



Dairy

REVENUE PROTECTION

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Dairy Revenue Protection – Dairy RP – DRP

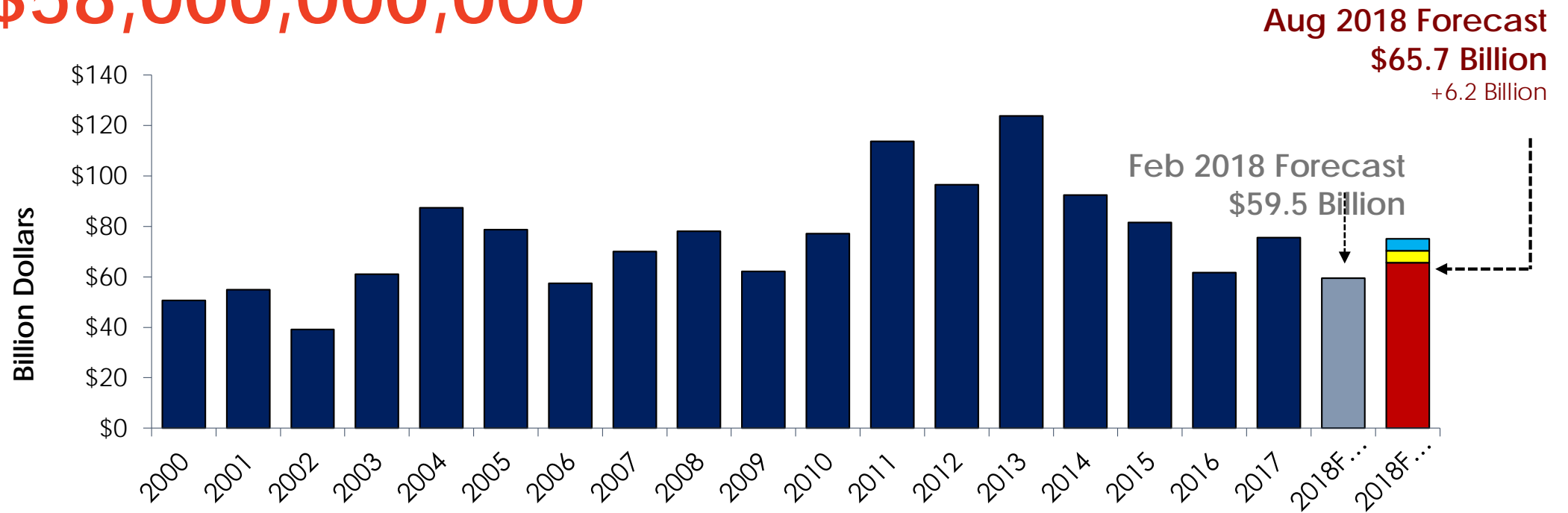
Who is involved?

- American Farm Bureau Insurance Services, Inc.
 - Submitting organization – Crop Insurance since 1995
- American Farm Bureau Federation
 - John Newton, PH.D – Expert Economist
- Marin Bozic, PH.D – Expert Economist
- Joshua Woodard, PH.D – Expert Economist
- American Agricultural Insurance Company (AIP)
- COUNTRY Financial (AIP)

