X	Coverage Price (as shown on Actuarial Document)	X	Insured Share (x.xxx)	=	Insured Value (Dollar)
70	X	7	X		X		=	

LRP Coverage Prices, Rates, and Actual Ending Values - Report for 10/15/2007

USDA subsidizes 13 percent of total LRP premium

State	County	Endorsement Length	Commodity	Type	Practice	Crop Year	Exp. End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date	Actual End Value
47 TENNESSEE	998 ALL COUNTIES	13	0801 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2008	113.819	\$111.970	0.983800	0.023765	2.661	01/14/2008	98.010
47 TENNESSEE	998 ALL COUNTIES	13	0801 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2008	113.819	\$109.970	0.966200	0.018441	2.028	01/14/2008	98.010
47 TENNESSEE	998 ALL COUNTIES	13	0801 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2008	113.819	\$107.970	0.948600	0.014411	1.556	01/14/2008	98.010
47 TENNESSEE	998 ALL COUNTIES	13	0801 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2008	113.819	\$101.970	0.895900	0.006806	0.694	01/14/2008	98.010
47 TENNESSEE	998 ALL COUNTIES	13	0801 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2008	113.819	\$99.970	0.878300	0.005602	0.560	01/14/2008	98.010
47 TENNESSEE	998 ALL COUNTIES	13	0801 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2008	113.819	\$97.970	0.860800	0.004675	0.458	01/14/2008	98.010
47 TENNESSEE	998 ALL COUNTIES	17	0801 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2008	113.651	\$102.300	0.900100	0.010782	1.103	02/11/2008	
47 TENNESSEE	998 ALL COUNTIES	21	0801 FEEDER CATTLE	810 STEERS WEIGHT 2	997 NO PRACTICE SPECIFIED	2008	113.371	\$102.020	0.899900	0.013429	1.370	03/10/2008	

Insured Value and Premium Computation on October 15, 2007

1. The Insured Value = Number of Head multiplied by the Target Weight (live weight, in cwt.) multiplied by the Coverage Price multiplied by Ownership Share. The Insured Value is rounded to the nearest whole dollar.

Number of Head (whole number)	X	Target Weight At End Date (cwt. per head)	X	Coverage Price (as shown on Actuarial Document)	X	Insured Share (x.xxx)	=	Insured Value (Dollar)
70	X	7	X	107.97	X	100	=	52,905

Insured Value and Premium Computation on October 15, 2007

2. The Total Premium = Insured Value multiplied by the Rate. Total Premium is rounded to the nearest whole dollar.

Insured Value (Dollar)	X	Rate (.xxxxxx)	=	Rounded Total Premium (Dollar)
52,905	x	.014411	=	762

Insured Value and Premium Computation on October 15, 2007

3. The Subsidy = Total Premium multiplied by the Subsidy Rate. The subsidy percent is 13 percent. Subsidy is rounded to the nearest whole dollar.

Rounded Total Premium (Dollar)	X	Subsidy (Percent)	=	Rounded Subsidy (Dollar)
762	x	.130	=	99

Insured Value and Premium Computation on October 15, 2007

4. The Producer Premium = Total Premium minus the Subsidy. Producer Premium will always be a whole number.

Rounded Total Premium (Dollar)	-	Rounded Subsidy (Dollar)	=	Producer Premium (Dollar)
762	-	99	=	663

Insured Value and Premium Computation on October 15, 2007

5. Projected Minimum Sale Price

Coverage Price (Dollar)	-	Basis (Dollar)	-	LRP Cost (Dollar)	=	Projected Minimum Sale Price (Dollar)
107.97	-	3.00	-	1.35	=	103.62

LRP Indemnity: Falling Market

- 1/14 If Feeder Cattle Price Index is below 107.97, Indemnity Will Be Paid

- 1/14 Feeder Cattle Price Index is 98.01

Coverage Price \$107.97

- Actual Ending Value 98.01

Indemnity Per Cwt. \$ 9.96

490 cwt. x \$9.96 = \$4,880.40

LRP Indemnity: Falling Market

- 1/14 Actual Sale Price \$95.01

Total Sale Value (490 cwt. X \$95.01)	\$46,555
+ Indemnity	<u>4,880</u>
Total Sale Value + Indemnity	\$51,435
- LRP Premium Cost	<u>663</u>
Actual Sale Value	\$50,772
Actual Sale Price / cwt.	\$103.62

