LIVESTOCK GROSS MARGIN INSURANCE POLICY
QUESTIONS AND ANSWERS

1. Q: What is the Livestock Gross Margin Insurance Policy?

A: The Livestock Gross Margin Insurance Policy provides protection against the loss of gross margin (market value of livestock minus feed costs) on the Swine. 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. The Livestock Gross Margin Insurance Policy uses futures prices to determine the Expected Gross Margin and the Actual Gross Margin. The price the producer receives at the local market is not used in these calculations.

2. Q: Who is eligible for the Livestock Gross Margin Insurance Policy?

A: Any Producer who owns Swine fed in Adair, Adams, Allamakee, Appanoose, Audubon, Benton, Black Hawk, Boone, Bremer, Buchanan, Buena Vista, Butler, Calhoun, Carroll, Cass, Cedar, Cerro Gordo, Cherokee, Chickasaw, Clarke, Clay, Clayton, Clinton, Crawford, Dallas, Davis, Decatur, Delaware, Des Moines, Dickinson, Dubuque, Emmet, Fayette, Floyd, Franklin, Fremont, Greene, Grundy, Guthrie, Hamilton, Hancock, Hardin, Harrison, Henry, Howard, Humboldt, Ida, Iowa, Jackson, Jasper, Jefferson, Johnson, Jones, Keokuk, Kossuth, Lee, Linn, Louisa, Lucas, Lyon, Madison, Mahaska, Marion, Marshall, Mills, Mitchell, Monona, Monroe, Montgomery, Muscatine, O'Brien, Osceola, Page, Palo Alto, Plymouth, Pocahontas, Polk, Pottawattamie, Poweshiek, Ringgold, Sac, Scott, Shelby, Sioux, Story, Tama, Taylor, Union, Van Buren, Wapello, Warren, Washington, Wayne, Webster, Winnebago, Winneshiek, Woodbury, Worth, and Wright counties in Iowa is eligible for Livestock Gross Margin Insurance Policy coverage.

3. Q: What Swine are eligible for coverage under the Livestock Gross Margin Insurance Policy?

A: Only Swine sold for commercial or private slaughter primarily intended for human consumption and fed in any of the eligible 99 counties in Iowa are eligible for coverage under the Livestock Gross Margin Insurance Policy.

4. Q: What are the advantages of the Livestock Gross Margin Policy over traditional options?

A: LGM has two advantages over traditional options.

Convenience. Producers can sign up for LGM twelve times per year and insure all of the hogs they expect to market over a rolling six month insurance period. The producer does not have to decide on the mix of options to purchase, the strike price of the options, or the date of entry.

Customization. The LGM policy can be tailored to any size farm. Options cover fixed amounts of commodities and those amounts may be too large to be used in the risk management portfolio of some farms.

5. Q: How is LGM different from traditional options?

A: LGM is different from traditional options in that LGM is a bundled option that covers both hog price and feed costs. The mix of hog price and feed costs are set using an optimal feeding ration developed through Iowa State University. This bundle of options effectively insures the producers gross margin, hog price minus feed costs, over the insurance period.

Also, LGM cannot be exercised. LGM works as a bundle of options that pay the difference, if positive, between the value at purchase of the options and the value at the end of a certain time period. So, LGM would pay the difference, if positive, between the gross margin guarantee and the actual gross margin, as defined in the policy provisions.

6. Q: Can LGM be exercised?

A: No, LGM cannot be exercised during the insurance period. LGM pays the difference, if positive, between the gross margin guarantee and the actual gross margin, as defined in the LGM provisions, at the end of the insurance period.

7. Q: Does LGM use the price the producer receives at the market?

A: No. The prices for LGM are based on simple averages of futures contract daily settlement prices and are not based on the prices the producer receives at the market.

8. Q: Does LGM make early indemnity payments?

A: Yes. If an indemnity is due under LGM coverage, the company will send the producer a notice of probable loss after the last month of the producer's marketing plan. The last month of the producer's marketing plan is the last month in which the producer indicated target marketings on the application.

