



Supplemental Coverage Option Now a Part of the Federal Crop Insurance Program



PHOTO: EDWIN REINBERG

Supplemental Coverage Option operates by mimicking a producer’s individual crop insurance coverage and increasing the protection to 86 percent of the producer’s APH yield and price election. SCO became available with the 2015 crop year in select Maryland counties.

Introduction

The 2014 Farm Bill created Supplemental Coverage Option (SCO), a new add-on crop insurance option which provides supplemental coverage on a producer’s underlying crop insurance policy. SCO operates by mimicking a producer’s individual crop insurance coverage and increasing the protection to 86 percent of the producer’s actual production history (APH) yield and price election. An SCO loss payment occurs when the actual current year county yield (or revenue) is less than 86% of expected county yield (or revenue) at the time of planting.

SCO became available with the 2015 crop year in select Maryland counties for winter wheat, and all corn and soybean counties except Allegany and Garrett. USDA’s Risk Management Agency (RMA) will begin looking at expanding covered counties and crops covered, and begin distinguishing by practices (such as irrigated compared to non-irrigated).

Eligibility

Commodity program selection will impact eligibility for SCO. Any crop acreage on a farm enrolled in Agriculture Risk Coverage (ARC) will

be ineligible for SCO coverage. Any program eligible crop on a farm enrolled in Price Loss Coverage (PLC) or no program (neither ARC nor PLC) will be eligible for SCO coverage. For example, Charlie has a farm with base acres in wheat, corn, and soybeans. Charlie enrolls his corn in ARC and his wheat and soybeans in PLC. Charlie would only be eligible for SCO coverage on his wheat and soybeans.

To be eligible for SCO coverage, you will need an underlying policy, either:

1. Yield Protection;
2. Revenue Protection; or
3. Revenue Protection with Harvest Price Exclusion.

If you have purchased one of these policies, you will be able to purchase SCO coverage as an Option endorsement to your underlying policy.

Looking back at Charlie, he typically purchases Yield Protection on his corn and soybeans and self-insures his wheat. Charlie would only be able to purchase an SCO endorsement on his soybeans. Why? His soybeans are enrolled in PLC and he has purchased an underlying policy on the soybeans. He has enrolled his wheat in PLC but did not purchase an underlying policy and would not be eligible to purchase an SCO endorsement on his wheat crop.

Available Counties

For the 2015 crop year, the SCO endorsement is not available in all Maryland counties. For corn and soybeans, SCO is available in all counties but Garrett and Allegany counties. For wheat, SCO is available in Caroline, Carroll,



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Dorchester, Frederick, Kent, Queen Anne's, Talbot, and Worcester counties. For 2016 crop years and beyond, you should check with your crop insurance agent to see if coverage has expanded to your county or if additional crops are now available.

SCO Coverage

SCO will cover a yield loss when you choose Yield Protection, or revenue loss when you choose Revenue Protection. SCO coverage will depend on your underlying policy coverage level and approved yield on your underlying policy.

The loss trigger with SCO will differ from your underlying policy. SCO pays on a loss on an area basis. An SCO indemnity payment is triggered when there is a county level loss on either revenue or yield (depending on your underlying coverage). Your underlying coverage will issue an indemnity payment when there is a loss on an individual basis and not a countywide basis.

For example, Christie purchases Revenue Protection on her corn crop

and is enrolled in PLC. Christie's corn crop has an expected value of \$487.50 or 130-bushels/acre at \$3.75. Assume Christie's underlying coverage is at the 75-percent level or would cover \$365.63 of the expected value, and leaves unprotected \$121.88. Christie purchases the SCO endorsement which would also provide revenue protection when triggered by a county level loss.

Table 1 shows a calculation for the amount of SCO protection. All SCO policies begin paying out when county revenue falls below 86%, Step A. With Step B, you would look at your underlying policy coverage level. In Christie's case, this is 75 percent. With Step C, you would take 86 percent minus the 75-percent level to get 11 percent of the expected crop value covered by SCO. (To emphasize how the SCO payment depends on the underlying insurance choice: If Christie took out 70 percent Revenue Protection – instead of the 75 percent illustrated in table 1, the expected value of the crop covered by SCO would be 16 percent, or 86 percent minus 70 percent.)

Table 1.
Christie's SCO Coverage

STEP	SCO COVERAGE CALCULATION	
A	SCO Endorsement begins to pay when county revenue falls below a statutory expected level	86%
B	SCO Endorsement pays out full amount when county revenue falls to coverage level of underlying policy	75%
C	Percent of expected crop value covered by SCO (A – B)	11%
D	Amount of SCO Protection (C * Expected Crop Value)	\$53.63

In Step D, Christie would have covered \$53.63/per acre of her expected revenue.

SCO Premium

SCO endorsement has a 65-percent premium subsidy, meaning the Federal Government pays 65 percent of the premium on your SCO coverage. You would be responsible for the remaining 35 percent of the premium. For example, a Caroline County wheat producer with an underlying Yield Protection policy with a 75-percent coverage level purchasing an SCO endorsement would potentially pay \$3.04 per acre for an additional 11 percent of protection. The premium subsidy (portion paid by the Federal Government) would be \$5.64 per acre ([Crop Insurance Decision Tool](#)). Please remember this is just an estimate and you should talk with your crop insurance agent for the actual costs. ■

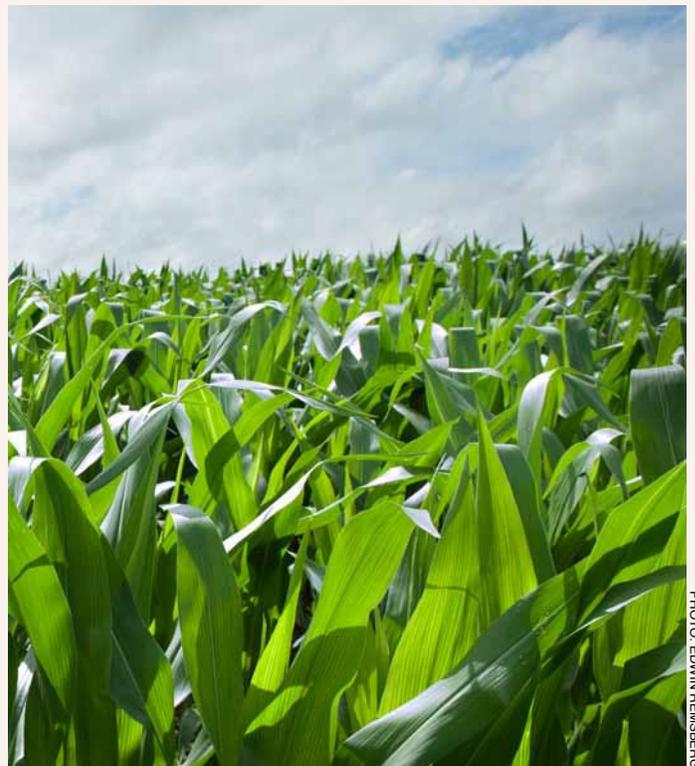


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