

Dairy Margin Coverage Program 2019 Election Decisions



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Credit for some of the charts and information in this presentation goes to Mark Stephenson, University of Wisconsin-Madison as presented at the national Farm Bill training.



What I will cover today...

- Changes from the MPP-Dairy program to the DMC program
- Making 2019 Enrollment Decisions

History

- The Dairy Margin Protection Program (MPP) was created in the 2014 Farm Bill
 - Voluntary Risk Management program through Farm Service Agency
 - Protect farmers from unfavorable margins in the price of milk and the cost of feed inputs
- Bipartisan Budget Act in 2018 made changes to lower premiums and re-enroll
- 2018 Farm Bill renamed the program “Dairy Margin Coverage”

Dairy Margin Coverage Program

- New name, same basic program
 - Protection against low margins resulting from a combination of low milk prices and high feed costs
 - Producers elect the coverage level they want and what % of milk production history they want to cover
 - Monthly calculation and payments, make annual decisions
 - \$100 administrative fee plus premiums based on coverage selected

Margin

- Determined based on the difference between
 - National average All-Milk Price
 - National average cost of feed used to produce a hundredweight of milk

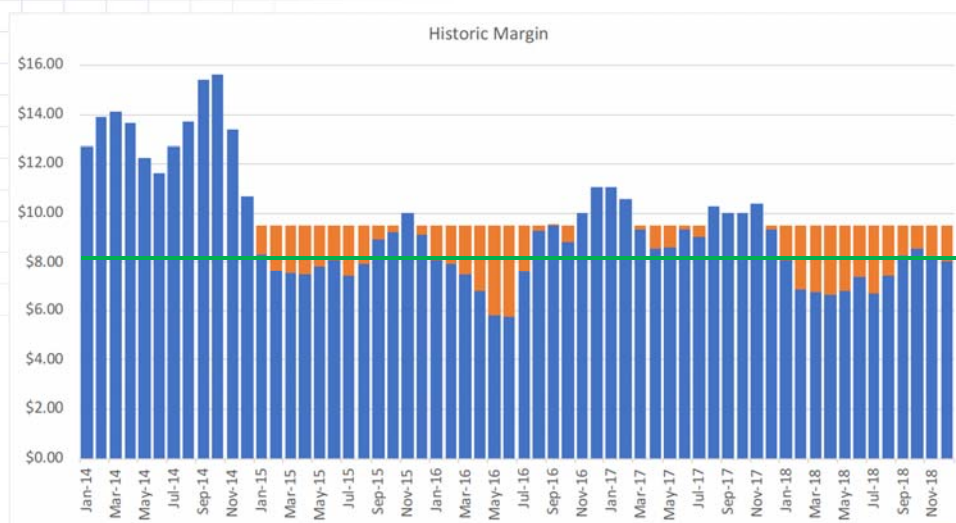
**Actual Dairy Production Margin =
U.S. All-Milk Price**

- 1.0728 x NASS Corn Price (\$/bu)
- 0.00735 x AMS Soybean Meal (Central IL) (\$/ton)
- 0.0137 x NASS **BLENDED** Alfalfa Hay (\$/ton)

Feed ration per cwt of milk:

- 30 pounds of shell corn
- 106.4 pounds of corn silage
- 14.7 pounds of soybean meal
- 27.4 pounds of alfalfa hay

Actual Dairy Production Margin



Milk Production History

- You keep your same production history that you ***last had*** if you participated in the program
 - You get all of the “bumps” that were accumulated
 - If you didn’t participate previously, your production history will be established in the same way:
 - Highest annual production in 2011, 2012 or 2013
 - If you have a new operation since 2013 there are procedures for establishing production history
- Once established, Production History will not change
 - Changes in herd size do not effect
 - No more “bumps” in production history

Amount of Milk Covered

- Tier 1 coverage is increased from 4 million pounds to 5 million pounds of historic production
- You can elect buy-up coverage on a percentage of production history from 5% to 95% (previously 25% to 90%)
 - Any production that is not covered by buy-up coverage automatically gets catastrophic coverage
 - Ex: If you choose to only buy-up coverage on 50% of your production history, the remaining 45% automatically gets \$4.00 coverage

