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USDA Announces February Income over Feed Cost Margin

USDA's Farm Service Agency (FSA) announced this week that the February 2019 income over feed cost margin was $8.22 per hundredweight (cwt.), triggering the second payment for dairy producers who purchase the appropriate level of coverage under the new but yet-to-be established Dairy Margin Coverage (DMC) program.

DMC, which replaces the Margin Protection Program for Dairy, is a voluntary risk management program for dairy producers that was authorized by the 2018 Farm Bill. DMC offers protection to dairy producers when the difference between the all milk price and the average feed cost (the margin) falls below a certain dollar amount selected by the producer.

Sign up for DMC will open by mid-June of this year. At the time of sign up, producers who elect a DMC coverage level between $8.50 and $9.50 would be eligible for a payment for February 2019.

For example, a dairy operation that chooses to enroll an established production history of 3 million pounds (30,000 cwt.) that elects the $9.50 coverage level on 95 percent of production would receive $3,040 for February.

Sample calculation:

$9.50 - $8.22 margin = $1.28 difference

$1.28 x 95 percent of production x 2,500 cwt. (30,000 cwt./12) = $ 3,040

DMC premiums are paid annually. The calculated annual premium for coverage at $9.50 on 95 percent of a 3-million-pound production history for this example would be $4,275.

Sample calculation:

3,000,000 x 95 percent = 2,850,000/100 = 28,500 cwt. x 0.150 premium fee = $4,275

The dairy operation in the example calculation will pay $4,275 in total premium payments for all of 2019 and receive $6,626.25 in Dairy Margin Coverage payments for January and February combined. Additional payments will be made if calculated margins remain below the $9.50/cwt level.

All participants are also required to pay an annual $100 administrative fee in addition to any premium, and payments will be subject to a 6.2% reduction to account for federal sequestration.

Operations making a one-time election to participate in DMC through 2023 are eligible to receive a 25 percent discount on their premium for the existing margin coverage rates. For the example above, this would reduce the annual premium by $1,068.75.

"The Dairy Margin Coverage program will provide an important financial safety net for dairy producers, helping them weather shifting milk and feed prices," FSA Administrator Richard Fordyce said. "We continue to work diligently to implement the DMC program and other FSA programs authorized by the 2018 Farm Bill."

On December 20, 2018, President Trump signed into law the 2018 Farm Bill, which provides support, certainty and stability to our nation’s farmers, ranchers and land stewards by enhancing farm support programs, improving crop insurance, maintaining disaster programs and promoting and supporting voluntary conservation. FSA is committed to implementing these changes as quickly and effectively as possible, and today’s updates are part of meeting that goal.

Additional details about DMC and other Farm Bill program changes can be found at farmers.gov/farmbill.