BARNYARDS & BACKYARDS

October 2009

University of Wyoming

UW Cooperative Extension Service | Profitable & Sustainable Agricultural Systems | RMA Risk Management Agency

LRP and LGM livestock insurance can offset price risks

By James Sedman and John Hewlett

The past three years in the cattle business could be described as tough at best.

Wide price fluctuations for cattle sold coupled with much higher feed and input prices have made profitability difficult. Never before has risk management been more important. Proper planning for risk that includes insurance programs can help minimize the chances a severe loss or price swing will negatively impact the bottom line.

Federal crop insurance programs can help ensure a revenue stream for cattle from calf to slaughter. Utilizing Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM) insurance together can help achieve this goal.

Policy Overviews and Provisions

LRP policies are designed to protect cattle producers against losses from price declines. These policies are available for both calves and yearlings, and contract lengths vary from 13 to 52 weeks. A producer applies for coverage and selects a contract length for the appropriate production period along with the cattle type, number of head, and expected weight at sale time (up to 900 pounds). Indemnities are paid when the revenue determined by the Chicago Mercantile Exchange (CME) prices at the time of commodity sales is below the insured value. Actual sales price for the cattle is not used to determine any indemnity payment – only the insured value versus the actual value established by market prices.

LGM policies are similar to LRP in the sense they insure against price decreases for feeder or fed cattle; however, LGM policies offer further protection when they also insure against losses in margin associated with feed costs and input cattle prices. These policies are a bit more complicated than LRP but can be effective nonetheless.

LGM contracts are available for calf finishing and yearling finishing contracts. Calf contracts assume calves enter the feedlot at 550 pounds and exit at 1,150 pounds and consume 52 bushels of corn. Yearling contracts assume yearlings enter the lot at 750 pounds and exit at 1,250 pounds consuming 50 bushels of corn. Prices used to calculate LGM insurance coverage are determined by end-of-the-month live cattle, feeder cattle, and corn contract prices from the CME, similar to LRP contracts. Indemnities are paid when the margin for cattle on feed at sale time drops below the insured value. Again, the contracted margin values are determined by the appropriate CME commodity prices for the day and not actual cattle sales prices received.

Benefits of Using LRP and LGM Together

By utilizing these two contracts together, a cattle producer can have price (and later feed cost) protection for the majority of the life of the animal. By utilizing LRP insurance, a producer can reduce one of the greatest sources of risk for feeder cattle – price risk. Furthermore, using LGM insurance on feedlot cattle, whether they are retained or purchased, reduces the risks associated with varying feed costs and fat cattle prices.

This protection can help protect the bottom line as well as appease lenders by insuring a certain level of revenue from the cattle. The strategy of using both policy types works especially well for operations that sell calves/feeders and also retain cattle for finishing. Another benefit is these policies can allow a producer to harness the futures market for price protection without the large cash outlays associated with conventional trading using hedging or options markets.

For more information on these and other crop insurance topics on the Web, visit the Risk Management Agency Web site at www.rma.usda.gov or visit your local crop insurance agent. For more information on this and other risk management topics on the Web, visit the Western Risk Management Library at agecon.uwyo.edu/RiskMgt.

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'Triched' out economics for livestock producers

Should cattlemen cull cows or test bulls in response to trichomoniasis?

By Bridger Feuz

Trichomoniasis is a venereal disease that can cause infertility and abortions in cows, and, based on current bull testing data, is a disease all Wyoming producers should be aware of.

Producers can choose to manage this disease by testing non-virgin bulls prior to the breeding season to ensure no carriers of the disease are used in the breeding program and cull any remaining open cows. Producers can also choose not to test their bulls and be forced to cull significant numbers of open cows.

This article will compare the costs associated with the two strategies.

Strategy One – No bull testing

Producers using this strategy would continue business as usual and cull and sell any open cows in the fall; however, when trichomoniasis is present in the herd, the producer will be culling several extra cows each year due to the effects of the disease. To compensate, a producer would then have to retain more heifers to replace the lost production in the cow herd. Let's examine the economic impacts of this disease given this strategy.

We will look at this as a percentage of open cows per 100 head. For each additional open cow caused by this disease, a producer will be faced with three significant outcomes. First, the producer will generate income by selling the open cow. Second, the producer will have a reduction in income (or an expense) from retaining an extra heifer when it could have been sold as a weaned calf. Finally, the producer will have a second reduction in income the following fall when there is no calf to sell from the additional open cow. Most of the expense in producing a weaned calf is tied up in the annual maintenance of the cow. Since this producer is maintaining a constant number of cows in the herd by replacing open cows with heifers, those annual maintenance costs will also be constant; therefore, the only savings in expenses, had the open cow been pregnant, would be direct expenses related to a weaned calf. This would include things such as vaccinations and feed consumed by the calf.

Therefore, an average weight and market price was used, which accounts for the difference in weight and market price from the original replacement heifer.

Given this analysis, the total net loss, if the disease was responsible for an additional 1 percent of open cows per 100 head, would be $561.25. This means if producers see a 10-percent reduction in pregnancy rate due to the disease, the cost per 100 cows in their herds would be $5,612.50. This cost represents a significant challenge to any producer's profitability and ultimately the chances for long-term sustainability.

Description	Amount
Income	
Sale of Cull Cow (1,100lbs X $40.00/cwt)	$440.00
Expense	
Lost sale of replacement heifer (500 lbs X $1.00/cwt)	($500.00)
*Lost sale of calf from open cow (525 lbs X $1.05/cwt) less direct expenses occurred for raising a weaned calf ($50)	($501.25)
Total Net Loss @ 1% per 100 head	($561.25)

*Note- the loss of the calf from the open cow could either be a heifer or a steer.

Strategy Two – Testing all non-virgin bulls

In this strategy, producers test non-virgin bulls prior to the breeding season and remove all carriers. Additionally, these producers would still cull open cows, but fewer cows would require culling as the prevalence of the disease would be reduced.

If we assume producers utilize four bulls per 100 cows and that testing costs including labor are $50 per bull, the cost of testing per 100 cows would be $200. Given the analysis from the previous strategy, if this testing program reduced open cows by even 1 percent, it is an economically feasible strategy. The exact net benefit to the producer of utilizing this approach would depend on the size of the reduction in the percentage of open cows. A 1-percent reduction would result in a $361.25/100 cows benefit to the producer ($561.25/open cow - $200 bull testing cost). A 5-percent reduction would result in a $2,606.25/100 cows benefit to the producer, and a 10-percent reduction would result in a $5,412.50/100 cows benefit to the producer.

When comparing the two strategies from an economic standpoint, producers are much better off utilizing a bull testing strategy if trichomoniasis is a possible management concern.

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