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Livestock Risk Protection-Management Considerations

It seems each morning as I feed my weaned calves, I enter into the yearly battle with myself on "when is the right time to market those feeder steers"? When do you pull the trigger to sell? Is investing more feed going to give a better return? Do you have a marketing plan? What are the tax ramifications? What price do you need to receive to cover variable cost and yet have some comfortable level of revenue to address fixed costs and acceptable enterprise income? All good questions and just a few of many that livestock producers need to ask themselves.

There is no doubt that agriculture is a business with risk, seemingly with more volatility all the time. As I'm wrestling with all the above questions, the issue of price risk protection comes to mind as well. Dr. Jennifer Ifft, K-State Department of Agricultural Economics, has a wealth of information on this topic. Today I'd like to share excerpts from one of her articles from a series that looks at Livestock Risk Protection (LRP).

Cow-calf producers use various strategies to manage price risk, including futures and options. Livestock Risk Protection (LRP) is a type of livestock price insurance that typically costs less than a put option. LRP makes payouts (indemnities) that replace the income that is lost due to a price decline. For cow-calf producers interested in the price risk management and income benefits of LRP, some preparation is necessary before purchase.

Here are three main points to consider with LRP:

1. If price risk management is an unfamiliar concept, it might be useful to consider comparable expenses such as vaccines that are already common for cow-calf operations. Is the cost and benefit of LRP comparable to existing use of vaccines or other investments that decrease risk?
2. Find a trusted and knowledgeable livestock insurance agent. This is generally important but is especially critical for a producer that is unfamiliar with hedging and is considering LRP for the first time.
3. LRP requires an investment of time in understanding futures markets and selecting acceptable LRP coverage price. Further, LRP can be complementary to efforts to improve financial management and record keeping or develop a marketing plan. Many resources are available for cow-calf producers to aid in these processes, including contacting your local extension agent.

For all types of producers, it is important to keep a realistic perspective on price risk management and LRP. Research has shown that many producers adopt crop insurance only *after* they experience a drought. Focusing on recent events can bias insurance decisions and lead to disappointment. Some years will have no payouts because prices do not decrease, while large payouts occur infrequently. A long-term perspective, combined with understanding of how LRP works, will make price risk management decisions easier.

LRP has been available for two decades, recent policy changes make it more affordable for producers to consider. This might be a tool that is valuable to your operation, but you have to know your cost, needed revenue, cost/return benefit and personal acceptable level of risk. This article and additional information on LRP can be found at: https://www.agmanager.info/crop-insurance/livestock-insurance-papers-and-information