

Supplemental Coverage Option (SCO) and Enhanced Coverage Option (ECO): 2024 Considerations and 2023 Update

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SCO (Supplemental Coverage Option) and ECO (Enhanced Coverage Option) allow crop producers to increase insurance coverage for row crops beyond coverage levels allowed for individual policies, but only pay out based on county-level revenue or yield shortfalls. SCO was introduced in the 2014 Farm Bill and is available to producers with base acres that are **not** enrolled in Agricultural Risk Coverage (ARC). SCO policies cover expected revenue (or yield) from the level of the underlying policy up to 86%. Use of SCO is a [relevant consideration](#) for the 2024 ARC or PLC decision for row crop producers with base acreage. ECO was introduced in 2021 and is available for major row crops produced in Kansas. ECO policies cover expected revenue (or yield) from 86% to either 90% or 95%. This article covers the fundamentals of these high coverage policies, the relevance of these policies in the 2024 market environment, and historic participation and outcomes. Several tools for analyzing high coverage policies are available on AgManager.info, with links at the end of the article.

There are three key considerations for SCO and ECO participation. The first is that premium costs will increase, likely doubling or more. Premiums are higher because payouts will likely be larger and more frequent. Second, both policies are triggered by county-level yield or revenue losses, not farm-level losses. Third, a long-term perspective is important when considering high coverage policies. While producers are likely to receive more indemnities than premiums in the long-term, a few years may pass with no indemnities. These high coverage policies require a significant upfront investment in risk management and thus [merit careful study](#).

Using High Coverage Policies in 2024: Examples and Discussion

Declining profit margins are a concern for crop producers in 2024. While current expected harvest prices are currently above or comparable to levels during the 2020 and 2021 pre-planting period, crop insurance guarantees will likely be lower than 2022 and 2023 for most producers. The two examples below demonstrate current expected profit margins for 2023.

For [northeast Kansas](#), direct (variable) expenses for non-irrigated soybeans are estimated to be around \$267 per acre, with total expenses around \$460 per acre. Based on estimated soybean prices of \$11.78 per acre and an expected yield of 55 bushels per acre, non-irrigated soybeans in Nemaha County insured under a 75% Revenue Protection (RP) policy with enterprise units would have a liability or guarantee around \$486 per acre and a producer premium around \$7 per



acre. An SCO endorsement (which increases coverage to 86%) would cost an additional \$8 per acre and a 95% ECO endorsement would cost \$17 per acre.

For [southwest Kansas](#), direct expenses for irrigated corn are estimated to be around \$562 per acre, with total expenses around \$1,031 per acre. Based on estimated corn prices of \$4.77 per acre and an expected yield of 225 bushels per acre, non-irrigated corn in Finney County insured under a 75% RP policy with enterprise units would have a liability or guarantee of \$805 per acre and a producer premium of \$11 per acre. An SCO endorsement (which increases coverage to 86%) would cost an additional \$9 per acre and a 95% ECO endorsement would have a producer premium of \$30 per acre.¹

If a producer wants to have an insurance guarantee that covers profit margins or indirect expenses such as cash rents, SCO or ECO may be [worth consideration](#). SCO and ECO are relatively expensive compared to RP policies, even with premium subsidies, because they are likely to [pay out frequently](#). For non-irrigated soybeans in Northeast Kansas, a 75% RP policy will provide a guarantee that is similar to or covers *all* (direct and indirect) expenses. High coverage policies would thus protect part of the expected profit margin. For irrigated corn in Southwest Kansas, a 75% RP policy would cover direct expenses and a share of indirect expenses (rent, machinery costs, etc.). SCO would cover indirect expenses, while ECO would cover part of indirect expenses and the profit margin. Both scenarios reflect that if commodity prices continue to decline, high coverage policies may play a role in protecting financial viability. In either case, crop insurance effectively provides a guarantee that a producer can cover variable expenses or repay an operating loan in the event of lower harvest prices and/or yields. The county revenue or yield trigger for SCO and ECO is [important to consider](#) in this case, as an individual producer may have different yield levels than their county, and thus a different likelihood of payout than more common individual unit or enterprise crop insurance policies.

For a producer who wants to increase their coverage levels beyond 70-75% that is comfortable with the county yield trigger, SCO may provide a better value than an 85% RP policy. In the above example for irrigated corn in Finney County, an 85% RP policy would cost about \$37 dollars per acre, compared to a 75% RP policy with SCO costing about \$20 per acre total. However, this option may not be available for producers [selecting ARC](#).

