Risk Management Tools Pro & Con

- Risk Management
- Black Swan Events
- Reviewing Quotes
- Risk Management Plan

What is Risk Management?

- Price risk in the U.S. Dairy Industry
- Supply and Demand
- Political Risk
- Volatility
- Feed Risk
- Margin Risk

USDA United States Department of Agriculture

A Risk Management Agency Fact Sheet

Livestock Gross Margin Insurance Dairy Cattle

Revised October 2015

Livestock Gross Margin

The Livestock Gross Margin Insurance Plan for Dairy Cattle (LGM-Dairy) provides protection when feed costs rise or milk prices drop and can be tailored to any size farm. Gross margin is the market value of milk minus feed costs. LGM-Dairy uses futures prices for corn, soybean meal, and milk to determine the expected gross margin and the actual gross margin. LGM-Dairy is similar to buying both a call option to limit higher feed costs and a put option to set a floor on milk prices.

Only milk sold for commercial or private sale and primarily intended for final human consumption from dairy cattle fed in the states listed below is eligible for coverage. There is no minimum number of hundredweights you can insure. The maximum amount of milk that can be insured is 24 million pounds per crop year.

Prices for LGM-Dairy are based on simple averages of Chicago Mercantile Exchange Group futures contract daily settlement prices, and are not based on the prices you receive at the market.

A premium subsidy is available for those policies that insure multiple months during the insurance period. The subsidy amount is determined by a dollar deductible the you choose (ranges from \$0—\$2 in \$0.10 increments). If you choose a \$0 deductible you receive a lower premium subsidy (18 percent) and if you choose the highest deductible of \$2 you receive a higher premium subsidy (50 percent). The premium is due at the end of the coverage period. LGM premiums depend on your marketing plan, coverage you choose, deductible level, and futures and price volatility.

Availability

LGM-Dairy is available to any producer who owns dairy cattle in the 48 contiguous states.

Producers enrolled in the Farm Service Agency Margin Protection Program for Dairy (MPP-Dairy) are prohibited by law from participating in the LGM-Dairy program at the same time. The MPP-Dairy program is a one-time enrollment and once enrolled you will no longer be able to buy LGM-Dairy until the MPP-Dairy program ends or is modified.

Causes of Loss

LGM-Dairy covers the difference between the gross margin guarantee and the actual gross margin. LGM-Dairy does not insure against:

- Dairy cattle death;
- Unexpected decreases in milk production;
- Unexpected increases in feed use;
- Anticipated or multiple-year declines in milk prices; or
- Anticipated or multiple-year increases in feed costs.

Buying a Policy

You can sign up for LGM-Dairy 12 times each year and insure all of the milk production that you expect to market over a rolling 11-month insurance period. LGM-Dairy is sold on the last business Friday of each month. The sales period begins as soon as the Risk Management Agency (RMA) reviews the data submitted by the developer after the Chicago Mercantile Exchange Group markets close on the last day of the price discovery period. The sales period ends at 8:00 p.m. Central Standard Time the following day. Your premium payment is due at the end of the insurance period. If expected milk and feed prices are not available on the RMA website, LGM-Dairy will not be offered for sale for the insurance period.

The insurance period contains the 11 months following the sales closing date. For example, the insurance period for the January 29 sales closing date contains the months of February through December. Coverage begins the second month of the insurance period, so the coverage period for this example is March through December.

To enroll, you must sign up on the last business Friday of the month. You must also submit an application with a target marketings report for the milk and corn and soybean meal equivalents. You may also choose to use the default values for corn and soybean meal equivalents.

Indemnity Payments

The indemnity at the end of the 11-month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. If the actual gross margin is less than the expected gross margin (minus the deductible) for the insurance period, an indemnity may be payable.

This fact sheet gives only a general overview of the crop insurance program and is not a complete policy. For further information and an evaluation of your risk management needs, contact a crop insurance agent.

Definitions

Actual Marketings - The total amount of milk you sell each month of the insurance period for which there is a proof of sale. Actual marketings are used to verify ownership of milk and determine approved target marketings.

Deductible - The portion of the expected gross margin that you choose not to insure. Allowable deductible amounts range from \$0 to \$2 per hundredweight, in \$0.10 increments. The deductible equals the selected hundredweight deductible multiplied by the sum of target marketings across all months of the insurance period.

Gross Margin Guarantee - The gross margin guarantee for an insurance period is the expected total gross margin for an insurance period minus the deductible.

Loss of Gross Margin - Market value of milk minus feed costs.

Marketing Report - A report you submit on the insurance company's form showing actual, monthly marketings of milk insured under this policy. The marketing report must be accompanied by copies of sales receipts that provide records of the actual marketings shown on the marketing report.

Target Marketings - Your determination of the number of hundredweight of milk insured each month during the insurance period. Only the hundredweight of milk in which you have a share can be reported.

Target Marketings Report - A report that you submit on the insurance company's form showing the target marketings for each month.

For More Information

For LGM Coverage Prices, Rates, and Actual Ending Values go to www3.rma.usda.gov/apps/livestock_reports/. For the premium calculator go to www.rma.usda.gov/tools/premcalc.html. For the cost estimator go to https://ewebapp.rma.usda.gov/apps/costestimator/.

