



RMA

Dairy Gross Margin Insurance

Northeast Dairy Leadership Team

Alan Zepp

Risk Management Program Coordinator

Center for Dairy Excellence



pennsylvania

DEPARTMENT OF AGRICULTURE



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Agenda

- What is LGM?
- What is a Margin?
- How do I use LGM?



Dairy Gross Margin

- Offered through crop insurance agents
- Bundled option
- Class III milk - put option
- Corn - call option
- Soybean meal - call option



Dairy Gross Margin

- Purchase last Friday & Saturday of each month until 9 Pm Eastern
- Coverage period from 1 to 10 months
- **LGM is an insurance policy**
- **No potential upside losses**



Margin not Price

	A	E	F	G	H	I	J	K	L	M	
1	<i>Pennsylvania Dairy Scorecard, PA Center for Dairy Excellence</i>										
2	Source:	USDA, NASS, www.nass.usda.gov					USDA NASS	Penn State	Penn State	Penn State	
3		<i>1,000 head</i>	<i>million lbs</i>	<i>percent</i>	<i>Billion lbs</i>	<i>pounds</i>	<i>dollars</i>	<i>dollars</i>	<i>dollars</i>	<i>dollars</i>	
4		ALL Milk Cows	PA Monthly	Percent of U.S. Milk Produced in	Calculated Rolling 12 month	Calculated Milk per Cow per	Wholesale	PA Daily Feed Cost	Income over Feed Cost @	Milk Margin (IOFC @ 100	
47	Aug-08	548	871	5.53%	10,646	59	\$20.50	\$8.15	\$8.03	\$12.33	
48	Sep-08	548	838	5.54%	10,598	59	\$20.50	\$8.15	\$8.03	\$12.33	
49	Oct-08	549	862	5.52%	10,607	58	\$19.40	\$6.92	\$8.12	\$12.47	
50	Nov-08	548	827	5.44%	10,547	58	\$19.20	\$6.87	\$8.02	\$12.31	
51											
52	Jan-09	550	897	5.56%	10,550	60	\$16.20	\$6.66	\$6.20	\$9.54	
53	Feb-09	551	821	5.56%	10,471	61	\$13.50	\$6.69	\$4.43	\$6.81	
54	Mar-09	550	919	5.57%	10,541	62	\$13.00	\$6.44	\$4.27	\$6.56	
55	Apr-09	549	900	5.57%	10,524	63	\$13.40	\$6.23	\$4.66	\$7.17	
56	May-09	547	935	5.56%	10,516	63	\$13.40	\$6.70	\$4.36	\$6.70	
57	Jun-09	545	888	5.57%	10,514	62	\$12.90	\$6.54	\$4.13	\$6.36	
58	Jul-09	545	894	5.58%	10,518	61	\$13.00	\$6.18	\$4.43	\$6.82	
59	Aug-09	545	877	5.57%	10,524	60	\$13.30	\$6.17	\$4.63	\$7.13	
60	Sep-09	542	846	5.63%	10,532	60	\$14.20	\$6.14	\$5.24	\$8.06	
61	Oct-09	539	862	5.59%	10,532	59	\$15.80	\$5.82	\$6.49	\$9.98	
62	Nov-09	537	838	5.56%	10,543	60	\$16.80	\$5.88	\$7.10	\$10.92	
63	Dec-09	539	873	5.53%	10,550	60	\$17.90	\$6.03	\$7.72	\$11.87	
64	Jan-10	541	882	5.51%	10,535	60	\$18.00	\$6.09	\$7.74	\$11.91	
65	Feb-10	541	822	5.57%	10,536	62	\$18.10	\$5.95	\$7.90	\$12.15	
66	Mar-10	540	934	5.63%	10,551	64	\$17.00	\$6.09	\$7.29	\$11.21	
67	Apr-10	541	925	5.64%	10,576	66	\$16.30	\$5.46	\$7.05	\$10.84	
68	May-10	541	947	5.57%	10,588	65	\$16.90	\$5.44	\$7.45	\$11.46	
69											
70	Jul-10	541	909	5.52%	10,613	62	\$18.10	\$5.99	\$7.87	\$12.11	
71	Aug-10	541	903	5.59%	10,639	62	\$18.70	\$5.97	\$8.27	\$12.73	
72	Cg Lt Mo	0.00%	0.66%	1.24%	0.24%	0.66%	2.24%	0.22%	6.08%	5.12%	
73	Cg Lt Yr	-0.73%	2.96%	0.30%	1.09%	3.73%	40.60%	-3.24%	78.62%	78.54%	



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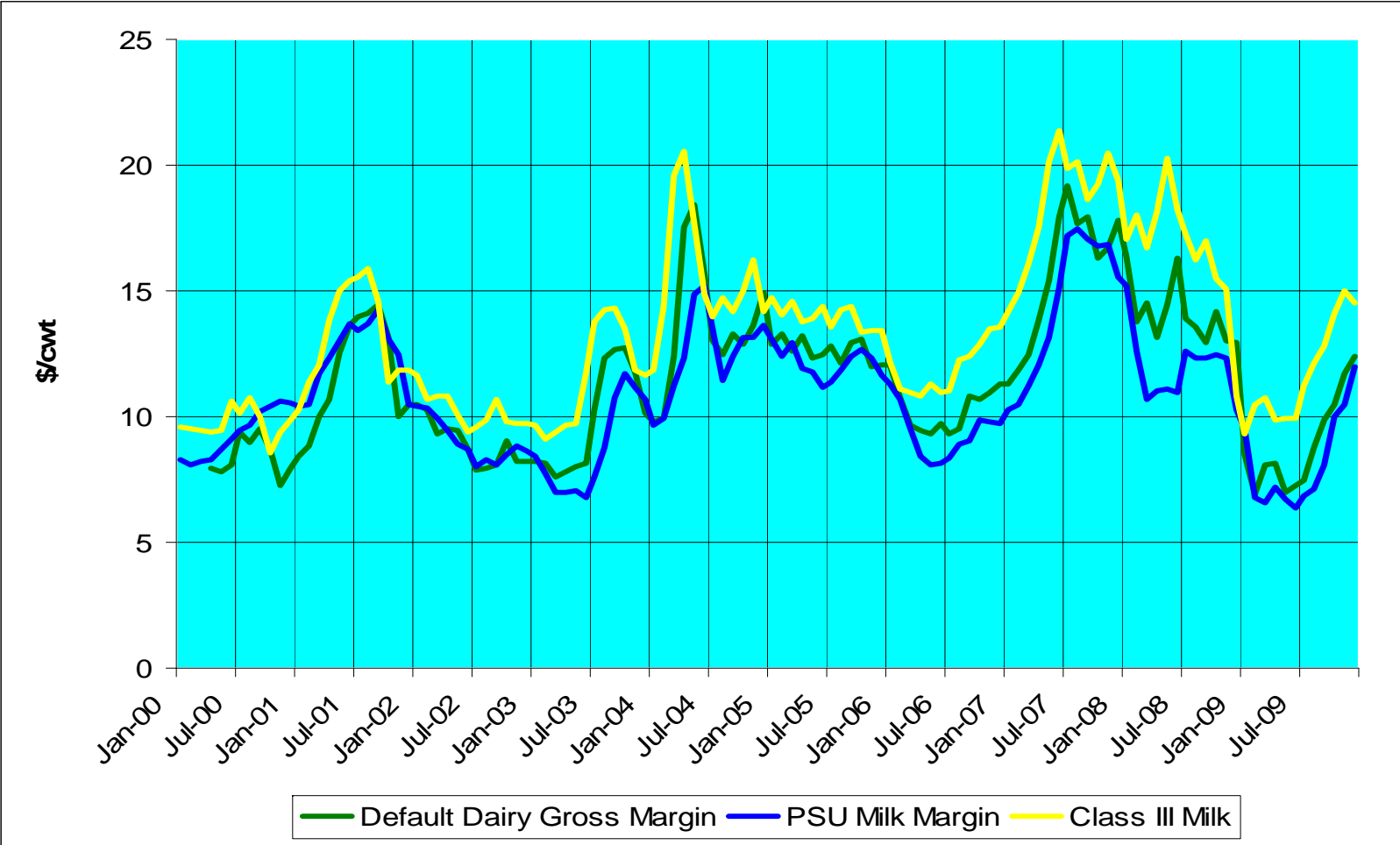
LGM Default Margin Values

100 lbs Class III Milk

- 1/2 bushel corn (.014T)
- 4 lbs soy bean meal (.002T)
- = Default Dairy LGM Margin



Margin vs Milk Price



October 6, 7, & 8

Insured Months	Covered Production (cwt)	Covered Corn Equiv (Tons)	Covered Soybean Equiv (Tons)	Avg. Milk Futures (\$/cwt)	Avg. Corn Futures (\$/bu)	Avg. Soybean Meal Futures (\$/Tons)	Gross Margin Guarantee @ Base Deductible	
							Total (\$)	Per cwt (\$)
Dec-10	2,000	28.00	4.00	15.33	5.05	302.73	24,399	12.20
Jan-11	2,000	28.00	4.00	14.52	5.08	304.02	22,740	11.37
Feb-11	2,000	28.00	4.00	14.00	5.12	305.09	21,663	10.83
Mar-11	2,000	28.00	4.00	14.05	5.15	306.16	21,725	10.86
Apr-11	2,000	28.00	4.00	14.05	5.17	306.79	21,698	10.85
May-11	2,000	28.00	4.00	14.04	5.20	307.42	21,650	10.83
Jun-11	2,000	28.00	4.00	14.06	5.21	308.19	21,672	10.84
Jul-11	2,000	28.00	4.00	14.49	5.23	308.95	22,514	11.26
Aug-11	2,000	28.00	4.00	14.84	5.12	307.31	23,325	11.66
Sep-11	2,000	28.00	4.00	15.12	5.02	302.88	24,008	12.00



