Kansas Crop Insurance Workshop

WATTS AND ASSOCIATES

OCTOBER 2025

Overview

- Crop Insurance Industry Changes
- Supplemental Area Plans
- Implications of OBBBA
- Margin Coverage Option (MCO)

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- Started in response to the 1980s farm crisis during the advent of computing
- USDA RMA Contractor — Program Research & Development, Reviews, and Evaluations
- Public-Private Partnership (508h) — Private Sector Development and Maintenance
- Public Policy Advising
- International Crop Insurance Development
- Instruction and Training

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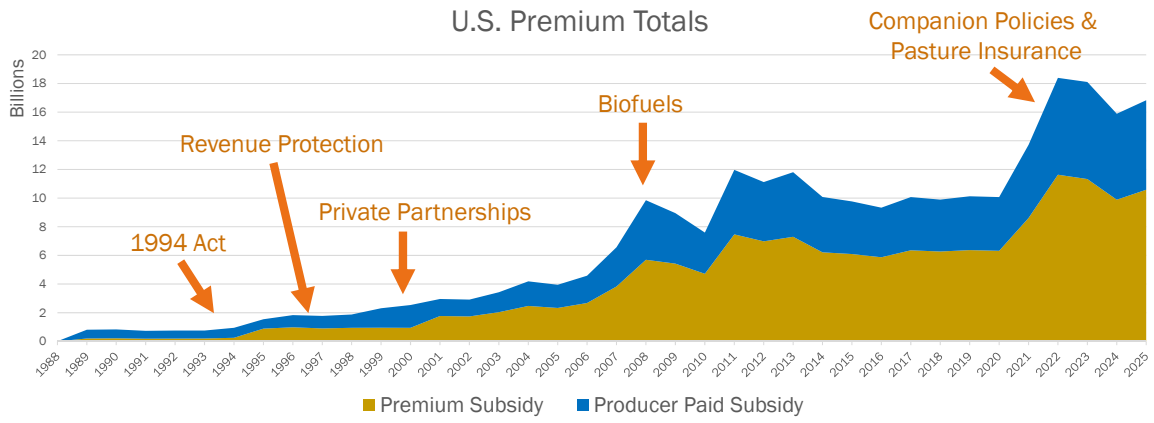
Crop Insurance Industry

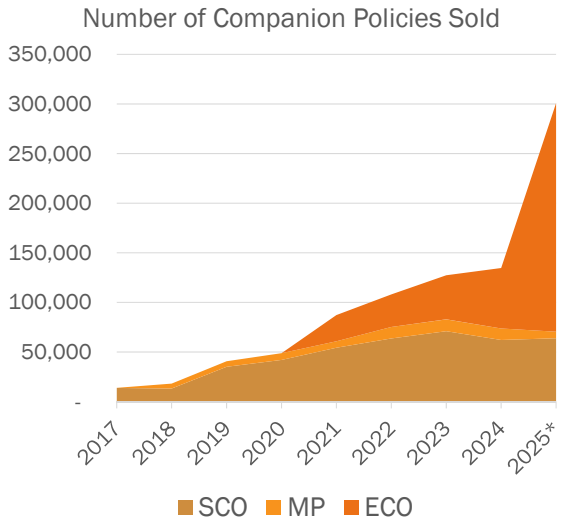
- The **Federal Crop Insurance Corporation (FCIC)** overseas the Federal Crop Insurance Program which provides economic stability to agricultural production in the United States.
- The program is administered by the USDA **Risk Management Agency (RMA)**.
- Policies are underwritten by **Approved Insurance Providers (AIPs)** who are private insurance companies that experience both underwriting gains and losses under a federal reinsurance agreement known as the **Standard Reinsurance Agreement (SRA).**
- Producers are serviced by **Agencies** who operate independent of AIPs and compete for a fixed rate commission based on the quality of service the provide to producers.
- The premium for each policy is cost-shared between producers and the federal government.

