

# Improving Your Dairy Farm Bottom Line by Using Price Risk Management

- The Livestock Gross Margin Insurance for Dairy Cattle (LGM-Dairy) is a federally reinsured insurance program that enables US dairy producers to establish minimum levels of milk income net of feed cost.
  - Since December 2010 the LGM-Dairy has large premium subsidies that incentive its use as a price risk management tool.
  - Given the structure of the program there are an infinite number of possible contract designs based on the choice of deductibles and proportion of production insured.
  - Producers may adopt the use of this program depending on their risk preferences and the interplay of these preferences with the level of subsidization.
- LGM-Dairy contracts under different levels of subsidy and farmers' risk preferences were studied to find out contract designs farmers would most likely choose.
  - This paper then studied the interplay between farmers' risk preferences, LGM-Dairy contracts, and premium subsidization in determining contracts.
- The study found that:
- 1) Premium subsidy will largely increase the demand for it.
  - 2) Total coverage would significantly increase with farmers' risk aversion.
  - 3) The impact of farmers' risk aversion would diminish with higher deductible and higher subsidization

## RESOURCES

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[DairyMGT.info](http://DairyMGT.info)

[Futures.aae.wisc.edu](http://Futures.aae.wisc.edu)

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