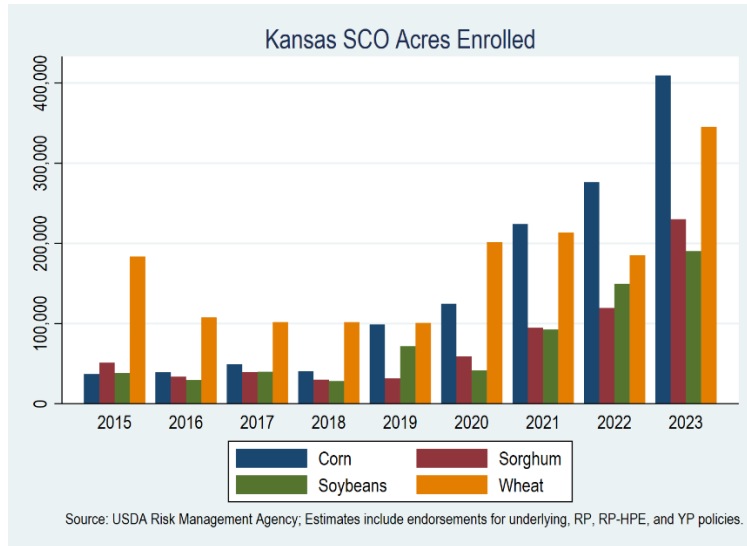
Historic use of SCO and ECO

SCO and ECO cover a small but growing share of insured acres of major crops in Kansas (see Figures 1-2). For example, SCO covered about 7% of the nearly 5.5 million acres of corn enrolled in crop insurance in 2023 in Kansas. ECO use is lower than SCO (Figure 2), but ECO was only available from 2021. 1.9 million acres of SCO or ECO endorsements were purchased in 2023, but some acreage may have been enrolled in both. These policies are used across Kansas, with some

¹ Both examples are based on hypothetical premium estimates for a producer using enterprise units – only a crop insurance agent can provide an official estimate. The price discovery period for most spring planted crops is February, so projected prices are preliminary. Expense estimates are based on K-State crop budgets available at <https://agmanager.info/farm-budgets>.

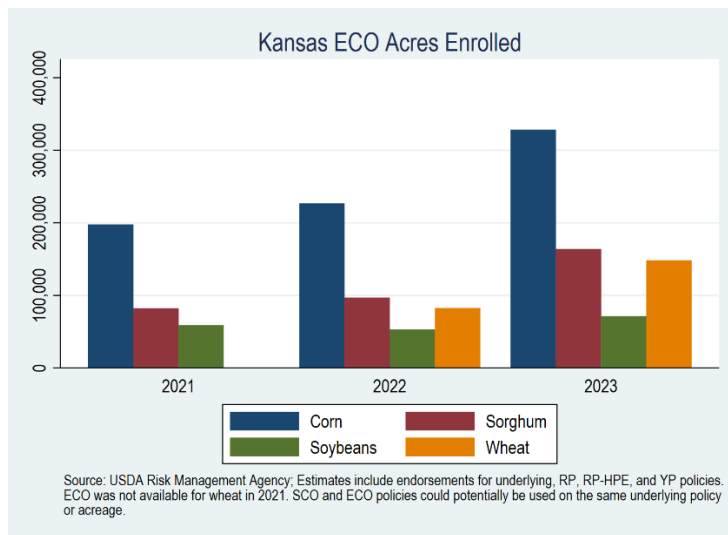
regions having relatively higher use for specific commodities. County-level maps of combined 2023 SCO and ECO participation are available in Figures 3-6 at the end of this article.

Figure 1. SCO use continues to increase



Source: USDA Risk Management Agency; Estimates include endorsements for underlying, RP, RP-HPE, and YP policies.

Figure 2. ECO participation is increasing, but lower than SCO



Source: USDA Risk Management Agency; Estimates include endorsements for underlying, RP, RP-HPE, and YP policies. ECO was not available for wheat in 2021. SCO and ECO policies could potentially be used on the same underlying policy or acreage.

97% of all acres enrolled in ECO for all commodities in 2023 used the 95% coverage level. About 75 percent of all SCO policies (for all commodities) purchased in 2023 had an underlying Yield Protection (YP) or RP policy at the 70% or 75% coverage level and 23 percent had an underlying coverage level of 80%. Nearly all ECO and SCO endorsements had underlying RP policies.

