

How Would Hog Insurance have Performed in Recent Years

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This presentation was made at the January 15, 2001 Iowa Pork Industry Center ICN. It is a simple, quick and dirty comparison of Livestock Revenue Insurance presented by Bruce Babcock to risk management alternatives. Iowa is expected to be a pilot state for “hog insurance” once USDA approves it. Currently, it is thought that the insurance will be available by mid year 2001. Bruce’s presentation explains the concept and is available at the link above this one on my web page.

Compare for 1995-2000

- **Feb 1995 - July 2000**
- **ISU Estimated Returns**
- **Cash market**
- **Futures hedge**
- **Put Option (ATM and 1 OTM)**
- **Hog Insurance (90% & 100%)**

Procedures

- **Returns are averaged in 6-month periods Feb-July and Aug-Jan**
- **Insurance is bought at the start of each 6-month period.**
- **Futures and options were placed on the 15th of the month 4 months prior to slaughter.**

Cost per Head for Risk Management

	Initial	Net
ATM Put	6.89	1.10
1 OTM Put	4.66	1.20
Ins 100%	4.73	-0.38
Ins 90%	2.46	-0.49

Summarize by 6-month periods

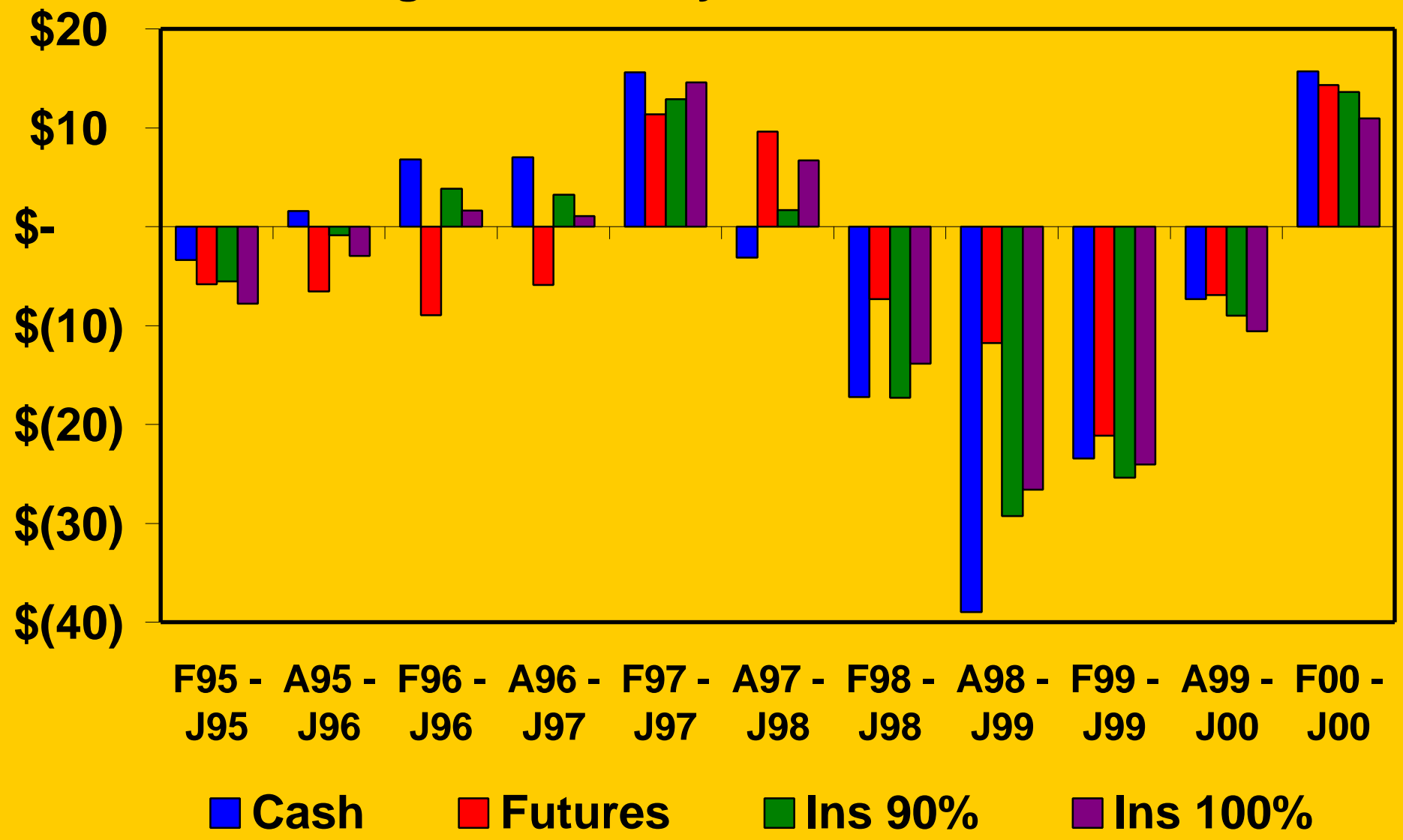
Average Returns per Head

Feb 1995-July 2000

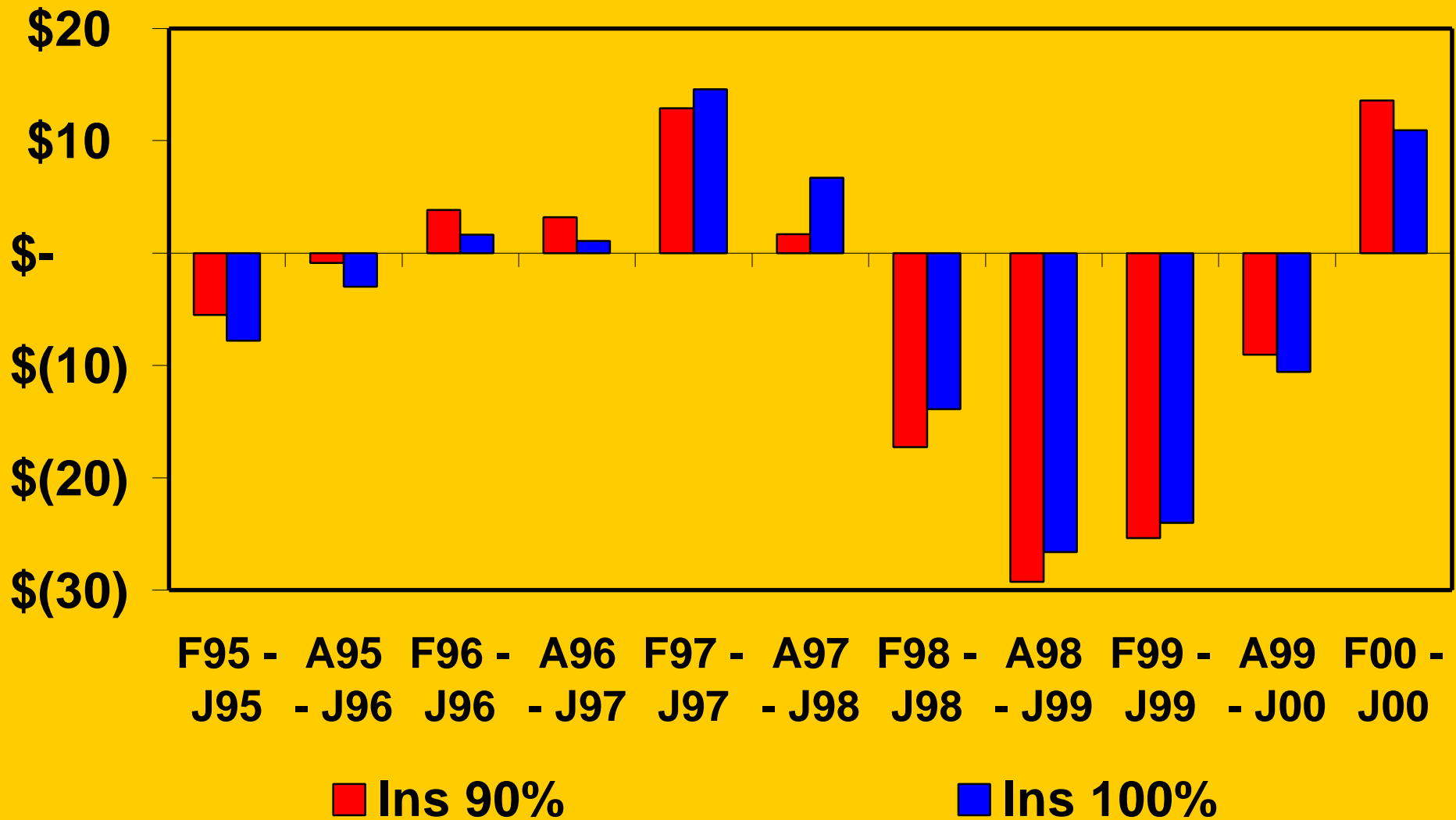
	Average	Min	Max
Cash	-4.25	-38.96	15.68
Futures	-3.55	-21.11	14.31
ATM Put	-3.72	-23.53	13.98
1 OTM Put	-3.61	-24.07	14.18
Ins 100%	-4.63	-26.60	14.58
Ins 90%	-4.74	-29.26	13.60