Where to Buy Crop Insurance

All multi-peril crop insurance, including Catastrophic Risk Protection policies, are available from private crop insurance agents. A list of crop insurance agents is available at all USDA service centers and on the RMA website at www.rma.usda.gov/tools/agent.html.

Contact Us

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1400 Independence Ave., SW, Stop 0801
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E-mail: RMA.CCO@rma.usda.gov

Download Copies from the Web
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Risk Management Agency — Livestock Gross Margin: Dairy Cattle

Whole-Farm Revenue Protection

Risk Management Planning

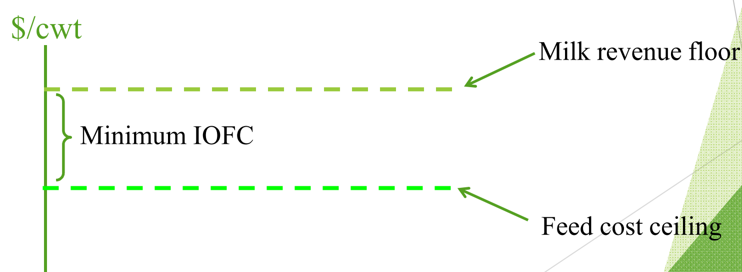
- Black Swan Events
  - What is a Black Swan Event and why is it important?
  - Weather
  - Price
  - Wildlife
  - Value of the US Dollar
  - Political Instability
  - Supply and Demand
  - Speculators

Risk Management Planning

- LGM monthly planning
  - Margin
  - The 2nd and 4th Friday's of each month
- Traditional Crop Insurance
  - Input costs
  - Pre-harvest marketing plan
  - Minimum cash flow
  - Buying a PUT on that high price

Margin Risk

- How can a producer establish a *floor* on *Income over Feed Costs* (IOFC)?
  - Class III put options: Creates milk revenue *floor*
  - Feed call options: Establishes feed cost *ceiling*
  - Using this *bundled option* strategy, producer can establish an IOFC floor



