

Dairy Margin Protection Program 2016 Election Decisions



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What we will cover today...

- Basics of the MPP-Dairy Program
- Participation and Payouts from last sign-up
- Making 2016 Enrollment Decisions



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Dairy Margin Protection Program

- Voluntary Risk Management program through FSA
- Protect farmers from unfavorable margins in the price of milk and the cost of feed inputs
- Coverage is based on the calendar year, paid in 2 month intervals
- Replaces the Market Income Loss Program (MILC) of the 2008 Farm Bill



Knowledge
forLife

Margin

- Determined based on the difference between
 - National average All-Milk Price
 - National average cost of feed used to produce a hundredweight of milk

Actual Dairy Production Margin =
U.S. All-Milk Price

- 1.0728 x NASS Corn Price (\$/bu)
- 0.00735 x AMS Soybean Meal (Central IL) (\$/ton)
- 0.0137 x NASS Alfalfa Hay (\$/ton)

Feed ration per cwt of milk:

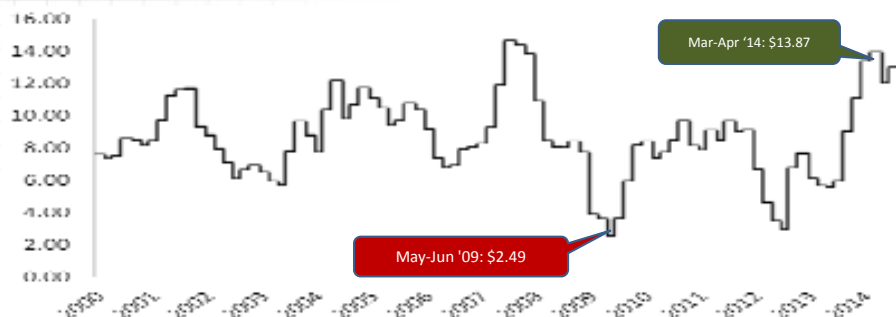
- 30 pounds of shell corn
- 106.4 pounds of corn silage
- 14.7 pounds of soybean meal
- 27.4 pounds of alfalfa hay



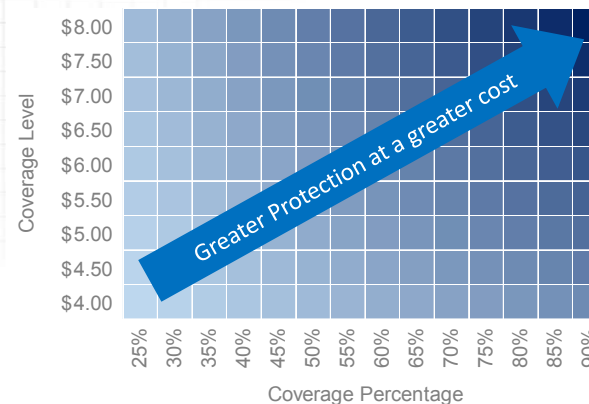
Knowledge
forLife

Actual Dairy Production Margin

Margin = U.S. All-Milk Price – (NASS Corn Price x 1.0728 + AMS SBM x 0.00735 + NASS Alfalfa x 0.0137)



Coverage Options



***126 Possible Coverage Choice Combinations**

John Newton-University of Illinois

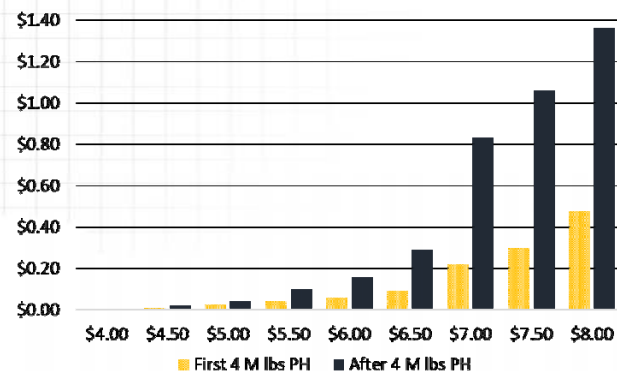
What does it cost?

