Livestock Gross Margin - Cattle

What is the Livestock Gross Margin for Cattle Insurance Policy?

The Livestock Gross Margin for Cattle (LGM for Cattle) Insurance Policy provides protection against the loss of gross margin (market value of livestock minus feeder cattle and feed costs) on cattle. The indemnity at the end of the 11-month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. The LGM for Cattle Insurance Policy uses futures prices to determine the expected gross margin and the actual gross margin. Adjustments to futures prices are state- and month-specific basis levels. The price the producer receives at the local market is not used in these calculations.

Who is eligible for the LGM for Cattle Insurance policy?

Any producer who owns cattle in any of the 50 states is eligible for LGM for Cattle insurance coverage.

What cattle are eligible for coverage under the LGM for Cattle Insurance Policy?

Only cattle sold for commercial or private slaughter primarily intended for human consumption and fed in any of the 50 states are eligible for coverage under the LGM for Cattle Insurance Policy. Cattle cannot be insured under more than one livestock policy issued under the Act.

What are some of the key features of the LGM for Cattle Insurance Policy?

LGM for Cattle has two key features:

- Producers can sign up for LGM for Cattle coverage each Thursday and insure all the cattle they expect to market over a rolling 11-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.
- The LGM for Cattle 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.

How is LGM for Cattle different from traditional options?

LGM for Cattle is different from traditional options in that LGM for Cattle is a bundled option that covers both the cost of feeder cattle and the cost of feed. This bundle of options effectively insures the producer’s gross margin (cattle price minus feeder cattle and feed costs) over the insurance period.

Can LGM for Cattle be exercised?

No. LGM for Cattle 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 for Cattle would pay the difference, if positive, between the gross margin guarantee and the actual gross margin, as defined in the policy provisions.

Does LGM for Cattle use the price the producer actually receives at the market?

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

Does LGM for Cattle make early indemnity payments?

Yes. If an indemnity is due under LGM for Cattle 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.

When is LGM for Cattle sold and how long do the sales periods last?

LGM for Cattle coverage is sold every Thursday. The sales period begins when the coverage prices and rates are posted on RMA's website and ends on the following calendar day at 9:00 AM Central Standard Time. If expected gross margins are not available on the RMA website, LGM for Cattle will not be offered for sale for that sales period.

What types of losses are covered by LGM for Cattle?

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

Where can I purchase LGM for Cattle coverage?

LGM for Cattle 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 for Cattle and that agent's identification number must be on file with the Federal Crop Insurance Corporation.

What months make up the insurance period?

The insurance period contains the 11 months following the sales closing date. For example, the insurance period for any January sales closing date contains the months of February through December. However, coverage begins in the second month of the insurance period, so the coverage period for this example is the months of March through December.

What are the Producer's Target Marketings?

A determination made by the insured as to the maximum number of slaughter ready cattle 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.

What are the Producer's Approved Target Marketings?

The Producer’s Approved Target Marketings are the maximum number of cattle 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 capacity of the producer’s cattle operation for the 11-month insurance period as determined by the insurance provider.

What is the Expected Corn Price?

Expected corn prices for months in an insurance period are determined using three-day average settlement prices on CME Group corn futures contracts. For months with unexpired corn futures contracts, the expected corn price is the simple average of the daily settlement prices for the CME Group corn futures contract for that month during the expected price measurement period for the sales period expressed in dollars per bushel. For example, for a sales period beginning on April 28, the expected corn price for July equals the simple average of the daily settlement prices on the CME Group July corn futures contract during the expected price measurement period for the sales period which is the three trading days prior to and including April 28. For months with expired corn futures contracts, the expected corn price is the simple average of daily settlement prices for the CME Group corn futures contract for that month expressed in dollars per bushel in the last three trading days prior to contract expiration. For example, for a sales period beginning on April 28, the expected corn price for March is the simple average of the daily settlement prices on the CME Group March corn futures contract over the last three trading days prior to contract expiration. For months without a corn futures contract, the futures prices used to calculate the expected corn price are the weighted average of the futures prices used to calculate the expected corn prices for the two surrounding months which have a futures contract. The weights are based on the time difference between the month and the futures contract months. For example, for a sales period beginning on April 28, the expected corn price for April equals one-half times the simple average of the daily settlement prices on the CME Group March corn futures contract over the last three trading days prior to contract expiration plus one-half times the simple average of the daily settlement prices on the CME Group May corn futures contract during the expected price measurement period for the sales period which is the three trading days prior to and including April 28. See the LGM for Cattle Commodity Exchange Endorsement for additional detail on exchange prices.

