FIND YOUR VOICE

INDIANA FARM BUREAU®

Questions to Consider

- What are the goals for Indiana’s future in agriculture?
- Given the farm economic conditions, what do farmers need help with?
- What are your farm’s priorities moving forward?
- What role do you see yourself having in the next years related to agriculture?
- What role would you like to see the Farm Bill play?

I. Commodity Programs - Part 4

Dairy Programs

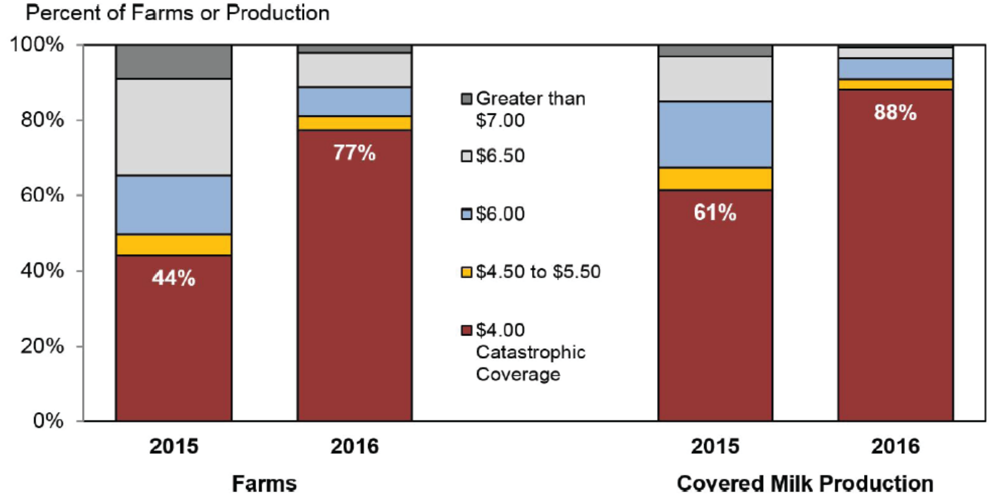
Margin Protection Program (MPP)

- Payments when national average income-over-feed-cost (IOFC) margin index falls below a farmer-selected coverage level
- Producers pay premiums for coverage
- Must make active decision in selecting coverage options annually
- MPP is calculated: Milk Price – [1.0728 x (corn price/bu) + 0.00735 x (soybean meal price/ton) + 0.0137 x (alfalfa hay price/ton)]
- Margins averaged for consecutive 2-month intervals, making 6 payments each calendar year possible
- Once enrolled, there is no opt-out, only modifications in coverage levels
- Mya purchase coverage 25-90% of milk production history in 5% increments
- Requires $100 administration fee, plus catastrophic coverage levels:

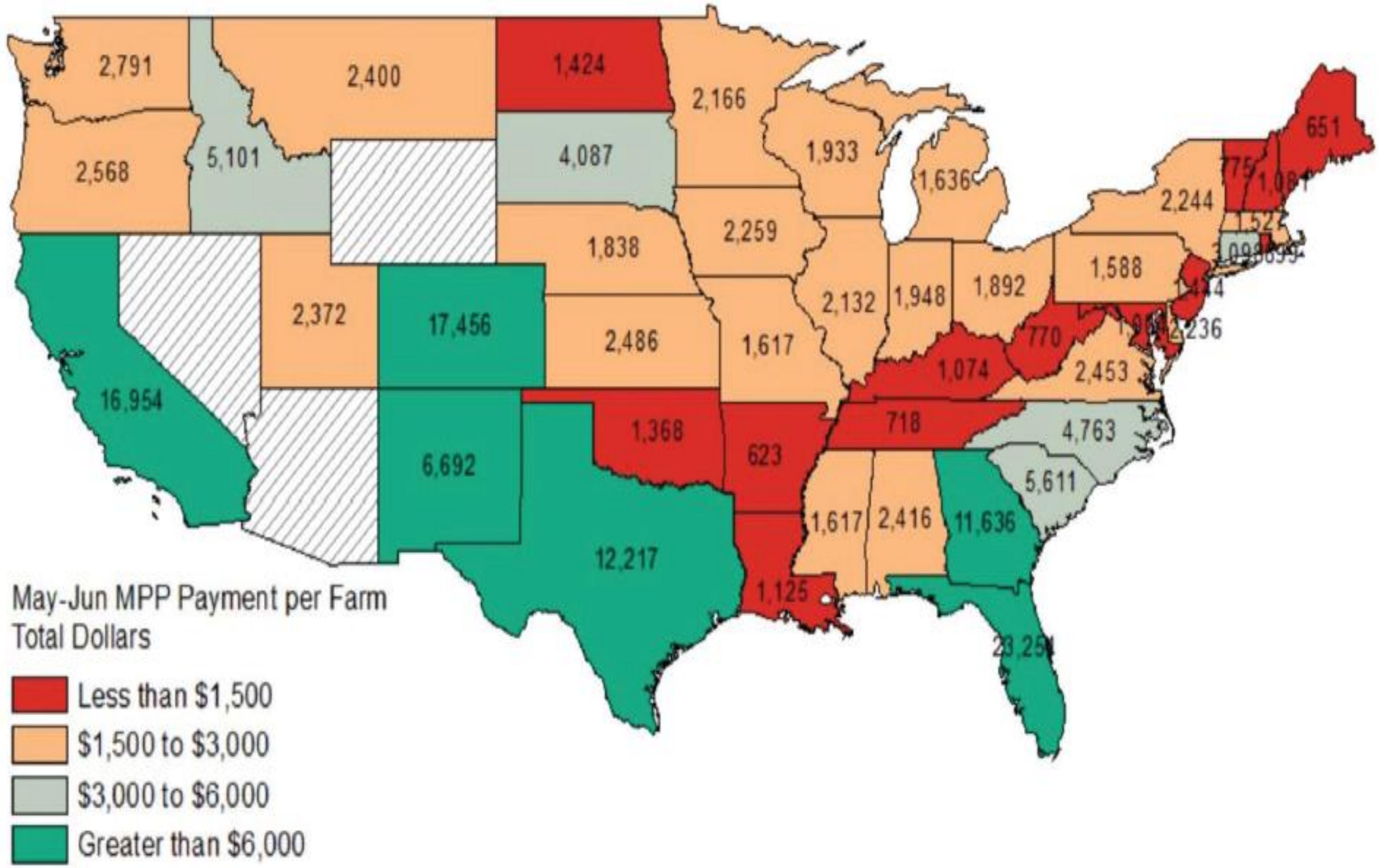
Margin Protection Program (MPP)

