

2014 Farm Bill – NH Farm & Forest Expo
February 6, 2015

Margin Protection Program for
Dairy Producers
(MPP-Dairy)



MPP-Dairy Overview

- Overview, What is “the margin”?
- Establishing Production History
- Registration & Options for Coverage
- When is a Payment Triggered?
- Final Notes & Summary

MPP-Dairy

- ❖ Risk management program that replaces MILC (Milk Income Loss Contract) program
- ❖ Offers protection against low margins
- ❖ Provides a payment when “the margin” falls below a specified level.

What does MPP-dairy Offer?

MPP-Dairy offers dairy producers:

- Catastrophic coverage (CAT level)
 - annual administrative fee, no additional cost
- Greater coverage at various levels for a premium, in addition to, the annual administrative fee.

What is “the margin”

The Margin is the difference between:

- National All-Milk price
 - *Determined from the average price received per cwt of milk*
- National Average Feed Cost
 - *Determined from the cost of feed used to produce a cwt of milk*

Average Feed Cost

- Average feed cost determined from the cost of feed used to produce a hundredweight of milk
- Published USDA national data
 - Corn reported in NASS Agricultural Prices
 - Soybean meal in Market News for central IL
 - Alfalfa hay in NASS Agricultural Prices

Consecutive 2-Month Period

- January / February
- March / April
- May / June
- July / August
- September / October
- November / December



Margin Calculation Example

Month/Year	All-Milk Price	Calculated Average Feed Cost
March 2014	\$25.20	\$11.10
April 2014	\$25.30	\$11.65

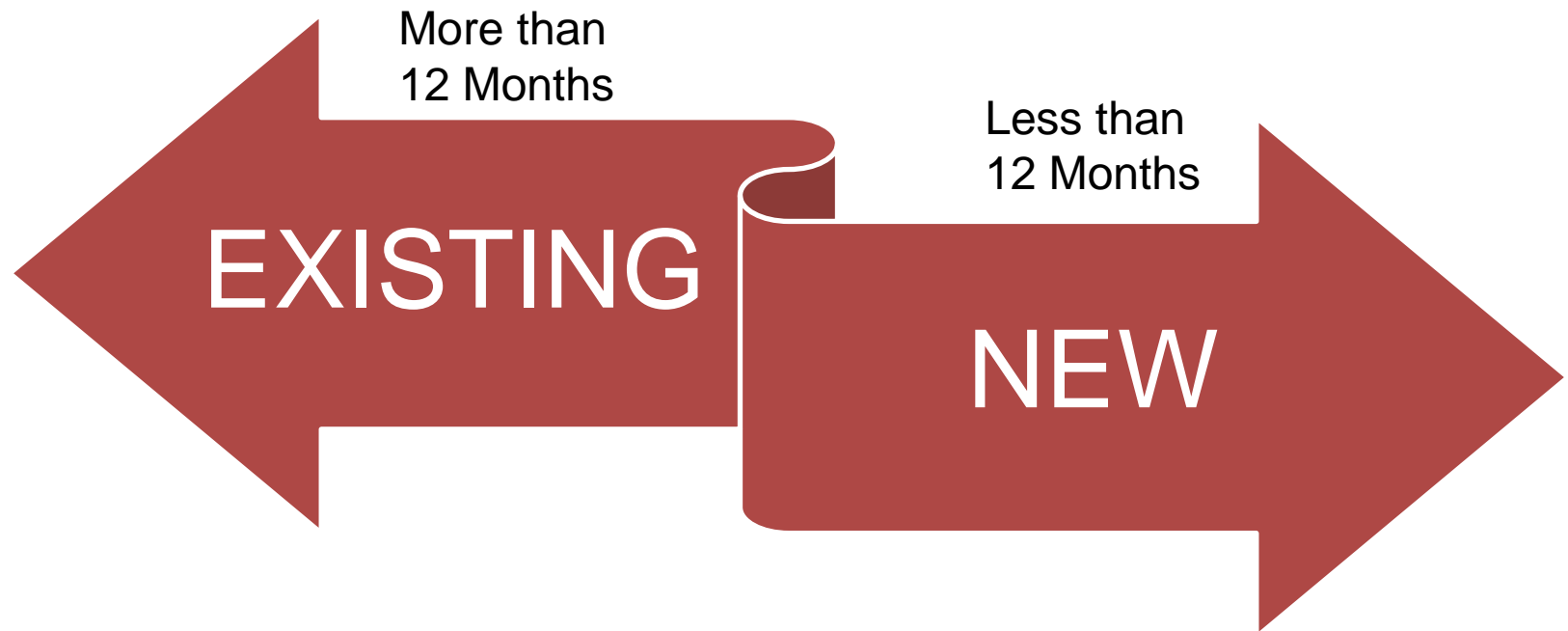
- Average prices for both months
 - $\$25.20 + \$25.30 = \$50.50/2 = \25.25
 - $\$11.10 + \$11.65 = \$22.75/2 = \11.38
- Determine difference:
 - $\$25.25 - \$11.38 = \$13.87$
- Margin = \$13.87

To Participate in MPP-Dairy

Dairy Operation **MUST**:

- Produce and commercially market milk from cows in the U.S.
- Have Production History Established
- Register during election period
- Pay \$100 annual administrative fee
- Option to select coverage level (\$4.00 - \$8.00)
- Option to select production coverage % (25%-90%)

Importance of February 7, 2014



Establishing Production History

Existing Dairy Operation:

- 2011
- 2012
- 2013

Highest



Establishing Production History

New Dairy Operation (began after Feb. 7, 2013) can select either option:

- Volume of milk marketings for the months in operation extrapolated to a yearly amount based on a *seasonal index (Option I)*
- Estimate of actual marketings based on herd size of the dairy relative to the *National rolling herd average (Option II)*

Form CCC-781

Form CCC-781 will be used for the following:

- Initial establishment of production history for a participating dairy operation
- Transferring production history
- Merging production history

The “Bump”

- ❖ Calculated by FSA, Certified production will be annually increased by an adjustment factor (*“the bump”*) to reflect changes in the national average milk production
- ❖ Announced each year in May
- ❖ Will not retroactively apply
- ❖ First “Bump” will apply to all applicants registering for 2015 coverage
 - factor of 1.0087%

Initial Registration

- One-time registration on CCC-782
- Registered through December 31, 2018
- Must pay \$100 Administrative Fee
- Must make coverage elections on CCC-782, all producers with a share in participating operation must agree on the coverage election
- Must pay applicable premium above CAT level election if selected

Registration/Election Period

- **2014 and 2015:**
September 2 – December 19, 2014
- **2016:**
July 1 – September 30, 2015
- **2017:**
July 1 – September 30, 2016
- **2018:**
July 1 – September 30, 2017

CAT Level Coverage

- \$4.00 per cwt “*margin trigger*”
- Only pay \$100 Administrative fee
- No premium is applicable
- Covers 90% of production history
- Lowest level of margin protection
- Maximum amount of production coverage

Premium Buy-Up Coverage

Based on the following:

- Producer selected “margin trigger”
 - (\$4.00 - \$8.00, in \$0.50 increments)
- Producer selected coverage level percentage
 - (25% - 90%, in 5% increments)
- Must pay premium applicable to “margin trigger” level elected
- 2-tiered premium schedule applicable to percentage of covered production history:
 - 4 million pounds and below (Tier 1)
 - Above 4 million pounds (Tier 2)

Premium Schedule

Coverage Level	Tier 1 Premium per cwt in 2014 and 2015 for covered production history at 4 mil lbs or less	Tier 1 Premium per cwt for 2016-2018 for covered production history at 4 mil lbs or less	Tier 2 Premium per cwt, all years for covered production history over 4 mil lbs
\$4.00	None	None	None
\$4.50	\$0.008	\$0.010	\$0.020
\$5.00	\$0.019	\$0.025	\$0.040
\$5.50	\$0.030	\$0.040	\$0.100
\$6.00	\$0.041	\$0.055	\$0.155
\$6.50	\$0.068	\$0.090	\$0.290
\$7.00	\$0.163	\$0.217	\$0.830
\$7.50	\$0.225	\$0.300	\$1.060
\$8.00	\$0.475	\$0.475	\$1.360

Premium Calculation Example 1

ABC Dairy Operation has established history at 4.4 million lbs and has elected 90% coverage at a \$6.00 coverage level during the 2016 coverage election period.

- $4,400,000 \times 90\% = 3,960,000$ lbs
($3,960,000/100 = 39,600$ cwt)
- $39,600 \times \$0.055 = \mathbf{\$2,178}$

Premium Fee Due

Premium fees are due either:

- 100% before end of Registration/Coverage Election Period
- At least **25%** of total premium **is due by February 1** of the applicable calendar year of coverage with balance **due by June 1** of the applicable calendar year of coverage
 - ❖ Non-payment of 25% minimum by Feb. 1 will result in loss of coverage
 - ❖ Premium balances outstanding prior to June 1 will be deducted from any MPP-Dairy payment triggered during the applicable calendar year.

MPP-Dairy Payment


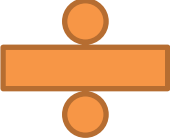
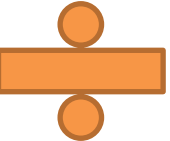
An MPP-Dairy payment issued when the average national margin for a consecutive 2-month period is less than the “margin trigger” elected by the dairy operation.

Online Decision Tool:

www.dairymarkets.org/MPP

www.usda.fsa.gov/MPPtool

MPP-Dairy Payment Calculation

- Determine the amount that the “margin trigger” elected by the operation exceeds the average actual dairy margin for a consecutive 2-month period
-  result by covered production history
-  result by 100 to determine cwt
-  result by 6 to determine payment

MPP-Dairy Payment Calculation Example

ABC Dairy Operation has an established production history of 4.4 million lbs. and has elected a \$6.00 margin trigger at a 90% coverage level. The Sep/Oct margin is \$5.67.

- $\$6.00 - \$5.67 = \$0.33$
- $\$0.33 \times 3,960,000 = 1,306,800$
- $1,306,800/100 = 13,068$
- $13,068/6 = \$2,178$

MPP-Dairy Payment Schedule

MPP-Dairy Payment Determination			
2-Month Pair	Margin Calculated for Paired Months	If Margin Below \$4/cwt or between \$4 and \$8/cwt in 2-month Period	If Margin Above \$8 per cwt in 2-month Period
Jan / Feb	March	Pay all participants in April	No payments
Mar / Apr	May	Pay all participants in June	No payments
May / Jun	July	Pay all participants in August	No payments
Jul / Aug	September	Pay all participants in October	No payments
Sep / Oct	November	Pay all participants in December	No payments
Nov / Dec	January	Pay all participants in February	No payments

LGM-Dairy

- Administered by Risk Management Agency
- Risk management program similar to MPP-Dairy
- Cannot receive benefits under both LGM-Dairy and MPP-Dairy
- Participants with active target marketings insured into 2015 had option to transition to MPP-Dairy

Summary & Questions

- Program Basics
- Defined “the margin”
- Established Production History
- Registration & Options for Coverage
- Calculated a Payment