2022 payouts

In 2022, following an extreme and widespread drought, ECO and SCO endorsements had large payouts throughout most of the state where they were used. Combined loss ratios for both policies by county are reported in Figures 7-10. SCO-only loss ratios are available in this [presentation](#). Not all counties had acres enrolled in SCO or ECO and there were regional patterns in payouts. However, each major commodity, many counties had a loss ratio higher than two.

Potential 2023 payouts

Another consideration for using SCO or ECO is that payouts take a longer time to be paid out than for individual policies. 2023 prices were lower at harvest than at planting for wheat, soybeans, corn, and sorghum, so indemnities could be triggered by a combination of yield and price declines. For the entire state of Kansas, current 2023 loss ratios are 1.03 for corn, 1.46 for grain sorghum, 2.38 for soybeans, and 1.85 for wheat. This official data indicates highly variable 2023 yield outcomes by commodity; reports from across the state likewise reflect a wide variety of yield outcomes based on location, timing of planting, timing of rain, etc. By summer 2024, 2023 yields and payouts should be finalized. 2023 county level loss ratios to date are publicly available. While these may still increase if some indemnities are outstanding, this may be a useful indicator of county yields. Future research will explore the predictive power of current loss ratios in predicting county yields.

Resources

There are several resources available to inform the decision whether to use a high-coverage policy.

Ag Manager: Webinar on Managing Risk with ARC, PLC, and SCO in 2023

<https://agmanager.info/news/recent-videos/managing-risk-arc-plc-and-sco-webinar-slides-and-recording>

- Analysis of the 2024 ARC, PLC, and SCO decisions
- Introduction to SCO
- Analysis of historic SCO payouts
- Recordings and slides available

Ag Manager: Study on Kansas ARC, PLC, and SCO payouts from 2015-2022

<https://agmanager.info/events/risk-and-profit-conference/previous-conference-proceedings/2023-risk-and-profit-conference/7>



- Estimated ARC, PLC, and SCO payouts for all Kansas counties from 2015-2022
- State and local differences over time and location analyzed
- Counties separated by ARC yield reporting (irrigation status or combined)

Ag Manager: Kansas Crop Insurance Maps

<https://agmanager.info/crop-insurance/kansas-crop-insurance-maps>

- County level expected and actual/historic yields from 1999-2022
- Estimated historic frequency of SCO and ECO indemnities by county
- Actual revenue relative to expected revenue since 2000, for selected Kansas counties

Ag Manager: Kansas County Yield Correlation Tool

<https://agmanager.info/crop-insurance/crop-insurance-papers-and-information/kansas-yield-correlation-tool>

- A spreadsheet tool to analyze the historic relationship between a producer's yields and county level yields.

Ag Manager: SCO and ECO Payment Calculator

<https://agmanager.info/crop-insurance/crop-insurance-papers-and-information/2022-supplemental-coverage-option-sco-and>

- A spreadsheet tool to estimate SCO and ECO payouts under different potential yield and price outcomes, for all states.

SCO and ECO Webinar

<https://agmanager.info/news/recent-videos/2021-crop-insurance-choices-sco-and-eco>

- Covers ECO and SCO basics, using 2021 examples (updated 2024 examples are in this article)

RMA Fact Sheets

<https://www.rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/Enhanced-Coverage-Option>

<https://www.rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/Supplemental-Coverage-Option-2017>

Farmdoc Daily Crop Insurance Decision Tool – Spring 2024

<https://farmdoc.illinois.edu/fast-tools/crop-insurance-decision-tool>

For more information about this publication and others, visit AgManager.info.
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Figure 3: 2023 Kansas Combined Corn SCO and ECO acres

