Livestock Gross Margin (LGM) Insurance for Dairy

Remaining profitable in the dairy business is like walking a tight rope without a safety net below. Keeping up with the bills is equivalent to making it from platform to platform without incident. With inputs such as feed and fuel at record high prices and with less than optimal milk prices, it can be quite unnerving to live from milk check to milk check. Wouldn’t it be nice to have a safety net in position just in case finances were off-balance? Livestock Gross Margin (LGM) for dairy is the dairyman’s safety net by protecting revenue, specifically, gross margin.

What is LGM Dairy?
LGM for Dairy is a pilot insurance program run through the U.S. crop insurance program that provides protection against unexpected declines in the gross margin of a dairy operation. Gross margin is the market value of the milk minus feed costs and this expected value is calculated based on the futures prices of milk (Chicago Class III) and feed (corn and soybean meal) on the futures market of the Chicago Mercantile Exchange. Unlike crop insurance where the majority of revenue risk exists with production, the risk with LGM Dairy lies predominantly with the price of milk and feed. The program does not set a support price on milk. Instead, LGM Dairy strictly covers the difference between the expected gross margin and the actual gross margin. Other causes of revenue loss such as production loss, damage to livestock, livestock death, etc. are not covered. LGM Dairy has been established to provide dairymen with a risk management tool to help diminish vulnerability in today’s volatile commodities market.

How does it work?
For a dairyman to participate in the LGM Dairy program, first expected prices would be determined for both feed and milk in the futures market. The next step would be to determine how much milk is to be insured. Once this is determined, the gross margin guarantee is established and then at month’s end, the actual prices of milk and feed are determined. Actual gross margin may then be calculated to determine if an indemnity payment is owed. In order to be eligible for an indemnity payment, a producer must make at least 75% of the projected yield locked in for the given insurance period. Any amount of milk may be insured assuming that specified amount can, in fact, be produced. The limit of milk that can be covered in a year is 240,000 cwt.

Where to get LGM coverage?
LGM Dairy will be sold on the third to last business day of each month, and the sales period ends at 10am (EST) the following day. There are twelve insurance periods each calendar year and each insurance period runs for eleven months. Coverage begins one full month following the sales closing date of the policy. In the eleven months in an insurance policy, only ten months are covered. To participate in the LGM Dairy program, contact your local crop insurance agent.

In this issue:
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- Managing Risks and Evaluating the LGM-Dairy Program for Your Operation
- Wildlife Management for Agriculture
- Crop Insurance for Dairy Producers
- FSA Supports Dairy Industry Through MILC Program
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Managing Risks and Evaluating the LGM Dairy Program

LGM-Dairy protects dairy operations against unexpected declines in the margins between milk prices and feed costs.

At the present time, there is a bit of complexity to this program. In evaluating how the LGM Dairy program may fit into the financial management of your dairy operation, the first risk management step is to determine today’s variable costs for producing a hundred weight of milk. It is anticipated that in the future, the New Jersey Department of Agriculture will be seeking cost of production statistics to evaluate the health of the dairy industry in the Garden State.

It is strongly recommended that dairy farmers complete the specified worksheet as a starting point for managing the financial risks associated with dairy production. Questions with regard to dairy risk management may be forwarded to David Lee, Rutgers Cooperative Extension of Salem County, (856) 769-0090.

Variable cost of production of milk must be calculated from expenses pertaining solely to the dairy enterprise. This information includes all costs and activities related only to the milking and total (dry) cows. It does not include information relating to calf raising, heifer raising, and other farming enterprises. In order to have comparable information, you should have at least the last two years of information e.g. 2007 and 2008.

For a copy of this worksheet, please contact Dave Lee at the Salem County Extension Office at 856-769-0090.

Wildlife Management for Agriculture

The Wildlife Services (WS) program, part of the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS), responds to requests from the public, organizations, and agencies in need of help in dealing with wildlife conflicts. WS, a federal service program that shares costs with cooperators, is charged with assisting in solving problems that are created when wildlife causes damage to agriculture, property, or natural resources. WS also assists with wildlife problems involving threats to human health and safety and threatened or endangered species.

In regard to protection of agriculture, the WS program in New Jersey assists with managing goose, vulture, and blackbird damage to crops and livestock. European starlings, an invasive species, often congregate in feedlots and dairies during winter months. Starlings can cause damage by consuming and contaminating livestock feed and water supplies with their droppings - potentially transmitting harmful diseases such as salmonella. Upon request, WS can provide on-site assistance to a facility where starlings are causing damage and develop plans to reduce the damage caused by the birds. An integrated wildlife damage management approach is used and may include recommendations for exclusion, harassment, and/or lethal control methods. For more information about the WS program you may call 1-866-4-USDA-WS in NJ or visit the WS website at http://www.aphis.usda.gov/ws.
Did you know that you can insure your silage? Dairy producers can benefit from crop insurance if they grow their own feed or forage. Insurable crops include corn, soybeans, forage seeding, and forage production.

**Corn** is insurable in several different ways. First, you can insure your yield with a standard Actual Production History (APH) policy. Using the average of 4-10 years of your farm’s yield records, your APH is calculated for the upcoming crop year. You then choose a coverage level (50-75%) and multiply that with your APH to calculate your guarantee in bushels/acre. If you produce less than your guarantee due to certain causes, you will receive an indemnity payment. You can also insure corn grown for silage in this manner as long as you keep separate records for it.

