STAX vs. SCO for Cotton Producers

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OCTOBER 9, 2013

Background

New Crop Insurance Programs in the Farm Bill

- Both the House and Senate farm bills include two new supplemental crop insurance programs:
  - Supplemental Coverage Option (SCO)
  - Stacked Income Protection Plan (STAX) for upland cotton
  - Similar to a Group Risk Income Protection (GRIP) policy

New Crop Insurance Programs in the Farm Bill

- Area triggered revenue or yield insurance product to cover the deductible portion of their individual insurance policy
    - Covers county-wide losses
    - New concept to stack insurance products
- If the producer has an individual policy, supplemental policy would sit on top

Cotton

- Title I shallow loss revenue protection and price protection programs would not be available to cotton producers
- Cotton producers would have the option to purchase the supplemental insurance product

Cotton

- Adjustment for producers
  - Not required to pay a premium to participate in the Direct and Counter-Cyclical Payment (DCP) program
- Producers do not pay a premium to participate in ACRE either but few cotton producers have participated in ACRE

SCO

SCO

- Senate Bill
  - Not available to producers enrolled in STAX
  - If enrolled in ARC: 22%deductible
  - Not enrolled in ARC: 10% deductible

- House Bill
  - Not available for acreage enrolled in STAX or RLC
  - If enrolled in PLC: 10% deductible

SCO

- Coverage cannot exceed 90% - deductible level of the individual insurance policy
- Tied to the individual yield or revenue insurance policy
  - So a producer with an individual Yield Protection (YP) policy would only have the option to purchase an SCO yield protection policy

STAX

STAX

- Similar to SCO
  - Only available to upland cotton producers
  - Revenue coverage (not revenue or yield as in SCO)
  - Can purchase as a stand-alone policy or as supplement to individual policy
  - Includes a payment rate multiplier of 80-120% for higher/lower coverage
    - Ex: if the indemnity is $25/acre and the producer chooses a protection factor of 120%, the indemnity would be $30/acre ($25*1.2)

STAX

- If the producer has an individual policy, STAX would sit on top and cover losses ranging between 10% - 30% of expected county revenue
  - 70–90% coverage is available with STAX
- In the recently passed House and Senate bills, the STAX program has the same parameters
  - In an earlier version, House included a minimum STAX reference price of $0.6861/lb

STAX

- Very few cotton producers purchase GRIP policies
  - In 2012, only 37 policies were sold across the U.S.
- Similar to GRIP, STAX provides coverage for county-wide revenue losses
  - Key difference between GRIP and STAX: producers can purchase a STAX policy and an individual insurance policy

STAX

- Examples
  - A producer with 80% coverage on an individual policy could get up to 10% coverage under STAX
  - A producer with 70% coverage on his individual policy could get up to 20% coverage with STAX
- The majority of U.S. cotton producers have 65-75% coverage on their individual policy
  - Quite a few Texas cotton producers have 50-60% coverage as well

STAX

- In an earlier version of the House and Senate farm bills, the premium subsidy was closer for SCO and STAX
  - 70% for SCO and 80% for STAX
- In the latest versions of the farm bill, SCO premium subsidy was reduced to 65%

STAX vs. SCO

		STAX	SCO
How are prices determined?	Projected Price	Futures price at planting	Futures price at planting
	Harvest Price	Futures price at harvest	Futures price at harvest
	Expected Price	Projected price	Projected price

		STAX	SCO
How is county revenue determined?	Expected county yield	Higher of: Expected county trend NASS yield or 5-year moving average county NASS yield	Expected county trend NASS yield
	Expected county revenue	Expected county yield * projected price	Expected county yield * projected price
	Final expected county revenue	Expected county yield * higher of: projected price or harvest price	Expected county yield * higher of: projected price or harvest price
	Actual county revenue	Actual county NASS yield * harvest price	Actual county NASS yield * harvest price

		STAX	SCO
How is farm revenue determined?	Expected farm revenue	N/A	Farm APH yield * projected price
	Final expected farm revenue	N/A	Farm APH yield * higher of: projected price or harvest price

		STAX	SCO
How is the maximum coverage level calculated?	Range of coverage	20% of expected county revenue subject to a 10% deductible	**Senate**: if in ARC, from individual buy-up coverage level to 78%, otherwise individual buy-up coverage level to 90% **House:** individual buy-up coverage level to 90%
	Maximum payment	Range of coverage * final expected county revenue * payment	Range of coverage * final expected farm revenue