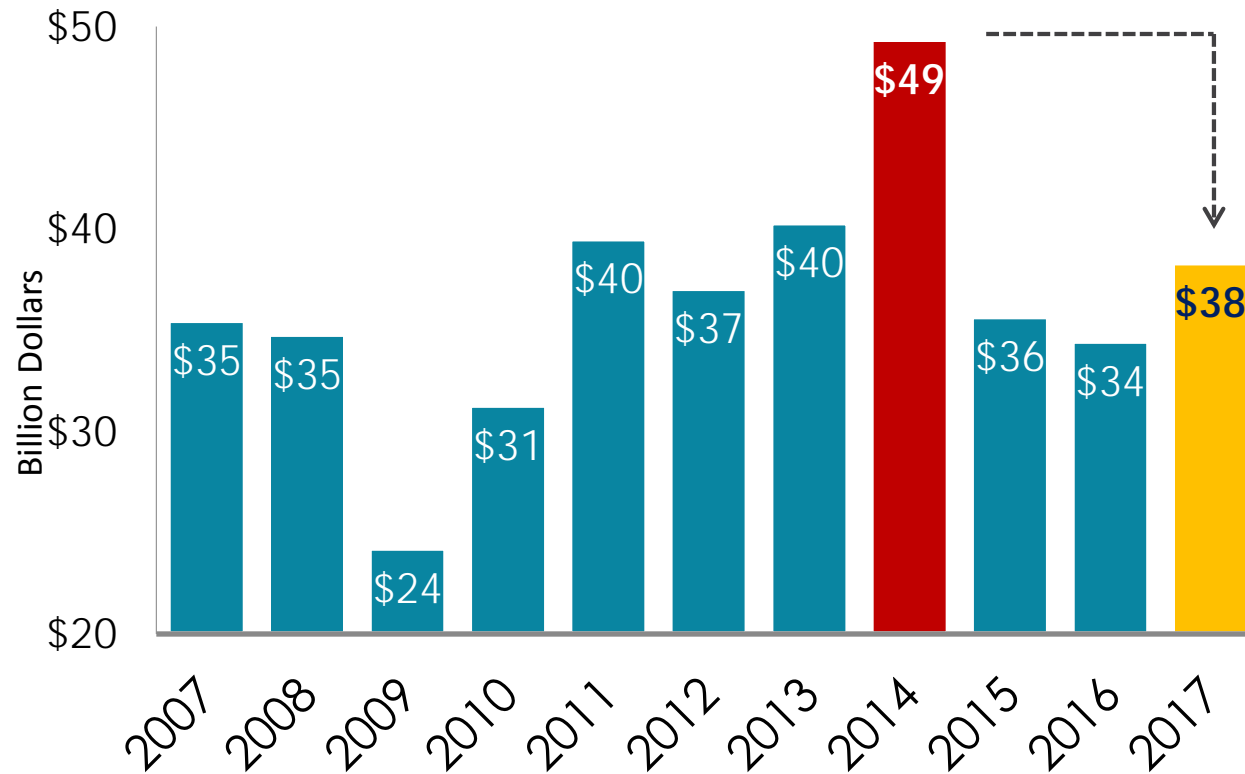


Make Farmers Great Again

Since 2013, **Net Farm Income** has declined by
\$58,000,000,000



Gap in Risk Coverage, Milk Prices Have Fallen Nearly 50%, Revenue Down 20%

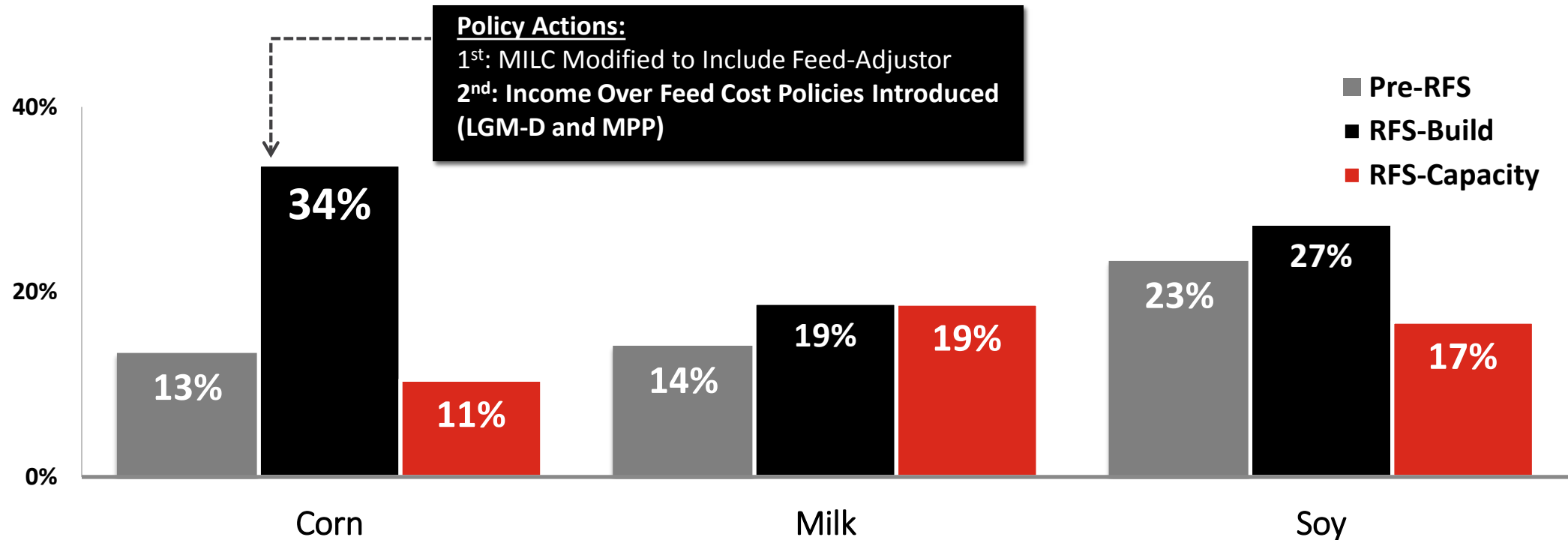


Policy Actions for Dairy Risk

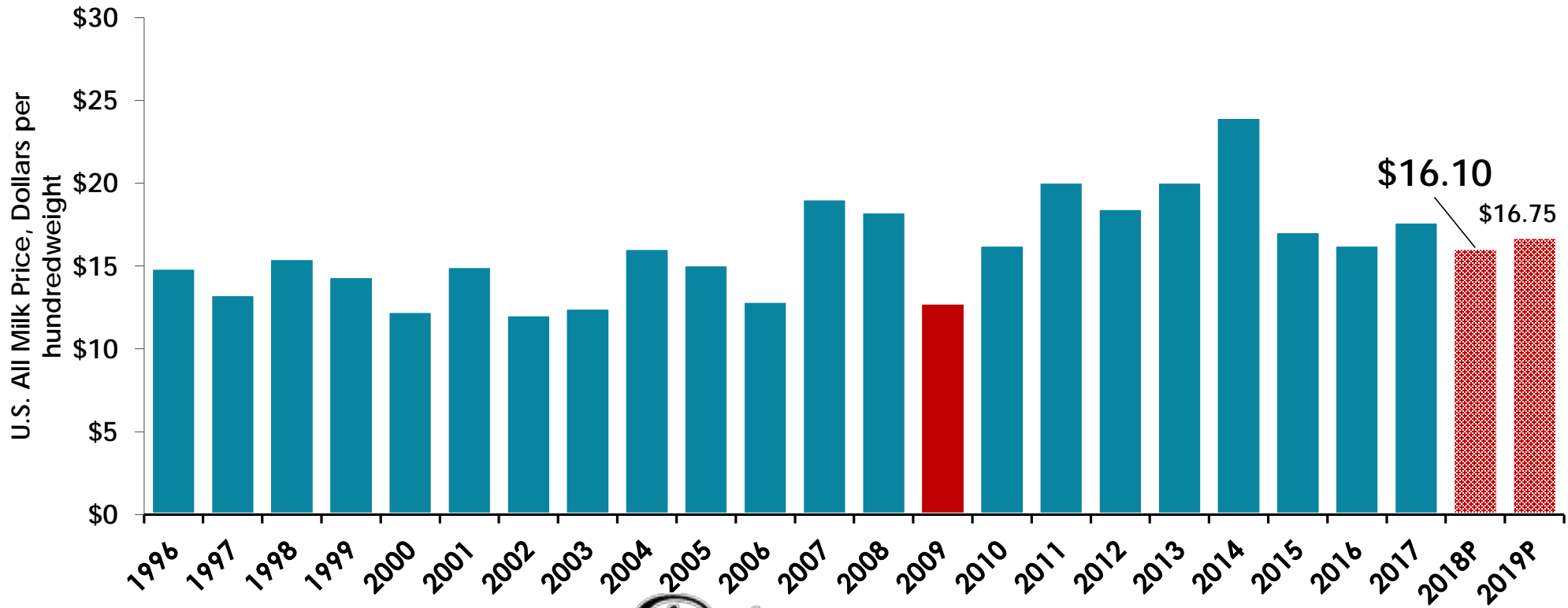
