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"Stocker Cents" article

Livestock Risk Protection Insurance Now Available in Mississippi

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Protection from risk in livestock marketing can be confusing and sometimes overwhelming. However, when each strategy is stripped down to its core principals, they can be more easily understood and applied to your marketing program. One of the many marketing tools available to cattle producers is Livestock Risk Protection (LRP) insurance. The LRP program is administered by the United States Department of Agriculture – Risk Management Agency (USDA-RMA) with the goal of insuring against declining market prices. The pilot for this program included only 19 state that were eligible for coverage. Effective July 1st, 2007, Mississippi, along with several other states, were added.

The LRP program is available for feeder cattle, fed cattle, market hogs and lambs. Feeder cattle that qualify include steers, bulls, and heifers less than 600 lbs. and steers and heifers from 600 – 900 lbs. At the initiation of the project, dairy and Brahman breeds were not eligible for coverage, but that was changed such that they too can be insured through the LRP program. However, because the breed composition and sex of feeder cattle affects their value, price adjustments are applied to values from the Feeder Cattle Cash Index when determining their actual cash value.

An especially attractive feature of the program is that there is no minimum number requirement. Therefore, producers can insure as few as a single feeder calf. While this scenario is not likely, it does provide an alternative risk management tool for producers marketing less than a full load (50,000 lbs.) who would not utilize futures or options. Furthermore, and similar to a put option, LRP insurance policies set a floor price but still allow the producer to benefit from an increase in market prices. The maximum number of feeder cattle that can be enrolled by a single participant per year is limited to 2,000 head and each individual policy is limited to 1,000 head. It should be noted that a spouse has "substantial beneficial interest" in the livestock being insured and, therefore, are not able to insure more feeder cattle when the maximum number per year has been met by that ranch or farming operation.

To insure livestock through an LRP policy, the producer should first locate a certified crop insurance agent in the state where the cattle are located. To find a certified agent, visit http://www3.rma.usda.gov/apps/agents/ or contact a state or local USDA or university extension representative. Once a certified agent is located, the producer will be asked to fill out an enrollment form. Completing the enrollment form is free and does not obligate the livestock owner to purchase the insurance. However, it must be filed before a policy can be purchased. The agent will submit the form and then contact the enrollee when it is approved by the USDA-RMA. After approval, the owner will again work with the agent to purchase a policy. Enrollment is not a complicated process but should be done in advance of when the policy is to be purchased.

When purchasing an LRP policy for feeder cattle, the producer will need to know how long it will be until the cattle will be market-ready. With the date of market in mind, an endorsement length that comes closest to that date should be chosen. Available endorsements lengths are 13, 17, 21, 26, 30, 34, 39, 43, 47, and 52 weeks. The insured cattle can be sold up to 30 days before and any time after the policy end date. At the end of the endorsement period, the cash index price will be determined and an indemnity will be paid if it is less than the coverage price.

It should be clear to those interested in purchasing LRP insurance that it is a single-peril coverage. It only pays an indemnity if a national cash price falls below the insured price level at the end of the coverage period. For example, the LRP program does not protect against death loss. If the producer expects a certain amount of death loss, she/he should consider only insuring the number of calves expected to survive the full endorsement length. These policies do not protect against poor performance. Careful consideration should be given to the expected weight gain, and management strategies should be put in place to ensure that they achieve that level of performance. Finally, this program does not fully protect the insured from basis risk. Due to the nature of the program, LRP basis differs from futures basis as it is calculated as the cash price minus the cash index price on the ending date of coverage rather than minus the futures price. Therefore, LRP has the tendency to reduce basis risk in some situations but does not fully eliminate it.

This article is intended to help make Mississippi cattle producers aware of the fact that LRP insurance has recently become available to them. A more detailed explanation of the program can be found online from the USDA-RMA website (http://www.rma.usda.gov/livestock/). Additionally, Darrell Mark and Allen Prosch, at the University of Nebrask-Lincoln, maintain a detailed Internet study-guide (http://livestockinsurance.unl.edu/lessons_lrp/index.html).