		STAX	SCO
How is the payment calculated?	Percent loss	90% - (actual county revenue/final expected county revenue)	90% - (actual county revenue/final expected county revenue)
	Payment	Minimum of: Maximum payment or (percent loss * final expected county revenue * payment multiplier)	Minimum of: Maximum payment or (percent loss * final expected county revenue)

		STAX	SCO
What is the premium Subsidy?	Government subsidy	80% (producer pays 20%)	65% (producer pays 35%)
What is the maximum deductible?	Deductible		Senate: 22% if in ARC, 10% if not in ARC House: 10%
What is the payment multiplier?	Multiplier	Up to 120%	N/A

STAX/SCO vs. DCP

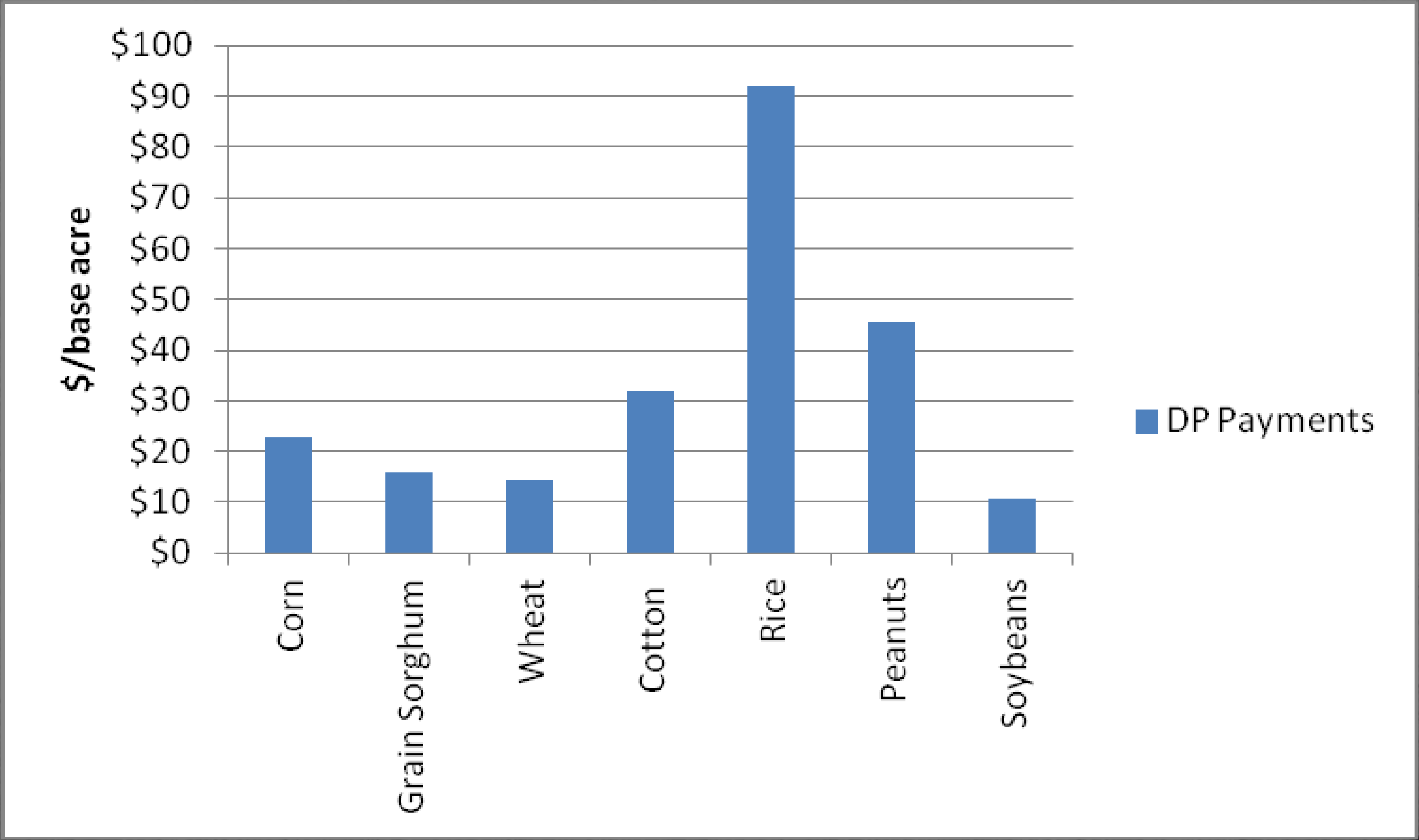
STAX/SCO vs. DCP

- Under the previous two farm bills, cotton producers enrolled in the DCP program and were eligible for DP's and CCP's
- Although ACRE was an option, few producers/landowners with cotton base acreage enrolled in ACRE
  - Lose counter-cyclical payment, 20% of direct payments, and 30% of marketing loan rates
- This was an important consideration for cotton producers as opposed to producers of some of the other crops

STAX/SCO vs. DCP

- With STAX or SCO, cotton producers will no longer receive a guaranteed payment each year and will have to pay a premium
- However, unlike Title I commodity programs, crop insurance programs are not subject to payment limits
  - Senate bill does include a new income limitation that would affect the crop insurance subsidy amount