9. Q: How is the underwriting capacity for LGM distributed?

A: LGM has limited underwriting capacity that will be distributed through the Federal Crop Insurance Corporation's underwriting capacity manager. The underwriting capacity will be distributed on a first come, first served basis. LGM will not be offered for sale after capacity is full or at any time the underwriting capacity manager is not functional.

10. Q: When is LGM sold and how long do the sales periods last?

A: LGM is sold on the last business day of each month. The sales period begins as soon as RMA validates the data submitted by the developer after the close of markets on the last day of the price discovery period. The sales period ends at 9:00 AM the following day. If expected gross margins are not available on the RMA website, LGM will not be offered for sale for that insurance period.

11. Q: How are the feed equations for LGM determined?

A: The feed equations for LGM are based on an optimal feeding ration developed through Iowa State University.

12. Q: What is the yield factor?

A: The yield factor of 0.74 is the factor used to convert lean hog price to live hog price.

13. Q: What types of losses are covered by LGM?

A: LGM covers the difference between the gross margin guarantee and the actual gross margin. LGM does not insure against death loss or any other loss or damage to the producer's hogs.

14. Q: Where can I purchase LGM coverage?

A: LGM is available for sale at your authorized crop insurance agent's office. Crop insurance agents must be certified by an insurance company to sell LGM and that agent's identification number must be on file with the Federal Crop Insurance Corporation.

15. Q: What makes up the Insurance Period?

A: There are twelve insurance periods in each calendar year. Each insurance period runs for six months and for the first month of any insurance period, no swine can be insured. Coverage begins on your swine one full calendar month following the sales closing date, unless otherwise specified in the Special Provisions, provided premium for the coverage has been paid in full. For example, the insurance period for the January 31st sales closing date contains the months of February (swine not insurable), March, April, May, June, and July. Producers may insure swine in the months of March, April, May, June or July.

16. Q: What are the Producer's Target Marketings?

A: A determination made by the insured as to the maximum number of slaughter ready barrows and gilts that the producer will market (sell) during the Insurance Period. The Target Marketings must be less than or equal to that Producer's applicable Approved Target Marketings as certified by the producer.

17. Q: What are the Producer's Approved Target Marketings?

A: The Producer's Approved Target Marketings are the maximum number of Swine that may be stated as Target Marketings on the application. Approved Target Marketings are certified by the producer and are subject to inspection by the insurance company. A producer's Approved Target Marketings will be the lesser of the capacity of the producer's swine operation for the six-month insurance period as determined by the insurance provider and the underwriting capacity limit as stated in the special provisions.

18. Q: What is the Expected Corn Price?

A: The expected corn price is set in three different ways, depending on the insurance period and the lags used for the feed prices. For feed months with unexpired futures contracts, the expected corn price is the simple average of final daily settlement prices for the CBOT corn futures contract for that month expressed in dollars per bushel over the last three business days of the month. For feed months with expired futures contracts (example: the December corn price for the LGM insurance policies sold in January), the expected corn price is the simple average of final daily settlement prices for the CBOT corn futures contract for that month expressed in dollars per bushel in the last three trading days prior to contract expiration. For feed months without futures contracts, the expected corn price is the weighted average of the expected corn prices for surrounding contract months where the weights are based on the time difference between the feed month and the contract months. See the commodity exchange endorsement for additional information on the calculation of the expected corn price. Prices will be released by RMA after the markets close on the last day of the price discovery period.

19. Q: What is the Expected Soybean Meal Price?

A: The expected soybean meal price is set in three different ways, depending on the insurance period and the lags used for the feed prices. For feed months with unexpired futures contracts, the expected soybean meal price is the simple average of final daily settlement prices for the CBOT soybean meal futures contract for that month expressed in dollars per ton over the last three business days of the month. For feed months with expired futures contracts (example: the December soybean meal price for the LGM insurance policies sold in January), the expected soybean meal price is the simple average of final daily settlement prices for the CBOT soybean meal futures contract for that month expressed in dollars per ton in the last three trading days prior to contract expiration. For feed months without futures contracts, the expected soybean meal price is the weighted average of the expected soybean meal prices for surrounding contract months where the weights are based on the time difference between the feed month and the contract months. See the commodity exchange endorsement for additional information on the calculation of the expected soybean meal price. Prices will be released by RMA after the markets close on the last day of the price discovery period.

