

2014 Farm Bill Dairy Provisions

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2014 Farm Bill Dairy Provisions

- On February 7, 2014, the Agricultural Act of 2014 (2014 Farm Bill) was signed into law.
- The 2014 Farm Bill authorizes MPP-Dairy, a new margin-based dairy program, to replace the MILC program no later than September 1, 2014.
- The MPP-Dairy offers protection to dairy producers against extremely low margins when the difference between the all-milk price and the average feed cost falls below a certain, producer selected, dollar amount.

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The programs that are repealed are those that have represented the milk price and dairy farm income safety net:

- The Dairy Product Price Support Program (DPPSP), effective immediately,
- The Milk Income Loss Contract (MILC), effective once the new Margin Protection Program for Dairy Producers becomes operational or 1 September 2014, whichever is earlier.
- The Dairy Export Incentive Program (DEIP), effective immediately.

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**Certain other authorities are continued,
including extensions of:**

- The Dairy Forward Pricing Program – which allows non-Cooperative buyers of milk who are regulated under Federal Milk Marketing Orders to offer farmers forward pricing on Class II, III, or IV milk
- The Dairy Indemnity Program – which provides payments to dairy producers in the unlikely event that a public regulatory agency directs them to remove their raw milk from the commercial market because it has been contaminated by pesticides, nuclear radiation or fallout, or toxic substances and chemical residues other than pesticides.
- Certain provisions to augment the development of export markets under the National Dairy Promotion and Research Program.

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The new programs are:

- **The Margin Protection Program for Dairy Producers (MPP)**– a voluntary program that pays participating farmers an indemnity when a national benchmark for milk income over feed costs (the actual dairy production margin or ADPM) falls below an insured level that can vary over a \$4 per cwt range.
- **The Dairy Product Donation Program (DPDP)** – a program that requires the Secretary of Agriculture to immediately procure and distribute certain dairy products when the ADPM falls below a the lowest margin level specified for the MPP. These products would be targeted for use in domestic, low-income family, food assistance programs, such as, but not limited to, The Emergency Food Assistance Program.

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The dairy production margin used to trigger MPP-Dairy payments uses the USDA National Agricultural Statistics Service (NASS) announced all-milk price per hundredweight, the USDA NASS announced corn price per bushel, the USDA NASS announced alfalfa hay price per ton, and the USDA Agricultural Marketing Service announced central Illinois high protein soybean meal price per ton.

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Margin Protection Elements

- Actual Dairy Production Margin
 - All-milk price minus feed ration value
 - National average formula, cannot be customized
- Actual Dairy Production History
 - Max calendar year production 2011, 2012, 2013
 - Revised annually by USDA based on U.S. growth in milk production
 - Payment made on production history – not based on actual milk production

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Key Farmer Decisions

Each year a farm must choose:

- Coverage Percentage
 - 25% to 90% of production history in 5% increments
- Coverage Level
 - \$4 to \$8 per hundredweight in \$0.50 increments

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Margin Protection Program premiums

Margin coverage (per cwt)	Premium for milk production up to 4 million pounds (per cwt)	Premium for milk production above 4 million pounds (per cwt)
\$4.00	None	None
\$4.50	\$0.010	\$0.020
\$5.00	\$0.025	\$0.040
\$5.50	\$0.040	\$0.100
\$6.00	\$0.055	\$0.155
\$6.50	\$0.090	\$0.290
\$7.00	\$0.217	\$0.830
\$7.50	\$0.300	\$1.060
\$8.00	\$0.475	\$1.360

Note: Premiums for milk production up to 4 million pounds are reduced by 25 percent during both 2014 and 2015. Source: Agricultural Act of 2014, Title I.

