

THE SUPPLEMENTAL COVERAGES OPTION (SCO)

Training Presentation

OVERVIEW

What is SCO?

- SCO provides area-based coverage for a portion of your insurance deductible
- SCO is an endorsement to the following plans
 - Yield Protection (YP)
 - Revenue Protection (RP)
 - Revenue Protection with the Harvest Price Exclusion (RP-HPE)
- The endorsement will be available in select counties for corn, soybeans, wheat, sorghum, cotton, spring barley and rice starting with the 2015 crop year

What is SCO?

- Must be purchased with an underlying individual crop policy
- Liability (max payout) based on expected crop value for the individual grower
 - But the amount paid out is based on how well the county does
 - Payment generally occurs later than for individual policy
 - Based on when county data becomes available
 - Similar to Area Risk Protection Insurance (ARPI)
- 65% premium subsidy
 - Regardless of coverage level of the underlying policy

Overview of SCO

- SCO coverage type follows underlying plan of insurance
 - If underlying policy is yield-based (YP or APH), SCO also provides yield coverage
 - If underlying policy is revenue-based (RP or RP-HPE), SCO provides revenue coverage
- Separate Premium and Administrative Fees for SCO by crop/county
 - In addition to fees for underlying individual policy
- Separate insurance offers by irrigation practice (where actuarially sound)
 - Follows underlying policy

Overview of SCO

- The amount of SCO coverage depends on the liability, coverage level, and approved yield of your underlying policy
 - If there are multiple types or practices for the insured crop in the county, the supplemental protection will be determined separately for each coverage level, type, and practice
- Indemnity payments for SCO is based on whether the yield or revenue for an area (generally county) falls below its expected level
 - Payment begins: Final Area Revenue (Yield) < 86% of Expected Area Revenue (Yield)
 - Max payout: Final Area Revenue <= Coverage Level% of Expected Area Revenue (Yield)



SCO Coverage

Example:

Grower purchases an individual revenue policy, 75% coverage

Percent of Expected Grower Revenue	Individual Loss	Area-Based Loss
100%		
95%		
90%		
86%		SCO Revenue (86% to 75%)
80%		
75%		
70%	Individual Revenue Policy (75% coverage)	
65%		
60%		
55%		
50%		
45%		
40%		
35%		
30%		
25%		
20%		
15%		
10%		
5%		
0%		



SCO Coverage

Example:

Grower purchases
an individual
revenue policy,
80% coverage

Percent of Expected Grower Revenue	Individual Loss	Area-Based Loss
100%		
95%		
90%		
86%		SCO Revenue
80%		(86% to 80%)
75%	Individual Revenue Policy (80% coverage)	
70%		
65%		
60%		
55%		
50%		
45%		
40%		
35%		
30%		
25%		
20%		
15%		
10%		
5%		
0%		



SCO Coverage

Example:

Grower purchases an individual revenue policy, 60% coverage

Percent of Expected Grower Revenue	Individual Loss	Area-Based Loss
100%		
95%		
90%		
86%		SCO Revenue (86% to 60%)
80%		
75%		
70%		
65%		
60%		
55%	Individual Revenue Policy (60% coverage)	
50%		
45%		
40%		
35%		
30%		
25%		
20%		
15%		
10%		
5%		
0%		

Your Selection

Accessibility Link

Select a Commodity ▾

wheat

Planting Time

Your APH: 40

Projected Price: \$7.02

Expected County Yield: 45

Insurance Choices

Additional Coverage: SCO

Underlying Insurance Plan: Revenue

Underlying Coverage Level: 70%

50% 85%

Harvest Time

Your Actual Yield: 0

0 60

Harvest Price: \$7.02

Coverage Amounts (per acre)

	Protection Amounts	Coverage Range	Producer Premium *	Premium Subsidy *
SCO	\$44.93	16% (86% - 70%)		
Revenue	\$196.70	70% (70% - 0%)		
Total	\$241.63	86% (86% - 0%)		

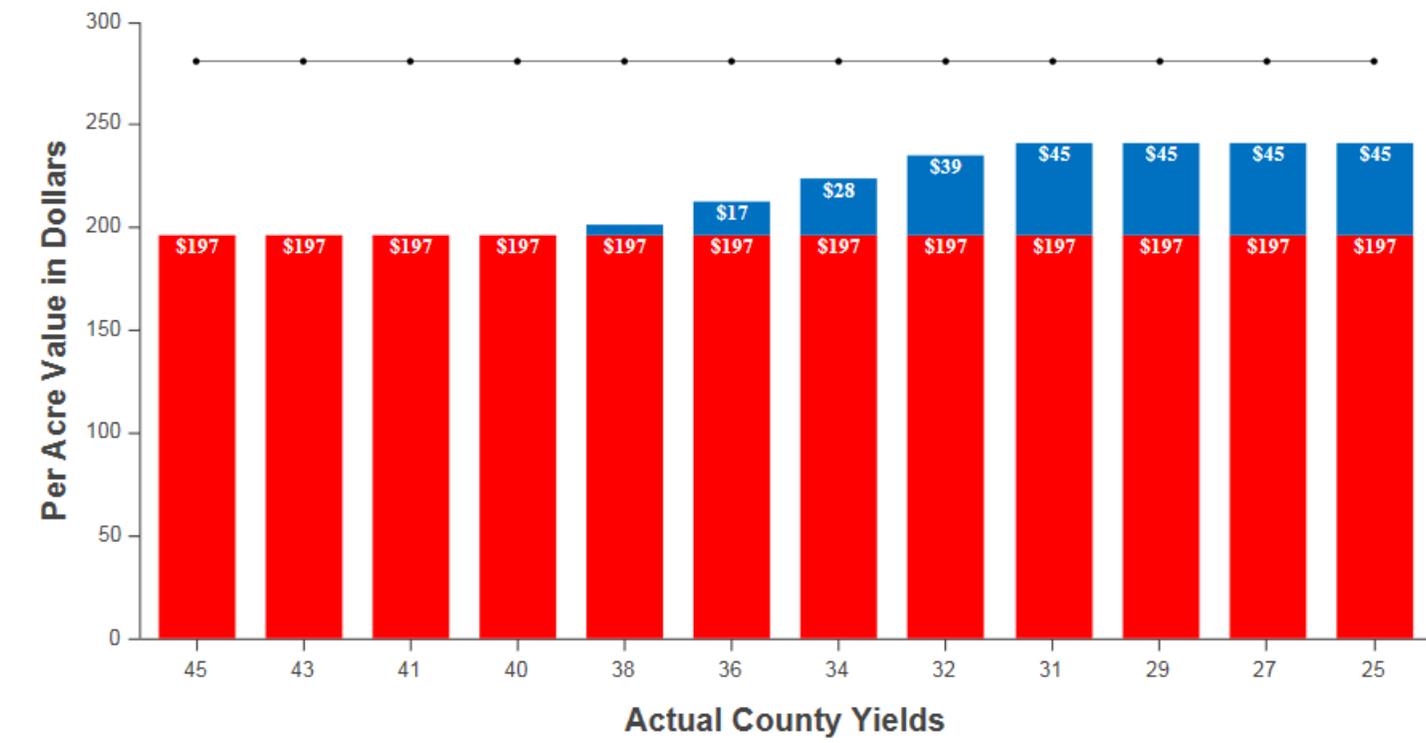
Costs (per acre)

