Livestock Risk Protection (LRP)
for Virginia Operators

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RMA
Risk Management Agency

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LRP Feeder Cattle

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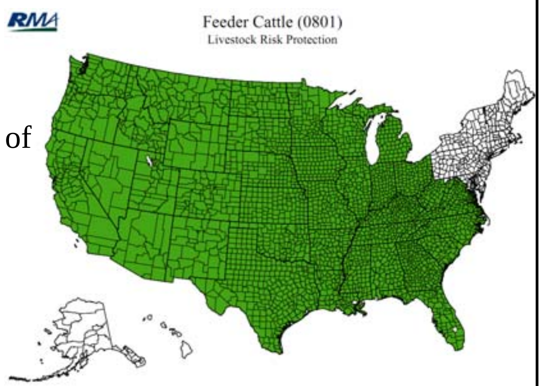
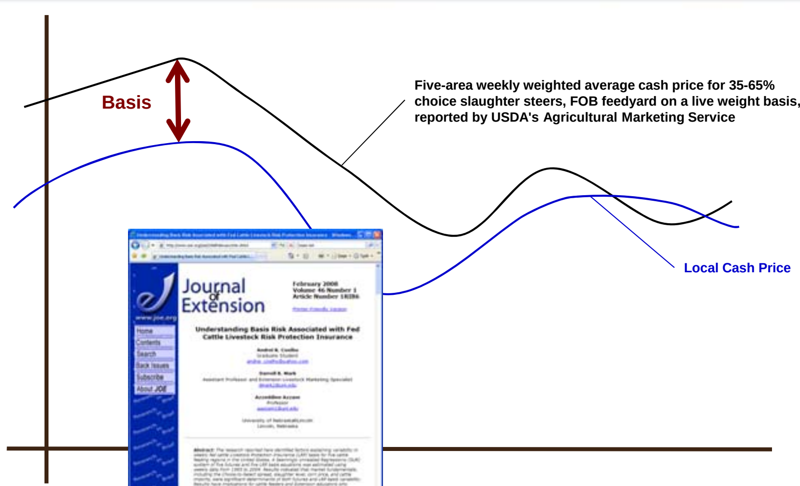
Livestock Insurance: LRP for Feeder Cattle Coverage

- LRP for feeder cattle offers *price* protection for feeder cattle producers. It does *not* cover sickness or death of the cattle or insure against possible rising feed costs.
- Now available in all counties of Virginia and across several other states
- Producers remain subject to ***basis price risk***



Livestock Insurance: LRP for Feeder Cattle Coverage



http://www.joe.org/joe/2008february/rb6.shtml

Livestock Insurance: LRP for Feeder Cattle
Basics of LRP

- **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*

Livestock Insurance: LRP for Feeder Cattle
Basics of LRP (cont.)

- **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

Livestock Insurance: LRP for Feeder Cattle Types and Weights of Feeder Cattle 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

Livestock Insurance: LRP for Feeder Cattle Types and Weights of Feeder Cattle Insurable (cont.)

