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

<table>
<thead>
<tr>
<th>Coverage, %</th>
<th>80</th>
<th>85</th>
<th>90</th>
<th>95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Subsidy, %</td>
<td>55</td>
<td>49</td>
<td>44</td>
<td>44</td>
</tr>
</tbody>
</table>
Q1 2021 Class III Trigger Price and Net Premium

Trigger Price

Net Premium

PERCENT COVERAGE

80%

85%

90%

95%

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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 farm's production

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

**Payment from Class III coverage:**
- Revenue guarantee: $121,875
- \[= [5,000 \text{ (cwt covered)} \times $16.25 \text{ (trigger price)} \times 1.5 \text{ (protection factor)}]\]
- Minus
- Actual Revenue: $121,125
- \[=[$16.15 \text{ (Class III milk price)} \times 5,000 \text{ (cwt covered)} \times 1.5 \text{ (protection factor)}]-$3,050 \text{ (producer premium)}\]
- \[= \text{Producer payment } \$2,300 \text{ (while a payment was triggered, it was not enough to cover the premium cost)}\]

**Payment from Component coverage with 4.55% Fat and 3.55% Protein:**
- Revenue guarantee: $148,500
- \[= [5,000 \text{ (cwt covered)} \times $19.80 \text{ (trigger price)} \times 1.5 \text{ (protection factor)}]\]
- Minus
- Actual Revenue: $135,675
- \[=[$18.09 \text{ (component milk price)} \times 5,000 \text{ (cwt covered)} \times 1.5 \text{ (protection factor)}]-$4,050 \text{ (producer premium)}\]
- \[= \text{Producer payment } \$8,775\]
Decision 6

• **Protection Factor**
  – 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
  - \[= 10,000 \text{ (cwt covered)} \times 16.53 \text{ (trigger price)} \times 1 \text{ (Protection factor)}\]
  - Minus
  - Actual Revenue: $160,500
  - \[= 16.05 \text{ (Class III milk price)} \times 10,000 \text{ (cwt covered)} \times 1 \text{ (Protection factor)}\] - $2,700 (Producer premium)
  - = Producer payment $2,100

- **Payment at protection factor 1.5:**
  - Revenue guarantee: $247,950
  - \[= 10,000 \text{ (cwt covered)} \times 16.53 \text{ (trigger price)} \times 1.5 \text{ (Protection factor)}\]
  - Minus
  - Actual Revenue: $240,750
  - \[= 16.05 \text{ (Class III milk price)} \times 10,000 \text{ (cwt covered)} \times 1.5 \text{ (Protection factor)}\] - $4,000 (Producer premium)
  - = Producer payment $3,200
Protection factor example Q1 2021 trigger $15.80

Protection factor 95%; Coverage $15.80 trigger

Net Premium Cost

Revenue Guarantee

Protection Factor

Net Premium

Revenue guarantee
Protected Price 95% coverage (Trigger Price)

- 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
Net Premium 95% coverage (farm cost per cwt)

- Q1 2021 Class III
- Q1 2021 Class IV
- Q3 2021 Class III
- Q3 2021 Class IV
- Q1 2021 component Class III
- Q3 2021 component Class III

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Solid line trigger price, doted line breakeven (trigger minus net premium)
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/](https://dairy.osu.edu/)