Dairy Revenue Protection

Frequently Asked Questions

September 26, 2018

Q: What is Dairy Revenue Protection?

A: Dairy Revenue Protection (Dairy-RP) provides protection against an unexpected decline in revenue (yield and/or price) on the milk produced from dairy cows. In sum, the policy covers the difference between your final revenue guarantee and actual milk revenue during each quarter of the year.

Q: Does this policy cover any other types of loss such as death of the dairy cattle?

A: No, this policy does not insure against the death or other loss or destruction of your dairy cattle, or against any other loss or damage of any kind whatsoever.

Q: What pricing options are available?

A: There are two pricing options available: the Class Pricing Option and the Component Pricing Option.

Q: What is the Class Pricing Option?

A: The Class Pricing Option uses an insured's election of a combination of Class III and Class IV milk prices as a basis for determining coverage and indemnities.

Q: What is the Component Pricing Option?

A: The Component Pricing Option uses the component milk prices for butterfat, protein, and other solids as a basis for determining coverage and indemnities. The insured selects the declared butterfat test and declared protein test and the other solids test is fixed at 5.7 to establish the milk price.

Q: Can I insure both the component pricing option and the class pricing option at the same time?

A: Yes. You may choose either pricing option on separate quarterly coverage endorsement provided it is not covering the same milk.

Q: What is the final revenue guarantee?

A: The final revenue guarantee is based on expected yield multiplied by expected price along with the coverage level selected. Expected milk yields are based on state-level National Agricultural Statistics Service (NASS) estimates of milk production per cow in the pooled production region. Growers will have several options to choose from for the expected milk price. The default option will be futures prices. Other options will allow growers to insure the price for specific milk components, such as protein and fat. This is intended to allow producers to choose coverage that better matches their specific risks.

Q: How is final revenue guarantee calculated for class pricing option?

A: The final revenue guarantee is determined by multiplying the expected class III and Class IV prices x the declared pricing elections x covered milk production ÷ 100.

Q: How is final revenue guarantee calculated for component pricing option?

A: The final revenue guarantee is determined by multiplying the expected butterfat, protein and other solids prices x the final component tests x covered milk production ÷ 100.

Q: How do you calculate the final revenue guarantee for the class pricing option?

A: For the class price option the final revenue guarantee is calculated as follows: ((expected class III price x 1 declared class price weighting factor) + (expected class IV price x (1-declared class price weighting factor)) x covered milk production ÷ 100.

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Q: How do you calculate the final revenue guarantee for the component pricing option?

A: For the class price option, the final revenue guarantee is calculated as follows: ((final butterfat test x expected butterfat price) + (final protein test x expected protein price) + (5.70 x expected other solids price)) x covered milk production ÷ 100.

Q: How is the actual milk revenue calculated for class pricing option?

A: The actual value is determined by multiplying the actual class III and Class IV prices x the declared pricing elections x covered milk production x yield adjustment factor ÷ 100.

Q: How is actual milk revenue calculated for component pricing option?

A: The actual value is determined by multiplying the actual butterfat, protein and other solids prices x the final component tests x covered milk production x yield adjustment factor ÷ 100.

Q: How would my indemnity be calculated?

A: Dairy-RP provides insurance only for the difference between the final revenue guarantee and actual milk revenue multiplied by actual share and protection factor, caused by natural occurrences in market prices and yields in the pooled production region.

Q: What is a pooled production region?

A: A pooled production region is a group of states used to determine the milk production per cow within a region identified in the Dairy Revenue Protection Commodity Exchange Endorsement.

Q: What is the Quarterly Coverage Endorsement?

A: An endorsement to the policy necessary to provide coverage that includes information about the quarterly insurance period and declared coverage options.

Q: Can multiple Quarterly Coverage Endorsements be purchased for the same quarterly insurance period?

A: Yes. There can be multiple Quarterly Coverage Endorsements in effect for the same quarter. The producer can elect different coverage levels and pricing methods for each Quarterly Coverage Endorsement.

Q: Can I purchase an endorsement with different Approved Insurance Providers (AIP) in the same crop year?

A: No, quarterly coverage endorsement must be purchased with the same AIP within the same crop year. You may transfer the policy to another AIP at the beginning of a new crop year.

Q: When is the contract change date for the policy?

A: The contract change date is April 30. This is the date changes to the policy, if any, can be viewed on RMA's website for the upcoming crop year.

Q: When is the cancellation date for the policy?

A: The cancellation date is June 30.

Q: What is the quarterly insurance period?

A: The three-month period, corresponding to one of the eight quarters available for purchase during the crop year.

Q: Can I buy Catastrophic Risk Protection Endorsement (CAT) coverage on Dairy-RP?

A: No. Dairy-RP does not have a CAT level of coverage.