- "Crop" year: [June 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*

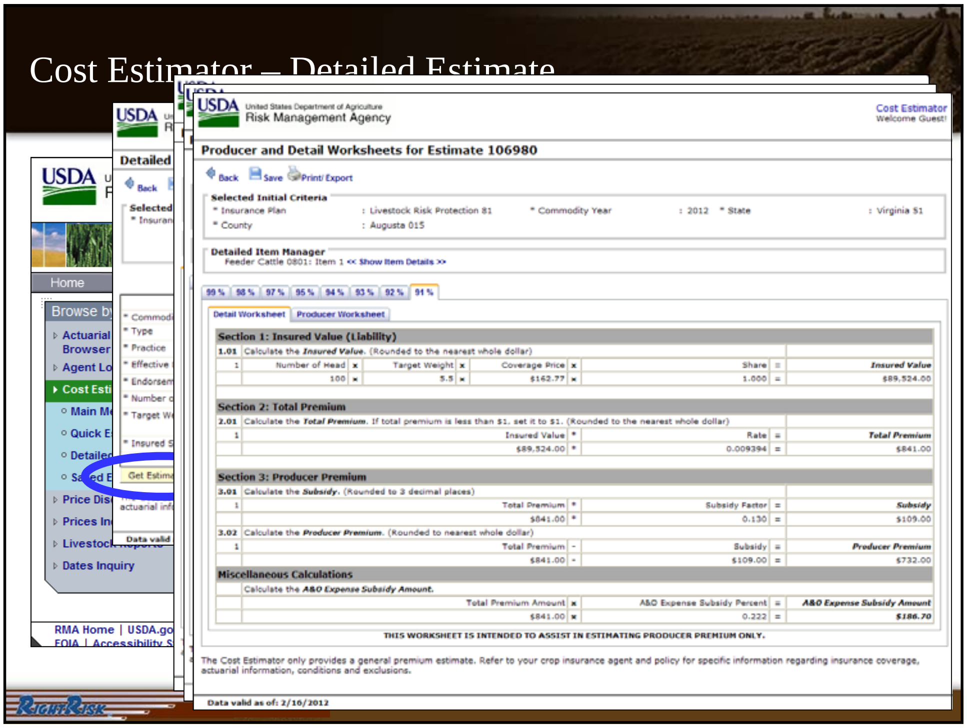
- Endorsement Limits:
  - *A limit of 1,000 head of feeder cattle may be insured under any one Specific Coverage Endorsement*

Livestock Insurance: 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*

Livestock Insurance: 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*


Cost Estimator – Detailed Estimate
USDA
United States Department of Agriculture
Risk Management Agency
Cost Estimator
Welcome Guest!
Producer and Detail Worksheets for Estimate 106980
Back
Save
Print/ Export
Selected Initial Criteria
Detailed Item Manager
Detail Worksheet
Producer Worksheet
Section 1: Insured Value (Liability)
Section 2: Total Premium
Section 3: Producer Premium
Miscellaneous Calculations
THIS WORKSHEET IS INTENDED TO ASSIST IN ESTIMATING PRODUCER PREMIUM ONLY.
Data valid as of: 2/16/2012
Home
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Cost Esti
Dates Inquiry
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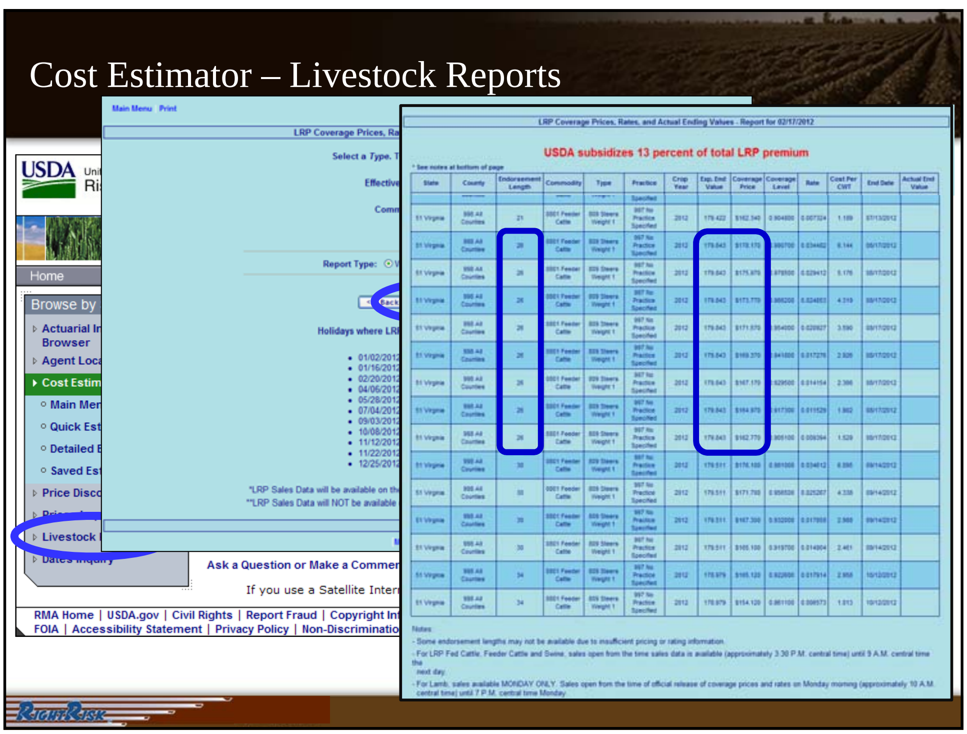
Cost Estimator – Livestock Reports
LRP Coverage Prices, Rates, and Actual Ending Values - Report for 02/17/2012
USDA subsidizes 13 percent of total LRP premium
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Livestock Insurance: LRP for Feeder Cattle Example