\$281.00
Expected Crop Value:

Select Location

40 bushel/Acre x \$7.02 per bushel = \$281 Expected Crop Value

Crop Returns by Actual County Yields Chart



- Crop Returns **
- Underlying Payment **
- SCO/STAX Payment **
- Expected Crop Value **

** Click to show/

Your Selection

Accessibility Link

Select a Commodity ▾

wheat

Planting Time

Your APH: 40

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Insurance Choices

Additional Coverage: SCO

Underlying Insurance Plan: Revenue

Underlying Coverage Level: 70%

50% 85%

Harvest Time

Your Actual Yield: 0

0 60

Harvest Price: \$7.02

Coverage Amounts (per acre)

Costs (per acre)

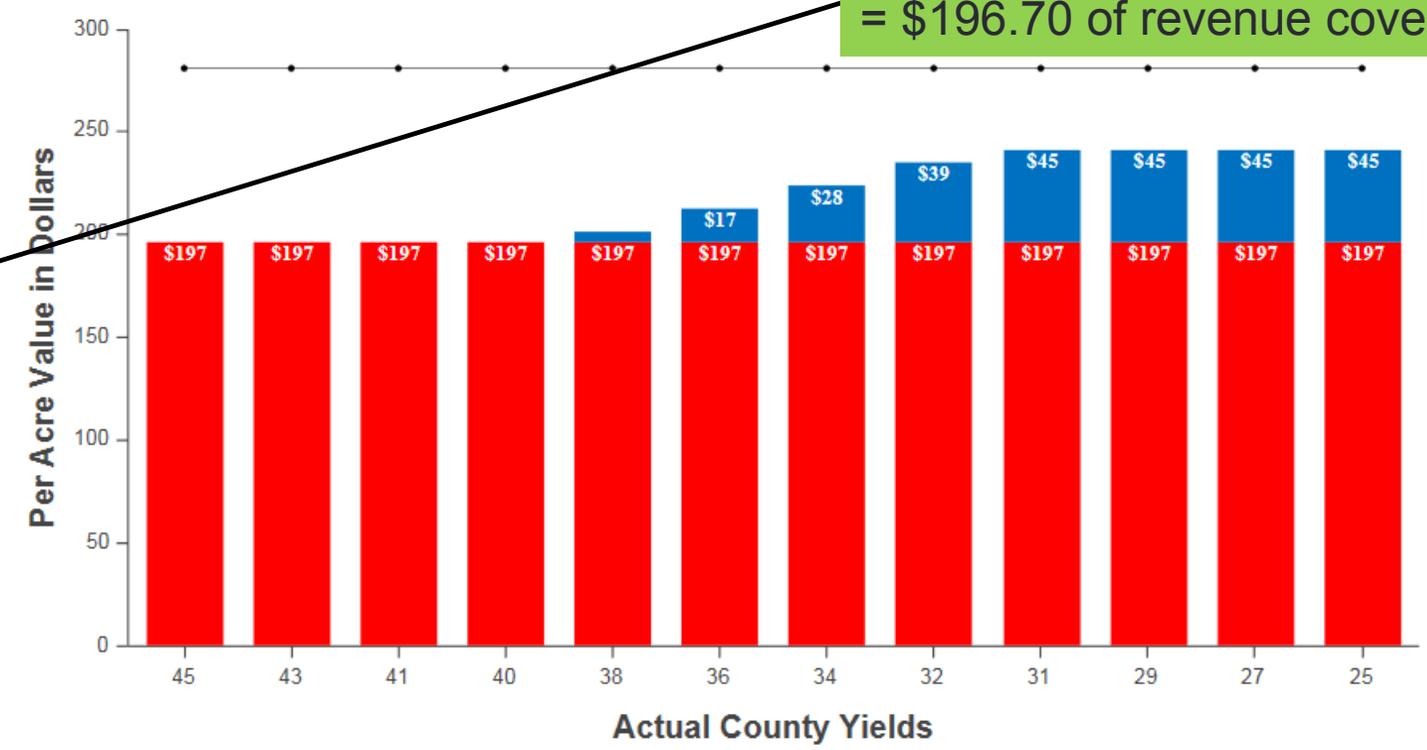
	Protection Amounts	Coverage Range	Producer Premium *	Premium Subsidy *
SCO	\$44.93	16% (86% - 70%)		
Revenue	\$196.70	70% (70% - 0%)		
Total	\$241.63	86% (86% - 0%)		

\$281.00
Expected Crop Value:

\$281 projected crop value x 70% coverage level = \$196.70 of revenue coverage

Crop Returns by Actual County Yields Chart

Premium Cost by Coverage Levels Chart



- Crop Returns **
- Underlying Payment **
- SCO/STAX Payment **
- Expected Crop Value **

** Click to show/

Your Selection

Accessibility Link

Select a Commodity ▾

wheat

Planting Time

Your APH: 40

Projected Price: \$7.02

Expected County Yield: 45

Insurance Choices

Additional Coverage: SCO

Underlying Insurance Plan: Revenue

Underlying Coverage Level: 70%

50% 85%

Harvest Time

Your Actual Yield: 0

0 60

Harvest Price: \$7.02

Coverage Amounts (per acre)

Costs (per acre)

