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## Livestock Risk Protection (LRP) 2009 Fed Cattle

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### LRP Overview

LRP Fed cattle provides revenue protection from a price decline during the policy coverage period. The protection from low prices is based on the Agricultural Marketing Service Five Area Weekly Weighted Average Direct Slaughter Cattle Report and CME Live Cattle futures.

The policy does not protect against other perils such as mortality, disease, or any other cause of loss.

LRP has limited underwriting amounts that require that all requests for coverage be approved by the Risk Management Agency (RMA) before coverage officially attaches.

To establish LRP coverage, an insured must first file an application for LRP insurance through their insurance agent. This application does not establish any right to coverage. It only establishes the ability to request coverage if appropriate underwriting amounts are available from RMA. After the application has been accepted, the insured must file an SBI (entities with 10% or greater interest) listing their social security numbers or employer ID numbers and their share along with a Specific Coverage Endorsement (SCE) to establish actual insurance coverage.

### LRP Availability

LRP Fed cattle is available in all counties in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Indiana, Illinois, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming.

### Insured's Options

LRP is for Fed cattle that will grade select or higher and with a yield grade of 1 to 3, and to market for slaughter at 10 to 14 cwt at the end of the insurance period. The insurance periods available range in approximately 30-day increments from 13 to 52 weeks. The maximum number of Fed cattle that may be insured by any one entity in any one crop year is 4,000 head. (Only 2,000 head may be covered on a single SCE) This policy will cover both steers and heifers.

The coverage level on LRP ranges from 70%-100% of the expected ending value. The subsidy rate at all levels is 13%

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## LRP Prices

Since coverage prices and premium rates are based on the Chicago Mercantile Exchange (CME) Live Cattle futures, these rates will change on a daily basis. These rates will be released every trading day after the market closes and the rates are approved by RMA (approximately 4:00 pm CST). Sales will then run from that time until 9:00 am CST the following day. Coverage can be established during that time period except when

- CME Futures did not trade that day.
- CME Live Cattle futures trade the market limit.

**Expected Ending Value** — This price is determined by using the Chicago Mercantile Exchange Live Cattle futures contract for the time period specified in the Specific Coverage Endorsement and calculating the value to the expiration date of the SCE. This value can be checked by going to the following web site: [http://www3.rma.usda.gov/apps/livestock\\_reports](http://www3.rma.usda.gov/apps/livestock_reports)

**Actual Ending Value** — This price is the AMS Five Area Weekly Weighted Average Direct Slaughter Cattle report for Live Basis Sales on steers in the 35%-65% Choice category. This report is issued weekly and the price will be based on the most recent report closest to the SCE expiration date. This value can be checked by going to the following web site: [http://www.ams.usda.gov/mnreports/LM\\_CT150.tx](http://www.ams.usda.gov/mnreports/LM_CT150.tx).

## LRP vs Futures

- The LRP price is fixed. There is not a bid/ask spread. You will not get a fill that is different from the quoted price.
- LRP indemnities are based on cash prices not futures prices. Often the cash price can drop more drastically than the futures price.

## For More Information

**This summary is for general illustration purposes only.**

Consult your crop insurance agent to obtain specific information regarding practices, options, planting dates and appropriate deadlines. **READ THE POLICY PROVISIONS BEFORE MAKING YOUR DECISION ON LRP OR OTHER CROP INSURANCE PRODUCTS. POLICY PROVISIONS ARE AVAILABLE FROM YOUR INSURANCE AGENT.**

ARMtech Insurance Services, Inc. is an equal opportunity provider.

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## LRP Premium

**Assume:**

- 50 head of cattle
  - Target weight of 11 cwt
  - Selected coverage price of \$65.00
  - Expected ending value of \$68.42
  - Rate is 1.3990%
  - Subsidy is 13%, Share is 100%
1. 50 head X 11 cwt = 550 cwt
  2. 550 cwt X \$65.00 coverage price = \$35,750
  3. \$35,750 X 100% share = \$35,750
  4. \$35,750 X 0.13990 rate = \$500 total premium
  5. \$500 X 0.13 premium subsidy = \$65
  6. \$500 - \$65 = \$435 producer paid premium

## LRP Indemnity

LRP indemnity payments are based on the difference between the coverage price and the AMS Five Area Weekly Weighted Average Direct Slaughter Cattle report price for the last day the coverage is in effect. Indemnity payments are not based on the actual received price of the commodity. When the ending value is less than the coverage price, the insured must complete a claim form within 60 days following the end date to receive an indemnity.

- 50 head of cattle
  - Target weight of 11 cwt
  - Selected coverage price of \$65.00
  - Actual Ending Value of \$60.00
  - Share of 100%
1. 50 head X 11 cwt = 550 cwt
  2. \$65.00 coverage price — \$60.00 actual ending price = \$5.00 loss
  3. 550 cwt X \$5.00 loss = \$2,750 indemnity payment
  4. \$2,750 X 100% share = \$2,750
  5. \$2,750 indemnity