\$100 administrative fee every year + premium

CAT coverage →

Coverage Level	Tier 1 ≤ 4mil lbs CPH (\$/cwt)	Tier 2 >4 M lbs. CPH (\$/cwt)
\$4.00	\$0.000	\$0.000
\$4.50	\$0.010	\$0.020
\$5.00	\$0.025	\$0.040
\$5.50	\$0.040	\$0.100
\$6.00	\$0.055	\$0.155
\$6.50	\$0.090	\$0.290
\$7.00	\$0.217	\$0.830
\$7.50	\$0.300	\$1.060
\$8.00	\$0.475	\$1.360

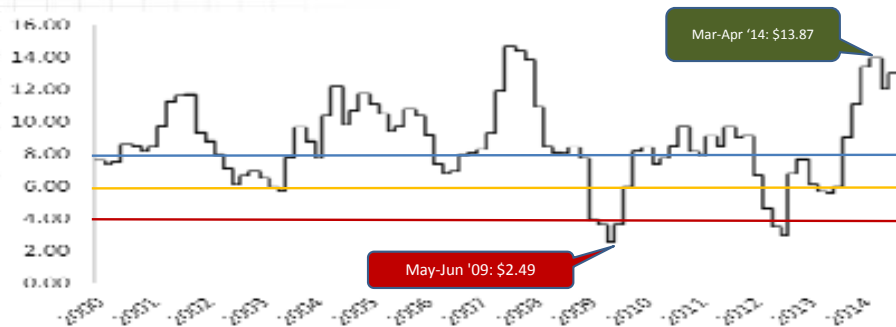
What does it cost?



200 cow dairy @ 90% production history
 \$4.50 coverage = \$360
 \$6.50 coverage = \$3,240
 \$7.50 coverage = \$10,800

1000 cow dairy @ 90% production history
 \$4.50 coverage = \$3,560
 \$6.50 coverage = \$49,420
 \$7.50 coverage = \$179,480

Actual Dairy Production Margin



Source: Marin Bozic-University of Minnesota

How are payments calculated?

Coverage Level Selected – Actual Dairy Production Margin

$$\text{\$6.00} - \text{\$5.40} = \text{\$0.60 per cwt payment}$$

Multiplied by the coverage percent of Production History/6 months

$$(\text{7,000,000 pounds} \times 75\%) / 6 = 875,000 \text{ pounds}$$

$$(875,000 \text{ pounds} / 100) \times \text{\$0.60} = \text{\$5,250.00}$$

Production History

- Will be used in calculating all future MPP-Dairy Payments
- Established operations:
 - Highest total milk marketings from 2011, 2012, or 2013
- New operations: (less than 12 months of milk marketings as of Feb. 7th, 2014)
 - Full months of milk marketings extrapolated to a year with national index
 - Herd size multiplied by national average production per cow (21,822 pounds for 2014 & 2015)
- Production “Bump”
 - If you signed up for 2015 coverage, you will get a 2.61% PH bump for 2016

Enrollment every year

- Once you elect to participate, you are **locked in** for at least CAT coverage for the life of the Farm Bill
- If there is a retirement, death, or discontinuation of the business, must notify FSA for termination of the program
- **Can change margin level and coverage percent every year!!!**

Timeline

2016 Registration/Coverage Election July 1st- Sept. 30th, 2015

2017 Registration/Coverage Election July 1st- Sept. 30th, 2016

2018 Registration/Coverage Election July 3rd-Oct. 2nd, 2017

Administrative Fee and Premium Due

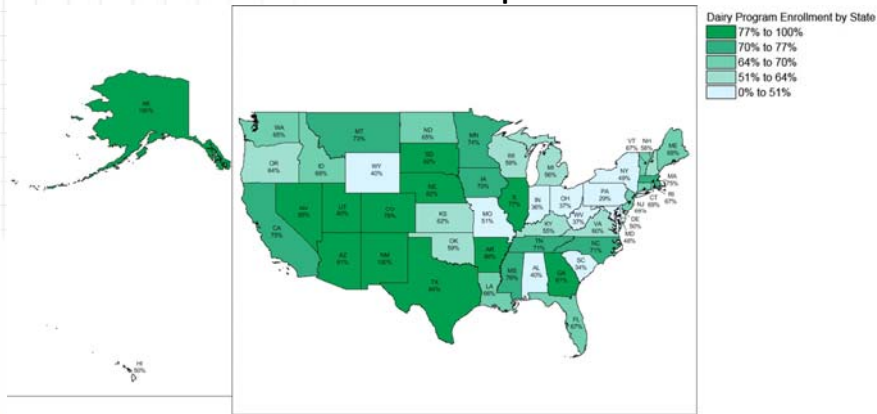
- 100% due before end of Registration/Coverage Election Period
- OR
 - At least 25% of total premium before February 1
 - The remaining 75% by June 1

