

Supplemental Coverage Option (SCO)

1. Overview and motivations for using SCO
2. Dates and decisions for SCO in 2019
3. Example of SCO payment
4. Likelihood and size of payments from SCO

Available on farmdocTube on YouTube
Linked in March 12, 2019 farmdocDaily article:
SCO for 2019



Eligibility for SCO

- Must take Price Loss Coverage (PLC) as commodity title choice
- Farm Service Agency sign up for 2019 ARC/PLC likely will not occur until late 2019, maybe 2020
- See “Dates and Decisions for SCO in 2019”



SCO Background

- SCO provides county-level product from 86% down to coverage-level of Revenue Protection (RP) policy
 - SCO can also be combined with Yield Protection (YP) and RP with harvest price exclusion, but we focus on RP
- Example:
 - Farmer purchases RP with 75% coverage level and SCO
 - Two independent payments
 - RP 75% provides farm-level coverage at a 75% coverage level
 - SCO provides county-level coverage from 86% to 75%



All the Following are Possible

1. RP and SCO both make payments (years like 2012)
2. SCO makes a payment and RP does not (have a price decline but not large enough to trigger RP)
3. RP makes a payment and SCO does not (farm has poor yielding year, county does not)
4. Neither make a payment (e.g., 2016, 2017, 2018)



Motivation for Taking SCO

Currently taking 85% RP Coverage Level

- Pro: Reduce the premium
- Con: Give-up the top-end farm-level coverage and replace with county-coverage

Currently taking 75% RP Coverage Level (less than max)

- Likely because of premium costs (e.g., southern Illinois, higher risk area, or optional units)
- Pro: Get county-level coverage from 86% to RP coverage level
- Con: Pay more in premium



State: Illinois
County: Sangamon
Crop: Corn

2019 iFARM Premium Calculator
Date Printed: 3/10/2019

Individual Farm Level Policies

Coverage Level	Revenue Protection				Revenue Protection with Harvest Price Exclusion				Yield Protection			
	Enterprise	Basic	Optional	Guarantee	Enterprise	Basic	Optional	Guarantee	Enterprise	Basic	Optional	Guarantee
50%	0.95	57	2.42	398	0.70	1.15	1.69	398	0.80	1.33	2.03	99.5
55%	1.34	40	3.57	438	0.88	1.58	2.40	438	1.09	1.96	2.95	109.5
60%	1.80	50	5.03	478	1.09	2.21	3.33	478	1.55	2.79	4.10	119.4
65%	2.46	47	7.68	517	1.43	3.36	5.01	517	2.10	4.30	6.23	129.4
70%	3.48	61	10.50	557	1.98	4.53	6.80	557	2.81	5.76	8.20	139.3
75%	5.61	55	15.41	597	3.22	6.89	10.05	597	4.26	8.33	11.68	149.3
80%	11.14	51	25.16	637	6.54	12.03	16.91	637	8.21	13.72	18.87	159.2
85%	21.57	22	37.83	677	12.96	18.87	25.89	677	15.16	20.57	27.83	169.2

County Level Products

Coverage Level	Area Revenue Protection			Area Revenue Protection Harvest Price Exclusion			Area Yield Protection					
	Protection Factor	Minimum Revenue Guarantee	Revenue Guarantee	Protection Factor	Minimum Revenue Guarantee	Revenue Guarantee	Protection Factor	Minimum Revenue Guarantee	Revenue Guarantee			
70%	1.24	0.98	0.83	569	0.76	0.60	0.51	569	1.00	0.79	0.67	142.2
75%	3.07	2.43	2.05	609	1.10	0.87	0.73	609	2.04	1.61	1.36	152.3
80%	5.84	4.62	3.89	650	2.11	1.67	1.41	650	3.91	3.10	2.61	162.5
85%	11.29	8.94	7.53	691	5.67	4.49	3.78	691	5.66	4.48	3.77	172.6
90%	21.73	17.20	14.49	731	13.27	10.51	8.85	731	9.17	7.26	6.11	182.8

Supplemental Coverage Option (SCO)

Range	RP	Yield Excl	YP
50% - 86%	5.34	2.84	3.35
55% - 86%	5.29	2.84	3.29
60% - 86%	5.19	2.81	3.19
65% - 86%	4.98	2.67	2.99
70% - 86%	4.39	2.13	2.40
75% - 86%	3.93	1.91	2.06
80% - 86%	3.02	1.58	1.54
85% - 86%	0.74	0.39	0.37

Notes

Product Coverage Level	75%
Unit	Enterprise
Protection Level	100%
Premium per acre	\$5.61
Cost per APH bu.	\$0.03
Subsidy per acre	\$18.78
Yield guarantee	149.25
Revenue guarantee	\$597

- Premium examples from 2019 Crop Insurance Decision Tool
- FAST Microsoft Excel spreadsheet available for download from farmdoc
- 2019 projected prices and volatilities
- 100 acre
- Enterprise unit
- Use default yields in the tool
- Note: Pay an administrative fee for the SCO policy



