High Coverage Policies, Unit Structure, and the 2026 Crop Insurance Decision

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2026 Crop Insurance Decision

- Low profit margins for crops
- #OB3 / #OBBBA decreases premium costs
  - Large decrease for high coverage policies
- Navigating these policy changes in 2026

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OB3 Crop Insurance Provisions

- Premium subsidy increase for basic and optional units
  - Led to a similar increase in enterprise unit subsidy
- Supplemental Coverage Option (SCO) strengthened
  - Led to an increase in subsidy rates for other high coverage policies
- Definition of beginning farmer increased to 10 years, increase in premium subsides
- Others: ARPI goes up to 95% with higher premium subsidy, No SCO-ARC restriction

Preview

- What has changed
  - MPCI (RP) policies cost less
  - High coverage policies cost *much* less
- What has not changed
  - 80-85% coverage levels much more expensive
  - OU much more expensive than EU
  - High coverage policy tradeoffs

Premium subsidy changes

Basic and Optional Units

	50%	55%	60%	65%	70%	75%	80%	85%
Pre OB3	67%	64%	64%	59%	59%	55%	48%	38%
Post OB3	67%	69%	69%	64%	64%	60%	51%	41%

Enterprise Units

	70%	75%	80%	85%
Pre OB3	80%	77%	68%	53%
Post OB3	80%	80%	71%	56%

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Example

- Dryland wheat in McPherson County in 2026
- 50 bushel APH
- Projected price $5.61
- Expected revenue: $281/acre

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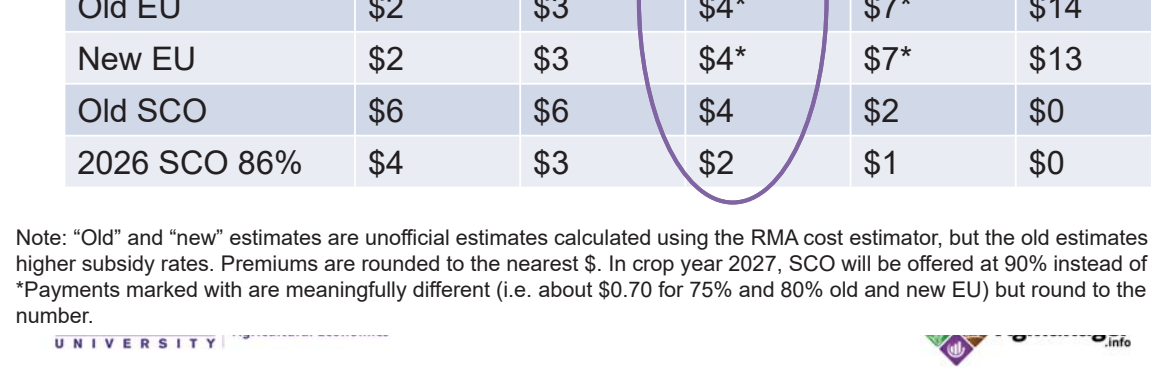
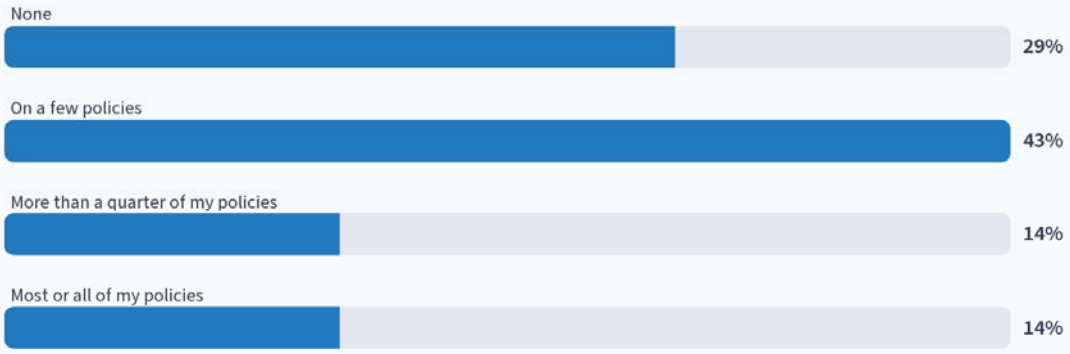
Producer Premiums (unofficial)

	65%	70%	75%	80%	85%
Old OU	$6	$7	$10	$15	$23
New OU	$5	$6	$9	$14	$22
Old EU	$2	$3	$4*	$7*	$14
New EU	$2	$3	$4*	$7*	$13
Old SCO	$6	$6	$4	$2	$0
2026 SCO 86%	$4	$3	$2	$1	$0

