Minnesota Crop Insurance Conference

Margin Protection, ECO, or Neither: How do I decide?

Presented via web meeting
September 16, 2021

Margin Protection, ECO, or Neither?

- Introductions
- Quick Refresher
  - Margin Protection
  - Enhanced Coverage Option
- Considerations for 2022
- Take Away Messages

Margin Protection, ECO, or Neither?

Introductions

- Watts and Associates is an Agricultural Economics consulting firm specializing in Crop Insurance and Farm Policy development.
- W&A Developed both Margin Protection and Enhanced Coverage Option (and countless other Federal and private crop insurance products)

Margin Protection, ECO, or Neither?

About 508(h) Products:

- Both Margin Protection and Enhanced Coverage Option were developed under 508(h). Products developed in this way:
  - Are offered through every AIP and through every Agent
  - Are Federally Reinsured, Federally Subsidized, and Agent Commissions paid through A&O Reimbursement under the terms of the Federal Crop Insurance Act and the SRA.
  - Developers may receive a modest reimbursement for development costs and maintenance, but earn NO commission from sales

Margin Protection Review

- Margin Protection has a September 30 SCD
  - Price discovery for Projected Prices is August 16 to September 15.
  - MP and RP use the same harvest prices.
- Margin Protection is Area-Based
  - The same expected county yields used for ARP are used for MP
  - MP offers coverage levels from 95% to 70% and protection factors from 0.8 to 1.2
- Margin Protection is Unique
  - Growers can choose to also buy (RP) in the spring. Growers who do so get a premium credit on the MP premium and receive the greater of the MP or RP indemnity in the fall.

Simple Example: MP-HPO

Calculating an MP Trigger

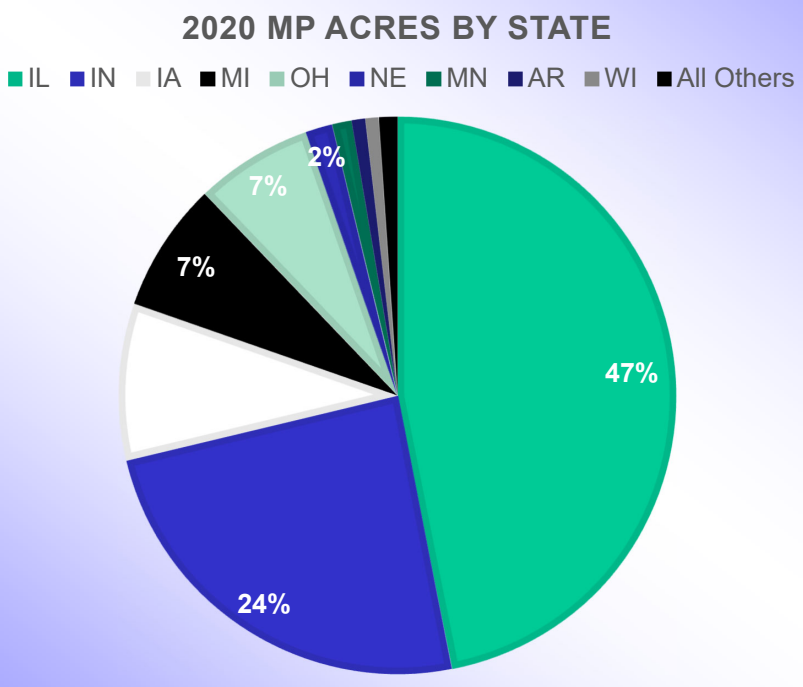
- Expected Margin
  (Expected Yield x Projected Price) – Expected Cost
  (196 bu/ac x $5.10) - $300/ac = $700/ac
- Margin Deductible
  Expected Revenue x (1-Coverage Level)
  (196 bu/ac x $5.10 x (1-95%) = $50/ac
- Trigger Margin
  Expected Margin – Margin Deductible
  $700/ac - $50/ac = $650/ac

Simple Example: MP-HPO

Calculating an MP Trigger

- Final Margin
  (Final County Yield x Harvest Price) – Final Cost
  (180 bu/ac x $5.00) - $300/ac = $600/ac
- Margin Loss
  (Trigger Margin - Final Margin)
  $650 - $600 = $50/ac
- Margin Indemnity
  (Margin Loss x Protection Factor)
  $50/ac x 1.20 = $60/ac

