CROP INSURANCE ENHANCED COVERAGE OPTION

What is it?

***Editors Note: This information has been compiled from the United States Department of Agriculture – Risk Management Agency, the University of Illinois, and Ohio State University. The Illinois Crop Insurance deadline is March 15. IIA of IL staff will be interviewing several Farm Agents after that deadline to find out how the ECO was accepted by farmers. Look for that information in a future issue of* Insight.**

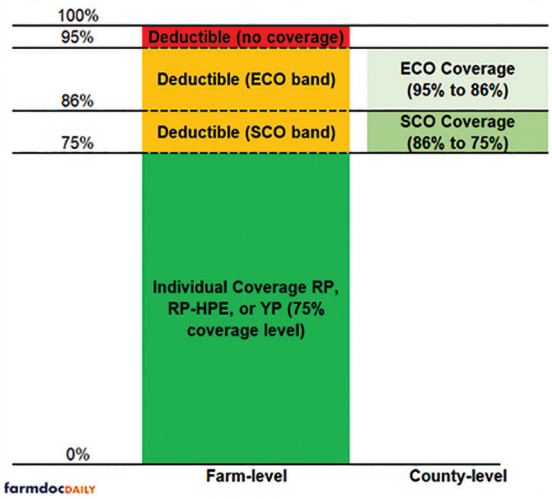
The Enhanced Coverage Option (ECO) is a new crop insurance option that provides additional area-based coverage for a portion of the insured's underlying crop insurance policy deductible. It must be purchased as an endorsement to the Yield Protection, Revenue Protection, Revenue Protection with the Harvest Price Exclusion, Actual Production History or Yield Based Dollar Amount of Insurance policy. ECO offers producers a choice of 90 or 95 percent trigger levels. Trigger means the percentage of expected yield or revenue at which a loss becomes payable.

How ECO Works

ECO follows the coverage of the insured's underlying policy. If they choose Yield Protection or a yield-based policy, then ECO covers yield loss. If they select a Revenue Protection policy, then ECO covers revenue losses.

The amount of ECO coverage depends on the liability of 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 basis, and an indemnity is triggered when there is an individual loss in yield or revenue. ECO pays a loss on an area basis, and an indemnity is triggered when there is a decrease in the county level yield or revenue. ECO has two trigger levels: 90 and 95 percent. ECO provides a band of coverage between the elected trigger level and 86 percent. If the county yield or revenue is reduced beyond the trigger level, the insured will receive an ECO indemnity. If the reduction in yield or revenue exceeds the 86 percent threshold, they will receive an indemnity equal to the full insured liability.

Illustration of ECO, SCO, and 75% Individual Coverage



Coverage Example

Suppose your corn crop has an expected value of $765.00 per acre (170 bushels at $4.50 per bushel). Assume you purchase a Revenue Protection policy with a 75 percent coverage level – this is the 'underlying policy.' The underlying policy covers 75 percent (or $573.75) of the expected crop value and leaves 25 percent (or $191.25) uncovered as a deductible.

At this point, you have the option to buy ECO coverage. Since the underlying policy is Revenue Protection, ECO will also provide revenue protection, except that payments will be determined at a county level. The ECO revenue coverage is described in the following table. ECO yield coverage performs in the same manner.

Step	ECO Coverage Calculation for 95 percent Area Trigger Level	
A	ECO Endorsement begins to pay when county revenue falls below this percent of its expected level	95%
B	ECO Endorsement pays out its full amount when county revenue falls to 86 percent of its expected level	86%
C	Percent of expected crop value covered by ECO (A – B, or 95- 86 percent)	9%
D	Amount of ECO Protection (C x Expected Crop Value, or 9 percent x $765)	$68.85

continued...

The ECO Endorsement begins to pay when county average yield or revenue falls below 95 percent (or 90 percent, if that is the trigger level you elect) of its expected level. The full amount of the ECO coverage is paid out when the county average revenue falls to 86 percent, as shown on step B in the table.

ECO payments are determined only by county average revenue or yield and are not affected if you receive a payment from your underlying policy. Therefore, it is possible for you to experience an individual loss but to not receive an ECO payment, or vice-versa. You may also receive a loss on both the underlying policy and ECO.