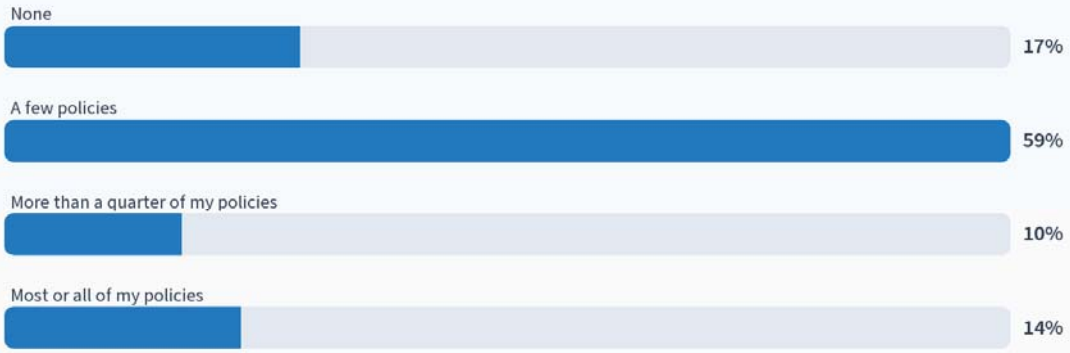
Note: “Old” and “new” estimates are unofficial estimates calculated using the RMA cost estimator, but the old estimates use prior, higher subsidy rates. Premiums are rounded to the nearest $. In crop year 2027, SCO will be offered at 90% instead of 86%. *Payments marked with are meaningfully different (i.e. about $0.70 for 75% and 80% old and new EU) but round to the same number.



How much SCO have you sold in the past



How much ECO have you sold in the past



ECO premiums (unofficial)

	95%	90%
Old ECO	$5	$2
New ECO	$3	$1

Note: “Old” and “new” estimates are official based on the RMA cost estimator, but the old estimates apply pre-OB3 subsidy rates.

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What’s new?

What has not changed

80-85% coverage levels much more expensive

OU much more expensive than EU

High coverage policy tradeoffs

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What has changed

MPCI policies cost less

OU marginally less expensive than EU at lower coverage levels

High coverage policies cost *much* less

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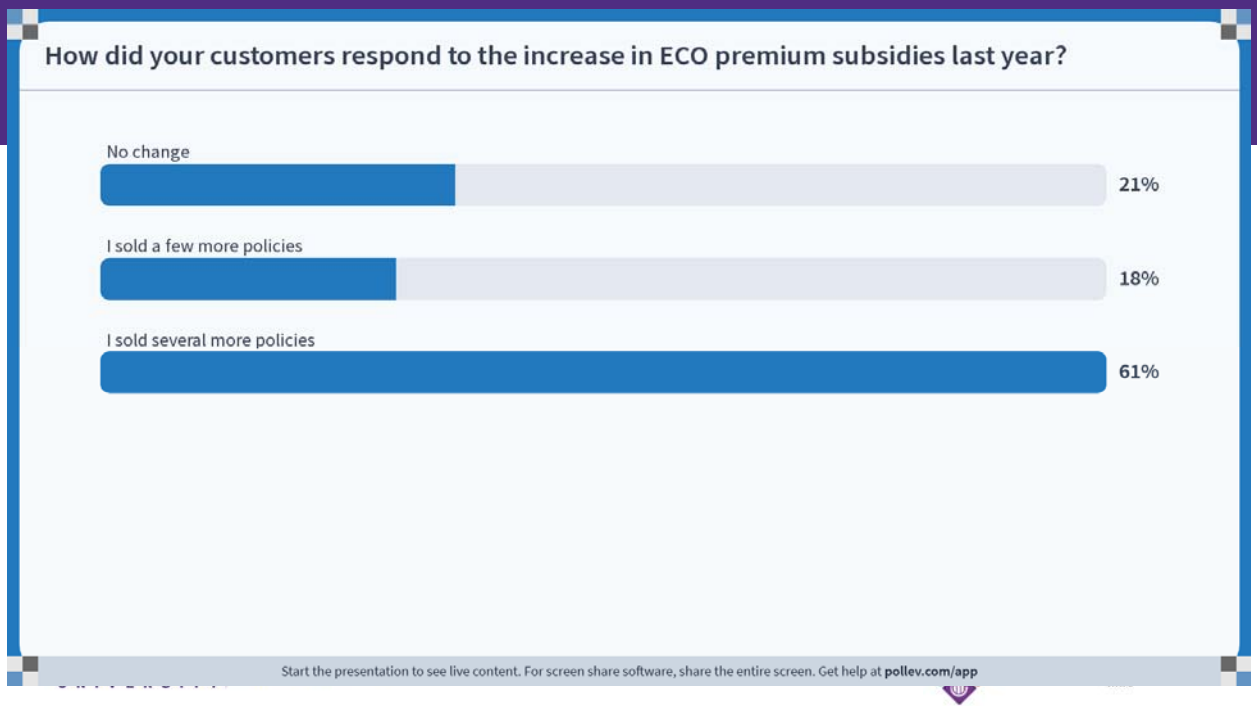
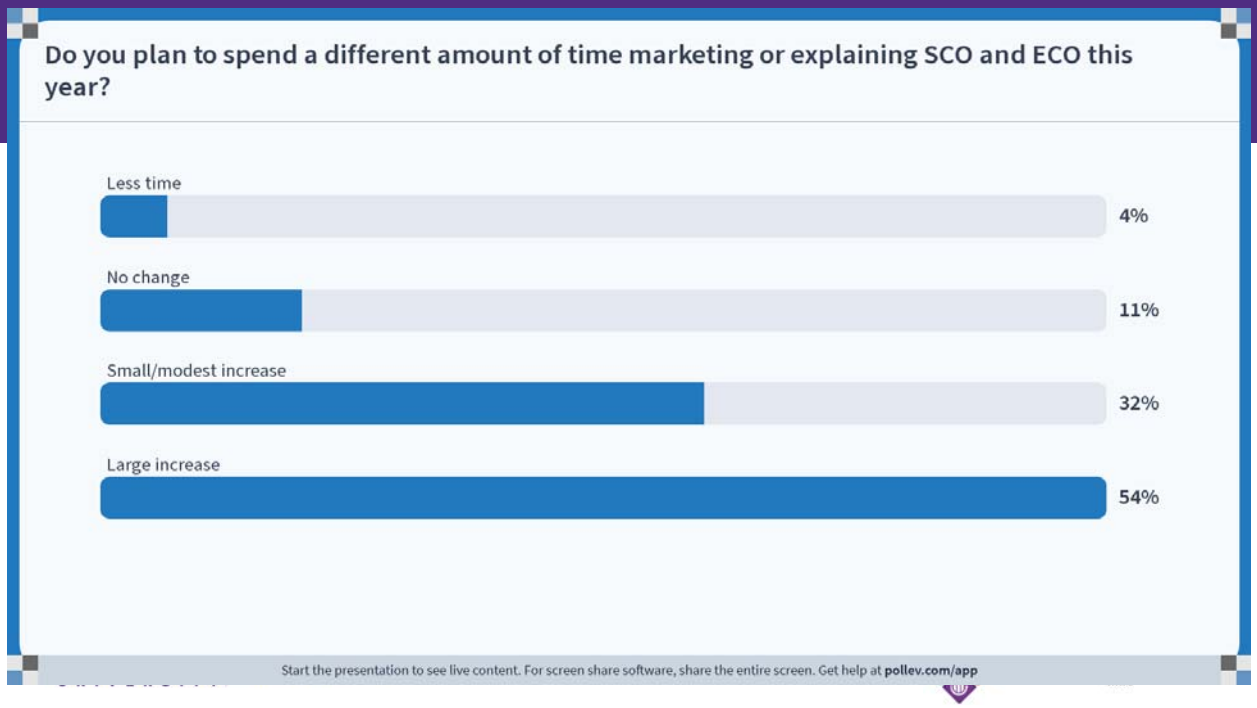
Beginning Farmer/Rancher Benefit