Participation & Payments from 2014 & 2015 Enrollment

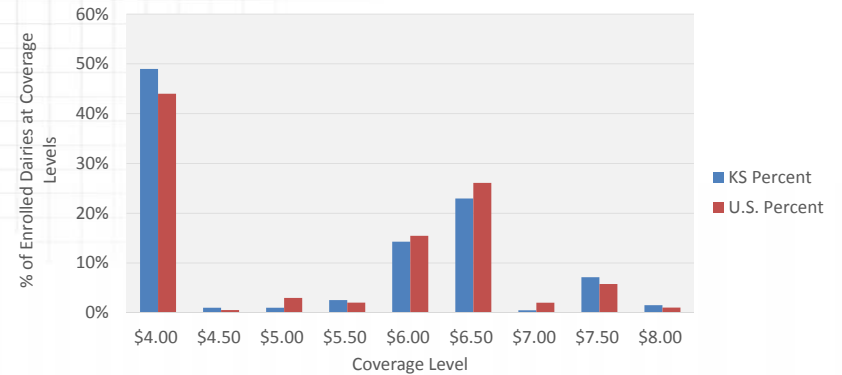
2015 Participation

- Nationally, 55% of licensed dairies enrolled in MPP-Dairy
 - Of those, 56% purchased buy-up coverage
- In Kansas, 62% of licensed dairies enrolled (196 out of 315)
 - Of those 51% purchased buy-up coverage

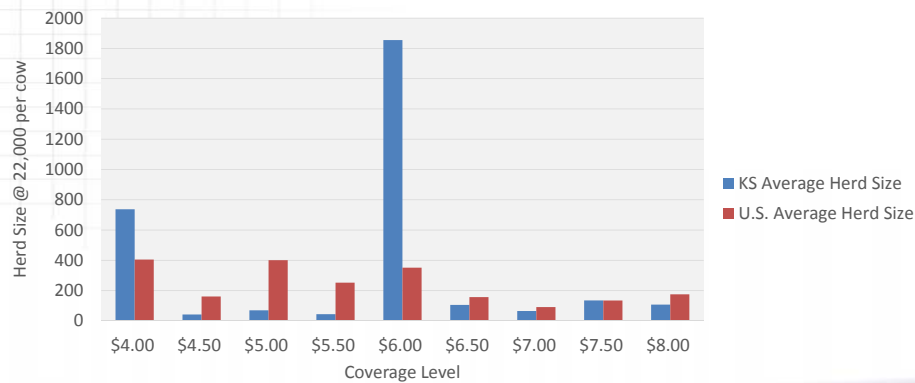
2015 Participation



2015 Buy-up Coverage



2015 Buy-up Coverage

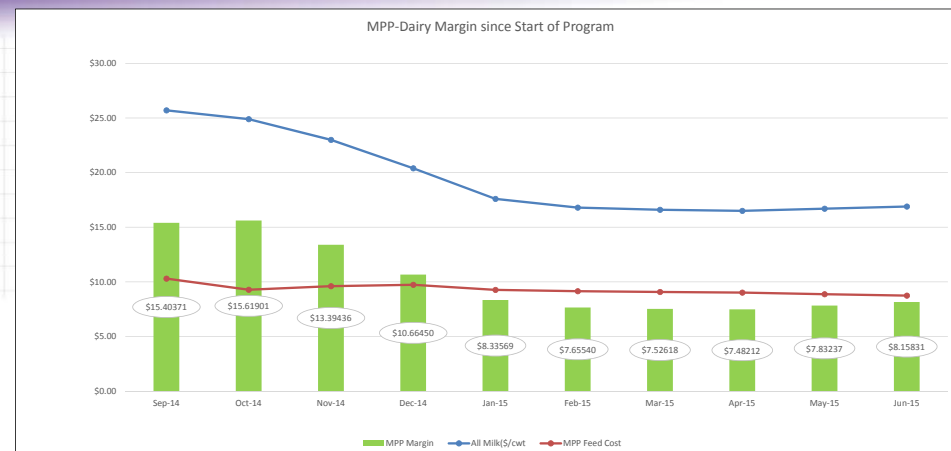


Percentage of Production History Covered

Coverage Level	Kansas	U.S.
\$4.00	90.00%	90.00%
\$4.50	90.00%	88.50%
\$5.00	90.00%	88.00%
\$5.50	90.00%	84.50%
\$6.00	89.00%	83.10%
\$6.50	82.90%	76.70%
\$7.00	90.00%	82.00%
\$7.50	79.50%	71.40%
\$8.00	90.00%	57.90%

