



What's On Your Horizon?

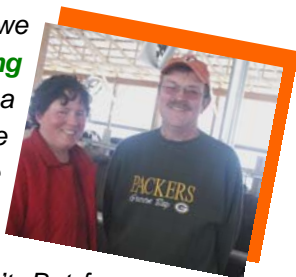
While nobody can answer that question with complete certainty, a risk management plan can ensure that you've taken measures to protect your business if dairy markets collapse or if commodity prices soar. As markets become increasingly more volatile, more dairies will be forced to make it part of their standard operating procedures.



*As young and beginning dairy producers, we utilized the **LGM for Dairy** program because we felt we were more at risk than established farmers. That decision continues to be more and more of a blessing as the milk price continues to stay depressed.*

— Joel Krall, Furnace Hill Holsteins

*With our expansion, we have used **contracting** to keep us from taking a bath when prices go the wrong way. When the milk price is lower, it really works out. When they're higher, it doesn't. But for us, it is the right thing to do to get ahead of the market when the price drops.*



— Joe Laughman, Beech-Run Dairy

To learn more about risk management options and for help in developing a risk management plan for your dairy, contact Alan Zepp at 717-346-0849 or azepp@centerfordairyexcellence.org.

Do you have a plan?

Whether you take out an LGM for Dairy policy, contract your milk and feed, consciously build up a rainy day fund, or do a combination of these, there are many ways to protect yourself when dairy margins fall. However, not doing anything is no longer an option.

The Center for Dairy Excellence and the Risk Management Agency can help you develop a risk management plan for your dairy farm. Resources found on www.centerfordairyexcellence.org can help you better understand the markets, determine your cost of production and learn more about all of your risk management options.

Risk Management Program Coordinator Alan Zepp can also be a resource for your dairy. Alan and his wife Cindy operated a dairy farm for 30 years before they exited the business in 2008. He can use his experiences and what he has learned in his new position to help you navigate the options available to protect your profit margins.



Learn How We Can Help:



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Preparing Your Dairy Farm for the Future...



Means Protecting Your Profit Margin Today.

Risk Management Planning and Resources Available through the Center for Dairy Excellence and Risk Management Agency for Pennsylvania Dairy Producers.



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What are your options?

To protect your business from falling milk prices and/or escalating feed costs, dairy producers have several options available to them. Those options include:

1 Using LGM for Dairy insurance:

The LGM for Dairy program is made available through the USDA Risk Management Agency. A policy must be purchased through an approved insurance agency.

To find agents, call the Center for Dairy Excellence at 717-346-0849 or ask your crop insurance provider about the program.

2 Contracting milk and feed through a cooperative and/or company:

Many milk and feed cooperatives, as well as privately-owned feed companies, offer opportunities to lock in a price for your milk and feed. Contact the companies you work with to find out the options available to you.

3 Contracting milk and feed on the Chicago Mercantile Exchange

This is the most complicated way of protecting your milk price risks and typically requires greater volumes of milk and/or grain.

Producers who want to learn more about this option should contact the Center for Dairy Excellence at 717-346-0849 to find additional resources.



Is LGM for Dairy right for your operation?

What is it?

A new insurance program approved by the USDA Risk Management Agency available for dairy producers since August 2008. It protects producers against unexpected declines in income over feed costs. IOFC equals the milk price minus feed costs.

How does it work?

LGM for Dairy pays the difference, if positive, between expected income over feed costs and actual income over feed costs. 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. Producers have the option of using predetermined default feed coefficients or using their own feed prices in the calculation.

Farmers can insure any amount of milk up to 240,000 hundredweights per insurance period. Deductibles range between \$0 and \$1.50 of the IOFC guaranteed.

When can it be purchased?

Insurance coverage can begin one full month after the sales closing date. Producers have a 24-hour window at the end of the month to purchase a policy. Prices are announced the last business Friday of each month, and producers have until 8 p.m. the next evening to utilize those prices.

Where is it available?

The USDA has made LGM for Dairy insurance program available in 32 states, including Pennsylvania, Ohio, New Jersey, Delaware, and New York.



What are the benefits?

Using LGM for Dairy can be a viable option to protect your milk price. By using this option, dairy producers do not limit their upside potential. If the difference between the expected IOFC and the actual IOFC is positive, you receive a payment. If the difference is negative, the only thing you lose is your premium.

LGM for Dairy is convenient. Producers can sign up 12 times a year over a rolling 11-month period. It can be customized to any size farm and to any month or months of the year.

LGM for Dairy is a bundled option. It is like buying both a call option to limit higher feed costs and a put option to set a floor on the milk price.

What does it not insure?

LGM for Dairy does not insure against the risk of dairy cattle death, unexpected production losses, unexpected increases in feed uses, anticipated declines in milk prices or increases in feed costs, and multiple years lower milk prices or higher feed costs.