

Dairy Margin Protection Program (MPP)

Agricultural Act of 2014



Dairy MPP

- **Dairy Margin Protection Program**
 - A New Way to Think About a Government Safety Net
 - A pseudo insurance program with legislated premiums
 - Protects dairy producers from tighter milk price/feed cost margins



Agenda

- **Strategies**
- **Decision Tool**

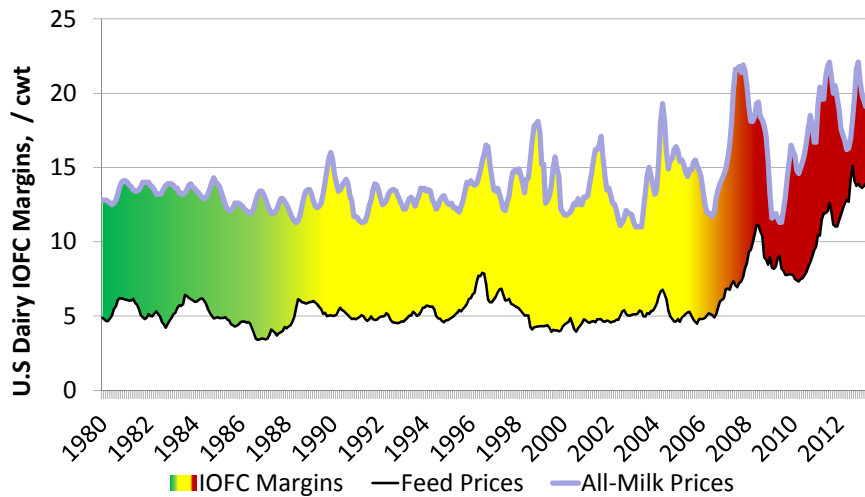


Dairy MPP

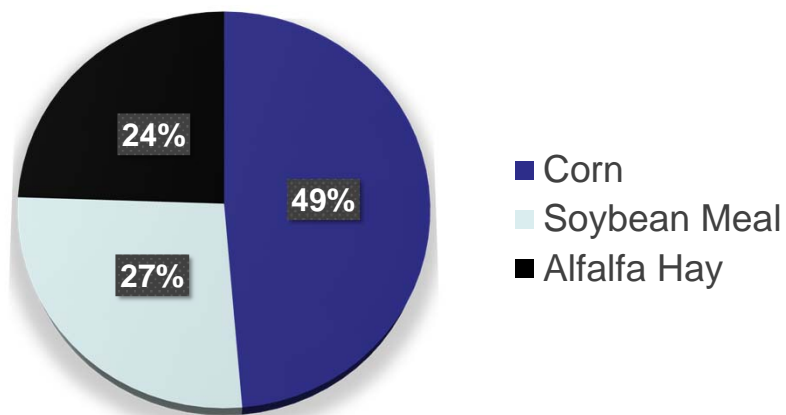
- **Annual decision**
- **One data entry – production history**
- **Two key farmer decisions:**
 - How much milk to protect (25% to 90%)
 - What margin level to protect (\$4 to \$8)



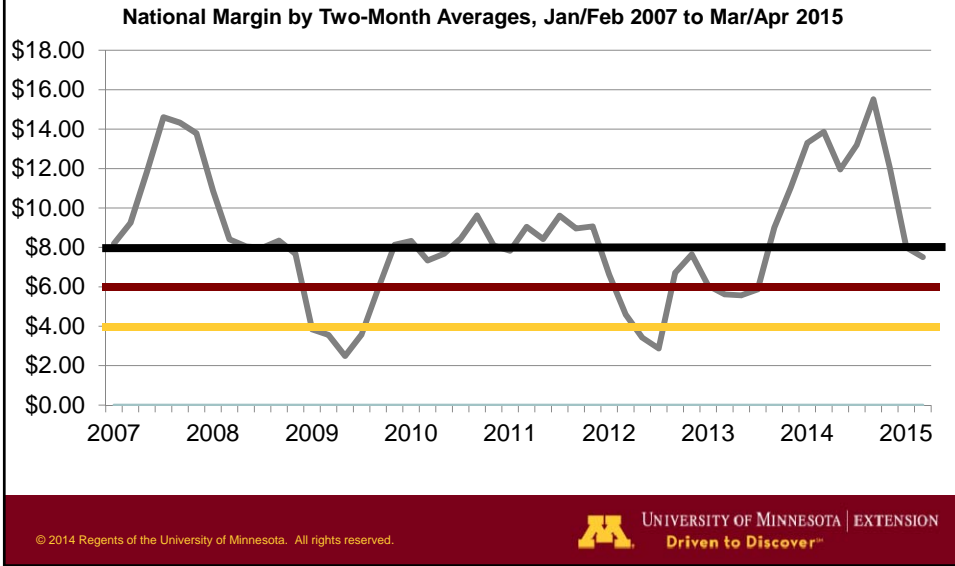
Why Margins?



