



## Livestock Risk Protection (LRP)

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The information provided in this training is intended to provide only a general overview of the crop insurance programs and is not complete policy procedure. Actual policy and procedure supersede this training material.

Disclaimer

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Livestock Risk Protection (LRP) insurance  
is designed to protect cattle and swine producers  
against unexpected  
**down-swings in the national market price.**

It functions like a **Put Option**  
creating a floor on the national selling price at a future  
point in time.

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LRP  
provides  
price protection  
only.



It  
does not cover  
mortality  
in livestock.

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**LRP Insurable Commodities:**

- Feeder Cattle
  - Steers, Heifers and unborn calves of beef breeds, Dairy and Brahman with a live weight of less than 600 (weight 1), or 600 to 1,000 (weight 2).
- Fed Cattle
  - Steers and Heifers expected to grade 'select' or higher with a yield grade of 1 to 3, and to market at 1,000 to 1,600 pounds (live weight)
- Swine
  - Swine (born or unborn) expected to market between 1.40 to 2.60 lean cwt target weight (live weight: 1.89-3.51 cwt (0.74 factor))

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**Feeder Cattle - Overview**

- This insurance provides protection **against downward price risk** during the insurance period (no other perils are covered).
- You can select **insurance periods** in weeks, ranging from: 13, 17, 21, 16, 30, 34, 39, 43, 47 or 52.
- Your Coverage Price is based on CME Feeder Cattle Futures Settlements for the month(s) near your endorsement end date. (i.e.: currently, 34-week endorsements are based on November futures trading settlements)

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## Expected Ending Value

Expected Ending Value is derived from the CME Futures Settlements on feeder cattle for the month(s) near your endorsement end date.

For Example: A 34-week endorsement purchased today would end in November.

- If there is a November trading contract for feeder cattle, it's price will be used.
- If there is no November trading contract, the price will be derived from October and December's futures trading settlements for feeder cattle.

Value is based on the settlements for 650 to 849 pound steers, multiplied by Price Adjustment Factors for the different weights and types.

Weight Range	Steers	Heifers	Unborn Steers and Heifers	Predominantly Brahman	Unborn Predominantly Brahman	Predominantly Dairy	Unborn Predominantly Dairy
1.0-5.99 cwt	110%	100%	105%	100%	100%	50%	50%
6.0-10.0 cwt	100%	90%	N/A	90%	N/A	50%	N/A

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## LRP Feeder Cattle Available Coverage

• Different coverage prices are established by the type and weight of the feeder cattle using price adjustment factors.

- **Types:** Unborn, Steers, Heifers, Brahman, and Dairy
- **Weights:** Less than 600 lbs. (Weight 1) and between 600 lbs. and 1000 lbs. (Weight 2)
- Any combination of Type and Weight can be insured if you have an ownership share.



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## How does it work?

- At the close of the CME, I receive the Expected Ending Values for all types and weights.
- I can email those values to you daily, or let you know when markets make a sudden rise.
- You sign an endorsement, locking in a Coverage Price with an end date that fits your operation.
- At the end of your endorsement, if the CME Actual Ending Value is lower than your Coverage Price, you collect.


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## LRP Feeder Sales

- Sales are only allowed after the Chicago Mercantile Exchange (CME) market closes.
- Daily, between approximately 4:00 pm to 8:00 am MST (Mountain Standard Time) following the close of CME commodity futures/options trading.
- Sales must be completed by 8:00 am MST the following day.
- Call, text or email me any time to inquire about prices.


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## What I will need from you...

- An Application form with entity information.
- A Specific Coverage Endorsement (SCE) which will lock in:
  - Number of head,
  - Types and target weights of the calves you want covered,
  - An ending-date for your endorsement (usually about the time you ship calves)
- SCE can only be booked between 4:00 pm and 8:00 am following the CME market close.

