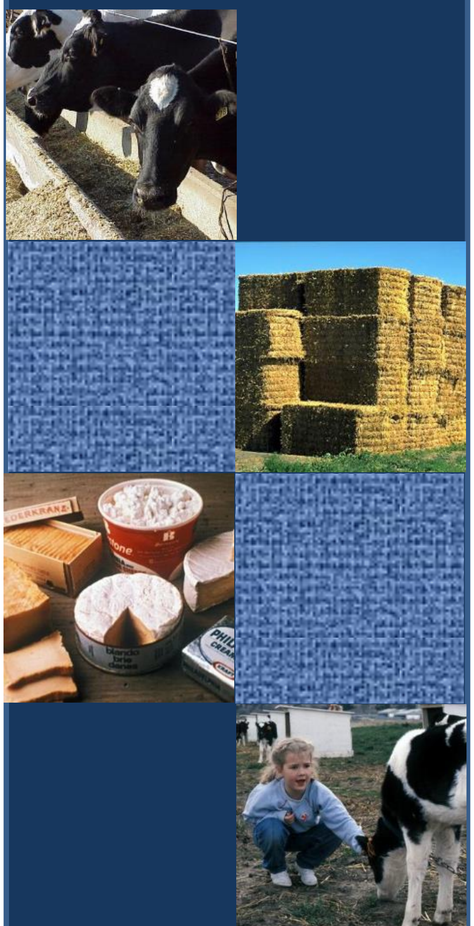
Frequently Asked Questions:

Dairy Margin Protection Program of the 2014 Farm Bill



July 2015

Robin Reid
Extension Associate
Kansas State University
785-532-0964
robinreid@k-state.edu

Dr. Gregg Hadley
Associate Professor
Kansas State University
785-532-5838
ghadley@ksu.edu

KANSAS STATE UNIVERSITY
DEPARTMENT OF AGRICULTURAL ECONOMICS
www.AgManager.info

Disclaimer: This publication is designed to aid farmers with their marketing and risk decisions. This information is based on the author's interpretation of the 2014 Farm Bill. Some details may change after final rules and regulations are released by FSA. This information is intended for educational purposes only.

1. What is the Dairy Margin Protection Program?

The Dairy Margin Protection Program, referred to as the MPP-Dairy, is a voluntary risk management program to protect producers from unfavorable margins between the price of milk and the cost of feed inputs. The Market Income Loss Coverage (MILC) program of the 2008 Farm Bill was repealed and replaced by MPP-Dairy in accordance with the 2014 Farm Bill. It is not a price support program like traditional dairy programs have been.

2. Who is eligible for the MPP-Dairy Program?

Producers are eligible to participate if they have current commercial milk marketings from cows located in the U.S., are a U.S. citizen, "actively engaged" in the operation (make contributions and share risk), and are in conservation compliance.

3. How is the margin between milk price and feed cost calculated?

This margin is frequently referred to as Actual Dairy Production Margin (ADPM) or Income Over Feed Cost (IOFC). It is solely based on national prices and does not account for individual operator's actual price of milk received or actual feed cost. It is calculated by taking the U.S. All Milk Price and subtracting Feed Cost per cwt of milk produced.

Feed cost is determined by:

1.0728 multiplied by the national price of corn per bushel reported in the USDA Agricultural Prices Report

+ 0.00735 multiplied by the soybean meal price per ton as determined by the Decatur-Central Illinois USDA Market News-Monthly Soybean Meal Price Report

+ 0.0137 multiplied by the national alfalfa hay price per ton as reported in the USDA Agricultural Prices Report

This formula was developed based on a ration of corn grain, corn silage, soybean meal, and hay for a typical dairy herd to produce 100 pounds of milk. It includes feed for dry cows, young stock, and hospital animals.

4. What coverage levels are available through MPP-Dairy?

Producers can select margin levels from $4.00 to $8.00 per cwt in $0.50 increments. They can also choose to cover 25% to 90% of their annual milk production, in 5% increments. Consequently, there are 126 combinations of margins and production percentage levels that can be chosen. Coverage is based on a calendar year.

5. What does it cost to sign up for the MPP-Dairy program?

An administrative fee of $100 will be charged to each dairy operation every year. This will provide the operation catastrophic (CAT) coverage on 90% of annual milk production at a $4.00 margin. Premiums will be charged on buy-up coverage and on varying percentages of annual milk production covered.

6. How much will buy-up coverage cost?

Premiums per cwt for coverage above a $4.00 margin at 90% of production are as follows. A threshold of 4 million pounds of covered production history will separate the two premium levels.

Coverage Level (Margin) per cwt.	Tier 1 Premium for 2016-2018 Covered production history less than 4 million lbs.	Tier 2 Premium for 2014-2018 Covered production history greater than 4 million lbs.
$4.00	None	None
$4.50	$0.010	$0.020
$5.00	$0.025	$0.040
$5.50	$0.040	$0.100
$6.00	$0.055	$0.155
$6.50	$0.090	$0.290
$7.00	$0.217	$0.830
$7.50	$0.300	$1.060
$8.00	$0.475	$1.360

7. Do premiums need to be paid in full at registration?

For calendar years 2015-2018, at least 25% of the premium and the administrative fee must be paid by Feb. 1st, with the remaining balance due no later than June 1st of the applicable year of coverage. If benefit payments are made before June 1st, the remaining premium will automatically be deducted.