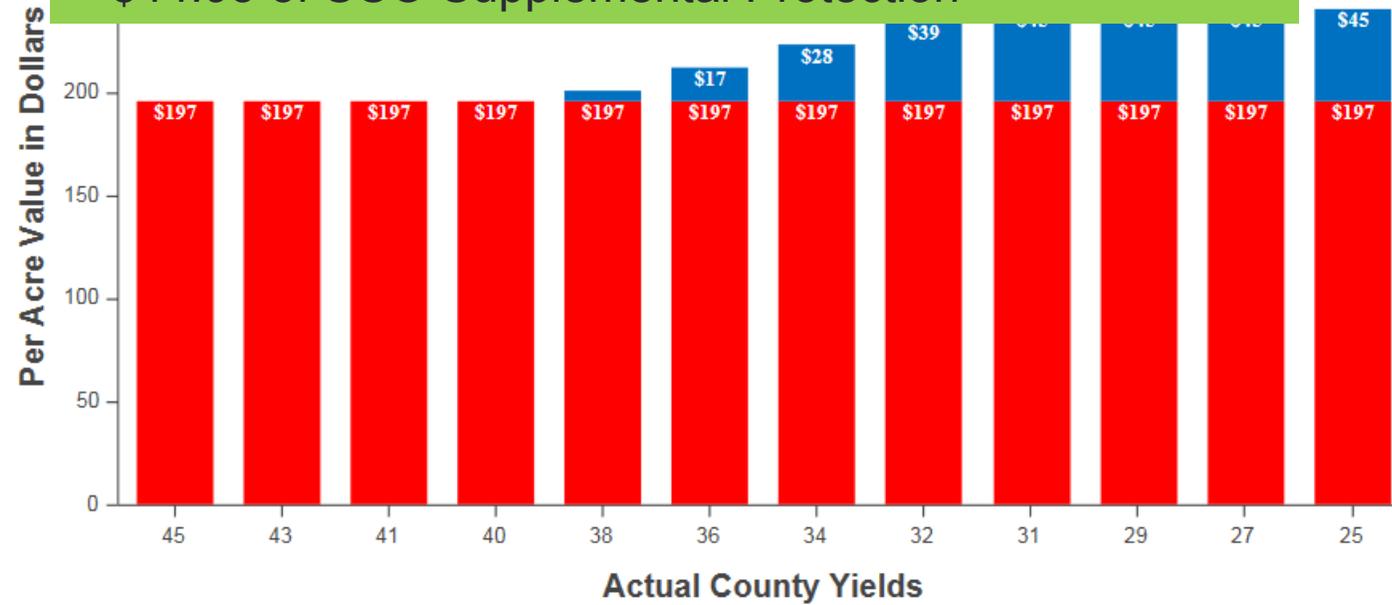
Protection Amounts	Coverage Range	Producer Premium *	Premium Subsidy *
SCO	\$44.93	16% (86% - 70%)	
Revenue	\$196.70	70% (70% - 0%)	
Total	\$241.63	86% (86% - 0%)	

\$281.00
Expected Crop Value:

Coverage range = 86% - 70% coverage level = 16%

Crop Returns by Actual County Yields Chart Premium Cost by Coverage Levels Chart

\$281 Expected Crop Value x 16% SCO Coverage Range = \$44.93 of SCO Supplemental Protection



Crop Returns **
 Underlying Payment **
 SCO/STAX Payment **
 Expected Crop Value **

** Click to show/

Your Selection <<

Accessibility Link

Select a Commodity

wheat

Planting Time

Your APH: 40

Projected Price: \$7.02

Expected County Yield: 45

Insurance Choices

Additional Coverage: SCO

Underlying Insurance Plan: Revenue

Underlying Coverage Level: 70%

50% 85%

Harvest Time

Your Actual Yield: 0

0 60

Harvest Price: \$7.02

Coverage Amounts (per acre)

Coverage Range	Producer Premium *	Premium Subsidy *
5% - 70%		
70% - 70%		
86% (86% - 0%)		

Revenue: \$197.70

Total: **\$241.63**

Expected Crop Value: \$281.00

Crop Returns by Actual County Yields Chart | Premium Cost by Coverage Levels Chart

Actual County Yields	Underlying Payment **	SCO/STAX Payment **	Total Per Acre Value
45	\$197	\$0	\$197
43	\$197	\$0	\$197
41	\$197	\$0	\$197
40	\$197	\$0	\$197
38	\$197	\$0	\$197
36	\$197	\$17	\$214
34	\$197	\$28	\$225
32	\$197	\$39	\$236
31	\$197	\$45	\$242
29	\$197	\$45	\$242
27	\$197	\$45	\$242
25	\$197	\$45	\$242

Expected Crop Value **

Legend: Crop Returns **, Underlying Payment **, SCO/STAX Payment **, Expected Crop Value **

** Click to show/

When Final County Yield falls below 86% of Expected County Yield (in this case 86% of 45 bu/acre = 39 bu/acre), SCO starts to pay

When Final County Yield falls below 70% of Expected County Yield (or around 31 bu/acre), the SCO payment reaches its max of \$44.93

Zero actual yield at harvest, resulting in a full payment of \$197 from the underlying revenue policy

Your Selection

Accessibility Link

Select a Commodity ▾

wheat

Planting Time

Your APH: 40

Projected Price: \$7.02

Expected County Yield: 45

Insurance Choices

Additional Coverage: SCO

Underlying Insurance Plan: Revenue

Underlying Coverage Level: 70%

50% 85%

Harvest Time

Your Actual Yield: 15

0 60

Harvest Price: \$7.02

Coverage Amounts (per acre)

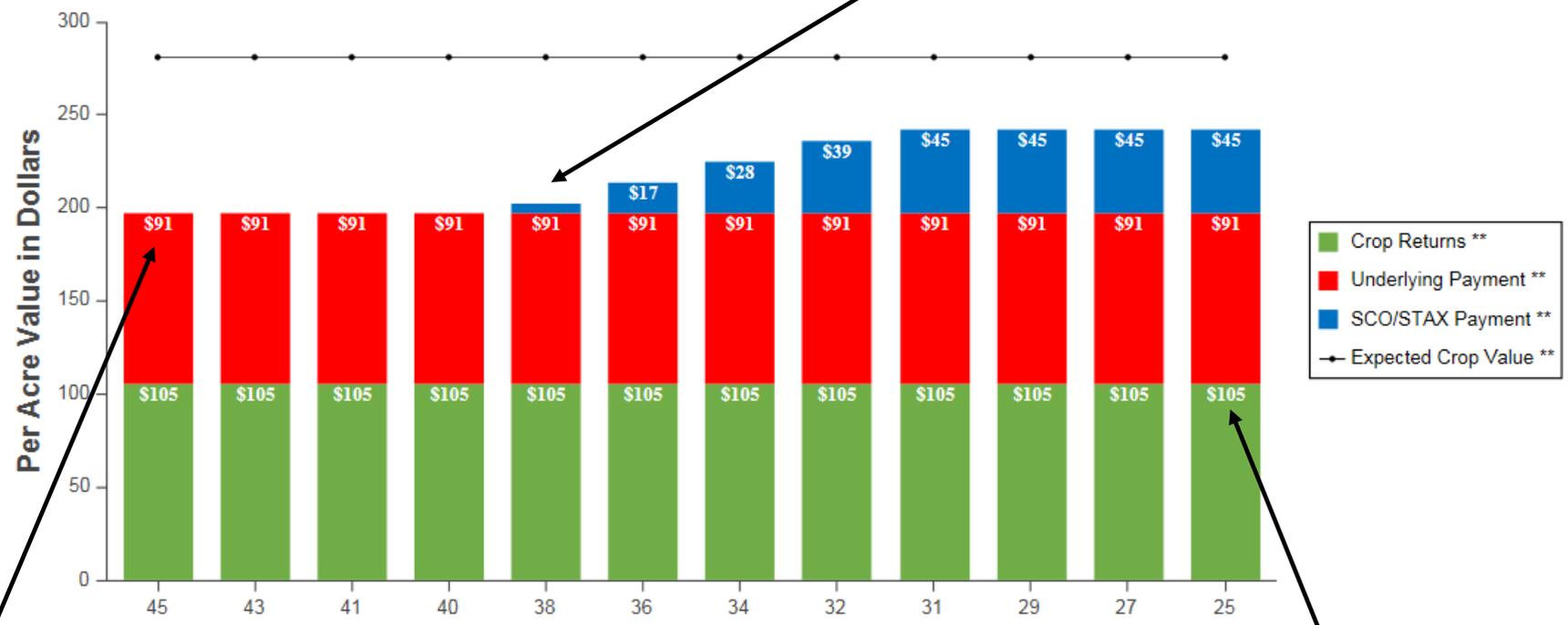
Costs (per acre)

