USDA Risk Management Agency
U.S. DEPARTMENT OF AGRICULTURE

COM-25-002: Updated Livestock Price Reinsurance Agreement Appendix IV $200,000 Indemnity Review Requirements for RY 2026

View PDF

Date

April 28, 2025

To

All Approved Insurance Providers

All Risk Management Agency Field Offices

All Other Interested Parties

From

Francie Tolle, Deputy Administrator for Compliance /s/ Francie Tolle

Subject

Updated Livestock Price Reinsurance Agreement (LPRA) Appendix IV $200,000 Indemnity Review Requirements for RY 2026

BACKGROUND:

Approved Insurance Providers (AIPs) are required to conduct reviews of eligible livestock price insurance contracts (ELPIC) on livestock plans of insurance (Livestock Gross Margin (LGM), Livestock Risk Protection (LRP), Dairy Revenue Protection (DRP), and Weaned Calf Risk Protection (WCRP)). These reviews (Data Mining, Individual Policy, Conflict of Interest, and $200,000 Indemnity ($200K)) are intended to address suspected anomalies, program integrity concerns, or to ensure that a company's internal control processes are operational and effective. Requirements for these reviews are described in Appendix IV of the Livestock Price Reinsurance Agreement (LPRA).

The LPRA Appendix IV, Section III(b)(3)(c) requires AIPs to conduct $200K Reviews of ELPICs with indemnities of $200,000 or more. On April 12, 2019, RMA issued COM-

19-001 to address questions from AIPs regarding the basis for determining whether losses have exceeded $200,000. That memo advised $200K Reviews are required once per producer per reinsurance year (RY). It further clarified requirements for aggregating losses by endorsement or insurance period for the LGM, LRP, and DRP plans of insurance.

On July 20, 2024, RMA issued COM-19-001.1 updating COM-19-001. That new memo notified AIPs, effective for RY 2025, $200K Reviews are required once per ELPIC per RY. COM-19-001.1 also informed AIPs the guidance was applicable to all LRPA plans of insurance, including Weaned Calf Risk Protection (WCRP).

ACTION:

Informational Memorandums COM-19-001 and COM-19-001.1 are hereby rescinded based on additional questions from AIPs, as well as feedback from the Data Mining Steering Committee.

This memorandum serves to clarify the review requirements for $200K Reviews in accordance with LPRA Appendix IV, Section III(b)(3)(c) which states, “The Company shall identify and conduct an inspection on any eligible livestock insurance contract with an indemnity of $200,000 or more.” The terms “Inspection”, “Eligible livestock price insurance contract” and “Verification” are defined in the LPRA.

An ELPIC consists of the following eight PASS elements: Reinsurance Year, Commodity Year, State, County, AIP, Commodity Code, Producer Tax ID, and Insurance Plan. [1]

For all eligible livestock price insurance contracts, $200K Indemnity Reviews are required once per RY when the aggregated indemnities over all endorsements/insurance periods meet or exceed $200,000. Further, when the $200K Indemnity Review threshold is met, the current endorsement/insurance period and all endorsements/insurance periods with an end date prior to the trigger, must be reviewed. If errors are found during the AIP’s review, the AIP must review all endorsements/insurance periods with an end date following the triggering of a $200K review. If no errors are found during the AIP’s review, no additional review is needed for subsequent endorsements/insurance periods[2].

The following LGM, LRP, DRP and WCRP examples illustrate when a review is required based on aggregating indemnities and which endorsement/insurance periods must be reviewed.

EXAMPLES:

LGM provides insurance for Cattle (Beef), Dairy, and Swine on the difference between the Gross Margin Guarantee and the Actual Total Gross Margin based on a Producer's Target Marketings and futures prices prior to and during the insurance period. LGM has 12 insurance period intervals in which the producer can purchase Specific Coverage Endorsements (SCE). LGM requires a $200K Review once per ELPIC per RY when the aggregated indemnities for SCEs purchased within the reinsurance year equal or exceed $200,000.

<u>LGM Example:</u> An Iowa swine producer with a farrow to finish operation delivers on average 10,000 head of 250 lb. lean hogs monthly. Coverage is purchased in three insurance period intervals for a total of 90,000 head of swine marketed with the following indemnities:

- SCE #1 September SCEs (effective date 9/22/2023) with target marketings in:
    - December: 10,000 head - $55,000 Indemnity
    - January: 10,000 head - $40,000 Indemnity
    - February: 10,000 head - $10,000 Indemnity

      Aggregate indemnity total for all SCEs: $105,000
- SCE #2 February SCEs (effective date 2/29/2024) with target marketings in:
    - April: 10,000 head - $75,000 Indemnity
    - May: 10,000 head - $35,000 Indemnity
    - June: 10,000 head - No Indemnity

      Aggregate indemnity total for all SCEs: $215,000
- SCE #3 May SCEs (effective date 5/4/2024) with target marketings in:
    - August: 10,000 head - No Indemnity
    - September: 10,000 head - $75,000 Indemnity
    - October: 10,000 head - $145,000 Indemnity

      Aggregate indemnity total for all SCEs: $435,000

At the end of the first two insurance periods (SCE #1 and SCE #2), the producer had aggregated indemnities exceeding $200K. The ELPIC would trigger a $200K Review based on the aggregated indemnities for the SCE's during the insurance periods of

September and February . A review is required of both the September and February SCEs. Although the May SCEs indemnities continue to push the aggregated indemnity in excess of $200,000, a subsequent review is not required unless an error is discovered during the initial $200K Review. In this example, if an error is found in any month during the September or February SCEs, then all SCEs must also be reviewed.

