Dairy GM Historical Performance Estimates: Up to $3.31 of producer benefits paid for each dollar $1 premium cost (first 9 enrollment periods 8/08-4/09 (with coverage through 3/10)); $1.26 of producer benefits for each dollar $1 premium cost; past 10 years (retro-actively applying Dairy GM insurance program to board of trade prices).
New Dairy Gross Margin (income over feed cost) Insurance

The program is based on milk income over feed costs, which the program calls a “gross margin.” The insurance program covers the difference between the expected gross margin (insurance guarantee) and the actual gross margin for the producer’s selected months, based on a targeted amount of milk. Futures prices from the Chicago Mercantile Exchange (CME) & Chicago Board of Trade (CBOT) are used to determine the values of Class III milk, corn and soybean meal. Futures prices result in uniform commodity prices for all producers. There is a maximum producer enrollment limit of 240,000 cwt. of milk per year.

Key Definitions:
The expected gross margin is calculated by using the amount of milk (cwt) the producer chooses to enroll times the futures prices for the milk and feed to be fed for the selected month(s). The expected gross margin is the difference between the values of milk minus the feed cost.

The actual gross margin is calculated for the same time period as the expected gross margin. The calculations are done using the same methodology as was used to calculate the expected gross margin.

An insurance indemnity (loss payment) results when the expected gross margin exceeds the actual gross margin. Indemnities are paid within 60 days after the last month insured (after the claim can be calculated), in the chart below, payments could have occurred December through July if any of these months had been selected as the months for which insurance had been purchased.

How Dairy LGM Works

Cause of loss covered is the difference between the expected gross margin (insurance guarantee) and the actual gross margin. It does not insure against death or other cause of production loss or damage to the producer’s dairy cattle. It does not insure expected price changes which are already reflected in BOT futures prices.

Enrollment Periods. Twelve monthly enrollment periods are available beginning the last business Friday of each month until 9pm next day. The last 10 months of each enrollment period is when insurance is available. Producer can elect to insure during selected or all 10 months in each period.

The states where it’s available are AZ, CO, CT, DE, IA, IL, IN, KS, KY, MA, MD, ME, MN, MI, MO, MT, ND, NE, NH, NJ, NM, NV, NY, OH, OK, PA, RI, SD, TN, TX, UT, VT, WA, WI, WV, and WY. This is a risk management tool for dairy producers.

August 2008 enrollment performance

For more information contact a crop insurance agent or http://www3.rma.usda.gov/apps/agents/