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August 2007

Livestock Insurance Website Launched

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Waterbury, Josie and Mark, Darrell R., "Livestock Insurance Website Launched" (2007). *Cornhusker Economics*. 330.
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CORNHUSKER ECONOMICS

Livestock Insurance Website Launched

In the last several years, cattle feeders and swine finishers have experienced increased volatility in both their output selling price and their major commodity input costs. For cattle feeders, these main risks include changes in fed cattle, feeder cattle and corn prices. Figure 1 on the next page shows that the spreads between these three key markets have had significant changes during the last several years. The same also holds true for swine as lean hog, corn and soybean meal markets have been more variable in recent years, and the spread between these prices continuously changes. Because these spreads influence cattle feeding and swine finishing profits, hedging or insuring these feeding spreads can be an effective risk management strategy. In 2006, the United States Department of Agriculture Risk Management Agency offered Livestock Gross Margin (LGM) for Cattle Insurance to protect this spread for cattle feeders. It then expanded the LGM for Swine program from Iowa to twenty states starting in July 2007.

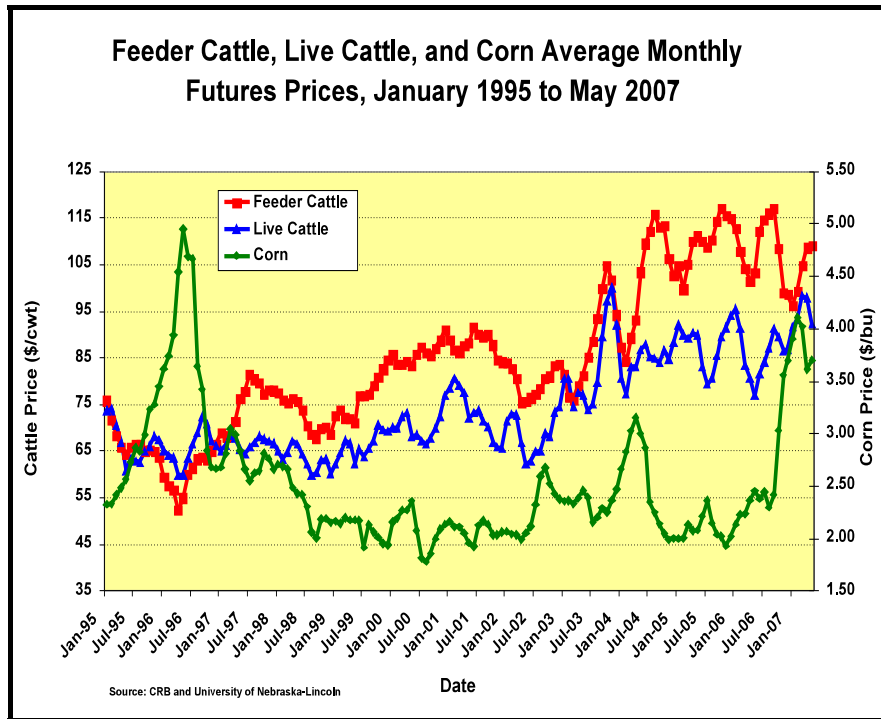
LGM provides protection against a decline in the cattle feeding or swine finishing margins by simultaneously hedging the corn and feeder cattle input costs and the fed cattle selling price (LGM for Cattle), or the corn and soybean meal input costs and the market hog selling price (LGM for Swine), as a bundled option. While LGM margins are based on futures market prices and provides protection similar to a bundled option on futures contracts, producers using LGM take no futures or option positions themselves and therefore do not need a brokerage account. Instead, they purchase the policy through a licensed crop insurance agent. The LGM for Cattle policy is available for both calf finishing and yearling finishing operations, while LGM for Swine is offered for farrow to finish, feeder pig finishing and segregated early weaned (SEW) pig finishing operations. Essentially, LGM pays insured producers an indemnity when the spread between the livestock sales

Market Report	Yr Ago	4 Wks Ago	8/10/07
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$85.69	\$89.62	\$89.83
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	*	134.69	132.81
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	118.23	119.01	115.87
Choice Boxed Beef, 600-750 lb. Carcass	146.70	142.42	144.53
Western Corn Belt Base Hog Price Carcass, Negotiated	69.81	65.91	70.44
Feeder Pigs, National Direct 50 lbs, FOB	49.98	51.12	56.00
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	73.23	72.89	70.85
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	93.00	103.12	103.75
National Carcass Lamb Cutout, FOB	223.85	256.58	258.47
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	4.09	5.39	5.74
Corn, No. 2, Yellow Omaha, bu	1.97	3.41	3.20
Soybeans, No. 1, Yellow Omaha, bu	4.98	8.33	7.74
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.96	5.63	5.23
Oats, No. 2, Heavy Minneapolis, MN, bu	2.04	2.83	2.64
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	135.00	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton	87.50	92.50	85.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	82.50	*	*
* No market.			

price and the commodity input prices narrows beyond their insured coverage level, due to changing market conditions. As this feeding margin narrows, the corresponding indemnity payment becomes larger to offset lower revenues and/or increased costs.

The offering of LGM insurance this past year in Nebraska and surrounding states follows the availability of Livestock Risk Protection (LRP)

insurance. LRP insurance is a single-peril price risk insurance policy that insures only the selling price of the livestock (not the input costs associated with feeding). As such, LRP is similar to hedging, with put options. To assist livestock producers and insurance agents in learning about the relatively new LGM insurance for cattle and swine and how it compares to LRP insurance, University of Nebraska–Lincoln Extension, in partnership with the North Central Risk Management Education Center, developed several educational materials that are now available online. A new website contains several NebGuides and Extension Circulars detailing the underwriting rules, policy provisions and practical hedging use for LGM and LRP insurance for fed cattle, feeder cattle and swine (<http://www.livestockinsurance.unl.edu>). Additionally, the site features two home study courses, one for LGM and one for LRP. Each contains video lectures, slides and text organized into five chapters of information. Topics covered include a basic overview of the program, how the insurance works (including step-by-step examples of how indemnities are determined), additional policy provisions, basis and purchasing considerations, and hedging outcomes using the insurance product under different market conditions. These home study courses follow the content and format of a series of livestock insurance meetings held across Nebraska last winter.



Interested parties can view the video lectures and all the materials online without cost, or obtain the video lecture series on DVD by visiting the website.

The website also contains an in-depth analysis of basis risk associated with LGM and LRP insurance, which differs from traditional basis risk. Visitors to the site can also make use of the resource center that contains additional links to

issues and information associated with LGM and LRP, a glossary, frequently asked questions and examples of all policy forms. The UNL Livestock Insurance Website can provide important information to producers, insurance agents and educators as they learn how to use livestock insurance products as a risk management tool for their livestock operations.

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<http://www.livestockinsurance.unl.edu>