- Definition expanded from 5 to 10 years
- Additional 15% premium subsidy in Year 1, gradually declines to 10% for years 5-10
- Example: 75% Wheat RP
  - Optional Units: $9/acre for a regular policy, $7 for a beginning farmer in years 5-10, $6 in years 1 and 2
  - Enterprise Units: $4/acre for a regular policy, $2 for a beginning farmer in years 5-10, $1 in years 1 and 2
  - High coverage/supplemental policies now around $1-$2 / acre
- Also lowers LRP, PRF





Looking forward

2027 SCO

High coverage policy refresher

Benefits

- 80% premium subsidy…..
- (More) predictable coverage of shallow losses

Concerns

- Still paid out in June
- Still tied to county yields
- Still increases total premium cost substantially
- Still can go a few years without triggering

SCO in 2027

- 2026 only: 86% SCO with new premium subsidy, 90% ECO with new premium subsidy
- Increases underlying coverage from 86% to 90%
  - Increases sizes and likelihood of payouts
    - Which will increase premium cost
- Premium subsidy increases from 65% to 80%
  - Which will decrease premiums
- RMA extended 80% premium subsidy to ECO, MCO

Research on SCO Changes

SCO Expected Net Indemnity Payments Map

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September 2, 2025

Jenny Ifft
Delide Joseph
Chandan Bhattarai
Anup Paudel

Link to article: https://www.agmanager.info/crop-insurance/crop-insurance-papers-and-info...

This study estimates how the Supplemental Coverage Option (SCO) performs with and without the changes to subsidies and coverage levels in the One Big Beautiful Bill Act (OBBBA). We calculate "net indemnities" (payments minus farmer-paid premiums) using 2025 crop prices and premium rates, combined with historic county yield data. By averaging across many possible yield outcomes, we estimate the long-term value of SCO under both the old and new rules. For corn, soybeans, and wheat, expected SCO net indemnities increase by 63–70% with the OBBBA changes. In short, the new law makes SCO more valuable to farmers by lowering their costs and increasing the likelihood and size of payments. Other considerations not analyzed in this study include premium costs and farm-level risk reduction.

https://agmanager.info/crop-insurance/crop-insurance-papers-and-information/sco-expected-net-indemnity-payments-map

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Research on SCO Changes

- Goal: What are joint impacts of OBBBA changes to SCO?
  - Net indemnities before and after SCO changes
- Forward looking analysis, using 2025 prices and premium rates
  - Considers full county yield history and distribution (not actual 2025 yields)

https://agmanager.info/crop-insurance/crop-insurance-papers-and-information/sco-expected-net-indemnity-payments-map