Verification of Ownership

- Upon Company Request Or Request Of Any USDA Employee, Insured Must Provide Documents Verifying Ownership Of Insured's Share Of Livestock Identified In SCE



Maintenance Of Ownership

- Ownership Must Be Maintained Until 30 Days Before End Date
 - If Any Portion Of Insured Livestock Is Disposed Of Prior To Last 30 Days Of Coverage, Then
 - That Portion Of The Coverage Will Terminate
 - No Indemnity Will Be Paid For That Portion
 - No Premium For That Portion Will Be Refunded
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30-Day Marketing Window

- Production Factors May Necessitate Selling Before Or After SCE End Date
 - LRP Insurance Only Has Value On End Date
 - Livestock Sold Before Or After End Date Still Only Indemnified On End Date
 - Selling Before Or After End Date May Have Risk Or Reward Depending On AEV
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End Date vs. Actual Sales Date – The Risk (cont.)

- If Sold Early, May Receive Cash Price Below Coverage Level
 - If Prices Rise, No Indemnity Paid On End Date
 - If Sold Late & No Indemnity Paid On End Date
 - Prices May Drop & Receive Cash Price Below Coverage Level
 - On Average, Little Change In Price Relative To 30 Days Ago
 - Risk Of Large Decreases & Increases
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No Lifting LRP Coverage

- LRP Is Insurance Policy, Not Derivative
- LRP Cannot Be Sold Back To Recover Premium
- Coverage Cannot Be Lifted Once In Place
- Entities With Collateral Interest May View Favorably
- Lenders May View LRP Favorably



Indemnity Payment

- If Indemnity Is Due To You
 - ❑ Insurance Company Will Issue Letter Of Probable Loss
 - ❑ You Must File Claim Form Within 60 Days
 - ❑ Indemnity Will Be Paid Within 60 Days Of Submission Of Claim Form
 - Indemnity Payment Taxable On Cash Basis
 - ❑ Income Applies To Tax Year It Is Received
 - LRP Premiums Are Tax Deductible
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Producer's LRP Advantages

- Premiums Are Tax Deductible, Not True When Producers Mix Speculative With Hedging In Their Futures Account
 - Commission On LRP Are Paid By RMA
 - May Receive Better Loan Terms On LRP Insured Cattle
 - Flexible Contract Size
 - Flexibility To Incremental Minimum Price A Few Head At A Time
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Lender's LRP Advantages

- Lenders May Prefer LRP Over A Put To Cover Loan Collateral
 - Producers Can Not Cancel The Coverage
 - Legally LRP Is Insurance, So Lenders Can Take A Security Interest In The Contract
 - Purchased From A Crop Insurance Agent
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Suspension Of Sales

- Sales Will Be Suspended When:
 - At Least 4 Of The Underlying CME Live Cattle Futures Contracts Settles At The Daily Price Limit For Two Consecutive Days

 - Sales Will Be Resumed When:
 - There Have Been Two Consecutive Days Without There Being 4 Or More Of The Underlying CME Live Cattle Futures Contracts Settling At The Daily Price Limit
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Suspension Of Sales

- Sales Can Be Suspended If An Event Occurs During Or After Trading Hours Deemed To Significantly Change Market Conditions On Which LRP For That Day Was Rated
 - News Report
 - USDA Announcement
 - Other Events
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Summary

- LRP Is A Relatively New Price Risk Management Tool Available To Cattle Producers
 - It Is Price Insurance Not Enhancement
 - To Be Eligible Cattle Must Be Located In One Of The Program States
 - **You Must Enroll Ahead of Time to Participate – No Obligation**
 - More Information Is Available At <http://www.rma.usda.gov/livestock/>
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Summary

- Outcome Of LRP Can Be Affected By Price Level & Actual Basis
 - Sales Can Be Suspended If Markets Trade To Limit On Consecutive Days
 - USDA Can Suspend Sales If Significant Event Occurs That Might Affect Markets
 - LRP Does Not Guarantee A Cash Price
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Summary

- LRP Protects Against A Negative Change In CME Cash Index Price
 - LRP Does NOT Guarantee The Basis
 - Policy Does Not Cover Any Other Peril
 - Livestock Ownership Must Be Maintained Up To 30 Days Before End Date
 - Once Set, LRP Prices & Premiums Are Guaranteed For That Day
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Sometimes Things Do Not Go Exactly As Planned



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