	<u>Protection Amounts</u>	<u>Coverage Range</u>	<u>Producer Premium *Premium Subsidy *</u>
SCO	\$44.93	16% (86% - 70%)	
Revenue	\$196.70	70% (70% - 0%)	
Total	\$241.63	86% (86% - 0%)	

\$281.00
Expected Crop Value:

When Final County Yield falls below 86% of Expected County Yield (or around 39 bu/acre), the SCO payment begins

Crop Returns by Actual County Yields Chart



** Click to show/hide

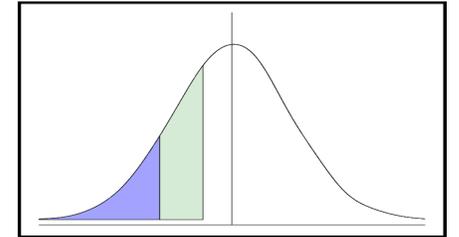
Yield of 15 bu/ac at harvest, resulting in a payment of \$91 from the underlying revenue policy

Yield of 15 bu/ac at \$7.02 per bushel produces a return (or income) of \$105

AVAILABILITY AND COST

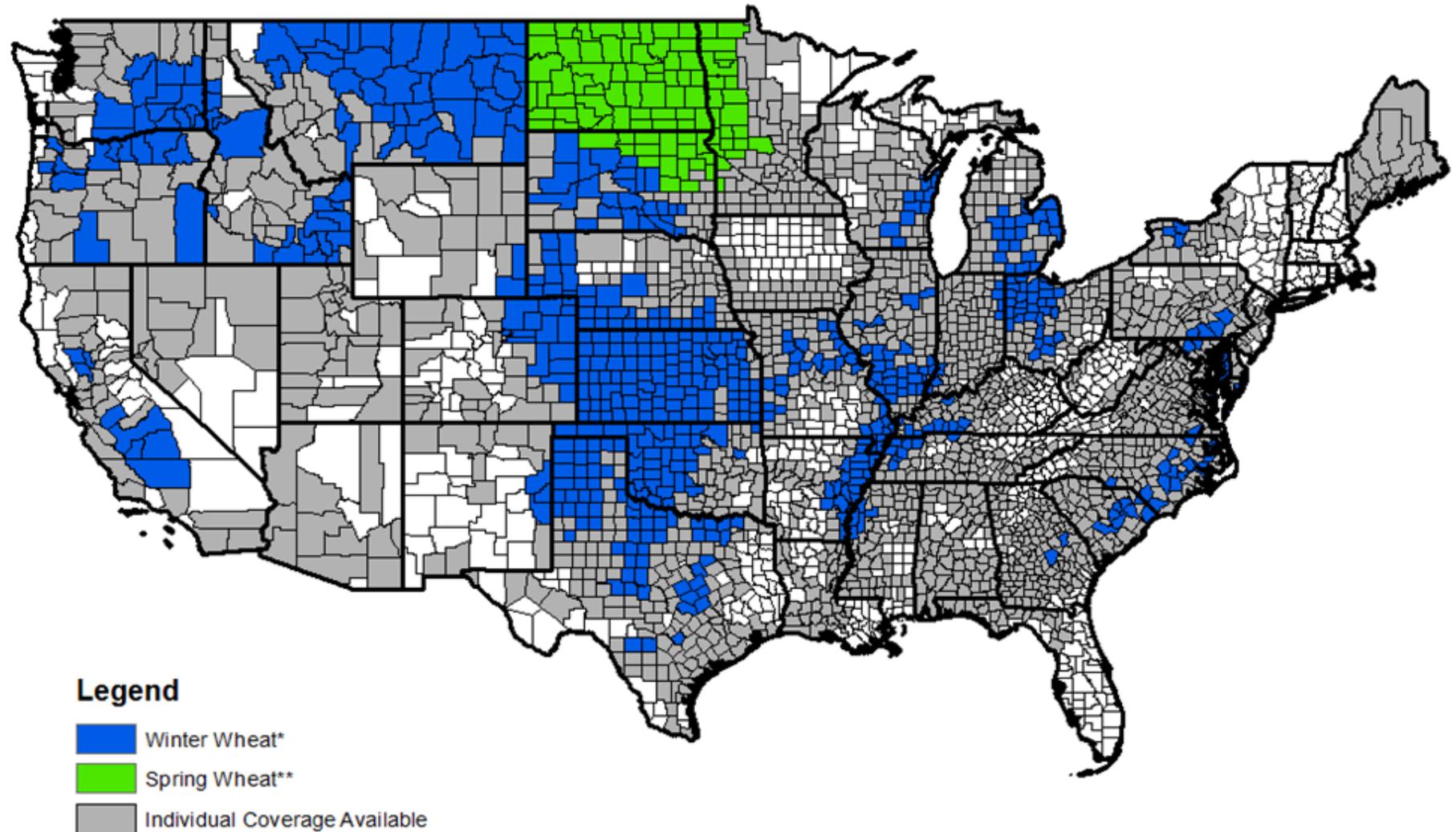
SCO Data Source and Availability (excluding cotton)

- Follow ARPI, use NASS county estimates, expand (but just SCO)
 - ARPI program guidelines generally restrict to primary growing regions
 - Guidelines can be revised for SCO given its program design
- General Guidelines to establish coverage for a county or district:
 - At least 20 of the most recent 30 years reported
 - At least 8 of 10 most recent years with an average of 10,000 or more planted acres
 - At least 50 farms for the crop/county according to the most recent Census of Agriculture
- Considering use of crop insurance yield data beginning with 2016
 - Additional counties for current SCO crops (aggregation)
 - Additional practice-specific insurance offers
 - Additional crops (primary areas)



Availability

Crop Year 2015 Supplemental Coverage Option (SCO) Availability for Wheat



* Includes Spring, Durum, and Khorasan types in counties with a June 30 contract change date.