Corn is also insurable under the Crop Revenue Coverage (CRC) plan of insurance, which insures your revenue. With CRC, you still use your APH and coverage levels to calculate a guarantee, but then price is introduced to give you a guarantee in dollars/acre. Commodity prices are visited at two times during the season, and your guarantee is based on the higher of the two prices. Under this policy, you can receive an indemnity payment due to poor yields and poor prices at harvest time.

Corn can also be insured under county-based policies called Group Risk Plan (GRP) and Group Risk Income Plan (GRIP). Under these plans, your farm’s production does not influence your indemnity payment. If county yield (with GRP) or revenue (with GRIP) per acre falls below a certain number, then you receive a payment. You could have a bumper crop and receive a payment if the rest of the county does poorly, or you could lose your entire crop and not receive a payment if the rest of the county does well.

**Soybeans** are also insurable with APH, CRC, and GRP or GRIP.

**Forage production** can be insured with an APH policy if the stand is pure alfalfa, alfalfa/perennial grass mix of more than 25% alfalfa. The crop must have been grown during one or more years after the year of establishment (period between seeding and crop developing an adequate stand). The year of establishment can be insured using a forage seeding policy. It does not cover acreage that is grazed or inter-planted with another crop. The coverage level you choose (50-75%) determines your dollar guarantee per acre, and you receive a payment if your production-to-count falls below your total protection guarantee. One more option for dairy producers is Adjusted Gross Revenue-Lite (AGR-Lite). This is a whole farm revenue policy, meaning it insures your end-of-year revenue rather than individual crops. It uses tax documents to determine your revenue guarantee, and you choose a coverage level (65%, 75%, or 80%). At the end of the year, if your revenue is less than your guarantee, you receive a portion of the difference. AGR-Lite covers almost all agricultural production, including animal production, so your dairy revenue would also be included!

These are all particularly important this year because the new government crop disaster assistance program, SURE, requires crop insurance on almost all crops on your farm. If one major crop is not insured, then you would not be eligible to receive crop disaster payments.

For more information on crop insurance, or a list of agents licensed to sell crop insurance in New Jersey, contact the New Jersey Crop Insurance Education Team toll-free at 1-800-308-2449 or visit our website at http://salem.rutgers.edu/Cropinsurance.

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**FSA Supports Dairy Industry Through Milk Income Loss Contract (MILC)**

The USDA Farm Service Agency’s (FSA) MILC Program supports the dairy industry by providing direct counter-cyclical style payments to milk producers on a monthly basis when the Boston Federal Milk Marketing Order Class I price for fluid milk falls below the benchmark of $16.94 per hundredweight (cwt.). The 2008 Farm Bill changed the $16.94 per cwt of milk trigger for MILC payments to a variable trigger that may be adjusted monthly for variations in feed costs above $7.35 per cwt of a 16-percent protein feed ration. Monthly MILC payment rates will be determined and payments issued to eligible dairy operations when the Boston Class I price falls below the feed-cost-adjusted trigger. Certain per year per operation eligibility pound limits also apply. For more information, contact your local FSA office.
Rutgers Cooperative Extension Sets Training For Animal Waste Management Plans

Educators from Cooperative Extension, a unit of Rutgers New Jersey Agricultural Experiment Station, will provide training, beginning this month, for equine and other livestock farmers in the development of “Self-Certified Animal Waste Management Plans” as required by the state of New Jersey.

On February 9, the state approved an Animal Waste Management Rule, obliging all livestock owners to proactively address and manage non-point source pollution that could originate from livestock operations, including those housing horses, dairy cows, cattle, swine, goats, sheep, poultry and all other domesticated species considered farm animals. The rule was written to prevent water and other environmental pollution, and it received extensive input from numerous state and federal agencies as well as the private sector.

All operations with eight of more “animal units” (one animal unit equals 1,000 pounds) and fewer than 300 animal units must develop a self-certified Animal Waste Management Plan (AWMP) over the next 18 to 36 months. The training classes led by Rutgers Cooperative Extension will assist farm owners and managers in the development and filing of these plans.

It is recommended that you attend if your operation includes any of the following:

- 1-7 Animal Units (AU) - a self-certified AWMP is encouraged but not required
- 8-299 AUs – a self-certified AWMP is required
- Receiving Manure < 142 tons/year – a self-certified AWMP is encouraged but not required
- Receiving Manure 142+ tons/year – a self-certified AWMP is required

Four locations in Salem, Monmouth, Hunterdon and Sussex counties have been designated for the training. To register for a session in Salem, call 856-769-0090; Monmouth 732-431-7261; Hunterdon 908-788-1339; and Sussex 973-948-3040. The training is free of charge, but participants must register in advance and class size is limited to 25.

This newsletter is brought to you by the Garden State Crop Insurance Education Initiative, a partnership between the USDA Risk Management Agency, New Jersey Department of Agriculture and Rutgers Cooperative Extension of Salem County. For additional information about crop insurance visit our website http://salem.rutgers.edu/cropinsurance or call our toll free hotline 1-800-308-2449 or contact your crop insurance agent.

The following individuals are recognized for their contributions to this newsletter:

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Gene Gantz, USDA RMA
David Lee, RCE Salem County

Laura Gladney, RCE Salem County
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