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Using Livestock Risk Protection (LRP) Insurance for Feeders

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WHAT IS LIVESTOCK RISK PROTECTION (LRP) INSURANCE

- Subsidized insurance product to protect against decreasing cattle prices
- Payouts (indemnities) based on price changes in CME feeder cattle index
 - Same index that settles futures, not what you sell cattle for!
- Works very similar to a put option to establish price floor
- Made much more attractive recently

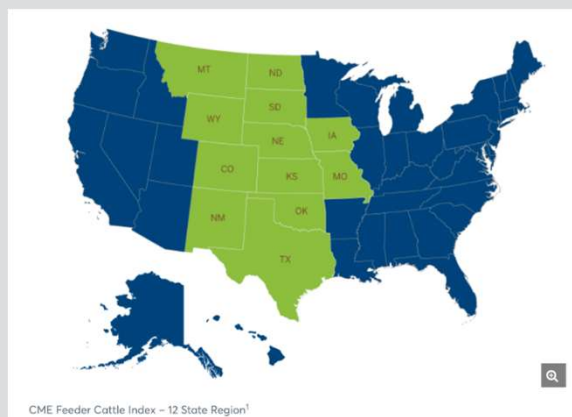
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WHAT IS THE CME® FEEDER CATTLE INDEX

- 7-day weighted average of feeder cattle prices in 12 states
- Medium / Large Frame #1-2 Steers - 700-900 lbs
 - No thin, fleshy, dairy, etc.
- LRP works to extent that this index moves with local prices
 - Basis should be considered

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LRP FEEDER CATTLE NUTS AND BOLTS



Type of Cattle	Calves, steers, heifers, Brahman, dairy, unborn calves
Ending Weights	Under 600 lbs. or 600-1,000 lbs.
Coverage Period	13-52 weeks
Coverage Level	70-100%
Maximum #Head per SCE	12,000
Maximum #Head per Year	25,000
Minimum #Head per SCE	1

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HOW DOES IT WORK

- Available through many types of insurance agents
 - USDA-RMA has agent locator tool
- Each policy has an ending date and an expected ending value
 - This is for the CME® index (will be very close to futures)
- Choose ending date near when cattle will be sold
- Choose a coverage level that makes you comfortable
- $\text{Index} < \text{coverage level on ending date}$ - indemnity is due on each lb covered

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LET'S CONSIDER A BACKGROUNDING SCENARIO

- Place 500 lb steer in October
- 3-way blend / grass hay ration (\$240 / \$80 per ton) – 3% BW
- 2.5 lbs per day over 120 days
- Sell 800 lb steers in February
- March Futures: \$340 per cwt
 - \$10 under basis estimate
 - Expected sale price: \$330 per cwt



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SIMPLE BUDGET

Sales	# units	unit	price / unit	total
Feeder	800 lbs		\$3.30	\$2,640
Expenses				
Weaned Calf	500 lbs		\$4.20	\$2,100
Hay	1,170 lbs		\$0.04	\$47
3-way blend	1,170 lbs		\$0.12	\$140
Mineral	0.25 lbs / day		\$0.40	\$12
Vet / Med	1 head		\$30.00	\$30
Sale Expenses	1 head		\$30.00	\$30
Hauling	1 head		\$15.00	\$15
Other	1 head		\$10.00	\$10
Interest	7.5% rate			\$55
Death loss	2%			\$43
Total Expenses				\$2,482
Return to Land, Capital and Management				\$158



Photo: Dustin Hayes

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LRP POLICY ILLUSTRATION: 800 LB STEERS

- Ending date: late February 2026
- Expected Ending Value: \$340 per cwt
- Selected available coverage levels
 - \$338 for \$6 per cwt: \$48 per head, \$2 per cwt deductible
 - \$334 for \$4 per cwt: \$32 per head, \$6 per cwt deductible
 - \$328 for \$2 per cwt: \$16 per head, \$12 per cwt deductible

Premium paid on lbs covered – premium per cwt X 800 lbs

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SIMPLE LRP SCENARIO

- Plan to sell feeder steers in February weighing 800 lbs
 - Worried market will drop between now and then
- Purchase LRP policy with February ending date
 - Expected ending value: **\$340** (CME Index)
 - Buy a **\$334** coverage level for \$4 per cwt (\$32 per head)
- Basis estimate – \$10 under for 800 lb steers?
- Estimated price floor around **\$324, minus \$4 per cwt premium**

