

Managing Calf Market Risk with LRP in 2023

Jay Parsons

Professor and Farm and Ranch Management Specialist
Department of Agricultural Economics, University of Nebraska-Lincoln

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Current prices for 600-pound calves in Nebraska are in the mid-\$200 range. These prices have cow-calf producers optimistic about profits in 2023 despite challenges with forage availability and input costs. A better indicator of what prices might be like this fall is the October futures contract price for feeder cattle, which is currently trading in mid-\$230's. The Nebraska basis for 500-600 pound steers to the CME Feeder Cattle Futures price in October is often in that \$20-\$30 range per hundred weight. That would project a 2023 October price for 5-weight steers in Nebraska somewhere around \$275 per cwt.

When profit margins are strong, livestock owners have a natural tendency to relax a bit and enjoy the business of producing animals. Expansion may come to mind and effort is often put forth to improve production output. Protecting market price may become a secondary priority. However, a lot can happen between now and marketing time. Price trends can suddenly turn and quite often expectations may not be met. Protecting price should be just as much — maybe more — of a priority when the price outlook is optimistic, as it is in a downward trend. An unprotected, overly optimistic price forecast can hurt your bottom line just as easily as a downward trend that suddenly gets worse.

One of the price protection tools Nebraska cow-calf producers are increasingly using is Livestock Risk Protection (LRP) insurance (Table 1). This insurance is available for cattle and swine producers to protect against downward movements in the national market price. Several enhancements and improvements to the LRP insurance program for cattle producers have taken place over the last four years. These include increases in the premium subsidy rates, moving the premium due date from the beginning to the end of the coverage period, expanded limits on how many head can be insured, and several changes expanding the availability.

Table 1: Livestock Risk Protection Feeder Cattle Insurance (LRP-Feeder Cattle) Usage in Nebraska 2012-2023.

Year	Policies Sold	Policies Earning Prem	Quantity (Head)	Liabilities (\$)	Total Prem (\$)	Policies Indemnified	Indemnity (\$)	Loss Ratio	Subsidy (\$)	Subsidy (%)	Producer Prem (\$)	Producer Loss Ratio
2012	1,376	230	27,202	27,122,685	773,296	136	980,198	1.27	100,527	13%	672,769	1.46
2013	1,386	85	10,386	10,806,100	282,484	34	247,183	0.88	36,718	13%	245,766	1.01
2014	1,310	197	25,398	32,211,424	701,899	2	252	0.00	91,247	13%	610,652	0.00
2015	1,457	141	15,456	23,890,729	616,680	69	872,264	1.41	80,165	13%	536,515	1.63
2016	1,402	75	9,885	10,773,447	460,552	67	625,482	1.36	60,411	13%	400,141	1.56
2017	1,552	191	21,735	20,816,435	995,861	50	195,421	0.20	128,310	13%	867,551	0.23
2018	1,224	117	15,802	16,967,064	640,475	45	406,191	0.63	82,998	13%	557,477	0.73
2019	1,238	69	9,095	10,390,904	309,240	47	584,929	1.89	40,691	13%	268,549	2.18
2020	1,237	46	7,325	8,403,175	324,531	18	224,896	0.69	70,725	22%	253,806	0.89
2021	1,721	291	62,555	74,252,751	3,126,675	211	1,144,021	0.37	1,105,096	35%	2,021,579	0.57
2022*	2,594	599	200,590	273,807,929	11,230,777	472	11,171,888	0.99	3,952,029	35%	7,278,748	1.53
2023*	1,648	772	322,809	522,281,170	19,565,996	208	5,895,031	0.30	6,855,748	35%	12,710,248	0.46
AVERAGE	1,512	234	60,687	85,976,984	3,252,372	113	1,862,313	0.57	1,050,389	32%	2,201,983	0.85

*2022 and 2023 are still in progress.

Source: <https://www.rma.usda.gov/en/Information-Tools/Summary-of-Business>, April 11, 2023.

These recent changes are designed to make LRP insurance more accessible to livestock producers. Why is this important? LRP insurance is an easy-to-understand tool that livestock producers can use to manage the risk of potential downward movements in the national market price expectation while still allowing themselves to potentially benefit from upward movements in the market price. For example, the April 24 CME feeder cattle futures price for October closed at \$233.65 per hundredweight (cwt.). This translated into an expected ending value of \$233.632 for LRP feeder cattle insurance on steers weight 2 (600-900 lbs.), with an ending date of October 23 (26-week policy period), taken out overnight from April 24 into April 25. The expected ending value for steers weight 1 (< 600 lbs.) for the same coverage period was 10% higher, at \$256.995. How accurate is this forecast for October feeder cattle prices? Table 2 would suggest that, on average, it might be pretty good. However, in any particular year, it may not be that great of a prediction of where prices will end up. LRP insurance is a tool that might help producers manage potentially unfulfilled price expectations at an affordable cost.

Table 2: Chicago Mercantile Exchange (CME) October Feeder Cattle Contract, \$/cwt.

	2019	2020	2021	2022	Average
CME Oct Feeder Cattle Futures (Apr 24-26)	158.30	128.93	153.60	179.85	155.17
CME Feeder Cattle Cash Settlement Index (Oct 23-25)	144.96	133.70	155.50	174.85	152.25
Net Difference	(\$13.34)	\$4.77	\$1.90	(\$5.00)	(\$2.92)

Source: Livestock Marketing Information Center (LMIC)

Table 3 shows how LRP feeder cattle insurance contracts would have performed for steers weight 1 from 2019-2022 under the varying premium subsidies in effect. Two of the four years resulted in an indemnity payment, but in only one of those years (2019) was the indemnity enough to cover the premium the producer owed. Even though the net LRP effect would have been positive for only one year (2019) over this period, it is not uncommon to see actual ending values \$10 to \$30 below expectations. We saw this happen in 2012 and again in 2015 and 2016. With the new premium subsidy rates in effect, the reduced producer premiums make LRP insurance an affordable option to protect price.

Table 3: LRP-Feeder Cattle (Steers Weight 1, < 600 lbs.) Performance 2019-22, \$/cwt.

	2019	2020	2021	2022	Average
LRP 26-week Coverage Price ¹ (Apr 24-26)	173.78	140.76	167.18	195.77	169.37
LRP Expected Ending Value (Oct 23-25)	174.106	141.781	168.944	197.808	170.66
LRP Actual Ending Value (Oct 23-25)	159.46	147.07	171.05	192.34	167.48
Net Change	(\$14.65)	\$5.29	\$2.11	(\$5.47)	(\$3.18)
LRP Indemnity	14.32	0.00	0.00	3.43	4.44
LRP Producer Premium ²	6.37	9.67	5.51	6.01	6.89
Net LRP Effect	7.95	(9.67)	(5.51)	(2.58)	(\$2.45)
Net Effective Price	\$167.41	\$137.40	\$165.54	\$189.76	\$165.03
Deviation from Expected Ending Value	(\$6.70)	(\$4.38)	(\$3.40)	(\$8.05)	(\$5.63)

¹Coverage selected at the highest price available.

²Premium subsidies varied in 2019 (13%), 2020 (20%), and 2021-22 (35%).

Source: http://www3.rma.usda.gov/apps/livestock_reports/

Readers interested in learning more about using LRP insurance are encouraged to visit the RMA website at <https://www.rma.usda.gov/en/Topics/Livestock-Insurance-Plans>.

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