2016 Enrollment Update

Explaining the Dairy Producer

Margin Protection Program

The dairy safety net program included in the 2014 farm bill is entering its second year. Known as the dairy producer Margin Protection Program, MPP helps protect against the kind of catastrophic losses that many dairy farmers experienced in 2009 and again in 2012. It does this by allowing farmers to use insurance to cover the margin between milk prices and feed costs.

The National Milk Producers Federation strongly encourage producers to use the program going forward. The following pages explain how it works. Those not already enrolled can use this summary to familiarize themselves with the details of the program as they sit down to make their coverage decisions for 2016 and beyond.

The Basics

- The program operates on a calendar-year basis.
- All farms that produce milk commercially are eligible, and the program benefits all producers equally, regardless of size.
- Producers insure their operations on a sliding scale, deciding both how much of their production to cover and the level of margin to protection.
- A second sign-up period opened July 1st at local Farm Service Agency offices. Producers have until September 30th to make coverage decisions.
- Producers can enroll in the program any year between 2015 and 2018. Once farmers enroll, however, they are committed to be in the program each subsequent year until the expiration of the 2014 farm bill. Producers can, however, annually adjust their coverage — that is, both the milk volume they want to cover and the margin level.
- Each year, producers pay a $100 registration fee. After that, basic margin coverage of $4 per hundredweight is free. Above the $4 margin level, coverage is available in $.50/cwt increments for varying premiums.

How the Margin Protection Program Works

The program pays benefits when the margin between the U.S. all-milk price and the national average feed costs falls below the level of coverage chosen by the producer for any one of six consecutive two-month periods during the year. The two-month periods are January-February, March-April, May-June, July-August, September-October, and November-December. Above the basic, $4 margin level, coverage is available in 50-cent increments, up to $8 per hundredweight. The program pays on one-sixth — or two months' worth — of a producer's annual production history, multiplied by the percentage of coverage chosen, from 25 percent up to 90 percent. As was the case with the MILC program, producers must meet conservation requirements — that is, have their Form 1026 up to date — to be participate.

Initial Enrollments in MPP

According to USDA data released at the start of 2015, more than half of the nation's dairy farms enrolled in the Margin Protection Program during the inaugural sign-up period in the fall of 2014. These farmers enrolled either for the autumn of 2014, all of 2015, or both. Among those who signed up, according to USDA, approximately 55 percent elected to pay an additional premium, beyond the $100 registration fee, for coverage above the basic, $4 per hundredweight level.

A New Sign-Up Period Begins July 1, 2015

The second enrollment period opens July 1, 2015. Producers have until Sept. 30th to sign up for coverage for 2016. In subsequent years, the sign-up window will be the same period, July 1st through September 30th, for the following year. Once in the program, milk producers are committed for the remainder of the farm bill. That means they must pay a $100 annual registration fee for $4 margin coverage through calendar year 2018.

What Constitutes a Farm?

Dairy operations that can document they are producing milk commercially are eligible to participate. Similar rules that defined a dairy operation under the expired MILC program apply to the MPP. Multiple producers involved with a single operation are treated as a single farm, but USDA will need approval from all the owners for program enrollment. Multiple farms operated by a single producer will register separately.

Margins and Payment Schedule

The monthly margin are calculated by the Agriculture Department using data from its National Agricultural Statistics Service (NASS) and Agricultural Marketing Service (AMS). The margin is defined as the U.S. all-milk price, minus national average feed costs, computed by a formula using the prices of corn, soybean meal, and alfalfa hay. Feed costs reflect the costs associated with feeding all the dairy animals on a farm, including milking cows, heifers, and dry cows.

Final margins are announced at the end of the month following each two-month period. For any two-month period in which margin payments are authorized, USDA processes payments soon after the final margin numbers are announced. For example, if payments are authorized for

January-February, final margins are announced at the end of March, and insurance payments are issued in early April.

The first payments under the Margin Protection Program were authorized for the period January-February 2015, when the USDA margin calculation dipped to $7.99554 per hundredweight, or half a cent below the $8 maximum coverage level. As a result, payments were made for those two months to those who signed up for coverage at the maximum $8 level. The margin for the March-April 2015 period was $7.50415, generating payments of nearly 50 cents per hundredweight to farms insured at the $8 level.

Production History

Farms are awarded a production history equal to their highest milk production in either 2012, 2013 or 2014. Participants are required to document their production history at sign up.

Production histories increase yearly based on the average growth in national milk production, as determined by USDA. For example, since USDA determined milk production increased 2.61 percent in 2014, those already in the program will see their production history increase by the same 2.61 percent for the 2016 enrollment year. However, any production expansion on an individual farm above the national average cannot be insured. Newly established farms that don’t have a full year’s production history will use either an extrapolation based on their actual production to establish a 12-month total, or the national average milk production per cow times their herd size.

