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
  - 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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</table>

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 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

AGM
Actual Gross Margin

GMG
Gross Margin Guarantee

Expected Gross Margin

Deductible Level

Actual Gross Margin

Premium Cost

Expected Feed Cost

Expected Milk Revenue

Expected Corn Cost

Expected SBM Cost

Actual Feed Cost

Actual Milk Revenue

Premium Cost

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
Livestock Gross Margin Insurance for Dairy

This section of our website provides information concerning the Livestock Gross Margin Insurance, available by the Risk Management Agency of USDA. This is new information that becomes available as and related new materials.

As with other sections of this website, by clicking on an active link, you may generate an expanded menu. To make this menu disappear, click on the link again. If you have material that you think would be useful, please contact Prof. Brian W. Gould with your suggestions.

The material contained within this site is for informational and research purposes only. The official website concerning material related to the Livestock Gross Margin for Dairy program is the USDA Risk Management Agency website (http://www.rma.usda.gov/).

- **Background Material Made Available by the RMA**
  This is a collection of information provided by USDA as to introduce the LGM-Dairy program

- **Supporting Software**
  This is a collection of spreadsheet and other software used to exemplify the use of LGM-Dairy

- **Underlying Data**
  This is a collection of data used in the implementation of LGM-Dairy

- **Additional Material Explaining LGM-Dairy**
  Background Material Related to LGM-Dairy

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

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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 08)

<table>
<thead>
<tr>
<th>Month</th>
<th>Class III Settle Price ($/cwt)</th>
<th>Milk Basis ($/cwt)</th>
<th>All Milk Price ($/cwt)</th>
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LGM-Dairy: A Wisconsin Example (Nov 08)

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### Soybean Meal Settle Prices ($/Ton)

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<td>0.273</td>
<td>2.35</td>
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</tr>
</tbody>
</table>
Simulated Indemnities (Nov 08)

DL ($/cwt):
- 0.86
- 0.61
- 0.42
- 0.27

GMG ($/cwt):
- 13.1
- 12.6
- 12.1
- 11.6
Wisconsin Expected and Actual (Jan 2008)

Milk

$/cwt

Not Yet Available

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

Expected

Actual

$/cwt

10 12 14 16
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)

Gross Margin

Deductible: $0/cwt
Would have paid: $0.00/cwt in indemnities
Would have cost: $0.87/cwt in premium
Wisconsin Expected and Actual (Jan 2008)

Gross Margin

Deductible: $1.5/cwt

Would have paid: $0.00/cwt in indemnities

Would have cost: $0.22/cwt in premium
LGM-Dairy: Livestock Gross Margin for Dairy

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Dairy Science Department

Brian W. Gould
Associate Professor
Ag and Applied Economics

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