Expected Gross Margin

Aug. 08 GM Purchase for July 09

- Milk prices = \$17.81 times 1 Cwt. = \$17.81
- Feed prices
 - Corn \$ 6.31 bu. X .014T.(1/2 Bu.) = \$ 3.16
 - Soymeal \$370.63/T X .002T.(4 lbs)= \$.74
 - Total Feed Cost----- \$ 3.90
- **Expected Gross Margin(milk – feed) \$ 13.91**

(All feed is converted to Shelled corn (energy) & Soymeal (protein) equivalents)



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Actual Gross Margin – July 09

Aug. 08 GM Purchase for July 09

- Milk prices = \$ 9.94 times 1 Cwt. = \$ 9.94
- Feed prices
 - Corn \$ 3.49 bu. X .014T.(1/2 Bu.) = \$ 1.75
 - Soymeal \$367.70/T. X .002T.(4 lbs)= \$.74
 - Total Feed Cost----- \$ 2.49
- **Actual Gross Margin**
 - **(milk – feed) = \$ 7.45**

(All feed is converted to Shelled corn (energy) & Soymeal (protein) equivalents)



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Insurance Loss Payment (Indemnity)

Aug. 08 GM Purchase for July 09

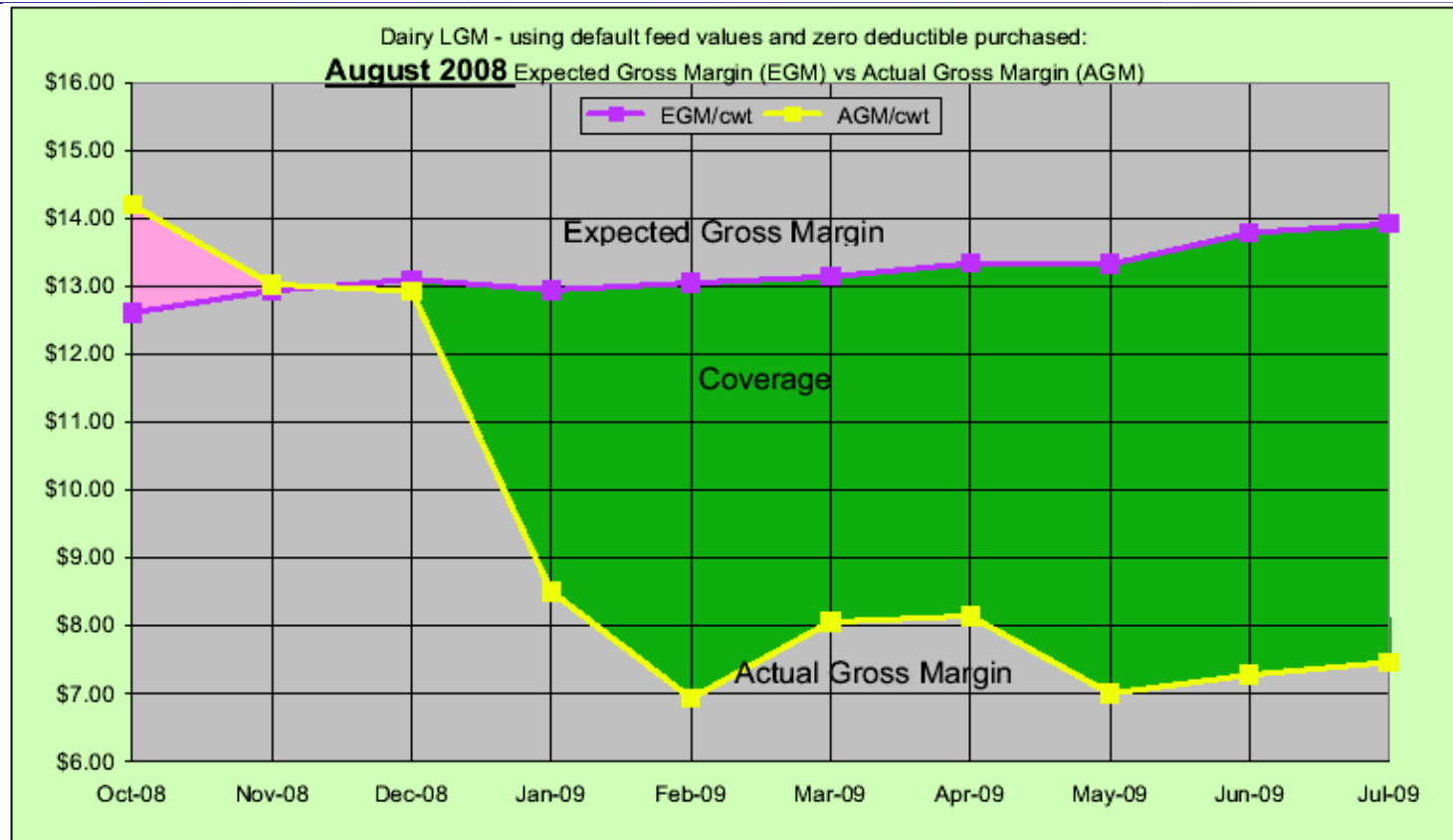
- Expected Gross Margin ---- \$ 13.91
- Actual Gross Margin ----- \$ 7.45
- **Ins. Payment (Indemnity) \$ 6.46**