What is the Expected Feeder Cattle Price?

Expected feeder cattle prices for months in an insurance period are determined using three-day average settlement prices on CME Group feeder cattle futures contracts. For months with unexpired feeder cattle futures contracts, the expected feeder cattle price is the simple average of the daily settlement prices for the CME Group feeder cattle futures contract for that month during the expected price measurement period for the sales period expressed in dollars per hundredweight. For example, for a sales period beginning on April 28, the expected feeder cattle price for May for a yearling finishing operation equals the simple average of the daily settlement prices on the CME Group May feeder cattle futures contract during the expected price measurement period for the sales period which is the three trading days prior to and including April 28. For months with expired feeder cattle futures contracts, the expected feeder cattle price is the simple average of daily settlement prices for the CME Group feeder cattle futures contract for that month expressed in dollars per hundredweight in the last three trading days prior to contract expiration. For example, for a sales period beginning on April 28, the expected feeder cattle price for March for a calf finishing operation is the simple average of the daily settlement prices on the CME Group March feeder cattle futures contract over the last three trading days prior to contract expiration. For months without a feeder cattle futures contract, the futures prices used to calculate the expected feeder cattle price are the weighted average of the futures prices used to calculate the expected feeder cattle prices for the two surrounding months that have a futures contract. The weights are based on the time difference between the feeder cattle month and the futures contract months. For example, for a sales period beginning on April 28, the expected feeder cattle price for July for a calf finishing operation equals two-thirds times the simple average of the daily settlement prices on the CME Group August feeder cattle futures contract during the expected price measurement period for the sales period which is the three trading days prior to and including April 28 plus one-third times the simple average of the daily settlement prices on the CME Group May feeder cattle futures contract during the same expected price measurement period. See the LGM for Cattle Commodity Exchange Endorsement for additional detail on exchange prices.

What is the Expected Cost of Feed?

For yearling finishing operations, the expected cost of feed for each month equals 50 bushels times the expected corn price for that month. For calf finishing operations, the expected cost of feed for each month equals 52 bushels times the expected corn price for that month.

What is the Expected Cattle Price?

Expected cattle prices for months in an insurance period are determined using three-day average settlement prices on CME Group live cattle futures contracts. Given the differences in contract structure for CME Group live cattle futures contracts, only the February, April, June, August, October, and December CME Group live cattle futures are used in LGM price calculations. For months with unexpired live cattle futures contracts, the expected cattle price is the simple average of the daily settlement prices for the CME Group cattle futures contract for that month during the expected price measurement period for the sales period expressed in dollars per hundredweight. For example, for a sales period beginning on February 28, the expected cattle price for August equals the simple average of the daily settlement prices on the CME Group August live cattle futures contract during the expected price measurement period for the sales period which is the three trading days prior to and including February 28. For months without a live cattle futures contract, the futures prices used to calculate the expected cattle price are the weighted average of the futures prices used to calculate the expected cattle prices for the two surrounding months that have futures contracts. The weights are based on the time difference between the cattle month and the contract months. For example, for a sales period beginning on February 28, the expected cattle price for November equals one-half times the simple average of the daily settlement prices on the CME Group October live cattle futures contract during the expected price measurement period for the sales period which is the three trading days prior to and including February 28, plus one-half times the simple average of the daily settlement prices on the CME Group December live cattle futures contract during the same expected price measurement period. See the LGM for Cattle Commodity Exchange Endorsement for additional detail on exchange prices.

What is the Expected Gross Margin per Head of Cattle?