Q: What are the premium subsidy and coverage levels available to me?

A: Dairy-RP premium subsidy is as follows:

Coverage Level	70%	75%	80%	85%	90%	95%
Premium Subsidy	59%	55%	55%	49%	44%	44%

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Q: Can I participate in the Livestock Gross Margin for Dairy (LGM-Dairy) program and Dairy-RP?

A: Yes, you may have LGM-Dairy and Dairy-RP policies in effect for the same crop year, but only one policy, either LGM-Dairy or Dairy-RP can have endorsements in effect for the quarterly insurance period. For example: One policy is Dairy RP and the other is a LGM-Dairy policy insuring the same milk for the quarterly insurance period, the policy with the earliest date of endorsement for the quarterly insurance period will be in force and the other endorsement will be void.

Q: When is the premium due on Dairy-RP?

A: Premium is payable at the end of the Quarterly Insurance Period.

Q: Can I have different coverage levels and protection factors for each quarterly coverage endorsement purchased?

A: Yes, you may have different coverage levels and protection factors for every endorsement purchased. You can choose a protection factor between 1.00 and 1.5 in 0.05 increments.

Q: As a beginning farmer or rancher, am I eligible for an additional subsidy under Dairy-RP?

A: Yes. The subsidy for qualifying beginning farmers or ranchers provides an additional 10 percent of premium subsidy. For more information on the beginning farmer and rancher program, go to the Risk Management Agency's website.

Q: Can I participate in Farm Service Agency's Margin Protection Program and Dairy-RP?

A: Yes, you may participate in both programs at the same time.

Q: When can I purchase Dairy-RP?

A: The Dairy-RP is available for purchase every business day when the coverage prices and rates are validated and published on RMA's website.

Q: How do I buy Dairy-RP?

A: You must buy Dairy-RP insurance through an authorized crop insurance agent. You can fill out an application at any time. However, insurance does not attach until you buy a quarterly coverage endorsement. You may buy multiple quarterly coverage endorsements with one application. Your insurance coverage starts the first day of the quarter for which the quarterly coverage endorsement was purchased.

Q: How do I find an agent?

A: Dairy-RP is available for purchase from your local livestock insurance agent. You can find a crop insurance agent using the Agent Locator tool on the Risk Management Agency (RMA) website at www.rma.usda.gov/tools/agent.html.

Q: I presume since the GSH applies to DRP there is an Admin fee for DRP? Would it be $30 per application, or $30 for QCE?

A: The admin fee does not apply to the DRP policy.

Q: For Conservation Compliance, do they need to have their 1026 signed by the first billing date of the first quarter they take out a QCE?

A: The policy states "For the initial reinsurance year if you certify by the premium billing date for your policy..."

Since the DRP policy has multiple premium billing dates, if the producer is conservation compliant by the applicable premium billing date, they are eligible for the premium subsidy.

For example: producer obtains coverage for Jan – Mar 2019 and Apr – Jun 2019. The insured is not conservation compliant on April 25, 2019 billing date and not eligible for premium subsidy. The insured becomes conservation compliant before the July 25, 2019 billing date and would be eligible for premium subsidy for the premium due on July 25, 2019 and succeeding premium billing dates.

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Q: What happens if the producer sells his herd in the middle of a QCE or before he enters into a QCE in which he has declared milk production. For example, the producer has a QCE in the Jan-Mar quarter and also the April-June QCE. He sells his herd on February 14th. Does he owe premium on both of those QCEs based on his declared milk production, even though he no longer has the ability to sell milk?

A: The premium is earned and payable at the time coverage begins. The premium is due on both Quarterly Coverage Endorsements.

Q: Are the final prices used from AMS state specific, or are they national like the CME would be?

A: The AMS prices are national prices.

Q: If a producer has a dairy in three different counties and there is a milk storage tank in each location/county, does it matter which county they put on the application? Do they need to give us all three? My understanding is we only need one and don't really care which one we get, we just need to have a county for PASS purposes.

A: DRP is state offer, you just need to choose a county for PASS purposes.

Q: Do we have to reconcile the percentages of Class III and IV milk declared on the Class Pricing option weighting factor against what their marketing records show? For example, the producer declares 1M lbs of milk, Class Pricing Option, and elects 50/50 Class III and Class IV on the weighting factor. We don't care how that is marketed, we only care about the total pounds marketed, correct?

A: Answer to the first question is No. Second question, you are correct. The class pricing option weighting factors are the insured's election and not subject to any verification by the AIP. The pounds of delivered production are required to be verified by the AIP.

Q: Do all of the standard crop insurance rules/regulations apply to DRP as well, such as Conflict of Interest, Controlled Business, Anti-rebating statement, Covenant Not to Sue, Non-Disclosure, etc? I don't see them in the Livestock SRA, but maybe that is not where they are housed and I would assume they do apply.