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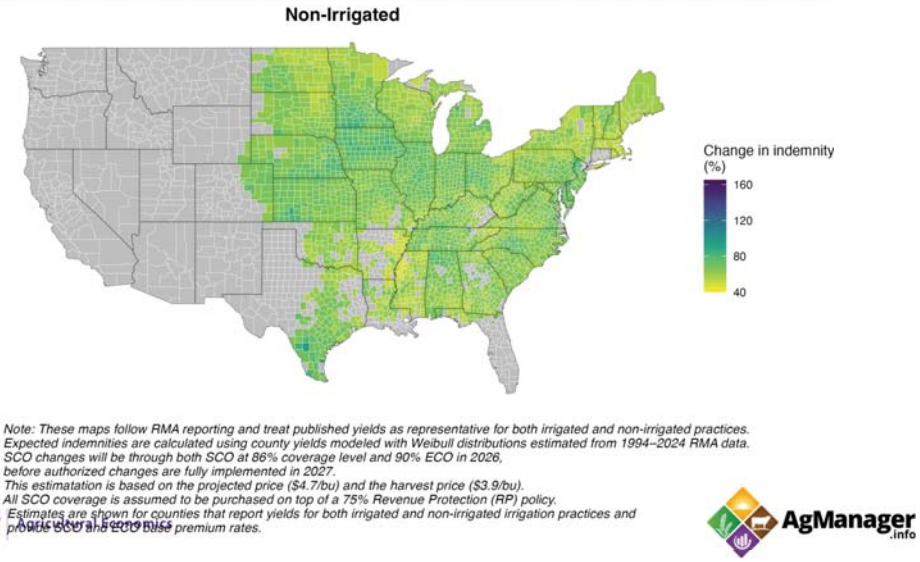
Dryland corn, % change net indemnities



Note: These maps follow RMA reporting and treat published yields as representative for both irrigated and non-irrigated practices. Expected indemnities are calculated using county yields modeled with Weibull distributions estimated from 1994–2024 RMA data. SCO changes will be through both SCO at 86% coverage level and 90% ECO in 2026, before authorized changes are fully implemented in 2027. This estimatation is based on the projected price ($4.7/bu) and the harvest price ($3.9/bu). All SCO coverage is assumed to be purchased on top of a 75% Revenue Protection (RP) policy. Estimates are shown for counties that report yields for both irrigated and non-irrigated irrigation practices and provide SCO and ECO base premium rates.

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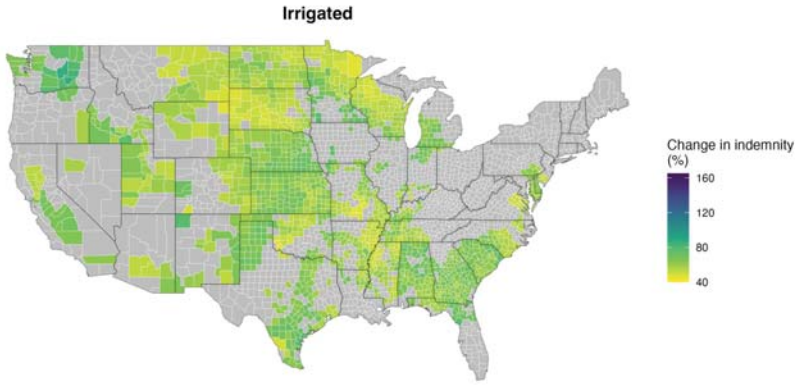
Irrigated corn, % change net indemnities



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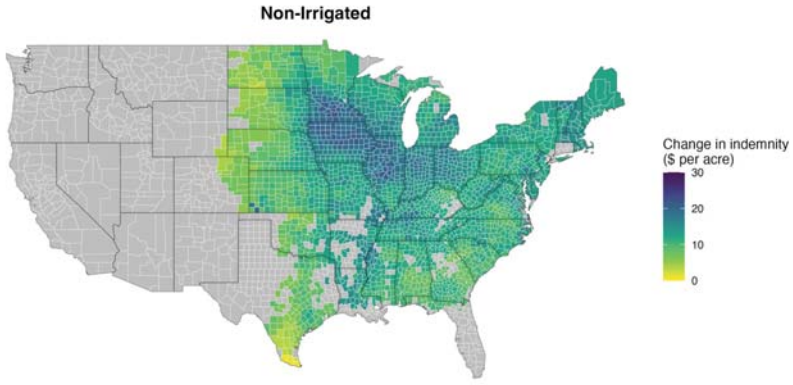

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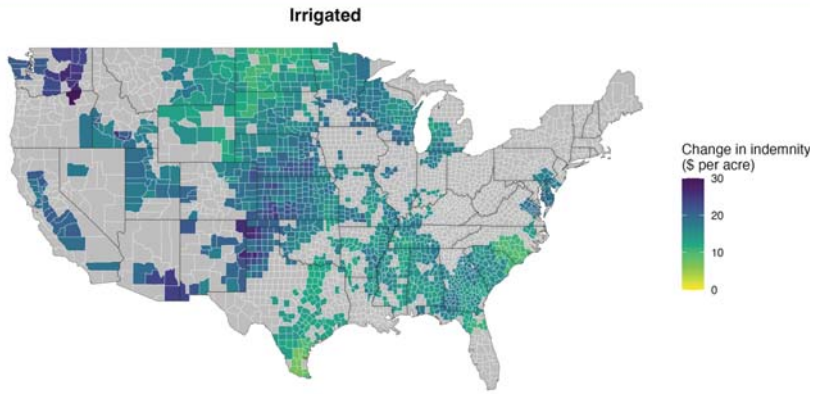

