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Lessons from LGM-Dairy for Margin Insurance Plans

Dairy Economists and Policy Analysts
Workshop
May 10, 2012

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- Risk Management Program Coordinator
- Center for Dairy Excellence role
 - Educate producers on risk management
- Center for Dairy Excellence
 - Non Profit next to Pa Department of Agriculture
 - Empower people, create partnerships, and increase the availability and use of resources to grow dairy profitability in Pennsylvania and the Northeast.



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Producer's are Risk Takers

- "I don't have time for this!"
- "I should not have to do this!"
 - "The government should set a fair price"
 - "The government should get out of milk pricing"
- "LGM does not reflect my milk check or feed bill"
- "This is based on the CME and speculators control that market"
 - "The CME price is rigged"
 - "The brokerage firms can not be trusted" - MF Global
- "I didn't get an indemnity payment, so this was a waste of money"



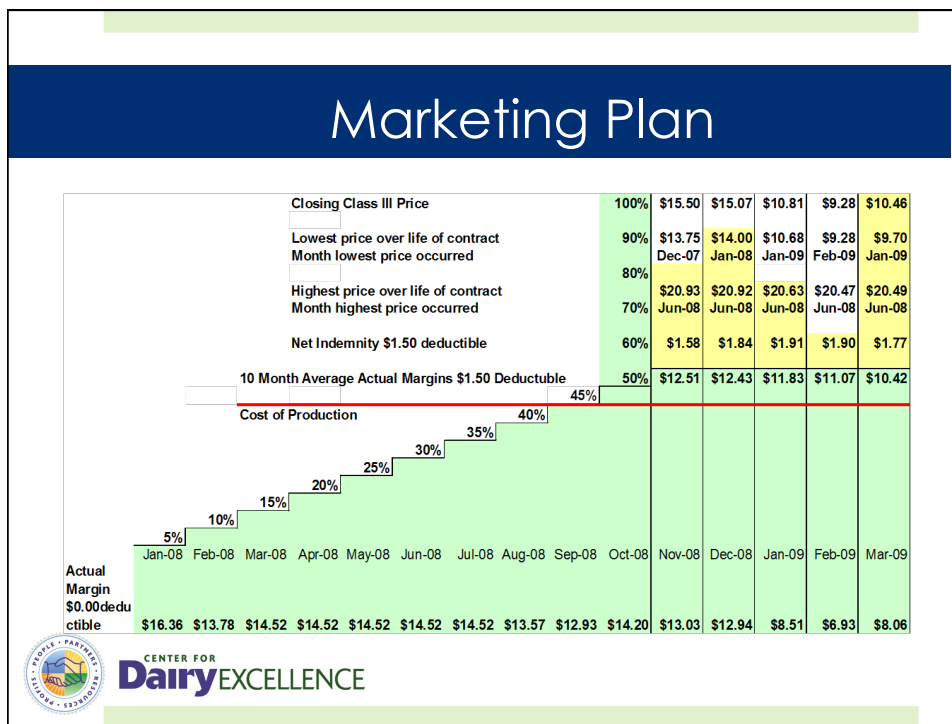
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Positives

- Great introduction for "unsophisticated" producers to begin managing price risk
- Easy to use for all size farms
 - No minimum contract sizes
- LGM-Dairy protects a margin in one step
- Producer can capture the market upside
- Producers make a decision once each month
 - Forces a decision
 - Individual Responsibility
- Cash flow friendly
 - No margin exposure
 - Premium taken from check at the end of policy
- Local crop insurance agents sell LGM-Dairy
- LGM forces producers to think about a marketing plan



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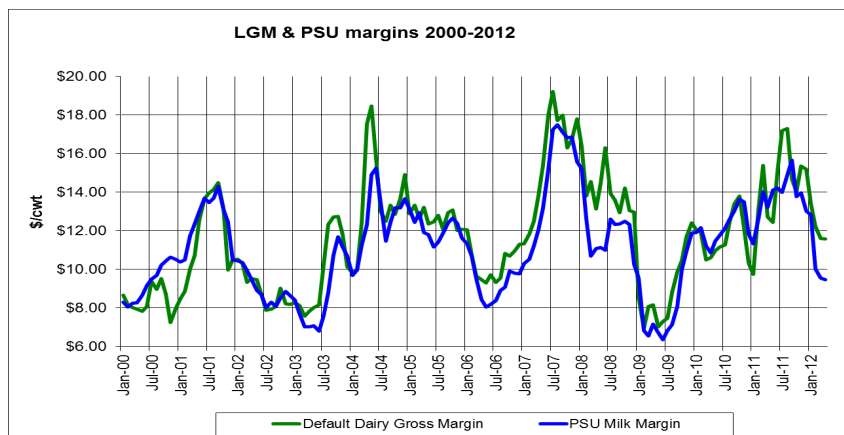


