April 2025

Training MCO

Margin coverage made simple

This presentation will cover the following material:

MCO Training

- ❑ *What is MCO? – An Overview*
- ❑ *How does it work? – The MCO Product Concept*
- ❑ *Where is it available? – MCO Crops and Pilot Areas*
- ❑ *The BIG Picture – And the small details*
- ❑ *Where are we now? – MCO Implementation Status*
- ❑ *What's next? – Current Status and Next Steps*

What is MCO?

An Overview:

- The objective of MCO is to take the **simplicity of Enhanced Coverage Option (ECO) and combine it with the unique capability to insure against reduced margins as introduced by Margin Protection (MP).**
- MCO provides coverage for the risk band between 95% or 90% and 86%, or 95% and 90% in some cases, which is not covered by individual insurance plans. As a result, this coverage does not include premium credits or indemnity offsets.

MCO is Margin coverage – made simple.

How does it work?

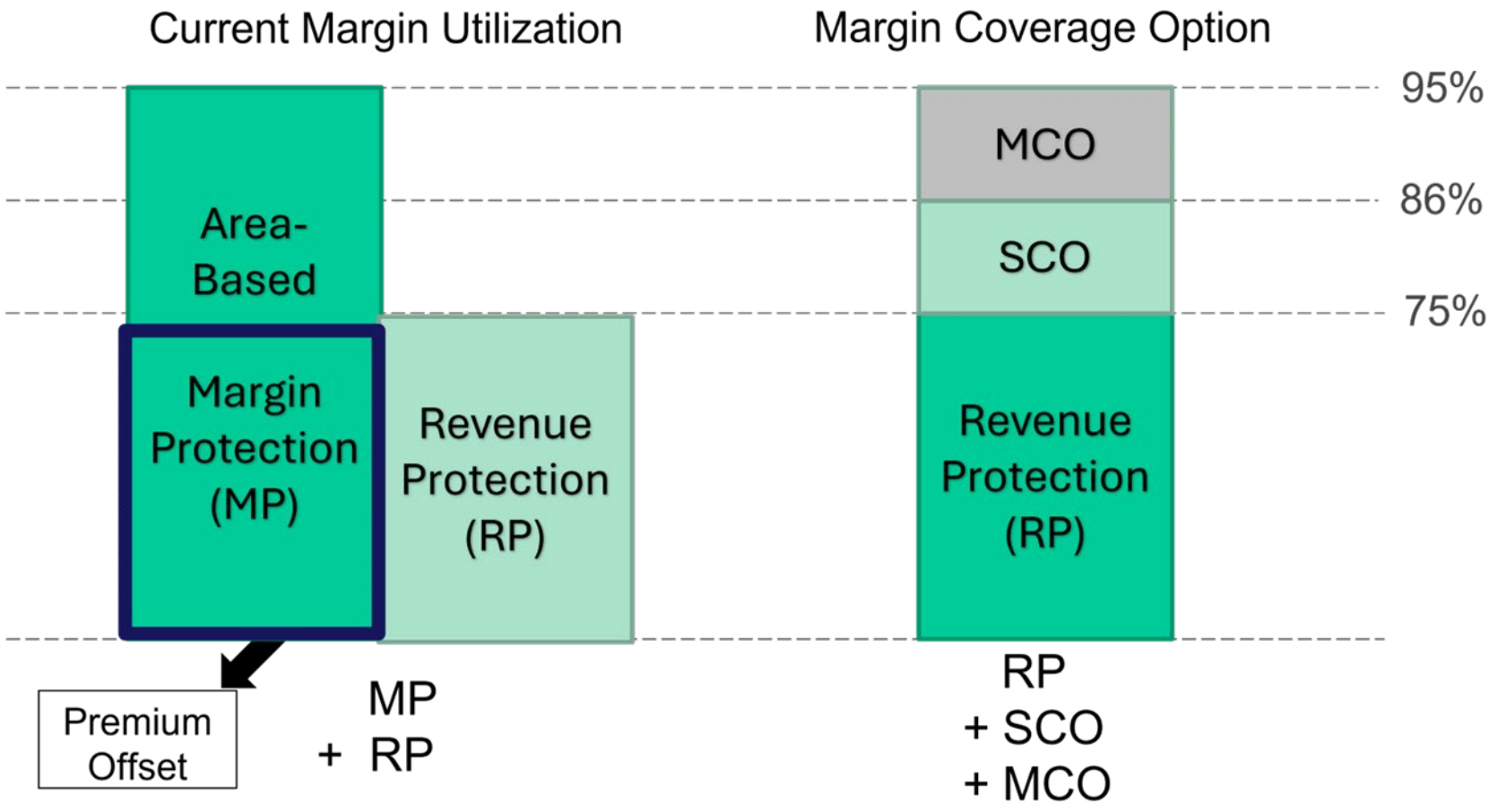
The Product Concept:

