United States Department of Agriculture

Risk Management Agency

6501 Beacon Drive
Kansas City,
MO 64133-4676

May 25, 2006

INFORMATIONAL MEMORANDUM: PM-06-017

TO: All Reinsured Companies
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Tim B. Witt /s/ Tim B. Witt
Deputy Administrator

SUBJECT: Technical Correction to the Livestock Gross Margin-Cattle Plan of Insurance

BACKGROUND:

Iowa Agricultural Insurance Innovations L.L.C. (IAII), who submitted Livestock Gross Margin (LGM), has completed a technical correction to LGM-Cattle policy materials which is available on the Risk Management Agency (RMA) website, http://www.rma.usda.gov/ under "Livestock:".

On August 5, 2005, the Federal Crop Insurance Corporation Board of Directors (Board) approved expansion of LGM to slaughter cattle and with the expansion, approved revisions to the rating methodology used to calculate the gross margin. LGM-Cattle incorporates National Agricultural Statistic Service information to adjust gross margins for basis by month and state. The approved methodology also included a dollar denominated deductible instead of a percent of coverage deductible. Both of the Board approved revisions can result in negative gross margins which are valid insurance offers that producers may wish to purchase. An edit in RMA's electronic processing system does not allow negative gross margins. To remedy the situation, IAII revised the definition of liability from the sum of the expected gross margins to the three day average of the CME Live Cattle futures contract price multiplied by 12.5 hundredweight multiplied by the producer's total target marketings for the insurance period.

The technical correction to LGM-Cattle policy does not affect the producer paid premium, the manner in which the expected or actual gross margins are calculated or the method of determining indemnities.

The following technical corrections were made to LGM-Cattle to conform to changes approved by the Board:

- For LGM cattle, redefined liability as the Chicago Mercantile Exchange (CME)

Live Cattle futures contact three day average price, multiplied by 12.5 cwt and multiplied by the number of target marketings for the insurance period (CME three-day average price x 12.5 cwt x target marketings), and

- Revised the LGM- Cattle policy section 7(b), to reflect the technical correction in the liability calculation.

ACTION:

The LGM materials, effective for the 2007 reinsurance year, listed below have been placed on the RMA website. The materials placed there include the following:

Material	Comment
Data Layouts-e-DAS	http://www.rma.usda.gov/data/m13/
LGM-Cattle Policy	http://www.rma.usda.gov/FTP/ Policies/2007/lgm/PDF/07_Cattle.pdf

DISPOSAL DATE:

This bulletin is for transmitting information. It will remain in effect until rescinded, revised, or upon publication of superseding policy provisions or procedures.