

UNDERSTANDING THE SUPPLEMENTAL COVERAGE OPTION (SCO) IN THE 2014 FARM BILL

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Presentation Materials

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Questions

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SUPPLEMENTAL COVERAGE OPTION

What we know:

- SCO is an insurance program
 - Not a commodity program
 - Administered by the Risk Management Agency (not FSA)
- SCO will not be available until the 2015 crop year
- Commodity program choice (PLC/ARC) determines eligibility to purchase SCO

BUT, Regulations have yet to be written

Supplemental Coverage Option

- Provides area-based coverage to supplement your individual insurance plan
 - With individual revenue coverage (RP), SCO provides area revenue coverage
 - With individual yield coverage (YP), SCO provides area yield coverage
 - If underlying policy has harvest price protection, so does SCO

Supplemental Coverage Option

- **Area coverage is intended to be at the county level**
 - **Could be at higher level of aggregation depending on data availability**
- **Likely will use same expected/trend yields as other area plans**
 - **GRP/GRIP or what is now called ARPI**

Supplemental Coverage Option

- **Insurance prices same as for existing programs**
- **Base insurance price**
 - For corn and soybeans, average harvest futures during February
- **Harvest or actual insurance price**
 - For corn and soybeans, average harvest futures during October

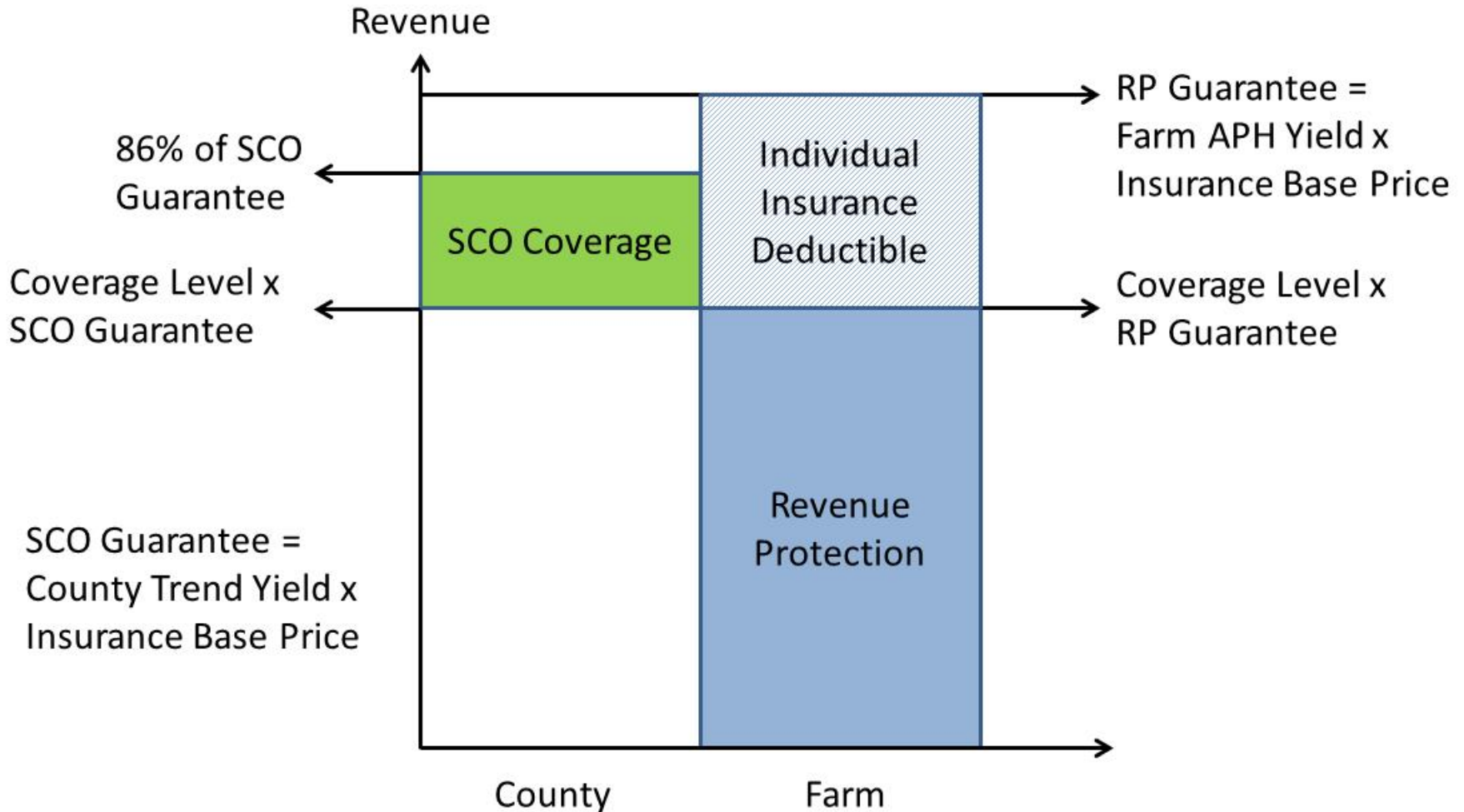
Supplemental Coverage Option

- **Guarantee**
 - Product of trend yield and base price for revenue coverage
 - Trend yield for yield coverage
- **Coverage level is 86%**
 - Indemnities triggered when 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**
 - **Band of coverage is determined by the producer's coverage level choice**

