

# Risk Management for Livestock Producers

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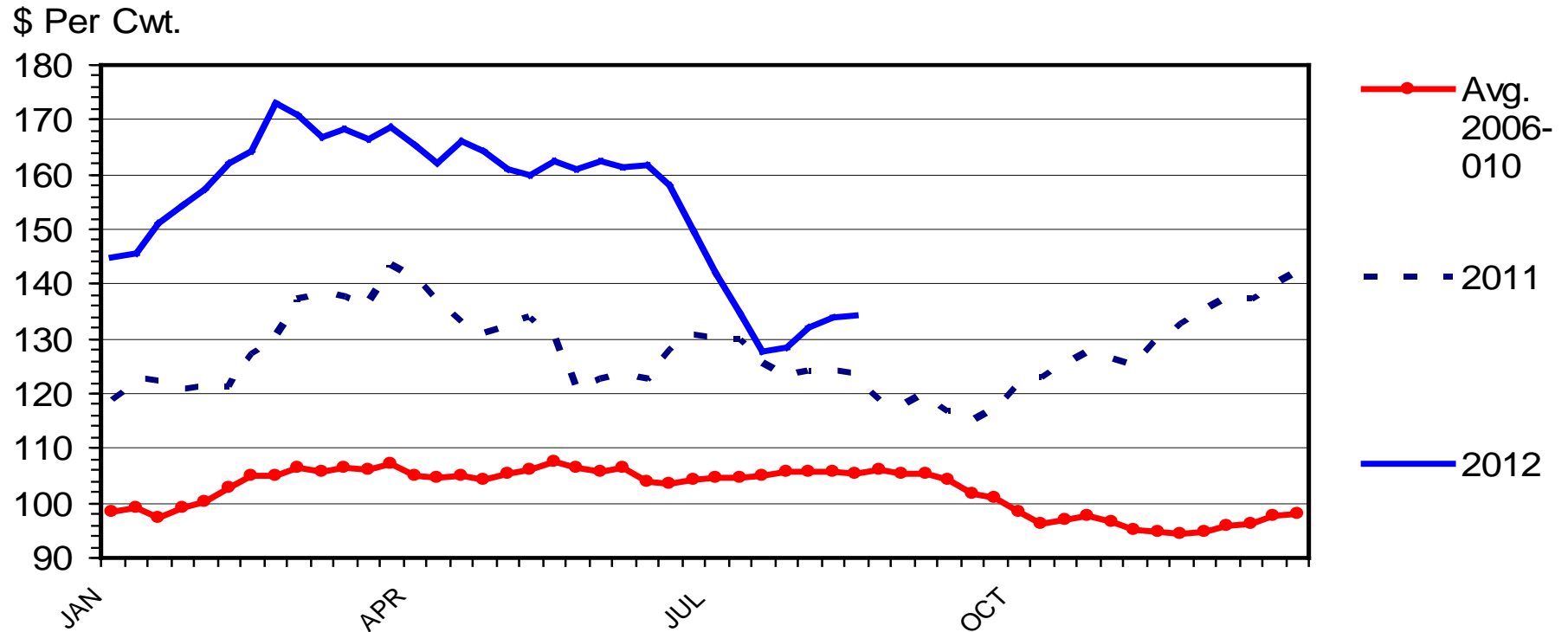
# Let's talk about risk

- It is NOT uncertainty!
- It is the negative outcome associated with an unforeseen event.
- Good risk managers
  - Know the odds
  - Don't risk a lot to make a little.
  - Don't risk more than they can afford lose.



# MED. & LRG. #1 & 2 STEER CALF PRICES

500-600 Pounds, Georgia, Weekly



# Managing Risk in Agriculture

- What Is Your Goal?
  - Protect Profits
  - Protect Equity
  - Protect the Farm
- Available Risk Management Alternatives
  - LRP
  - Rainfall Index Insurance

# Using Livestock Risk Protection (LRP) insurance to set a floor price



# LRP Is Price Risk Protection

- Establishes A Floor Selling Price For Livestock
- Pays Producers If A Regional/National Cash Price Index Falls Below A Set Price
  - Does Not Guarantee A Cash Price Received
  - Basis Risk Must Still Be Considered
- Covers Feeder Cattle, Fed Cattle, & Swine