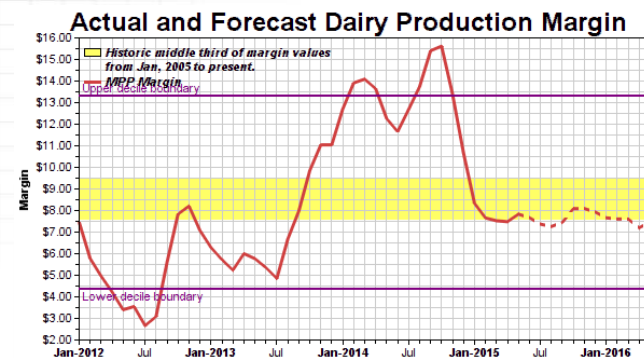
MPP Margin

Month-Year	Pay Periods	Corn (\$/bu)	Alfalfa Hay (\$/ton)	Soybean Meal (\$/ton)	All Milk (\$/cwt)	MPP Feed Cost	MPP Margin	Milk Margin/pay Period
Sep-14	5	3.48	197	525.72	25.70	\$10.30	\$15.40371	\$15.51136
Oct-14		3.56	194	381.5	24.90	\$9.28	\$15.61901	
Nov-14		3.58	184	441.39	23.00	\$9.61	\$13.39436	
Dec-14	6	3.78	183	431.73	20.40	\$9.74	\$10.66450	\$12.02943
Jan-15		3.81	174	380.02	17.60	\$9.26	\$8.33569	
Feb-15		3.79	172	370.38	16.80	\$9.14	\$7.65540	
Mar-15	1	3.81	172	357.83	16.60	\$9.07	\$7.52618	\$7.99554
Apr-15		3.75	184	336.61	16.50	\$9.02	\$7.48212	
May-15		3.62	192	320.23	16.70	\$8.86	\$7.83237	
Jun-15	3	3.58	178	335.03	16.90	\$8.74	\$8.15831	\$7.99534



Making 2016 Enrollment Decisions

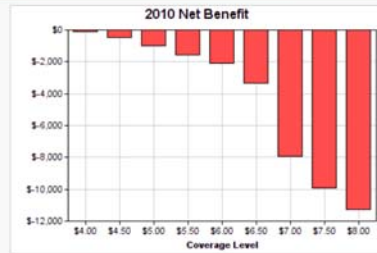
Where will the Margin be in 2016?



Let's Look Back in Time

2010

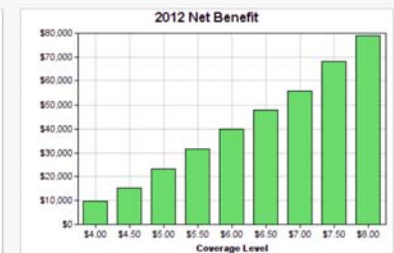
Coverage Level	\$4.00	\$4.50	\$5.00	\$5.50	\$6.00	\$6.50	\$7.00	\$7.50	\$8.00
Participation Cost	(\$100)	(\$460)	(\$1,000)	(\$1,540)	(\$2,080)	(\$3,340)	(\$7,912)	(\$10,900)	(\$17,200)
MPP Payment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$990	\$5,918
Net Benefit	(\$100)	(\$460)	(\$1,000)	(\$1,540)	(\$2,080)	(\$3,340)	(\$7,912)	(\$9,910)	(\$11,282)



Let's Look Back in Time

2012

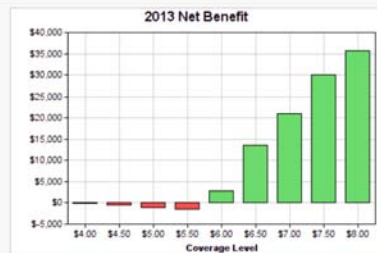
Coverage Level	\$4.00	\$4.50	\$5.00	\$5.50	\$6.00	\$6.50	\$7.00	\$7.50	\$8.00
Participation Cost	(\$100)	(\$460)	(\$1,000)	(\$1,540)	(\$2,080)	(\$3,340)	(\$7,912)	(\$10,900)	(\$17,200)
MPP Payment	\$9,842	\$15,842	\$24,194	\$33,194	\$42,194	\$51,194	\$63,961	\$78,961	\$96,085
Net Benefit	\$9,742	\$15,382	\$23,194	\$31,654	\$40,114	\$47,854	\$56,049	\$68,061	\$78,885



Let's Look Back in Time

2013

Coverage Level	\$4.00	\$4.50	\$5.00	\$5.50	\$6.00	\$6.50	\$7.00	\$7.50	\$8.00
Participation Cost	(\$100)	(\$460)	(\$1,000)	(\$1,540)	(\$2,080)	(\$3,340)	(\$7,912)	(\$10,900)	(\$17,200)
MPP Payment	\$0	\$0	\$0	\$0	\$4,948	\$16,887	\$28,887	\$40,887	\$52,887
Net Benefit	(\$100)	(\$460)	(\$1,000)	(\$1,540)	\$2,868	\$13,547	\$20,975	\$29,987	\$35,687



