Livestock Risk Protection (LRP)

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FARM BUREAU FINANCIAL SERVICES

Livestock Risk Protection (LRP) – What is it?

- Livestock Risk Protection (LRP) provides protection against declining livestock prices if the price, as specified in the policy*, drops below the producer's selected coverage price (which is a floor price)
  - Prices are determined by Chicago Mercantile Exchange, not local market prices
  - Sales are available on a daily basis

*Coverage prices range from 70% to 100% of daily livestock prices for swine, fed cattle and feeder cattle

LRP Concept

THE PRODUCER HAS FOUR CHOICES:

01
Type of Insurance

02
Coverage Price

03
Number of Insured Head

04
Length of Coverage

Types of LRP Insurance

FED (FAT) CATTLE

- Marketed for slaughter
- Steers and heifers that producers expect to grade select or higher, yield grade of 1 to 3 and to market at 10 to 14 cwt. (live weight)

FEEDER CATTLE

- **Steers** (<6.0 cwt. for steers and bulls,
  6.0-9.0 cwt. for steers only)
- **Heifers** (<6.0 cwt and 6.0-9.0 cwt.)
- **Dairy Cattle** (<6.0 for heifers, steers and bulls and 6.0-9.0 cwt. for heifers and steers)
- **Brahman breeds** (<6.0 for heifers, steers and bulls and 6.0-9.0 cwt. for heifers and steers)
- **Unborn Steers and Heifers** (<6.0 cwt.)
- **Unborn Brahman breeds** (<6.0 cwt.)
- **Unborn Dairy Cattle** (<6.0 cwt.)

SWINE

- Swine that producers expect to have and to market within a range of 1.5 to 2.25 lean cwt. target weight (203-304 live cwt)

LRP Coverage Prices

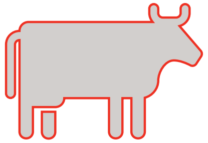
COVERAGE PRICE

- Coverage prices range from 70% to 100% of daily livestock prices for swine, fed cattle, and feeder cattle
  - Coverage prices can be thought of as a deductible
- Prices are published at 4:00 pm CST daily (excluding weekends and market holidays)
- When actual ending value is less than coverage price, a claim is triggered
- When actual ending value is greater than coverage price, the only cost is the premium

SUBSIDY FACTORS

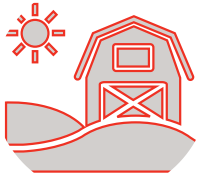
Coverage Level	Subsidy Factor
70 – 79.99%	0.55
80 – 84.99%	0.50
85 – 89.99%	0.45
90 – 94.99%	0.40
95 – 100%	0.35

LRP – Number of Head Insured



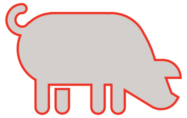
Fed Cattle

- 12,000 per Specific Coverage Endorsement
- 25,000 per Crop Year



Feeder Cattle

- 12,000 per Specific Coverage Endorsement
- 25,000 per Crop Year



Swine

- 70,000 per Specific Coverage Endorsement
- 750,000 per Crop Year

- Must have an ownership share of livestock to be insurable
- No requirement to insure all livestock
- If insuring all livestock and death occurs, you must notify your agent within 72 hours. Coverage continues. Without notification, no indemnity is paid on terminated portion of endorsement

LRP – Livestock Ownership Verification

Risk Management Agency – (RMA) will request documents verifying insured ownership of livestock on the **Specific Coverage Endorsement** before a claim can be paid

Sufficient documents to support verification of ownership *may include, but are not limited to*:

- **Bills of sale** from prior owners
- **Financing/credit documents** secured by the insured livestock
- **Written statements from third parties** such as feed suppliers or veterinarians who have visited the farm or ranch, visually identified the livestock listed on the SCE, and can attest to the named insured's ownership of the identified livestock
- **Bill of sale** for covered livestock

LRP – Length of Endorsement

Fed Cattle, Feeder Cattle, Swine

- 13, 17, 21, 26, 30, 34, 39, 43, 47 or 52 weeks

Why is length of endorsement important?

