

Livestock Risk Protection (LRP) for Virginia Feeder Cattle Producers

Jay Parsons
Colorado State University

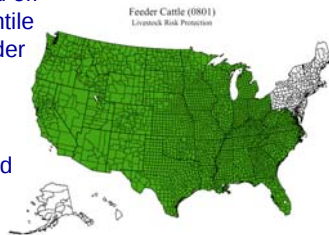
John P. Hewlett
University of Wyoming

Virginia
Cooperative
Extension



LRP Feeder Cattle

- LRP for feeder cattle offers *price* protection for feeder cattle producers based off of the Chicago Mercantile Exchange Group Feeder Cattle Index.
- Now available in all counties of Virginia and across several other states



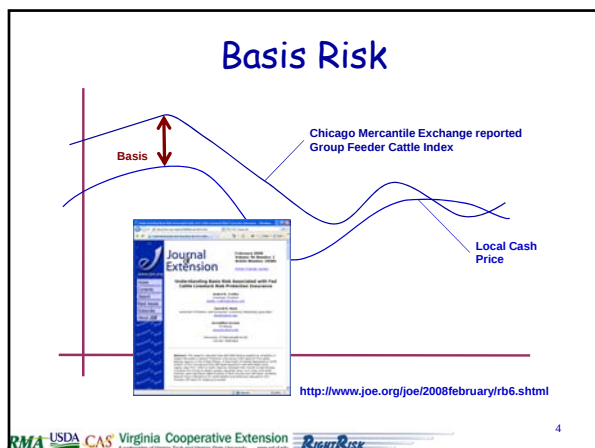
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LRP Feeder Cattle

- It does *not* cover sickness or death of the cattle or insure against possible rising feed costs.
- Producers remain subject to *basis price risk*



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Basics of LRP for Feeder Cattle

- **Product Offered:** Protection for producer against decline in cattle prices below the established coverage price
- **Insurance Period:** Offered for 13, 17, 21, 26, 30, 34, 39, 43, 47 or 52-week periods
 - The producer will choose a time closest to the time cattle will be marketed or time when cattle will reach the desired weight



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Basics of LRP for Feeder Cattle

- **Application:** An application is required to purchase insurance coverage
- **Specific Coverage Endorsement:** A producer must file a Specific Coverage Endorsement for each group of feeder cattle to be insured. Several endorsements may be filed under one application as long as beneficial interests are the same



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LRP for Feeder Cattle: Types and Weights Insurable

- Steer feeder cattle < 6.0 cwt for steers and bulls and steers only from 6.0 to 9.0 cwt
- Heifer feeder cattle < 6.0 cwt and heifer feeder cattle from 6.0 to 9.0 cwt
- Predominantly Brahman heifers, steers, and bulls < 6.0 cwt and predominantly Brahman heifers and steers from 6.0 cwt to 9.0 cwt
- Predominately dairy heifers, steers and bulls < 6.0 cwt and predominately dairy heifers and steers 6.0 to 9.0 cwt

Basics of LRP for Feeder Cattle

- "Crop" year: [July 1 to June 30]
 - **Annual Policy Limits:** The maximum number of head of feeder cattle that may be covered during a crop year is 2,000 head per producer
- Endorsement Limits:
 - A limit of 1,000 head of feeder cattle may be insured under any one Specific Coverage Endorsement



LRP for Feeder Cattle: Coverage Prices and Levels

- Coverage Prices
 - the prices that may be insured by the producer
- Coverage Levels
 - based on the chosen coverage price and range from 70 to 100% of the expected end value
- Price Adjustment Factors
 - account for differences between steer prices and prices of other types and weight of cattle
 - adjustments are applied prior to posting on the RMA website



LRP for Feeder Cattle: Actual and Expected End Value of Feeder Cattle

- Expected End Value
 - This is the expected prices at the end of an insurance period for each specific type and weight of feeder cattle announced daily on the RMA website
- Actual End Value
 - This is the value of the cash settled CME feeder cattle index on the end date of the insurance period, adjusted by RMA for feeder cattle type and weight
- Subsidy Level
 - RMA provides a 13% subsidy on LRP feeder cattle premiums

Cost Estimator

Cost Estimator

<http://www.rma.usda.gov>

USDA United States Department of Agriculture
Risk Management Agency Cost Estimate
Insurance Label

Producer and Detail Worksheets for Estimate 1/06/80

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Selected Detail Estimate

Insurance Plan : Commodity Year : State :
 County :

Estimated Detail Manager
 Footer: Cattle 2012: Item 1 > [Show More Details](#) <

W1 W2 W3 W4 W5 W6 W7 W8 W9 W10 W11 W12 W13 W14 W15 W16 W17 W18 W19 W20 W21 W22 W23 W24 W25 W26 W27 W28 W29 W30 W31 W32 W33 W34 W35 W36 W37 W38 W39 W40 W41 W42 W43 W44 W45 W46 W47 W48 W49 W50 W51 W52 W53 W54 W55 W56 W57 W58 W59 W60 W61 W62 W63 W64 W65 W66 W67 W68 W69 W70 W71 W72 W73 W74 W75 W76 W77 W78 W79 W80 W81 W82 W83 W84 W85 W86 W87 W88 W89 W90 W91 W92 W93 W94 W95 W96 W97 W98 W99 W100

Detail View [Print Worksheet](#)

Section 1: Insured Value (Labels)

1.01 Calculate the Insured Value. (Assigned to the nearest dollar value.)

1.01	Number of head	Average Price	Basis	Insured Value
	100	2.00	1.00	\$2,000.00

Section 2: Total Premiums

2.01 Calculate the Total Premium. (If total premium is less than \$1, set it to \$1. (Assigned to the nearest dollar value.)