# GA LRP BASIS, 2010-2012

## Comparison of 500-600 pound Steers and CME FC Index



# What is LRP

- LRP can be viewed as “Price Insurance”
- LRP Is A Risk Management Tool
  - Protects Against Catastrophic Price Declines
  - NOT Designed To Enhance Profit
- Calculate Premium Cost As Part Of Breakeven For Livestock
  - Cheaper When Prices Are High
  - Premiums Increase As Prices Decline



# Key Points

- All Owners Of Eligible Livestock In LRP States
- Once Enrolled, Producers Have The Right *But Not The Obligation* To Purchase Coverage
- Coverage Obtained With A Specific Coverage Endorsement (SCE)
- Livestock Has To Be In Eligible State
  - Owners Can Be In Other States

# Insurance Agents

- Available Through Crop Insurance Agent System
- Agent Locator Tool On USDA Website
- <http://www3.rma.usda.gov/apps/agents/>



# Eligible Cattle

- Feeder Cattle
  - Feeder Steers, Bulls, & Heifers < 600 lbs
  - Feeder Steers & Heifers From 600-900 lbs
  - Includes Dairy & Brahman Breeds
- Fed Cattle
  - Steers & Heifers
  - Select Or Higher, Yield Grade 1-3
  - Weight: 1,000-1,400 lbs.



# Coverage Availability

- Coverage Available About 5pm To 9am CST
  - Available Sat Mornings Until 9am, But Not Sun, Mon, & Holidays
- Coverage Initiated With Specific Coverage Endorsement (SCE)
  - No Limit On Number Of SCEs
- Producers Have Flexibility On The:
  - Timing Of Purchase
  - Time Length Of The SCE
  - Number Of Head Covered

# Limitations On Number Of Head Insured

	Fed Cattle	Feeder Cattle
Per Specific Coverage Endorsement	2,000	1,000
Per Crop Year July 1-June 30	4,000	2,000

# LRP Compared to Hedging or Options

- Advantages
  - No need to establish brokerage accounts
  - Can insure animals on individual basis
  - “Guaranteed” availability for price protection for far-off futures contracts
- Disadvantages
  - Paperwork can take a while
  - Available only for animals in certain states
  - Can’t “lock-in” a price
  - Can’t exercise or “sell back” contract if market goes up

**LRP Coverage Prices, Rates, and Actual Ending Values - Report for 04/03/2012**

\* See notes at bottom of page

State	County	Endorsement Length	Commodity	Type	Practice	Crop Year	Exp. End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date	Actual End Value
13 Georgia	998 All Counties	13	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	150.224	\$146.920	0.978000	0.022543	3.312	07/03/2012	148.690
13 Georgia	998 All Counties	13	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	150.224	\$144.920	0.964700	0.017423	2.525	07/03/2012	148.690
13 Georgia	998 All Counties	13	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	150.224	\$142.920	0.951400	0.013231	1.891	07/03/2012	148.690
13 Georgia	998 All Counties	13	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	150.224	\$140.920	0.938100	0.009928	1.399	07/03/2012	148.690
13 Georgia	998 All Counties	13	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	150.224	\$138.920	0.924800	0.007026	0.976	07/03/2012	148.690
13 Georgia	998 All Counties	13	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	150.224	\$128.920	0.858200	0.001784	0.230	07/03/2012	148.690
13 Georgia	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	151.011	\$147.710	0.978100	0.025868	3.821	07/31/2012	135.100
13 Georgia	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	151.011	\$145.710	0.964900	0.020822	3.034	07/31/2012	135.100
13 Georgia	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	151.011	\$143.710	0.951700	0.016547	2.378	07/31/2012	135.100
13 Georgia	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	151.011	\$141.710	0.938400	0.013020	1.845	07/31/2012	135.100
13 Georgia	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	151.011	\$139.710	0.925200	0.009763	1.364	07/31/2012	135.100
13 Georgia	998 All Counties	17	0801 Feeder Cattle	810 Steers Weight 2	997 No Practice Specified	2012	151.011	\$129.710	0.858900	0.003269	0.424	07/31/2012	135.100

# Summary

- LRP is a relatively new price risk management tool available to cattle producers
- It is price insurance not enhancement
- To be eligible cattle must be located in one of the program states
- More information is available at:  
[http://www3.rma.usda.gov/apps/livestock\\_reports/](http://www3.rma.usda.gov/apps/livestock_reports/)







