For Immediate Release – June 4, 2019

2019 Dairy Margin Coverage Program – Sign up coming soon

Dianne Shoemaker, Extension Field Specialist shared this information with us to share with you.

Occasionally it is nice to catch a break…and breaks have been hard to find in the cow-milking business for a while now. So, put on your mitt because it is nearly time to play ball. The Farm Service Agency plans to open the sign-up period on June 17th for the newly renovated Dairy Margin Coverage (DMC) Program, re-named and re-configured in the 2018 Farm Bill. The changes you will see in the DMC Program attempt to fix some of the problems that rendered the Dairy Margin Protection Program largely ineffective until initial adjustments were implemented early in 2018.

Two of the biggest changes that will positively impact farms of all sizes include 1) adding 3 new margins, $8.50, $9.00 and $9.50, at reasonable premiums, and 2) allowing farms with base production of more than 5 million pounds to make a second margin election for pounds over the first 5 million.

There are also opportunities to recover program participation net losses from 2014, 2015, 2016 or 2017. Repayment can be received either as cash (50% of the net loss), or by applying it to premiums for participation in the new program (75% of the net loss). What does this mean? If a farm purchased $6.50 margin coverage in 2016, paid a premium of $3,500 and received a total indemnity payment of $500, they had a $3,000 net loss. The farm can now choose to receive half the difference, or $1,500 as a cash payment. The other option is to receive $2,250, or 75% of the amount, as a credit toward premiums for Dairy Margin Coverage Program participation.

If you participated in any or all of those years, you will receive notification from your Farm Services Agency office with your amounts and options.

So why should you step up to the plate? Just like 2018, when sign-ups were re-opened for the updated program, sign-ups for 2019 will open well after January, but participation will be retroactive to January 1. When the sign-up period opens on June 17th, we will know exactly what the margins will be for January ($7.99), February ($8.22), March ($8.85), and April.
Signups will end September 20th, so you could wait and know what the actual margins are through at least July. As USDA announces new monthly margins, you can find them posted at https://www.fsa.usda.gov/programs-and-services/Dairy-MPP/index

**No need to wait**
For farms with up to 5 million pounds of base production, indemnity payments for January through March more than cover the premiums at the highest ($9.50) margin.

Example:
Base milk: 5,000,000 lbs (about 200 cows)
Farm elects to cover 95% of their base, 4,750,000 pounds, or 47,500 cwt.  
Coverage level selected: $9.50 margin costing 15¢ per cwt

The program assumes that production is equal across months, or 47,500/12 = 3,958 cwt per month.

Because we know the January, February, and March margins, we can calculate the current indemnity payments. These payments are made on the difference between the purchased margin coverage level ($9.50 in this example) and the announced margin, times the monthly cwts covered:  
Jan $1.51 x 3,958 cwt = $5,977  
Feb $1.28 x 3,958 cwt = $5,066  
March $0.65 x 3,958 cwt = $2,573  
Total payments = $13,616  
Less  
6.2% Sequestration = $ 844  
Administration fee = $ 100  
Premium = $ 7,125  
Difference = $ 5,547 paid to the farm

Since the signup is retroactive to January 1, we know that not only will the known indemnity payments cover all program costs; we also know there will be net positive dollars to help pay a few bills.

How many total net dollars for 2019 is unclear and changing. Two weeks ago, projections indicated that there would be announced margins less than $9.50 well into the summer. If recent milk market rallies hold and show up in milk checks, then there could few or no further indemnity payments. We all hope that that will be the case!

**Second election for base pounds over 5 million**
A major change that impacts farms with more than 200 cows, is the opportunity to make a margin selection for the first 5 million pounds of base milk, and a *different* margin selection for any base pounds over 5 million pounds. The Tier 2 premiums for the > 5 million pounds are substantially higher than premiums for the first 5 million pounds (Table 1). To be allowed to
make a second selection, the farm must purchase coverage at $8.50, $9.00, or $9.50 for the first 5 million base pounds (Tier 1 milk and premiums).

Table 1.
Tier 1 Margins and Premiums for the Dairy Margin Protection Program (2014 – 2018), and Dairy Margin Coverage Program (2019 – 2022)

<table>
<thead>
<tr>
<th>Margin</th>
<th>2014 &lt; 4 million pounds</th>
<th>2018 &lt; 5 million pounds</th>
<th>2019 &lt; 5 million pounds</th>
</tr>
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<tbody>
<tr>
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<td>None</td>
<td>None</td>
</tr>
<tr>
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</tr>
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<td>$0.150</td>
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</table>

Tier 2 premiums are the same as Tier 1 premiums for $4.00, $4.50, and $5.00 margins (Table 2). The premium for the $5.50 Tier 2 margin costs more than three times as much as the corresponding Tier 1 premium, with premiums increasing exponentially until they reach $1.813 for the $8.00 margin. The higher coverage levels quickly become cost prohibitive and are unlikely to make sense for most farms.

However, with the new 2-election option, farms with base production of more than five million pounds should seriously consider maximizing coverage in Tier 1 and electing the $4.00, $4.50, or $5.00 margin coverage on their Tier 2 base pounds for 2019.

Table 2. Margins and Tier 1 and Tier 2 Premiums, Dairy Margin Coverage Program, 2018 Farm Bill
Long-term commitment = 25% off premiums
Another option for farmers to consider as they sign up this year is the 25% premium discount option. There is a large string attached to the 25% discount, as you have to commit to your election for 5 years.

Decision Tool
How to make a decision? Particularly if you are considering the five-year commitment, use the decision tool developed by Mark Stephenson and crew at the University of Wisconsin. The new DMC Decision Tool, which incorporates the changes legislated in the 2018 Farm Bill is now up and running at https://dairymarkets.org. This is a very handy tool that allows farmers to enter their historic production (still starts with the highest of 2011, 2012, or 2013 production – verify your current production history with your FSA office) and explore the cost and potential returns of different coverage percentages and levels. It will lay out your costs for 2019 participation, expected payment, and also lay out the premium with the 25% discount and total 5-year cost if you want to consider that option.

There is also a button to plug in your MPP Premium Repayment amount supplied to you by your FSA office. It will tell you how much you could receive as a cash payment and how much of your current selection’s premium would be covered if you chose that option. The decision tool’s milk and feed price data is updated nearly daily, so you may receive different “expected payment” results depending on what the markets are doing.

OSU Extension and FSA offices will be working together and offering educational programs before and early in the sign-up period to review the changes and options for farmers. Look at the options for your farm. Batter up.