

Livestock Risk Protection – Title 1 Farm Bill Programs

Ag Lender Meetings, October, 2021

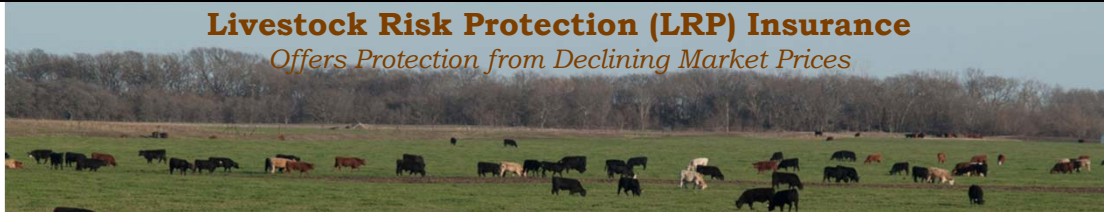
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Livestock Risk Protection (LRP) Insurance

Offers Protection from Declining Market Prices



LRP Brief Overview

- No brokers involved, no brokerage fees or margin calls
- Coverage is on a **per head** basis and not a contract with a weight requirement
- Lender advantages
 - Security Interest
 - Coverage can not be cancelled
- Can be cheaper and more flexible than hedging on the board
- LRP does NOT guarantee the basis
- LRP does NOT cover any other peril (morbidity, mortality)

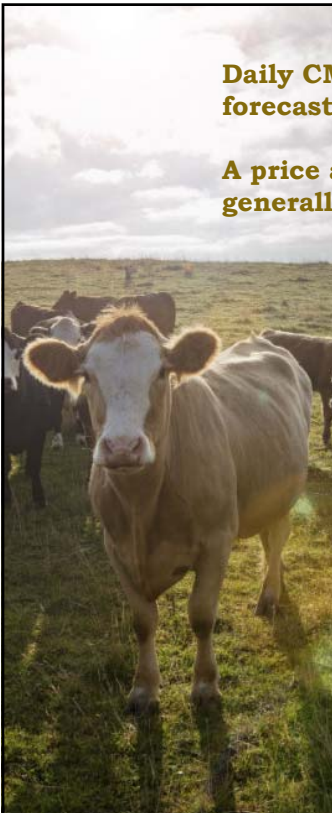
Livestock Risk Protection (LRP) Insurance

Offers Protection from Declining Market Prices



You must own the cattle you are insuring

- Market = Forecast of CME Feeder Cattle Index price at End Date, based on daily CME Feeder Cattle Futures and Options settlements (front-month)
- Type 1 = Feeders expected to weigh 600 lbs. or less at marketing (Steers, Heifers, Brahman and Dairy).
- Type 2 = Feeders expected to weigh between 600–900 lbs. at marketing (Steers, Heifers, Brahman and Dairy).
- Coverage Limits = 6,000 head per endorsement (12,000 head annually, 7/1 – 6/30).
- Settlement = CME Feeder Cattle Index price



LRP-Feeder Cattle

Daily CME Feeder Cattle Futures and Options settlements are used to forecast Expected Values.

A price adjustment factor is used to reflect lighter weight cattle generally trading at a premium and to account for heifers and breed.

Weight Range	Price Adjustment Factors			
	Steers	Heifers	Predom. Brahman	Predom. Dairy
<6.0 cwt	110%	100%	100%	85%
6.0 – 9.0 cwt	100%	90%	90%	80%



Livestock Risk Protection (LRP) Insurance

Offers Price Protection from Declining Market Prices

LRP Summary

- Simple set of questions
 - **How many head to insure?**
 - **Desired weight per head?**
 - **Contract end date – expected delivery date?**
 - **Desired price per head?**
 - **Coverage level?**

Livestock Risk Protection (LRP) Insurance

Offers Protection from Declining Market Prices

- Market = Forecast of USDA 5-area Weekly Weighted Average price based on daily CME Live Cattle Futures and Options settlements (front-month)
- Steers and Heifers are a single insurance type
- Coverage available for cattle **expected** to:
 - Grade Select or higher
 - Have a Yield Grade of one to three
 - Weigh 10 to 14 cwt (live weight)
- Coverage Limits=6,000 head per endorsement/ 12,000 head annually (7/1 – 6/30)
- Settlement = USDA 5-area Weekly Weighted Average price (Steers, weekly, 35-65% Choice)

You must own the cattle you are insuring



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LRP Changes for the 2021 Crop Year

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NEW LRP SUBSIDY RATES FOR 2021!