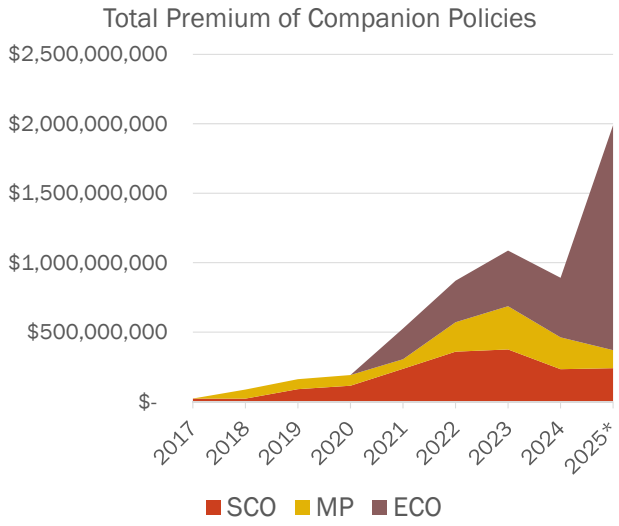
Crop Insurance Industry Changes



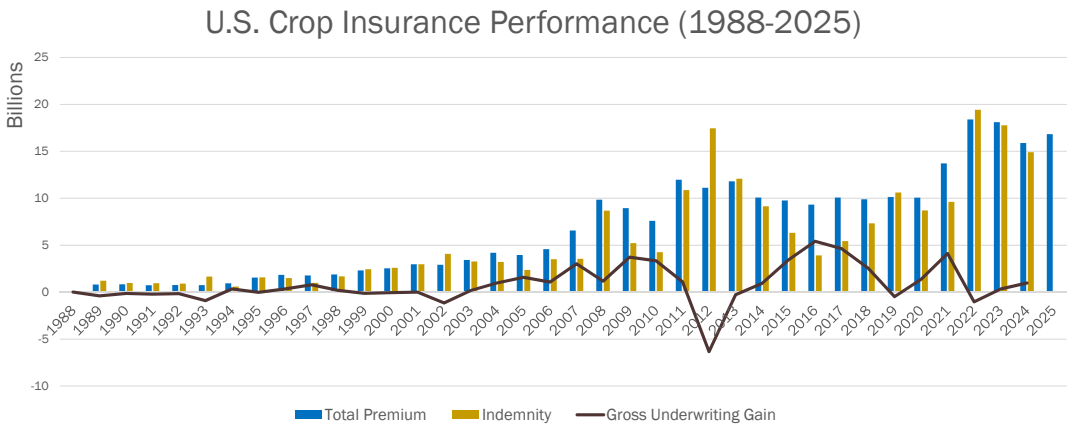
Data Source: USDA RMA Summary of Business

Area-Based Companion Policies





Crop Insurance Industry Changes



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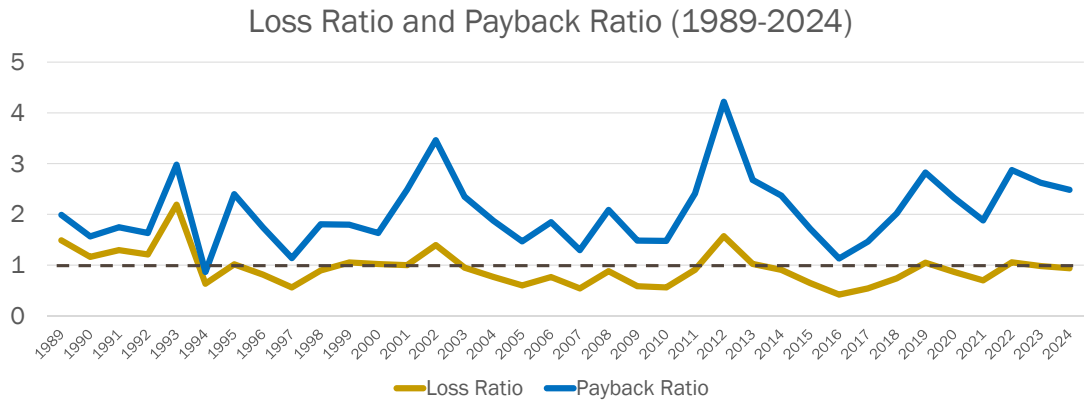

