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MU Extension Economist
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Your Dairy Farm Using Livestock Gross Margin Insurance

Livestock Gross Margin – Dairy Insurance

- A subsidized insurance program.
- Sold thru livestock insurance agents.
- Sold only last Friday of each month.
- Hedges your expected feed usage using market prices available for feed and milk at the time of booking the insurance.

USDA United States Department of Agriculture
RMA Risk Management Agency
Livestock Gross Margin
Dairy Cattle
July 2011

Livestock Gross Margin (LGM)
LGM Dairy Cattle (LGM Dairy) provides protection against loss of gross margin (market value of milk minus feed costs) on milk produced from dairy cows. LGM Dairy uses the Chicago Mercantile Exchange Group futures prices for corn, soybean meal, and class III milk to determine the expected gross margin and the actual gross margin.

Producer premium subsidy is available for the LGM.
Dairy plan of assistance and is determined by the deductible amount chosen by the producer. All administrative and operating expenses are paid by the Federal Crop Insurance Corporation.

The indemnity at the end of the 11-month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. The price the producer receives at the local market is not used in these calculations.

Availability
LGM is available to any producer who owns dairy cattle in the 48 contiguous states.

Milk Coverage Availability
Only milk sold for commercial or private sale primarily intended for fluid human consumption from dairy cattle fed in any of the eligible states is eligible for LGM Dairy coverage. There is no maximum number of head/dairy/cow a producer can insure. However, the maximum amount of milk that can be insured is 34 million pounds per crop year.

Coverage Levels/Deductibles
Producers can select deductible levels between \$0 and \$2.00 per hundredweight of milk in \$0.10 increments.

Sales Closing
To enroll, producers must sign up on the last business Friday of the month, submitting an application with a signed marketing report for the milk and crop and soybean meal requirements to be insured.

Prices
Prices for LGM Dairy are based on single averages of futures contract daily settlement prices, and are not based on the prices the producer receives at the market.

Insurance Months
The insurance period contains the 11 months following sales closing. For example, the insurance period for the January 20 sales closing date contains the months of February through December. However, coverage begins in the second month of the insurance period, so the coverage period for this example is the months of March through December.

LGM Selling Period
LGM Dairy is sold on the last business Friday of each month. The sales period begins at noon EST/MDA, receives the data submitted by the owner and developer of LGM Dairy after the close of markets on the last day of the price discovery period. The sales period ends at 2:00 p.m. CST the following morning. If expected milk and feed prices are not available on the RMA Web site, LGM Dairy will not be offered for sale for that insurance period.

Annual Premium
LGM premiums depend on producers' marketing plan, deductible level, terms and price volatility. Premium billing dates are determined by the target marketing report and will be the first business day of the month following the last month that a producer reports their intended marketing as the target marketing report.

Costs of Loss
LGM Dairy covers the difference between the gross margin guarantee and the actual gross margin. LGM Dairy does not insure against dairy cattle death loss, unexpected decreases in milk production, or unexpected increases in feed use. Indemnities by the plan will equal the difference between the gross margin guarantee and the actual total gross margin for the insurance period.



Understanding Dairy Markets

Your Source for Market Information and Price Risk Management Principles

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Livestock Gross Margin Insurance for Dairy Cattle

This section of our website provides information concerning the *Livestock Gross Margin for Dairy (LGM-Dairy)* program made available by the [Risk Management Agency](#) of USDA. The site will be under construction over the next few months as new information becomes available and related new materials are added. Please come back often to see what's new.

As with other sections of this website by clicking on an active link, you may generate an expanded menu. To make this menu disappear, click on the link again. If you have material that you think you would find useful please contact [Prof. Brian W. Gould](#) with your suggestions.

The material contained within this site is for informational and research purposes only. The official website concerning material related to the *Livestock for Gross Margin for Dairy* program is the USDA Risk Management Agency website (<http://www.rma.usda.gov>).

- **[Sign-up for the LGM-Dairy Mailing List](#)**
- **[List of LGM-Dairy Providers](#)**
- **[Background Material Made Available by the RMA](#)**
This is a collection of information provided by USDA as to introduce the LGM-Dairy program
- **[Supporting Software](#)**
This is a collection of spreadsheet and other software used to exemplify the use of LGM-Dairy
- **[Underlying Data](#)**
This is a collection of data used in the implementation of LGM-Dairy
- **[Additional Material Explaining LGM-Dairy](#)**
This section contains background material related to LGM-Dairy

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http://future.aae.wisc.edu/lgm_dairy.html

Number

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Source: 1995 Dairy Reference Manual, Ithaca NY.