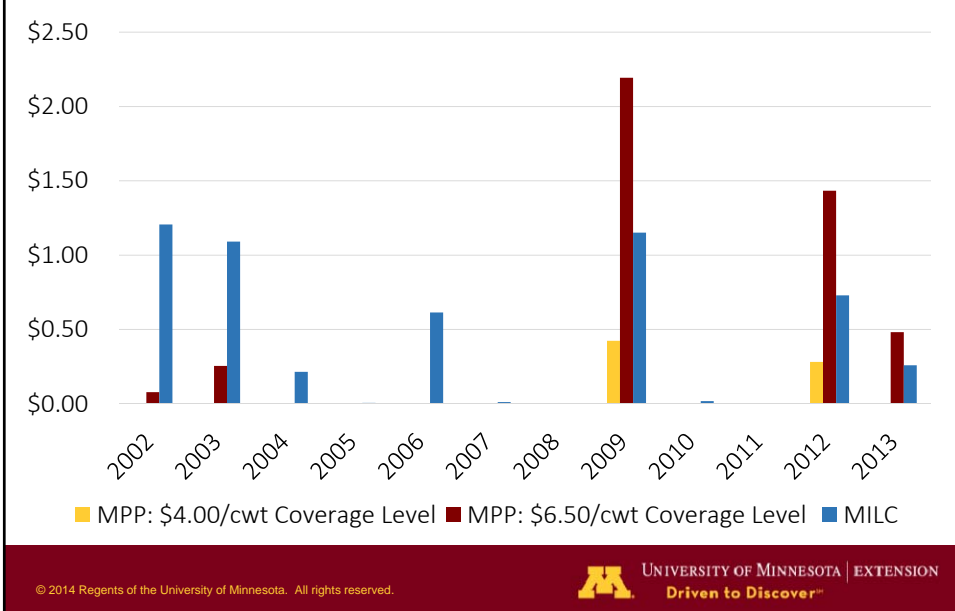
Contribution to the MPP Ration



Historical Payment Thresholds



MILC vs MPP indemnities



MPP Decision Points

- 1. Should I sign up?**
- 2. What level should I choose?**
- 3. What percent of my production history should I cover?**



Risk Management

- **How do you want to manage risk?**
 - Farms with higher debt levels should focus on risk management
 - What is your farm's financial health?
 - How do you operate?
 - Do you buy all of your feed? What % of cropland is owned vs rented?



Risk Management

- **Assess the likelihood and potential impact of adverse events:**

- Single Event:

- High feed prices (2012)

- Double Event:

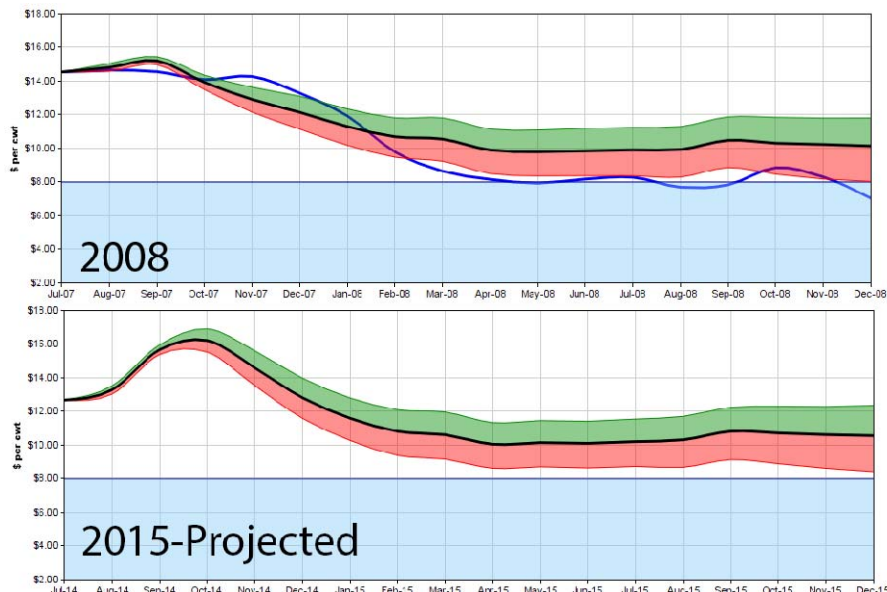
- Low milk prices & high feed prices (2009)

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Risk Management



MPP vs LGM Dairy

- **Another tool**

- Livestock Gross Margin Dairy (LGM Dairy)
- Once signed up for MPP – No LGM Dairy participation



MPP vs LGM Dairy

MPP

- Key Differences
 - Cover 25% - 90% of APH
 - \$4/cwt – 8/cwt in \$.50 increments
 - Annual sign up
 - Annual increase to APH
 - % of milk covered is the same for all months
 - Unlimited funding

LGM

- Key Differences
 - Cover 0% - 100%
 - Determined by futures market
 - Producer determined
 - No limit to production growth
 - Coverage can change with each contract
 - Limited funding



Should I Sign Up for 2016?

- **If you enrolled in 2015,**
 - You are automatically enrolled for 2016
 - You will receive Production History “Bump”
 - “Bump” factor = 1.0261
- **If you haven’t enrolled before,**
 - Need to make a decision for 2016

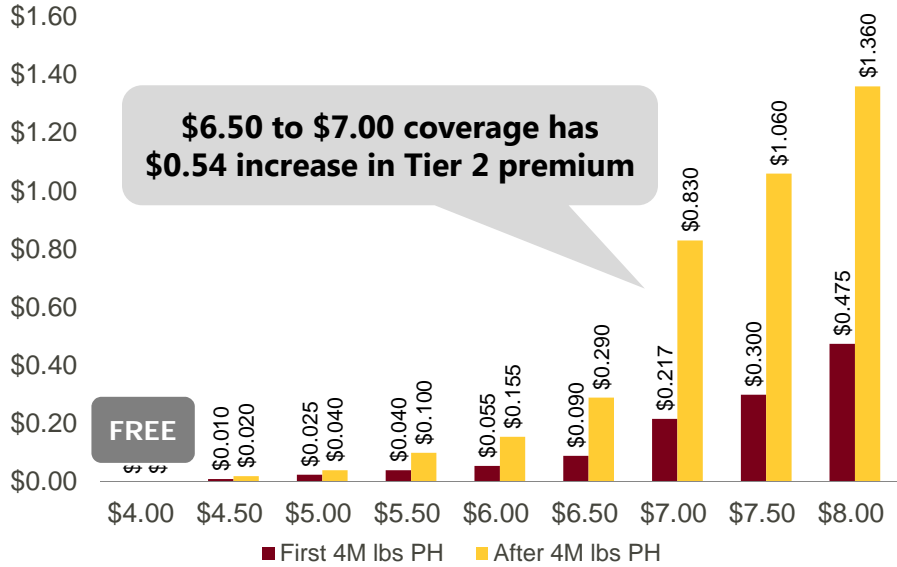


What Coverage Level?