- LRP is accompanied by a subsidy through USDA's Risk Management Agency
 - Below are the updated subsidy rates for the 2021 Crop Year:

Subsidy	Coverage Level
35%	95-100%
40%	90-94%
45%	85-89%
50%	80-84%
55%	70-79%

Livestock Risk Protection (LRP) Insurance

Offers Protection from Declining Market Prices

- **Premium Due Date Deferred**
 - Premium is now due 30 days AFTER your LRP Contract ends.
 - Losses will go towards crediting the premium first.
- **NEW – Price Protection for Unborn Calves**
 - More info and policy language forthcoming
- **Ownership Changes**
 - Previously, in order to maintain LRP coverage the producer was required to maintain ownership until 30 days prior to contract expiry. This has been extended to 60 days.
 - This should aid producers who market on video by allowing them a longer window of opportunity for price protection.
- **Increased Limits of Insurance**
 - Increased head per contract to 6,000 and 12,000 annually

AgRisk Advisors LRP Daily Offer Email

AgRisk Advisors has created a process to provide producers with daily offers via email. The daily offer estimates are a convenient way for producers to receive coverage rates specific to their operation.

Commodity			Commodity Type		Insured Share		# of Head		Target Weight cwt Head		
Feeder Cattle			Steers under 600 lbs		1.00		250		5.50		
Click to hide rates											
Effective Date	Endorsement Length	End Date	Expected Value	Coverage Price	Coverage Level	Insured Value	Subsidy	Producer Premium	Producer Cost/cwt	Producer Cost per Head	Premium as % of Coverage
11/3/20	13	2/2/21	\$ 166.49	\$ 165.22	99.13%	\$ 199,677.5	35%	\$ 6,561	\$ 4.76	\$ 26.16	3.3%
11/3/20	13	2/2/21	\$ 166.49	\$ 163.02	97.63%	\$ 196,652.5	35%	\$ 5,412	\$ 3.94	\$ 21.65	2.8%
11/3/20	13	2/2/21	\$ 166.49	\$ 160.82	96.13%	\$ 193,627.5	35%	\$ 4,427	\$ 3.22	\$ 17.71	2.3%
11/3/20	13	2/2/21	\$ 166.49	\$ 138.62	94.63%	\$ 190,602.5	40%	\$ 3,596	\$ 2.62	\$ 14.38	1.9%
11/3/20	13	2/2/21	\$ 166.49	\$ 136.42	93.13%	\$ 187,577.5	40%	\$ 2,892	\$ 2.1	\$ 11.57	1.5%
11/3/20	13	2/2/21	\$ 166.49	\$ 134.22	91.63%	\$ 184,552.5	40%	\$ 2,328	\$ 1.69	\$ 9.31	1.3%
11/3/20	13	2/2/21	\$ 166.49	\$ 132.02	90.12%	\$ 181,527.5	40%	\$ 1,847	\$ 1.34	\$ 7.39	1.0%
11/3/20	13	2/2/21	\$ 166.49	\$ 129.82	88.62%	\$ 178,502.5	45%	\$ 1,449	\$ 1.05	\$ 5.5	0.8%
11/3/20	13	2/2/21	\$ 166.49	\$ 127.62	87.12%	\$ 175,477.5	45%	\$ 1,124	\$ 0.82	\$ 4.5	0.6%
11/3/20	13	2/2/21	\$ 166.49	\$ 125.42	85.62%	\$ 172,452.5	45%	\$ 895	\$ 0.63	\$ 3.46	0.5%
11/3/20	17	3/2/21	\$ 166.47	\$ 145.2	99.13%	\$ 199,650	35%	\$ 7,375	\$ 5.36	\$ 29.5	3.7%
11/3/20	17	3/2/21	\$ 166.47	\$ 143	97.63%	\$ 196,625	35%	\$ 6,267	\$ 4.56	\$ 25.07	3.2%
11/3/20	17	3/2/21	\$ 166.47	\$ 140.8	96.13%	\$ 193,600	35%	\$ 5,272	\$ 3.83	\$ 21.09	2.7%
11/3/20	17	3/2/21	\$ 166.47	\$ 138.6	94.63%	\$ 190,575	40%	\$ 4,417	\$ 3.21	\$ 17.67	2.3%
11/3/20	17	3/2/21	\$ 166.47	\$ 136.4	93.13%	\$ 187,550	40%	\$ 3,671	\$ 2.67	\$ 14.68	2.0%