** Includes Durum and Khorasan types in counties with a November 30 contract change date.

SCO Data Source and Availability (Cotton)

- Use crop insurance yield data
 - Allows for practice-specific (i.e. irrigated vs. non-irrigated) coverage in more areas
- General Guidelines to establish coverage for a county/practice:
 - At least 10 most recent years of data available
 - Most recent 5 years with 20 distinct producer reports per year and an average of 10,000 acres or more
- Otherwise, combine counties to meet the standards:
 - Combine target county with a qualifying neighboring county
 - County group (target county plus surrounding counties)
 - District or other groupings of counties

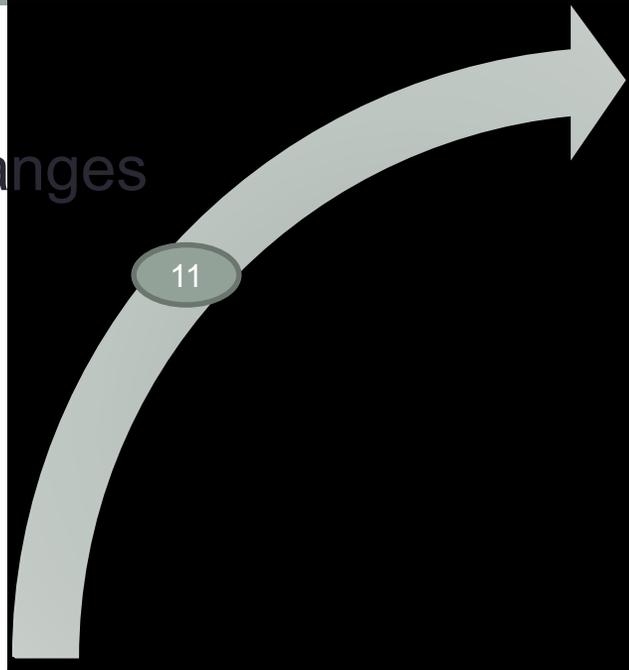
Cost

- Premium rates for SCO wheat, 70% revenue coverage for underlying policy:
 - Premium rate range from 15% to over 60%, average around 30%
 - Covers 'active range' of losses
 - Varies based on location and practice
- Assume 40 bu/acre, projected price of \$7.02
 - Amount of SCO Coverage: \$45 per acre
 - Average grower SCO premium: \$4.70 per acre
 - Will vary significantly based on location and practice

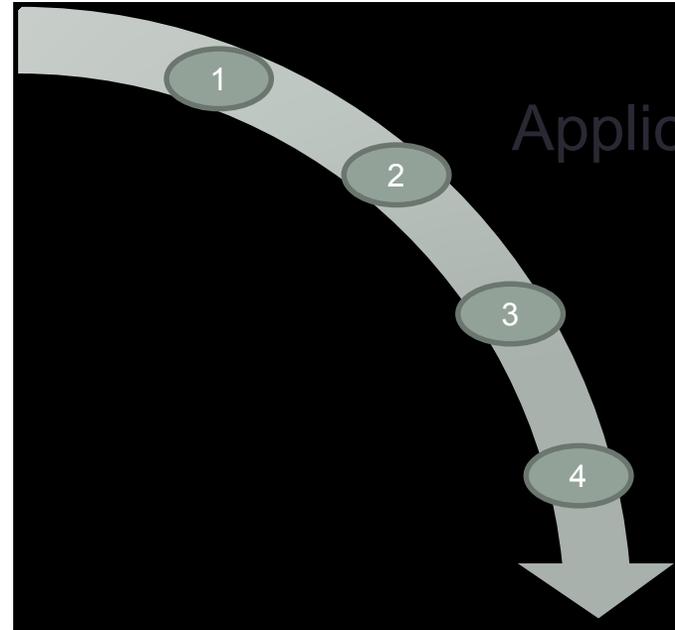
INSURANCE CYCLE

SCO Insurance Cycle

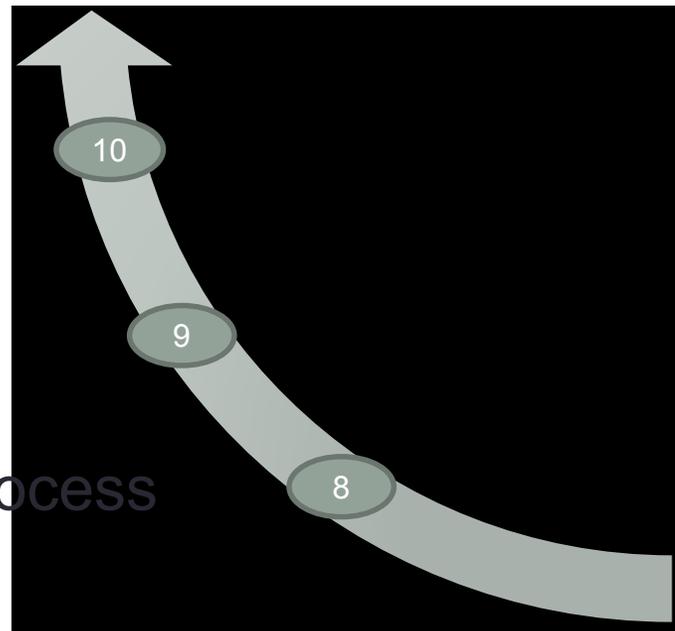
Program Changes



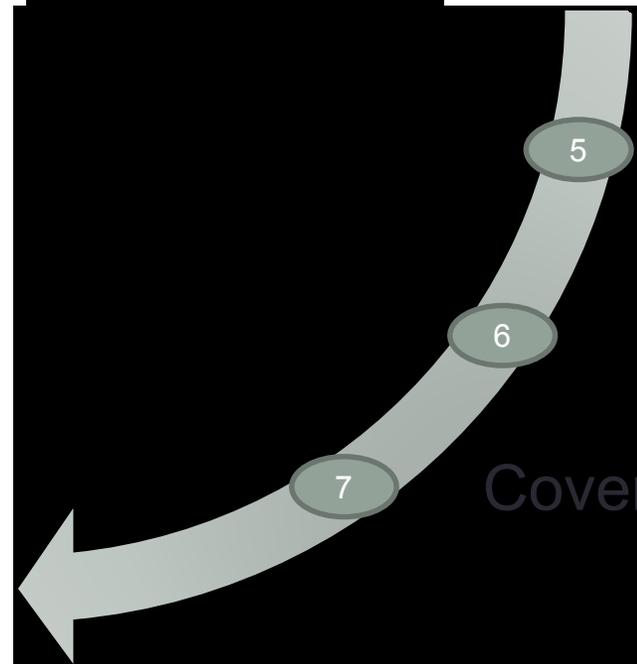
Application Process



Claims Process



Coverage and Billing



1) Policy Renewal/Change Options/Application

- The Insurance Cycle begins each year with the insurance offer, and the actuarial documents published annually by the contract change date
- SCO, where available, will be a part of the underlying policy's actuarial documents for the plan of insurance, crop, type, and practice that may be insured in a state and county
- SCO will be a part of the underlying policy's Special Provisions and if applicable may have general and special statements which may further define, limit, or modify SCO coverage