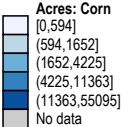
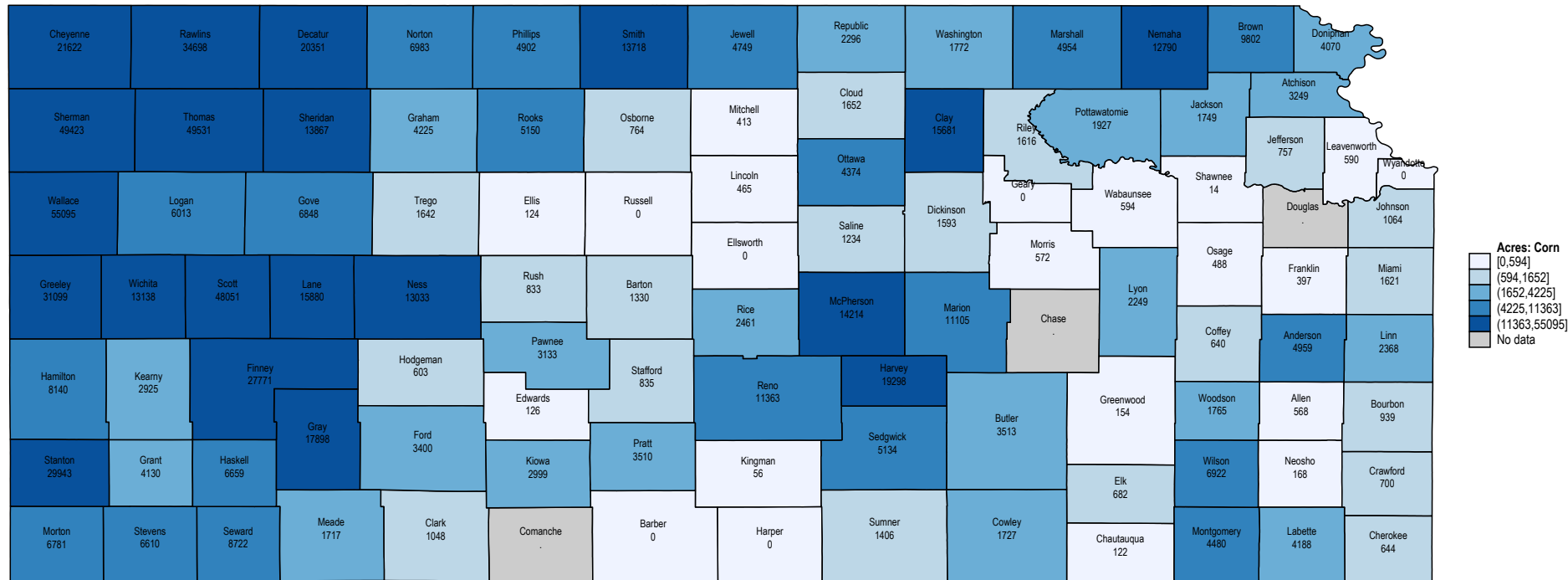


Figure 4: 2023 Kansas Combined Sorghum SCO and ECO acres

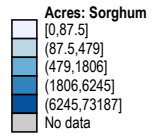
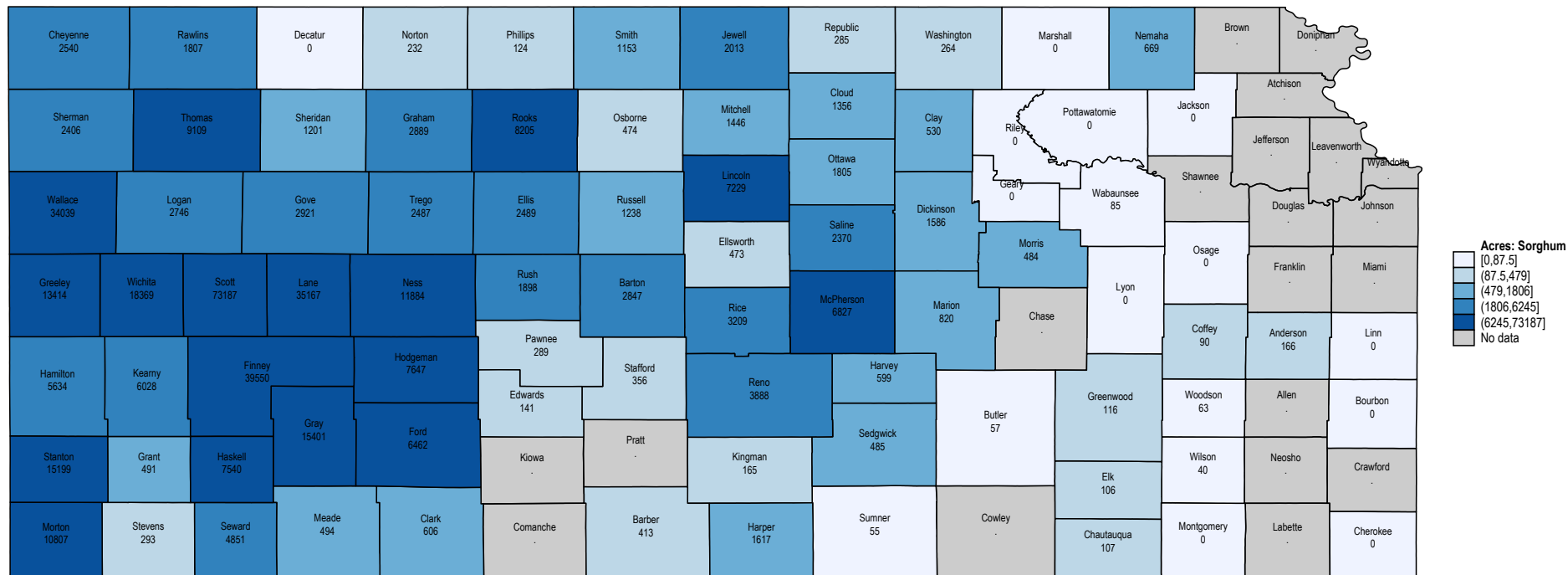


