

High Coverage Crop Insurance Policies: 2022 Considerations and 2021 Update

Jennifer Ifft (jiff@ksu.edu) – K-State Department of Agricultural Economics
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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 only available to producers who are not enrolled in Agricultural Risk Coverage (ARC). SCO policies cover expected revenue from the level of the underlying policy up to 86%.

ECO was introduced in 2021 and is available for major row crops produced in Kansas. ECO policies cover expected revenue from 86% to either 90% or 95%. Even with their county-based payment trigger mechanisms, these policies are likely to lead to larger and more frequent indemnities than underlying yield and revenue policies but also substantially increase premium costs.

Using High Coverage Policies in 2022

The high cost of inputs is major concern for crop producers this year. K-State's 2022 corn budgets were updated in January to incorporate higher fertilizer prices. Harvest prices are also expected to be relatively high, leading to relatively large crop insurance guarantees.

For northeast Kansas, direct expenses for non-irrigated corn are estimated to be around \$467 per acre, with total expenses around \$628 per acre. Based on estimated corn prices of \$5.82 per acre and an expected yield of 145 bushels per acre, non-irrigated corn in Nemaha County insured under a 75% RP policy would have a liability or guarantee of \$633 per acre and a producer premium of \$18 per acre. A 95% ECO endorsement would add an additional \$76 of guarantee, with a producer premium of \$28 per acre.¹

For southwest Kansas, direct expenses for irrigated corn are estimated to be around \$620 per acre, with total expenses around \$1,028 per acre. Based on estimated corn prices of \$5.82 per acre and an expected yield of 225 bushels per acre, non-irrigated corn in Finney County insured under a 75% RP policy would have a liability or guarantee of \$982 per

¹ This example and the next example assume no SCO endorsement (for simplicity). SCO would cover revenue from 75% to 86%, leading to additional premiums and liabilities/guarantee. With a 75% underlying RP policy and a 95% ECO endorsement only, there is a "gap" in revenue coverage from 75% to 86%.



acre and a producer premium of \$14 per acre. A 95% ECO endorsement would add an additional \$118 of guarantee, with a producer premium of \$39 per acre.²

Both examples show how a 75% RP policy will provide a guarantee that is similar to total expenses. In other words, crop insurance effectively provides a guarantee that a producer can cover expenses in the event of lower harvest prices and/or yields. If a producer wants to have a guarantee that covers expected profits, SCO or ECO may be worth consideration. However, while both SCO and ECO indemnities are expected to be larger than premiums in the long run, premiums are much higher than what most producers are used to paying (or may prefer to pay), often double or triple that of underlying policies. The county revenue or yield trigger for SCO and ECO is also important to consider, 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.

SCO and ECO Use in 2021

SCO use increased in 2021 for corn, soybean and sorghum, in some cases doubling (see Table 1). However, use of SCO is still very small share of total insured acres. For example, SCO covered only about 4% of the 5.4 million acres of corn enrolled in crop insurance in 2021 in Kansas. ECO use was a similar magnitude to SCO for soybean and milo, but somewhat lower for corn. However, ECO was only first available in 2021, while SCO has been available for a longer time period. These policies were used across Kansas, with some regions having relatively higher use for specific commodities. County-level maps of combined SCO and ECO participation are available in Figures 1-3 at the end of this article.

Table 1: 1,000 Acres enrolled in SCO and ECO for spring-planted crops in Kansas

	Corn		Soybeans		Grain Sorghum	
	SCO	ECO	SCO	ECO	SCO	ECO
2020	125		42		59	
2021	221	194	92	95	92	82

Source: USDA Risk Management Agency; Estimates include endorsements for underlying, RP, RP-HPE, and YP policies rounded to the nearest 1,000. ECO was not available in 2020. SCO and ECO policies could potentially be used on the same underlying policy or acreage.

Most ECO policies, or 94% of all ECO acres for all commodities in 2021, used the 95% coverage level. Over half of all SCO policies (for all commodities) purchased in 2021 had an underlying YP or RP policy at the 75% coverage level, with most other underlying policies having a coverage level of 70% or 80%.

