As many of you may know, the USDA Risk Management Agency offers single-peril price risk coverage for future livestock sales through the Livestock Risk Protection insurance program. Although the program has existed for years, its uptake has been lackluster due to several shortcomings initially put in place during its pilot project period. In May, CIH, as part of a larger group, submitted a request to the Federal Crop Insurance Corporation (FCIC) to improve this LRP program and its overall effectiveness as a risk management tool for producers. After receiving feedback in favor of these changes from many of you and your state and national associations, the FCIC approved two modifications that instantly improved the attractiveness of LRP for hog farmers. As the program now exists, it has the potential to be an integral part of pork producers' margin management plan. The main changes are described below:

1. **Premium Due**: Previously, the LRP premium was due at the time an endorsement was put in place. As a result of the May meeting, the premium is now due at the end of the policy to better align with producers' cash flows. When cash flows and nearby margins are poor, this is beneficial because it allows you to purchase an LRP policy with a coverage price closer to cost of production further out in time. Changing the premium due date allows for protecting these deferred values in a cash flow-friendly manner rather than purchasing an exchange traded put option with upfront premium costs.
2. **Subsidy Level**: The previous subsidy level near the market for LRP products was 20-25%. These were increased to a range of 25%-30%. Subsidy levels farther from the market remain capped at 35%.

Current and Updated LRP Subsidy %

Coverage Level % of Expected Price	Previous	Approved May
95-100	20	25
90-95	25	30
85-90	30	35
80-85	30	35
70-80	35	35

Since the update, CIH has been analyzing the daily premium costs offered to the producer from LRP and comparing this with CME put premiums expiring near the same time. Our findings are that even after the seemingly small adjustment to subsidy levels, the cost of LRP has reached a point where it is *at times* cheaper than the corresponding CME option. Below are two examples using the August 13 LRP offerings and their cost comparisons to CME settlements on the same day for the same coverage period. For all coverage levels on this date, the LRP net premium is more cost effective than the correlating put option premium.

1. **17 Week LRP Insurance Coverage – Ends 12/10/2020**

Pretection End Date	Coverage Price	LRP Net Premium	CME December Put Premium	Difference ($/cwt.)
12/10/2020	54	$3.76	$4.38	$0.62
12/10/2020	52	$3.00	$3.50	$0.50
12/10/2020	50	$2.21	$2.78	$0.57
12/10/2020	48	$1.58	$2.15	$0.57

2. **26 Week LRP Insurance Coverage – Ends 02/11/2021**

Pretection End Date	Coverage Price	LRP Net Premium	CME February Put Premium	Difference ($/cwt.)
2/11/2021	60	$3.57	$4.18	$0.61
2/11/2021	58	$2.67	$3.35	$0.68
2/11/2021	56	$2.11	$2.65	$0.54
2/11/2021	54	$1.54	$2.08	$0.54

Using the 26 week period above, here is an example of an LRP policy at the $60 coverage price from our newly-created CIH Premium Calculator.

Commodity	Head	Live Weight (lbs)	Carcass Weight (lbs)	Start Date	End Date	Length
Lean Hogs	10,000	285	211	08/13/2020	02/12/2021	26 wks

Exp. End Value	Coverage Level	Coverage Price	Premium	Subsidy	Net Premium	Contract
$61.5	97.6%	$60.0	$4.76	25%	$3.57	Feb '21

With a net premium of $3.57 per hundredweight, the total premium owed on the 10,000 head weighing 211 carcass pounds adds up to **$75,323**, as shown below. This total cost would not be due until after the insurance End Date of **02/11/2021**. This same protection level using the CME February $60 put options would cost the producer a total of **$88,050**, due on the day of the put's purchase, **08/13/2020**.

	Per CWT	Total
Expected Revenue Amount	$61.5	$1,296,508
Revenue Guarantee Amount	$60.0	$1,265,400
Total Premium	$4.76	$100,431
Subsidy	$1.19	$25,108
Producer Premium	**$3.57**	**$75,323**

The information contained herein is taken from sources believed to be reliable, but is not guaranteed by CIH Insurance Services, LLC, nor any affiliates, as to accuracy or completeness. CIH is an equal opportunity provider.

As you can see, in this example, the LRP coverage is not only $13,000 cheaper, but the premium payment is not due for another 6 months after the CME put payment. Overall, the LRP can at times be a cheaper risk management option because of the outright cost, but when factoring in the cost of capital on delaying such payments up to six months, there are consistent benefits when it comes to producers' cash flows.

The LRP program is becoming an attractive and compelling risk management tool to use in conjunction with your existing practices. We believe it can serve as an additional component to a comprehensive risk management suite. To ensure all our clients are supported with the best risk management options, your Account Executive will be discussing this in more detail with you in your upcoming consulting calls. We will offer the same type of analysis and tools on LRP that you are currently accustomed to and seamlessly roll this component into your existing risk management program and website. CIH is licensed to sell this product through its affiliate, CIH Insurance Services, LLC.

The program cost is uniform across all agencies. Signing up with an agent does bind you to that agent for all endorsements for the entire crop year, which runs from July 1 to June 30. We would appreciate you speaking with your Account Executive about the program before signing with another agent. The value the agent brings is their expertise, tools, and analysis. We welcome the chance to talk through this program with you and how best to use it for your margin management needs.

Thank you,

CIH