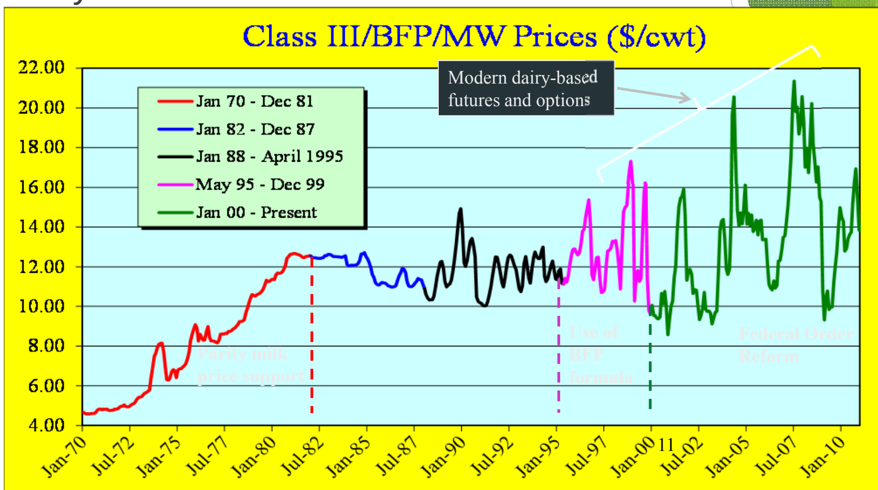
How to read a LGM quote

LGM Analyzer Homepage

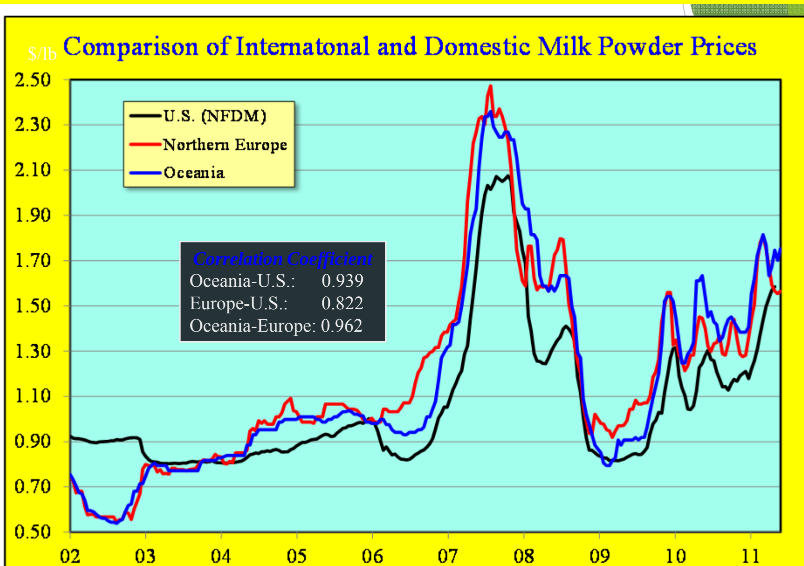
Coverage Month	Production (cwt)		Corn Equiv (tons)		Soybean Meal Equiv (tons)		% covered	Monthly Gross Margin		
Month Year	Milk Qty.	Covered Milk × Expected Price = Milk Revenue	Corn Qty.	Covered Corn × Expected Price = Corn Cost	SBM Qty.	Covered SBM × Expected Price = SBM Cost		Milk Revenue - Corn Cost - SBM Cost - (Deductible × Milk Qty.)	$/cwt of Farm Milk	$/cwt of Covered Milk
Aug 2011	6000	4,500 cwt × $18.80/cwt = $84,598	84.0	63 tons × $7.64/bu = $17,189	12.0	9 tons × $367.40/ton = $3,306	75.0	59,602	9.93	13.24
Sep 2011	6000	3,000 cwt × $18.44/cwt = $55,318	84.0	42 tons × $7.49/bu = $11,234	12.0	6 tons × $365.62/ton = $2,193	50.0	38,890	6.48	12.96
Oct 2011	6000	3,000 cwt × $17.86/cwt = $53,577	84.0	42 tons × $7.35/bu = $11,024	12.0	6 tons × $362.19/ton = $2,173	50.0	37,380	6.23	12.46
Nov 2011	6000	3,000 cwt × $17.72/cwt = $53,157	84.0	42 tons × $7.21/bu = $10,814	12.0	6 tons × $363.07/ton = $2,178	50.0	37,165	6.19	12.39
Dec 2011	6000	1,500 cwt × $17.62/cwt = $26,428	84.0	21 tons × $7.07/bu = $5,301	12.0	3 tons × $363.96/ton = $1,091	25.0	18,534	3.09	12.36
Jan 2012	0	0 cwt × $17.17/cwt = $0	0.0	0.0 tons × $7.10/bu = $0	0.0	0.0 tons × $365.25/ton = $0	0.0	0	NA	NA
Feb 2012	0	0 cwt × $16.63/cwt = $0	0.0	0.0 tons × $7.14/bu = $0	0.0	0.0 tons × $365.45/ton = $0	0.0	0	NA	NA
Mar 2012	0	0 cwt × $16.50/cwt = $0	0.0	0.0 tons × $7.17/bu = $0	0.0	0.0 tons × $365.65/ton = $0	0.0	0	NA	NA
Apr 2012	0	0 cwt × $16.45/cwt = $0	0.0	0.0 tons × $7.20/bu = $0	0.0	0.0 tons × $364.03/ton = $0	0.0	0	NA	NA
May 2012	0	0 cwt × $16.34/cwt = $0	0.0	0.0 tons × $7.24/bu = $0	0.0	0.0 tons × $362.41/ton = $0	0.0	0	NA	NA
Total Farm	30,000 cwt		420 tons		60 tons		50.00%	GMG 191,573	6.39	12.77
Total Covered	15,000 cwt		210 tons		30 tons					

Price Risk in Today's Dairy Industry

- We have seen a tremendous increase in the volatility of farm milk prices over the last 20 years



Price Risk in Today's Dairy Industry



LGM-Dairy: Milk and Feed Prices

- Class III, corn, and SBM futures markets used as information source of *Expected* (forward looking) and *Actual* ("observed") prices
  - *No futures/options market transactions*
  - Actual farm prices not used
  - No local basis added to Expected/Actual prices
- Prices:
  - Feed: Corn (Chicago), SBM (Chicago)
  - Milk: Class III (standard composition)
    - 3.5% Fat
    - Skim Portion: 3.1% Protein/5.9 Other Solids

LGM-Dairy: Expected Milk Production

- Approved target marketings
  - Maximum amount of milk that could be produced
  - Milk production actually produced certified once contract ends
  - Milk production needs to be at least 75% insured without penalty

LGM-Dairy: Expected Feed Use

- *Expected* feed use converted to Corn (Energy) and SBM (Protein) equivalents
  - Allowable range of feed equivalents:
    - ✓ Corn: 0.13 – 1.36 bu/cwt of milk
    - ✓ SBM: 1.61 – 26.00 lb/cwt of milk
  - Program default feed coefficients can be used:
    - ✓ Corn: 0.5 bu/cwt SBM: 4.0 lbs/cwt
  - *No auditing of declared feed use*
  - May only want to declare *purchased* feed
  - Using minimum amounts → approximate synthetic put

LGM-Dairy: Expected Gross Margin

- *All* 10 months of *Expected Prices* are known at sign-up
  - Expected Prices = Average of last 3 days of futures settlement prices for each month including sign-up Friday

LGM-Dairy: When Purchased?