- If the insured disposes of any portion of the insured share in the insured livestock prior to the last 60 days of coverage, then that portion of the coverage will be terminated
- Feeder cattle do not have to be sold after the end of the endorsement and a new endorsement can be purchased
- Fed cattle must be slaughtered or sold before claim can be paid
- Unborn swine minimum 30-week endorsement and maximum of 30 weeks for all other swine

LRP Indemnity Calculation
1000 Head Feeder Cattle Operation

- Type of operation – Fed Cattle
- Number of head – 1,000
- Targeted date of sale/slaughter – 8/22/23
- Insureds break even sale price is $116/CWT

LRP Indemnity Calculation
1000 Head Feeder Cattle Operation

1

Producer sells 1,000 head of 800-pound steers on 8/22/2023 for $118.00/hundred weight (cwt.)

2

The CME Expected Ending Value he locked in was $124.80/cwt. for $4.37/ cwt. premium

3

Coverage Price was: $122.82/cwt. (Expected Ending Value x his coverage level)

4

The CME Actual Ending Value on 8/30/2023 was $115.00/cwt.*

Indemnity Calculation:

1,000 Head x 8 cwt/head = 8,000

8,000 x ($122.82 - $115.00) = $62,560

$62,560 Paid to the Insured

$37,560 net payment after premium costs

*The "actual ending value" is the *weighted average price of feeder cattle* as calculated by the Chicago Mercantile Exchange (CME) for Cash-Settled Commodity Index Prices multiplied by the applicable type/weight price adjustment factor

LRP Indemnity Calculation
1000 Head Feeder Cattle Operation

1

Producer sells 1,000 head of 800-pound steers on 8/22/2023 for $122/hundred weight (cwt.)

2

The CME Expected Ending Value he locked in was $124.80/cwt. for $4.37/ cwt. premium

3

Coverage Price was: $122.82/cwt. (Expected Ending Value x his coverage level)

4

The CME Actual Ending Value on 8/30/2023 was $123/cwt.*

No Payable Indemnity
Break Even total needed: $928,000
Cash received at market: $976,000
Premium Costs: $35,000

*The "actual ending value" is the *weighted average price of feeder cattle* as calculated by the Chicago Mercantile Exchange (CME) for Cash-Settled Commodity Index Prices multiplied by the applicable type/weight price adjustment factor

LRP Indemnity Calculation
1000 Head Swine Operation

- Type of operation – Swine
- Number of head – 1,000
- Targeted date of sale/slaughter – 8/22/23
- Insureds break even cost is $85/CWT

LRP Indemnity Calculation
1000 Head Swine Operation

1

Producer sells 1,000 head of 225-pound swine on 8/22/2023 for $86/hundred weight (cwt.)

2

The CME Expected Ending Value he locked in was $94/cwt. for $2.49/CWT. premium

3

Coverage Price was: $93.59/cwt. (Expected Ending Value x his coverage level)

4

The CME Actual Ending Value on 8/30/2023 was $87/cwt.*

Indemnity Calculation:

1,000 Head x 2.25 cwt/head = 2250

2250 x ($93.59 - $87) = $6.59

$6590 Paid to the Insured

$5602 Premium Costs

Net payment : $988

*The "actual ending value" is the *weighted average price of feeder cattle* as calculated by the Chicago Mercantile Exchange (CME) for Cash-Settled Commodity Index Prices multiplied by the applicable type/weight price adjustment factor

LRP Indemnity Calculation
1000 Head Swine Operation

1

Producer sells 1,000 head of 225-pound swine on 8/22/2023 for $95/hundred weight (cwt.)