Contract Data	Value	Calculation
Number of Steers	1000	Producer
Expected Weight	800 lb	Producer
Current Date	Oct. 26	Producer
Marketing Date	April 26	Producer
Insurance Period	26 Weeks	Producer*
Expected Ending Value	$103.94 cwt	RMA
Coverage Level	86.58%	RMA**
Coverage Price	$90.00 cwt	Producer/RMA**

* Producer's choices are limited

** The producer chooses an RMA-determined coverage price which concurrently reflects the coverage level

Livestock Insurance: LRP for Feeder Cattle Example

Contract Data	Value	Source
Insured Value	$720,000	1,000 hd x 8 cwt/hd x $90.00/cwt
Premium Rate	0.020133	RMA
Total Premium	$14,496	$720,000 x 0.020133
Subsidy Rate	13%	RMA
Subsidy Amount	$1,884	$14,496 x 0.13
Producer Premium	$12,612	$14,496 - 1,884

Livestock Insurance: LRP for Feeder Cattle Indemnity Calculation: Example 1

- Suppose the producer actually sells 1,000 800-pound steers on April 26th for $85.00/cwt
- The CME-reported actual ending value is $85.00/cwt
- Would the producer receive an indemnity?
- Let’s look at the calculations

Livestock Insurance: LRP for Feeder Cattle Indemnity Calculation: Example 1

- **Indemnity calculation:**
  - 1,000 head x 8 cwt/head x ($90.00 - $85.00) = $40,000
- **Revenue from calves:**
  - 1,000 x 8 cwt/head x $85.00 = $680,000
  - Plus indemnity of: + 40,000
  - Less premium of: - 12,612
  - Net revenue: = $707,388

Livestock Insurance: LRP for Feeder Cattle Indemnity Calculation: Example 2

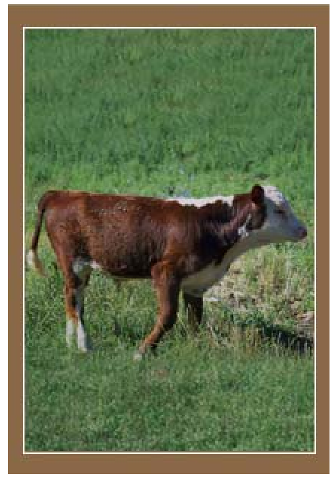
- Suppose a producer actually sells 1,000 800-pound steers on April 26 for $82.00/cwt
- The CME-reported actual ending value is $85.00/cwt
- Will the producer receive an indemnity?
- Let's look at the calculations

Livestock Insurance: LRP for Feeder Cattle Indemnity Calculation: Example 2

- **Indemnity calculation:**
  - 1,000 head x 8 cwt/head x ($90.00 - $85.00) = $40,000
- **Revenue from calves:**
  - 1,000 x 8 cwt/head x $82.00 = **$656,000**
  - Plus indemnity of: **+ 40,000**
  - Less premium of: **- 12,612**
  - Net revenue: **= $683,388**

