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Understanding the New Dairy Market Coverage Program

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Summary
Utah dairy producers should be aware that the 2018 Farm Bill created a new program, Dairy Margin Coverage (DMC) that contains significant improvements to the dairy safety net by reducing costs and increasing coverage. DMC will be available for sign up at Farm Service Agency (FSA) county offices beginning on June 17, 2019. There is no cut-off date for signing up for DMC but producers must elect either a 50% cash reimbursement from MPP or a 75% credit toward premiums for DMC by September 20, 2019.

Background
DMC protects producers based on the margins between the U.S. all-milk price and the national average feed costs. DMC is very similar to its predecessor program, the Margin Protection Program (MPP), but includes significant improvements. Key improvements include allowing larger amounts of milk to be covered at a lower cost and additional flexibilities for larger dairies. This fact sheet summarizes DMC. For additional details visit your local Farm Service Agency (FSA) office.

How It Works
Margin Calculation
DMC covers the margins between the monthly price of milk and monthly feed costs associated with producing a hundredweight of milk. To determine the margin, DMC subtracts the feed costs (formula based on national corn, soybean meal and alfalfa prices) from the all milk price (cwt basis). All prices used are national prices. This calculation is performed monthly so that each month has a different margin.

Production Covered
Producers choose a percent of their historical production to be covered by DMC that is between 5-95% of their historical production. Historical production is based upon a producer's highest level of production from 2011-2013. If producers signed up for MPP their historical production may have been increased reflecting nationwide increases in production. Producers should visit their local FSA office to lean their historical production. For purposes of calculating a payment, a producer's historical production is divided by 12.

DMC covers production in two tiers. First, Tier I covers up to 5 million pounds of milk and Tier II covers all milk above 5 million pounds. Premiums are significantly discounted for Tier I coverage.

Cost
Producer premiums are based (per cwt) on the following scale (see Table 1).

Producers are required to pay a $100 administrative fee annually, in addition to any premiums that may be due. Under limited circumstances, administrative fees can be waived. Producers should visit their FSA office for details. Premiums are based upon the coverage level threshold(s) selected.

Table 1. Premiums per cwt

Threshold Level	Tier I	Tier II
$4.00	$0	$0
$4.50	$0.0025	$0.0025
$5.00	$0.0050	$0.0050
$5.50	$0.0300	$0.1
$6.00	$0.05	$0.31
$6.50	$0.07	$0.65
$7.00	$0.08	$1.107
$7.50	$0.09	$1.413
$8.00	$0.10	$1.813
$8.50	$0.1050	N/A
$9.00	$0.1100	N/A
$9.50	$0.15	N/A

Frequency of Elections

Producers can choose to make coverage elections annually or through 2023, the life of the 2018 Farm Bill. If producers choose to make one election for the life of the Farm Bill they will receive a 25% reduction in premiums.

Refunds

Producers who enrolled between 2014-2017 in MPP are eligible for a partial refund for any premiums in excess of payments received. Producers may choose to:

- Apply 75% of their refund to their DMC premium; or
- Receive 50% in the form of a direct cash payment

Sequestration

DMC may be reduced due to a sequester order required by Congress.

Sample Calculation Provided by FSA

A representative dairy operation can be used to understand the calculations behind DMC. This dairy operation has an established production history of 3 million pounds (30,000 cwt) annually. This operation chooses to insure 95% of historical production at the $9.50 threshold level. The May 2019 feed cost reported by FSA[1] was $9.00 and the May 2019 national milk price was $18.00 which results in a $9.00 margin. The following calculations illustrate DMC payments:

Step 1-Calculate the difference between threshold level and FSA reported margin:
$9.50 (Threshold Level-see Table 1) - $9.00 (margin reported by FSA) = $0.50 difference

Step 2-Calculate the monthly DMC insurance payment:
$0.50 (from Step 1) x 95 percent of production x 2,500 cwt. (30,000 cwt./12) = $ 1,188 (May 2019 DMC insurance payment). The calculated DMC payments, based on the same assumptions as above, for January-April are shown below:

- January: $5,952
- February: $5,287
- March: $2,793
- April: $2,261

DMC premiums are paid annually. The calculated annual premium for coverage at $9.50 on 95 percent of a 3-million-pound production history for this example would be $4,275.

Step 3-Calculate the annual DMC insurance premium:
3,000,000 (historical production) x 95 percent (coverage level) = 2,850,000/100 = 28,500 cwt. x 0.15 premium fee (see Table 1) = $4,275
The dairy operation in the example calculation will pay $4,275 in total premium payments for all of 2019. All participants are also required to pay an annual $100 administrative fee in addition to any premium, and payments will be subject to a 6.2% reduction to account for federal sequestration. Therefore, in this example, a farmer would pay $4,375 in premiums and get back $17,995 just based on January through May payments.

Key DMC Improvements

DMC operates like its predecessor program, DMC. Below are a few key differences:

- DMC offers higher coverage level thresholds such as $8.50, $9.00, and $9.50, whereas MPP only covered up to $8.00.
- In general, DMC's premiums are less than MPPs, especially for coverage level

[1] Monthly feed costs and milk price for DMC can be found at https://www.fsa.usda.gov/programs-and-services/dairy-margin-coverage-program/index

thresholds that producers will find most beneficial (see Table 2 below).

- DMC allows coverage on 5 million pounds annually for Tier I, whereas prior to changes in early 2018 MPP only covered 4 million pounds in Tier I.
- DMC allows coverage levels from 5-95%, whereas MPP only allowed coverages from 25-90%.

Table 2. Comparison of premiums paid under MPP and DMC

Coverage Level Threshold	Tier I MPP 2018	Tier I DMC	Tier II MPP	Tier II DMC
$4.00	$0	$0	$0	$0
$4.50	$0	$0.0025	$0.0200	$0.0025
$5.00	$0	$0.0050	$0.0400	$0.0050
$5.50	$0.009	$0.0300	$0.1000	$0.1
$6.00	$0.0160	$0.05	$0.1550	$0.31
$6.50	$0.040	$0.07	$0.2900	$0.65
$7.00	$0.063	$0.08	$0.8300	$1.107
$7.50	$0.0870	$0.09	$1.03	$1.413
$8.00	$0.1420	$0.10	$1.36	$1.813
$8.50	N/A	$0.1050	N/A	N/A
$9.00	N/A	$0.1100	N/A	N/A
$9.50	N/A	$0.15	N/A	N/A

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