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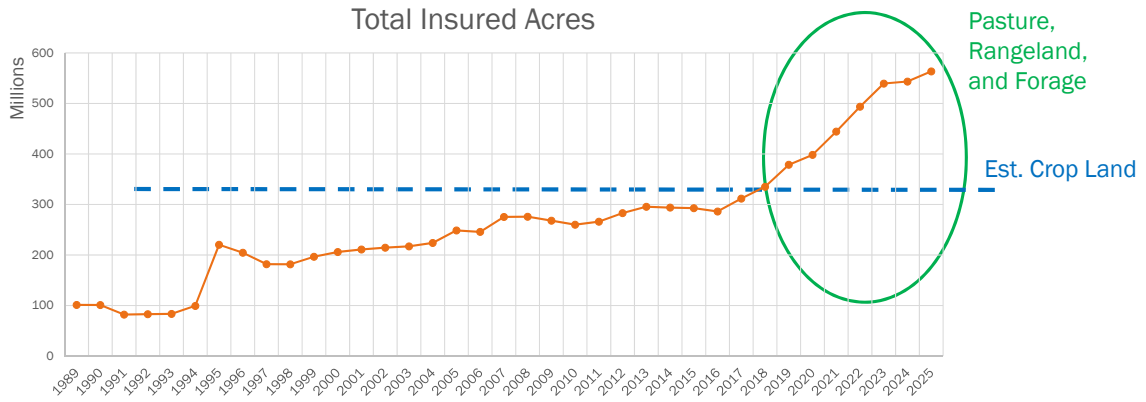

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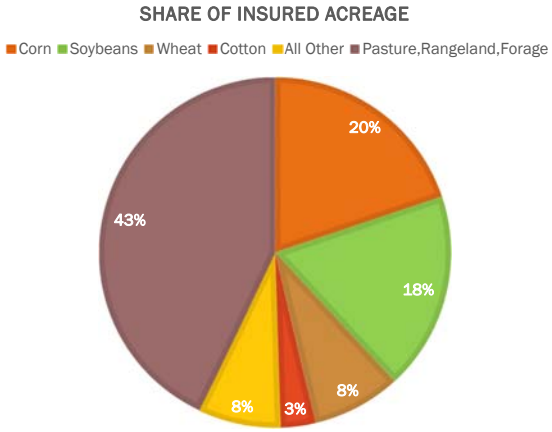
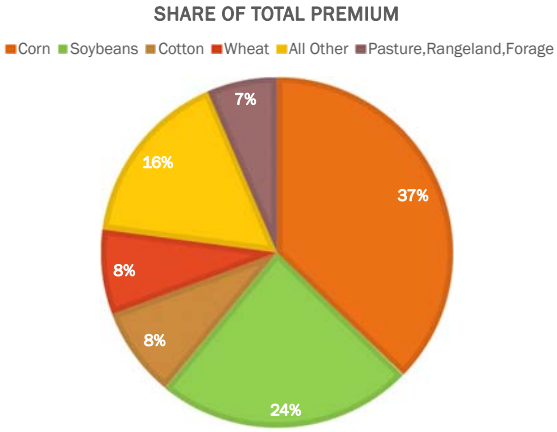
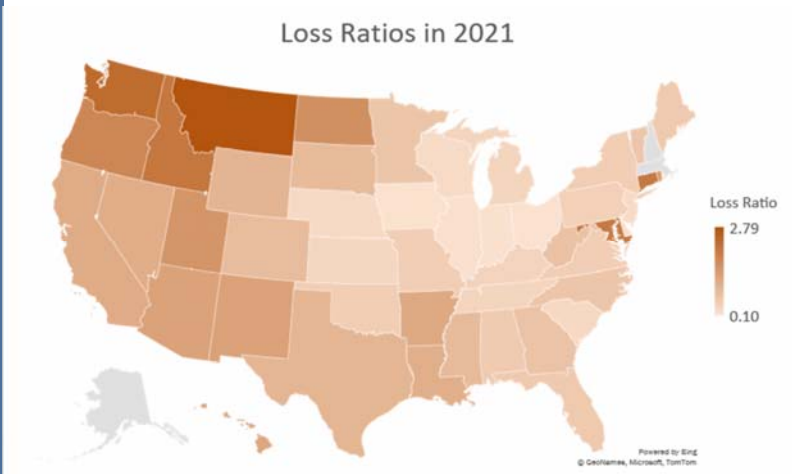
Crop Insurance Industry Changes

