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
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

<table>
<thead>
<tr>
<th># of Head</th>
<th>X</th>
<th>Target Weight</th>
<th>X</th>
<th>Coverage Price</th>
<th>X</th>
<th>Insured Share</th>
<th>=</th>
<th>Insured Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>150</td>
<td>X</td>
<td>650 lbs.</td>
<td>X</td>
<td>$0.90/cwt</td>
<td>X</td>
<td>100%</td>
<td>=</td>
<td>$87,750</td>
</tr>
</tbody>
</table>
Continued

<table>
<thead>
<tr>
<th>Insured Value</th>
<th>X</th>
<th>Rate</th>
<th>=</th>
<th>Rounded Total Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>$87,750</td>
<td>X</td>
<td>.01526</td>
<td>=</td>
<td>$1,339</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rounded Total Premium</th>
<th>X</th>
<th>Subsidy</th>
<th>=</th>
<th>Rounded Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,339</td>
<td>X</td>
<td>.13</td>
<td>=</td>
<td>$174.07</td>
</tr>
</tbody>
</table>
Continued

<table>
<thead>
<tr>
<th>Rounded Total Premium</th>
<th>-</th>
<th>Rounded Subsidy</th>
<th>=</th>
<th>Producer Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,339</td>
<td>-</td>
<td>$174.07</td>
<td>=</td>
<td>$1,164.93</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Coverage Price</th>
<th>Ending Value</th>
<th>Indemnity Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$98.27/cwt.</td>
<td>$99.63/cwt.</td>
<td>None</td>
</tr>
<tr>
<td>$98.27/cwt.</td>
<td>$96.79/cwt.</td>
<td>$1.48/cwt.</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Weight Class</th>
<th>Coverage Price</th>
<th>Premium Cost</th>
<th>Ending Value</th>
<th>Total Indemnity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 &lt; 600 lbs.</td>
<td>$102.54/cwt.</td>
<td>$7.76 /hd.</td>
<td>$100.65/cwt.</td>
<td>$1.89/cwt.</td>
</tr>
<tr>
<td>2 600 – 900 lbs.</td>
<td>$97.42/cwt.</td>
<td>$6.43 /hd.</td>
<td>$89.23/cwt.</td>
<td>$8.19/cwt.</td>
</tr>
</tbody>
</table>
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

Questions?