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)**
  - PRICE LOSS COVERAGE (PLC)
  - SUPPLEMENTAL COVERAGE OPTION (SCO)

- **All Commodities on Farm (65% of total base)**
  - AGRICULTURAL RISK COVERAGE - County Level - (ARC-CO)
  - AGRICULTURAL RISK COVERAGE - Individual Level - (ARC-IC)

**Share of KS crop base acres enrolled in PLC under 2014 Farm Bill**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>26%</td>
</tr>
<tr>
<td>Grain sorghum</td>
<td>56%</td>
</tr>
<tr>
<td>Corn</td>
<td>14%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>12%</td>
</tr>
</tbody>
</table>

**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; **SCO is an endorsement to your underlying policy**

• Underlying policy can be Revenue Protection, RP with harvest price exclusion, or Yield Protection (no area plans)

• SCO policy will use **same coverage criteria** (yield or revenue) as your underlying policy

Types of SCO coverage

• **Revenue version**: based on county revenue

  • Expected county revenue =  \( \text{expected} \) county average yield \( \times \) crop insurance price*

  • **Payment trigger**: actual county revenue < 86% of expected county revenue

• **Yield version**: 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 the higher of 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** \( \times \) **SCO range of coverage**

**Expected farm revenue** = farm APH yield \( \times \) crop insurance price

**SCO range** = 86\% - coverage level of underlying policy

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

\[
\text{SCO }\$\text{ liability} = \left[140 \times \$4.00\right] \times \left[86\% - 75\%\right] \\
= \$560 \times 11\% = \$61.60
\]

Calculating losses under SCO

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

*revenue example

Expected county revenue = Expected county yield \( \times \) Crop insurance price

Corn example:

\[
\$520.00 = 130 \text{ bu/a} \times \$4.00/\text{bu}
\]

Revenue trigger = ECR \( \times \) 86\%

\[
\$447.20 = \$520 \times 86\%
\]

Actual county revenue = Actual county average yield \( \times \) Crop insurance price

\[
\$410.80 = 102.7 \text{ bu/a} \times \$4.00/\text{bu}
\]

Actual Revenue Percent = Actual county revenue / Expected county revenue

\[
\text{Actual/Expected} = \$410.80 / \$520 = 79\%
\]
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%

\[
CPF = \frac{7}{11} = 0.636
\]

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?

• Only available if not in ARC: depends on ARC/PLC decision

• Are base acres small compared to planted acres?
  • SCO applies to planted acres, ARC paid on 85% of base acres
  • SCO could be more attractive when base acres << planted acres

• Is APH yield far less than expected yield?
  • Newly farm with little/no yield history?
  • APH history full of T-yields might understate likely yield outcomes
  • Understated APH yield means individual coverage providing less effective protection
Should you buy SCO?

• Even with PLC, producer still has a *crop insurance portfolio decision*:
  • Add SCO to underlying farm policy?
  • SCO has cheaper premium rates and 65% premium subsidy...
  • But SCO uses county trigger...
  
  • Or just buy *higher coverage on underlying farm policy*?
  
  • Or *don’t add any* additional insurance coverage?

• 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?
  • Could county have a loss before the farm has a loss?

Premium costs, 2019 crop year

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

<table>
<thead>
<tr>
<th>Farm covg %</th>
<th>Farm policy</th>
<th>Farm   +   SCO   =  Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>85%</td>
<td>$21.53</td>
<td>$21.53 + $0.46 = $21.99</td>
</tr>
<tr>
<td>80%</td>
<td>$14.82</td>
<td>$14.82 + $2.49 = $17.31</td>
</tr>
<tr>
<td>75%</td>
<td>$9.71</td>
<td>$9.71 + $4.09 = $13.80</td>
</tr>
<tr>
<td>70%</td>
<td>$6.19</td>
<td>$6.19 + $5.33 = $12.25</td>
</tr>
<tr>
<td>65%</td>
<td>$5.41</td>
<td>$5.41 + $6.19 = $11.60</td>
</tr>
</tbody>
</table>

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

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<thead>
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<th>Total</th>
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<tr>
<td>85%</td>
<td>$45.41</td>
<td>$45.41 + $0.72</td>
<td>$46.13</td>
</tr>
<tr>
<td>80%</td>
<td>$33.60</td>
<td>$33.60 + $3.96</td>
<td>$37.56</td>
</tr>
<tr>
<td>75%</td>
<td>$24.63</td>
<td>$24.63 + $6.81</td>
<td>$31.44</td>
</tr>
<tr>
<td>70%</td>
<td>$19.30</td>
<td>$19.30 + $9.40</td>
<td>$28.70</td>
</tr>
<tr>
<td>65%</td>
<td>$16.81</td>
<td>$16.81 + $11.63</td>
<td>$28.44</td>
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Consult a crop insurance agent for actual premiums in your case

Acres covered by SCO in KS, 2015-18
Comparing farm and SCO coverage

- Illinois FAST tools
  - [http://farmdoc.illinois.edu/fasttools/](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*

- KSU SCO tool
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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