Livestock Insurance: LRP for Feeder Cattle Indemnity Calculation: Example 3

- Suppose the producer actually sells 980 750-pound steer calves on April 26
  - *2% death loss*
    - Reported within 72 hours
  - *Lower sales weight*
  - *The producer sells the calves for $85.00/cwt*
- The CME-report actual ending value is $85.00/cwt
- Will the producer receive an indemnity?
- Let's look at the calculations



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Livestock Insurance: LRP for Feeder Cattle Indemnity Calculation: Example 3

- **Indemnity calculation:**
  - 1,000 head x 8 cwt/head x ($90.00 - 85.00) = $40,000.
- **Revenue from calves:**
  - 980 x 7.50 cwt/head x $85.00/cwt: = **$624,750**
  - Plus indemnity of: **+ 40,000**
  - Less premium of: **- 12,612**
  - Net revenue: **= $652,138**

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LRP Feeder Cattle Insurance – History

Federal Crop Insurance Corporation
Reinsurance Year Statistics for 2011
As of: 2/17/2012
Nationwide Summary - By State/Commodity

Commodity	Ins Plan	Pol Sold	Pol Earn Prem	Pol Indem	Units Earn Prem	Units Indem	Number of Head *	Liabilities	Total Premium	Subsidy	Indemnity	Loss Ratio
VIRGINIA												
DAIRY CATTLE	LGM	25	22	0	34	0	719,599	11,882,052	349,279	144,006	0	.00
FED CATTLE	LRP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FEEDER CATTLE	LRP	50	32	10	60	18	2,430	2,003,105	59,024	7,676	15,515	.26
LAMB	LRP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
VIRGINIA Total		79	55	10	96	18	722,113	14,012,626	410,896	152,019	15,515	.04
Grand Total		79	55	10	96	18	722,113	14,012,626	410,896	152,019	15,515	.04

Federal Crop Insurance Corporation
Reinsurance Year Statistics for 2012
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Nationwide Summary - By State/Commodity

Commodity	Ins Plan	Pol Sold	Pol Earn Prem	Pol Indem	Units Earn Prem	Units Indem	Number of Head *	Liabilities	Total Premium	Subsidy	Indemnity	Loss Ratio
VIRGINIA												
DAIRY CATTLE	LGM	51	12	0	12	0	413,350	7,177,996	199,436	97,308	0	.00
FED CATTLE	LRP	2	2	[illegible]	5	0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FEEDER CATTLE	LRP	40	11	5	19	8	953	956,087	19,905	2,587	5,240	.26
LAMB	LRP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWINE	LRP	1	0	0	0	0	0	0	0	0	0	.00
VIRGINIA Total		97	25	5	36	8	414,405	8,304,276	227,279	100,926	5,240	.02
Grand Total		97	25	5	36	8	414,405	8,304,276	227,279	100,926	5,240	.02

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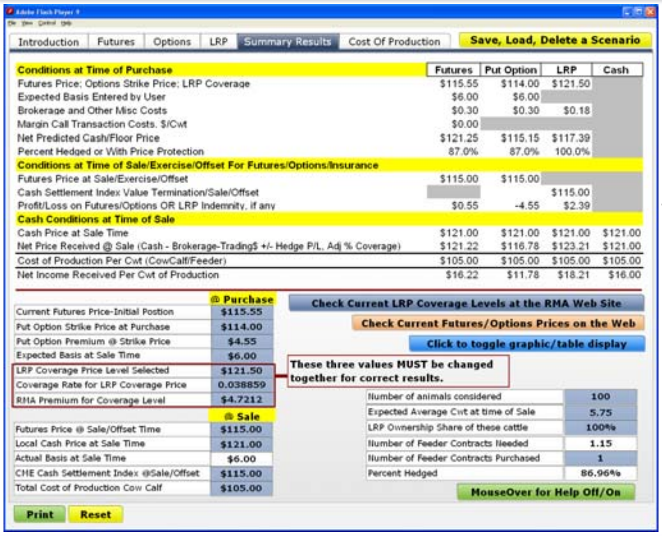
Livestock Insurance: LRP for Feeder Cattle

