LIVESTOCK RISK PROTECTION (LRP): SWINE UNDERWRITING RULES

1. Basic Principles

A. Protection Offered: LRP-Swine insurance protects swine producers against a decline in prices below the established level of coverage.

B. Insurance Period: LRP-Swine insurance is offered for 13, 17, 21, and 26-week periods. The time closest to the time the swine will be marketed should be chosen.

C. Application and Substantial Beneficial Interest: An application is required to purchase LRP coverage. The application establishes eligibility. A Substantial Beneficial Interest (SBI) reporting form showing those with a substantial beneficial interest shall be attached to the application. No insurance coverage attaches to the application until the producer submits a Specific Coverage Endorsement. A producer may have Specific Coverage Endorsements for multiple classes of livestock or livestock products under one Application as long as the Substantial Beneficial Interests are the same. If the SBIs are different, additional applications are necessary for each different SBI arrangement.

D. Specific Coverage Endorsement (SCE): The SCE is used to initiate LRP coverage for a specified group of livestock or livestock product ready to be marketed on or near the end date of the SCE. A producer may have multiple Specific Coverage Endorsements.

E. Daily Actuarial Documents: Coverage prices, rates, and coverage levels are available on the daily actuarial documents posted on the RMA website for the LRP program. Coverage prices and rates change daily and must be referred to at the time of sale for each endorsement.

F. Premium:
   (1) Premium must be paid on the day LRP insurance is purchased for coverage to be provided.
   (2) Producers may obtain quotes using the RMA Premium Calculator.

G. Crop Year: July 1 to June 30. Determined for individual specific coverage endorsements by the effective date.

H. LRP Documents:
   (1) Livestock Risk Protection Insurance Policy-Basic Provisions
   (2) Application Form-This form is filled out to apply for eligibility to purchase LRP insurance. No insurance coverage attaches until a Specific Coverage Endorsement is filled out to go with an approved application.
   (3) Substantial Beneficial Interest-This form shows the social security numbers, employer identification numbers, and share of those with a 10 percent interest or more in the insurance entity and must accompany the application form. The SBI form is used to establish eligibility and to account for insurance limits.
   (4) Premium Calculation Instructions-This worksheet can be used to calculate the LRP premium once the Coverage Price and Rate information is obtained from the website on the date of sale.
   (5) Specific Coverage Endorsement-The part of the policy that describes coverage of the swine.
   (6) Specific Coverage Endorsement Form-This form is filled out to attach coverage to the policy. An approval number must be obtained through the website to show that

underwriting capacity is available. Only approved agents and companies participating in the Livestock Price Reinsurance Agreement may obtain approval numbers.

(7) Assignment of Indemnity Form-This form is used for assigning any indemnity to a third party.

(8) Transfer of Right to Indemnity Form-This form is used if the livestock or livestock product is sold prior to the end of insurance period to transfer any indemnity to the new owner (providing the new owner meets eligibility requirements).

(9) Claim Form-If the actual ending value, as specified in the Specific Coverage Endorsement, is below the coverage price, this form must be completed and sent to the company within 60 days following the end date. An indemnity payment will be made within 60 days of receipt of the claim form.

(10) Special Provisions-May be obtained from the RMA website (www.rma.usda.gov) and are part of the policy materials.

I. Area: The LRP-Swine program is offered in all counties in the states of Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

J. Target Weight: The Target Weight for the covered swine is in lean hundredweight, and should fall within the range of 1.50 and 2.25 cwt (this equates to a head weighing from about 203 to 304 lbs. on a live basis). To convert live weight to lean weight, multiply the live weight by the lean weight conversion factor of .74. For example, a 2.50 cwt. per head live weight is equal to 1.85 cwt. lean weight.

K. Continuous Policy: If the policy is not cancelled in writing by June 30, the policy (but not any Specific Coverage Endorsements) will automatically renew. The policy may be cancelled at any time unless a Specific Coverage Endorsement is in effect.

2. Limitations

A. Program Funding Limits: This pilot program was established in the Federal Crop Insurance Act with overall funding limitations. Coverage may not be available if underwriting capacity has been expended.

