Supplemental Coverage Option (SCO) and Crop Insurance Changes in the 2018 Farm Bill

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Crop insurance in the 2018 Farm Bill

- Policy makers *protected crop insurance*
  - While discussed, no income limits or payment limits were applied to crop insurance
  - Retained the Harvest Price Option (HPO) that provides yield replacement coverage
- Enterprise units are now allowed *across county lines*
- May increase the *use of cover crops* in some areas due to how cover crops are counted
- Requires RMA to consider expanding availability of *limited irrigation crop insurance* but doesn't require it
- Dual-use option: can insure *both grazing and grain* on small grains in some areas

Where does SCO fit in?

Elect a Program

Decision for each Commodity (85% of base)

All Commodities on Farm (65% of total base)

PRICE LOSS COVERAGE (PLC)

AGRICULTURAL RISK COVERAGE - County Level - (ARC-CO)

AGRICULTURAL RISK COVERAGE - Individual Level - (ARC-IC)

Supplemental Coverage Option (SCO)

Purchased on Planted Acres

Share of KS crop base acres enrolled in PLC under 2014 Farm Bill	
Wheat	**26%**
Grain sorghum	**56%**
Corn	**14%**
Soybeans	**12%**

What is SCO?

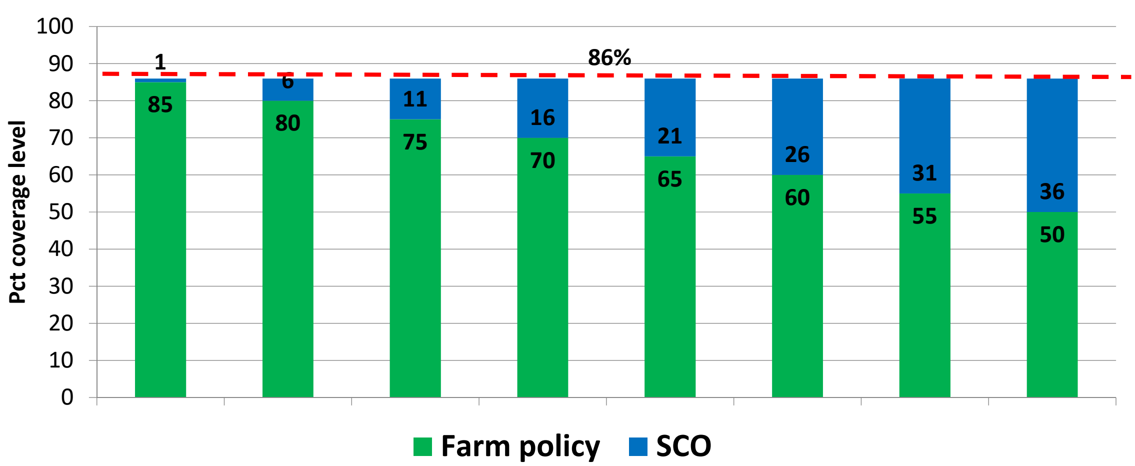
- **A *relatively* new risk management tool**
  - Created under the Agricultural Act of 2014
  - Provides higher coverage level with a county-based trigger
  - Not available if you enrolled in ARC

- **A crop insurance product**
  - Charges a premium, rates reflect expected payouts
  - Indemnities paid when loss criteria satisfied (county-based revenue or yield loss)
  - Sold through local crop insurance agents
  - Backed by USDA's Risk Management Agency
  - Must sign up prior to planting

What is SCO's purpose?

- To provide ***additional protection*** on top of your individual crop insurance policy
- Intended to provide ***similar coverage to ARC*** (86% to 76% band) for producers enrolled in PLC
- ***SCO range:*** brings coverage up to 86% of average revenue/yield

SCO brings the guarantee level up to 86%



SCO combines with your regular crop insurance

- Must have an "underlying" crop insurance policy; ***<u>SCO is an endorsement to your underlying policy</u>***
- Underlying policy can be **R**evenue **P**rotection, **RP** with harvest price exclusion, or **Y**ield **P**rotection (no area plans)
- SCO policy will use ***<u>same coverage criteria</u>*** (yield or revenue) as your underlying policy