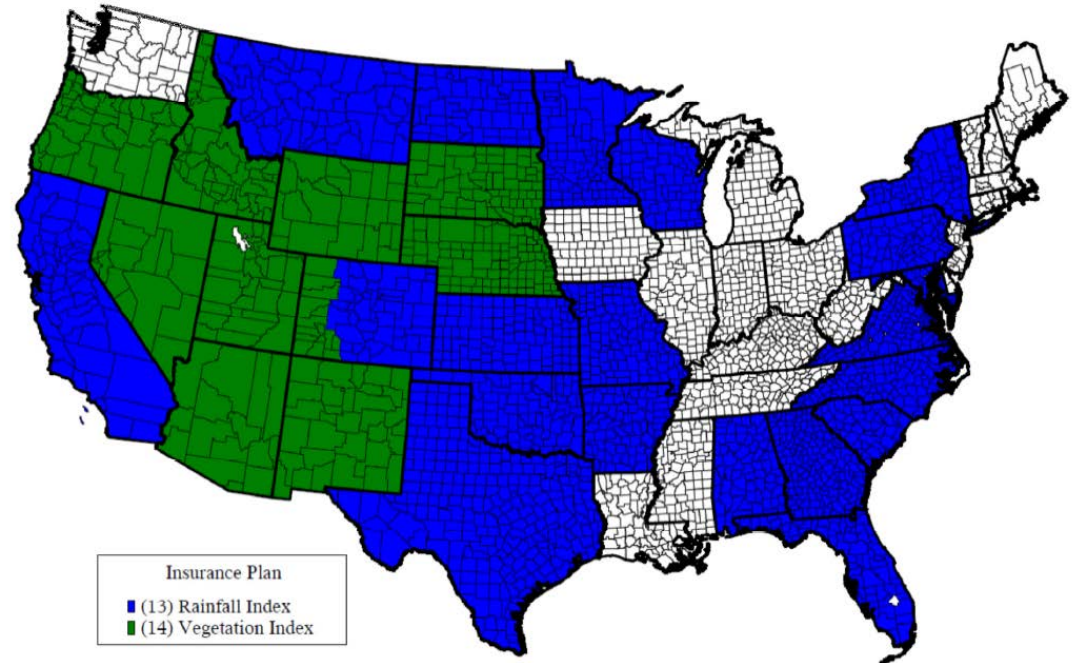
Production/Financial Risk Management

# RAINFALL INDEX INSURANCE

# Rainfall Index Insurance

2012 and Succeeding Crop Years - Pasture, Rangeland, Forage Availability

- New for 2012 in select states and counties.
- Based on a rainfall **index** as calculated by NOAA.
- Producers insure a grid-area = .25 degrees latitude X .25 degrees longitude → approximately 12 mi. X 12 mi.
- Producers insure for specific 2-month time periods



# Rainfall Index Insurance

- Participants choose PRODUCTION levels from 70-90% and PAYMENT levels from 100-150%.
- Indemnity triggers when your GRID rainfall index falls below your coverage level.





# Pasture Insurance on 100 Acres in 2012

Index Interval	Percent of Value (%)	Policy Protection per Unit	Premium Rate per \$100	Total Premium	Premium Subsidy	Producer Premium	Actual Index Value	Indemnity
<u>Jan-Feb</u>	50	\$1,870	9.91	\$185	\$94	\$91	52.0	\$790
<u>Feb-Mar</u>	N/A	\$0	11.03	\$0	\$0	\$0	48.2	\$0
<u>Mar-Apr</u>	N/A	\$0	13.48	\$0	\$0	\$0	48.0	\$0
<u>Apr-May</u>	50	\$1,870	15.51	\$290	\$147	\$143	51.8	\$794
<u>May-Jun</u>	N/A	\$0	14.54	\$0	\$0	\$0	75.0	\$0
<u>Jun-Jul</u>		\$0	14.13	\$0	\$0	\$0	94.1	\$0
<u>Jul-Aug</u>		\$0	12.50	\$0	\$0	\$0	96.0	\$0
<u>Aug-Sep</u>		\$0	14.00	\$0	\$0	\$0	86.5	\$0
<u>Sep-Oct</u>		\$0	19.29	\$0	\$0	\$0	77.4	\$0
<u>Oct-Nov</u>		\$0	19.40	\$0	\$0	\$0	49.7	\$0
<u>Nov-Dec</u>		\$0	14.20	\$0	\$0	\$0	93.3	\$0
Per Acre	N/A	N/A	N/A	\$4.75	\$2.41	\$2.34	N/A	\$15.84
Policy Total	100	\$3,740	N/A	\$475	\$241	\$234	N/A	\$1,584

