Supplemental Coverage Option (SCO)

MARKETING CLUB FACILITATORS MEETING
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Supplemental Coverage Option

- SCO is an insurance program
- Not a commodity program
- Administered by RMA (not FSA)
- Can only purchase SCO for crops enrolled in PLC
Supplemental Coverage Option

Provides **area based** coverage to supplement your individual insurance plan

- With individual RP, SCO provides area revenue coverage
- With individual YP, SCO provides area yield coverage
- If underlying policy has harvest price protection, so does SCO
Supplemental Coverage Option

- Insurance prices same as for existing programs
- Base price equals average harvest month price during February
Supplemental Coverage Option

Guarantee
- Product of trend yield and base price for revenue coverage
- Trend yield for yield coverage

Coverage Level is 86%
- Indemnities triggered when revenues/yields fall below 86% of guarantee
Supplemental Coverage Option

SCO coverage ends at the coverage level elected by the producer for the underlying individual plan of insurance

- Band of coverage is determined by the producer’s coverage level choice
Illustration: SCO with RP

SCO Coverage

86% of SCO Guarantee

Coverage Level x SCO Guarantee

SCO Guarantee = County Trend Yield x Insurance Base Price

Individual Insurance Deductible

Revenue Protection

Revenue

County

Farm

RP Guarantee = Farm APH Yield x Insurance Base Price

Coverage Level x RP Guarantee
Must purchase individual insurance in order to purchase SCO policy

Assume: Individual Coverage
    RP Policy
    75% Level
    $6.00 Projected Price (PP)
    50 bu APH

Minimum Guarantee = $225
SCO will make payments in a range from 86% down to 75% coverage level of the RP policy

\[
\begin{align*}
$6.00 \times 50 \text{ (APH)} \times .86 &= \$258 \\
$6.00 \times 50 \text{ (APH)} \times .75 &= \$225 \\
\text{Maximum SCO payment} &= \$33
\end{align*}
\]
How much of the maximum payment will be paid depends on county revenue relative to the county guarantee.

Assume: County Expected Yield = 48bu

Harvest Price below Projected = $5.50

SCO makes a payment when county revenue is below:

$6.00 (PP) \times 48bu \times 0.86 = $247.68
The maximum SCO payment occurs when county revenue is below the expected revenue times the coverage level of the RP policy

\[ \$6.00 \text{ (PP)} \times 48\text{bu} \times 0.75 = \$216.00 \]

Maximum payment equals \((\$247.68 - 216.00) = \$31.68\)
If: Harvest Price = $5.50  
  County Yield = 38bu  
  County Revenue = $209.00

County revenue is below $216.00 so the maximum SCO payment of $33.00 would be made
If: Harvest Price = $5.50
County Yield = 42bu
County Revenue = $231.00

The $231.00 falls within the range where an SCO payment is made: ($247.68 to $216.00)

Revenue shortfall is ($247.68 – 231.00) = $16.68
Shortfall/maximum payment ($16.68/31.68) = 0.53
Payment equals 53% of maximum ($33) = $17.49
## Multi-Peril Crop Insurance

### Percent Subsidy by Unit Size

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