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Abstract & Author Information

Livestock gross margin insurance for dairy cattle: Analysis of program performance and cost under alternative policy configurations and market conditions

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Livestock Gross Margin insurance for dairy cattle (LGM-Dairy) is a new risk management tool that can be used to establish a lower bound on a dairy producer's gross margin (defined as milk revenue minus imputed purchased feed costs). A producer's decision of the level of gross margin to insure has a significant impact on the gross margin guarantee (GMG) and resulting premium. An analysis of the relationship between these decision parameters is important to understand how this program could potentially benefit dairy producers. Objectives of these analyses are to (1) review the basic structure of LGM-Dairy (2) examine sensitivity of GMG and premium to changes in insured feed quantity and (3) quantify the impacts of changes in deductible level on important program characteristics. Although this program has been available only since August 2008, we review program performance under a variety of market conditions over the 2000-2008 period for a hypothetical Wisconsin dairy to provide an indication of the usefulness of this program under alternative market conditions. The level of corn and soybean meal equivalent fed are divided into discrete ranges to allow for a sensitivity analysis of GMG and insurance premium to feed quantities. GMG and premium are then calculated for different combinations of feed use and deductible levels, using the University of Wisconsin's LGM-Dairy premium calculator. Correlation coefficients analyze key relationships between different program parameters. Preliminary analysis using 2008 data indicates a negative association between deductible level and premium, a negative association between insured corn equivalents and GMG and a low correlation between insured soybean meal equivalents. Preliminary analyses of the impact of gross margin deductible on payout probability shows that maximum deductible corresponds with lesser payout probabilities.

KEYWORDS

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