2) Sales Closing/Cancellation/Termination Dates

- Insurance applications to add the SCO endorsement must be completed and signed no later than the sales closing date specified in the applicable crop actuarial documents
- The policyholder must have an underlying policy to purchase SCO

2) Sales Closing/Cancellation/Termination Dates

- The underlying policy and SCO coverage is continuous
 - Can be cancelled by providing a written notice no later than the cancellation date
 - Any changes a policyholder wishes to make to SCO coverage must be made by the applicable crop sales closing date
- The underlying policy and SCO insurance coverage may be terminated by the insurance provider for the following crop year for nonpayment of outstanding debt by the termination date

2) Sales Closing/Cancellation/Termination Dates

- SCO and Agricultural Risk Coverage (ARC)
 - According to the 2014 Farm Bill, producers may not purchase SCO coverage and participate in ARC for the same county/crop/farm
- There are two forms of ARC
 - Individual ARC, applies to **all crops** (“covered commodities”) on a given farm
 - County ARC, which covers specific crops on farms selected by the producer in the county
 - This election is made separately by crop for each farm
 - ‘Farm’ means all tracts and fields correlated to one Farm Serial Number
- Producers that select individual ARC for a farm may not purchase SCO coverage on any crop for that farm
 - However, other farms may elect SCO if individual ARC has not been elected for farm or county ARC for that crop/farm

2) Sales Closing/Cancellation/Termination Dates

- SCO and ARC (continued)
 - Producers that elect county ARC for a given crop on a farm cannot purchase SCO coverage for that same crop on that farm
 - Eligibility for SCO is based on 'election', not annual 'enrollment' after election is made
 - Example: if a producer elects county ARC for the corn base acres on a given farm in a county, then none of the corn **on that farm** may be covered by SCO
 - However, a different crop planted on that same farm (like soybeans) may be covered by SCO, if ARC has not also been elected for that crop on that farm
 - Corn on a different farm in the same county may be covered by SCO – as long as ARC has not been elected for corn base acres on that farm

2) Sales Closing/Cancellation/Termination Dates

- SCO and ARC (continued)
 - Winter wheat: one-time opportunity to opt-out of their SCO coverage by farm, without penalty, by their acreage reporting date – generally November 15th, 2014
 - This provision recognizes that ARC program rules may not be available when farmers decide on SCO for fall planting
 - Decision must be made by December 15th, 2014 for counties with later acreage reporting dates
 - After 2015 winter wheat for other SCO crops: **producers who purchase SCO coverage for a crop will be ineligible for SCO on a farm where ARC has been elected for that crop.**
 - Their underlying crop insurance policy will still remain in effect
 - SCO on other crop/farms in the county is not affected – unless they are also covered ARC

2) Sales Closing/Cancellation/Termination Dates

- SCO coverage decision: Some factors to consider
 - Area coverage aspect – how closely does grower's yield move with county average yield ('basis risk')?
 - If they do not move together, greater chance of not getting paid when there is a loss, vice-versa
 - How much risk can the grower tolerate?
 - If the grower cannot tolerate significant losses, then a higher coverage level for the underlying policy (less SCO coverage) should be considered

3) Acceptance

- Upon receipt of the insurance application to add SCO, the insurance provider issues a confirmation of insurance applicable to the underlying policy and SCO
- The appropriate policy documents including the SCO endorsement will be issued to the applicant

4) Insurance Attaches

- Similar to the underlying policy SCO insurance attaches annually when planting begins on the insurance unit
- SCO covers planted acreage of the crop covered by the underlying Policy
 - Acreage prevented from planting is excluded from SCO
- Prevented planting and replanting provisions do not apply to SCO and will not impact the SCO coverage

4) Insurance Attaches

- SCO is only available when authorized by the actuarial documents and cannot be made available by written agreement
 - A written agreement to add the SCO Endorsement to an underlying policy is not authorized.

4) Insurance Attaches

- Impact of high risk land
 - High-risk acreage insured in an underlying policy is insured under SCO
 - Any high-risk acreage excluded from an underlying policy under the High Risk Land Exclusion Option is not insured under SCO, unless it is insured under a CAT policy
 - If SCO is selected for non-high risk land, it **may** also be selected for the high risk CAT policy
 - Grower must directly purchase SCO on the CAT policy – it doesn't happen automatically
 - Any high-risk acreage insured under a separate policy by the High Risk Alternate Coverage Endorsement (HR-ACE) must purchase the SCO Endorsement on the HR-ACE policy, when the insured purchased SCO on their underlying policy

5) Acreage Reports

- All planted acreage of the crop in the county insured by the underlying policy must be reported and insured by SCO
 - **EXCEPTION:** For cotton only, SCO will not apply to acreage designated for coverage by the Stacked Income Protection Plan (STAX) or covered by ARC.
- Acreage report will establish the amount of coverage and premium for the underlying policy and SCO
 - An insured is not required to submit an additional acreage report for the SCO policy
- Producers who purchase SCO and have ARC elected for the same crop must report farm/tract/field on their acreage report
 - **Misreported acres will lose their SCO coverage for that crop/farm and forfeit 20 percent of their premium to cover administrative expenses**

6) Summary of Coverage

- After the acreage report is processed, the policyholder is issued a summary of coverage that specifies:
 - Insured crop, acres, and amount of insurance or guarantee for each insurance unit
 - Amounts are shown separately for the underlying policy and the SCO endorsement
- SCO liability is established by coverage level, type, and practice for all the planted acreage of the crop in the county insured by the underlying policy

7) Premium Billing

- The annual premium is earned and payable at the time insurance coverage begins and is due by the premium billing date specified in the crop actuarial documents
 - The premium billing will specify the amount of premium and any administrative fees that may be due
- Separate administrative fees and premium by crop/county will be due for the SCO Endorsement and all information needed to calculate a premium rate will be contained in the actuarial documents
 - Waivers of the SCO administrative fee are applicable for insureds who qualify as a limited resource farmer or a beginning farmer/rancher

8) Notice of Damage or Loss of Production

For the Underlying Policy

- A written notice of damage or loss of production filed by the policyholder within 72 hours of the policyholder's initial discovery of damage or loss of production
- But not later than 15 days after the end of the insurance period unless otherwise stated in the individual crop policy.

