



# Supplemental Coverage Option for Federal Crop Insurance

July 2014

## What Is The Supplemental Coverage Option?

The Supplemental Coverage Option (SCO) is a new crop insurance option that provides additional coverage for a portion of your underlying crop insurance policy deductible. You must buy it as an endorsement to either the Yield Protection, Revenue Protection, or Revenue Protection with the Harvest Price Exclusion policies. The Federal Government pays 65 percent of the premium cost for SCO.

SCO is available, starting with the 2015 crop year, in select counties for spring barley, corn, soybeans, wheat, sorghum, cotton, and rice.

## How Do I Buy SCO?

First, you must choose;

- Yield Protection;
- Revenue Protection; or
- Revenue Protection with the Harvest Price Exclusion. This is your ‘underlying policy’.

Next, you choose SCO as an endorsement to the underlying policy. You must make this choice by the sales closing date for your underlying policy, and with the same insurance company. Any crop on a farm that you elect to participate in the Agriculture Risk Coverage (ARC) program (a new program started in the 2014 Farm Bill, administered by the Farm Service Agency) is not eligible for SCO coverage.

## How Does SCO Work?

SCO follows the coverage of your underlying policy. If you choose Yield Protection, then SCO covers yield loss. If you choose Revenue Protection, then SCO covers revenue loss.

The amount of SCO coverage depends on the liability, coverage level, and approved yield for your underlying policy. However, SCO differs from the underlying policy in how a loss payment is triggered. The underlying policy pays a loss on an individual basis and an indemnity is triggered when you have an individual loss in yield or revenue. SCO pays a loss on an area basis, and an indemnity is triggered when there is a county level loss in yield or revenue.

It is easiest to explain how coverage is determined through an example. Suppose a grower’s corn crop has an expected value of \$765.00 per acre (170 bushels at \$4.50 per bushel). Assume the grower buys a Revenue Protection policy with a 75-percent coverage level (this is the ‘underlying policy’). The underlying policy covers 75 percent (or \$573.75) of the expected crop value and leaves 25 percent (or \$191.25) uncovered as a deductible.

At this point, the grower has the option to buy SCO coverage. Since the underlying policy is Revenue Protection, SCO will also provide revenue protection, except that payments will be determined at a county level. SCO revenue coverage is described in the following table.

Step	SCO Coverage Calculation	
A	SCO Endorsement begins to pay when county revenue falls below this percent of its expected level (the percent is the same for all SCO policies – set by law)	86%
B	SCO Endorsement pays out its full amount when county revenue falls to the coverage level percent of its expected level (always equal to the coverage level of the underlying policy)	75%
C	Percent of expected crop value covered by SCO (A – B, or 86% – 75%)	11%
D	Amount of SCO Protection (C • Expected Crop Value, or 11% • \$765)	\$84.15

The SCO Endorsement begins to pay when county average revenue falls below 86 percent of its expected level. The full amount of the SCO coverage is paid out when the county average revenue falls to the coverage level of the underlying policy - in this example, it is 75 percent (shown on line B in the table).

SCO payments are determined only by county average revenue or yield, and are not affected by whether you receive a payment from your underlying policy. So it is possible for you to experience an individual loss but to not receive an SCO payment, or vice-versa.

The dollar amount of SCO coverage is based on the percent of crop value covered. In this example there are

11 percentage points of coverage (from 86 percent to 75 percent). Eleven percent of the expected crop value is \$84.15 (or 11 percent • \$765.00). The SCO policy can cover up to \$84.15 of the \$191.25 deductible amount not covered by your underlying policy.

### How Much Does SCO Cost?

The Federal Government pays 65 percent of the premium. The exact premium cost depends on the crop, county, coverage level you choose, and the type of coverage you choose, such as Yield Protection or Revenue Protection. You should talk to your crop insurance agent for more information.

### How Do I Decide If I Should Buy SCO?

When considering SCO, you must first consider whether to elect to participate in the ARC program. Crops for which ARC is elected on a farm are not eligible for SCO coverage.

For those crops and farms eligible for SCO coverage, the type and amount of SCO coverage are determined by the type and coverage level you choose for the underlying policy. You should talk to your crop insurance agent to determine what best meets your individual risk management needs.

### Where Is SCO Available?

SCO is available, starting with the 2015 crop year, in select counties for spring barley, corn, soybeans, wheat, sorghum, cotton, and rice.

The choice of counties selected for 2015 is based on the availability of county yield data from USDA's National Agricultural Statistics Service (NASS), subject to the following criteria designed to maximize the availability of SCO while maintaining actuarial soundness and program integrity. These criteria are similar to what is used for area-based, insurance programs administered by the Risk Management Agency (RMA). In general, the criteria are:

- NASS county yield estimates are available for at least 20 of the last 30 years. This provides a minimum amount of data needed to establish expected yields similar to the existing yield trend approaches used for related area-based insurance programs;
- NASS county yield estimates are available for at least 8 of the last 10 years, with an average of at least 10,000 planted acres over those years. This limits SCO to counties where county yield data has been consistently available, so that there is a reasonable expectation that a county yield will be available at the end of the growing season to determine losses; and
- There are at least 50 or more farming entities for the crop in the county according to the most recent Census of Agriculture. This limits the possibility for a single

producer (or small group) to skew or influence the county estimate for a given year and limits SCO to counties where NASS is likely to receive adequate reports to publish a county estimate.

### Will SCO Be Available for More Crops?

Starting with the 2016 crop year, RMA will be making greater use of crop insurance data to expand SCO coverage into more areas, more crops, and to make SCO coverage more practice-specific, (for example, irrigated in comparison to non-irrigated). RMA will expand the program to more crops (and counties) as the program continues.

### What Happens If I Choose SCO and Sign Up for ARC?

SCO will first be available for the 2015 crop year's winter wheat, where you must make your crop insurance coverage decisions for fall-planted crops (including SCO) by the sales closing date (generally September 30, 2014). Producers who applied for SCO for their winter wheat for 2015 may elect to withdraw coverage on any farm where they have elected or where they intend to elect ARC for winter wheat by the earlier of their acreage reporting date or December 15 without penalty. This allows producers additional time to make an informed decision related to whether to elect to participate in either the ARC or Price Loss Coverage (PLC) programs for their winter wheat which will happen later this winter.

If producers withdraw SCO coverage for a farm by the earlier of their acreage reporting date or December 15, they will not be charged a crop insurance premium. In order to withdraw coverage without penalty, producers must notify their agents of their intended election for ARC by the earlier of their winter wheat acreage reporting date or December 15. This is a one-time exemption that is only allowed for the 2015 crop year's winter wheat to coordinate with ARC program sign-up rules.

After this one-time exemption for the 2015 crop year's winter wheat, if you choose SCO on a farm, but elect ARC for winter wheat on the same farm, such acres on the farm will not be covered under your SCO Endorsement and you will be required to pay 20 percent of your SCO premium to cover administrative expenses. Your underlying policy will still be in effect.

### Where to Buy Crop Insurance

All multi-peril crop insurance, including Catastrophic Risk Protection and SCO policies, are available from crop insurance agents. A list of crop insurance agents is available at all USDA service centers and on the RMA website at: [www3.rma.usda.gov/apps/agents/](http://www3.rma.usda.gov/apps/agents/).

## Contact Us

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