

# Using the New Dairy Margin Protection Program

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# Livestock Forage Program (LFP)

Signup starts on or before April 15th

# Livestock Forage Disaster Program (LFP)

- ▶ 2014 Farm Bill provides retroactive payments for drought losses back to October 1, 2011.
- ▶ LFP payments = 60% of monthly feed costs up to 5 months.
- ▶ Signup at local USDA FSA begins by April 15<sup>th</sup>



UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SERVICE AGENCY

## Disaster Assistance

2014 FARM BILL  
FACT SHEET

February 2014

### Livestock Forage Disaster Program

#### Overview

The 2014 Farm Bill makes the Livestock Forage Disaster Program (LFP) a permanent program and provides retroactive authority to cover eligible losses back to October 1, 2011. LFP provides compensation to eligible livestock producers that have suffered grazing losses due to drought or fire. LFP payments for drought are equal to 60 percent of the monthly feed cost for up to 5 months. LFP payments for fire on federally managed rangeland are equal to 50 percent of the monthly feed cost for the number of days the producer is prohibited from grazing the managed rangeland, not to exceed 180 calendar days. The grazing losses must have occurred on or after Oct. 1, 2011.

Sign-up will begin on or before April 15, 2014, at any local FSA service center. Additional details on the types of information required for an application will be provided as part of the sign-up announcement. Some eligibility restrictions may apply. Please consult your local FSA office for details.

#### Eligible Counties for Drought

An eligible livestock producer that owns or leases grazing land or pastureland physically located in a county rated by the U.S. Drought Monitor < <http://droughtmonitor.unl.edu/> > as having a:

- D2 (severe drought) in a county for 8 consecutive weeks or more during the normal grazing period: assistance equals **one monthly payment**;
- D3 (extreme drought) in a county anytime during the normal grazing period: assistance equals **three monthly payments**;
- D3 (extreme drought) in a county for 4 weeks or more during the normal grazing period or D4 (exceptional drought) anytime during the normal grazing period: assistance equals **four monthly payments**;

- D4 (exceptional drought) in a county for a 4 weeks (consecutive weeks unnecessary) during the normal grazing period: assistance equals **five monthly payments**.

Counties eligible for LFP assistance can be found at [fsa.usda.gov](http://fsa.usda.gov). The Drought Mitigation Center has developed a tool to assist producers in determining potential LFP eligibility that may be found at: <http://droughtmonitor.unl.edu/fsa/FsaEligibilityCounty2014.aspx>

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# Using the New Dairy Margin Protection Program

