



Livestock Risk Protection (LRP)

Protecting your Owned
Livestock Revenue

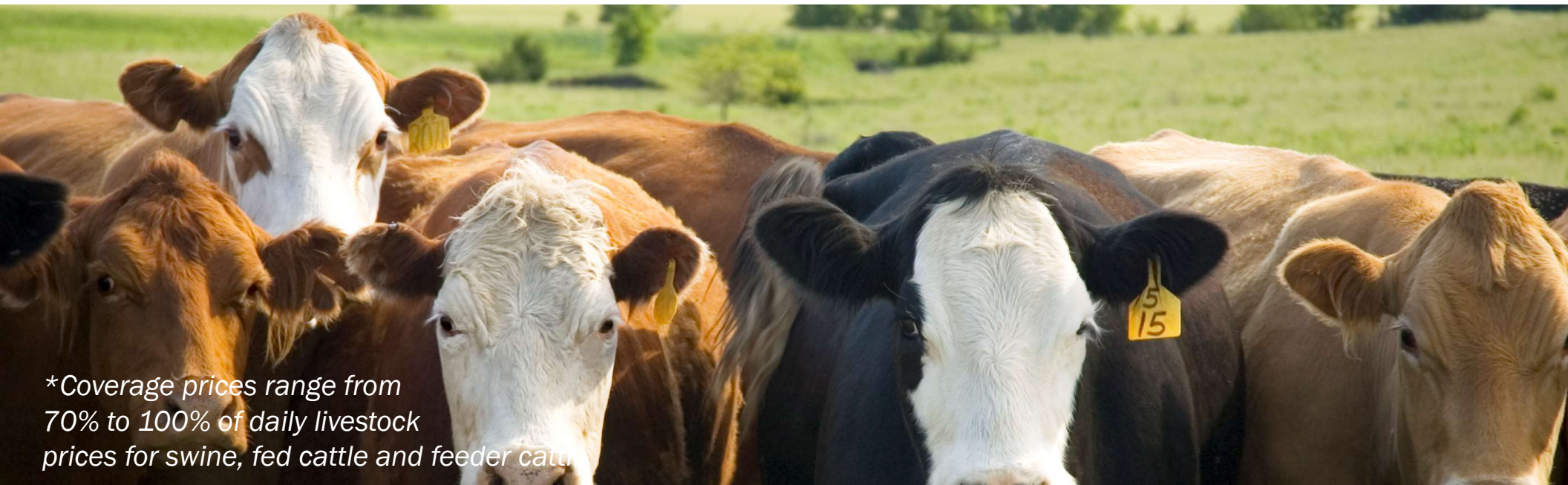
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Regional Crop Consultants
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 **FARM BUREAU
FINANCIAL SERVICES**

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

A photograph of several cattle in a green field. In the foreground, a black and white cow with a yellow ear tag numbered '515' is looking towards the camera. To its left, a brown and white cow is also visible. The background shows a lush green field with some trees in the distance.

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

Feeder Cattle Aug '22 Futures



Source: barchart – feeder cattle futures

LRP Concept

THE PRODUCER HAS FOUR CHOICES:

01

**Type of
Insurance**

02

**Coverage
Price**

03

**Number
of Insured
Head**

04

**Length of
Coverage**

Type 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

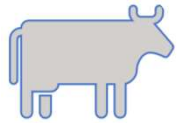
COVERAGE PRICE

- 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



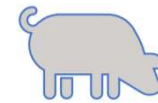
Fed Cattle

- 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 – 8/22/22
- 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 8/22/2022 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 8/30/2022 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 8/22/2022 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 8/30/2022 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 – 8/22/22
- 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 8/22/2022 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 8/30/2022 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 8/22/2022 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 8/30/2022 was \$96/cwt.*

Indemnity Calculation:

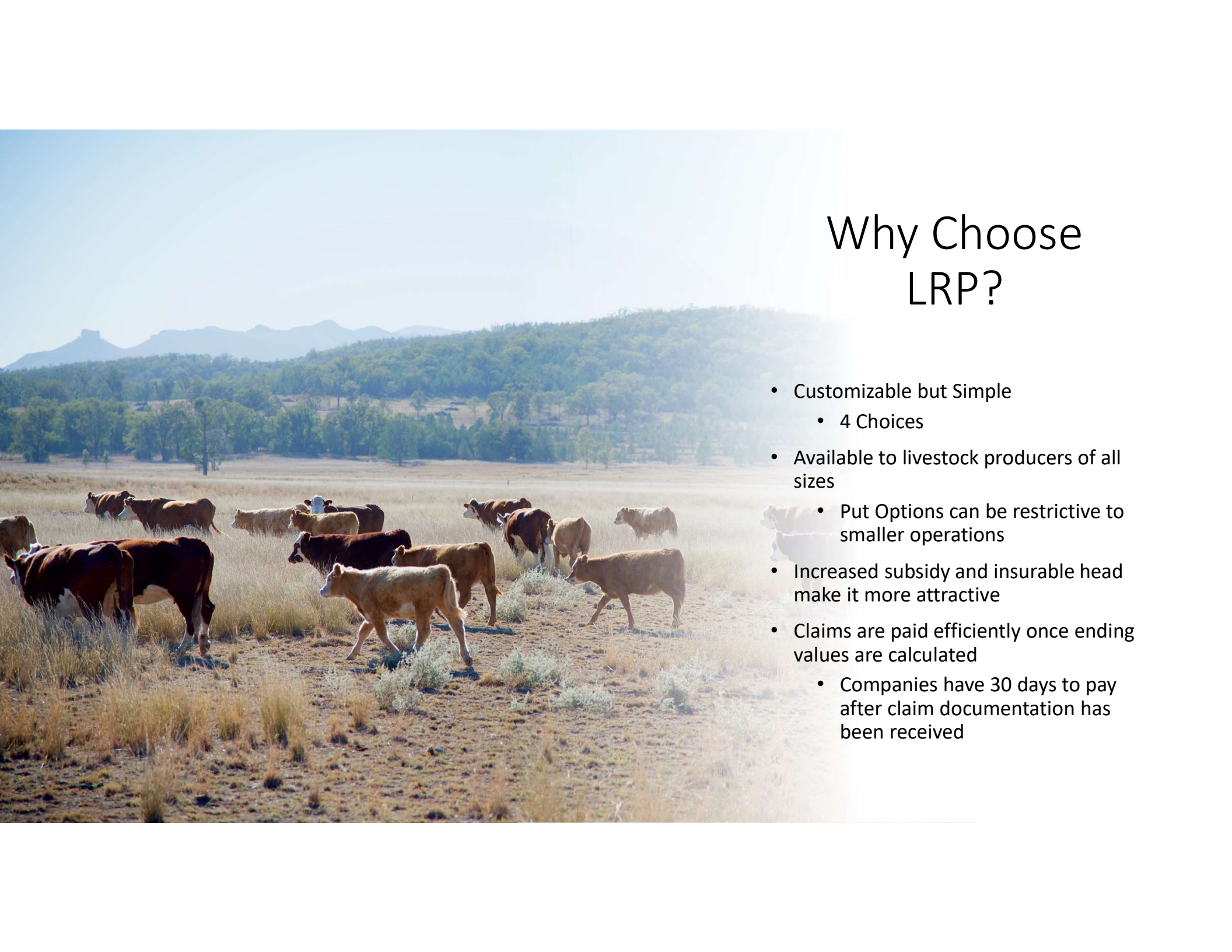
No Payable Indemnity

\$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

A photograph of a herd of cattle grazing in a dry, open field. The cattle are of various colors, including brown, white, and black. The field is covered with dry grass and small shrubs. In the background, there are rolling hills and a clear blue sky.

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

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

Does LRP Work?

Table 2: LRP – Feeder Cattle insurance example at the highest available coverage price for endorsement periods from Aug. 6-8 to Nov. 5-7 for 500-600 pound heifers (Heifers Weight 1). The Net LRP Effect is combined with the average Nebraska Auction Price for 5-600 pound heifers reported by USDA for the associated week in November to arrive at a Net Price with LRP for the producer.

Purchase Year	2016	2017	2018	2019	2020	Average
Expected Ending Value	142.000	144.965	152.700	138.671	146.970	145.061
Actual Ending Value	126.46	159.01	153.32	146.26	136.63	144.34
Actual Ending Change	(\$15.54)	\$14.05	\$0.62	\$7.59	(\$10.34)	(\$0.73)
Indemnity	14.22	0	0	0	9.22	4.69
Producer Premium	5.03	4.59	4.42	4.54	3.59	4.43
Net LRP Effect	\$9.19	(\$4.59)	(\$4.42)	(\$4.54)	\$5.63	\$0.25
NE Auction Price	\$124.70	\$160.61	\$151.30	\$143.35	\$142.40	\$144.47
Net Price w/ LRP	\$133.89	\$156.02	\$146.88	\$138.81	\$148.03	\$144.73


Data source: <https://beef.unl.edu/beefwatch/2021/using-livestock-risk-protection-insurance-protect-profits>

Final Items to Consider

- 2023 Crop Year starts July 1, 2022
 - Have a conversation with your Crop Insurance Agent
 - Sign an application, get access daily price updates
 - No premium due until a Coverage Endorsement is purchased
 - <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 – 9:00 AM CST
 - Policyholder must have an AD 1026 filed at Farm Service Agency (FSA) to be eligible for subsidy

Questions?





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