Corn/Soybean Conversion Factors for Forages

Ingredient Name	Feed Factor	
	Corn	Soybean Meal
Legume hay, avg analysis	(0.000)	
Grass hay, avg analysis	(0.106)	
Grass haylg, avg analysis	(0.053)	
MMG hay, avg analysis	(0.104)	
MML haylg, avg analysis	(0.064)	
Legume hay, avg analysis	(0.000)	
Legume haylg, avg analysis	(0.045)	
MML hay, avg analysis	(0.064)	
MML haylg, avg analysis	(0.044)	
Corn silage, avg analysis	0.100	
Small-grain silage, avg analysis	(0.170)	
Sorghum-sudan silage, avg analysis	(0.034)	
Alfalfa meal, 22%	(0.260)	
Alfalfa meal, 20%	(0.248)	
Alfalfa meal, 17%	(0.182)	
Alfalfa meal, 15%	(0.163)	
Grass hay, first cut, prehead	(0.060)	
Grass hay, first cut, early head	(0.153)	
Grass hay, first cut, full head	(0.289)	
Grass hay, first cut, mature	(0.363)	
Grass hay, aftermath avg	(0.196)	
Grass hay, late fall	(0.097)	
Legume hay, first cut, prebud	0.046	
Legume hay, first cut, bud	0.094	
Legume hay, first cut, bloom	0.061	
Legume hay, first cut, mature	(0.064)	
Leume hay, aftermath avg	0.098	
Legume hay, late fall	0.078	
MMG hay, first cut, prehead	(0.031)	
MMG hay, first cut, early head	(0.088)	

Concentrates & Grains Forages Total Feed Equ

General

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Workbook Views Show

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Corn/Soybean Conversion Factors for Grain/Concentrates Used in Dairy Cow Rations

Ingredient Name	Feed Factors		Tons Eq Fed	
	Corn	Soybean Meal	Corn	Soybean Meal
Corn, shelled (15.5%)	1.000	0.000	21.000	0.000
Soybean meal, 44%	0.000	1.000	6.000	6.000
Apple Pomace, no hulls	0.871	(0.073)	0.000	0.000
Bakers product	1.078	0.014	0.000	0.000
Barley	0.901	0.077	0.000	0.000
Barley, high-moisture	0.723	0.068	0.000	0.000
Beet pulp	0.913	0.018	0.000	0.000
Blood meal	(1.010)	2.078	0.000	0.000
Brewer's grain, dried	0.233	0.497	0.000	0.000
Brewer's grain, wet	0.065	0.124	0.000	0.000
Brewer's yeast	0.007	0.368	0.000	0.000
Candy	1.468	(0.182)	0.000	0.000
Candy Product	1.215	(0.022)	0.000	0.000
Canola	0.075	0.824	0.000	0.000
Chocolate	1.600	(0.041)	0.000	0.000
Citrus pulp, dry	0.974	(0.095)	0.000	0.000
Corn, ear - dry	0.830	0.000	0.000	0.000
Corn, ear - high moisture	0.703	(0.004)	0.000	0.000
Corn, shelled - high moisture	0.856	(0.010)	0.000	0.000
Corn Distiller's, light	0.563	0.483	0.000	0.000
Corn Distiller's, dark	0.539	0.463	0.000	0.000
Corn Distiller's, wet	0.047	0.035	0.000	0.000
Corn distiller's, sol. Only	0.532	0.500	0.000	0.000
Corn gluten feed	0.657	0.231	0.000	0.000
Corn gluten meal 50%	(0.343)	1.411	0.000	0.000
Cottonseed, whole	0.731	0.313	0.000	0.000
Cottonseed, de-linted	0.856	0.233	0.000	0.000
Cottonseed meal, 41%	(0.018)	0.326	0.000	0.000
Donuts	1.235	(0.096)	0.000	0.000
Feather meal	(0.968)	1.988	0.000	0.000
Fish meal, Menhaden	(0.538)	1.481	0.000	0.000
Hominy Feed	1.000	0.035	0.000	0.000
Linseed Meal	0.188	0.720	0.000	0.000
Lupins	0.097	0.773	0.000	0.000
Malt Sprouts	0.362	0.516	0.000	0.000
Meat and Bone Meal	(0.310)	1.179	0.000	0.000
Oats	0.738	0.101	0.000	0.000
Oats, high moisture	0.707	0.081	0.000	0.000
Oat mill by-product	0.332	0.003	0.000	0.000
Peanut Meal	(0.176)	1.115	0.000	0.000
Peanut Skins	0.551	0.256	0.000	0.000
Potatoes, raw	0.390	(0.014)	0.000	0.000
Flen Pro	(0.468)	1.290	0.000	0.000
Flen Plus	(0.783)	0.162	0.000	0.000
Rye	0.880	0.098	0.000	0.000
Sorghum or milo	0.318	0.026	0.000	0.000
Soybean meal, treated-high-MF	0.047	0.368	0.000	0.000
Soybeans, heated	0.359	0.766	0.000	0.000
Soybeans, whole	0.317	0.774	0.000	0.000
Soybean meal, 48%	(0.070)	1.104	0.000	0.000
Soyhulls	0.829	0.080	0.000	0.000
Triticale	0.806	0.194	0.000	0.000
Wheat	0.965	0.035	0.000	0.000
Wheat Bran	0.853	0.224	0.000	0.000
Wheat Midds	0.543	0.243	0.000	0.000