If We Picked the Optimal Strategy

Year	Optimal Strategy	Optimal Outcome
2005	\$4.00	-\$100
2006	\$8.00	\$1,673
2007	\$4.00	-\$100
2008	\$4.00	-\$100
2009	\$8.00	\$106,715
2010	\$4.00	-\$100
2011	\$4.00	-\$100
2012	\$8.00	\$78,885
2013	\$8.00	\$35,687
2014	\$4.00	-\$100

Total
per cow \$224,137
per cwt \$128.08
\$0.56

If We Picked Advanced Strategy

Year	Advance Strategy	Advance Outcome
2005	\$4.00	-\$100
2006	\$4.00	-\$100
2007	\$6.00	-\$2,080
2008	\$6.00	-\$2,080
2009	\$8.00	\$106,715
2010	\$4.00	-\$100
2011	\$8.00	-\$16,209
2012	\$6.50	\$48,004
2013	\$6.50	\$14,930
2014	\$4.00	-\$100

Total \$148,880
per cow \$85.07
per cwt \$0.37

If We Picked Risk Strategy

Year	Risk Strategy	Risk Outcome
2005	\$6.50	(\$3,340)
2006	\$6.50	(\$3,340)
2007	\$6.50	(\$3,340)
2008	\$6.50	(\$3,340)
2009	\$6.50	\$75,574
2010	\$6.50	(\$3,340)
2011	\$6.50	(\$3,340)
2012	\$6.50	\$48,004
2013	\$6.50	\$14,930
2014	\$6.50	(\$3,340)

Total \$115,128
per cow \$65.79
per cwt \$0.29

MPP: USDA Funded Producer Decision Education Project

www.dairymarkets.org/MPP

www.fsa.usda.gov/mpptool



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MPP-Dairy Decision Tool

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Margin Protection Program for Dairy

Margin Protection Program for Dairy Producers (MPP-Dairy)

Sign Up for MPP-Dairy by September 30, 2015

Tired of Roller Coaster Milk Margins?

Sign Up for the New Dairy Program to help smooth your income stream!

Sign up for MPP-Dairy by September 30, 2015. All producers who want coverage for 2015 must register by completing form CCC-102, select a coverage level, and pay the \$100 advance fee by September 30th. If the operator participated in MPP for 2014, the operator's production history will be increased by a factor of 1.05.

Payments under the Margin Protection Program for Dairy Producers (MPP-Dairy) may be reduced by a certain percentage due to a requirement imposed by Congress and passed to the Balanced Budget and Emergency Deficit Control Act of 1985. Should a payment reduction be necessary, FSA will reduce the payment to the required amount.

To continue, read the disclosure and click "Agree".

What's New

7/20/2015 (Version 1.2.0)

- Added new MPP Advanced Tool
- Updated premium calculations for the 2015 coverage year
- Updated FSA election form
- Added first coverage year menu to the select coverage section

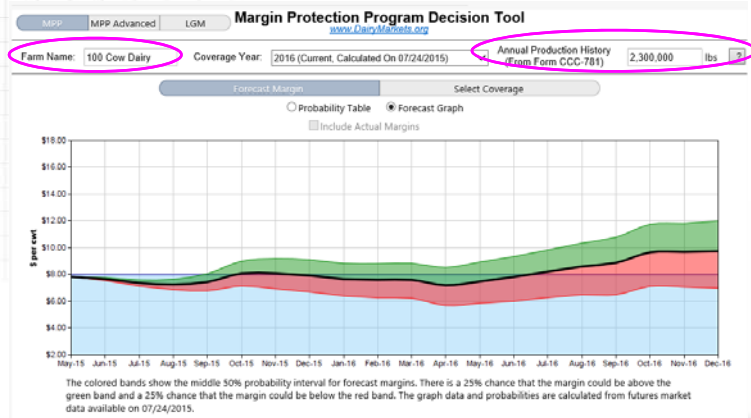
Disclaimer

With respect to any opinions, findings, conclusions, or recommendations, neither the United States Government, the University of Illinois, nor the National Program on Dairy Markets and Policy makes any warranty, express or implied, or assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, apparatus, product, or process disclosed, or represents that its use would not infringe privately owned rights. Users bear the sole responsibility for decisions affecting program participation and may want to consult other resources.

The National Program on Dairy Markets and Policy is working with the University of Illinois-led consortium National Coalition for Producer Education, which is supported by the U.S. Department of Agriculture, Farm Service Agency, under Agreement No. 58-0210-4-002-N.