A: Appendix II of the LPRA identifies Conflict of Interest, Controlled Business, and Non-Disclosure.

Anti-rebating and Covenant Not to Sue – Both of these forms are required per the LPRA. The anti-rebating needs to be on each quarterly coverage endorsements.

Q: How do we handle dumped milk at loss time? I presume it does not count toward the 85% check because it was not sold.

A: Milk that is dumped will not count towards the 85% check. For example, a dairy operation produced 1,000 pounds of milk and was required to dump 250 pounds. For the 85% rule you would only use the 750 pounds of milk they delivered/sold to market. The 750 pounds do not meet the required 85%; therefore, the 85% rule would apply.

Q: Notice of Probable Loss, the handbook says the AIP sends to the insured. Can AIPs send to the agent to forward on to the insured, or are we required to go direct to the insured, and then a courtesy copy to the agent if we choose to do so?

A: The AIP can send directly to the insured or they can send to the agent to forward on to the insured. The AIP may want to verify their proposed procedure is compliant with the Conflict of Interest rules before finalizing the procedure.

Q: Am hearing of some producer concerns with the language in 26, B., (2) ...the requirement for daily pounds, some agents are saying the milk pick up is every other day and apparently don't have a daily total. To provide, they would average a multi-day amount, and wonder if that makes any sense when they could just provide the total pounds?

A: It is understood the milk production is only weighed on days the milk is delivered. The pounds recorded each day milk is delivered should satisfy the daily pounds requirement.

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Q: If multiple QCEs in a quarter and only one has a loss, does the producer need to turn in ALL milk marketings for the quarter, or only enough to get to the 85% threshold where his coverage won't be reduced?

A: The declared covered milk production from all the quarterly coverage endorsements in effect for the quarter are used to determine the covered milk production for the QCE with the indemnity. Therefore, all marketing records are needed to accurately determine the covered milk production of this example.

Q: Please clarify the Protection Factor. In the example from the KC training below it appears the 1.25 factor in the example increases liability from which premium is calculated, but it does not increase the final revenue guarantee. It is used to increase any indemnity payment when one is made but does not raise the loss trigger.

A: Correct. The Protection Factor is used to calculate the liability that impacts premium. The protection factor is not a factor used to calculate the final revenue guarantee. The protection factor is multiplied by the indemnity.

Coverage Example - Class Pricing Option

Declared Covered Milk Production (Entered in Pounds)	2,000,000
Expected Class Pricing Milk Revenue	$335,000
Coverage Level	95%
Expected Revenue Guarantee	$318,250
Protection Factor	1.25
Declared Share	1.000
Liability	$397,813
Total Premium	$7,081
Premium Subsidy	**$3,116**
Producer Premium	**$3,965**

$7,081 * 44%
$7,081 - $3,116

Indemnity Calculation Example Class Pricing Option

Final Revenue Guarantee	$318,250
Actual Milk Revenue	$267,300
Total	$50,950

greater of zero OR Actual Milk Revenue – Final Revenue Guarantee *Actual Share * Protection Factor

Actual Share	1.000
Protection Factor	1.25
Indemnity	$63,688

MAX (0, $318,250 - $267,300) * 100% * 1.25

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Q: We have been asked a question regarding DRP and acceptable records. We have an agent who is working with a dairy that bottles their own milk for sale. Will their records be acceptable to prove butterfat and protein test given the insuring entity will be the same entity producing the records? We don't see any information regarding third party records being required so we thought we would run this past you for your thoughts. Also, as an AIP how do we validate these types of records or do we need to do anything different on this type of operation?

(1) The milk production worksheet must be accompanied by milk marketing records corresponding to the quarter insured from the insured dairy operation's milk cooperative or milk handler that provides records of the actual milk deliveries and, if applicable, the component levels in the milk sold.

(2) The milk marketing records shall show:

(i) The name, address, Grade A identifier assigned by a duly constituted regulatory agency, and payroll number or similar identifier of the producer;

(ii) The daily and total pounds, and the month and dates such milk was received from that producer; and

(iii) If the component price option elected, the total pounds of butterfat and protein contained in the producer's milk.

A: In this scenario, the insured would be considered the "milk handler" and their milk marketing records would be acceptable provided they meet the policy requirements. In this type of operation, the AIPs might want to verify the milk marketing records prior to allowing them to purchase insurance to make sure that the records they have are acceptable.

Q: Are the state expected production per cow values recalculated every reinsurance year?

A: The Dairy Revenue Protection Commodity Exchange Endorsement discusses actual and expected milk production per cow in paragraph 5. The expected milk production per cow is determined by RMA and published quarterly by state in the actuarial documents. The actual milk production per cow for each base state is calculated as the ratio of quarterly milk production to quarterly milk cows as published in the NASS Milk Production report for the insurance period. With all this in mind, the expected/actual production per cow will be in the actuarial documents and will change between quarters within a RY if values considered for that production per cow change from quarter to quarter.

