

## Livestock Gross Margin (LGM) 2009 Cattle

### LGM Overview

The Livestock Gross Margin (LGM) for Cattle Insurance Policy provides protection against the loss of gross margin (market value of livestock minus feeder cattle and feed costs) on feeder (yearling and calf) cattle. LGM covers the difference between the gross margin guarantee and the actual gross margin at the end of the 11-month insurance period. The LGM insurance policy uses adjusted futures prices to determine the expected gross margin and the actual gross margin. LGM does not insure against death loss or any other loss or damage to the producer's cattle.

### LGM Availability

Cattle 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 Cattle Insurance Policy.



### LGM Premium Rates

Your premium is calculated by a premium calculator program that determines the per head of cattle premium based on:

- Amount of Coverage Selected
- Producers Marketing Plan
- Level of Futures Prices
- Amount of Price Volatility

You may insure any amount of cattle that you own up to a limit of 5,000 head for any 11-month insurance period and a limit of 10,000 head per crop year. Ownership of insured cattle must be certified by you, the producer, and may be subject to inspection and verification by ARMtech.

### LGM Prices

#### **Expected Prices Are Determined**

Expected cost of feed and cattle prices for months in an insurance period are determined using a three-day average settlement price on the CBOT corn futures contract and the CME cattle futures contract respectively.

#### **Producer Inputs Target Marketings**

The Producer's Approved Target Marketings are the maximum number of slaughter ready cattle that the producer will market (sell) during the insurance period. Approved Target Marketings are certified by the producer and are subject to inspection by the insurance company.

#### **Producer Selects Coverage Levels**

The producer can select deductibles from \$0 to \$150 per head of cattle, in \$10 per head increments.

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### **Gross Margin Guarantee Is Determined**

The gross margin guarantee for each coverage period is calculated by subtracting the per head deductible times total number of cattle to be marketed from the expected total gross margin for the applicable insurance period.

### **Actual Prices Are Determined**

Actual prices are determined on the last 3 trading days before the expiration date of the applicable futures contract. Months without futures contracts use the average of the actual prices of surrounding months.

### **Actual Total Gross Margin Is Calculated**

Actual gross margins are calculated for each month and added together to determine Actual Gross Margin for the insured period.

### ***Indemnity Payments***

**Indemnity = Gross Margin  
Guarantee minus Actual Gross Margin**

Indemnities to be paid will equal the difference between the gross margin guarantee and the actual total gross margin for the insurance period.

### ***LGM Example***

- 300 Head of Cattle
- Calf Feeding Operation
- 2006 Crop Year
- 100% Share
- Oklahoma

Policy Written— January 31, 2006

Target Marketing Month—March

Expected Gross Margin Guarantee—

\$356.65 with a \$50 deductible

Producer Premium—\$1452

#### **Results:**

The cattle market decreased and the corn market increased which triggered an indemnity.

The actual gross margin on March 31st was \$269.48 or \$87.17 less than the gross margin guarantee.

#### **Indemnity Payment is as follows:**

$\$87.17 \text{ minus } \$50 \text{ deductible} = \$37.17 \times 300 \text{ head} = \$11,151 \text{ indemnity}$

### ***For More Information***

**This summary is for general illustration purposes only.**

Consult your crop insurance agent to obtain specific information regarding practices, options, planting dates and appropriate deadlines. **READ THE POLICY PROVISIONS BEFORE MAKING YOUR DECISION ON LGM AND OTHER LIVESTOCK INSURANCE PRODUCTS. POLICY PROVISIONS ARE AVAILABLE FROM YOUR INSURANCE AGENT.**

ARMtech Insurance Services, Inc. is an equal opportunity provider.

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