CENTER FOR DairyEXCELLENCE

New Risk Management Options

DAIRY MARGIN COVERAGE (DMC):

Dairy Margin Coverage is a margin-based insurance program authorized by the 2018 Farm Bill signed into law in December of 2018 and administered by the USDA's Farm Service Agency (FSA). DMC replaces the Margin Protection Program (MPP) from the 2014 Farm Bill. Enrollment for the 2021 program year will open in the fall of 2020.

- Available margin coverages: $4.00/cwt to $9.50/cwt in $0.50/cwt increments
- Available volume coverages: 5% to 95% in 5% increments
- Two size categories and premium structures:
  1. Tier 1 = 5 million pounds of production history or less
  2. Tier 2 > 5 million pounds of production history

Tier 2 dairies can enroll the first 5 million pounds of production history at Tier 1 margins and premiums. Additional production coverage is capped at $8.00/cwt and must follow the Tier 2 Premium Schedule.

Note: Production history is determined by the MPP rules from the 2014 Farm Bill.

Coverage Level	Tier I Premium	Tier II Premium
$4.00	None	None
$4.50	$0.0025	$0.0025
$5.00	$0.0050	$0.0050
$5.50	$0.0300	$0.1000
$6.00	$0.0500	$0.3100
$6.50	$0.0700	$0.6500
$7.00	$0.0800	$1.1070
$7.50	$0.0900	$1.4130
$8.00	$0.1000	$1.8130
$8.50	$0.1050	
$9.00	$0.1100	
$9.50	$0.1500	

- Margins are calculated monthly and indemnities are paid each month the margin falls below the elected margin coverage.
- Margin = All Milk Price (Corn Price + Soybean Meal Price + Blended Alfalfa Hay Price)
- Premiums are due by the end of September each year and can be subtracted from monthly indemnity payments.
- Enrollment must be done at a local FSA office.

DAIRY REVENUE PROTECTION (DRP):

Dairy Revenue Protection is a quarterly revenue-based insurance program administered by the USDA's Risk Management Agency (RMA). Quarters are January-March, April-June, July-September and October-December. The program allows farmers to set a floor for their milk price to protect against unexpected drops in milk price.

- Policies must be purchased through an Approved Insurance Provider. A list of providers can be found at **rma.usda.gov/informationtools/agentlocator.**
- Policies can be purchased up to 5 quarters in advance.
- Policy prices are based from CME Class III, Class IV and Component futures prices, and are available virtually every day futures are traded.
- 80% to 95% of the quarterly milk price can be insured and premiums are subsidized 44% to 55% depending on volume coverage.
- Two policy options are available:

  1. Class Option- Farmers can set a price floor based from Class III, Class IV or a blend of Class III and IV futures prices.

  2. Component Option- Farmers can set a price floor based from Butterfat, Protein and Milk Solids futures prices. This allows for greater revenue protection for the increased value of high component milk.

Note: A combination of Class and Component policies can be purchased.

Note: Multiple policies for each quarter can be purchased.

- For additional premium, a protection factor of 1.05 up to 1.50 in increments of 0.05 can be purchased. In the case of an indemnity for the quarter covered, the total indemnity due to the farmer will be the amount indemnified multiplied by the protection factor.
- Indemnities are paid after each quarter that triggers a payment.
- Premiums are due after each quarter covered regardless of whether or not an indemnity is triggered.
- Can be used simultaneously with DMC and can be used to cover the same milk production.

New Risk Management Options

LIVESTOCK GROSS MARGIN FOR DAIRY (LGM-DAIRY)

This program is a revenue-based insurance similar to DRP and is also administered by the RMA.

- Protects against feed cost changes as well as milk price
- Margins can be covered in 2 up to 11-month increments in a crop year
- Policies are only available for purchase on the last Friday of each month
- Indemnities are not paid out until after the contracting period ends
- Policies only consider Class III futures prices
- Contains a feed cost component considering cost of corn and soybean meal
- Can be used simultaneously with DRP but cannot cover the same milk production.

FORWARD MILK PRICE CONTRACTING AND HEDGING WITH FUTURES/OPTIONS:

Milk price contracting and hedging is generally more expensive than DMC, DRP and LGM-Dairy. Forward and hedging contracts are available through most milk cooperatives or through private brokers.

- Allows farmers to set a milk price floor by contracting a set milk price on a set volume of milk based from CME Futures pricing.
- In some cases, to make the milk price floor economically feasible to purchase, a ceiling must also be set for milk price, restricting upward price potential when milk prices are increasing.

8 THINGS TO CONSIDER WHEN DEVELOPING A RISK MANAGEMENT PLAN

1. The primary goal of a risk management plan is to cover your cost of production (COP).
2. Know your COP. Assuming an incorrect COP can lead to erroneously locking in a loss.
3. Once COP is known, work with someone to fully understand risk management programs.
4. Understand the costs associated with participating in the programs desired.
5. Budget for what you are willing to pay for risk management.
6. Include that figure in your cost of production, so that you know you can pay for premiums when they are due.
7. Once the decision is made and you have covered your COP or have a profit locked in, do not worry about the would haves/should haves/could haves. As a dairy consultant used to say, "Nobody ever went broke locking in a profit." The good thing about current federal programs is you can more economically set a floor for your milk price without forfeiting the upside of the market.
8. Risk management is insurance. You pay for it hoping you never need it, but you're very happy to have it when it is needed.