Figure 5: 2023 Kansas Combined Soybeans SCO and ECO acres

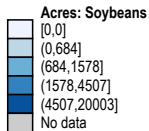
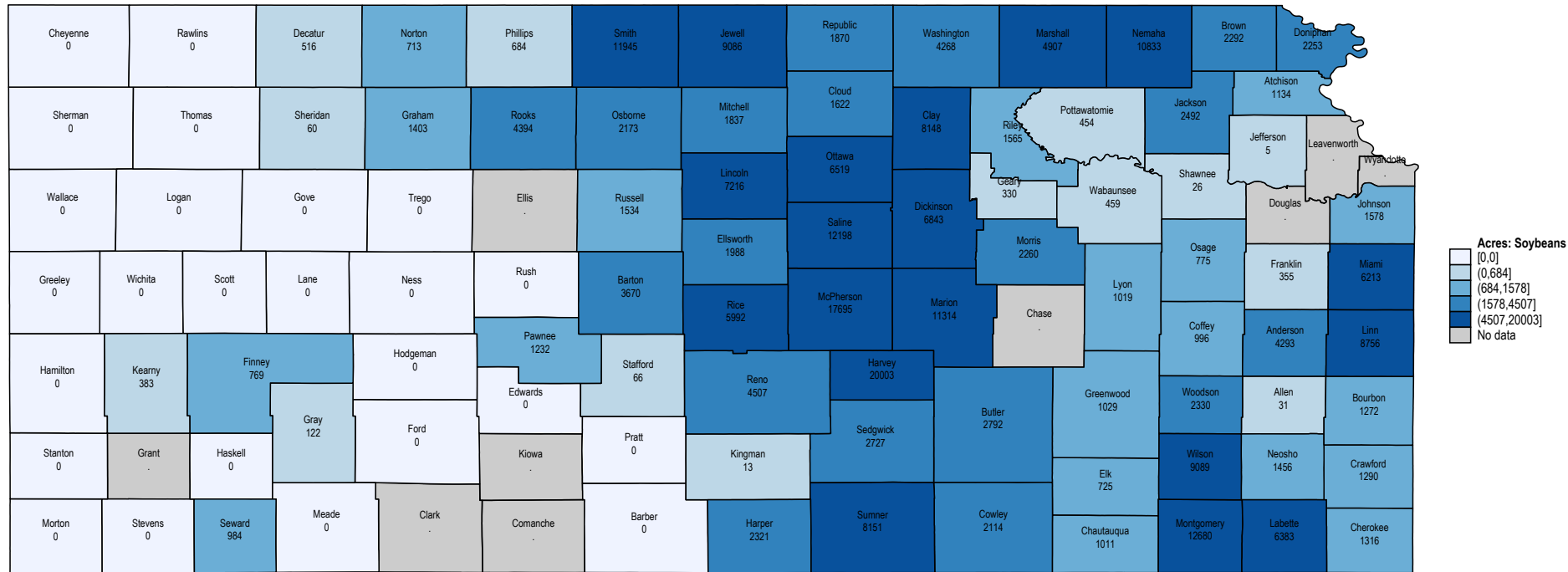