- MCO is an endorsement product. This means that it attaches to the producer's underlying crop policy, any of the following policies would qualify:
  - Revenue Protection **(RP)**
  - Revenue Protection with Harvest Price Exclusion **(RP-HPE)**
  - Yield Protection **(YP)**
  - Actual Production History **(APH)**
- As an endorsement, MCO is offered in **two primary coverage level bands , each starting at the 86 percent coverage level and extending up to 90 percent or up to 95 percent.** Additionally, producers with a **90% STAX endorsement can elect 95% MCO with a 5% coverage band**. Like ECO, MCO has no effect on your ARC / PLC election or your underlying coverage choice.

MCO will establish coverage based on the county crop data for Area Yield History, Expected Area Yield, and Final Area Yield that RMA publishes for ECO / SCO / and MP.

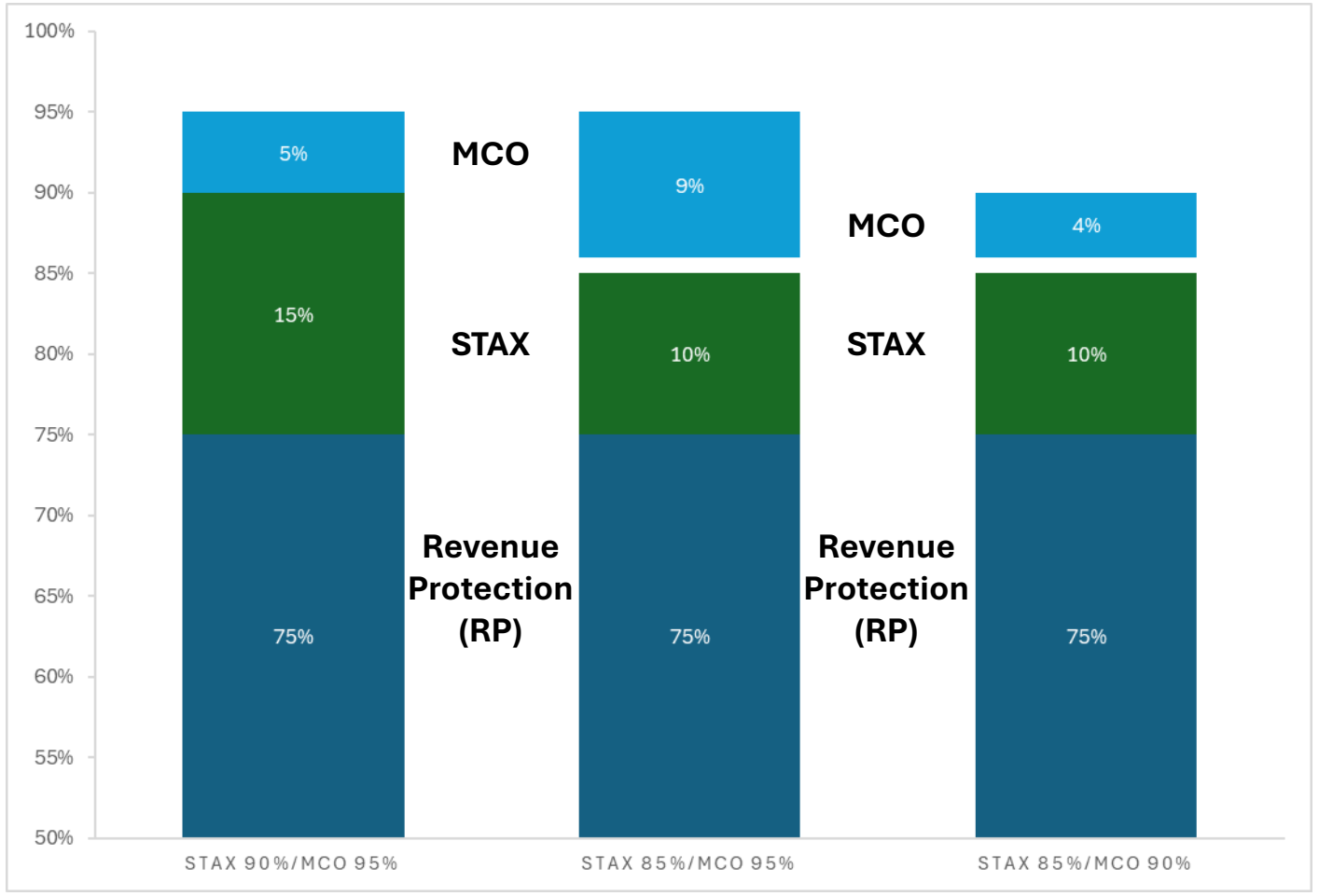
How does it work?

