

## New Insurance Program Available to New Jersey Dairy Farmers!

### **Livestock Gross Margin (LGM) for Dairy**

Remaining profitable in the dairy industry is like walking a tight rope without a safety net below. Keeping up with the bills is equivalent to making it from platform to platform without incident. With inputs such as feed and fuel at record high prices and with less than optimal milk prices, it can be quite unnerving to live from milk check to milk check. Wouldn't it be nice to have a safety net in position just in case finances go off-balance? Dairy-LGM is the dairyman's safety net by protecting revenue, specifically, gross margin.

### **What is Dairy LGM?**

Dairy LGM is a pilot insurance program run through the USDA crop insurance program that

provides protection against unexpected declines in the gross margin of a dairy operation. *Gross margin is the market value of milk minus feed costs and this expected value is calculated based the futures prices of milk (Chicago Class III) and feed (corn and soybean meal equivalents) on the futures market of the Chicago Mercantile Exchange.* Unlike crop insurance where the majority of revenue risk exists with production, the risk with Dairy LGM lies predominately with price of milk and feed. This program does not set a support price on milk. Instead, Dairy LGM strictly covers the difference between the expected gross margin and the actual gross margin. Other causes of revenue loss such as production loss, damage to livestock, livestock

death, etc. are not covered. Dairy LGM has been established to provide dairymen with a risk management tool to help diminish vulnerability in today's volatile commodities market.

### **How does it work?**

For a dairyman to participate in the LGM for dairy program, first determine the amount of milk produced and feed utilized on a monthly basis. Secondly, expected prices would be determined for both feed and milk in the futures market. The next step would be to determine how much milk is 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 *(continued on page 2)*



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be calculated to determine if an indemnity payment is payable.

### **Livestock Gross Margin for Dairy**

In order to be eligible for an indemnity payment, a producer must make at least 75% of the projected yield locked in for the given insurance period. Any amount of milk may be insured assuming that specified amount can in fact be produced. The limit of milk that can be covered in a year is 240,000cwt.

### **What is required of me to purchase coverage?**

Accurate farm records will be used for each month during the insurance period to determine both the quantity of milk to be sold and the feed quantity to be fed in terms of corn (or corn equivalents) and soybean meal (or soybean meal equivalents).

### **Coverage Example**

For the month of August a dairy farmer chooses to insure 100% of his expected December milk production. According to a simple average of the CME Class III Milk price during the price discovery period plus a basis for New Jersey, the projected milk price for December is \$17/cwt. The expected December corn price is \$6.26/bu., and the expected soybean meal equivalent is \$353/ton. At the above prices, in August the dairy farmer has a December projected gross margin of \$12/cwt. If the actual price of milk in December falls below the expected \$17/cwt to \$15/cwt and the feed prices remain as projected, the producer will receive an indemnity payment of \$2/cwt.

### **Where to get LGM coverage?**

Dairy LGM will be sold on the third to last business day of each month and the sales period ends 10am (EST) the following day. There are twelve insurance periods each calendar year and each insurance period runs for eleven months. Coverage begins one full month following the sales closing date of the policy. In the eleven months of an insurance policy, only ten months are covered. To participate in the LGM for dairy program, consult your local crop insurance agent.



## **WANT A BIGGER MILK CHECK? MAKE QUALITY MILK!**

With margins growing tighter all the time, the savvy dairyman needs to take advantage of every possible opportunity to remain profitable. Unfortunately, there is no “silver bullet” that can solve the dairyman’s woes. It is only through hard work and commitment to excellence that today’s dairymen may achieve increased profits.

### **Premiums**

If you had a job washing windows and if you could make an extra dollar per window if you took extra special care to make sure that window is perfectly spotless, wouldn’t you be inclined to take advantage of that bonus? Whether you made the extra effort or not, you still had to wash (continued on back)

# FARM BILL ANNOUNCES THAT CROP INSURANCE AND NAP ARE REQUIREMENTS FOR DISASTER PROGRAM ELIGIBILITY!!

The 2008 farm bill states that producers must obtain a crop insurance policy for EACH insurable crop and enroll in FSA's NAP program for each non-insurable crop on the farm to be eligible for assistance in the federal disaster program. Those producers that did not purchase crop insurance or NAP for their 2008 crops, can "waiver" to become eligible for the 2008 disaster assistance programs. This allows producers to pay a fee at their local FSA office by September 16, 2008. The waiver does not provide any insurance or NAP coverage but does allow producers to gain eligibility to participate in any 2008 federal disaster assistance program. Producers are advised to contact their local FSA office before the September 16, 2008 deadline.

