



Livestock Gross Margin Insurance

Dairy Cattle

November 2010

Livestock Gross Margin

LGM Dairy Cattle (LGM Dairy) provides protection to dairy producers when feed costs rise or milk prices drop. 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.

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 selected by the policyholder (ranges from \$0—\$2 in \$0.10 increments). Policyholders choosing a \$0 deductible receive a lower premium subsidy (18 percent) and those choosing the highest deductible of \$2 receive a higher premium subsidy (50 percent).

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. The price the producer receives at the local market is not used in these calculations.

Availability

LGM is available to any producer who owns dairy cattle in Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginian, Washington, West Virginia, Wisconsin, and Wyoming.

Milk Coverage Availability

Only milk sold for commercial or private sale and primarily intended for final human consumption from dairy cattle fed in the States listed above is eligible for coverage. There is no minimum number of hundredweights a producer can insure. The maximum amount of milk that can be insured is 24 million pounds per crop year.

Deductibles

Producers can select deductible levels between \$0 and \$2 per hundredweight of milk in \$0.10 increments.

Sales Closing

To enroll, producers must sign up on the **last business Friday** of the month. The producer must also submit an application with a target marketings report for the milk and corn and soybean meal equivalents. Producers may also choose to use the default values for corn and soybean meal equivalents.

Prices

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 the producer receives at the market.

Insurance Months

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 in the **second month** of the insurance period, so the coverage period for this example is March through December.

Sales Period

LGM Dairy is sold on the **last business Friday** of each month. The sales period begins as soon as RMA reviews the data submitted by the developer, Iowa Agricultural Insurance Innovations, after the Chicago Mercantile Exchange Group markets close on the last day of the price discovery period. The sales period ends at 8:00 p.m. the following day. If expected milk and feed prices are not available on the RMA Web site, LGM Dairy will not be offered for sale for the insurance period.

Annual Premium

The premium is due at the end of the coverage period. LGM premiums depend on each producer's marketing plan, coverage selected, deductible level, and futures and price volatility.

Cause of Loss

LGM Dairy covers the difference between the gross margin guarantee and the actual gross margin. LGM Dairy does **not** insure against dairy cattle death, unexpected decreases in milk production, or unexpected increases in feed use. Indemnity payments will equal the difference between the gross margin guarantee and the actual total gross margin for the insurance period.

Advantages

Convenience: Producers can sign up for LGM Dairy 12 times each year and insure all of their milk production that they expect to market over a rolling 11-month insurance period.

Customization: Can be tailored to any size farm.

Bundled Option Insurance: 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.

What LGM Dairy Does Not Cover

- ♦ Risk of dairy cattle death
- ♦ Unexpected production (milk) losses
- ♦ Unexpected increase in feed use
- ♦ Anticipated or multiple-year declines in milk prices
- ♦ Anticipated or multiple-year increases in feed costs

Definitions

Actual Marketings: The total amount of milk a producer sells 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 the producer elects 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 the producer submits 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: The producer's determination of the number hundredweight of milk insured each month during the insurance period. Only the hundredweight of milk in which the producer has a share can be reported.

Target Marketings Report: A report that the producer submits on the insurance company's form showing the target marketings for each month.

For More Information

LGM Coverage Prices, Rates, and Actual Ending Values:

http://www3.rma.usda.gov/apps/livestock_reports/

Premium Calculator:

<http://www.rma.usda.gov/tools/premcalc.html>

Purchase Locations

All multi-peril crop insurance policies are available from private insurance agents. A list of livestock insurance agents is available on the RMA Web site at:

<http://www3.rma.usda.gov/tools/agents/>

Contact Us

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