LIVESTOCK GROSS MARGIN - SWINE INSURANCE POLICY QUESTIONS AND ANSWERS

1. Q: What is the Livestock Gross Margin for Swine Insurance Policy?

A: The Livestock Gross Margin for Swine (LGM for Swine) Insurance Policy provides protection against the loss of gross margin (market value of livestock minus feed costs) on swine. The indemnity at the end of the 6-month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. The LGM for Swine Insurance Policy uses adjusted futures prices to determine the expected gross margin and the actual gross margin. Adjustments to futures prices are state- and month-specific basis levels. The price the producer receives at the local market is not used in these calculations.

2. Q: Who is eligible for the LGM for Swine Insurance Policy?

A: Any producer who owns swine in the states of Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Ohio, Oklahoma, South Dakota, Texas, Utah, West Virginia, Wisconsin and Wyoming is eligible for LGM for Swine insurance coverage.

3. Q: What swine are eligible for coverage under the LGM for Swine Insurance Policy?

A: Only swine sold for commercial or private slaughter primarily intended for human consumption and fed in Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Ohio, Oklahoma, South Dakota, Texas, Utah, West Virginia, Wisconsin and Wyoming are eligible for coverage under the LGM for Swine Insurance Policy.

4. Q: What are some of the key features of the LGM for Swine Insurance Policy?

A: LGM for Swine has two advantages features.

Producers can sign up for LGM for Swine twelve times per year and insure all of the swine they expect to market over a rolling 6-month insurance period. The producer does not have to decide on the mix of options to purchase, the strike price of the options, or the date of entry.

The LGM for Swine policy can be tailored to any size farm. Options cover fixed amounts of commodities and those amounts may be too large to be used in the risk management portfolio of some farms.

5. Q: How is LGM for Swine different from traditional options?

A: LGM for Swine is different from traditional options in that LGM for Swine is a bundled option that covers the cost of feed. This bundle of options effectively insures the producer's gross margin (swine price minus feed costs) over the insurance period.

6. **Q: Can LGM for Swine be exercised?**

   A: No. LGM for Swine cannot be exercised. LGM works as a bundle of options that pay the difference, if positive, between the value at purchase of the options and the value at the end of a certain time period. So, LGM for Swine would pay the difference, if positive, between the gross margin guarantee and the actual gross margin, as defined in the policy provisions.

7. **Q: Does LGM for Swine use the price the producer actually receives at the market?**

   A: No. The prices for LGM for Swine are based on simple averages of futures contract daily settlement prices plus a fixed basis and are not based on the actual prices the producer receives at the market.

8. **Q: Does LGM for Swine make early indemnity payments?**

   A: Yes. If an indemnity is due under LGM for Swine coverage, the company will send the producer a notice of probable loss after the last month of the producer's marketing plan. The last month of the producer's marketing plan is the last month in which the producer indicated target marketings on the application.

9. **Q: How is the underwriting capacity for LGM for Swine distributed?**

   A: LGM for Swine has limited underwriting capacity that will be distributed through the Federal Crop Insurance Corporation's underwriting capacity manager. The underwriting capacity will be distributed on a first come, first served basis. LGM for Swine will not be offered for sale after capacity is full or at any time the underwriting capacity manager is not functional.

10. **Q: When is LGM for Swine sold and how long do the sales periods last?**

    A: LGM for Swine is sold on the second to last business day of each month. The sales period begins as soon as the Risk Management Agency (RMA) reviews the data submitted by the developer after the close of markets on the last day of the price discovery period. The sales period ends at 9:00 AM the following day. If expected gross margins are not available on the RMA website, LGM for Swine will not be offered for sale for that insurance period.

11. **Q: How are the feed equations for LGM for Swine determined?**

    A: The feed equations for LGM for Swine are based on an optimal feeding ration developed through Iowa State University.

12. **Q: What is the yield factor?**

    A: The yield factor converts lean hog prices to live hog prices. The yield factor is set at 0.74 for LGM for Swine.

13. Q: What types of losses are covered by LGM for Swine?

A: LGM for Swine covers the difference between the gross margin guarantee and the actual gross margin. LGM for Swine does not insure against death loss or any other loss or damage to the producer's swine.

14. Q: Where can I purchase LGM for Swine coverage?

A: LGM for Swine is available for sale at your authorized crop insurance agent's office. Crop insurance agents must be certified by an insurance company to sell LGM for Swine and that agent's identification number must be on file with the Federal Crop Insurance Corporation.