Q: For my 2019 policy, I purchase two quarters in different calendar years (2019 and 2020). What state expected production per cow value would be used for each? (Example: I purchase quarter 1 in 2019 and 2020. The state expected production per cow is 5,000 for 2019 and 5,100 for 2020. Would the Q1 in 2019 use the 5,000 and the Q2 in 2020 use 5,100)?

A: Your example is for a 2019 RY/CY policy. Therefore, the quarters are all for that RY/CY, and the expected milk production per cow referenced for the quarters - one within the 2019 calendar year, one within the 2020 calendar year - should be the expected milk production for the quarter purchased as shown in the actuarials (e.g., look at the practice - the code telling you the quarter purchased - and the type - the code telling the option selected). Using your example, you can't purchase quarter 1 (assume you mean practice code 801, which is Oct-Dec) in two years at the same time. Both would not be available to you on the same day

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Q: Under Section 17 Other Insurance
Section 17(2) One policy is Dairy Revenue Protection and the other is a livestock policy insuring the same milk for the quarterly insurance period, the policy with the earliest date of endorsement for the quarterly insurance period will be in force and the other endorsement will be void. The current understanding is the insured cannot insure milk under DRP and LGM for the same month(s).
Example: If the Insured has LGM Dairy for March & April, the insured cannot buy DRP for the Quarters of Jan - Mar and April - June.

A: When you say "has LGM Dairy for March and April," I interpret that to mean the insured reported marketings greater than zero in those two months. With that assumption, you are correct.

The key is whether there is an overlap in the months with insured milk. For LGM, milk coverage can be identified based on the target marketings in each month of the purchased 11-month insurance period (milk marketings allowed in months 2 through 11 of the endorsement). For DRP, the 3-month quarter has a single amount of milk covered (not by month), so all three months are considered to have insured milk. The other key is which policy was in place first.

Q: If the Insured has bought DRP for the Quarters of Jan - Mar and April - June, he/she cannot buy LGM Dairy for any Insurance Period that contains those same months (Jan-June).

A: The insured could purchase an LGM Dairy 11-month insurance period as long as he or she did not put any target marketings in January through June (e.g., those months are all zero). If even one of the months in the Jan - June LGM Dairy insurance period has marketings greater than zero, the LGM Dairy insurance period will be rejected (the DRP was in place first, and there is no way to reject only a portion of an 11-month LGM Dairy insurance period).

Q: The DRP Policy only says the same milk cannot be covered, not the same months. So, can an insured that produces 1,000,000 pounds of milk in a quarter cover 50% under DRP for the July - Sept Quarter and the other 50% under LGM Dairy in the same months?

A: I understand the question and the reason you're asking. Because neither policy requires all milk to be insured, and neither policy collects historical production or documentation up front, the only way to stop a potential coverage overlap is as noted above. The core of the full text of the DRP policy section 17 is that the insured cannot obtain any other livestock insurance issued under authority of the Act on insured milk if the insured has coverage under DRP. The portion quoted above is the exception for insureds who can demonstrate they did not intend to have more than one milk policy in effect for the crop year and meet one of the criteria listed. Additionally, section 17(2) includes the QCE 3-month period as the limiting factor, not just the milk.

With all that said, a scenario of 50/50 on two different plans of insurance (DRP and LGM Dairy) will not be allowed through PASS and eDAS edits.

Q: Is a vertically integrated dairy operation only eligible for the Class pricing option because that dairy does not (or may not) have sales records with components listed?

A: The record requirements are the same for all insureds. Any dairy operation unable to provide records of butterfat and protein components would not be eligible to be insured using the component pricing option and would only be eligible to be insured under the class pricing option.

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Q: The scenario: A large dairy operation has a DRP policy. Within that dairy, they have 2 milk parlors and each parlor has a different producer ID for this operation; therefore, the milk marketings have different producer numbers on them. Would the different producer numbers cause a problem in getting the QCEs accepted in the system? Should we write 2 separate QCEs, one for each producer ID/Tax ID, or could they be listed separately on one QCE?

A: The General Standards Handbook outlines the different entity types. Based on your example above each entity would be required to have their own policy. If the insured is using the same Tax ID and delivering milk under a different name they will need to provide some records to link the dairies together.

Q: How do Landlord/Tenant procedures work with DRP?

A: Landlord/tenant is not applicable to DRP

Q: Are there any hypothetical examples detailing coverage elections and how DRP would have paid in the past five years?

A: The submitter is working on getting this together and plans to provide RMA with historical data from 2011 to 2018. Once RMA receives this data we will release it to the AIP's