Dairy Revenue Protection (DRP)

- Revenue protection program
  - Minimizes the impact of price decline

- Offered through the **Risk Management Agency (RMA)**
- Uses prices from the futures market to set a revenue protection price
  - Sold by the quarter
- Covers declines in milk production from your pooled region

Decision 1

- ***Who to use as your DRP insurance provider*__**
  - Offered through many RMA insurance providers who also provide you with crop insurance

  - Some offer:
    - coverage quote tools
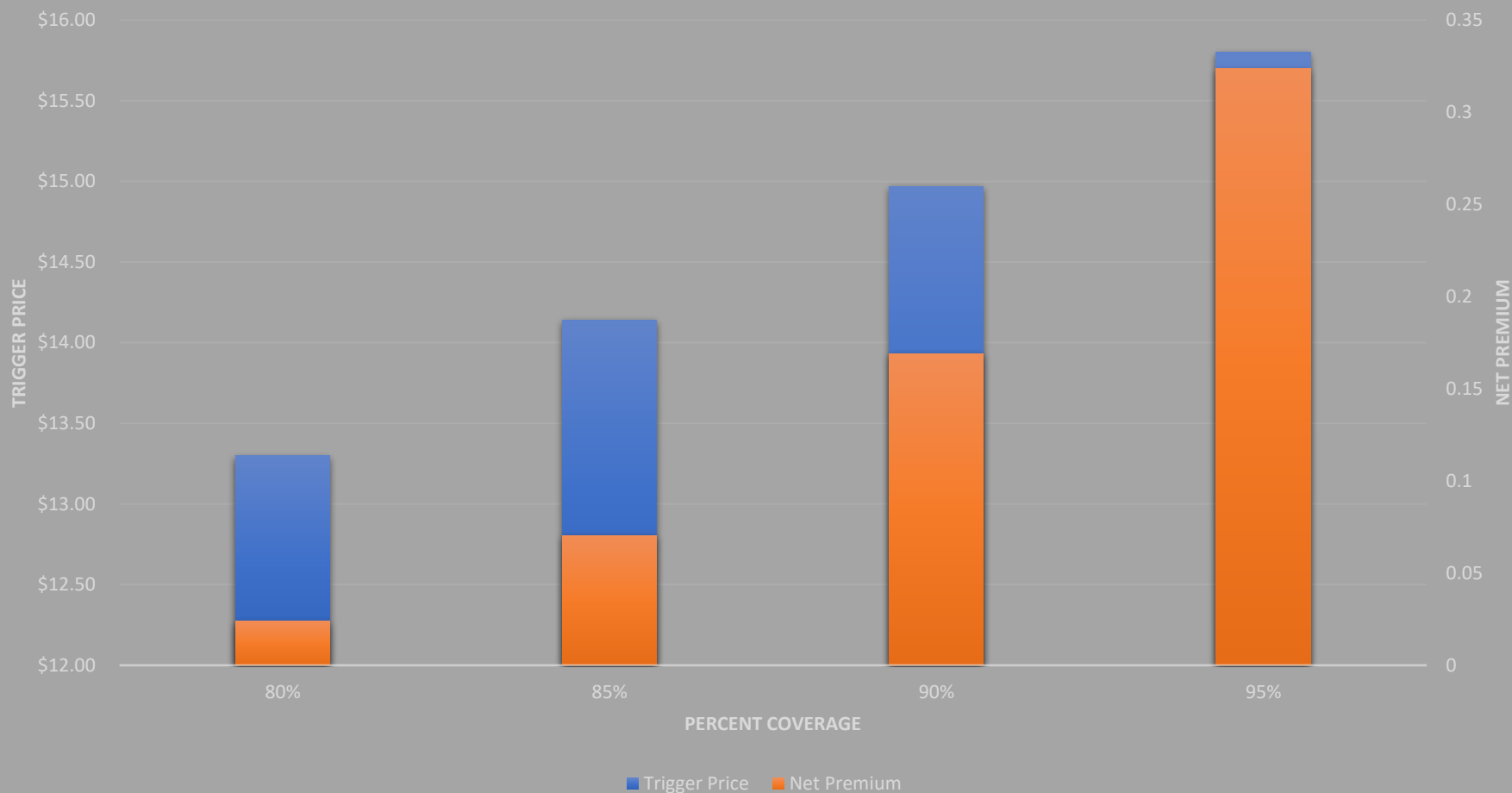   - Dairy emails with coverage updates