B. Annual Policy Limits: The annual limitation of the number of head of swine that may be covered during the crop year is 32,000 head. For the insured entity, the number of insured swine will be totaled and may not be more than 32,000 head. The Substantial Beneficial Interest form will be used to determine the total head insured by any individual. For example: Smith Farms has 20,000 head insured under LRP. John Smith has a substantial beneficial interest in Smith Farms and has 90 percent interest (20,000 * .90 = 18,000 head). John Smith also has hogs under his own name and wants to insure 10,000 head. The total hogs insured by John Smith are: 18,000 + 10,000 = 28,000 head which is below the crop year limit of 32,0000 head.

C. Endorsement Limits: A limitation of 10,000 head of swine may be insured under any one Specific Coverage Endorsement.

D. Daily Sales Limits: This pilot program has a daily limit for the total amount of premium sold for the sales period. Coverage may not be available if the Underwriting Capacity Manager computer system determined that the sales limit has been, or would be, exceeded.

3. **Coverage**

A. <u>Coverage Prices</u>: The prices that can be insured by the producer. They change daily and must be obtained from the RMA website. Premium rates correspond to the coverage prices.

B. <u>Coverage Levels</u>: Calculated based on the chosen coverage price. Coverage levels will range from 70% to 100%.

C. <u>Availability of Coverage</u>: Coverage information is found exclusively on the daily Actuarial Documents, and is applicable only for the date of sale. Coverage can be purchased from the time prices and rates are published on the RMA website and ending on the following calendar day at 9:00 a.m. Central Time, or as otherwise specified in the Special Provisions. Coverage is not available for purchase on dates that would have an effective date of a Federal or a market holiday, or if the website or premium calculator are not operational, or if sales are halted by FCIC under section 4 of the Basic Provisions. Coverage will not be available if any of the required data for establishing coverage prices or rates is not available or if futures do not continue trading at the end of the day (if the price moved the maximum allowed by the exchange), or for any other reason specified in the policy. The coverage offered or the cost of coverage will not be changed in response to any revisions to the information used in determining coverage prices or rates.

D. <u>Suspension and Resumption of Sales</u>: The LRP program could be suspended for several days based on the number of consecutive days with a daily price change equal or exceeding the Daily Price Limit, as defined by the CME. Currently the maximum allowable price change is $3.00 above or below the previous day's settlement price.

Sales of LRP will be suspended for future sales periods if, based on CME market settlement information, at least four (4) of the CME Lean Hog futures contracts have a daily price change equal or exceeding the Daily Price Limit for two (2) consecutive days. LRP sales will resume if and when there have been two (2) consecutive days without there being four (4) or more CME Lean Hog futures contracts equaling or exceeding the Daily Price Limit.

4. **Calculations**

A. Premium calculation example:
An operation has 1,000 head of hogs and expects to market the hogs at 2.50 cwt. each. Therefore, the target weight is 2.50 times the lean weight conversion factor of .74, which is 1.85 cwt. The insured share is 100 percent. The expected ending value is $55.00 dollars per cwt and the producer selects a coverage price of $52.25 per cwt (on a lean cwt basis). For this coverage price the rate is 2.8708%. The premium subsidy is 13 percent. The premium is calculated by:

(1) 1,000 head times 1.85 equals 1,850 cwt.

(2) 1,850 cwt. times the coverage price of $52.25 equals $96,663

(3) $96,663 times the insured share of 1.00 equals an insured value of $96,663

(4) 96,663 times the rate of .028708 equals $2,775 total premium

(5) $2,775 times the producer premium subsidy percentage of .13 equals $361

(6) Subtracting $361 from $2,775 equals the producer premium of $2,414.

B. Indemnity calculation example:

For the above operation with 1,000 head of hogs, a target weight of 1.85 cwt., an insured share of 100 percent, and a coverage price of $52.25 per cwt., the actual ending value is equal to $44.80 per cwt. Since $44.80 is less than the coverage price of $52.25, an indemnity is due. Indemnity is calculated by:

(1) 1,000 head times the 1.85 target weight equals 1,850 cwt.

(2) Subtracting the actual ending value of $44.80 from the coverage price of $52.25 equals $7.45/cwt.

(3) Multiplying 1,850 cwt. by $7.45/cwt equals $13,783

(4) Multiplying $13,783 by the insured share of 1.00 equals an indemnity payment of $13,783.