- *LGM-Dairy* available for purchase each month
  - 12 contracts offered each year
    - Each contract covers *up to* 10 months
  - Purchase period starts at end of last business Friday of each month
    - July contract purchase period would have started on July 29th
  - Purchase period ends at 8:00 PM CDT Saturday
  - Points to the reason why planning is needed *well in advance* of contract purchase

LGM-Dairy: Coverage Calendar

- Simple hypothetical insurance strategy
  - Purchase insurance at end of July

By rule: No coverage the month after purchase

Hypothetical LGM Contract

Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12
		1	2	3	4	5	6	7	8	9	10
Purchase at End of Month	No Cover-age	Insurance Contract Period									
Production Coverage		75%	50%			25%	25%				

LGM-Dairy: Insurance Deductible

- Producer chooses amount of gross margin not covered by insurance *(i.e., Insurance Deductible)*:
  - Portion of *Gross Margin* not protected
  - Program allows \$0 - \$2.00/cwt *Gross Margin* to be excluded from coverage
    - ✓ Same \$/cwt for all months
  - Higher deductible → Lower premium
    - ✓ Producer assumes more risk
- Subsidy *increases* with higher deductible
  - Double impact on reducing premium

LGM-Dairy: Current Premium Subsidy Schedule

Deductible (\$/cwt)	Subsidy (%)	Deductible (\$/cwt)	Subsidy (%)
0	0.18	0.60	0.31
0.10	0.19	0.70	0.34
0.20	0.21	0.80	0.38
0.30	0.23	0.90	0.43
0.40	0.25	1.00	0.48
0.50	0.28	1.10 – 2.00	0.50

Note: There is no subsidy for a 1-month contract. The subsidy % is the percentage by which premium is reduced.

LGM-Dairy: 2010/11 Measures of Activity

State	Policies Sold		CWT Insured		Liabilities		Premiums		Subsidies		Subsidy %
	No.	% of Total	000	% of Total	$000	% of Total	$000	% of Total	$000	% of Total	
CA	40	2.8	4,381	9.5	73,628	9.6	2,445	11.1	1,132	10.5	46.3
ID	28	2.0	1,405	3.0	22,132	2.9	628	2.8	217	2.0	34.5
IA	45	3.2	939	2.0	16,658	2.2	493	2.2	231	2.2	46.8
MI	119	8.4	4,723	10.2	80,072	10.4	2,503	11.4	956	8.9	37.9
MN	163	11.6	2,268	4.9	38,150	5.0	1,342	6.1	548	5.1	40.8
NY	86	6.1	3,259	7.1	55,355	7.2	1,950	8.8	773	7.2	39.6
PA	133	9.4	2,269	4.9	37,543	4.9	1,376	6.2	548	5.1	39.8
VT	94	6.7	4,746	10.3	76,965	10.0	2,172	9.9	1,066	9.9	49.1
WA	40	2.8	2,427	5.3	39,415	5.1	1,216	5.5	560	5.2	46.0
WI	**422**	**30.0**	**9,273**	**20.1**	**154,487**	**20.1**	**5,038**	**22.9**	**2,083**	**19.4**	**41.3**
Other	239	17.0	10,473	22.8	175,864	22.8	2,878	13.1	2,629	24.5	44.7
Total	1,409	[illegible]	46,209	[illegible]	770,270	[illegible]	25,041	[illegible]	10,742	[illegible]	42.9

LGM-Dairy: Summary

- LGM-Dairy a flexible insurance program
  - Need not insure all months or production
  - Could make sense to overlap contracts
  - Substantial premium subsidies
- Similar to combined use of Class III puts and corn/SBM calls as in a bundled option
  - Premiums are very sensitive to elected deductible
- LGM-Dairy Major Drawbacks
  - Short sign-up window at the end of each month
  - Need to wait until end of contract for indemnity
    - ✓ After last actual price is determined

LGM Analyzer

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LGM Analyzer

Return to Understanding Dairy Markets Webs

Software Overview | Premium Estimator | Least Cost Optimizer | Bundled Options (Beta)

[redacted]

Overview

The LGM-Analyzer is a software suite developed at the ***University of Wisconsin*** that can be used to assist in the use of the Livestock Gross Margin for Dairy (*LGM-Dairy*) insurance program for revenue risk management. The user can evaluate the performance and cost of LGM-Dairy either using historical data or in anticipation of the upcoming LGM-Dairy contract offering the cost of a yet to be LGM-Dairy offering.

The LGM-Analyzer Suite of Programs

There are currently three seperate programs that comprise the LGM-Analyzer suite. T hese programs are the: (i) *LGM-Dairy Premium Estimator*, (ii) *LGM-Dairy Optimizer* and (iii) *Bundled Options Estimator*. Below is a brief description of each of these software systems. Although the above three programs are standalone the input data is shared across application and thus minimizing duplicate data entry.

The Premium Estimator
This program can be used if you want to estimate LGM-Dairy premiums for a ***user-defined LGM-Dairy contract***. An LMG-Dairy contract is specified by the % of production insured each month over the life of the contract and deductible level.

The LGM-Dairy Least Cost Optimizer
Select this if you want to minimize the premium costs for attaining a pre-defined level of target Income over Feed Cost (IOFC) for all milk produced on-farm. Note that for some target IOFC's less than 100% of milk will need to be insured to achieve the total target IOFC. In contrast to the *Premium Estimator* when using the *Optimizer*, the user does not supply the contract. The *Optimizer* designs the least cost contract for you.

Bundled Options Comparison
This software can be used to compare the cost of using a traditional bundled options strategy to establish a similar level of IOFC floor as provided by a particular LGM-Dairy contract design. Under the bundled options strategy, Class III puts are used to establish a revenue minimum and corn/SBM call options are used to establish a feed cost ceiling. With the establishment of a revenue minimum and a feed cost maximum, the producer has established a minimum IOFC. When the options contracts mature, the value of the options will be added to help offset the options premium costs.