Margin Protection Sales Trends



Enhanced Coverage Option Review

ECO is an area-plan:

- ECO expected and final yields are based on RMA data and NOT producer yields.
- ECO will pay indemnities in the summer following the crop year; NOT at harvest time.
- ECO and individual coverage trigger independently; it is possible for a grower to have:
  - An ECO indemnity, but no individual indemnity
  - An Individual Indemnity, but no ECO indemnity
  - Indemnities from both programs
  - No indemnities.

Enhanced Coverage Option Review

Example: ECO on an RP policy (wheat)

The Area Expected Yield is 75 bu/ac and the Projected Price is $7.25/bu. The producer elects 95% ECO coverage.

- The Coverage Range is the selected ECO coverage level less 86%.

  95% - 86% = 9%

- The producer has an approved yield of 80 bu/ac.
- The ECO Amount of Insurance is determined as the Expected Revenue multiplied by the Coverage Range.

  {$7.25 x 80 bu/ac} x 9% = $52.20/ac

Enhanced Coverage Option Review

Example: ECO on an RP policy

The Harvest Price is $6.70/bu and the Area Final Yield is 70 bu/ac; the Final Area Revenue is $470/ac.

- The Loss Percentage is determined by taking to the Loss Trigger less the Final Area Revenue divided by the Expected Area Revenue.

  Max(95% - {$470/ $544} = 8.6%),0

- The Payment Factor is determined as the loss percentage divided by the Coverage Range.

  8.6% / 9% = 95.59%.

- The Payment Factor is then multiplied by the ECO Amount of insurance to determine the ECO indemnity

  $52.20/ac x 95.69% = $50/ac.

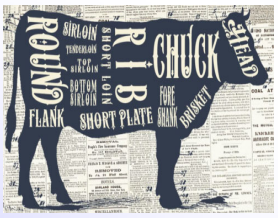
Comparing MP to ECO

Margin Protection

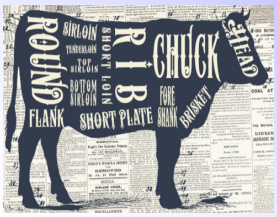
Enhanced Coverage Option

Comparing MP to ECO

Margin Protection Enhanced Coverage Option



=



- Both offer coverage up to 95% on an area basis
- Both enjoy a 44% subsidy rate
- Both support Area coverage with underlying Individual coverage
- Both use RMA yield data based on production reports
- Pay indemnities in July of the following year
- Both were developed by Watts and Associates

Comparing MP to ECO

Margin Protection Enhanced Coverage Option

≠

- Uses Fall Price Discovery
- Protects against Price or Yield falls and input cost increases
- Provides a 0.8 to 1.2 Protection Factor
- Offered for Corn, Soybeans, Rice, and Spring Wheat in 12 states

- Uses Spring Price Discovery
- Protects against Price or Yield falls
- Does not use a Protection Factor
- Offered nationwide for 2022

