

# LGM-Dairy: Livestock Gross Margin for Dairy

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Eastern Wisconsin Farm Management Update Seminar

# 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
  - $\text{Gross Margin} = \text{Milk Revenue} - \text{Feed Costs}$
- Revenue neutral (No subsidies)
  - Premium = Expected Indemnity

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# 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)
- Any amount of corn and soybean meal to be fed during insurance period, restricted to:
  - 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
- 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:

- 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
  - [http://future.aae.wisc.edu/lgm\\_dairy](http://future.aae.wisc.edu/lgm_dairy)
- Verifiable records should be available

# LGM-Dairy: What is the insurance Period?

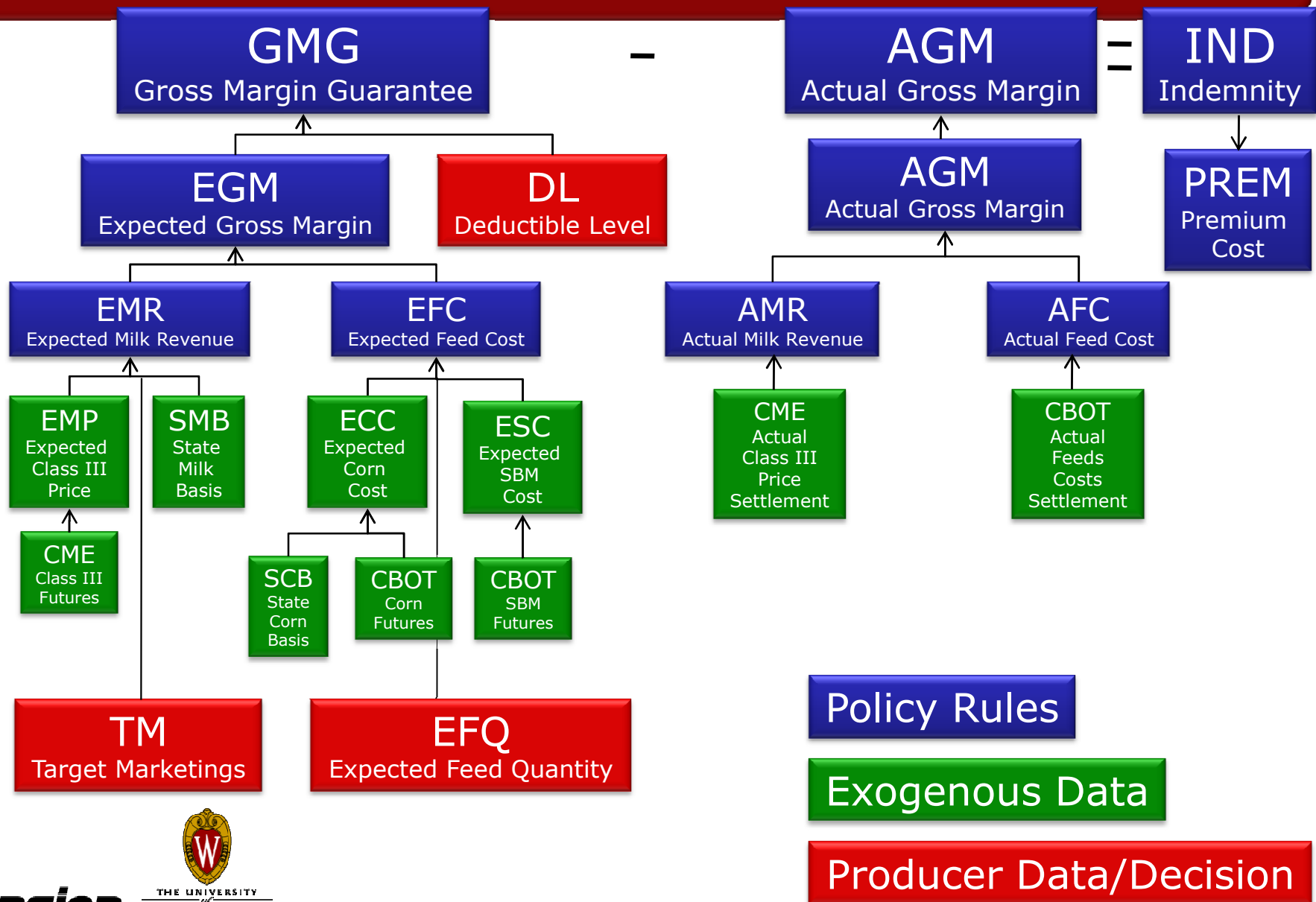
Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
		1	2	3	4	5	6	7	8	9	10
<b>LGM-Dairy</b>	No Coverage	<b>Insurance Coverage</b>									
<b>Selected Covered Months</b>		Nov		Jan	Feb			May	Jun		Aug