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Table 1. Contract Design Features of MPP and LGM-Dairy

	MPP	LGM-Dairy
Coverage Level	Coverage is available each year from \$4 to \$8 per cwt in \$0.50 increments on up to 90% of the maximum production over the 2011, 2012, and 2013 calendar years. The same percentage of milk covered is the same over all months of the contract.	Coverage is available at prevailing market prices. Insurable milk marketings are certified by the producer and subject to inspection from the insurance company. The percentage of milk covered can vary from month to month. Multiple contracts can be used to cover a month's production until 100% of a month's production is insured.
Sales Period	Farmer may change coverage options annually and coverage lasts one calendar year.	LGM-Dairy is available for purchase each month. Farmers may sign up 12 times per year. LGM-Dairy is offered on a first come, first serve basis and is subject to underwriting capacity.
Indemnity Payments	Payments made for consecutive two-month periods of Jan/Feb, Mar/Apr, ..., Nov/Dec.	Payments made at the end of the coverage period.
Premium Rates	Fixed for the life of the Farm Bill (25% discount applied to 2014 and 2015 calendar year premium rates).	Designed to be actuarially fair. Sets the policy premium equal to 1.03 times the expected indemnity less the declared deductible.
Government Subsidy	No direct subsidy. There may exist significant indirect subsidies given the fixed premiums.	Premium subsidy up to 50% depending on a farmer's declared deductible.
Farmer Customization	Fixed contract design with respect to feed ration and percent of milk covered. Dairy production margin formula is fixed. Feed quantities do not change.	LGM-Dairy can be tailored to farm size and feed usage (includes feed equivalent conversion) and to reflect actual feed market risk. Ration quantities are not fixed.
Agricultural Prices Used	Uses USDA announced prices for all-milk, corn, soybean meal, and alfalfa hay.	Uses simple average of futures prices for class III milk, corn, and soybean meal.

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Maryland LGM-Dairy Enrollments

2013 Reinsurance Year (7/12-6/13)

Commodity	State	Ins Plans	Pol Sold	Pol Earn Prem	Pol Indem	Units Earn Prem	Units Indem	CWTs Enrolled	Liabilities	Total Premium	Subsidy	Producers' Premium
DAIRY CATTLE	MARYLAND	RMA Dairy Gross	38	1	1	1	1	37,500	634,125	28,668	5,160	23,508

2014 Reinsurance Year (7/13-6/14)

Commodity	State	Ins Plans	Pol Sold	Pol Earn Prem	Pol Indem	Units Earn Prem	Units Indem	CWTs Enrolled	Liabilities	Total Premium	Subsidy	Producers' Premium
DAIRY CATTLE	MARYLAND	RMA Dairy Gross	34	3	0	4	0	68,000	1,379,080	38,458	10,849	27,609

2015 Reinsurance Year ((7/14- 6/15) reflects carryover policies only as first enrollment period begins 7/25/14)

Commodity	State	Ins Plans	Pol Sold	Pol Earn Prem	Pol Indem	Units Earn Prem	Units Indem	CWTs Enrolled	Liabilities	Total Premium	Subsidy	Producers' Premium
DAIRY CATTLE	MARYLAND	RMA Dairy Gross	36	0	0	0	0	0	0	0	0	0

Source: RMA Web 7/9/14

<http://www.rma.usda.gov/>

LGM Analyzer

Software Overview

Premium Estimator

Least Cost Optimizer

Bundled Options

Tutorial

Overview

The LGM-Analyzer is a software suite developed at the [University of Wisconsin](#) that can be used to assist in the use of the Livestock Gross Margin management. The user can evaluate the performance and cost of LGM-Dairy either using historical data or in anticipation of the upcoming LGM-Dairy

The LGM-Analyzer Suite of Programs

There are currently three separate programs that comprise the LGM-Analyzer suite. These programs are the: (i) *LGM-Dairy Premium Estimator*, (ii) description of each of these software systems. Although the above three programs are standalone the input data is shared across application and

The Premium Estimator

This program can be used if you want to estimate LGM-Dairy premiums for a **user-defined LGM-Dairy contract**. An LMG-Dairy contract is specified by the user's contract and deductible level.

The LGM-Dairy Least Cost Optimizer

Select this if you want to minimize the premium costs for attaining a pre-defined level of target Income over Feed Cost (IOFC) for all milk production. The user will need to be insured to achieve the total target IOFC. In contrast to the *Premium Estimator* when using the *Optimizer*, the user does not specify a deductible level.

Bundled Options Comparison

This software can be used to compare the cost of using a traditional bundled options strategy to establish a similar level of IOFC floor as provided by a bundled options strategy. Class III puts are used to establish a revenue minimum and corn/SBM call options are used to establish a feed cost ceiling. When the options contracts mature, the value of the options will be added to help the producer achieve the target IOFC.