@ 0 deductible

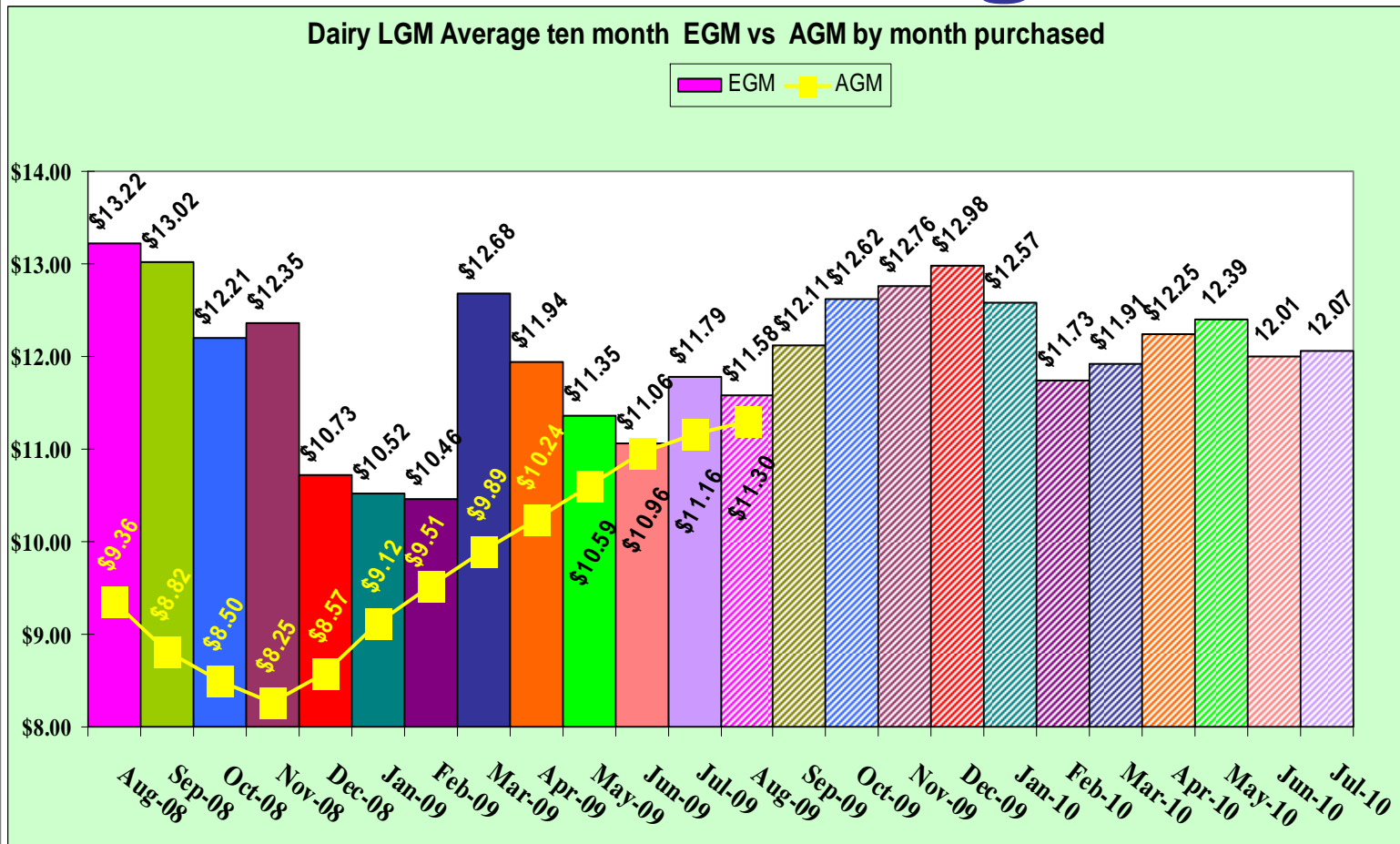


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August 2008



Average of 10 Month Margins



October 6, 7, & 8

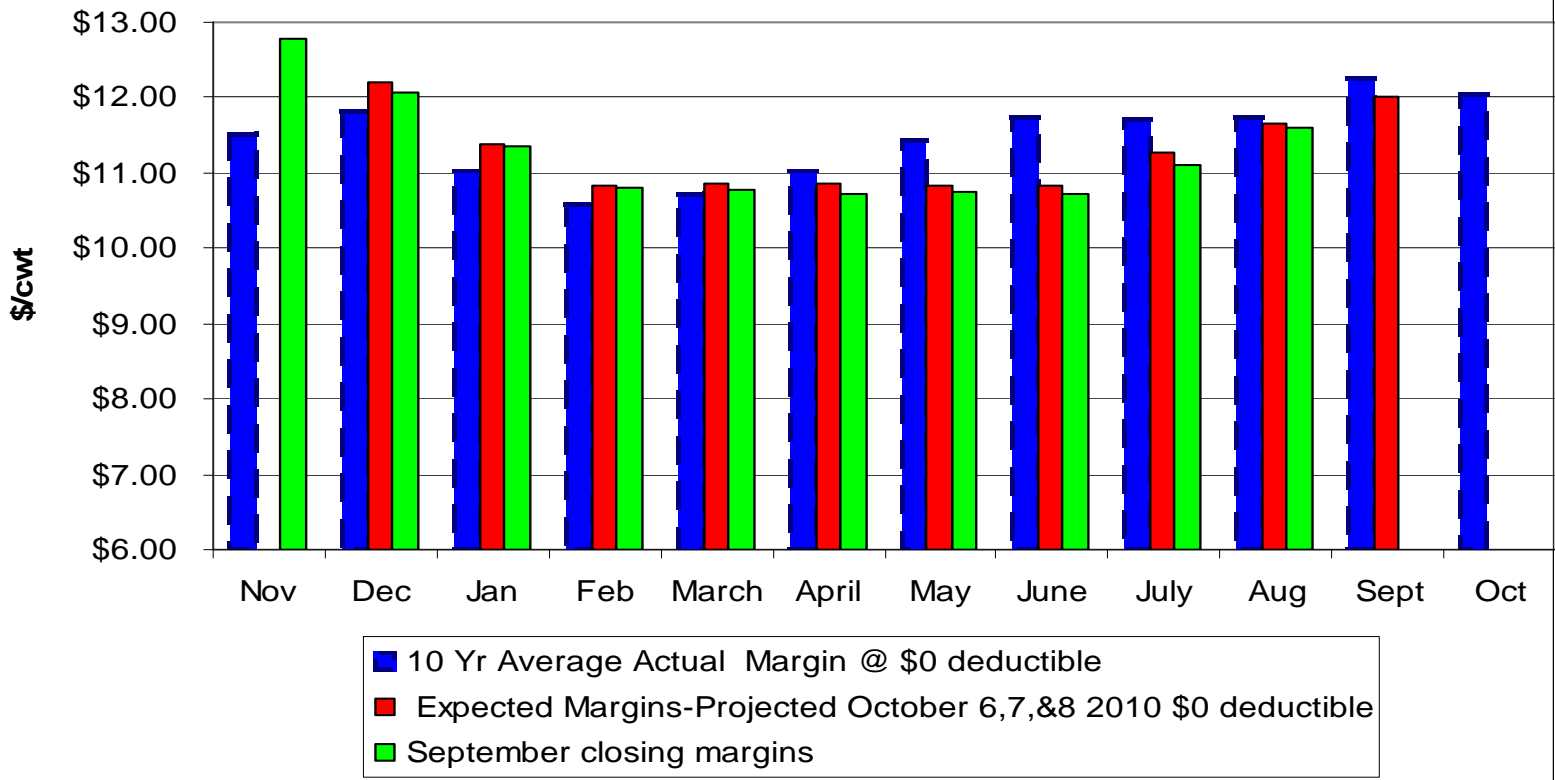
Insured Months	Covered Production (cwt)	Covered Corn Equiv (Tons)	Covered Soybean Equiv (Tons)	Avg. Milk Futures (\$/cwt)	Avg. Corn Futures (\$/bu)	Avg. Soybean Meal Futures (\$/Tons)	Gross Margin Guarantee @ Base Deductible	
							Total (\$)	Per cwt (\$)
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Sep-11	2,000	28.00	4.00	15.12	5.02	302.88	24,008	12.00



Expected vs Actual Margins

Expected Margins on October 6,7,8 & September close
10 Year Average Actual Margins

vs



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Historical Margins

- Average Margin since February 2000:
\$11.47 per hundredweight
- Average Margin since January 2006:
\$12.11 per hundredweight
- Highest Margin: \$19.21 in July 2007
- Lowest Margin: \$6.93 in February 2009



Deductibles and cost

ll /cwt quantities are ratios per Covered Milk. Show ratios per Farm Milk

Deductible Level	Total Premium	Prem/cwt	Gross Margin Guarantee	Premium as % of GMG	GMG/cwt	% Prem /cwt change	% GMG Change	Prob. of Payout
\$/cwt	(\$)	(\$/cwt)	(\$)	(%)	(\$/cwt)			(%)
0	12,737	0.64	225,394	5.65	11.27	-	-	51
0.1	11,698	0.58	223,394	5.24	11.17	-8.16	-0.89	49
0.2	10,712	0.54	221,394	4.84	11.07	-15.9	-1.77	46
0.3	9,788	0.49	219,394	4.46	10.97	-23.16	-2.66	43
0.4	8,916	0.45	217,394	4.1	10.87	-30	-3.55	40
0.5	8,100	0.41	215,394	3.76	10.77	-36.4	-4.44	38
0.6	7,341	0.37	213,394	3.44	10.67	-42.37	-5.32	35
0.7	6,633	0.33	211,394	3.14	10.57	-47.92	-6.21	33
0.8	5,971	0.3	209,394	2.85	10.47	-53.12	-7.1	31
0.9	5,358	0.27	207,394	2.58	10.37	-57.93	-7.99	28
1	4,792	0.24	205,394	2.33	10.27	-62.38	-8.87	26
1.1	4,275	0.21	203,394	2.1	10.17	-66.44	-9.76	23
1.2	3,803	0.19	201,394	1.89	10.07	-70.14	-10.65	21
1.3	3,372	0.17	199,394	1.69	9.97	-73.53	-11.54	19
1.4	2,977	0.15	197,394	1.51	9.87	-76.62	-12.42	18
1.5	2,615	0.13	195,394	1.34	9.77	-79.47	-13.31	16



Scenarios

- Buy 10 months coverage
- Buy 1 month's production over 3 months
33.33%/month
- Buy 1 month's production over 10 months
10% / month
- Use deductibles



Cash Flow Insurance

	\$1.50 deductible				\$1.50 deductible				\$1.50 deductible					
	Purchase 10 Months		Purchase 10 Months		Purchase 10 Months		Purchase 10 Months		Purchase 10 Months		Purchase 10 Months		Purchase 10 Months	
	10% each month		10% each month		10% each month		4, 5, & 6 33% each		4, 5, & 6 33% each		7,8,9,& 10 25% each		7,8,9,& 10 25% each	
	Average		Average		Average		Average		Average		Average		Average	
Feb 00-Aug	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
Per CWT	\$0.63	\$0.78	\$0.63	\$0.78	\$0.12	\$0.24	\$0.75	\$0.82	\$0.20	\$0.33	\$0.85	\$0.98	\$0.27	\$0.41
Bft Cost Ratio	1.23		1.23		2.00		1.10		1.68		1.16		1.56	
# of months	114	55	114	55	115	25	117	52	117	50	115	50	115	50
Maximum	\$24,417	\$110,097	\$2,442	\$11,010	\$1,002	\$6,945	\$2,773	\$11,822	\$1,517	\$8,824	\$2,919	\$15,169	\$1,565	\$12,167
Minimum	\$5,109	\$0	\$511	\$0	\$4	\$0	\$662	\$0	\$13	\$0	\$857	\$0	\$56	\$0
Sales period since	Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt	
	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
	\$0.83	\$2.05	\$0.76	\$2.05	\$0.24	\$0.92	\$0.93	\$2.32	\$0.32	\$1.20	\$1.19	\$2.55	\$0.53	\$1.10
Bft Cost Ratio	2.48		2.48		3.82		2.51		3.72		2.14		2.09	
	Average total		Average total		Average total		Average total		Average total		Average total		Average total	
	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
	\$15,262	\$41,009	\$1,526.24	\$2,665.59	\$398.87	\$1,409.71	\$1,759.15	\$4,501.15	\$624.94	\$2,270.22	\$2,178.79	\$4,879.14	\$1,028.86	\$2,044.93
Maximum	\$18,583	\$83,791	\$2,442	\$8,379	\$1,002	\$5,379	\$2,221	\$11,822	\$924	\$8,824	\$2,653	\$13,221	\$1,309	\$12,167
Minimum	\$12,112	\$2,778	\$1,211	\$278	\$183	\$0	\$1,310	\$0	\$272	\$0	\$1,709	\$370	\$711	\$0



Thank-you



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Empowering the People, Creating the Partnerships,
Coordinating the Resources to GROW Dairy Profitability In Pennsylvania.

I am a: [Producer](#) [Industry Rep.](#) [Consumer & Media](#) [Policy Maker](#) [Educator](#)

Welcome to the Center for Dairy Excellence

Here you will find valuable information to help you make better decisions in your role as a stakeholder in Pennsylvania's dairy industry.

Producers and Industry Professionals will find tools to help improve on-farm profitability, while **Consumers and Policy Makers** will find information on the value of dairy in Pennsylvania and what producers provide to our state. **Educators** will find resources to teach children about dairy.



News & Events

- Jun 30 -- [OPEN HOUSES/DAIRY TOURS KICK OFF IN BERKS COUNTY](#)
- Jun 20 -- [DART MEETINGS FOCUS ON ENERGY, RISK MANAGEMENT](#)
- Jun 11 -- ['GROW DAIRY' GRANTS FUEL INVESTMENT IN PENNSYLVANIA](#)



The logo for the Risk Management Program (RMM) features the letters 'RMM' in a bold, blue, sans-serif font. The letters are slightly shadowed and appear to be floating above a dark, horizontal bar.