2.01	Rate	Total Insured Value	Total Premium
	0.001639	\$2,000.00	\$3.27857

Section 3: Production Premiums

3.01 Calculate the Subsidy. (Assigned to 3 decimal places)

3.01	Total Premium	Subsidy Factor	Subsidy
	\$3,278.57	0.001	\$3.28

3.02 Calculate the Production Premium. (Assigned to nearest dollar value.)

3.02	Total Premium	Subsidy	Production Premium
	\$3,278.57	\$3.28	\$6,400.00

Producers Calculations

Calculate the All-Events Subsidy Amount.

3.03	Total Premium Amount	All-Events Subsidy Amount	All-Events Subsidy Amount
	\$3,278.57	\$3.28	\$3,275.29

THIS WORKSHEET IS DESIGNED TO ASSIST IN ESTIMATING PRODUCTION PREMIUM ONLY.

The Cost Estimator only provides a general premium estimate. Refer to your crop insurance agent and policy for specific information regarding insurance coverages, additional information, conditions and exclusions.

Print Label < [Go Back](#) [View Other Pages](#)

8/16/2013

USDA United States Department of Agriculture
Risk Management Agency

Cost Estimate
Insurance Label

Producer and Detail Worksheets for Estimate 1/06/80

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Risk Management Agency

Cost Estimator
Welcome Guest!

Home > Information Browser > Cost Estimator > Detailed Estimate

Log In

Detailed Estimate

03/28/12

Detailed Criteria

- Insurance Plan
 - Livestock Risk Protection 81
- Commodity Year
 - 2012
- State
 - Virginia 31
- County
 - Rockbridge 183

* - indicates required field.

Continue Reset

Data valid as of: 0/4/2012

The Cost Estimator only provides a general premium insurance estimate. Refer to your crop insurance agent and policy for specific information regarding insurance coverage, actuarial information, conditions and exclusions.

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USDA Virginia Cooperative Extension *Beaumont*

Livestock Reports

Main Menu Print 9/6/2012 12:28:15 AM

LRP Coverage Prices, Rates, and Actual Ending Values Criteria

Select a Type. Type selection is not required.

Effective Date: 09/05/2012
 State: 01 Virginia
 Commodity: 0001 Feeder Cattle
 Type: 010 Steers Weight 2

Report Type: ☒ Web Output ☐ Formatted for Printing

[<< Back](#) [Create Report](#)

Holidays where LRP Sales Data will be Unavailable

- 10/08/2012 Columbus Day *
- 11/12/2012 Veteran's Day *
- 11/22/2012 Thanksgiving Day
- 12/25/2012 Christmas Day
- 01/01/2013 New Year's Day
- 01/19/2013 Birthday of Martin Luther King, Jr. *

USDA RMA Virginia Cooperative Extension Report

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Livestock Reports

Select Criteria Main Menu Print 9/6/2012 12:41:35 AM

LRP Coverage Prices, Rates, and Actual Ending Values - Report for 09/05/2012

* See notes at bottom of page

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
11 Virginia	999 All Counties	13	0001 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2013	140.89	\$162.440	0.997000	0.020602	4.289	10/05/2012	
11 Virginia	999 All Counties	13	0001 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2013	140.89	\$162.440	0.992000	0.021048	5.214	10/05/2012	
11 Virginia	999 All Counties	13	0001 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2013	140.89	\$164.440	0.970100	0.016443	2.375	10/05/2012	
11 Virginia	999 All Counties	13	0001 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2013	140.89	\$162.440	0.980700	0.012096	1.722	10/05/2012	
11 Virginia	999 All Counties	13	0001 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2013	140.89	\$162.440	0.943200	0.008038	1.186	10/05/2012	
11 Virginia	999 All Counties	17	0001 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2013	155.947	\$149.608	0.997000	0.031671	4.738	01/02/2013	
11 Virginia	999 All Counties	17	0001 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2013	155.947	\$147.608	0.983700	0.020251	3.727	01/02/2013	

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Livestock Reports

Main Menu Print 9/6/2012 12:53:03 AM

LRP Coverage Prices, Rates, and Actual Ending Values Criteria

Select a Type. Type selection is not required.

