

Lamb Livestock Risk Protection Insurance

Tim Petry

The USDA Risk Management Agency (RMA) began offering a pilot program called Livestock Risk Protection – Lamb (LRP-Lamb) on September 17, 2007. It is a price risk management tool for slaughter weight lambs which as designed to help lamb producers insure against dramatic price declines.

LRP-Lamb is available to producers in 27 states including North Dakota, South Dakota, Minnesota and Montana.

Policies are sold only by crop insurance agents, but not all agents are authorized to sell LRP. A list of approved agents is available on the RMA web site at: www3.rma.usda.gov/apps/agents/index.cfm. To ensure that all lamb producers have access to an agent, the American Sheep Industry Association (ASI) has created an independent insurance agency, Food and Fiber Risk Managers, LLC. More information can be found on their site at: www.fafm.com.

Lamb producers who are considering purchasing LRP must first submit a one-time application for approval. Since the approval process may take several days, producers are encouraged to apply at a crop insurance agency a week or more before they actually plan to purchase a policy. Once a policy is approved, producers are eligible to purchase a Specific Coverage Endorsement (SCE). Each SCE will cover from 1 to 7,000 head of lambs. The annual limit of lambs that can be insured per producer is 28,000 head for the crop year which runs from July 1 to June 30.

LRP-Lamb is available only once per week on Monday from 10:00 a.m. to 7:00 p.m. Central Time. Every Monday morning RMA publishes coverage prices, premium costs, and maturity dates on the RMA website at: www3.rma.usda.gov/apps/livestock_reports/main.aspx.

Four coverage prices, at 95, 90, 85 and 80 percent of an expected ending value, are available for each endorsement length. Endorsement lengths are available for 13, 26, and 39 week time periods, which should correspond as close as possible to the actual marketing date for lambs.

Expected ending values are computer generated, projected prices that are expected to occur at the end of the coverage period. Prices are based on a national average price called “formula prices established for previously slaughtered lambs (live basis),” that is published in the USDA Agricultural Marketing Service (AMS) report titled “National Weekly Slaughter Sheep Review.” That report is issued each Friday afternoon at 3:00 p.m. Central Time and is available on the AMS web site at www.ams.usda.gov/mnreports/lm_lm352.txt. The actual ending value at policy maturity is the price quoted in that report.

Actual ending value prices from the AMS report for 2005, 2006, and 2007 are shown in Figure 1. Prices ranged from a high of \$115.50 per hundred-weight (cwt.) in June 2005 to a low of \$66.06 in May 2006. Prices declined almost \$24/cwt. in the first five months of 2006, which is a good

example of an adverse price decline that LRP-Lamb was designed to insure against.

On the maturity date, if the actual ending value is below the coverage price, an indemnity will be paid to the producer. Producers do not have to sell the lambs at maturity, but they must not sell lambs until 30 days prior to the maturity date. The actual weight and sales price that is received for lambs at a market has no bearing on the LRP contract, so producers have an incentive to get the highest price possible for lambs.

Producers must estimate the market weight for the lambs along with the coverage price and endorsement

length when the SCE is finalized at the crop insurance office. Estimated market weights must be between 50 and 150 pounds. Furthermore lambs must be owned and located at a producer's farm, ranch, or feedlot when the SCE is finalized.

Premiums must be paid before the SCE is submitted for approval, and are shown on the RMA website each Monday. Higher coverage prices have higher premiums and longer endorsement periods also require higher premiums. However, all premiums are subsidized 13 percent by RMA. The subsidized premium for a 130 pound lamb with a 13 week endorsement period and a \$100/cwt coverage price would be about \$1.74 per hundred-weight.

Educational information, including current coverage prices that are updated weekly, is available on my website www.ag.ndsu.edu/aginfo/lsmkt/livestock.htm. Click on the presentation titled "Livestock Risk Protection – A New Price Management Tool for Lamb Producers."

ASI has an excellent online educational course for LRP available at: www.sheep.industrynews.com/LRP_Lamb.