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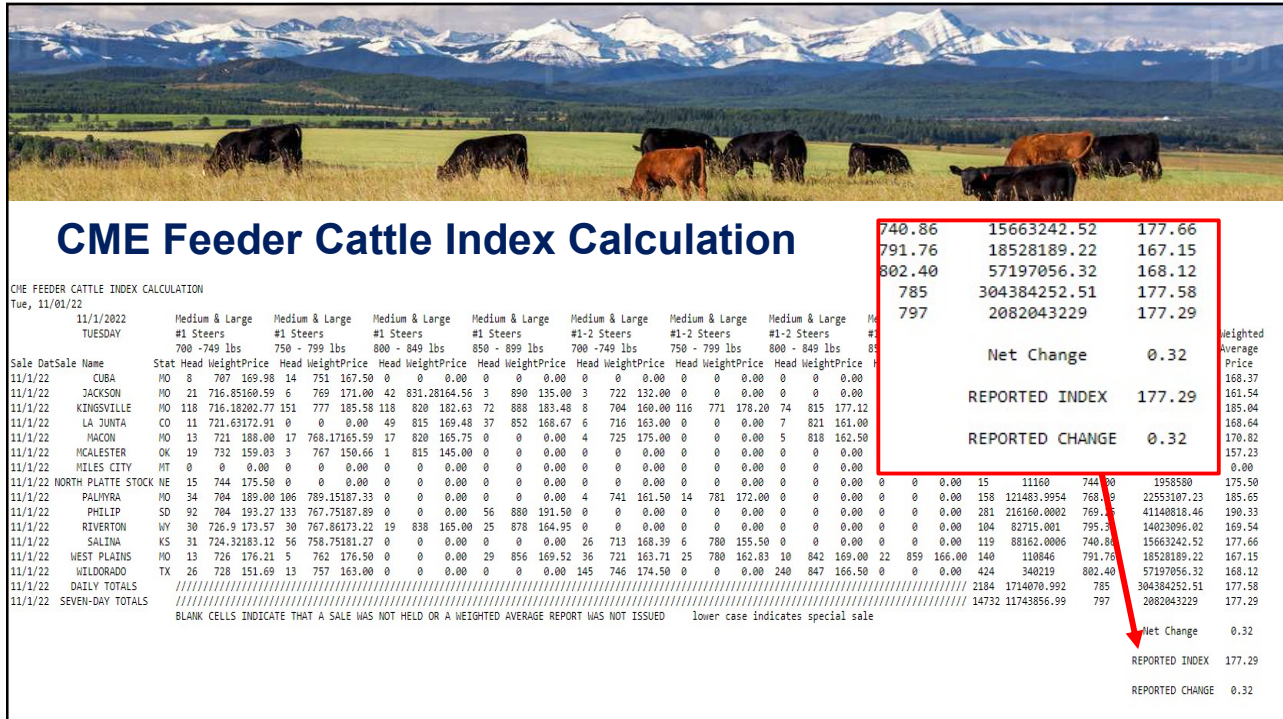


## Actual Ending Value

An indemnity is payable if the “Actual Ending Value” is less than the Coverage Price booked with your endorsement.

- The “actual ending value” is the weighted average price of feeder cattle sales as calculated by the Chicago Mercantile Exchange (CME) for Cash-Settled Commodity Index Prices multiplied by the applicable type/weight price adjustment factor.
- [https://www.cmegroup.com/ftp/cash\\_settled\\_commodity\\_index\\_prices/daily\\_data/feeder\\_cattle/](https://www.cmegroup.com/ftp/cash_settled_commodity_index_prices/daily_data/feeder_cattle/)

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**CME Feeder Cattle Index Calculation**