# Disclaimer

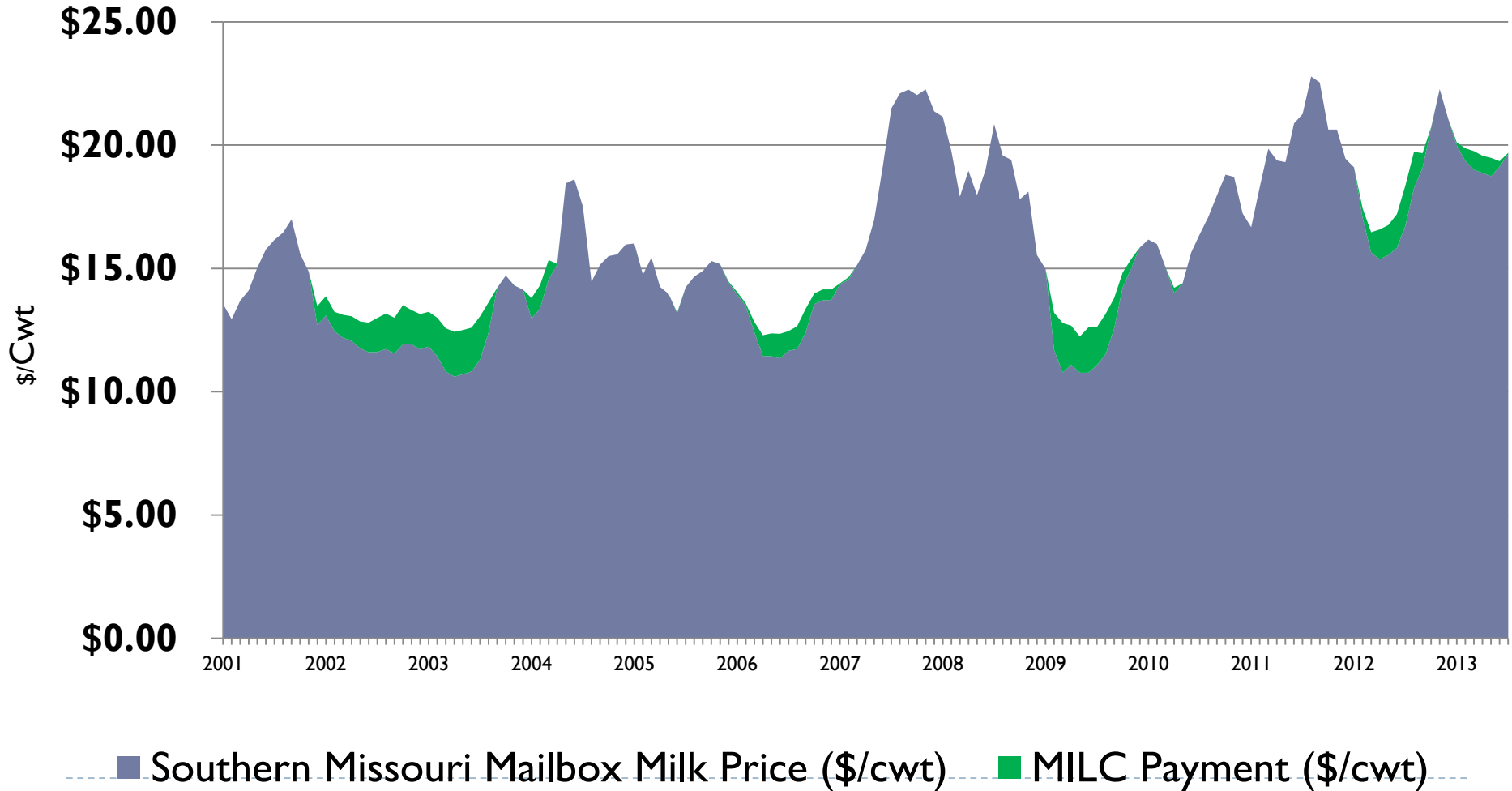
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- ▶ USDA Farm Service Agency (FSA) will interpret the Agricultural Act of 2014 (Farm Bill) and write the regulations that implement it.
- ▶ FSA is the authority.
- ▶ This presentation is for educational purposes only.



# Now decisions shift to the producer

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- ▶ This is new and different.
- ▶ It really isn't complicated.
- ▶ It is natural to be confused the first time you see it.



# Dairy Margin Protection Program Start

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- ▶ MILC continues until Dairy Margin Protection Program arrives or September 1<sup>st</sup>, whichever comes first.
- ▶ Signup begins this summer at your local FSA office.
- ▶ FSA will charge a \$100 annual administrative fee to participate, even if you choose a free level of insurance.





