

Dairy Revenue Protection Program

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Presentation Disclaimer

This presentation is for general guidance only and does not replace reading the specific crop provisions, special provisions or basic provisions.

While we have made every attempt to ensure the information is accurate, please refer to the policy for details.

We also encourage you to consult with our agents for guidance concerning your specific situation.

DRP and Other Milk Programs

It IS allowed to have DRP and DMC covering the same milk

DRP and LGM are not allowed for same months

DRP Highlights

Provides protection against declines in quarterly revenue from milk sales

Quarterly coverage – can be sold up to five quarters in the future

Two pricing options

- Class price – class III and class IV milk prices
- Component – combination of milk components (butterfat, protein, milk solids)

Farmer chooses how much milk production to cover during the quarter

70-95% percent coverage level, 5% increments

Indexed using state-level milk production

Five Main Producer Decisions

The producer has five decisions to make:

1. The value of the milk to protect
2. The amount of milk production to cover
 - Not required to insure all milk production
3. The level of coverage from 70 to 95 percent of the revenue guarantee
4. Which quarterly endorsements he/she wishes to purchase
5. Protection Factor

Futures Options Prices and Volatilities

CME dairy related options are used to infer implied volatilities to calibrate premium rates

- Similar to RP insurance for corn/soybeans/wheat

Premiums will be higher during periods of higher volatility

Assumes prices are riskier at further out horizons

DRP Premium Support

Coverage Level	70%	75%	80%	85%	90%	95%
Subsidy	59%	55%	55%	49%	44%	44%

Class Pricing Example

STATE	NEW YORK	COUNTY	SARATOGA	COMMODITY	MILK	
EFFECTIVE DATE	06/07/2019	QTLY PRACTICE	8040 Jul - Sep/2019 - Qtr3	PRICE OPTION	8310 Class Price Option	
PROTECTION FACTOR	1	POUNDS	1,000,000	SHARE	1	
LEVEL	GUARANTEE PER CWT	PREMIUM PER CWT	TOTAL GUARANTEE	TOTAL COVERAGE	TOTAL PREMIUM	PRODUCER PREMIUM
80	13.6840	0.0096	136,840	136,840	213	96
85	14.53925	0.0109	145,393	145,393	213	109
90	15.3945	0.0119	153,945	153,945	213	119
95	16.24975	0.0287	162,498	162,498	513	287
			Expected Price	Weight	Calculated Price	
Class III			16.9600	0.50	8.4800	
Class IV			17.2500	0.50	8.6250	
					17.1050	

Expected production per cow: 6,198

STATE	NEW YORK	COUNTY	SARATOGA	COMMODITY	MILK	
EFFECTIVE DATE	06/07/2019	QTLY PRACTICE	8070 Apr - Jun/2020 - Qtr2	PRICE OPTION	8310 Class Price Option	
PROTECTION FACTOR	1	POUNDS	1,000,000	SHARE	1	
LEVEL	GUARANTEE PER CWT	PREMIUM PER CWT	TOTAL GUARANTEE	TOTAL COVERAGE	TOTAL PREMIUM	PRODUCER PREMIUM
80	13.5680	0.0096	135,680	135,680	213	96
85	14.4160	0.0188	144,160	144,160	369	188
90	15.2640	0.0725	152,640	152,640	1,295	725
95	16.1120	0.1912	161,120	161,120	3,414	1,912
			Expected Price	Weight	Calculated Price	
Class III			16.4700	0.50	8.2350	
Class IV			17.4500	0.50	8.7250	
					16.9600	

Expected production per cow: 6,460

Component Pricing Example

STATE	NEW YORK	COUNTY	SARATOGA	COMMODITY	MILK	
EFFECTIVE DATE	06/07/2019	QTLY PRACTICE	8040 Jul - Sep/2019 - Qtr3	PRICE OPTION	8320 Component Price Option	
PROTECTION FACTOR	1	POUNDS	1,000,000	SHARE	1	
LEVEL	GUARANTEE PER CWT	PREMIUM PER CWT	TOTAL GUARANTEE	TOTAL COVERAGE	TOTAL PREMIUM	PRODUCER PREMIUM
80	14.84312	0.0096	148,431	148,431	213	96
85	15.770815	0.0109	157,708	157,708	213	109
90	16.69851	0.0119	166,985	166,985	213	119
95	17.626205	0.0493	176,262	176,262	880	493
		Expected Value per pound	Declared Test Pounds		Calculated Value per cwt	
Butterfat		2.7455	4		10.9820	
Protein		2.1228	3.1		6.5807	
Other Solids		0.1739	5.7		0.9912	
					18.5539	

Expected production per cow: 6,198

STATE	NEW YORK	COUNTY	SARATOGA	COMMODITY	MILK	
EFFECTIVE DATE	06/07/2019	QTLY PRACTICE	8070 Apr - Jun/2020 - Qtr2	PRICE OPTION	8320 Component Price Option	
PROTECTION FACTOR	1	POUNDS	1,000,000	SHARE	1	
LEVEL	GUARANTEE PER CWT	PREMIUM PER CWT	TOTAL GUARANTEE	TOTAL COVERAGE	TOTAL PREMIUM	PRODUCER PREMIUM
80	14.43568	0.0096	144,357	144,357	213	96
85	15.33791	0.0287	153,379	153,379	563	287
90	16.24014	0.0979	162,401	162,401	1,749	979
95	17.14237	0.2345	171,424	171,424	4,188	2,345
		Expected Value per pound	Declared Test Pounds		Calculated Value per cwt	
Butterfat		2.5564	4		10.2256	
Protein		2.2233	3.1		6.8922	
Other Solids		0.1626	5.7		0.9268	
					18.0446	