20. Q: What is the Expected Cost of Feed?

A: The Expected Cost of Feed for Farrow to Finish Operations equals 12.95 bushels times the Expected Corn Price plus 184.89 pounds divided by 2000 pounds per ton times the Expected Soybean Meal Price.

Farrow-to-Finish Expected Cost of Feed:
12.95 bu. x Corn Price_t + (184.89 lb./2000 lb.) x Soybean Meal Price_t

The Expected Cost of Feed for Finishing Operations that finish feeder pigs equals 10.41 bushels times the Expected Corn Price plus 149.46 pounds divided by 2000 pounds per ton times the Expected Soybean Meal Price.

Expected Cost of Feed for Operations that Finish Feeder Pigs:
10.41 bu. x Corn Price_t + (149.46 lb./2000 lb.) x Soybean Meal Price_t

The Expected Cost of Feed for Finishing Operations that finish SEW pigs equals 11.03 bushels times the Expected Corn Price plus 167.18 pounds divided by 2000 pounds per ton times the Expected Soybean Meal Price.

Expected Cost of Feed for Operations that Finish SEW pigs:
11.03 bu. x Corn Price_t + (167.18 lb./2000 lb.) x Soybean Meal Price_t

For example, if the Expected Corn Price for March is $2.10 per bushel and the Expected Soybean Meal Price for March is $150 per ton, a Farrow-to-Finish Expected Cost of Feed for February would be $41.06 per Swine (12.95 x $2.10) + ((184.89 / 2000) x $150) = $41.06).

21. Q: What is the Expected Hog Price?

A: The expected hog price is set in two different ways, depending on the insurance period. For hog months with futures contracts, the expected hog price is the simple average of final daily settlement prices for the CME lean hog futures contract for that month expressed in dollars per hundredweight over the last three business days of the month. For hog months without futures contracts, the expected hog price is the weighted average of the expected hog prices for surrounding contract months where the weights are based on the time difference between the hog month and the contract months. See the commodity exchange endorsement for additional information on the calculation of the expected hog price. Prices will be released by RMA after the markets close on the last day of the price discovery period.

22. Q: What is the Expected Gross Margin Per Swine?

A: The Expected Gross Margin Per Swine for a Farrow to Finish Operation is the Expected Swine Price for the month the Swine are marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing (2.6 cwt.), minus the Expected Cost of Feed three months prior to that month. For example, the Expected Gross Margin Per Swine for April is the Expected Swine Price for April less the Expected Cost of Feed for January.

Expected Gross Margin Per Swine for a Farrow to Finish Operation =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 12.95 bu. x Corn Price$_{t-3}$ - (184.89 lb./2000 lb.) x Soybean Meal Price$_{t-3}$

The Expected Gross Margin Per Swine for Operations that Finish Feeder Pigs and for Operations that Finish SEW pigs is the Expected Swine Price for the month the Swine are marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing (2.6 cwt.), minus the Expected Cost of Feed two months prior to that month. For example, the Expected Gross Margin Per Swine for April is the Expected Swine Price for April less the Expected Cost of Feed for February.

