November 15, 2019

FARM BILL OPTIONS AND SCO

I will be teaching and involved at two farm bill meetings. We will be at Saline Center on Friday, November 22, 2019 from 9:00 a.m. to 11:00 a.m. and at the Fairbury 4-H Building on Wednesday, December 4, 2019 from 1:00 p.m. to 3:00 p.m. Registrations are encouraged at: http://go.unl.edu/farmbill or by calling our office at 402-821-2151.

One point of interest is when you sit down with your crop insurance agent this go around, you should at least look at the rates of an option called Supplemental Coverage Option (SCO). That would be something new when many farmers this year are expected to sign up for Price Loss Coverage (PLC) at the Farm Service Agency. I will be spelling out the reasoning why it is likely more farmers will be choosing PLC for the two-year decision at the farm bill meetings.

SCO is a crop insurance election that was created after the passage of the 2014 Farm Bill. Before 2019, most farmers in the Midwest could not use SCO because SCO is only available if PLC is selected as the method for receiving commodity title payments. Many farms did not choose PLC on their corn and soybean base acres, they choose Agriculture Risk Coverage (ARC) the last go around.

SCO provides county-level coverage from 86% to the coverage level of the "combo" product, which is most often a Revenue Protection (RP) plan. Two different motivations can exist for taking SCO: 1) For individuals taking RP at an 85% coverage level, SCO can be used to lower premium costs. This occurs when the RP coverage level is lowered and SCO is purchased to provide protection from 86% to the RP coverage level. 2) For individuals taking RP at a lower coverage level (say 75%), SCO can be used to provide protection from 86% to the coverage level of the RP policy. This addition can be valuable protection.

I know what you are thinking, all these acronyms and I am making your head spin! Examples can be helpful. Here is an example of how SCO could be attached to an existing policy.
Let's say you have been taking 75% revenue protection (to reduce premium costs) with crop insurance instead of the 85% level coverage. So you have farm level revenue protection coverage at the 75% level. SCO coverage could be attached that provides county level protection from 86% to 75% and is highly subsidized. The primary advantage of using SCO is lower farmer-paid premium due to the 65% federal subsidy and yields at the county level are usually less variable that farm level yields, so premiums are lower. The primary disadvantage of the RP-SCO combination is that the county-level coverage may not match losses on a farm. Sometimes a farm may have a loss while SCO will not trigger a payment. Conversely, it is possible for the farm not have a loss while the county-based SCO product triggers a payment.

The bottom line is farmers already purchasing federal crop insurance at 85% coverage levels likely will not find SCO an attractive alternative. The SCO band from 86% to 85% coverage will provide little additional coverage for the price. Any further reduction of RP coverage level with an SCO coverage band results in a crop insurance payment structure that is less correlated with losses on your farm insurance unit.

Farmers who are purchasing lower coverage levels because of cost factors and want to stay at lower coverage levels for 2020 might find SCO useful. Attaching the SCO coverage and the price of that option should be investigated if that is attractive to you or not. It's worth asking your insurance agent about if you are signing up for the PLC option with the new farm bill election decision. For more information go to: https://farmdocdaily.illinois.edu/2019/03/supplemental-coverage-option-sco-for-2019.html

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