# Breakthrough in Dairy Insurance Program

## Improvements Strengthen Risk Management Landscape for Dairy

USDA's Risk Management Agency (RMA) has made major improvements to the federal Dairy Gross Margin insurance (effective as of December 17, 2010).

Industry analysts predict that the new and improved insurance program will make believers out of most dairy producers.

For starters, the **premiums are now subsidized,** like crop insurance. The difference is that the subsidies are set based on the level of the deductible the dairy operator elects. **The higher the deductible the higher is the level of subsidy** (if milk is enrolled in at least two months of the enrollment period.)

Deductibles are now available from zero to $2 per hundred weight, in 10 cent intervals, an increase from the previous $1.50.

Also, instead of having to pay the full premium at time of enrollment, **premium payments are now due at the end of the coverage period.**

Another important change is that now **maximum feed loads (amounts/values) have been increased to allow for forage, young, and dry cattle.**

**For free monthly email updates on Dairy Gross Margin insurance, contact Gene Gantz: gantz@pa.net**

**The enrollment deadline is the last business Friday of each month.**

## How it Works

The Dairy Gross Margin insurance program is an income over feed cost financial safety net. It provides dairy producers a monthly enrollment opportunity to develop and implement a financial safety net for their business plan for the year ahead.

The insurance covers the difference between the expected gross margin (insurance guarantee) and the actual gross margin for producer's selected month(s), for a targeted amount of milk.

Futures prices from the Chicago Mercantile Exchange (CME) are used to determine the value of milk and feed. Using futures prices results in uniform commodity pricing for all producers.

**The expected gross margin** is determined by using the producer's estimated hundredweights of milk times the futures price(s) for a selected month(s) period. Feed costs are calculated by determining the expected amount of feed to be fed (RMA established default or producer actual) during the same time period. These quantities of feed are converted into shelled corn and soybean meal equivalents and multiplied by the CME prices for the selected period.

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

**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 Board of Trade (BOT) futures prices.

**An insurance indemnity** (loss payment) results when the expected gross margin exceeds the actual gross margin.

**Enrollment Periods.** Looking up to a year ahead, the last 10 months of each enrollment period is when insurance is available. Producer can elect to insure during selected months, or for all 10 months in each period. ▲