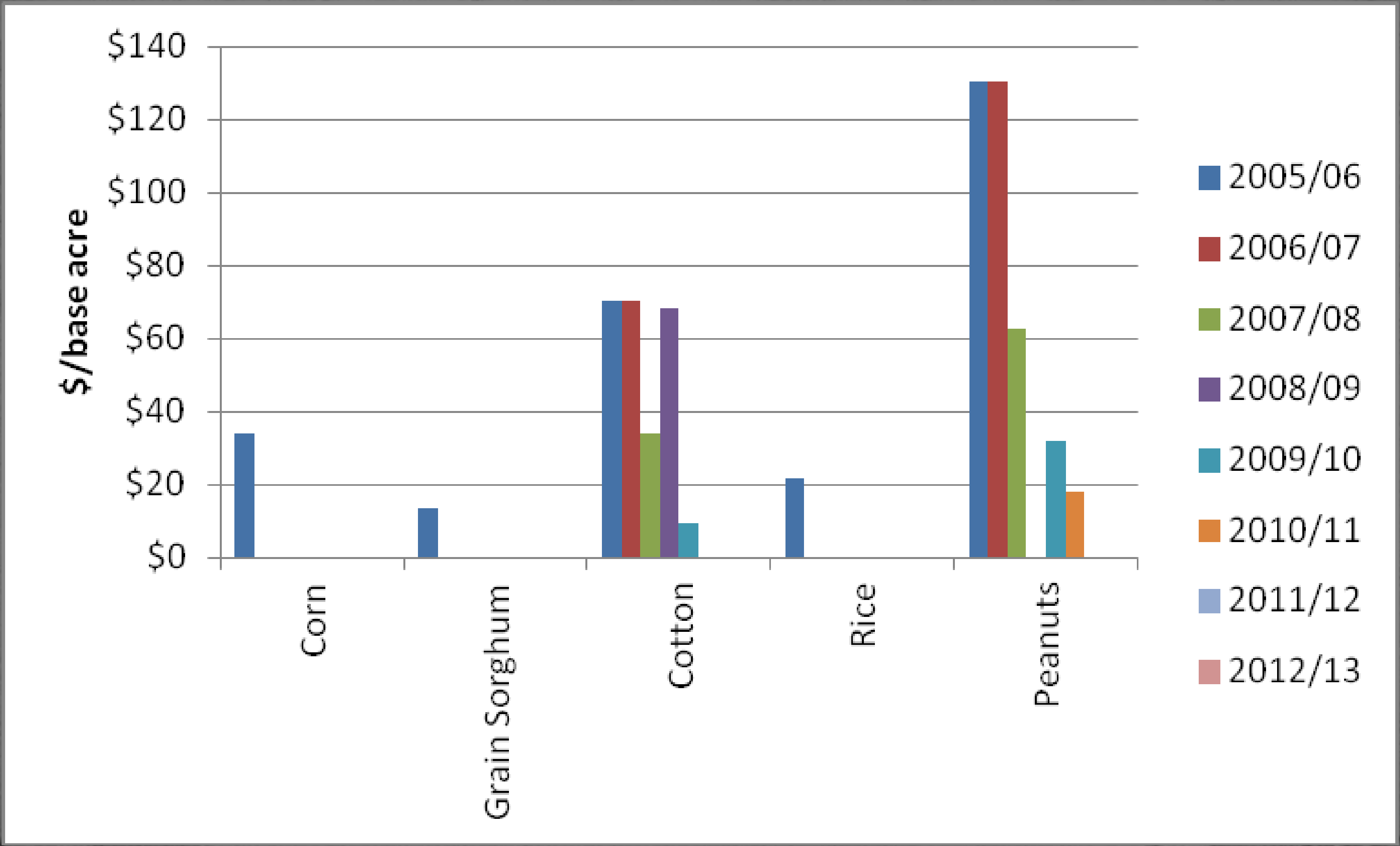
Direct Payments



CCP

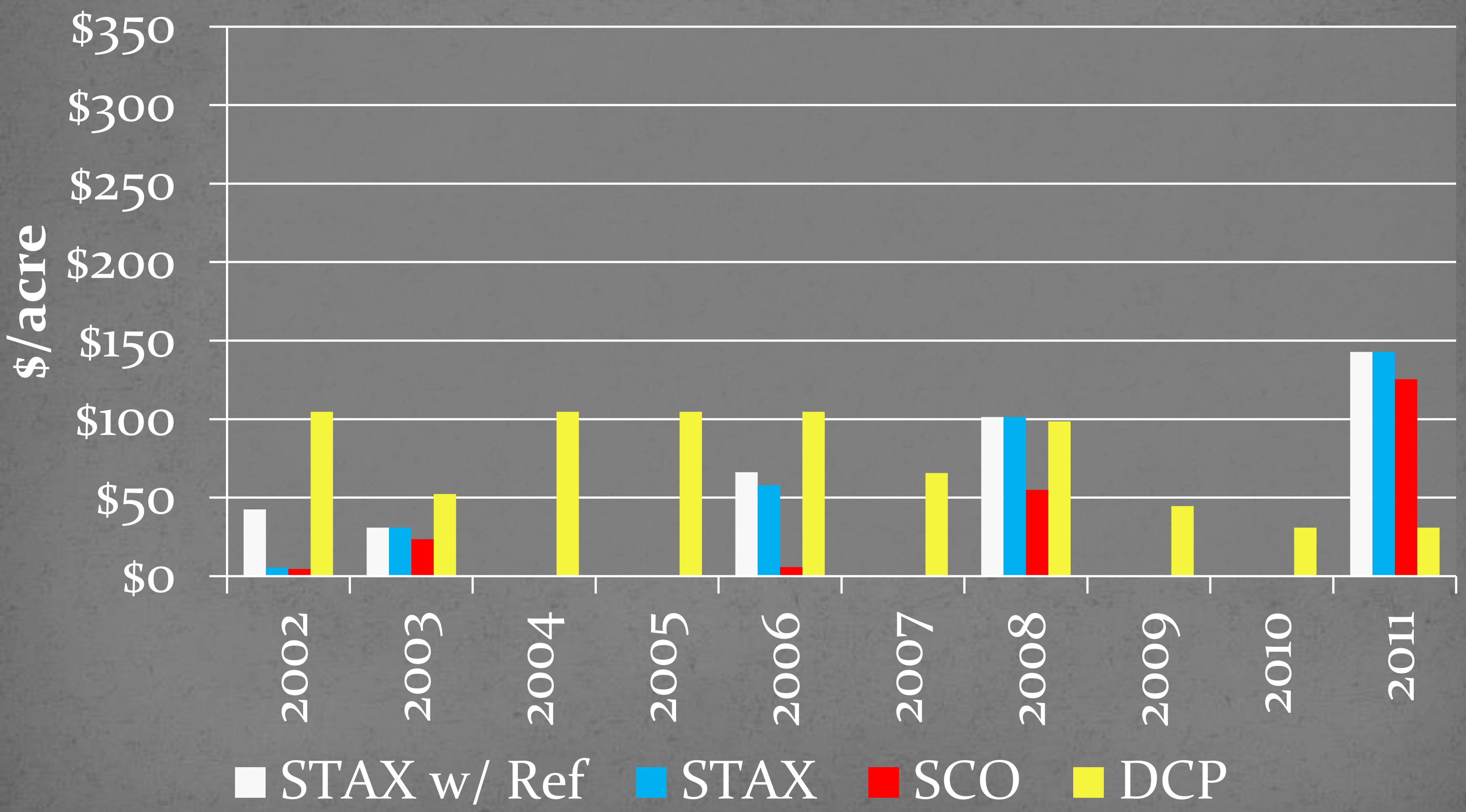
- Cotton producers received a CCP payment every year (since 2002) until the 2010/11 crop year
- For most other program commodities, CCP payments have only been made one or two times between 2002 and 2012
- Wheat and soybean producers have never received a CCP payment