MPP-Dairy Premiums and Administrative Fees		
MPP-Dairy Coverage Level	Actual Tier 1 Premium (2016-18)	Actual Tier 2 Premium
Administrative Fee in Dollars	$100	
$/hundredweight		
$4.00	$0.000	$0.000
$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

MPP Participation by Coverage Level for 2015 and the First Half of 2016



Average MPP May-June 2016 Payments Per Farm Receiving Benefits (Does Not Include Premiums & Administrative Fees)



MPP USDA Modifications:

- Extended sign-up deadline for participation in 2015 and 2016 to allow for more informed risk management decisions
- Allowed MPP premiums to be authorized deduction from farmers' monthly milk checks to reduce financial burdens and cash flow constraints associated with paying lump sum MPPP premiums
- Provided dairy operations an opportunity to update milk production history to accommodate intergeneration transfers to allow new family members to join and purchase additional MPP coverage to meet growth of operation.
- Modified coverage levels under MPP to decouple $4.00 and supplemental coverage options
- MPP has collected nearly $100 million in farmer premiums and administrative fees during first 1 ½ years, while indemnities and payments have been approximately $12 million in the same period.

MPP vs LGM-Dairy (Livestock Gross Margin insurance)

MPP

- Purchased annually
- Available to all dairy operation commercially marketing milk in US
- Cannot adjust feed ration coefficients.
- Annual active choice
- Fixed payments
- Fixed premiums and does not change during the enrollment period to reflect the risk environment.
- Simple to use
- MPP is preferred when IOFC margins are below MPP threshold of $8.00

LGM-D

- Purchased monthly, on first-come-first-serve basis.
- Feed ration coefficients can be adjusted to accommodate dairies that buy feed, grow feed, or those facing little feed market risk
- Contracted in various customized lengths to be insured from 1 to 11 nearby months of margins, which offers protection against decline in average margins over a period up to 10 months
- Multiple contracts can cover particular month's milk production up to 100% of milk marketed
- Payment triggered when average gross margin for the entire duration of the contract falls below the guaranteed level
- Higher margins later in the coverage year are offset by lower margins or payments made
- Reflects actuarially sound premiums, meaning they recalculate based on farmer-selected feed use, deductibles, and futures prices in milk and feed markets.
- Highly customizable, but that creates a lot of complexity
- Preferred risk management tool when milk prices or income-over-feed-cost IOFC margins are above historical average and expect to decline

**It is prohibited to alternate between the 2 programs

Contract Design Features of MPP and LGM-D		
	MPP	LGM-D
Agricultural Prices Used	Uses USDA announced prices for all-milk, corn, soybean meal, and alfalfa hay.	Price guarantee is based on CME futures prices for class III milk, corn, and soybean meal.
Coverage Level	Coverage is available each year from \$4 to \$8 per cwt in \$0.50 increments up to 90% of the maximum production over the 2011, 2012, and 2013 calendar years. The volume of milk covered is the same over all months of the contract.	Coverage is available at prevailing market prices. Insurable milk marketings are certified by the producer and subject to inspection from the insurance company. The percentage of milk covered can vary from month to month. Multiple contracts can be used to cover a month's production until 100% of a month's production is insured.
Sales Period	Farmer may change coverage options annually and coverage lasts one calendar year.	LGM-D is available for purchase each month. Farmers may sign up 12 times per year. Offered on a first come first serve basis and is subject to underwriting capacity.
Indemnity Payments	Payments made for consecutive two-month periods of Jan/Feb, Mar/Apr,…,Nov/Dec.	Payments made at the end of the coverage period following the expiration of underlying CME futures contracts.
Premium Rates	Fixed for the life of the Farm Bill (25% discount applied to 2014 and 2015 calendar year premium rates).	Designed to be actuarially fair. Sets the policy premium equal to 1.03 times the expected indemnity less the declared deductible.
Government Subsidy	No direct subsidy.	Premium subsidy up to 50% depending on the declared deductible selected by the farmer.
Farmer Customization	Fixed contract design with respect to feed ration and percent of milk covered. Dairy production margin formula is fixed. Feed quantities do not change.	LGM-D can be tailored to feed usage (includes feed equivalent conversion for other feed types). Ration quantities are not fixed.