

## **MARGIN PROTECTION PROGRAM FOR DAIRY PRODUCERS**

### *Frequently Asked Questions (FAQ's)*

**1. *What is Margin Protection Program for Dairy (MPP-Dairy)?***

MPP-Dairy is a voluntary risk management program that provides financial assistance to dairy producers compensated when the difference between the price of milk and the cost of feed (the margin) falls below the coverage levels (trigger) the producer chooses on an annual basis.

**2. *How is the actual dairy margin calculated?***

The actual dairy margin is calculated by subtracting the national average feed cost, determined using a three-component ration index, from the USDA national all-milk price.

**3. *What does the MPP-Dairy program do for dairy producers?***

The MPP-Dairy program helps farmers and dairymen by providing a framework that protects farm equity by providing a safety net when dairy margins are low.

**4. *Who is eligible to participate in the MPP-Dairy program?***

Any dairy operation that produces and commercially markets milk in the United States is eligible to participate in the MPP-Dairy program.

**5. *Who is considered a dairy operation?***

A dairy operation is any dairy facility that was part of a single operation and commercially markets milk produced from cows as a single unit in the U.S. Each dairy producer in the operation must have risk in the production of the milk and must make contributions, including land, labor, management, equipment, or capital, to the dairy operation at least commensurate to the producer's share of the operation.

**6. *What if the dairy operation is operated by more than one dairy producer?***

A dairy operation operated by more than one dairy producer will be treated as a single dairy operation for purposes of participating in the MPP-Dairy program.

**7. *What if a dairy producer operates two or more dairy operations?***

A dairy producer that operates more than one dairy operation may be treated as separate and distinct dairy operations, requiring a separate registration for each additional operation; however, each additional dairy operation purchased or formed after registering to participate in MPP-Dairy will be subject to an affiliation test described in question 40 of this FAQ document.

**8. *How does the MPP-Dairy Program work?***

Eligible producers may purchase coverage for their dairy operation based on an established production history.

**9. *How is production history established for the dairy operation?***

Dairy operations that first began to produce and commercially market milk prior to Feb. 7, 2013, will have their production history established based on the highest annual milk

marketings of the participating dairy operation during any one of the 2011, 2012, or 2013 calendar years. Dairy operations that first began to produce and commercially market milk after Feb. 7, 2013, will be considered a “new” dairy operation for purposes of the MPP-Dairy program.

**10. *What is a “new” dairy operation?***

A participating dairy operation with less than 12 full months of commercial milk marketings as of Feb. 7, 2014, will be considered a “new” dairy operation.

**11. *How is the production history established for a “new” dairy operation?***

A “new” dairy operation must select one of the following two methods to establish its production history:

- The volume of the actual milk marketings for the months the participating dairy operation has been in operation extrapolated to a yearly amount based on a national seasonally adjusted index.
- An estimate of the actual milk marketings of the participating dairy operation based on the herd size of the operation relative to the national rolling herd average data published by USDA.

**12. *Is there a specific form used by the Farm Service Agency (FSA) to establish the production history for a dairy operation?***

Yes, dairy operations must submit a completed form CCC-781 to their administrative county FSA office to establish production history.

**13. *Is the production history that is established for the MPP program assigned to the dairy operation or the individual producer?***

The production history is assigned to the dairy operation.

**14. *Will I be able to increase my production history after establishment if I expand my herd size?***

No, there are no options for dairy operations to increase the production history after it has been established. However in subsequent years USDA will update the production history to reflect annual changes in the national average milk production.

**15. *How many pounds of a dairy operation’s production history can be selected for coverage?***

A dairy operation can select a coverage level between 25 to 90 percent at 5 percent increments. For example, if a dairy operation has production history of 6,000,000 pounds and selects a coverage level of 50 percent, then that means the dairy operation will be covering 3 million pounds.

**16. *At what threshold levels can coverage be purchased?***

A dairy operation can select a coverage level threshold in an amount ranging from \$4 to \$8, in 50 cent increments. The dollar amount selected will be the payment “trigger.”

**17. *How do I register to participate in MPP-Dairy?***

A registration period will be announced by FSA each year. Dairy operations will be required initially to visit their local FSA county office to establish a production history on form CCC-781 and make a coverage election on form CCC-782.

**18. *How does a “new” dairy operation register after the registration period has ended?***

“New” dairy operations that first begin to commercially market milk after a registration period has ended must visit their local FSA county office within the first 90 calendar days from the date on which the dairy operation first commercially markets milk or register during the next annual election period.

**19. *Will the registration period for MPP-Dairy be held as a one-time sign-up or annually?***

Dairy operations will make an initial registration and then annually make a coverage election during the period.

**20. *When does the registration/coverage election period begin for calendar year 2014 and 2015?***

The registration/coverage election period for calendar years 2014 and 2015 will concurrently begin on Sept. 2, 2014, and end on Nov. 28, 2014.

**21. *When does the registration/coverage election period begin for calendar years after 2015?***

The registration/coverage election period for calendar years after 2015 will annually begin on July 1 prior to the applicable year of coverage and end on Sept. 30, prior to the year of coverage.