Figure 6: 2023 Kansas Combined Wheat SCO and ECO acres

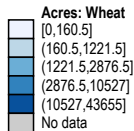
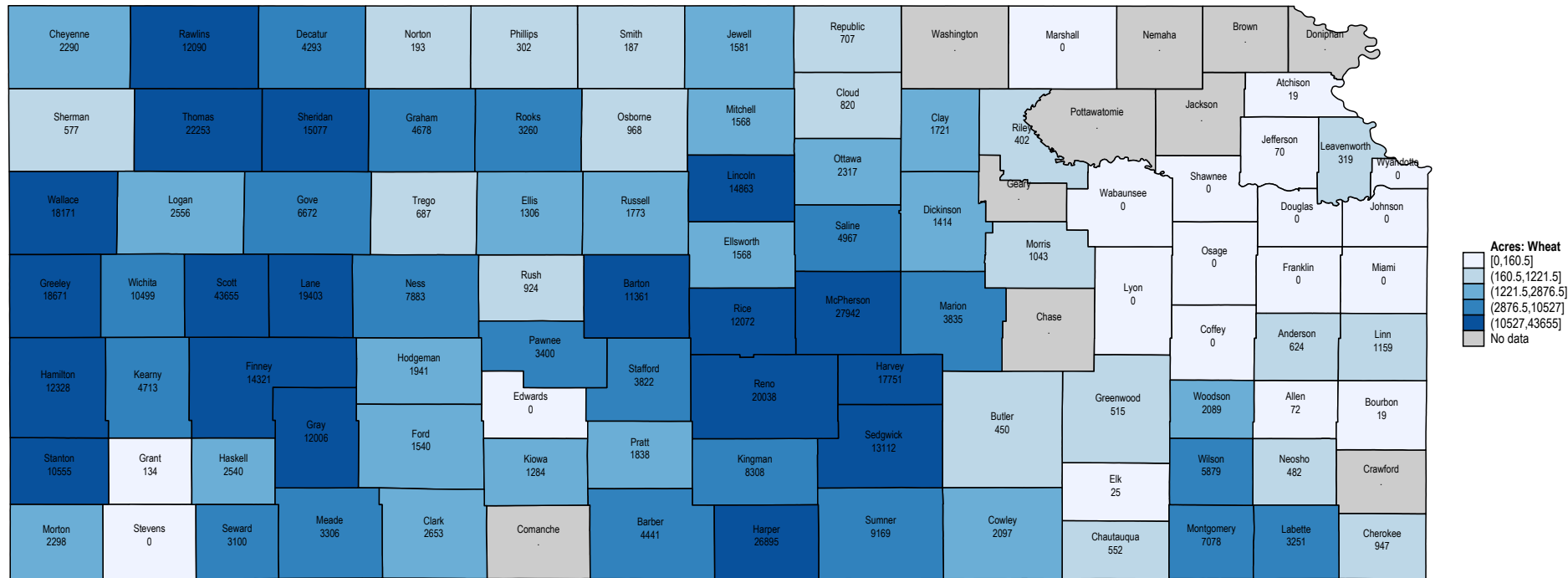
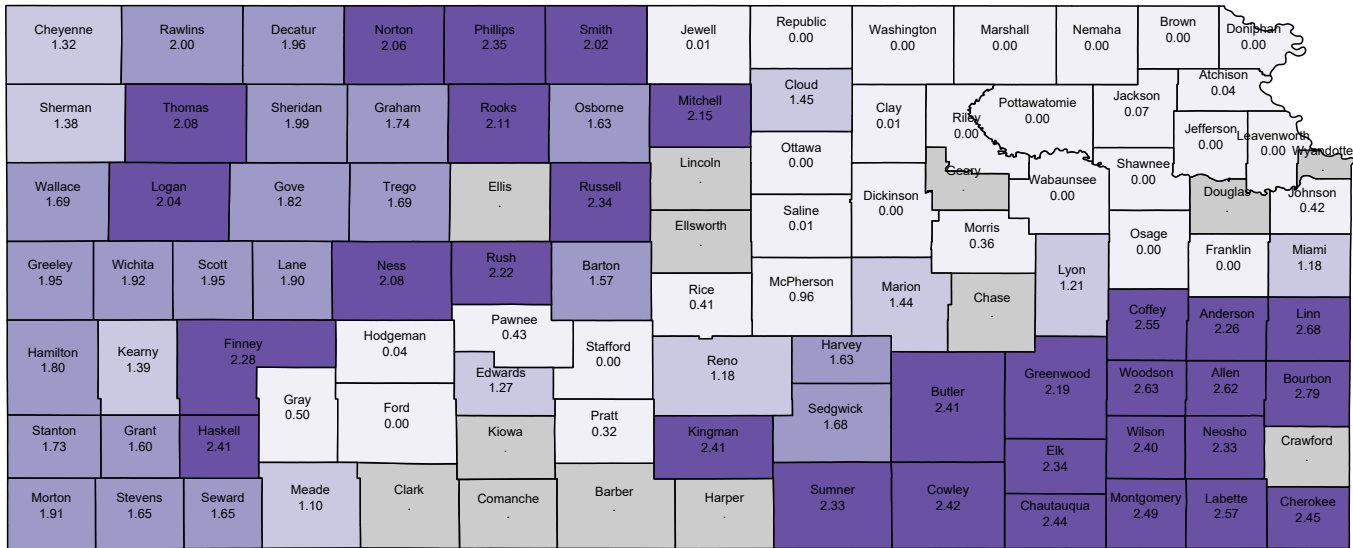


Figure 7. Corn: combined 2022 ECO and SCO loss ratio



Source: The data used in this map was downloaded on Feb. 9, 2024 from the USDA Risk Management Agency Summary of Business and includes all ECO and SCO policies for all practices.