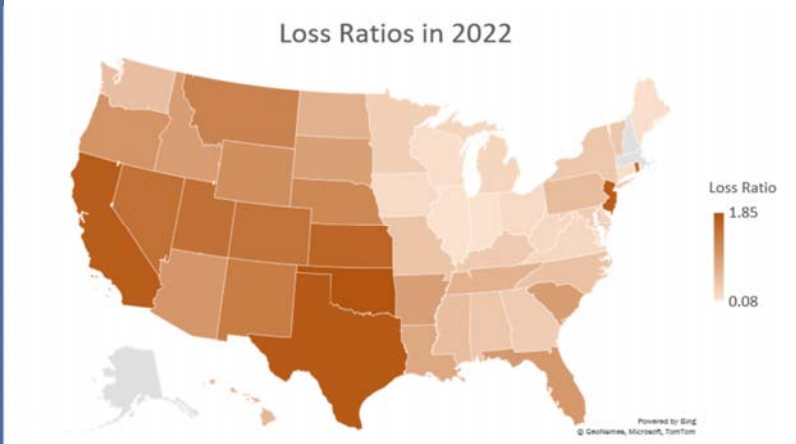




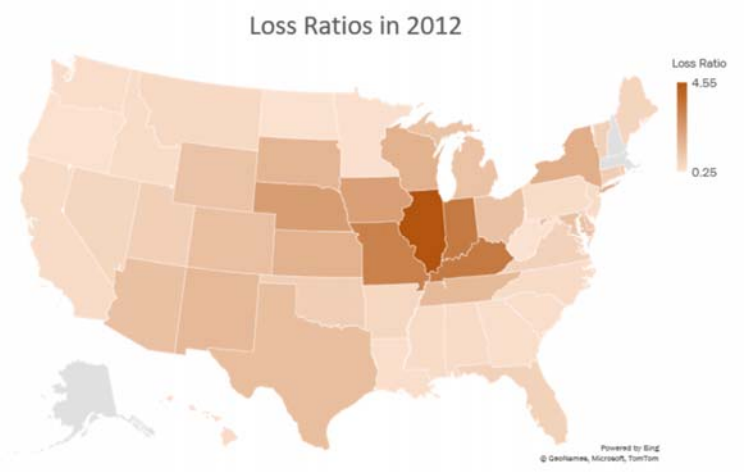
2021 Drought



2022 Drought



2012 Drought



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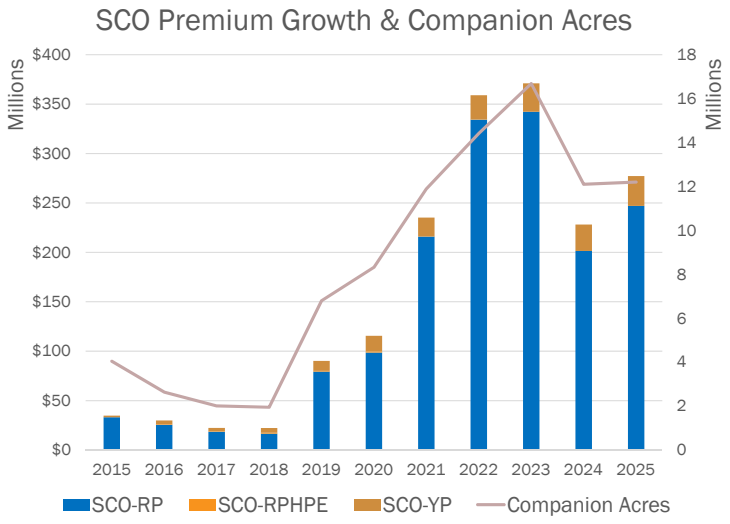