Alan Zepp

Risk Management Program Coordinator

azepp@centerfordairyexcellence.org

717-420-7448

717-346-0849



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NEW CHANGES Coming to DAIRY Gross Margin Ins. Program

WASHINGTON, DC, Aug 25, 2010 – RMA announced today that the Federal Crop Insurance Corporation Board of Directors (Board) approved revisions to the [Livestock Gross Margin for Dairy Cattle](#) (LGM-Dairy) insurance plan at its August 12, 2010, meeting. The approved revisions include:

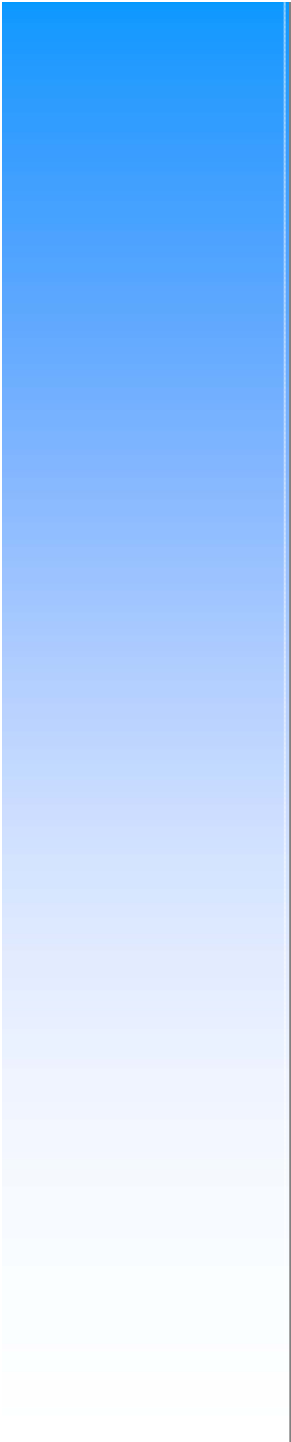
- Federal premium subsidy – 18% /zero deductible to 50% /\$2 deductible
- Deductibles – from zero to \$2 /Cwt. in \$0.10 intervals (current max. is \$1.50/cwt.)
- Premium payment timing due – End of coverage period.
- Adjustment feed loads amounts and values - based on information provided by the National Milk Producers Federation..

RMA and Iowa Agricultural Insurance Innovations, the owner of the LGM insurance plans, are working together to implement the Board-approved revisions.

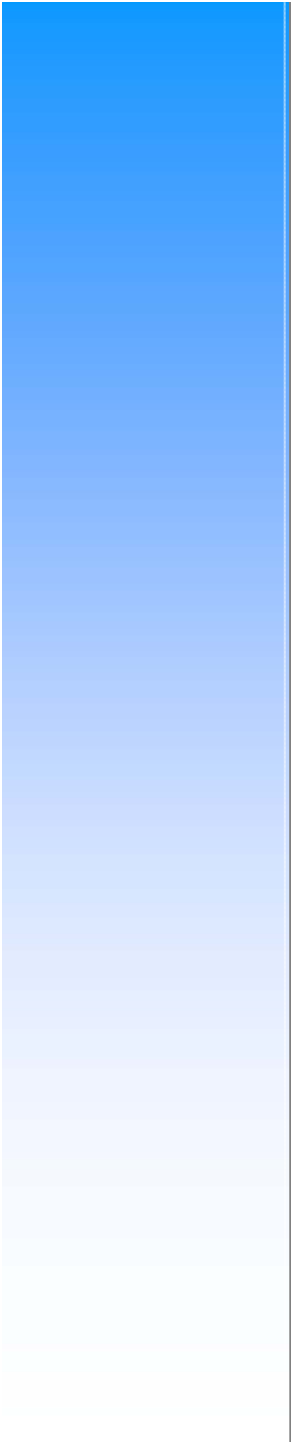
The tentative release of the revisions will be in the fall of 2010.

RMA reminds approved insurance providers that solicitation, sales, marketing, or advertising of these changes is prohibited until RMA releases the revised LGM-Dairy insurance plan materials and make them available to the public.





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Deductibles and Cost

l /cwt quantities are ratios per Covered Milk. Show ratios per Farm Milk

Deductible Level	Total Premium	Prem/cwt	Gross Margin Guarantee	Premium as % of GMG	GMG/cwt	% Prem/cwt change	% GMG Change	Prob. of Payout
(\$/cwt)	(\$)	(\$/cwt)	(\$)	(%)	(\$/cwt)			(%)
0	12,737	0.64	225,394	5.65	11.27	-	-	5
0.1	11,698	0.58	223,394	5.24	11.17	-8.16	-0.89	4
0.2	10,712	0.54	221,394	4.84	11.07	-15.9	-1.77	4
0.3	9,778	0.49	219,394	4.46	10.97	-23.16	-2.66	43
0.4	8,916	0.45	217,394	4.1	10.87	-30	-3.55	40
0.5	8,100	0.41	215,394	3.76	10.77	-36.4	-4.44	38
0.6	7,341	0.37	213,394	3.44	10.67	-42.37	-5.32	35
0.7	6,643	0.33	211,394	3.14	10.57	-47.92	-6.21	33
0.8	5,991	0.3	209,394	2.85	10.47	-53.12	-7.11	31
0.9	5,388	0.27	207,394	2.58	10.37	-57.93	-7.99	28
1	4,792	0.24	205,394	2.33	10.27	-62.38	-8.87	26
1.1	4,215	0.21	203,394	2.1	10.17	-66.44	-9.76	23
1.2	3,803	0.19	201,394	1.89	10.07	-70.14	-10.65	21
1.3	3,392	0.17	199,394	1.69	9.97	-73.53	-11.54	19
1.4	2,997	0.15	197,394	1.51	9.87	-76.62	-12.42	18
1.5	2,615	0.13	195,394	1.34	9.77	-79.47	-13.31	16



September 8,9,10 2010

Insured Months	Covered Production	Covered Corn Equiv	Covered Soybean Equiv	Ag Milk Futures	Ag Corn Futures	Ag Soybean Meal Futures	Gross Margin Guarantee @ Base Deductible	
	(cwt)	(Tons)	(Tons)	(\$/cwt)	(\$/bu)	(\$/Tons)	Total (\$)	Per cwt (\$)
Nov-10	2,000	2800	400	1504	469	29880	24,198	12.10
Dec-10	2,000	2800	400	1458	471	30017	23,249	11.62
Jan-11	2,000	2800	400	1408	475	30079	22,103	11.05
Feb-11	2,000	2800	400	1376	480	30154	21,517	10.76
Mar-11	2,000	2800	400	1383	484	30229	21,611	10.81
Apr-11	2,000	2800	400	1372	486	30229	21,371	10.69
May-11	2,000	2800	400	1379	488	30229	21,491	10.75
Jun-11	2,000	2800	400	1391	489	30275	21,714	10.86
Jul-11	2,000	2800	400	1420	491	30321	22,277	11.14
Aug-11	2,000	2800	400	1458	481	29991	23,145	11.57



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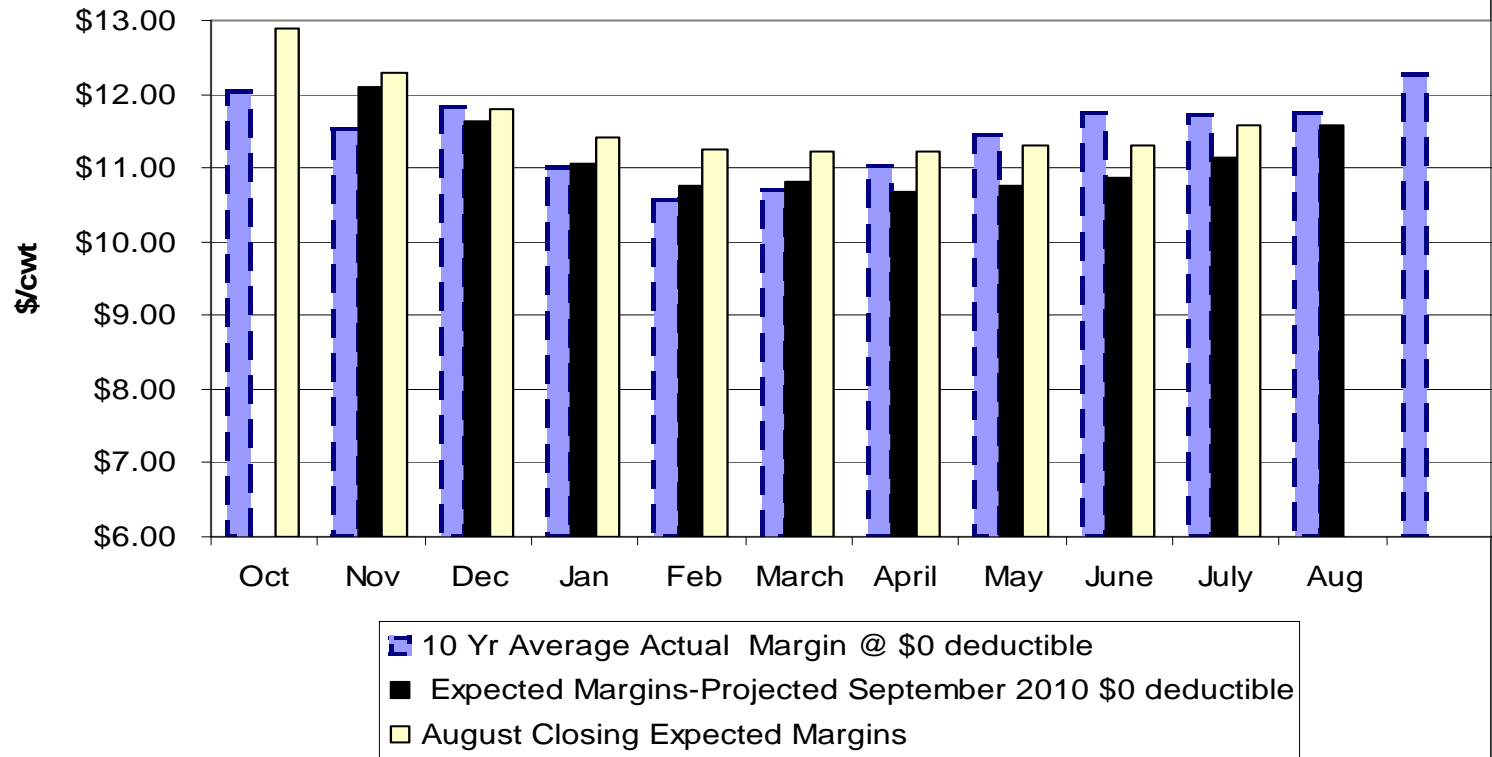
Sensitivity Analysis