Negatives

- **Lack of continuity!!!**
 - Farmers bought policies because they were available not because their marketing plans prescribed them last fall.
 - Producers that took time to understand the product feel abandoned along with agents and educators
 - Producers that ignored LGM can say “ I’m glad that I did not waste time learning about a product that isn’t available”
- **Basis**
 - LGM margins do not correlate as closely to the real margins on the farm in the Northeast today as they did in years past
 - Corn & hay prices
 - Higher of Class III or Class IV = Class I in Northeast

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PSU Margin & LGM Dairy Margin



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Other Issues

- Local crop insurance agents sell LGM
 - In Pa a handful of agents understand the product well and aggressively market it.
 - Most agents do not understand and therefore do not promote LGM Dairy.
- Cash flow friendly
 - Producers must budget for the premium even the end
 - Contracts less than 10 months are still paid at the end of the 10 month policy period
- Inflexible
 - “Sophisticated” producers cannot enter and exit the market quickly



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Thank You



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LGM Sales Summary


	Pol Sold	Pol Earn Prem	Pol Indem	Units Earn Prem	Units Indem	Number of Head	Liabilities	Total Premium	Subsidy	Indemnity	Loss Ratio	Average Margin	Average Premium
2008-2009	45	40	34	68	53	401,680	\$4,715,858	\$287,201	\$0	\$718,035	2.5	\$12.14	\$0.71
2009-2010	153	134	56	221	80	1,872,499	\$24,914,997	\$781,589	\$0	\$280,566	0.36	\$11.61	\$0.42
2010-2011	1,412	1,224	24	1,738	31	46,172,815	\$769,644,504	\$25,012,757	\$10,735,652	\$64,738	0	\$12.36	\$0.54
2011-2012	1,770	903	0	949	0	40,552,658	\$705,359,640	\$19,181,447	\$8,878,483	\$0	0	\$12.71	\$0.47
Totals	3,380	2,301	114	2,976	164	88,999,652	1,504,634,999	45,262,994	19,614,135	1,063,339			
								\$/cwt	\$/cwt				
								\$0.51	\$0.22				



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LGM Dairy 11 Year Projected History

February 2000 - May 2011							
	\$0.00	\$1.50	\$0.00	\$1.50	\$0.00	\$1.50	\$0.00
	Deductible	Deductible	Deductible	Deductible	Deductible	Deductible	Deductible
	Purchase Months 4, 5 & 6 33% each	Purchase Months 4, 5 & 6 33% each	Purchase Months 7, 8, 9 & 10 25% each	Purchase Months 7, 8, 9 & 10 25% each	Purchase All 10 Months 10% each	Purchase All 10 Months 10% each	Purchase All 10 Months
Premium/ cwt	\$0.77	\$0.21	\$0.87	\$0.29	\$0.65	\$0.14	\$0.65
Indemnity/ cwt	\$0.74	\$0.29	\$0.86	\$0.35	\$0.69	\$0.21	\$0.69
Benefit/ Cost Ratio	0.97	1.39	0.99	1.22	1.07	1.55	1.07

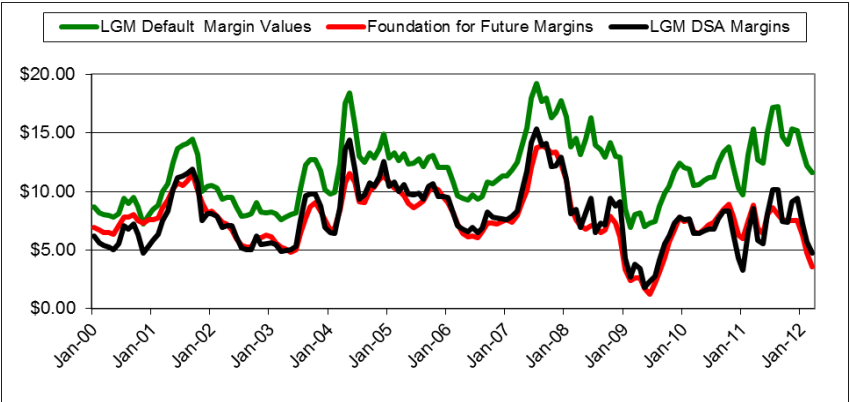



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DSA & LGM Margins

— LGM Default Margin Values
 — Foundation for Future Margins
 — LGM DSA Margins





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