BARNYARDS to BACKYARDS

University of Wyoming

UW Cooperative Extension Service @ Profitable & Sustainable Agricultural Systems

An Insurance Option for Cattle: Livestock Risk Protection

By James Sedman, Sedman Economics, and John Hewlett, University of Wyoming, Cooperative Extension Service[1]

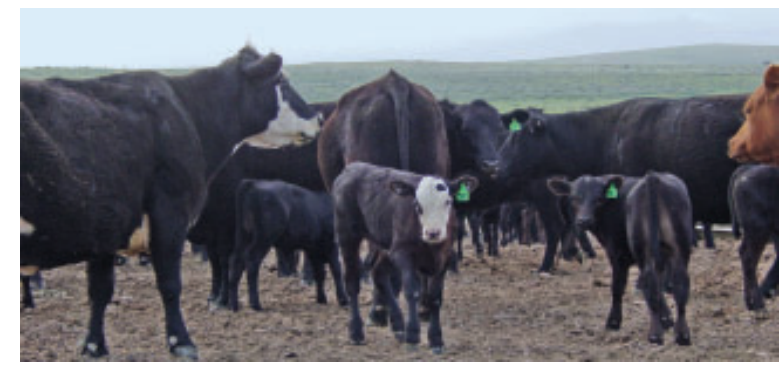
Risk is an inherent part of any agricultural business. The cattle business is no exception. Most cattle producers have experienced events beyond their control such as drought or mad cow scares. One of the more effective ways to limit risk as a crop producer is to use crop insurance. Federal Crop Insurance Corporation programs are now an integral part of many producers' risk management plans. Until 2003, however, there had been no federal insurance option for beef cattle producers. The pilot program of Livestock Risk Protection (LRP) insurance was halted in December of 2003 due to the discovery of bovine spongiform encephalopathy (BSE), known as mad cow disease, but insurance is again available to cattle producers in certain states.

How LRP Works

LRP contracts are essentially a single peril price contract. Currently, LRP contracts are available for both feeder cattle and fed cattle in Wyoming. The insurance price level is tied directly to a Chicago Mercantile Exchange (CME) index. LRP contracts are available for a certain price level, weight, and number of head. For example, a producer has 75 head of steers expected to weigh 650 pounds in six months at marketing. Assume that an insurance coverage price of $100 per cwt is selected. When it comes time to market the steers, assume the price (as determined by the CME index) is $90 per cwt. This results in an indemnity payment of $10 per cwt or $4,875 total. It is important to note that LRP does not necessarily guarantee the producer a cash price. The cash price a producer receives on the open market may be different than that determined by the CME index. Therefore, it is important to try and market cattle for the CME index price to fully take advantage of an LRP contract.

LRP Requirements and Contracts

A producer must make an application with an insurance agent to determine eligibility for an LRP contract. To be eligible, a cattle producer must own or have a substantial interest in the cattle being insured. Heifers, Brahma, and dairy crosses are now eligible for LRP, but their specific coverage levels are determined by the U.S. Department of Agriculture's Risk Management Agency (USDA RMA). After determining eligibility, a producer then decides on the specific number of head to market at a future time, the target weight, and the coverage rate for the contract. This is known as the specific coverage endorsement (SCE). It is important to note that producers can have more than one SCE for the cattle they are marketing. The total number of head that can be insured under the LRP program is 2,000 feeder cattle in a crop year and 1,000 head per SCE. The length of the contract can range from 13 to 52 weeks. The premium cost to the producer includes a 13-percent subsidy from USDA RMA. Also note that producers who purchase either LRP feeder cattle or fed cattle contracts may not take an offsetting position in the CME futures market.



Consider Marketing Options

LRP may or may not be a fit for a particular operation. Producers should carefully weigh the potential costs of any marketing plan before implementing it, in addition to determining if the operation has sufficient cash reserves to deal with price volatility. Risk management options may also change as the scale of an operation grows. A combination of insurance and other marketing options may be the best fit for mitigating risk.

Find out more about LRP contracts and options for an operation by contacting an insurance agent who is authorized to write LRP contracts. For a listing of these insurance agents, contact a local Farm Service Agency or visit the USDA RMA Web site at www.rma.usda.gov. For more information about this and other risk management topics on the Web, consult the Western Risk Management Library at agecon.uwyo.edu/riskmgt.

[1] *James Sedman is a consultant to the UW Department of Agricultural and Applied Economics and John P. Hewlett is a farm/ranch management specialist in the UW Department of Agricultural and Applied Economics.*

Livestock and Small Acreages

By Wayne Tatman, University extension educator, Goshen County

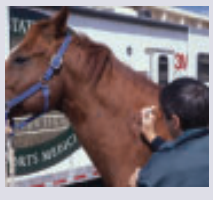
Many animal owners look forward to the arrival of newborns each spring. Whether it's the birth of a calf, lamb, goat, foal, or other animal, the responsibilities are very similar. Since most owners of small acreages have a limited number of animals, they have the opportunity to give extra attention to their nutritional needs and overall health. This is also a good time to consider vaccinating horses for West Nile virus.

