

# Livestock Risk Protection

By:  
Blake Gade



# Overview

- What is LRP?
- LRP policy
- Calculate your premiums
- Issues with LRP
- Results
- Conclusion/Recommendations



# Abbreviations Used

- LRP – Livestock Risk Protection
- FCIC – Federal Crop Insurance Corporation
- SCE – Specific Coverage Endorsement

# What is LRP?

- Insurance policy that protects producers against declining prices
- Covers Feeder Cattle, Fed Cattle, Swine and Lambs
- Does not guarantee a cash price
- Does not insure against any other type of peril
- Coverage cannot be lifted once in place

Livestock Coverage





# LRP Policy Requirements

- All livestock to be insured are to be in eligible state.
- All owners are eligible.
- Producer must obtain a Specific Coverage Endorsement
- After enrollment producers can enroll but don't have to buy.



# Enrollment

- LRP insurance can be purchased through a crop insurance agent
- Producers must prove ownership of livestock to be insured
- Prices offered for livestock are based on the Chicago Mercantile Exchange price index
- Prices and premiums change daily

# Eligible States

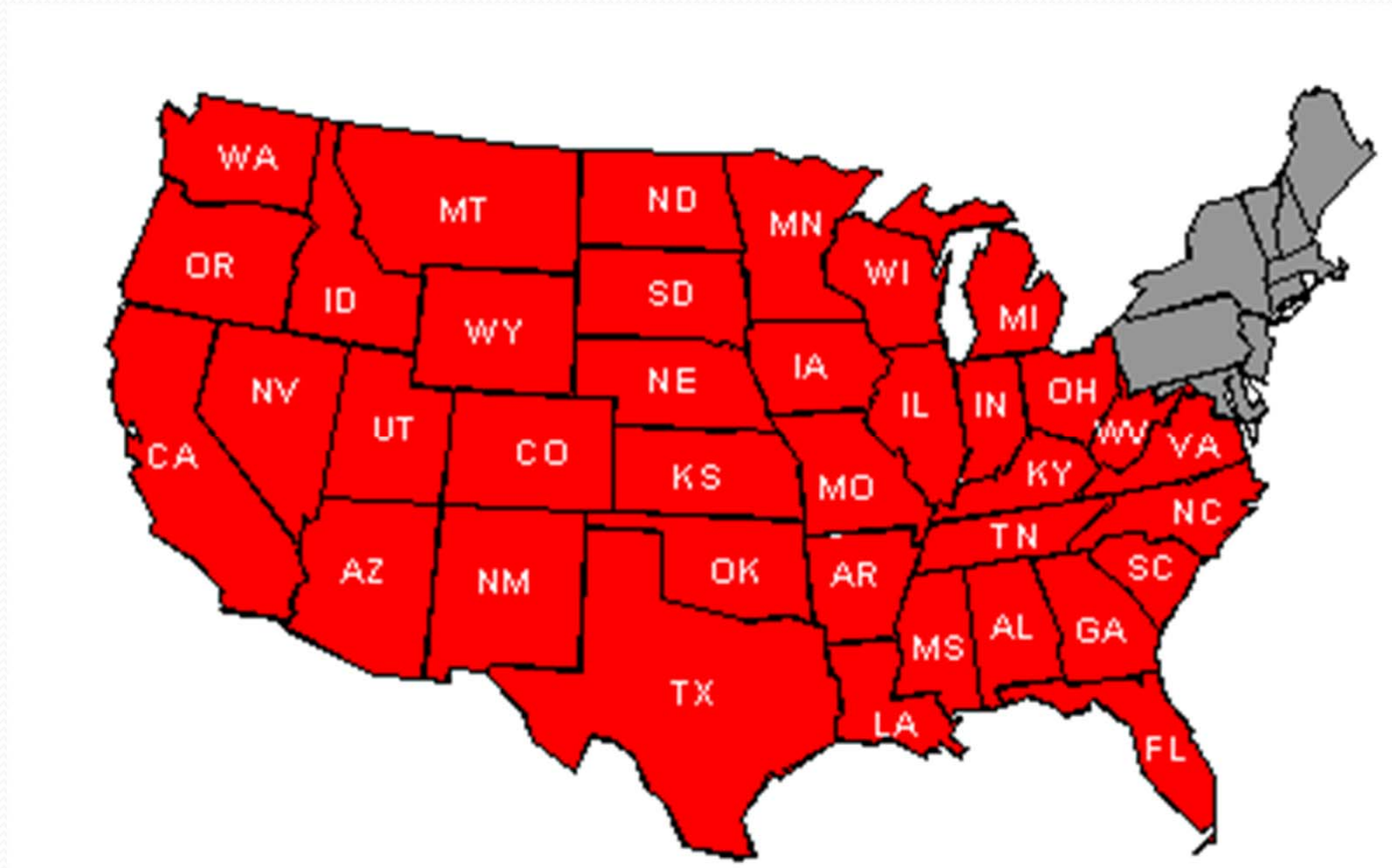


Photo from: [http://livestockinsurance.unl.edu/about\\_lrp/states.html](http://livestockinsurance.unl.edu/about_lrp/states.html)



