

Livestock Risk Protection Fact Sheet



1. Pennsylvania Crop Insurance Webinars

The objective of the Pennsylvania Crop Insurance Webinar series is to help Pennsylvania farmers and ranchers manage risk and understand a variety of crop insurance products as well as livestock plans to make informed insurance decisions.

2. Pennsylvania Livestock Risk Protection for Lambs – Scheduled for May 9, 2019

Webinar objectives:

- Provide participants with information on Livestock Risk Protection for Lambs to help manage their risk.
- Review the Federal Crop Insurance structure as it relates to a livestock policy.
- Engage the services of a Livestock insurance agent.

3. The Insured Lamb Commodity

Livestock Risk Protection (LRP) Lamb insurance protects lamb producers against a decline in prices below the established coverage price. An indemnity is paid if the weekly settlement value is less than the expected price for a specific coverage level. The weekly settlement value is a

five-week average (current week and previous four weeks) of actual national weekly average slaughter lamb prices using weekly “calculated formula live prices”. The price that the producer receives for their own lambs is not part of the calculations.

Farmers may choose from a variety of coverage levels and insurance periods that match general feeding, production and marketing practices.

The lambs covered under the policy are feeder or slaughter lambs that are currently owned and already born.

By the ending period, the insured lambs are expected to weigh between 50 and 150 pounds and be of an age that qualifies for the USDA/Agriculture Marketing Services grade standards definition of live lambs.

4. Coverage Availability

Any producer who owns lambs in the following 28 states is eligible for LRP-Lamb coverage: Arizona, California, Colorado, Iowa, Idaho, Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, Nevada, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Dakota, Texas, Utah, Virginia, Wisconsin and Wyoming.

5. LRP-Lamb Sales

LRP-Lamb will be offered for sale each week following the posting of rates Monday morning through 7:00 PM cst. When Monday falls on a federal holiday, LRP-Lamb will be offered on Tuesday during the same hours.

Insurance coverage prices and rate estimates may be available for review beginning on the previous Friday evening. However, rates and coverage values may be modified prior to sales beginning on Monday morning. Final rates and coverage values may differ somewhat from the previously posted estimates.

6. Endorsement Length and Coverage Levels

Farmers can purchase as little as 80 percent coverage and as much as 95 percent coverage of the price in 5 percent increments. Coverage prices will be listed for each coverage level for each of the endorsements during the sales period each week.

Insurance is offered for 13, 26, or 39-week periods. The time closest to the time the lambs will be marketed should be chosen.

7. Subsidy (Premium Discount)

Subsidy, or premium discount, is based on the endorsement length. If the 13-week endorsement length is chosen the subsidy factor is 0.200, 26-week endorsement is 0.350, and lastly, the 39-week endorsement is 0.380.

8. Coverage Prices and Rates

The LRP Coverage Prices, Rates and Actual Ending Values report are released in the weekly actuarial documents found on the RMA website for the LRP program. The report can be found at the following RMA website:

<https://www.rma.usda.gov/Information-Tools/Livstock-Reports>

Coverage prices change weekly and must be referred to at the time of sale for each endorsement.

Refer to the report: the farmer must first determine the endorsement length that best fits their operation (13, 26, or 39 weeks). Once the endorsement length is determined, focus on the Expected End Value column. This is the expected end value at the end of the endorsement period. The expected end value is a live weight value and is used in calculations on a dollars per hundredweight basis to determine coverage prices. Choose the corresponding

coverage level (95, 90, or 85) for each endorsement length that best fits your risk. The rate is used to calculate the premium. The Actual End Value will be filled in based on the price at the end of the insurance period.

If the Actual End Value Is LESS than the Expected End Value, an indemnity will be paid for the difference between the Expected Price and Actual Ending Value.

The farmer must remember that the Actual End Value has nothing to do with the price the farmer gets at market or slaughter.

This price series is found in the AMS "NATIONAL WEEKLY SLAUGHTER SHEEP REVIEW" (AMS Report Number: LM_LM352). This price series can also be found on the AMS website at www.ams.usda.gov/mnreports/lm_lm352.txt, or a successor website. The reports used to calculate the actual ending value will be a simple moving average of the prices from these five reports published each of the four preceding weeks leading up to and including the end date for the Specific Coverage Endorsement that contains the Friday report on or just prior to the end date.

9. Application Process

An application is required to purchase LRP coverage. The application establishes eligibility and identifies the insured and the classes of livestock or livestock product to be insured. Insurance coverage does not attach to the application until the farmer submits a Specific Coverage Endorsement.

