



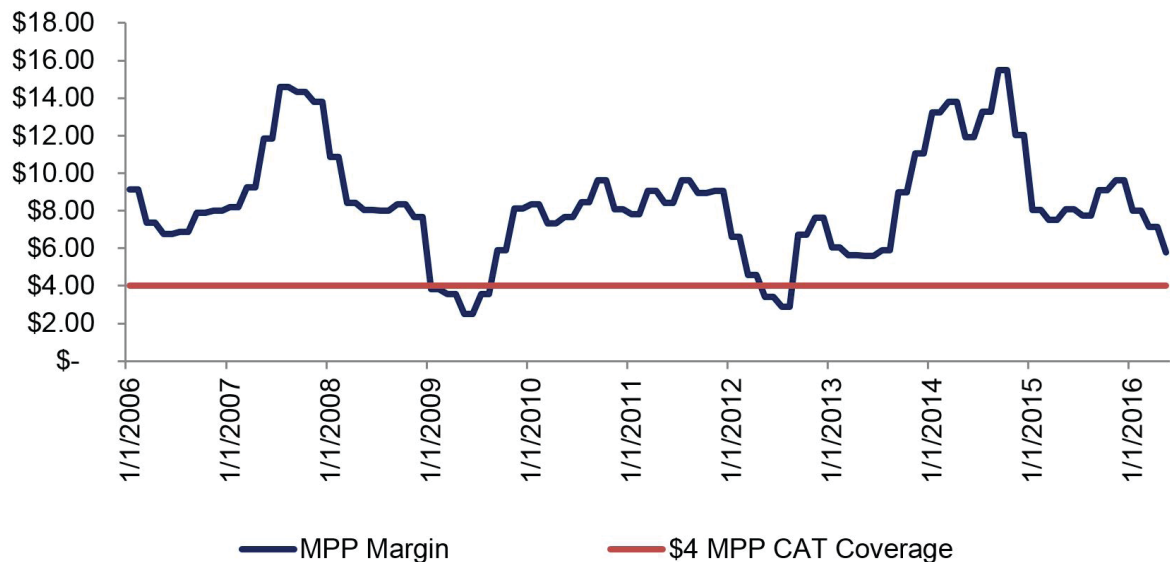
## How does Dairy Margin Protection Program Catastrophic Coverage Compare to Crop Catastrophic Coverage?

### BACKGROUND

USDA's Risk Management Agency (RMA) administers Catastrophic Risk Protection Endorsement (CAT Coverage) for crops. CAT coverage is a minimum level yield-based insurance policy that provides risk management protection on a farm's crop losses in excess of 50 percent of a farm's APH crop yield guarantee. Importantly, for CAT coverage the payment triggering mechanism is production based declines rather than price. If yield losses are experienced on a farm, indemnity payments are based on 55 percent of the price of the commodity. Growers pay a \$300 annual administrative fee to receive CAT coverage. It is not available on all types of policies.

Under the Dairy Margin Protection Program (MPP), participating dairy operations pay a \$100 annual administrative fee to receive \$4.00 per hundredweight catastrophic coverage. Unlike CAT, MPP CAT coverage is price-based and makes program payments when the two-month average MPP margins falls below \$4.00 per hundredweight during a bi-monthly period. In recent years there have only been six bi-monthly periods (12 total months) that the MPP margin has fallen below the \$4.00 CAT coverage level.

MPP Margin and \$4.00 CAT Coverage Option, \$/hundredweight



## OPTION: Increase MPP Cat Coverage Level to Align With Crop Insurance Coverages

Some have suggested there is a notable difference between the two programs and that MPP CAT should be changed in the upcoming Farm Bill to reflect a similar level of CAT coverage as that provided to crops. Crop insurance payments are based on 55 percent of the crop price, while MPP margin corresponds to 47 percent of the historical average MPP margin. A similar 55 percent CAT coverage (based on prices alone) for MPP would correspond to a MPP margin between \$4.50 and \$5.00 per hundredweight. The following table identifies the MPP coverage levels as a percentage of the historical average margin.

MPP coverage level as a percentage of the historical average MPP margin (2001-2016)	
MPP Coverage Level in \$/hundredweight	Percent of Historical Average (\$8.60 per hundredweight)
\$ 4.00	47%
\$ 4.50	52%
\$ 5.00	58%
\$ 5.50	64%
\$ 6.00	70%
\$ 6.50	76%
\$ 7.00	81%
\$ 7.50	87%
\$ 8.00	93%

On an annual basis, implied CAT coverage level (55 percent of prices) varies based on realized prices in milk and feed markets. Thus, if MPP CAT coverage were to follow market prices in milk and feed markets the minimum risk protection level would change on an annual basis. The following chart details the equivalent level of CAT coverage that would be provided by MPP at 55 percent of market prices.

Potential and Actual MPP CAT Coverage levels, \$/hundredweight