Corn, Sangamon County, Illinois, 2019, Enterprise Unit

Coverage Level	RP	SCO	RP + SCO
	\$/acre	\$/acre	\$/acre
55%	1.34	5.29	6.63
60%	1.80	5.19	6/99
65%	2.46	4.98	7.44
70%	3.48	4.39	7.87
75%	5.61	3.93	9.54
80%	11.14	3.02	14.16
85%	21.57	.71	22.28

Example

Suppose currently at RP-85%, cost is \$21.57 per acre

Go to SCO with RP-75%, reduce farmer-paid premium to \$9.54, a reduction of \$12.03



Corn, Sangamon County, Illinois, 2019, Optional Unit

Coverage Level	RP	SCO	RP + SCO
	\$/acre	\$/acre	\$/acre
55%	5.25	8.50	13.57
60%	6.81	8.32	15.13
65%	10.12	7.99	18.11
70%	13.57	7.34	20.91
75%	18.90	6.19	25.09
80%	28.48	4.19	32.67
85%	42.41	.85	43.26

Example

Suppose currently at RP-75%, cost is \$18.90 per acre

Go to SCO with RP-70%, increase farmer-paid premium to \$20.91 an increase of \$2.01



Corn, Logan County, Illinois, 2019, Enterprise Unit

Coverage Level	RP	SCO	RP + SCO
	\$/acre	\$/acre	\$/acre
55%	.71	6.82	7.53
60%	1.06	6.74	7.80
65%	1.49	6.24	7.73
70%	2.21	5.66	7.87
75%	3.65	4.97	8.62
80%	7.77	3.69	11.46
85%	15.69	.86	16.55

Example

Suppose currently at RP-85%, cost is \$15.69 per acre

Go to SCO with RP-75%, reduce farmer-paid premium to \$8.62 a reduction of \$7.07



Corn, DeKalb County, Illinois, 2019, Enterprise Unit

Coverage Level	RP	SCO	RP + SCO
	\$/acre	\$/acre	\$/acre
55%	.62	3.78	4.40
60%	.90	3.78	4.68
65%	1.26	3.78	5.04
70%	1.80	3.77	5.57
75%	3.05	3.55	6.60
80%	6.53	2.80	9.33
85%	13.31	.67	13.98

Example

Suppose currently at RP-85%, cost is \$13.31 per acre

Go to SCO with RP-75%, reduce farmer-paid premium to \$6.60 a reduction of \$6.71



Corn, **Saline County**, Illinois, 2019, Enterprise Unit

Coverage Level	RP	SCO	RP + SCO
	\$/acre	\$/acre	\$/acre
55%	5.83	11.69	17.52
60%	7.31	11.15	18.46
65%	9.03	10.33	19.36
70%	11.07	9.11	20.18
75%	15.78	7.27	23.05
80%	26.18	4.55	30.73
85%	45.46	.58	46.03

Example

Suppose currently at RP-75%, cost is \$15.78 per acre

Go to SCO with RP-70%, increase farmer-paid premium to \$20.18 an increase of \$4.40



Soybeans, Saline County, Illinois, 2019, Enterprise Unit

Coverage Level	RP	SCO	RP + SCO
	\$/acre	\$/acre	\$/acre
55%	1.86	5.13	6.99
60%	2.47	4.97	7.44
65%	3.20	4.67	7.87
70%	4.19	4.18	8.37
75%	6.15	3.39	9.54
80%	10.81	2.17	12.98
85%	19.69	.43	20.12

Example

Suppose currently at RP-80%, cost is \$10.81 per acre

Go to SCO with RP-75%, reduce farmer-paid premium to \$9.54 an increase of \$1.27



Soybeans, DeKalb County, Illinois, 2019, Enterprise Unit

Coverage Level	RP	SCO	RP + SCO
	\$/acre	\$/acre	\$/acre
55%	.34	2.99	3.33
60%	.54	2.97	3.51
65%	.85	2.91	3.76
70%	1.34	2.87	4.21
75%	2.41	2.67	5.08
80%	4.70	2.03	6.73
85%	9.44	.47	9.91

Example

Suppose currently at RP-85%, cost is \$9.44 per acre

Go to SCO with RP-75%, reduce farmer-paid premium to \$5.08 a decrease of \$4.36



Why does SCO plus RP-75% have lower premium than RP-85%?

- The SCO 86% to 75% product has lower chance of making a payment than the 85% to 75% of the RP-85% product
- Premium assistance rates differ (SCO premium assistance is 65%)

Coverage Level	Premium Assistance Levels on Farm-Level Products	
	Insurance Unit	
	Basic/Optional	Enterprise
	Percent of Total Premium	
50%	67%	80%
55%	64%	80%
60%	64%	80%
65%	59%	80%
70%	59%	80%
75%	55%	77%
80%	48%	68%
85%	35%	53%

Source: Risk Management Agency