8. When will MPP-Dairy payments be received?

The Actual Dairy Production Margin is calculated every month and then averaged every two months to determine payments. Fixed month pairs are January/February, March/April, May/June, July/August, September/October, and November/December. USDA will use final National Agriculture Statistics Service (NASS) estimates when it calculates the margin, so a payment for a 2-month block will not be issued until the end of the next month. Example: A January/February payment will be calculated at the end of March and will likely be received in early April.

9. What will the payment be?

The Margin Protection payment (if any) will be calculated every two months if the producer's selected margin coverage is above the calculated Actual Dairy Production Margin. The difference between the two margins, multiplied by the coverage percentage, multiplied by the production history divided by six (payments are made every 2 months), will equal the payment. There are no limits to payments based on size of the operation or Adjusted Gross Income of the operator(s).

10. How can a producer sign-up?

Producers may register through their local Farm Service Agency (FSA) office. Production history must be established at the initial sign up with form CC-781. Every year the operation needs to submit form CCC-782 to select coverage levels. Operations may change your coverage selection annually, but if no selection is made the operation will default to CAT coverage.

Registration periods are as follows:

Coverage Year	Registration Period
2016	July 1 – Sept. 30, 2015
2017	July 1 – Sept. 30, 2016
2018	July 3 – Oct. 2, 2017

11. How does an operation establish Production History?

Production history for MPP-Dairy with FSA is similar to establishing "base" acres for commodity programs. This established production will be used for calculating program payments for all future years. Producers will be asked to provide documentation of 2011, 2012, and 2013 total milk marketings. Production history will be equal to the highest annual milk marketing of these three calendar years. Expansion or reduction in herd size will not change production history. If producers previously signed up for the MILC program, the identity of their dairy operation will be maintained for MPP-Dairy.

12. What about new operations?

If the dairy has less than 12 months of commercial milk marketings as of Feb. 7^{th}, 2014 (the day the 2014 Farm Bill was signed), they are considered a new operation and have two options to establish annual production.

1.) Use full month's marketed milk production for the calendar year of when the operation began extrapolated for a yearly amount using a national index based on seasons.
2.) Estimate yearly marketed milk by taking herd size multiplied by national average production per cow (21,822 pounds for 2014 & 2015).

New dairy operations that start milk marketings after the close of registration have 90 days to submit a contract, or will have to wait until the next enrollment period. Coverage will start on the next full two-month marketing period after registration.

13. What is the Production History "bump"?

Each year before sign-up, FSA will announce if it will increase dairy Production History to account for increases in national average productivity. If dairies signed up for 2015 coverage, they will receive a 2.61% Production History bump for 2016.

14. Can a producer cancel their MPP-Dairy coverage?

Once a producer enrolls in the MPP-Dairy program, they will remain in the program for the life of the Farm Bill (through December 31st, 2018). They will have to pay the $100 administrative fee annually, but can leave their operation at CAT coverage which requires no additional premiums.

If there is a retirement, death, or discontinuation of the business registration in the program can be terminated, but FSA must be notified.

15. What about the Dairy Livestock Gross Margin (LGM) program?

If a producer signs up for the MPP-Dairy program, they are no longer eligible to participate in the LGM-Dairy insurance program through the Risk Management Agency, for the remaining life of the 2014 Farm Bill. If they currently have a LGM-Dairy contract, they may enroll in MPP-Dairy, but it will not take effect until their LGM-Dairy contract expires.

16. What advantages does the MPP-Dairy program have over the LGM-Dairy program?

Both programs operate under the same principle; they protect the producer from unfavorable margins between the milk price and feed cost. There are advantages and disadvantages of both programs. For more information, visit http://dairy.wisc.edu/MPP/ .

17. What tools are available to help evaluate the decision to sign-up for MPP-Dairy?

A web tool is available for producers to enter their production history to evaluate premiums and forecasted payments at http://dairy.wisc.edu/MPP/Tool/

This tool, along with articles and other Dairy-MPP information, can be found through K-State's Agricultural Economics department at www.AgManager.info under the "Policy" section and "2014 Farm Bill". Check back often for updates or sign-up for a weekly update email.

Face-to-Face meetings will be occurring July 31st in Hutchinson, KS and August 4th in Seneca, KS to help producers understand the MPP-Dairy Program and make sign-up decisions. There will also be a national webinar on September 3rd that will focus more in-depth on Decision Tools and a 2016 Dairy Outlook. Visit http://www.agmanager.info/events/Dairy/default.asp for more information.

18. What if an operation goes through a transfer of ownership, addition of a new partner, expansion to a new operation, etc?

Talk to the local FSA office as each situation is unique and subject to certain regulations.