Volume 2, Issue 8 August 2014

# RightRisk™

## RightRisk News

**Dates to Remember**

- **August 15, 2014**: Spring premium billing deadline date.
- **November 15, 2014**: Pasture, Rangeland, Forage (PRF) sales closing date.

*For more information see: http://www.rma.usda.gov.*

### Agricultural Act of 2014
### Supplemental Coverage Option (SCO)

The Agricultural Act of 2014 establishes a new crop insurance program that is being referred to as the Supplemental Coverage Option (SCO). SCO will be available for corn, cotton, grain sorghum, rice, soybeans, spring barley, spring wheat, and winter wheat in selected counties for the 2015 crop year. This article will provide an overview of what SCO insurance is and how it is designed to work.

The SCO is an endorsement that attaches to and is made part of your common crop insurance policy. SCO mimics the coverage offered by your individual crop insurance plan to provide coverage for a portion of your insurance deductible using county-wide yield data when it is available. When county-wide data is not available or deemed insufficient, higher aggregation levels, such as a crop reporting district, are used to determine the area yield.

For example, a producer that elects the 70 percent coverage level on the underlying crop insurance policy can purchase an SCO endorsement that would provide county-level coverage from 86 percent down to 70 percent. The range and type of coverage is dependent upon the underlying policy. So, an SCO endorsement coupled with an 80 percent yield protection policy would provide county-level yield protection from 86 percent down to 80 percent. An SCO endorsement coupled with a 70 percent revenue protection policy would provide county-level revenue protection from 86 percent down to 70 percent. Of course many other combinations are possible. Let's briefly consider a numerical example.

Suppose a 100 acre corn farm is covered under a 70 percent revenue protection crop insurance policy. The area expected yield for corn at the county level is 160 bushels to the acre and the projected price is $4.50. At the end of the insurance period, the FCIC releases a harvest price for corn of $4.10 and a final area yield for the county of 138 bushels to the acre. SCO mimics the underlying policy. Since the projected price is greater than the harvest price, the projected price is used to calculate the revenue guarantee. SCO indemnity payments will be triggered if the ending county revenue level falls below $619.20 per acre or $61,920 for the 100 acre farm (4.50 x 160 x 100 x 0.86 = 61,920). In this case, actual county revenue would be $56,580 (4.10 x 138 x 100 = 56,580) or $565.80 per acre. The SCO indemnity payment would be $5,340 (61,920 – 56,580 = 5,340) or $53.40 per acre. The maximum SCO indemnity payment possible under this coverage scenario is $115.20 per acre. This would occur if the actual county revenue dropped below 70 percent or $504 per acre (4.50 x 160 x 0.70 = 504).

SCO premium rates will be based on published volatility factors for a given crop/county. The subsidy factor for SCO is 0.65. For illustration purposes only, suppose the premium rate in the above example is 0.345. The SCO premium can be calculated as follows:

*continued on pg. 2*

*How Much Risk is Right for You?*

## Risk Management Profile

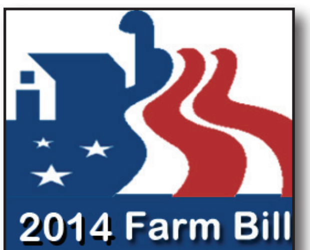
Art Fillizar and his wife Leinani Aku own and operate Fillizar Ranches on one of the islands of Hawaii. Art grew up on the ranch that has been in the family for several generations. They have always been a cow-calf operation, marketing their beef mostly through local markets. Keeping the ranch in the black is increasingly difficult with recent droughts and increasing input costs. Art and Leinani have been over their accounts numerous times in the past couple of years looking for adjustments they might make to improve ranch profitability.

To read more see: http://RightRisk.org > Resources > Risk Mgt Profiles


## Agricultural Act of 2014 continued from pg. 1

The Expected Crop Value is $720 per acre (4.50 x 160 = 720) or $72,000 for the farm. The supplemental protection is for 16 percent of this value (86 percent down to 70 percent) which is $11,520 (72,000 x 0.16 = 11,520) or 115.20 per acre. The total premium is $39.68 per acre or $3,968 (11,520 x 0.345 = 3,968). The subsidy is $2,579 (0.65 x 3,968 = 2,579). The producer premium is $1,389 (3,968 – 2,579 = 1,389) or $13.89 per acre.

The SCO endorsement does not provide payments for prevented planting or replanting and it may not be combined with the Stacked Income Protection Plan (STAX) or the Agriculture Risk Coverage (ARC) program. SCO can only be purchased for crops covered under the Price Loss Coverage (PLC) program. (We covered the Farm Service Agency ARC and PLC programs in last month's newsletter.) Producers will need to make a decision this fall between the ARC and PLC programs on each farm for each eligible crop. For fall planted winter wheat in the 2015 crop year only, producers who elect SCO coverage prior to the end of the election period for the ARC/PLC programs and who subsequently elect coverage in the ARC program for the same farm must provide timely notice to RMA of such election no later than the earlier of: the acreage reporting date for the fall planted wheat crop or December 15, 2014. Doing so will ensure that you owe no SCO premiums for such farms and no administration fee if you have no SCO coverage for any other acreage in the county. Acreage that is reported as insurable under SCO and later determined to be uninsurable is ineligible for any indemnity and you will owe 20 percent of the premium you would otherwise be required to pay on such acreage to offset costs incurred by RMA in the administration of the SCO endorsement.




More information on SCO for the 2015 winter wheat crop year is available at the Risk Management Agency's (RMA) website (**http://www.rma.usda.gov/news/whatsnew/**). According to RMA, SCO information for other commodities will be released later this summer.

RightRisk™

***RightRisk helps decision-makers discover innovative and effective risk management solutions.***

- *Education*
- *Coaching*
- *Research*

**E-mail: information@RightRisk.org**
**Web: www.RightRisk.org**

RightRisk News is brought to you by the RightRisk Team

**Contributing authors:**

John Hewlett, Ranch/Farm Management Specialist - University of Wyoming, hewlett@uwyo.edu
Jay Parsons, Risk Management Specialist - Colorado State University, Jay.Parsons@ColoState.edu
Rod Sharp, Ag and Business Management Specialist - Colorado State University, Rod.Sharp@ColoState.edu
Jeff Tranel, Ag and Business Management Specialist - Colorado State University, Jeffrey.Tranel@ColoState.edu

**Editing and Layout:** John Hewlett, hewlett@uwyo.edu

*Past issues of RightRisk News are available at: http://RightRisk.org > Resources > RightRisk News*
*To subscribe/unsubscribe, email information@RightRisk.org subject line "Subscribe/Unsubscribe RR News"*

*How much risk is right for you and your operation?*

University of Wyoming

Colorado State University Extension