Decision 2

- **_Level of Coverage to purchase_**
  - Percent coverage of futures quote price
  - Higher coverage closer to current futures price
  - Trigger price

Coverage, %	80	85	90	95
Premium Subsidy, %	55	49	44	44

Q1 2021 Class III Trigger Price and Net Premium

Decision 3

- ***Amount of production to cover***
  - Policies to fit any size herd
  - Milk can only be covered once but multiple contracts can be purchased per quarter for a different portion of the farms production

  - Production obligation
    - Class coverage
      - 85% of covered production
    - Component coverage
      - 90% of Fat and Protein pounds

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Decision 4

- ***When to purchase/quarter of coverage***
  - Market window from 4 pm to 10 am eastern
  - Sales close 15 days before start of the quarter

- Available for up to 5 quarters
  - Premiums are generally more expensive for farther out quarters

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Decision 5

- ***Type of Coverage:***
  - Class III
  - Class IV
  - Component Blend (Fat and Protein)

    - Select the coverage combination that best matches your herds production and current market conditions

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Comparing Class III to Component Blend

- ***Payment from Class III coverage:***
  - Revenue guarantee: $121,875
  - = [5,000 (cwt covered) x $16.25 (trigger price) x 1.5 (protection factor)]

-
  - Minus
-
  - Actual Revenue: $121,125
  - =[$16.15 (Class III milk price) x 5,000 (cwt covered) x 1.5 (protection factor)]- $3,050 (producer premium)
  -
  - = Producer payment $-2,300 (while a payment was triggered, it was not enough to cover the premium cost)

-
- ***Payment from Component coverage with 4.55% Fat and 3.55% Protein:***
-
  - Revenue guarantee: $148,500
  - = [5,000 (cwt covered) x $19.80 (trigger price) x 1.5 (protection factor)]
  -
  - Minus
  -
  - Actual Revenue: $135,675
  - = [$18.09 (component milk price) x 5,000 (cwt covered) x 1.5 (protection factor)] - $4,050 (producer premium)
  -
  - = Producer payment $8,775

Decision 6

- ***<u>Protection Factor</u>***
  - Multiplier from 1 to 1.5 in 0.05 increments
    - Does not change the trigger price
    - Increases the triggered revenue guarantee
    - Increases the premium
    - Can be thought of as Basis