→ From 4 pm on 3<sup>rd</sup> to last business day to to 9 am following day (17-hour period)



# LGM-Dairy: How it works?



# LGM-Dairy: What are expected prices?

Average of future prices over 3-day price discovery period:

- Class III
- CBOT - Corn
- CBOT - Soybean meal

# LGM-Dairy: What are “actual” prices?

Average of settle prices over 3 days prior to last contract trading day:

- Class III
- Chicago Board of Trade (CBOT) for
  - Corn
  - Soybean meal

# LGM-Dairy: What are prices basis?

State and month basis:

- Difference between All-Milk and Announced Class III price
- Difference between corn price received and historical average “actual” CBOT price

## 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:

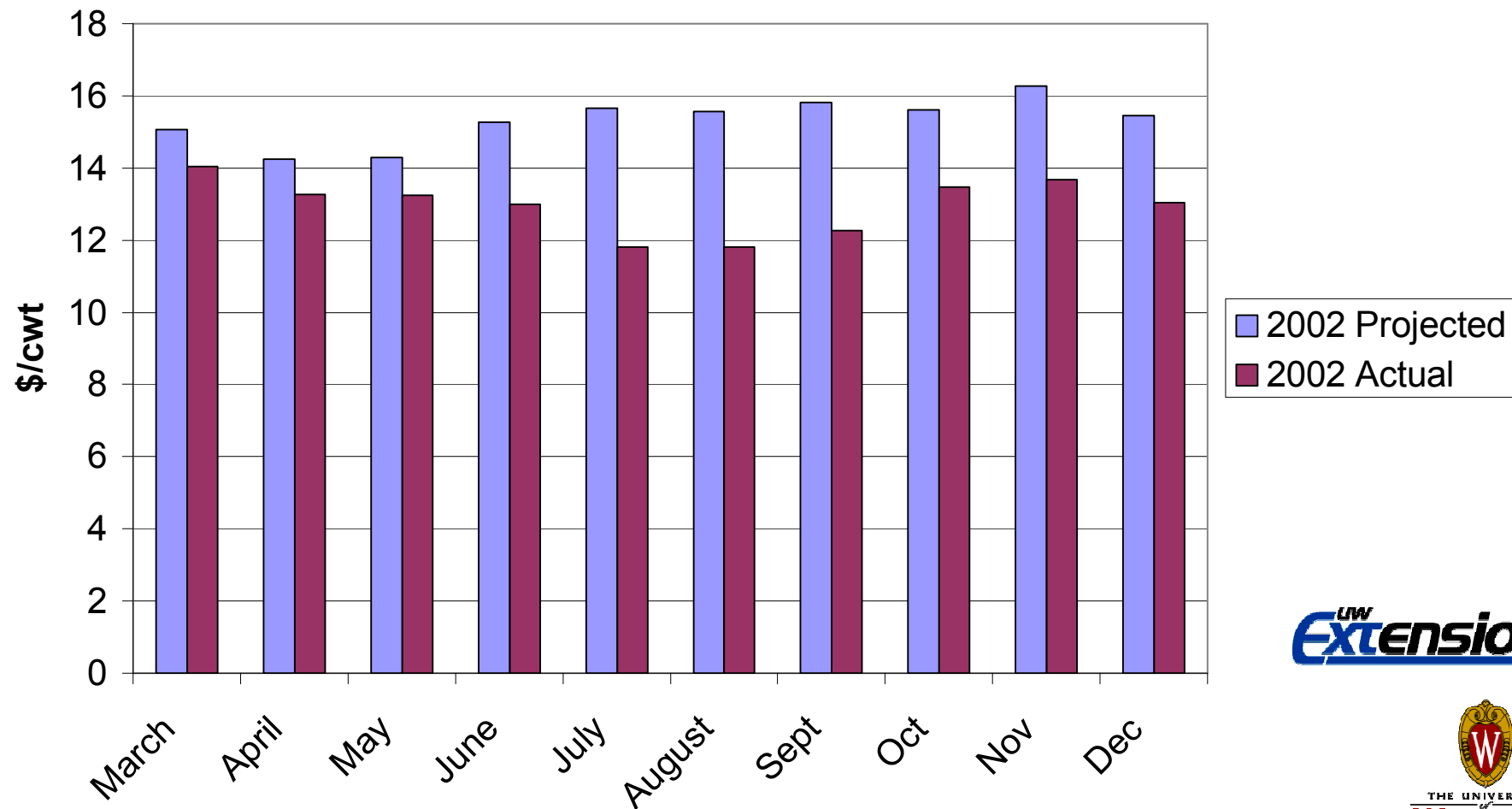
- Unique bundled insurance protects the margin: milk price less feed cost
- Very flexible and customizable
- Offered every month of the year