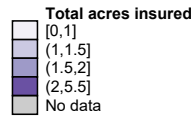
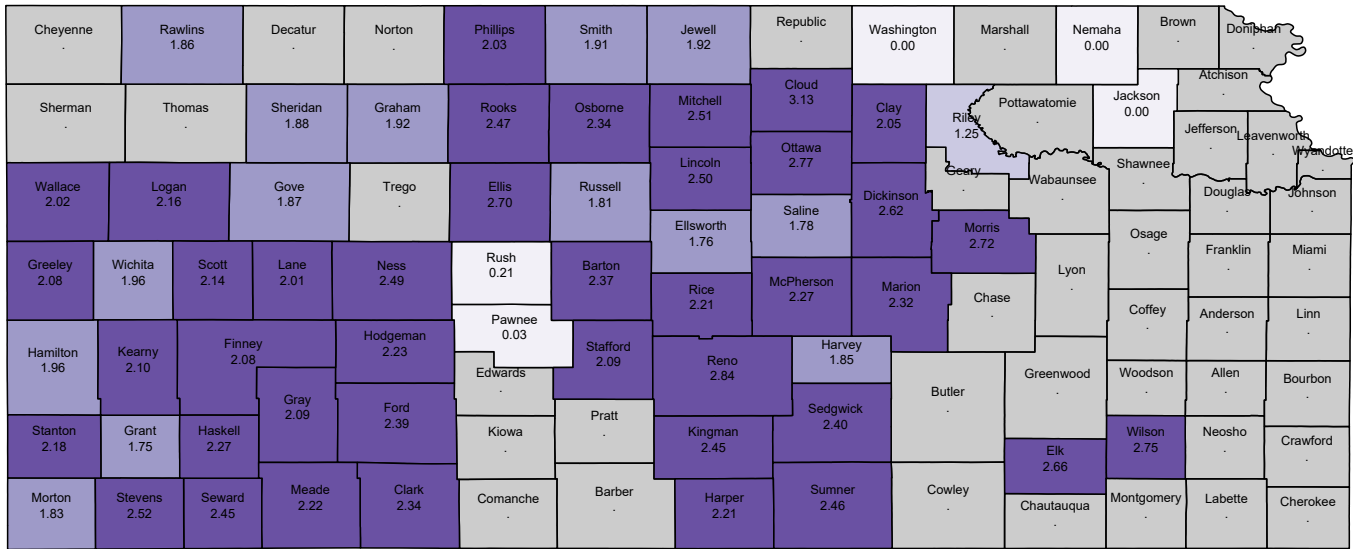


Figure 8. Grain Sorghum: combined 2022 ECO and SCO loss ratio



Source: The data used in this map was downloaded on Feb. 9, 2024 from the USDA Risk Management Agency Summary of Business and includes all ECO and SCO policies for all practices.