# Eligible Livestock

- Fed Cattle
- Feeder Cattle
- Swine
- Lambs



# Fed Cattle

- Weight class from 1,000 lbs. to 1,400 lbs.
- Both heifers and steers can be insured
- Insurable periods of 13, 17, 21, 26, 30, 34, 39, 43, 47 or 52 weeks
- Insure up to 4,000 head per crop year
- Insure 2,000 per SCE
- Coverage from 70 – 100%





# Feeder Cattle

- Separated into two weight classes
  - < 600 lbs.
  - 600 – 900 lbs.
- Both steers and heifers can be insured
- Insured periods of 13, 17, 21, 26, 30, 34, 39, 43, 47, or 52 weeks

# Continued

- Can insure up to 2,000 head per year
- Can insure up to 1,000 per SCE
- Can select coverage between 70 to 100%



# Swine

- Weight class from 150 – 225 lbs.
- Both barrows and gilts are insurable
- Insurable period of 13, 17, 21 or 26 weeks
- Insure up to 32,000 per crop year
- Insure 10,000 head per SCE
- Coverage from 70 – 100%



# Lambs

- Can insure feeder or slaughter lambs
- Weight class from 50 to 150 lbs.
- Can insure 28,000 head per crop year
- Insure 2,000 per SCE
- Insurable period of 13, 20, 26 or 39 weeks
- Coverage level of 80 – 95%





# Premiums

- Premiums are higher when prices are lower
- Are lower when prices are higher
- Based on:
  - Current Market Price
  - Insurance Period Length
  - Expected Weight of Livestock

# Premiums

# of Head	X	Target Weight	X	Coverage Price	X	Insured Share	=	Insured Value
150	X	650 lbs.	X	\$0.90/cwt	X	100%	=	\$87,750

# Continued

Insured Value	X	Rate	=	Rounded Total Premium
\$87,750	X	.01526	=	\$1,339

Rounded Total Premium	X	Subsidy	=	Rounded Subsidy
\$1,339	X	.13	=	\$174.07



# Continued

<b>Rounded Total Premium</b>	<b>-</b>	<b>Rounded Subsidy</b>	<b>=</b>	<b>Producer Premium</b>
<b>\$1,339</b>	<b>-</b>	<b>\$174.07</b>	<b>=</b>	<b>\$1,164.93</b>



# Indemnity Payments

- Producers can collect an indemnity payment when the ending value is lower than the coverage price.
- Indemnity amount is the difference between the coverage price and the ending value.
- Even if the producer does not collect an indemnity payment, the premiums are tax deductible.

# Indemnity Payments

Coverage Price	Ending Value	Indemnity Payment
\$98.27/cwt.	\$99.63/cwt.	None
\$98.27/cwt.	\$96.79/cwt.	\$1.48/cwt.



# Issues with LRP

- Producers do not have to weigh their livestock
  - Costs insurance company money
  - Producers can lie about target weight to get a cheaper premium
- Time period the agents have to sell policies
- When producer must pay for policy

# Continued

<b>Weight Class</b>  1  < 600 lbs.	<b>Coverage</b>  Price  \$102.54/cwt.	<b>Premium</b>  Cost  \$7.76 /hd.	<b>Ending Value</b>  \$100.65/cwt.	<b>Total</b>  Indemnity  \$1.89/cwt.
<b>Weight Class</b>  2  600 – 900 lbs.	<b>Coverage Price</b>  \$97.42/cwt.	<b>Premium Cost</b>  \$6.43 /hd.	<b>Ending Value</b>  \$89.23/cwt.	<b>Total</b>  Indemnity  \$8.19/cwt.



# Methods and Procedures

- Profit Maximization
- SWOT analysis
  - Strengths
  - Weaknesses
  - Opportunities
  - Threats



# Conclusion/Recommendations

- Insurance company is not realizing their profit potentials.
- Producers are able to receive coverage for their livestock at a lower premium cost.
- The current policy needs to be revised to enforce a weighing system.



# Continued

- Producers need to prove the final weight of the cattle before collecting their indemnity payment
  - Show weight receipt when cattle are sold
- Penalty for producers who do not make the weight requirement
  - Not receiving the indemnity payment





# Summary

- LRP insurance is subsidized by the FCIC
- It offers a single peril price risk protection
- Protects producers from declining prices
- Eligible livestock
  - Fed cattle
  - Feeder cattle
  - Swine
  - Lambs



# Continued

- LRP coverage can be bought through a crop insurance agent
- Producer receives an indemnity payment if the ending value falls below their coverage price
- Coverage prices change daily
- Prices offered based on CME index