- New safety net in 2014 Farm Bill (Margin Protection Program) provided limited support
- Congressional actions included emergency cheese purchases in 2016, Senate Appropriations Package

All Tools Margin Based

Volatility by RFS Period and by Commodity



U.S. Milk Price Variability



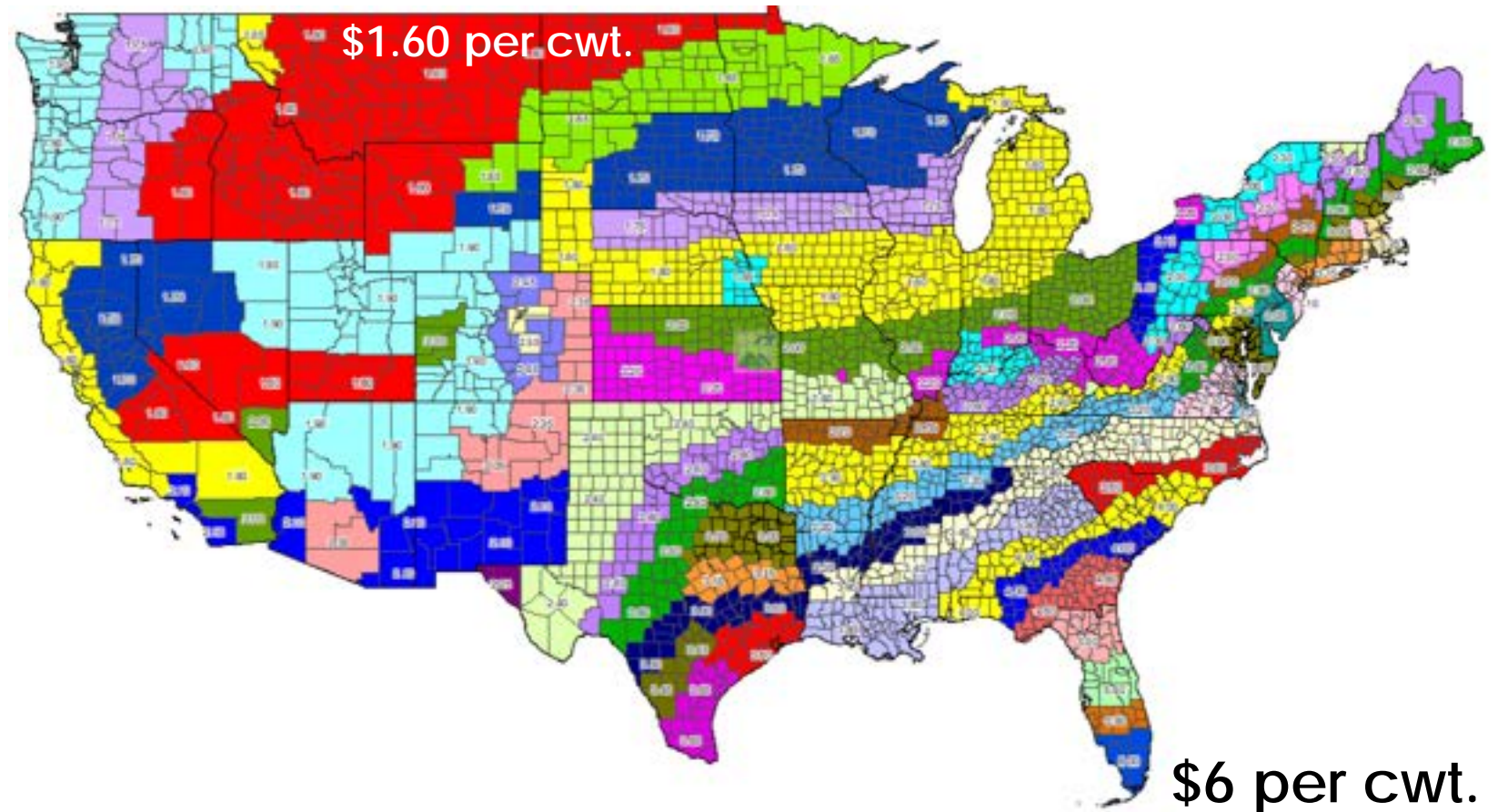
One Size Does Not Fit All, Milk Prices Paid to Farmers Differ in Every County in U.S.

