LIVESTOCK RISK PROTECTION (LRP): FED CATTLE UNDERWRITING RULES

1. Basic Principles

A. Protection Offered: LRP-Fed Cattle insurance protects fed cattle producers against a decline in prices below the established coverage price.

B. Insurance Period: LRP-Fed Cattle insurance is offered for 13, 17, 21, 26, 30, 34, 39, 43, 47 or 52-week periods. The time closest to the time the cattle will be marketed should be chosen.

C. Application and Substantial Beneficial Interest: An application is required to purchase LRP coverage. The application establishes eligibility. A Substantial Beneficial Interest reporting form showing those with a substantial beneficial interest shall be attached to the application. No insurance coverage attaches to the application until the producer submits a Specific Coverage Endorsement. A producer may have Specific Coverage Endorsement 's for multiple classes of livestock or livestock products under one Application as long as the Substantial Beneficial Interests are the same. If the SBIs are different, additional applications are necessary for each different SBI arrangement.

D. Specific Coverage Endorsement (SCE): The SCE is used to initiate LRP coverage for a specified group of fed cattle to be slaughtered on or near the end date of the SCE. A producer may have multiple Specific Coverage Endorsements.

E. Daily Actuarial Documents: Coverage prices, rates, and coverage levels are available on the daily actuarial documents posted on the RMA website for the LRP program. Coverage prices and rates change daily and must be referred to at the time of sale for each endorsement.

F. Premium:
- (1) Premium must be paid on the day LRP insurance is purchased for coverage to be provided.
- (2) Producers may obtain quotes using the RMA Premium Calculator.

G. Crop Year: July 1 to June 30. Determined for individual specific coverage endorsements by the effective date.

H. LRP Documents:
- (1) Livestock Risk Protection Insurance Policy-Basic Provisions
- (2) Application Form-This form is filled out to apply for eligibility to purchase LRP insurance. No insurance coverage attaches until a Specific Coverage Endorsement is filled out to go with an approved application.
- (3) Substantial Beneficial Interest-This form shows the social security numbers, employer identification numbers, and share of those with a 10 percent interest or more in the insurance entity and must accompany the application form. The SBI form is used to establish eligibility and to account for insurance limits.
- (4) Premium Calculation Instructions-This worksheet can be used to calculate the LRP premium once the Coverage Price and Rate information is obtained from the website on the date of sale.
- (5) Specific Coverage Endorsement-The part of the policy that describes coverage of fed cattle.

(6) Specific Coverage Endorsement Form-This form is filled out to attach coverage to the policy. An approval number must be obtained through the website to show that underwriting capacity is available. Only approved agents and companies participating in the Livestock Price Reinsurance Agreement may obtain approval numbers.

(7) Assignment of Indemnity Form-This form is used for assigning any indemnity to a third party.

(8) Transfer of Right to Indemnity Form-This form is used if the cattle are sold prior to the end of insurance period to transfer any indemnity to the new owner (providing the new owner meets eligibility requirements).

(9) Claim Form-If the actual ending value, as specified in the Specific Coverage Endorsement, is below the coverage price, this form must be completed and sent to the company within 60 days following the end date. An indemnity payment will be made within 60 days of receipt of the claim form.

(10) Special Provisions-May be obtained from the RMA website (www.rma.usda.gov) and are part of the policy materials.

I. Area: The LRP-Fed Cattle program is offered in all counties in the states of Illinois, Iowa, and Nebraska.

J. Continuous Policy: If the policy is not cancelled in writing by June 30, the policy (but not any Specific Coverage Endorsements) will automatically renew. The policy may be cancelled at any time unless a Specific Coverage Endorsement in effect.

2. Limitations

A. Program Funding Limits: This pilot program was established in the Federal Crop Insurance Act with overall funding limitations. Coverage may not be available if underwriting capacity has been expended.

B. Annual Policy Limits: The annual limitation of the number of head of fed cattle that may be covered during the crop year is 4,000 head. For the insured entity, the number of insured cattle will be totaled and may not be more than 4,000 head. The Substantial Beneficial Interest form will be used to determine the total head insured by any individual. For example: Smith Farms has 2,000 head insured under LRP. John Smith has a substantial beneficial interest in Smith Farms and has 90 percent interest (2,000 * .90 = 1,800 head). John Smith also has cattle under his own name and wants to insure 1,000 head. The total cattle insured by John Smith are: 1,800 + 1,000 = 2,800 head which is below the crop year limit of 4,000 head.

C. Endorsement Limits: A limitation of 2,000 head of fed cattle may be insured under any one Specific Coverage Endorsement.

3. Coverage

A. Coverage Prices: The prices that can be insured by the producer. They change daily and must be obtained from the RMA website. Premium rates correspond to the coverage prices.

B. Coverage Levels: Calculated based on the chosen coverage price. Coverage levels will range from 70% to 95%.

C. Availability of Coverage: Coverage information is found exclusively on the daily Actuarial Documents, and is applicable only for the date of sale. It is available from 7 a.m. to 8 p.m. Central Time during the week. Coverage is not available for purchase on weekends or Federal holidays or if the web site or premium calculator is not operational. Coverage may not be available if any of the required data for establishing coverage prices or rates is not available or if futures do not continue trading at the end of the day (if the price moved the maximum allowed by the exchange), or for any other reason specified in the policy. The coverage offered or the cost of coverage will not be changed in response to any revisions to the information used in determining coverage prices or rates.

4. Off-Setting Transactions.

A. You must not enter into any transaction that would have the effect of converting any portion of the premium subsidy provided by FCIC into funds available for your use or the use of any person affiliated with you. Such transactions include covering the insured fed cattle by taking an offsetting position on the commodity futures or options markets.

B. While there are several possible examples of offsetting transactions, the most obvious are listed below:

(1) The selling (writing) of a CME Live Cattle put option contract on the insured cattle.

(2) The buying (a long position) of a CME Live Cattle futures contract on the insured cattle.

5. Calculations

A. Premium calculation example:

An operation has 50 head of fed cattle and expects to market the fed cattle at a target weight of 11 cwt each. The insured share is 100 percent. The expected ending value is $68.42 per live cwt and the producer selects a coverage price of $65 per live cwt. For this coverage price the rate is 1.3990%. The premium subsidy is 13 percent. The premium is calculated by:

(1) 50 head times 11 cwt equals 550 cwt.

(2) 550 cwt times the coverage price of $65 equals $35,750.

(3) $35,750 times the insured share of 1.00 equals an insured value of $35,750.

(4) $35,750 times the rate of .013990 equals $500 total premium.

(5) $500 times the producer premium subsidy percentage of .13 equals $65.

(6) Subtracting $65 from $500 equals the producer premium of $435.

B. Indemnity calculation example:

For the above operation with 50 head of fed cattle, a target weight of 11 cwt, an insured share of 100 percent, and a coverage price of $65 per live cwt, the actual ending value is equal to $60 per live cwt. Since $60 is less than the coverage price of $65, an indemnity is due. Indemnity is calculated by:

(1) 50 head times the 11 cwt target weight equals 550 cwt.

(2) Subtracting the actual ending value of $60 from the coverage price of $65 equals $5/cwt.

(3) Multiplying 550 cwt. by $5/cwt. equals $2,750.

(4) Multiplying $2,750 by the insured share of 1.00 equals an indemnity payment of $2,750.