For SCO

- Notice of loss provisions contained in the BP are not applicable to SCO
- Individual farm yields or revenues are not considered under SCO for determination of any indemnity

9) Inspection

For the Underlying Policy

- After the insurance provider receives the written notice of damage or loss, it will be processed and, if necessary, a loss adjuster will be sent to inspect the damaged crop and gather pertinent information concerning the damage

For SCO

- The inspection has no impact on the SCO coverage
 - **EXCEPTION:** If the inspection reveals that any acreage insured by the underlying policy was damaged solely by causes of loss not covered by the underlying policy then the same acreage will not be due an indemnity for SCO.

10) Indemnity Claim

For the Underlying Policy

- After the claim for indemnity is processed for the underlying policy, an indemnity check and a summary of indemnity payment will be issued showing any deductions to the amount of indemnity for outstanding premium, interest, or administrative fees

For SCO

- Any indemnities for SCO will be determined later than the indemnity process for the underlying policy, as the SCO indemnities are calculated following the release by FCIC of the final area yields and revenues
 - For most crops this will be in the spring of the subsequent year

10) Indemnity Claim

- The actuarial documents will specify the data source for the Final Area Yields/Payment Factors and the release dates
 - Payment factors will be calculated and published by RMA
 - Occurs later, after area yield data becomes available, similar to ARPI
- If an indemnity is due for SCO then the loss will be paid within 30 days after FCIC releases the Final Area Yields and Revenues
- Indemnities will not be paid on acreage that has been determined to have been solely damaged by causes of loss not insured by the underlying policy

10) Indemnity Claim

- Indemnities for SCO are not included in the calculation and notification process for AIP's on large claims (\$500,000 or greater).
- The 2015 Large Claim Handbook states:
 - For the purposes of a LC Review, the Eligible Crop Insurance Contract (ECIC) include:
 - “Any single claim on an individual policy that exceeds the large claim threshold for an ECIC due to prevented planting and/or production losses (losses under an area based endorsement are not included when determining the amount of the claim);”

11) Program Changes

- RMA changes to the underlying insurance policy and SCO are made not later than the contract change date contained in the applicable Crop Provisions
- The policyholder will have the opportunity to review the changes and, if desired:
 - Continue the insurance coverage for the following crop year
 - Change the policy coverage
 - Cancel the insurance coverage for either the underlying policy or the SCO coverage by the crop sales closing date
- If the policyholder wishes to cancel the SCO endorsement, then a written notice must be submitted to the insurance provider on or before the crop cancellation date

11) Program Changes

- If the insured's underlying policy for the crop is cancelled or terminated, coverage under the SCO Endorsement is automatically cancelled
- Other changes to the underlying policy do not cancel the SCO Endorsement
 - The SCO Endorsement will provide coverage based on the changes to the coverage level or plan of insurance of the underlying policy
 - Example: If the insured changes coverage level on the underlying policy from 80 percent to 70 percent. The SCO Endorsement coverage range will change from 6 percent to 16 percent.

Additional Clarifications

- Short-rated acres for SCO are handled the same as the underlying policy. Reduced premium for the underlying policy and SCO will be due and the underlying policy and SCO coverage will cease for those acres short-rated.
- 1st crop 2nd crop premium and indemnity reductions for SCO should be made in the same manner as the underlying policy.
- Late planting acres are insured under SCO and any reductions to the underlying policy's coverage must be made to SCO.

EXAMPLES

Example Scenario

Underlying Policy

- Insurance Plan - RP
- Coverage Level - 70%
- Acres - 100
- APH - 40
- Share - 100%
- Projected Price - \$7.02
- **Underlying Liability = \$19,656**

Supplemental Protection

- Area Loss Trigger - 86%
- Supplemental Coverage Range = 16%
- **Expected Crop Value = \$28,080**
- **Supplemental Protection = \$4,493**

Total Liability = \$24,149

Premium

- SCO Premium Rate - 0.4171
- Producer Premium Rate \approx 0.1460
- SCO Premium = \$1,874
- Subsidy Amount = \$1,218
- **Producer Premium = \$656**

Indemnity

- Harvest Price - \$7.02
- Expected Area Yield - 38
- Final Area Yield - 29
- Final Area Revenue - \$203.58
- Area Performance \approx 76.32%
- Payment Factor = 0.605
- **Indemnity = \$2,718**

SCO Terminology

From the policy

Area Loss Trigger (always 86%)

- SCO indemnities are only due if the county (yield/revenue) is below 86%

Liability of the Underlying Policy

- The dollar value of the production or revenue guarantee provided by the underlying policy **for the unit**

Supplemental Coverage Range

- Different from Coverage Level, but serves a similar purpose

For example purposes

Producer Premium Rate

- Estimated cost per dollar of SCO coverage paid by the producer

Area Performance

- Estimate of actual outcome relative to expected outcome

Total Liability

- SCO liability added to the liability of the underlying policy.
- 86% of the Expected Crop Value

SCO Calculations – Supplemental Protection

- Expected Crop Value is the liability of the underlying unit divided by Coverage Level of the underlying policy
- Coverage Range of SCO is the Area Loss Trigger minus the Coverage Level of the underlying policy
- The Supplemental Protection for a unit is the Expected Crop Value multiplied by the Coverage Range

Underlying Liability = \$19,656

- $(40 \times 70\% \times \$7.02 \times 100 \times 100\%)$

Expected Crop Value = \$28,080

- $(\$19,656 \div 70\%)$

Coverage Range = 16%

- $(86\% - 70\%)$

Supplemental Protection = **\$4,493**

- $(\$28,080 \times 16\%)$

SCO Calculations – Premium

- SCO Premium Rate is separate from the underlying policy (and usually much higher)
- Subsidy Factor for SCO is 65%
- SCO Premium is Premium Rate multiplied by the Supplemental Protection
- Producer owes about 35% of the Total Premium

SCO Premium Rate - 0.4171

Subsidy Factor - 65%

SCO Premium = \$1,874

- $(\$4,493 \times 0.4171)$

Subsidy Amount = \$1,218

- $(\$1,874 \times 65\%)$

Producer Premium = **\$656**

- $(\$1,874 - \$1,218)$

SCO Calculations – Indemnity (YP)

- SCO indemnities are driven by the area performance
 - Producer's individual experience is not considered
- Payment Factor is based on area performance and Coverage Range
 - Measures how far into the Coverage Range the area performance fell
 - Limited to 1.000
- Indemnity is Supplemental Protection times the Payment Factor

Expected Area Yield - 38

Final Area Yield - 29

Area performance $\approx 76.32\%$

- $(29 \div 38)$

Payment Factor = 0.605

- $((86\% - (29 \div 38)) \div 16\%)$
- $(86\% - 76.32\%) \div 16\%$

Indemnity = **\$2,718**

- $(\$4,493 \times 0.605)$

SCO Calculations – Indemnity (RP)

\$7.52 Harvest Price (▲ \$0.50)

