New Safety Net: SCO

Ag Decision Maker

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The 2014 Farm Bill introduced the Supplemental Coverage Option (SCO), a new endorsement to farm-level crop insurance policies available through the Common Crop Insurance program (COMBO). SCO offers shallow loss revenue protection at a county level by covering a portion of the producer's crop insurance deductible based on county yields or revenue (depending on the underlying COMBO policy).

Starting in 2015, producers of corn, soybeans, wheat, grain sorghum, cotton, spring barley and rice in select counties will be able to purchase SCO from crop insurance agents. SCO is administered by the Risk Management Agency (RMA), and therefore payments received under SCO do not count towards the $125,000 payment limit per person per crop year for Farm Service Agency (FSA)-administered programs.

In order to be eligible for SCO, a crop in a particular farm 1) cannot be enrolled in ARC-CO or ARC-IC; and 2) has to be insured under Yield Protection (YP), Revenue Protection (RP), Revenue Protection with Harvest Price Exclusion (RPHPE), 3) with a coverage level of up to 85 percent in the underlying policy.

Producers will have the option to enroll or not to enroll in SCO annually, and the choice of COMBO product and level of coverage will affect the cost of participation in SCO as well as the expected indemnities. SCO payments are triggered only by county average revenue or yield, and are not affected by whether the producer receives a payment from his or her underlying policy.

The interdependence between COMBO products and SCO increases the number and complexity of choices faced by producers in the creation of their own safety net. Therefore, land owners and operators might benefit from jointly analyzing the pros and cons of the different combinations of programs available for 2014 through 2018. The ISU Farm Bill Analyzer (Excel file) is an educational tool designed to analyze expected payments under alternative combinations of programs and is available at www.extension.iastate.edu/agdm/info/farmbill.html

For crops under YP, SCO payments are triggered when the yield losses in the county exceed 14percent of normal yield levels. For crops under RP or RPHPE, SCO payments are triggered when the revenue losses in the county exceed 14 percent of normal revenue levels. The determination of "normal" levels, as well as premiums and administrative fees for SCO will be done by the Federal Crop Insurance Corporation. The 2014 Farm Bill establishes that producers must pay administrative fees and 35 percent of the premium to participate in SCO. This is another substantial difference with FSA-administered plans that do not carry premiums or administrative fees for producers.

The Supplemental Protection under SCO is calculated as the Expected Crop Value times the Supplemental Coverage Range (86 percent-coverage level in COMBO product).

The Expected Crop Value under YP and RPHPE is calculated as insured acres times the Actual Production History (APH) times the projected price. The Projected Prices are the CME Group price averages during February of December futures contract for corn and November for soybeans.

The Expected Crop Value under RP is calculated as insured acres times the APH times the highest of the projected and the harvest price. The Harvest Prices are the averages of December for corn and November for soybeans of the CME Group futures contract prices during October.

The Supplemental Protection is the highest potential indemnity under SCO, but the actual Indemnity is adjusted by a Payment Factor based on Area

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Performance: Payment Factor = (86 percent-Area Performance) / Supplemental Coverage Range.

Area Performance is calculated differently for alternative underlying policies:

Underlying policy	Formula for Area Performance
YP	Actual county yield divided by "normal" county yields
RP	Harvest price times actual county yield divided by the product of "normal" county yields and the highest of projected and harvest prices
RPHPE	Harvest price times actual county yield divided by the product of "normal" county yields and the projected price

For example, consider an operator's corn crop has an expected value of $702.00 per acre (180 bushels at $3.90 per bushel) who buys RP with a 75 percent coverage level. The underlying policy covers 75 percent (or $526.50) of the expected crop value and leaves 25 percent (or $175.50) uncovered as a deductible. If the producer buys SCO, then a maximum of 11 percent = 86 percent - 75 percent (or $77.22) of that deductible is covered by SCO. SCO begins to pay when county average revenue falls below 86 percent of its expected level, and the full amount of the Supplemental Protection is paid out when the county average revenue falls to 75 percent.

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