LRP insurance allows the producer to protect against price declines in the market value of Feeder Cattle, Fed Cattle, or Swine. The length of insurance coverage available for each SCE is 13, 17, 21, 26, 30, 34, 39, 43, 47, or 52 weeks. LRP requires a $200K Indemnity Review once per ELPIC per RY when the total aggregate indemnities for SCEs purchased within that ELPIC equal or exceed $200,000.

<u>LRP Example:</u> A Kansas feeder cattle producer annually insures 2,500 head of class weight 1 steers. The producer purchases three endorsements as follows:

- SCE 1 (effective date 8/14/2023) is for 13 weeks – 1,000 head 5.50 cwt @ $170/cwt
- SCE 2 (effective date 11/14/2023) is for 21 weeks – 1,000 head 5.50 cwt @ $175/cwt
- SCE 3 (effective date 2/14/2024) is for 17 weeks – 500 head 5.50 cwt @ $170/cwt

Feeder cattle prices decrease for SCE 1 but recover slightly for SCE 2 and the following indemnities are paid:

- SCE 1 Indemnity – 1,000 head 5.50 cwt @ $138/cwt
  - $176,000 Indemnity
- SCE 2 Indemnity – 1,000 head 5.50 cwt @ $158/cwt
  - $93,500 Indemnity
- SCE 3 Indemnity – 500 head 5.50 cwt @ $97/cwt
  - $200,750 Indemnity

A $200K Review is required as the producer had indemnities exceeding $200,000 when aggregating the indemnities paid during SCEs 1 and 2. A review of SCE 1 and SCE 2 is required. A review would not be required on SCE 3, unless an error is discovered during the $200K Review. In this example, if an error is found in either SCE1 or SCE 2, then SCE 3 must also be reviewed.

DRP allows the producer to protect against a decline in revenue (yield and/or price) on the milk produced from dairy cows on a quarterly basis. DRP requires a $200K Review once per ELPIC per RY when the aggregated indemnities for Quarterly Coverage Endorsements (QCEs) purchased for the ELPIC equal or exceed $200K.

<u>DRP Example:</u> A California Grade A dairy farmer produces 120 million pounds (lbs.) of milk annually (30 million per quarter). Quarterly Coverage Endorsements (QCE) are purchased throughout the year during multiple sales periods. A total of 80 million lbs. of milk is insured over five quarters with the following indemnities:

- Quarter 801 (Oct-Dec 2022)
    - QCE 1 - 10 million lbs. - $45,000 Indemnity
- Quarter 802 (Jan-Mar 2023)
    - QCE 2 - 10 million lbs. - $60,000 Indemnity
- Quarter 803 (Apr-Jun 2023)
    - QCE 3 - 10 million lbs. - $35,000 Indemnity
    - QCE 4 - 5 million lbs. - No Indemnity
- Quarter 805 (Oct-Dec 2023)
    - QCE 5 - 10 million lbs. - $45,000 Indemnity
    - QCE 6 - 10 million lbs. - $30,000 Indemnity
- Quarter 806 (Jan-Mar 2024)
    - QCE 7 - 5 million lbs. - No Indemnity
    - QCE 8 - 20 million lbs. - $45,000 Indemnity

A review is required once per ELPIC per RY, regardless of the number of QCEs purchased or the total number of indemnity events. The $200K Review is triggered when the total indemnities from all QCEs within an ELPIC equal or exceed $200K. At the end of quarter 805 (Oct-Dec 2023) the producer had aggregated indemnities of $215,000; therefore, the ELPIC is subject to review. All QCEs in quarters 801, 802, 803 (including QCE 4 with no indemnity), and 805 must be reviewed. Any QCEs paid during subsequent quarters will not require a review, unless an error is discovered during the $200K Review. In this example, if an error is found during any QCE during Quarters 801 through 805, then QCEs 7 and 8 must also be reviewed.

WCRP protects against both yield losses (based on the producer’s actual production history) and price declines in the market value of the calves. For WCRP, a $200K Review is required for each ELPIC when the total indemnities for each ELPIC equal or exceed $200,000 for the RY. For example, if a beef cow calf producer has ELPICs in three different counties under the WCRP plan of insurance, each of the ELPICs with indemnities that equal or exceed $200,000 must be reviewed individually.

As previously noted, an ELPIC consists of the following eight PASS elements: Reinsurance Year, Commodity Year, State, County, AIP, Commodity Code, Producer Tax ID, and Insurance Plan. For all ELPICs, $200K Indemnity Reviews are required once per RY when the aggregated indemnities over all endorsements/insurance periods meet or exceed $200,000. The attached LPRA review matrix indicates the applicable reviews and Inspection Elements.

Attachment: Revised 2026 LPRA Appendix IV Review Requirements Matrix

DISPOSAL DATE:

Until modified or rescinded

---

[1] The aggregated indemnity for an ELPIC is the sum of all endorsements/insurance periods for the eight PASS elements, similar to the sum of all indemnities for growing seasons on Annual Forage; intervals on Pasture, Rangeland, Forage; and types (spring vs fall) on wheat.

[2] For the purpose of LPRA 200K reviews, an error is defined as any monetary change to the premium, liability, indemnity, and/or Actual Production History.