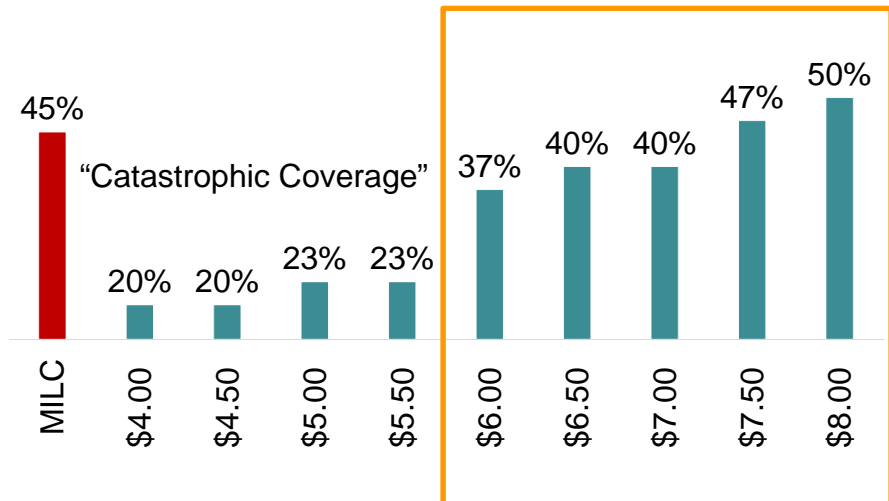
- **What level of coverage?**
 - \$4/cwt to 8/cwt in \$.50 increments
- **May not see lower levels of coverage (\$4-5 often)**
- **Premiums much higher past \$6.50**

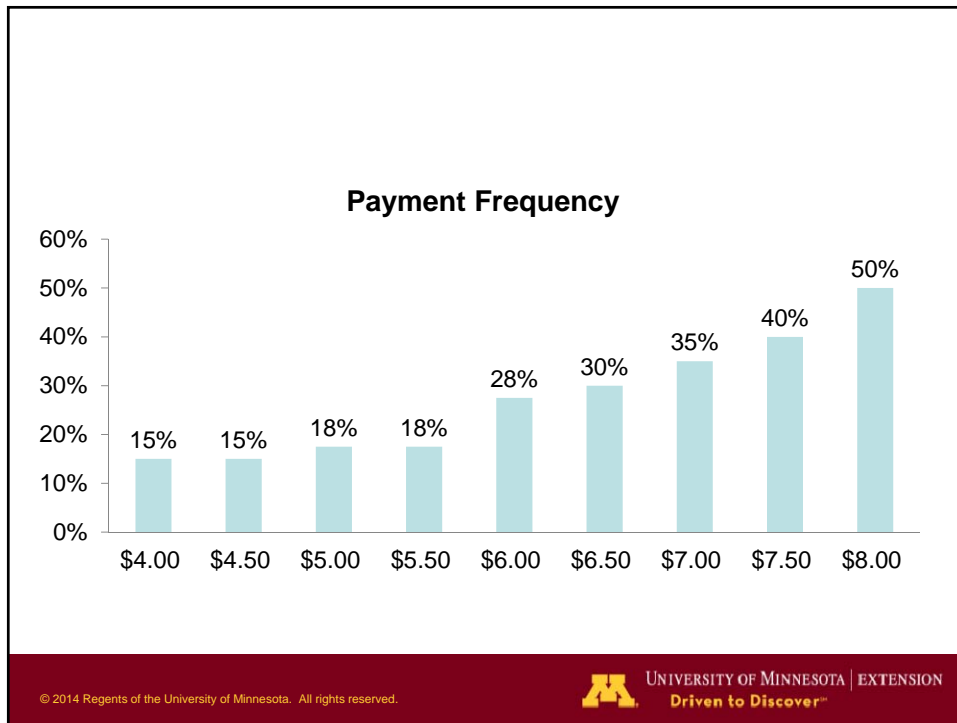


Premium Rates



Payment Frequency, 2008-2013





How much milk do I protect?

- **Can protect anywhere from 25 – 90% of APH**
 - Affects size of premiums and indemnities
- **How do I decide?**
 - What are you doing currently?
 - Calculate your own margin (Compare to MPP)

