Volume 8, Issue 10 October 2020

RightRisk™

RightRisk News

How Much Risk is Right for You?

Dates to Remember

RI-PRF Coverage
November 15
for 2021 crop year coverage

Acreage Reporting
- November 15

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

Livestock Risk Protection Insurance Even More Appealing Under Recent Changes

The USDA Risk Management Agency (RMA) first introduced Livestock Risk Protection (LRP) insurance contracts in 2002. LRP provides livestock producers a tool for protecting national price levels for future sales of livestock through a USDA-subsidized insurance product. First released for swine, it soon became available for feeder cattle, fed cattle, and lamb. After remaining relatively unchanged since inception, several enhancements and improvements have taken effect in the LRP insurance program the last 18 months.

This article summarizes those changes and provides an example of how LRP-Feeder Cattle would have performed for a sample protection strategy under the old and new subsidy levels. Changes to LRP began over the summer of 2019 and included: 1. An expansion in the geographic area of availability, 2. An increase in the premium subsidy levels, 3. Updates to the Chicago Mercantile Exchange (CME) trading requirements to allow for more insurance endorsement lengths and coverage prices available for purchase, 4. Increases to the head per endorsement and annual head limits, and 5. A modification to the price adjustment factor for dairy cattle.

During the summer of 2020, further increases to the premium subsidy levels and a change to allow for the payment of the insurance premiums to take place at the end of the endorsement period instead of the beginning were announced to take effect July 1, 2020. Lastly, in September 2020, RMA announced further changes as: 1. Increases to the premium subsidy levels, 2. Additional increases to the limits on the number of head per endorsement and head per year that could be insured, 3. A modification to the ownership requirement period limit at the end of the endorsement, and 4. The creation of new feeder cattle and swine types to allow for coverage of unborn livestock.

Premium Subsidies

Increases in the premium subsidy rates have made LRP insurance a more affordable option for price protection. LRP premiums were previously subsidized at 13 percent until changes beginning in mid-2019. Subsequent increases have resulted in the current subsidy rates displayed in Table 1. New and beginning producers receive an additional 10 percent premium subsidy over the rates listed. Subsidy increases announced in September are retroactive to July 1, 2020.

Premium Due Date

Premium due dates are another important change that took effect July 1, 2020. Previously, premium payments were due at the time the Specific Coverage Endorsement (SCE) was put into place. Now, premiums are not due until the end of the endorsement period.

LRP is purchased in a two-step process. The first step is to submit an application to purchase LRP insurance through a livestock insurance agent. The second step is to submit a SCE for each group of animals to be insured. Multiple SCEs can be purchased under one application. In the past, producers were required to plan carefully to ensure payment arrived to their insurance agent on the day of purchase. The new premium deadline is a positive development for livestock producers and should make the process of purchasing LRP more convenient and reduce the strain on cash flow.

Table 1: Livestock Risk Protection (LRP) Insurance Premium Subsidies *(effective July 1, 2020)*			
Fed Cattle, Feeder Cattle, and Swine		Lamb	
Coverage Level	Subsidy	Endorsement Length	Subsidy
95-100%	35%	13 weeks	20%
90-95%	40%	26 weeks	35%
85-90%	45%	39 weeks	38%
80-85%	50%		
70-80%	55%		

Head Limits

The number of cattle and swine that can be insured per SCE and each year has been expanded considerably. For example, limits on the number of head of cattle that previously could be insured per SCE and per producer per year was 1,000 head and 2,000 head, respectively. Those limits are now raised to 6,000 head per SCE and 12,000 head annually. Forty thousand head of swine can now be insured on a single SCE and 150,000 head can be insured annually per producer. Limits for lamb remain at 2,000 head per SCE and 28,000 head annually.

Modified Requirement for Owning Insured Livestock

LRP changes in September 2020 modified the requirement to own insured animals throughout the endorsement period. Insured animals were previously required to be born and alive at the time the SCE was purchased. In addition, ownership of those animals was required to within 30 days of the end of the endorsement period for coverage to remain in force. Requirements for the 2021 crop year (beginning July 1, 2020) relax the ownership requirement to 60 days from the end of the endorsement period and allow insuring yet-to-be-born feeder cattle and swine. Endorsement lengths of 39 weeks and 52 weeks were also added for swine.

Other Changes

LRP coverage for swine, fed cattle and feeder cattle was expanded in 2019 to include all counties in all states. LRP coverage for lamb remains available in only 28 states, including all of the continental western states, the upper Midwest, West Virginia, Virginia, and Pennsylvania. Updates to the Chicago Mercantile Exchange (CME) trading requirements in 2019 expanded the insurance endorsement lengths and coverage prices available for purchase and has had the desired effect with several more contract options for cattle and swine producers to choose from on a daily basis.

Example LRP-Feeder Cattle Coverage: Retained Calves

Table 2 shows how LRP-Feeder Cattle insurance contracts would have performed for a cow-calf producer retaining steers from the end of October until the end of January. A 13-week LRP contract for Steers Weight 2 (600-900 pound ending weight) established at the end of October from 2015-2019 provides coverage for prices at the end of January. This strategy would have added an average of $3.65 per hundredweight to the producer's bottom line under the 13 percent LRP premium subsidy in place at the time they were purchased. Under new premium subsidy rates, the net LRP benefit would increase to $4.80 per hundredweight.

More important is how LRP controls the downside risk, while allowing the producer to participate in upward price movements. For example, the 2016 calf crop represents the only year over this timespan where January feeder cattle contract prices moved up between the end of October and the end of January. The net effective price of $127.31 from the national market with this LRP contract under the new subsidy level captures 80 percent of the upward price

Table 2: LRP-Feeder Cattle (Steers Weight 2, 600-900 lbs.) Performance 2015-20 (old/new subsidies, $/cwt.)

