

Preface

This self-study guide is designed to provide cattle and swine producers, insurance agents, and educators with information regarding USDA's Risk Management Agency's Livestock Gross Margin program. Livestock Gross Margin (LGM) Insurance for Cattle provides protection against a decline in the cattle feeding margin by simultaneously hedging the corn and feeder cattle input costs and the fed cattle selling price as a bundled option. Livestock Gross Margin (LGM) Insurance for Swine does the same thing by creating a bundled option by simultaneously hedging the corn and soybean meal input costs and the swine selling price against a decline in the swine finishing margin.

This study guide is presented in five chapters with each chapter divided into several subsections. The appendix includes example forms in the LGM program. The first chapter provides a general overview and discusses some requirements of the program. Chapter 2 explains how the program works, including terminology unique to LGM, and step-by-step directions for finding Expected and Actual Gross Margins, Gross Margin Guarantees, premium rates, and indemnity payments. The third chapter presents rules and policy provisions of LGM, along with advantages and disadvantages the program may have relative to other hedging strategies. Chapter 4 explores LGM basis and how it differs from futures basis, and also illustrates when indemnities are most likely to be paid. The final chapter presents two hedging examples associated with LGM and also explains how to calculate a minimum expected margin and a net margin. A quiz at the end of each chapter can help

readers check their understanding of the material from that chapter. Answers for the quizzes can be found at the back of the guide.

Other resources pertaining to LGM insurance are available online at www.livestockinsurance.unl.edu. This Web site contains links to USDA Risk Management Agency Livestock Gross Margin resources such as the expected and actual gross margin Web site and the agent locator tool. There also is a series of video lectures that correspond to the chapters in this study course. The video lectures include slides along with narration discussing the material presented in this self-study guide. Each video can be downloaded and viewed as a guide complement.

Although the chapters are fully integrated and intended to be studied sequentially, they also can be used individually for producers, educators, or insurance agents with different information needs.

The information contained in this self-study guide is based on the 2008 crop year underwriting rules for Livestock Gross Margin Insurance. Modifications to the LGM insurance program in subsequent years may change the interpretation and use of some information in this guide. Therefore, users should always check with their insurance agents and USDA-RMA underwriting rules for current rules and regulations regarding the use of LGM insurance. Also, updates may be provided online at www.livestockinsurance.unl.edu. While the information in this self-study guide is believed to be accurate, no guarantee or warranty is made to its accuracy or completeness.