Comparing Protection factor of 1 to 1.5
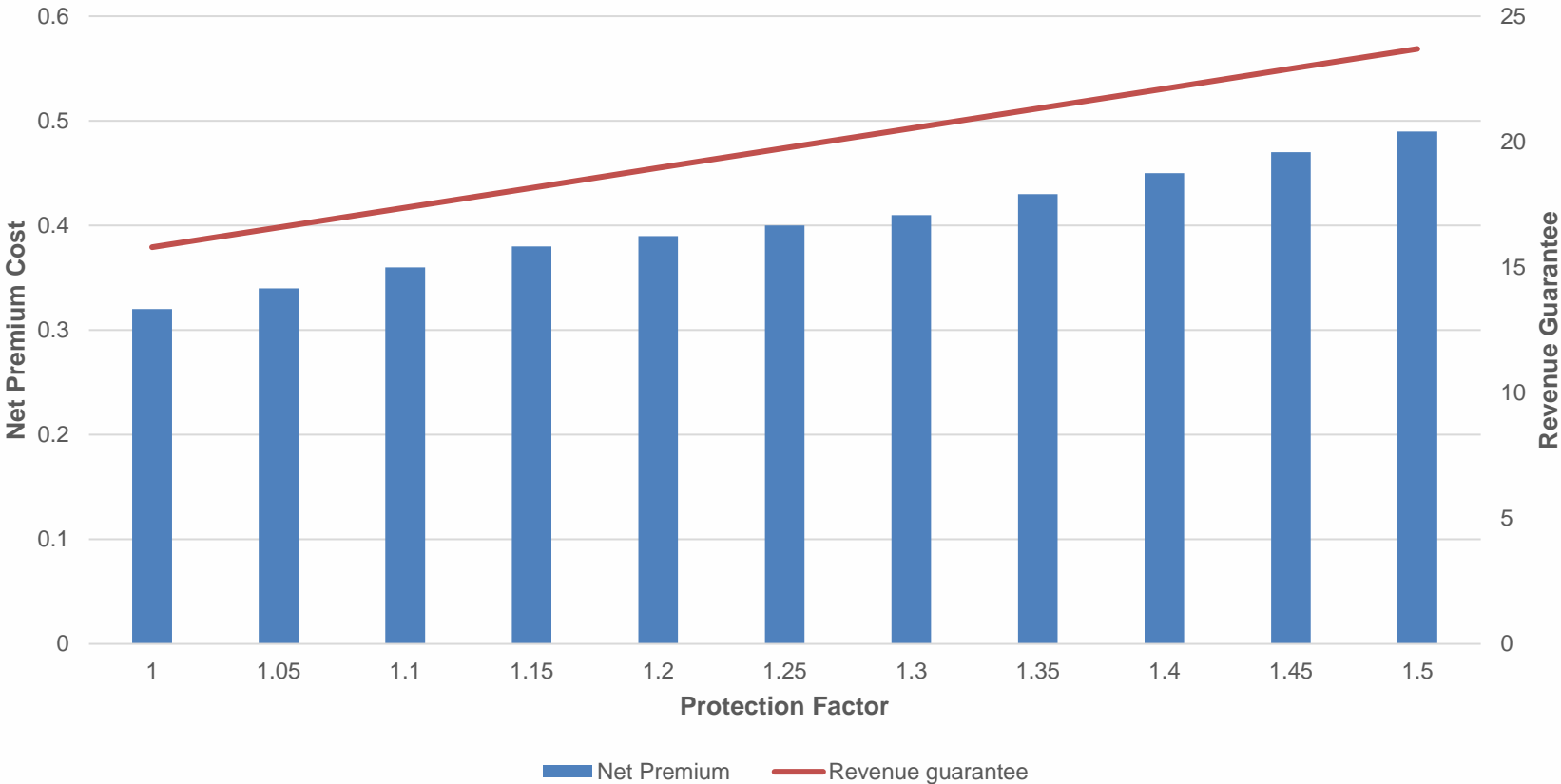
- **Payment at protection factor 1:**
  - Revenue guarantee: $165,300
  - = [10,000 (cwt covered) x $16.53 (trigger price x 1 (Protection factor)]
  -
  - Minus
  -
  - Actual Revenue: $160,500
  - = [$16.05 (Class III milk price) x 10,000 (cwt covered) x 1 (Protection factor)] - $2,700 (Producer premium)
  -
  - = Producer payment $2,100