Disagree Agree Version 1.2.0

MPP-Dairy Decision Tool



MPP-Dairy Decision Tool

Margin Protection Program Decision Tool
www.DairyMPPTools.org

Farm Name: 100 Cow Dairy Coverage Year: 2016 (Current, Calculated On 07/24/2015) Annual Production History (From Form CCC-781) 2,300,000 lbs

Forecast Margin Select Coverage
☒ Probability Table ☐ Forecast Graph

Margin Level	May-Jun 2015	Jul-Aug 2015	Sep-Oct 2015	Nov-Dec 2015	Jan-Feb 2016	Mar-Apr 2016	May-Jun 2016	Jul-Aug 2016	Sep-Oct 2016	Nov-Dec 2016
Expected	\$7.75	\$7.32	\$7.77	\$8.01	\$7.63	\$7.40	\$7.65	\$8.40	\$9.26	\$9.71
< \$8.00	100%	97%	60%	51%	60%	64%	59%	48%	39%	35%
< \$7.50	-	69%	41%	39%	49%	55%	51%	41%	32%	30%
< \$7.00	-	19%	25%	28%	38%	45%	43%	33%	27%	25%
< \$6.50	-	1%	13%	18%	28%	35%	34%	26%	21%	20%
< \$6.00	-	-	5%	10%	19%	25%	23%	20%	16%	15%
< \$5.50	-	-	2%	6%	11%	17%	19%	14%	12%	12%
< \$5.00	-	-	-	3%	6%	10%	13%	10%	8%	8%
< \$4.50	-	-	-	1%	3%	6%	8%	6%	5%	6%
< \$4.00	-	-	-	-	1%	3%	5%	3%	3%	4%

This table shows the expected margin and probability of a Payment in the two-month intervals protected by the insurance levels in the Margin Protection Plan. The Expected Margin and Probabilities are calculated from futures market data available on 07/24/2015.

MPP-Dairy Decision Tool

Margin Protection Program Decision Tool
www.DairyMPPTools.org

Farm Name: 100 Cow Dairy Coverage Year: 2016 (Current, Calculated On 07/24/2015) Annual Production History (From Form CCC-781) 2,300,000 lbs

Forecast Margin Select Coverage
☐ 2015 Estimate ☒ 2016 Estimate
 Coverage Percentages: 90% ☒ Participated in 2015 And Paid The \$100 Fee Timely
 Covered Annual Production: 2,142,506 lbs ☐ Include Actual Net Revenue

Coverage Level	Administrative Fees & Premiums	Expected Payment	Expected Net Returns
\$8.00	\$10,277	\$19,197	\$8,920
\$7.50	\$6,528	\$14,334	\$7,806
\$7.00	\$4,749	\$10,299	\$5,550
\$6.50	\$2,028	\$7,083	\$3,055
\$6.00	\$1,278	\$4,645	\$1,366
\$5.50	\$957	\$2,884	\$1,927
\$5.00	\$636	\$1,696	\$1,061
\$4.50	\$314	\$940	\$626
\$4.00	\$100	\$491	\$391

The Expected Payments and Net Returns are based on probabilities calculated from futures market data that were available on 07/24/2015. The "2016 Estimate" values are the period over which you must elect a coverage level and percentage of production history.

MPP-Dairy Decision Tool

Margin Protection Program Decision Tool
www.DairyMPPTools.org

Farm Name: 100 Cow Dairy Coverage Year: 2016 (Current, Calculated On 07/24/2015) Annual Production History (From Form CCC-781) 2,300,000 lbs

Forecast Margin Select Coverage
☐ 2015 Estimate ☒ 2016 Estimate
 Coverage Percentages: 90% ☒ Participated in 2015 And Paid The \$100 Fee Timely
 Covered Annual Production: 2,142,506 lbs ☐ Include Actual Net Revenue
[Download FSA Election Forms](#)

Coverage Level	Administrative Fees & Premiums	Expected Payment	Expected Net Returns
\$8.00	\$10,277	\$19,197	\$8,920
\$7.50	\$6,528	\$14,334	\$7,806
\$7.00	\$4,749	\$10,299	\$5,550
\$6.50	\$2,028	\$7,083	\$3,055
\$6.00	\$1,278	\$4,645	\$1,366
\$5.50	\$957	\$2,884	\$1,927
\$5.00	\$636	\$1,696	\$1,061
\$4.50	\$314	\$940	\$626
\$4.00	\$100	\$491	\$391

You have selected to cover 90% of your production history at a \$6.50 margin level. The annual premium and fee for this coverage is \$2,028. The expected payment for the year at this coverage is \$7,083.