Information Needed for MPP

- **Production history for a farm**

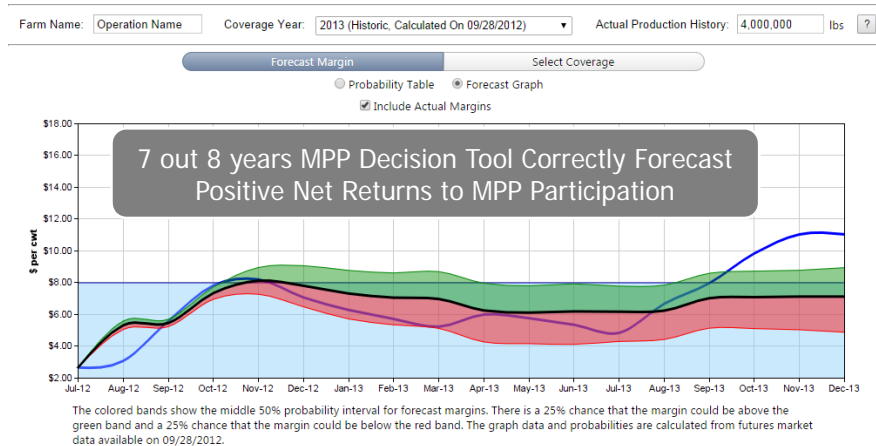
- Straightforward highest of 2011-2013



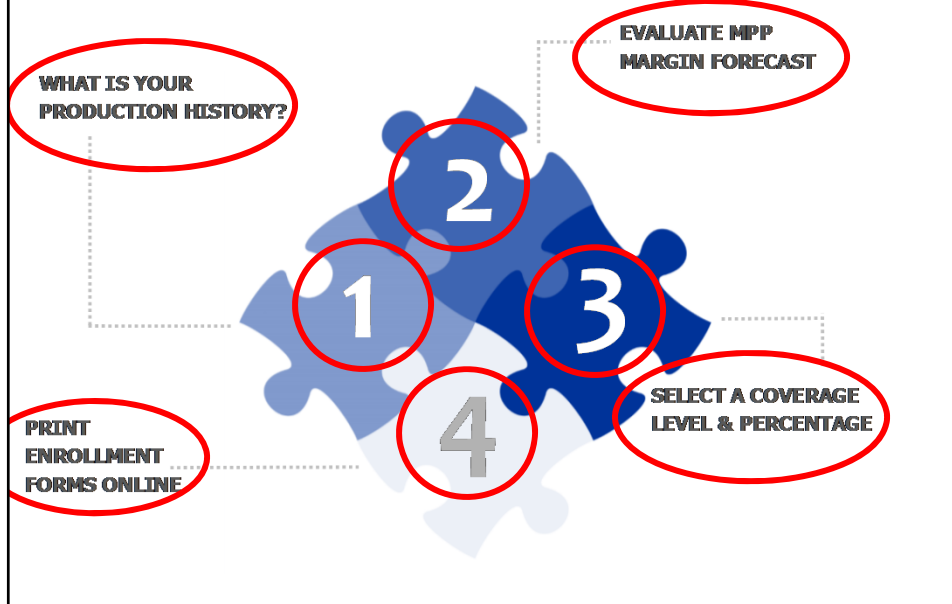
- **Expected MPP margin**

- Not the margin for an individual farm
- Hard to predict but decision tool provides an estimate

Decision Tool Accuracy



Four Steps of the Decision Tool



Secure and Free

DATA SECURITY



Farmer Data is Not
Collected

100% Free
24/7 Access



Always Available &
Free to Use

USDA United States Department of Agriculture
Farm Service Agency

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Farm Service Agency Dairy Margin Protection Program Decision Tool

New Web Tool Helps Producers Manage Unforeseen Economic Challenges

Popular Topics

- FSA Farm Bill
- FSA Fact Sheets
- Dairy Margin Protection Program web tool
- Daily LDP Rates and PCP Data
- Commodity Credit Corporation Information
- Human Resources Website
- Civil Rights Information

<http://www.fsa.usda.gov>

Landing Rates for September 2014 (09/27/2014)

- Livestock Producers Urged to Enroll in Disaster Assistance Program by Oct. 1 (09/02/2014)
- USDA Announces First Quarter Sugar Feedstock Flexibility Program Expectations and Sugar Tariff Rate Quotas for Fiscal Year 2015 (09/02/2014)
- Enrollment for New Dairy Farm Risk Management Program to Begin Sept. 2 (09/28/2014)

USDA Week in Review September 19

Radio Features

- 9/15/2014 - NEW PROGRESS IN THE DEFENSE PRODUCTION ACT
- 9/19/2014 - THE NEXT ROUND OF PROMISE ZONES ARE ANNOUNCED
- 9/19/2014 - CASTRO: NEW HUD PROMISE ZONE EFFORTS

Let's Move! Initiative

Know your farmer, Know your food

The People's Garden

Civil Rights

Margin Protection Program for Dairy Producers (MPP-Dairy)

Sign Up for MPP-Dairy by **September 30, 2015**

Tired of Roller Coaster Milk Margins? Sign Up for the New Dairy Program to help smooth your income stream!

Signup for MPP-Dairy takes place from July 1st through September 30th. All producers who want coverage for 2016 must register by completing form CCC-782, elect a coverage level, and pay the \$100 administrative fee by September 30th. If the operation participated in MPP for 2015, the operation's production history will be increased by a factor of 1.0261.

Payments under the Margin Protection Program for Dairy Producers (MPP-Dairy) may be reduced by a certain percentage due to a sequester order required by Congress and issued pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985. Should a payment reduction be necessary, FSA will reduce the payment by the required amount.

To continue, read the disclaimer and click "Agree".

What's New

7/20/2015 (Version 1.2.0)

- Added new MPP Advanced Tool
- Updated premium calculations for the 2016 coverage year.
- Updated FSA election form.
- Added first coverage year menu to the select coverage section.