## **September 30 is an Important Date for Producers**

Producers planting fall crops such as fall seeded barley, wheat, or other small grains and forage producers are strongly encouraged to speak with a crop insurance agent about covering their crops with an insurance policy by the enrollment deadline of September 30, 2008. The new farm bill has made crop insurance a requirement for eligibility on future federal disaster programs. Each and every insurable crop grown by a producer must be covered with crop insurance if there is a policy available in their county. If no policy is available, producers must sign up for FSA's noninsured crop assistance program (NAP).

In order to remain eligible for government assistance in 2009, ALL crops grown by a producer must have insurance or NAP. This means that if producers do not cover their insurable fall-seeded crops by the September 30th deadline, their spring-planted crops will not be eligible for disaster assistance. It is important for producers to realize that every crop grown throughout the year must be covered to remain eligible for disaster assistance. If even one crop is not covered by crop insurance or NAP, every crop grown by the producer becomes ineligible for any federal disaster program.

Another change that occurred with the implementation of the farm bill is the raise in fees for the producer when purchasing a Catastrophic or CAT policy. CAT fees for 2009 crop insurance policies are \$300 per crop per county. NAP fees are \$250 per crop per county, not to exceed \$750 per county or \$1,875 per producer.

With this hike in CAT fees, producers are encouraged to look into purchasing higher coverage policies. For example, a wheat policy with a \$6.50 price election and an average yield of 55 bu/acre may cost a producer around \$1.38 an acre for the lowest buy-up level, which is 50% yield coverage and 100% of the \$6.50 price election. A CAT policy covers 50% yield but only 55% of the price election, which would be around \$3.58. A producer with 100 acres of wheat could actually buy a higher policy for less money than a CAT policy: 100 acres x \$1.38 + \$30 administrative fee = \$168.00 vs. a \$300 CAT fee. The above is only for illustration purposes. Producers should talk with their insurance agent to get a quote on a crop insurance policy. Remember to ask your insurance agent to run several estimates for different levels of coverage to demonstrate the different premiums and how far your money can go. And don't forget to sign up your fall-planted crops for crop insurance by September 30, 2008!

(Continued from page 2) the window so why not expand your profit margin? This scenario is not unlike milking cows. The cows need to get milked whether it be two or three times a day and if you take the extra care to make sure your herd is producing a quality product, you are entitled to a bonus. The premium scales differ from coop to coop and are based on milk components as well as somatic cell count and bacteria count.

### **Nutrition**

The feed given to a dairy herd is perhaps the most important component that drives the dairy. In order to produce milk with optimal component levels, a quality feed of the right portion is needed to allow the cows to perform to their best ability. With feed costs up, feeding efficiently is especially important so that the feed going into the cow is coming out of the udder as quality milk rather than coming out of the back end of the cow and ending up in the lagoon. It is wise to consult with a nutritionist to formulate feed rations that work most effectively in your herd. Cutting corners at the feed bunk will do nothing more than negatively affect your bottom line.

### **Milk Quality**

Milk companies test each dairyman's milk and make that information available via the internet. It is crucial that the results from this testing are regularly reviewed. Somatic cell counts should be meticulously tracked so that any variation is an instant red flag and immediate action can be taken to correct the issue at hand. An increase in somatic cell count may be an indicator of infection in the herd, cow stress, or a number of other problems.

Bacteria counts in milk affect the overall shelf life of the product, so maintaining low counts is imperative. The wash cycle is critical in sterilizing the milking system and should not be ignored once it begins. Be sure that the cycles take place as they should and the water temperature at the end of the wash cycle should be monitored to ensure the cycle has been effective. If the temperature of the water is below 120°F, adjustments must be made. Also, check your acid wash to make sure it is in date since outdated acid wash loses its efficacy.

### **Cow Comfort**

It is known that cows that are comfortable and live in a low stress environment make more milk. It is critical that animal housing facilities are maintained regularly. Minor adjustments can go a long way when trying to maximize milk production. Dairy men should pay special attention to ventilation, stall condition, housing cleanliness, availability of water, etc. to ensure his cows may live in a quality environment. After all, you shouldn't have to go to California to find happy cows; they should be in your barn!

**This newsletter is brought to you by the Garden State Crop Insurance Education Initiative, a partnership between the USDA Risk Management Agency, New Jersey Department of Agriculture and Rutgers Cooperative Extension of Salem County. For additional information about crop insurance visit our website <http://saalem.rutgers.edu/cropinsurance> or call our toll free hotline 1-800-308-2449 or contact your crop insurance agent.**

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