

# Livestock Risk Protection Insurance (LRP) Overview

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# What is LRP?

- Insurance policy that protects livestock producers from unexpected price declines
  - Similar to crop insurance
  - Creates “floor” for price
- Because market futures are a major factor determining available coverage prices, so LRP takes into account “expected” price changes

# LRP available for

- Feeder calves (8 different types)
  - Steers, heifers, Brahman, or dairy
  - < 600 lbs or 600-900 lbs target weight
- Fed cattle (weighing 1,000 – 1,400 lbs)
- Swine: Market hogs on carcass (lean) base



# LRP – Feeder Cattle

- Available coverage prices range approximately 70-95% of Chicago Mercantile Exchange (CME) futures price
- Policies generally available for the following weekly lengths  
13, 17, 21, 26, 30, 34, 39, 43, 47, 52
- Policy Size: 1 to 1,000 head per Specific Coverage Endorsement (SCE)
- 2,000/year maximum (July 1–June 30)

# Feeder Cattle Types

- LRP recognizes 8 different feeder cattle types to adjust available coverage prices

Weight Range	Price Adjustment Factors (PAF)			
	Steers	Heifers	Predominately Brahman	Predominately Dairy
<6.0 cwt	110%	100%	100%	100%
6.0-9.0 cwt	100%	90%	90%	80%

- Buy separate policies for each type of feeder cattle you insure

# LRP – Fed Cattle

- Available coverage prices range approximately 70-95% of CME futures price
- Policies generally available for the following weekly lengths  
13, 17, 21, 26, 30, 34, 39, 43, 47, 52
- Policy Size: 1 to 2,000 head per SCE with 4,000/year maximum



# LRP-Swine (Market Hogs)

- Available coverage prices range approximately 70-95% of CME futures price
- Convert live weight to carcass/lean weight
- Carcass/lean weight =  $0.74 \times \text{live weight}$
- Policies for the following weekly lengths  
13, 17, 21, 26
- Policy size: 1 to 10,000 head per SCE, with 32,000 maximum per year

# How do I buy LRP?

- 1) File LRP insurance application with a certified agent to establish eligibility in advance

SS#/employer ID, Demonstrate Substantial Beneficial Interest (minimum of 10% ownership of animals)

- 2) Watch available prices & premiums, they change daily, valid from 5 PM to 9 AM next business day

[www3.rma.usda.gov/apps/livestock\\_reports/lrp\\_select\\_criteria.cfm](http://www3.rma.usda.gov/apps/livestock_reports/lrp_select_criteria.cfm)

- 3) All coverage periods may not be available due to insufficient market data

- 4) When you like what you see, file a Specific Coverage Endorsement (SCE) with your agent

**You must own livestock when filing SCE**



# What is the SCE?

Specific Coverage Endorsement (SCE) specifies:

- 1) Actual Coverage Price (chosen price floor)
- 2) Ending Period (date actual price calculated)
- 3) Number (and type) of animals
- 4) Target Weight at ending period
- 5) Premium due (RMA gives 13% subsidy)

RMA may terminate availability at any time (but not the existing policies sold)

# Feeder Cattle Example

- Have 25 steers with 100% ownership
- Expect to sell in 21 weeks at 1,000 pounds
- On RMA web site for the day, want the coverage price of \$98.40/cwt for 21 weeks
- Cost is \$1.527/cwt (with 13% subsidy)
- $\$1.527 \times 10 \text{ cwt} = \$15.27$  per head
- $25 \times \$15.27 = \$381.75$  total premium

# When do I collect an Indemnity?

- If the Actual Ending Value the RMA posts on the web for the Ending Period you choose is less than the coverage price you chose
- Not the price you actually receive when sell

## NOTE:

- Do not have to sell when SCE expires
- Can hold and insure qualifying animals again after SCE expires



# Example Indemnity

- Had 25 feeder cattle insured for \$98.40/cwt in 21 weeks
- After 21 weeks, suppose the Actual Ending Value posted by RMA is \$98.10
- Collect  $(\$98.40 - \$98.10) = \$0.30/\text{cwt}$ 
  - $\$0.30 \times 10 \text{ cwt} = \$3.00 \text{ per head}$
  - $25 \text{ head} \times \$3.00/\text{head} = \$75.00$

Actual price, date, weight  
≠  
LRP price, date, weight

- When do you actually sell your cattle?
- What price do you actually get?
- What do they actually weigh?
- Do you hold the cattle and buy LRP-Fed Cattle?

# LRP-Fed Cattle Example

- 25 cattle to sell at 1200 lbs in 34 weeks
- On RMA web site for the day, want the coverage price of \$68.96/cwt for 34 weeks
- Cost is \$1.037/cwt (with 13% subsidy)
- $\$1.037 \times 12 \text{ cwt} = \$12.44 \text{ per head}$
- $25 \times \$12.44 = \$311.10 \text{ total premium}$



# Example Indemnity

- Have 25 fed cattle insured at \$68.96/cwt in 34 weeks
- After 34 weeks, suppose the Actual Ending Value posted by RMA is \$69.01/cwt
- Collect no indemnity
- May actually sell them at 1245 lbs for \$69.50/cwt after 35 weeks

# Some Benefits of LRP

- More attractive to smaller producers than other risk management tools
  - Small numbers can be hedged
  - No brokerage costs or margin calls
- Premium subsidized 13%
- Does not tie you to a specific packer or buyer like a forward contract can

# Benefits Continued

- Actual selling dates and weights can differ from what the SCE specifies
  - Do not have to sell when SCE expires
  - Can hold and insure qualifying animals again after SCE expires



# Benefits Continued

- Policy can be transferred to new owner if animals sold during coverage
- Can assign indemnity to a third party
  - Lender for example
- If some animals die, report within 72 hours when known, and still collect any indemnity for those animals

# Limits to LRP

- If you purchase LRP, cannot enter into futures or options on the same animals
- Must own the animals when file the SCE
- Lose LRP coverage and premium if sell earlier than 30 days before SCE expires (but can transfer to the new owner if sell)

# Some Concerns

- WI prices not used in formulas, so WI producers may be exposed to more risk
- Actual price you sell the animals for can differ from the Actual Ending Value
- Does not pay indemnities for:
  - Slower than expected gain
  - Disease, weather, poor feed
  - Does not pay full value for death or theft
- RMA can suspend at any time



# Questions for UWEX

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## RMA Certified Agent

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