



## 2018 Enrollment Update

### Explaining the Updated Dairy

# Margin Protection Program

*The National Milk Producers Federation has been working to make the dairy Margin Protection Program (MPP) as effective as possible since it was authorized in the 2014 Farm Bill. In 2017, the NMPF Board of Directors recommended substantive changes to the program, recognizing the reality that the MPP, as approved in the Farm Bill, was inadequate.*

*In February 2018, Congress approved several significant updates to the MPP while also improving the ability for dairy farmers to use the Livestock Gross Margin (LGM-Dairy) program and other insurance options offered through USDA. Taken together, these changes are important improvements to the dairy safety net. In light of these changes, producers should re-evaluate whether MPP is an appropriate risk management tool for them in 2018. The enrollment period opens on April 9 and will close on June 1, 2018.*

### Changes Made to MPP and LGM in 2018

- The catastrophic level of margin coverage offered at no cost has been raised to **\$5/cwt.**, up from \$4, on the first tier of a farm's annual milk production history.
- The first tier of covered milk production history, benefitting from lower premium rates, is now **5 million pounds**, up from 4 million.
- The cost of premiums for buy-up coverage on the first tier has been **cut by as much as 70%** from previous levels.
- The margin will be calculated **on a monthly basis**, rather than every two months.
- The \$100 annual administrative fee **will be waived** for "underserved" farmers, which includes veterans, women and minorities.
- The sign-up period for coverage decisions in 2018 is now from **April 9-June 1**, giving farmers who previously opted out of the MPP – or chose only to pay \$100 for catastrophic coverage – another opportunity to consider their options.
- Congress removed the \$20 million annual cap on the Livestock Gross Margin for dairy (LGM-Dairy) program, allowing USDA to offer LGM enrollment to more farmers, and creating additional insurance tools through the USDA's Risk Management Agency.

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## How the Margin Protection Program Works

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The program makes payments when the monthly margin between the U.S. all-milk price and national average feed costs falls below the level of coverage chosen by the producer. Above the basic, \$5 margin level for the first 5 million pounds, supplemental coverage is available for purchase in 50-cent increments, up to \$8/cwt. The program pays on one-twelfth of a producer's annual production history, multiplied by the percentage of supplemental coverage chosen, from 25% up to 90%, plus the remaining coverage provided on the farm's production history at the basic \$5 level. Once a farm enrolls in the MPP, it is committed to the program through 2018.

Farmers must have an up-to-date Form 1026, signifying that they meet conservation requirements, in order to participate.

### *A New Sign-Up Period Will Begin in Early 2018*

Under the new budget law approved by Congress, USDA will re-open enrollment for calendar year 2018 from **April 9-June 1**. Farmers have the opportunity to purchase or adjust their coverage for 2018. Options include paying the \$100 administrative fee if they want to obtain the basic, \$5 margin coverage for the first 5 million pounds of their production history, or purchasing higher levels of coverage. The \$100 annual fee is being waived for "underserved" farmers.

### *What Constitutes a Farm?*

Dairy operations that can document they are producing milk commercially are eligible to participate. Similar rules that defined a dairy operation under the expired MILC program also apply to the MPP. Multiple producers involved with a single operation are treated as a single farm, but USDA will need approval from all owners for program enrollment. Multiple farms operated by a single producer will register separately.

### *Who is an "Underserved" Farmer?*

USDA defines "underserved" farmers as those meeting certain criteria, including limited resource, beginning stage, veteran or socially disadvantaged farmers.

### *Margins and Payment Schedule*

The monthly margin is calculated by the Agriculture Department using data from its National Agricultural Statistics Service (NASS) and Agricultural Marketing Service (AMS). The margin is defined as the U.S. all-milk price, minus national average feed costs, computed by a formula using the prices of corn, soybean meal and alfalfa hay. Feed

costs reflect the costs associated with feeding all dairy animals on a farm, including milking cows, heifers and dry cows.

Officials margins are announced at the end of the month that follows each monthly period.

### *Production History*

Farms are awarded a production history equal to their highest milk production in either 2011, 2012 or 2013. Participants are required to document their production history at sign-up.

Production histories increase yearly based on the average growth in national milk production, as determined by USDA. USDA said that for the upcoming coverage year of 2018, production histories have increased by 1.86%. This is on top of increases of 1.34% in 2017, 2.61% in 2016 and 0.86% in 2015. However, any production expansion on an individual farm above the national average is not eligible for protection under the MPP. Newly established farms that don't have a full year's production history will use either an extrapolation based on their actual production to establish a 12-month total, or the national average milk production per cow times their herd size.