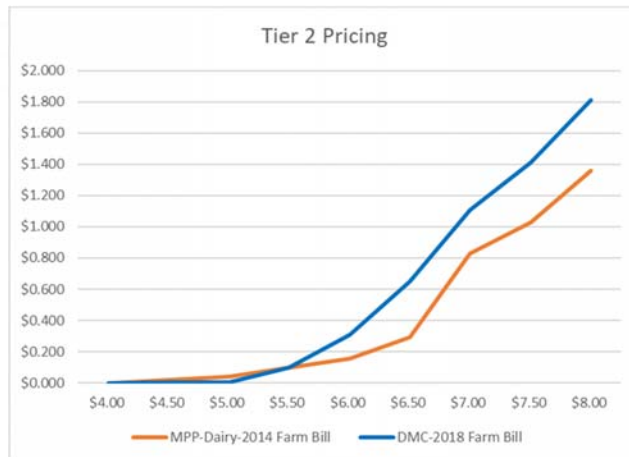
Tier 1 Pricing

Coverage Level	MPP-Dairy 2014 Farm Bill	Bipartisan Budget Act 2018	DMC 2018 Farm Bill
\$4.00	\$0.000	\$0.000	\$0.000
\$4.50	\$0.008	\$0.000	\$0.0025
\$5.00	\$0.019	\$0.000	\$0.005
\$5.50	\$0.030	\$0.009	\$0.030
\$6.00	\$0.041	\$0.016	\$0.050
\$6.50	\$0.068	\$0.040	\$0.070
\$7.00	\$0.163	\$0.063	\$0.080
\$7.50	\$0.225	\$0.087	\$0.090
\$8.00	\$0.475	\$0.142	\$0.100
\$8.50			\$0.105
\$9.00			\$0.110
\$9.50			\$0.150



Tier 2 Pricing

Coverage Level	MPP-Dairy 2014 Farm Bill	DMC 2018 Farm Bill
\$4.00	\$0.000	\$0.000
\$4.50	\$0.020	\$0.0025
\$5.00	\$0.040	\$0.005
\$5.50	\$0.100	\$0.100
\$6.00	\$0.155	\$0.310
\$6.50	\$0.290	\$0.650
\$7.00	\$0.830	\$1.107
\$7.50	\$1.030	\$1.413
\$8.00	\$1.360	\$1.813
\$8.50		
\$9.00		
\$9.50		



Flexibility

- If a farmer elects \$8.00 coverage or less, then he/she must select the same coverage level in Tier 2
- If a farmer elects \$8.50 coverage or more, then he/she may select any different coverage level in Tier 2

Strategy

- Tier 1 coverage is inexpensive at any level
- If you are a larger farm (more than 5 million lbs PH), always pick \$8.50 or above
- Cover as much Tier 2 as you want. At \$5.00—it's cheap catastrophic coverage

Coverage Level Threshold	Tier 1 DMC	Tier 2 DMC
<i>Qualifying Production</i>	5 M lbs. or less	above 5 M lbs.
\$4.00	\$-	\$
\$4.50	\$0.0025	\$0.0025
\$5.00	\$0.0050	\$0.0050
\$5.50	\$0.0300	\$0.1000
\$6.00	\$0.0500	\$0.3100
\$6.50	\$0.0700	\$0.6500
\$7.00	\$0.0800	\$1.1070
\$7.50	\$0.0900	\$1.4130
\$8.00	\$0.1000	\$1.8130
\$8.50	\$0.1050	n.a.
\$9.00	\$0.1100	n.a.
\$9.50	\$0.1500	n.a.

