LGM-Dairy: Livestock Gross Margin for Dairy

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LGM-Dairy: What is it?

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

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

- Revenue neutral (No subsidies)
  - 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:
  - 0.00364 – 0.02912 tons corn/cwt milk
  - 0.13 – 1.04 bu corn/cwt milk
  - 0.000805 – 0.006425 tons SBM/cwt milk
  - 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
  o Corn and corn equivalents
  o Soybean meal and soybean meal equivalents
  o Feed Conversion software downloadable from our website

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

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**LGM-Dairy**

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**Selected Covered Months**

| Nov | Jan | Feb | May | Jun | Aug |

**Insurance Coverage**

From 4 pm on 3rd to last business day to to 9 am following day (17-hour period)
LGM-Dairy: How it works?

GMG
Gross Margin Guarantee

EGM
Expected Gross Margin

DL
Deductible Level

AGM
Actual Gross Margin

IND
Indemnity

PREM
Premium Cost

EMR
Expected Milk Revenue

EFC
Expected Feed Cost

AMR
Actual Milk Revenue

AFC
Actual Feed Cost

EMP
Expected Class III Price

SMB
State Milk Basis

ECC
Expected Corn Cost

ESC
Expected SBM Cost

CME
Class III Futures

SCB
State Corn Basis

CBOT
Corn Futures

CBOT
SBM Futures

TM
Target Marketings

EFQ
Expected Feed Quantity

PREM
Premium Cost

Policy Rules
Exogenous Data
Producer Data/Decision
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
Simulated Indemnities (Nov 08)

DL ($/cwt): 0.00, 0.5, 1, 1.5

Premium ($/cwt): 0.84, 0.59, 0.40, 0.26

GMG ($/cwt): 13.6, 13.1, 12.6, 12.1
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
Wisconsin Expected and Actual (Jan 2008)

Corn

$/bu

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)
Wisconsin Expected and Actual (Jan 2008)

Would have paid: $0.00/cwt in indemnities

Would have cost: $0.87/cwt in premium
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Livestock Wisconsin Farm Management Update Seminar

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http://www.uwex.edu/ces/dairymgt/dairy.cfm  http://future.aae.wisc.edu/

UW LGM-Dairy Website:
http://future.aae.wisc.edu/lgm_dairy.html