

# High Coverage Crop Insurance Policies: 2023 Considerations and 2022 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 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%. Use of SCO is a [relevant consideration](#) for the 2023 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 from 86% to either 90% or 95%. This article covers the fundamentals of these high coverage policies, the relevance of these policies in the 2023 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. Second, premiums are higher because payouts will likely be larger and more frequent. 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 2023: Examples and Discussion

The high cost of inputs continues to be a major concern for crop producers. Harvest prices are also expected to be relatively high, leading to crop insurance guarantees at levels similar to or slightly higher than 2022. The two examples below demonstrate current expected revenue and expense levels for 2023.

For northeast Kansas, direct expenses for non-irrigated corn are estimated to be around \$559 per acre, with total expenses around \$736 per acre. Based on estimated corn prices of \$5.96 per acre and an expected yield of 145 bushels per acre, non-irrigated corn in Nemaha County insured under a 70% Revenue Protection (RP) policy would have a liability or guarantee of \$605 per acre and a producer premium of \$14 per acre. An SCO endorsement (which increases coverage to 86%) would cost an additional \$18 per acre and a 95% ECO endorsement would cost \$26 per acre.

For southwest Kansas, direct expenses for irrigated corn are estimated to be around \$749 per acre, with total expenses around \$1,208 per acre. Based on estimated corn prices of \$5.96 per acre and an expected yield of 225 bushels per acre, non-irrigated corn in Finney County insured under a 70% RP policy would have a liability or guarantee of \$939 per



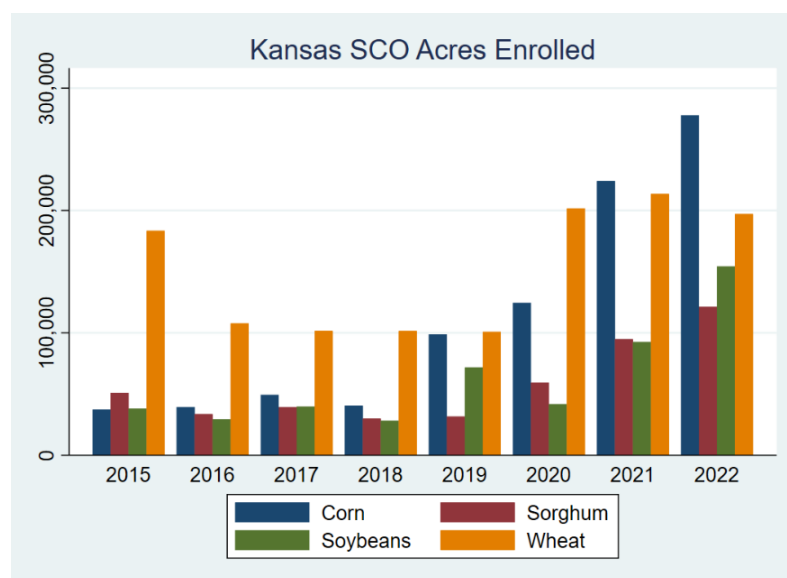
acre and a producer premium of \$9 per acre. An SCO endorsement (which increases coverage to 86%) would cost an additional \$12 per acre and a 95% ECO endorsement would have a producer premium of \$35 per acre.<sup>1</sup>

Both examples show how a 70% RP policy will provide a guarantee that is close to or covers direct expenses. In other words, 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. If a producer wants to have a guarantee that covers profit margins or indirect expenses such as cash rents, SCO or ECO may be [worth consideration](#). 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.

### Historic use of SCO and ECO

SCO has been increasing in recent years (see Figure 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 is lower than SCO (see Figure 2), but ECO was only first available in 2021. These policies are used across Kansas, with some regions having relatively higher use for specific commodities. County-level maps of combined 2022 SCO and ECO participation are available in Figures 3-6 at the end of this article.