Disclaimer

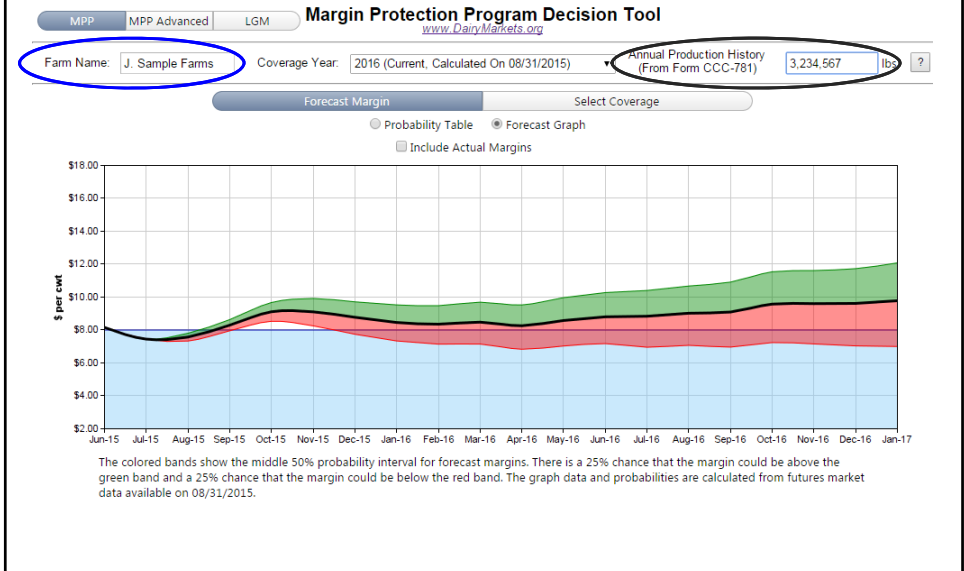
With respect to any opinions, findings, conclusions, or recommendations, neither the United States Government, the University of Illinois, nor the National Program on Dairy Markets and Policy makes any warranty, express or implied, or assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, apparatus, product, or process disclosed, or represents that its use would not infringe privately owned rights. Users bear the sole responsibility for decisions affecting program participation and may want to consult other resources.

The National Program on Dairy Markets and Policy is working with the University of Illinois led consortium National Coalition for Producer Education, which is supported by the U.S. Department of Agriculture, Farm Service Agency, under Agreement No. 58-0210-4-002 N.