Livestock Risk Protection	Options
Protects against downside price risk	The selected "strike price" is the producer's price floor
The selected "coverage price" is the producer's price floor	Requires the payment of a premium - an option premium is paid to a broker
	May result in a payout - premium increases in value
Requires the payment of a premium - an insurance premium is paid to an insurance agent	Payouts are received when prices decline below an insured level - premium increases in value and is reflected in the producer's brokerage account
May result in a payout - payout is an insurance indemnity	Option premium declines to zero and there is no increase in the producer's brokerage account
	Protects the producer from a decline in the CME feeder cattle price index
Payouts are received when prices decline below an insured level - producer receives an indemnity	Does not protects the producer from a decline in the producer's sale price
	Need a brokerage account
	Subsidies are not available for option premiums
	Requires brokerage fees
Protects the producer from a decline in the CME feeder cattle price index	No price adjustments for varying weights. A producer may buy higher price coverage levels than LRP
Does not protects the producer from a decline in the producer's sale price	More timing flexibility because the producer may sell an option prior to expiration
	Can re-purchase an option at any time

RIGHTRISK

Price Risk Analysis: Futures, Options, LRP Comparison



Conditions at Time of Purchase	Futures	Put Option	LRP	Cash
Futures Price; Options Strike Price; LRP Coverage	$115.55	$114.00	$121.50	
Expected Basis Entered by User	$6.00	$6.00		
Brokerage and Other Misc Costs	$0.30	$0.30	$0.18	
Margin Call Transaction Costs, $/Cwt	$0.00			
Net Predicted Cash/Floor Price	$121.25	$115.15	$117.39	
Percent Hedged or With Price Protection	87.0%	87.0%	100.0%	
Conditions at Time of Sale/Exercise/Offset For Futures/Options/Insurance				
Futures Price at Sale/Exercise/Offset	$115.00	$115.00		
Cash Settlement Index Value Termination/Sale/Offset			$115.00	
Profit/Loss on Futures/Options OR LRP Indemnity, if any	$0.55	-4.55	$2.39	
Cash Conditions at Time of Sale				
Cash Price at Sale Time	$121.00	$121.00	$121.00	$121.00
Net Price Received @ Sale (Cash - Brokerage-Trading$ +/- Hedge P/L, Adj % Coverage)	$121.22	$116.78	$123.21	$121.00
Cost of Production Per Cwt (CowCalf/Feeder)	$105.00	$105.00	$105.00	$105.00
Net Income Received Per Cwt of Production	$16.22	$11.78	$18.21	$16.00

	@ Purchase
Current Futures Price-Initial Postion	$115.55
Put Option Strike Price at Purchase	$114.00
Put Option Premium @ Strike Price	$4.55
Expected Basis at Sale Time	$6.00
LRP Coverage Price Level Selected	$121.50
Coverage Rate for LRP Coverage Price	0.038859
RMA Premium for Coverage Level	$4.7212
	@ Sale
Futures Price @ Sale/Offset Time	$115.00
Local Cash Price at Sale Time	$121.00
Actual Basis at Sale Time	$6.00
CME Cash Settlement Index @Sale/Offset	$115.00
Total Cost of Production Cow Calf	$105.00

These three values MUST be changed together for correct results.