## Drawbacks:

- Very short enrollment period
- Total premium due at sign-up
- No farmer subsidies available
- Limited capacity

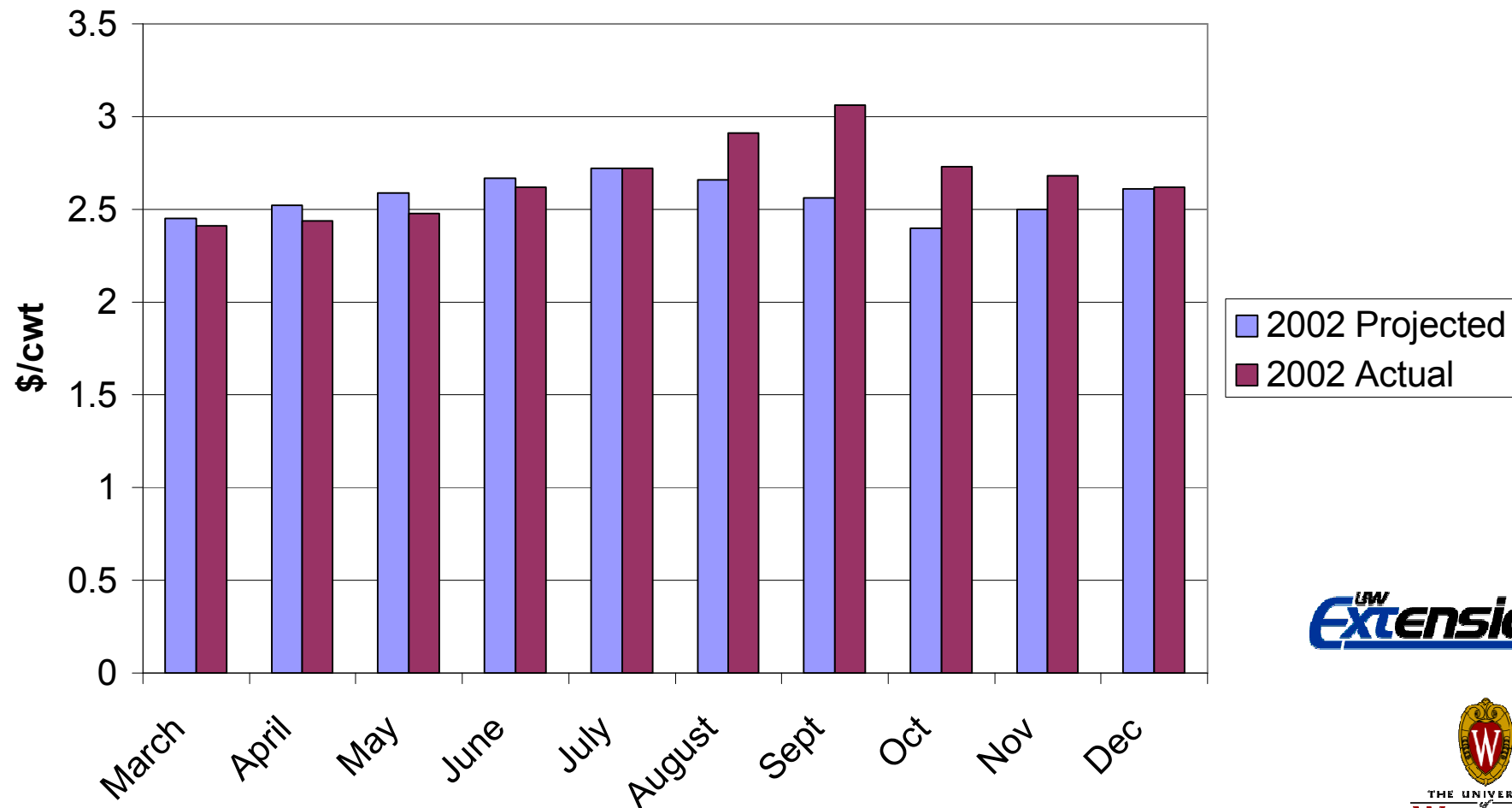
# LGM-Dairy: How would it had been?

