

UNITED STATES DEPARTMENT OF AGRICULTURE
FEDERAL CROP INSURANCE CORPORATION
LIVESTOCK RISK PROTECTION POLICY
SPECIFIC COVERAGE ENDORSEMENT – SWINE



This provision of the Livestock Risk Protection policy offers protection against a decline in hog prices during the term of this Endorsement. You will receive an indemnity if hog prices drop below a predetermined level and all terms and conditions of the policy have been met. Hog prices under this policy refer to a lean based price series published by the Agricultural Marketing Service (AMS) of the USDA. The length of each endorsement available for swine ranges from 13 to 26 weeks.

Terms and Conditions

1. DEFINITIONS.

Actual Ending Value–Swine - The weighted average price of lean hogs. The days used in the weighted average price calculations are the end date and one day prior to the end date. The Actual Ending Value is to be used in calculations on a dollars per cwt basis. The AMS price series used will be the same series used to settle the lean hog futures contract at the Chicago Mercantile Exchange. The weighted average price is calculated using two Producer Sold data series in the report, the *Negotiated* and the *Swine or Pork Market Formula* (SPMF) categories. The steps to calculate the weighted average price are:

1. Multiply the *Negotiated Head Count* by the *Negotiated Average Carcass Weight* for each of the two days of the index to calculate the Negotiated Volume for each day.
2. Multiply the results from 1 by the *Negotiated Average Net Price* for each of the two days of the index to calculate the Negotiated Total Value for each day.
3. Multiply the *SPMF Head Count* by the *SPMF Average Carcass Weight* for each of the two days of the index to calculate the SPMF Volume for each day.
4. Multiply the results from 3 by the *SPMF Average Net Price* for each day of the two days in the index to calculate the SPMF Total Value for each day.
5. Add the Negotiated Total Values to the SPMF Total Values (four numbers) to calculate the Two Day Total Value.
6. Add the Negotiated Volumes and SPMF Volumes (a total of four numbers) to calculate the Two Day Total Volume.
7. Divide the result of 5 by the result of 6.

The AMS report is available on the Internet at http://www.ams.usda.gov/mnreports/lm_hg201.txt. The Special Provisions should be checked for changes in the report name, number, or location. If the end date is a Saturday, Sunday, a non-report day due to a Federal holiday, or if there is no reported information for whatever reason, then the calculation will be based on the two report days just prior to the end date.

Ending Period - The period of two business days, ending on the end date, over which the actual ending value is determined.

Expected Ending Value - The market price expected at the end of the insurance period, and found in the actuarial documents. The Expected Ending Value represents lean weight value and is used in calculations, on a dollars per hundredweight basis, to determine coverage prices.

Insured Swine - The swine covered under the policy. The swine that the producer expects to have and to market (for slaughter) at the end of the insurance period.

Target Weight - The anticipated lean weight of swine (per head) at the ending period on a cwt. basis. To convert live weight to lean weight, multiply the live weight by the lean weight conversion factor of .74. For example, a 2.50 cwt. per head live weight is equal to 1.85 cwt. lean weight. The Target Weight should fall within the range of 1.50 and 2.25 cwt (this equates to a head weighing from about 203 to 304 lbs. on a live basis).

2. COVERAGE LIMITATIONS.

The maximum number of swine that may be insured under any one Specific Coverage Endorsement shall be 10,000 head, and during any crop year shall be 32,000 head.

3. PREMIUMS.

- (a) Your total premium is determined by:
- (1) Multiplying the number of head by the target weight (in lean cwt);
 - (2) Multiplying section 3(a)(1) by the coverage price;
 - (3) Calculating the insured value by multiplying section 3(a)(2) by the insured share;
 - (4) Calculating total premium by multiplying section 3(a)(3) by the rate contained in the Rate Table published daily in the actuarial documents;
 - (5) Multiplying the result of section 3(a)(4) by the

applicable producer subsidy percentage to calculate the appropriate amount of subsidy;

(6) Subtracting the result from section 3(a)(5) from the result from section 3(a)(4).

(b) Premium calculation example:

An operation has 1,000 head of hogs and expects to market the hogs at 2.50 cwt. each. Therefore, the target weight is 2.50 times the lean weight conversion factor of .74, which is 1.85 cwt. The insured share is 100 percent. The expected ending value is \$55.00 dollars per cwt. and the producer selects a coverage price of \$52.25 per cwt (on a lean cwt basis). For this coverage price the rate is 2.8708%. The premium subsidy is 13 percent. The premium is calculated by:

- (1) 1,000 head times 1.85 equals 1,850 cwt.
- (2) 1,850 cwt. times the coverage price of \$52.25 equals \$96,663
- (3) \$96,663 times the insured share of 1.00 equals an insured value of \$96,663
- (4) \$96,663 times the rate of .028708 equals \$2,775 total premium
- (5) \$2,775 times the producer premium subsidy percentage of .13 equals \$361
- (6) Subtracting \$361 from \$2,775 equals the producer premium of \$2,414.

4. INDEMNITY.

(a) An indemnity is calculated and payable if the actual ending value is less than the coverage price (otherwise the indemnity is zero). The indemnity calculation is determined by:

- (1) Multiplying the number of head by the target weight (in lean cwt);
- (2) Subtracting the actual ending value from the coverage price (this will always be a positive number if an indemnity is due);
- (3) Multiplying 4(a)(1) by 4(a)(2);
- (4) Multiplying 4(a)(3) by the insured share.

(b) Indemnity calculation example:

For the above operation with 1,000 head of hogs, a target weight of 1.85 cwt., an insured share of 100 percent, and a coverage price of \$52.25 per cwt., the actual ending value is equal to \$44.80 per cwt. Since \$44.80 is less than the coverage price of \$52.25, an indemnity is due.

Indemnity is calculated by:

- (1) 1,000 head times the 1.85 target weight equals 1,850 cwt.
- (2) Subtracting the actual ending value of \$44.80 from the coverage price of \$52.25 equals \$7.45/cwt.
- (3) Multiplying 1,850 cwt. by \$7.45/cwt. equals \$13,783
- (4) Multiplying \$13,783 by the insured share of 1.00 equals an indemnity payment of \$13,783.