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BUDGET WITH LRP

Sales	# units	unit	price / unit	total
Feeder	✓	800 lbs	\$3.30 ✓	\$2,640
Expenses				
Weaned Calf	✓	500 lbs	\$4.20 ✓	\$2,100
Hay	✓	1,170 lbs	\$0.04 ✓	\$47
3-way blend	✓	1,170 lbs	\$0.12 ✓	\$140
Mineral		0.25 lbs / day	\$0.40 ✓	\$12
Vet / Med		1 head	\$30.00 ✓	\$30
Sale Expenses		1 head	\$30.00 ✓	\$30
Hauling		1 head	\$15.00 ✓	\$15
Other		1 head	\$10.00 ✓	\$10
Insurance		1 head	\$32.00 ✓	\$32
Interest		7.5% rate		\$55
Death loss		2%		\$43
Total Expenses				\$2,514
Return to Land, Capital and Management				\$126



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PRICES RISE SIGNIFICANTLY

- LRP ending value ends up being \$360 per cwt (\$20 more than expected)
- You sell your steers for \$350 per cwt (\$2,800 per head)
- You spent \$4 per cwt on LRP insurance (\$32 per head)
- Best case scenario – purchased insurance and market improved

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RETURNS – RISING PRICES

Sales	# units	unit	price / unit	total
Feeder	800 lbs		\$3.50	\$2,800
Expenses				
Weaned Calf	500 lbs		\$4.20	\$2,100
Hay	1,170 lbs		\$0.04	\$47
3-way blend	1,170 lbs		\$0.12	\$140
Mineral	0.25 lbs / day		\$0.40	\$12
Vet / Med	1 head		\$30.00	\$30
Sale Expenses	1 head		\$30.00	\$30
Hauling	1 head		\$15.00	\$15
Other	1 head		\$10.00	\$10
Insurance	1 head		\$32.00	\$32
Interest	7.5% rate			\$55
Death loss	2%			\$43
Total Expenses				\$2,514
Return to Land, Capital and Management				\$286



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PRICES FALL – A LITTLE

- LRP ending value ends up being \$336 per cwt (\$4 less than expected)
 - Still above \$334 coverage level – no insurance help
- You sell your steers for \$326 per cwt (\$2,806 per head)
- You spent \$4 per cwt on LRP insurance (\$32 per head)
- Market fell, but not enough to trigger indemnity

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RETURNS – SMALL PRICE DECLINE

Sales	# units	unit	price / unit	total
Feeder	800 lbs		\$3.26	\$2,608
Expenses				
Weaned Calf	500 lbs		\$4.20	\$2,100
Hay	1,170 lbs		\$0.04	\$47
3-way blend	1,170 lbs		\$0.12	\$140
Mineral	0.25 lbs / day		\$0.40	\$12
Vet / Med	1 head		\$30.00	\$30
Sale Expenses	1 head		\$30.00	\$30
Hauling	1 head		\$15.00	\$15
Other	1 head		\$10.00	\$10
Insurance	1 head		\$32.00	\$32
Interest	7.5% rate			\$55
Death loss	2%			\$43
Total Expenses				\$2,514
Return to Land, Capital and Management				\$94



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PRICES FALL SIGNIFICANTLY

- LRP ending value ends up being \$320 per cwt (\$20 less than expected)
- You sell your steers for \$310 per cwt (\$2,480 per head)
- You spent \$4 per cwt on LRP insurance (\$32 per head)
- You receive an indemnity of \$14 per cwt (\$112 per head)
- Insurance paid out, but worse price result

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RETURNS – LARGE PRICE DECLINE - WITH LRP