Topic Specific Help Documents

- [Using the Premium Estimator](#)
- [Using the Least Cost Optimizer](#)
- [Bundled Options Cost Comparison](#)
- [How to Evaluate Contract Performance for an Active LGM-Dairy Contract](#)
- [Evaluating Actual Contract Performance for a Completed LGM-Dairy Contract](#)

Input

Insurance contract month: 2014 ▾ Aug ▾

Choose your deductible level \$ 1.0 ▾ /cwt

Feed Values: Enter Manually Lowest Allowed Default Highest Allowed

The prices we use for the Gross Margin Calculation correspond to future and option prices retrieved on the trade dates: **2014-07-30, 2014-07-31, 2014-08-01**

<input checked="" type="checkbox"/> Coverage Month		Production (cwt)		Corn Equiv (tons)		Soybean Meal Equiv (tons)		% covered	Monthly Gross Margin		
Month Year		Milk Qty.	Covered Milk × Expected Price = Milk Revenue	Corn Qty.	Covered Corn × Expected Price = Corn Cost	SBM Qty.	Covered SBM × Expected Price = SBM Cost		Milk Revenue - Corn Cost - SBM Cost - (Deductible × Milk Qty.)	\$/cwt of Farm Milk	\$/cwt of Covered Milk
<input checked="" type="checkbox"/>	Oct 2014	4113	4,113 cwt × \$20.60/cwt = \$84,727	95.8	95.8 tons × \$3.60/bu = \$12,328	21.1	21.1 tons × \$349.42/ton = \$7,373	100	60,913	14.81	14.81
<input checked="" type="checkbox"/>	Nov 2014	4340	4,340 cwt × \$19.77/cwt = \$85,800	101.1	101.1 tons × \$3.64/bu = \$13,131	22.3	22.3 tons × \$348.01/ton = \$7,761	100	60,569	13.96	13.96
<input checked="" type="checkbox"/>	Dec 2014	4188	4,188 cwt × \$19.36/cwt = \$81,078	97.6	97.6 tons × \$3.67/bu = \$12,792	21.5	21.5 tons × \$346.59/ton = \$7,452	100	56,646	13.53	13.53
<input checked="" type="checkbox"/>	Jan 2015	4240	4,240 cwt × \$18.64/cwt = \$79,032	98.8	98.8 tons × \$3.71/bu = \$13,091	21.8	21.8 tons × \$345.62/ton = \$7,535	100	54,167	12.78	12.78
<input checked="" type="checkbox"/>	Feb 2015	4188	4,188 cwt × \$18.28/cwt = \$76,555	97.6	97.6 tons × \$3.75/bu = \$13,071	21.5	21.5 tons × \$346.14/ton = \$7,442	100	51,854	12.38	12.38
<input checked="" type="checkbox"/>	Mar 2015	4023	4,023 cwt × \$18.16/cwt = \$73,056	93.7	93.7 tons × \$3.79/bu = \$12,682	20.7	20.7 tons × \$346.66/ton = \$7,176	100	49,174	12.22	12.22
<input checked="" type="checkbox"/>	Apr 2015	4075	4,075 cwt × \$18.09/cwt = \$73,715	94.9	94.9 tons × \$3.83/bu = \$12,997	20.9	20.9 tons × \$347.31/ton = \$7,259	100	49,384	12.12	12.12
<input checked="" type="checkbox"/>	May 2015	4038	4,038 cwt × \$18.10/cwt = \$73,085	94.1	94.1 tons × \$3.88/bu = \$13,039	20.8	20.8 tons × \$347.96/ton = \$7,237	100	48,771	12.08	12.08
<input checked="" type="checkbox"/>	Jun 2015	4063	4,063 cwt × \$18.07/cwt = \$73,416	94.7	94.7 tons × \$3.91/bu = \$13,240	20.9	20.9 tons × \$349.02/ton = \$7,295	100	48,818	12.02	12.02
<input checked="" type="checkbox"/>	Jul 2015	4149	4,149 cwt × \$18.07/cwt = \$74,969	96.7	96.7 tons × \$3.95/bu = \$13,641	21.3	21.3 tons × \$350.08/ton = \$7,457	100	49,723	11.98	11.98
Total	Farm	41,417 cwt		965 tons		213 tons		100.00%	GMG 530,018	12.80	12.80
	Covered	41,417 cwt		965 tons		213 tons					
	Weighted Avg Price	18.72 \$/cwt		3.77 \$/bu		347.67 \$/tons					