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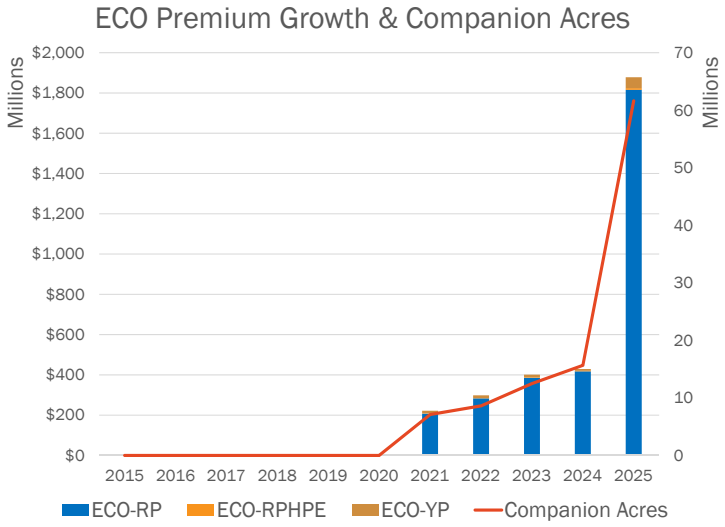
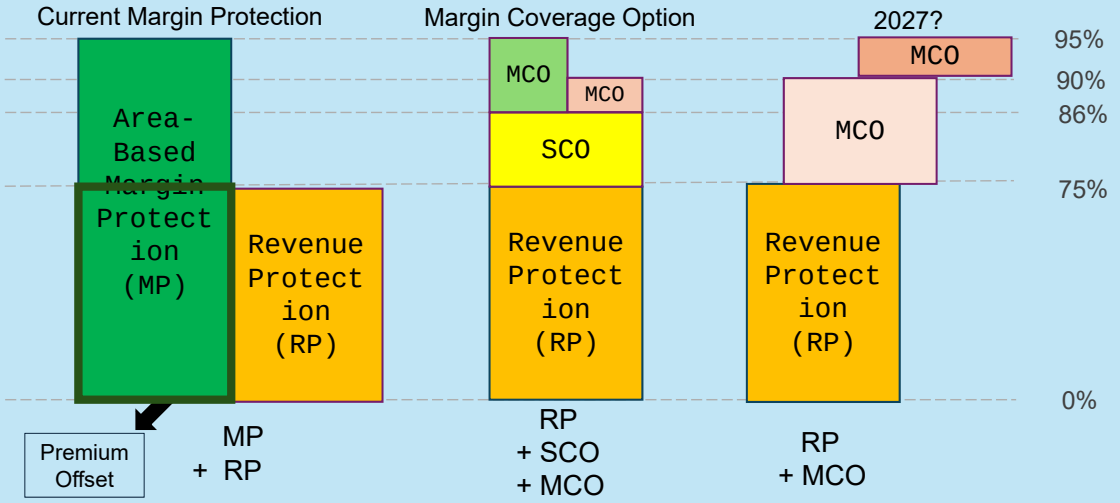


Supplemental Area Plans

The program's expansion

	Individual	Companion	Area
Yield	YP, APH	SCO, ECO	AYP
Yield x Price	RP	SCO, ECO	ARP
Yield x Price - Cost		MCO	MP

Supplemental Area Plans
Banded Coverage



Companion Plans are NOT a substitute for good individual Coverage

Companion Policies **do not**:

- Offer any prevented plant or replant coverage
- Protect against farm-level yield risks
- Offer timely indemnification for losses

SCO, ECO, and MCO are all useful tools and will be a fit for many producers in 2026, but buying down your individual coverage brings meaningful trade-offs.