Adjusted Underlying Liability ▲ \$21,056

- $(40 \times 70\% \times \$7.52 \times 100 \times 100\%)$

Expected Crop Value ▲ \$30,080

Supplemental Protection ▲ \$4,813

Final Area Revenue ▲ \$219.08

Payment Factor ► 0.605

- $((86\% - (\$219.08 \div (38 \times \$7.52))) \div 16\%)$

Indemnity ▲ \$2,912

\$6.52 Harvest Price (▼ \$0.50)

Underlying Liability ► \$19,656

- $(40 \times 70\% \times \$7.02 \times 100 \times 100\%)$

Expected Crop Value ► \$28,080

Supplemental Protection ► \$4,493

Final Area Revenue ▼ \$189.08

Payment Factor ▲ 0.945

- $((86\% - (\$189.08 \div (38 \times \$7.02))) \div 16\%)$

Indemnity ▲ \$4,246

What if... Changes to APH

- The producer's APH is used to calculate the liability of the underlying policy unit
- Changes to the liability of the underlying policy unit are reflected in the Expected Crop Value, which is used to calculate the Supplemental Protection
- This applies to any change to the producer's production guarantee (e.g. Trend APH, Late Planting, Written Agreements, etc.)

APH ▼ 35

Underlying Liability ▼ \$17,199

- (35 x 70% x \$7.02 x 100 x 100%)

Expected Crop Value ▼ \$24,570

Supplemental Protection ▼ \$3,931

Producer Premium ▼ \$574

Indemnity ▼ \$2,378

- (Payment Factor ► 0.605)

What if... Changes to Share Arrangement

- Like APH, the producer's share is used to calculate the liability of the underlying policy unit
- A reduced share will affect Expected Crop Value in the same manner as a reduced APH
- The reduced Expected Crop Value is reflected in the Supplemental Protection, Producer Premium, and Indemnity

Share ▼ 50%

Underlying Liability ▼ \$9,828

- $(40 \times 70\% \times \$7.02 \times 100 \times 50\%)$

Expected Crop Value ▼ \$14,040

Supplemental Protection ▼ \$2,246

Producer Premium ▼ \$328

Indemnity ▼ \$1,359

- (Payment Factor ► 0.605)

What if... Changes to Price

- Like, APH and share, the price of the crop is used to calculate the liability of the underlying policy unit
- This applies to anything that affects the price of a crop (e.g. contract prices, percent of price election for YP, etc.)
- Note that changes to APH, share, and price do not affect the Payment Factor

Contract Price Premium = \$0.25

Underlying Liability ▲ \$20,356

- $(40 \times 70\% \times (\$7.02 + \$0.25) \times 100 \times 100\%)$

Expected Crop Value ▲ \$29,080

Supplemental Protection ▲ \$4,653

Producer Premium ▲ \$679

Indemnity ▲ \$2,815

- (Payment Factor ► 0.605)

What if... Changes to Coverage Level

- Underlying Liability changes with Coverage Level
...but
- Expected Crop Value does not
- Coverage Range of SCO adjusts automatically
- Supplemental Protection is based on the higher Coverage Range
- Total Liability is still 86% of Expected Crop Value

Coverage Level ▼ 60%

Underlying Liability ▼ \$16,848

- $(40 \times 60\% \times \$7.02 \times 100 \times 100\%)$

Expected Crop Value ► \$28,080

- $(\$16,848 \div 60\%)$

Coverage Range ▲ 26%

Supplemental Protection ▲ \$7,301

Total Liability ► \$24,149

What if... Changes to Coverage Level (Continued)

- Premium Rate is lower, reflecting a lower likelihood of full SCO payment
- Premium calculated on the higher Supplemental Protection
 - Note that a lower Coverage Level will result in an increase in SCO premium
- A change to Coverage Level affects the Payment Factor
- Indemnity unchanged (rounding)

Coverage Level ▼ 60%

SCO Premium Rate ▼ 0.3638

Producer Premium Rate ▼ ≈ 0.1273

Producer SCO Premium ▲ \$929
 • ($\$7,301 \times 0.1273$)

Payment Factor ▼ 0.372
 • $((86\% - (\$203.58 \div (38 \times \$7.02))) \div 26\%)$

Indemnity ► \$2,716

What if... CAT Coverage

- If authorized by the actuarial documents, producers may purchase SCO with CAT
- CAT is a change to both Coverage Level and percent of price
- Expected Crop Value is based on the liability of the underlying policy, including the percent of price

CAT Coverage

Underlying Liability ▼ \$7,722

- $(40 \times 50\% \times (\$7.02 \times 55\%) \times 100 \times 100\%)$

Expected Crop Value ▼ \$15,444

Coverage Range ▲ 36%

Supplemental Protection ▲ \$5,560

What if... CAT Coverage (Continued)

- SCO premium and admin fee are charged separately from CAT fee
- As with lower coverage levels, SCO with CAT has a lower premium rate
- Unlike just lowering the Coverage Level, indemnity is reduced due to the lower price percentage of CAT

CAT Coverage

SCO Premium Rate ▼ 0.2380

Producer Premium Rate ▼ ≈ 0.0833

Producer Premium ▼ \$463

Payment Factor ▼ 0.269

Indemnity ▼ \$1,496

What if... Short Rate Wheat

- If acreage qualifies for a reduced premium on the underlying policy, the SCO premium will be reduced by the same proportion
- SCO coverage ends concurrently with that of the underlying policy

Short Rate

Short Rate Adjustment - 0.3500

SCO Premium ▼ \$656

• ($\$1,874 \times 0.3500$)

Subsidy Amount ▼ \$426

Producer Premium ▼ \$230

What if... 1st Crop / 2nd Crop Reduction

- If the premium and indemnity of the underlying policy are limited to 35 percent because the producer planted and insured a second crop, the SCO premium and indemnity will be subject to the same limit
- Remaining SCO premium and indemnity can be collected and paid as normal

1st Crop Limit = 35%

2nd crop planted...

Producer Premium Owed ▼ \$230

Indemnity Payable ▼ \$951

No loss on 2nd crop...

Remaining Premium = \$426

• (\$656 - \$230)

Remaining Indemnity = \$1,767

• (\$2,718 - \$951)

What if... Beginning Farmer

- If a producer qualifies as a beginning farmer, all authorized benefits apply to SCO
- SCO admin fee is waived and producer premium is reduced
- Supplemental Protection may increase if the APH of the underlying policy is affected

Beginning Farmer Premium

SCO Premium ► \$1,874

Subsidy rate ▲ 75%

Subsidy ▲ \$1,406

Producer Premium ▼ \$468

ADDITIONAL INFORMATION

Additional Information

- See RMA's website www.rma.usda.gov
 - Policy and handbook
 - Web Decision Tool
 - Quick way to understand how SCO coverage, cost, and payments work
 - Cost estimator
 - Availability maps
 - Fact sheets