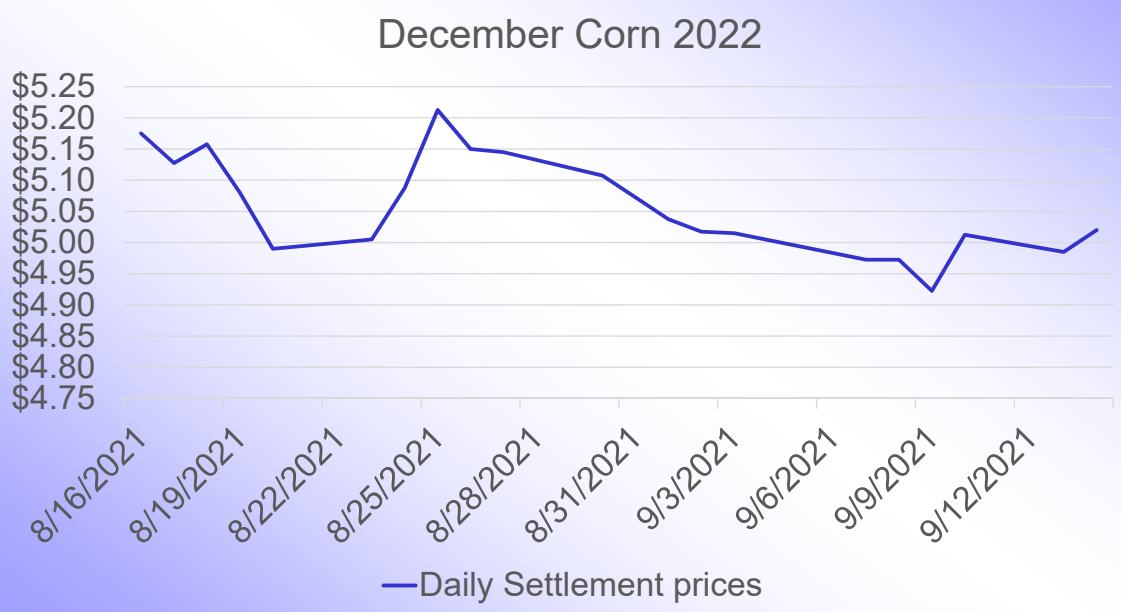
2022 Considerations

Some perspective on Projected Price:

Past Years	Corn Projected Price	Corn Harvest Price	Soybeans Projected Price	Soybeans Harvest Price	Spring Wheat Projected Price	Spring Wheat Harvest Price
2021	$3.82	???	$9.36	???	$5.68	???
2020	$4.03	$3.99	$9.32	$10.55	$5.51	$5.06
2019	$3.95	$3.90	$9.02	$9.25	$6.21	$5.05
2018	$3.97	$3.68	$9.66	$8.60	$6.30	$5.95
2017	$3.74	$3.49	$9.38	$9.75	$5.40	$6.76
2016	$3.98	$3.49	$8.75	$9.75	$5.61	$5.04
2015	$4.03	$3.83	$10.33	$8.91	$6.55	$5.10
2014	$5.09	$3.49	$11.97	$9.65	$7.54	$6.17

2022 Considerations

Some perspective on Projected Price:



2022 Considerations

Some perspective on Projected Price: Dec 2021 Futures

2022 Considerations

Some perspective on Projected Price: Dec 2022 Futures

2022 Considerations

Some perspective on Premiums:

Blue Earth County, MN – Non-Irrigated Corn
95% 1.00 MP-HPO Policy comparison

ADM Year	Projected Price	Volatility	Total Premium	Producer Premium	$'s/$100 of Liability	Liability	Change from 2021
2021	$3.82	0.16	$48.35	$27.08	$3.82	$851.36	0%
2022	$3.82	0.16	$51.84	$29.03	$3.97	$877.06	7%
2022	$5.06	0.16	$67.81	$37.98	$3.92	$1,161.75	40%
2022	$5.06	0.22	$91.30	$51.13	$5.28	$1,161.75	89%

2022 Considerations

Some perspective on Premiums:

Blue Earth County, MN – Non-Irrigated Corn
95%-85% 1.00 ECO Policy for 2021

ADM Year	Projected Price	Volatility	Premium Per Acre	% Increase over 2020
2020	$3.88	0.15	$12.21	NA
2021	$3.88	0.15	$12.39	1%
2021	$3.88	0.20	$17.29	42%
2021	$4.50	0.15	$14.37	18%
2021	$4.50	0.20	$20.05	64%

Which choice makes the most sense?

Considerations:

- Is my farmer a good candidate for an area plan?
- High Volatility and Prices have lead to very high premiums
- Will prices be higher or lower next February? How about next October?
- Is Prevented Plant a consideration for my farmer?
- Is Crop Insurance the best solution for this problem?

Which choice makes the most sense?

Take Away Messages:

- There are pricing opportunities for grains right now
- Do we take MP now or do we wait and see, remembering that ECO is available in the spring?
- We have a responsibility to reach out to our farmers and to keep them engaged with the best information and tools possible.

Questions?

Please ask any questions you may have. If you are more comfortable asking outside a group meeting setting, please contact me.

Alex Offerdahl
aofferdahl@wattsandassociates.com