

# The Dairy Farmer Margin Protection Program

## USDA's Safety Net For Producers: *2018 Enrollment Update*



# Key Changes in 2018

- Adjusting the first tier of covered production to include each farm's first 5 million pounds of annual milk production (about 217 cows) instead of 4 million pounds
- Raising the catastrophic coverage level from \$4.00 to \$5.00 for the first tier of covered production for all dairy farmers
- Reducing the premium rates for the first 5 million pounds of production for more affordable coverage
- Changing the margin calculation from a bi-monthly to a monthly basis
- Waiving the annual \$100 administrative fee for underserved farmers



# Margin Protection Program

- USDA announced a re-opened sign-up period for 2018 from April 9-June 1
- USDA has made new coverage elections retroactive to Jan. 1, 2018
- Producers already in the program will be able to adjust their coverage levels
- With tight margins projected for the first half 2018, producers should closely examine participation and coverage levels with the new, substantially lower premiums
- Note that payments will be reduced by 6.6% due to congressional budget sequestration requirements



# Risk Management Tools

- Congress also removed the \$20 million annual cap on livestock insurance, including the Livestock Gross Margin for dairy (LGM-Dairy) program
- This will allow USDA to develop and/or approve additional risk management tools that can complement MPP-Dairy
- Will likely be of particular interest to larger producers to provide additional risk management options
- Existing restrictions on using both LGM and the MPP at the same time remains in place

