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RIGHTRISK™

RIGHTRISK NEWS

DATES TO REMEMBER

Base Acre/Yield Updates
- February 27, 2015

PLC/SCO Election
- March 15, 2015

Crop Insurance Sign Up
(Most Spring Planted Crops)
- March 15, 2015

ARC/PLC Election
- March 31, 2015

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

How Much Risk is Right for You?

The Supplemental Coverage Option Decision

The Supplemental Coverage Option (SCO) is an endorsement that attaches to and becomes part of an underlying common crop insurance policy. SCO mimics the coverage offered by the individual crop insurance plan to provide coverage using available county-wide yield data for the portion of the insurance deductible between 86 percent and the underlying crop insurance coverage level.

SCO is available for the 2015 crop year in selected counties for spring planted barley, corn, cotton, grain sorghum, rice, soybeans, and wheat. Managers may view SCO coverage availability maps for 2015 at the USDA Risk Management Agency (RMA) website (http://www.rma.usda.gov/news/currentissues/farmbill/2015scomap.pdf).

Producers wishing to purchase SCO must enroll by the sales closing date for their underlying crop insurance policy and may do so with the same insurance company. For most spring crops, the crop insurance policy sales closing date is March 15. However, producers should keep in mind that any crop on a farm that they elect to participate in the Agricultural Risk Coverage (ARC) program administered by the Farm Service Agency (FSA) is not eligible for SCO. SCO may be purchased only for crops covered under the FSA Price Loss Coverage (PLC) program.

Why would a manager consider purchasing SCO coverage? Individual coverage levels up to 85 percent are available with common crop insurance policies. However, producer premiums for individual policies at these high coverage levels can be quite expensive. Premium subsidy rates decline considerably as coverage levels increase on the individual policies. On the other hand, premium subsidies for SCO endorsements are fixed at 65 percent, regardless of coverage level selected.

Also, because SCO coverage is based on county-wide yield results, the risk to the insurance company is lower so they can charge lower premium rates. Producers wishing to "buy up" to a higher level of coverage can, in most all cases, do so more inexpensively with SCO than they can with their underlying policy. However, individuals should consider that this is done at the cost of having overall coverage that is less customized to fit specific farm yield experience.

Online tools are available to help when considering whether to utilize SCO for a specific crop enterprise. One such tool is available at http://prodwebnlb.rma.usda.gov/apps/CIDT. For example, an irrigated corn producer in Scotts Bluff County,Nebraska purchasing 75 percent Revenue Protection with an APH of 148 bushels per acre and an expected price of $4.50 would be protecting $499.50 of revenue with an underlying individual policy. The online tool estimates that the producer premium would be $20.91 per acre for this coverage.

If the expected county yield is also 148 bushels, then adding SCO coverage would add another 11 percent or $73.26 in protection at an estimated premium of $10.08. Rounding to the nearest dollar, the total producer premium would be $31 per acre for $573 in protection.

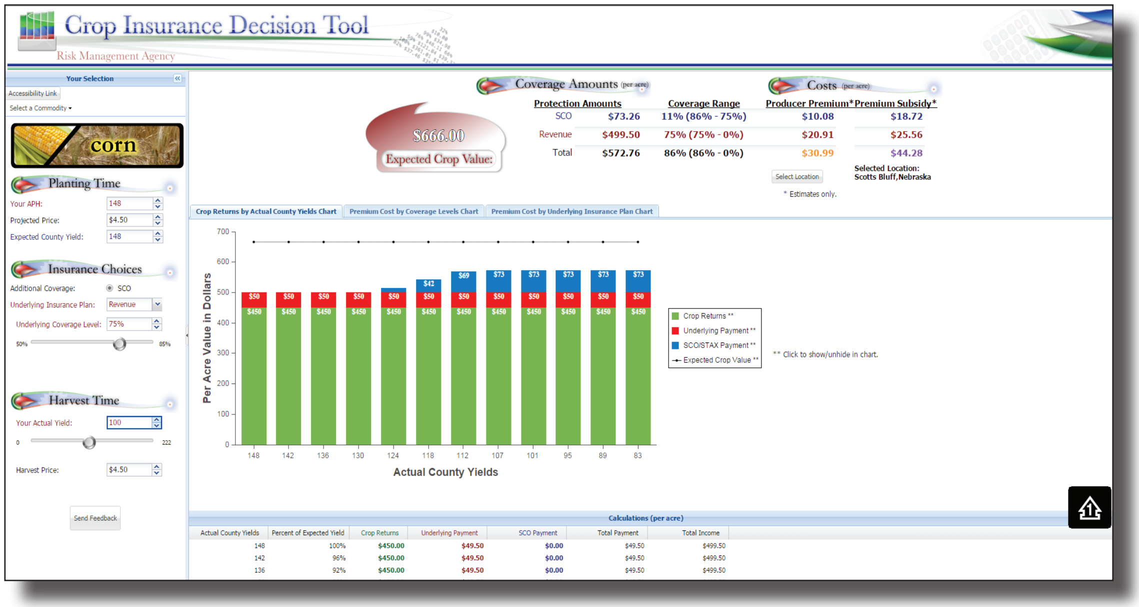

Figure 1. SCO coverage scenario with actual producer yield of 100 bushels per acre with 75% Revenue Coverage, APH = Expected County Yield = 148, and Price = $4.50.

SCO payments would trigger anytime actual county yield times the national price drops below $573 per acre, regardless of the crop yields harvested on an individual farm. These payments would be capped at $73 per acre when the county yield times the national price drops below $500. Protection from the underlying policy would only trigger if actual yield times the national price drops below $500.

Producers can analyze different coverage scenarios using the online tool by changing coverage levels, yields, prices, etc. In general, as the underlying insurance coverage is reduced, the overall cost of insurance goes down as coverage switches from the individual policy to SCO coverage. In addition, a producer's APH has no effect on when SCO payments trigger but the APH does affect the total amount paid out.

For example, suppose a producer had a corn APH of 135 bushels but the county average was 148 bushels. An underlying 75 percent revenue coverage policy would only protect $439 of revenue. If purchased, SCO coverage would trigger when county-level revenue drops below $573 and continue to pay until revenue falls below $500.

However, any payments would be scaled by the percentage of individual covered revenue compared to the county covered revenue. In this case, that would be 135/148 = 0.912. As a result, the maximum SCO payment would be $67 whenever county revenue falls below $500. The premiums are the same on a percentage basis of covered revenue but are lower in total because covered revenue is also lower.

More information on SCO for the 2015 crop year is available at the RMA website (http://www.rma.usda.gov).

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