County Base Value	\$41.56
Dollar Amount of Protection	\$37.40
Total Insured Acres	100
Total Policy Protection	\$3,740
Subsidy Level	51%
Maximum Percent of Value per Index Interval	50.0%

Calculate

# Hay Insurance on 100 Acres in 2012

Index Interval	Percent of Value (%)	Policy Protection per Unit	Premium Rate per \$100	Total Premium	Premium Subsidy	Producer Premium	Actual Index Value	Indemnity
<u>Jan-Feb</u>	50	\$7,790	9.91	\$771	\$393	\$378	52.0	\$3,289
<u>Feb-Mar</u>	N/A	\$0	11.03	\$0	\$0	\$0	48.2	\$0
<u>Mar-Apr</u>	N/A	\$0	13.48	\$0	\$0	\$0	48.0	\$0
<u>Apr-May</u>	50	\$7,790	15.51	\$1,208	\$616	\$592	51.8	\$3,306
<u>May-Jun</u>	N/A	\$0	14.54	\$0	\$0	\$0	75.0	\$0
<u>Jun-Jul</u>		\$0	14.13	\$0	\$0	\$0	94.1	\$0
<u>Jul-Aug</u>		\$0	12.50	\$0	\$0	\$0	96.0	\$0
<u>Aug-Sep</u>		\$0	14.00	\$0	\$0	\$0	86.5	\$0
<u>Sep-Oct</u>		\$0	19.29	\$0	\$0	\$0	77.4	\$0
<u>Oct-Nov</u>		\$0	19.40	\$0	\$0	\$0	49.7	\$0
<u>Nov-Dec</u>		\$0	14.20	\$0	\$0	\$0	93.3	\$0
Per Acre	N/A	N/A	N/A	\$19.79	\$10.09	\$9.70	N/A	\$65.95
Policy Total	100	\$15,580	N/A	\$1,979	\$1,009	\$970	N/A	\$6,595

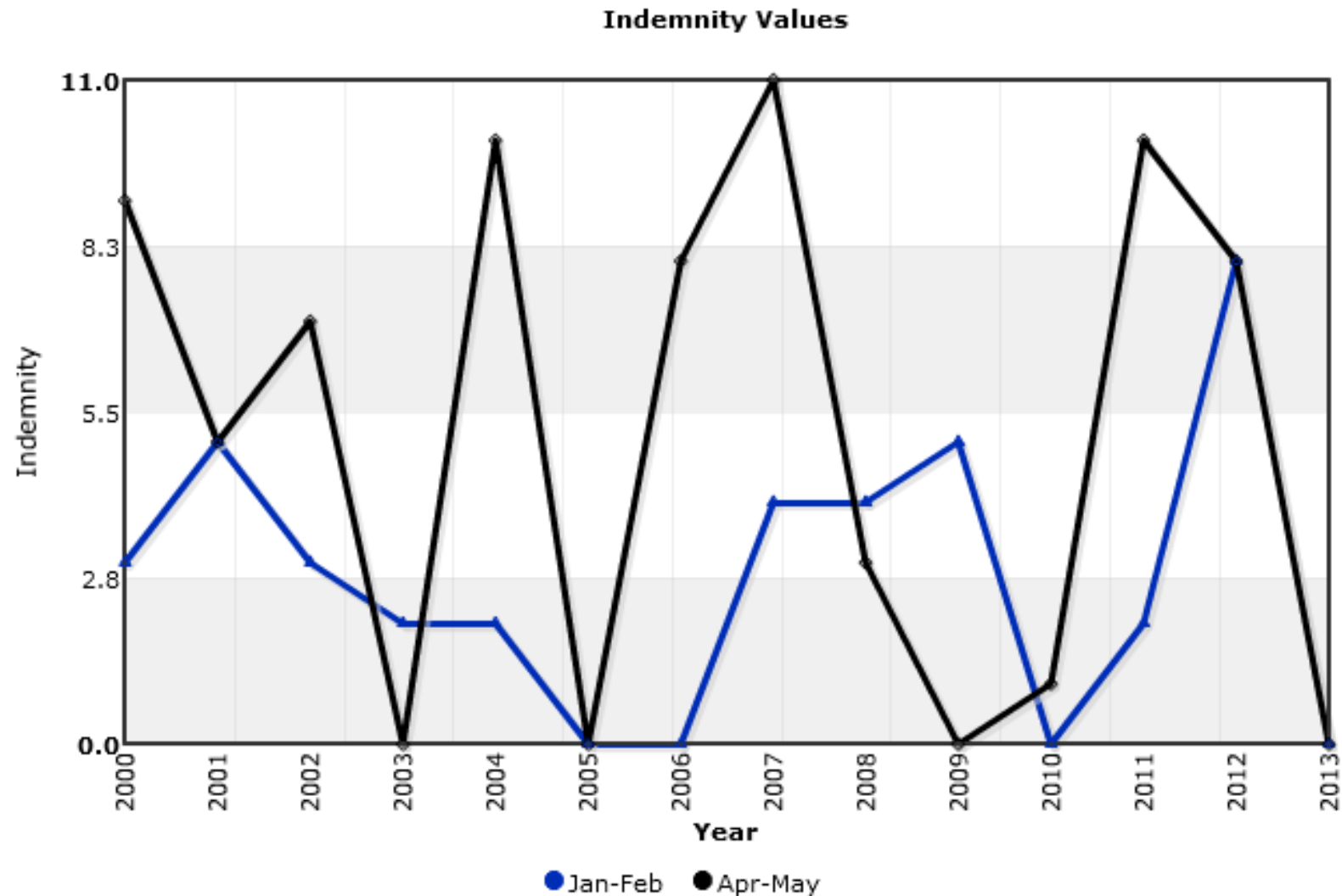
County Base Value	\$173.10
Dollar Amount of Protection	\$155.79
Total Insured Acres	100
Total Policy Protection	\$15,580
Subsidy Level	51%
Maximum Percent of Value per Index Interval	50.0%

