Dairy Margin Protection Program – 2018

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The Dairy MPP signup period is going on right now, through December 15. However, the signup has a significant wrinkle in it. As opposed to the original farm bill wording, producers are being allowed to opt out of the program for 2018. This gives you the opportunity to not sign up for MPP and then be eligible to utilize the LGM-Dairy crop insurance program. The two programs essentially do the same thing – protect your margin – but they do it slightly differently and you can only be involved in one of the two, not both.

The trick with the calculated margin in the MPP is that low feed prices are causing the very high expectation of greater than $8 margins during all of 2018, meaning no benefit to being involved in MPP. Of course, those are current projections and not what will actually happen – there is always a chance of the markets shifting away from futures market numbers and causing fairly significant differences from current projections.

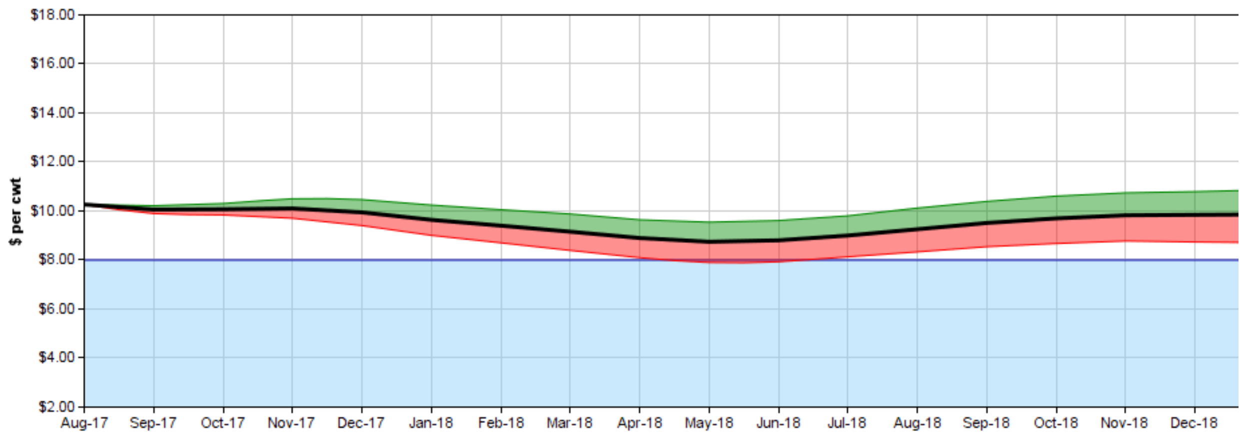

Figure 1. Projected 2018 Dairy MPP margins, as of October 10, 2017

<u>Your MPP Decision Point</u>: If you have been in MPP, you need to either sign up or opt out. Opting out is easy, you simply do not go into the FSA office and register for the 2018 program. You would then be taking on all margin risk, or you would have the ability to sign up for LGM-Dairy. If you choose to sign up, you need to register and decide your coverage level, still in $0.50 increments from $4 to $8. The $4 basic coverage still only has the $100 fee associated with it and no other premiums. Buying up with additional coverage creates a premium payment requirement, although you do not need to pay the premium until August 31, 2018. Premiums are the same as in previous years, but contact myself or the FSA office to get all those numbers, if desired.

Current projections would indicate your best choice is to either opt out or sign up for the $100 fee and select the $4 coverage just to have a base level of coverage for all of 2018. To go up to $6 coverage and protect the margin on up to 4 million lbs of milk production, the premium is 5.5 cents per cwt, or $550 per million. $8 coverage is a bit more pricey, at $0.475 per cwt ($4,750 per million lbs.). If you are considering any type of buyup coverage, I strongly recommend visiting either the official USDA MPP resource, at http://www.fsa.usda.gov/mpptool/ or visit the UW web page focused on this information, at https://dairymarkets.org/MPP/ so that you get the complete range of current projections and premium options. Of course, you are always welcome to contact me with questions or to get together and go over it in detail.

<u>The LGM-Dairy Opportunity</u>

Your other margin protection program opportunity is the LGM-Dairy program. This crop insurance product is sold ahead of the monthly protection periods and it has limited availability. You need to work with your crop insurance provider and be ready to have them sign you up about 6 weeks ahead of when you want coverage. The Jan. 2018 contracts will be on sale Nov. 24-25. Although similar in concept, the calculations for this program vary from the MPP and you select your specific coverage levels and pay premiums accordingly. If you type LGM Dairy Wisconsin into a search engine, you can visit the web pages dedicated to full explanation of this program, including the LGM Dairy Analyzer which allows you to estimate premiums and come up with least cost options for getting the levels of coverage you prefer.