Volume 7, Issue 6 June 2019

RightRisk™

RightRisk News

Dates to Remember

Farmers who planted cover crops on prevented plant acres will be permitted to hay, graze or chop those fields earlier than November this year. For more see the 6/20 Press Release at: **RMA.usda.gov**.

July 1, 2019
New Dairy Revenue Protection (DRP), Livestock Gross Margin (LGM) and Livestock Risk Protection (LRP) programs take effect

Annual Forage Insurance Plan
Sales Closing Date - July 15

Spring crop acreage reporting deadline
- July 15

For more information see:
http://www.rma.usda.gov
http://www.fsa.usda.gov

How Much Risk is Right for You?

Managing Livestock Market Risk: Updates to Livestock Risk Protection Insurance

Livestock Risk Protection (LRP) insurance is available for cattle, swine, and lamb producers to protect against downward movements in the national market price. Several enhancements and improvements to the LRP insurance program will take effect July 1, 2019 and will be of interest to livestock producers.

One of the most significant enhancements involves increases in the premium subsidy rates. LRP premium subsidies have traditionally been subsidized by the USDA at 13 percent. This means that for every dollar in premium charged for the coverage, the insuring producer paid $0.87, while the USDA paid $0.13.

Starting July 1st, LRP insurance coverage for fed cattle, feeder cattle, and swine will be subsidized from 20 percent to 35 percent depending upon coverage level. LRP insurance coverage for lamb will be subsidized from 20 percent to 38 percent depending upon endorsement length, Table 1. Obviously, these changes will make LRP insurance coverage more affordable for livestock producers to acquire. New and beginning producers receive an additional 10 percent premium subsidy.

Table 1: Livestock Risk Protection (LRP Insurance) Premium Subsidies

(effective July 1, 2019)

Fed Cattle, Feeder Cattle, and Swine		Lamb	
Coverage Level	Subsidy	Endorsement Length	Subsidy
95-100%	20%	13 weeks	20%
90-94%	25%	26 weeks	35%
80-89%	30%	39 weeks	38%
70-79%	35%		

In addition, LRP insurance coverage for Fed Cattle, Feeder Cattle, and Swine will be expanded to include all 50 states. Chicago Mercantile Exchange (CME) trading requirements will also be updated to allow for more insurance endorsement contracts to be offered to cattle and swine producers. Previously, LRP coverage endorsements for swine and cattle could only be offered if a minimum daily volume of five traded contracts was reached.

The per-head limits for Fed Cattle, Feeder Cattle, and Swine LRP coverage will increase
The per-head limits for LRP-Fed Cattle and LRP-Feeder Cattle will increase from the previous levels of 1,000 head per coverage endorsement and 2,000 head per producer, per year (July 1 to June 30) to new levels of 3,000 head per coverage endorsement and 6,000 head per producer per year. LRP-Swine per-head limits will increase from the previous 10,000 hogs per coverage endorsement and 32,000 hogs per producer, per year to new levels of 20,000 hogs per coverage endorsement and 75,000 hogs per producer, per year.

Why is this important to producers?
LRP insurance is an easy to understand tool that livestock producers can use to manage the risk of potential downward movements in the national market price, while still allowing themselves to potentially benefit from upward movements in the market price. For example, the current Chicago Mercantile Exchange (CME) futures price for October feeder cattle is approximately $136 per hundredweight (cwt).

How accurate is this price forecast for October feeder cattle prices? Table 2 would suggest that on average it is pretty good. However, in any particular year, it is not all that great a predictor of where the national market price will end up settling. LRP insurance is a tool that might help producers manage the downward price risk that materialized in 2015-2016 at an affordable cost.

Table 3 shows how LRP Feeder Cattle insurance contracts would have performed for Steers Weight 1 from 2014-2018 under the 13 percent premium subsidy. Even though an indemnity would have been paid only in 2015 during this five-year span, the net LRP effect over this period is $1.83 per cwt. With new premium subsidy rates in effect, the net LRP effect would increase to $2.19 per cwt, raising the net effective price from $193.09 to $193.46 per cwt. In this example, the new premium subsidy rates would make roughly a $0.36 difference in producer premiums per cwt and, subsequently, increase the bottom-line effective price by that amount.