Effective Date: 03/01/2012 State: 11 Virginia

Commodity: 0001 Feeder Cattle

Type: 809 Steers Weight 1

Report Type: ☒ Web Output ☐ Formatted for Printing

[OK Back](#) [Create Report](#)

Holidays where LRP Sales Data will be Unavailable

- 10/08/2012 Columbus Day *
- 11/12/2012 Veterans Day *
- 11/22/2012 Thanksgiving Day
- 12/25/2012 Christmas Day
- 01/01/2013 New Year's Day
- 01/21/2013 Birthday of Martin Luther King, Jr. *
- 02/18/2013 Washington's Birthday *
- 03/19/2013 Good Friday (Observed on 03/20/2013)

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Select Criteria Main Menu Print 9/6/2012 12:56:17 AM

LRP Coverage Prices, Rates, and Actual Ending Values - Report for 03/01/2012

* See notes at bottom of page

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
11 Virginia	999 All Counties	13	0001 Feeder Cattle	809 Steers Weight 1	997 No Practice Specified	2012	179.883	\$177.136	0.985900	0.024300	4.304	05/01/2012	167.530

11 Virginia	999 All Counties	21	0001 Feeder Cattle	809 Steers Weight 1	997 No Practice Specified	2012	189.572	\$160.440	0.888000	0.006129	0.963	07/26/2012	147.690
11 Virginia	999 All Counties	25	0001 Feeder Cattle	809 Steers Weight 1	997 No Practice Specified	2012	189.736	\$176.200	0.866000	0.032617	5.612	06/06/2012	153.990
11 Virginia	999 All Counties	26	0001 Feeder Cattle	809 Steers Weight 1	997 No Practice Specified	2012	189.736	\$176.000	0.872800	0.027331	4.810	06/06/2012	153.990
11 Virginia	999 All Counties	28	0001 Feeder Cattle	809 Steers Weight 1	997 No Practice Specified	2012	189.736	\$173.800	0.961700	0.022854	3.912	06/06/2012	153.990
11 Virginia	999 All Counties	29	0001 Feeder Cattle	809 Steers Weight 1	997 No Practice Specified	2012	189.736	\$171.600	0.948000	0.018949	3.262	06/06/2012	153.990
11 Virginia	999 All Counties	26	0001 Feeder Cattle	809 Steers Weight 1	997 No Practice Specified	2012	189.736	\$168.000	0.913000	0.011373	1.877	06/06/2012	153.990
11 Virginia	999 All Counties	30	0001 Feeder Cattle	809 Steers Weight 1	997 No Practice Specified	2012	189.736	\$168.000	0.888000	0.007873	1.280	06/06/2012	153.990

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Livestock Insurance: LRP for Feeder Cattle Example

Contract Data	Value
Number of Steers	100
Expected Weight	700
Current Date	Sep. 5
Marketing Date	Jan. 2
Insurance Period	17 Weeks
Expected Ending Value	150.047
Coverage Level	0.997
Coverage Price	149.60

Livestock Insurance: LRP for Feeder Cattle Example

Contract Data	Value	Source
Insured Value	\$104,718	100 hd x 7 cwt/hd x 149.60/cwt
Premium Rate	0.031671	RMA
Total Premium	\$3,317	105,033 x 0.031671
Subsidy Rate	13%	RMA
Subsidy Amount	\$431	3,327 x 0.13
Producer Premium	\$2,886	3,327 - 433

Producer Premium = 2,886/(700 cwt) = \$4.12/cwt

Livestock Insurance: LRP for Feeder Cattle Example

- Suppose the CME-reported actual ending value is \$142.00/cwt.
- Indemnity calculation

Indemnity = 100 hd x 7 cwt/hd x (149.6-142.00) = **\$5,320**

- This is independent of your actual marketing decision and outcome.

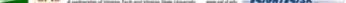
- Suppose you actually market your steers for \$127.00/cwt. at the local auction.
- Net Revenue Calculations



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Federal Crop Insurance Corporation Reinsurance Year Statistics for 2012 As of 9/5/2012												
Nationwide Summary - By State/Commodity												
Commodity	Ins Plan	Pol Sold	Pol Earn	Pol Index	Units Earn	Units Index	Number of Head ¹	Liabilities	Total Premium	Subsidy	Indemnity Loss Ratio	
VIRGINIA												
FEDER CATTLE	LRP	56	23	12	42	19	1,843	1,964,994	40,916	5,319	45,932	1.12
Grand Total		56	23	12	42	19	1,843	1,964,994	40,916	5,319	45,932	1.12



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[illegible]

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- Farm Management Wiki tool “Futures, Options, LRP Comparison”
- <http://FarmManagement.org/Wiki>
- Click on Contents > Tools > “Futures Options LRP Comparison”

LRP for Feeder Cattle: Summary

- Livestock Risk Protection for feeder cattle
- The insurable types and weights of feeder cattle under livestock insurance
- Insurance against price changes
- The difference between LRP insurance coverage and an options coverage



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RMA LRP Fact Sheet



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Thank you!

Jay Parsons
jparsons@eRightRisk.com

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