Implications of OBBBA

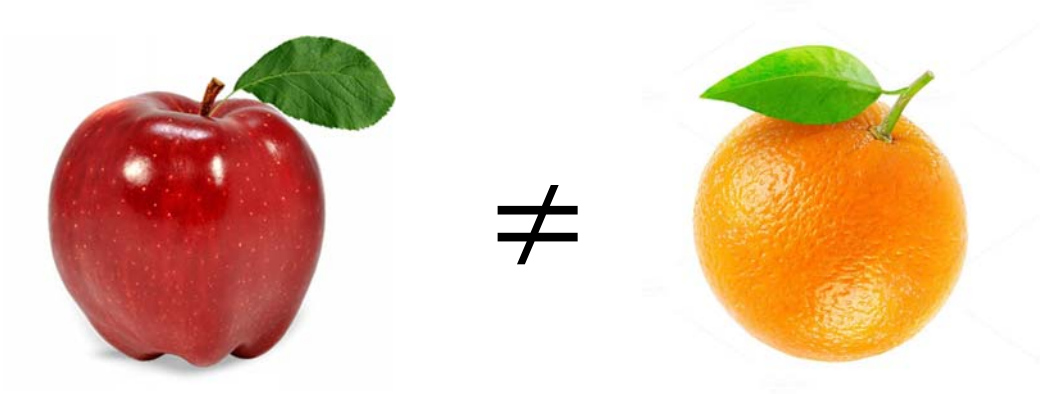
MCO Implementation

- MCO **was** approved May 2024 for first SCD Sep 30, 2025 (Crop Year 2026)
- W&A has worked through the RMA concurrence and PASS systems process for final draft materials (based on expert review requests, NCIS input, and AIP requests)
- All underwriting materials were published by 4/30.
- www.margincoverageoption.com was made live May 1st, 2025
- Contract change date **was** June 30th, 2025.

Implications of OBBBA

- OBBBA is signed on July 4, 2025. Among other changes text of OBBBA modifies SCO, effective for 2026, to:
  - Increase coverage level from 86% to 90%,
  - Increase subsidy rate to 80%, and
  - Remove prohibition on FSA-ARC acres for SCO
- Crop Year 2026 started on July 1, 2025
- RMA released a bulletin on August 21, which stipulates for 2026:
  - SCO coverage level will be left at 86%
  - Coverage at 90% and 95% will be available through ECO and MCO.
  - All three plans will receive an 80% subsidy rate

MCO is Different Coverage



ECO ≠ MCO

Introduction to MCO

The Basics

- MCO is a new insurance endorsement, attaching to RP, RP-HPE, or YP.
- MCO takes key parts from MP and ECO and combines them into a novel, simplified margin product.
- Coverage is offered in a band (like ECO), but protection includes coverage for risks associated with increasing production costs.
- MCO covers combined effects of a change in commodity price, reduction in (area) yield, and/or increase in the price of inputs (N, P, K, Diesel, Natural Gas)
- Ultimately, MCO has the potential to replace MP as a simplified alternative.

Introduction to MCO

The Basics

- MCO will use many of the same inputs used in MP to determine input costs, such as:
  - Urea
  - Diammonium Phosphate (DAP)
  - Diesel
  - Potash (unlike that of MP, potash price will have price coverage that moves / fluctuates)
- In addition to these, irrigation costs – derived from the natural gas market price, instead of diesel (as used in MP), will be used for irrigated practices, where offered.
- MCO does not include fixed or interest costs

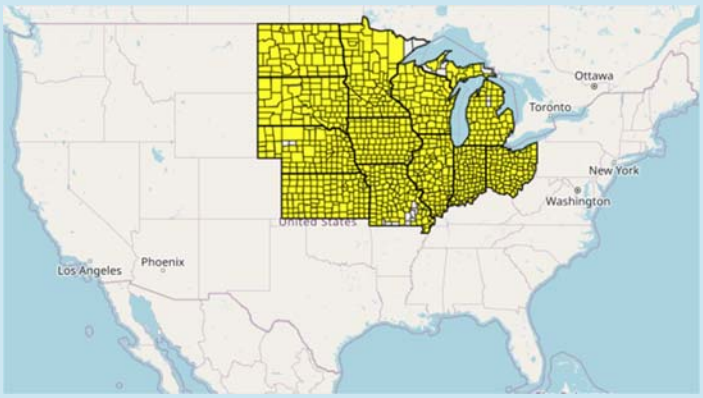
Introduction to MCO

The Basics

- Triggers based on RMA Expected Area Yields and RMA Harvest Area Yields
- Uses the same crop projected prices as Margin Protection
- Uses the same crop harvest prices as Margin Protection and the underlying individual policy

