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Livestock Insurance Resumed October 1

After suspending sales of Livestock Risk Protection (LRP) Insurance on December 23, 2003 following the announcement of the U.S. case of BSE, USDA's Risk Management Agency (RMA) resumed sales of LRP on October 1, 2004. The current program still creates a floor price for future sales of fed cattle, feeder cattle, or swine, but several changes were made to the policy. Some of these changes were already planned to expand the use of the product, while other changes were made to address the adverse selection issue associated with the LRP premiums being based on the previous day's market price.

First, RMA expanded the availability of feeder cattle, fed cattle, and swine LRP to include Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Nevada, North Dakota, Ohio, Oklahoma, South Dakota, Texas, Utah, West Virginia, Wisconsin, and Wyoming. Additional changes were made to the feeder cattle contract. These changes included offering shorter insurance period lengths of 13 and 17 weeks (in addition to the 21, 26, 30, 34, 39, 43, 47, and 52-week periods previously available) and expanding sales to cover feeder heifers, dairy feeder cattle, Brahman feeder cattle, and feeders weighing less than 600 lbs. Price adjustment factors were also implemented to account for the differences between feeder steer prices and prices of other types and weights of cattle.

Two significant changes were made to all LRP contracts in response to adverse selection and suspension of sales. First, coverage will only be available from approximately 5:00 pm to 9:00 am (central time). Following the end of futures and options trade at 2:00 pm each day, RMA will calculate LRP insurance rates based on that day's trade and publish them on its website. Sales of LRP will end just prior to the next day's futures trading session.

A second change made in the LRP policy formalizes the process under which sales of LRP are suspended and resumed if large price moves occur in the market. Sales of LRP will be suspended for future sales periods if at least four contract months of the underlying futures contracts have a daily price change equal to the daily price limit for two consecutive days. Similarly, sales of LRP would resume when at least four contract months of the underlying futures contracts do not trade to the daily price limit for two consecutive days.

While insurance is limited to 2,000 feeder cattle, 4,000 fed cattle, and 32,000 hogs per year per insured individual, LRP is a price risk management tool that some producers may wish to consider. In addition to being able to insure as few as one head, it also does not require a brokerage account, margin money, or commission to hedge price risk. Instead, producers purchase LRP through licensed crop insurance agents. Details on the LRP policy provisions, premiums, and agents selling LRP are available at www.rma.usda.gov. LRP may also offer some reduction in basis risk when hedging, which is discussed in NU Extension Circulars 04-833, 04-834, and 04-835, available at <http://agecon.unl.edu/mark/>.

Whether hedging with LRP, futures, options, or cash contracts, it is important to remember that each has its advantages and disadvantages. None of them however, including LRP, provides a “silver bullet” to create profit opportunities where they do not already exist. In other words, LRP, like other market-based tools, will not enable producers to create a hedged sales price above breakeven if input costs (including purchased feeder animals) are too high.

The Markets

Kansas slaughter cattle prices were mostly steady last week, trading at \$84-84.50. Dressed sales in Nebraska at \$130.40 were about \$1 lower than the previous week. Choice boxed beef declined \$0.37 last week while the Choice-Select spread widened slightly to \$4.90. Feeder steer prices in Kansas were \$1-2 lower last week. Prices for 500-600 lb. feeder steers were about \$1 lower last week, while yearling steers were steady to slightly higher.

| | Last Week | Previous Week | Last Year |
|---|------------------|----------------------|------------------|
| Kansas Fed Steer Price, live weight (35-65% Choice) | \$84.25 | \$84.08 | \$90.00 |
| Neb. Fed Steer Price, dressed weight (35-65% Choice) | \$130.40 | \$131.71 | \$145.35 |
| 700-800 lb. Feeder Steer Price, Kansas 4 market average | \$116.69 | \$118.08 | \$105.22 |
| 500-600 lb. Feeder Steer Price, Kansas 4 market average | \$126.62 | \$128.51 | \$107.75 |
| 700-800 lb. Feeder Steer Price, Neb. 7 market average | \$120.09 | \$119.68 | \$105.32 |
| 500-600 lb. Feeder Steer Price, Neb. 7 market average | \$127.73 | \$128.58 | \$113.70 |
| Choice Boxed Beef Price, 600-750 lb. carcass | \$136.74 | \$137.11 | \$159.18 |
| Choice-Select Spread, 600-750 lb. carcass | \$4.90 | \$4.22 | \$34.59 |