



Dairy Revenue Protection Insurance (Dairy-RP) Updated February 2020



Product overview

- Provides protection against declines in quarterly revenue from milk sales
- This is a revenue protection plan: An expected price sets an expected revenue guarantee and a final price sets the final revenue guarantee
 - Data sources are Chicago Mercantile Exchange (CME), Agricultural Marketing Service (AMS), and National Agricultural Statistics Service (NASS)
 - Expected off CME
 - Actual off AMS
 - The final calculated 3-month average is the simple average of the calculation results for each month within the Quarterly Insurance Period to which a Quarterly Coverage Endorsement applies
- Two pricing options:
 - Class price – classified milk price – uses a combination of Class III and Class IV milk prices based on insured’s declared class price weighting factor
 - Component – combination of milk components – uses a combination of butterfat, protein, other milk solids values, based on insured’s declared butterfat and protein test
 - Insured may purchase separate endorsements for the same quarterly insurance period with different elections, but cannot have part of the milk in an endorsement covered under Class Pricing Option and part of the milk in the same endorsement covered under Component Pricing Option
- 70-95% coverage level (5% increments)
- Farmer chooses how much milk production to cover during the quarter
 - Indexed using state-level milk production

Subsidy

Coverage level percent	70	75	80	85	90	95
Premium subsidy percent	59	55	55	49	44	44

Dairy RP versus other options

	WFRP	LGM	DMC	Dairy-RP
Commodity revenue protection	Yes	No	No	Yes
Margin protection	No	Yes	Yes	No
Works with other feed insurance (e.g., corn, etc.)	Yes	No	N/A	Yes
Regional	N/A	No	No	Yes
Coverage election	Yes	Yes	Yes	Yes
Customizable (components/classes, etc.)	No	Low	No	Yes, High
Via FCIC	Yes	Yes	No	Yes
Price triggers market based	N/A	Yes	No	Yes
Covers yield/production risk	N/A	No	No	Yes
Basis risk	Low	High	High	Low
Reporting requirements	High	Low	Low	Low
Directly insure milk commodity or indirectly via insuring cash flows from live animal	Indirect	Indirect	Indirect	Direct
Market based pricing	No	No	No	Yes

Farmer has to make 5 basic decisions:

- The value of milk protected
- The amount of milk production to cover
- The level of coverage (70, 75, 80, 85, 90, 95%)
- Which quarterly contracts he/she wishes to purchase (prices are discovered in each of the quarterly contracts)
- Protection Factor – between 1.0 and 1.5 in .05 increments (selection impacts both premium and indemnity proportionately; may choose a different factor for each type and practice indicated on the quarterly endorsement)

Insurance period/crop year

- Crop Year is 12 months, July 1 through the following June 30
- Quarterly endorsements may be bought for the next quarter, or up to five quarters (with the exception of the last sales period).
- Endorsement purchase periods are limited – The sales period end date is specified in the actuarials and is normally 15 days prior to the end of the quarter.
- After an application is approved, a farmer may buy each day prices are made available.
- Quarterly endorsements may only be purchased at certain times of day:
 - Sales period begins when coverage prices and rates are validated and ends at 9:00 a.m. CST the following business day. If expected milk and dairy commodity prices are not available on the RMA website by 4:00 p.m., the Dairy-RP will not be offered for sale for the insurance period.

Application submission

- Can be submitted at any time during the crop year.
- Must be received by the insurance agent no later than the sales closing date for which coverage is requested under a quarterly coverage endorsement
- Early completion will confirm conservation compliance and/or beginning farmer provisions, if applicable
- Agent may want to review records to verify: Entity, Tax ID, and to confirm records farmer needs to retain in the event of a possible loss
- DRP is continuous and will remain in effect until cancelled
- Only one application is needed per state and all the milk produced within a state is covered under this policy
- A county must be elected on the application, and should be the county where the milk storage tank of the dairy operation is physically located – if the dairy operation spans multiple counties, insured picks one.
- Required on application: Crop year, State/County, Crop (Milk), Plan of Insurance (DRP)
- May be able to use existing insurance application if farm has other insurance
- No written agreements allowed.
- Quarterly coverage endorsement: Insured may submit multiple quarterly coverage endorsements for the same quarterly insurance period, but they cannot cover the same pounds of milk

Determining Indemnity (Applies to both pricing options)

- Determine Yield Adjustment Factor
- Determine actual class pricing/component pricing milk revenue
- Determine milk marketings, which is total amount of milk sold by the dairy during the quarterly insurance period for which the dairy has proof of sale
- Insureds must provide their milk marketing records
- Milk marketings must be within 85% in the insured's declared covered milk production; if not, covered milk marketings equals milk marketings/85%

Example:	Declared	2,000,000
	Actual	1,200,000
	$1,200,000 / .85 = 1,411,765$ pounds	

Notice of Probable Loss and Indemnity

- The AIP will send the insured a Notice of Probable Loss approximately 10 days after all DRP data applicable for the quarterly insurance period are released. DRP data released by the 20th of the month following the end of the quarter.
- To receive an indemnity, the insured must return the notice of loss to the AIP within 60 days after issuance and include the milk production worksheet and the milk marketing records.
- The final proof of loss is completed by the AIP and provided to the insured after the claim has been processed.
- Indemnity payments should be made within 30 days following the receipt of claim form, milk marketing records and milk production worksheet.

Other insurance

- The insured may have other livestock policies on the insured milk.
- You cannot insure the same milk in the same months.
- If one policy is DRP and the other is a livestock policy insuring the same milk in at least one month during the quarterly insurance period (i.e. LGM), the policy with the earliest date of endorsement will be in force and the other will be void.

Premium payment

- Premium is billed the month following the end of the insurance period.

Information from August 20, 2018 webinar provided by NAU Country, presenter Dave Paul



For more information:

RMA Dairy Revenue Protection Fact Sheet (April 2019)

<https://www.rma.usda.gov/Fact-Sheets/National-Fact-Sheets/Dairy-Revenue-Protection>

UVM Agricultural Risk Management Education

Website: <http://go.uvm.edu/ag-risk>

Jake Jacobs, UVM Ag Risk Management and Crop Insurance Education
208 Morrill Hall, University of Vermont, Burlington, VT 05405

Email: jake.jacobs@uvm.edu Message phone line: 802-656-7356

RMA website: <https://www.rma.usda.gov/>

FSA website: <https://www.fsa.usda.gov/>



USDA and the University of Vermont are equal opportunity providers and employers. This material is funded in partnership by USDA, Risk Management Agency, under award number RM18RMETS524C022.