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

Overview

- USDA's Risk Management Agency (RMA) is offering a new federally subsidized Livestock Risk Protection-Lamb (LRP-Lamb) insurance program.
- The program began in the Fall of 2007 to help livestock producers manage lamb price risk.
- The LRP-Lamb insurance program is designed to insure against unexpected declines in lamb market prices.
- Sheep producers in 27 states 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 a.m. through 7:00 p.m. CST) throughout the year from approved livestock insurance agents.
- Premium rates, coverage prices, and actual ending values are posted online weekly.

LRP-Lamb Concepts

- 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.
- Coverage is purchased on a specific number of head, with a target weight per head identified by the producer.

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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, that is, insurance coverage for a specific group of lambs to be marketed or slaughtered at or near the end date of the endorsement.

Other LRP-Lamb Requirements *cont.*

- Each Specific Coverage Endorsement, or 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. They 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.
- The premium is due on the day LRP-Lamb insurance is purchased.

Example: LRP-Lamb Insurance Policy

An operation has 100 head of lambs and expects to market them 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. The producer selects a coverage price of $88.90 per cwt (80 percent of projected coverage price). For this coverage price the premium rate is 0.00077 per pound or 0.068 per cwt ($88.90 per cwt times 0.00077). The premium subsidy is 13 percent. The premium calculated as follows:

- 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 premiums.
- $8.90 multiplied by the producer premium subsidy percentage of 0.13 equals $1.16.
- Subtracting $1.16 from $8.90 equals the total producer premium of $7.74 for insuring the price of 100 lambs in this example.

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 $88.90, an indemnity is due. Indemnity is calculated by:

- Subtracting the actual ending value of $80 from the coverage price of $88.90, which equals $8.90 per cwt.
- Multiplying 130 cwt by $8.90 per cwt, which equals $1,157.

Table 1. Partial replica of LRP-Lamb expected end values, Texas coverage prices and rates, 12/10/07

Endorsement Length	Crop Year	Expiration End Value	Coverage Price	Coverage Level	Rate	Cost Per CWT	End Date
13	2008	111.130	$105.570	0.950000	0.019970	2.108	03/10/2008
13	2008	111.130	$100.020	0.900000	0.007840	0.784	03/10/2008
13	2008	111.130	$94.460	0.850000	0.002630	0.248	03/10/2008
13	2008	111.130	$88.900	0.800000	0.000770	0.068	03/10/2008
26	2008	117.130	$111.270	0.950000	0.036440	4.055	06/09/2008
26	2008	117.130	$105.420	0.900000	0.019820	2.089	06/09/2008
26	2008	117.130	$99.560	0.850000	0.010140	1.010	06/09/2008
26	2008	117.130	$93.700	0.800000	0.004970	0.466	06/09/2008
39	2008	110.570	$105.040	0.950000	0.047820	5.023	09/08/2008
39	2008	110.570	$99.510	0.900000	0.028840	2.870	09/08/2008
39	2008	110.570	$93.980	0.850000	0.016510	1.552	09/08/2008
39	2008	110.570	$88.460	0.800000	0.008990	0.795	09/08/2008