2

The CME Expected Ending Value he locked in was $94/cwt. for $2.49/CWT. premium

3

Coverage Price was: $93.59/cwt. (Expected Ending Value x his coverage level)

4

The CME Actual Ending Value on 8/30/2023 was $96/cwt.*

Indemnity Calculation:

No Payable Indemnity

$5602 Premium Costs

Break even needed: $191,250

Cash Received at Market: $213,750

*The "actual ending value" is the *weighted average price of feeder cattle* as calculated by the Chicago Mercantile Exchange (CME) for Cash-Settled Commodity Index Prices multiplied by the applicable type/weight price adjustment factor

LRP Program Enhancements

- Modified the requirement to own insured livestock until the last 60 days of the endorsement
- Increased the endorsement lengths for swine up to 52 weeks
- New feeder cattle and swine types to allow for unborn livestock to be insured
- Increased livestock head limits
  - 25,000 per year on Cattle
  - 750,000 per year on Swine
- Improved subsidy table

	Subsidy Factor		
Coverage Level	2018	2020	2021
70 – 79.99%	0.35	0.35	0.55
80 – 84.99%	0.30	0.35	0.50
85 – 89.99%	0.30	0.35	0.45
90 – 94.99%	0.25	0.30	0.40
95 – 100%	0.20	0.25	0.35

Why Choose LRP?

- Customizable but Simple
  - 4 Choices
- Available to livestock producers of all sizes
  - Put Options can be restrictive to smaller operations
- Increased subsidy and insurable head make it more attractive
- Claims are paid efficiently once ending values are calculated
  - Companies have 30 days to pay after claim documentation has been received

Final Items to Consider

- 2025 Crop Year starts July 1, 2024
  - Have a conversation with your Crop Insurance Agent
    - Sign an application, get access daily price updates
    - No premium due until the end of the Specific Coverage Endorsement
    - https://rma.usda.gov/en/Information-Tools/Livestock-Reports
- Discuss the 4 choices for coverage with your agent
  - Type of operation
  - Number of head
  - Targeted date of sale/slaughter
  - Break even costs/value to insure
- Sales are from 4:00 PM CST – 8:25 AM CST
- Policyholder must have an AD 1026 filed at Farm Service Agency (FSA) to be eligible for subsidy

Questions?

Livestock Gross Margin (LGM) – What is it?

- LGM offers producers a way to manage gross margin risk by guaranteeing a minimum gross margin. If the gross margin guarantee at the beginning of the contract period is higher than the actual gross margin at the end of the contract period, the producer will earn an indemnity.
- Protects your margin for three classes of livestock
  - LGM – Swine
  - LGM – Cattle
  - LGM – Dairy
- Benefits
  - Sign up 12 times per year and insure all of the swine, milk production or cattle you expect to market
  - Tailor it to your operation
  - Insures your gross margin over the period you choose

LGM- Eligibility

- Ownership in the swine, cattle, or dairy cattle producing the milk
- Must have the AD 1026 (conservation plan) on file with the FSA office
- Beginning Farmer / Rancher does apply and if you qualify then a greater subsidy is applied
- You may have both LRP and LGM policy – except:
  - Can’t insure same class of livestock with the same marketing end month
  - The same livestock insured under multiple policies

Livestock Gross Margin - Coverages

SWINE

- Farrow to Finish Operations
- Feeder Pig – Finishing Operations
- Segregated Early Weaned (SEW) Operations

CATTLE

- Yearling finishing
- Calf finishing operations

DAIRY

- Dairy milk production

LGM- What is Protected

- Chicago Mercantile Exchange and Chicago Board of Trade prices – not your own
  - Bundled option to protect feed costs and marketings
    - Like a call option to limit an increase in feed price (Corn and soybean meal)
    - Like a put option to put a floor under marketings

- LGM – Swine
  - Protects the gross margin between the value of insured hogs and the cost of corn and soybean meal as well as declines in hog prices and increases in feed cost

- LGM – Cattle
  - Protects the gross margin between the market value of cattle minus the feeder cattle and feed costs (corn) of cattle

- LGM – Dairy
  - Protects the margin between market value of milk minus the feed costs on the milk produced from dairy cows
    - Future prices of corn, soybean meal, and milk

