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Feeder and Fed Cattle Now Covered Under The Livestock Risk Protection Pilot Program

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska - Lincoln

Feeder and Fed Cattle Now Covered Under The Livestock Risk Protection Pilot Program

| Market Report | Yr Ago | 4 Wks Ago | 6/20/03 |
|--|-----------|--------------|---------|
| <u>Livestock and Products,</u> | | | |
| <u>Average Prices for Week Ending</u> | | | |
| Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt | \$64.29 | \$78.31 | \$73.03 |
| Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt | 84.75 | 92.37 | * |
| Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg | 83.11 | 96.86 | * |
| Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt | 101.97 | 128.72 | 119.69 |
| Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt | 44.00 | * | 45.00 |
| Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd | * | * | * |
| Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt | 107.78 | 112.56 | 126.16 |
| Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt | 83.75 | * | * |
| Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt | 154.87 | 198.02 | 203.85 |
| <u>Crops,</u> | | | |
| <u>Cash Truck Prices for Date Shown</u> | | | |
| Wheat, No. 1, H.W. Omaha, bu | 3.25 | 3.37 | 3.06 |
| Corn, No. 2, Yellow Omaha, bu | 2.03 | 2.32 | 2.29 |
| Soybeans, No. 1, Yellow Omaha, bu | 4.85 | 6.17 | 6.34 |
| Grain Sorghum, No. 2, Yellow Kansas City, cwt | 3.71 | 4.00 | 4.00 |
| Oats, No. 2, Heavy Minneapolis, MN, bu | 2.17 | 1.68 | 1.63 |
| <u>Hay,</u> | | | |
| <u>First Day of Week Pile Prices</u> | | | |
| Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton | 112.50 | 120.00 | 115.00 |
| Alfalfa, Lg. Round, Good Northeast Nebraska, ton | 60.00 | 70.00 | 60.00 |
| Prairie, Sm. Square, Good Northeast Nebraska, ton | 90.00 | 117.50 | * |
| * No market. | | | |

On December 18, 2002 the Federal Crop Insurance Corporation (FCIC) approved an expansion of the Livestock Risk Protection (LRP) pilot program to include fed and feeder cattle. The LRP pilot program was first approved by the FCIC on November 15, 2001 and began offering the insurance to swine producers on July 8, 2002.

What is Livestock Risk Protection (LRP) for Cattle?

The general purpose of the LRP program is to protect producers against declining livestock market prices. LRP is a revenue insurance program that is reinsured by the FCIC. It is a market-based risk management tool that allows producers of feeder and fed cattle to receive a guaranteed minimum price for their cattle when they are marketed at the end of the selected insurance period. Since the LRP program is market-based, the current prices and rates for purchasing the LRP insurance change daily. The guaranteed minimum price will be initially selected at the time of purchase and is different for each insurance period the producer selects.

LRP was first created as a pilot program for swine in 2001. The pilot program has recently been extended to include feeder and fed cattle in selected states. Cattle producers who are in the selected states were able to begin purchasing LRP insurance on June 9, 2003. The insurance year runs from July 1 to June 30, with policy cancellations due by June 30 and renewal of contracts completed by July 1. The three LRP pilot programs all have generally the same structure, but each program has different coverage areas and policy limitations.



Feeder Cattle

The feeder cattle pilot program will be offered in the states of Colorado, Iowa, Kansas, Nebraska, Nevada, Oklahoma, South Dakota, Texas, Utah and Wyoming. Steers that are expected to weigh between 650 to 900 pounds at the end of the insurance period are qualified to participate in the LRP program. Producers are able to select insurance periods of 21, 26, 30, 34, 39, 43, 47 or 52 weeks, depending on the time closest to when the cattle will be marketed. The feeder cattle pilot program allows producers to insure up to 2,000 head of cattle per year with a limitation of 1,000 head of cattle per Specific Coverage Endorsement (SCE). Producers are able to select coverage levels between 70 and 95 percent.

Fed Cattle

The fed cattle pilot program will be offered in the states of Illinois, Iowa and Nebraska. Qualified fed cattle in the LRP program will include all steers and heifers that have an expected quality grade of select or higher, and a yield grade of 1 to 3 at the end of the insurance period. At the end of the insurance period the fed cattle must be marketed for slaughter and range between 1,000 to 1,400 pounds. Fed cattle producers are able to select insurance periods of 13, 17, 21, 26, 30, 34, 39, 43, 47 or 52 weeks, and are able to insure up to 4,000 head of cattle per year with a limitation of 2,000 head of cattle per SCE. Fed cattle producers are also able to select coverage levels between 70 and 95 percent.

LRP Premium and Indemnity

Calculation Examples

Suppose a producer has 200 head of fed cattle with an expected weight of 1,200 lbs (12cwt) in 13 weeks. The producer selects a coverage price of \$64.77, which will give the producer a coverage level of 91.59 percent. With a coverage price of \$64.77 the current rate is 1.26 percent. After the 13 percent government subsidy, the producer would have to pay a premium of \$1,704.02. The LRP premium would be calculated as follows:

1. 200 head x 12cwt = 2400cwt
2. 2400cwt x coverage price of \$64.77 = \$155,448
3. \$155,448 x rate of 1.26% = \$1,958.65
4. \$1,958.65 x subsidy factor of 87% = \$1,704.02

In the example above, at the end of the 13-week insurance period, if the actual ending price were

greater than or equal to the selected coverage level price of \$64.77, no indemnity would be due to the producer. If at the end of the 13-week insurance period the actual ending price were less than the coverage price of \$64.77, an indemnity would be due to the producer. If the actual ending price were \$60, the producer would receive an indemnity payment of \$11,448. The LRP indemnity payment would be calculated as followed:

1. Coverage price of \$64.77 – Ending price of \$60
= \$4.77/cwt
2. \$4.77/cwt x 2400cwt = \$11,448

What LRP Means for Cattle Producers

The LRP pilot program guarantees producers of feeder and fed cattle a minimum price for their cattle when their selected insurance period expires. The producers are able to select the coverage price and coverage level that they feel comfortable with and will benefit them the most.

The LRP insurance program takes some of the risk and uncertainty out of the cattle markets for producers, but all risk is not entirely eliminated. The LRP insurance program does not cover sickness or death of the cattle or the possibility of rising feed costs. Producers also incur a risk that the market price is greater than their selected coverage price at the end of the insurance period.

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