

Crop Insurance - What We've Learned Being "New Here"



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Production and revenue protection programs are integral tools in almost every row crop and livestock producer's tool box. It's hard to imagine, or even advise risk management strategies without them these days. Though our experience with selling crop insurance is admittedly limited, we've had to learn a great deal about the industry to do our jobs successfully. We believe our "newborn" perspective will shed some light on a few items that may be confusing heading into decision time in a couple weeks. We'll break down our thoughts into three sections:

1. ECO/RPO
2. ARC/PLC
3. Marketing around a crop insurance policy

Let's get started.

ECO/RPO

For the sake of this editorial, we're going to assume everyone is familiar with Multi Peril Crop Insurance (MPCI) - aka - the building blocks of most crop insurance policies. Every year, producers have the opportunity to cover 50%-85% of their entity's average production or revenue using MPCI tools.

AND they can stack up coverage from there using various endorsements, private products, or options. Some of these tools are specific to the insurance company you're working with, others are relatively universal.

Whether the yearly crop insurance meeting has happened already, or it's on the docket, it's safe to say tools like the Enhanced Coverage Option (ECO) and Revenue Price Option (RPO) are on an agent's agenda this year. Why?

For starters - It's no secret that's where the money's at. The more you add to any purchase order, the higher the cost is going to be. However, there's another reason why many will want to discuss ECO in particular. It costs roughly 40% less than last year thanks to Uncle Sam subsidizing more of the premium. In years past, we're led to believe ECO has been hard to justify simply because of the asking price. In 2025 that's no longer the case in many instances.

How does ECO operate? Let's assume a grower who farms 100% in Guthrie county Iowa purchases 85% revenue protection on their MPCCI policy. ECO offers two options from there. Cover another 5% (86%-90%) or another 10% (86%-95%). This grower chooses the 86%-95% program.

Where it gets tricky is the grower will only receive an ECO payment if **Guthrie county's** 2025 revenue (yield x fall price) comes in between 86%-95% of its average. BUT, MPCCI will only focus on the the grower's individual revenue performance vs their individual average. **Therefore, a grower whose yields typically worse than the county average, especially during bad years, could benefit less from ECO than a grower who tends to out-perform the county**

Luckily, some insurance companies offer private products to combat this issue. We encourage producers to inquire about these options since the

overall cost of ECO has come down significantly. Again - for individuals who yield well vs the counties they farm in, ECO is worth a look.

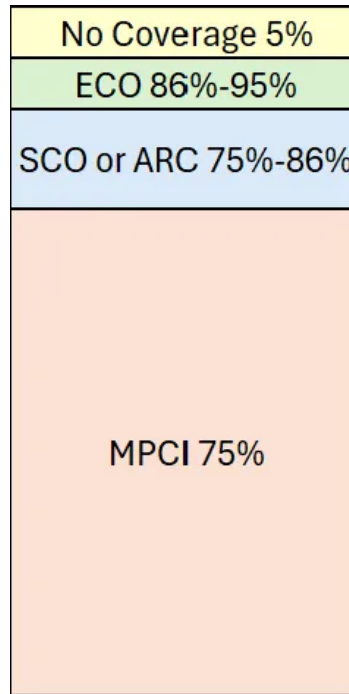
Sadly, RPO policies did not draw the lucky straw for extra government funding. They're private endorsement products that have limited availability in some states, and abundant availability in others. How does it work? RPO offers the grower the ability to impact crop insurance outcomes by potentially improving the spring price. The grower surely pays for these options, but in our opinion, that flexibility is very valuable in the right market conditions.

RPO isn't offered by every insurance company. On our mission to better understand this industry, we learned few know how to use RPO products better than Red Risk Strategies in Leigh, Nebraska. Learn more about them [here](#).

ARC/PLC

We've encountered several questions about ARC and PLC in the last few weeks - enough to make us think they're a worth while review.

Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) are free FSA programs we'd categorize as "oh shoot" handles - something to hold on to if the market slams on the brakes. Take a look at how ARC in particular would fall into a typical crop insurance policy:



Similar to ECO, ARC provides revenue protection at the county level, covering a loss when actual county revenue falls below 86% of the “benchmark”. FSA determines these benchmarks price and yield levels to determine what revenue barriers will trigger payments. Then, a marketing year average price (MYA) is collected between September 1st and August 31st each crop year. Payments are triggered if $(\text{benchmark yield} \times \text{benchmark price} \times 86\%)$ is greater than $(\text{MYA price} \times \text{actual county yield})$ for a given year.

PLC operates in a similar fashion, but is based solely on price. No yield data required. If the MYA price is less than the benchmark price, payments are triggered.

Producers cannot use ARC and PLC at the same time, but they can use ARC and ECO at the same time, as depicted in the example above. PLC is mainly used when an option we haven’t covered yet - SCO - is selected. We won’t dive into SCO in this article, but given the reduced cost of ECO, SCO is less valuable this year in our opinion.

Additionally, recent studies completed by the University of Illinois's FarmDoc Daily team suggest ARC has a greater chance of paying on corn and soybean acres vs PLC in 2025. We'd expect the ARC/ECO combination to be a popular one this season.

