USDA United States Department of Agriculture

RMA

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A Risk Management Agency Fact Sheet

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 insurance and is determined by the deductible amount chosen by the producer. All administrative and operating subsidies 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 final human consumption from dairy cattle fed in any of the eligible states is eligible for LGM Dairy coverage. There is no minimum number of hundredweights a producer can insure. However, the maximum amount of milk that can be insured is 24 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 target marketing report for the milk and corn and soybean meal equivalents to be insured.

Prices

Prices for LGM Dairy are based on simple 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 29 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 as soon as RMA reviews 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 8:00 p.m. CST the following evening. 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, futures 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 insured marketings in the target marketings report.

Cause 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 to be paid will equal the difference between the gross margin guarantee and the actual total gross margin for the insurance period.

LGM Dairy Advantages

Convenience: Producers can sign up for LGM Dairy 12 times per year and insure all their milk production they expect to market over a rolling 11-month insurance period.
Customization: Can be tailored to any size farm.
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 LGM Dairy Does Not Insure

- Risk of dairy cattle death
- Unexpected production (milk) losses
- Unexpected increase in feed use
- Anticipated or multiple-year declines in milk prices
- Anticipated or multiple year increases in feed costs

Definitions

Actual Marketings The total amount of milk sold by you in each month of the insurance period and for which you have proof of sale. Actual marketings are used to verify ownership of milk and determine approved target marketings.

Deductible The portion of the expected gross margin that you elect not to insure. Per cwt deductible amounts range from zero to $2.00 per cwt in 10 cent increments. The deductible equals the selected per cwt deductible times the sum of target marketings across all months of the insurance period.

Gross Margin Guarantee The gross margin guarantee for an insurance period is the expected total gross margin for an insurance period minus the deductible.

Marketing Report A report submitted by you on our form showing for each month your actual marketings for that month of milk insured under the policy. The marketing report must be accompanied by copies of sales receipts that provide records of the actual marketings shown on the marketing report.

Target Marketings Your determination as to the number of cwt of milk you elect to insure in each month during the insurance period.

Target Marketings Report A report submitted by you on our form showing for each month your target marketings for that month.

For More Information

LGM Coverage Prices, Rates and Actual Ending Values:
http://www3.rma.usda.gov/apps/livestock_reports/
Cost Estimator (Premium Calculator):
http://ewebapp.rma.usda.gov/apps/costestimator/

Where to Purchase

All multi-peril crop insurance policies are available from private insurance agents. A list of livestock insurance agents is on the RMA Web site at:
http://www3.rma.usda.gov/tools/agents/

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