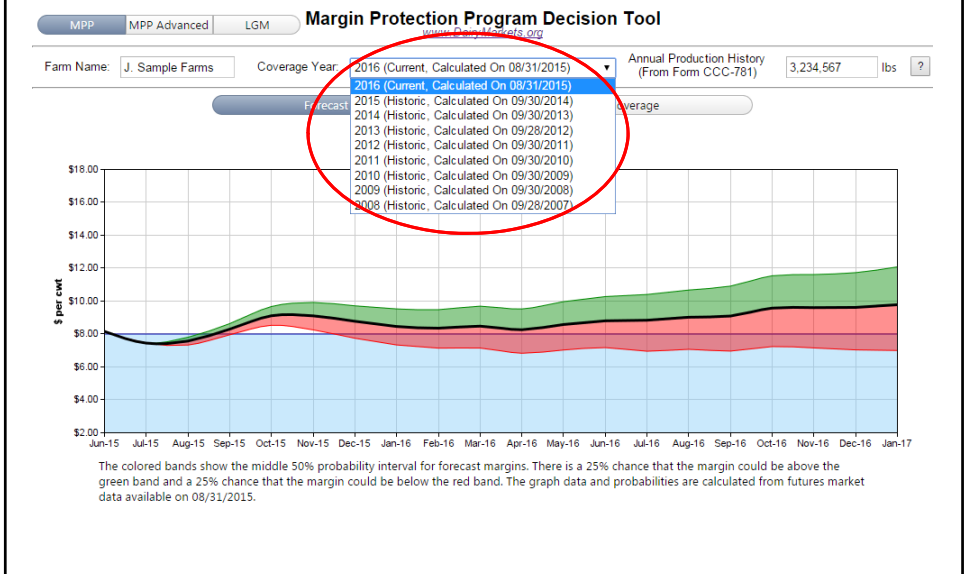
Disagree

Have to click "Agree" to begin

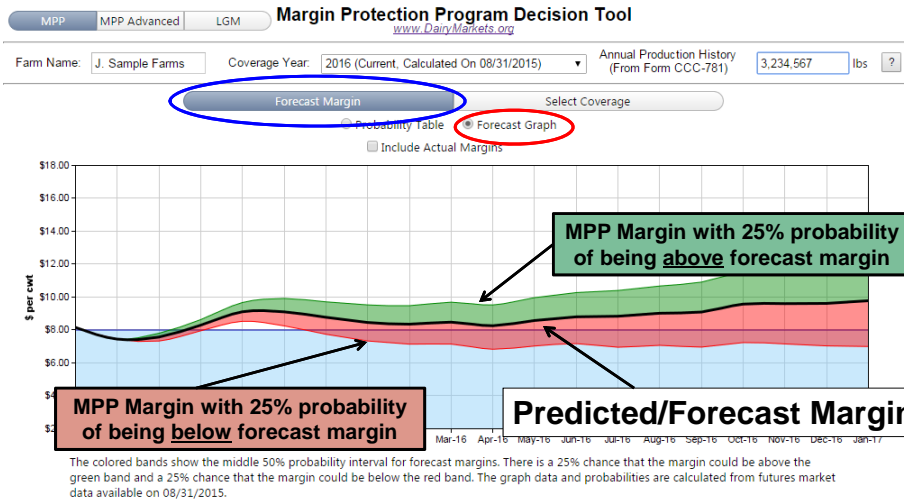
First Page of MPP Calculator



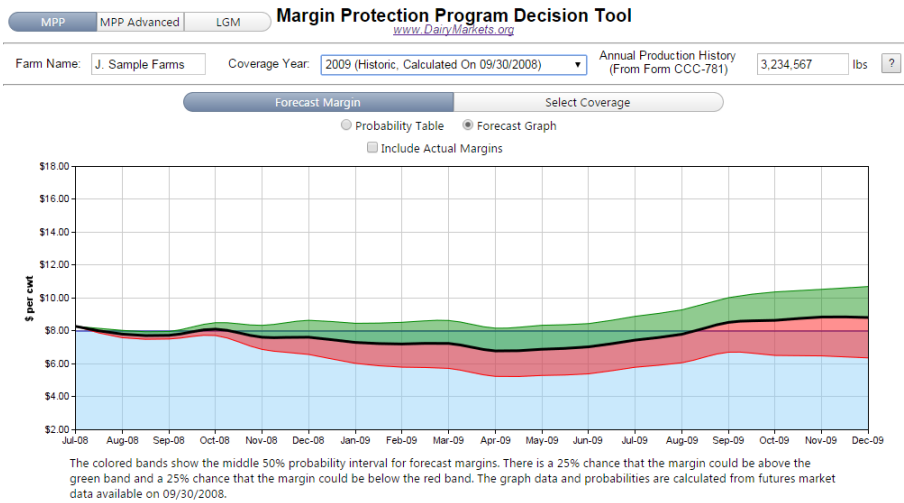
First Page of MPP Calculator



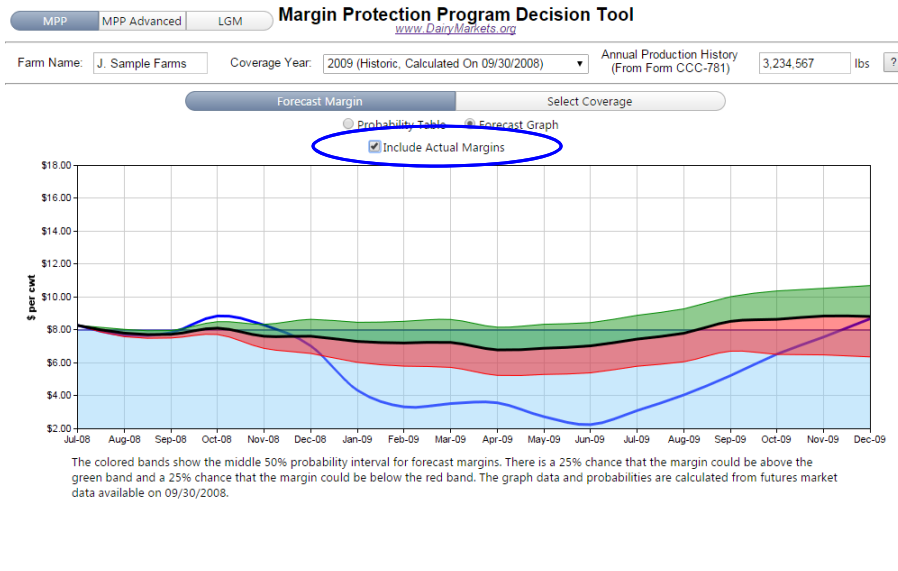
First Page of MPP Calculator



2009 Forecast vs Actual



2009 Forecast vs Actual



MPP Probability Table

MPP MPP Advanced LGM **Margin Protection Program Decision Tool**
www.DairyMarkets.org

Farm Name: J. Sample Farms Coverage Year: 2016 (Current, Calculated On 08/31/2015) Annual Production History (From Form CCC-781) 3,234,567 lbs ?

Forecast Margin Select Coverage
 Probability Table Forecast Graph

Two Month Margin Periods

Margin Level	Jul-Aug 2015	Sep-Oct 2015	Nov-Dec 2015	Jan-Feb 2016	Mar-Apr 2016	May-Jun 2016	Jul-Aug 2016	Sep-Oct 2016	Nov-Dec 2016
Expected	\$7.51	\$8.70	\$8.94	\$8.41	\$8.37	\$8.69	\$8.93	\$9.33	\$9.61
< \$8.00	100%	12%	24%	42%	45%	41%	39%	36%	35%
< \$7.50	48%	2%	13%	30%	34%	31%	31%	30%	29%
< \$7.00	-	-	6%	20%	25%	23%	24%	23%	24%
< \$6.50	-	-	2%	12%	16%	16%	18%	17%	19%
< \$6.00	-	-	1%	6%	10%	11%	12%	13%	15%
< \$5.50	-	-	-	3%	5%	7%	8%	9%	10%
< \$5.00	-	-	-	1%	3%	4%	5%	5%	7%
< \$4.50	-	-	-	-	1%	2%	2%	3%	5%
< \$4.00	-	-	-	-	-	-	1%	2%	3%

Probability Forecast Margin Will Fall Below Coverage Level Threshold, Triggering a Payment

This table shows the expected margin and probabilities for two-month margin periods in the Margin Protection Plan. The expected margin and probabilities are shown for each two-month period.

MPP Probability Table

Margin Protection Program Decision Tool
www.DairyMarkets.org

Farm Name: J. Sample Farms Coverage Year: 2016 (Current, Calculated On 08/31/2015) Annual Production History (From Form CCC-781) 3,234,567 lbs ?

Forecast Margin | Select Coverage

2015 Estimate | 2016 Estimate

Coverage Percentage: 90% Participated In 2015 And Paid The \$100 Fee Timely

Covered Annual Production: 3,013,078 lbs Include Actual Net Revenue

Coverage Level	Administrative Fees & Premiums	Expected Payment	Expected Net Returns
\$8.00	\$14,412	\$16,906	\$2,494
\$7.50	\$9,139	\$11,782	\$2,642
\$7.00	\$6,638	\$7,859	\$1,220
\$6.50	\$2,812	\$4,998	\$2,187
\$6.00	\$1,757	\$3,024	\$1,267
\$5.50	\$1,305	\$1,736	\$481
\$5.00	\$853	\$952	\$99
\$4.50	\$401	\$491	\$89
\$4.00	\$100	\$246	\$146

The Expected Payments and Net Returns are based on probabilities calculated from futures market data that were available on 08/31/2015. The "2016 Estimate" values are the period over which you must elect a coverage level and percentage of production history.

