Dairy Revenue Protection (DRP) Fact Sheet

Description – DRP is an area-based revenue insurance policy for dairy producers to protect against declines in quarterly revenue from Grade A milk sales. It pays the difference between the Expected Revenue Guarantee (based on Expected Milk Production and Expected Prices for the milk class/components) and the Actual Milk Revenue for the milk class/components during each insured quarter. Actual milk production is based on the USDA/AMS-determined state average for your state. (EX: 5,619 lbs/cow in the quarter)

DRP Application – Application specifying SBI's, state/county, "Crop" of MILK, "Plan" of DRP, and "Practice" of CLASS PRICING OPTION or COMPONENT PRICING OPTION. No coverage level is specified on the application. No premium is billable until a Quarterly Coverage Endorsement is completed and submitted.

Quarterly Coverage Endorsement (QCE) – Specifies the Type/Practice (Class/Component, Quarter), Coverage Level, Protection Factor, Class III/IV Weighting Factor, Declared Covered Milk (lbs), Share. This is where coverage attaches, and premium is billed.

Multiple Periods – Can insure up to (5) 3-month quarterly periods. There are always (8) quarterly insurance periods through which to purchase coverage available throughout a crop year. Thus you can insure up to two years out into the future.

> 801: October – December 2018
> 802: January – March 2019
> 803: April – June 2019
> 804: July – September 2019
> 805: October – December 2019
> 806: January – March 2020
> 807: April – June 2020
> 808: July – September 2020

Sales Deadline – Sales are available each day from 5 PM EST until 10 AM EST the following day (unless there is a USDA report that day, which may suspend sales for that day). The deadline to purchase coverage for a quarter is the 15th of the month prior to the first month of the quarter being purchased. (EX: Sales for the quarter APR-MAY-JUNE end on March 15th.) The effective date for the policy is the day that the prices are released. (Ex: If prices are released on June 30th at 4 PM, and the policy is signed on July 1 at 8AM, the effective date is still June 30th.)

Coverage Levels – Coverage levels range from 70% to 95%.

Quantity to Insure – Can insure any number of pounds you expect to produce, and you will be billed for those pounds. If there is a loss, you must provide your milk marketings. If the actual milk marketings are less than 85% of your declared pounds, then your actual marketings are divided by 85%, and your loss will be based on that number of pounds. (So you can't insure more than 15% greater than your actual production.) The billed premium, however, will remain at the pounds specified on the QCE, so it does NOT get adjusted down (i.e. you should have predicted your production a little better!)

Protection Factor – Protection Factor allows you to insure up to 150% of the guaranteed revenue. Range of 1.0 to 1.5. This does NOT change the trigger for a loss, it simply makes the premium and indemnity proportionately larger. EX: If you specify a 1.2 Protection Factor, your premium will be 120% of the standard premium (from 1.0 PF), and any calculated indemnity will be 120% of the standard indemnity (from 1.0 PF).

Crop Year – The crop year runs from July 1 to June 30. The "crop year" is the year that ends on June 30th. EX: a policy for OCT-NOV-DEC of calendar year 2019 would be specified as crop year 2020, because the crop year will end on June 30, 2020. Once you sign an application with a specific crop insurance company (AIP), you must remain with that AIP through the end of that crop year (June 30th).

Multiple QCE's – You can purchase multiple QCE's for the same insurance period, but the combined pounds between them cannot exceed your total production capacity for that period. You can purchase up to (5) QCE's quarters during a sales period.

Class Pricing – Insured specifies "Class Pricing" or "Component Pricing". If Class Pricing, insured specifies what percent of the milk will be Class III (for hard cheese); the balance will be assumed as Class IV (for butter & dry products; typically Class IV is higher priced). Prices of each class are determined from the CME.

Component Pricing – Component Pricing allows you to insure based on the lbs of <u>butterfat</u> and lbs of <u>protein</u> per cwt. (Other Solids are assumed to always be a fixed amount.) Butterfat can range from 3.5% to 5.0%; protein can range from 3.0% to 4.0%. The Butterfat/Protein ratio must be between 1.15 and 1.30 to be acceptable. In the event of a loss, your milk marketings report must show components within 90% of your declared components. If not, then your component is divided by 90% to determine the component used for your loss calculation. Thus you cannot overstate your component level by more than 10%.

Class & Component? – An insured may purchase coverage through a Quarterly Coverage Endorsement (QCE) for the same quarterly coverage period with ONE or BOTH options.

Subsidy Levels –   70%   75%   80%   85%   90%   95%

                            0.59   0.55   0.55   0.49   0.44   0.44

Premium Billing – Occurs the month following the last month of the quarterly coverage. EX: the billing for the APR-MAY-JUN period is on July 25th. Premium is then due 30 days later.

Notice of Probable Loss – If the actual prices and production values result in a loss, a Notice of Probable Loss (NOPL) and Milk Marketings Worksheet will automatically be sent to you. You must return the NOPL, completed Milk Marketings Worksheet, and copies of your actual Marketings Report within 60 days.

Indemnity – If an indemnity is due, it must be paid to you within 30 days of returning your NOPL and Milk Marketings Worksheet.

Use of DRP with DCM? – "Farms can enroll in both the DMC and Livestock Gross Margin-Dairy (LGM-Dairy) insurance program and cover the <u>same</u> milk, they can enroll in both DMC and Dairy Revenue Protection (DRP) insurance and cover the <u>same</u> milk, or they can enroll in both LGM-Dairy and DRP, <u>but not on the same milk</u>."

Quoter – A quoter is available at
https://ewebapp.rma.usda.gov/apps/costestimator/Estimates/DetailedEstimate.aspx

or https://quotes.ricedairyrs.com

RMA Actuarial Information – Info is available at:
https://webapp.rma.usda.gov/apps/ActuarialInformationBrowser2019/DRPCriteria.aspx

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