LGM– Coverage and Subsidy Levels

- LGM – Swine
  - Deductible amounts from $0-$20 per head in $2 increments
  - Subsidies range from 18% with $0 deductible up to 50% subsidy with a deductible of $12 or greater
- LGM – Dairy
  - Deductible amounts from $0-$2 per hundredweight (cwt) of milk, in $0.10 increments
  - Subsides available for policies that insure multiple months during insurance period
  - Subsides range from 18% with a $0 deductible up to 50% subsidy with a deductible of $1.10-$2.00
- LGM – Cattle
  - Deductible amounts from $0 to $150 per head, in $10 increments
  - Subsidies range from 18% with $0 deductible up to 50% subsidy with a deductible of $12 or greater

LGM– Coverage Periods

- 12 insurance periods per calendar year
  - 11 months each
  - Sales period begins each Thursday until 8:25 AM CT the following morning for Cattle and Swine and 9:00 AM CT the following morning for Dairy Cattle.

Sign Up Month	Month 1 No Coverage	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11

LGM– Restrictions

- Marketings cannot be insured in the first month of ithe nsurance period
- Does not insure against death or other loss / destruction
- Unexpected increases in feed use
- LGM – Diary Does not insure against unexpected decline in milk production

LGM Program Enhancements

- Allowed producers to sign the application for coverage ahead of the sales period.
- Revised premium billing date to clarify multiple endorsements are purchased.
- For LGM Dairy, increased requirement for actual marketings from 75% to 85% of cumulative target marketings to match the Dairy Revenue Protection program.
- For LGM Cattle & Swine, modified the end of sales period to 8:25 AM CT. Specific Coverage Endorsements will need to be signed by 8:25 a.m. CT.

LGM Indemnity Calculation

Live cattle price	**Yearling-finishing operation**
Market value equation	12.5 cwt × live cattle futures price
Contract month	When marketed
Feeder cattle price	**Yearling-finishing operation**
Feeder calf equation	7.5 cwt × feeder cattle futures price
Contract month	5 months before marketing
Feeder (corn) price	**Yearling-finishing operation**
Cost of feed equation	50 bu × corn futures price
Contract month	2 months before marketing

LGM Indemnity Calculation
Yearling Finishing Cattle Operation

- Type of operation – Yearling Finishing
- Policy Election– March
- Deductible- $20 per head
- Targeted date of sale – October
- RMA Expected Gross Margin- $200 per head for October

LGM Indemnity Calculation
Yearling Finishing Cattle Operation

1

RMA reported expected gross margin for October at the time of sale was $200 per head.

2

After applying the $20 deductible, gross margin guarantee would be $180 per head.

3

- *Feeder cattle futures $185 cwt in May*
- *Corn futures $6.80 bu in August*
- *Live cattle futures $155 cwt in October*

Indemnity Calculation:

(12.5 cwt × $155 live cattle futures price) - (50 bu × $6.80 corn futures price) - (7.5 cwt × $185 feeder cattle futures price) = $210 per head

Because the guaranteed gross margin ($180) is less than the actual gross margin ($210), the producer receives no indemnity.

Why Choose LGM?

- Simple
  - Straight forward policy
- Effective
  - Protects the margin
- Affordable
  - Premium discounts up to 50%
  - No margin calls
  - No brokerage fees
- Customizable
  - Perfect for any size of farm/ranch because you can tailor it for your operation.

Final Items to Consider

- 2025 Crop Year starts July 1, 2024
- Sales period begins each Thursday until 8:25 AM CT the following morning for Cattle and Swine and 9:00 AM CT the following morning for Dairy Cattle.
- Policyholder must have an AD 1026 filed at Farm Service Agency (FSA) to be eligible for subsidy
- LGM can be a good fit for any farm size as it has no head limitations
- Contact your agent for more specific details:
  - Examples on how the LGM product may work in your operation
  - Definitions of all terms that are specific for your operations
  - Specific causes of losses and exclusions

Thank you.

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