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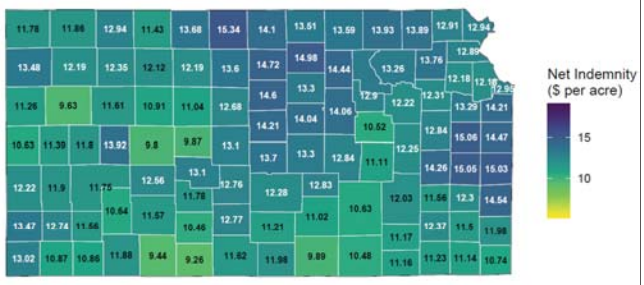
Expected 2025 SCO Net Indemnity Payments for Wheat: Non−Irrigated (Without OBBBA vs With OBBBA)

Prepared by: Chandan Bhattarai, Jennifer Ifft (jifft@ksu.edu), Anup Paudel and Delide Joseph

Without OBBBA

With OBBBA



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Expected indemnities are calculated using county yields modeled with Weibull distributions estimated from 1994−2024 RMA data.
For the OBBBA scenario, SCO premiums for the 86%−90% band are approximated with ECO 90% base rates scaled to SCO liability, since official 90% SCO rates are not yet available.
This estimatation is based on the projected price ($5.94/bu) and the harvest price ($5.41/bu).
All SCO coverage is assumed to be purchased on top of a 75% RP policy.

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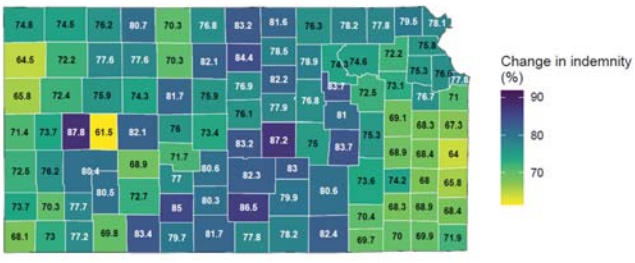
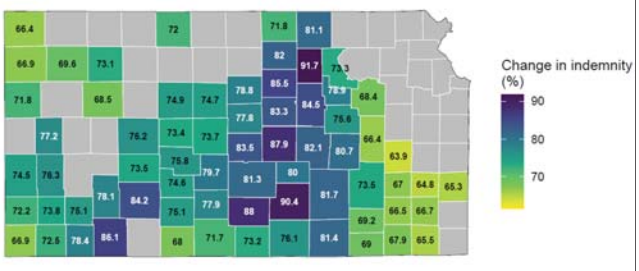
Percent Increase in Expected 2025 SCO Net Indemnity Payments for Wheat (Without OBBBA vs With OBBBA)

Prepared by: Chandan Bhattarai, Jennifer Ifft (jifft@ksu.edu), Anup Paudel and Delide Joseph

Non−Irrigated



Irrigated



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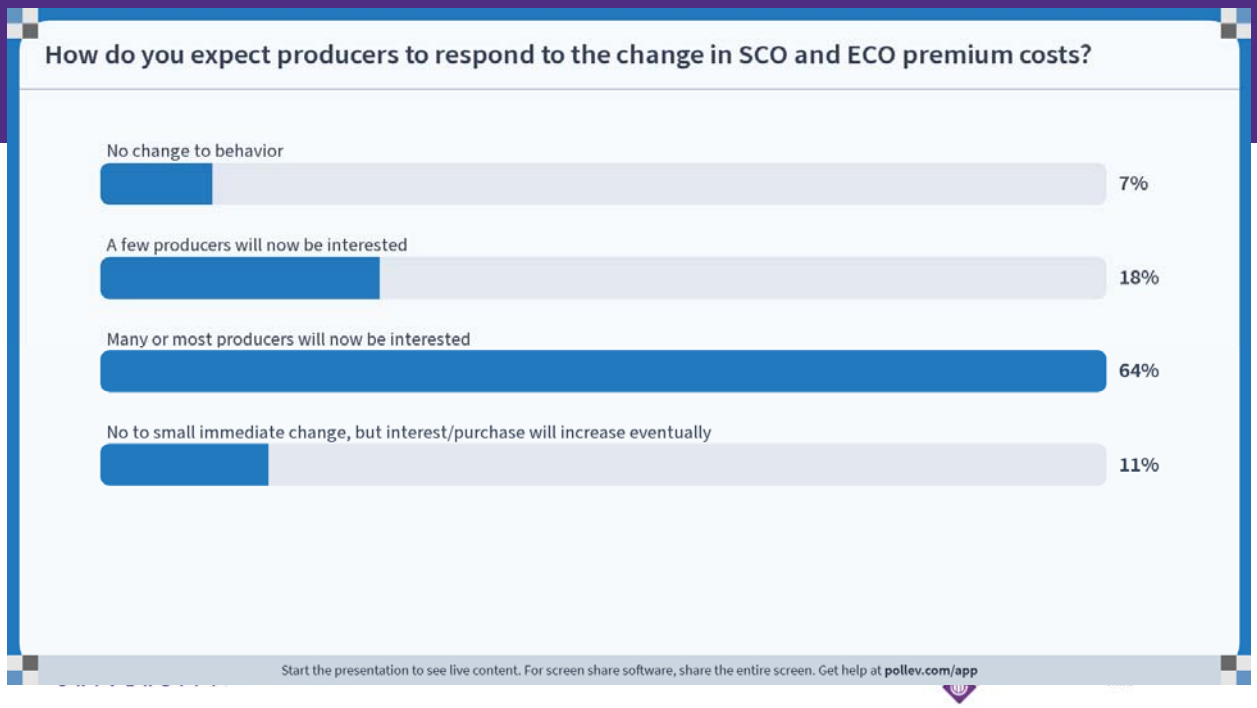

REVISITING UNIT CHOICES

2026 Crop Insurance Decision

- Notwithstanding a “positive black swan”, outlook for tight to negative crop profit margins
- Risk management more important than ever, but producers are squeezed
- Do enterprise units + high coverage policies have a role?

