

# How LGM Dairy Crop Insurance Works

## The Basics of LGM:

LGM provides protection to dairy producers when feed costs rise or milk prices drop. LGM for dairy strictly covers the difference between the expected gross margin and the actual gross margin based on The Chicago Mercantile Ex-

change prices, other causes of loss such as production loss, damage to livestock and livestock death etc. are not covered. Gross margin is calculated by taking the market value of milk (gross revenue) and subtracting from it the cost

of feed (variable cost). Any amount of milk may be insured assuming that the specified amount can in fact be produced. The limit of milk that can be covered in a year is 24,000,000cwt.

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## Subsidies and Deductibles

Premium subsidies are available when you purchase insurance for multiple months within an insurance period. These premiums differ depending on the dollar deductible amount that is chosen by the policyholder. Dollar deducti-

bles range from 0\$-2\$ per hundredweight in 10 cent increments. With a \$0 deductible there is a 18% premium subsidy whereas with a \$2 deductible there is a 50% premium subsidy. The higher the dollar deductible the policyholder

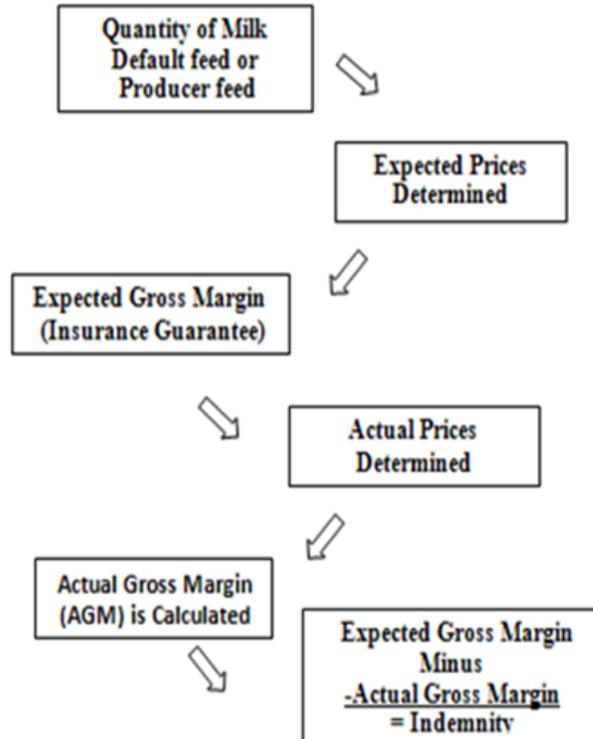
chooses, the higher the premium subsidy. When the expected gross margin exceeds the actual gross margin, insured policyholders receive an indemnity payment within 60 days after their last insured month.

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"[Crop insurance] is like car insurance, you hope you never have to use it, but your glad you have it when you need it."

~Robert Puskas, LGM participant and NJ dairyman

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## Questions About Crop Insurance?

Call our toll free information line at 1-800-308-2449  
Or Ask the Expert online at <http://salem.rutgers.edu/cropinsurance>

## How to Get Started:

To participate in the LGM dairy program, expected prices would be determined for both feed and milk in the futures market. The next step would be to determine how many cwt of milk are 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. An application must be completed and filed no later than

the sales closing date of the initial insurance period for which coverage is requested. Coverage begins one full month following the sales closing date of the policy.



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