CME FEEDER CATTLE INDEX CALCULATION  
Tue, 11/01/22


Sale Date	Sale Name	Stat	Medium & Large #1 Steers		Medium & Large #1 Steers		Medium & Large #1 Steers		Medium & Large #1-2 Steers		Medium & Large #1-2 Steers		Medium & Large #1-2 Steers		Weighted Average Price
			Head	Weight	Head	Weight	Head	Weight	Head	Weight	Head	Weight	Head	Weight	
11/1/22	CUBA	MO	8	707	169.98	14	751	167.50	0	0	0.00	0	0	0.00	168.37
11/1/22	JACKSON	MO	21	716.85	160.59	6	769	171.00	42	831.28	164.56	3	890	135.00	161.54
11/1/22	KINGSVILLE	MO	118	716.18	202.77	151	777	185.58	118	820	182.63	72	888	183.48	185.04
11/1/22	LA JUNTA	CO	11	721.63	172.94	0	0	0.00	49	815	169.48	37	852	168.67	168.64
11/1/22	HACON	MO	13	721	188.00	17	768.17	165.59	17	820	165.75	0	0	0.00	170.82
11/1/22	MCALISTER	OK	19	732	159.03	3	767	150.66	1	815	145.00	0	0	0.00	157.23
11/1/22	MILES CITY	MT	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0.00
11/1/22	NORTH PLATTE STOCK	NE	15	744	175.50	0	0	0.00	0	0	0.00	0	0	0.00	175.50
11/1/22	PALMYRA	MO	34	704	189.00	106	789.15	187.33	0	0	0.00	0	0	0.00	185.65
11/1/22	PHILIP	SD	92	704	193.27	133	767.75	187.89	0	0	0.00	56	880	191.50	190.33
11/1/22	RIVERTON	WY	30	726.9	173.57	30	767.86	173.22	19	838	165.00	25	878	164.95	169.54
11/1/22	SALINA	KS	31	724.32	183.12	56	758.75	181.27	0	0	0.00	0	0	0.00	177.66
11/1/22	WEST PLAINS	MO	13	726	176.21	5	762	176.50	0	0	0.00	29	856	169.52	167.15
11/1/22	WILDORADO	TX	26	728	151.69	13	757	163.00	0	0	0.00	0	0	0.00	168.12
11/1/22	DAILY TOTALS														177.58
11/1/22	SEVEN-DAY TOTALS														177.29

740.86	15663242.52	177.66
791.76	18528189.22	167.15
802.40	57197056.32	168.12
785	304384252.51	177.58
797	2082043229	177.29
<b>Net Change</b>		<b>0.32</b>
<b>REPORTED INDEX</b>		<b>177.29</b>
<b>REPORTED CHANGE</b>		<b>0.32</b>

BLANK CELLS INDICATE THAT A SALE WAS NOT HELD OR A WEIGHTED AVERAGE REPORT WAS NOT ISSUED lower case indicates special sale

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## Indemnities

At the end of your SCE endorsement period:

- RMA will release Actual Ending Values for all types and weights based on the CME Feeder Cattle Index.
- In the case of a probable loss on covered livestock:
  - ✓ A **Notice of Probable Loss** will be mailed to you.
  - ✓ You will need to submit the **LRP Claim Form** along with ownership verification documents, if requested.
  - ✓ Any indemnity payment will be made within 30 days following the receipt of the LRP Claim Form and any supporting documents.

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## Premium

There is no up-front premium.

- Premium is due the 30<sup>th</sup> of the month following the end of the endorsement.

Example:


- Endorsement expires November 5<sup>th</sup>, 2023
- Premium is due December 30<sup>th</sup>, 2023

- Premium is subsidized. Subsidy Factors:

Coverage Level	Subsidy Factors
70 – 79%	0.55
80 – 84.999%	0.50
85 – 89.999%	0.45
90 – 94.999%	0.40
95-100%	0.35

- Any premium due will be deducted from any Indemnity prior to payment.

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## LRP Feeders - Ending Weight Restrictions

If you insure Weight 2, your livestock must average at least 600 lbs.

