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RightRisk™

RightRisk News

Dates to Remember

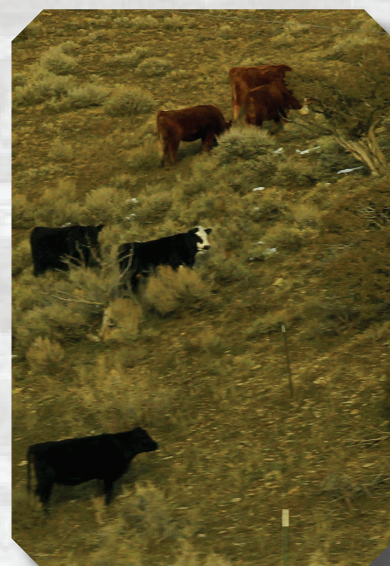
- **March 15, 2014**: Crop insurance sales closing and cancellation dates for spring planted crops. For more information see: http://www.rma.usda.gov

- **April 1, 2014**: Noninsured Crop Disaster Assistance Program (NAP) application deadline for spring seeded forage and all other crops. For more information see: http://www.fsa.usda.gov.

LRP Protects Against Down-turns in Market Prices

Livestock producers face many of the same insurance needs as crop producers. Cattle, lamb and swine producers have many price and market uncertainties. Forward contracting can take some of the risk out of marketing, but it can often be just as risky in terms of limiting upside potential. Price protection through Chicago Mercantile Exchange (CME) futures contracts can also be risky, and may not be an option for smaller-scale producers. An insurance contract that guarantees against unexpected price down swings is desirable for many producers to ensure a minimum level of cash income for their operation.

Livestock Risk Protection (LRP) contracts are essentially a single peril price contract. Currently, LRP contracts are available to feeder and fed cattle, lamb and swine producers across many states. The price is tied directly to national markets to form an index. LRP contracts are available for a certain price level, weight, and number of head.



A producer must make an application with an insurance agent to become eligible to purchase an LRP contract. To be eligible, a cattle producer must own or have a substantial interest in the cattle being insured.

After determining eligibility, a producer then decides on the specific number of head to market at a future time, the target weight, and the coverage rate for the contract. This is known as the specific coverage endorsement (SCE). It is important to note that producers can have more than one SCE for the livestock they are marketing. For example, if a producer had 200 feeder steers to market and wished to sell them at different times and weights (100 steers at 600 pounds and 100 at 750 pounds), two SCEs would be used. The length of the contract may range from 13 to 52 weeks.

The premium cost to the producer of an LRP contract is determined by the total insured value times the contract rate (determined by USDA's Risk Management Agency) less the 13 percent subsidy. There are also limits on the total number of head that can be insured under LRP.

LRP may or may not be a fit for a specific operation. Producers should carefully budget and weigh the potential costs of any marketing plan before implementing it. Determine first if an operation has the sufficient cash reserves to deal with price volatility. If it doesn't, pursue a risk management option, such as LRP that is a good fit.

For instance, on smaller lots of cattle (less than 50 head, for example) an LRP contract may be the most effective risk management option. Risk management options may change as the scale of an operation grows. A combination of insurance and other marketing options may be the best fit.

Find out more about LRP by contacting an insurance agent authorized to write LRP contracts. For a listing of agents, visit the Risk Management Agency on the worldwide web at www.rma.usda.gov.

How Much Risk is Right for You?

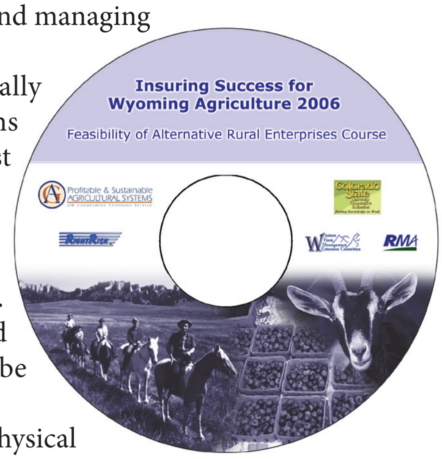
Risk Management Profile

Late summer 2011, John and Polly Harkin were preparing for another fall calving season on their farm. They were concerned about their costs of production and the perceived risk they were seeing in the marketplace. That spring, they had to pay over $1,500 per head for their usual purchase of 20 replacement heifers and they were beginning to feel uneasy about how much "skin" they had in the game. Cattle markets had been good to them lately but a sudden drop in feeder cattle prices would leave them with little chance of covering their input costs.

To read more see: http://RightRisk.org > Resources > Risk Mgt Profiles

Highlighted Course

The ability to select, plan, and evaluate new and existing business enterprises is an increasingly important skill to help reduce business risk. The Feasibility of Alternative Rural Enterprises course presents a step-by-step approach to defining an agricultural enterprise, setting goals and planning for success, and evaluating and managing the risks.



The course begins by defining agricultural and rural enterprises. Enterprises are generally defined as activities that generate distinct saleable goods or services. This usually means activities that combine limited resources (dollars or inputs) to generate revenue with at least some risk involved. Breaking down an agricultural business into individual enterprises is a great start for evaluating an existing business and determining if a new enterprise will fit.

Goal setting is performed after each enterprise is identified. Keeping goals realistic is important. This course encourages producers to think beyond traditional production goals.

The next section of the course involves planning and analyzing existing or planned enterprises. SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) should be performed for each enterprise.

Production feasibility is the next step. For agricultural enterprises, this means assessing physical resources such as land, water, and equipment. A market assessment follows. This includes the study of potential markets and customers. This step is where financial planning is completed. Projections of income and cash flow needs by enterprise activity is important. Risk analysis and management is the final lesson. It discusses different risks and risk-management strategies.

For More Information on the Feasibility of Alternative Rural Enterprises course, see http://RightRisk.org > courses.

RightRisk™

RightRisk helps decision-makers discover innovative and effective risk management solutions.

- *Education*
- *Coaching*
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How much risk is right for you and your operation?