

Livestock Risk Protection-Lamb: New Insurance Program to Help Ranchers Manage Lamb Price Risk

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USDA's Risk Management Agency (RMA) is offering a new federally subsidized Livestock Risk Protection-Lamb (LRP-Lamb) insurance program, starting Fall '07, to help livestock producers manage lamb price risk. This insurance program is very similar to the Livestock Risk Protection (LRP) insurance for feeder cattle which has been available for four years.

According to USDA's Risk Management Agency (RMA), this Livestock Risk Protection-Lamb insurance program is designed to insure against unexpected declines in lamb market prices. Sheep producers in 27 states (see figure 1) may select from a variety of coverage levels and periods of insurance to correspond with general lamb feeding, production, and marketing practices.



While the LRP-Lamb program's price protection is centered around slaughter lamb prices, the program covers both lambs that are sold directly off pasture or finished in a feedlot. Policies may be purchased weekly (on Monday only; 10:00 AM through 7:00 PM C.S.T.) throughout the year from approved livestock insurance agents. Premium rates, coverage prices, and actual ending values are posted online weekly.

LPP-Lamb Concepts

The program's concept is to establish a price floor for lambs, 13, 26 and 39 weeks prior to

when the lambs are sold or slaughtered. Producers may buy an LRP-Lamb insurance contract only on the number of head they actually want to insure.

The LRP-Lamb insurance contract does not guarantee the producer a cash price, but insures against a decline in national slaughter lamb prices below an established coverage price. USDA-RMA uses prices published each Friday in the National Weekly Slaughter Sheep report at www.ams.usda.gov/mnreports/lm_lm352.txt to predict the expected price of lambs 13, 26 and 39 weeks in the future. If, at the end date of coverage, actual ending values based upon the weekly average prices for “Formula Live Lambs” are less than the selected coverage price, producers will have 60 days to file an indemnity claim.

Other LRP-Lamb Requirements

- Lamb target weights refer to the average anticipated weights of covered lambs at the end of an insurance period.
- Lamb insurance is offered for 13, 26, and 39 week periods (endorsement length). Producers are expected to select an endorsement length closest to the time lambs are to be marketed or slaughtered.
- Producers must apply for LRP-Lamb insurance coverage through a crop insurance agent who is authorized to sell LRP. A Substantial Beneficial Interest Reporting Form must be submitted with the application to identify any entity that has at least a 10 percent share in the lambs.
- Once an application for coverage is approved, a producer may activate coverage at any time by applying for a Specific Coverage Endorsement, i.e., insurance coverage for a specific group of lambs to be marketed/slaughtered at or near the end date of the endorsement.
- Each Specific Coverage Endorsement, i.e., each policy, is limited to 7,000 head of lambs and no more than 28,000 head per entity may be covered in any crop year (July 1 through June 30).
- Coverage prices are the prices that can be insured by a producer and range from 80 to 95 percent of expected ending values in 5 percent increments.
- Coverage prices are also used to calculate the total insured value of the lambs.
- Premium is due on the day LRP-Lamb insurance is purchased.

Table 1 provides partial replica of LRP-Lamb Expect End Values, Texas Coverage Prices and Rates posted on 12/10/07.

Example: An operation has 100 head of lambs and expects to market the lambs in 13 weeks

at a target average weight of 1.3 cwt, for a total of 130 cwt (100 head times 1.3 cwt). The insured share is 100 percent. The expected ending value (price/cwt) is \$111.13 per live cwt (see column 3, Table 1). The producer selects a coverage price of \$88.90/cwt (80% of projected coverage price for a 13 week period; line 4, columns 4 and 5, Table 1). For this coverage price the premium rate is 0.00077/lb or 0.068/cwt (\$88.90 cwt times 0.00077). The premium subsidy is 13 percent. Premium calculation:

- Total end target weight of 130 cwt multiplied by the coverage price of \$88.90 equals \$11,557.
- \$11,557 times the insured share of 1.00 equals an insured value of \$11,557.
- \$11,557 times the rate of 0.00077 equals \$8.90 of total premium.
- \$8.90 multiplied by the producer premium subsidy percentage of 0.13 equals \$1.16.
- Subtracting \$1.16 from \$8.90 equals the producer premium of \$7.74.

Assume that at the end of the 13 weeks, the actual ending value is equal to \$80 per cwt. Since \$80 is less than the coverage price of \$89.90, an indemnity is due. Indemnity is calculated by:

- Subtracting the actual ending value of \$80 from the coverage price of \$89.90 equals \$9.90/cwt.
- Multiplying 130 cwt. by \$9.90/cwt. equals \$1,287.

Endorsement Length	Crop Year	Expected End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date
13	2008	111.130	\$105.570	0.950000	0.019970	2.108	3/10/2008
13	2008	111.130	\$100.020	0.900000	0.007840	0.784	3/10/2008
13	2008	111.130	\$94.460	0.850000	0.002630	0.248	3/10/2008
13	2008	111.130	\$88.900	0.800000	0.000770	0.068	3/10/2008
26	2008	117,130	\$111.270	0.950000	0.036440	4.055	6/9/2008
26	2008	117,130	\$105.420	0.900000	0.019820	2.089	6/9/2008
26	2008	117,130	\$99.560	0.850000	0.010140	1.010	6/9/2008
26	2008	117,130	\$93.700	0.800000	0.004970	0.466	6/9/2008
39	2008	110.570	\$105.040	0.950000	0.047820	5.023	9/8/2008
39	2008	110.570	\$99.510	0.900000	0.028840	2.870	9/8/2008
39	2008	110.570	\$93.980	0.850000	0.016510	1.552	9/8/2008
39	2008	110.570	\$88.460	0.800000	0.008990	0.795	9/8/2008

For more information on coverage prices, rates and actual ending values, go to

http://www3.rma.usda.gov/apps/livestock_reports/ Remember: LRP-Lamb prices, rates and actual ending values are only posted on Monday.