September 30, 2016

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2018 Farm Bill

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What is the Supplemental Coverage Option (SCO) for Crop Insurance?

BACKGROUND

The Supplemental Coverage Option (SCO) is an add-on to crop insurance that provides area-based insurance for the underlying policy's deductible. SCO covers 86 percent of the expected area revenue down to the producer's underlying insurance coverage level (either yield or revenue). For example, if the producer purchased Revenue Protection (RP) insurance at the 65 percent coverage level, SCO covers losses between 65 percent and 86 percent of the county's expected revenue.

SCO is available where RMA offers coverage and the crop/land is not enrolled in the Farm Service Agency's (FSA) Agricultural Risk Coverage (ARC) Program. It is available to those participating in the Price Loss Coverage (PLC) program. In addition, producers must purchase an underlying insurance product to be eligible for SCO. This could be an individual revenue or individual yield product. The SCO indemnity cannot exceed the underlying policy's deductible.

SCO follows the coverage of the underlying policy. If that policy is Yield Protection (YP), then SCO covers yield loss. If it is RP, then SCO covers revenue loss. SCO is an area-based program that triggers an indemnity when there is a county level loss in yield or revenue. SCO payments are determined only by county average revenue or yield, and are not affected by whether a farmer receives a payment from his/her underlying policy.

The SCO premium is subsidized with 65 percent of the premium paid by the government and 35 percent paid by the producer. The following is an example for an Illinois corn farm.

The underlying insurance product is RP at the 70 percent coverage level. The Actual Production History (APH) yield is 180 bushels/acre and the county trend yield is 190 bushels/acre. The expected revenue for both RP and SCO is based on the crop insurance projected price, which is based on the futures market price. For this example, the projected price is $4.50 per bushel. The expected revenue for the RP insurance is $810 (180 bushels x $4.50/bushel) and for SCO is $855 (190 bushels x $4.50 per bushel). Both RP and SCO insurance allow for the risk protection to increase if prices are higher in the fall than in the spring.

Assume the following parameters for this example:

Projected Price	$4.50	
Harvest Price	$4.55	
Expected County Yield	190 bushels	
Final County Yield	140 bushels	
Producer's Approved APH	180 bushels	
Producer's Actual APH	130 bushels	
Selected Coverage Level	70%	
SCO Band	16%	(86% coverage level)

SCO Example		
RP Guarantee	$573.30	($4.55 x 180 x 70%)
Expected County Revenue	$864.50	($4.55 x 190)
Trigger Revenue	$743.47	($864.50 x 86%)
SCO Liability	$131.04	($4.55 x 180 x 16%)
Actual Produced Revenue	$591.50	($4.55 x 130)
No RP Loss as Actual is greater than Guarantee		
SCO Loss:		
Final County Revenue	$637	($4.55 x 140)
County Revenue Shortfall	$227.50	($864.50 - $637)
Final Rev / Expected Rev	73.68%	($637/$864.5)
SCO Shortfall Percent	12.32%	(86%-73.68%)
Payment Factor	77%	(12.32%/16%)
SCO Payment/Acre	$100.90	($131.04 x 77% x insured share)

OPTION #1

Should the SCO insurance options be continued as currently structured?

OPTION #2

Should SCO coverage be made available to participants in the ARC-CO program who purchase crop insurance coverage at levels below 75 percent coverage (so that SCO does not overlap with ARC-CO coverage)?

OPTION #3

Should the producer premium discount on SCO be maintained at 65 percent?

OPTION #4

Some producers who have seen their APH decline due to extended periods of individual disasters would like to maintain individual crop insurance coverage at lower levels to allow individual protection against catastrophic loss, but would like to “fill the gap” with SCO coverage for moderate losses. Should producers be allowed to buy SCO for coverage from 50 to 75 percent regardless of the FSA program in which they are enrolled?