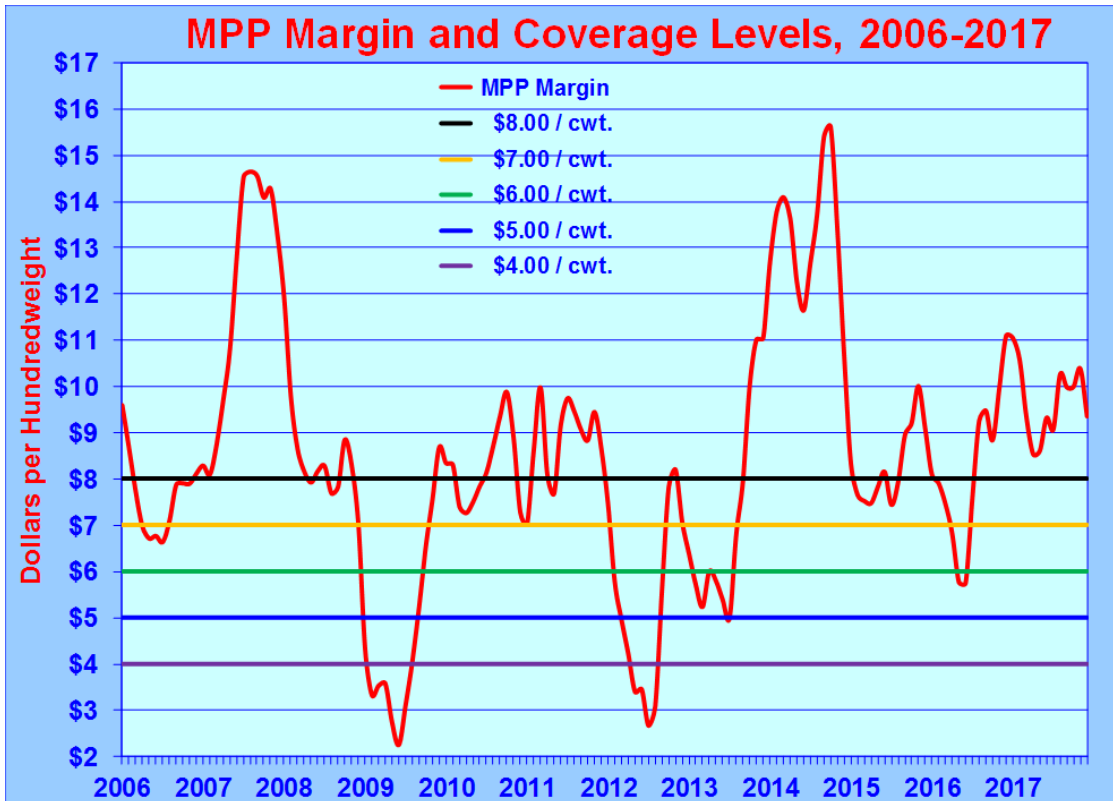
If a dairy farm is sold, its production history can either move with the farmer to a new facility or stay with the farm, but not both. USDA will handle unique ownership situations and changes on a case-by-case basis.

The production history for an operation can be updated when an eligible family member joins the operation. Any dairy operation already enrolled in the MPP that had an intergenerational transfer occur will have an opportunity to increase the dairy operation's production history during the 2018 registration and annual coverage election period.

### *Program Payouts*

Payments to farmers are triggered when the USDA-calculated monthly margin falls below the coverage level selected by the producer.

Margin protection payments are made based on the portion of production history producers choose to protect under supplemental coverage — 25% up to 90% — and the level of supplemental margin coverage they select. As shown in the following graph, using USDA's formula, the margin between milk prices and feed costs has varied widely from year to year.



Using USDA's MPP formula, the margin between milk prices and feed costs has averaged around \$8.50/cwt. since 2006. It reached as high as \$15 in 2014, but dropped below \$3 in 2009 and again in 2012.

### *Fees and Premiums*

There is an annual fee of \$100 to enroll in the program (which is waived for underserved farmers, as defined on Page 2). This guarantees a catastrophic level of coverage, now defined as \$5.00/cwt., on the first tier of production history. Farmers can choose additional coverage in 50-cent increments above \$5, up to \$8/cwt, on their first 5 million pounds.

Table 1 (below) illustrates how the new law reduces the rate of premiums on each farm's first 5 million pounds of annual production history. Farmers covering milk production in the second tier, above 5 million pounds, can purchase coverage ranging from \$4.50-\$8.00. All farmers using the MPP receive catastrophic coverage on 90% of their milk production history.

There are several options for paying premiums: 1) Participants can pay the full premium at sign-up; 2) They can pay 25% of the premium by Feb. 1 of the applicable calendar year of coverage, with the remaining balance due no later than Sept. 1 of the calendar year of coverage; or 3) they can arrange deductions from their monthly milk check. Those who have not paid their premiums by the deadlines will be in default, and will not

receive benefits for any subsequent two-month period until their situation is corrected.

**Table 1: Margin Protection Program Premiums**

Margin Level Coverage	First 5 Million Pounds (Tier I)	More Than 5 Million Pounds (Tier II)
\$4.00	FREE	FREE
\$4.50	FREE	\$0.020
\$5.00	FREE	\$0.040
\$5.50	\$0.009	\$0.100
\$6.00	\$0.016	\$0.155
\$6.50	\$0.040	\$0.290
\$7.00	\$0.063	\$0.830
\$7.50	\$0.087	\$1.060
\$8.00	\$0.142	\$1.360

### **How the New Law Expands Other Risk Management Options**

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The new legislation also removes the \$20 million annual cap on all livestock insurance programs, including the Livestock Gross Margin for dairy (LGM-Dairy) program. The elimination of this cap will enhance the development and approval of new programs by USDA’s Risk Management Agency for dairy producers that can complement MPP-Dairy, including a new option under development to offer revenue protection. The law still restricts farmers to using either the MPP or the LGM program, but not both programs simultaneously. That restriction should not apply to new risk management options that USDA may develop, and will likely be of particular interest to larger producers.

### **Looking Ahead**

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Since the MPP’s enactment, NMPF has been working with USDA and Congress to implement changes that will make the program a more effective national safety net for all of America’s dairy farmers. We continue to work with Congress to enact additional changes as part of the 2018 Farm Bill, now under development. Look for more information and updates on the NMPF website at [www.nmpf.org](http://www.nmpf.org) and at [www.futurefordairy.org](http://www.futurefordairy.org), a website NMPF established as an information hub for the program.

Additional information is also available at the USDA’s [Farm Services Agency](http://www.farmers.gov) website.