[Save Input](#)
[Calculate LGM Premium](#)
[Calculate Options Cost](#)
[Save GMG Calculations](#)

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Summary

Unit	Premium	GMG	Net GMG
Total (\$)	8,067	530,018	521,950
Per cwt of Farm Milk (\$/cwt)	0.19	12.80	12.60
Per cwt of Covered Milk (\$/cwt)	0.19	12.80	12.60

Save GMG Calculations and Results

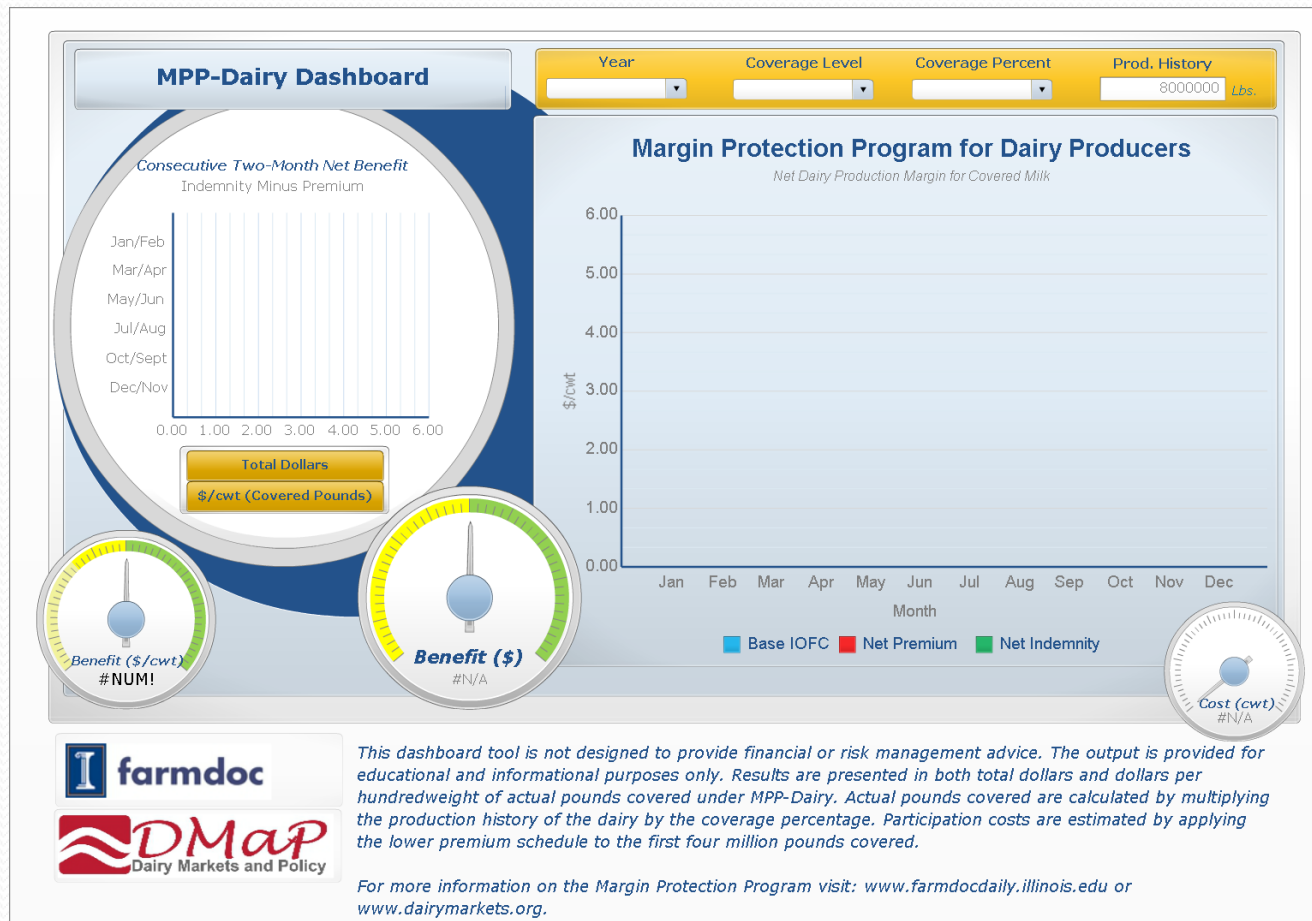
Sensitivity Analysis

Show per cwt Results

Deductible Level (\$/cwt)	Total Premium (\$)	Subsidized Premium (\$)	GMG (\$)	Net GMG (\$)	Prob. of Payout (%)	Net Premium as % of GMG (%)	% Net Prem. change	% GMG Change
0.0	33,199	27,224	571,435	544,211	51	4.76	-	-
0.1	31,048	25,149	567,293	542,144	49	4.43	-7.62	-0.72
0.2	28,991	22,903	563,151	540,249	47	4.07	-15.87	-1.45
0.3	27,021	20,806	559,010	538,203	45	3.72	-23.57	-2.17
0.4	25,128	18,846	554,868	536,022	43	3.40	-30.77	-2.90
0.5	23,314	16,786	550,726	533,940	41	3.05	-38.34	-3.62
0.6	21,592	14,898	546,585	531,686	39	2.73	-45.27	-4.35
0.7	19,949	13,167	542,443	529,276	37	2.43	-51.64	-5.07
0.8	18,388	11,401	538,301	526,901	35	2.12	-58.12	-5.80
0.9	16,909	10,145	534,160	524,014	33	1.90	-62.73	-6.52
1.0	15,514	8,067	530,018	521,950	31	1.52	-70.37	-7.25
1.1	14,198	7,099	525,876	518,777	29	1.35	-73.92	-7.97
1.2	12,972	6,486	521,734	515,248	27	1.24	-76.17	-8.70
1.3	11,833	5,917	517,593	511,676	25	1.14	-78.27	-9.42
1.4	10,762	5,381	513,451	508,070	24	1.05	-80.23	-10.15
1.5	9,765	4,882	509,309	504,427	22	0.96	-82.07	-10.87
1.6	8,843	4,422	505,168	500,746	20	0.88	-83.76	-11.60
1.7	7,983	3,992	501,026	497,034	19	0.80	-85.34	-12.32
1.8	7,186	3,593	496,884	493,291	17	0.72	-86.80	-13.05
1.9	6,448	3,224	492,743	489,519	16	0.65	-88.16	-13.77
2.0	5,775	2,888	488,601	485,713	14	0.59	-89.39	-14.50