15. Q: What makes up the Insurance Period?

A: There are twelve insurance periods in each calendar year. Each insurance period runs for 6 months. For the first month of any insurance period, no swine can be insured. Coverage begins on your swine one full calendar month following the sales closing date, unless otherwise specified in the Special Provisions, provided premium for the coverage has been paid in full. For example, the insurance period for the January 30 sales closing date contains the months of February (swine not insurable), March, April, May, June, and July.

16. Q: What are the Producer's Target Marketings?

A: A determination made by the insured as to the maximum number of slaughter-ready swine that the producer will market (sell) during the insurance period. The target marketings must be less than or equal to that producer's applicable approved target marketings as certified by the producer.

17. Q: What are the Producer's Approved Target Marketings?

A: The Producer's Approved Target Marketings are the maximum number of swine that may be stated as Target Marketings on the application. Approved Target Marketings are certified by the producer and are subject to inspection by the insurance company. A producer's Approved Target Marketings will be the lesser of the capacity of the producer's swine operation for the 6-month insurance period as determined by the insurance provider and the underwriting capacity limit as stated in the special provisions.

18. Q: What is the Expected Corn Price?

A: Expected corn prices for months in an insurance period are determined using three-day average settlement prices on CBOT corn futures contracts and a basis adjustment that varies by month and state. For corn months with unexpired futures contracts, the expected corn price is the simple average of the CBOT corn futures contract for that month over the three trading days prior to the last trading day in the month of the sales closing date expressed in dollars per bushel plus the state-specific corn basis for that month. For example, for a sales closing date of February 27, the expected corn price for July in Iowa equals the simple average of the daily settlement prices on the CBOT July corn futures contract

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over the three trading days prior to the last trading day in February plus the July Iowa corn basis. For corn months with expired futures contracts, the expected corn price is the simple average of daily settlement prices for the CBOT corn futures contract for that month expressed in dollars per bushel in the last three trading days prior to contract expiration plus the state-specific corn basis for that month. For example, for a sales closing date of March 30, the expected corn price for March in Nebraska is the simple average of the daily settlement prices on the CBOT March corn futures contract over the last three trading days prior to contract expiration plus the March Nebraska corn basis. For corn months without a futures contract, the futures prices used to calculate the expected corn price are the weighted average of the futures prices used in calculating the expected corn prices for the two surrounding months that have futures contract plus the state-specific basis for the month. The weights are based on the time difference between the corn month and the contract months. For example, for the March 30 sales closing date, the expected corn price for April in Nebraska equals one-half times the simple average of the daily settlement prices on the CBOT March corn futures contract over the last three trading days prior to contract expiration plus one-half times the simple average of the daily settlement prices on the CBOT May corn futures contract for the three trading days prior to the last trading day in March plus the April Nebraska corn basis. See the LGM for Swine Commodity Exchange Endorsement for additional detail on exchange prices. Prices will be released by RMA after the markets close on the last day of the price discovery period.

19. Q: What is the Expected Soybean Meal Price?

A: The expected soybean meal price is set in three different ways, depending on the insurance period and the lags used for the feed prices. For feed months with unexpired futures contracts, the expected soybean meal price is the simple average of daily settlement prices for the CBOT soybean meal futures contract for that month expressed in dollars per ton over the three business days prior to the last trading day of the month. For feed months with expired futures contracts (example: the December soybean meal price for the LGM insurance policies sold in January), the expected soybean meal price is the simple average of daily settlement prices for the CBOT soybean meal futures contract for that month expressed in dollars per ton in the last three trading days prior to contract expiration. For feed months without futures contracts, the expected soybean meal price is the weighted average of the expected soybean meal prices for surrounding contract months where the weights are based on the time difference between the feed month and the contract months. See the LGM for Swine Commodity Exchange Endorsement for additional information on the calculation of the expected soybean meal price. Prices will be released by RMA after the markets close on the last day of the price discovery period.

20. Q: What is the Expected Cost of Feed?

A: The expected cost of feed depends on the type of operation. For farrow-to-finish operations, the expected cost of feed equals 13.86 bushels times the Expected Corn Price plus 196.16 pounds divided by 2000 pounds per ton times the Expected Soybean Meal Price. For finishing feeder operations, the expected

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cost of feed equals 9.6 bushels times the Expected Corn Price plus 132 pounds divided by 2000 pounds per ton times the Expected Soybean Meal Price. For finishing SEW operations, the expected cost of feed equals 9.7 bushels times the Expected Corn Price plus 142 pounds divided by 2000 pounds per ton times the Expected Soybean Meal Price.