Types of SCO coverage

- ***<u>Revenue version</u>***: based on county revenue
  - Expected county revenue = **expected** county average yield ***x*** crop insurance price*
  - *<u>Payment trigger</u>*: **actual** county revenue **<** 86% of expected county revenue
- ***<u>Yield version</u>***: based on county yield
  - Payment triggered when **actual** county yield falls below 86% of **expected** average county yield
- Crop insurance price*
  - For underlying **RP** policies, the SCO crop insurance price will be *<u>the higher of</u>* the ***Projected Price*** (price at insurance sign-up, prior to planting) and the ***Harvest Price***
  - For underlying **YP** and **RP-HPE** policies, the SCO crop insurance price will be the ***Projected Price***

Calculating dollar coverage under SCO
(revenue version)

SCO $ liability = **Expected farm revenue** x **SCO range of coverage**

Expected farm revenue = farm APH yield x crop insurance price

SCO range = 86% - coverage level of underlying policy

Example: **75% RP policy, 140 bu corn APH yield, $4.00 corn price**

SCO $ liability = **[140 x $4.00]** x **[86% - 75%]**

= **$560** x **11%** = $61.60

Calculating losses under SCO

Loss occurs if actual **county** revenue < 86% of expected **county** revenue*

*revenue example

Expected county revenue = Expected county yield x Crop insurance price

Corn example:

$520.00 = 130 bu/a x $4.00/bu

Revenue trigger = ECR x 86%

$447.20 = $520 x 86%

Actual county revenue = Actual county average yield x Crop insurance price

$410.80 = 102.7 bu/a x $4.00/bu

Actual Revenue Percent = Actual county revenue / Expected county revenue

Actual/Expected = $410.80 / $520 = 79%

Calculating losses under SCO

Calculate the ***County Payment Factor***

CPF = the share of the SCO range that is considered a loss

CPF example:

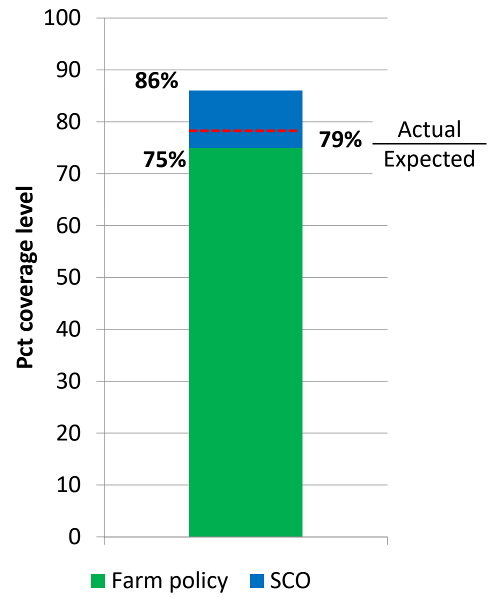
Underlying coverage: 75%

SCO range: 86% - 75% = 11%

Actual revenue/Expected revenue = 79%

Loss range = 86 - 79% = 7%

CPF = 7 / 11 = .636



Calculating losses under SCO

Indemnity payment = **SCO $ liability** x **CPF**

Corn example:

75% RP, 140 bu APH, $4.00/bu insurance price

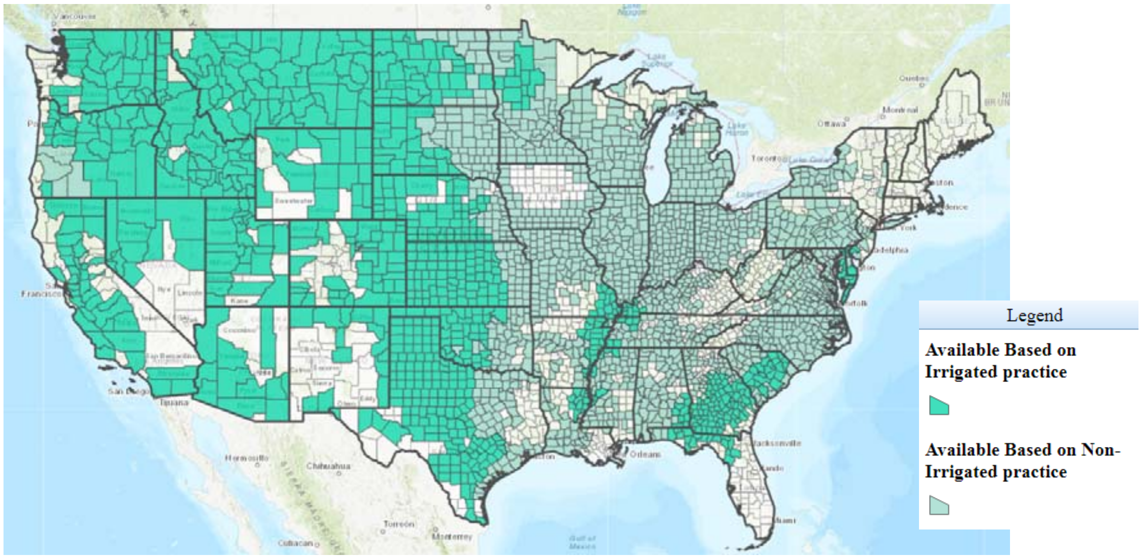
SCO $ liability = **140 bu x $4.00** x 11% = **$61.60**

