Risk Management Tools for Small- to Medium-Sized Cattle Feeders

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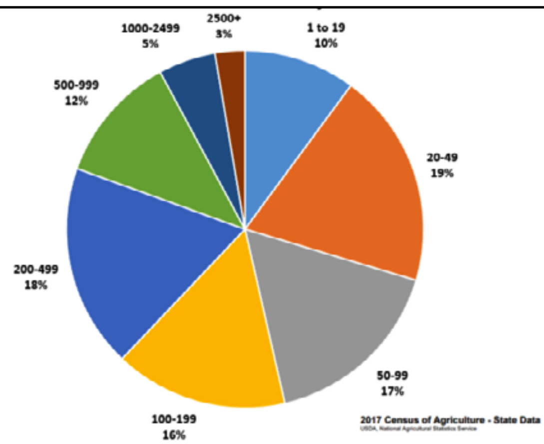
According to the 2017 United States Department of Agriculture Census of Agriculture, over 90% of Iowa's cattle feedlots are marketing under 1,000 head of cattle per year. The high volatility of the current cattle market, combined with international issues magnifies the need for these feedlots to understand and utilize all the risk management tools available to them.

Figure 1. Cattle on feed, farms sized by number sold



Large producers have the ability to use many tools, such as futures contracts and options, as well as spread the cost of the brokerage fees and margin calls across a large number of animals to justify the cost. These tools require a 40,000 pound contract that may not be achievable by smaller producers. Fortunately for smaller producers, the USDA Risk Management Agency (RMA) has two products to help manage risk for any size cattle feeding operation.

- Livestock Risk Protection (LRP)
- Livestock Gross Margin (LGM)

Both of these products are available in all counties in Iowa and they have no minimum number of head that can be covered. This makes them ideal for the cattle feeder that is looking for some risk protection, but does not have the numbers or desire to take advantage of other products.

Livestock Risk Protection (LRP)

Livestock Risk Protection Insurance is available for feeder cattle and fed cattle. LRP protects the producer against falling livestock prices. Coverage levels range between 70%-100% of the Chicago Mercantile Exchange futures contract for up to 52 weeks. Projected selling prices are adjusted for the type and gender of the cattle and the projected selling weight. LRP does not provide any protection against feed prices, local basis or other production costs. This product is available daily and price guarantees and premiums are available on the RMA website, www.rma.usda.gov/en/Information-Tools/Livestock-Reports. More information can be found in AgDM File B1-50, Livestock Risk Insurance Plans for Cattle Producers, www.extension.iastate.edu/agdm/livestock/pdf/b1-50.pdf.

Livestock Gross Margin (LGM)

Livestock Gross Margin Insurance protects producers against projected gross margin, not just selling price. Coverage can be purchased starting the last business Friday of each month until 8 p.m. (Central Standard Time) the following evening. There are two types of enterprises covered by LGM, calf finishing, in which the cattle are assumed to come in at 550 pounds and slaughtered at 1,150 pounds, and yearling finishing, that assumes cattle coming in at 750 pounds and slaughtered at 1,250 pounds. These products use an **expected gross margin** with a formula based on corn futures and feeder cattle prices subtracted from live cattle futures on pre-determined amounts of corn to be fed and cattle weights. Basis is accounted for in the calculation, but actual basis could differ,

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leaving some basis risk. To learn more about how these are figured see AgDM File B1-50, Livestock Risk Insurance Plans for Cattle Producers, www.extension.iastate.edu/agdm/livestock/pdf/b1-50.pdf. A producer has the ability to choose a deductible and can buy insurance on any number of cattle, not to exceed 5,000 head in any one insurance period and 10,000 head in any insurance year. The Estimated Expected Gross Margin and rates can be viewed at the RMA website, www.rma.usda.gov/en/Information-Tools/Livestock-Reports.

Livestock Risk Protection Insurance and Livestock Gross Margin Insurance are sold by many crop insurance agents; check with yours for more details. More information is also available on approved providers, www.rma.usda.gov/en/Information-Tools/Agent-Locator-Page.

Both of these products can be very effective in protecting the large number of small- to medium-sized feedlots in Iowa against the volatile markets without having a minimum number of head or weight restriction, allowing these producers to have insurance protection against price or margin decreases.

Watch the **accompanying video**, https://vimeo.com/373013115, for further information on the **risk management tools for small to medium sized cattle feeders**.

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