Class I Location Differentials

Every county in the U.S. has a regulated minimum price based on the county they are located in.

Differentials highest in South East deficit milk production regions.

Differentials are lower in milk surplus orders.



Most Insurance Policies are Revenue-Based

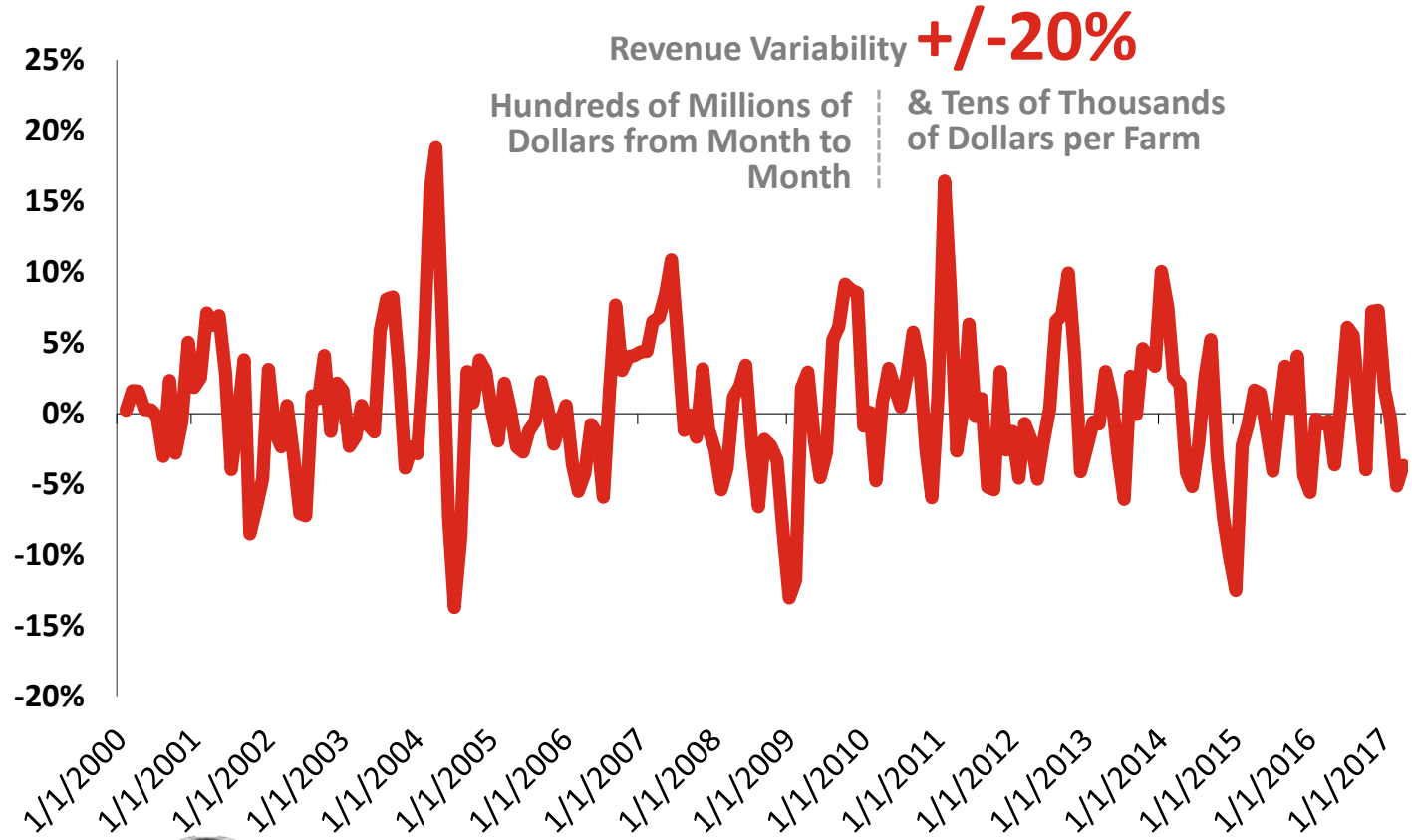
Revenue Variability

Month to month changes in revenue vary by as much as 20 percent.

Milk is a “flow” commodity so farmers have no ability to store on-farm and sell at more favorable prices.

