

A RISK MANAGEMENT

CASE STUDY

Dairy Margin Coverage

2021



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Dairy EXCELLENCE

- During the enrollment period for 2021 DMC, the COVID-19 pandemic was still causing market disruptions that were negatively impacting dairy markets.
- Early DMC projections were showing indemnity payments each month of 2021
- With projections like these, along with a near 100% probability net benefit predicted, Grady Silo decided to enroll her dairy in DMC.
- The USDA added Supplemental Dairy Margin Coverage that allowed dairy farms that have expanded since original production history (PH) was established to update production history based on actual 2019 production history
- Supplemental PH was defined as the difference between 2019 actual production and established PH
- Tier 1 cap remained at 5 million pounds combined
- Indemnities on Supplemental DMC were paid on 75% of established supplemental PH
- Supplemental DMC was retroactive to January 1, 2021



- Grady's Silo Dairy had an established production history of 3,500,00 pounds
- Grady had expanded her heard since original production history was established.
- 2019 actual production was 4,750,000
- Grady enrolled at the 95% volume, \$9.50/cwt coverage
- Total production enrolled = $(3,500,000 * 95\%) + ((4,750,000 - 3,500,000) * 75\%)$. Or, 4,262,500 pounds.
- DMC ended up triggering indemnities each month of 2021 except December.



Grady's Silo Dairy	
Administration fee	\$100
Production history+ supplemental (pounds)	4,750,000
Margin covered (\$ per cwt)	\$9.50
Percentage covered (%)	95%
Total volume covered (pounds)	4,262,500
Premium (\$ per cwt)	0.150
Total premium (\$)	\$6,493.75

	Actual DMC Mmargin, \$/cwt	Indemnity Rate, \$/cwt	Expected monthly payment	Expected Payment after Sequestration
January	\$6.90	\$2.60	\$9,235.42	\$8,709.00
February	\$5.97	\$3.53	\$12,538.85	\$11,824.14
March	\$6.26	\$3.24	\$11,508.75	\$10,852.75
April	\$6.77	\$2.73	\$9,697.19	\$9,144.45
May	\$6.67	\$2.83	\$10,052.40	\$9,479.41
June	\$6.03	\$3.47	\$12,325.73	\$11,623.16
July	\$5.47	\$4.03	\$14,314.90	\$13,498.95
August	\$5.03	\$4.47	\$15,877.81	\$14,972.78
September	\$6.69	\$2.81	\$9,981.35	\$9,412.42
October	\$8.54	\$0.96	\$3,410.00	\$3,215.63
November	\$9.14	\$0.36	\$1,278.75	\$1,205.86
December	\$9.53	\$0.00	\$0.00	\$0.00
2021 Total payment			\$110,221.15	\$103,938.54

2021 DMC Net Benefit	
Total Benefit for the year	\$2.59
Benefit after sequestration	\$2.44
Net Benefit after Premium	\$2.29
Net Benefit	\$97,444.79

