

# A RISK MANAGEMENT

## CASE STUDY

Dairy Margin Coverage

2020



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**Dairy** EXCELLENCE

- During the 2020 enrollment period, DMC was not projected to trigger indemnities.
- However, John Dairy decided to sign up anyway. John's established production history was 3,425,600 pounds. He decided to enroll 95% of his production history at the maximum \$9.50/cwt margin coverage.
- DMC triggered indemnities at the \$9.50 margin coverage six months out of the year
- During 2021, USDA changed the alfalfa hay portion of the feed cost calculation from the average of mid-grade and high-quality alfalfa hay price to the high-quality hay price only. This change was retroactive to January 1, 2020 and resulted in further net benefit that John received in a lump sum payment in 2021.



John Dairy Farm				
Administration fee			\$100	
Production history (pounds)			3,425,600	
Margin covered (\$ per cwt)			\$9.50	
Percentage covered (%)			95%	
Total volume covered (pounds)			3,254,320	
Premium (\$ per cwt)			0.150	
Total premium (\$)			\$4,981.48	
Total premium with 25% discount (\$)			\$3,761.11	
	Actual DMC Mmargin, \$/cwt	Indemnity Rate, \$/cwt	Expected monthly payment	Expected Payment after Sequestration
January	\$10.72			
February	\$10.06			
March	\$9.15	\$0.35	\$949.18	\$893.18
April	\$6.03	\$3.47	\$9,410.41	\$8,855.19
May	\$5.37	\$4.13	\$11,200.28	\$10,539.47
June	\$9.99			
July	\$12.41			
August	\$10.83			
September	\$9.40	\$0.10	\$271.19	\$255.19
October	\$11.13			
November	\$11.87			
December	\$8.78	\$0.72	\$1,952.59	\$1,837.39
<b>2020 Total payment</b>			<b>\$23,783.66</b>	<b>\$22,380.42</b>

2020 Net Benefit Before Alfalfa Adjustment	
Total Benefit for the year	\$0.73
Benefit after sequestration	\$0.69
Net Benefit after Premium	\$0.54
<b>Total Net Benefit</b>	<b>\$17,398.94</b>

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Total premium with 25% discount (\$)			\$3,761.11	
	Actual DMC Mmargin, \$/cwt	Indemnity Rate, \$/cwt	Expected monthly payment	Expected Payment after Sequestration
January	\$10.45			
February	\$9.80			
March	\$8.95	\$0.55	\$1,491.56	\$1,403.56
April	\$5.84	\$3.66	\$9,925.68	\$9,340.06
May	\$5.16	\$4.34	\$11,769.79	\$11,075.37
June	\$9.83			
July	\$12.29			
August	\$10.69			
September	\$9.26	\$0.24	\$650.86	\$612.46
October	\$10.97			
November	\$11.64			
December	\$8.54	\$0.96	\$2,603.46	\$2,449.85
<b>2020 Total payment</b>			<b>\$26,441.35</b>	<b>\$24,881.31</b>

2020 DMC Net Benefit After Alfalfa Hay Change	
Total Benefit for the year	\$0.81
Benefit after sequestration	\$0.76
Net Benefit after Premium	\$0.61
<b>Total Net Benefit</b>	<b>\$19,899.83</b>

Lump Sum Retroactive Alfalfa Payment	
	<b>\$2,500.89</b>