Calculate

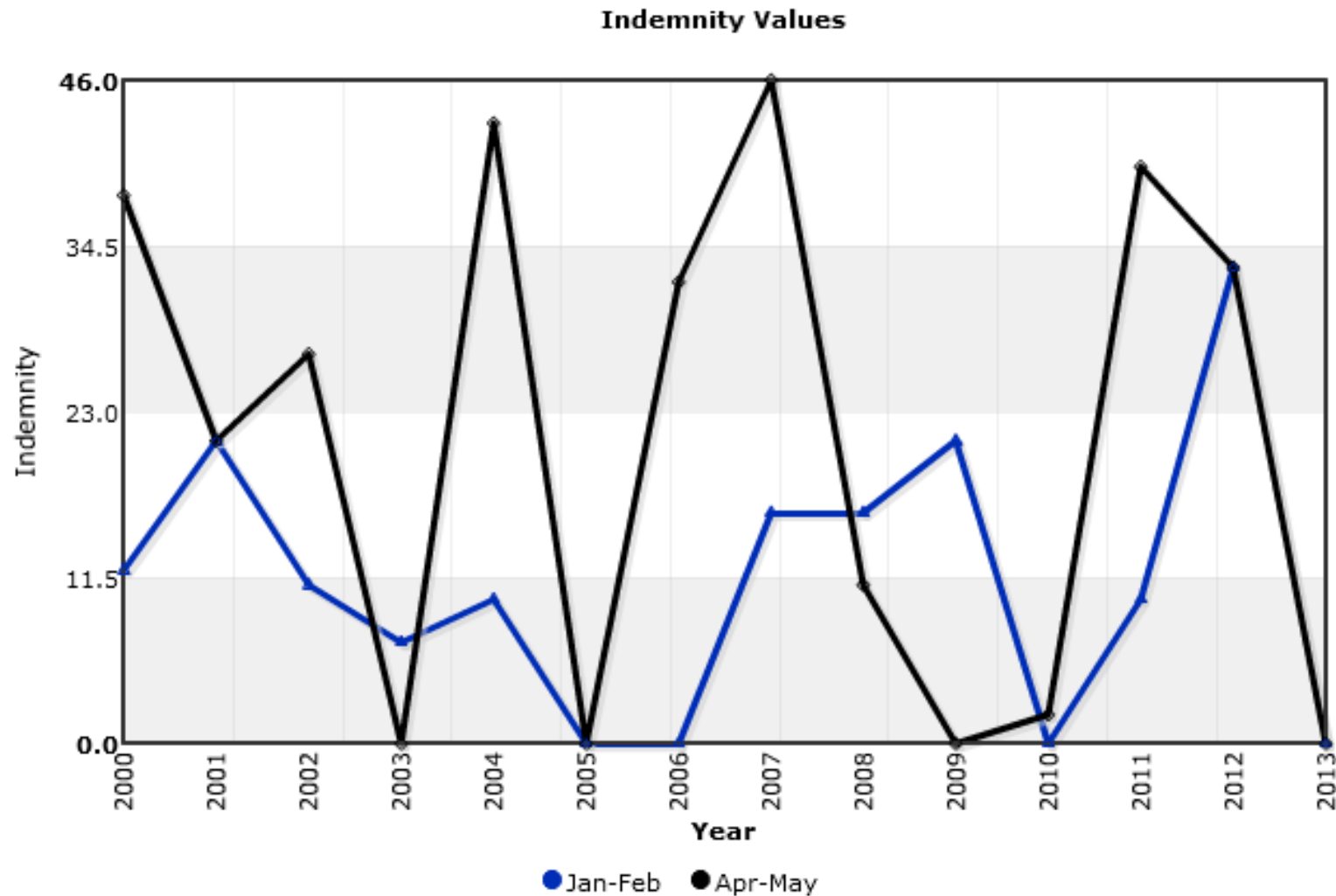
# History of Rainfall Index

Year	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-Jul	Jul-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec
2013	128.9	110.4	90.2	106.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2012	52	48.2	48	51.8	75	94.1	96	86.5	77.4	49.7	93.3
2011	78.6	118.7	113.7	43.6	51.5	58.4	41.1	44.7	83.4	106.6	92.3
2010	116.6	72.3	50.5	87.2	122.5	87.1	110.9	158.4	104.5	65.6	79.7
2009	66.1	119.6	141.8	109.9	78.5	49.7	86.7	215.5	285.2	209	190.3
2008	71.3	78.6	74.7	76.9	56.6	75.8	100.6	70.9	93.7	113.4	89.7
2007	71.5	62.4	56.4	36.6	41.5	66.8	64.1	32.8	41.3	61.6	97.5
2006	100.1	80.3	54.4	52.9	58.5	68.2	86.8	106.4	105.9	95.8	88.2
2005	91.6	118.3	129.1	119.6	127.6	167	160.2	79	55.4	100.6	97.6
2004	78.6	57.3	22.7	40.3	99.7	107.2	83.7	203.9	181	127.5	137.1
2003	81.4	102.7	90.5	147.9	181.4	183.3	161	81.7	59.1	66.2	68.2
2002	77.5	61.6	60	58.3	81.3	68.2	40.1	109.5	153.7	126.5	131
2001	65.2	123.3	115.8	65.3	109.3	154.1	106.3	35.6	29.6	13.9	29.8
2000	76.5	55.6	58	45.8	45.1	48.6	74.1	122.2	77.2	64.7	95
Count	10	8	8	10	8	8	7	7	7	6	5
Obs	<a href="#">14</a>	<a href="#">13</a>	<a href="#">13</a>	<a href="#">13</a>	<a href="#">13</a>	<a href="#">13</a>	<a href="#">13</a>	<a href="#">13</a>	<a href="#">13</a>	<a href="#">13</a>	<a href="#">13</a>