Why Do Producers Use OU?

- Tradition
- Risk preferences / like indemnities
- Favorable ratings
- Large farm
- Low yield correlation
- All/most of the above

Optional Units Revisited

Suppose two fields earn $100 50% of the time and $0 50% of the time. Yields in each field are **uncorrelated.**

Optional Units Revisited

An OU policy will pay $50 for a field-level loss ($0 outcome). An EU policy will pay $100 if both fields experience a loss ($0 outcome)

Optional Units: Basic Example

Outcome	Field 1	Field 2	Probability	OU: Revenue	EU: Revenue
1	$100	$100	25%	$100+$100= $200	$100+$100= $200
2	$100	$0	25%	$100+$50= $150	$100+$0= $100
3	$0	$100	25%	$50+$100= $150	$0+$100= $100
4	$0	$0	25%	$50+$50= $100	$100

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Note: insurance payments in red

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Optional Units: Basic Example

Outcome	Field 1	Field 2	OU	EU
			Expected revenue calculation	
1	$100	$100	$50	$50
2	$100	$0	$37.50	$25
3	$0	$100	$37.50	$25
4	$0	$0	$25	$25
Expected Revenue			**$150**	**$125**

Note: numbers in green are calculated by taking probability times revenue under each outcome in the previous table. **Total expected revenue** sums all numbers in green

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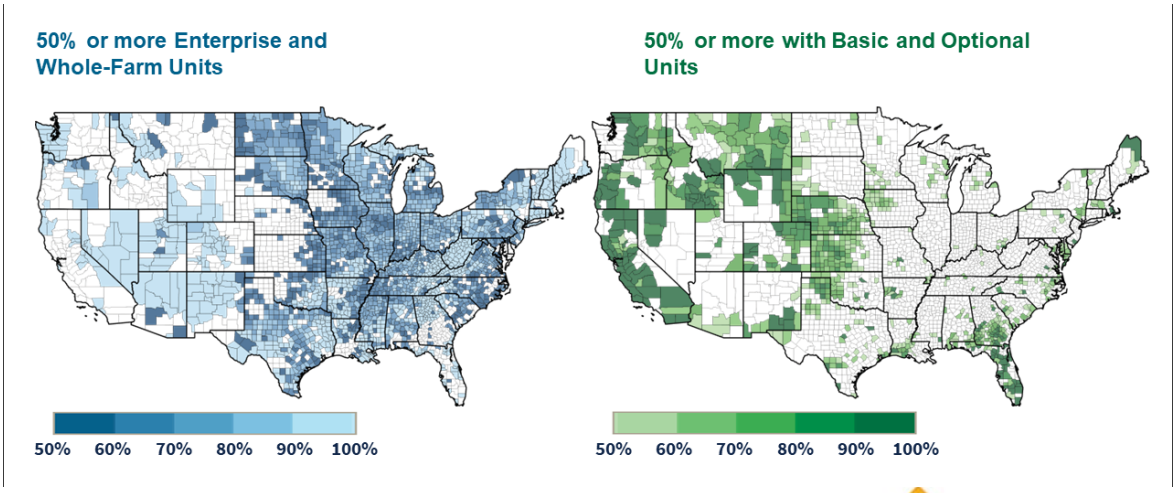
Optional Units: Some observations

- Optional units have higher expected revenue.
  - In this *simple* example, the actuarially fair premium is $50 for OU and the actuarially fair premium for EU is $25
- The lower the correlation between fields and the larger the number of fields, the higher the expected revenue benefit for OU, all else held constant

Optional Units: In Practice

- OU have higher premiums and lower subsidy rates to compensate for higher expected indemnities
- Producers balance higher expected indemnities with cost
  - Premium rates set at the county level

Practice reflects theory



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https://farmdocdaily.illinois.edu/2025/05/impacts-of-premium-support-increase-of-basic-and-optional-units-in-house-reconciliation-bill.html

