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Weekly Farm Economics: Enhanced Coverage Option for 2025

Gary Schnitkey and **Nick Paulson**

Department of Agricultural and Consumer Economics
University of Illinois

Carl Zulauf

Department of Agricultural, Environmental and Development Economics
Ohio State University

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The Enhanced Coverage Option (ECO) is a county-level crop insurance product that some farmers may wish to consider, as premium costs will be lower in 2025. In today's article, we describe ECO, discuss factors to consider, and provide recommendations for its potential use.

Enhanced Coverage Option (ECO)

ECO is a county-level crop insurance product that can be purchased to supplement a farm-level COMBO product (see *farmdoc daily*, November 24, 2020 for a more detailed description). Farmers have the option to insure at either a 90% or 95% coverage level. ECO's coverage mirrors that of the underlying COMBO product. For instance, if Revenue Protection (RP) is chosen, ECO will see a guarantee increase similar to that of RP. Regardless of the selected coverage level (90% or 95%), ECO offers a band of protection down to 86% of the guaranteed yield or revenue. Farmers can then utilize the Supplemental Coverage Option (SCO) policy to provide protection from 86% down to the coverage level of the underlying COMBO product that they have chosen.

Several important facts about ECO are:

- Unlike SCO, ECO does not restrict the choice of commodity title program. Farmers cannot purchase SCO coverage on acres enrolled in the Agriculture Risk Coverage (ARC) commodity program. In contrast, ECO can be used even if ARC is selected as the commodity title choice.

- While underlying COMBO production coverage is required, use of ECO does not require the use of SCO. Suppose a farmer takes RP at an 80% coverage level. That farmer can choose ECO to provide protection from 86% up to either 90% or 95%. That farmer does not have to choose SCO.

Farmers may wish to use ECO without SCO, as ECO will trigger payments before SCO. ECO provides a higher level of county-based protection that may be useful, particularly under current conditions where the revenue guaranteed by individual COMBO products is below total costs. The protection offered by ECO can be triggered by a combination of price declines and/or county-wide yield declines. Importantly, ECO (and SCO) use the same futures-based projected and harvest prices that are used for the individual COMBO products.

Change for 2025

The Risk Management Agency (RMA) has increased the premium subsidy rate for ECO to 65% for 2025 and future years. Previously, the rate was 44% for ECO combined with individual revenue coverage (RP or RP-HPE) or 51% for ECO when combined with individual yield coverage (YP). As a result, farmers will pay a smaller share of ECO premiums starting in 2025 than in previous years.

To illustrate, take a farm in Macon County, Illinois, growing corn with a trend-adjusted APH yield of 220 bushels per acre and insured using an RP policy. ECO premiums for this situation are provided below and were generated using a $4.66 projected price and a .19 volatility, the same levels as last year. We will quote ECO premiums at their highest protection level of 100%. Lower protection levels will lower premiums and payments when they occur. At a 60% protection level, premiums will be 60% of the premiums and payments at a 100% protection level. For this Macon County case, the ECO premiums are:

- $17.26 per acre for ECO at the 95% coverage level
- $6.38 per acre for ECO at the 90% coverage level

In 2024, at the lower subsidy rate, these ECO premiums would have been over 50% higher at $27.12 per acre for the 95% coverage level and $10.03 for the 90% coverage level. The subsidy increase reduced ECO premium costs by $9.86 per acre at the 95% coverage level and $3.65 per acre at the 90% coverage level.

That premium decrease could cause additional interest in ECO. ECO has been used on a limited number of acres. Take Macon County, Illinois. ECO was used on 4.5% of corn COMBO policies in 2021, 3.1% in 2022, and 4.1% in 2023.

Protection Offered by ECO

ECO will provide a band of protection. That band is 9% for the 95% coverage level (95% to 86%) and 4% for the 90% coverage level (90% to 86%). When coupled with RP, the maximum ECO payment will depend on whether the harvest price is above or below the projected price.

When the harvest price is below the projected price, the maximum payment for 95% coverage ECO is:

.09 x TA-APH yield x projected price

Given a 220 trend-adjusted APH yield and a projected price of $4.66, the maximum payment is $92 per acre. For a $17.26 premium, a farmer may receive a maximum $92 per acre when harvest price is below the projected price

Maximum payment for 90% coverage when the harvest price is below the projected price is

.04 x TA-APH yield x projected price

Maximum payment is $41 per acre for a 220 TA-APH yield and a $4.66 projected price. For a $6.38 premium, a farmer may receive a maximum payment of $41 per acre when the harvest price is below the project-ed price.

Maximum payments will increase if the harvest price is above the projected price. In these cases, the maximum payment is

.09 x TA-APH yield x harvest price

For example, a harvest price of $5.66, which could occur in a drought or short-crop year, could result in a payment of $112 per acre with 95% coverage, a $20 increase from the $92 maximum payment when the harvest price is below the projected price. The maximum payment will depend on county revenue and will occur when county revenue is below 86% of the expected county revenue.

Advisability of Taking ECO

The advisability of taking ECO will be influenced by a variety of factors, including the likelihood that it provides meaningful risk reduction and an expected return for the farmer. Our analysis of ECO payments from 2015 to 2023 suggests that ECO payments would not have exceeded farmer-paid premium in many Midwest counties even with the new, higher subsidy levels (see *farmdoc daily*, November 5, 2024). That is, over time, farmers should expect to make more payments than they receive. Higher premium payments than indemnities from ECO was found to be historically, particularly true in the heart of the Corn Belt.

Summary

Farmers may wish to consider ECO because its premium in 2025 is lower than in 2024 and because RP will likely cover less of the 2025 cost of production. Note, however, that many counties would not have had payments exceeding farmer-paid premiums from 2015 to 2023, even with the increased subsidy rate.

A couple of approaches to consider:

- Farmers may wish to use ECO without purchasing SCO. This strategy would 1) avoid the premium costs of SCO while 2) preserve the option to use ARC-CO as the commodity title choice.

- Farmers can use the protection level to lower the premium costs of ECO. Lowering the protection level will also lower the payments when they occur. Note that using a lower protection level does not alter the likelihood of receiving payment. Nor will it change the long-term relative relationship between premiums and payments.

Premiums for ECO and all other Federal products can be obtained using the 2025 Crop Insurance Decision Tool, available here, https://farmdoc.illinois.edu/fast-tools/crop-insurance-decision-tool.

References and Data Sources

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