Actual county revenue / Expected county revenue = 79%

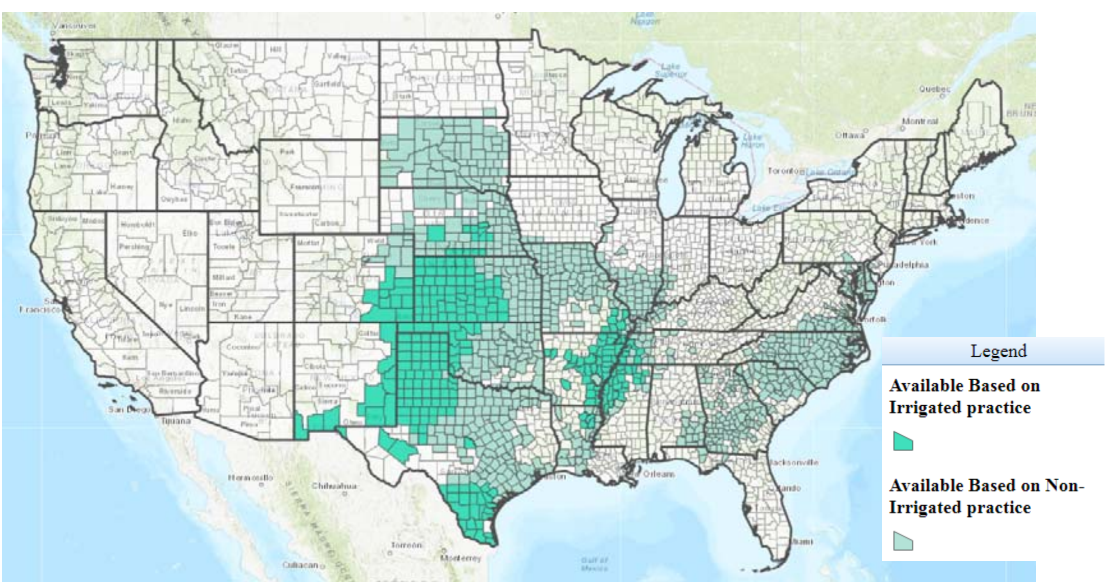
CPF = 7 / 11 = **0.636**

Indemnity = **$61.60** x **0.636** = $39.18

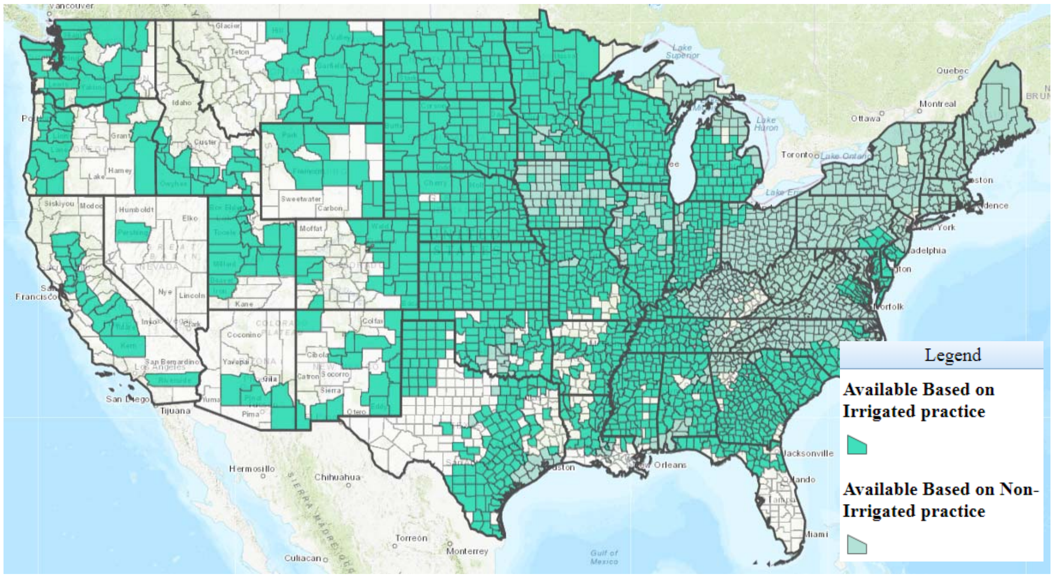
2019 SCO availability: WHEAT



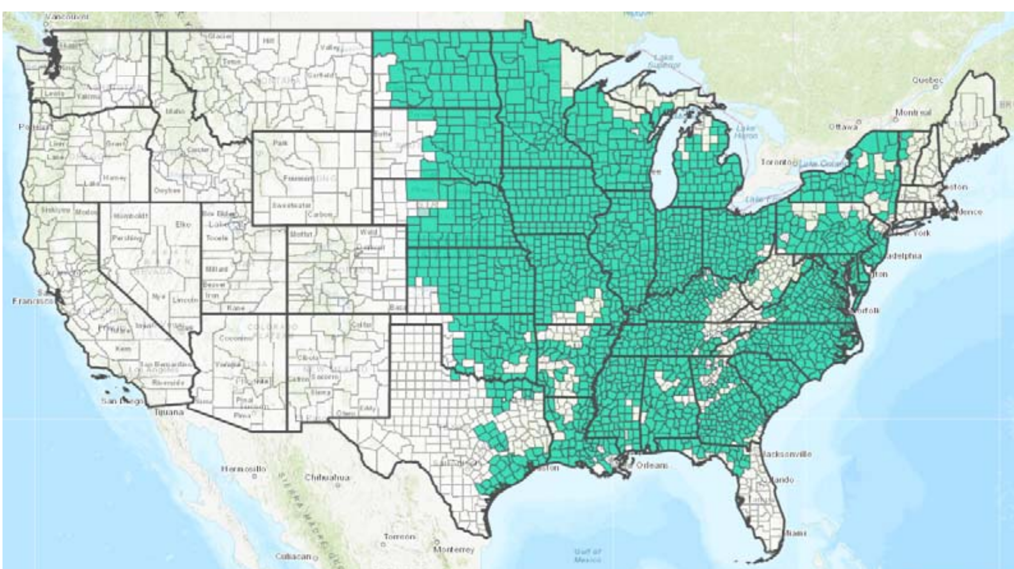
SCO availability: GRAIN SORGHUM



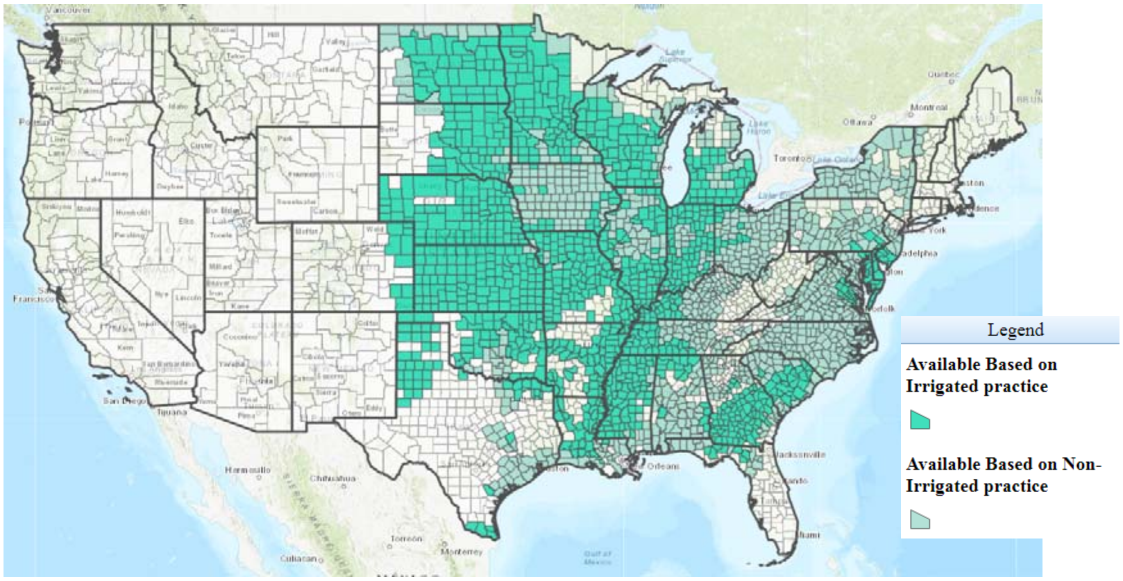
2019 SCO availability: CORN



2019 SCO availability: SOYBEANS (non-irrigated)



2019 SCO availability: SOYBEANS (irrigated)



Should you buy SCO?

- Depends on ARC/PLC decision: only available if not in ARC:

- Does SCO affect the ARC/PLC decision?
  - SCO applies to ***planted acres***, ARC paid on ***85% of base*** acres
  - SCO could be more attractive when *base acres << planted acres*

- When would SCO be preferred to individual coverage?
  1. Is APH yield far less than expected yield?
     New farm with little/no yield history: APH history full of T-yields
     Understated APH yield means individual coverage providing less effective protection

  2. Could county have a loss *before* the farm has a loss?

Should you buy SCO?

- Even with PLC, producer still has a *crop insurance portfolio decision*:
  1. Add SCO to underlying farm policy
     SCO has cheaper premium rates and 65% premium subsidy…
     But SCO uses county trigger…
  2. Or just buy *higher coverage on underlying farm policy*
  3. Or *don't add any* additional insurance coverage
- Effectiveness of SCO: consider relationship of farm and county yields
  - Will county-based loss closely reflect the farm loss?
  - Will county-based coverage pay when there is a small farm loss?

Premium costs, 2019 crop year

- Wheat, Saline County: 45 bu APH, $5.74 price, RP, non-irrigated

Farm covg %	Farm policy	Farm	+	SCO	=	Total
85%	$21.53	$21.53	+	$0.46	=	$21.99
80%	$14.82	$14.82	+	$2.49	=	$17.31
75%	$9.71	$9.71	+	$4.09	=	$13.80
70%	$6.19	$6.19	+	$5.33	=	$12.25
65%	$5.41	$5.41	+	$6.19	=	$11.60

Source: Univ. of Illinois FAST Tools
Consult a crop insurance agent for actual premiums in your case