[illegible]

MPP-Dairy Decision Tool

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[Design Protection Program for Dairy](#)

Basic | LGM

Margin Protection Program Decision Tool
www.DairyDecision.org

Farm Name: Kansas Dairy

Coverage Year: 2008 (Historic, Calculated On 08/28/2007)

Actual Production History: 11,000,000 lbs

Forecast Margins
Select Coverage

☐ Probability Table
 ☒ Forecast Graph

☒ Include Actual Margins

The colored bands show the middle 50% probability interval for forecast margins. There is a 25% chance that the margin could be above the green band and a 25% chance that the margin could be below the red band. The graph data and probabilities are calculated from futures market data available on 08/28/2007.

39

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Margin Protection Program for Dairy

MPP
LGM

Margin Protection Program Decision Tool

www.DairyDecision.org

Farm Name: Kansas Dairy

Coverage Year: 2008 (Historic, Calculated On 09/30/2008)

Actual Production History: 11,000,000 lbs

Current Margin Select Coverage

☐ Probability Table
☒ Forecast Graph

☒ Include Actual Margins

The colored bands show the middle 50% probability interval for forecast margins. There is a 25% chance that the margin could be above the green band and a 25% chance that the margin could be below the red band. The graph data and probabilities are calculated from futures market data available on 09/30/2008.

K-STATE
Research and Extension

7/30/2015

40

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MPP-Dairy Decision Tool

Menu LGM

Margin Protection Program Decision Tool

www.DairyMarkets.org

Farm Name:

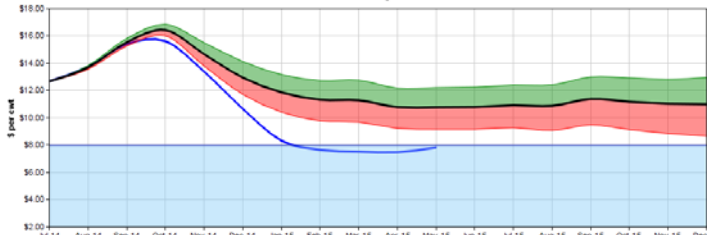
Coverage Year:

Actual Production History: lbs ?

Forecast Margin


Select Coverage

☐ Probability Table ☒ Forecast Graph
☒ Include Actual Margins




The graph displays the forecast margin in dollars per cwt from July 2014 to December 2015. The y-axis ranges from \$2.00 to \$18.00. A blue line represents the actual margin, which peaks at approximately \$16.50 in October 2014 and then declines to about \$8.00 by February 2015. A green shaded band represents the middle 50% probability interval, and a red shaded band represents the 25% probability interval. The actual margin line is mostly within the green band until it drops significantly below the red band in early 2015.

The colored bands show the middle 50% probability interval for forecast margins. There is a 25% chance that the margin could be above the green band and a 25% chance that the margin could be below the red band. The graph data and probabilities are calculated from futures market data available on 09/30/2014.


K-STATE
Research and Extension

7/30/2015


41

MPP-Dairy Decision Tool

Margin Protection Program Decision Tool
www.DairyMargins.org

Farm Name: 1000 Cow Dairy Coverage Year: 2016 (Current, Calculated On 07/24/2015) Annual Production History (From Form CCC-781) 23,000,000 lbs

Forecast Margin: ☐ 2015 Estimate ☒ 2016 Estimate

Coverage Percentage: 90% ☒ Participated in 2015 And Paid The \$100 Fee Timely

Covered Annual Production: 21,425,060 lbs ☐ Include Actual Net Revenue

[Download FSA Election Forms](#)

Coverage Level	Administrative Fees & Premiums	Expected Payment	Expected Net Returns
\$8.00	\$256,081	\$191,973	(\$64,108)
\$7.50	\$196,806	\$143,339	(\$53,466)
\$7.00	\$153,408	\$102,992	(\$50,416)
\$6.50	\$54,233	\$70,835	\$16,602
\$6.00	\$29,309	\$46,447	\$17,138
\$5.50	\$19,125	\$28,845	\$9,720
\$5.00	\$8,070	\$16,964	\$8,894
\$4.50	\$3,985	\$9,403	\$5,418
\$4.00	\$100	\$4,907	\$4,807

You have selected to cover 90% of your production history at a \$6.00 margin level. The annual premium and fee for this coverage is \$29,309. The expected payment for the year at this coverage is \$46,447.

Risk Management

- Are we using MPP-Dairy for Risk Management or to maximize payments?
 - How much loss can your dairy operation tolerate?
 - Short-term vs. Long-term

Example

Category	Budget (per cwt)
Farm Costs of Production	\$22.22
Feed Costs	\$10.51
Non-Feed Costs	\$11.71
Revenue Per cwt	\$20.37
Budgeted Farm Income over Feed Cost (IOFC)	\$9.86
MPP Basis (Farm IOFC- MPP IOFC)	??
Needed MPP Coverage Level to cover all Costs of Production	??

