


“What is Livestock Gross Margin Insurance?”

Understanding Risk Management Using Livestock Gross Margin Insurance

1

Understanding Risk Management Using Livestock Gross Margin Insurance



Home Study Course
Chapter 1
What is Livestock Gross Margin Insurance?

Nebraska EXTENSION *Agricultural Economics*

2

Sponsored By:



Nebraska EXTENSION *Agricultural Economics*

3

Chapter 1 Objectives


- Purpose of LGM
- Length of insurance coverage available
- Livestock eligibility
- Where and when LGM is available
- How LGM is purchased
- LGM limitations

Nebraska EXTENSION *Agricultural Economics*

4

Livestock Gross Margin Insurance

- Offers protection against decline in cattle or hog feeding margin
- Gross Margin for Cattle = market value of fed cattle less feeder cattle and corn costs
- Gross Margin for Swine = market value of market hog less soybean meal and corn costs



Nebraska EXTENSION *Agricultural Economics*

Home Study Course Chapter 1
<http://livestockinsurance.unl.edu>
University of Nebraska-Lincoln

“What is Livestock Gross Margin Insurance?”

Understanding Risk Management Using Livestock Gross Margin Insurance

5

Purpose of LGM

- LGM is a risk management tool
 - ✓ Protects against adverse price moves that cause the gross feeding margin to narrow
 - ✓ NOT designed to enhance profit or create a better gross feeding margin than otherwise exists in the market

Nebraska **EXTENSION** *Agricultural Economics*

6

LGM for Cattle Insurance Period

- 12 monthly insurance periods per calendar year
- Each runs for 11 months
- No cattle insurable in first month

Nebraska **EXTENSION** *Agricultural Economics*

7

LGM for Swine Insurance Period

- 12 monthly insurance periods per calendar year
- Each runs for 6 months
- No swine insurable in first month

Nebraska **EXTENSION** *Agricultural Economics*

8

LGM for Cattle Available For:

1. Yearling Finishing Operation
 - ✓ Finished weight = 1250 lbs
 - ✓ In-weight = 750 lbs
 - ✓ 5 months on feed
 - ✓ Corn price = price 2 months prior to cattle target marketing month
2. Calf Finishing Operation
 - ✓ Finished weight = 1150 lbs
 - ✓ In-weight = 550 lbs
 - ✓ 8 months on feed
 - ✓ Corn price = price 4 months prior to cattle target marketing month

Nebraska **EXTENSION** *Agricultural Economics*

“What is Livestock Gross Margin Insurance?”

Understanding Risk Management Using Livestock Gross Margin Insurance

9

LGM for Swine Available For:

- 1. Farrow to Finish Operation**
 - ✓ Finished weight = 250 lbs (live weight)
 - ✓ Soybean meal price and corn price = price 3 months prior to swine target marketing month
- 2. Feeder Pig Finishing Operation**
 - ✓ Finished weight = 250 lbs (live weight)
 - ✓ Soybean meal price and corn price = price 2 months prior to swine target marketing month
- 3. SEW Pig Finishing Operation**
 - ✓ Finished weight = 250 lbs (live weight)
 - ✓ Soybean meal price and corn price = price 2 months prior to swine target marketing month

Nebraska EXTENSION Agricultural Economics

10

LGM Available in 20 States for the 2008 Crop Insurance Year

For cattle/swine intended for commercial or private slaughter

Nebraska EXTENSION Agricultural Economics

11

Substantial Beneficial Interest (SBI)

- Must have at least 10% interest
- A spouse of an applicant/insured will have substantial beneficial interest in the applicant/insured unless spouse proves:
 - ✓ The insured class is in a totally separate farming operation
 - ✓ Spouse derives no benefit from the farming operation of the applicant/insured

Nebraska EXTENSION Agricultural Economics

12

Purchasing LGM

- LGM available through crop insurance agent system
- List of licensed agents found online using USDA-RMA's agent locator tool
 - ✓ <http://www3.rma.usda.gov/apps/agents>
- Specify target marketings at time of purchase
 - ✓ Cannot exceed approved target marketings
- Separate policies must be purchased for producers insuring both cattle and swine

Nebraska EXTENSION Agricultural Economics

“What is Livestock Gross Margin Insurance?”

Understanding Risk Management Using Livestock Gross Margin Insurance

13

LGM Sales Period

- LGM for Cattle sold on last business day of every month
- LGM for Swine sold on the second to last business day of every month
- RMA must first validate price data used to calculate Gross Margin Guarantee (GMG)
 - ✓ Validation occurs after the futures market closes on last day of price discovery period
- Sales period ends at 9:00 am CST the next business day

Nebraska **EXTENSION** *Agricultural Economics*

14

LGM Limitations on Number of Head Insured

	Cattle (head)	Swine (head)
Per Insurance Period	5,000	15,000
Per Crop Year July 1-June 30	10,000	30,000

- Covered livestock counted in crop year when coverage is purchased

Nebraska **EXTENSION** *Agricultural Economics*

15

Summary

- LGM is gross feeding margin protection
- 11 month insurance period for cattle and 6 month insurance period for swine
- 2 types of cattle and 3 types of swine operations eligible
- Must have 10% interest in livestock
- Limitations on maximum number of head insured
 - ✓ No minimum

Nebraska **EXTENSION** *Agricultural Economics*

16

What's Next?

- Chapter 2: How Does Livestock Gross Margin Insurance Work?
 - ✓ LGM terminology
 - ✓ Using USDA-RMA website for LGM insurance
 - ✓ Calculating expected and actual gross margins and indemnity payments
 - ✓ Calculating premium costs
 - ✓ Receiving an indemnity



Nebraska **EXTENSION** *Agricultural Economics*

“What is Livestock Gross Margin Insurance?”

Understanding Risk Management Using Livestock Gross Margin Insurance

17

Sponsored By:



Nebraska UNIVERSITY OF
Lincoln

North Central
Risk Management
Education
Center

W E
S

Nebraska EXTENSION

Agricultural Economics

Home Study Course Chapter 1
<http://livestockinsurance.unl.edu>
University of Nebraska-Lincoln