00-026A-CEO-QA
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Coverage Enhancement Option (CEO)
Common Questions and Answers

1) Q: What is the Coverage Enhancement Option (CEO)?

A: CEO is a new MPCI-based insurance option that attaches to a crop's MPCI policy provisions and in the event of an insurable loss under the MPCI provisions retroactively reduces the deductible, thereby increasing the amount of coverage. In effect, this results in a larger payout for each bushel, ton, pound, etc., shortfall indemnified under the MPCI policy at the same coverage level.

2) Q: Why was CEO developed?

A: Producers often complained that FCIC did not offer enough crop insurance protection. They wanted higher coverage levels and higher price elections. However, they also did not want to pay greater premium rates. CEO increases the total amount of coverage while using the same premium rate that applies to the underlying coverage.

3) Q: What is the primary benefit of CEO?

A: The primary benefit of CEO is that it provides a higher amount of coverage at the same premium rate. For example, for one perennial crop an insured added an 85 percent CEO option to a 65 percent coverage level MPCI policy. The added coverage has the same premium rate as the MPCI policy and the total coverage will cost 45 percent less than if the insured had purchased a standard MPCI policy at the 85 percent coverage level.

4) Q: What coverage levels are available for CEO?

A: The coverage levels for CEO are 55 to 85 percent in 5 percent increments (55%, 60%, 65%, 70%, 75%, 80%, 85%).

5) Q: What prices are used with CEO?

A: CEO is only available on MPCI policies for which 100 percent of the maximum price for the crop has been elected.

6) Q: On which crops will CEO be available?

A: For the 2000 crop year, Apples and Grapes in Pennsylvania and Washington; Canola in North Dakota; Citrus Trees in Texas; Cranberries in Massachusetts; Potatoes in Idaho, Maine and Pennsylvania; Rice in Arkansas, Louisiana, and Mississippi; Stone Fruit in California; and Walnuts in California. All counties in those states in which actuarial documents for the crop are filed will be eligible. For the 2001 crop year, Citrus Fruit in Florida and Texas in all counties of the state in which actuarial documents for the crop are filed will be eligible.

7) Q: What are the eligibility criteria for CEO?

A: Producers must have a limited or additional coverage MPCI policy in force, with a price election of 100 percent, for the insured crop. They must choose an option coverage level percentage shown in the actuarial documents that is at least 5 percentage points higher than the MPCI coverage level in force. Producers must elect CEO in writing on or before the sales closing date for the crop insured.

8) Q: When is the premium due?

A: Premiums for CEO are due on the same date as the underlying MPCI policy.

9) Q: Is there a different premium rate for the CEO portion of the coverage?

A: No, the same premium rate charged for the MPCI coverage applies to the CEO portion of the coverage.

10) Q: How does CEO affect administrative fees?

A: The combined liability from both the MPCI and CEO coverage will be considered when determining if a policy is limited or additional coverage for purposes of administering policy fees. For example, if the insured has selected MPCI coverage of 50/100 (limited coverage) and CEO coverage of 60/100 (limited coverage), the administrative fee is still at the limited coverage fee of $50. If the insured selected basic coverage of 50/100 (limited coverage) and CEO coverage of 85/100 (additional coverage), the administrative fee is at the additional coverage fee of $20.

11) Q: Is the CEO portion of the premium eligible for a government premium subsidy?

A: Yes. Premium subsidy will be available based on the total coverage (MPCI and CEO). Producers with a combined coverage less than 65/100 will receive a premium subsidy equal to the amount of premium of a CAT policy. If the combined coverage is equal to or greater than 65/100, the producer will receive a premium subsidy equivalent to the premium established for a 50/75 coverage policy. For ease of administration, FCIC has published Producer Premium Percentage Tables that show the percentage of the total (MPCI plus CEO) premium that the insured must pay.

12) Q: How is the premium calculated for a policy with CEO?

