Livestock Gross Margin Insurance Dairy Cattle

Livestock Gross Margin

The Livestock Gross Margin Insurance Plan for Dairy Cattle (LGM-Dairy) provides protection when feed costs rise or milk prices drop and can be tailored to any size farm. Gross margin is the market value of milk minus feed costs. LGM-Dairy uses futures prices for corn, soybean meal, and milk to determine the expected gross margin and the actual gross margin. LGM-Dairy is similar to buying both a call option to limit higher feed costs and a put option to set a floor on milk prices.

Only milk sold for commercial or private sale and primarily intended for final human consumption from dairy cattle fed in the states listed below is eligible for coverage. There is no minimum or maximum number of hundredweights you can insure.

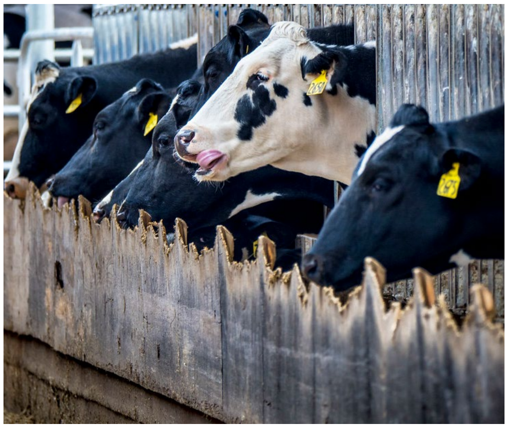
Prices for LGM-Dairy are based on simple averages of Chicago Mercantile Exchange Group futures contract daily settlement prices, and are not based on the prices you receive at the market.

A premium subsidy is available for those policies that insure multiple months during the insurance period. The subsidy amount is determined by a dollar deductible that you choose (ranges from $0-$2 in $0.10 increments). If you choose a $0 deductible you receive a lower premium subsidy (18 percent) and if you choose the highest deductible of $2 you receive a higher premium subsidy (50 percent). The premium is due at the end of the coverage period. LGM premiums depend on your marketing plan, coverage you choose, deductible level, and futures and price volatility.

Availability

LGM-Cattle is available in all counties in all states.

2018 Farm Bill provisions allow for dairy operations to participate in both LGM-Dairy and Farm Service Agency's Dairy Margin Coverage (DMC) program.



Causes of Loss

LGM-Dairy covers the difference between the gross margin guarantee and the actual gross margin. LGM-Cattle does not insure against:

- Dairy cattle death;
- Unexpected decreases in milk production;
- Unexpected increases in feed use;
- Anticipated or multiple-year declines in milk prices; or
- Anticipated or multiple-year increases in feed costs.

Where to Buy Crop Insurance

All multi-peril crop insurance, including Catastrophic Risk Protection policies, are available from private insurance agents. A list of crop insurance agents is available on the RMA website by using the rma.usda.gov/Information-Tools/Agent-Locator-Page.

Useful Links

Daily LRP Coverage, Prices, Rates, and Actual Ending Values: rma.usda.gov/Information-Tools/Livestock-Reports

Premium Calculator: ewebapp.rma.usda.gov/apps/costestimator/

Approved livestock agents and insurance companies: rma.usda.gov/Information-Tools/Agent-Locator-Page

Related AMS online livestock reports: marketnews.usda.gov

This fact sheet gives only a general overview of the crop insurance program and is not a complete policy. For further information and an evaluation of our risk management needs, contact a crop insurance agent.

Buying a Policy

You can sign up for LGM-Dairy each week and insure all of the milk production that you expect to market over a rolling 11-month insurance period. LGM-Dairy is sold on the Thursday of the week when the coverage prices and rates are posted on the RMA website and ends at 9:00 AM Central Time of the following day. Your premium payment is due at the end of the insurance period. If expected milk and feed prices are not available on the RMA website, or if the Thursday of the sales period is a federal holiday, LGM-Dairy will not be offered for sale for the insurance period.

The insurance period contains the 11 months following the sales closing date. For example, the insurance period for the January 29 sales closing date contains the months of February through December. Coverage begins the second month of the insurance period, so the coverage period for this example is March through December.

To enroll, you must sign up on Thursday each week. You must also submit an application with a target marketings report for the milk and corn and soybean meal equivalents. You may also choose to use the default values for corn and soybean meal equivalents.

Indemnity Payments

The indemnity at the end of the 11-month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. If the actual gross margin is less than the expected gross margin (minus the deductible) for the insurance period, an indemnity may be payable.

Definitions

Actual Marketings - The total amount of milk you sell each month of the insurance period for which there is a proof of sale. Actual marketings are used to verify ownership of milk and determine approved target marketings.

Deductible - The portion of the expected gross margin that you choose not to insure. Allowable deductible amounts range from $0 to $2 per hundredweight, in $0.10 increments. The deductible equals the selected hundredweight deductible multiplied by the sum of target marketings across all months of the insurance period.

Gross Margin Guarantee - The gross margin guarantee for an insurance period is the expected total gross margin for an insurance period minus the deductible.

Loss of Gross Margin - Market value of milk minus feed costs.

Marketing Report - A report you submit on the insurance company's form showing actual, monthly marketings of milk insured under this policy. The marketing report must be accompanied by copies of sales receipts that provide records of the actual marketings shown on the marketing report.

Target Marketings - Your determination of the number of hundredweight of milk insured each month during the insurance period. Only the hundredweight of milk in which you have a share can be reported.

Target Marketings Report - A report that you submit on the insurance company's form showing the target marketings for each month.