21. Q: What is the Expected Swine Price?

A: Expected swine prices for months in an insurance period are determined using three-day average settlement prices on CME lean hog futures contracts and a basis adjustment that varies by month and state. For swine months with unexpired futures contracts, the expected swine price is the simple average of the CME lean hog futures contract for that month over the three trading days prior to the last trading day in the month of the sales closing date expressed in dollars per hundredweight plus the state-specific swine basis for that month. For example, for a sales closing date of February 27, the expected swine price for July in Missouri equals the simple average of the daily settlement prices on the CME July lean hog futures contract over the three trading days prior to the last trading day in February plus the July Missouri swine basis. For swine months without a futures contract, the futures prices used to calculate the expected swine price are the weighted average of the futures prices used in calculating the expected swine prices for the two surrounding months that have futures contracts plus the state-specific basis for the month. The weights are based on the time difference between the swine month and the contract months. For example, for the March 30 sales closing date, the expected swine price for September in Missouri equals one-half times the simple average of the daily settlement prices on the CME August lean hog futures contract over the three trading days prior to the last trading day in March plus one-half times the simple average of the daily settlement prices on the CME October lean hog futures contract for the three trading days prior to the last trading day in March plus the September Missouri swine basis. See the LGM for Swine Commodity Exchange Endorsement for additional detail on exchange prices. Prices will be released by RMA after the markets close on the last day of the price discovery period.

22. Q: What is the Expected Gross Margin per Swine?

A: The expected gross margin per swine in a month for a particular state for a farrow-to-finish operation is the Expected Swine Price for the state and for the month the swine are marketed times the assumed weight of the swine at marketing (2.5 cwt.) times the yield factor (0.74) to convert the price to a live weight basis, minus the Expected Cost of Feed for the state and the month three months prior to the month the swine are marketed.

Expected gross margin per swine for a farrow-to-finish operation =

$(0.74 * 2.5 * \text{Swine}_t) – (13.86 * \text{Corn}_{t-3}) - ((196.16/2000) * \text{Soybean Meal}_{t-3})$.

The expected gross margin per swine in a month for a particular state for a finishing feeder operation is the Expected Swine Price for the state and for the month the swine are marketed times the assumed weight of the swine at

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marketing (2.5 cwt.) times the yield factor (0.74) to convert the price to a live weight basis, minus the Expected Cost of Feed for the state and the month two months prior to the month the swine are marketed.

Expected gross margin per swine for a finishing feeder operation =

$(0.74 * 2.5 * Swine_t) – (9.6 * Corn_{t-2}) - ((132/2000) * Soybean\ Meal_{t-2})$.

The expected gross margin per swine in a month for a particular state for a finishing SEW operation is the Expected Swine Price for the state and for the month the swine are marketed times the assumed weight of the swine at marketing (2.5 cwt.) times the yield factor (0.74) to convert the price to a live weight basis, minus the Expected Cost of Feed for the state and the month two months prior to the month the swine are marketed.

Expected gross margin per swine for a finishing SEW operation =

$(0.74 * 2.5 * Swine_t) – (9.7 * Corn_{t-2}) - ((142/2000) * Soybean\ Meal_{t-2})$.

23. Q: How is the Expected Total Gross Margin calculated for each Insurance Period?

A: The expected total gross margin is the sum of the target marketings times the expected gross margin per swine for each month of an insurance period. If the producer from the above example has 10 swine to sell in June and an expected gross margin per head of $55, the expected total gross margin would be $550 (10 x $55 = $550).

24. Q: How is the Gross Margin Guarantee calculated for each Insurance Period?

A: The gross margin guarantee for each coverage period is calculated by subtracting the per head deductible times total number of swine to be marketed from the expected total gross margin for the applicable insurance period. If our example producer has a $10 per head deductible, the gross margin guarantee equals $450 [$550 – (10 x $10)].