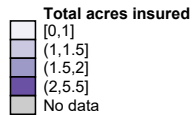
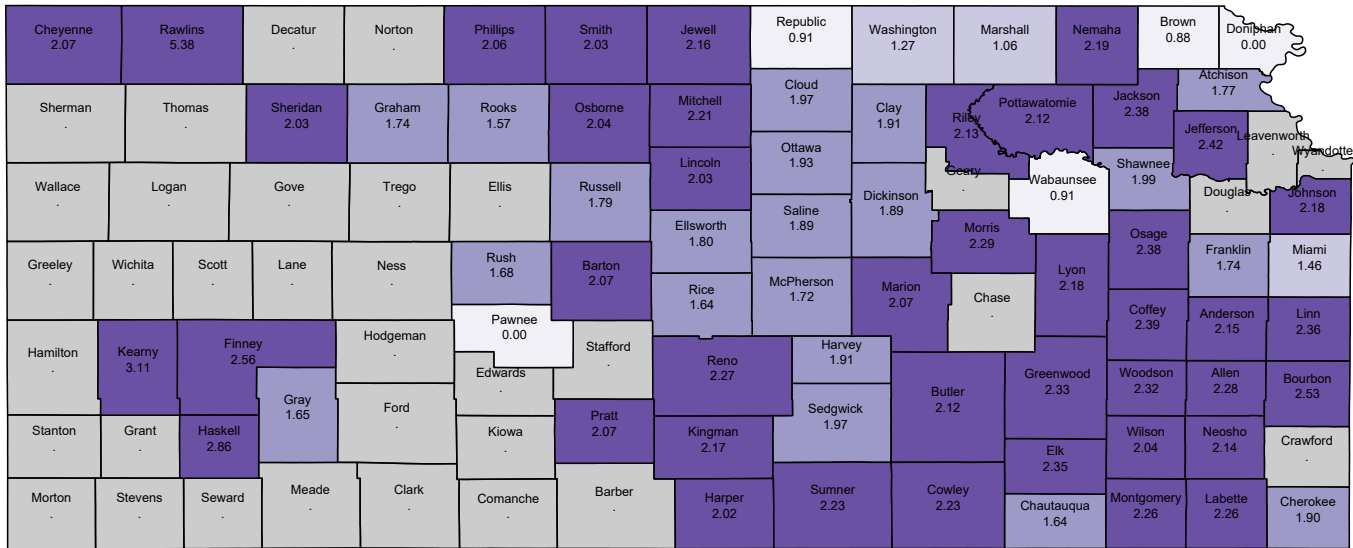


Figure 9. Soybeans: combined 2022 ECO and SCO loss ratio



Source: The data used in this map was downloaded on Feb. 9, 2024 from the USDA Risk Management Agency Summary of Business and includes all ECO and SCO policies for all practices.

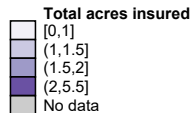
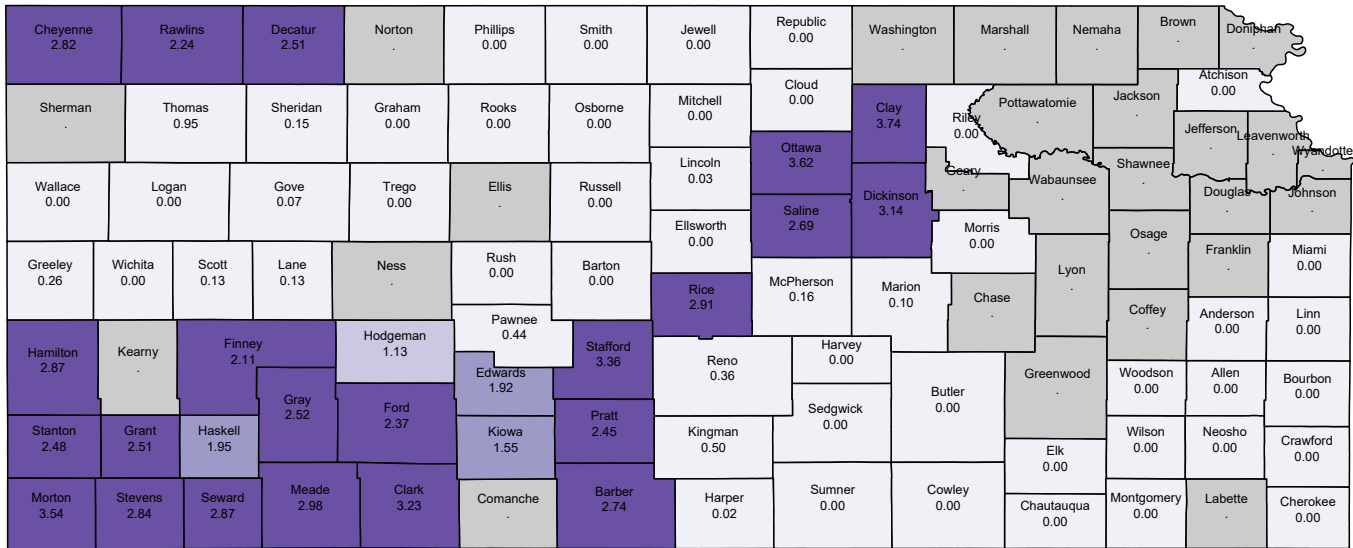


Figure 10. Wheat: combined 2022 ECO and SCO loss ratio



Source: The data used in this map was downloaded on Feb. 9, 2024 from the USDA Risk Management Agency Summary of Business and includes all ECO and SCO policies for all practices.