Number of animals considered	100
Expected Average Cwt at time of Sale	5.75
LRP Ownership Share of these cattle	100%
Number of Feeder Contracts Needed	1.15
Number of Feeder Contracts Purchased	1
Percent Hedged	86.96%

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

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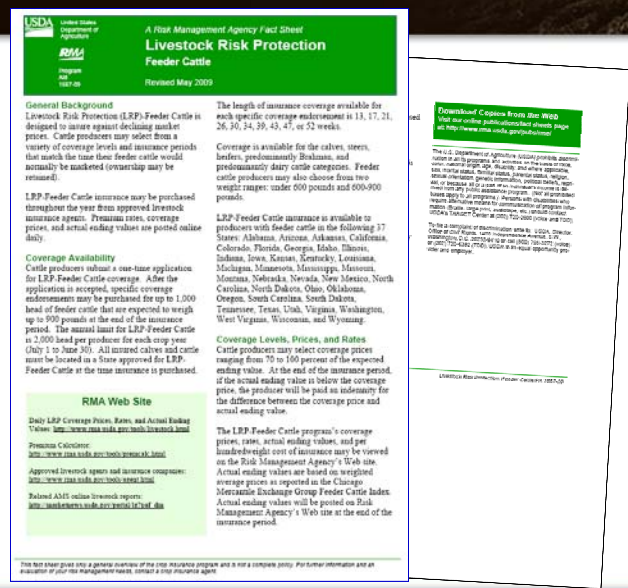
Livestock Insurance: LRP for Feeder Cattle Summary

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

RightRisk

RMA LRP Fact Sheet


A Risk Management Agency Fact Sheet

Livestock Risk Protection

Feeder Cattle

Revised May 2009

General Background

Livestock Risk Protection (LRP)-Feeder Cattle is designed to insure against declining market prices. Cattle producers may select from a variety of coverage levels and insurance periods that match the time their feeder cattle would normally be marketed (ownership may be retained).

LRP-Feeder Cattle insurance may be purchased throughout the year from approved livestock insurance agents. Premium rates, coverage prices, and actual ending values are posted online daily.

Coverage Availability

Cattle producers submit a one-time application for LRP-Feeder Cattle coverage. After the application is accepted, specific coverage endorsements may be purchased for up to 1,000 head of feeder cattle that are expected to weigh up to 900 pounds at the end of the insurance period. The annual limit for LRP-Feeder Cattle is 2,000 head per producer for each crop year (July 1 to June 30). All insured calves and cattle must be located in a State approved for LRP-Feeder Cattle at the time insurance is purchased.

RMA Web Site

Daily LRP Coverage Prices, Rates, and Actual Ending Values: http://www.rma.usda.gov/tools/livestock.html

Premium Calculator: http://www.rma.usda.gov/tools/premcalc.html

Approved livestock agents and insurance companies: http://www.rma.usda.gov/tools/agent.html

Related AMS online livestock reports: http://marketnews.usda.gov/portal/lg?paf_dm

The length of insurance coverage available for each specific coverage endorsement is 13, 17, 21, 26, 30, 34, 39, 43, 47, or 52 weeks.

Coverage is available for the calves, steers, heifers, predominantly Brahman, and predominantly dairy cattle categories. Feeder cattle producers may also choose from two weight ranges: under 600 pounds and 600-900 pounds.

LRP-Feeder Cattle insurance is available to producers with feeder cattle in the following 37 States: Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

Coverage Levels, Prices, and Rates

Cattle producers may select coverage prices ranging from 70 to 100 percent of the expected ending value. At the end of the insurance period, if the actual ending value is below the coverage price, the producer will be paid an indemnity for the difference between the coverage price and actual ending value.

The LRP-Feeder Cattle program's coverage prices, rates, actual ending values, and per hundredweight cost of insurance may be viewed on the Risk Management Agency's Web site. Actual ending values are based on weighted average prices as reported in the Chicago Mercantile Exchange Group Feeder Cattle Index. Actual ending values will be posted on Risk Management Agency's Web site at the end of the insurance period.

This fact sheet gives only a general overview of the crop insurance program and is not a complete policy. For further information and an evaluation of your risk management needs, contact a crop insurance agent.

Download Copies from the Web