Revenue is subject to these marketing/price constraints and changes in animal productivity

Percent Change in U.S. Milk Revenue



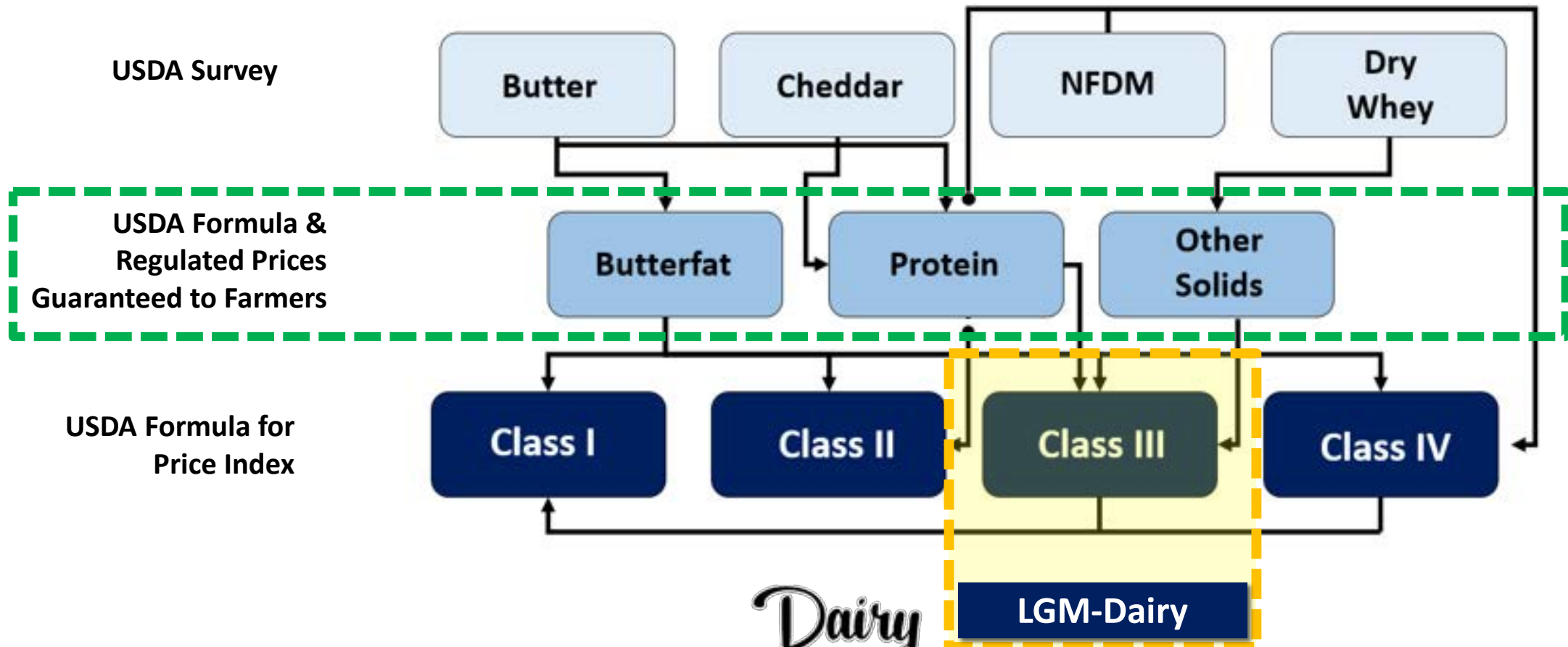
Product Overview

Area-Based Revenue Insurance Product for Dairy Producers “Dairy RP”

- Protection against milk price, milk yield and revenue declines
- Quarterly coverage, sold for up to 5 nearby quarters
- Two pricing options (class price and component)
- Indexed using state-level milk production
- Few coverage declarations, minimal reporting requirements, and eligibility for all dairy farmers
- Premiums established using actuarially appropriate methods



