

Dairy Revenue Protection (DRP)

What is DRP?

DRP insurance protects against declines in quarterly revenue from milk sales. Coverage is based on futures prices for milk and dairy commodities as well as milk yield determined by state or pooled region where the producer is located. Producers select the quantity of milk production to cover, as well as the quarter they'd like to insure. Volume and coverage timing are flexible.

Customize your DRP coverage

Producers may purchase quarterly endorsements for up to five nearby quarters during each sales period. There are two pricing options:

- **Class Pricing** is based on the quarterly average of the CME Class III and Class IV milk futures prices weighted to the insured's elections.
- **Component Pricing** uses the Agricultural Marketing Service (AMS) formulas to calculate values for butterfat, protein, other solids and nonfat solids based on the quarterly averages of the Chicago Mercantile Exchange (CME) butter, cheese and dry whey futures. Producers with higher component milk may find this coverage option better reflects milk value.

Available for purchase most business days

If you have a DRP application on file with Northwest FCS, coverage can be purchased most business days. The sales period begins when the coverage prices and rates are published, generally by 1:30 PT, and coverage endorsements must be signed and submitted to Risk Management Agency (RMA) before 7 a.m. PT the following day. If you currently have an application on file with another insurance agency and want to work with Northwest FCS, June 30th is the annual deadline for making an insurance agency change.

What does DRP protect against?

DRP protects against an unexpected decline in quarterly revenue from milk sales resulting from a decline in milk prices, regional/state milk production, or a combination of both. It does not insure against death of dairy cattle, loss or destruction of dairy cattle, or other unnamed losses.

How are claims calculated?

Payable claims are based solely on the difference between the final revenue guarantee and actual milk revenue and are not dependent on the insured's sale price.

No up-front costs: Premium & Subsidies

Premiums aren't due until the end of the selected quarterly endorsement period. Premiums vary and federal subsidies are determined by coverage level selected.

Coverage Level	Subsidy Level (Reducing your cost)
80%	55%
85%	49%
90%	44%
95%	44%



Risk Management for Dairy Producers

Livestock Gross Margin (LGM-Dairy)

What is LGM-Dairy?

LGM-Dairy protects against situations where margins collapse between Class III milk and feed costs (corn and soybean meal). This coverage may be a good choice if producers are concerned with higher feed costs or declining Class III milk prices. Strategically, it is a two-pronged approach that is like buying both a call option to limit higher feed costs and a put option to set a floor on milk prices.

Customize your LGM-Dairy coverage

- Choose to insure one month, or up to 10 months.
- Coverage options begin the second month of the insurance period and an insurance period runs for 11 months. This means if coverage is purchased in January, the first month of available coverage is March and the last available month would be December.

What does LGM-Dairy protect against?

LGM-Dairy protects the margin between milk and feed costs. It does not protect against dairy cattle death, unexpected decreases in milk production, or unexpected increases in feed use.

How are claims calculated?

LGM-Dairy uses futures prices for corn, soybean meal and Class III milk to establish the expected gross margin and the actual gross margin.

- The gross margin guarantee for an insurance period is the expected total gross margin minus the elected deductible.
- A claim may be paid when the actual gross margin is less than the gross margin guarantee and is not dependent on the insured's sale price or cost of feed.

Available for purchase weekly (Beginning July 1, 2021)

LGM-Dairy is available for purchase every Thursday as soon as coverage prices and rates are published, generally by 2:30 PT. A coverage endorsement must be signed and submitted to RMA before 7 a.m. PT the following day. Coverage endorsement submissions include a target marketings report for milk and corn and soybean meal equivalents. Default values for corn and soybean meal equivalents may be utilized.

No up-front costs: Premium & Subsidies

The premium billing date is the first business day of the month following the last month of that insurance period. A premium subsidy is available for coverage selections that include at least two months during the insurance period. Premiums vary and federal subsidies are determined by deductible amount selected.

Deductible	Subsidy Level (Reducing your premium)
\$0.00/cwt	18%
\$0.10/cwt	19%
\$0.20/cwt	23%
\$0.30/cwt	25%
\$0.40/cwt	28%
\$0.50/cwt	31%
\$0.60/cwt	34%
\$0.70/cwt	38%
\$0.80/cwt	43%
\$0.90/cwt	48%
\$1.00-\$2.00/cwt	50%



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How do I know if DRP or LGM-Dairy is right for my operation?

Contact your local Northwest FCS insurance agent to discuss the best options for your specific situation.

Considerations:

- LGM-Dairy and DRP coverage cannot be combined to insure milk for the same months.
- If you're concerned with unexpected declines in milk prices (Class III, IV or components), then DRP coverage may be the right coverage choice for you.
- If you're concerned about protecting the margin between Class III Milk and feed costs (corn and soybean meal), then you may want to consider LGM Dairy.
- Both insurance products allow you to take full advantage of increased milk prices.

What analysis tools are available?

The DRP Analyzer—now with an LGM Quoter

Northwest FCS customers who have a DRP or LGM application on file gain exclusive access to the industry leading DRP Analyzer, which now features an LGM Quoter. Developed by a leading dairy economist to equip producers with data and analysis, the DRP Analyzer offers many benefits.

- What-if analysis
- Daily price reports
- Historical Analysis
- Educational videos
- Twice-monthly market updates
- Price Alerts
- Market Dynamics
- Endorsement tracker
- Producer specific basis tracking
- LGM Quoter and what-if analysis

Ready to discuss options or purchase coverage?

Contact your local Northwest FCS insurance agent to discuss policy options specific to your operation.

- Visit northwestfcs.com to find your local branch.
- Call **866.552.9172** to be connected to your local insurance agent.

