



UPDATE ON U.S. SENATE AG COMMITTEE VERSION OF NEW FARM BILL

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Overview: This update reflects additional information regarding the farm safety net in the 2012 Farm Bill voted out by the U.S. Senate Committee on Agriculture, Nutrition, and Forestry (*Agriculture Reform, Food, and Jobs Act of 2012*). This update mostly reflects additional information about the Supplemental Coverage Option (SCO) for crop insurance. In a few cases, corrections are made to my misinterpretations of the Bill's provisions or to clarify provisions so as to reduce the potential for misinterpretation by readers.

Supplemental Coverage Option (SCO)

As noted in the earlier post, SCO allows individual crop insurance to be supplemented with county (area) crop insurance to cover all or part of the individual insurance deductible.

New information about SCO includes the following.

- (1) The type of loss covered by SCO will be determined by individual insurance. SCO will cover yield loss at the county level if the farm elects individual yield insurance. SCO will cover revenue loss at the county level with or without the harvest price option (HPO) if the farm elects individual revenue insurance with or without HPO. This interpretation of the provision makes sense because it reduces the potential for farms to receive more insurance payments than their losses.
- (2) SCO will not have the 150% multiplier in the current county insurance products. SCO will have a 100% multiplier. This change also reduces the potential for farms to receive more insurance payments than their losses.

Consistent with the earlier farmdoc post, SCO coverage varies with participation in the new Agriculture Risk Coverage Program (ARC). If the producer is not in ARC and if a loss of at least 10% occurs, SCO will cover losses between 0% and the farm's individual insurance deductible. If the producer is in ARC, SCO will cover losses between 21% and the farm's individual insurance deductible.

Thoughts on the SCO and ARC Options in a Risk Management Farm Safety Net

My assessment remains that SCO is a potentially attractive option for many producers, including those in the Midwest. The disappearing deductible if the producer is not in ARC is an attractive feature, even with the payment of a premium. For larger farms, the lack of a limit on crop insurance payments and the lack of a limit on crop insurance subsidies also is an attractive feature.

ARC complements crop insurance and SCO by offering protection against multiple-year declines in revenue since it uses a five year moving average to set its benchmark targets. For producers who choose ARC, I think SCO will be an option to include in their annual list of crop insurance decisions. The ability to combine a lower level of individual insurance with a county insurance product to cover part of the deductible potentially appears to be an attractive feature in areas with lower yield variability, such as the Midwest. Additional analysis is needed on this and other features, but the potential is intriguing.

In conclusion, the availability of SCO and ARC will allow producers to customize their decision on risk management to their individual situation. In contrast to income transfer programs which can be relatively standardized across regions and crops, risk management programs for production year risk need to incorporate into their design the fact that yield variability varies across crop, region, and

production system, as well as by farm. While the increase in choices will involve learning new programs and options and the decision will vary by farm, crop, and locale; the addition of SCO and ARC is an important, evolutionary step in making the farm safety net a risk management safety net instead of an income transfer program. Farmdoc will continue to provide additional analysis of these new farm safety net features as well as changes that emerge in the new farm safety net as the farm bill works its way through Congress.