Percentage	71.43%	61.54%	61.54%	76.92%	61.54%	61.54%	53.85%	53.85%	53.85%	46.15%	38.46%
Average Amt Below	18.1	25.5	36.9	34.1	29.0	24.7	21.9	32.6	32.3	35.6	18.9
Expected % Below	12.95	15.67	22.72	26.25	17.85	15.17	11.80	17.53	17.41	16.43	7.26

# History of Indemnities for Grazing



# History of Indemnities for Grazing





# Risk Management Strategies

- No One Alternative Protects Against Everything
  - Understand Your Risks!
  - Know Your Operation
- Combining Risk Management Alternatives
  - Comprehensive
  - Requires Knowledge of Different Alternatives
- Keep it Simple

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Cattle market, production management, and risk management information service provided to cattle ranchers by an Extension Team from the University of Georgia, Auburn, Florida, and Clemson.

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## COW – On Farm Hay Stocks Historically Low

July 20, 2013, Dr. Curt Lacy in Economic, Forage / Weed Management, Marketing, Newsfeed

Leave a comment Edit



Dr. Curt Lacy (UGA) Recently USDA released the May 1 Hay Stocks numbers. This is an important statistic because it gives an idea of the ending hay inventory for the US. The next hay statistic that will be reported is the December 1 Hay Stocks which provides an estimate of the hay stocks entering winter. [...]

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