

MARTINSON AG
RISK MANAGEMENT



2019 Dairy Revenue Protection

Overview

- Dairy Revenue Protection (Dairy-RP) is an **area-based** federally subsidized crop insurance product that protects against unexpected declines in the **quarterly revenue** from grade A milk sales relative to your guarantee
- Coverage is on a state, not county, basis
- Has some similarities to Livestock Risk Protection
- No coverage for death of cattle or any other type of loss

Overview

- Expected prices are derived from:
 - Milk futures for class pricing
 - Butter, cheese and dry whey futures for component pricing
- Actual ending prices are derived from Agricultural Marketing Service (AMS)
- Expected and actual milk production is based on NASS data on a state or regional basis

Overview

- This product is available in all counties in all 50 states
- The program will go live on October 9, 2018
- We have no way to quote premium until Oct. 9
- Premiums will change daily and coverage can be booked daily

Overview

- An application can be completed at any time. No premium is charged until a **quarterly coverage endorsement** is completed.
- Quotes will be released by 4:00 pm Central and are valid until 9:00 am Central the next morning
- At 9:00 am the program shuts down and coverage cannot be obtained until the next set of quotes are released in the afternoon

Decisions to make when adding a quarterly endorsement

1. The level of coverage (70% to 95%)
2. The protection factor (1.0 to 1.5)
3. The 3-month period(s) of coverage you wish to purchase
4. The method to value the milk (class or component pricing)
5. The amount of milk production to cover

1. Coverage level

- Coverage levels run from 70% to 95% in 5% increments and are subsidized as follows:

Coverage Level Percent	70	75	80	85	90	95
Premium Subsidy Percent	59	55	55	49	44	44

2. Protection Factor

- A protection factor from 1 to 1.5 in 0.05 increments is also chosen
 - The higher the factor, the higher the premium and possible indemnity

3. Quarterly Coverage Endorsement sales periods

Quarterly Insurance Period 801 - 808			Sales Available			Sales Not Available		
Calendar Year	2018	2019	2019	2019	2019	2020	2020	2020
Sales Dates	Oct - Dec	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	Jul - Sep
July 1 – Sep 15	801	802	803	804	805	806	807	808
Sep 16 – Dec 15	801	802	803	804	805	806	807	808
Dec 16 – Mar 15	801	802	803	804	805	806	807	808
Mar 16 – June 15	801	802	803	804	805	806	807	808
June 16 – June 30	801	802	803	804	805	806	807	808

For example, when the program goes live on Oct. 9, you have the option to purchase 5 different quarters of coverage, starting with Jan-Mar 2019 to Jan-Mar 2020.

Coverage must be booked 15 days before the quarter starts.

4. Method to value the milk

- You choose one of the following pricing options:
 - Class Pricing Option
 - Component Pricing Option

Class Pricing Option

- Uses a combination of Class III and Class IV milk prices
 - You choose your class III price weighing factor from 0% to 100% in 5% increments
 - The default class IV factor is 1.00 minus the declared class III factor
 - Example:

Expected Class III Milk Price/cwt		Declared Class III Weighting Factor	
Expected Class IV Milk Price/cwt		Default Class IV Weighting Factor	
Class III	\$17.25	0.50	\$8.6250
Class IV	\$16.25	0.50	\$8.1250
Total Calculated Class Price per cwt			\$16.7500

Component Pricing Option

- You declare both your butterfat and protein test pounds
 - *If you have a loss, your actual values must be within 90% of your declared values or coverage will be reduced*
- Other solids test is fixed at 5.7
- Example:

Expected Value/ pound		Declared Test Pounds	Calculated Value/ cwt
Butterfat	\$2.50	4.80	\$12.0000
Protein	\$1.70	4.00	\$6.8000
Other Solids	\$0.31	5.70	\$1.7670
Total Component Price/ cwt			\$20.5670

5. Amount of milk production to cover

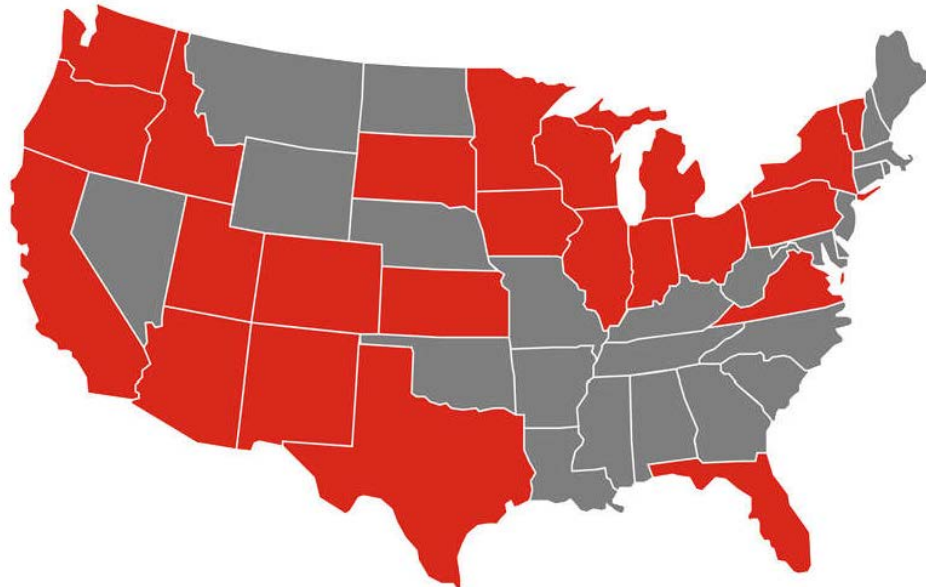
- You choose the number of pounds of milk to cover
- You can book endorsements on multiple days, so for example you could cover 25% of the quarter's milk at one price, and then another 40% at a different price on a different day
- There is no limit to the number of pounds covered in an endorsement
- However, your actual production must be within 85% of what you declare you will produce, if not your coverage will be reduced