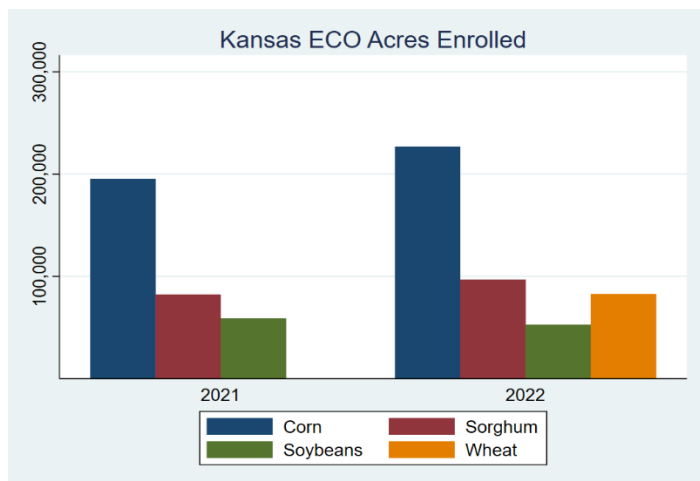
**Figure 1. SCO use has increased in recent years**



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

<sup>1</sup> 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>.

**Figure 2. ECO participation is 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 2022 used the 95% coverage level. Over 70 percent of all SCO policies (for all commodities) purchased in 2022 had an underlying Yield Protection (YP) or RP policy at the 70% or 75% coverage level and 27 percent had an underlying coverage level of 80%. Nearly all ECO and SCO endorsements had underlying RP policies.

In 2021, ECO and SCO endorsements for corn and grain sorghum RP policies in Kansas received more indemnities than paid in producer premiums, although some individual producers may not have received indemnities. For ECO and SCO for soybeans and SCO for wheat, indemnities were lower than producer premiums. 2022 SCO and ECO payouts will not be determined for a few more months, when RMA finalizes 2022 county yields. Another consideration for using SCO or ECO is that payouts take a longer time to be paid out than for individual policies. 2022 harvest prices were higher at harvest than at planting for soybeans, corn, and sorghum, so any potential indemnities will be triggered by a yield decline. Given the large payouts on underlying policies in 2022, substantial payouts are anticipated for many producers that used SCO and ECO. For the entire state of Kansas, current 2022 loss ratios for RP policies are 1.9 for corn, 2.3 for sorghum, 2.0 for soybeans, and 1.1 for wheat.

**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-2023-webinar-recording-and-slides>

- Analysis of the 2023 ARC and PLC decisions



- Introduction to SCO
- Analysis of SCO and explanation of decision support tools
- Recordings and slides available

#### **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 2023 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 2023**