The expected gross margin per head of cattle in a month for a particular state for a yearling finishing operation is the expected cattle price for the state and for the month the cattle are marketed times the assumed weight of the cattle at marketing (12.5 cwt.), minus the expected feeder cattle price for the state five months prior to the month the cattle are marketed times the assumed weight of the feeder animal (7.5 cwt), minus the expected cost of feed two months prior to the month the cattle are marketed.

Expected gross margin per head of cattle for a yearling finishing operation =

- $(12.50 * LiveCattle_t) – (7.50 * FeederCattle_{t-5}) - (50 * Corn_{t-2})$.
- The expected gross margin per head of cattle in a month for a particular state for a calf finishing operation is the expected cattle price for the state and for the month the cattle are marketed times the assumed weight of the cattle at marketing (11.5 cwt.), minus the expected feeder cattle price for the state eight months prior to the month the cattle are marketed times the assumed weight of the feeder animal (5.5 cwt), minus the expected cost of feed four months prior to the month the cattle are marketed.

Expected gross margin per head of cattle for a calf finishing operation =

- $(11.50 * LiveCattle_t) – (5.50 * FeederCattle_{t-8}) - (52 * Corn_{t-4})$.

How is the Expected Total Gross Margin calculated for each Insurance Period?

The expected total gross margin is the sum of the target marketings times the expected gross margin per head of cattle for each month of an insurance period. If the producer from the above example has 1000 head of cattle to sell in June and an expected gross margin per head of $125, the expected total gross margin would be $125,000 (1,000 x $125 = $125,000).

How is the Gross Margin Guarantee calculated for each Insurance Period?

The gross margin guarantee for each coverage period is calculated by subtracting the per head deductible times total number of cattle to be marketed from the expected total gross margin for the applicable insurance period. If our example producer has a $50 per head deductible, the gross margin guarantee equals $75,000 [$125,000 - (1,000 x $50)].

What is the Actual Corn Price?

For months in which a CME Group corn futures contract expires, the actual corn price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date for the CME Group corn futures contract for that month expressed in dollars per bushel. For months when there is no expiring CME Group 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 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 two- thirds times the simple average of the daily settlement prices in the last three trading days prior to expiration of the December CME Group corn futures contract plus one- third times the simple average of the daily settlement prices in the last three trading days prior to expiration of the March CME

Group corn futures contract.

What is the Actual Feeder Cattle Price?

For months in which a CME Group feeder cattle futures contract expires, the actual feeder cattle price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date, expressed in dollars per hundredweight. For other months, the actual feeder cattle price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date of the feeder cattle futures contracts that expire in the immediately surrounding months. For example, the actual feeder cattle price in February is the simple average of the daily settlement prices in the last three days prior to the contract expiration date of the feeder cattle futures contracts in January and March.

What is the Actual Cost of Feed?

For yearling finishing operations, the actual cost of feed for each month equals 50 bushels times the actual corn price for that month, or as stated in the Special Provisions. For calf finishing operations, the actual feed cost for each month equals 52 bushels times the actual corn price for that month, or as stated in the Special Provisions.

What is the Actual Cattle Price?

For the months of February, April, June, August, October, and December, the actual cattle price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date for the CME Group live cattle futures contracts. For the months of January, March, May, July, September, and November, the actual cattle price is the simple average of the daily settlement prices in the last three trading days prior to the contracts that expire in the immediately surrounding months.

What is the Actual Gross Margin per Head of Cattle?

The actual gross margin per head of cattle in a month for a particular state for a yearling finishing operation is the actual cattle price for the state and for the month the cattle are marketed times the assumed weight of the cattle at marketing (12.5 cwt.), minus the actual feeder cattle price for the state five months prior to the month the cattle are marketed times the assumed weight of the feeder animal (7.5 cwt), minus the actual cost of feed two months prior to the month the cattle are marketed.

Actual gross margin per head of cattle for a yearling finishing operation =

- $(12.50 * LiveCattle_{t}) – (7.50 * FeederCattle_{t-5}) – (50 * Corn_{t-2})$.
- The actual gross margin per head of cattle in a month for a particular state for a calf finishing operation is the actual cattle price for the state and for the month the cattle are marketed times the assumed weight of the cattle at marketing (11.5 cwt.), minus the actual feeder cattle price for the state eight months prior to the month the cattle are marketed times the assumed weight of the feeder animal (5.5 cwt), minus the actual cost of feed four months prior to the month the cattle are marketed.