Discount

- Option #1: You can elect coverage each year at signup
- Option #2: You can elect coverage once for the entire 5 years of the Farm Bill and receive a 25% discount on premiums

Rebate

- If you paid more money into premiums under MPP than you received in indemnity payments, then you can:
 - Apply 75% of the rebate toward DMC premiums
 - Receive 50% of the rebate as cash
 - Once the choice of cash or credit is made and approved by FSA, the choice cannot be changed.

*Another note: If you couldn't take advantage of MPP last year because you had LGM coverage, the Farm Bill let's you have a do-over for 2018 coverage

Timeline

- You have until Sept. 20th to make your coverage choices for 2019 and submit your rebate application
 - If you already made a decision, you can still change that decision up until Sept. 20th (except for your rebate decision)
- In future years, the election period will happen sometime before the year begins (i.e. the 2020 election will be later this year)

Making 2019 Enrollment Decisions

2019 Margin

Month	Corn (\$/bu)	Blended Alfalfa Hay (\$/ton)	Soybean Meal (\$/ton)	All Milk (\$/cwt)	Feed Costs (\$/cwt)	Margin (\$/cwt)
January	3.56	201.00	314.92	16.60	8.89	7.71
February	3.60	202.50	306.83	16.80	8.89	7.91
March	3.61	198.50	306.38	17.50	8.84	8.66
April	3.52	209.00	304.26	17.70	8.88	8.82
May	3.63	213.00	297.52	18.00	9.00	9.00
June						

2019 Margin

Coverage Level	January	February	March	April	May	June	Total	Tier I Premium	Tier I Net Benefit	Tier II Premium	Tier II Net Benefit
\$4.00							\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
\$4.50							\$0.000	\$0.003	-\$0.003	\$0.003	-\$0.003
\$5.00							\$0.000	\$0.005	-\$0.005	\$0.005	-\$0.005
\$5.50							\$0.000	\$0.030	-\$0.030	\$0.100	-\$0.100
\$6.00							\$0.000	\$0.050	-\$0.050	\$0.310	-\$0.310
\$6.50							\$0.000	\$0.070	-\$0.070	\$0.650	-\$0.650
\$7.00							\$0.000	\$0.080	-\$0.080	\$1.107	-\$1.107
\$7.50							\$0.000	\$0.090	-\$0.090	\$1.413	-\$1.413
\$8.00	\$0.290	\$0.090					\$0.380	\$0.100	\$0.280	\$1.813	-\$1.433
\$8.50	\$0.790	\$0.590					\$1.380	\$0.105	\$1.275		
\$9.00	\$1.290	\$1.090	\$0.340	\$0.180			\$2.900	\$0.110	\$2.790		
\$9.50	\$1.790	\$1.590	\$0.840	\$0.680	\$0.500		\$5.400	\$0.150	\$5.250		

2019 Margin (Jan.-May)

5 million pounds covered milk production history			
Coverage Level	Premium	Indemnity	Net Benefit
\$4.00	\$100	\$0	-\$100
\$4.50	\$225	\$0	-\$225
\$5.00	\$350	\$0	-\$350
\$5.50	\$1,600	\$0	-\$1,600
\$6.00	\$2,600	\$0	-\$2,600
\$6.50	\$3,600	\$0	-\$3,600
\$7.00	\$4,100	\$0	-\$4,100
\$7.50	\$4,600	\$0	-\$4,600
\$8.00	\$5,100	\$1,583	-\$3,517
\$8.50	\$5,350	\$5,750	\$400
\$9.00	\$5,600	\$12,083	\$6,483
\$9.50	\$7,600	\$22,500	\$14,900