# Dairy Margin Protection Program

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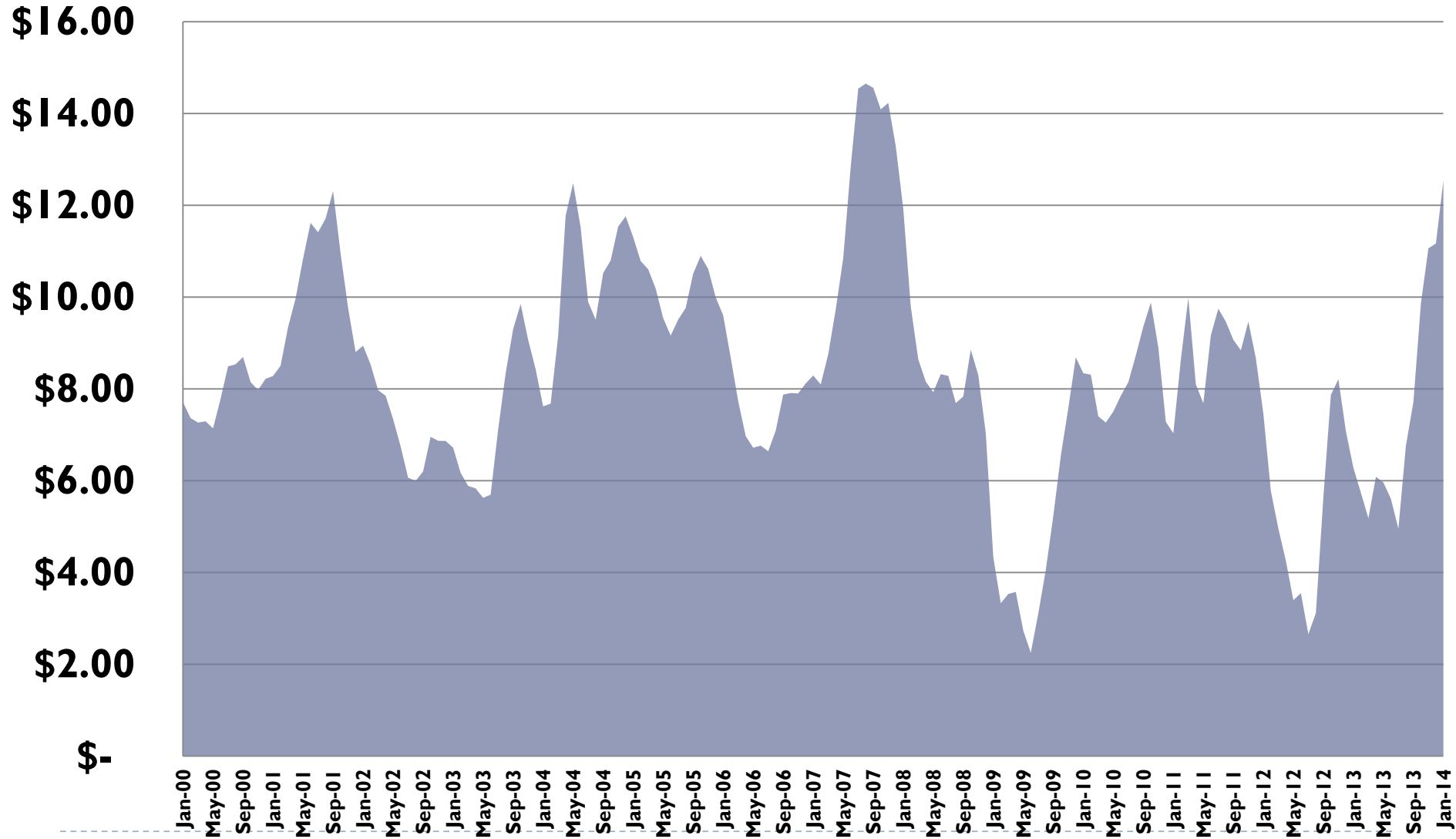
- ▶ New voluntary USDA program offering subsidized “income over feed cost” margin insurance for enrolled producers.
- ▶ Margin determined every month based upon a national price formula that calculates the income over feed cost margin.
- ▶ When the margin drops below a level for at least a two months, you get a payment. You make the level choice annually.

Recent Example:	Nov 13	Dec 13	Jan 13
Milk Price	\$21.60	\$22.00	\$23.20
- Corn	\$4.67	\$4.73	\$4.69
- Soybean Meal	\$3.29	\$3.54	\$3.43
- Alfalfa Hay	\$2.58	\$3.43	\$2.53
= Actual Margin	\$11.06	\$11.17	\$12.54

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# Historical Income over Feed Cost Margin



# Premium Costs (fixed for life of farm bill)

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## Marketings < 4,000,000 lbs.

