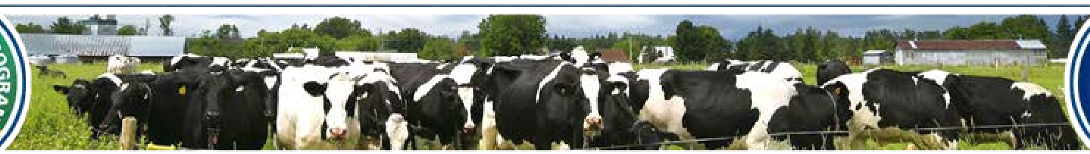


2016 Enrollment Update

Explaining the Dairy Producer

Margin Protection Program

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

The National Milk Producers Federation strongly encourages producers to use the program going forward. The following pages explain how it works. Those already enrolled can change their coverage levels for 2017. Those not already enrolled can use this summary to familiarize themselves with the details of the program as they make their coverage decisions for 2017 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, 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.
- Enrollment begins each year on July 1st at local Farm Service Agency offices. Producers have until September 30 to finalize 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 adjust their Margin Protection Program coverage options annually, i.e. amount of milk covered and coverage level.
- Each year producers pay a $100 administration fee. After that, basic margin coverage of $4 per hundredweight is free. Above the $4 margin level, coverage is available in $.50/cwt increments up to $8 per hundredweight for varying premiums.

How the Margin Protection Program Works

The program makes payments 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, supplemental 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 supplemental coverage chosen, from 25 percent up to 90 percent, plus the remaining coverage provided under the basic $4 level. For example, a producer electing to purchase $8 coverage on 25 percent of the production history would be eligible for program payments on 65 percent of the production history at the $4 coverage option plus 25 percent of the production history at the $8 coverage option (total protection at $4 equals 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 participate.

Enrollment in MPP

More than half of the nation's dairy farms are enrolled in the Margin Protection Program, according to USDA data. Farms producing approximately 80 percent of the U.S. milk supply have established production histories under the program.

A New Sign-Up Period Begins July 1, 2016

The program's third open enrollment period opens July 1, 2016. Producers have until December 16 to sign up for coverage for 2017. Once producers are enrolled in the Margin Protection Program they are obligated to participate in the program for the life of the 2014 farm bill. That means they must pay a $100 annual administrative 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 is 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 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.

Production History

Farms are awarded a production history equal to their highest milk production in either 2011, 2012, or 2013. 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, USDA announced that for the 2017 coverage year production histories are being increased by 1.34 percent. Those enrolled in the program since 2015 have benefitted from production history bumps of 0.86 percent for 2015 coverage and 2.61 percent for 2016 coverage. However, any production expansion on an individual farm above the national average is not eligible for protection under the Margin Protection Program. 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.

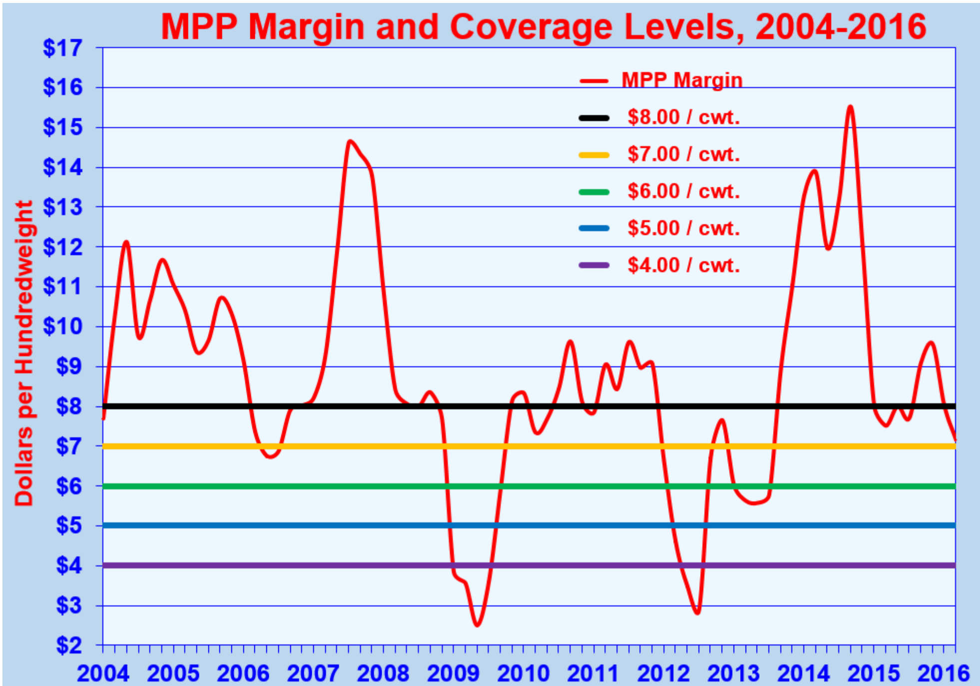
NEW FOR THIS YEAR: The production history for an operation can be updated when an eligible family member joins the operation. Any dairy operation already enrolled in the Margin Protection Program that had an intergenerational transfer occur will have an opportunity to increase the dairy operations production history during the 2017 registration and annual coverage election period.

Insurance Payments

Margin protection insurance payments are made based on the portion of production history producers choose to protect under supplemental coverage — that is, 25 percent to 90 percent — and the level of supplemental margin coverage they select between $4.50 and $8 per hundredweight. In addition to supplemental coverage, all participating dairy operations receive the basic $4 protection on 90 percent of their production history. 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 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 and www.nmpf.org/economics.

MPP Margin and Coverage Levels, 2004 to April 2016



Using USDA's MPP formula, the margin between milk prices and feed costs has averaged around $8.70/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 several options for paying premiums: 1) Participants can pay the full premium at sign up; 2) They can pay 25 percent of the premium by Feb 1 of the applicable calendar year of coverage, with the remaining balance due no later than Sept. 1 of the calendar year of coverage; or 3) they can arrange deductions from their monthly milk check. 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 has worked closely with USDA since the MPP was introduced in 2014 to allow flexibility in how Margin Protection Program premiums were paid. In 2016 USDA provided a new option for monthly premium payments through milk check deductions.

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. 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

While the current program is similar to the initial proposal put forward by NMPF, the plan was altered, largely due to budgetary concerns, as the legislation was finalized by Congress in 2014. A key detrimental change reduced the feed cost component of the margin calculation, thereby artificially reducing the true cost of feeding a dairy herd in the MPP calculations. This change, and others impacting the premiums and coverage level determinations, have reduced MPP's effectiveness.

Since the program's enactment, NMPF has been working with USDA to correct some of these unintended consequences and institute changes that will make the program a more flexible and effective national safety net for all of America's dairy farmers.

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.