

Understanding 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 previous 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 cost (the margin) falls below a certain dollar amount selected by the producer. The program provides catastrophic coverage at no cost to the producer, and higher levels of margin protection at attractive premiums.

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 decisions as they enroll in the 2021 DMC program. Here are two of them:

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?

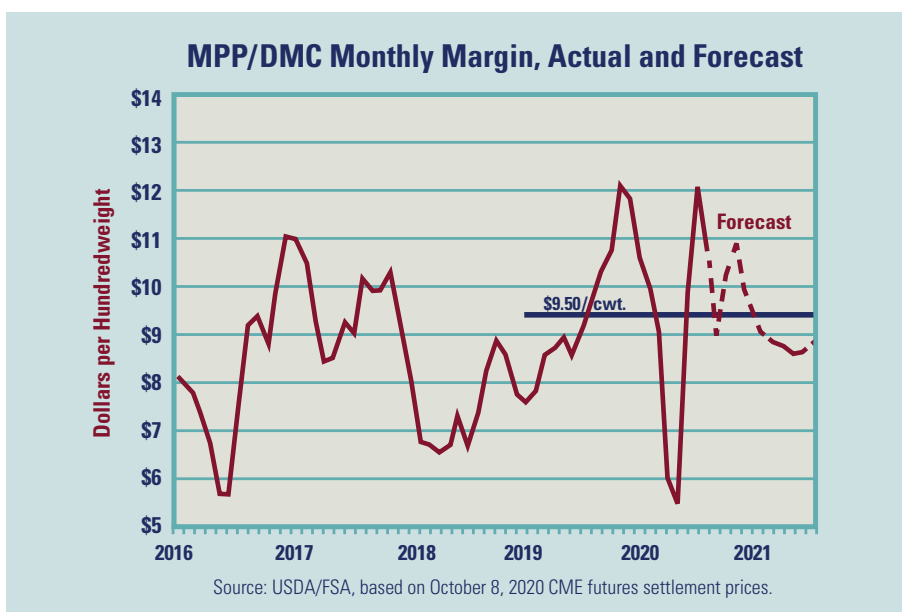
The Dairy Margin Coverage program allows dairy producers to insure margins on their Tier I (first 5 million pounds) production history at the higher levels of \$8.50, \$9.00 or \$9.50 – up from the \$8 threshold in the previous Margin Protection Program. The plan also adjusts feed-cost calculations to account for the higher-cost feed dairy producers use, thus lowering reported margins and increasing payments. These coverage levels and feed-cost adjustments will rectify the significant deficiencies in the original MPP feed cost formula enacted by Congress, ensuring that the 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 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 requirement down to 5 percent. This means larger farms that may not have benefitted in 2018 from the lower Tier I premium rates

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Coverage Options in Tiers I and II because of the 25 percent minimum coverage requirement will have a better opportunity to cover only the production history that makes the most economic sense for them.

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.

DMC Premium Rates

Premiums for Tier I coverage are affordable even at the highest \$9.50/cwt. coverage level. The chart below examines how farms of varying sizes may want to select coverage in both Tier I and Tier II to more effectively manage the risk of low margins in 2021.

Premium Comparison Table (\$/cwt)

Coverage Level	Tier II (Over 5M Pounds)	
	DMC Premium	DMC Premium
\$9.50	\$0.150	N/A
\$9.00	\$0.110	N/A
\$8.50	\$0.105	N/A
\$8.00	\$0.100	\$1.813
\$7.50	\$0.090	\$1.413
\$7.00	\$0.080	\$1.107
\$6.50	\$0.070	\$0.650
\$6.00	\$0.050	\$0.310
\$5.50	\$0.030	\$0.100
\$5.00	\$0.005	\$0.005
\$4.50	\$0.025	\$0.0025
\$4.00	\$0.000	\$0.000

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



DMC Payments by Month in 2020

So far this year, the DMC generated two large and two small payments for farms enrolled at the maximum \$9.50/cwt. coverage level. The net payment rate at that level was 52 cents, after subtracting the 15 cent/cwt. one-year premium for the maximum amount of coverage available up to 5 million pounds.

DMC In 2020											
USDA Tool	Margins:	Coverage Levels									
		As of:	11/16/20	\$9.50	\$9.00	\$8.50	\$8.00	\$7.50	\$7.00	\$6.50	\$6.00
Jan-20	\$10.72	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Feb-20	\$10.06	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Mar-20	\$9.15	\$0.35	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Apr-20	\$6.03	\$3.47	\$2.97	\$2.47	\$1.97	\$1.47	\$0.97	\$0.47	\$0.00	\$0.00	\$0.00
May-20	\$5.37	\$4.13	\$3.63	\$3.13	\$2.63	\$2.13	\$1.63	\$1.13	\$0.63	\$0.13	\$0.13
Jun-20	\$9.99	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Jul-20	\$12.41	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Aug-20	\$10.83	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Sept-20	\$9.40	\$0.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Oct-20	\$10.43	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Nov-20	\$11.69	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dec-20	\$9.94	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Averages	\$9.67	\$0.67	\$0.55	\$0.47	\$0.38	\$0.30	\$0.22	\$0.13	\$0.05	\$0.01	\$0.01
Months of Payments		4	2	2	2	2	2	2	1	1	

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). The official margins for October, November and December are not yet available.

For More Information:
 The USDA’s online tool for calculating margins can be found at www.dairymarkets.org/dmc.
 The DMC sign-up period will be open Oct. 13-Dec. 11. Your county Farm Service Agency office will have registration materials.



National Milk Producers Federation
 2107 Wilson Blvd., Suite 600
 Arlington, VA 22201
 Phone: (703) 243-6111 | Fax: (703) 841-9328
 Email: info@nmpf.org | www.nmpf.org