
# LIVESTOCK INSURANCE

***The extremely volatile conditions of the market often cause producers to have more questions than answers, especially in determining how to manage the downside effects on their business. Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM) are viable and flexible ways to manage the risks associated with price volatility, increasing production costs and tightening profit margins.***

## LIVESTOCK RISK PROTECTION (LRP) PRODUCTS

**LRP - Feeder Cattle:** provides protection when the national cash price index, as reported by the Chicago Mercantile Exchange (CME), falls below the insured's price coverage level.

**LRP - Fed Cattle:** provides single peril risk protection against a decline in market prices. The Actual Ending Values are based on weighted prices published by the Agricultural Marketing Service (AMS).

**LRP - Lamb:** provides protection against the decline in lamb prices, as published by the AMS, at the end of the selected insurance period.

**LRP - Swine:** provides protection against the decline in hog prices, as published by the AMS, at the end of the selected insurance period.

### What do these products have in common?

- All LRP products are federally reinsured.
- Producers may select from a variety of coverage levels and insurance periods to match the time the animal(s) would normally be marketed.
- They do not insure against death, loss or poor performance.
- Coverage may be purchased throughout the year.
- The RMA monitors capacity levels, and when the funding limit has been reached, sales for these products will cease.

- Premium rates, coverage prices and actual ending values are posted online daily or weekly depending on the product.
- At the end of the insurance period, if the actual ending value is below the coverage price, an indemnity would be paid for the difference.

### BENEFITS OF LRP

**Guaranteed Price:** No Bid/Ask Spread.

**Limited basis risk coverage:** The aggregate cash price used better reflects actual price received.

**Coverage purchased on a per head basis (up to the limits):** As opposed to the contract weight.

**Coverage available for purchase year-round.**

**Numerous coverage periods available:** Producer selects the period that best fits their risk management plan.

**Actual insurance policy:** LRP may be viewed more favorably by lenders than options, hedging or speculating as the insured cannot cancel coverage. It also provides collateral to the lender (assignment of indemnity).

# LIVESTOCK GROSS MARGIN (LGM) PRODUCTS

**LGM - Dairy Cattle:** provides protection against the loss of gross margin (market value of milk less feed costs) on the targeted quantity of market milk. The mix of target milk marketings and target feed rations allow a producer to select feed rations and production levels that best reflect their actual production.

**LGM - Fed Cattle:** provides protection against the loss of gross margin (market value of cattle less feeder cattle and feed costs) on fed cattle (yearling and calf). LGM - Fed Cattle is a bundled option that covers both the cost of feeder cattle and the cost of feed.

**LGM - Swine:** provides protection against the loss of gross margin (market value of hogs less feed costs). LGM - Swine is a bundled option that covers both the cost of hogs and the cost of feed.

## What do these products have in common?

- All LGM products are federally reinsured.
- The LGM insurance policy uses futures prices or adjusted futures prices to determine the expected gross margin and the actual gross margin.
- LGM does not insure against death, loss, unexpected decrease in milk production, unexpected increases in feed use or any other loss or damage to the producer's animal(s).
- The RMA monitors capacity levels, and when the funding limit has been reached, sales for these products will cease.
- They effectively insure the producer's gross margin (difference between the gross margin guarantee and the actual gross margin at the end of the respective insurance period).

## BENEFITS OF LGM

**Provides margin protection against falling income and rising feed costs.**

**Coverage purchased on a per head/cwt of milk basis (up to the limits).**

**Coverage available for purchase year-round.**

**Coverage based on how monthly commodity is marketed:** Producer selects the months within the insurance period that best fits their risk management plan.

**Actual insurance policy:** LGM may be viewed more favorably by lenders than options, hedging or speculating as the insured cannot cancel coverage. It also provides collateral to the lender (assignment of indemnity).



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