Dairy Margin Coverage Decision Tool

www.DairyMarkets.org

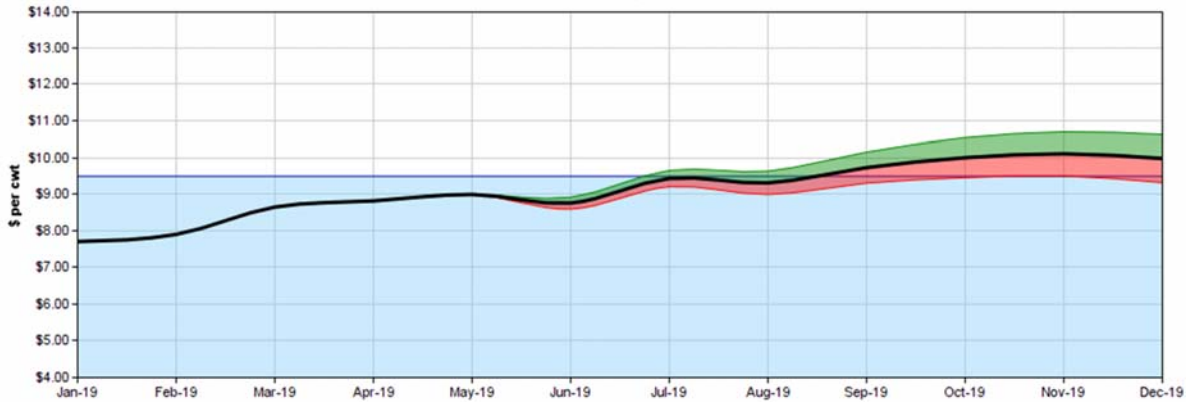
DMC DMC Advanced

Forecast Margin Select Coverage

Probability Table Forecast Graph

Coverage Year: 2019 (Current, Calculated On 07/29/2019)

Include Actual Margins



The colored bands show the middle 50% probability interval for forecast margins. There is a 25% chance that the margin could be above the green band and a 25% chance that the margin could be below the red band. The graph data and probabilities are calculated from futures market data available on 07/29/2019.

Dairy Margin Coverage Decision Tool
www.DairyMarkets.org

Forecast Margin Select Coverage

Probability Table Forecast Graph

Coverage Year: 2019 (Current, Calculated On 07/29/2019)

Margin Level	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019	Nov 2019	Dec 2019
Expected	\$7.71	\$7.91	\$8.66	\$8.82	\$9.0	\$8.77	\$9.44	\$9.32	\$9.73	\$10.01	\$10.11	\$9.98
< \$9.50	100%	100%	100%	100%	100%	100%	57%	65%	36%	27%	25%	31%
< \$9.00	100%	100%	100%	100%	-	84%	9%	25%	12%	10%	11%	16%
< \$8.50	100%	100%	-	-	-	13%	-	4%	3%	3%	4%	6%
< \$8.00	100%	100%	-	-	-	-	-	-	-	-	1%	2%
< \$7.50	-	-	-	-	-	-	-	-	-	-	-	1%
< \$7.00	-	-	-	-	-	-	-	-	-	-	-	-
< \$6.50	-	-	-	-	-	-	-	-	-	-	-	-
< \$6.00	-	-	-	-	-	-	-	-	-	-	-	-
< \$5.50	-	-	-	-	-	-	-	-	-	-	-	-
< \$5.00	-	-	-	-	-	-	-	-	-	-	-	-
< \$4.50	-	-	-	-	-	-	-	-	-	-	-	-
< \$4.00	-	-	-	-	-	-	-	-	-	-	-	-

This table shows the expected margin and probability of a Payment in the months protected by the insurance levels. The Expected Margin and Probabilities are calculated from futures market data available on 07/29/2019.

Dairy Margin Coverage Decision Tool
www.DairyMarkets.org

Forecast Margin Select Coverage

Annual Historic Production: 8,000,000 lbs ? Premium + Fee (Annual Election): \$7,730.00

Coverage Percentage: 95% Premium With 25% Discount + Fee (Annual Cost): \$5,822.50

Covered Annual Production: 7,600,000 lbs Premiums With 25% Discount + Fees (5 Year Total): \$29,112.50