5. Introduction to MCO

Pilot Counties – Corn

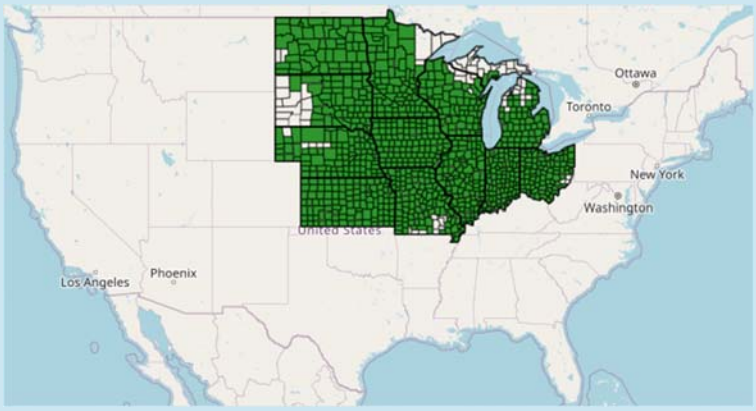


Pilot counties to be the 12 MP states that were prior to this year's nationwide expansion.

This puts MP and MCO head-to-head.

5. Introduction to MCO

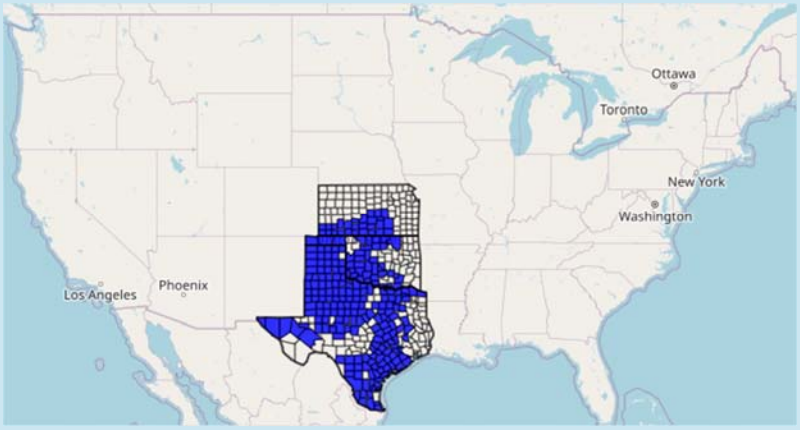
Pilot Counties – Soybeans



Pilot counties to be the 12 MP states prior to this year's nationwide expansion.

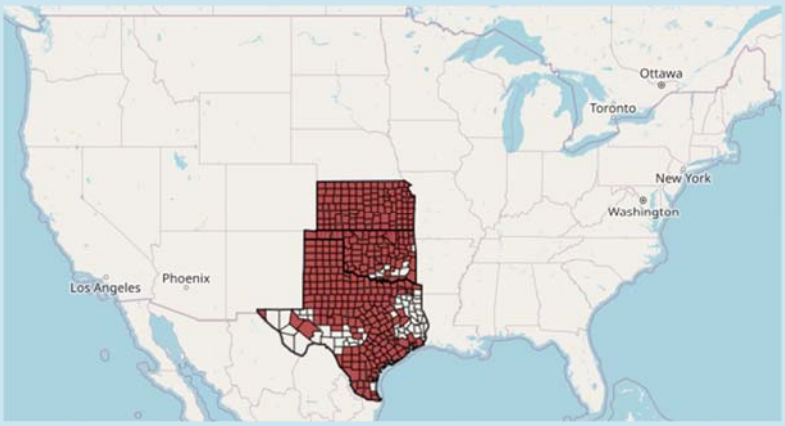
This puts MCO and MP head-to-head.