The number of covered livestock insured under an SCE must be adjusted if:

$$\begin{array}{ccc}
 \text{Total weight of the covered livestock} & < & \text{Number of covered livestock} \times \text{The Minimum allowed target weight.}
 \end{array}$$

Unless you can establish that extraordinary circumstances caused the livestock to weigh less.

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## Livestock Ownership Verification

Documents verifying insured ownership of livestock on the endorsement may be requested by RMA.

- Sufficient documents to support verification of ownership may include, but are not limited to:
  - Bills of Sales
  - Financing/credit documents secured by the insured livestock
  - Written statements from third parties such as feed suppliers or veterinarians who have visited the farm or ranch, visually identified the livestock listed and can attest to their ownership

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## Disposition of Livestock

### AFTER the End Date

After the End Date of the SCE (Specific Coverage Endorsement), insured livestock can be:

- Sold at any time, for any price; or
- Retained for as long as the producer wants.

Another SCE can be put on the same cattle.

### BEFORE the End Date

Within 60 days of the End Date, policy will continue as if owned.

#### **60 days or more before the end of your endorsement:**

- If any portion of the insured livestock are disposed of **prior to the last 60 days** of coverage, then that portion of the coverage will be *terminated*.
- No indemnity will be paid, and no premium will be refunded
- Unless that portion is properly transferred, on our form, to an eligible transferee.

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## Disposition Example

- End of SCE (endorsement) is October 30
- Can sell or transfer ownership September 1 or later
  - No consequence to policy
- If sell or relinquish ownership August 25
  - More than 60 days before the end of the Endorsement
  - **No indemnity will be paid, and no premium will be refunded.**

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### Death

If covered livestock die...

With proper notification (within 72 hours), coverage under the endorsement will continue to the end date.

Without proper notification:

- That portion of the endorsement will be terminated.
- No indemnity will be paid for terminated portion of the endorsement, and no premium will be refunded.

### Government Seizure

If covered livestock are seized, quarantined or destroyed by order of any governmental authority, or your livestock are not deliverable due to death or disease:

Provide us with written notice of such circumstances within 72 hours. Coverage provided under the endorsement will continue to the end date.

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## Theft

- Theft is not covered under the policy.
  - The 72-hour notification requirement does not apply to theft loss.
  - The coverage on the stolen animals is terminated.
  - No indemnity will be paid for any portion of the endorsement that is terminated.

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## LRP versus Options: RISK MANAGEMENT

Both provide a price floor.

### LRP

The selected "coverage price" is the producer's price floor.

### Put Options

The selected "strike price" is the producer's price floor.

- A Put or Put Option is a stock market device which gives the owner the right to sell an asset, at a specified price (the strike), by a predetermined date (the maturity) to a given party (the seller of the put)

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## LRP versus Options: PREMIUM

Both require payment of a premium.

### LRP

An Insurance premium is paid to your insurance agent.

- ✓ You receive a subsidy towards the premium.
- ✓ Premium is due after the endorsement expires.

### Put Options

An Option premium is paid to a broker.

- ✓ There is no subsidy for the premium owed.
- ✓ Premium is due at the time the Option is purchased.

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## LRP versus Options: PAYOUTS

Both provide payment when prices decline below your insured level.

### • LRP

LRP policyholder receives an indemnity.

### • Put Options

The Option premium increases in value and is reflected in the producer's brokerage account.

Neither provide payment if prices remain above your insured level.

### • LRP

LRP – No indemnity paid.

### • Put Options

The Option premium declines to zero and there is no increase in the producer's brokerage account.

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## Neither is based on Local Markets

- Neither product protects the producer from a decline in the producer's local sale price.
- Both LRP and Options are subject to basis risk.
  - – Both products protect the producer from a decline in the feeder-cattle price index, at the Chicago Mercantile Exchange (CME), not your local market.