Expected production per cow: 6,460

Yield Adjustment Factor

5,100
Lbs/Qtr

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5,000
Lbs/Qtr

State or Pooled
Production Region's
Actual
Milk Production per Cow

= **1.02**

Yield Adjustment Factor

State or Pooled
Production
Region's Expected
Milk Production per
Cow

Yield adjustment factor will move the actual milk revenue up/down based on actual milk yields in the state or pooled production region relative to the expected milk yields.

Yield Adjustment Factors *below* 1.00 will INCREASE Indemnities.
Yield Adjustment Factors *above* 1.00 will DECREASE Indemnities.

Required Thresholds

Producer must deliver 85% of declared covered milk or else the loss is reduced

- Premium is not adjusted

Producer must meet 90% of component levels for covered milk or else policy is recalculated based on actual components

- Premium is not adjusted

Indemnity Example

April Milk

BUTTERFAT	4.0		\$ 2.54	=	\$ 10.16	\$ 17.62
PROTEIN	3.1	X	\$ 1.99	=	\$ 6.16	- \$ 17.40
	5.7		\$ 0.19		<u>\$ 1.08</u>	
OTHER SOLIDS					\$ 17.40 / cwt	\$ 0.22 /cwt

Quarter 3 - 2019 Milk

BUTTERFAT	4.0		\$ 2.74	=	\$ 10.96	\$ 0.22
PROTEIN	3.1	X	\$ 2.12	=	\$ 6.57	X <u>10,000 cwt</u>
	5.7		\$ 0.18		<u>\$ 0.99</u>	\$ 2,200
OTHER SOLIDS					\$ 18.55 / cwt	- <u>\$ 493</u>

95 % Coverage – \$ 17.62 / cwt

\$ 1,707

What's Covered?

Covered cause of loss:

- This policy provides insurance only for the difference between the final revenue guarantee and actual milk revenue, times actual share and protection factor.
- Caused by natural occurrences in market prices and yields in your pooled production region.

Not a covered cause of loss:

- This policy does not insure against the death or other loss or destruction of your dairy cattle, or against any other loss or damage of any kind whatsoever.

Livestock Gross Margin (LGM)

Dairy insurance program through the Risk Management Agency (RMA)

Milk Revenue

Chicago Mercantile Exchange (CME) Class III Milk Price

Feed Cost

Chicago Board of Trade (CBOT) Corn and Soybean Meal

Gross Margin

Class III Milk Price minus Feed Cost (futures)

Deductibles

Deductibles range from \$0.00 to \$2.00 cwt.

How does LGM – Dairy work?

Class III Milk Price:

- Producer chooses amount of milk to insure
 - 240,000 cwt. Maximum
 - During a 10 month period
- Producer chooses month(s) to insure
- Producer chooses the deductible

Note: The “**Mailbox**” price paid for milk is **NOT** taken into consideration

Feed values

Default Feed Values:

- Can be used if you do not maintain or wish to provide Verifiable Feed Records
- Default values may vary significantly from what NE producers actually feed.

Feed Cost:

- Based on the rations **you actually feed** converted to corn and soybean meal equivalents
- Feed from forage to distillers can be converted to corn and soybean meal equivalents

Gross Margin Guarantee

- Class III Milk Price: \$16.50/cwt
- Corn/Soybean Meal: \$2.50/cwt.
- Deductible: \$0.50
- **Gross Margin Guarantee: \$13.50/cwt**

You are guaranteeing a \$13.50/cwt margin on milk income minus feed cost per cwt.

Actual Gross Margin

- Assume the milk price went down and feed price increased
- Class III Milk Price: **\$14.50/cwt**
- CBOT Corn/Soybean Meal: **\$3.00/cwt.**
- Actual Gross Margin: **\$11.50/cwt**

Loss example

- Gross Margin Guarantee: \$13.50/cwt
- Actual Gross Margin: \$11.50/cwt.
- Gross Indemnity Payment: \$2.00/cwt
- Est. Premium Payment: \$.32/cwt
- **Net Indemnity Payment: \$1.68/cwt.**

Notes:

- \$0.50 deductible chosen
- Milk revenue is calculated cumulatively based on the covered period

In Summary

DRP Creates a floor on the milk price a producer will receive without sacrificing any upward movement in the milk markets.

Know what your cost of production is to allow for a target milk price to set when electing coverage on your policy.

With premium support it is a program that has made the cost to insure a set milk price highly affordable.

Call To Action

- Develop a relationship with an agent that understands your business
- Establish an application for Dairy Revenue Protection
- No premium attaches until a Quarterly Coverage Endorsement is filled out
- Set a target price

Questions?