Purchase Date	10/30/2015	10/31/2016	10/31/2017	10/31/2018	10/31/2019	Average
Expected Ending Value (Jan 29-30)	183.075	115.542	159.043	150.125	144.675	150.49
Coverage Price	181.90	111.27	158.97	150	144	149.23
Actual Ending Value (Jan 29-30)	160.58	130.29	147.51	142.57	142.38	144.67
Indemnity	21.32	0	11.46	7.43	1.62	8.37
Producer Premium (old)	6.59	3.99	5.42	3.98	3.59	4.71
Net Effect	**$14.73**	**($3.99)**	**$6.04**	**$3.45**	**($1.97)**	**$3.65**
Adjusted for Current Subsidy Levels						
Producer Premium (new)	4.92	2.98	4.05	2.97	2.92	3.57
Net Effect	**$16.40**	**($2.98)**	**$7.41**	**$4.46**	**($1.30)**	**$4.80**
Net Effective Price	**$176.98**	**$127.31**	**$154.92**	**$147.03**	**$141.08**	**$149.46**

Source: https://public.rma.usda.gov/livestockreports/main.aspx movement from a $115.54 expected ending value to a $130.29 actual ending value that year.

Meanwhile, for the other four years, the average expected ending value was $159.23, compared to an average actual ending value of $148.26. The average net effective price of $155.00 for those four years mitigates 62 percent of the downside price risk. Of course, the effect of LRP insurance is most pronounced in years where price moves down considerably, like it did for the 2015 calf crop. That year prices moved from a relatively high expected ending value of $183.08 to an actual ending value of $160.58. The $16.40 net effect of LRP mitigated 73 percent of the downside price risk that occurred in the national market that year.

LRP insurance is an important tool in the price risk management toolbox of livestock producers, helping to manage national market price risk. Producers using LRP continue to market their calves in their local or regional markets. The net benefits of LRP insurance contracts can add to and complement an effective local marketing plan. Recent changes to LRP make it more affordable and more accessible for many livestock operators.

For more information on LRP insurance visit **https://www.rma.usda.gov/Policy-and-Procedure/Insurance-Plans/Livestock-Insurance-Plans** or contact a local livestock insurance agent.

~ Other RightRisk News ~

News Release - Sep. 11 | RightRisk

Federal Reserve Beige Book Summary on the Agricultural Sector

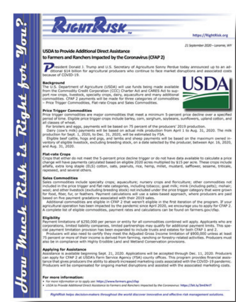
The Beige Book is a Federal Reserve System publication covering current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources. The latest update was posted September 2nd . . .

News Release - Sep. 16 | RightRisk

USDA Announces Increased Subsidies and Other Improvements to the Livestock Risk Protection (LRP) Insurance Program

The The U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) announced it is increasing premium subsidies and will make other improvements to the Livestock Risk Protection (LRP) plan of insurance for feeder cattle, fed cattle, and swine starting with the 2021 crop year. The increased premium subsidy is retroactive to the beginning of the 2021 crop year (July 1st, 2020) and is based on the coverage selected by the livestock producer . . .

News Release - Sep. 21 | RightRisk



USDA to Provide Additional Direct Assistance to Farmers and Ranchers Impacted by the Coronavirus (CFAP 2)

President Donald J. Trump and U.S. Secretary of Agriculture Sonny Perdue today announced up to an additional $14 billion for agricultural producers who continue to face market disruptions and associated costs because of COVID-19. The U.S. Department of Agriculture (USDA) will use funds being made available from the Commodity Credit Corporation (CCC) Charter Act and CARES Act to support row crops, livestock, specialty crops, dairy, aquaculture and many additional commodities. CFAP 2 payments will be made for three categories of commodities – Price Trigger Commodities, Flat-rate Crops and Sales Commodities . . .

For more see: RightRisk.org\News

Highlighted Course

Producing quality, up-to-date financial statements is a key to success in any agricultural business. These statements allow analyses of alternatives and sound management decisions. Producing accurate, well-organized financial statements benefit operations of all sizes and scales.

The academic professionals at RightRisk have developed an online course entitled *Getting on Track: Better Management through Basic Financial Statements*. The interactive course relies on an example couple looking at several alternative enterprises for their operation and how they learn to use financial statements to make decisions.

To access the course see: **http://RightRisk.org > Courses > Getting on Track: Better Management Through Basic Financial Statements.**

September 1 | Social Media Post
Multi-Temporal Risk Analyzer

September 3 | Social Media Post
Online Publications

September 8 | Social Media Post
RDFinancial

September 10 | Social Media Post
Ag Survivor

September 15 | Social Media Post
Risk Navigator

September 17 | Social Media Post
Ag Help Wanted: Guidelines for Managing Agricultural Labor

September 22 | Social Media Post
Evaluating LRP Coverage via RightRisk Analytics

September 24 | Social Media Post
Recorded Presentations from RightRisk.org

September 29 | Social Media Post
Evaluating Lease Agreements via RightRisk Analytics

Follow us on:

Click here to see current:
RightRisk.org\news

Follow us on:

RightRisk™

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

- Education
- Coaching
- Research

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: https://RightRisk.org > Resources > RightRisk News
To subscribe/unsubscribe, email information@RightRisk.org subject line "Subscribe/Unsubscribe RR News"

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

How much risk is right for you and your operation?

Colorado State University Extension
University of Wyoming Extension
Nebraska Extension