  -
- **Payment at protection factor 1.5:**
  -
  - Revenue guarantee: $247,950
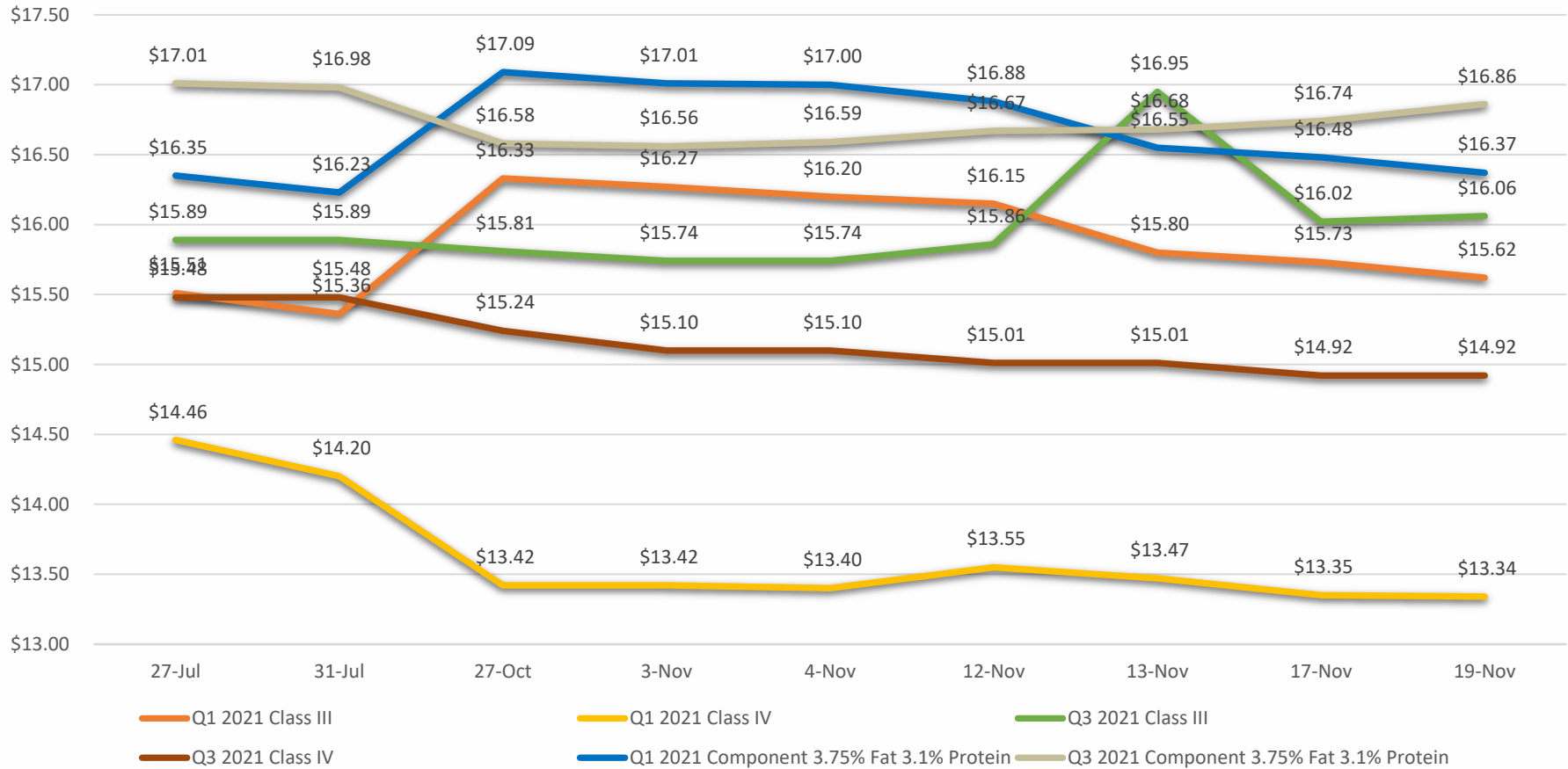 - = [10,000 (cwt covered) x $16.53 (trigger price) x 1.5 (Protection factor)]
  -
  - Minus
  -
  - Actual Revenue: $240,750
  - = [$16.05 (Class III milk price) x 10,000 (cwt covered) x 1.5 (Protection factor)] - $4,000 (Producer premium)
  -
  - = Producer payment $3,200