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The members of the Dairy Markets and Policy Team has been tasked by the Farm Services Agency of USDA to partner with them in developing a web-based tool that will assist farmers in making their decisions about participating in the new Margin Protection Program for Dairy Producers (MPP).

2014 MD Farm Bill Workshops

The 2014 Farm Bill is complex and details of how the bill will be implemented are not expected to be available until early August. The purpose of the workshops is to provide farmers with a better understanding of the new programs in the farm bill and how these programs could potentially affect their operations. The workshops will also provide grain and dairy producers with details about the decisions they will need to make and provide them with decision tools .

Each workshop costs \$10 and covers the cost of lunch. The following workshop schedule includes topics to be covered at each session:

- **Lower Shore – August 12** (10 a.m. to 3 p.m.), Rockawalkin Community Center, commodity programs;
- **Upper Shore – August 13** (11 a.m. to 2 p.m.), Queen Anne's County Fairgrounds, commodity programs;
- **Southern Maryland – August 15** (10 a.m. to 3 p.m.), St. Mary's Agricultural Service Center, 26737 Radio Station Way, Leonardtown, MD 20650, commodity programs;
- **Northern Maryland – August 18** (10 a.m. to 3 p.m.), Baltimore County Ag Center, 1114 Shawan Rd, Cockeysville, MD 21030, commodity and dairy programs;
- **Central Maryland – August 19** (10 a.m. to 3 p.m.), Dutch's Daughter Restaurant, 581 Himes Avenue, Frederick, MD 21703, dairy programs; and
- **Western Maryland – August 21** (10 a.m. to 3 p.m.), location TBA, dairy programs.

For more information on the workshops, contact the local University of Maryland Extension office .