Resources

CME Feeder Cattle Futures:

<https://www.cmegroup.com/trading/agricultural/livestock/feeder-cattle.html>

CME Feeder Cattle Index:

<https://www.cmegroup.com/market-data/reports/cash-settled-commodity-index-prices.html>

CME Live Cattle Futures:

<https://www.cmegroup.com/trading/agricultural/livestock/live-cattle.html>

USDA 5-Area Weekly Weighted Average Direct Slaughter Cattle
(LM_CT150):

https://www.ams.usda.gov/mnreports/ams_2477.pdf

Farm Bill Title 1 Programs

San Luis Valley Data



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2018 Farm Bill Title 1 Decisions

- Producers can choose on an FSA farm basis between:
 - Agricultural Risk Coverage – County Level (ARC-CO)
 - Agricultural Risk Coverage – Individual Level (ARC-IC)
 - Price Loss Coverage – (PLC)
- Most common 2014 choices
 - Irrigated corn – ARC-CO
 - Winter wheat - PLC

SLV Base Acres

Crop Base Name	Base Acres
Barley	42,529.88
Wheat	23,586.02
Oats	1,985.96
Canola	1,440.16

SLV Program Selection

Crop Base Name	Base Acres	Program
Barley	42,529.88	PLC
Wheat	23,586.02	ARC – 9,145.93 PLC 14,440.09
Oats	1,985.96	ARC – 513.52 PLC – 1,472.44
Canola	1,440.16	PLC

Title I Programs

- **ARC – Agricultural risk coverage**
 - Offers REVENUE loss coverage for selected covered commodities.
 - Two options
 - ACR-CO (county level loss coverage)
 - ARC-IC (individual level loss coverage)
- **PLC – price loss coverage**
 - Provides an income safety net when prices of covered commodities are below “reference” prices set by statute.
 - Declines in production are not covered under PLC.

Payment Acres: ARC-CO & PLC

- ARC-CO & PLC
 - Equal to 85% of the specific covered commodity base acres on a farm.
 - Example: 100 acres of corn X 85% = 85 acres
- ARC-IC
 - Equal to 65% of total covered commodity base acres on a farm.
 - Example: 100 acres of corn and 50 acres of wheat
 $150 \text{ total acres} \times 65\% = 97.5 \text{ acres}$

Price Loss Coverage

- Payments are made when MYA (market year average) is below the effective reference price
- MYA is a national average price
 - ❑ Corn – September 1 to August 31
 - ❑ Wheat, barley, oats – June 1 to May 31

Price Loss Coverage Example

Farm #1: Barley Base: **1000 acres** PLC Yield: **50 bu/ac**

- Reference price for barley = \$4.95/bu.
- Market Year Average (MYA) price = \$4.50/bu (example only)
- The national average loan rate = \$1.95/bu.

PLC PAYMENT CALCULATION:

\$4.95 - \$4.50 = \$0.45/bushel payment rate.

