



### What is LGM-Dairy?

LGM-Dairy is a new insurance policy approved by the USDA Risk Management Agency available for dairy producers since August 2008.

LGM-Dairy protects producers against unexpected declines in the gross margins (milk prices less feed costs).

No producer premium subsidy is available for this insurance program, although all administrative and policy subsidies are paid by the federal government.

LGM-Dairy premiums depend on producers' marketing plan, coverage selected, deductible level, futures and price volatility. Producer premiums are average of long-run expected indemnities at sign-up.

### In which states is LGM-Dairy available?



*States Eligible to Participate in the LGM-Dairy Program (Darker Gray), 2008*

### What are the benefits of LGM-Dairy ?

**Convenience:** Producers can sign-up for LGM-Dairy insurance 12 times a year over a 11-month rolling period.

**Customization:** LGM-Dairy can be tailored to any size farm and to any month or months of the year.

**Bundled option insurance:** LGM-Dairy is similar to buying both a call option to limit higher feed costs and a put option to set a floor on milk prices.

### What does LGM-Dairy not insure?

Risk of dairy cattle death.

Unexpected production losses.

Unexpected increase in feed use.

Anticipated declines in milk prices or increases in feed costs.

Multiple years of decline in milk prices or increase in feed costs.





### How does it work ?

LGM-Dairy pays the difference, if positive, between an expected gross margin guarantee and actual gross margin, where gross margin is milk price less the feed costs per cwt.

The insured margins are calculated using futures prices for milk, corn and soybean meal.

Producers need to estimate the quantity of milk to be marketed, the feed quantity to be used, a deductible level and the months to insure the gross margin.

Farmers can insure any amount of milk up to 240,000 cwt per insurance period.

Deductible level ranges between \$0 and \$1.50 of the gross margin guarantee.

Insurance coverage begins one full month after the sales closing date.

LGM-Dairy is only sold on the 3<sup>rd</sup> to last business day of every month. Sales period starts at 4 P.M. the 3<sup>rd</sup> to last business day and ends at 9 A.M. the following day.



#### **LGM-Dairy More Information:**

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#### **Additional information at:**

[http://future.aae.wisc.edu/lgm\\_dairy.html](http://future.aae.wisc.edu/lgm_dairy.html)  
<http://www.uwex.edu/ces/dairymgt/>  
<http://www.rma.usda.gov/livestock/>

## LGM-Dairy: Livestock Gross Margin Insurance for Dairy Cattle



A New Risk Management  
Tool for Wisconsin Dairy  
Farms!