Summarize by 6-month periods

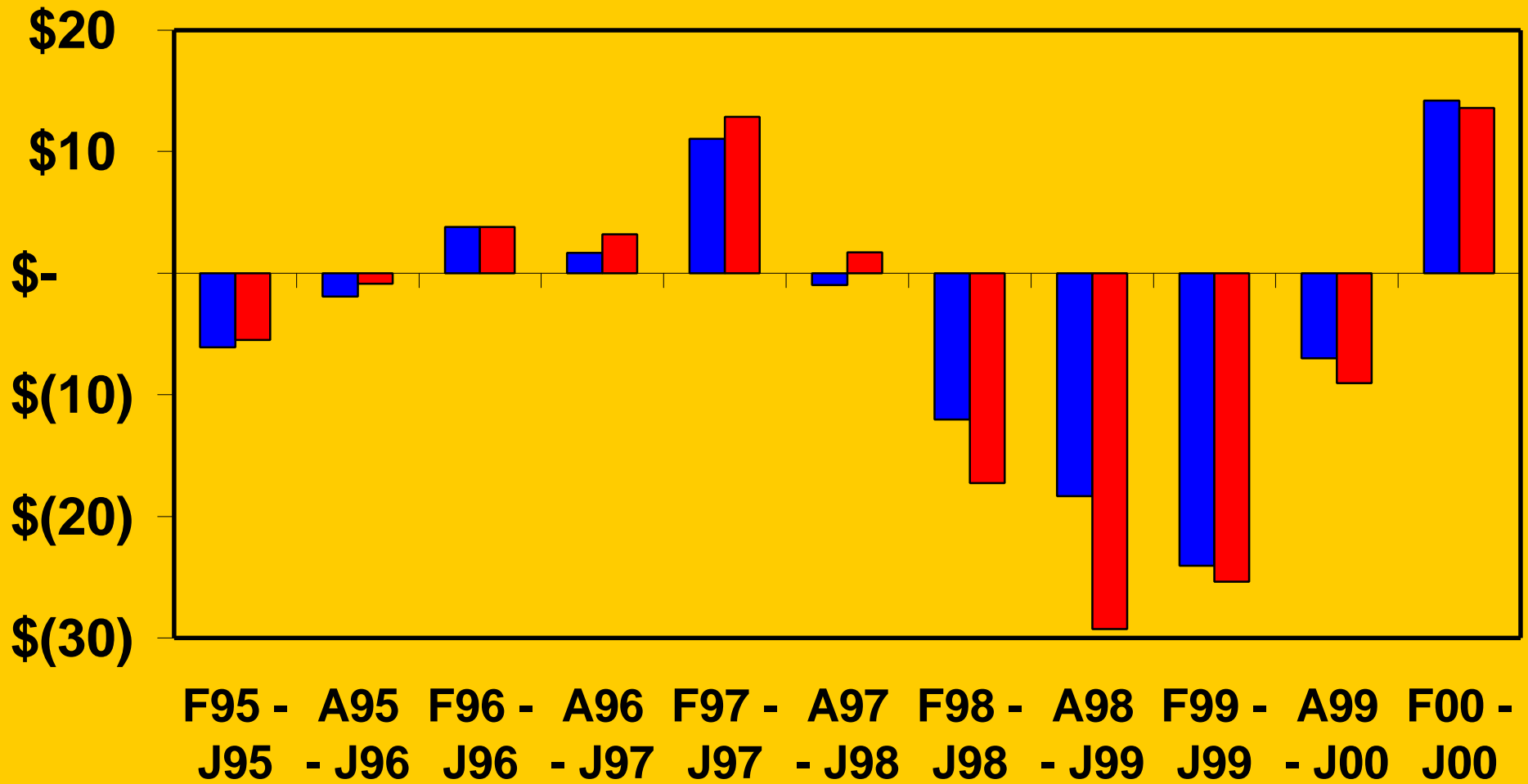
Returns per Head for Cash Market, Futures, and Hog Insurance by 6-Month Period