3. Introduction to MCO
Pilot Counties – Cotton



All counties with SCO offers in Texas, Oklahoma, and Kansas.

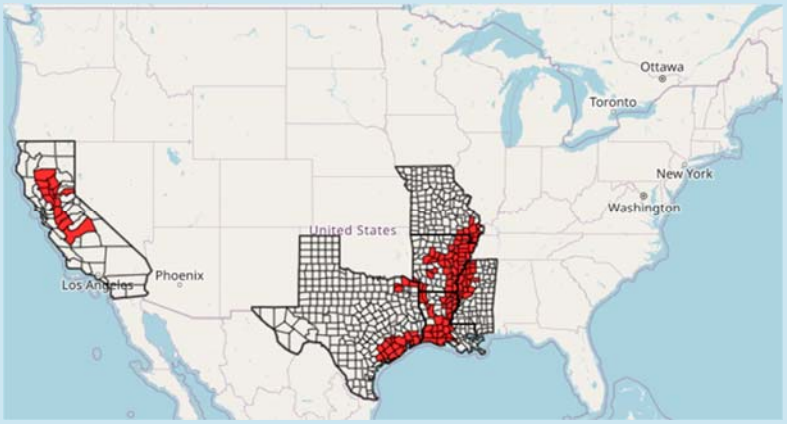
3. Introduction to MCO
Pilot Counties – Grain Sorghum



All counties with SCO offers in Texas, Oklahoma, and Kansas.

3. Introduction to MCO

Pilot Counties - Rice



Pilot counties are all SCO rice counties in Arkansas, California, Louisiana, Missouri, Mississippi and Texas.

How does it work? 2025CY MCO-RP Corn; Pottawatomie County

Step 1: Underlying Revenue Policy and Expected Crop Value

*Projected Price or Harvest Price X Approved Yield = **Expected Crop Value***

MAX($4.56, $4.15) X 220 = $1003.20

Projected Price higher than Harvest Price

Step 2: Coverage Range

*Trigger Level – Lower Coverage Level = **Coverage Range***

95% - 86% = 9%

Step 3: MCO Protection (per acre)

*Expected Crop Value X Coverage Range X Coverage Percentage = **MCO Protection***

$1003.20 X 9% X 100% = $90.29

MCO Producer Premium: $11.09/ac

Step 4: Expected Margin

Expected Area Yield X Higher of Projected or Harvest Margin Price = Expected Area Revenue

202.7 X MAX($4.56, $4.15) = $924.31

*Expected Area Revenue – Expected Cost = **Expected Margin***

$924.31 - $176.54 = $747.77

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How does it work?

2026CY MCO-RP Spring Wheat: Whitman County, WA

Step 5: Trigger Margin

Expected Margin – ((1- Trigger Level %) X Expected Area Revenue) = ***Trigger Margin***

$747.77 – (5% X $924.31) = $701.55

Step 6: Harvest Margin

Final Area Yield X Margin Harvest Price = Harvest Area Revenue – Harvest Cost = ***Harvest Margin***

196 X $4.15 = $813.40 – $185.27 = *$628.13*

Step 7: Payment Factor

Trigger Margin – Harvest Margin = Area Margin Loss

$701.55 – 628.13 = $73.42

Area Margin Loss / (Expected Area Revenue X Coverage Range) = ***Payment Factor (MAX 1.00)***

$73.42 / $83.19 = MIN(0.8826, 1.00)

Step 8: MCO Indemnity (per acre)

MCO Protection X Payment Factor = ***MCO Indemnity***

$90.29 X 0.8826 = $79.69

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5. Helping Producers Make Good Decisions

Toolkit

- Tools to view offers and estimate premiums are available to everyone.

www.margincoverageoption.com

WATTS AND ASSOCIATES Crop Insurance Division

Internal Use

Thank you

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