Expected Gross Margin Per Swine for an Operation Finishes Feeder Pigs =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 10.41 bu. x Corn Price$_{t-2}$ - (149.46 lb./2000 lb.) x Soybean Meal Price$_{t-2}$

Expected Gross Margin Per Swine for an Operation Finishes SEW pigs =

(Swine Price$_t$ x 0.74 x 2.6 cwt) - 11.03 bu. x Corn Price$_{t-2}$ - (167.18lb./2000 lb.) x Soybean Meal Price$_{t-2}$

For example, a Producer with a Farrow-to-Finish Operation with Swine to sell in June would use a March corn and soybean meal price of $2.10/bu and $150/ton respectively. Assuming the CME lean hog price is $50/cwt this Producer would have an Expected Gross Margin Per Swine of $55.13 (($50 x 0.74 x 2.6) - (12.95 x 2.10) - (184.89 / 2000 x $150) = $55.13).

23. Q: How is the Expected Total Gross Margin calculated for each Insurance Period?

A: The Expected Total Gross Margin is the sum of the Target Marketings times the Expected Gross Margin Per Swine for each month of an Insurance Period.

If the Producer from the above example has 10 head of Swine to sell in June and an Expected Swine Gross Margin per Swine of $55.13, then the Expected Total Gross Margin would be $551.30 (10 x $55.13 = $551.30).

24. Q: How is the Gross Margin Guarantee calculated for each Insurance Period?

A: The Gross Margin Guarantee for each coverage period is calculated by multiplying the Expected Total Gross Margin for the applicable Insurance Period, times the Coverage Level Percent.

If our example Producer wants a 90% coverage level on 10 head of Swine, his Expected Gross Margin Per Swine is $55.13, then the Gross Margin Guarantee would be $496 (90% x $55.13 x 10 = $496).

25. Q: What is the Actual Corn Price?

A: For months in which a CBOT corn futures contract expires, the actual corn price is the simple average of the final daily settlement prices in the last three trading days prior to the contract expiration date for the CBOT corn futures contract for that month expressed in dollars per bushel. For months when there is no expiring CBOT corn futures contract, the actual corn price is the weighted average of the prices on the nearest two contract months. The weights depend on the time period between the month in question and the nearby contract months. For example, the actual corn price in April is the simple average of the final daily settlement prices in the last three trading days prior to the contract expiration date of the corn futures contracts that expire in March and May. For the month of January, the actual corn price will equal 2/3 times the December actual corn price plus 1/3 times the March actual corn price.

26. Q: What is the Actual Soybean Meal Price?

A: For months in which a CBOT soybean meal contract expires, the actual soybean meal price is the simple average of the final daily settlement prices in the last three trading days prior to the contract expiration date for the CBOT soybean meal futures contract for that month expressed in dollars per ton. For other months the actual soybean meal price is the simple average of the final daily settlement prices in the last three trading days prior to the contract expiration date of the soybean meal futures contracts that expire in the immediately surrounding months. For example, the actual soybean meal price in April is the simple average of the final daily settlement prices in the last three days prior to the contract expiration date of the soybean meal futures contracts in March and May.

27. Q: What is the Actual Cost of Feed?

A: The Actual Cost of Feed for Farrow to Finish Operations for each month equals 12.95 bushels times the Actual Corn Price plus 184.89 pounds divided by 2000 pounds times the Actual Soybean Meal Price.

Farrow-to-Finish Actual Cost of Feed:
12.95 bu. x Corn Price$_t$ - (184.89 lb./2000 lb.) x Soybean Meal Price$_t$

For Operations that Finish Feeder Pigs the Actual Cost of Feed for each month equals 10.41 bushels times the Actual Corn Price plus 149.46 pounds divided by 2000 pounds times the Actual Soybean Meal Price.

Finishing Actual Cost of Feed:
10.41 bu. x Corn Price$_t$ - (149.46 lb./2000 lb.) x Soybean Meal Price$_t$

For Operations that Finish SEW pigs the Actual Cost of Feed for each month equals 11.03 bushels times the Actual Corn Price plus 167.18 pounds divided by 2000 pounds times the Actual Soybean Meal Price.

