

What is a Safety-Net of \$12+ per CWT- Income over Feed Cost Worth?

Rough Estimates: March 25 & 26, 2011 Enrollment Period May 2011 thru April, 2012 milk)
(Illustration for Educational Purposes)

The data is derived from futures and options prices from dates: **2011-03-02, 2011-03-03, 2011-03-04**

Months Available	Amount Enrolled in Dairy GM	Gross Margin	Calculating the Gross Margins				Prices Used to calculate gross margins			Feed Quantities used to calculate gross margins)	
			Insured Months	Covered Production Each month	Est. Gross Margin Guarantee @ 0 Deductible (income over feed costs)	Est. Milk Price (class 3 futures)	Est. Total Feed Cost (futures)	Est. Corn or Equivalants Price (futures) @ 1/2 bu./cwt of milk	Est. Soybean Meal or Equivalents Price (futures) @ 4 lbs./cwt of milk	Avg. Milk Futures	Avg. Corn Futures
	cwt/month	\$/cwt	\$/cwt	(\$)/cwt Milk	(\$)	(\$)	(\$/cwt)	(\$/bu)	(\$/ton)	(Tons)	(Tons)
May-11	1	13.10	17.48	4.38	3.65	0.74	17.48	7.29	368.87	0.014	0.002
Jun-11	1	12.58	16.98	4.40	3.66	0.74	16.98	7.31	370.43	0.014	0.002
Jul-11	1	12.63	17.04	4.41	3.67	0.74	17.04	7.33	371.99	0.014	0.002
Aug-11	1	12.83	17.05	4.22	3.48	0.74	17.05	6.96	368.98	0.014	0.002
Sep-11	1	13.07	17.09	4.02	3.30	0.72	17.09	6.59	362.28	0.014	0.002
Oct-11	1	13.02	16.94	3.92	3.22	0.70	16.94	6.43	351.68	0.014	0.002
Nov-11	1	12.90	16.74	3.83	3.13	0.70	16.74	6.26	351.44	0.014	0.002
Dec-11	1	12.85	16.60	3.75	3.05	0.70	16.60	6.10	351.20	0.014	0.002
Jan-12	1	12.38	16.15	3.77	3.07	0.70	16.15	6.13	351.20	0.014	0.002
Feb-12	1	12.12	15.90	3.78	3.08	0.70	15.90	6.16	350.58	0.014	0.002
Total/Avg.	10	12.75	16.80	4.05	3.33	0.72	16.80	6.66	359.87	Avg. for 10 month	

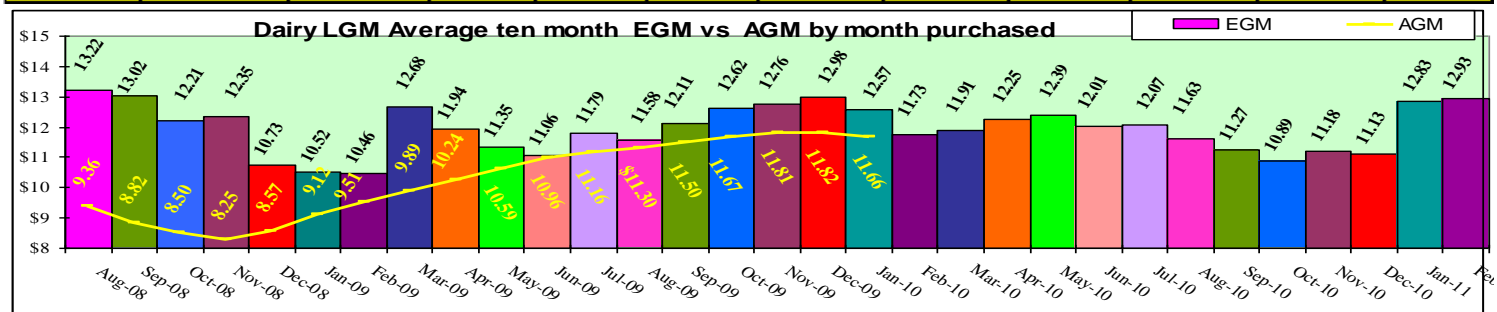
Estimated Premium Cost @ Various Deductibles (per cwt per month enrolled (including subsidy))					
DEDUCTIBLE per cwt/mo.	\$0.00	\$0.50	\$1.00	\$1.50	\$2.00
MARGIN per cwt/mo.	\$12.75	\$12.25	\$11.75	\$11.25	\$10.75
NET COST Cost per cwt/mo. (bundled)	\$0.86	\$0.58	\$0.31	\$0.22	\$0.15

Default feed amounts used to calculation (corn: .014T.=1/2 bu, soymeal: .002T.=4 lbs. to produce 1 cwt, of milk)

The above estimated information is from the homepage of the University of Wisconsin Dairy Marketing and Risk Management Program and is maintained by Prof. Brian W. Gould of the Dept. of Agric. and Applied Economics. It is recommended that you use the browser:

http://future.aae.wisc.edu/lqm_analyzer/

LAST MONTH - February 2011 Enrollment Period (Snapshot of Expected Gross Margins per Cwt. of Milk Enrolled)											
Eligible months	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	10 mo. Avg.
Expected Gross Margins	\$13.31	\$13.00	\$12.63	\$12.66	\$12.98	\$13.18	\$13.16	\$13.00	\$12.96	\$12.44	\$12.93



Dairy GM 10 Year Historical Performance Estimates (adjusted to reflect new improvements): Up to \$1.50 of producer benefits paid for each dollar \$1 premium cost with zero deductible; \$3.84 of producer benefits for each dollar \$1 premium cost with \$1.50 per cwt deductible. These results are based on enrollment of fixed amount of milk each month of each enrollment period. **Page 1**

New LGM Dairy Gross Margin (income over feed cost) Insurance

The program is based on milk income over feed costs, which the program calls a “gross margin.” The insurance program covers the difference between the expected gross margin (insurance guarantee) and the actual gross margin for the producer’s selected months, based on a targeted amount of milk. Futures prices from the Chicago Mercantile Exchange (CME) are used to determine the values of Class III milk, corn and soybean meal. Futures prices result in uniform commodity prices for all producers. There is a maximum producer enrollment limit of 240,000 cwts of milk per year.