## Marketings > 4,000,000 lbs.

Coverage Level	Premium \$/cwt
\$4.00	\$ 0.00
\$4.50	\$ 0.01
\$5.00	\$ 0.025
\$5.50	\$.04
\$6.00	\$.055
\$6.50	\$0.09
\$7.00	\$0.217
\$7.50	\$0.30
\$8.00	\$0.475

Coverage Level	Premium \$/cwt
\$4.00	\$0.00
\$4.50	\$0.02
\$5.00	\$0.04
\$5.50	\$0.10
\$6.00	\$0.155
\$6.50	\$0.29
\$7.00	\$0.83
\$7.50	\$1.06
\$8.00	\$1.36

▶ Premiums reduced by 25% of first 4 million pounds in 2014 & 2015

# Dairy Margin Protection Program Mechanics

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- ▶ Your production history will be the highest level of annual milk production during 2011, 2012 or 2013.
- ▶ Your production history will adjust upward every year with the national milk production growth.
- ▶ You can insure from 25% to 90% of your production history in 5% increments.
- ▶ You pick the margin level you want to insure.



# Decisions and Timelines

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- ▶ **This summer when signup announced**
  - ▶ Participate?
  - ▶ Pay \$100 administrative fee.
  - ▶ Pick what level of margin you want to insure this year.
  - ▶ Pick what percent of base you are going to insure this year.
  
- ▶ **Annually till the end of this farm bill**
  - ▶ Pay \$100 administrative fee.
  - ▶ Pick what level of margin I want to insure that year.
  - ▶ Pick what percent of base am I going to insure that year.



# Margin Insurance Cost per Cow Estimator

(using 2014 & 2015 premiums, first 4 million pounds of milk)

Margin Insured \$/cwt	10,000 Lbs./cow	12,000 Lbs./cow	14,000 Lbs./cow	16,000 Lbs./cow	18,000 Lbs./cow	20,000 Lbs./cow	22,000 Lbs./cow
<b>\$4.00</b>	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>\$4.50</b>	\$0.75	\$0.90	\$1.05	\$1.20	\$1.35	\$1.50	\$1.65
<b>\$5.00</b>	\$1.88	\$2.25	\$2.63	\$3.00	\$3.38	\$3.75	\$4.13
<b>\$5.50</b>	\$3.00	\$3.60	\$4.20	\$4.80	\$5.40	\$6.00	\$6.60
<b>\$6.00</b>	\$4.13	\$4.95	\$5.78	\$6.60	\$7.43	\$8.25	\$9.08
<b>\$6.50</b>	\$6.75	\$8.10	\$9.45	\$10.80	\$12.15	\$13.50	\$14.85
<b>\$7.00</b>	\$16.28	\$19.53	\$22.79	\$26.04	\$29.30	\$32.55	\$35.81
<b>\$7.50</b>	\$22.50	\$27.00	\$31.50	\$36.00	\$40.50	\$45.00	\$49.50
<b>\$8.00</b>	\$47.50	\$57.00	\$66.50	\$76.00	\$85.50	\$95.00	\$104.50