2021 SCO and ECO payouts will not be determined for a few more months, when RMA finalizes 2021 county yields. Harvest prices were higher at harvest than at planting for soybeans, corn, and sorghum, so any potential indemnities

² Both examples are based on hypothetical premium estimates – 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 or not finalized. Expense estimates are based on K-State crop budgets available at <https://agmanager.info/farm-budgets>.

will be triggered by a yield decline. Another consideration for using SCO or ECO is that payouts take a longer time to be paid out than for individual policies.

Resources

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

Ag Manager: 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: 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

SCO and ECO Webinar

https://agmanager.info/sites/default/files/pdf/lfft_HighCoverage_A_2.pdf

- Covers ECO and SCO basics, using 2021 examples (updated 2022 examples are in this article)

RMA Fact Sheets

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

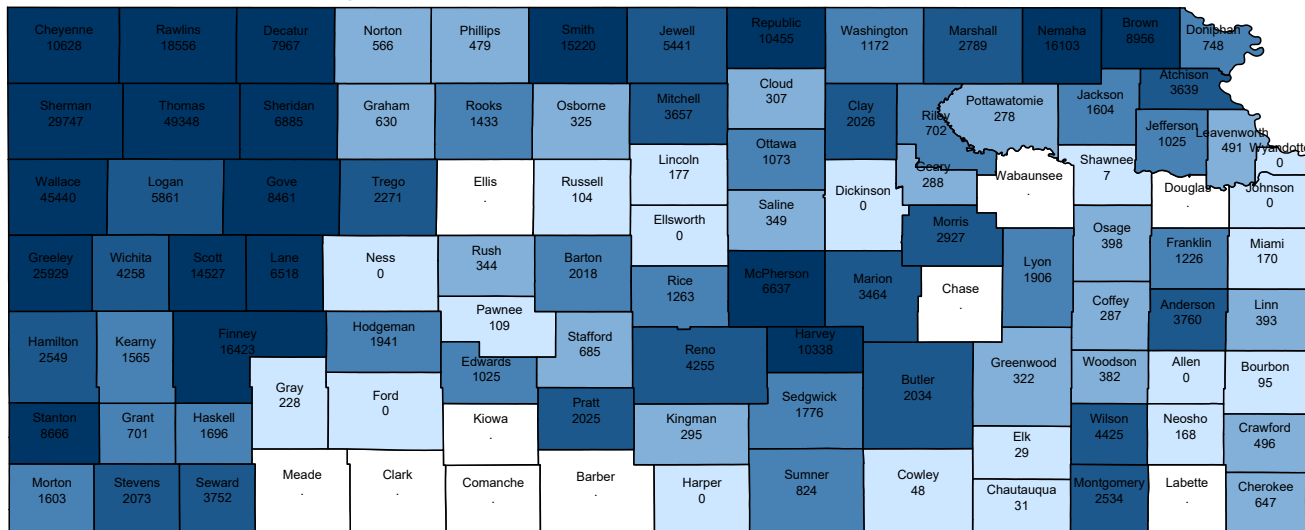
<https://www.rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/Supplemental-Coverage-Option-2017>

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K-State Agricultural Economics | 342 Waters Hall, Manhattan, KS 66506-4011 | 785.532.1504
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Figure 1. Corn Acres Enrolled in SCO or ECO in Kansas in 2021