**22. *Once a dairy operation registers in MPP-Dairy program can the registration be cancelled?***

A registration in the MPP-Dairy program cannot be cancelled after the registration/coverage election period has ended.

**23. *Will there be more than one registration/coverage election period per year?***

No, there will only be one annual registration/coverage election period.

**24. *Is there a fee required to participate in the MPP-Dairy program?***

Yes, an annual administrative fee of \$100 is required to be paid by the dairy operation at the initial time of registration before the registration period ends and annually thereafter during the coverage election period. For payment of the \$100 administrative fee, a dairy operation automatically receives coverage for the applicable calendar year at a \$4 coverage level on 90 percent (catastrophic level coverage) of the dairy operations established production history, unless the operation selects a higher level of coverage.

- 25. *Is the annual administrative fee per producer in the operation?***  
No, the annual administrative fee is applicable to each separately registered dairy operation participating in the MPP-Dairy program.
- 26. *Is the annual administrative fee refundable?***  
No, the annual administrative fee is non-refundable.
- 27. *When must the administrative fee be paid?***  
The administrative fee must be paid in full before the end of the open registration/coverage election period.
- 28. *What if a producer wants a higher level of margin protection above the catastrophic coverage level?***  
Additional coverage beyond the catastrophic level coverage may be purchased for a premium per hundredweight.
- 29. *Will the premiums be fixed rates?***  
Premiums are fixed through December 2018; however, for calendar year 2014 and 2015 statutory premiums are reduced by 25 percent of covered production history that is 4 million pounds or less, except for the \$8 coverage level threshold.
- 30. *What are the statutory premiums?***  
The statutory premiums are as follows:

Coverage Level (margin)	Tier 1 Premium per cwt in 2014 and 2015 (for the covered <sup>1</sup> production history that is 4 million pounds or less) <sup>2</sup>	Tier 2 Premium per cwt, all years (for the part of covered <sup>1</sup> production history over 4 million pounds)
\$4.00 .....	None	None
\$4.50 .....	\$0.008	\$0.020
\$5.00 .....	\$0.019	\$0.040
\$5.50 .....	\$0.030	\$0.100
\$6.00 .....	\$0.041	\$0.155
\$6.50 .....	\$0.068	\$0.290
\$7.00 .....	\$0.163	\$0.830
\$7.50 .....	\$0.225	\$1.060
\$8.00 .....	\$0.475	\$1.360

<sup>1</sup>The catastrophic coverage level provided at the \$4 margin is 90 percent.

Coverage Level (margin)	Tier 1	Tier 2
	Premium per cwt after 2015 (for the covered <sup>1</sup> production history that is 4 million pounds or less)	Premium per cwt, all years (for the part of covered <sup>1</sup> production history over 4 million pounds)
\$4.00 .....	None	None
\$4.50 .....	\$0.010	\$0.020
\$5.00 .....	\$0.025	\$0.040
\$5.50 .....	\$0.040	\$0.100
\$6.00 .....	\$0.055	\$0.155
\$6.50 .....	\$0.090	\$0.290
\$7.00 .....	\$0.217	\$0.830
\$7.50 .....	\$0.300	\$1.060
\$8.00 .....	\$0.475	\$1.360

<sup>1</sup>The catastrophic coverage level provided at the \$4 margin is 90 percent.

**31. How will my premium for a higher coverage level be calculated?**

The premium for the dairy operation will be calculated based on the percentage of coverage of production history elected by the dairy operation. For example, a dairy production with an established production history of 6 million pounds electing a coverage level of \$5 at 50 percent will cover 3 million pounds of its production and will pay a premium calculated as follows:

- For 2014 and 2015, the calculated premium in this example is \$570 (determined by multiplying the reduced premium rate of 19 cents for a \$5 coverage level times 3 million pounds of covered production history, divided by 100).
- For 2016 and subsequent years, the calculated premium is \$750 (determined by multiplying the premium rate 25 cents for a \$5 coverage level times 3 million pounds of covered production history, divided by 100).

**32. What are the options for paying premiums?**

At the time of registration and coverage election, operations must pay either: 1) the full premium plus the administrative fee; or 2) the administrative fee and a minimum of 25% of the premium by February 1 of the applicable calendar year of coverage, with the remaining balance due no later than June 1 of the applicable calendar year of coverage. However, a premium calculated for calendar year 2014 only (which provides coverage through December of 2014) must be paid in full at the time of coverage election. New operations registered during a calendar year starting in 2015 will be allowed to pay a prorated premium for the first year of participation.

**33. When is a payment to a dairy operation triggered?**

A payment to a dairy operation is triggered whenever the average actual dairy production margin for a consecutive two-month period is less than the coverage level

threshold selected by the participating dairy operation. The difference of the amount is multiplied by the coverage percentage selected and divided by six.

**34. *Can a dairy operation select more than one margin trigger level and/or coverage level percentage?***

No, the operation can only select one margin trigger level and one percentage of production history and it will apply to production covered between the tiers; the operation cannot “split” the operation’s coverage and, for example, an operation cannot purchase \$4 margin coverage on 25 percent of production history and \$8 coverage on 50 percent of production history.

