



**LIVESTOCK
AND DAIRY**
INSURANCE SOLUTIONS

USDA DAIRY REVENUE

NATIONAL AGRICULTURAL LAW CENTER WEBINAR

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USDA Dairy Programs

- USDA's Risk Management Agency – Dairy Revenue Protection Program (Dairy RP)
- USDA's Risk Management Agency – Livestock Gross Margin Dairy (LGM Dairy)
- USDA's Farm Service Agency – Margin Protection Program (MPP)

USDA Organization



Farm Production and Conservation

Farm Service Agency

Risk Management Agency

Natural Resources Conservation Service



Margin Protection Program

Dairy Revenue Protection
Livestock Gross Margin Dairy

USDA Dairy Programs Interaction



Program	Margin Protection Program	Livestock Gross Margin	Dairy Revenue Protection
Margin Protection Program (Farm Service Agency)	N/A	Pick one or the other	Can sign up for both on same production
Livestock Gross Margin – Dairy (USDA approved agent)	Pick one program - not both	N/A	Both, but not during the same quarter (easiest not to do both)
Dairy Revenue Protection (USDA approved agent)	Can sign up for both on same production	Both, but during the same quarter (easiest not to do both)	N/A

Major Changes to USDA Livestock and Dairy Insurance



- \$20 million cap on livestock insurance products eliminated in early 2018
- Dairy Revenue Protection was approved by USDA in February
- LGM-Dairy continues to be available



USDA Insurance – Key background



- **Market Oriented** – USDA insurance will always follow the market.
- **Privately Delivered** – USDA's Risk Management Agency (RMA) establishes rules, sets premiums, and provides oversight. Private sector companies and agents deliver.
- **Discounted Premiums** – Typically a producer pays 50% of the true value of the insurance.
 - **Example:** RMA sets rates so that over time for every \$1.00 in premium there is \$1.00 paid out. Due to the discount the farmer pays only \$0.50 of the premium.



New Insurance Policies

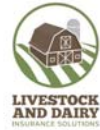
1. **Congress** – Typically in a Farm Bill
 2. **USDA** – Address a need not being met
 3. **Private Sector** – Many programs began through private sector development
- No difference to the producer where it came from

What is Dairy Revenue Protection (Dairy RP)?



- **How it Works**- Dairy-RP would insure dairy producers against unexpected price declines, indexed by state-level milk revenue. Farmers can choose to insure anticipated prices of milk or milk components.
- **Class** – Class III or Class IV or a combination of the two
- **Components** – butterfat, protein, and other solids

Dairy RP Producer Decisions



1. The value of milk protected

- Farmer chooses between milk (Class III and Class IV or a combination) or component (butterfat, protein, or other solids)

2. The amount of milk production to cover

- Farmer can choose up to 100% of anticipated milk production per quarter to insure

3. The level of coverage

- From 70 to 95% of the revenue guarantee

4. Which quarterly contracts he/she wishes to purchase

- Up to 5 quarters in the future

Timing of Purchase and Payment

- Purchase a quarter at a time
- Last day to purchase for the upcoming quarter is the 15th of the preceding month
- Purchase up to 5 quarters ahead
- Any quarter can be insured, independent of others
- The sales period begins each day when the coverage prices and rates are published on RMA's website by 4:00 PM Central time and ends at 9:00 AM Central time of the following business day
- Premium is payable at the end of the Quarterly Insurance Period





How Dairy RP Works

Revenue Guarantee – Actual Revenue = Your Payment

Revenue Guarantee – The amount of revenue you are insuring. Calculated by quarter.

Actual Revenue – The amount of revenue likely received based upon actual prices and state level production.

Revenue Guarantee

Declared Covered Insured Production * Quarterly Average Futures Prices * Coverage Level (i.e. 95%)



- **Declared Covered Milk Production** – May insure up to 100% of your quarterly production
- **Quarterly Average Futures Prices** – The Expected Class III (and Class IV) Milk Price is the simple average of the corresponding futures prices for those months falling within a given Quarter of a Quarterly Coverage Endorsement.
- **Coverage level** – 70-95% in 5% increments
 - **Adjustment for productivity** – Increases value of insured production. From 100% to 150% in 5% increments.



Actual Milk Revenue

Actual Milk Revenue = Actual Ending Prices * Statewide Quarterly Production Adjustment



- **Actual Ending Market Prices** – Simple average of respective monthly prices (for whatever you insured) collected by USDA's AMS.
- **Statewide Quarterly Production Adjustment** – The ratio between the Expected Milk Production per Cow and the Actual Milk Production per Cow
- Note: "Actual milk revenue" is not YOUR actual milk revenue.



Production Factor

- Provides a tool to better reflect the producer's value of milk by allowing the producer to increase the value of milk or components insured between from 100% of the market value up to 150% in 5% increments.
- Increasing the production factor increases premiums and indemnities, when indemnities are paid. It does not result in more frequent indemnities.