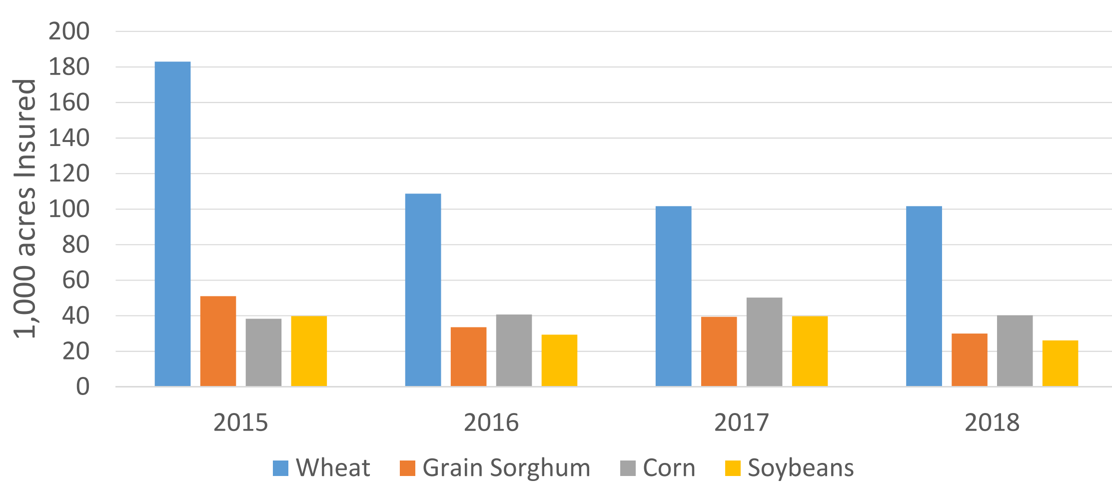
Premium costs, 2019 crop year

- Corn, Saline County: 92 bu APH, $4.00 price, RP, non-irrigated

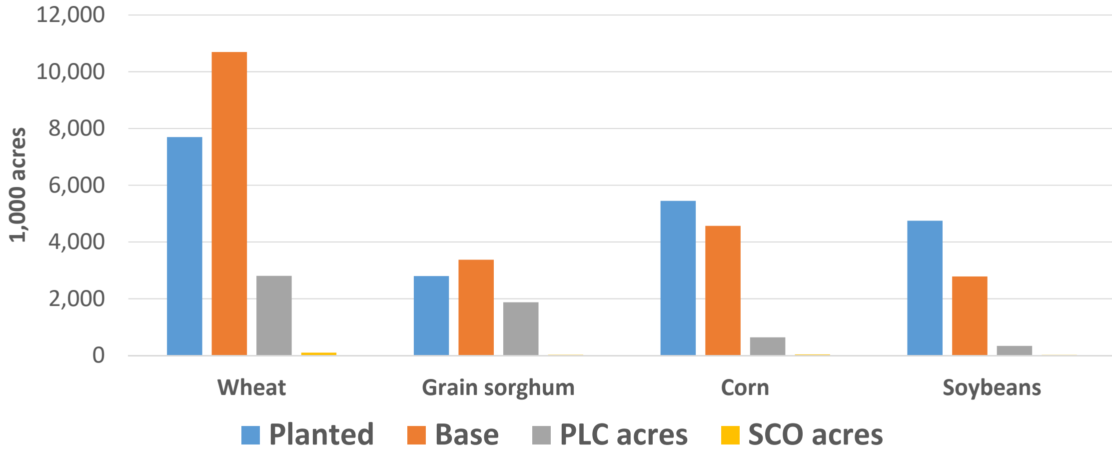
Farm covg %	**Farm policy**	**Farm**	+	**SCO**	=	**Total**
85%	$45.41	$45.41	+	$0.72	=	$46.13
80%	$33.60	$33.60	+	$3.96	=	$37.56
75%	$24.63	$24.63	+	$6.81	=	$31.44
70%	$19.30	$19.30	+	$9.40	=	$28.70
65%	$16.81	$16.81	+	$11.63	=	$28.44

Source: Univ. of Illinois FAST Tools
Consult a crop insurance agent for actual premiums in your case

Acres covered by SCO in KS, 2015-18



2018 KS: SCO acres a small share of PLC acres



Comparing farm and SCO coverage

- Illinois FAST tools
    - http://farmdoc.illinois.edu/fasttools/
    - Plug in own APH yields, compare premiums for different plans and coverage levels
    - Excel spreadsheet format
    - Be careful with updates

- Check with your crop insurance agent for ***actual premium quotes***

SCO sign-up and commodity programs

- Problem: sign-up periods didn't coincide
  - Must sign up for SCO along with underlying crop insurance policy prior to planting
  - Can cancel SCO coverage later if ARC is selected

- Special case for 2019 crops:
  - Only eligible for SCO if signed up before planting (March 15 for spring-planted crops)
  - July 15 ***Acreage Reporting Date:*** indicate which FSA farms will be in ARC and PLC; can drop the SCO coverage for farms enrolled in ARC
  - July 15 indication to RMA *does not* lock in the ARC/PLC decision with FSA
  - Old rule: can drop SCO later if they elect ARC, but must pay penalty of 20% of SCO premium
  - "The existing penalties for misreporting eligible acreage on the SCO endorsement will not apply in 2019."

Questions?

Comments?

Thank you!

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