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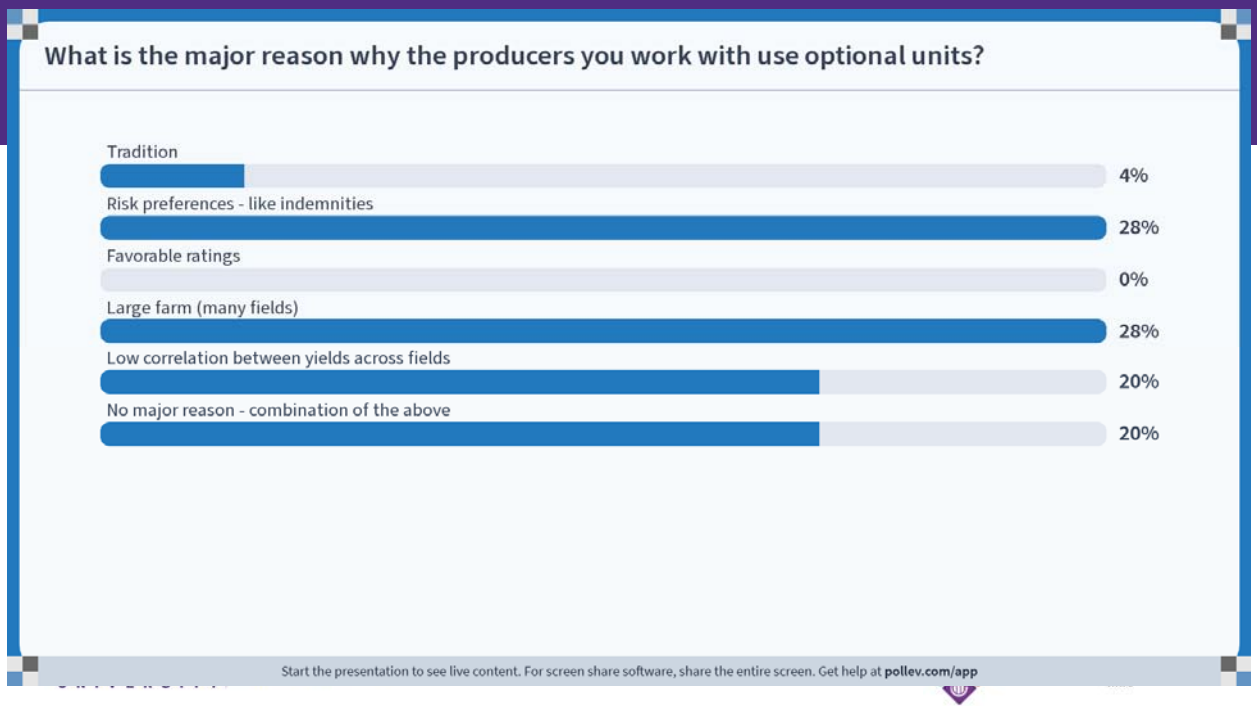

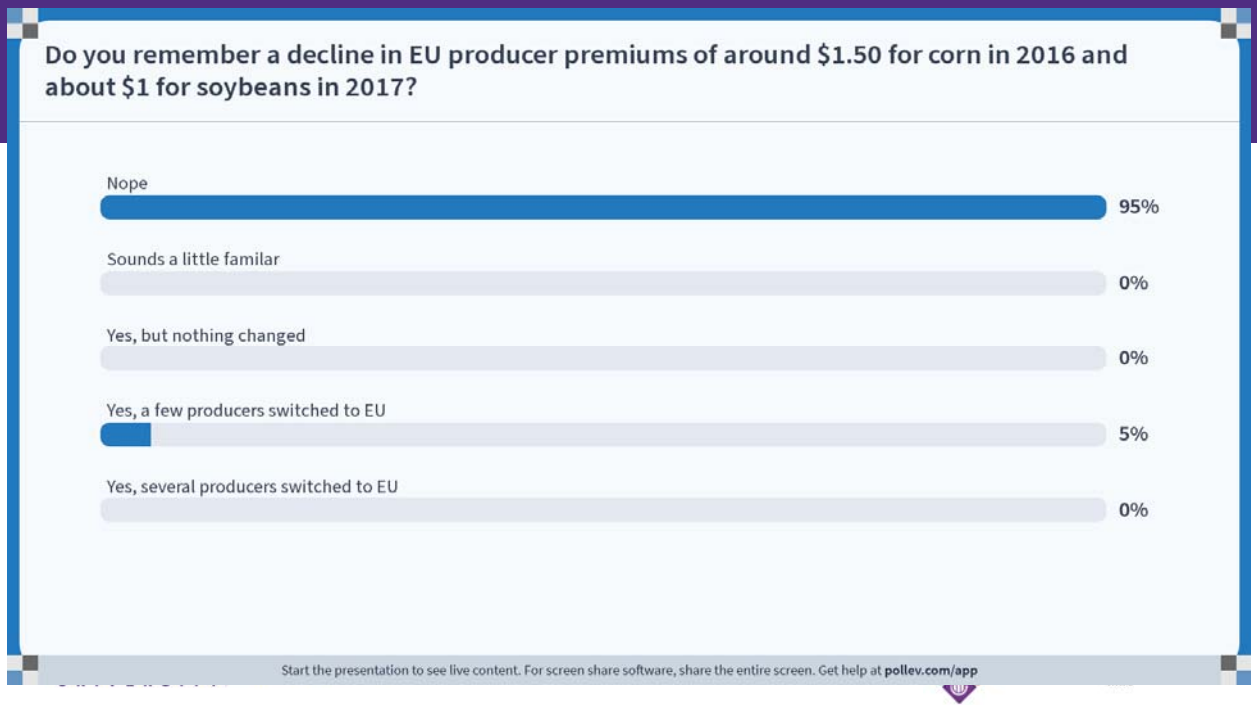

Has the Math Changed?