MPP Basis

Year	Feed Cost (per cwt)	Revenue (per cwt)	Farm IOFC (Rev.-Feed Cost)	MPP-Dairy Historical Margin	MPP Basis (Farm IOFC- MPP Margin)
2010	\$8.67	\$18.86	\$10.19	\$8.25	\$1.94
2011	\$13.46	\$24.03	\$10.57	\$8.82	\$1.75
2012	\$15.26	\$22.44	\$7.18	\$5.31	\$1.87
2013	\$15.78	\$23.29	\$7.51	\$7.19	\$0.32
2014	\$13.19	\$28.51	\$15.32	\$13.31	\$2.01
Average					\$1.58

Example

Category	Budget (per cwt)
Costs of Production	\$22.22
Feed Costs	\$10.51
Non-Feed Costs	\$11.71
Revenue Per cwt	\$20.37
Budgeted Farm Income over Feed Cost (IOFC)	\$9.86
MPP Basis (Farm IOFC- MPP IOFC)	\$1.58
Needed MPP Coverage Level to cover all Costs of Production	\$10.13

Example

- How much loss can be incurred? Does all risk need to be covered?
- What is the highest debt-to-asset ratio the farm/bank is willing to tolerate?

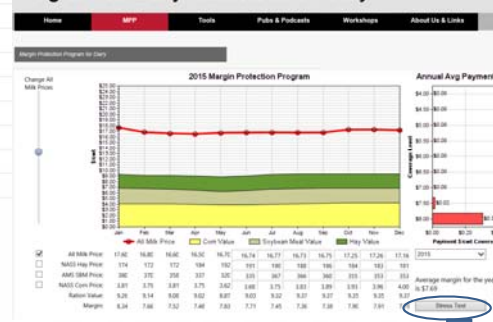
Example

	Current Debt-to-Asset Ratio	Tolerated Debt-to-Asset Ratio	Assets per CWT	Net Farm Income Loss that will raise D/A by 10%	Net Farm Income Loss Tolerated
Farm 1	12%	30%	\$35.00	\$3.50	\$6.30
Farm 2	25%	30%	\$35.00	\$3.50	\$1.75
Farm 3	12%	30%	\$50.00	\$5.00	\$9.00
Farm 4	25%	30%	\$50.00	\$5.00	\$2.50

	NFI Loss Tolerated	MPP Coverage Level to fully protect Cost of Production	MPP Coverage Level Given Tolerance for Loss
Farm 1	\$6.30	\$10.13	\$3.83
Farm 2	\$1.75	\$10.13	\$8.38
Farm 3	\$9.00	\$10.13	\$1.13
Farm 4	\$2.50	\$10.13	\$7.63

New Advanced Tool

Program on Dairy Markets and Policy



Program on Dairy Markets and Policy

Production & Prices		MPP Dairy		Profitability		Liquidity		Solvency	
Milk Price (¢/lb)	1.26								
Milk Per Cow (¢/lb)	22,190								
Operating Cost Per Cow (¢/lb)	11,171								
Milk Cost (¢/lb)	11,171								
Other Revenue (¢/lb)	11,171								
Other Revenue (¢/lb)	11,171								
Net Margin	11,019								
MPP Dairy Production Margin	2,752,769								
MPP Dairy Coverage Percentage	90%								
CMS & Other % of 2015 Milk and Feed Budget	5%								
CMS & Other (¢/lb)	5,589								
Working Capital Per Cow	\$2,113								
Assets Per Cow	\$2,245								
Debt to Asset Ratio (at Market Value)	12%								
Effect of CMS on Assets Value	1%								
Current Average MPP Dairy Margin in 2015	\$1.00								
Dispositions									
Forecasted 2015 Milk Production	2,752,769								
Cash Flow Breakdown MPP Dairy Margin	\$1,111								

September 3rd Webinar

- Featuring a 2016 Dairy Market Outlook
- Showcase of the new MPP-Dairy Tool



10:00 am Central Time

Free to Join

Register at www.AgManager.info

Or

contact Rich Llewelyn at rvi@ksu.edu
785-532-1504

50

Should this be your only risk management plan?

- Hedges (milk, corn, soybean meal)
- Options (put to establish floor price on milk, call to for price ceiling on corn and soybean meal)
- Forward contracting (selling milk, purchasing feed)
- LGM Dairy

What will the program do for you?

- Provides significant risk management for extreme downturn events
- Positive long-term expected value

Questions?



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