Extension Service
West Virginia University

Beef Cattle Price Insurance

Tom McConnell, *Extension Farm Management Specialist* October 2004

A new crop insurance product that allows beef farmers to buy protection against declining market prices of yearling and fed cattle became available in West Virginia Sept. 30. The product, called Livestock Risk Protection (LRP), will allow farmers to buy protection at different coverage levels and periods of insurance to correspond with the time their feeder cattle would normally be marketed.

Small producers may buy price insurance coverage for a certain predetermined price called the "expected end value." Producers may choose various coverage levels and premiums. An indemnity payment will be collected if the "actual end value" is lower than the "expected end value" posted on the Web at the beginning of the contract. The actual end value is really the Feeder Cattle Cash Price Index as determined by the U.S. Department of Agriculture's (USDA) Livestock Marketing Division and reported by the Chicago Mercantile Exchange. The Feeder Cattle Cash Price Index is a weighted average of the largest and most important markets in the United States. What we don't know is how our local markets follow this market price average.

The other interesting feature of this policy is that the producer's actual market outcome has no bearing on the indemnity payment. Unlike other crop insurance policies, this product may be purchased continuously throughout the year from approved livestock insurance agents. Crop policies, premium rates, coverage prices, and actual ending values are posted online daily. Electronic links and other general information may be found on the WVU farm/risk management Web site (www.wvu.edu/~agexten/).

Cattle producers, through their approved insurance agent, submit a one-time application for LRP-Feeder coverage. After being accepted, each farmer may insure up to 2,000 head of feeder cattle under several "mini" contracts, called Specific Coverage Endorsements. This feeder cattle policy insures cattle weighing up to 900 pounds at the end of their insurance period. This policy will cover yearlings, calves, heifers, dairy cattle, and predominantly Brahman cattle. The calf policy is a bit of a surprise because most insiders thought that they would be excluded. This will give a real boost to West Virginia's 13,500 beef farmers, most of whom raise feeder calves.

Once insured in a LRP state, cattle can be fed in non-LRP states. Each group of cattle may be insured for between 13 and 52 weeks. Currently, cattle and calves can be insured for the coverage price established by the Risk Management Agency of the USDA for only about 240 days. That is because the mechanism used by the RMA to establish the "expected end value" does not have sufficient real-time market activity to allow it to reliably establish an expected end value farther into the future than that.

The RMA mechanism uses a formula that pools price information from the Futures and Options markets. This means that a beef farmer in West Virginia may insure his "next year's" calf crop just about as soon as they are born; in fact, no calf can be insured before it is born.

Following is a simplified explanation of how the program works. The producer contacts his or her approved agent to discuss buying price protection. He or she decides on an end weight and a sale date. Next, the producer accesses the RMA Web site to learn the expected end value and the extended coverage levels and checks on what the premiums will be. Historically, premiums have been between 80 cents per cwt and $2 dollars per cwt. For some price options, the premium has topped $3 per cwt.

If the producer decides to buy, the agent will conduct the transaction and collect the premium. At market, the producer and agent can access the RMA Web site and determine just what the Feeder Cattle Cash Index is on that day. If the actual is lower than the expected end value, then the producer will collect an indemnity payment.

The USDA subsidizes the premiums, which are considered as allowable expenses by the Internal Revenue Service.

Programs and activities offered by the West Virginia University Extension Service are available to all persons without regard to race, color, sex, disability, religion, age, veteran status, political beliefs, sexual orientation, national origin, and marital or family status. Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Director, Cooperative Extension Service, West Virginia University. West Virginia University is governed by the Board of Trustees of the University System of West Virginia.