CENTER FOR AGRICULTURAL PROFITABILITY
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Caution Needed When Purchasing Supplemental Coverage Option and Enhanced Coverage Option

Cory Walters
Associate Professor
Department of Agricultural Economics, University of Nebraska-Lincoln

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Both Supplemental Coverage Option (SCO) and Enhanced Coverage Option (ECO), while around for a while now, have garnered new attention as viable crop insurance contract options for 2023. When making the decision to purchase SCO and/or ECO, be sure to fully understand how these policies work and what it means for your operation. Caution is needed when paring individual coverage (say RP) and county yield-based policies, i.e., SCO/ECO as models showing protection do not necessarily result in payments. In this article I will discuss two important points to consider before purchasing.

A description on how SCO works can be found here: https://www.rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/Supplemental-Coverage-Option-2022

A description on how ECO works can be found here: https://www.rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/Enhanced-Coverage-Option

Point 1

Both SCO and ECO provide protection from losses based on an area, your county. Your individual crop insurance policy provides payments based on your yields. For revenue-based contracts, both your individual crop insurance policy and SCO/ECO use the same price, therefore differences in outcomes will come from yields. The yield generating process for both individual crop insurance and SCO/ECO represents the important factor. Nebraska counties are large, therefore different weather events can occur within a county. As a result, your farm may suffer a large loss while the county does not. In this case your crop insurance policy will likely pay while your SCO/ECO policies do not.

The question then becomes, is this financial exposure acceptable to you? The opposite can also occur, where the county suffers a loss, and your farm does not. With events such as hail/wind probable, it is more likely you suffer a loss, and the county does not. For events such as drought, both your farm and the county will experience losses. In this case, the severity of the drought matters as your farm could suffer more than the county. In both examples, the underlying metric understand is straightforward, both your individual yield and county yield need to both move in the same direction and as close to bushel for bushel as possible.

Point 2.

Both SCO and ECO rely on county yields. This yield represents an expected yield from past county observations that is trend adjusted. Please inspect your county yield in the SCO/ECO database and ask experts in your county if this yield is reasonable. Through my own evaluation I have found counties where the expected county yield is less than what I calculate as the expected county yield. This is

concerning, but not necessarily a deal breaker. What does this mean to you? It means that the deductible, the amount you must lose before a payment begins, is larger than the 14% (1-.86) in SCO. From my calculations from a sample of counties in Eastern Nebraska, I found the SCO deductible to be around 21% for non-irrigated corn and 19% for irrigated corn.

The enrollment deadline for crop insurance is March15

Incorporate both points into your decision on whether to participate in SCO/ECO. Both points should not convince you on their own on whether to enroll, rather, they provide you with additional information to make a more informed decision. The last thing you want to happen is find you did not have protection when you thought you did. This is especially important if you are thinking of saving premium by simultaneously lowering coverage level and selecting SCO and/or ECO. SCO/ECO offer price protection with the wild card being yields. Price protection may turn out to be important this year.

Please reach out to me Cory Walters at cwalters7@unl.edu for any questions and concerns.

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