USDA’s Announces Major Changes to Feedlot Insurance Program

Changes to USDA’s Livestock Gross Margin transform the product

On July 19, 2020 USDA announced changes to their Livestock Gross Margin for Cattle insurance (LGM-Cattle) policy. These changes are significant, reducing costs up to 50%. Feedlot operators as well as producers who retain ownership of livestock until slaughter could benefit from LGM-Cattle.

LGM-Cattle allows those who own cattle that are finished for slaughter to protect the expected margin between the projected value of their finished cattle and two input costs, specifically corn and feeder cattle-this is what some call the “cattle crush.” Expected margins are determined based upon futures prices. Each month has its own expected margin based upon futures prices in that month or nearby months. A specific formula is used to calculate the margins. Actual producer costs are not utilized.

Producers can choose to insure up to 11 months ahead. When producers choose to insure cattle in multiple months the projected and actual margins will be aggregated together to determine potential indemnities. Producers insure their cattle for the month(s) they intend to have cattle ready for slaughter.

After each month USDA publishes an actual margin based upon where prices settled. Payments are made when the insured margin, including any deductible, is higher than the actual margin. When production is pooled, i.e. when a producer has insured cattle in multiple months then the expected and actual margins are aggregated together to determine if an indemnity is due.

The following information provides an overview of key LGM-Cattle features.

Eligible States: Producers and insured cattle being finished must be located in the following states CO, IL, IN, IA, KS, MI, MN, MO, MT, NE, NV, ND, OH, OK, SD, TX, WV, WI, and WY.

Premium Subsidy:

Deductible	**Pooled Coverage Subsidy**	**Unpooled Coverage Subsidy**
$0	18%	0%
$10	20%	0%
$20	23%	0%
$30	27%	0%
$40	31%	0%
$50	36%	0%
$60	43%	0%
70-$150	50%	0%

Types of Operations: There are two types of options for LGM for Cattle.

- **Yearling Operation**: A type of farm operation that purchases yearling steers and heifers and feeds them until slaughter.
- **Calf Finishing Operation** - A type of farm operation that purchases 550-pound calves and feeds them until slaughter.

Insurance Periods:

- 12 annual insurance periods than run 11 months each
- No cattle can be insured the first month
- Coverage begins one full calendar month following the sales closing date.

Actual Marketing Requirements:

- Must market a minimum of 75% of target marketings (number of head insured) during the 11-month insurance period.

Deductibles: Producers may select deductibles from $0 to $150 per head of cattle, in $10 per head increments.

Enrollment: LGM for Cattle is sold on the last Friday that is a business day of each month. The sales period ends at 8:00 PM central the following day.

Conclusion: Realistic expectations and a long-term plan are key to successfully utilizing USDA's insurance products. Jumping in and out of these products trying to outguess the market often leads to dissapointment.

To determine if LGM is a product that would benefit your operation one should understand how LGM would have performed historically. I recommend sharing a few performance records and asking an agent to tell you how LGM would have performed for different lots. Then you can understand how LGM payments correlate to your bottom-line.

About the Author: From 2013-2017 Brandon Willis oversaw USDA's insurance programs as the Administrator of the Risk Management Agency. Before that he served as a Senior Advisor to the U.S. Secretary of Agriculture Tom Vilsack. He owns Ranchers Insurance LLC, an insurance agency that specializes in LGM. He can be reached at brandon@ranchersinsurance.com.