Finishing Actual Cost of Feed:
11.03 bu. x Corn Price$_t$ - (167.18 lb./2000 lb.) x Soybean Meal Price$_t$

For example, if the Actual Corn Price for March is $2.50 per bushel and the Actual Soybean Meal Price for March is $170 per ton, a Farrow-to-Finish Actual Cost of Feed for February would be $48.09 per Swine (12.95 x $2.50 + (184.89 / 2000) x $170 = $48.09).

28. Q: What is the Actual Swine Price?

A: For months in which a CME lean hog futures contract expires, the actual swine price is the simple average of the final daily settlement prices in the last three trading days prior to the contract expiration date for the CME lean hog futures contract for that month expressed in dollars per hundredweight. For other months the actual swine price is the simple average the final daily settlement prices in the last three trading days prior to the contract expiration date of the lean hogs futures contracts that expire in the immediately surrounding months. For example, the actual swine price in September is the simple average of the final daily settlement prices in the last three trading days prior to the contract expiration date of the lean hog futures contracts that expire in August and October.

Following our example, if the average of the last three days of the June lean hog futures contract is $40/cwt then the June Actual Swine Price is $40/cwt.

29. Q: What is the Actual Gross Margin Per Swine?

A: The Actual Gross Margin Per Swine for a Farrow to Finish Operation is the Actual Swine Price for the month the Swine is marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing, minus the Actual Cost of Feed three months prior to that month. For example, the Actual Gross Margin Per Swine for April is the Actual Swine Price for April less the Actual Cost of Feed for January.

Actual Gross Margin Per Swine for a Farrow to Finish Operation:
(Swine Price$_t$ x 0.74 x 2.6 cwt) - 12.95 bu. x Corn Price$_{t-3}$ - (184.89 lb./2000 lb.) x Soybean Meal Price$_{t-3}$

The Actual Gross Margin Per Swine for Operations that Finish Feeder Pigs and SEW pigs are the Actual Swine Price for the month the Swine is marketed times 0.74 to convert to a live weight basis, times the assumed weight of the Swine at marketing, minus the Actual Cost of Feed two months prior to that month. For example, the Actual Gross Margin Per Swine for April is the Actual Swine Price for April less the Actual Cost of Feed for February.

Actual Gross Margin Per Swine for Operations that Finish Feeder Pigs =
(Swine Price$_t$ x 0.74 x 2.6 cwt) - 10.41 bu. x Corn Price$_{t-2}$ - (149.46 lb./2000 lb.) x Soybean Meal Price$_{t-2}$

Actual Gross Margin Per Swine for Operations that Finish SEW pigs =
(Swine Price$_t$ x 0.74 x 2.6 cwt) – 11.03 bu. x Corn Price$_{t-2}$ - (167.18 lb./2000 lb.) x Soybean Meal Price$_{t-2}$

For example, a farrow-to-finish operation with Swine to be sold in June would use a June lean hog futures price of $40/cwt and an April corn and soybean meal price of $2.50/bu and $170/ton respectively would have an Actual Gross Margin Per Swine of $28.86 (($40 x 0.74 x 2.6) - 12.95 x $2.50 - 184.89 / 2000 x $170 = $28.86).

30. Q: How is the Actual Total Gross Margin calculated?

A: The Actual Total Gross Margin is the sum of the Target Marketings times the Actual Gross Margin Per Swine for each month of an Insurance Period.

If the Producer in the example sold 10 head of Swine in June and an Actual Gross Margin Per Swine of $28.86, then the Actual Total Gross Margin would be $289 (10 x $28.86 = $289).

31. Q: How are Indemnities Determined?

A: Indemnities to be paid will equal the difference between the Gross Margin Guarantee and the Actual Total Gross Margin for the Insurance Period.

The producer in our example would receive an indemnity of $207 ($496 - $289 = $207)

32. Q: Is a Marketing Report required and when should the Company receive it?

A: Yes, in the event of a loss the producer must submit a Marketing Report and sales receipts showing evidence of Actual Marketings for each month. The producer must submit the Marketing Report within 15 days of receipt of Notice of Probable Loss.