MPP Premium Repayment

Coverage Level	Tier 1				Tier 2			
	Price	Premium	Expected Payment	Probability*	Price	Premium	Expected Payment	Probability*
\$9.50	<input checked="" type="radio"/> \$0.1500	\$7,500.00	\$26,541.67	100%				
\$9.00	<input type="radio"/> \$0.1100	\$5,500.00	\$13,041.67	100%				
\$8.50	<input type="radio"/> \$0.1050	\$5,250.00	\$5,750.00	100%				
\$8.00	<input type="radio"/> \$0.1000	\$5,000.00	\$1,583.33	0%	<input type="radio"/> \$1.8130	\$47,138.00	\$823.33	0%
\$7.50	<input type="radio"/> \$0.0900	\$4,500.00	\$0.00	0%	<input type="radio"/> \$1.4130	\$36,738.00	\$0.00	0%
\$7.00	<input type="radio"/> \$0.0800	\$4,000.00	\$0.00	0%	<input type="radio"/> \$1.1070	\$28,782.00	\$0.00	0%
\$6.50	<input type="radio"/> \$0.0700	\$3,500.00	\$0.00	0%	<input type="radio"/> \$0.6500	\$16,900.00	\$0.00	0%
\$6.00	<input type="radio"/> \$0.0500	\$2,500.00	\$0.00	0%	<input type="radio"/> \$0.3100	\$8,060.00	\$0.00	0%
\$5.50	<input type="radio"/> \$0.0300	\$1,500.00	\$0.00	0%	<input type="radio"/> \$0.1000	\$2,600.00	\$0.00	0%
\$5.00	<input type="radio"/> \$0.0050	\$250.00	\$0.00	0%	<input checked="" type="radio"/> \$0.0050	\$130.00	\$0.00	0%
\$4.50	<input type="radio"/> \$0.0025	\$125.00	\$0.00	0%	<input type="radio"/> \$0.0025	\$65.00	\$0.00	0%
\$4.00	<input type="radio"/> \$0.0000	\$0.00	\$0.00	0%	<input type="radio"/> \$0.0000	\$0.00	\$0.00	0%

*Probability of net benefit (indemnities minus undiscounted premiums) in the 2019 calendar year based on 07/29/2019 futures market estimates.

MPP Premium Repayment:

For the former MPP-Dairy participants from 2014-2017 who purchased buy-up premiums, the 2018 Farm Bill allows a PARTIAL repayment of premiums paid above the amount of any indemnity received. This may be in the form of a cash repayment equal to 50% of the difference, or they may receive a credit equal to 75% of the net MPP difference which can be applied toward any premiums due on your DMC coverage choice. You should have received a notification letter from the FSA as to the amount you are eligible for.

Option 1: Cash out at 50% of the entered amount = \$12,500

Option 2: Credit as 75% of the entered amount = \$18,750 which would purchase 3.23 years of annual DMC coverage or 4.29 years of discounted DMC coverage if you select the 5 year option using your current election choices.

Any remaining credit balance at the end of the 5 years will be forfeited

2019 to 2023

- USDA baseline projections have national feed costs averaging \$9.14
- Margins are expected to average \$8.50 per cwt through 2023
- Milk prices expected to recover from 2018 lows

Is this really what will happen?

What Would I Do?

- Cover all production history you can in Tier I at \$9.50
 - If 95% of your production history is less than 5 million pounds, cover it all
 - If some of your production history would fall in Tier II, buy as much \$9.50 coverage as you can in Tier I and put Tier 2 at \$4-\$5 coverage. You will maximize your Tier 1 payments and you get low cost catastrophic coverage.

What Would I Do?

- The decision to make is whether to lock it in for 5 years and get the 25% discount or keep the flexibility to change coverage each year
 - If all your production history is in Tier I, I would be tempted to set it at \$9.50 and take the discount
 - If some of your production history would fall in Tier II, you *may* want to keep flexibility for future years

Market Facilitation Payments (MFP)

- Announced last week \$0.20 per cwt on annual milk production
- Sign-up from July 29th-Dec. 6th 2019
- First payment will be made mid-late August (50%)
- If market conditions/trade opportunities do not improve, two other payments will be made in November and early January (each 25%)
- County rates per planted acre can be found at www.farmers.gov/mfp

Questions?



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