LGM: Livestock Gross Margin Insurance

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What is Livestock Gross Margin?

Livestock Gross Margin (LGM) is an insurance product under the federal crop insurance program and is reinsured by the Federal Crop Insurance Corporation. It offers protection against a decline in the feeding margin for cattle and swine.

What is the difference between LGM and LRP?

Livestock Risk Protection (LRP) is an insurance product that covers the risk of price declines for feeder cattle, fed cattle, and swine. It provides producers an indemnity if a regional or national cash price index falls below an insured coverage price. LRP works similarly to buying a put option. Unlike LGM, which protects an expected gross margin, LRP protects a selling price.

Livestock Gross Margin (LGM) is a livestock insurance product that protects an expected gross margin (EGM) rather than a selling price, as is the case with Livestock Risk Protection (LRP).

Neither LGM nor LRP guarantee a cash price received as the producer's actual cash market selling price is not used to determine indemnities. Both LRP and LGM allow small and medium sized producers operations to manage risk even if they do not have the volume or expertise necessary to use Chicago Mercantile Exchange (CME) futures and options contracts. LGM and LRP allow for numbers of cattle to be protected that do not match the specifications of the CME contracts, thus eliminating over or under coverage.

Who is eligible to buy LGM?

Only producers of cattle fed in certain states are eligible for LGM. Wisconsin is one of these eligible states.

What does LGM cover?

LGM provides insurance for the difference between the expected gross margin and the actual total gross margin. This policy does not insure against death or other loss.

Gross margin is the difference between gross revenue and variable costs. Gross revenue is the revenue from selling finished cattle. Variable costs include feed and other costs that occur when finishing cattle. Live cattle futures represent the price used to calculate expected gross revenue for the finishing weights detailed below. Feeder cattle futures represent the price used to determine the expected cost of the feeder animal, and corn futures represent the price used to determine the expected cost of feed needed to finish the animal. The expected gross margin (EGM) per head is then calculated using the appropriate contract month prices for live cattle futures, feeder cattle futures, and corn futures.

Two types of enterprises can be insured under LGM - calf finishing and yearling finishing. In the calf finishing operation, cattle are assumed to weigh 550 pounds when they enter the feedlot, to weigh 1,150 pounds at slaughter, and to consume 52 bushels of corn. In the yearling finishing operation, the cattle are assumed to weigh 750 pounds when they enter the feedlot, to weigh 1,250 pounds at slaughter, and to consume 50 bushels of corn.

The EGM varies from month to month in an insurance period due to the varying prices in the futures contracts and thus the potential gross margin. A producer can choose a $0 to $150 deductible amount, in $10 increments. The deductible value is the portion of the EGM not insured.

Each insurance period for LGM is eleven months long. No cattle can be insured during the first month of any insurance period. A producer must prepare a Target Marketing Report showing the number of cattle to be covered in each month of the insurance period, i.e., expected sales. The maximum number of cattle that can be covered is 5,000 head in any one insurance period and 10,000 head in any insurance year (July 1 through June 30).

When do I receive an LGM indemnity?

An indemnity is paid if the insured gross margin is greater than the total actual gross margin at the end of the insurance period. Note that the indemnity is not based on actual prices received for livestock or actual prices paid for livestock and corn. The total actual gross margin is based off the futures prices during the price measurement period, as well as the number of marketings.

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

LGM for Cattle is sold on the last Friday that is a business day of each month. The sales period begins as soon as the Risk Management Agency (RMA) reviews 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 8:00 PM Central Time the following day.

What information is required for the application?

Information required for the application process includes the type of livestock insured, the number of approved target marketings, the number of target marketings during each month of the insurance period, and the deductible. The premium for the initial insurance period must be paid in full at the time the application is due. No premium subsidy is offered to producers.

How do I purchase LGM?

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.

How much is the premium for LGM?

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, and deductibles.

It is possible to get an estimate of the premiums at the Iowa Agricultural Insurance Innovations website, available at http://205.170.225.22/cattle.aspx.