LGM-Dairy: Livestock Gross Margin for Dairy

Victor E. Cabrera
Assistant Professor
Extension Dairy Specialist
Dairy Science Department

Brian W. Gould
Associate Professor
Ag and Applied Economics

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LGM-Dairy: What is it?

• New Livestock Gross Margin for Dairy Insurance
  o Federally reinsured dairy insurance program
  o Purchased from crop insurance providers
  o Approved July 2007, available August 2008

• Protects Dairy Business against Unexpected declines in Gross Margins
  o Gross Margin = Milk Revenue – Feed Costs

• Revenue neutral (No subsidies)
  o Premium = Expected Indemnity
LGM-Dairy: What impacts the premium?

- Insured milk and insured feed (selected)
- Deductible level (selected)
- Average futures prices and their volatility (market determined)
LGM-Dairy: Who is eligible?

Milk producers of 32 states
LGM-Dairy: What it covers?

Prices of:

• Any milk volume of producer’s target marketing for a 10-month period (up to 240,000 cwt)

• Amount of corn and soybean meal equivalents to be fed during insurance period restricted to be in range:
  o 0.00364 – 0.02912 tons corn/cwt milk
    o 0.13 – 1.04 bu corn/cwt milk
  o 0.000805 – 0.006425 tons SBM/cwt milk
    o 1.61 – 12.85 lb SBM/cwt milk
LGM-Dairy: What it does not cover/protect?

- Production losses
- Risk of dairy cattle death
- Unexpected decrease in milk production or increase in feed use
- Multiple years of declines in milk prices or increases in feed costs
- Anticipated declines in milk prices or increases in feed costs
LGM-Dairy: What farmer needs to decide?

Three main things to consider:

• Percentage (%) of target marketings to be insured (0% to 100%)

• Level of Gross Margin Deductible or risk assumed
  – $0 to $1.50/cwt in $0.1 increments

• Months to insure
LGM-Dairy: What farmer needs to provide?

Estimates of:

- Target milk marketing per insured month
- Expected feed per insured month
  - Corn and corn equivalents
  - Soybean meal and soybean meal equivalents
  - Feed Conversion software downloadable from our website

- Verifiable records should be available
LGM-Dairy: What is the insurance Period?

<table>
<thead>
<tr>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
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LGM-Dairy  
No Coverage  

Selected Covered Months  
- 100%  
- 0%  
- 50%  
- 50%  
- 0%  
- 0%  
- 75%  
- 100%  
- 0%  
- 50%  

Insurance Coverage  

From 4 pm on 3rd to last business day to to 9 am following day (17-hour period)
LGM-Dairy: What is the premium?

Premium is the average of expected indemnities in the long-run:

- Proportional to the insured milk and insured feed
- Increases with price volatility
- Decreases with elected deductible ($0 to $1.5/cwt in $0.1 increments
- Decreases when all months insured together
- Estimates available in RMA website
LGM-Dairy: Overview

Advantages:
• Unique bundled insurance protects the margin: milk price less feed cost
• Very flexible and customizable
• Offered every month of the year

Drawbacks:
• Very short enrollment period
• Total premium due at sign-up
• No farmer subsidies available
• Limited capacity
Livestock Gross Margin for Dairy: LGM - Dairy

- **Livestock Gross Margin for Dairy**, a poster presented at the ANRE 2008 UW-Extension meeting
- **Managing the Newly Created LGM-Dairy insurance Under Seasonal Climate Variability**, by V.E Cabrera and Daniel Solis, University of Wisconsin-Madison, June 2008
- **LGM-Dairy: A Wisconsin Example**, a Powerpoint Presentation presented at the Eastern Wisconsin Farm Management Update Seminar, Sept, 12, 2008
- **Premium Calculator from RMA's**
- **LGM for Cattle RMA Website**
- **Understanding Dairy Markets - LGM-Dairy**

Victor E. Cabrera, PhD, Assistant Professor and Extension Specialist in Dairy Management, is available to contact for more information.
Contract

- Purchased Nov 26\textsuperscript{th} 08
- Coverage period: Jan-Oct 09
- Feed expected to be used:
  - 39.2 lb corn/cwt milk (68\% max allowable)
  - 5.05 lb of SBM/cwt milk (39\% max allowable)
# LGM-Dairy: A Wisconsin Example (Nov 06)

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<th>Month</th>
<th>Class III Settle Price ($/cwt)</th>
<th>Milk Basis ($/cwt)</th>
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<td>Deductible ($/cwt)</td>
<td>GMG Total ($)</td>
<td>Premium ($/cwt)</td>
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<td>11.63</td>
<td>0.273</td>
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Simulated Indemnities (Nov 08)

DL ($/cwt): 0.86
Premium ($/cwt): 0.61 0.42 0.27
GMG ($/cwt): 13.1 12.6 12.1 11.6
LGM-Dairy: Aug 08 (Oct 08 – Jul 09)

LGM-Dairy Gross Margin Guarantee
(September 2008, $1.5/cwt deductible)

Premium (% GMG)

SBM Equivalents (ton/cwt)

Corn Equivalents (ton/cwt)
LGM-Dairy: GMG and Premium (Sep 2008)
LGM-Dairy: GMG and Premium (Oct 2008)
LGM-Dairy: GMG and Premium (Jan 2008)
Wisconsin Expected and Actual (Jan 2008)

Milk

$/cwt

Not Yet Available

Expected
Actual

Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08

10
12
14
16
18
20
22
Wisconsin Expected and Actual (Jan 2008)

![Graph showing corn prices from March to December 2008]

- X-axis: Months from Mar-08 to Dec-08
- Y-axis: Dollars per bushel ($/bu)
- Two bars for each month, one for expected and one for actual prices.

Not Yet Available
Wisconsin Expected and Actual (Jan 2008)

SBM

$/ton

Mar-08  Apr-08  May-08  Jun-08  Jul-08  Aug-08  Sep-08  Oct-08  Nov-08  Dec-08

Expected
Actual

Not Yet Available
Wisconsin Expected and Actual (Jan 2008)

Gross Margin

Would have paid: $0.00/cwt in indemnities

Would have cost: $0.87/cwt in premium
LGM-Dairy: Livestock Gross Margin for Dairy

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http://www.uwex.edu/ces/dairymgt/dairy.cfm
http://future.aae.wisc.edu/
http://future.aae.wisc.edu/lgm_dairy.html#5