LGM-DAIRY: LIVESTOCK GROSS MARGIN INSURANCE FOR DAIRY CATTLE

What is LGM-Dairy?

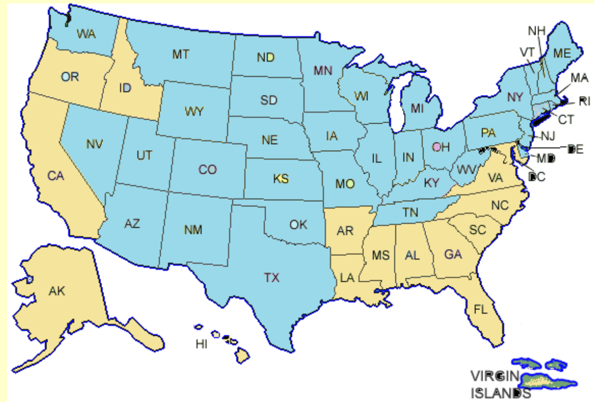
LGM-Dairy is a new insurance policy approved by the USDA Risk Management Agency available for dairy producers since August 2008.

LGM-Dairy protects producers against unexpected declines in income over feed cost (IOFC, milk prices less the feed costs).

No producer premium subsidy is available for this insurance program, though all administrative and policy subsidies are paid by the federal government.

LGM–Dairy premiums depend on producers' marketing plan, coverage selected, deductible level, futures prices and price volatility. Producer premiums are average of expected long-run indemnities at sign-up.

In which states is LGM-Dairy available?



States Eligible to Participate in the LGM-Dairy Program (blue), 2009

What are the benefits of LGM-Dairy ?

Convenience: Producers can sign-up for LGM-Dairy insurance 12 times a year over a 11-month rolling period.

Customization: LGM-Dairy can be tailored to any size farm and to any month or months of the year.

Bundled option insurance: LGM-Dairy is similar to buying both a call option to limit higher feed costs and a put option to set a floor on milk prices.

What does LGM-Dairy not insure?

Risk of death of the dairy cattle.

Unexpected production losses.

Unexpected increase in feed use.

Anticipated declines in milk prices or increase in feed costs.

Multiple years of decline in milk prices or increase in feed costs.

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How does it work ?

LGM-Dairy pays difference, if positive, between expected income over feed cost and actual income over feed cost, where income over feed cost is milk price less the feed costs per cwt.

The insured IOFC is calculated using futures prices for milk, corn and soybean meal.

Producers need to estimate the milk quantity to be insured, a deductible level and the months to insure IOFC. Though predetermined default feed coefficients are added for LGM-Dairy, producers have the flexibility to use different feed coefficients.

Farmers can insure any amount of milk up to 240,000 cwt per insurance period.

Deductibles range between $0 and $1.50 of the IOFC guaranteed.

Insurance coverage begins one full month after the sales closing date.

Sales period is last business Friday of each month till 8:00 PM of the following evening.

LGM-Dairy More Information:

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http://future.aae.wisc.edu/lgm_dairy.html
http://www.uwex.edu/ces/dairymgt/
http://www.rma.usda.gov/livestock/

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Livestock Gross Margin Insurance for Dairy Cattle

A New Risk Management Tool for Wisconsin Dairies!