Deciding on Coverage Selection

Margin Protection Program Decision Tool
www.DairyMarkets.org

Farm Name: J. Sample Farms Coverage Year: 2016 (Current, Calculated On 08/31/2015) Annual Production History (From Form CCC-781) 3,234,567 lbs ?

Forecast Margin | Select Coverage

2015 Estimate | 2016 Estimate

Coverage Percentage: 90% Participated In 2015 And Paid The \$100 Fee Timely

Covered Annual Production: 3,013,078 lbs Include Actual Net Revenue

MPP Target →

Coverage Level	Administrative Fees & Premiums	Expected Payment	Expected Net Returns
\$8.00	\$14,412	\$16,906	\$2,494
\$7.50	\$9,139	\$11,782	\$2,642
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\$4.00	\$100	\$246	\$146

Contract Cost Premium + \$100 →

Estimated Payments →

Estimated Payment Minus Contract Cost →

The Expected Payments and Net Returns are based on probabilities calculated from futures market data that were available on 08/31/2015. The "2016 Estimate" values are the period over which you must elect a coverage level and percentage of production history.

Choosing Coverage

Margin Protection Program Decision Tool
www.DairyMarkets.org

Farm Name: J. Sample Farms Coverage Year: 2016 (Current, Calculated On 08/31/2015) Annual Production History (From Form CCC-781): 3,234,567 lbs ?

Forecast Margin: 2015 Estimate 2016 Estimate [Download FSA Forms](#)

Coverage Percentage: 90% Participated In 2015 And Paid The \$100 Fee Timely

Covered Annual Production: 3,013,078 lbs Include Actual Net Revenue

[Download FSA Election Forms](#)

Coverage Level	Administrative Fees & Premiums	Expected Payment	Expected Net Returns
\$8.00	\$14,412	\$16,906	\$2,494
\$7.50	\$9,139	\$11,782	\$2,642
\$7.00	\$6,638	\$7,859	\$1,220
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\$5.50	\$1,305	\$1,736	\$431
\$5.00	\$853	\$952	\$99
\$4.50	\$401	\$491	\$89
\$4.00	\$0	\$246	\$146

Choose your coverage

You have selected to cover 90% of your production history at a \$6.50 margin level. The annual premium and fee for this coverage is \$2,812. The expected payment for the year at this coverage is \$4,998.

Strategy

- **Why sign up?**
 - If you signed up for 2015, you are signed up for 2016.
 - Provides insurance during times of financial distress.
- **Three Potential Strategies**
 - Only “Catastrophic” (\$4 – 90%)
 - Risk Management (\$6.50 – 90%)
 - Highest Predicted Net Payment (Use MPP Software to Select)

Historic Highest Net Payment

Year	4 million lbs		20 million lbs	
	Level	Optimal \$	Level	Optimal \$
2009	8.00	106,714	8.00	410,072
2010	4.00	(100)	4.00	(100)
2011	4.00	(100)	4.00	(100)
2012	8.00	79,300	8.00	273,002
2013	8.00	37,070	8.00	61,851
2014	4.00	(100)	4.00	(100)
Total		222,784		744,625

\$0.93/cwt/yr

0.62/cwt/yr

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Catastrophic (\$4/cwt – 90%)

Year	4 million lbs	20 million lbs
2009	15,123	76,016
2010	(100)	(100)
2011	(100)	(100)
2012	9,788	49,342
2013	(100)	(100)
2014	(100)	(100)
Total	24,511	124,958

\$0.10/cwt/yr

\$0.10/cwt/yr

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Risk Management (\$6.50 – 90%)

Year	4 million lbs	20 million lbs
2009	75,574	350,272
2010	(3,340)	(44,300)
2011	(3,340)	(44,300)
2012	48,009	212,422
2013	14,930	47,051
2014	(2,548)	(43,420)
Total	129,285	477,725

\$0.54/cwt/yr
0.40/cwt/yr

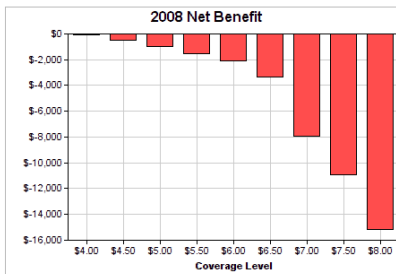
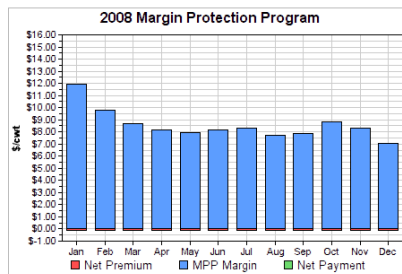
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2008: \$6.50 – 90%

Coverage Level	\$4.00	\$4.50	\$5.00	\$5.50	\$6.00	\$6.50	\$7.00	\$7.50	\$8.00
Participation Cost	(\$100)	(\$460)	(\$1,000)	(\$1,540)	(\$2,080)	(\$3,340)	(\$7,912)	(\$10,900)	(\$17,200)
MPP Payment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,042
Net Benefit	(\$100)	(\$460)	(\$1,000)	(\$1,540)	(\$2,080)	(\$3,340)	(\$7,912)	(\$10,900)	(\$15,158)



You have elected coverage on 3,600,000 pounds of milk at the \$6.50 level.

