



United States
Department of
Agriculture

Risk
Management
Agency

6501 Beacon Drive
Kansas City,
MO 64133-4676

August 12, 2004

INFORMATIONAL MEMORANDUM: R&D-04-032

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: Revised Livestock Gross Margin Insurance Policy Materials

BACKGROUND:

On April 6, 2004, the Federal Crop Insurance Corporation's (FCIC) Board of Directors withdrew reinsurance for the Livestock Gross Margin (LGM) insurance plan pending revisions. Iowa Agricultural Insurance Innovations L.L.C. (IAII), who submitted LGM completed the revisions and the LGM policy materials are now available on the Risk Management Agency (RMA) website.

The LGM program is available in all counties in Iowa and provides coverage to livestock (swine) producers from production and marketing risks. LGM provides coverage protection against the loss of gross margin (market value of livestock minus feed costs). The LGM Insurance Policy uses futures prices to determine the Expected Gross Margin and the Actual Gross Margin.

Producers can now choose to insure three types of operations: farrow-to-finish, finishing or segregated early weaner (SEW). The plan of insurance is now sold monthly instead of bi-annually and the sales period is from the time prices are released on the RMA website the last business day of the month till 9:00 am the following morning.

Other revisions include: the addition of language prohibiting off-setting trades on the boards of exchange, limiting the availability of LGM for catastrophic events or restricting availability of LGM if prices are not posted on the RMA website by 9:00 am following the last business day of the month and restricting marketings in the first month of the insurance period.

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. RMA will publish on its website a list of Agents authorized by their companies to write livestock insurance. The address of the website is: www.rma.usda.gov/.



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, as 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 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), which will be issued by RMA's Reinsurance Services Division separately. Agents must be specifically authorized by their company to sell LGM insurance.

LGM sales are expected to begin on or about October 1, 2004; however, sales will only occur when RMA announces prices on its website.

ACTION:

The Livestock Gross Margin (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/2004policy.html
Underwriting Rules	http://www.rma.usda.gov/policies/2004LGM.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
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 July 1, 2005.