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

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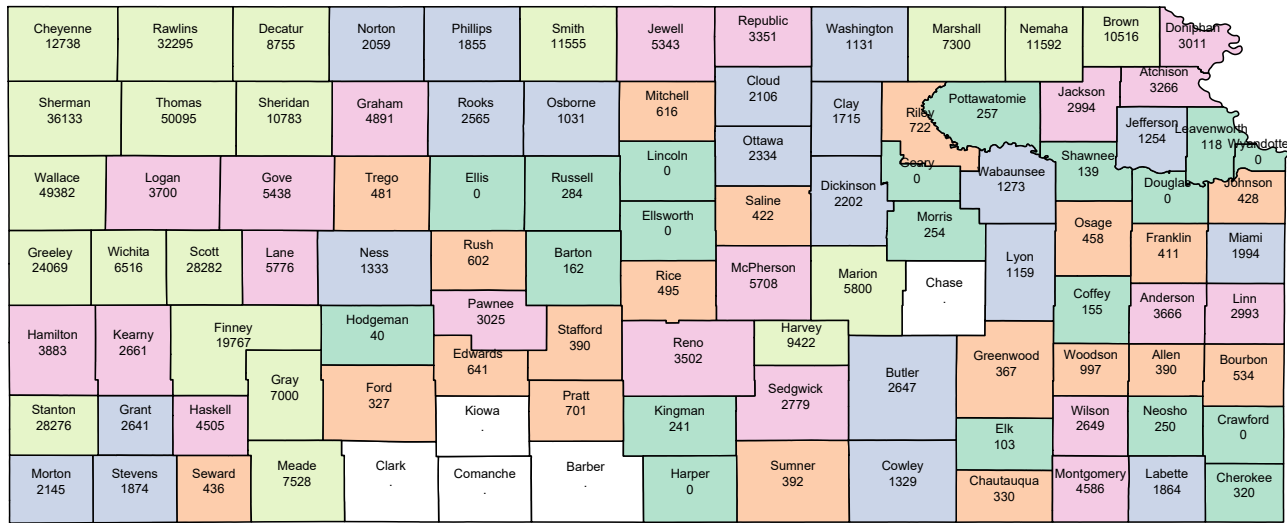
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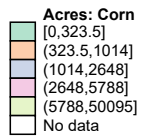
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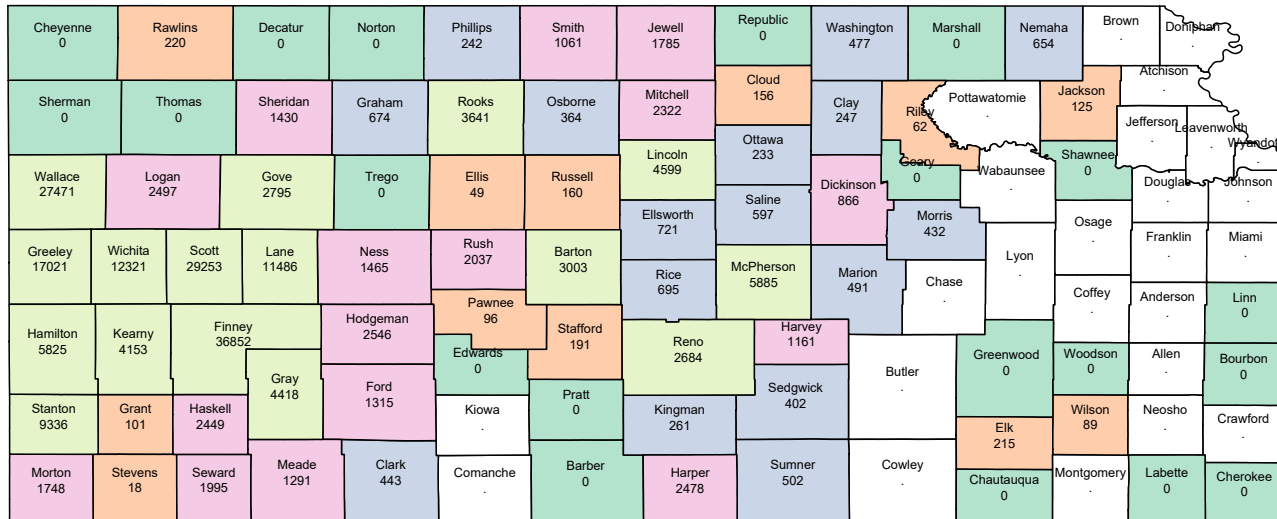
# Figure 3: 2022 Kansas Combined Corn SCO and ECO acres



