K·STATE Research and Extension | Wildcat District

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Risk Management for Cow-Calf Producers

"Successful cow-calf producers are 'risk experts'," says Jenny Ifft, an agricultural policy specialist with K-State Research and Extension. "They face multiple sources of risk every day. Forage production can vary dramatically based on when or how much it rains. If the market tanks the month before they sell their herd, a producer's profit could be wiped out."

Cow-calf producers can be strategic when considering insurance options. Half of Kansas currently faces moderate drought and feed prices are volatile. Insurance products are available to help producers manage forage risk and price risk by making payouts when a producer's local area is abnormally dry and when cattle prices are lower than expected.

Futures contracts and options are structured with each feeder cattle contract being 50,000 pounds of feeder cattle (generally 60 to 80 head). The size of the contract generally fits best for larger producers.

Many cow-calf producers don't produce a sufficient quantity of uniform calves to manage price risk using futures contracts or options. Livestock risk protection insurance, or LRP, is a price insurance policy developed as a management tool for feeder cattle, fed cattle, lamb and swine. The policyholder is provided flexibility in purchase timing, length of coverage, number of head covered (ranging from just 1 to 12,000), target weight and coverage price level. There's also the added benefit that lenders generally understand insurance, so LRP may be viewed more favorably as a price risk management tool, thus allowing potentially more advantageous borrowing terms and conditions.

The Livestock Risk Protection insurance is administered by the USDA Risk Management Agency, which also administers crop insurance. LRP provides a method to establish a floor selling price for livestock and protects against catastrophic price declines. Historically, large price swings have occurred due to animal disease outbreaks, drought, industry disruptions and even human disease pandemics.

LRP is not designed to enhance livestock producers' profits, nor does it guarantee a cash price for the cattle. LRP strictly protects against declines in a regional/national cash price index. LRP does not protect against any type of production risk.

Jennifer Ifft, KSRE's ag policy specialist, will be giving a presentation on February 23rd, starting at 5:30, available at each Wildcat Extension District location; Independence, Altamont, Girard and Fredonia. She'll be covering enterprise budgeting, cattle marketing and cow-calf insurance options.

Additionally, Jennifer will present in person at the Greenbush Education Center, Girard, on the evening of March 7th. In this workshop, we'll have an introduction to the Livestock Risk Protection insurance and the Pasture, Rangeland, and Forage insurance. There will be interactive scenarios for participants to experience decision-making, using real-life data on cow-calf profitability and historic price outcomes. The event will wrap up with an analysis of the cost, profit and risk management outcomes of self-insurance vs LRP.

To register for either of these events, or for more information, please contact Wendie Powell, Livestock Production Agent, (620) 784-5337, wendiepowell@ksu.edu.

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