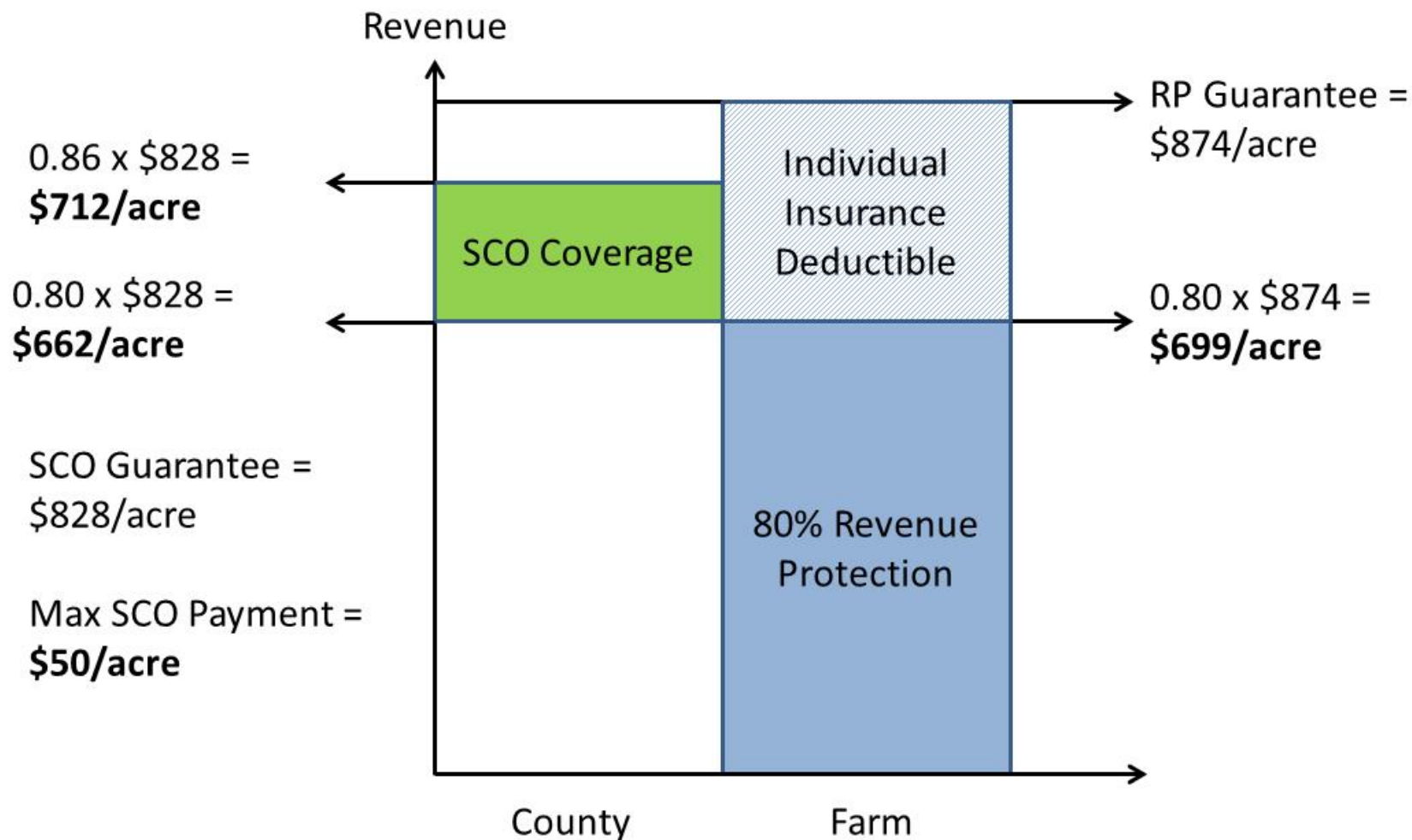
Illustration: SCO with RP



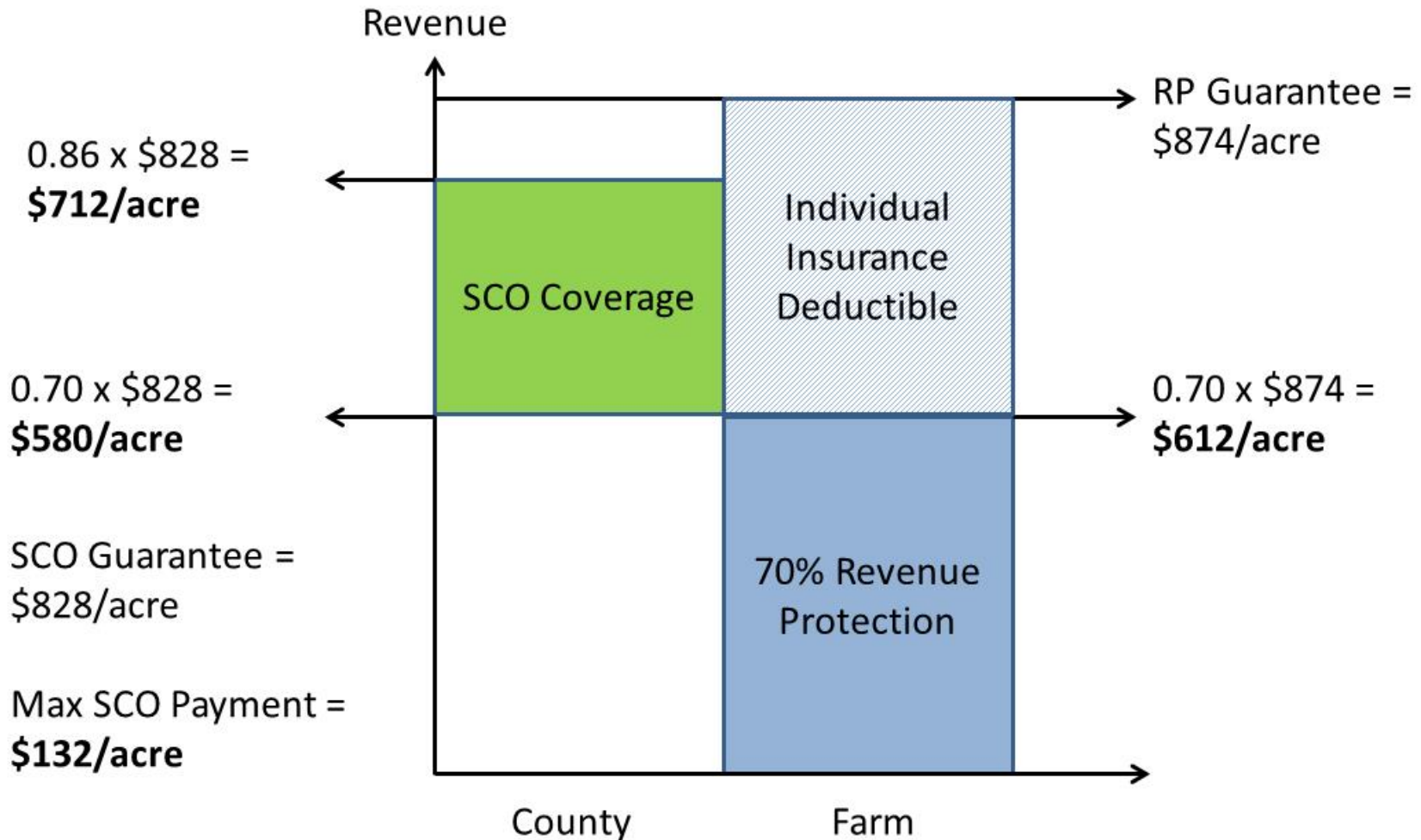
Example County and Farm Numbers

- Insurance Base Price of \$4.60
- County Trend Yield of 180 bu/acre
- SCO Guarantee
 - $\$4.60 \times 180 = \828
- Trend adjusted APH Yield of 190 bu/acre
- RP Guarantee
 - $\$4.60 \times 190 = \874

Example: SCO with 80% RP



Example: SCO with 70% RP



Potential Outcomes with SCO

	Farm Level COMBO Policy Does Not Trigger Payment	Farm Level COMBO Policy Triggers Payment
County Yield or Revenue Greater than 86% of Guarantee	<p>No SCO Payment</p> <p>No Individual Plan Payment</p>	<p>No SCO Payment</p> <p>Individual Plan Payment</p>
County Yield or Revenue Less than 86% of Guarantee	<p>SCO Payment</p> <p>No Individual Plan Payment</p>	<p>SCO Payment</p> <p>Individual Plan Payment</p>

Payment Examples: SCO with 80% RP

Base Price	\$4.60		\$4.60
Expected County Yield	180		180
Harvest Price	\$4.00		\$5.50
Actual County Yield	175		140
Actual Farm Revenue (Actual Yield x Harvest Price)	\$700		\$770
Revenue Guarantee (Expected Yield x Base/Harvest Price)	\$828		\$990*
Revenue Trigger (0.86 x Guarantee)	\$712		\$851
Revenue Band or Max Payment ((0.86-0.80) x Guarantee)	\$50		\$59
SCO Payment Minimum of (Trigger – Actual, Trigger - Limit)	\$12		\$59