Sales	# units	unit	price / unit	total
Feeder	800 lbs		\$3.10	\$2,480
Indemnity	1 head		\$112.00	\$112
Expenses				
Weaned Calf	500 lbs		\$4.20	\$2,100
Hay	1,170 lbs		\$0.04	\$47
3-way blend	1,170 lbs		\$0.12	\$140
Mineral	0.25 lbs / day		\$0.40	\$12
Vet / Med	1 head		\$30.00	\$30
Sale Expenses	1 head		\$30.00	\$30
Hauling	1 head		\$15.00	\$15
Other	1 head		\$10.00	\$10
Insurance	1 head		\$32.00	\$32
Interest	7.5% rate			\$55
Death loss	2%			\$43
Total Expenses				\$2,514
Return to Land, Capital and Management				\$78



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RETURNS – LARGE PRICE DECLINE - NO LRP

Sales	# units	unit	price / unit	total
Feeder	800 lbs		\$3.10	\$2,480
Indemnity	1 head		\$0.00	\$0
Expenses				
Weaned Calf	500 lbs		\$4.20	\$2,100
Hay	1,170 lbs		\$0.04	\$47
3-way blend	1,170 lbs		\$0.12	\$140
Mineral	0.25 lbs / day		\$0.40	\$12
Vet / Med	1 head		\$30.00	\$30
Sale Expenses	1 head		\$30.00	\$30
Hauling	1 head		\$15.00	\$15
Other	1 head		\$10.00	\$10
Insurance	1 head		\$0.00	\$0
Interest	7.5% rate			\$55
Death loss	2%			\$43
Total Expenses				\$2,482
Return to Land, Capital and Management				(\$2)



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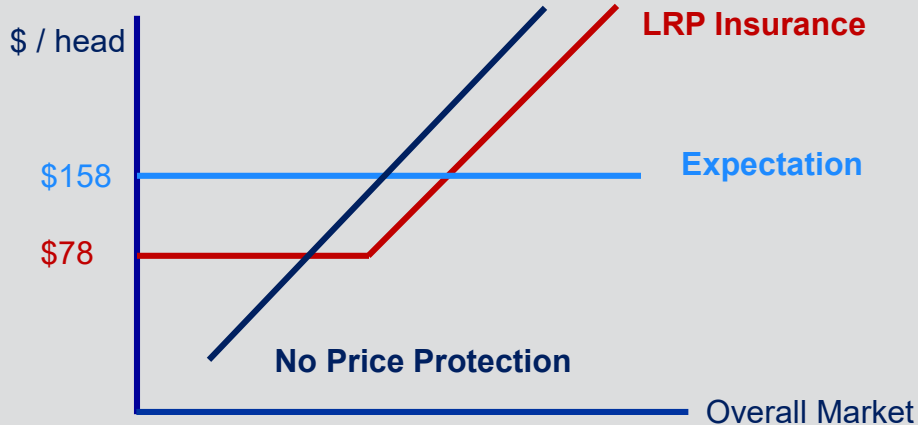
LRP NET RETURN OUTCOMES

\$334 COVERAGE LEVEL, \$10 BASIS, \$4 PREMIUM

LRP Ending Value	Local Sale Price	Premium Cost per cwt	Indemnity per cwt	Return per Head
\$370	\$360	\$4	\$0	\$366
\$360	\$350	\$4	\$0	\$286
\$350	\$340	\$4	\$0	\$206
\$340	\$330	\$4	\$0	\$126
\$330	\$320	\$4	\$4	\$78
\$320	\$310	\$4	\$14	\$78
\$310	\$300	\$4	\$24	\$78

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RETURN GIVEN RISK MANAGEMENT STRATEGY



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AVAILABLE FOR LIGHTER CALVES TOO

- Previous illustration focused on feeder steers
 - Steers Weight 2 - 600 to 1,000 lbs
- Same process works for calves
- Steers Weight 1 - < 600 lbs
 - Light steers valued at 110% of CME© Index
- Heifers Weight 1 - < 600 lbs
 - Light heifers valued at CME© Index
- Unborn calves can now be covered

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WHAT IF I NEED TO SELL AT A DIFFERENT TIME

- Can sell up to 60 days before
 - Rally after sale could lower indemnity
 - New drought provision exists
- Can sell anytime after
 - Unprotected past ending date
- Indemnity is calculated on ending date!



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A FEW FINAL THOUGHTS

- Know how changes in price impact profit
 - Budget sensitivity
- Treat insurance as production cost
- Set pricing targets ahead
 - Takes the emotion out of decisions
- If you aren't leaving money on the table occasionally...



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