COLLEGE OF AGRICULTURE & NATURAL RESOURCES

DEPARTMENT OF AGRICULTURAL AND RESOURCE ECONOMICS

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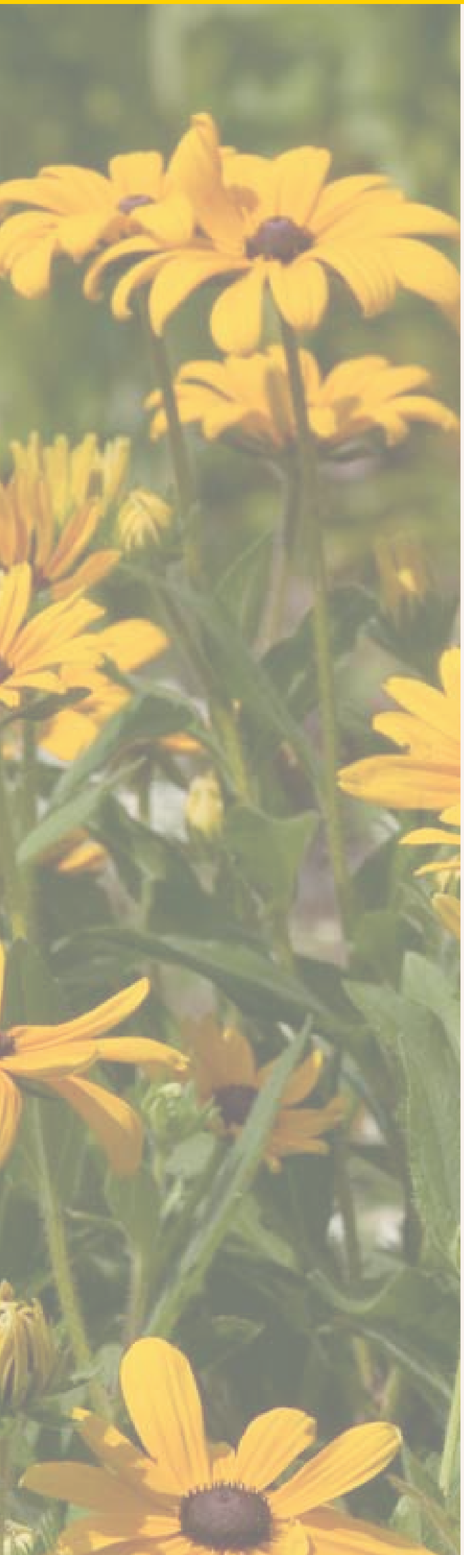

Supplemental Coverage Option Expanding as Part of the Farm Safety Net

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 covering a portion of the deductible based on county-level yield or revenue.

SCO is available in select Maryland counties for apples, barley, corn, grain sorghum, green peas, oats, peaches, processing beans, soybeans, sweet corn, and winter wheat, as of the 2017 crop year. USDA's Risk Management Agency (RMA) continues to expand covered counties and crops covered, and will begin distinguishing by practices (such as irrigated compared to non-irrigated).

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Eligibility

Commodity program selection will impact eligibility for SCO. Any crop on a farm enrolled in Agriculture Risk Coverage (ARC) will be ineligible for SCO coverage. Any 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. If Charlie purchases SCO coverage on his corn acres then the SCO policy would be cancelled and forfeit 20 percent of the SCO premium.

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 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.

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He has enrolled his wheat in PLC but did not purchase an underlying policy and so would not be eligible to purchase an SCO endorsement on his wheat crop.

Available Counties

For the 2016 crop year, the SCO endorsement is not available in all Maryland counties or on all crops. SCO endorsement is available in all Maryland counties for corn, soybeans, and wheat. Table 1 shows the available crops and irrigation practices in Maryland counties. For future crop years (2018 and beyond), you should check with your crop insurance agent to see if coverage has expanded to your county or if additional crops are available.

Table 1. Eligible Crops and Practices with Supplemental Coverage Option Coverage in Maryland for 2016 Crop Year

	Apples	Barley	Corn	Grain Sorghum	Green Peas	Oats	Peaches	Processing Beans	SoyBeans	Sweet Corn	Winter Wheat
Allegany	NI		NI						NI		NI
Anne Arundel			NI						NI		NI
Baltimore		NI	NI	NI	NI	NI		NI	NI		NI
Calvert			NI	NI					NI		NI
Caroline		Irr	NI & Irr	NI	NI			NI & Irr	NI & Irr	Irr	NI & Irr
Carroll	NI	NI	NI		NI	NI	NI	NI	NI		NI
Cecil	NI	NI	NI & Irr	NI			NI		NI & Irr		NI & Irr
Charles		NI	NI	NI					NI		NI
Dorchester		Irr	NI	NI	NI			Irr	NI	Irr	NI & Irr
Frederick	NI	NI	NI			NI	NI		NI		NI
Garrett			NI			NI			NI		NI
Harford	NI	NI	NI & Irr			NI	NI	NI	NI & Irr		NI
Howard		NI	NI	NI					NI		NI
Kent		Irr	NI & Irr	NI	NI			NI & Irr	NI & Irr	Irr	NI
Montgomery		NI	NI						NI		NI
Prince George's			NI	NI					NI		NI
Queen Anne's		Irr	NI & Irr	NI	NI			NI & Irr	NI & Irr	Irr	NI & Irr
St. Mary's		NI	NI	NI					NI		NI
Somerset		Irr	NI & Irr	NI				NI & Irr	NI & Irr		NI
Talbot		Irr	NI & Irr	NI	NI		NI	NI & Irr	NI & Irr	Irr	NI
Washington	NI	NI	NI	NI		NI			NI		NI
Wicomico		Irr	NI	NI					NI		NI & Irr
Worcester		Irr	NI & Irr	NI				NI & Irr	NI & Irr		NI & Irr

NI = non - irrigated; Irr = irrigated.

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/per 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 2 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. If Christie took out 70 percent Revenue Protection, the expected value of the crop covered by SCO would be 16 percent, or 86 percent minus 70 percent. In Step D, Christie would have covered $53.63/per acre of her expected revenue.

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.

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, for a Caroline County wheat producer with an underlying Yield Protection policy with a 75-percent coverage level, purchasing the 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.

Table 2. 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

SCO will cover a yield loss when you choose Yield Protection or revenue loss when you choose Revenue Protection.

Authored by:

Paul Goeringer
Extension Legal Specialist
Department of Agriculture and Resource Economics
lgoering@umd.edu
Twitter: @AgLawPaul

Howard Leathers
Associate Professor
Department of Agriculture and Resource Economics
howardl@umd.edu

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University of Maryland
College of Agriculture
and Natural Resources

Department of Agricultural
and Resource Economics
Symons Hall, Room 2200
College Park, MD 20742
(301) 405-1293

arec.umd.edu/extension/crop-insurance/

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