1000 base ac x 85% x 50 bu PLC yield x \$0.45 = \$19,125 payment

TABLE 3. 2020 PRICE LOSS (PLC) COVERAGE PAYMENT RATES
BASED ON EFFECTIVE REFERENCE PRICES, 2020/21 MARKET YEAR AVERAGE (MYA) PRICES AND 2020 NATIONAL AVERAGE LOAN RATES
October 1, 2021 1/

A	B	C	D	E	F	G	H	I	J
Commodity	Marketing Year	Publishing Dates for the Final 2020/21 MYA Price	Unit	2020 Effective Reference Price	Projected (P) or Final (F) 2020/21 MYA Price	2020 National Loan Rate	Higher of (F or G) Projected (P) or Final (F) 2020 Effective Price	Higher of (E-H) or (zero) Projected (P) or Final (F) 2020 PLC Payment Rate	(E-G) Maximum 2020 PLC Payment Rate
Wheat	Jun. 1-May 31	June 30, 2021	Bushel	\$5.50	\$5.05 F	\$3.38	\$5.05 F	\$0.45 F	\$2.12
Barley	Jun. 1-May 31	June 30, 2021	Bushel	\$4.95	\$4.75 F	\$2.50	\$4.75 F	\$0.20 F	\$2.45
Oats	Jun. 1-May 31	June 30, 2021	Bushel	\$2.40	\$2.77 F	\$2.00	\$2.77 F	\$0.00 F	\$0.40
Peanuts	Aug. 1-Jul. 31	August 31, 2021	Pound	\$0.2675	\$0.2100 F	\$0.1775	\$0.2100 F	\$0.0575 F	\$0.0900
Corn	Sep. 1-Aug. 31	September 30, 2021	Bushel	\$3.70	\$4.53 F	\$2.20	\$4.53 F	\$0.00 F	\$1.50
Grain Sorghum	Sep. 1-Aug. 31	September 30, 2021	Bushel	\$3.95	\$5.04 F	\$2.20	\$5.04 F	\$0.00 F	\$1.75
Soybeans	Sep. 1-Aug. 31	September 30, 2021	Bushel	\$8.40	\$10.80 F	\$6.20	\$10.80 F	\$0.00 F	\$2.20
Dry Peas	Jul. 1-Jun. 30	July 30, 2021	Pound	\$0.1100	\$0.0984 F	\$0.0615	\$0.0984 F	\$0.0116 F	\$0.0485
Lentils	Jul. 1-Jun. 30	July 30, 2021	Pound	\$0.2233	\$0.1820 F	\$0.1300	\$0.1820 F	\$0.0413 F	\$0.0933
Canola	Jul. 1-Jun. 30	July 30, 2021	Pound	\$0.2015	\$0.1840 F	\$0.1009	\$0.1840 F	\$0.0175 F	\$0.1006
Large Chickpeas	Sep. 1-Aug. 31	September 30, 2021	Pound	\$0.2477	\$0.2330 F	\$0.1400	\$0.2330 F	\$0.0147 F	\$0.1077
Small Chickpeas	Sep. 1-Aug. 31	September 30, 2021	Pound	\$0.2026	\$0.2020 F	\$0.1000	\$0.2020 F	\$0.0006 F	\$0.1026
Sunflower Seed	Sep. 1-Aug. 31	September 30, 2021	Pound	\$0.2015	\$0.2130 F	\$0.1009	\$0.2130 F	\$0.0000 F	\$0.1006
Flaxseed	Jul. 1-Jun. 30	July 30, 2021	Bushel	\$11.284	\$11.100 F	\$5.650	\$11.100 F	\$0.184 F	\$5.634
Mustard Seed	Sep. 1-Aug. 31	September 30, 2021	Pound	\$0.2317	\$0.2670 F	\$0.1009	\$0.2670 F	\$0.0000 F	\$0.1308
Rapeseed	Jul. 1-Jun. 30	July 30, 2021	Pound	\$0.2247	\$0.2260 F	\$0.1009	\$0.2260 F	\$0.0000 F	\$0.1238
Safflower	Sep. 1-Aug. 31	September 30, 2021	Pound	\$0.2015	\$0.2150 F	\$0.1009	\$0.2150 F	\$0.0000 F	\$0.1006
Crambe	Sep. 1-Aug. 31	September 30, 2021	Pound	\$0.2317	\$0.2710 F	\$0.1009	\$0.2710 F	\$0.0000 F	\$0.1308
Sesame Seed	Sep. 1-Aug. 31	September 30, 2021	Pound	\$0.2317	\$0.3700 F	\$0.1009	\$0.3700 F	\$0.0000 F	\$0.1308
Seed cotton 2/	Aug. 1-Jul. 31	September 30, 2021	Pound	\$0.3670	\$0.3393 F	\$0.2500	\$0.3393 F	\$0.0277 F	\$0.1170
Rice (long grain)	Aug. 1-Jul. 31	October 29, 2021	Pound	\$0.1400	\$0.1260 P	\$0.0700	\$0.1260 P	\$0.0140 P	\$0.0700
Rice (med/short grain) 3/	Aug. 1-Jul. 31	October 29, 2021	Pound	\$0.1400	\$0.1300 P	\$0.0700	\$0.1300 P	\$0.0100 P	\$0.0700
Rice (temperate japonica)	Oct. 1-Sep. 30	January 2022	Pound	\$0.1730	\$0.1970 P	\$0.0700	\$0.1970 P	\$0.0000 P	\$0.1030