Topic Specific Help Documents

- Using the Premium Estimator
- Using the Least Cost Optimizer
- Bundled Options Cost Comparison
- How to Evaluate Contract Perfomance for an Active LGM-Dairy Contract
- Evaluating Actual Contract Performance for a Completed LGM-Dairy Contract

Help on Specific Topics

Deductible Level ($/cwt)	Total Premium ($)	Subsidized Premium ($)	GMG ($)	Net GMG ($)	Prob. of Payout (%)	Net Premium as % of GMG (%)	% Net Prem. change	% GMG Change
0.0	14,909	12,226	206,573	194,347	52	5.92	-	-
0.1	14,118	11,435	205,073	193,637	50	5.58	-6.47	-0.73
0.2	13,349	10,546	203,573	193,026	48	5.18	-13.74	-1.45
0.3	12,604	9,705	202,073	192,367	47	4.80	-20.62	-2.18
0.4	11,881	8,911	200,573	191,661	45	4.44	-27.11	-2.90
0.5	[illegible]	[illegible]	199,073	191,018	44	4.05	-34.12	-3.63
0.6	[illegible]	[illegible]	197,573	190,315	42	3.67	-40.64	-4.36
0.7	9,879	6,520	196,073	189,552	40	3.33	-46.67	-5.08
0.8	9,264	5,744	194,573	188,828	39	2.95	-53.02	-5.81
0.9	8,672	5,203	193,073	187,869	37	2.70	-57.44	-6.54
1.0	**8,111**	**4,218**	**191,573**	**187,354**	**35**	**2.20**	**-65.50**	**-7.26**
1.1	7,578	3,789	190,073	186,283	33	1.99	-69.01	-7.99
1.2	7,071	3,535	188,573	185,037	32	1.87	-71.08	-8.71
1.3	6,590	3,295	187,073	183,777	30	1.76	-73.05	-9.44
1.4	6,133	3,066	185,573	182,506	28	1.65	-74.92	-10.17
1.5	[illegible]	[illegible]	184,073	181,223	27	1.55	-76.69	-10.89
1.6	[illegible]	2,641	182,573	179,931	26	1.45	-78.39	-11.62
1.7	4,887	2,443	181,073	178,629	24	1.35	-80.01	-12.34
1.8	4,514	2,257	179,573	177,316	[illegible]	[illegible]	[illegible]	-13.07
1.9	4,164	2,082	178,073	175,991	22	1.17	-82.97	-13.80
2.0	3,835	1,917	176,573	174,655	20	1.09	-84.31	-14.52

↑ Subsidy w/↑ Deductible

50% Subsidy

Note Difference in Values

LGM-Dairy: Example Premium Estimation

50% Allocation Results, $1 Deductible

Summary

Unit	Premium	GMG	Net GMG
Total ($)	4,218	191,573	187,354
Per cwt of Farm Milk ($/cwt)	0.14	6.39	6.25
Per cwt of Covered Milk ($/cwt)	0.28	12.77	12.49

Deductible Level ($/cwt)	Net Prem/cwt of Farm Milk ($/cwt)	GMG/cwt of Farm Milk ($/cwt)	Net GMG/cwt of Farm Milk ($/cwt)	Net Prem/cwt of Covered Milk ($/cwt)	GMG/cwt of Covered Milk ($/cwt)	Net GMG/cwt of Covered Milk ($/cwt)
0.0	0.41	6.89	6.48	0.82	13.77	12.96
0.1	0.38	[illegible]	6.45	0.76	[illegible]	12.91
0.2	0.35	6.79	6.43	0.70	13.57	12.87
0.3	0.32	6.74	6.41	0.65	13.47	12.82
0.4	0.30	6.69	6.39	0.59	13.37	12.78
0.5	0.27	6.64	6.37	0.54	13.27	12.73
0.6	0.24	6.59	6.34	0.48	13.17	12.69
0.7	0.22	6.54	6.32	0.43	13.07	12.64
0.8	0.19	6.49	6.29	0.38	12.97	12.59
0.9	0.17	6.44	6.26	0.35	12.87	12.52
1.0	**0.14**	**6.39**	**6.25**	**0.28**	**12.77**	**12.49**
1.1	0.13	6.34	6.21	0.25	12.67	12.42
1.2	0.12	6.29	6.17	0.24	12.57	12.34
1.3	0.11	6.24	6.13	0.22	12.47	12.25
1.4	0.10	6.19	6.08	0.20	12.37	12.17
1.5	0.09	6.14	6.04	0.19	12.27	12.08
1.6	0.09	6.09	6.00	0.18	12.17	12.00
1.7	0.08	6.04	5.95	0.16	12.07	11.91
1.8	0.08	5.99	5.91	0.15	11.97	11.82
1.9	0.07	5.94	5.87	0.14	11.87	11.73
2.0	0.06	5.89	5.82	0.13	11.77	11.64