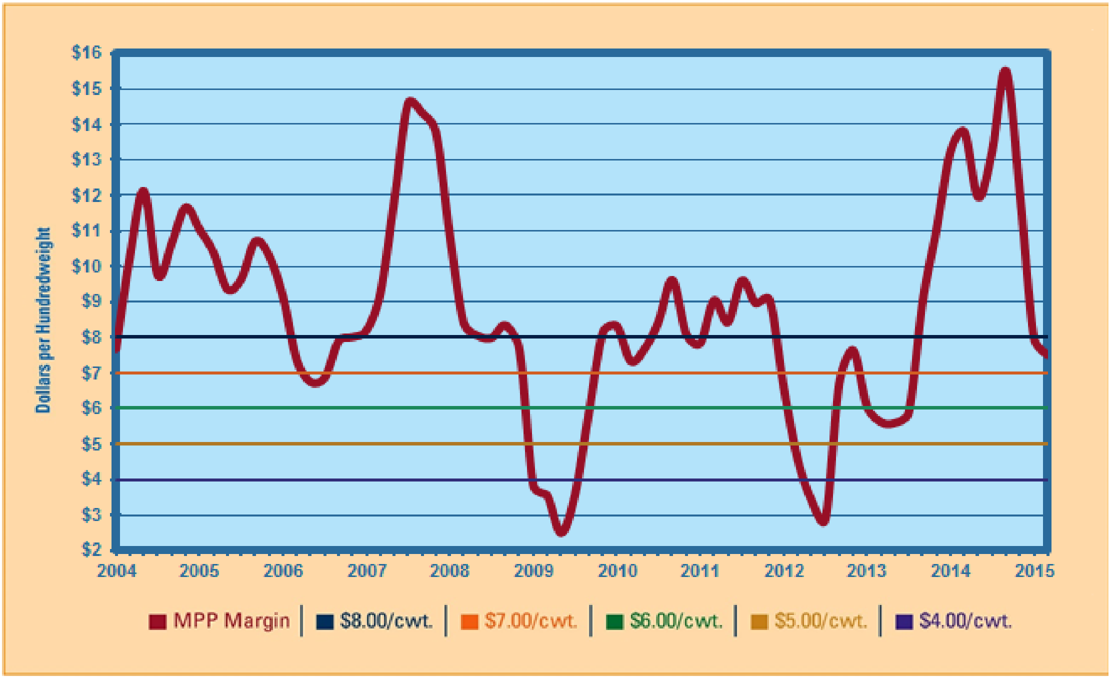
If a dairy farm is sold, its production history can either move with the farmer to a new facility, or stay with the farm, but not both. The USDA will handle unique ownership situations and changes on a case-by-case basis.

Insurance Payments

Margin protection insurance payments are made based on the portion of production history producers choose to protect — that is, 25 percent to 90 percent — and the level of margin coverage they select between $4 and $8 per hundredweight. Payments are triggered when average margins fall below the coverage level selected by the producer during any of the established two-month periods.

As shown in the following line graph, using USDA’s formula, the margin between milk prices and feed costs has varied widely from year to year. Under the Margin Protection Program, paying only a $100 registration fee would have provided a backstop at the $4 margin level, while higher levels of coverage would have generated greater support. Information on historical margin patterns can be found at www.futurefordairy.org.

MPP Margin and Coverage Levels, 2004-2015



Using USDA's MPP formula, the margin between milk prices and feed costs has averaged around $8.50/cwt. since 2004. It reached as high as $15 in 2014, but dropped below $3 in 2009 and again in 2012.

Fees and Premiums

There is an annual fee of $100 to enroll in the program. Premiums are fixed in 2016-2018 at the amounts shown in Table 1 on the next page. In a decision helpful to farmers, the lower premiums apply to each farm's first 4 million pounds of annual milk production actually enrolled in the program, even though that farm may be insuring more than 4 million pounds of production.

There are two options for paying premiums: 1) pay the full premium at sign up, or 2) pay 25 percent by February 1st and the remaining 75 percent by June 1st. Those who have not paid their premiums by the deadlines will be in default, and will not receive benefits for any subsequent two-month period until their situation is corrected. NMPF is discussing with USDA the idea of providing additional payment plans, including paying through monthly milk check deductions. The department may address that later this year.

Table 1: Margin Protection Program Premiums

Margin Level Coverage	First 4 Million Pounds	More Than 4 Million Pounds
$4.00	No cost	No cost
$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

Table 2 below illustrates how much three different dairy operations would pay in premiums for varying levels of margin coverage in 2016. Shown are premium rates for various margins and the overall cost of obtaining the maximum 90 percent coverage.

Table 2: Examples of Premium Costs

Dairy Size		100 Head	500 Head	1,000 Head
Milk Production History (pounds)		1,967,397	11,304,071	24,641,052
90 Percent Covered (pounds)		1,770,657	10,173,664	22,176,947
Margin Protection Coverage	$4.00	No cost	No cost	No cost
	$4.50	$177	$1,635	$4,035
	$5.00	$443	$3,469	$8,271
	$5.50	$708	$7,774	$19,777
	$6.00	$974	$11,769	$30,374
	$6.50	$1,594	$21,504	$56,313
	$7.00	$3,842	$59,921	$159,549
	$7.50	$5,312	$77,441	$204,676
	$8.00	$8,411	$102,962	$266,206

Premiums shown were calculated as follows: If Production History multiplied by the Coverage Percentage is less than 40,000 cwt., the premium equals History x Coverage Percentage x Lower Premium Rate. If Production History multiplied by the Coverage Percentage is more than 40,000 cwt., the premium equals 40,000 x Lower Premium Rate + [(History x Coverage Rate) – 40,000] x Higher Premium Rate

Donation Program

A Dairy Product Donation Program will be triggered in times of extremely low margins. If margins fall below $4 per hundredweight for any two consecutive months, the Agriculture Department will publish a list of consumer-ready dairy products to be purchased at market prices. Purchased items will be donated to food banks and other low-income feeding programs. USDA will purchase dairy products for up to three months, unless margins rebound above $4 sooner. Each instance of margins below $4 will trigger the purchase program. Products will include those that will help increase farmers' margins, as well as those needed by food banks.

Looking Ahead

NMPF continues to work with USDA and its member cooperatives to make sure the Margin Protection Program provides the effective safety net it was designed for. Look for additional information and updates on the NMPF website at www.nmpf.org and at www.futurefordairy.org, a website NMPF established as an information hub for the program.