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## LRP Advantages

### Advantages of LRP relative to Options:

- Options require a brokerage account – hence brokerage fees
- No Margin calls with LRP
- Subsidies are not available for Options premiums.
- LRP has price adjustments for varying weights. (Options do not)
- LRP can account for a mix of cattle types to be marketed
- Can buy a particular size contract that fits your herd (Options - 40,000 lb. contracts only)
- Can buy LRP daily.

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## Options Advantages

### Advantages of Options relative to LRP:

- A producer may buy higher price coverage levels than LRP.
  - LRP coverage levels are generally “out of the money”.
- More timing flexibility because the producer may sell an option prior to expiration.
- Can re-purchase an option at any time.


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## LRP Example: (based on 3/15/2023 prices)

- On March 15<sup>th</sup>, producer bought a 34-week endorsement on his 100 head of Steers-Weight 1, with a CME Expected Ending Value of \$241.33/cwt.
  - His Coverage Price is: **\$239.63/cwt** (Expected Ending Value x his coverage level - 99.3%).
- On May 5<sup>th</sup>, the producer contracts his 100 head of steers for **\$2.55/lb** at his local market; November 1<sup>st</sup> delivery.
- If the CME Actual Ending Value on 10/27/2023 is: **\$211.00/cwt.**
- Will the producer receive an indemnity?



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## LRP Example: Yes, an indemnity is earned.

- His actual sale price (\$2.55/lb) was higher than the Actual Ending Value (\$211.00/cwt).
- The CME Actual Ending Value (\$211.00/cwt) was lower than his Coverage Price (\$239.63/cwt), triggering an indemnity.


### Indemnity Calculation

- 100 head x 5.9 cwt/head x (\$239.63 – \$211.00) = **\$17,149.37**

### Revenue from Calves

○ 100 x 625 lb steers x \$2.55	=	\$159,375
○ Plus, LRP indemnity of:	+	17,149
○ Minus premium	-	<u>4,145</u>
○ <b>Net Revenue:</b>		<b>\$172,379</b>

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## What if the market really falls-out by sale time...

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CME drops to \$163/cwt and local prices fall.

### Indemnity Calculation


- 100 head x 5.99 cwt/head x (\$239.63 – \$163.00) = **\$45,901.37**

### Revenue from Calves

○ 100 x 625 lb steers x \$2.05	=	\$128,125
○ Plus, indemnity of:	+	45,901
○ Minus premium	-	<u>4,145</u>
○ <b>Net Revenue:</b>		<b>\$169,881</b>

Net Revenue with high calf prices was \$172,379

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## What if he received \$2.80 per lb. for his steers...

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Does that affect his indemnity?

- No.** The actual sale price for calves does not affect the indemnity.
- Indemnity relies solely on the difference between the Chicago Mercantile Exchange (CME) price now and at the end of your SCE endorsement.

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### Actual Coverage Price April 3, 2023

RICHMAN INSURANCE INC  
PO BOX 669  
HARLEM, MT 59526-0669  
HEATH@RICHMANINSURANCE.COM  
(406)353-2213 ID 7500-06

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STATE	IDAHO	COUNTY	LEMHI	COMMODITY	Feeder Cattle	TYPE	Steers Weight 1				
EFFECTIVE DATE	04/03/2023	SHARE	1	TARGET END WEIGHT	5.9	HEAD	100				
Length (weeks)	End Date	Expected Ending Value	Coverage Level	Coverage Price	Cost per Head	Subsidized Cost per Head	Guarantee per Head	Total Liability	Rate	Premium	Producer Premium
30	10/30/2023	247.95	100.00 %	247.95	69.310	45.050	1,462.905	146,291.00	0.04738	6,931.00	4,505.00
34	11/27/2023	247.96	100.00 %	247.96	73.970	48.080	1,462.964	146,296.00	0.050563	7,397.00	4,808.00

100 head x 5.9 x (\$247.95 coverage price – \$240.31 Ending Value) = \$4,507  
 --- a drop in Ending Value of \$7.64 cwt ---  
**A decline in price of only 3% pays the premium.**

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