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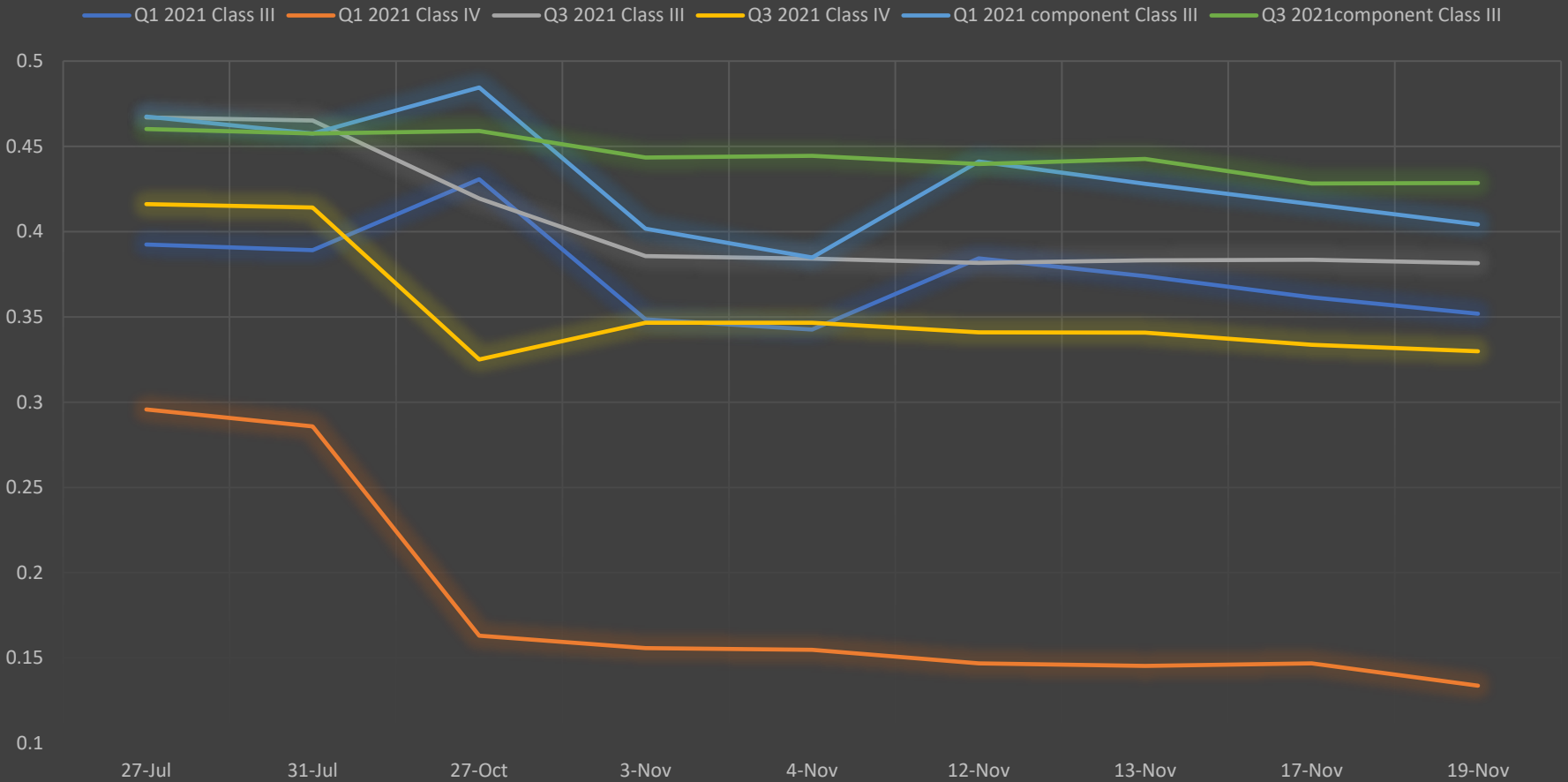# Protection factor example Q1 2021 trigger $15.80
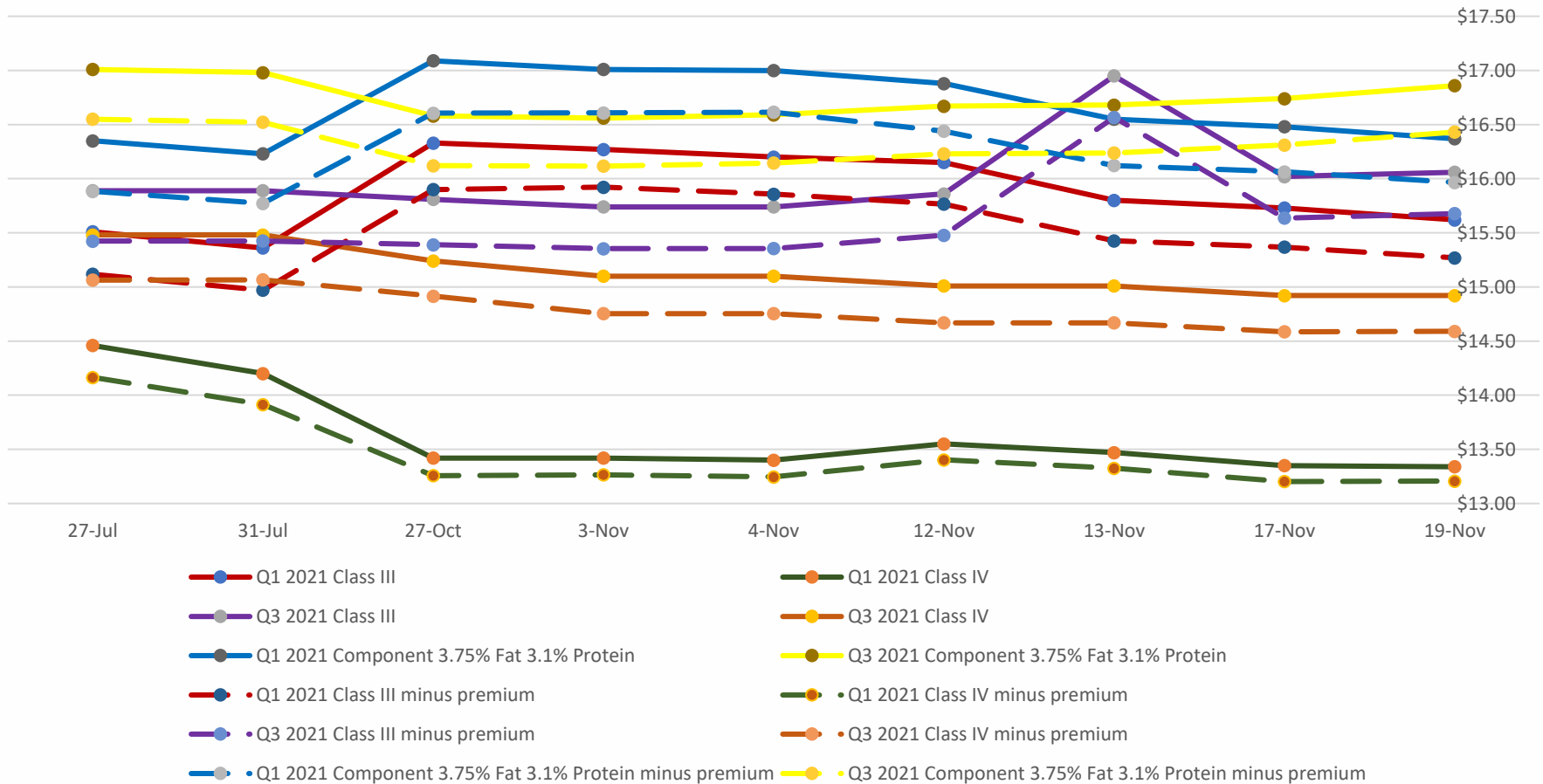