33. Q: Is this a Continuous Policy?

A: This is a continuous policy with twelve overlapping insurance periods per year. Target Marketings must be submitted for each Insurance Period. If a Target Marketing Report is not submitted by the Sales Closing Date for the applicable insurance period, Target Marketings for that insurance period will be zero.

34. Q: When must the Application for insurance be turned into the Company?

A: The Sales Closing Dates for the pilot project Policy are the last business day of the month for each of the twelve calendar months. The Application must be completed and filed not later than the Sales Closing Date of the initial Insurance Period for which coverage is requested. Coverage for the Swine described in the Application will not be provided unless the Insurance Company receives and accepts a completed Application, a Target Marketing Report, premium is paid in full and sends the Producer a written Summary of Insurance.

35. Q: When does Coverage begin?

A: Coverage begins one month after the sales closing date. Coverage begins on your swine one full calendar month following the sales closing date, unless otherwise specified in the Special Provisions, provided premium for the coverage has been paid in full. For example for the January 31st sales closing date, coverage begins on March 1 and ends on July 31st.

36. Q: When are the Contract Change Dates for the Policy?

A: The Contract Change Date is April 30. Any changes to the Livestock Gross Margin Policy will be made prior to this Contract Change Date.

37. Q: When are the Cancellation Dates for the Policy?

A: The Cancellation Date is June 30 for all insurance periods.

38. Q: When is the End of Insurance for the Policy?

A: The End of Insurance for the policy is six months after the sales closing date. For example for the January 31st sales closing date, coverage ends on July 31st.

39. Q: What Coverage Level Percentages are available for the Policy?

A: The Producer may select Coverage Levels Percentages of 80%, 85%, 90%, 95%, or 100%.

40. Q: How is the Producer's Premium Calculated?

A: The Producer's premium is calculated by a premium calculator program that determines the per Swine premium based on Target Marketings, expected gross margins for each period and coverage level percentages.

41. Q: When is the Premium for the Policy due?

A: The Premium for the initial insurance period is due with the application for Livestock Gross Margin Insurance coverage. The premium for all subsequent insurance periods is due with the Target Marketings Report, which is due no later than the sales closing date.

42. Q: What portion of a Producer's Swine will be insured under the Policy?

A: A producer can insure any amount of swine that the producer owns up to a limit of 15,000 head for any six-month insurance period and a limit of 30,000 head per crop year. Ownership of insured hogs must be certified by the producer and may be subject to inspection and verification by the insurance company.

43. Q: What information is required for acceptance of an Application for the Livestock Gross Margin Insurance Policy?

A: The Application for the Livestock Gross Margin Insurance Policy must contain all the information required by us to insure the gross margin for the animals. Applications that do not contain all social security numbers and employer identification numbers, as applicable (except as stated in the policy), coverage level percent, Target Marketings Report, and any other material information required to insure the gross margin for the animals, will not be acceptable.

44. Q: If a producer has a combination of Farrow to Finish, Feeder to Finish, and SEW to Finish hogs on the same policy, are the guarantees and the loss payments separate.

A: Yes. Guarantees and loss payments are calculated separately for each of these three types of hogs. However, the producer is still limited to covering 15,000 hogs per insurance period and 30,000 annually.

45. Q: Can the Manager of RMA suspend LGM sales?

A: Yes. Sales of LGM may be suspended for the next sales period if unforeseen and extraordinary events occur that interfere with the effective functioning of the corn, soybean meal, or lean hogs commodity markets. Coverage may not be available in instances of a news report, announcement, or other event that occurs during or after trading hours that is believed by the Secretary of Agriculture, Manager of the Risk Management Agency, or other designated staff of the Risk Management Agency, to result in market conditions significantly different than those used to rate the LGM program. In these cases, coverage will no longer be offered for sale on the RMA Website. LGM sales will resume, after a halting or suspension in sales, at the discretion of the Manager of RMA.

46. Q: What if the expected gross margins are not posted on the RMA website on the last business day of the month?

A: LGM will not be available for sale for that insurance period.