25. Q: What is the Actual Corn Price?

A: For months in which a CBOT corn futures contract expires, the actual corn price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date for the CBOT corn futures contract for that month expressed in dollars per bushel plus the state-specific corn basis for that month. Note that the state-specific corn basis used to calculate actual corn prices is the same state-specific basis used to calculate expected corn basis for the month. For months when there is no expiring CBOT corn futures contract, the actual corn price is the weighted average of the futures prices on the nearest two contract months plus the state-specific corn basis for the month. The weights depend on the time period between the month in question and the nearby contract months. For example, the actual corn price in April in Missouri is one-half times the simple average of the daily settlement prices in the last three

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trading days prior to the contract expiration date of the corn futures contracts that expire in March plus one-half times the daily settlement prices in the last three trading days prior to the contract expiration date of the corn futures contracts that expire in May plus the Missouri April corn basis.

26. Q: What is the Actual Soybean Meal Price?

A: For months in which a CBOT soybean meal futures contract expires, the actual soybean meal price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date for the CBOT soybean meal futures contract for that month expressed in dollars per bushel. For months when there is no expiring CBOT soybean meal futures contract, the actual soybean meal price is the weighted average of the futures prices on the nearest two contract months. The weights depend on the time period between the month in question and the nearby contract months. For example, the actual soybean meal price in April in Missouri is one-half times the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date of the soybean meal futures contracts that expire in March plus one-half times the daily settlement prices in the last three trading days prior to the contract expiration date of the soybean meal futures contracts that expire in May.

27. Q: What is the Actual Cost of Feed?

A: The actual cost of feed depends on the type of operation. For farrow-to-finish operations, the actual cost of feed equals 13.86 bushels times the Actual Corn Price plus 196.16 pounds divided by 2000 pounds per ton times the Actual Soybean Meal Price. For finishing feeder operations, the actual cost of feed equals 9.6 bushels times the Actual Corn Price plus 132 pounds divided by 2000 pounds per ton times the Actual Soybean Meal Price. For finishing SEW operations, the actual cost of feed equals 9.7 bushels times the Actual Corn Price plus 142 pounds divided by 2000 pounds per ton times the Actual Soybean Meal Price.

28. Q: What is the Actual Swine Price?

A: For months in which a CME lean hog futures contract expires, the actual swine price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date for the CME lean hog futures contracts plus the state-specific swine basis for that month. For other months the actual swine price is the simple average the daily settlement prices in the last three trading days prior to the contract expiration date of the lean hogs futures contracts that expire in the surrounding months. For example, the actual swine price in September is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date of the lean hog futures contracts that expire in August and October.

29. Q: What is the Actual Gross Margin per Swine?

A: The actual gross margin per swine in a month for a particular state for a farrow-to-finish operation is the Actual Swine Price for the state and for the month the swine are marketed times the assumed weight of the swine at marketing (2.5 cwt.) times the yield factor (0.74) to convert the price to a live weight basis, minus the Actual Cost of Feed for the state and the month three months prior to the month the swine are marketed.

Actual gross margin per swine for a farrow-to-finish operation =

$(0.74 * 2.5 * Swine_{t}) – (13.86 * Corn_{t-3}) - ((196.16/2000) * Soybean\ Meal_{t-3})$.

The actual gross margin per swine in a month for a particular state for a finishing feeder operation is the Actual Swine Price for the state and for the month the swine are marketed times the assumed weight of the swine at marketing (2.5 cwt.) times the yield factor (0.74) to convert the price to a live weight basis, minus the Actual Cost of Feed for the state and the month two months prior to the month the swine are marketed.

Actual gross margin per swine for a finishing feeder operation =

$(0.74 * 2.5 * Swine_{t}) – (9.6 * Corn_{t-2}) - ((132/2000) * Soybean\ Meal_{t-2})$.

The actual gross margin per swine in a month for a particular state for a finishing SEW operation is the Actual Swine Price for the state and for the month the swine are marketed times the assumed weight of the swine at marketing (2.5 cwt.) times the yield factor (0.74) to convert the price to a live weight basis, minus the Actual Cost of Feed for the state and the month two months prior to the month the swine are marketed.

Actual gross margin per swine for a finishing SEW operation =

$(0.74 * 2.5 * Swine_{t}) – (9.7 * Corn_{t-2}) - ((142/2000) * Soybean\ Meal_{t-2})$.

30. Q: How is the Actual Total Gross Margin calculated?

A: The actual total gross margin is the sum of the target marketings times the actual gross margin per head of swine for each month of an insurance period. If the producer in the example sold 10 head of swine in June and had an actual gross margin per head of swine of $40, the actual total gross margin would be $400 (10 x $40 = $400).

