



UW-Extension Agriculture and Natural Resources Conference, October 15-17, 2008  
**A New Risk Management Tool for Wisconsin Dairy Farms: Livestock Gross Margin for Dairy Insurance**  
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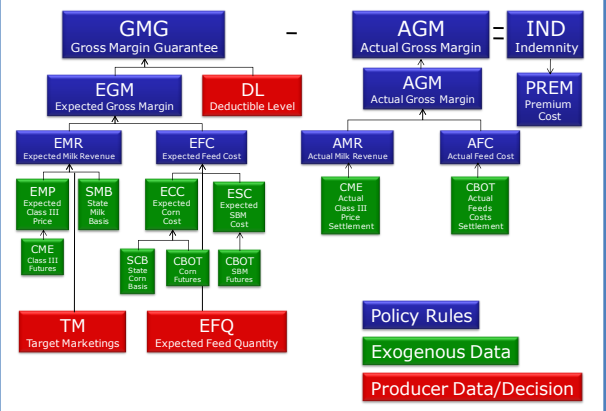
**Introduction**

With uncertain and volatile milk and feed prices, there is a greater need for effective risk management strategies that can control producer's price risks. The newly created Livestock Gross Margin Insurance for Dairy Cattle (LGM-Dairy) is a bundled dairy farm risk management tool that insures the prices of milk and feeds from unexpected changes. The LGM-Dairy protects dairy farmers against unexpected declines in gross margins (milk prices less the feed costs) and is similar to buying both a call option to limit higher feed prices and a put option to set a floor on milk prices.

**Hypothesis**

Effective use of LGM-Dairy will improve economic and financial stability of dairy producers in Wisconsin.

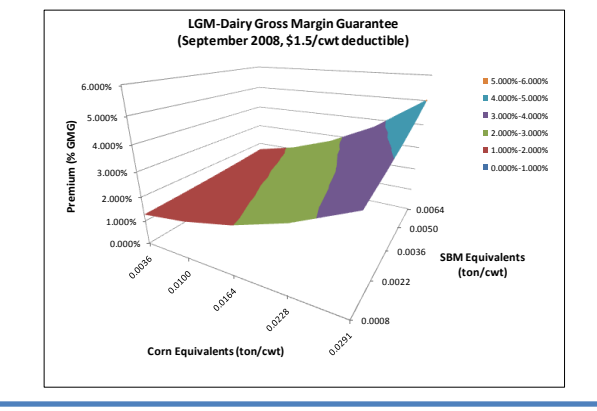
**LGM-Dairy Overview**



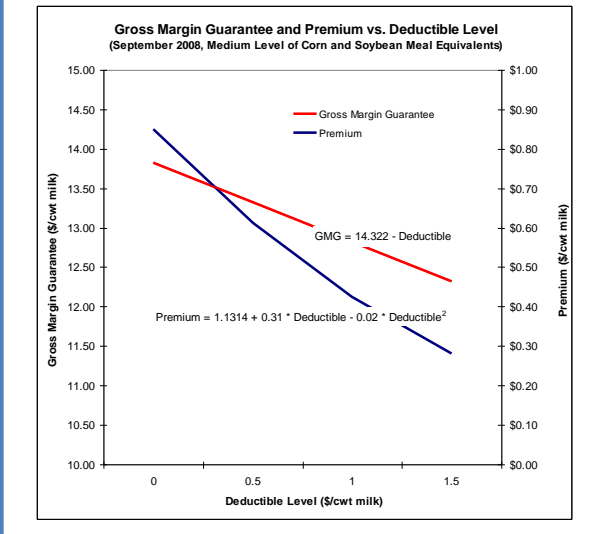
**Eligible States**



**Preliminary Results**



**Preliminary Results**



**Resources**

- UW-Extension Dairy Management <http://www.uwex.edu/ces/dairymgt/dairy.cfm>
- Ag and Applied Economics Understanding Dairy Markets [http://future.aae.wisc.edu/lgm\\_dairy.html](http://future.aae.wisc.edu/lgm_dairy.html)
- USDA Risk Management Agency <http://www.rma.usda.gov/livestock/>

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**Other Research/Programming Endeavors**

- Improving dairy farm sustainability through strategic alternatives to corn grain feeding
- Stochastic dairy modeling to forecast economic outcomes
- Economic impact of herd diseases in Wisconsin dairy farms
- Energy and environmental impacts of Wisconsin dairy farms
- Early post calving mastitis test and treatment decision making
- Long-term economic and ecologic dairy farm sustainability in the U.S.

**Timeline**

Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
		1	2	3	4	5	6	7	8	9	10
LGM-Dairy Insurance Coverage											
Selected Covered Months		Nov	Jan	Feb				May	Jun		Aug

**Implications**

- Opportunities exist to use LGM-Dairy to improve economic and financial stability of Wisconsin dairy producers
- For September 2008, premiums vary between \$0.2 to \$1.1 per cwt of insured milk or between 1.3 and 10.1% of the gross margin guarantee. This is very sensitive to (in order):
  - Deductible level
  - Corn equivalents per cwt of milk insured
  - Soybean meal equivalents per cwt of milk insured
- It pays-off to include a deductible level into the insurance contract