## Comparison of Projected and Actual Milk Prices in 2002



# LGM-Dairy: How would it had been?

## Comparison of Projected and Actual Corn Prices in 2002

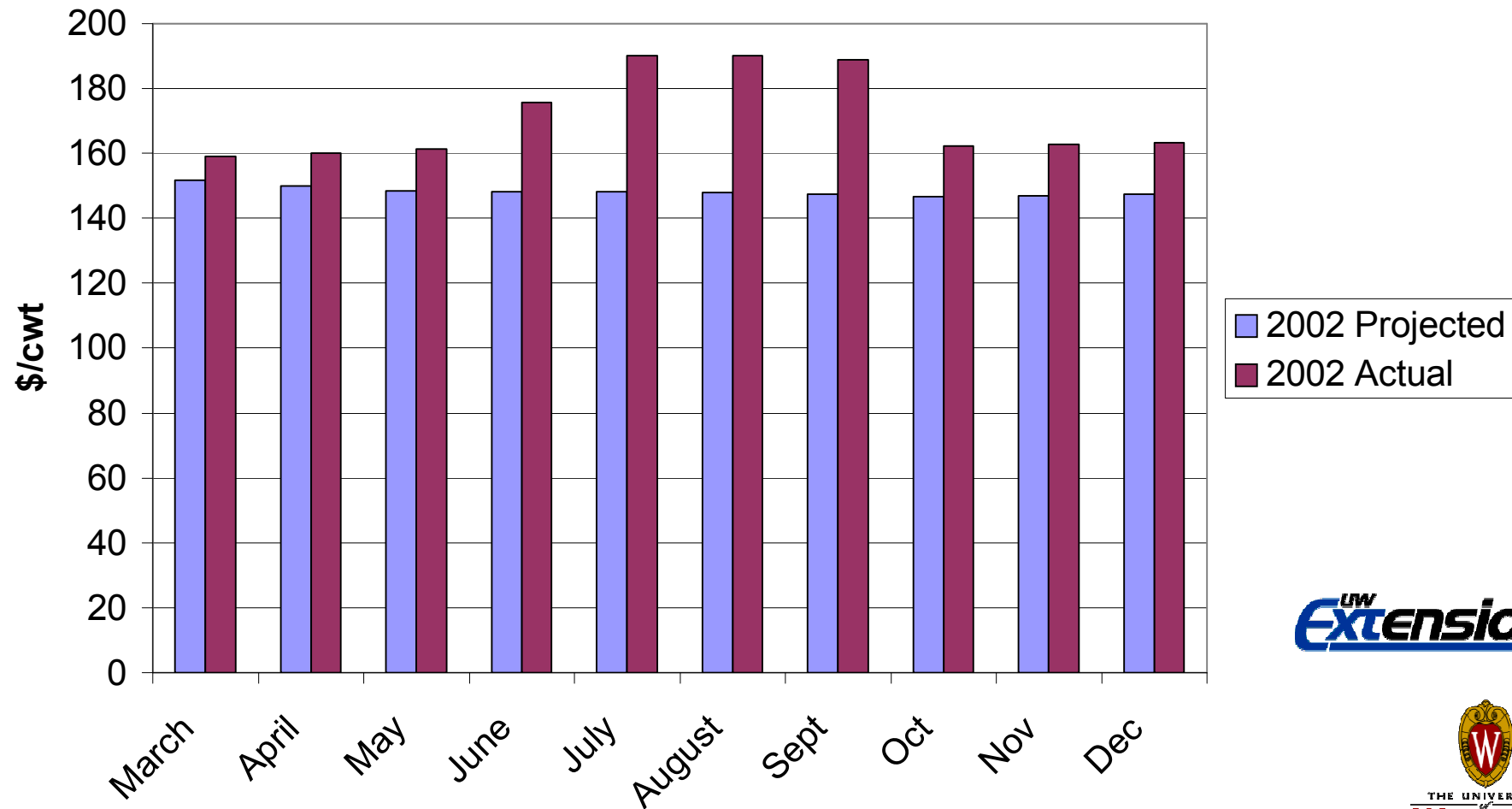


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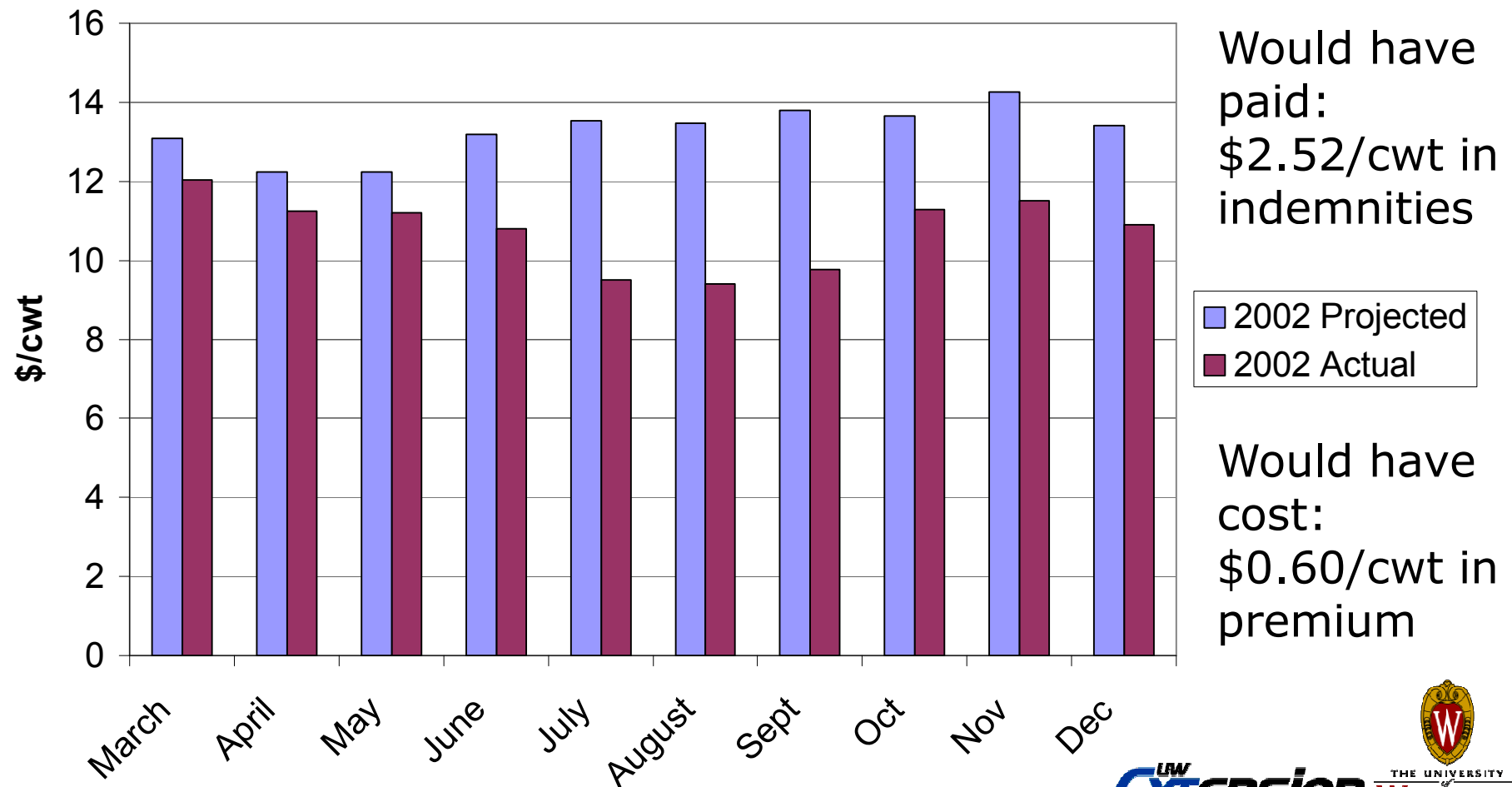
# LGM-Dairy: How would it had been?

## Comparison of Projected and Actual Soymeal Prices in 2002



# LGM-Dairy: How would it had been?

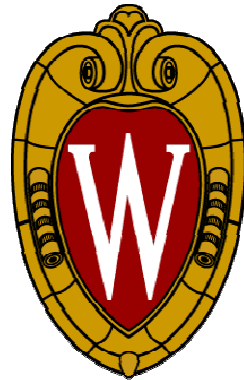
## Comparison of Projected and Actual Margin in 2002



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<http://www.uwex.edu/ces/dairymgt/>

<http://future.aae.wisc.edu/>

UW LGM-Dairy Website:  
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