CCP Payments

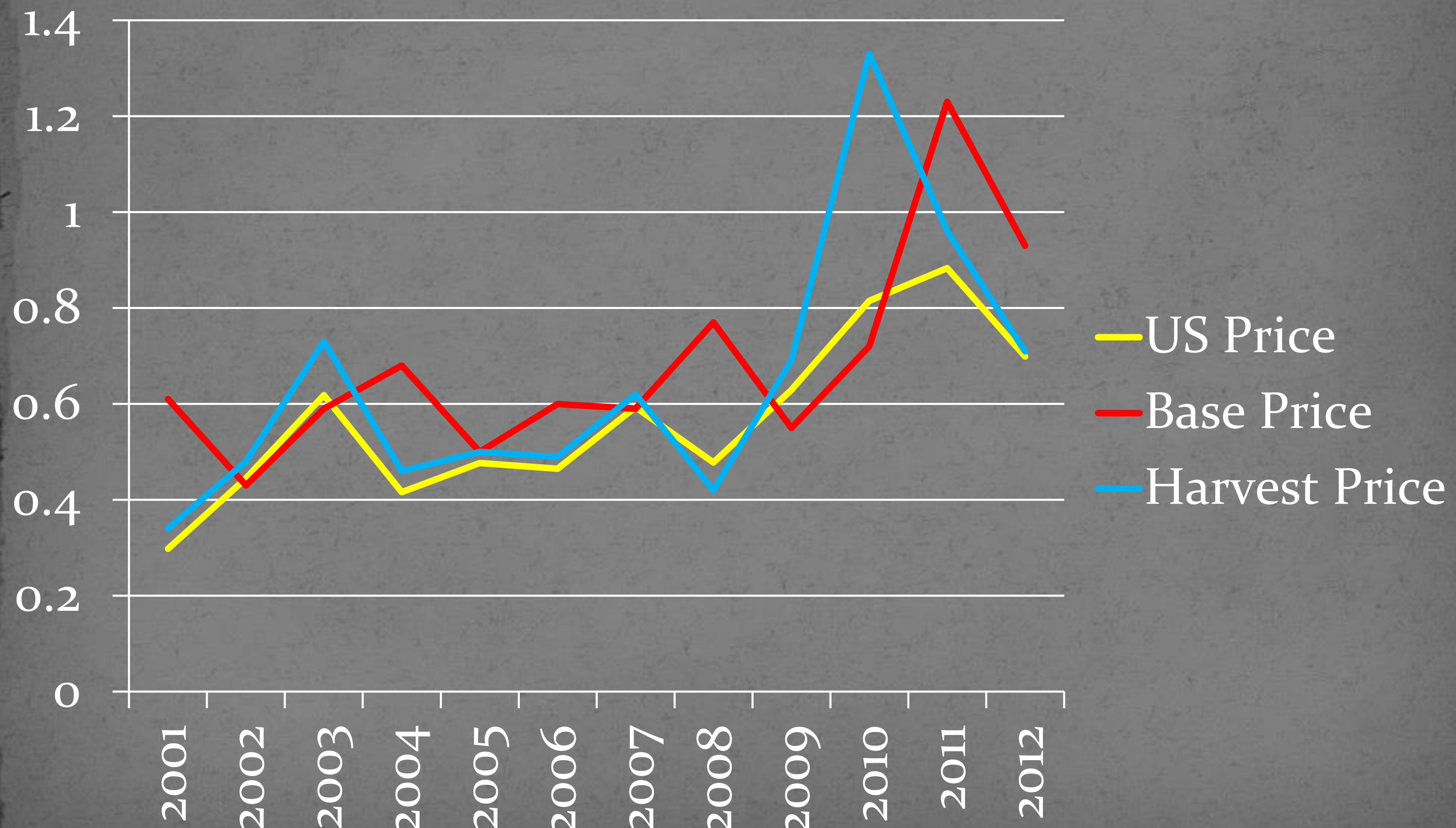


County Examples

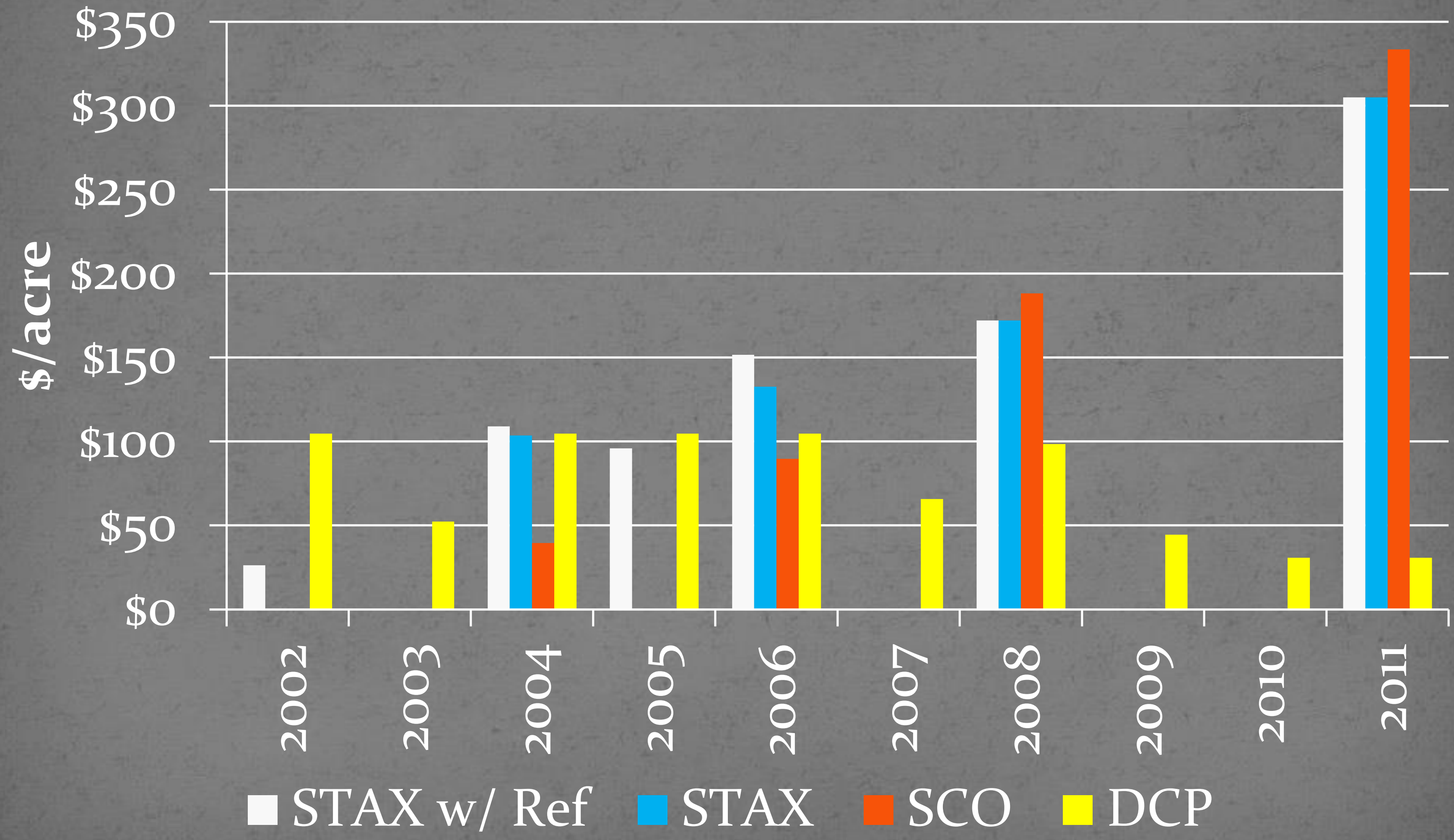
Jackson Co., OK Non-Irrigated



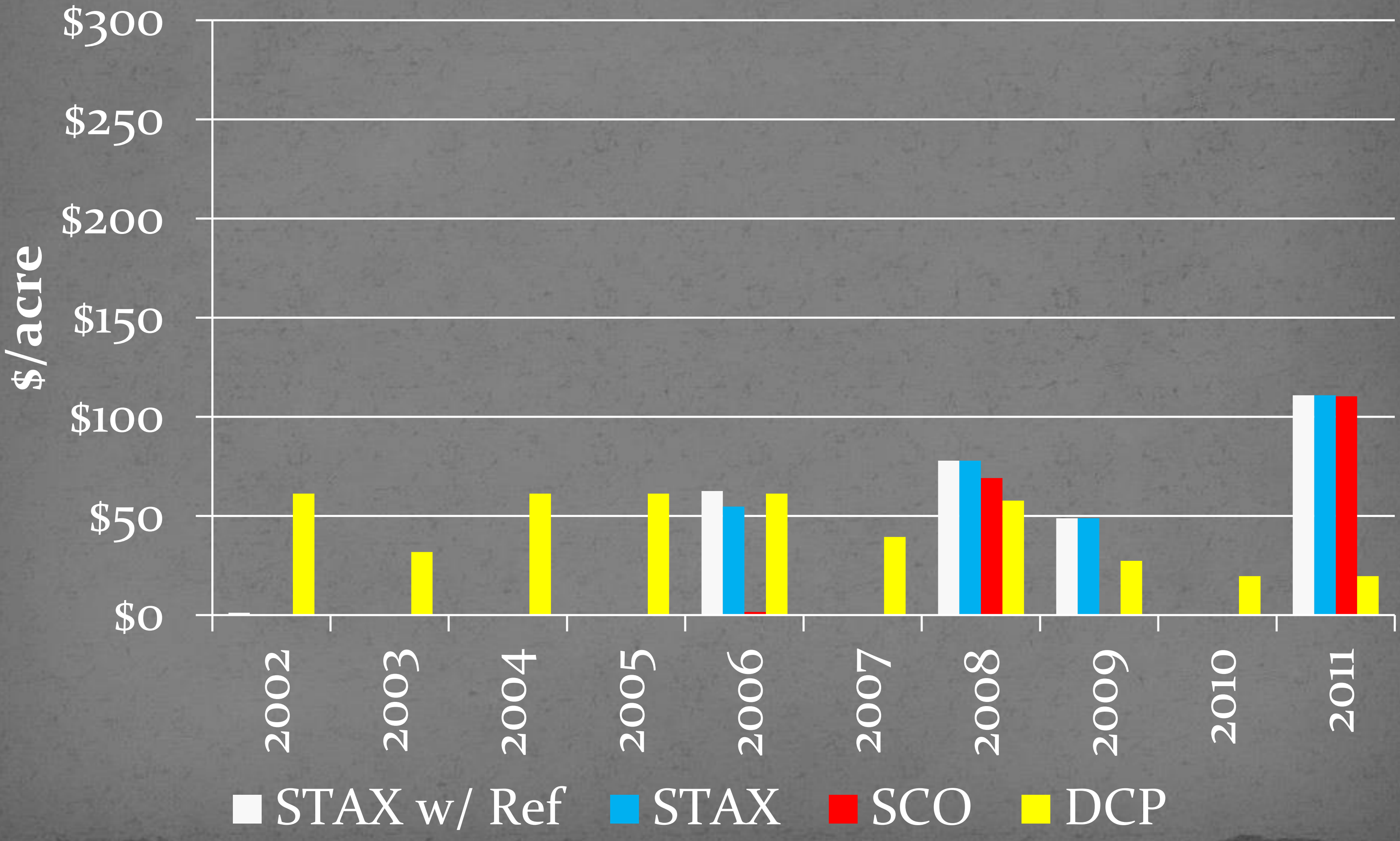
Cotton Prices



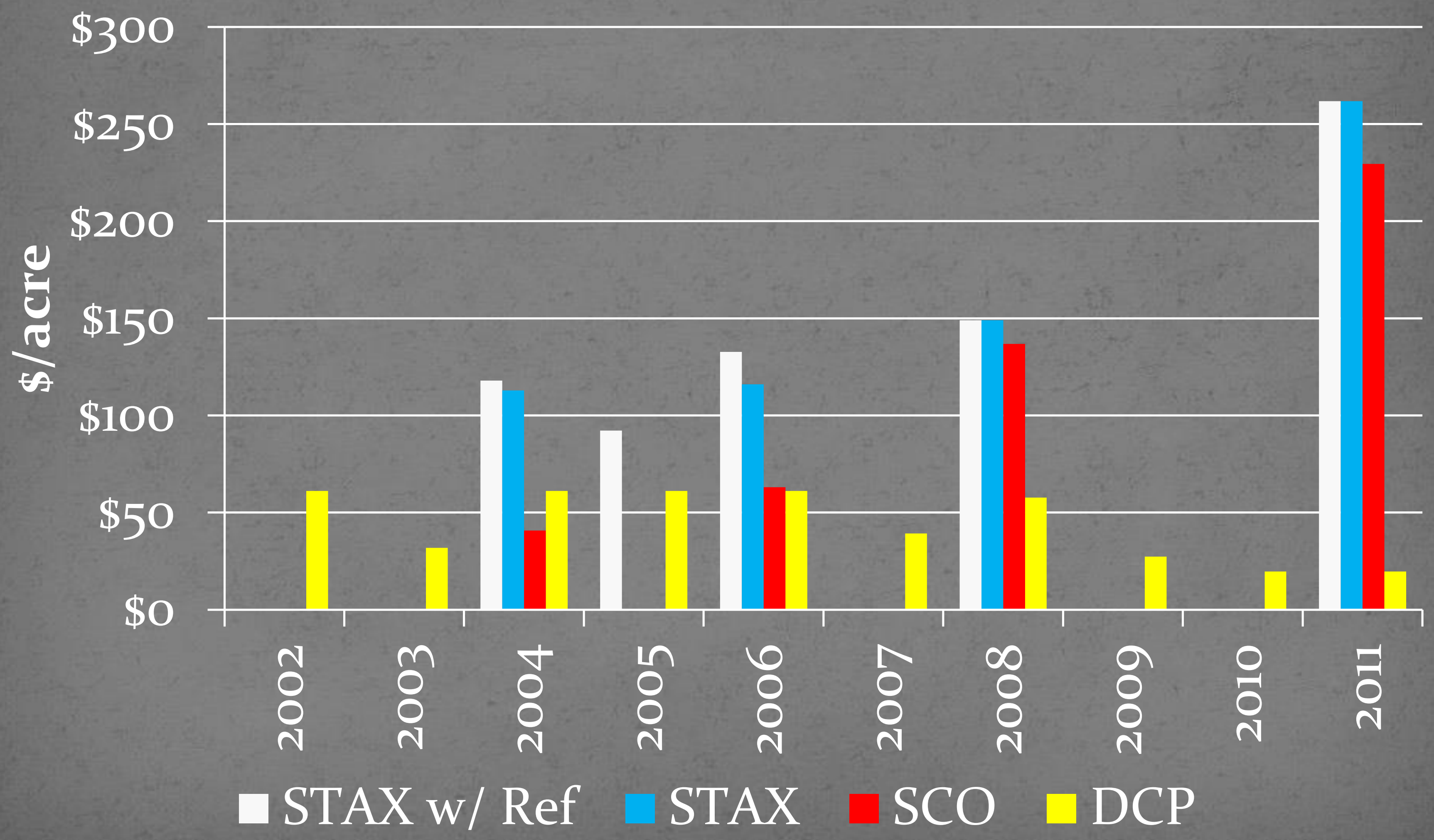
Jackson Co., OK Irrigated



Tillman Co., OK Non-Irrigated



Tillman Co., OK Irrigated



Summary

- When comparing STAX to SCO, STAX generally provides more coverage
  - STAX uses the higher of the county trend yield or the 5-year moving average yield
- For many of the counties, a STAX payment would have been made in only 5 or 6 of the 10 years

Summary

- For most counties, in the years with a STAX payment, STAX performs about the same or better than DCP or SCO
- Yields were low in 2011 but prices were high so producers did not receive a CCP payment

Summary

- Producers would receive more payments under the DCP program than under the STAX or SCO programs
- Under STAX and SCO, payments vary from year to year and producers can expect years with no STAX or SCO payments
- STAX and SCO payments vary for each county and for irrigated and non-irrigated cotton

Study Limitations/Other Considerations

- A simple linear trend yield was used for the expected county yield
  - Actual NASS trend yield incorporates additional factors
- Premium estimates for STAX and SCO were not included
- Producers will need to examine the interactions between STAX/SCO and their individual buy-up coverage
- Producers may want to lower the coverage level of their individual policy and purchase a higher coverage level with STAX/SCO

Questions?

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