10. Coverage Limitations

The LRP policy does not cover any other peril except change in price. Perils not covered include mortality, condemnation, physical damage, disease, individual marketing decisions or local price aberrations.

Applications or Specific Coverage Endorsements will not be approved if:

- The RMA website (or premium calculator) is not operational
- The data used for establishing rates or coverage prices are not available because futures did not trade, insufficient trading volume, or rates or coverage prices are not timely provided to RMA
- A news report, announcement or other event that occurs during or after trading hours that result in market conditions significantly different than those used to rate the LRP-Lamb program

- Sales are suspended or terminated for insufficient capacity as determined by RMA
- CME market settlement information, for at least four of the relevant CME futures contracts have a daily price change equal or exceeding the Daily Price Limit for two consecutive days

11. Specific Coverage Endorsement (SCE)

The Specific Coverage Endorsement (SCE) is used to initiate LRP coverage for a specific group of lambs to be slaughtered on or near the end date of the endorsement. A producer may have multiple endorsements.

A limitation of 2,000 head of lambs may be insured under any one endorsement.

The annual limitation of the number of head of lambs that may be covered during the crop year is 28,000 head. For the insured entity, the number of insured lambs will be totaled and may not be more than 28,000 head. The Substantial Beneficial Interest form will be used to determine the total head insured by any individual. For example, Smith Farms has 2,000 head insured under LRP. John Smith has a substantial beneficial interest in Smith Farms and has 90 percent interest ($2,000 * .90 = 1,800$ head). John Smith also has lambs under his own name and wants to insure 1,000 head. The total lambs insured by John Smith are: $1,800 + 1,000 = 2,800$ head which is below the crop year limit of 28,000 head.

Premium must be paid on the day LRP-Lamb coverage insurance is purchased for coverage to be provided.

12. Cost Example

Assume the following:

- Adams County, Pennsylvania
- Endorsement Length – 26 weeks
- Target weight – 1.25
- Number of head covered – 1000
- Ownership share – 1.000

The insured value = number of head multiplied by the target weight (live weight in hundredweight) multiplied by the coverage price multiplied by insured share. The insured value is rounded to to the nearest whole dollar.

- $1000 \text{ head} \times 1.25 \text{ target weight} \times \$144.28 \text{ coverage price} \times 1.000 \text{ insured share} = \$180,346$ at the 95% coverage level.

The total premium = insured value multiplied by the rate. Total premium is rounded to the nearest whole dollar.

- $\$180,346 \text{ insured value} \times 0.042720 \text{ rate} = \$7,704$ at the 95% coverage level.

The subsidy (premium discount) = total premium multiplied by the subsidy rate. The subsidy depends on the endorsement length and is rounded to the nearest whole dollar.

- $\$7,704 \text{ total premium} \times 0.350 \text{ subsidy based on the 26 week endorsement length} = \$2,696$ for the 95% coverage level.

The producer premium = total premium – subsidy.

- $\$7,704 \text{ total premium} - \$2,696 \text{ subsidy} = \$5,008$ producer premium for the 95% coverage level.

13. Indemnity Example

Assume the following:

- 1000 head of lamb
- Target weight of 1.25 cwt
- 1.000 insured share
- Coverage price of \$144.28
- Actual ending value of \$138

Indemnity calculation example for 95% coverage level:

- $1000 \text{ head} \times 1.25 \text{ cwt target weight} = 1,250 \text{ cwt}$
- $\$138 \text{ actual ending value} - \$144.28 \text{ coverage price} = \$6.28/\text{cwt}$
- $1,250 \text{ cwt} \times \$6.28/\text{cwt} = \$7,850$
- $\$7,850 \times 1.000 \text{ insured share} = \$7,850$ indemnity payment

14. Important LRP-Lamb Dates

- Cancellation Date – 6/30
- Termination Date – 6/30
- Contract Change Date – 4/30

15. Get Covered: Find an Agent

A livestock insurance agent is your local expert and best resource on how, when, and what kind of livestock insurance coverage to add to your risk management toolkit.

Livestock insurance is available through independent insurance agents licensed in your state. Most Federal crop insurance agents also offer private crop-hail and other named peril policies. If you need an agent, review the Risk

Management Agency's Agent Locator

(<https://bit.ly/2sohz1f>).

16. View the Recorded Webinar

A recording of this Pennsylvania LRP-Lamb webinar will be viewable after the live presentation concludes. To view the recording, visit

<https://cropinsuranceinamerica.org/pennsylvaniacropinsurance-webinars/>