**35. *Do conservation compliance provisions apply to MPP-Dairy?***

Yes as with Milk Income Loss Contract Program participants will be subject to Highly Erodible Land Conservation and Wetland Conservation compliance provisions.

**36. *Is there a production or payment limitation for dairy operations participating in MPP-Dairy?***

No since producers have the preference to pay part of the premiums, MPP-Dairy does not have maximum amounts on coverage pounds or payments to the dairy operation.

**37. *Are program participants subject to Adjusted Gross Income (AGI) provisions?***

No, AGI provisions are not applicable to the MPP-Dairy program.

**38. *What happens to my established production history if I want to relocate my dairy operation to another location?***

For a relocation, a dairy operation has the following options:

- Transfer the established production history to the new location.
- Sell the established production history to a new owner at the previous location.
- Transfer and merge the established production history with an already established history left at the new location.

**39. *Can I establish production history on a new or additional operation while I am participating in the MPP-Dairy program?***

A new or additional operation must: (1) be separate and distinct from other operations; and (2) is subject to an affiliation rule. That rule says the new or additional operation will not be considered a separate operation if producers that collectively own more than 50 percent of the new dairy operation also collectively own more than 50 percent interest in another dairy operation registered in MPP-Dairy.

**40. *If a son or daughter has less than or equal to a 50 percent interest in the family owned dairy operation, can the son or daughter open a new dairy operation if the parents with a share in the current operation has no interest in the new dairy operation?***

Yes, under this scenario, the son or daughter is in compliance with the affiliation rule.

- 41. *If a parent has 90 percent interest in a family owned dairy operation and the son or daughter has 10 percent interest, can the son or daughter open a new dairy if the parent has 5 percent interest in the new dairy operation?***

No, under this scenario, the parent and child are not in compliance with the affiliation rule because they collectively have more than a 50 percent interest in the registered dairy operation and collectively have more than a 50 percent interest in the new dairy operation.

- 42. *Do all producers involved in a participating dairy operation have to sign and certify to all submissions related to level of coverage made under the MPP-Dairy?***

Yes, all producers that have a risk in the dairy operation have to sign the registration and annual coverage election form.

- 43. *What will happen to the dairy operation's MPP contract if the annual coverage selection is not made?***

If the annual selection of coverage is not made by the dairy operation after the initial registration, the operation will automatically be reduced to the \$4 level and will be required to pay the annual administrative fee.

- 44. *What will happen to the coverage of an operation if it does not make an annual coverage level election and/or pay the administrative fee?***

If an operation fails to pay either the required annual administrative fee or premium owed on time, it remains obligated for payment of such administrative fee and entire premium, but will lose coverage until the premium is paid. Also, if an operation does not make an annual coverage level election, it will still be liable for the administrative fee for the following year. It will automatically receive coverage at the \$4 coverage level at 90 percent, but only if the administrative fee is paid.

- 45. *If a dairy operation has an overdue premium and it becomes eligible for a payment under MPP-Dairy, will the dairy operation be eligible for the payment?***

If the premium is overdue (past February 1 for the initial 25% or past June 1 for the balance), an operation will not be eligible for a payment, because it will have lost coverage. In the case of an operation with an overdue premium, the operation will regain coverage only after any overdue premium is paid, in which case it would be eligible for the next consecutive two-month period after such payment of premium.

- 46. *How often will the USDA calculate the actual dairy margin between average price received for milk and the national average feed cost?***

USDA will calculate the actual dairy production margin in consecutive two month periods according to the following:

- January/February
- March/April
- May/June

- July/August
- September/October
- November/December.

**47. *Can a producer participate in Livestock Gross Margin-Dairy and MPP-Dairy at the same time?***

No, as defined by the statute dairy operations cannot participate in both programs at the same time.

**48. *How will dairy operations currently enrolled in LGM-Dairy transition to the MPP-Dairy program?***

During the 2014/2015 MPP-Dairy registration, dairy producers with an active policy under LGM-Dairy who have target marketings insured into 2015, will be allowed to register to participate in MPP-Dairy while still meeting the contractual requirements of the LGM-Dairy insurance contract. The LGM-Dairy policy requirement for completing the active target marketings will conclude the producer's coverage under LGM-Dairy to ensure transition to MPP-Dairy.

**49. *When would MPP-Dairy coverage begin after transitioning from the LGM-Dairy program?***

Transition to MPP-Dairy may occur in the next available month after all target marketings under LGM-Dairy are completed. Under MPP-Dairy, a two-month consecutive period cannot be split. Therefore, the next available month following completion of the target marketings would be the first month of the following consecutive two-month period according to the following:

- January/February
- March/April
- May/June
- July/August
- September/October
- November/December.

**50. *Will an educational tool be developed to assist Dairy Operations in decision making for MPP?***

Yes, a tool is being developed and will be available on the FSA website for the initial registration and election sign-up period.

**51. *When does the program end?***

The MPP-Dairy program will end on Dec. 31, 2018.