Livestock Gross Margin Swine

Livestock Gross Margin

The Livestock Gross Margin Insurance Plan for Swine (LGM-Swine) provides protection against the loss of gross margin (market value of livestock minus feed costs) on swine. LGM-Swine uses futures prices to determine the expected gross margin and the actual gross margin. The price you receive at the local market is not used in these calculations.

A premium subsidy is available for those policies that insure multiple months during the insurance period. The subsidy amount is determined by a dollar deductible that you choose (ranges from $0 and $20 per head in $2 increments). If you choose a $0 deductible you receive a lower premium subsidy (18 percent) and if you choose the highest deductible of $20 you receive a higher premium subsidy (50 percent). The premium is due at the end of the coverage period. LGM premiums depend on your marketing plan, coverage you choose, deductible level, and futures and price volatility.

Availability

LGM-Swine is available in all counties in all states to all swine producers. Operations that are covered by LGM-Swine are:

- Farrow-to-Finish Operations
- Feeder Pig-Finishing Operations
- Segregated Early Weaned (SEW) Operations

Buying a Policy

You can purchase coverage each week for the swine you expect to market. Each insurance period is six months long and overlaps over insurance periods.

Coverage begins one month after you buy a policy so coverage is available only for the last five months of the period.

The insurance policy is continuous and renews automatically. LGM Swine is sold on the Thursday of the week when the coverage prices and rates are posted on the RMA website and ends at 9:00 AM Central Time of the following day. Your premium payment is due at the end of the insurance period. If the expected gross margins are not available on the Risk Management Agency (RMA) website, LGM-Swine will not be offered for sale during that insurance period.

Causes of Loss

LGM-Swine covers the difference between the gross margin guarantee and the actual gross margin. LGM-Swine does not insure against swine death or any other loss or damage to your swine.

Where to Buy Livestock Insurance

All multi-peril livestock insurance, including Catastrophic Risk Protection policies, are available from private insurance agents. A list of livestock insurance agents is available on the RMA website by using the rma.usda.gov/Information-Tools/Agent-Locator-Page.

Useful Links

LGM Coverage Prices, Rates, and Actual Ending Values: webapp.rma.usda.gov/apps/actuarialinformationbrowser/

Premium Calculator: ewebapp.rma.usda.gov/apps/costestimator/

This fact sheet gives only a general overview of the crop insurance program and is not a complete policy. For further information and an evaluation of our risk management needs, contact a crop insurance agent.

Indemnity Payments

The indemnity at the end of the six-month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. If the actual gross margin is less than the expected gross margin (minus the deductible) for the insurance period, an indemnity may be payable. Indemnities equal the difference between the gross margin guarantee and the actual total gross margin (see example below). Actual gross margin per swine is determined differently for different operation types. Combination types on the same policy have separate guarantees and loss payments.

Farrow-to-Finish Operations - The actual swine price for the month swine are marketed multiplied by 0.74, by the assumed weight of the swine at marketing (260 pounds, or as stated in the Special Provisions), and minus the actual cost of feed three months before the swine are marketed (using Chicago Mercantile Exchange prices).

Feeder and SEW Pig Finishing Operations - The actual swine price for the month swine are marketed multiplied by 0.74, by the assumed weight of the swine at marketing (260 pounds, or as stated in the Special Provisions), and minus the actual cost of feed two months before the swine are marketed (using Chicago Mercantile Exchange prices).

Loss Example

Assume you have a farrow-to-finish operation and sold 10 head of swine in June for $30, feed in March cost $20 a head, the expected gross margin is $470, and you chose a deductible of $2 a head. Your deductible is $20.

Example		
	$470.00	Expected gross margin
-	$ 20.00	Deductible
	$450.00	**Guarantee**
	$ 30.00	Sale price
x	0.74	Yield Factor
x	2.6	Assumed weight (260/100)
	$ 57.72	
-	$ 20.00	Feed price
	$ 37.72	Actual gross margin, per animal
x	10	Head of swine sold
	$377.20	**Actual gross margin**
	$450.00	Guarantee
-	$377.20	Actual gross margin
	$ 72.80	**Indemnity payment**

Definitions

Actual Gross Margin - Based on the market value of the swine minus feed costs using Chicago Mercantile Exchange Actual Prices.

Actual Total Gross Margin - The actual total gross margin is the sum of the target marketings multiplied by the actual gross margin per head of swine for each month of an insurance period.

Expected Gross Margin - Based on the market value of the swine minus feed costs (corn and soybean meal equivalents) using Chicago Mercantile Exchange futures prices.

Farrow-to-Finish Operation - A type of farm operation that covers all aspects of breeding, farrowing, and raising swine to slaughter.

Feed Equations - The feed equations for LGM-Swine are based on an optimal feeding ration developed through Iowa State University.

Feeder Pig-Finishing Operation - A type of farm operation that specializes in the feeding of swine (feeder pigs) from a weight of about 50 pounds to slaughter.

Insurance Period - Coverage begins on the swine one full calendar month following the sales closing date, unless otherwise specified in the Special Provisions. For example, the insurance period for the January sales closing date includes the months of February (swine not insurable), March, April, May, June, and July.

Segregated Early Weaned (SEW) Operation - A type of farm operation that specializes in the feeding of swine (SEW pigs) from the age of about 12 - 21 days to slaughter.

Target Marketings - Your target marketings are a determination you make about the maximum number of slaughter-ready swine that you will market (sell) during the insurance period. The target marketings must be less than or equal to the applicable approved target marketings you certified when buying insurance coverage.

Yield Factor - The yield factor converts lean hog prices to live hog prices. The yield factor is set at 0.74 for LGM-Swine.