



United States Department of Agriculture
Farm and Foreign Agricultural Services
Risk Management Agency

May 10, 2002

INFORMATIONAL MEMORANDUM: R&D-02-023

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: Livestock Gross Margin (LGM) Insurance Policy Materials

BACKGROUND:

On November 15, 2001, the Federal Crop Insurance Corporation's (FCIC) Board of Directors approved the Livestock Gross Margin (LGM) insurance policy, which was submitted by the Iowa Agricultural Insurance Innovations L.L.C. (IAII).

The LGM program is available in all counties in Iowa. LGM provides coverage protection against the loss of gross margin (market value of livestock minus feed costs) on the swine. The LGM Insurance Policy pays producers at the end of the six-month insurance period if the Actual Gross Margin is less than the Expected Gross Margin. The LGM uses futures prices to determine both the Expected and the Actual Gross Margins. The price the producer receives at the local market is not used in these calculations. Producers can choose to insure two types of operations, farrow-to-finish or finishing; and two insurance periods: Fall (August – January) and Spring (February – July).

Producers interested in LGM should contact a crop insurance agent and complete an application, which will be submitted through the approved insurance provider to FCIC. Since there are certain training requirements for this product, the Risk Management Agency (RMA) will publish on its website a list of Agents authorized by the approved insurance providers to write livestock insurance as soon as they are authorized by the provider. The address of the website is: www.rma.usda.gov/.



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The Risk Management Agency Administers and Oversees
All Programs Authorized Under the Federal Crop Insurance Corporation

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Because the Federal Crop Insurance Act limits the amount of livestock insurance that may be reinsured each year, RMA must review LGM applications and provide an approval number to the company before coverage can be bound. RMA has developed a web-based computer program for this purpose, which operates on a real-time basis. RMA will track total sales and, if necessary, close sales of new and renewed policies when the annual underwriting capacity for livestock insurance authorized by the Federal Crop Insurance Act has been obligated. Insurance will attach immediately upon RMA's confirmation of acceptance of the application.

LGM insurance purchases must be executed through crop insurance agents. However, the RMA premium calculator will be available on the RMA web-site in approximately three weeks for general information purposes. To find the LGM premium calculator on the web-site:

Go to: Tools/Calculators
Scroll to: Premium Calculation Software for 2000 and succeeding years (Online Version) - Calculate Premiums
Click on: Calculate Premiums

Companies intending to sell LGM must first sign the Livestock Price Reinsurance Agreement (LPRA). Agents must be specifically authorized by their companies to sell LGM insurance.

The first day on which applications for LGM may be submitted to RMA is July 15, 2002.

ACTION:

LGM materials listed below have been placed on the RMA website. The materials placed there include the following:

| <u>Material</u> | <u>Comment</u> |
|----------------------------------|---|
| Basic Policy | http://www.rma.usda.gov/policies/2003policy.html |
| Underwriting Rules | http://www.rma.usda.gov/policies/2003LGM.html |
| LGM Handbook | http://www.rma.usda.gov/data/directives.html (Under the directive No. 20020) |
| Draft Data Layouts-e-DAS | http://www.rma.usda.gov/data/m13/ |
| Premium Calculation Instructions | http://www.rma.usda.gov/policies/2003LGM.html |
| Questions & Answers | http://www.rma.usda.gov/policies/2003LGM.html |
| Special Provisions | http://www.rma.usda.gov/tools (click on "Search the Actuarial Document System") |

DISPOSAL DATE:

This Informational Memorandum is for the purpose of transmitting information and its disposal date is December 31, 2002.