Table 2: Chicago Mercantile Exchange (CME) October Feeder Cattle Contract (700-849# Medium Frame #1 Steers), $/cwt

	2014	2015	2016	2017	2018	Average
CME Oct Feeder Cattle Futures (Jun 5-6)	200.52	219.10	142.10	157.50	147.63	173.37
CME Feeder Cattle Cash Settlement Index (Oct 30-31)	239.95	193.24	125.16	156.92	154.13	173.88
Net Difference	**$39.43**	**($25.86)**	**($16.94)**	**($0.58)**	**$6.50**	**0.51**

Source: Livestock Marketing Information Center (LMIC)

However, LRP is a risk management tool and it is important to note the dramatic affect it had in 2015 where the actual ending value was $28.31 below expectations. With LRP insurance coverage in place, the producer would only absorb roughly $2.96 (at the old 13 percent premium subsidy rate) of this downward movement in price. On a percentage basis, this represents an impact of about 10 percent of the total downward movement in price.

The following year, 2016, had a similar decline in prices but LRP was not as effective at addressing it because the highest coverage level offered was only 87 percent of expectations. The new trading requirements should increase the likelihood that more coverage levels are available.

Readers interested in learning more about using LRP insurance are encouraged to visit the RMA website at **https://www.rma.usda.gov/en/Topics/Livestock**.

Table 3: LRP-Feeder Cattle (Steers Weight 1, < 600 lbs.) Performance 2014-18 (old/new subsidies, $/cwt)

	2014	2015	2016	2017	2018	Average
LRP 21-week Coverage Price (Jun 5-6)	220	238.95	134.27	155.89	158.34	181.49
LRP Expected Ending Value (Oct 30-31)	220.578	240.871	155.114	172.253	162.434	190.25
LRP Actual Ending Value (Oct 30-31)	263.95	212.56	137.68	172.61	169.54	191.27
Net Change	**$43.37**	**($28.31)**	**($17.43)**	**$0.36**	**$7.11**	**$1.02**
LRP Indemnity	0.00	26.39	0.00	0.00	0.00	5.28
LRP Producer Premium (prior to 7/1/2019)	5.22	1.04	1.76	3.95	5.29	3.45
Net LRP Effect (prior to 7/1/2019)	(5.22)	25.35	(1.76)	(3.95)	(5.29)	1.83
Net Effective Price (prior to 7/1/2019)	**$258.73**	**$237.91**	**$135.92**	**$168.66**	**$164.25**	**$193.09**
Deviation from Expected Ending Value	**$38.15**	**($2.96)**	**($19.19)**	**($3.59)**	**$1.82**	**$2.84**
LRP Producer Premium (effective 7/1/2019)	4.80	0.95	1.41	3.41	4.86	3.09
Net LRP Effect (effective 7/1/2019)	(4.80)	25.44	(1.41)	(3.41)	(4.86)	2.19
Net Effective Price (effective 7/1/2019)	**$259.15**	**$238.00**	**$136.27**	**$169.20**	**$164.68**	**$193.46**
Deviation from Expected Ending Value	**$38.57**	**($2.87)**	**($18.85)**	**($3.05)**	**$2.25**	**$3.21**

Source: http://www3.rma.usda.gov/apps/livestock_reports/

RightRisk™

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

- *Education*
- *Coaching*
- *Research*

E-mail: information@RightRisk.org
Web: www.RightRisk.org

RightRisk News is brought to you by the RightRisk Team

Contributing authors:
John Hewlett, Ranch/Farm Management Specialist - University of Wyoming, hewlett@uwyo.edu
Jay Parsons, Risk Management Specialist - University of Nebraska-Lincoln, jparsons4@unl.edu
Jeff Tranel, Ag and Business Management Specialist - Colorado State University, Jeffrey.Tranel@ColoState.edu
Editing and Layout: John Hewlett, hewlett@uwyo.edu

Past issues of RightRisk News are available at: http://RightRisk.org > Resources > RightRisk News
To subscribe/unsubscribe, email information@RightRisk.org subject line "Subscribe/Unsubscribe RR News"

Colorado State University Extension
University of Wyoming Extension
N Extension

How much risk is right for you and your operation?