Actual gross margin per head of cattle for a calf finishing operation =

- $(11.50 * LiveCattle_{t}) – (5.50 * FeederCattle_{t-8}) – (52 * Corn_{t-4})$.

How is the Actual Total Gross Margin calculated?

The actual total gross margin is the sum of the target marketings times the actual gross margin per head of cattle for each month of an insurance period. If the producer in the example sold 1000 head of cattle in June and had an actual gross margin per head of cattle of $50, the actual total gross margin would be $50,000 (1000 x $50 = $50,000).

How are indemnities determined?

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 $25,000 ($75,000 - $50,000 = $25,000).

Is a Marketings Report required and when should the company receive it?

Yes, in the event of a loss the producer must submit a Marketings Report and sales receipts showing evidence of actual marketings. The producer must submit the Marketings Report within 15 days of receipt of Notice of Probable Loss.

Is this a Continuous Policy?

This is a continuous policy with twelve overlapping insurance periods per year. Target marketings must be submitted for each sales period in which the producer wishes to establish coverage. If a Target Marketings Report is not submitted by the sales closing date for the applicable insurance period, target marketings for that insurance period will be zero.

When must the application for insurance be turned into the company?

The sales closing dates are every Thursday that is a business day. 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 cattle described in the Application will not be provided unless the insurance company receives and accepts a completed Application and a Target Marketings Report, and the company sends the producer a written Summary of Insurance.

When does Coverage begin?

Coverage begins on the first day of the second calendar month following the month of the sales closing date . For example, for any January sales closing date, coverage begins on March 1.

When are the Contract Change Dates for the policy?

The contract change date is April 30. Any changes to the LGM for Cattle Policy will be made prior to this contract change date.

When are the Cancellation Dates for the policy?

The cancellation date is June 30 for all insurance periods.

When is the End of Insurance for the policy?

The end of insurance for the policy is at the end of the 11 month after the month of the sales closing date. For example, for any January sales closing date, coverage ends on December 31.

What deductibles are available for the policy?

The producer may select deductibles from $0 to $150 per head of cattle, in $10 per head increments.

How is the producer's premium calculated?

The producer’s premium is calculated by a premium calculator program that determines the premium per head of cattle based on target marketings, expected gross margins for each period, premium subsidies, and deductibles.

When is the premium for the policy due?

The premium billing date is the earlier of the first day of the month following the last month of the insurance period in which you have target marketings or the billing date published in the actuarial documents. For example, if your insurance period is February-December, and you only have target marketings in March-May, your billing date is June 1.

What portion of a producer's cattle will be insured under the LGM for Cattle policy?

A producer can insure any amount of cattle that the producer owns. Ownership of insured cattle must be certified by the producer and may be subject to inspection and verification by the insurance company.

What information is required for acceptance of an Application for the LGM for Cattle Insurance Policy?

The Application for the LGM for Cattle 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.

If a producer has a combination of yearling finishing and calf finishing operations on the same policy, are the guarantees and the loss payments separate?

Yes. Guarantees and loss payments are calculated separately for each of these two types of cattle.

Can LGM sales be suspended?

Yes. Sales of LGM for Cattle may be suspended for the next sales period if unforeseen and extraordinary events occur that interfere with the effective functioning of the corn, feeder cattle or live cattle 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 RMA, or other designated RMA staff, to result in market conditions significantly different than those used to rate the LGM for Cattle program. In these cases, coverage will no longer be offered for sale on the RMA Website. LGM for Cattle sales will resume, after a halting or suspension in sales, at the discretion of the Manager of RMA.

What if the expected gross margins are not posted on the RMA website on Thursday for the sales period that week?

LGM for Cattle will not be available for sale for that sales period.

Does LGM for Cattle have producer subsidy?

Yes, but only if you have target marketings in at least two (2) months of an insurance period. No subsidy is available if you have only reported one (1) month of target marketings in an insurance period. The subsidy will range from 18 percent with 0 deductible up to 50 percent with a deductible of $70 or greater.