



The Enhanced Coverage Option (ECO) Crop Insurance Program for 2022

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The Enhanced Coverage Option (ECO) allows producers to supplement their current underlying individual insurance coverage and provides area-based coverage for a portion of the deductible of the producer's underlying policy in a manner similar to the Supplemental Coverage Option (SCO). ECO utilizes the same expected and final area yields, projected and harvest prices, and payment factors as SCO but covers a band from 86% (where SCO coverage ends) up to 90% or 95% of expected crop value. Like SCO, ECO is based on a producer's underlying insurance coverage.

In Louisiana, selected crops that are eligible for the ECO policy include but are not limited to: wheat, rice, cotton, corn, grain sorghum, peanuts, and soybeans. The exact premium cost depends on the crop, parish (county), type of coverage (e.g. yield protection or revenue protection), and the ECO trigger level selected by a producer (e.g. 90% or 95%). The government pays a 51% subsidy for ECO coupled with an underlying yield protection policy and a 44% subsidy for ECO with an underlying revenue protection policy. Unlike SCO, if a producer elects ECO and ARC for the same crop on their farm, ECO coverage for that crop on that farm will not be affected. For cotton, STAX and ECO are mutually exclusive.

A producer may purchase ECO as an option to their underlying policy. SCO and ECO can be purchased since their coverage does not overlap. ECO may not be purchased in conjunction with Margin Protection (MP), Area Risk Protection Insurance (ARPI), Hurricane Insurance Protection-Wind Endorsement (HIP-WI), or for any acres insured under the Catastrophic Risk Protection Endorsement (CAT) or STAX.

ECO follows the coverage of the producer's underlying policy. If the producer chooses yield protection, then ECO covers yield loss. If the producer chooses revenue protection, then ECO covers revenue loss. The amount of ECO coverage depends on the crop value, which is based on the liability and coverage level for the underlying policy. However, ECO differs from the underlying policy in how a loss payment is triggered. The underlying policy pays a loss on an individual unit basis and an indemnity is triggered when the producer sustains an individual loss in yield or revenue. ECO pays a loss on area basis, and an indemnity is triggered when there is an area-level loss in yield or revenue.

ECO triggers when county average revenue falls below either 90% or 95% of the expected level. The full amount of the ECO coverage is paid when county revenue falls to 86% of the expected county revenue of yield. Figure 1.

Figure 1. Example of ECO coverage at the 95% protection level (left) and 90% protection level (right).

Deductible (no coverage)	100-95%	Deductible (no coverage)	100-90%
ECO Coverage range	95-86%	ECO Coverage range	90-86%
SCO or ARC Coverage range	86-75%	SCO or ARC Coverage range	86-75%
MCPI coverage range	75%	MCPI coverage range	75%

Source: USDA RMA.

ECO payments are determined by county average revenue or yield and are not affected by whether a producer receives payment from the underlying policy. It is possible to sustain an individual loss, but not receive an ECO payment, or vice-versa. The dollar amount of ECO coverage is based on the trigger level selected by the producer. The maximum coverage for ECO is nine percentage points of coverage (95%-86%=9%), assuming the producer selects an ECO coverage level of 95%. SCO could also be purchased to help provide coverage for the remaining portion of the deductible.

ECO triggers when county average revenue (yield) falls below either 95% (or 90%) of expected county revenue (yield). Expected revenues (yields) at the county level are defined the same way as other existing area-based products. ECO coverage extends the elected coverage down to 86% of expected revenue or yield for the county. Payments are then based on the producer's individual insurance liability. The county loss, measured in percentage points, up to a maximum of 9%, is multiplied by the individual producer's expected insured value per acre to calculate the ECO indemnity payment.

Example Scenarios

The objective of the information presented in Table 1 is to outline three scenarios for the combination of an underlying 85% revenue policy, SCO, and 95% ECO policies. Results are contained in Table 2.

Table 1. Corn crop insurance policy parameters, illustrating program mechanics for revenue protection (RP), SCO, and ECO policies.

Crop Insurance Parameters	Value
Farm's APH	200
Expected County Yield	190
Projected Insurance Price	\$5.81
Underlying Revenue Policy Coverage Level	85%
Minimum Insurance Revenue Policy Guarantee	\$987.70
ECO Level Selected	95%
County Revenue Trigger (ECO)	\$1,048.71
SCO Level to Trigger	86%
County Revenue Trigger (SCO)	\$949.35

Table 2. Example scenarios for crop insurance for corn, illustrating potential indemnity payments for revenue protection (RP), SCO, and ECO policies.