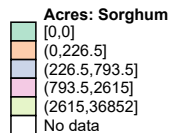
Source: USDA Risk Management Agency



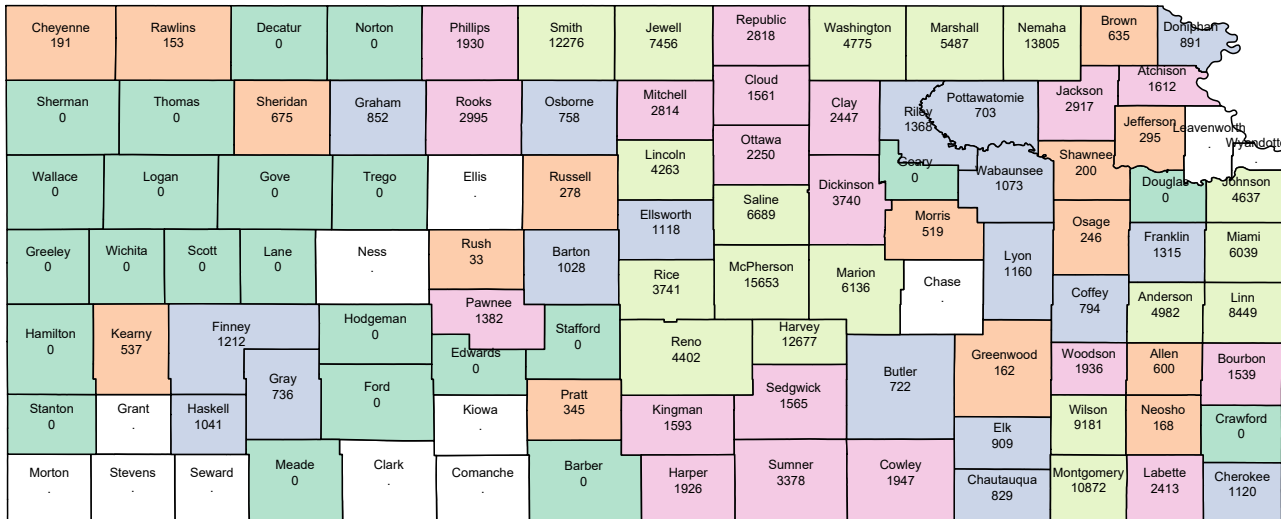
# Figure 4: 2022 Kansas Combined Sorghum SCO and ECO acres



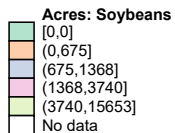
Source: USDA Risk Management Agency



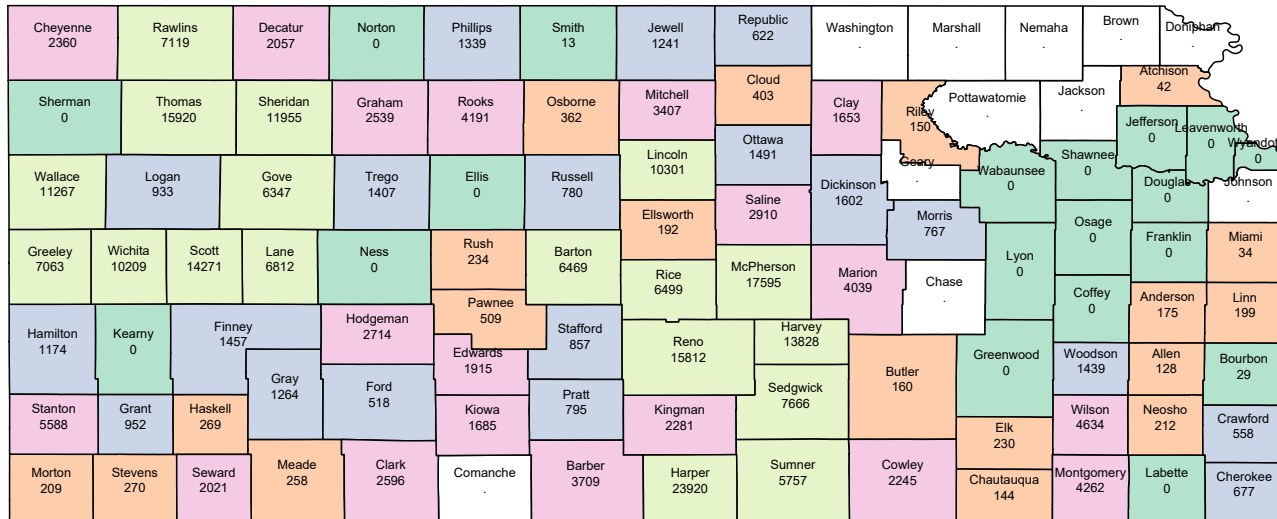
# Figure 5: 2022 Kansas Combined Soybeans SCO and ECO acres



Source: USDA Risk Management Agency



# Figure 6: 2022 Kansas Combined Wheat SCO and ECO acres



Source: USDA Risk Management Agency