Protection factor 95%; Coverage $15.80 trigger

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Protected Price 95% coverage (Trigger Price)

	27-Jul	31-Jul	27-Oct	3-Nov	4-Nov	12-Nov	13-Nov	17-Nov	19-Nov
Q1 2021 Class III									
Q1 2021 Class IV									
Q3 2021 Class III									
Q3 2021 Class IV									
Q1 2021 Component 3.75% Fat 3.1% Protein									
Q3 2021 Component 3.75% Fat 3.1% Protein									

Data labels:
$17.01, $16.98, $17.09, $17.01, $17.00, $16.88, $16.95, $16.74, $16.86
$16.58, $16.56, $16.59, $16.67, $16.68, $16.55, $16.48
$16.35, $16.23, $16.33, $16.27, $16.20, $16.15, $16.37
$15.89, $15.89, $15.81, $15.74, $15.74, $15.86, $15.80, $16.02, $16.06
$15.51, $15.48, $15.48, $15.24, $15.10, $15.10, $15.01, $15.01, $14.92, $14.92
$15.36, $15.73, $15.62
$14.46, $14.20, $13.42, $13.42, $13.40, $13.55, $13.47, $13.35, $13.34

Legend:
Q1 2021 Class III
Q1 2021 Class IV
Q3 2021 Class III
Q3 2021 Class IV
Q1 2021 Component 3.75% Fat 3.1% Protein
Q3 2021 Component 3.75% Fat 3.1% Protein

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Net Premium 95% coverage (farm cost per cwt)

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Protected Price 95% coverage and Break-even

Solid line trigger price, doted line breakeven (trigger minus net premium)

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Decision 7

- ***When to pull the trigger on purchasing a contract***

  – Farm cost of production

  – Basis- Farm price compared to various CME prices

  ▪ Strategies

    • Break-even: avoid losses

    • Above Break-even: lock in profits

    • Below Break-even: Protection from even greater losses

Summary

- Premiums due at end of insured quarter
- RMA will notify you of a probable loss
- Can cover all or a portion of the milk you produce
- Each quarter is protected separately
- Protection factor increases coverage but not trigger price
- Each coverage type moves independently

- For more information: https://dairy.osu.edu/