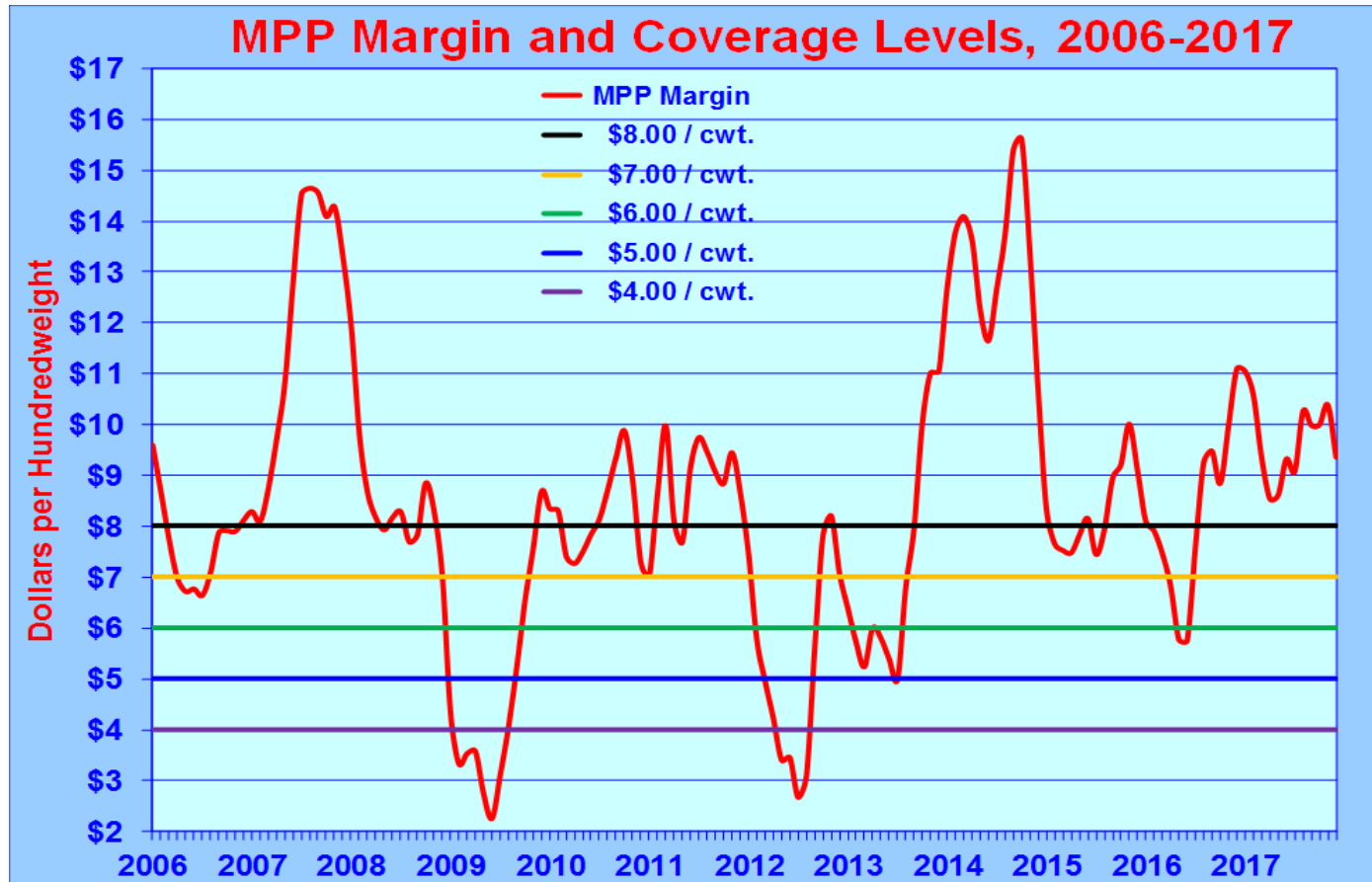


# What's the Margin?

- A national average margin, not an individual farm's margin
- The U.S. average all-milk price minus average feed costs, computed by a formula using national benchmark prices for corn, soybean meal and alfalfa hay
- Reflects costs of feeding all dairy animals on a farm, per hundredweight of milk produced



# What's the Margin?



# What's Your Production History?

- Initially equals your farm's highest production in either 2011, 2012 or 2013
- Yearly increases based on average growth in national production
  - 2015 – USDA Bump of 0.86%
  - 2016 – USDA Bump of 2.61%
  - 2017 – USDA Bump of 1.34%
  - **2018 – USDA Bump of 1.86%**
- Expansion beyond national average is not insured
- New producers extrapolate based on actual production or average milk per cow



# 2018 Decisions

- Producers can protect between 25%-90% of production history in 5% increments
  - Base coverage of 90% at \$5 margin is standard for all enrolled operations for first 5 million pounds at no cost; production beyond 5 million pounds will have catastrophic coverage base of \$4 margin
- Producers can choose level of supplemental margin protection, from \$5.50/cwt. to \$8/cwt., on their first 5 million pounds at Tier I premiums
- Supplemental coverage options on >5 million pounds begin at \$4.50/cwt. at Tier II premiums





# Premium Rates for 2018

Margin Level Coverage	First 5 Million Pounds (Tier I)	Above 5 Million Pounds (Tier II)
\$4.00	No cost	No cost
\$4.50	No cost	\$0.020
\$5.00	No cost	\$0.040
\$5.50	\$0.009	\$0.100
\$6.00	\$0.016	\$0.155
\$6.50	\$0.040	\$0.290
\$7.00	\$0.063	\$0.830
\$7.50	\$0.087	\$1.060
\$8.00	\$0.142	\$1.360

Dollar amounts are per hundredweight



# Payments to Producers

- Program pays when average margin for each monthly period is below the margin selected by the producer
- Program pays on one-twelfth of production history, multiplied by percent coverage selected
- Producers will receive payments shortly after the margin cost calculations are made final
  - Example: If a payment is triggered in January, the margin will be announced at the end of February and payment will be sent in March



# Final Thoughts

- MPP remains a work in progress, and NMPF will work with Congress and USDA to continue to improve the program
- Farmers should run the numbers to see how the lower premium levels will potentially benefit them in 2018
- Other livestock economic insurance options for dairy farmers may soon be available through USDA