Table 4. Comparison of 2025 PLC and ARC-CO Payments per Base Acre, Corn in Champaign County, Illinois

Program Selection	PLC minus ARC-CO		State = Illinois, County = Champaign, Crop = Corn, Year = 2025								
Price Change	\$	0.10	ARC-CO Benchmark Yield = 223.70, Benchmark Price = \$5.03, Guarantee \$967.68								
Yield Change		5	PLC Yield = 179, Effective Reference Price = \$4.26								
-2025											
County	2025 Market Year Average Price										
Yield	\$3.60	\$3.70	\$3.80	\$3.90	\$4.00	\$4.10	\$4.20	\$4.30	\$4.40	\$4.50	\$4.60
249	38	44	50	54	39	24	8	0	0	0	0
244	23	28	34	39	39	24	8	0	0	0	0
239	8	13	18	23	28	24	8	0	0	0	0
234	4	-3	2	6	11	16	8	0	0	0	0
229	4	-11	-15	-10	-6	-2	2	0	0	0	0
224	4	-11	-26	-27	-23	-19	-16	-5	0	0	0
219	4	-11	-26	-42	-40	-37	-33	-23	-5	0	0
214	4	-11	-26	-42	-57	-54	-51	-41	-23	-5	0
209	4	-11	-26	-42	-57	-72	-69	-60	-42	-24	-7
204	4	-11	-26	-42	-57	-72	-87	-78	-61	-43	-26
199	4	-11	-26	-42	-57	-72	-87	-96	-79	-63	-46

* A positive value indicates that PLC will pay more, a negative value indicates that ARC-CO will pay more.



Table 5. Comparison of 2025 PLC and ARC-CO Payments per Base Acre, Soybeans in Champaign County, Illinois

Program Selection	PLC minus ARC-CO		State = Illinois, County = Champaign, Crop = Soybeans, Year = 2025								
Price Change	\$	0.25	ARC-CO Benchmark Yield = 71.44, Benchmark Price = \$12.17, Guarantee \$747.71								
Yield Change		5	PLC Yield = 55, Effective Reference Price = \$9.66								
-2025											
County	2025 Market Year Average Price										
Yield	\$8.95	\$9.20	\$9.45	\$9.70	\$9.95	\$10.20	\$10.45	\$10.70	\$10.95	\$11.20	\$11.45
96	33	22	10	0	0	0	0	0	0	0	0
91	33	22	10	0	0	0	0	0	0	0	0
86	33	22	10	0	0	0	0	0	0	0	0
81	17	22	10	0	0	0	0	0	0	0	0
76	-21	-16	-12	-5	0	0	0	0	0	0	0
71	-41	-52	-52	-47	-31	-16	-1	0	0	0	0
66	-41	-52	-64	-74	-74	-60	-45	-31	-17	-3	0
61	-41	-52	-64	-74	-74	-74	-74	-74	-64	-51	-38
56	-41	-52	-64	-74	-74	-74	-74	-74	-74	-74	-74
51	-41	-52	-64	-74	-74	-74	-74	-74	-74	-74	-74
46	-41	-52	-64	-74	-74	-74	-74	-74	-74	-74	-74

* A positive value indicates that PLC will pay more, a negative value indicates that ARC-CO will pay more.



Marketing Around A Crop Insurance Policy

The beauty of the revenue protection products used in our industry is that grower may have the opportunity to make more revenue than their insurance guarantee, and still collect an indemnity payment. Why? **Because crop insurance policies do not care about actual sales made.** They're a function of the average new crop futures price in February & October, mixed in with some yield data. That's it.

We prefer to think about crop insurance like a synthetic put option. What does that mean? It means you can back into a futures price the grower has "sold" using coverage levels and expected yield. Consider this example:

APH is 200bu/ac, 90% coverage, spring price = \$4.75, expects to grow 215bu/ac corn this fall

$200 \times 0.90 \times 4.75 = \855 revenue guarantee

$\$855 / \$3.97 = 215\text{bu}$ expected

This grower technically owns a put option at \$3.97/bu, meaning this policy "in the money" as long as futures are sub \$3.97 (or yield drags to an appropriate level). Probably not too far off from some real life scenarios this spring.

There's plenty of strategies we can implement from here. We can use options strategies to finance the insurance premiums, since we already "own" a put. We can use "over the counter" grain contracts to make sales at elevated revenue/ac levels vs the guarantee. We can make forward cash or futures sales vs 10%-15% of covered yield. We can even use sell stop orders to protect from price declines.

What we absolutely cannot do is nothing.

Too often we see crop insurance used as a crutch to kick the marketing car down the road. Frankly, it's too expensive for that. If we can visualize crop insurance like a put option, instead of a guarantee, then we can treat it as such by trading around it (making sales). After all, it's only a "synthetic put". The physical grain still needs sold.

As we approach the end of the spring averaging period, please consider running through the math above with your specific policies. Michlig is here help develop a plan from there.

As the saying goes, "you don't go broke taking a profit"...or more simply put you never take a profit, alls you do is take losses".

Have a great rest of your weekend.

Thank You

Trading futures and options involves the risk of loss. You should consider carefully whether futures or options are appropriate to your financial situation. You must review the customer account agreement and risk disclosure prior to establishing an account. Only risk capital should be used when trading futures or options. Investors could lose more than their initial investment. Past results are not necessarily indicative of future results. The risk of loss in trading futures or options can be substantial, carefully consider the inherent risk of such an investment in light of your financial condition.

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