Milk Production

- Remember, this policy is based on state or region-wide NASS data for the expected and actual milk production
- What you actually produce on your dairy is not used

Milk Production

- The top 23 dairy producing states are in red. They use state level NASS data.
- The rest of the states (in grey) are pooled into regions and production is based on regional NASS data.



Milk Production

- In our area:
 - Iowa, Minnesota, South Dakota, and Wisconsin are in the top 23 states and their individual state's NASS data is used
 - North Dakota is in the Northern Plains region along with Kansas, Nebraska, and South Dakota. The NASS data for all 4 states is combined to calculate ND's values.

Milk Production

- Expected and actual milk production per cow will be determined by RMA
- The yield adjustment factor equals
 - Actual milk production divided by expected milk production
 - Factors *below* 1.00 will *increase* indemnities
 - Factors *above* 1.00 will *decrease* indemnities

Example – starting numbers

Declared milk production	2,000,000 lbs. or 20,000 cwt.
Price (using class pricing, 50% class III and 50% class IV)	\$16.75/cwt (based off milk futures)
Expected Revenue	\$335,000 ($\$16.75 \times 20,000$)
Coverage Level	95%
Expected Revenue Guarantee	\$318,250 ($\$335,000 \times 95\%$)
Protection Factor	1.25
Liability	\$397,813 ($\$318,250 \times 1.25$)
Expected Milk Production	6,042 lbs. per cow (NASS data)

Example – final revenue guarantee

- If there is a possible loss, the insurance company will notify you
- You must
 - Return the notice of loss within 60 days
 - Include the milk production worksheet and your milk marketing records
- In our current example:
 - Declared coverage of 2,000,000 lbs.
 - Actual marketings of 1,900,000 lbs.
 - Actual is within 85% of declared, so no adjustment needed

Example – Milk Production

- Expected milk production per cow is 6,000 lbs. (from state or region NASS data, known when coverage is booked)
- Actual milk production per cow is 6,042 lbs. (again, based on NASS data, not your own dairy, determined at the end of quarter)
- Yield adjustment factor = $6000/6042 = 0.99$

Example - Actual Revenue

- Actual class III price is \$14.00/cwt and actual class IV price is \$13.00/cwt (from AMS data)
 - *Note: To calculate the actual price, daily values for each month are simple averaged and then the average for each of the 3 months in the quarter is averaged.*
- Our example used 50% class III and 50% class IV so the final price is \$13.50/cwt
- Actual milk revenue = \$13.50/cwt x 20,000 cwt x 0.99 (yield adjustment factor from prior slide)
- Actual milk revenue = \$267,300

Example - Indemnity

Revenue Guarantee	\$318,250
Actual Milk Revenue	\$267,300
Difference	\$50,950
Protection Factor	1.25
Indemnity	\$63,688 (\$50,950 x 1.25)

Miscellaneous

- Actual prices and actual milk production per cow will be released by RMA by the 20th of the month following the end of the quarter
- You can have both an LGM and Dairy-RP policy in force, but you cannot have coverage booked for both policies for the same quarter
- You can have a Dairy-RP policy and an MPP policy at FSA at the same time

Miscellaneous

- Premium is billed the month following the end of the insurance period
 - *For example, the Jan-Mar 2019 quarter will be billed on April 25, 2019*
- Delinquent debt on a Dairy-RP policy will affect the insurability of your other federal crop insurance policies

Miscellaneous

- Quotes for Dairy-RP will not be available on a given day if:
 - Unforeseen, extraordinary events occur that interfere with the milk futures markets or milk production reports
 - In the event of limit movement in milk futures
 - On the days USDA releases the Milk Production report, the Cold Storage report or the Dairy Products report

Miscellaneous

- Daily quotes will be available starting on October 9, 2018
- Dairy-RP is available from authorized crop insurance agents that have taken 3 hours of training and passed the Dairy-RP test
- Randy Martinson and Amy Ryan are authorized to sell Dairy-RP

Any Questions?

Martinson Ag Risk Management
1555 S 43rd St, Suite 105A
Fargo, ND 58103

Amy Ryan
amy@martinsonag.com
Cell: 701-306-8873

Office Phone: 701-205-4200

Website: www.martinsonag.com

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