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DIVISION OF AGRICULTURE
RESEARCH & EXTENSION

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Supplemental Coverage Option Crop Insurance

**University of Arkansas System Division of Agriculture
Cooperative Extension Service
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I. 2014 Farm Bill

Quick Summary

- Contains target prices or insured revenues for covered commodities
 - 1) Price Loss Coverage: PLC, reference price (fixed)
 - 2) Agricultural Risk Coverage: ARC, revenue guarantee floats with national price & county yield

Potential payments are based on 85% of base acres
- Retains marketing loan rates
- Increased availability of subsidized crop insurance (Supplemental Coverage Option – SCO)
- Cotton is not a covered commodity - has a separate area crop insurance program (STAX) available in 2015
- PLC and ARC selection are relevant to cotton base acreage

II. Supplemental Coverage Option Area Insurance

- The Supplemental Coverage Option (SCO) will be available for producers who have selected PLC.
- SCO is a buy-up to cover a portion of the deductible for underlying crop insurance up to 86% of yield or revenue.
- **SCO is an annual decision based on conditions (Projected Price)**
- SCO is available for cotton production, but not in combination with STAX.
- Producers must have underlying crop insurance to purchase SCO as an option. SCO has a 65% premium subsidy.
- Farms enrolling in ARC for 2014 are not eligible for SCO.

SCO Features

- Must purchase an underlying insurance policy
 - SCO provides coverage for a portion of the producers deductible
- Indemnities are triggered on county yield or revenue experience, depending on underlying insurance policy
- SCO coverage extends down to the coverage level of the underlying insurance policy
- May not be purchased on cotton acres covered by STAX



Key Terms for SCO

- **Actual Production History (APH)** is the farm yield history.
- **Expected county yield** is the yield history for the county.
- **Actual county yield** is the realized county yield for the production year.
- **Projected price** is the average futures price for a specified contract before the production year (Example: November rice average closing price from January 15 to February 14).
- **Harvest price** is the average futures price for a specified contract during the typical harvest period (Example: November rice average closing price from September 1 to September 30).



Insurance Projected and Harvest Prices Vary by State (Region)

Crop	Contract Month	Projected Price Dates		Harvest Price Dates	
		Beginning	End	Beginning	End
Corn	DEC	15-Jan	14-Feb	15-Aug	14-Sep
Cotton	DEC	15-Jan	14-Feb	1-Oct	31-Oct
G Sorghum	DEC	15-Jan	14-Feb	1-Sep	30-Sep
Rice	NOV	15-Jan	14-Feb	1-Sep	30-Sep
Soybean	NOV	15-Jan	14-Feb	1-Oct	31-Oct
Wheat	JULY	15-Aug	14-Sep	1-Jun	30-Jun

SCO Revenue Coverage Rice Example

Assumptions

Projected Price, \$/cwt	13.90	Futures Average
APH, cwt	72	Farm history
Individual Revenue Policy Coverage	60%	Selected by farm
Expected County Yield, cwt	70	County history
Actual County Yield, cwt	63	Statistical report
Harvest Price, \$/cwt	13.00	Futures Average

SCO Revenue Coverage Rice Example

SCO Triggering Mechanism: What happens in the county?

Expected County Revenue, \$	973.00	$13.90 * 70$
SCO Coverage Maximum Percent	86%	Law
SCO Trigger, Maximum Insured, \$	836.78	$973.00 * 86\%$
Low of SCO Coverage, \$	583.80	$973.00 * 60\%$
Range of SCO Coverage, \$	252.98	$836.78 - 583.80$
Actual County Revenue, \$	819.00	$13.00 * 63$
County Loss Applicable to SCO, \$	17.78	$836.78 - 819.00$
Percent of County Loss Applicable to SCO	7%	$17.78 \div 252.98$

SCO Revenue Coverage Rice Example

Expected Farm Revenue, \$	1,000.80	13.90 * 72
SCO Threshold Maximum Insured, \$	860.69	1,000.80 * 86%
Revenue Policy Insured Liability, \$	600.48	1,000.80 * 60%
SCO Insured Liability, \$	260.21	860.69 - 600.48

County experience (7% loss) determines farm SCO indemnity out of \$260.21 potential liability

SCO Indemnity, \$/acre	18.29	260.21 * <u>7%</u>
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Conclusion

- Questions?

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- Comments?