Price and Yield Parameters	Example 1	Example 2	Example 3
Projected Insurance Price	\$5.81	\$5.81	\$5.81
Projected Insurance Harvest Price	\$5.25	\$5.25	\$5.75
Revenue Policy Guarantee	\$987.70	\$987.70	\$987.70
SCO Policy Guarantee	\$949.35	\$949.35	\$949.35
ECO Guarantee	\$1,048.71	\$1,048.71	\$1,048.71
Actual Farm Yield	200	180	170
Actual County Yield	190	190	160
Actual Revenue for Farm	\$1,050.00	\$945.00	\$977.50
Actual Revenue for County	\$997.50	\$997.50	\$920.00
Indemnity Payment for Revenue Policy	\$0.00	\$42.70	\$10.20
Indemnity Payment for SCO Policy	\$0.00	\$0.00	\$11.04
Indemnity Payment for ECO Policy	\$51.20	\$51.20	\$99.35

Under **Example 1**, the farm APH yield is 200 bushels per acre. The projected crop insurance price is \$5.81 per bushel. For the 85% RP policy, the minimum revenue coverage guarantee is \$987.70 per acre. This guarantee could increase later if the harvest price is greater than the \$5.25 per bushel price. If the ECO coverage level is 95%, ECO indemnities would be triggered if country revenue failed to reach the \$1,048.71 per acre threshold. SCO indemnities would be triggered if county revenue fell below \$949.35 per acre. County revenues at which ECO and SCO indemnities are triggered could also increase if the harvest price exceeds the projected price of \$5.81.

Suppose the harvest price for corn is \$5.25 per bushel, the actual farm yield is 200 bushels per acre, and the county actual yield is 190 bushels per acre. Actual farm revenue is \$1,050.00 per acre, which exceed the RP guarantee amount of \$987.70, hence no RP indemnity is triggered. Actual county level revenue of \$997.50 is greater than the \$949.35 SCO guarantee amount, therefore not triggering an SCO indemnity. However, actual county revenue is less than the \$1,048.71 ECO guarantee for the 95% coverage level. Hence, a \$51.20 indemnity is triggered.

Example 2 presents a scenario where two scenario parameters are changed. The harvest price remains at the \$5.25 per bushel level and the farm experiences a production loss (180 bushels per acre). The county yield remains at the expected 190-bushel yield. The loss on the farm, per the specifications of the underlying RP policy, trigger a \$42.70 indemnity to be made. Similar to Example 1, the actual county level revenue of \$997.50 is greater than the \$949.35 SCO guarantee amount, therefore not triggering an SCO indemnity. With the price decline, actual county revenue is less than the \$1,048.71 ECO guarantee for the 95% coverage level. Hence, a \$51.20 indemnity is triggered.

Example 3 presents a scenario where the harvest price increased by \$0.50 to \$5.75 per bushel. The increase in the harvest price results in the insurance guarantees for RP, SCO, and ECO policies to also increase. However, lower than expected yields are sustained at the farm- and county-levels. Under this scenario, the SCO policy triggers if county revenues fall below \$949.35 per acre and the ECO policy triggers if county revenue falls below \$1,048.71 per acre.

In this example, the actual farm-level revenue is \$977.50, which below the \$987.70 RP guarantee resulting in a \$10.20 indemnity being triggered. Given the county-level yield of 160 bushels per acre, actual county revenue is \$920.00 per acre. The area-wide revenue is calculated significantly less than the ECO payment threshold. The \$128.71 loss is greater than 11% of expected county revenue, which exceeds the 9% cap for the ECO coverage and the additional 1% cap on the SCO coverage. Therefore, the maximum ECO indemnity is \$99.35 per acre is made. Under this example, the SCO policy triggers an indemnity of \$11.04. When combined, the ECO and SCO provide a total of \$110.39 to offset the county-based loss of \$128.71.

In each example, the producer would have to pay separate premiums for each policy-RP, SCO, and ECO.

Appreciation is extended to the Louisiana Soybean and Grain Research and Promotion Board for their research funding.



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