ARC

- **ARC-CO**
 - Protects against crop revenue shortfalls
 - At the county level
- **ARC-IC**
 - Protects against crop revenue shortfalls
 - Price and/or production declines across all covered commodities planted.
 - Price and/or production declines per covered commodity
 - At the farm level across all farms enrolled in ARC-IC in the state.

ARC-CO Example

Farm #1: Wheat Base = **500 acres**

Step 1: Calculate county benchmark revenue for WHEAT

Step 2: Calculate the county guarantee for WHEAT

Step 3: Calculate actual county revenue for WHEAT

Step 4: Determine if the county suffered a loss for WHEAT

Step 5: Calculate Payment

Agriculture Risk Coverage – County (ARC-CO)

Step 1: Wheat ARC-CO Benchmark Revenue Calculation (County Data):

Benchmark Yield = 5 year Olympic Average (**40 bu/ac**)

Benchmark Price = 5 year Olympic Ave of the higher of
MYA or the Reference Price (**\$6.60**)

WHEAT	2013	2014	2015	2016	2017
Yield	40	46	38	24	42
80% of T-Yield	26	26	26	26	26
MYA Price	\$4.87	\$5.70	\$7.24	\$7.77	\$6.87
Reference Price	\$5.50	\$5.50	\$5.50	\$5.50	\$5.50

Agriculture Risk Coverage – County (ARC-CO)

(continued)

Wheat ARC-CO Benchmark Revenue Calculation:

Benchmark Yield = **40 bu/ac**

Benchmark Price = **\$6.60/bu**

Benchmark Revenue = \$264.00 (40 X \$6.60)

Step 2: Wheat ARC-CO Guarantee Calculation:

Benchmark Revenue (\$264) X 86% = \$227.04/acre

Agriculture Risk Coverage – County (ARC-CO)

Step 3: Wheat ARC-CO Actual Revenue:

$$(35 \text{ bu/ac} \times \$5.90/\text{bu} = \$206.50/\text{acre})$$

NOTE: Use higher of MYA price or National Loan Rate

CROP	2019 CO Actual Yield (hypothetical)	2019 MYA Price (hypothetical)	National Loan Rate	Actual Revenue (hypothetical)
WHEAT	35	\$5.90	\$2.94	\$206.50/ac

Agriculture Risk Coverage – County (ARC-CO) (continued)

Step 4: ARC-CO Calculation:

Wheat ARC-CO: Guarantee: **\$227.04**
 Actual Revenue: **\$206.50**
Revenue Loss = \$ 20.54/acre

Note: Maximum Payment Rate would be **\$26.40**
 (Benchmark Revenue of \$264/ac X 10%)

Step 5: Payment computation for this example would be:

$$\text{Wheat base } 500 \text{ acres} \times 85\% \times \$20.54 = \mathbf{\$8729.50}$$

SLV ARC-CO Payment Rates

County	Crop	Payment Rate
Alamosa	Oats	\$9.14
Alamosa	Wheat	\$0.00
Conejos	Oats	\$6.67
Conejos	Wheat	\$44.06
Costilla	Oats	\$7.54
Costilla	Wheat	\$44.73
Rio Grande	Oats	\$8.42
Rio Grande	Wheat	\$56.72
Saguache	Oats	\$8.42
Saguache	Wheat	\$56.43



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Questions?

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