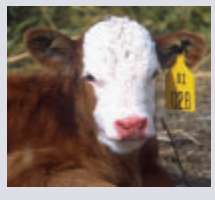
It is especially important to ensure that a mother's nutritional needs are met during the period before birthing. According to Wayne Tatman, a University of Wyoming Cooperative Extension Service educator for Goshen County, "The mother must meet her nutritional requirements to produce milk, maintain herself, and prepare for the next breeding season. For a cow, this could mean feeding an extra three to five pounds of alfalfa hay per day. A ewe might require from one to 1 1/2 pounds more hay per day depending on whether she is nursing a single lamb or twins," he notes. "The added energy requirement can be met several different ways once a person knows the energy value of their available feedstuffs" Refer to the "Test, Don't Guess" article.

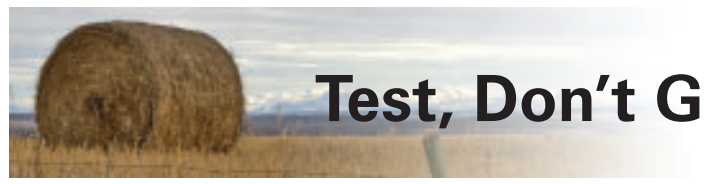
Besides keeping a mother in good condition, special attention should be given to ensuring that baby animals receive adequate colostrum in their first eight hours after birth. Colostrum provides the young protective antibodies and passive immunity from their mothers. Their ability to absorb antibodies decreases rapidly after this eight-hour period. Besides improving their ability to fight infections, other advantages of adequate colostrum intake include decreasing the incidence of respiratory diseases later in life, improved weight gain and performance, and, in turn, a healthier animal and increased profitability.

Horse owners are reminded that it is a good practice to continue vaccinating their horses for West Nile virus (WNV). Even though last year was dry and there were only thirty-two equine and ten human cases of WNV reported in Wyoming, the chances of increased cases are a possibility this year if the state is lucky enough to receive adequate moisture this spring and summer. The normal practice is to vaccinate horses twice the first year they are vaccinated, approximately three weeks apart, then an annual booster each year thereafter. The last shot should be given at least two weeks before the mosquito season begins. Costing $20 to $25 each, the shots provide good immunity to the virus. These should be given in addition to other annual vaccinations.

"Animal owners should consult a local veterinarian for specific health programs for all of their animals," Tatman urges.







Test, Don't Guess!

By Frank Henderson
Extension educator for CNN (Converse, Natrona, Niobrara counties) Area

In the first issue of *Barnyards to Backyards*, four myths regarding the quality of hay were presented. A quick review of the four myths follow: #1 – A third cutting of alfalfa hay is of higher nutritional quality than a second cutting, which in turn is of higher quality than a first cutting. #2 – All hay from the same cutting is of equal quality. #3 – Alfalfa hay is higher quality than grass hay. #4 – When feeding beef cattle, the RFV (relative feed value) is a good measure on which to base decisions.

Expanding on the same idea, the following is an actual scenario of a livestock producer utilizing this year's (purchased) hay crop which is being fed to spring-born calves that were weaned in October, coming 2-year-old pregnant heifers, bulls, and mature cows at calving time.

The producer purchased first-cutting alfalfa at $80 per ton (hay #1), second-cutting alfalfa at $85 per ton (hay #2) and a third-cutting mix comprised of 75-percent grass and 25-percent alfalfa at $100 per ton (hay #3) with a RFV of 181 percent.

The producer decided to purchase the three hays prior to the hays being tested. His purchases were influenced by myths #1 and #4. When he asked for assistance, he was instructed to take hay samples of the three forages, which were then sent to a hay testing laboratory for analysis. The results are in the following table:

Table 1

	Hay 1 (1st cutting)	Hay 2 (2nd cutting)	Hay 3 (3rd cutting)
Protein	17.1%	19.6%	17.3%
TDN*	69.4%	60.1%	71.0%
RFV	165.5	128.0	181.0

**TDN – total digestive nutrients*

The producer planned to achieve a daily gain of 2 to 2 1/2 pounds on the calves from hay #2, but the hay test revealed that the most that could be achieved from this hay was 1 pound of gain at a cost of 72 cents per pound of gain. Hay #1 would offer 3 pounds of gain at a cost of 25 cents per pound. Hay #3 could result in a 3-pound gain for 31 cents per pound.

In comparing the value of the three different hays, the protein is adequate in all of them, thus it is not a limiting factor.

Since the TDN estimate of total energy is a factor, the comparison will be made on the TDN. Based on the cost per pound of TDN, hay #1 is worth $80 per ton, hay #2 is worth $64.21 per ton, while hay #3 is worth $81.13 per ton.

This proves that without testing hays, myth #1 and #4 caused this producer to pay too much per pound of TDN for hay #2 and #3. In addition, the producer would not have achieved his goal of a 2 1/2-pound daily gain for the calves if he had only fed hay #2.

Testing forages allows producers to minimize costs and maximize performance in their livestock. In other words, test, don't guess!