Returns per Head From Hog Insurance at 90% and 100% by 6-Month Period



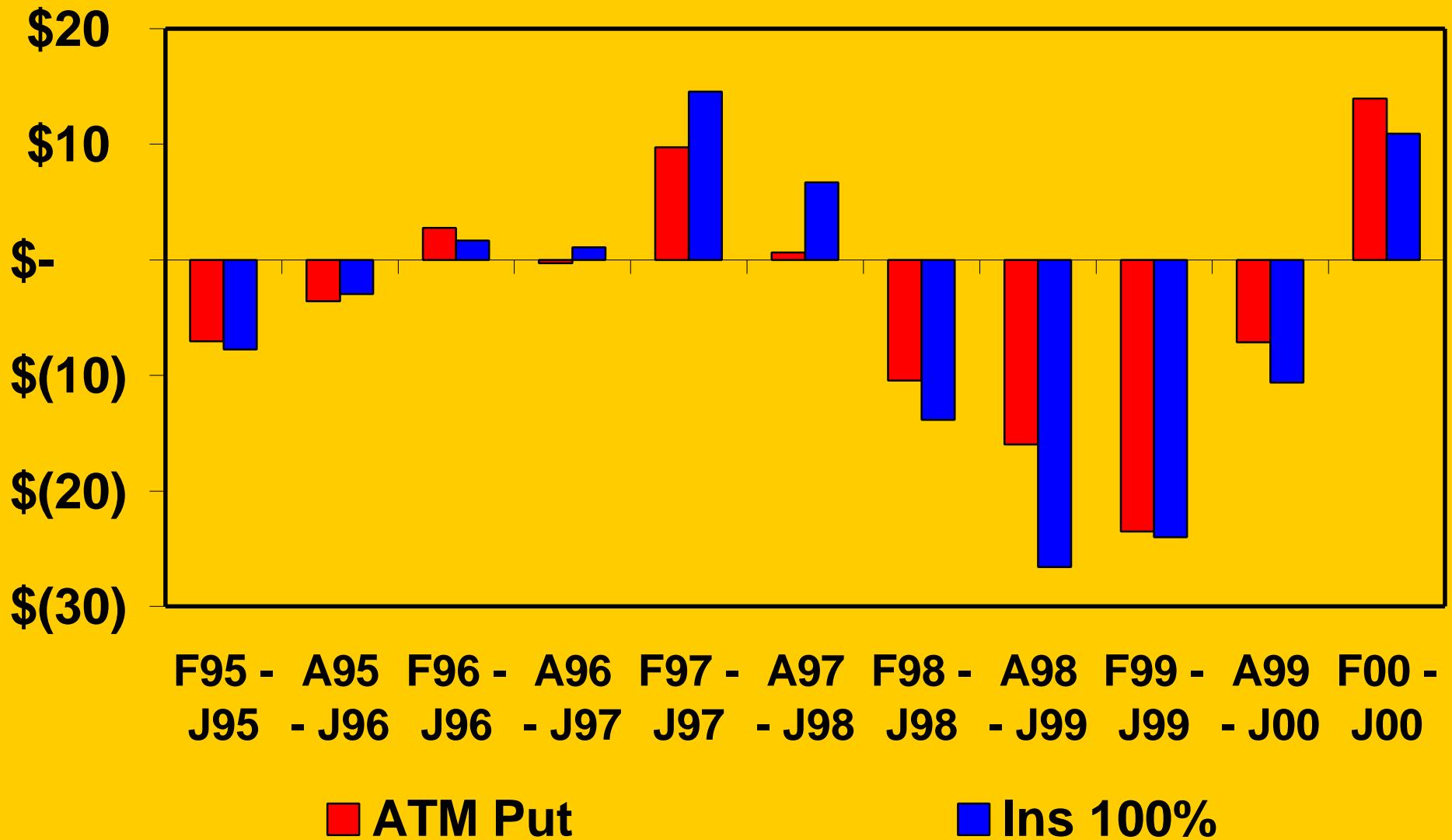
Returns per Head From Buying Put Option and Hog Insurance by 6-Month Period