- High coverage/area policies are “kind of” an extension of EU
- Analysis of using OU versus other options may be merited for some producers
  - 75% EU + SCO costs ~$3/acre less than 75% OU
  - 75% EU + SCO + ECO approximately the same cost as 75% OU

Has the Math Changed?

75% OU

- Field level deep losses always covered, paid in a timely fashion
- Less sensitive to price declines
- May perform better in average but variable yield years
  - 2024 in some areas?

75% EU + SCO + ECO

- Much higher downside
  - Dependent on correlation with county
- Shallow loss payouts: should be frequent for *most* of KS
  - Better outcomes in drought years
  - Sensitive to price declines
- Area plan, pays in June, possibility of a few years with no payout, etc.
- What's new: government share higher for SCO and ECO: long term expected net benefits are higher

Has the Math Changed?

75% OU

- $14/acre premium subsidy ($1.15 increase)

75% EU+ SCO + ECO

- EU: $11/acre premium subsidy ($0.70 increase)
- SCO: $10/acre premium subsidy ($1.80 increase)
- ECO: $12/acre premium subsidy ($2.25 increase)

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Implications

- The lower relative cost to producers for high coverage policies may feel larger than the increase in expected net benefits
- Key consideration: within operation-yield correlation versus net benefit of high coverage policies
  - Larger producers are (probably) more correlated with the county
- Relationship of operation w/county yields and rates (still) relevant

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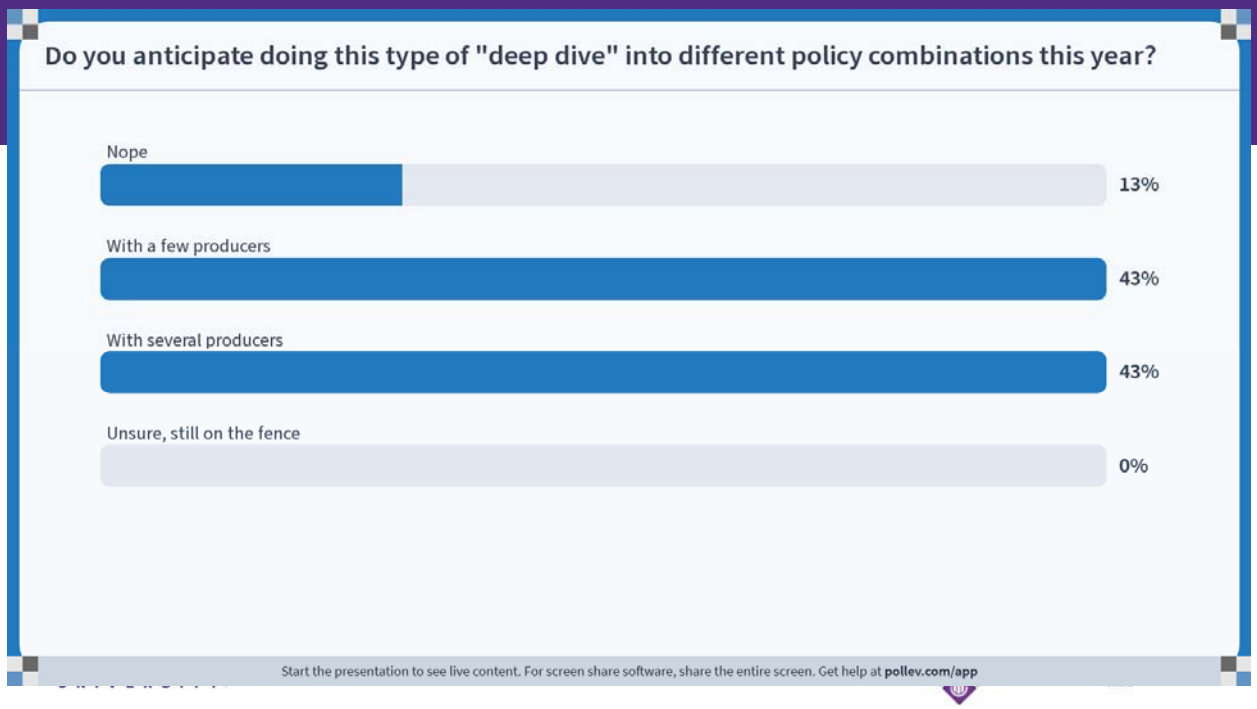

Moving forward

- What additional analysis or decision tools would be helpful?
  - 65%/70% OU + SCO?
  - Research on within operation-yield correlation and high coverage policy outcomes?
  - Keep doing basic education on SCO, ECO, MCO, etc.
  - Something else?

Conclusion

- Underlying policies cost less, but basic tradeoffs similar
- High coverage policies cost much less (SCO, ECO, MCO)
- Potential opportunity for marketing “higher value” policies

Resources

Analysis of SCO Changes

https://agmanager.info/crop-insurance/crop-insurance-papers-and-information/sco-expected-net-indemnity-payments-map

Crop Insurance Maps (updates coming for 2026 spring planted crops!)

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

Yield Correlation Tool

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

SCO ECO Payout Calculator

https://agmanager.info/crop-insurance/crop-insurance-papers-and-information/2025-supplemental-coverage-option-sco-and

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