Livestock Risk Protection: A Subsidized Opportunity to Protect Livestock Prices

Livestock Risk Protection (LRP) is a federal livestock insurance product that provides protection against declining livestock prices if the price, as specified in the policy, drops below the producer's selected coverage price. Coverage prices are determined by the Chicago Mercantile Exchange on a daily basis. Coverage is available on Feeder Cattle (Under 900 pounds), Fed Cattle (901-1200lbs), and Swine.

Over the past two years, interest in LRP has grown considerably. There are many reasons for this increase in interest. Uncertainty in livestock markets combined with drought conditions in many parts of the United States have led livestock producers to look for ways to protect their price risk in taking animals to market. Additionally, changes to the LRP policy have made the program more producer friendly. These changes include:

- Premium billing after the end of the insurance period
- Ability to insure livestock prior to the birth of the animal
- Increased head limits on the policy

Livestock Risk Protection is a straightforward policy to understand. To purchase coverage, the producer must have an ownership share of the animals to be marketed. Once ownership has been established, the producer only has four choices to make to determine coverage.

Choice One: What type of animal to insure

For feeder cattle producers, they must differentiate between steers and heifers unless, they are insuring calves that have not been born yet. For fed cattle and swine, you do not need to differentiate between gender.

Choice Two: When will the producer be taking the animals to market

For LRP, coverage periods as short as 13 weeks are available and can go up to 52 weeks into the future. This length of endorsement creates a marketing window of 60 days before or after the expected end date.

Choice Three: How many head is the producer taking to market.

There is no requirement to insure all owned livestock.

Choice Four: Determine the coverage price.

Each day a range of prices are released and available for sale. When determining the coverage price election, it is important for the producer to understand their costs of production. From there, they can look to break even or insure at a price that is profitable to them. Subsidy is also tied to the percentage of price elected, with subsidy ranging from 35-55% of the total premium, depending on the level of coverage.

Once coverage is established and the insurance period ends, the ending price is gathered from the Risk Management Agency (RMA) calculation of the livestock market at the end date. Simply put, if the end price is lower than the coverage price elected the insured receives a claim payment covering the difference between the two prices. Claim payments are typically made within 30 days of the insured signing off on the loss. If there is no payable loss on the policy, premium payments are due 30 days after the end of insurance date.

Livestock Risk Protection is an extremely attractive product for livestock producers across the country to consider incorporating into their risk management strategy. It is a product that can work for all size operations as there are no minimum requirements like board options require and generous head limits for the policy are accommodating to large operations. Our farmers and ranchers are faced with a lot of uncertainty and LRP provides security when it comes to what the markets will be doing when their animals are ready to go to market.

Sources: Risk Management Agency and Rain and Hail