31. Q: How are Indemnities determined?

A: Indemnities to be paid will equal the difference between the gross margin guarantee and the actual total gross margin for the insurance period. The producer in our example would receive an indemnity of $50 ($450 - $400 = $50).

32. Q: Is a Marketings Report required and when should the company receive it?

A: Yes, in the event of a loss the producer must submit a Marketings Report and sales receipts showing evidence of actual marketings. The producer must submit the Marketings Report within 15 days of receipt of Notice of Probable Loss.

33. Q: Is this a Continuous Policy?

A: This is a continuous policy with twelve overlapping insurance periods per year. Target marketings must be submitted for each insurance period. If a Target Marketings Report is not submitted by the sales closing date for the applicable insurance period, target marketings for that insurance period will be zero.

34. Q: When must the Application for insurance be turned into the company?

A: The sales closing dates for the policy are the next to last business day of the month for each of the twelve calendar months. The Application must be completed and filed not later than the sales closing date of the initial insurance period for which coverage is requested. Coverage for the swine described in the Application will not be provided unless the insurance company receives and accepts a completed Application and a Target Marketings Report, the producer pays the premium paid in full, and the company sends the producer a written Summary of Insurance.

35. Q: When does Coverage begin?

A: Coverage begins one month after the sales closing date. Coverage begins on your swine one full calendar month plus one day following the sales closing date, unless otherwise specified in the Special Provisions, provided premium for the coverage has been paid in full. For example for the January 30 sales closing date, coverage begins on March 1.

36. Q: When are the Contract Change Dates for the policy?

A: The contract change date is April 30. Any changes to the LGM for Swine Policy will be made prior to this contract change date.

37. Q: When are the Cancellation Dates for the Policy?

A: The cancellation date is June 30 for all insurance periods.

38. Q: When is the End of Insurance for the Policy?

A: The end of insurance for the policy is 6 months after the sales closing date. For example, for the January 30 sales closing date, coverage ends on July 31.

39. Q: What deductibles are available for the policy?

A: The producer may select deductibles from $0 to $20 per head of swine, in $2 per head increments.

40. Q: How is the producer's premium calculated?

A: The producer's premium is calculated by a premium calculator program that determines the premium per swine based on target marketings, expected gross margins for each period, and deductibles.

41. Q: When is the premium for the policy due?

A: The premium for the initial insurance period is due with the application for LGM for Swine Insurance coverage. The premium for all subsequent insurance periods is due with the Target Marketings Report, which is due no later than the sales closing date.

42. Q: What portion of a producer's swine will be insured under the LGM for Swine policy?

A: A producer can insure any amount of swine that the producer owns up to a limit of 15,000 head for any 6-month insurance period and a limit of 30,000 head per crop year. Ownership of insured swine must be certified by the producer and may be subject to inspection and verification by the insurance company.

43. Q: What information is required for acceptance of an Application for the LGM for Swine Insurance Policy?

A: The Application for the LGM for Swine Insurance Policy must contain all the information required by us to insure the gross margin for the animals. Applications that do not contain all social security numbers and employer identification numbers, as applicable (except as stated in the policy), deductible, Target Marketings Report, and any other material information required to insure the gross margin for the animals, will not be acceptable.

44. Q: If a producer has a combination of farrow-to-finish, feeder finishing, and SEW finishing operations on the same policy, are the guarantees and the loss payments separate?

A: Yes. Guarantees and loss payments are calculated separately for each of these three types of swine. However, the producer is still limited to covering 15,000 head per insurance period and 30,000 annually.

45. Q: Can LGM sales be suspended?

A: Yes. Sales of LGM for Swine may be suspended for the next sales period if unforeseen and extraordinary events occur that interfere with the effective functioning of the corn, soybean meal, or lean hog commodity markets. Coverage may not be available in instances of a news report, announcement, or other event that occurs during or after trading hours that is believed by the Secretary of Agriculture, Manager of the RMA, or other designated RMA staff, to result in market conditions significantly different than those used to rate the LGM for Swine program. In these cases, coverage will no longer be offered for sale on the RMA Website. LGM for Swine sales will resume, after a halting or suspension in sales, at the discretion of the Manager of RMA.

46. Q: What if the expected gross margins are not posted on the RMA website on the next to last business day of the month?

A: LGM for Swine will not be available for sale for that insurance period.