Deductible Level (\$/cwt)	Total Premium (\$)	Prem/cwt (\$/cwt)	Gross Margin Guarantee (\$)	Premium as % of GMG (%)	GMG/cwt (\$/cwt)	% Prem/cwt change	% GMG Change	Prob. of Payout (%)		
0	12,404	0.62	0.62	222,675	5.57	11.13	11.13	-	-	51
0.1	11,367	0.57	0.57	220,675	5.15	11.03	11.03	-8.36	-0.9	49
0.2	10,384	0.52	0.52	218,675	4.75	10.93	10.93	-16.29	-1.8	46
0.3	9,457	0.47	0.47	216,675	4.36	10.83	10.83	-23.76	-2.69	43
0.4	8,584	0.43	0.43	214,675	4	10.73	10.73	-30.79	-3.59	40
0.5	7,772	0.39	0.39	212,675	3.65	10.63	10.63	-37.34	-4.49	38
0.6	7,016	0.35	0.35	210,675	3.33	10.53	10.53	-43.44	-5.39	35
0.7	6,312	0.32	0.32	208,675	3.02	10.43	10.43	-49.12	-6.29	33
0.8	5,652	0.28	0.28	206,675	2.73	10.33	10.33	-54.43	-7.19	30
0.9	5,042	0.25	0.25	204,675	2.46	10.23	10.23	-59.35	-8.08	28
1	4,480	0.22	0.22	202,675	2.21	10.13	10.13	-63.88	-8.98	26
1.1	3,965	0.2	0.2	200,675	1.98	10.03	10.03	-68.03	-9.88	24
1.2	3,493	0.17	0.17	198,675	1.76	9.93	9.93	-71.84	-10.78	21
1.3	3,067	0.15	0.15	196,675	1.56	9.83	9.83	-75.27	-11.68	19
1.4	2,684	0.13	0.13	194,675	1.38	9.73	9.73	-78.36	-12.57	17
1.5	2,339	0.12	0.12	192,675	1.21	9.63	9.63	-81.14	-13.47	15



Current-10 Year & August Margins

Expected September Margins vs August Closing & 10 Year Average
Actual Margins on 9-10-10



October 6, 7, & 8

Insured Months	Covered Production	Covered Corn Equivalent	Covered Soybean Equivalent	Avg. Milk Futures	Avg. Corn Futures	Avg. Soybean Meal Futures	Gross Margin Guarantee @ Base Deductible	
							Total (\$)	Per cwt (\$)
	(cwt)	(Tons)	(Tons)	(\$/cwt)	(\$/bu)	(\$/Tons)		
Dec-10	2,000	28.00	4.00	15.33	5.05	302.73	24,399	12.20
Jan-11	2,000	28.00	4.00	14.52	5.08	304.02	22,740	11.37
Feb-11	2,000	28.00	4.00	14.00	5.12	305.09	21,663	10.83
Mar-11	2,000	28.00	4.00	14.05	5.15	306.16	21,725	10.86
Apr-11	2,000	28.00	4.00	14.05	5.17	306.79	21,698	10.85
May-11	2,000	28.00	4.00	14.04	5.20	307.42	21,650	10.83
Jun-11	2,000	28.00	4.00	14.06	5.21	308.19	21,672	10.84
Jul-11	2,000	28.00	4.00	14.49	5.23	308.95	22,514	11.26
Aug-11	2,000	28.00	4.00	14.84	5.12	307.31	23,325	11.66
Sep-11	2,000	28.00	4.00	15.12	5.02	302.88	24,008	12.00



Scenario

	Purchase Months 4, 5, & 6 33%each		Purchase Months 7,8,9,& 10 25%each		Purchase 10 Months 10%each month		Purchase 10 Months		\$1.50 deductible Purchase 10 Months 10%each month	
	Average		Average		Average		Average		Average	
	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
Feb 00-Aug 0	\$178,218	\$204,254	\$194,011	\$235,381	\$143,966	\$177,331	\$1,439,668	\$1,773,309	\$28,054	\$56,004
Bft Cost Ratio	1.15		1.21		1.23		1.23		2.00	
	118	Month Average	114	Month Average	114	Month Average	114	Month Average	113	Month Average
Per CWT	\$0.76	\$0.87	\$0.85	\$1.03	\$0.63	\$0.78	\$0.63	\$0.78	\$0.12	\$0.24
#of Months	118	53	114	51	114	53	114	53	113	23
Maximum	\$2,773	\$11,822	\$3,192	\$15,169	\$2,442	\$11,010	\$24,417	\$110,097	\$1,002	\$6,945
Minimum	\$662	\$0	\$857	\$0	\$511	\$0	\$5,109	\$0	\$4	\$0
Sales period since	Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt	
August-08	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
	\$0.93	\$2.32	\$1.18	\$2.55	\$0.77	\$2.05	\$0.83	\$2.05	\$0.24	\$0.92
	Average total		Average total		Average total		Average total		Average total	
	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
	\$1,768.11	\$4,644.57	\$2,172.75	\$5,097.61	\$1,530.72	\$2,662.46	\$15,307	\$40,961	\$398.87	\$1,409.71
Maximum	\$2,221	\$11,822	\$2,653	\$13,221	\$2,442	\$8,379	\$18,583	\$83,791	\$1,002	\$5,379
Minimum	\$1,411	\$0	\$1,709	\$370	\$1,211	\$278	\$12,112	\$2,778	\$183	\$0
Aug08-Aug0	\$31,579	\$78,958	\$30,699	\$66,269	\$21,614	\$53,249	\$216,145	\$532,488	\$6,278	\$23,965
Bft Cost Ratio	2.50		2.16		2.46		2.46		3.82	

