NMPF
NATIONAL MILK PRODUCERS FEDERATION

Connecting Cows
Cooperatives
Capitol Hill &
Consumers

Understanding the New Dairy Safety Net Options

Dairy Margin Coverage Program Overview

The 2018 Farm Bill created the new Dairy Margin Coverage (DMC) program, a voluntary risk management program for dairy producers. DMC replaces the Margin Protection Program (MPP).

DMC offers stronger and more effective protection to dairy producers when the difference between the all milk price and the average feed price (the margin) falls below a certain dollar amount selected by the producer. The program provides free catastrophic coverage, at no cost to the producer, and higher levels of margin protection at attractive premiums.

Payouts are assured in 2019 for those signing up for coverage at the highest $9.50 margin level, based on margins already reported in 2019. Coverage is retroactive to January 1, 2019.

How is the Dairy Margin Coverage (DMC) program different from the Margin Protection Program (MPP)?

	Dairy Margin Coverage 2019–2023	Margin Protection Program 2014–2018
Maximum coverage limit on Tier I (5 million pounds)	Up to $9.50	Up to $8.00
Cost of maximum coverage level	$0.15 for $9.50	$0.14 for $8.00
Feed cost formula	Accounts for price of dairy-quality alfalfa hay	Underestimated cost of dairy hay
Restrictions against covering milk in program and the LGM or DRP programs?	None	Restricted
Maximum production history coverage	95%	90%
Minimum production history coverage	5%	25%

Coverage Options in Tiers I and II

Farmers will need to make several decisions as they enroll in the 2019 DMC program. Here are four of them:

Choosing Coverage Duration

Do I lock in coverage for 5 years and benefit from a 25% discount in premiums? Or do I opt for the flexibility of choosing my coverage level each year, paying a higher premium cost?

Obtaining Premium Refunds

Since I paid premiums for MPP coverage in 2014–2017, I am due a partial refund from the USDA. Do I opt for a 75% refund in the form of a credit toward future DMC premiums? Or do I take a 50% refund paid directly to me?

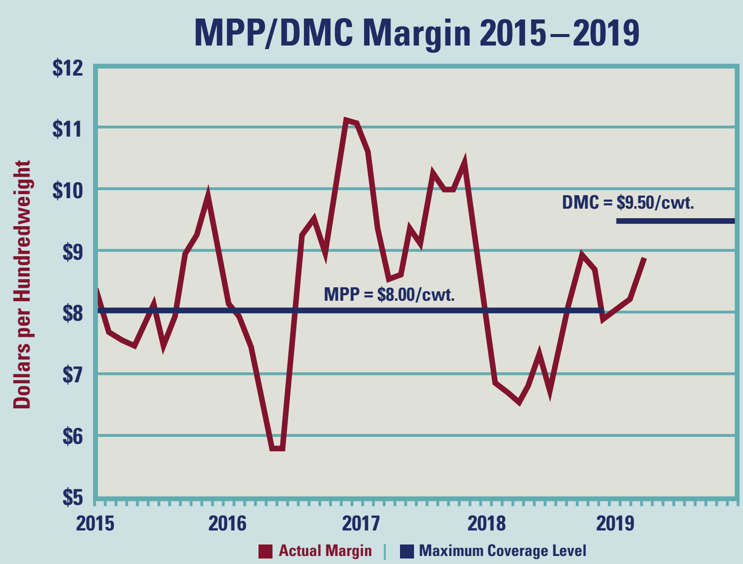
The new Dairy Margin Coverage allows dairy producers to insure margins on their Tier I (first 5 million pounds) production history at the new, higher levels of $8.50, $9.00 or $9.50 – up from the $8 threshold in the previous Margin Protection Program. The plan also adjusts feed cost calculations to account for the higher-cost feed dairy producers use, thus lowering reported margins and increasing payments. These new coverage levels and feed-cost adjustments will rectify the significant deficiencies in the original MPP feed cost formula enacted by Congress, ensuring that the future program will more accurately reflect actual producer margins. **Note that the maximum coverage threshold for Tier II (over 5 million pounds) remains $8.**

If producers select a Tier I margin coverage above $8, those with production history above 5 million pounds will be able to select any coverage level – ranging from $4 up to $8 – to cover their Tier II production history. Those producers that select a Tier I margin of $8 or less will be required to cover enrolled Tier II production history **at that same level.**

As such, larger producers who insure a Tier I margin of $8.50, $9.00 or $9.50 will be able to select the newly affordable $5 level or the free $4 option on the remainder of their production history, up to 95 percent.