Key Definitions:

The expected gross margin is calculated by using the amount of milk (cwt) the producer chooses to enroll times the futures prices for the milk and feed to be fed for the selected month(s). The expected gross margin is the difference between the values of milk minus the feed cost.

The actual gross margin is calculated for the same time period as the expected gross margin. The calculations are done using the same methodology as was used to calculate the expected gross margin.

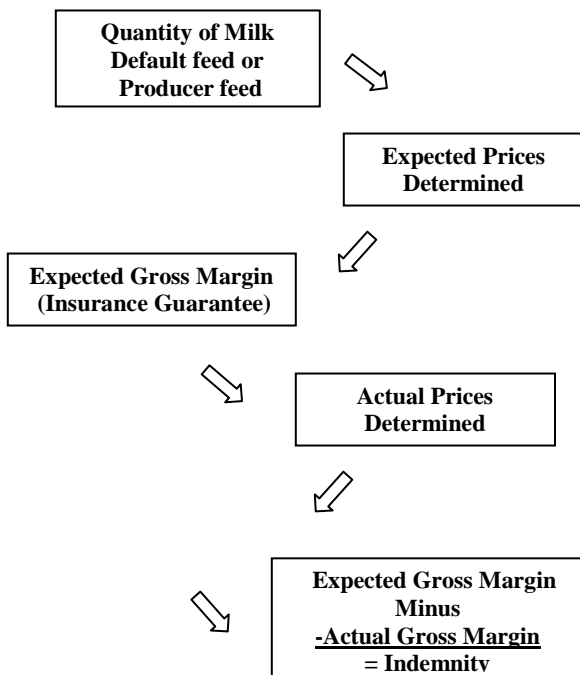
An insurance indemnity (loss payment) results when the expected gross margin exceeds the actual gross margin. **Deductibles are available from \$0 to \$2 per cwt, in \$0.10 intervals. Indemnities are paid within 60 days after the last month insured (after the claim can be calculated),** in the chart below, payments could have occurred December through July if any of these months had been selected as the months for which insurance protection was purchased.

Cause of loss covered is the difference between the expected gross margin (insurance guarantee) and the actual gross margin. It does not insure against death or other cause of production loss or damage to the producer’s dairy cattle. It does not insure expected price changes which are already reflected in BOT futures prices.

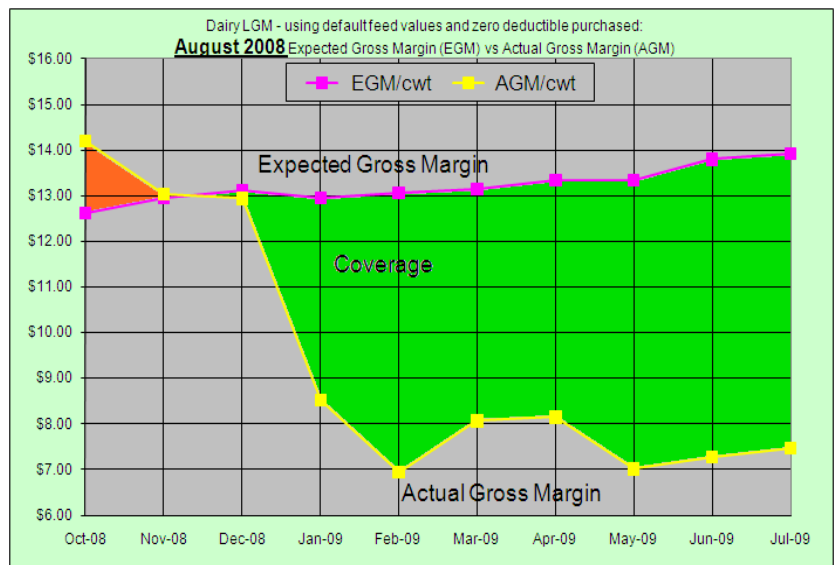
Enrollment Periods. Twelve monthly enrollment periods are available **beginning the last business Friday of each month until 9pm next day.** The last 10 months of each enrollment period is when insurance is available. Producer can elect to insure during selected or all 10 months in each period. **Program is available in 48 contiguous states.**

Premium is billed at the end of the enrollment (insurance) period in which producer enrolled. There federal premium subsidy if milk is enrolled in at least 2 of the months available for the monthly enrollment period: (deductible/subsidy rate): \$0/18%, \$0.10/19%, \$0.20/21%, \$0.30/23%, \$0.40/25%, \$0.50/28%, \$0.60/31%, \$0.7/34%, \$0.8/38%, \$0.9/43%, \$1.0/48%, \$1.10 to \$2.00/50%

How Dairy LGM Works



August 2008 enrollment performance



Estimates for educational purposes
For more information contact a crop insurance agent or
<http://www3.rma.usda.gov/apps/agents/>