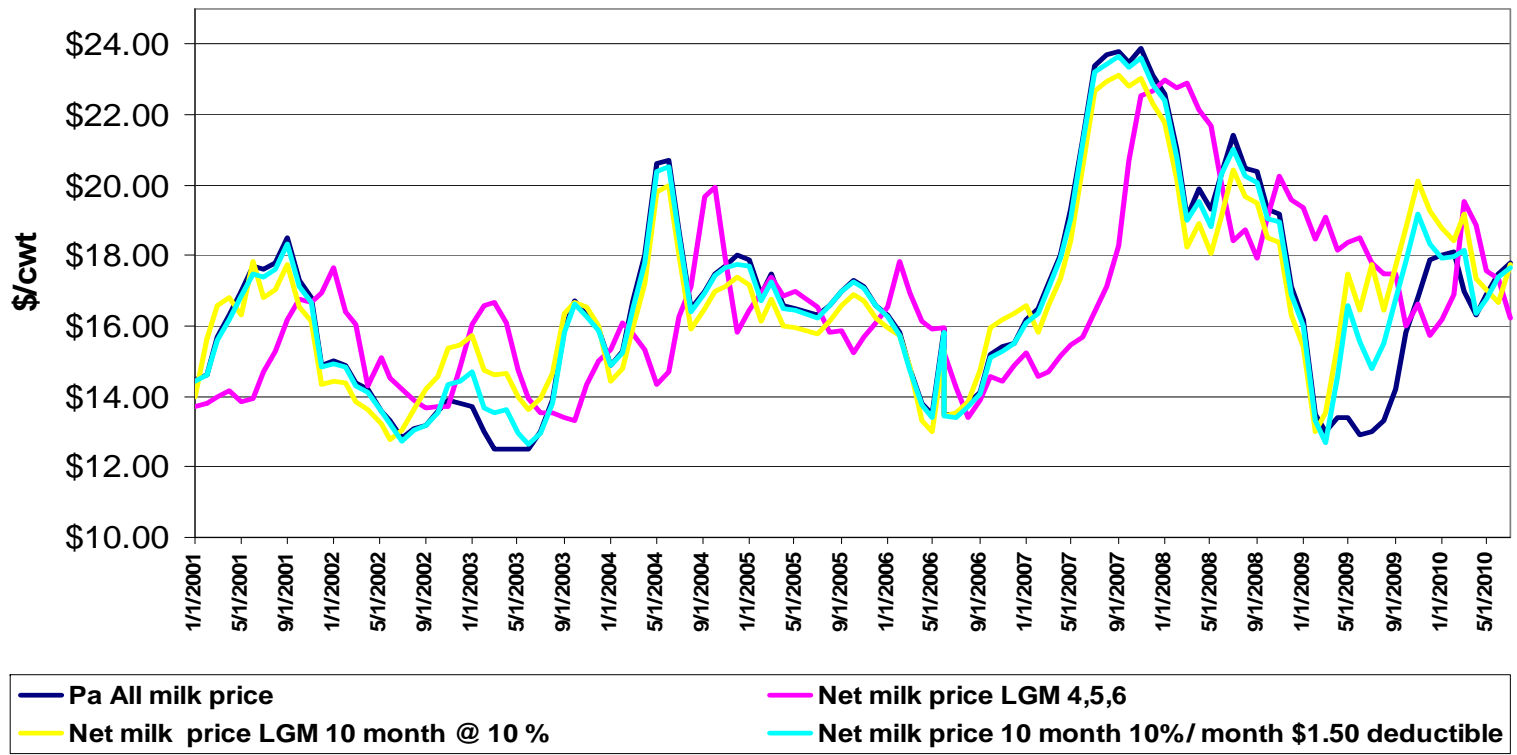


			\$1.50 deductible				\$1.50 deductible				\$1.50 deductible			
	Purchase 10 Months		Purchase 10 Months		Purchase 10 Months		Purchase Months		Purchase Months		Purchase Months		Purchase Months	
			10% each month		10% each month		4, 5, & 6 33% each		4, 5, & 6 33% each		7,8,9,& 10 25% each		7,8,9,& 10 25% each	
	Average		Average		Average		Average		Average		Average		Average	
Feb 00-Aug	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
Per CWT	\$0.63	\$0.78	\$0.63	\$0.78	\$0.12	\$0.24	\$0.75	\$0.82	\$0.20	\$0.33	\$0.85	\$0.98	\$0.27	\$0.41
Bft Cost Ratio	1.23		1.23		2.00		1.10		1.68		1.16		1.56	
	\$1,438,634	\$1,773,939	\$143,863	\$177,394	\$28,054	\$56,004	\$175,735	\$192,554	\$47,395	\$79,612	\$191,036	\$221,045	\$60,194	\$93,872
# of Month	114	53	114	53	113	23	117	52	117	36	113	50	113	30
Maximum	\$24,417	\$110,097	\$2,442	\$11,010	\$1,002	\$6,945	\$2,773	\$11,822	\$1,517	\$8,824	\$2,919	\$15,169	\$1,565	\$12,167
Minimum	\$5,109	\$0	\$511	\$0	\$4	\$0	\$662	\$0	\$13	\$0	\$857	\$0	\$56	\$0
Sales period	Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt		Average/ cwt	
since	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
August-00	\$0.83	\$2.05	\$0.76	\$2.05	\$0.24	\$0.92	\$0.93	\$2.32	\$0.32	\$1.20	\$1.19	\$2.55	\$0.53	\$1.10
Bft Cost Ratio	2.48		2.48		3.82		2.51		3.72		2.14		2.09	
	Average total		Average total		Average total		Average total		Average total		Average total		Average total	
	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity	Premium	Indemnity
	\$15,262	\$41,009	\$1,526.24	\$2,665.59	\$398.87	\$1,409.71	\$1,759.15	\$4,501.15	\$624.94	\$2,270.22	\$2,178.79	\$4,879.14	\$1,028.86	\$2,044.93
Maximum	\$18,583	\$83,791	\$2,442	\$8,379	\$1,002	\$5,379	\$2,221	\$11,822	\$924	\$8,824	\$2,653	\$13,221	\$1,309	\$12,167
Minimum	\$12,112	\$2,778	\$1,211	\$278	\$183	\$0	\$1,310	\$0	\$272	\$0	\$1,709	\$370	\$711	\$0
Aug08-Aug	\$215,111	\$533,118	\$21,511	\$53,312	\$6,278	\$23,965	\$31,474	\$78,963	\$10,977	\$40,864	\$30,916	\$66,269	\$13,693	\$28,629

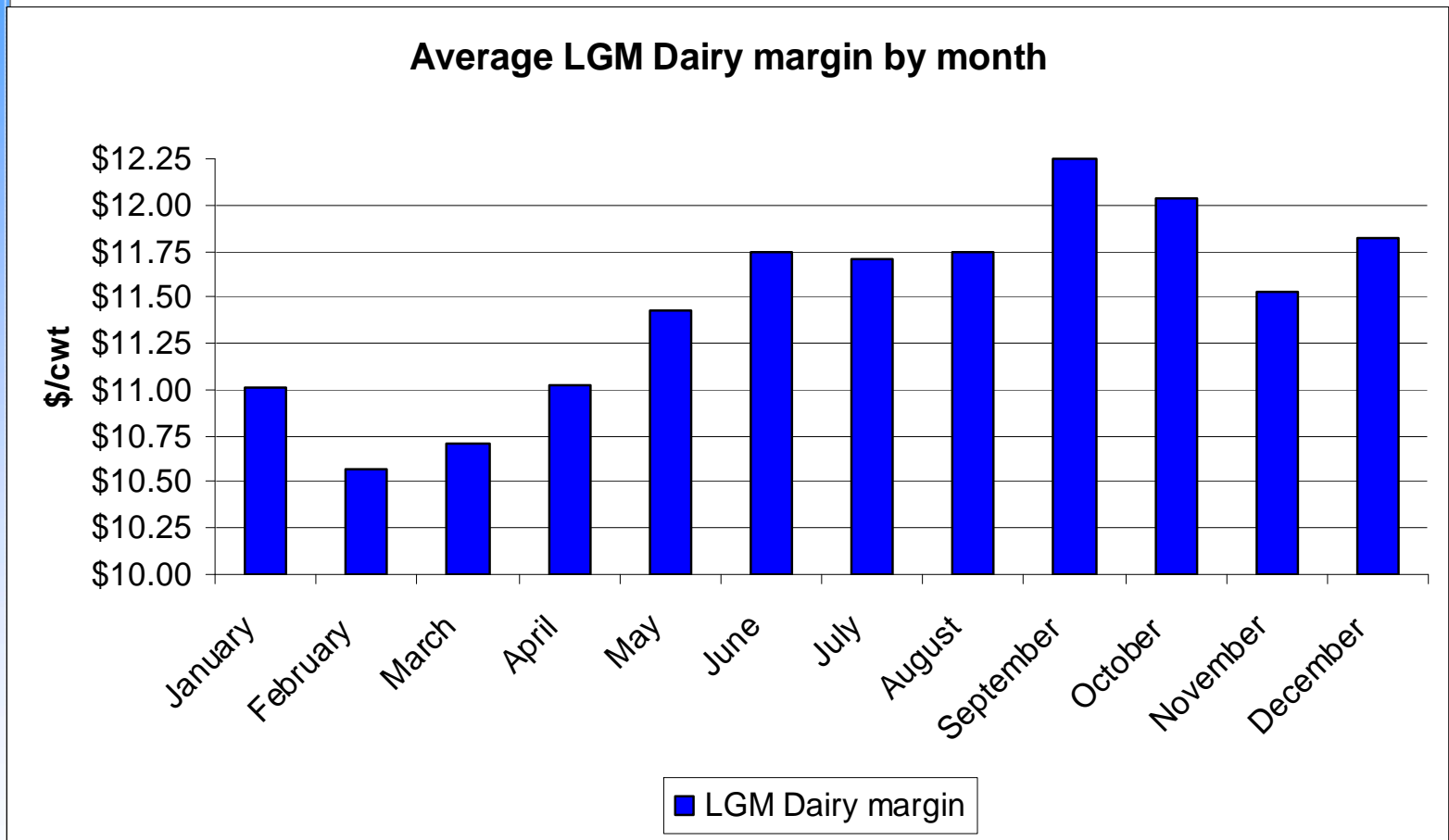


LGM net cost

Pa All milk prices vs LGM NET



Average Monthly Margins



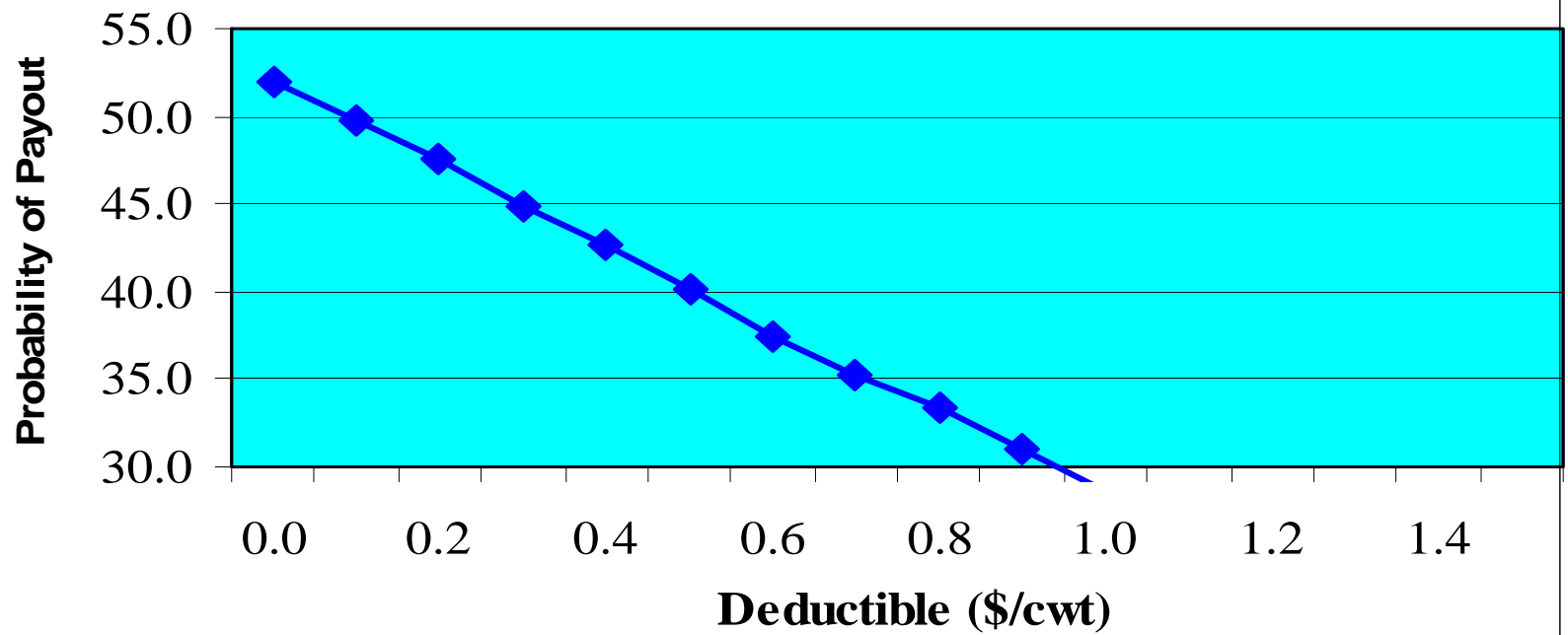
10 Months 100% Coverage

Purchase 10 Months		
Average		
	Premium	Indemnity
Feb 00-Aug 09	\$1,439,668	\$1,773,309
Bft Cost Ratio		1.23
	114	Month Average
Per CWT	\$0.63	\$0.78
# of Months	114	53
Maximum	\$24,417	\$110,097
Minimum	\$5,109	\$0
Sales period since August-08		
Average / cwt		
	Premium	Indemnity
	\$0.83	\$2.05
Average total		
	Premium	Indemnity
	\$15,307	\$40,961
Maximum	\$18,583	\$83,791
Minimum	\$12,112	\$2,778
Aug 08-Aug 09	\$216,145	\$532,488
Bft Cost Ratio		2.46



