



7101 82nd Street
Lubbock, Texas 79424
806.473.0333
FAX 806.473.0334
armtech@armt.com

Livestock Risk Protection (LRP) 2009 Swine

LRP Overview

LRP swine provides revenue protection from a price decline during the policy coverage period. The protection from low prices is based on the Agricultural Marketing Service price series for lean hogs and CME lean hog futures.

The policy does not protect against other perils such as mortality, disease, or any other cause of loss.

LRP has limited underwriting amounts that require that all requests for coverage be approved by the Risk Management Agency (RMA) before coverage officially attaches.

To establish LRP coverage, an insured must first file an application for LRP insurance through their insurance agent. This application does not establish any right to coverage. It only establishes the ability to request coverage if appropriate underwriting amounts are available from RMA. After the application has been accepted, the insured must file an SBI (entities with 10% or greater interest) listing their social security numbers or employer ID numbers and their share along with a Specific Coverage Endorsement (SCE) to establish actual insurance coverage.

LRP Availability

LRP swine is available in all counties in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Indiana, Illinois, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming.

Insured's Options

LRP is for swine that the producer intends to have and to market for slaughter at the end of the insurance period. The Target weight for swine should be between 1.5 cwt and 2.25 cwt per head. This Target weight is the lean weight per head. (Total weight per head multiplied by 0.74). The insurance periods available range in approximately 30-day increments from 13 to 26 weeks. The maximum number of swine that may be insured by any one entity in any one crop year is 32,000 head. (Only 10,000 head may be covered on a single SCE).

The coverage level on LRP ranges from 70%-100% of the expected ending value. The subsidy rate at all levels is 13%.

LRP vs Futures

- The LRP price is fixed. There is not a bid/ask spread. You will not get a fill that is different from the quoted price.
 - LRP indemnities are based on cash prices not futures prices. Often the cash price can drop more drastically than the futures price.
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LRP Prices

Since coverage prices and premium rates are based on the Chicago Mercantile Exchange (CME) Lean Hog futures, these rates will change on a daily basis. These rate will be released every trading day after the market closes and the rates are approved by RMA (approximately 4:00 pm CST). Sales will then run from that time until 9:00 am CST the following day. Coverage can be established during that time period except when

- CME Futures are not trading.
- CME Lean Hog futures trades the market limit.
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Expected Ending Value — This price is determined by using the Chicago Mercantile Exchange Feeder Cattle futures contract for the time period specified in the Specific Coverage Endorsement and calculating the value to the expiration date of the SCE. This value can be checked by going to the following web site: http://www3.rma.usda.gov/apps/livestock_reports.

Actual Ending Value — This price is the CME cash commodity settlement price for feeder cattle index on the day the policy expires. This value can be checked by going to the following web site: http://www.cme.com/prices/cash-settled_commodity_index_prices.cfm Then select feeder cattle and the appropriate month.

LRP Premium

Assume:

- 1,000 head of hogs
 - Target weight of 1.85 cwt
 - Selected coverage price of \$52.25
 - Expected ending value of \$55.00
 - Rate is 2.8708%
 - Subsidy is 13%, Share is 100%
1. 1,000 head X 1.85 cwt = 1,850 cwt
 2. 1,850 cwt X \$52.25 coverage price = \$96,663
 3. \$96,663 X 100% share = \$96,663
 4. \$96,663 X 0.028708 rate = \$2,775 total premium
 5. \$2,775 X 0.13 premium subsidy = \$361
 6. \$2,775 - \$361 = \$2,414 producer paid premium

LRP Indemnity

LRP indemnity payments are based on the difference between the coverage price and the AMS price series calculation price for the last day the coverage is in effect. Indemnity payments are not based on the actual received price of the commodity. When the ending value is less than the coverage price, the insured must complete a claim form within 60 days following the end date to receive an indemnity.

- 1,000 head of hogs
 - Target weight of 1.85 cwt
 - Selected coverage price of \$52.25
 - Actual Ending Value of \$44.80
 - Share of 100%
1. 1,000 head X 1.85 cwt = 1,850 cwt
 2. \$52.25 coverage price — \$44.80 actual ending price = \$7.45 loss
 3. 1,850 cwt X \$7.45 loss = \$13,783 indemnity payment
 4. \$13,783 X 100% share = \$13,783
 5. \$13,783 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 LRP OR OTHER CROP INSURANCE PRODUCTS. POLICY PROVISIONS ARE AVAILABLE FROM YOUR INSURANCE AGENT.

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