The basic LRP policy, handbook, frequently asked questions, fact sheets, underwriting rules, forms, and premium calculation worksheets are available on the RMA website at: www2.rma.usda.gov/livestock.

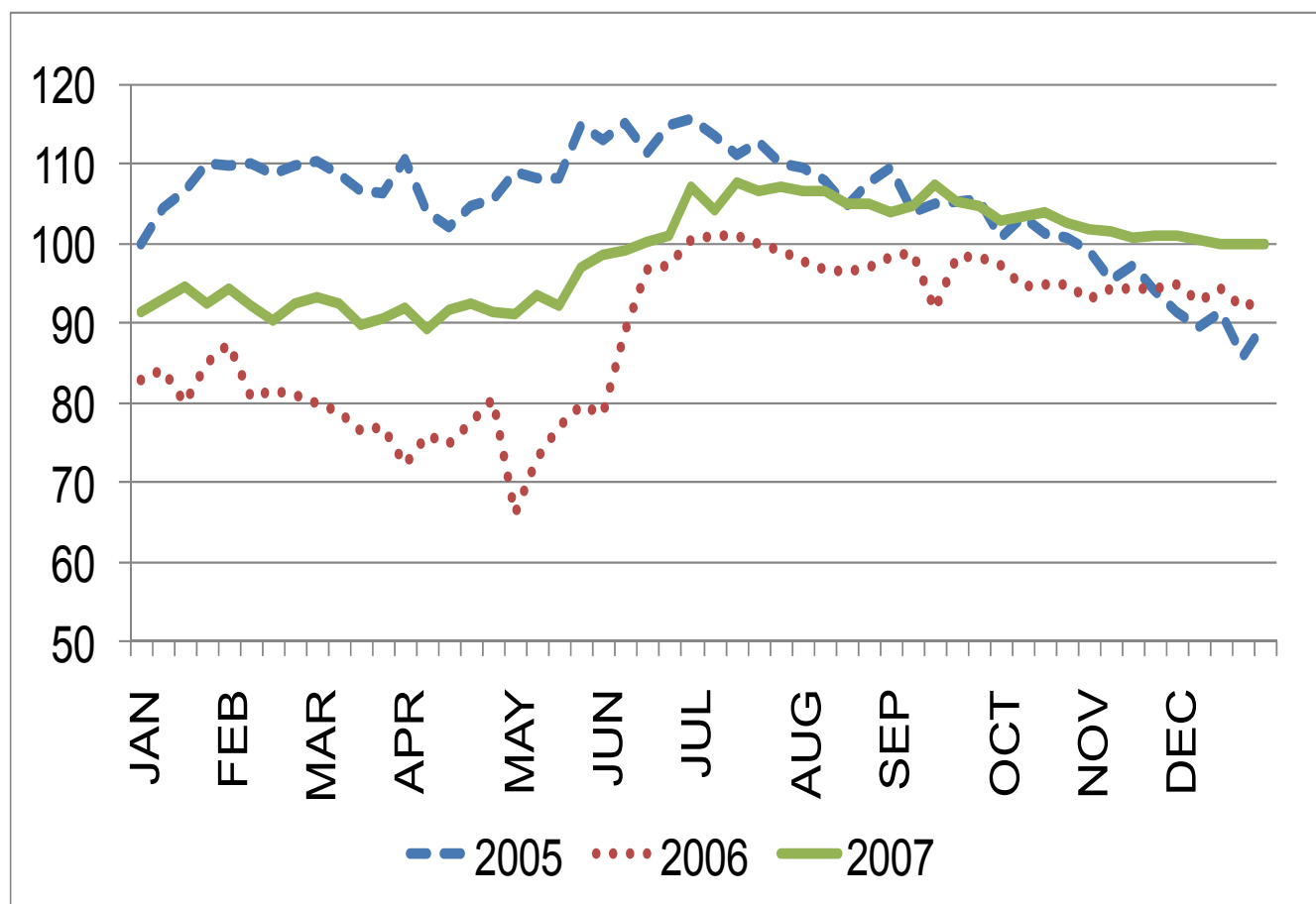


Figure 1. LRP-Actual Ending Lamb Prices