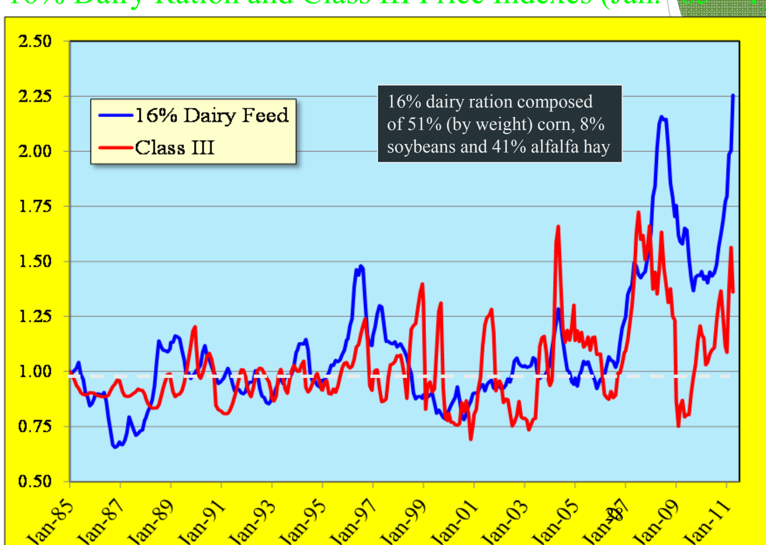
Farm Milk

Covered Milk

Base Analysis

Margin Risk

16% Dairy Ration and Class III Price Indexes (Jan. '85 = 1)



LGM-Dairy: An Overview

- Aug. 2008: Livestock Gross Margin Insurance for Dairy (*LGM-Dairy*) became available
  - Objective: Establish minimum IOFC
  - Similar to bundled options strategy except:
    - *No* options purchased
    - *No* minimum size limit
    - *Upper limit*: 240,000 cwt over 10 mo. or within insurance year
    - Premium not due until *after* contract period
    - Subsidized premiums
  - USDA-RMA administered and purchased from firms selling Federal crop insurance
    - July 2010: Available in lower 48 states

LGM-Dairy: An Overview

- LGM-Dairy is customizable with respect to:
  - Number of months insured by 1 contract
    - 1 – 10 months
  - % of monthly IOFC (production) covered
    - 0 – 100% of certified production each month
    - % coverage can vary across months
  - *Farm specific* production, declared feed use, deductible and premium
    - NMPF proposed revenue insurance program would be much less flexible

LGM-Dairy: An Overview

Expected Prices: Today's estimate of future milk and feed prices

- Gross Margin (GM) = Total contract *Expected* value of milk – Total contract *Expected* feed costs
  - Sum of monthly (*Expected* milk price x *Insured* milk) – Sum of monthly (*Expected* feed price x *Insured* feed use)
  - 1 GM per contract regardless of number of months insured
    - ✓ One month's low value can offset another month's relatively high value as only total sum matters
- Gross Margin Guarantee (GMG) = GM – *Total Deductible*

LGM-Dairy: An Overview

Actual Prices: Milk and feed prices observed over insurance contract life

- Actual Gross Margin (AGM) = Total contract *Actual* milk value – Total contract *Actual* insured feed cost
  - Sum of monthly (*Actual* milk price x *Insured* milk) – Sum of monthly (*Actual* feed price x *Insured* feed use)
  - 1 AGM per contract regardless of number of months insured
    - ✓ A month with a low value can offset a month with a relatively high value

QUIZ

- The _______________ is your friend.
- A milk contract is available the ______ Friday of every month.
- What is the web address for contract discovery information?
- What popular Dairy product uses flavoring from an Orchid seed pod?

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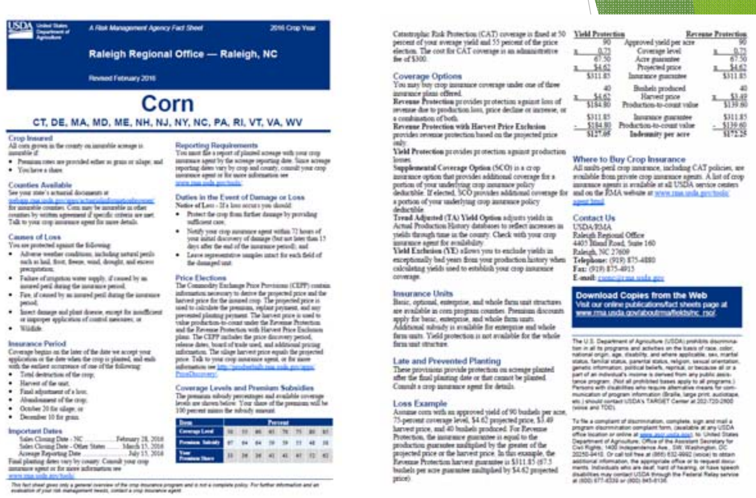

