United States
Department of
Agriculture

Livestock Gross Margin Insurance Plan for Swine

June 2012

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, and the policy does not insure against death loss or any other loss or damage to your swine.

Availability

LGM-Swine is available in the 48 contiguous States to all swine producers.

Covered Operations

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

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.

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.

Buying a Policy

You can insure the swine you expect to market 12 times each year. Each insurance period is 6 months long and overlaps other insurance periods. Coverage begins 1 month after you buy a policy so coverage is available only for the last 5 months of the period. The insurance policy is continuous and renews automatically.

LGM-Swine insurance is sold on the **last business Friday** of each month. Sales begin as soon as the Unites States Department of Agriculture reviews the data submitted by the developer after the close of markets on the last day of the price discovery period. Sales end at 8:00 p.m. Central Standard Time the following evening (Saturday). Your premium payment is due at the end of the 6-month insurance period. If the expected gross margins are not available on the RMA Web site, LGM-Swine will not be offered for sale during that insurance period.

All multi-peril crop insurance policies are available from private insurance agents. A list of livestock insurance agents is on the RMA Web site at: http://www3.rma.usda.gov/tools/agents/ or at your local USDA Service Center.

Deductible

You can select insurance deductibles between $0 and $20 per head in $2 increments.

Indemnity Payments

The indemnity at the end of the 6-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 on page 2).

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 times 0.74, times the assumed weight of the swine at marketing (260 pounds, or as stated in the Special Provisions), minus the actual cost of feed 3 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 times 0.74, times the assumed weight of the swine at marketing (260 pounds, or as stated in the Special Provisions) minus the actual cost of feed 2 months

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

before the swine are marketed (using Chicago Mercantile Exchange prices).

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 times 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.

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

Insurance Period: Coverage begins on the swine 1 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.

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.

For More Information

LGM Coverage Prices, Rates, and Actual Ending Values:
http://www3.rma.usda.gov/apps/livestock_reports/
Cost Estimator (Premium Calculator):
http://ewebapp.rma.usda.gov/apps/costestimator/

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. You would subtract the deductible from the expected gross margin ($470 - $20 = $450). Your actual gross margin is $377.20 [($30 x 0.74 x 2.6) - $20 (feed price) = $37.72 x 10 head]. Your indemnity payment would be $72.80 ($450 - $377.20).

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