NC STATE EXTENSION

Risk Management Policy Options for Dairy – 2019

Adapted from Cornell Handout, Extension Risk Management Education Conference

Program	**Livestock Gross Margin Insurance Dairy Cattle (LGM – Dairy)**	**Dairy Margin Coverage Program (DMC) (Formerly MPP)**	**Dairy Revenue Protection (Dairy – RP)**
You Are Covered For	-Increased feed cost -Decreased milk prices		-Decreased milk revenue due to decreased milk prices or production
You Are NOT Covered For	-Dairy cattle death -Unexpected decreases in milk production -Unexpected increases in feed use -Anticipated or multiple-year declines in milk prices -Anticipated or multiple-year increases in feed costs		-Increased feed cost -Production decreases uncorrelated with state milk yield -Dairy cattle death -Other loss or damage of any kind
You Select	-Percent of production that you want covered (0%-100%) -Length of coverage (2-10 months) -Deductible ($0-$2 per cwt, available in $0.10 increments)	If opting for premium coverage[i]: -Percent of production you want covered (5%-95%) -Guaranteed margin ($4-$9.50 per cwt, available in $0.50 increments)	-Revenue pricing option: Class pricing (combination of Class III & Class IV) or component pricing (butterfat and protein test levels) -Total milk production protected -Coverage level (70%-95%) -Protection factor (100%-150%)
Eligibility	Can be combined with DMC	Can be combined with LGM-Dairy	-Cannot be combined with LGM-Dairy in the same quarter -Can be combined with DMC
Enrollment	Monthly, can enroll for 2-10 months	Life of current farm bill with annual coverage decision: 25% discount on annual premium for 5-year commitment	Quarterly (3 months), up to 15 months in the future (5 quarters)
Coverage Limits	Up to 100% of monthly production with maximum of 240,000 cwt[ii] per year	Tier 1 premium pricing applies to first 50,000 cwt[iii]; tier 2 premium pricing applied to additional production	No limit on how much milk can be insured, but you must market at least 85% of production covered by insurance
Payment Triggers	Actual margin minus deductible is less than the guaranteed margin[iv]	Actual margin for a 1-month period is less than the covered level[v]	Quarterly declines in revenues due to declines in price (milk or component) or production indexes
Basis Risk	Difference between your prices/costs and CME milk and feed prices	Difference between your price/cost and US All Milk Price, weighted feed costs for corn, soybean and alfalfa (as reported by NASS and AMS)	-Difference between your prices and CME prices for Class III & Class IV milk or CME-implied component prices -Difference between your production and state- or regional-indexed milk production
Deadline	Last business Friday of each month	Sign-up period expected to open on June 17, 2019, for 90 days	Sales for a quarter end 15 days prior to the beginning of that quarter
Coverage Offered By	Insurance agents working with an RMA Approved Insurance Provider (AIP)	Farm Service Agency (FSA)	Insurance agents working with an RMA Approved Insurance Provider (AIP)

[i] Catastrophic coverage is available to all enrollees who have paid their $100 administrative fee and covers $5 margins at 90% of established production.
[ii] Approximately 1,050-1,200 cows
[iii] Approximately 220-250 cows
[iv] Actual gross margin is calculated from Chicago Mercantile Exchange (CME) Group futures contract daily settlement prices, not the prices that you receive from the market
[v] Actual margins are the difference between the national all milk price and the national average feed cost, as estimated from prices reported by the National Agricultural Statistics Service (NASS) and the Agricultural Marketing Service (AMS).

Livestock Gross Margin Insurance Dairy Cattle (LGM-Dairy)
LGM-Dairy protects producers when the actual dairy margin (milk price – feed cost) falls below the expected margin. Futures market feed and milk prices are used to determine the expected and actual gross margin. Producers do not choose the margin that is guaranteed by the policy.

Dairy Margin Coverage Program (DMC)
DMC is the successor to the Margin Protection Program (MPP). This program makes payments when the national average dairy margin (futures market milk price – futures market feed cost) falls below the guaranteed margin. Unlike LGM-Dairy, the producer is able to decide the margin that is guaranteed ($4/cwt-$9.50/cwt). Producers opting for a 5-year commitment will receive a 25% premium discount. Producers who enrolled in LGM-Dairy in 2018 may enroll in 2018 MPP retroactively.

Dairy Revenue Protection (Dairy-RP)
Dairy-RP protects producers against unexpected drops in quarterly revenue from milk sales. The producer can choose the value of the insured milk based on either a combination of Class III & IV milk prices or a price based on butterfat and protein test values. A "Protection Factor" can be applied to increase the value of the insured milk. Payouts are based on futures market prices and state level production indexes, as reported by USDA-NASS.

Contact FSA to learn more about DMC. Find your nearest FSA office at https://www.fsa.usda.gov/

Find an agent for LGM-Dairy and Dairy-RP by asking a neighbor for a recommendation or use the agent locator tool at http://cli.re/gzPVWy