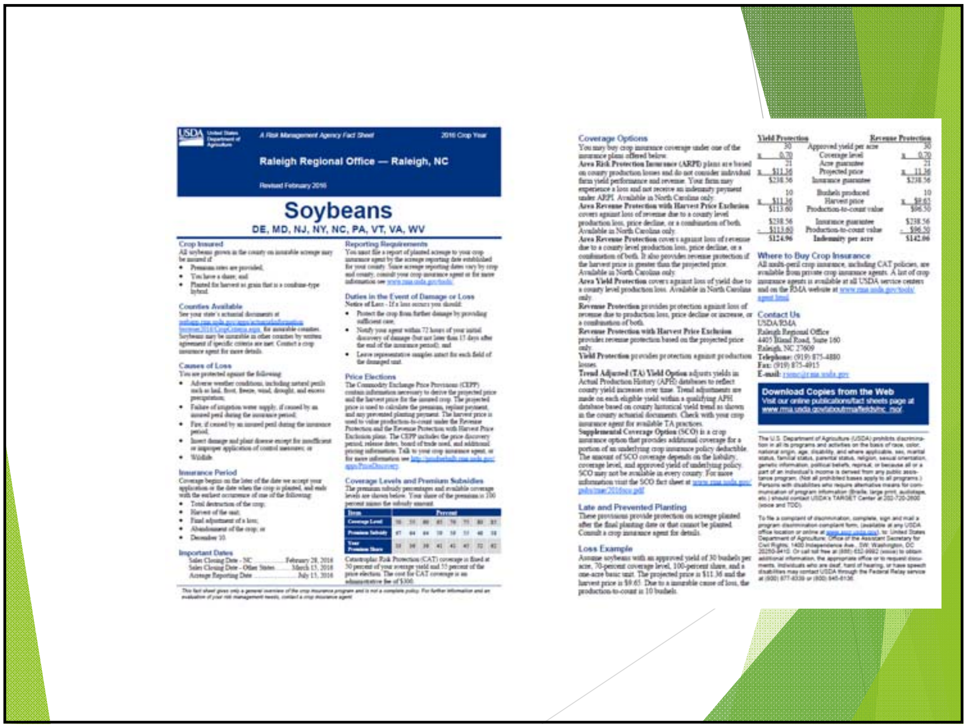
A Risk Management Agency Fact Sheet
2016 Crop Year
Raleigh Regional Office — Raleigh, NC
Revised February 2016
Soybeans
DE, MD, NJ, NY, NC, PA, VT, VA, WV
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Price Elections
Coverage Levels and Premium Subsidies
Coverage Options
Late and Prevented Planting
Loss Example
Yield Protection
Revenue Protection
Where to Buy Crop Insurance
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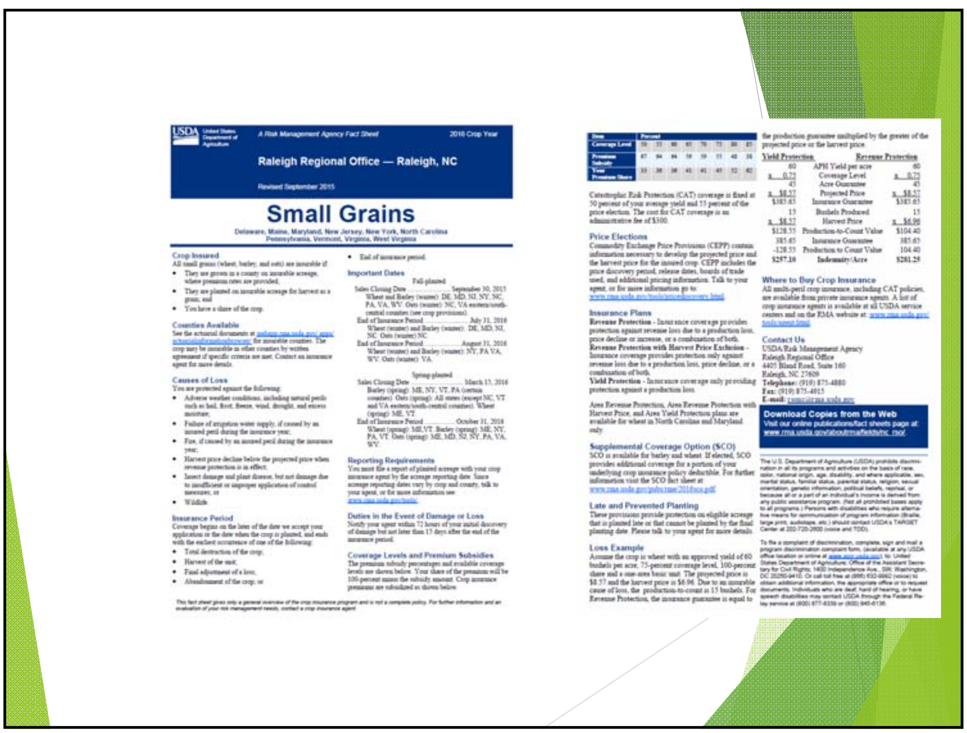
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Small Grains
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Traditional Crop Insurance Quote

State:	19 MD	Unit Number:	0001-0000	Projected Price:	$3.86
County:	025 Harford	Acres:	100.00	Price Percent:	1.00
Crop:	0041 Corn	Share:	1.000	Price Volatility:	0.17
Plan:	02 RP	Approved Yield:	180.00	Experience Factor:	1.000
Practice:	003 Non-Irrigated	Rate Yield:	180.00		
Type:	016 Grain	Total Acres:	500.0		