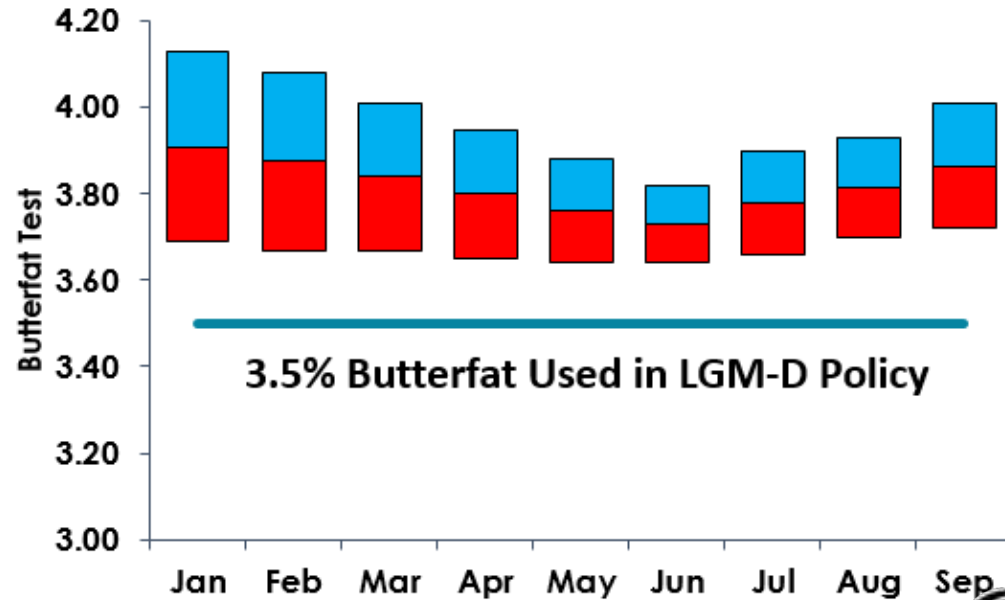
How Milk is Really Priced



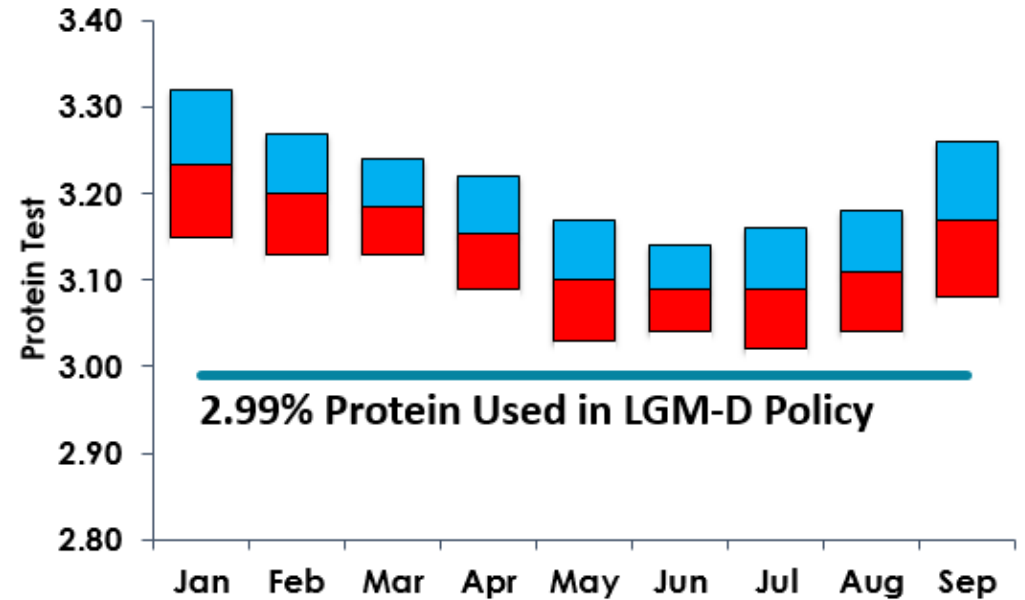
Farm Component Levels

- Choose Milk Component Levels to Determine Value of Milk in Policy

Range of Market Average Butterfat Tests, 2017



Range of Market Average Protein Tests, 2017



Source: USDA AMS, Farm Bureau Calculations

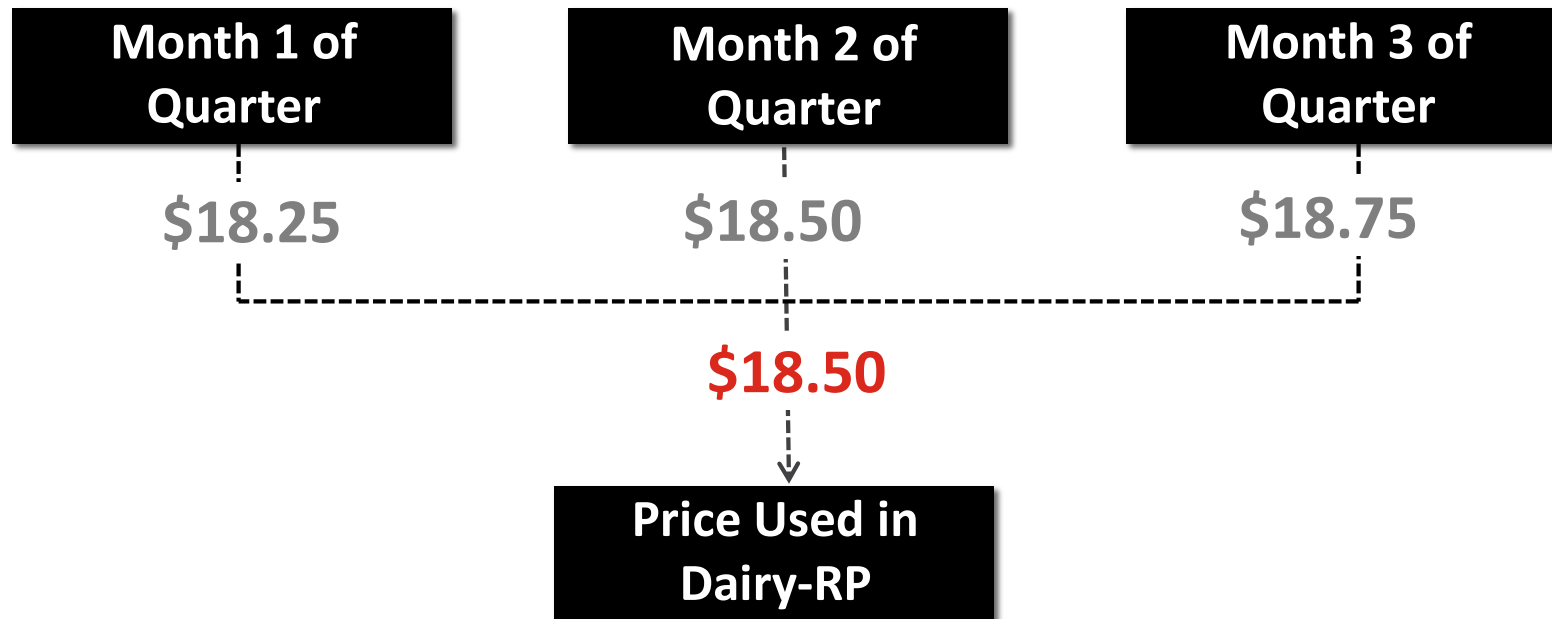


DRP – Price Guarantee

- Milk or Component Prices Are Averaged for the 3 Months of the Quarter:



Milk and Dairy Product Futures (CIII, CIV, Butter, Cheese, Dry Whey)



Class Price Option

- Choose a Weighted Average “Mix” of Class III or Class IV Milk Futures



Class III Milk Futures Quotes View Another Product

Globex

Quotes | Settlements | Volume | Time & Sales | Contract Specs | Margins | Calendar

Month	Options	Charts	Last	Change	Prior Settle	Open	High	Low	Volume	Hi / Low Limit	Updated
OCT 2018	OPT	Chart	16.92	+0.09	16.83	16.83	16.92	16.83	33	17.58 / 16.08	10:24:32 CT 29 May 2018
NOV 2018	OPT	Chart	16.73	+0.09	16.64	16.74	16.74	16.72	4	17.39 / 15.89	10:20:29 CT 29 May 2018
DEC 2018	OPT	Chart	16.55	UNCH	16.55	16.55	16.55	16.55	1	17.30 / 15.80	08:52:31 CT 29 May 2018

Class IV Milk Futures Quotes View Another Product

Globex

Quotes | Settlements | Volume | Time & Sales | Contract Specs | Margins | Calendar