# Comparing Missouri Feed Costs versus U.S. Feed Costs

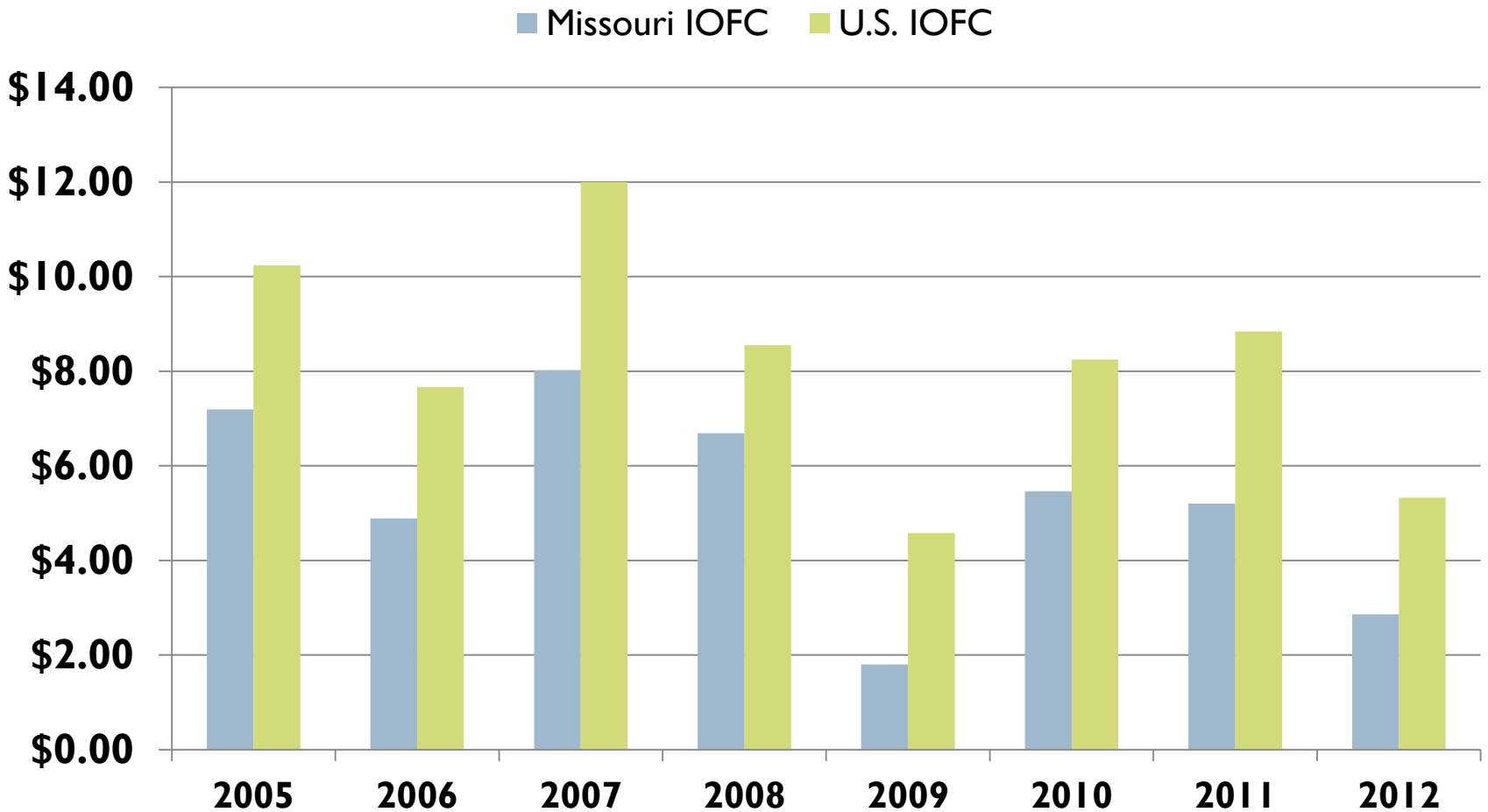
# Missouri Income over Feed Costs

	2005	2006	2007	2008	2009	2010	2011	2012
Missouri Milk Price \$/cwt	\$14.59	\$12.50	\$18.19	\$17.63	\$11.65	\$16.05	\$19.61	\$18.47
Purchased feed	\$5.13	\$5.07	\$6.52	\$7.43	\$6.97	\$6.57	\$9.53	\$9.77
Homegrown harvested feed	\$1.98	\$2.26	\$3.44	\$3.30	\$2.68	\$3.46	\$4.28	\$5.18
Grazed feed	\$0.29	\$0.28	\$0.21	\$0.21	\$0.20	\$0.56	\$0.60	\$0.66
Total feed \$/ cwt milk	\$7.40	\$7.61	\$10.17	\$10.94	\$9.85	\$10.59	\$14.41	\$15.61
Missouri Income Over Feed Cost \$/cwt milk	\$7.19	\$4.89	\$8.02	\$6.69	\$1.80	\$5.46	\$5.20	\$2.86

Source: Missouri Income over Feed Cost Margin derived from USDA Milk Cost of Production, Annual, 2005-2012



# Missouri IOFC Versus US IOFC



Source: Missouri IOFC from USDA Milk Cost of Production, Annual, 2005-2012

# MU Guide

## How to Compute Your Cost of Producing Milk

Ken Bailey, Commercial Agriculture Program

The U.S. dairy industry has become much more competitive in recent years. As a result, profit margins are smaller. One key to remaining competitive and prospering in the years ahead is improving production per cow and milk quality and lowering the cost of producing milk. This report provides a tool to help estimate your production cost. More specifically, it provides a simple worksheet to help you estimate your monthly costs and returns per 100 pounds (cwt) of milk shipped. This worksheet also can be used to assess new management changes or inputs such as a TMR, megalac or POSILAC. (Information about ordering worksheets are on page 4 of this guide.) Once costs are known, you can take steps to improve your management, lower your costs and improve profits.