State Indexed Milk Production

State Indexed Milk Production = Insured Milk Production * Yield Adjustment Factor

Why it matters? It impacts the amount of production used to calculate the revenue

- Higher than expected production = higher revenue (lower potential indemnity)
- Lower than expected production = lower revenue (higher potential indemnity)

Index = actual milk production per cow ÷ expected milk production per cow

Example:

1.02 = 5,100 (actual production) ÷ 5,000 (expected production)

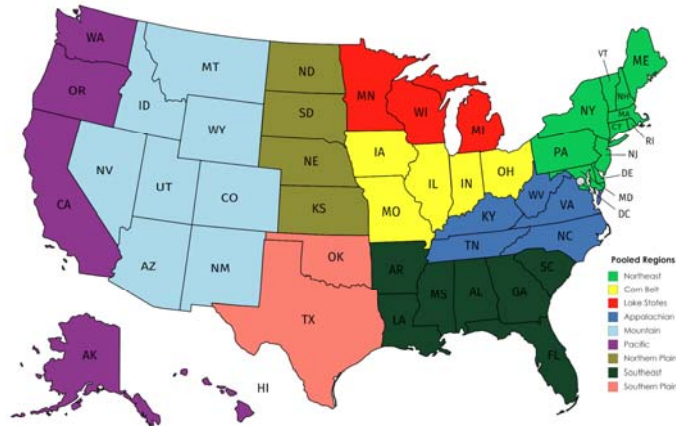


State	Region Group	Pooled Region	Pooled Region #
Alabama	Group	Southeast	3
Alaska	Group	Pacific	8
Arizona	State	Mountain	5
Arkansas	Group	Southeast	3
California	State	Pacific	8
Colorado	State	Mountain	5
Connecticut	Group	Northeast	6
Delaware	Group	Northeast	6
Florida	State	Southeast	3
Georgia	Group	Southeast	3
Hawaii	Group	Pacific	8
Idaho	State	Mountain	5
Illinois	State	Corn Belt	2
Indiana	State	Corn Belt	2
Iowa	State	Corn Belt	2
Kansas	State	Northern Plains	7
Kentucky	Group	Appalachian	1
Louisiana	Group	Southeast	3
Maine	Group	Northeast	6
Maryland	Group	Northeast	6
Massachusetts	Group	Northeast	6
Michigan	State	Lake States	4
Minnesota	State	Lake States	4
Mississippi	Group	Southeast	3
Missouri	Group	Corn Belt	2
Montana	Group	Mountain	5
Nebraska	Group	Northern Plains	7

Nevada	Group	Mountain	5
New Hampshire	Group	Northeast	6
New Jersey	Group	Northeast	6
New Mexico	State	Mountain	5
New York	State	Northeast	6
North Carolina	Group	Appalachian	1
North Dakota	Group	Northern Plains	7
Ohio	State	Corn Belt	2
Oklahoma	Group	Southern Plains	9
Oregon	State	Pacific	8
Pennsylvania	State	Northeast	6
Rhode Island	Group	Northeast	6
South Carolina	Group	Southeast	3
South Dakota	State	Northern Plains	7
Tennessee	Group	Appalachian	1
Texas	State	Southern Plains	9
Utah	State	Mountain	5
Vermont	State	Northeast	6
Virginia	State	Appalachian	1
Washington	State	Pacific	8
West Virginia	Group	Appalachian	1
Wisconsin	State	Lake States	4
Wyoming	Group	Mountain	5



Pooled regions



Calculations – Class Pricing

Guarantee Calculations		
Quarterly Average CME Milk Futures Value	Farmer's Choice % of Price	Calculated Price
Class III	\$17.00	75.00%
Class IV	\$16.25	25.00%
Price Guarantee/CWT		\$16.81250
Farmer's Choice Milk Covered/Lbs	Price Guarantee/CWT	Total Revenue Guarantee
4,000,000	\$16.81	\$672,500
Coverage Level		90%
Producer's Revenue Guarantee		\$605,250

Actual Revenue Calculations		
Quarterly Average CME Milk Futures Value	Farmer's Choice % of Price	Calculated Price
Class III	\$14.45	75.00%
Class IV	\$13.81	25.00%
Price Guarantee/CWT		\$14.29
State-Indexed Actual Production/Lbs	Actual Price/CWT	Actual Revenue
3,920,000	\$14.29	\$560,192

This is an example of realized prices and only applies to 1 quarter. In this example, the producer would not have to pay all 5 quarters to get just one coverage.

Indemnity Calculations		
Producer's Revenue Guarantee	Actual Producer's Revenue	Indemnity
\$605,250	\$560,192	\$45,058



Calculation – Component Pricing

Guarantee Calculations		
Quarterly Average CME Component Value/Lb	Farmer's Choice % of Component	Calculated Price
Butterfat	\$2.50	4.80%
Protein	\$1.70	4.00%
Solid % Fixed		
Solids	\$0.31	5.70%
Price Guarantee/CWT		\$20.56700
Farmer's Choice Milk Covered/Lbs	Price Guarantee/CWT	Total Revenue Guarantee
4,000,000	\$20.57	\$822,680
Coverage Level		90%
Producer's Revenue Guarantee		\$740,412

Actual Revenue Calculations		
Quarterly Average CME Component Value/Lb	Farmer's Choice % of Component	Calculated Price
Butterfat	\$2.13	4.80%
Protein	\$1.45	4.00%
Solid % Fixed		
Solids	\$0.26	5.70%
Price Guarantee/CWT		\$17.4820
State-Indexed Actual Production/Lbs	Actual Price/CWT	Actual Revenue
3,920,000	\$17.48	\$685,216

This is an example of realized prices and only applies to 1 quarter. In this example, the producer would not have to pay all 5 quarters to get just one coverage.