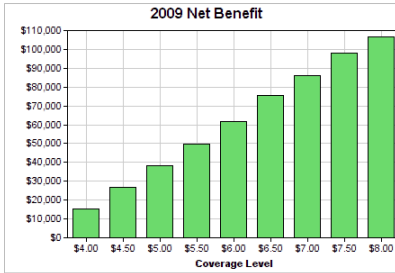
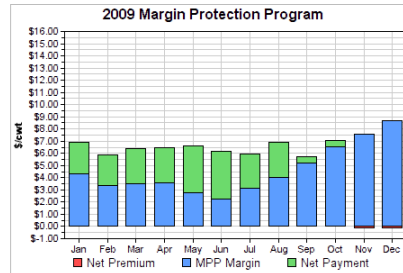
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2009: \$6.50 – 90%

Coverage Level	\$4.00	\$4.50	\$5.00	\$5.50	\$6.00	\$6.50	\$7.00	\$7.50	\$8.00
Participation Cost	(\$100)	(\$460)	(\$1,000)	(\$1,540)	(\$2,080)	(\$3,340)	(\$7,912)	(\$10,900)	(\$17,200)
MPP Payment	\$15,223	\$27,223	\$39,223	\$51,223	\$63,914	\$78,914	\$93,914	\$108,914	\$123,914
Net Benefit	\$15,123	\$26,763	\$38,223	\$49,683	\$61,834	\$75,574	\$86,002	\$98,014	\$106,714



You have elected coverage on 3,600,000 pounds of milk at the \$6.50 level.



Highest Predicted Net Payment

Year	Picked Level	Predicted Net Returns	Actual Net Returns
2009	8.00	24,081	106,714
2010	8.00	4,088	(11,283)
2011	8.00	41,257	(16,209)
2012	8.00	29,687	79,300
2013	8.00	49,459	37,070
2014	4.00	(91)	(100)
Total		148,81	195,492
	*4 million lbs sold	0.62/cwt/yr	0.81/cwt/yr



Highest Predicted Net Payment

Year	Picked Level	Predicted Net Returns	Actual Net Returns
2009	6.50	35,861	350,272
2010	4.00	141	(100)
2011	8.00	82,785	(205,545)
2012	6.50	52,597	212,422
2013	6.50	124,816	47,051
2014	4.00	(54)	(100)
Total		296,146	404,000
**20 million lbs sold		0.25/cwt/yr	0.34/cwt/yr

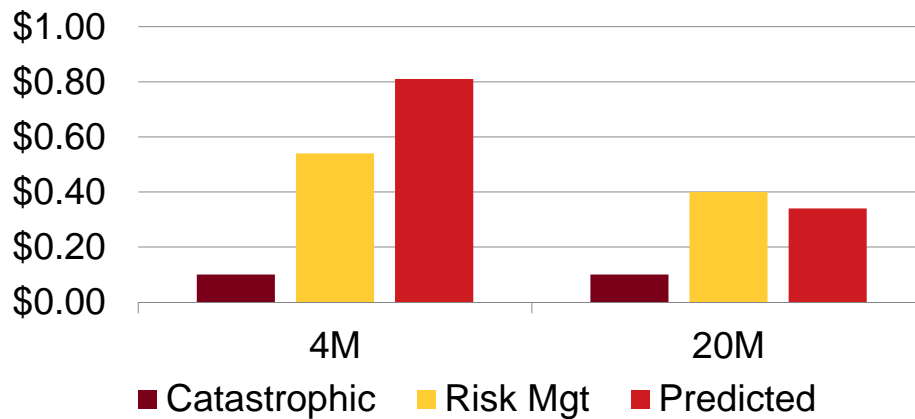
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Strategy Summary

Net Returns by Strategy



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What Level Do I Need?

- **What level of coverage do I need to cover my non-feed costs?**
- **Need to calculate your own IOFC (margin)**
- **Compare it to US MPP Margin**
- **Example: MN Dairy - FINBIN**

MPP vs MN Margin

	Avg	2009	2010	2011	2012	2013	2014
Milk/cwt	19.19	13.57	16.26	19.96	19.63	20.36	24.45
Feed/cwt	9.12	7.34	7.22	8.86	10.26	10.46	10.30
Margin	10.07	6.23	9.04	11.10	9.37	9.90	14.15
MPP Margin	7.91	4.58	8.25	8.82	5.31	7.19	13.31
MN Adjustment	2.16	1.65	0.79	2.28	4.06	2.71	0.84
*FINBIN							
# Farms	2,745	509	527	468	427	402	412

MPP vs MN Margin

	Avg	2009	2010	2011	2012	2013	2014
Non-feed/cwt	8.26	7.17	8.05	8.65	8.04	8.62	8.88
MN Adjustment	2.16	1.65	0.79	2.28	4.06	2.71	0.84
MPP level needed to cover non-feed costs	6.10	5.52	7.26	6.37	3.98	5.91	8.04
*FINBIN # Farms	2,745	509	527	468	427	402	412

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2013 MPP vs MN Margins by Size

	Avg	1-50	51-100	101-200	201-500	Over 500
MPP level needed to cover non-feed costs	5.91	8.32	6.65	5.70	6.39	5.22

*FINBIN

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Limited Budget

- **Ex. 4 Mil lbs sold, only has \$10,000 to spend on MPP coverage**
 - Wants to get as much coverage as possible
- **What level and how much covered?**

Limited Budget

	Milk		Expected
Coverage	Covered	Cost	Net Return
\$6.50	90%	3,453	\$2,728
\$7.00	90%	8,186	1,533
\$7.50	75%	9,415	2,726
\$8.00	50%	9,933	1,682

Reminder

- **Risk Management Tool**
- **It's a year by year decision**
 - Can always change coverage level in following years



Links

- **FSA Tool:** <http://www.fsa.usda.gov/>
- **UMN Extension Ag Business Mgmt:** extension.umn.edu/agriculture/business
- **Dairy Markets & Policy:** www.dairymarkets.org
- **NMPF Tool:** www.futurefordairy.com