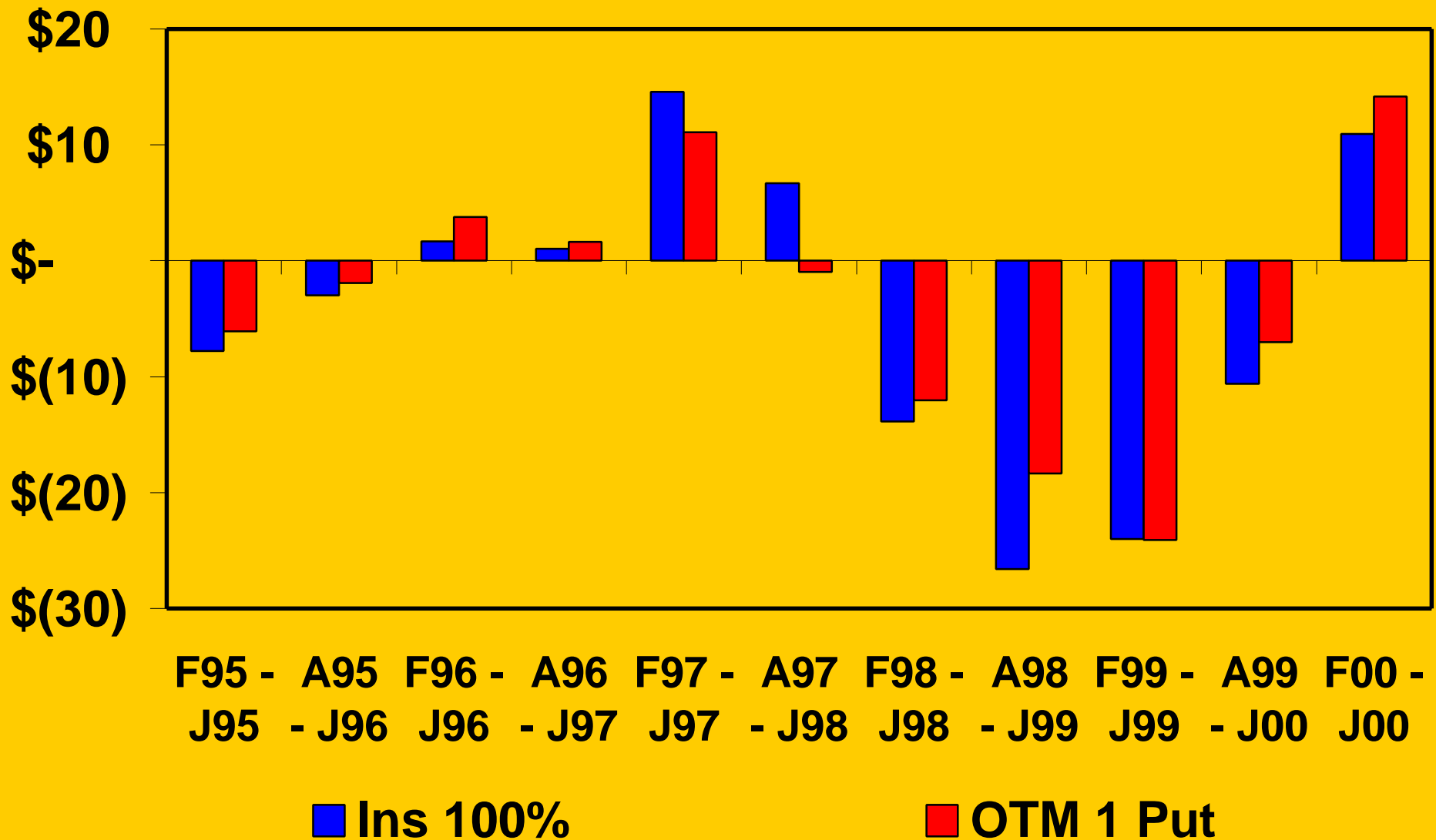
■ OTM 1 Put

■ Ins 90%

Returns per Head From Buying Put Option and Hog Insurance by 6-Month Period



Returns per Head From Out-of-Money Put and 100% by 6-Month Period



Summary

- **No free lunch. The net results for insurance were not greatly different from the put option strategies evaluated.**
- **Futures and options coverage in the analysis only covered hogs. Insurance covered feed costs also.**
- **Insurance is more convenient. One decision and sign up every six months. For the same six months you may need to manage 3 hog contract months, 2 corn contract months, and 2-3 SBM contract months.**
- **Insurance can be tailored to in individual marketing plan and numbers. Option contracts come in one size.**