A: The base (or unsubsidized) premium is determined by multiplying the total dollar amount of insurance (MPCI plus CEO) times the premium rate contained in the actuarial documents that is applicable to the underlying MPCI coverage. For example, assume that the insured:

- Has a single-unit MPCI policy at the 50 percent coverage level, with a 100 percent price election and 100 percent share;
- Adds CEO at the 85 percent option coverage level;
- Plants 400 acres, has an APH of 150 bushels; and that FCIC's price per bushel is $4.00; and
- FCIC's base (or unsubsidized) premium rate is 4 percent for the MPCI portion of the policy (i.e., the 50 percent coverage level).

The total dollar amount of insurance (MPCI plus CEO) is 85 percent times 400 acres times 150 bushels times 100 percent share times $4.00 per bushel, or $204,000. The base premium; then, would be this amount multiplied times 4 percent, or $8,160.

13) Q: At what point is an indemnity due under CEO; when the CEO option coverage level deductible is met or when the MPCI coverage level deductible is met?

A: An indemnity is never due until the MPCI coverage level deductible is met. For example, if the MPCI coverage level is 65 percent and the CEO option coverage level is 85 percent, the insured would have to sustain damage on the crop in excess of 35 percent (MPCI coverage level deductible) before an indemnity would be paid.

14) Q: How is an indemnity payment determined for CEO?

A: A CEO indemnity payment will occur if an indemnity is payable under the MPCI portion of the policy. The CEO indemnity payment will be proportional to the MPCI indemnity. Consider an example based on the information provided in Item No. 11, above and that an MPCI indemnity of $40,000 is payable. The MPCI dollar amount of coverage is 50 percent times 400 acres times 150 bushels times 100 percent share times $4.00 per bushel, or $120,000. The MPCI indemnity factor is $40,000 divided by $120,000, or .33333. The option dollar amount of insurance is $204,000 minus $120,000, or $84,000. Thus, the option indemnity is .33333 times $84,000, or $28,000, and the total indemnity (MPCI plus CEO) is $40,000 plus $28,000, or $68,000.

15) Q: Are Prevented Planting/Replanting Payment indemnities increased under CEO?

A: No, the amount of any replant or prevented planting payment that is payable under the MPCI portion of this policy will not be increased by this option.

16) Q: How does CEO affect the Late Planting provisions?

A: CEO does not change how the amount of coverage and indemnity are computed for late planted acres. However, the CEO indemnity is based on the MPCI indemnity, which is affected by the late planting provisions.

17) Q: Will there be any special reporting requirements for CEO?

A: The reporting requirements are the same as the underlying MPCI policy.

18) Q: Will CEO be offered for high-risk land policyholders?

A: If CEO is purchased, the option will cover all insurable planted acreage including high-risk land, if not excluded and covered under a CAT policy.

19) Q: Are the forms used for CEO different from those used for MPCI?

A: No.

20) Q: Are there any additional Actuarial Documents used for CEO?

A: Yes, CEO uses a modified Producer Premium Percentage Table to assist in calculating producer premium.

21) Q: Is a CEO application required for each county?

A: Yes. Policy coverage is provided on a county basis the same as the underlying MPCI policy. However, some application forms allow multiple counties to be insured on one form.

22) Q: What is the latest sales closing date by which an insured may apply for CEO?

A: All CEO sales closing dates are the same as for the underlying MPCI policies.

23) Q: Is optional unit coverage applicable under CEO?

A: Yes. CEO benefits are calculated on a unit basis, using the units in effect for the underlying MPCI policy.

24) Q: How is CEO shown on the acreage report?

A: No additional information is required for CEO.

25) Q: Is CEO a continuous option?

A: Yes, for the length of the pilot or until the underlying policy is canceled.

26) Q: If an MPCI crop policy allows the producer to elect different MPCI coverage levels by varietal group, will the producer also be allowed to elect different CEO coverage levels by varietal group?

A: Yes. CEO attaches to the underlying MPCI policy. If the MPCI crop provisions allow the producer to elect different MPCI coverage levels by varietal group, the producer may also elect different CEO coverage levels by varietal group. The CEO coverage level need only be 5 percentage points greater than the MPCI coverage level elected. Because CEO coverage applies to all acreage of the crop insured under the MPCI policy, the producer must elect CEO coverage on all insured varietal groups.