Coverage Level	Plan	Unit	Guar - BU	Total Guar	Coverage Per Acre $	Total Coverage	Base Premium	Subsidy	Producer Premium	Producer Premium/ Coverage BU	Producer Premium / Acre
75%	RP-02	EU	135.0	13,500.00	$521.10	$52,110	$3,372	$2,596	$776	$0.060	$7.76
75%	SCO-RP-32	EU			$76.43	$7,643	$1,938	$1,260	$678		$6.78
75%	RP-02	OU	135.0	13,500.00	$521.10	$52,110	$5,486	$3,017	$2,469	$0.180	$24.69
75%	SCO-RP-32	OU			$76.43	$7,643	$1,938	$1,260	$678		$6.78
80%	RP-02	EU	144.0	14,400.00	$555.84	$55,584	$4,367	$2,970	$1,397	$0.100	$13.97
80%	SCO-RP-32	EU			$41.69	$4,169	$1,300	$845	$455		$4.55
80%	RP-02	OU	144.0	14,400.00	$555.84	$55,584	$6,664	$3,199	$3,465	$0.240	$34.65
80%	SCO-RP-32	OU			$41.69	$4,169	$1,300	$845	$455		$4.55
85%	RP-02	EU	153.0	15,300.00	$590.58	$59,058	$5,603	$2,970	$2,633	$0.170	$26.33
85%	SCO-RP-32	EU			$6.95	$695	$264	$172	$92		$0.92
85%	RP-02	OU	153.0	15,300.00	$590.58	$59,058	$7,971	$3,029	$4,942	$0.320	$49.42
85%	SCO-RP-32	OU			$6.95	$695	$264	$172	$92		$0.92

USDA United States Department of Agriculture

A Risk Management Agency Fact Sheet

Pasture, Rangeland, Forage Pilot Insurance Program

Revised August 2015

Pasture, Rangeland, Forage

The Risk Management Agency's (RMA) Pasture, Rangeland, Forage (PRF) Pilot Insurance Program is designed to provide insurance coverage on your pasture, rangeland, or forage acres. This innovative pilot program is based on precipitation, Rainfall Index. This program is designed to give you the ability to buy insurance protection for losses of forage produced for grazing or harvested for hay, which result in increased costs for feed, destocking, depopulating, or other actions.

Availability

PRF is available in the 48 contiguous states with the exception of a few grids that cross international borders. The Rainfall Index will replace the Vegetation Index beginning in the 2016 crop year.

Coverage and Claims

The Rainfall Index uses National Oceanic and Atmospheric Administration Climate Prediction Center (NOAA CPC) data and each grid is 0.25 degrees in latitude by 0.25 degrees in longitude, which translates to approximately 17 x 17 miles at the equator. You must select at least two, 2-month periods where precipitation is important to your operation. These periods are called index intervals.

Your insurance payments are determined by using NOAA CPC data for the grid(s) and index interval(s) you have chosen to insure. When the final grid index falls below your "trigger grid index", you may receive an indemnity. This insurance coverage is for a single peril, lack of precipitation. Coverage is based on the experience of the entire grid. It is not based on individual farms or ranches or specific weather stations in the general area. You can find more detailed information on the NOAA website at www.cpc.ncep.noaa.gov/products/monitoring_and_data/.

Pasture, Rangeland, Forage insurance was designed to help protect your operation from the risks of forage losses that are produced for grazing or harvested for hay resulting in increased costs for feed. The program is designed to allow maximum flexibility to meet the risk management needs of your operation. You are not required to insure all your acres, but you cannot exceed the total number of grazing or haying acres you operate. The program provides protection while allowing you to insure only those acres that are important to your grazing program or hay operation. By selecting a productivity factor, you can establish a value between 60 and 150 percent of the county base value and match the amount of your protection to the value of forage that best represents your specific grazing or hay operation.

New Coverage Available for 2016

RMA has introduced a new pricing methodology starting with the 2016 crop year that will better reflect your replacement costs for feed and the actual losses you experience. RMA is also offering an irrigated hay practice in some states that is designed to cover above normal irrigation expenses when normal precipitation shortfalls are observed. However, normal irrigation costs are not covered.

Tools

You will be asked to make several choices when insuring your grazing or hay production, including coverage level, index intervals, irrigated practice, productivity factor, and number of acres. You should work with your crop insurance agent to view the Grid ID Locator map and index grids for your area, and assign acreage to one or more grids based on the location and use of the acreage to be insured. RMA also encourages you to use the Grid ID Locator, historical indices tool, and decision support tools available on RMA's website to help you decide whether PRF is the right insurance coverage for your operation. The rainfall index does not measure your direct production or loss. You are insuring a rainfall index that is expected to estimate your

This fact sheet gives only a general overview of the crop insurance program and is not a complete policy. For further information and an evaluation of your risk management needs, contact a crop insurance agent.

production. Please review the historical indices tools for your grid along with past production records to determine if these programs will work for your operation and which periods work best for your forage production.

Buying a PRF Policy

You can buy a PRF policy from a crop insurance agent by the sales closing date shown for each county in the actuarial documents at webapp.rma.usda.gov/apps/actuarialinformationbrowser/. A list of crop insurance agents is available at all USDA service centers and on the RMA website at www.rma.usda.gov/tools/agent.html.

Contact Us

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