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5/1/05

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BEEF PRODUCERS CAN PROTECT AGAINST MARKET FLUCTUATIONS WITH PRICE INSURANCE

AMES, Iowa – You don't have to tell a beef producer that we're living in volatile times. BSE, the opening and closing of borders, and other market threats have resulted in such dramatic price fluctuations that a line graph of the cash markets looks remarkably like the Rocky Mountains. However, producers have a new tool to protect against catastrophic loss, according to John Lawrence, Extension economist at Iowa State University (ISU).

The Agricultural Risk Protection Act of 2000 allowed for the development and sale of federally insured livestock insurance plans. In December of 2002, the Federal Crop Insurance Corporation approved an expansion of Livestock Risk Protection (LRP) insurance to include a feeder cattle pilot program (LRP-Feeder Cattle), as well as a fed cattle pilot program (LRP-Fed Cattle).

LRP-Feeder Cattle and LRP-Fed Cattle are available in Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Nevada, North Dakota, Oklahoma, Ohio, South Dakota, Texas, Utah, West Virginia, Wisconsin, and Wyoming. Both programs are designed to insure against declining market prices and producers may select from a variety of coverage levels and periods of insurance to correspond with the time their cattle will be marketed. Under the LRP-Feeder Cattle plan, ownership may be retained.

"Producers should keep in mind that these insurance policies are tools to protect themselves against major price movements and catastrophic financial loss, not to enhance income," says Lawrence. "Also, the LRP policies are price insurance only. They won't protect against poor herd health, death loss, or theft."

To qualify for LRP-Fed Cattle, the insured cattle must be marketed for slaughter at the end of the insurance period within the 1000-1400 pound range, and be expected to grade select or better with a yield grade of 1 to 3. The cattle can be insured from for 13 to 52 weeks into the future, and producers can insure a maximum of 2000 head per endorsement, and a maximum of 4000 head per crop year. The settlement price is the

USDA 5-Area Weekly Weighted Average Direct Slaughter Cattle price, be 35-65% Choice on a live basis.

Requirements for LRP-Feeder Cattle includes that the cattle will weigh 650-900 pounds and will be ready to be put into a feedlot for fattening at the end of the insurance period. The cattle can be insured in 30-day increments from 21 to 52 weeks into the future, and producers can insure a maximum of 1000 head per endorsement and a maximum of 2000 head per crop year. The settlement price is the CME Cash-Settlement Commodity Index price.

There are two important differences between LRP and options on futures, according to Lawrence. First, LRP basis risk behaves differently from futures or options. The concern is about matching the LRP settlement date selected when the insurance is purchase with actual marketing date of the cattle. The price you receive may be very close to the 5-Area fed cattle price or CME Index Price, but if you market several days before or after the settlement date prices may change. The second important difference is that LRP coverage can be purchased in any amount needed rather than in 40,000 or 50,000 pound contract sizes.

For both plans, producers must be able to verify ownership of the insured cattle to USDA employees upon request, and cannot take an offsetting position in the commodity futures market. Producers should check with their insurance agent to see if there are other limitations. At the time of the policy purchase, producers can pick the policy's expiration date. If the animals are not ready for market by the date of policy expiration, there is less protection.

LRP premiums incorporate several factors: number of head, target weight, coverage price and level, premium rate, and subsidy level (which is currently 13%). Policy prices are relatively low, especially compared to an uninsured income loss. For example, 50 head of fed cattle with a target market weight of 1200 pounds for mid-October, insured against a cash market price of \$72/cwt, and a subsidy level of 13%, had a policy price around \$280 in mid-April.

"Indemnity is based on the target weight, number of head, and the difference between the coverage price and the actual price at then end of the policy," says Lawrence.

Producers can buy LRP policies from a local insurance agent, and policies can be purchased in any size increment. Once an application is approved, the company will assign a policy number. The producers may activate coverage at any time by applying for a Specific Coverage Endorsement (SCE). More than one SCE may be purchased each year and different insurance periods and coverage prices may be elected.

Producers have many resources when looking into LRP policies. For more information, including daily LRP coverage prices, rates, actual ending values, and to calculate premiums, visit the USDA's Risk Management Agency (RMA) website at <http://www.rma.usda.gov/policies/2004LRP.html>.