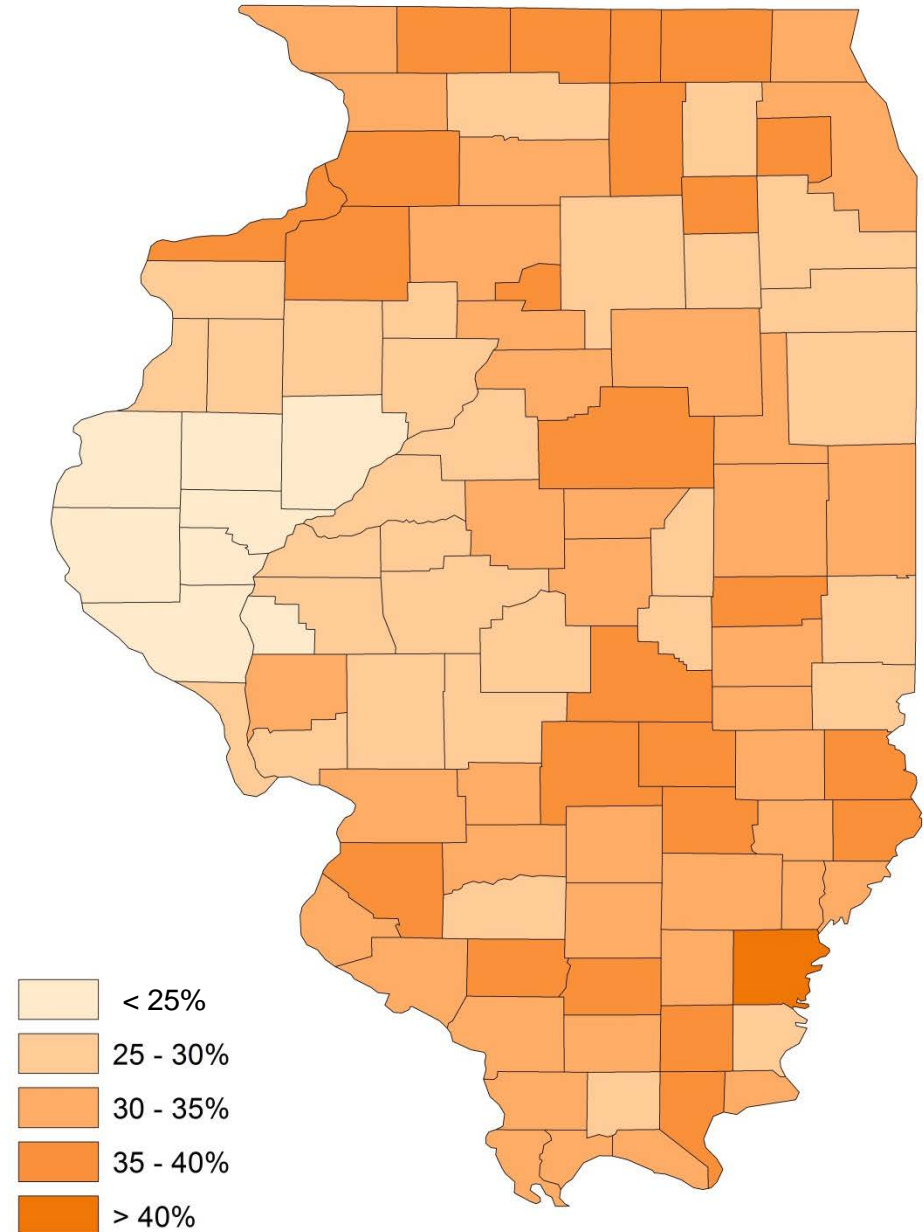
Payment Examples: SCO with 70% RP

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Actual County Yield	175		140
Actual Farm Revenue (Actual Yield x Harvest Price)	\$700		\$770
Revenue Guarantee (Expected Yield x Base/Harvest Price)	\$828		\$990*
Revenue Trigger (0.86 x Guarantee)	\$712		\$851
Revenue Band or Max Payment ((0.86-0.70) x Guarantee)	\$132		\$158
SCO Payment Minimum of (Trigger – Actual, Trigger - Limit)	\$12		\$81

Likelihood of SCO Payments (Corn)

Map shows the percentage of years when county revenues fell below 86% of the expected county revenue for corn.

Based on historical analysis from 1975 to 2012. Uses county level trend yields and base insurance prices.



Considerations for SCO

- **Coupling SCO with 85% coverage on an individual policy doesn't add much additional protection**
- **Most farmers in the Midwest buy 80% or 85% coverage**
- **Should I buy down my individual coverage level?**
 - **Area vs. farm-level yields**
 - **Trading off farm-level protection for area protection**

Considerations for SCO

- **Only crops with base enrolled in PLC are eligible for SCO**
- **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. expected planted acreage

Questions?

Please continue to submit questions during this part of the webinar

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