Source: USDA RMA

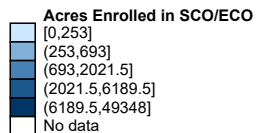
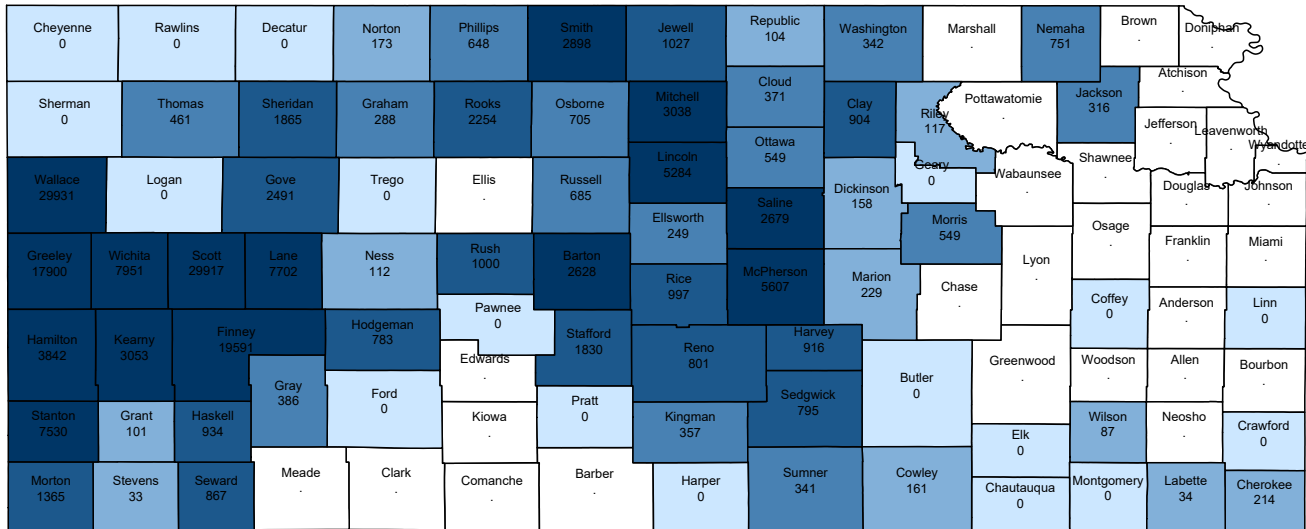


Figure 2. Grain Sorghum Acres Enrolled in SCO or ECO in Kansas in 2021



Source: USDA RMA

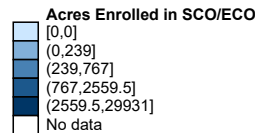
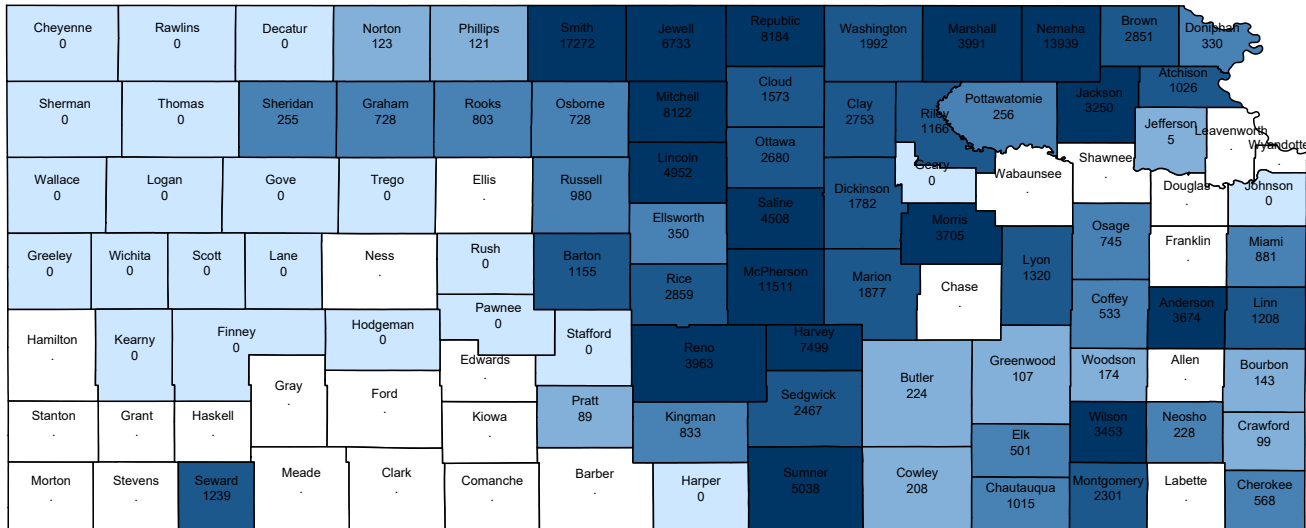


Figure 3. Soybeans Acres Enrolled in SCO or ECO in Kansas in 2021



Source: USDA RMA

