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Livestock Gross Margin – Dairy (LGM Dairy) 2009

LGM Overview

The Livestock Gross Margin (LGM) for Dairy Cattle Insurance Policy provides protection against the loss of gross margin (market value of milk minus feed costs) on the milk produced from dairy cows. The indemnity at the end of the eleven-month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. The Livestock Gross Margin for Dairy Cattle Insurance Policy uses futures prices and state basis for corn, soybean meal and milk to determine the expected gross margin and the actual gross margin. The price the producer receives at the local market is not used in these calculations.

LGM Availability

Only milk sold for commercial or private sale primarily intended for final human consumption from dairy cattle fed in any of the eligible states is eligible for coverage. Producers who own dairy cattle in Arizona, Colorado, Connecticut, Delaware, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Texas, Utah, Vermont, West Virginia, Wisconsin, and Wyoming are eligible for LGM for Dairy Cattle Insurance Policy coverage.

LGM Premium Rates

Your premium is calculated by a premium calculator program that determines premium based on target marketings and expected gross margins for each period and deductibles. One hundred percent of a dairy farmer's milk can be insured under the policy.

LGM Prices

Expected Prices Are Determined

The expected price measurement period is the three days prior to the second to last trading day of the month. Prices will be released by RMA after the markets close on the last day of the price discovery period.

Producer Inputs Target Marketings

The Producer's Approved Target Marketings are the maximum amount of milk 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 dairy operation for the eleven-month insurance period as determined by the insurance provider and the underwriting capacity limit as stated in the special provisions.

Producer Selects Coverage Levels

The producer can select deductible levels between \$0 and \$1.50 per hundredweight of milk in \$0.10 increments.

Gross Margin Guarantee Is Determined

The gross margin guarantee for each coverage period is calculated by subtracting a deductible amount from the expected total gross margin for the applicable insurance period.

Actual Prices Are Determined

The actual milk price is the simple average of the daily settlement prices of the CME Class III milk futures contract for the month during the actual price measurement period plus the state-specific milk basis for the month. The actual price measurement period is the last three trading days prior to contract expiration.

Actual Total Gross Margin Is Calculated

The actual total gross margin is the sum of the actual gross margins for each month of an insurance period.



Indemnity Payments

$$\text{Indemnity} = \text{Gross Margin Guarantee} - \text{Actual Total Gross Margin}$$

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

- 1,560 hundredweights of milk for a month
- Actual milk price is \$10 per hundredweight
- Actual feed cost is \$2,514.29
- \$0.10 deductible per hundredweight

Expected Gross Margin Guarantee—
\$16,126.50

[\$16,282.50 (Expected Gross Margin) minus (\$0.10 x 1,560) = \$16,126.50

Actual Gross Margin—
\$13,085.71

[(1,560 x \$10.00) minus \$2,514.29 = \$13,085.71]

Indemnity Payment is as follows:

\$16,126.50 minus \$13,085.71 = \$3,040.79 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.