Deductibles

Effect of Deductible on Payout Probability



Insure Cash Flow

- Purchase Dairy Gross Margin every month
- Purchase 1/3 of production each month for months 4,5,&6



Benefits

- Monthly payments
- Monthly indemnity checks
- \$0 net costs



Scenarios

	Purchase Months 4, 5, & 6 33% each		Purchase Months 7, 8, 9, & 10 25% each	
	Average		Average	
	Premium	Indemnity	Premium	Indemnity
Feb 00-Aug 09	\$178,218	\$204,254	\$194,011	\$235,381
Bft Cost Ratio	1.15		1.21	
	118	Month Average	114	Month Average
Per CWT	\$0.76	\$0.87	\$0.85	\$1.03
# of Months	118	53	114	51
Maximum	\$2,773	\$11,822	\$3,192	\$15,169
Minimum	\$662	\$0	\$857	\$0
Sales period since	Average / cwt		Average / cwt	
	Premium	Indemnity	Premium	Indemnity
August-08	\$0.93	\$2.32	\$1.18	\$2.55
	Average total		Average total	
	Premium	Indemnity	Premium	Indemnity
	\$1,768.11	\$4,644.57	\$2,172.75	\$5,097.61
Maximum	\$2,221	\$11,822	\$2,653	\$13,221
Minimum	\$1,411	\$0	\$1,709	\$370
Aug 08-Aug 09	\$31,579	\$78,958	\$30,699	\$66,269
Bft Cost Ratio	2.50		2.16	

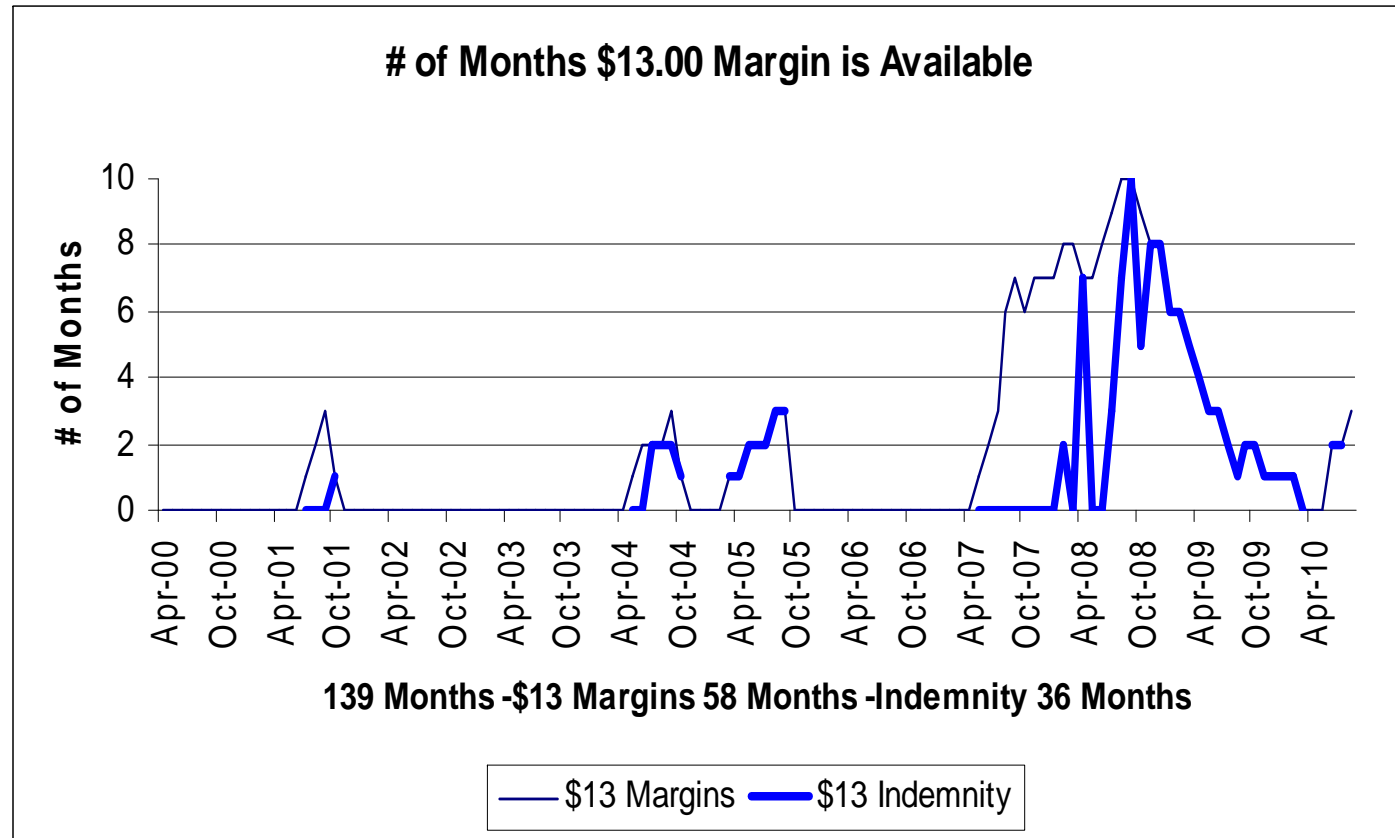


10% / Month- 10 Months

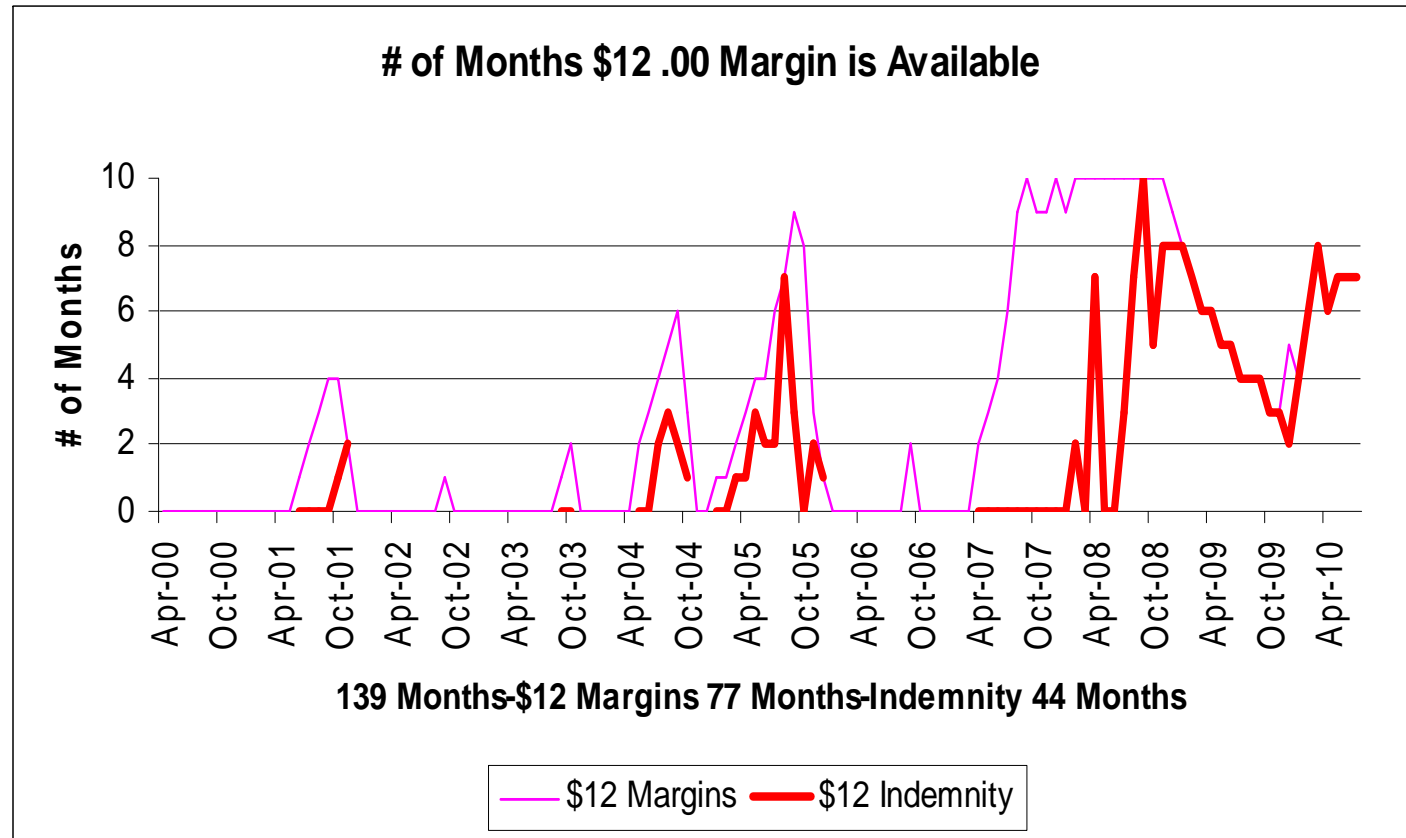
Purchase 10 Months 10% each month			\$1.50 deductible Purchase 10 Months 10% each month		
Average			Average		
	Premium	Indemnity	Premium	Indemnity	
Feb 00-Aug 09	\$143,966	\$177,331	\$28,054	\$56,004	
Bft Cost Ratio		1.23		2.00	
	114	Month Average	113	Month Average	
Per CWT	\$0.63	\$0.78	\$0.12	\$0.24	
# of Months	114	53	113	23	
Maximum	\$2,442	\$11,010	\$1,002	\$6,945	
Minimum	\$511	\$0	\$4	\$0	
Sales period since August-08	Average/ cwt		Average/ cwt		
	Premium	Indemnity	Premium	Indemnity	
	\$0.77	\$2.05	\$0.24	\$0.92	
	Average total		Average total		
	Premium	Indemnity	Premium	Indemnity	
	\$1,530.72	\$2,662.46	\$398.87	\$1,409.71	
Maximum	\$2,442	\$8,379	\$1,002	\$5,379	
Minimum	\$1,211	\$278	\$183	\$0	
Aug08-Aug 09	\$21,614	\$53,219	\$6,278	\$23,905	
Bft Cost Ratio		2.46		3.82	



