Livestock Gross Margin (LGM) - Dairy

Protect yourself from increasing feed costs and decreasing milk prices with LGM-Dairy.

NAU Country
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Properly filing the AD-1026 form (for compliance with the Highly Erodible Land Conservation (HELC) and Wetland Conservation) with the FSA office is required to qualify for a premium subsidy under LGM-Dairy.

Sales Closing

- LGM will be unavailable if the program reaches the national maximum underwriting capacity, as established by FCIC.
- The sales period begins on the Thursday of the week when coverage prices and rates are posted on the Risk Management Agency (RMA) website and end at 9:00 a.m. CT for LGM Dairy the following morning. LGM Cattle and Swine sales end at 8:25 a.m. CT the following morning.
- Sales will not be available if the Thursday of a sales period is a federal holiday.
- Sales are suspended on dates the UDSA releases a Milk Production, Cold Storage, or Dairy Products report.

NAU Country
A QBE Insurance Company

www.naucountry.com

Our commitment to you

We take pride in being a customer-focused organization through our expertise, engagement, and insight. Our commitment to service has never wavered and with our parent company, QBE Insurance Group, we can provide the best financial stability.

For more information about the process described in this brochure, consult your NAU Country Agent or policy provisions today!

NAU Country Insurance Company
7333 Sunwood Drive | Ramsey, MN 55303
www.naucountry.com | 1.888.NAU.MPCI

Producers of milk in all 50 states are eligible for LGM-Dairy. There are 12 insurance periods in each calendar year. Each insurance period runs 11 months, and no cattle can be insured during the first month of any insurance period. Coverage begins on your cattle one full calendar month following the sales closing date, unless otherwise specified in the Special Provisions, provided the premium for the coverage has been paid in full. For example, for the contract with a sales closing date in June, coverage will begin on August 1.

LGM-Dairy is very customizable. You select the amount of milk to protect in each of the 10 months you choose to cover, and the amount of feed needed to produce that milk.

Example: June 26 is the sign-up date			
	1	July	Black out month
Choose to cover milk in any of these 10 months	2	August	
	3	September	10,000 cwt milk
	4	October	3,000 cwt milk
	5	November	
	6	December	5,000 cwt milk
	7	January	
	8	February	
	9	March	
	10	April	
	11	May	

Each month you select coverage that will result in a margin created by the expected market value of Class III milk and the price of corn and soybean meal. LGM-Dairy is based completely off expected and actual market performance. Your individual feed expenses and milk revenue is not used to determine the coverage.

Lastly, you choose a deductible level that will apply to every month selected. Subsidy is only available when two or more months are covered on each LGM policy.

Deductible	Subsidy %
$0.00	18%
$0.10	19%
$0.20	21%
$0.30	23%
$0.40	25%
$0.50	28%
$0.60	31%
$0.70	34%
$0.80	38%
$0.90	43%
$1.00	48%
$1.10 - 2.00	50%

A loss payment can be paid as soon as the corn, milk, and soybean meal contracts have settled in the last of your selected months. Premium will be billed after the last month of coverage has passed. In the example on the left, an indemnity payment can be calculated after all the necessary commodity contracts for December are known. The bill for the contract would be generated on the first business day in January.

For example, a producer signs up at the end of June and insures September production in the amount of 10,000 cwt of milk with a $1.00 deductible. At the time of enrollment, the milk futures price for January was $16.50, corn was $3.50 per bushel, and soybean meal was $350 per ton. To determine their guarantee, we'll calculate the expected milk revenue and feed costs. In this case, the producer plans to use the default feed values for corn (280 tons) and soybean meal (40 tons).

Estimated costs & guarantee example

Feed Costs

Soybean Cost	40 tons × $350 = $14,000
Corn Weight	280 tons × 2,000 lbs/ton = 560,000 lbs
Corn Bushels	560,000 lbs ÷ 56 lbs/bu = 10,000 bu
Corn Cost	10,000 bu × $3.50 = $35,000
Feed Cost	$14,000 + $35,000 = $49,000

Guarantee

Milk Revenue	10,000 cwt × $16.50 = $165,000
Expected GM	$165,000 - $49,000 = $116,000
Deductible	10,000 cwt × $1.00 = $10,000
GM Guarantee	$116,000 - $10,000 = $106,000

As shown above, the producer's guarantee for January is $106,000 (revenue less feed costs and deductible).

When January passes in this example, CME milk prices fall to $16.00 and CBOT feed costs rise to $4.00 per bushel (corn) and $400 per ton (soybean meal).

Actual costs & indemnity example

Feed Costs

Soybean Cost	40 tons × $400 = $16,000
Corn Cost	10,000 bu × $4.00 = $40,000
Actual Feed Cost	$16,000 + $40,000 = $56,000

Indemnity

Actual Revenue	10,000 cwt × $16.00 = $160,000
Actual GM	$160,000 - $56,000 = $104,000
Actual Indemnity	$106,000 - $104,000 = $2,000

Higher feed costs and lower milk prices contributed to an actual gross margin less than the guarantee ($106,000 - $104,000).