SUPPLEMENTAL COVERAGE OPTION (SCO)

CROP RISK SERVICES
An AIG company

ADDITIONAL COVERAGE VIA THE FEDERAL CROP PROGRAM – 2020 RY

Overview

SCO is a crop insurance endorsement that provides area-based coverage for a portion of the insured's insurance deductible. The amount of SCO coverage depends on the liability, coverage level, and approved yield for the 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 the insured has 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.

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. SCO Endorsement pays out its full amount when county revenue falls to the coverage level percent of its expected level

SCO payments are determined only by county average revenue or yield. It is possible for the insured to suffer an individual loss but to not receive an SCO payment, or vice-versa.

Availability & Election Basics

When authorized by the county actuarial documents, SCO can may be available for the following crops: Corn, Soybeans, Wheat, Sorghum, Cotton and Rice. No later than the applicable SCD for the county/crop policies, the insured must add the "SCO" endorsement to an underlying Yield Protection (YP), Revenue Protection (RP), or Revenue Protection with the Harvest Price Exclusion (RP-HPE) policy. Insureds also have the ability to elect a Coverage Percentage (50% - 100% in one percent increments) to help better customize the endorsement to their individual needs.

Insureds who have elected Agriculture Risk Coverage (ARC) at the Farm Service Agency (FSA) on a given crop/FSN are ineligible from using SCO on those same acres. Crops/FSNs covered under the Price Loss Coverage (PLC) program at FSA can work in conjunction with SCO.

Acreage Reporting

If SCO and ARC are elected for the same crop/FSN, SCO coverage for that crop and farm will be cancelled. Insureds must report the ARC election for the applicable crop/FSN on the annual acreage report or they will be forced to forfeit 60 percent of the SCO premium on that crop/FSN to cover administrative expenses. The underlying policy will not be effected in any way.

Items of Note

- Additional premium and administrative fees apply to the SCO endorsement. The SCO coverage is federally subsidized at 65 percent.
- Final SCO yields are based on RMA production data. These yields are announced the following spring (no later than June 16th).
- Short-rated acres for SCO are handled the same as the underlying policy. Reduced premium for the underlying policy and SCO & coverage will cease for those acres short-rated.
- 1st crop/2nd crop premium and indemnity reductions for SCO will be made in the same manner as the underlying policy.
- Late planted acres are insured under SCO and any reductions to the underlying policy's coverage must be made to SCO.

SCO Coverage Example

The insured's corn crop has an expected value of $680 per acre (170 bushels at $4.00 per bushel). Assume the insured purchased an RP policy at 75% coverage (this is the 'underlying policy'). The underlying policy covers 75 percent of the expected crop value and leaves the top 25 percent of the crop uncovered as a deductible.

Step	SCO Coverage Calculation	
1	Area Loss Trigger (the percent is the same for all SCO policies – set by law)	86%
2	Underlying Policy Coverage Level	75%
3	Supplemental Coverage Range (86% – 75%)	11%
4	Amount of SCO Protection at 100% of coverage percentage (Supplemental Coverage Range* Expected Crop Value or 11% * $680)	$74.80

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 $74.80. The SCO policy can cover up to $74.80 of the $170 deductible amount not covered by your underlying policy.

For additional details, please visit: https://www.rma.usda.gov/en/News-Room/Spotlights/Supplemental-Coverage-Option

For more info please contact:

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SUPPLEMENTAL PROTECTION/PAYMENT SCENARIO

Producer A farms 100 acres of corn in county X with an approved yield of 154.6 bushels per acre. The actuarial documents in county X show that the expected area yield is 145.0 bushels per acre, the projected price is $4.00, and the expected area revenue is $580.00. From the actuarial documents in county X, Producer A elects the 75 percent coverage level for the underlying policy, which results in a liability for the underlying policy of $46,380 based on the projected price.

At the end of the insurance period, for county X, FCIC releases a harvest price of $4.30, a final area yield for county X of 110.2 bushels, and a final area revenue for county X of $473.86. For the revenue protection example only, the liability for the underlying policy increases to $49,859.

Example for Revenue Protection (RP) underlying policies:

Supplemental Protection calculation:

Step 1: Calculate the supplemental coverage range

Formula: Area loss trigger - coverage level of the underlying policy = supplemental coverage range

0.86 - 0.75 = 0.11 supplemental coverage range

Step 2: Calculate the Expected Crop Value

Formula: Liability of the underlying policy ÷ coverage level of the underlying policy = expected crop value

$49,859 ÷ 0.75 = $66,478.67 expected crop value

Step 3: Calculate the Supplemental Protection

*Formula: Supplemental coverage range * expected crop value = supplemental protection*

0.11 * $66,478.67 = $7,313 supplemental protection

Indemnity calculation:

Step 1: Calculate the Payment Factor

*Formula: (Area loss trigger - (final area revenue ÷ (expected area yield * higher of the projected price or harvest price))) ÷ supplemental coverage range = payment factor*

(0.86 - ($473.86 ÷ (145.0 * $4.30))) ÷ 0.11 = 0.909 payment factor

Step 2: Calculate the Indemnity

*Formula: Supplemental protection * payment factor = indemnity*

$7,313 * 0.909 = $6,648 indemnity