Farms will be able to cover up to 95 percent of their production history, an increase from the 90 percent maximum in the MPP. In response to NMPF's request for greater coverage flexibility, the DMC program reduces the current 25 percent minimum annual milk production coverage

continued on page 3



The higher $9.50 level will offer more frequent payouts in the future.

Covering Milk Production Above Tier I

I have more than 5 million pounds of milk production history. Buying coverage at $9.50 for Tier I volume is an affordable way to cover a portion of my production. What should I do for my production history in Tier II?

Using Other Risk Management Tools

In addition to covering my milk production through the DMC, should I sign up for one or both of the other dairy risk management programs?

Coverage Options in Tiers I and II

continued from page 2

requirement down to 5 percent. This means larger farms that may not have benefitted in 2018 from the lower Tier I premium rates because of the 25 percent coverage requirement will have a better opportunity to cover only the production history that makes the most economic sense for them.

Premiums, Discounts and Refunds

The DMC program allows producers to receive a 25 percent discount on premiums paid to USDA if they agree to lock in their coverage for the entirety of the farm bill (calendar years 2019–2023). However, producers will be allowed to pay their premiums annually even if they elect the five-year discount option.

To recognize that the MPP did not provide an adequate safety net, the USDA is allowing dairy operations to receive a 75 percent credit of the net MPP premium paid to USDA (premium fees minus indemnity payments) from 2014–2017 that will be applied to future DMC premiums. For farmers who do not wish to use that credit, farms can instead choose to receive 50 percent of their net premiums from 2014–2017 as a direct refund.

Premium Comparison Table ($/cwt)

	Tier I (First 5M Pounds)		Tier II (Over 5M Pounds)	
Coverage Level	DMC Premium	DMC Discounted Premium	DMC Premium	DMC Discounted Premium
$9.50	$0.150	$0.113	N/A	N/A
$9.00	$0.110	$0.083	N/A	N/A
$8.50	$0.105	$0.079	N/A	N/A
$8.00	$0.100	$0.075	$1.813	$1.360
$7.50	$0.090	$0.068	$1.413	$1.060
$7.00	$0.080	$0.060	$1.107	$0.830
$6.50	$0.070	$0.053	$0.650	$0.488
$6.00	$0.050	$0.038	$0.310	$0.233
$5.50	$0.030	$0.023	$0.100	$0.075
$5.00	$0.005	$0.00375	$0.005	$0.00375
$4.50	$0.025	$0.00188	$0.0025	$0.00188
$4.00	$0.000	$0.000	$0.000	$0.00000

The DMC Discounted Premium would be the premium cost if an operation chooses to lock in the coverage percentage for 5 years.

Production History

The DMC maintains the existing production history calculations from the 2014 Farm Bill, allowing producers to use 2011, 2012 or 2013 as their base production level. A farm's production history is indexed to national milk production growth through January 1, 2019. Dairies not in operation in 2014 or earlier, as well as new dairies, will designate one year to establish milk production history.

Using DMC with Other Risk Management Tools

The 2018 Farm Bill allows operations to fully participate in any of the major dairy-support programs: DMC, Livestock Gross Margin for Dairy (LGM), and Dairy-Revenue Protection (Dairy-RP).

In addition, producers locked out of MPP in 2018 because they were already contractually obligated to cover their production under LGM are able to retroactively sign up for MPP coverage for calendar year 2018 and benefit from the more attractive Tier I coverage and the payments it generated that year.

DMC Premium Examples

Dairy Farm Size	100 Head	500 Head	1000 Head
Milk production history (million pounds, U.S. average)	2.3	11.5	23.0
95% covered (million pounds)	2.2	10.9	21.9
Annual premium to insure **up to 5 million** pounds @ $9.50/cwt:			
One-year enrollment	$3,278	$7,500	$7,500
Premium per year for 5 years, with 25% discount	$2,458	$5,625	$5,625
Additional annual premium to insure **over 5 million** pounds:			
• $4.00/cwt	N/A	$0	$0
• $5.00/cwt, one-year enrollment option	N/A	$296	$843
• $5.00/cwt, premium per year for 5 years, with 25% discount	N/A	$222	$632

This chart shows how farms benefit from a 25% discount for enrolling in the DMC over five years. Larger farms will need to determine what level, if any, of Tier II coverage provides additional protection.

For More Information:

The USDA's online tool for calculating margins can be found at *fsa.usda.gov/dmc-tool*. The DMC sign-up period will be open June 17–Sept 20, 2019. Your county Farm Service Agency office will have registration materials.

NMPF

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