Buy \$13.00 Margin



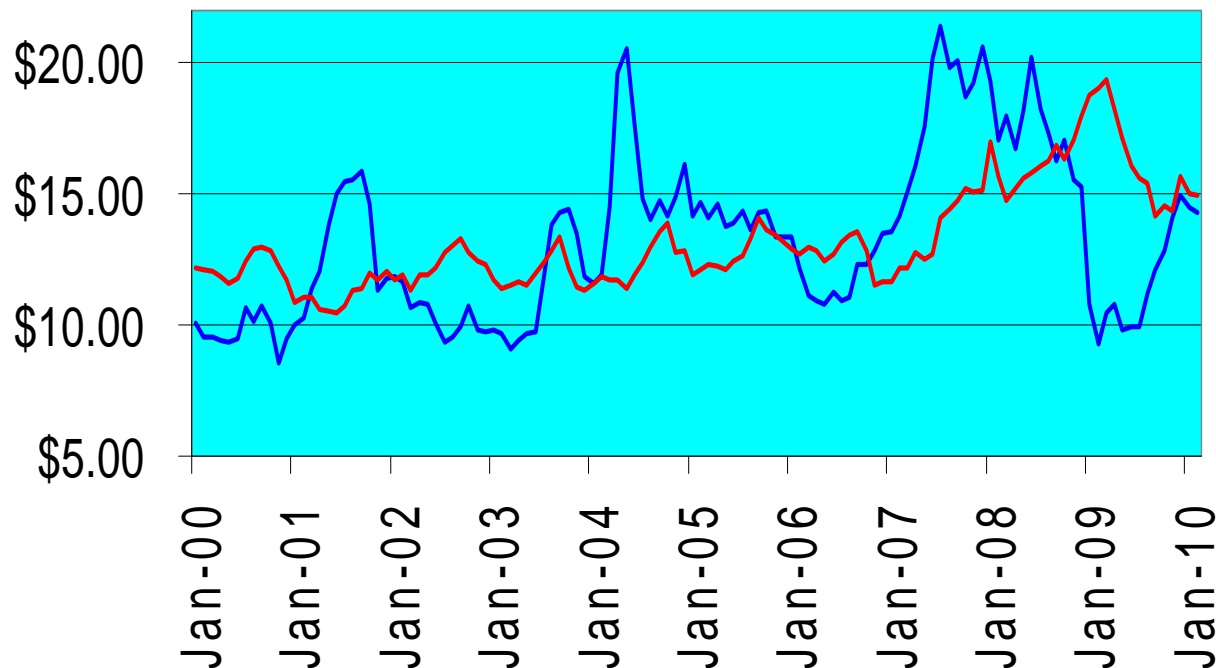
Buy \$12.00 Margin



Price Predictor Pricing Opportunity

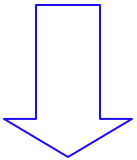
Class III Announced price vs closing 9 months previously

— Class III Announced Price — 9-Months Prior Future's Settlement

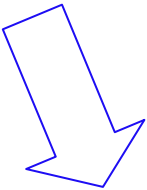


How Dairy GM Works

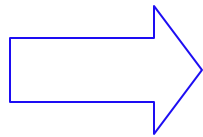
Expected Prices Determined



**Producer feed Inputs
Target milk Marketings
(All or part of your milk)**

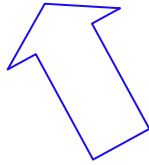


**Expected
Gross Margin
(Ins. Guarantee)**

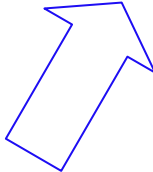


**Actual Prices
Determined**

**Expected Gross Margin
(ins. guarantee)
Minus
Actual Gross Margin
=
Indemnity**

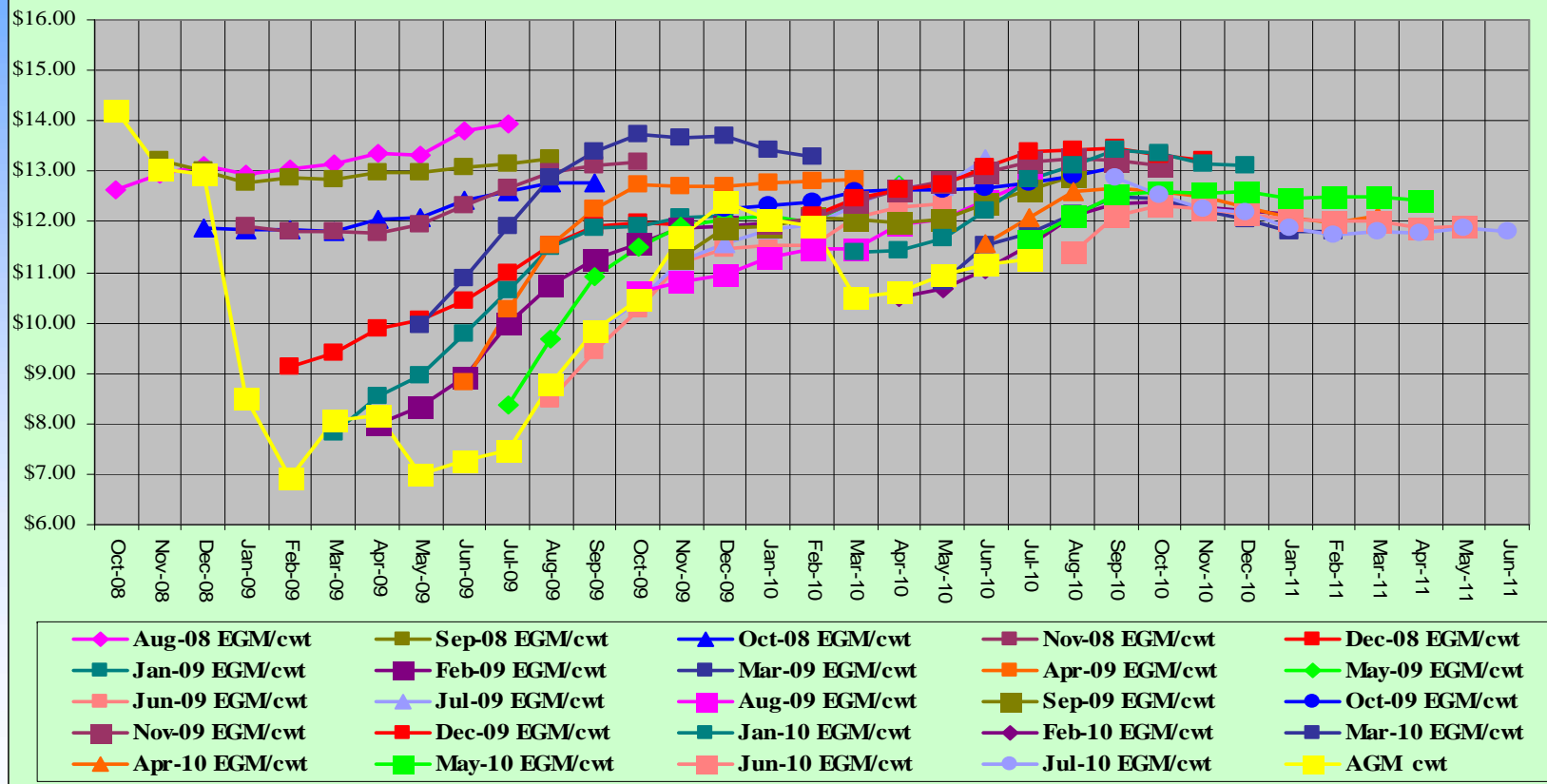


**Actual Gross
Margin is
Calculated**



Margins

Expected Gross Margin (EGM) by enrollment period vs Actual Gross Margin (AGM) with zero deductible



Milk Margin

Milk Price / cwt

- Feed Cost / cwt milk

Milk Margin



CENTER FOR
Dairy EXCELLENCE

Advantages of Dairy GM Policy

❑ Convenience

- Producer can insure from 1 to 10 months each sales period.
- Producer can deal with a local crop insurance agent
- Dairy GM does not forfeit upside gains (profits)



Advantages of Dairy GM Policy

❑ Customization

- The Dairy GM policy can be tailored to any farm size.
- Contract size is not an issue.
- Producer can insure any portion of their production



How Much Does Dairy GM Cost?

- Premiums are Revenue Neutral
 - Administrative costs are subsidized, all premiums are used only to pay indemnities, which are intended balance over time
- High price volatility - higher premium
- Insure 10 consecutive months, pay less per month than when fewer months insured
- \$0.00 deductibles costs more than \$1.50 deductible



Dairy Gross Margin

- Federally reinsured
- Flexible
 - Contract size
 - Time periods
 - Deductibles



Time Periods

- Twelve insurance periods each calendar year
- All or any portion of expected milk can be covered
- Maximum milk enrollment – 240,000 Cwts. Annually
- Portions of expected monthly production can be “stacked”