You can find much of the information you need to complete this worksheet on your milk check and in your checkbook. A monthly time frame is used to help you monitor these critical costs frequently. If your feed costs, for example, are too high, it's better to find out now rather than later.

The process begins by answering a series of questions and transferring the appropriate information to the worksheets.

### Questions

First, pick a month for your analysis. Enter this information on the top of the worksheet. Then, answer the following questions:

1. How many hundredweights of milk did you market this month? Find this information on your milk check and transfer to the worksheet on page 2.

2. Locate your gross milk price (dollars per cwt) on your milk check. Look for the price that includes all premiums (not just for 3.5 percent butterfat), but before any deductions are made. Enter on the worksheet.

3. Calculate your milk sales for the month by multiplying sales by the milk price.

4. Enter the dollar sales for the month for cull cows, purebred dairy cows, dairy youngstock and dairy calves.

5. List any other income derived from the dairy enterprise such as capital revolvment. Reflect only the cash portion of the capital revolvment for now.

### How to Compute Your Cost of Producing Milk — Annual Worksheet

Lines below refer to monthly worksheet	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
1.(a) Cwts of milk sold	1,819.00									
Income from operations										
3. Milk sales	12.50									
4. Livestock sales	1.65									
5. Other farm income	0.00									
6. Total gross receipts	14.15									
Operating expenses										
9. Dairy feed costs	5.44									
10.(g) Dairy labor (include benefits)	2.16									
11. Marketing fees	.97									
12. DHIA fees	.11									
13. Artificial insemination	.16									
14. Veterinary fees and medicine	.27									
15. Dairy supplies	.37									
16. Fuel and oil	.05									
17. Utilities	.15									
18. Building repairs	.11									
19. Machinery repairs	.19									
20. Farm taxes	0.00									
21. Farm insurance	.08									
22. Legal and professional fees	.01									
23. Car and truck expenses	.09									
24. Other dairy expenses	.05									
25.(c) Interest payments	.65									
26. Depreciation	.35									
27. Total operating expenses	11.23									
28. Income over operating expenses	2.92									



# Appendix

# Historical Payoff (2006 to 2013)

Coverage Level	How often below each threshold
\$4.00	13%
\$4.50	13%
\$5.00	15%
\$5.50	15%
\$6.00	23%
\$6.50	25%
\$7.00	33%
\$7.50	38%
\$8.00	50%

Source: Dairy Farmers of America

# Details behind National Feed Cost Estimate

Feed Costs Estimates Used in Calculating National Feed Costs for Margin Protection Program									
Cattle Type		Proportion of Herd	Dry Matter Consumed (lbs/day)	Shell Corn lbs per day	Corn Silage (lbs/day)	Soybean Meal (lbs/day)	Alfalfa Hay (lbs/day)		
Milking Cows		52.49	47.1	17.9	45.8	6.4	11.8		
Hospital Cows		1.05	47.1	17.9	45.8	6.4	11.8		
Dry Cows		8.82	24	1.4	34.4	4	8.4		
Replacement Heifers to calve within 1 year		0					0		
500 pounds and over		18.53	23	1.3	32.8	4	8.2		
Less than 500 pounds		9.55	15	1.7	21.4	2.6	4.4		
Total		9.55	7	2.0	9	1.2	1.2		
Milk Production	68.85 pounds per cow per day								
Corn Silage Pricing	= 10.1 X price of corn per bushel								
Feed Cost Formula:	1.0728 X corn (\$/bu)								
	+ 0.00735 X Soybean meal (\$/ton)								
	+0.0137 X Alfalfa Hay (\$/ton)								