Month	Options	Charts	Last	Change	Prior Settle	Open	High	Low	Volume	Hi / Low Limit	Updated
OCT 2018	OPT	Chart	-	-	16.31	-	-	-	0	17.06 / 15.56	08:20:39 CT 29 May 2018
NOV 2018	OPT	Chart	-	-	16.34	-	-	-	0	17.09 / 15.59	08:20:39 CT 29 May 2018
DEC 2018	OPT	Chart	-	-	16.34	-	-	-	0	17.09 / 15.59	08:20:39 CT 29 May 2018

\$16.73

100% Class III
0% Class IV

\$16.53

50% Class III
50% Class IV

\$16.33

0% Class III
100% Class IV

Component Pricing Option

- Choose Milk Component Levels to Determine Value of Milk in Policy



Butterfat Price	Minimum Component	Higher Component	Maximum Component
\$2.50	3.50%	4.00%	5.00%
Protein Price			
\$1.75	3.00%	3.25%	4.00%
Other Solids Price	(Fixed)	(Fixed)	(Fixed)
\$0.10	5.70%	5.70%	5.70%
Component Value of Milk in Policy	\$14.55 ←	\$16.26	→ \$20.07

Yield Adjustment Factor

5,100 Lbs/Qtr	State or Pooled Production Region's Actual Milk Production per Cow	=	1.02 Yield Adjustment Factor
5,000 Lbs/Qtr	State or Pooled Production Region's Expected Milk Production per Cow		

Yield Adjustment Factor will move the Actual Milk Revenue up/down based on Actual Milk Yields in the State or Pooled Production Region relative to the Expected Milk Yields.

Yield Adjustment Factors below 1.00 will **INCREASE** Indemnities.

Yield Adjustment Factors above 1.00 will **DECREASE** Indemnities.

