Supplemental Coverage Option

• SCO is an insurance program
  ➢ Not a commodity program
  ➢ Administered by the Risk Management Agency (not FSA)

• SCO available beginning in 2015 crop year, will be expanded in 2016 and later years

• Commodity program choice (PLC/ARC) determines eligibility to purchase SCO
Supplemental Coverage Option

• Provides **area-based** coverage to **supplement** your individual insurance plan
  - With individual revenue coverage (RP or RP-HPE), SCO provides area revenue coverage
  - With individual yield coverage (YP), SCO provides area yield coverage

Supplemental Coverage Option

• **Area coverage is intended to be at the county level**
  - Could be at higher level of aggregation depending on data availability

• **Uses same expected/trend yields as other area plans**
  - GRP/GRIP or what is now called ARPI
Supplemental Coverage Option

- **Base/ projected price**
  - Corn, soybeans, barley, and wheat: harvest futures during February

- **Harvest price**
  - Corn and soybeans: harvest futures during October
  - Barley and wheat: harvest futures during August
Supplemental Coverage Option

- **Expected Revenue or Yield**
  - Product of county trend/expected yield and projected price with RP or RP-HPE
  - Trend/expected yield with YP

- **Coverage level is 86%**
  - Indemnities triggered when county revenues/yields fall below 86% of guarantee
Supplemental Coverage Option

- SCO coverage ends at the coverage level elected by the producer for the underlying individual plan of insurance
  - County coverage band is determined by the producer’s coverage level choice for the underlying policy
SCO Payment

• **County-level trigger**
  - County revenues/yields fall below 86% of expected
  - Relative size of loss determined at the county level (payment factor)

• **Farm-level payment**
  - County payment factor applied to a maximum payment for the farm

SCO Payment Factor

• **Formula looks complicated, but defines a portion of the SCO Coverage Band**

\[
\text{SCO County Payment Factor} = \frac{86\% - \frac{\text{Actual County Revenue/Yield}}{\text{Expected County Revenue/Yield}}}{86\% - \text{Individual Coverage Level}}
\]
Max SCO Payment Example

• Max SCO Payment for the farm

Max SCO Payment =
(86% − Coverage Level) x Expected Crop Value

• Corn Example:
  - $4.62 x 185 bu = $855
  - 75% RP → (86% − 75%) = 11%
  - Max payment = 11% x 855 = $94

SCO Payment Factor Example

• Expected county revenue
  • $4.62 x 180 bu = $832
  • Payments triggered if county revenues fall below:
    • 86% x $832 = $716
  • Max payment reached if county revenues fall below:
    • 75% x $832 = $624

Scenario 1
• Actual Revenue = $649
• Actual/Expected = 649/832 = 78%
• Payment Factor
  (86%−78%)/(86%−75%) = 8%/11% = 72.7%

Scenario 2
• Actual Revenue = $600
• Actual revenue is below 75% of expected country revenue ($624)
• Payment factor = 100%
SCO Payment to the Farm

Scenario 1                  Scenario 2

72.7% x $94 =              100% x $94 =

$68 SCO Payment           $94 SCO Payment

Considerations for SCO

• Only crops with base enrolled in PLC are eligible for SCO
  - ARC vs. PLC decision highly depends on price expectations

• ARC vs. SCO
  - Different prices and yields
  - Timing of coverage and payments
  - SCO has a premium, ARC does not
  - Payment limits on Title I, none on SCO
  - Base vs. planted acreage
Considerations for SCO

- Coupling SCO with 85% coverage on an individual policy doesn’t add much additional protection

- 80% or 85% Coverage in MN (2012)
  - Barley: 5.2%
  - Corn: 43.3%
  - Soybeans: 36.8%
  - Wheat: 7.1%

Considerations for SCO

- Should a farmer reduce individual coverage level and purchase SCO?
  - Is farmer eligible based on PLC/ARC choice?
  - Increasing expected returns:
    - Subsidy rate on individual plan vs. SCO
  - Risk protection
    - Area vs. farm-level yields
    - Trading off farm-level protection for area protection
    - County-level yield volatility, likelihood of max SCO payment at low coverage levels
QUESTIONS?

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