# Work Cited

- Barnaby, G. "Comparing LRP to a Put Option." Kansas State University. Web. 21 Nov. 2010. <[http://www.agmanager.info/crops/insurance/risk\\_mgt/rm\\_pdf05/ABlrpkc.pdf](http://www.agmanager.info/crops/insurance/risk_mgt/rm_pdf05/ABlrpkc.pdf)>.
- Burdine, Kenny, and Greg Halich. "Understanding USDA's Livestock Risk Protection Insurance." University of Kentucky, July 2008. Web. 21 Nov. 2010. <<http://www.ca.uky.edu/cmsspubsclass/files/kburdine/2008-04.pdf>>.
- CME. "Cash Settled Commodity Index Prices." *CME Group - Futures & Options Trading for Risk Management*. CME Group Inc., 21 Nov. 2010. Web. 21 Nov. 2010. <<http://www.cmegroup.com/market-data/datamine-historical-data/cash-settled-commodity-index-prices.html>>.
- Gade, Peggy. LRP Insurance Agent "Problems with Livestock Risk Protection." Personal interview. 10 Oct. 2010.
- Halfman, Bill. "Livestock Risk Protection Insurance (LRP)." UW-EX. Web. 21 Nov. 2010. <<http://webcache.googleusercontent.com/search?q=cache:-fvcb4hoY2AJ:www.aae.wisc.edu/mitchell/LRP%20Presentation.ppt+weighing+your+cattle+for+lrp&cd=1&hl=en&ct=clnk&gl=us>>.
- Hayes, Lynn. "Livestock Risk Protection Insurance." Federation of Southern Cooperatives, 11 Sept. 2009. Web. 21 Nov. 2010. <<http://www.flaginc.org/topics/pubs/arts/LvStkRskProtect.pdf>>.
- "LIVESTOCK RISK PROTECTION INSURANCE POLICY." USDA, 2010. Web. 21 Nov. 2010. <<http://www.rma.usda.gov/policies/2010/lrp/10lrpbasicpolicy.pdf>>.
- Mark, Darrell. "Hedging and Basis Considerations For Fed Cattle Livestock Risk Protection Insurance." University of Nebraska Lincoln, June 2004. Web. 21 Nov. 2010. <<http://elkhorn.unl.edu/epublic/live/ec834/build/ec834.pdf>>.
- "Marketing Strategy Definition." *BusinessDictionary.com - Online Business Dictionary*. Web. 21 Nov. 2010. <<http://www.businessdictionary.com/definition/marketing-strategy.html>>.
- ODI. "Successful Communication Tool - Writing Policy Papers." *Overseas Development Institute (ODI) - The UK's Leading Independent Think Tank on International Development and Humanitarian Issues*. 13 Jan. 2009. Web. 21 Nov. 2010. <[http://www.odi.org.uk/Rapid/Tools/Toolkits/Communication/Writing\\_policy\\_papers.html](http://www.odi.org.uk/Rapid/Tools/Toolkits/Communication/Writing_policy_papers.html)>.
- Rain and Hail. "Livestock Risk Protection Insurance General Summary." Rain and Hail LLC. Web. 21 Nov. 2010. <[https://www.rainhail.com/pdf\\_files/MKTG/MKTG\\_4027.pdf](https://www.rainhail.com/pdf_files/MKTG/MKTG_4027.pdf)>.
- Stolyarov, G. "Profit Maximization in Mathematical Economics: Practice Problems and Solutions." *Associated Content from Yahoo! - Associatedcontent.com*. 25 Mar. 2008. Web. 21 Nov. 2010. <[http://www.associatedcontent.com/article/676871/profit\\_maximization\\_in\\_mathematical.html](http://www.associatedcontent.com/article/676871/profit_maximization_in_mathematical.html)>.
- Thomson, Bill, Blake Bennett, and Diana Jones. "Livestock Risk Protection." *Advantages and Disadvantages of LRP*. Texas A&M University, 21 Oct. 2008. Web. 21 Nov. 2010. <[http://repository.tamu.edu/bitstream/handle/1969.1/87287/pdf\\_2061.pdf?sequence=1](http://repository.tamu.edu/bitstream/handle/1969.1/87287/pdf_2061.pdf?sequence=1)>.
- USDA. "Feeder Cattle Premium Calculation." USDA, 2008. Web. 21 Nov. 2010. <[http://www.rma.usda.gov/policies/2008/lrp/o8\\_lrp\\_feeder\\_cattle\\_premium\\_calculation.pdf](http://www.rma.usda.gov/policies/2008/lrp/o8_lrp_feeder_cattle_premium_calculation.pdf)>.
- USDA. "LRP-FEEDER CATTLE." USDA, Apr. 2009. Web. 21 Nov. 2010. <<http://www.rma.usda.gov/policies/2010/lrp/10lrpfeedercattlesce.pdf>>.
- Waterbury, Josie. "Livestock Risk Protection." *Neb Guide*. University of Nebraska Lincoln. Web. 21 Nov. 2010. <<http://www.ianrpubs.unl.edu/epublic/live/g1723/build/g1723.pdf>>.



Questions?