The dollar amount of ECO coverage is based on the percent of crop value covered. In this example, there are 9 percentage points of coverage – from 95 percent to 86 percent. Nine percent of the expected crop value ($765.00) is $68.85 (or x9 percent x $765.00). Thus, the ECO policy can cover up to $68.85 of the $191.25 deductible amount not covered by your underlying policy. You may cover a portion of the remaining amount of the deductible with other coverage such as the Supplemental Coverage Option (SCO).

Now consider an event where the actual county revenue falls to 89 percent of the expected value. This loss is 6 percentage points less than the trigger level elected (95 percent - 89 percent = 6 percent). This indicates a loss of 66.67 percent of the ECO coverage range (6 percent / 9 percent = 66.67 percent). This loss is then applied to the amount of ECO protection to determine an indemnity of $45.90 per acre (66.67 percent x $68.85 = $45.90).

Cost

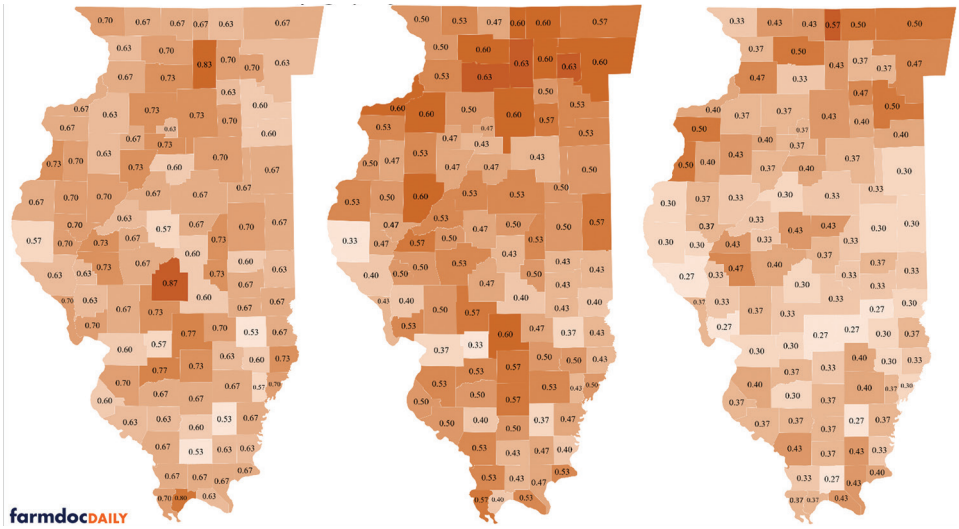
ECO provides coverage on a portion of your deductible where losses are more frequent, so your premium will reflect that higher risk. The premium cost is shared between the insured and the government, where the government pays 51 percent or 44 percent of the premium for yield and revenue policies, respectively.

The exact premium cost will depend on the crop, county, coverage level selected, and type of coverage selected such as Yield Protection versus Revenue Protection. Additional variables, including the projected price and even the volatility of the applicable commodity market can also affect the premium amount.

Figures from 1990-2019

The figure above shows the estimated frequency of ECO and SCO payments being triggered on corn acres in Illinois counties when used with RP (ECO-RP, SCO-RP). The frequency of 95% ECO-RP payments on corn acres averages 67% across all 101 counties in Illinois, suggesting payments would be triggered roughly in 2 out of every 3 years. Payments would be expected to occur in more years than not. Frequencies for the individual counties range from 53% to 87%.

Historical Frequency of Triggering 95% ECO (Left), 90% ECO (Center) and SCO (Right) Payments with RP on Corn Acres in Illinois



The frequency of 90% ECO-RP payments averages 50% across all Illinois counties, suggesting payments would be triggered roughly 1 out of every 2 years. Frequencies for individual counties range from 33% to 63%.

County revenue losses on corn acres in IL would exceed 14%, triggering the max ECO-RP payment (regardless of whether 95% or 90% coverage is elected), and SCO-RP payments, with an average likelihood of 37%, or just over 1 out of every 3 years. The historical frequency of triggering max ECO-RP, and SCO-RP, payments ranges from 27% to 57% across individual counties.

Sources:

https://www.rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/Enhanced-Coverage-Option

https://farmdocdaily.illinois.edu/2020/11/the-new-enhanced-coverage-option-eco-crop-insurance-program.html

https://farmdocdaily.illinois.edu/2020/12/historical-analysis-of-the-frequency-of-triggering-enhanced-coverage-option-eco-payments.html