Concentrates & Grains Forages Total Feed Equ

Number feed

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Total Corn and Soybean Meal Equivalent

	Corn Equiv.	Soybean Meal Equiv.
Concentrates & Grains	21.000	6.000
Forages	0.000	0.000
Total From All Sources	21.000	6.000

Milk Production (cwt)	1640	
Total Equiv (T)	21.000	6.000
Equiv/cwt	0.012804878	0.00366
Is Feeding Within Allowable Limits?	Yes	Yes

Author: Brian W. Gould, Department of Agricultural and Applied Economics, University of Wisconsin-Madison, bwgould@wisc.edu

Concentrates & Grains Forages Total Feed Equivalents

Detailed Estimate

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Selected Initial Criteria

* Commodity Year : 2014 * Insurance Plan : Livestock Gross Margin #2 * State : Missouri 29 * County : Boone 019
 Dairy Cattle 0847 [Add Item] Refresh

	Item 1	Delete				
* Commodity	Dairy Cattle 0847					
* Type	No Type Specified 997					
* Practice	Aug. - Jun. Insurance Period 9					
* Target Market	September : 0					
	October : 0					
	November : 0					
	December : 0					
	January : 0					
	February : 0					
	March : 0					
	April : 0					
	May : 0					
	June : 0					
Use Default Feed Values						
* Corn Equivalent	September : 0					
	October : 0					
	November : 0					
	December : 0					
	January : 0					
	February : 0					
	March : 0					
	April : 0					
	May : 0					
	June : 0					
* Soybean Meal Equivalent	September : 0					
	October : 0					
	November : 0					
	January : 0					
	February : 0					
	March : 0					
	April : 0					
	May : 0					
	June : 0					
	* Deductible	\$0.00				

Get Estimates

The Cost Estimator only provides a general premium estimate. Refer to your crop insurance agent and policy for specific information regarding insurance coverage, actuarial information, conditions and exclusions.

Data valid as of: 11/17/2013

Joe's Frequently Used Sites - Cost Estimator - Home - Livestock Reports

www3.rma.usda.gov/apps/livestock_reports/main.aspx

Click to go back, hold to see history. Bookmarks here on the bookmarks bar. Import bookmarks now...

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LGM Expected and Actual Gross Margin Criteria

Crop Year: 2014
State: 29 Missouri
Commodity: 0847 Dairy Cattle
Report Type: Web Output Formatted for Printing

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LGM Sales Dates

- January - 01/25/2013
- February - 02/22/2013
- March - 03/22/2013
- April - 04/26/2013
- May - 05/31/2013
- June - 06/28/2013
- July - 07/26/2013
- August - 08/30/2013
- September - 09/27/2013
- October - 10/25/2013
- November - 11/22/2013
- December - 12/27/2013

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http://www3.rma.usda.gov/apps/livestock_reports/main.aspx

After each presentation we will review the mechanics of methods

Method of insuring a margin	Where do I do this?	When do I do this?	How do I pay for it	How do I get paid?	Profitability & Cash Flow Impacts?
<i>Farm Bill Margin Insurance</i>	Local FSA Office	One time per year	Check	Every 2 months	Profit  Cash Flow 
<i>DFA Risk Management Services</i>	Call DFA	Normal office hours	Profit or loss on milk check	Profit or loss on milk check	Profit  Cash Flow 
<i>LGM- Dairy Insurance</i>	Insurance office	Last business Friday	Check at end of contract	Final indemnity payment	Profit  Cash Flow 
<i>Hedging via Brokers</i>					

Today's Workshop

9:30 – 10:00	Learning to Insure Your Dairy Margins – Overview, Tools, Techniques Joe Horner, MU Extension Economist
10:00 – 10:45	Mechanics of the USDA Margin Insurance Proposed in Farm Bill Scott Brown, MU Research Assistant Professor
10:45 – 11:00	Your Dairy Farm Using USDA's Margin Insurance Program Joe Horner, MU Extension Economist
11:00 – 11:15	Break
11:15 – 12:00	Risk Management Tools offered by Milk Marketing Cooperatives Earl Biggers, Manager DFA Risk Management
12:00 – 1:00	Lunch sponsored by FCS Financial
1:00 – 1:45	Livestock Gross Margin Insurance Greg Sowders, Great American Insurance
1:45 – 2:00	Your Dairy Farm Using Livestock Gross Margin Insurance Joe Horner, MU Extension Economist
2:00 – 2:15	Break
2:15 – 3:00	Hedging Milk Prices and Feed Costs via Brokers & Futures or Options Joe Horner, MU Extension Economist
3:00 – 3:30	Insuring Your Dairy Margins – Putting the Pieces Together Questions & Answers Panel Discussion