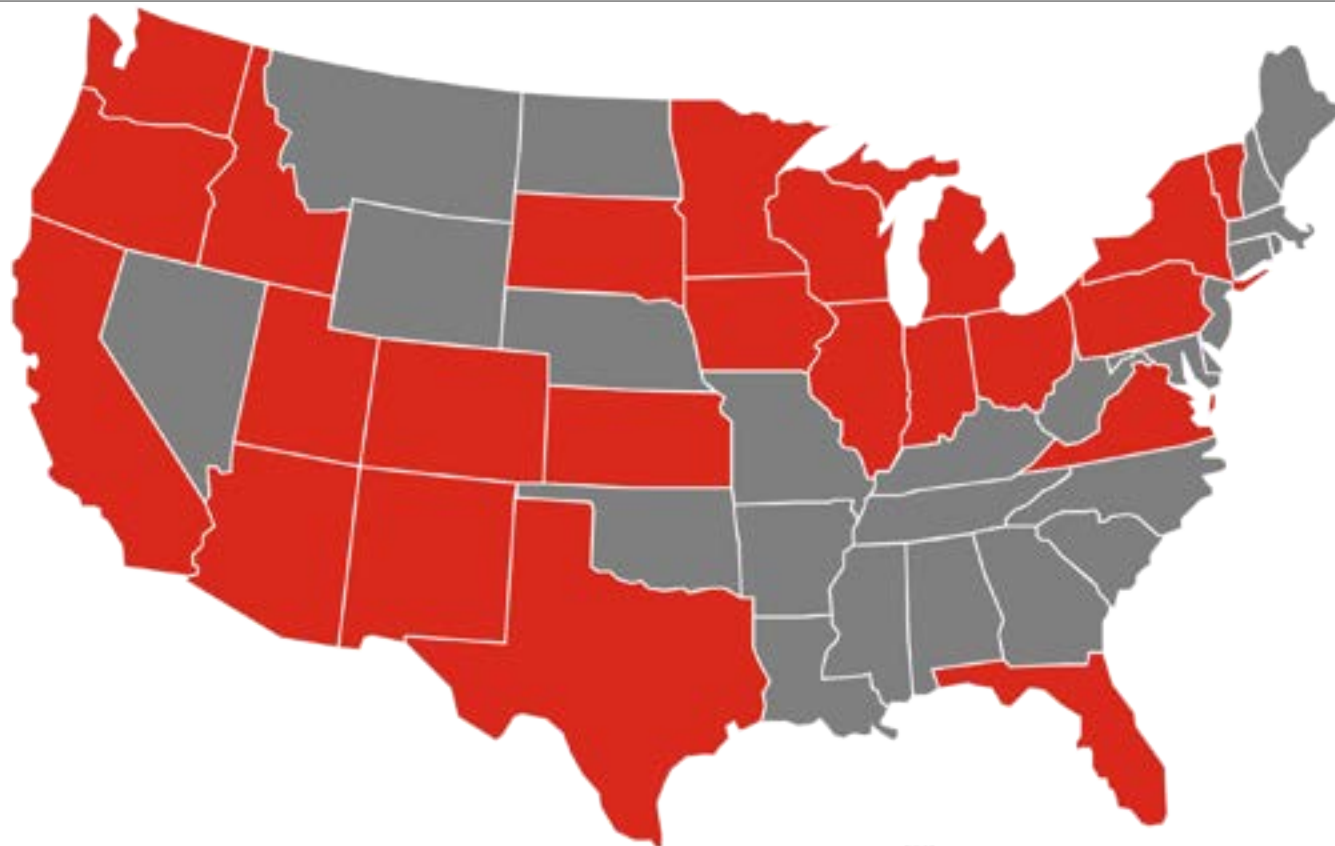
Premium Subsidy

- Area-Based Revenue Protection Subsidy Schedule from FCI Act 2014

Coverage Level	Premium Subsidy
90% to 95%	44%
85% to 89%	49%
75% to 84%	55%
70% to 74%	59%
Below 70%	N/A



DRP States Sales



Top 23 States
**DRP Indexed to State-Level
USDA NASS Milk Production
Data**

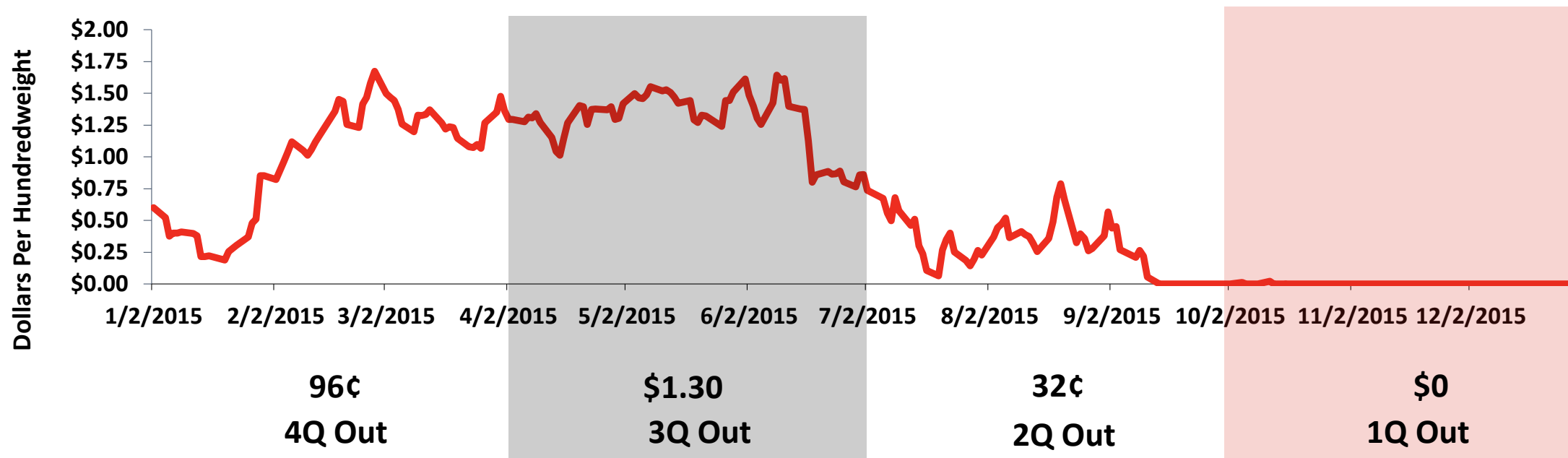
Outside Top 23 States
DRP Indexed to Groups of States'
USDA NASS Milk Production
Data



Historical DRP Performance

Indemnity Payments 4Q 2015 Coverage

Policy: 100% Class III, 95% Coverage Level



For Discussion Purposes Only



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Questions?