Indemnity Calculations		
Producer's Revenue Guarantee	Actual Producer's Revenue	Indemnity
\$740,412	\$685,216	\$55,196



Production Factor

100% Production Factor

STATE	INDIANA	COUNTY	ADAMS	COMMODITY	MILK	
EFFECTIVE DATE	09/14/2018	QTLY PRACTICE	Oct - Dec/Yr1 - Qtr4	PRICE OPTION	Class Price Option	
PROTECTION FACTOR	1	POUNDS	1,000,000			
LEVEL	CALC PRICE	COVERAGE PER CWT	PREMIUM PER CWT	TOTAL COVERAGE	TOTAL PREMIUM	PRODUCER PREMIUM
95	15.9325	15.1359	0.0548	151359	978	548
Class III			Class IV			
Expected Price	Weight	Calculated Price	Expected Price	Weight	Calculated Price	
16.2300	0.75	12.1725	15.0400	0.25	3.7600	

150% Production Factor

STATE	INDIANA	COUNTY	ADAMS	COMMODITY	MILK	
EFFECTIVE DATE	09/14/2018	QTLY PRACTICE	Oct - Dec/Yr1 - Qtr4	PRICE OPTION	Class Price Option	
PROTECTION FACTOR	1.5	POUNDS	1,000,000			
LEVEL	CALC PRICE	COVERAGE PER CWT	PREMIUM PER CWT	TOTAL COVERAGE	TOTAL PREMIUM	PRODUCER PREMIUM
95	15.9325	22.7039	0.0822	227039	1467	822
Class III			Class IV			
Expected Price	Weight	Calculated Price	Expected Price	Weight	Calculated Price	
16.2300	0.75	12.1725	15.0400	0.25	3.7600	



Do Not Over Insure

- Must produce 85% of the milk you insure by quarter
- For components actual butterfat test and the actual protein test must be greater than 90% of the declared component values
- If you are less than the minimum amounts for either production or components you will end up paying a higher premium and have a lower indemnity



Steps to Purchase

Application –

- Remains in effect until cancelled
- Can be submitted at any time during the crop year
- It must be completed by the insured and received by the agent not later than the sales closing date for which coverage is requested
- **Recommend completion before electing coverage on the quarterly coverage endorsement to ensure the producer is eligible**
- Confirms whether the producer is compliant with the conservation
- Stuck with agent for a crop year once you sign the endorsement

Endorsement –

- The quarterly coverage endorsement is required to obtain coverage



Reduced Premium Schedule

Coverage Level	Premium Subsidy (% Discount)
95%	44%
90%	44%
85%	49%
80%	55%
75%	55%
70%	59%

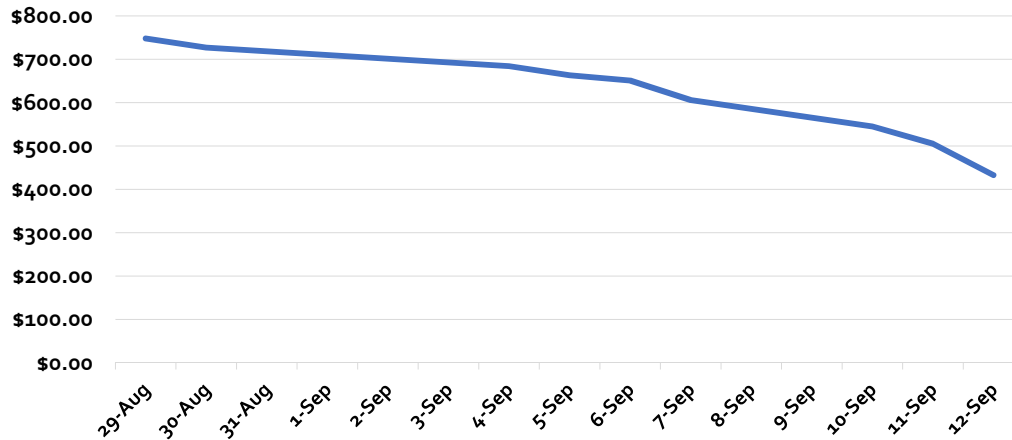


Tips





Costs may vary



Tips



Make the Effort to Avoid Surprises

Spend time to understand the program

Find an agent who can address ALL your questions

Plan for Long Term

Typically, going in and out of a program is a good way to miss out on payments

Watch Cost

The cost of buying an endorsement may vary depending upon market volatility

Doesn't Protect from Low Prices

Protects from unexpected price declines, not low prices

USDA insurance follows the markets, it doesn't set them

Additional Questions



Questions?

Want additional details?

Contact Brandon Willis at:

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