The Product Concept: Coverage Bands



How does it work?

The Product Concept: STAX Coverage Bands



How does it work?

The Product Concept:

Much like MP, MCO has an established average quantity of inputs that are based on agronomic information and specified by production area.

- MCO will use many of the same inputs used in MP to determine input costs, such as:
  - Urea
  - Diammonium Phosphate (DAP)
  - Diesel
  - Potash (unlike that of MP, potash price will have price coverage that moves / fluctuates)
- In addition to these, irrigation costs – derived from the natural gas market price, instead of diesel (as used in MP), will be used.
- MCO does not include fixed or interest costs
- Input and crop prices are determined using the same methods as MP.

How does it work?

2024CY MCO-RP Corn: Adair County, IA – Irr.

Step 1: Underlying Revenue Policy and Expected Crop Value

Projected Price or Harvest Price X Approved Yield = ***Expected Crop Value***

MAX($5.09, $4.16) X 215.6 = $1,097.40

Step 2: Coverage Range

Trigger Level – Lower Coverage Level = ***Coverage Range***

95% - 86% = 9%

Step 3: MCO Protection (per acre)

Expected Crop Value X Coverage Range X Coverage Percentage = ***MCO Protection***

$1,097.40 X 9% X 100% = $98.77

Step 4: Expected Margin

Expected Area Yield X Higher of Projected or Harvest Margin Price = Expected Area Revenue

215.6 X MAX($5.09, $4.16) = $1,097.40

Expected Area Revenue – Expected Cost = ***Expected Margin***

$1,097.40 - $164.06 = $933.34

How does it work?

2024CY MCO-RP Corn: Adair County, IA – Irr.

Step 5: Trigger Margin

Expected Margin – ((1- Trigger Level %) X Expected Area Revenue) = ***Trigger Margin***

$933.34 – (5% X $1,097.40) = $878.47

Step 6: Harvest Margin

Final Area Yield X Margin Harvest Price = Harvest Area Revenue – Harvest Cost = ***Harvest Margin***

215.6 X $4.16 = $896.90 – *$142.89* = *$754.01*

Step 7: Payment Factor

Trigger Margin – Harvest Margin = Area Margin Loss

$878.47 – 754.01 = $124.47

Area Margin Loss / (Expected Area Revenue X Coverage Range) = ***Payment Factor (MAX 1.00)***

$124.47 / $98.77 = MIN(1.26, 1.00)

Step 8: MCO Indemnity (per acre)

MCO Protection X Payment Factor = ***MCO Indemnity***

$98.77 X 1.00 = $98.77

How does it work?

2024CY MCO-RP Soybean: Adair County, IA – NI

Step 1: Underlying Revenue Policy and Expected Crop Value

Projected Price or Harvest Price X Approved Yield = ***Expected Crop Value***

MAX($12.95, $10.03) X 55.2 = $714.84

Step 2: Coverage Range

Trigger Level – Lower Coverage Level = ***Coverage Range***

95% - 86% = 9%

Step 3: MCO Protection (per acre)

Expected Crop Value X Coverage Range X Coverage Percentage = ***MCO Protection***

$714.84 X 9% X 100% = $64.34

Step 4: Expected Margin

Expected Area Yield X Higher of Projected or Harvest Price = Expected Area Revenue

55.2 X MAX($12.95, $10.03) = $714.84

Expected Area Revenue – Expected Cost = ***Expected Margin***

$714.84 - $71.53 = $643.31

How does it work?

2024CY MCO-RP Soybean: Adair County, IA – NI

Step 5: Trigger Margin

Expected Margin – ((1- Trigger Level %) X Expected Area Revenue) = ***Trigger Margin***

$643.31 – (5% X $714.84) = $607.57

Step 6: Harvest Margin

Final Area Yield X Margin Harvest Price = Harvest Area Revenue – Harvest Cost = ***Harvest Margin***

55.2 X $10.03 = $553.66 – *$68.28* = *$485.38*

Step 7: Payment Factor

Trigger Margin – Harvest Margin = Area Margin Loss

$607.57 – 485.38 = $122.19

Area Margin Loss / (Expected Area Revenue X Coverage Range) = ***Payment Factor (MAX 1.00)***

$122.19 / $64.34 = MIN(1.90, 1.00)

Step 8: MCO Indemnity (per acre)

MCO Protection X Payment Factor = ***MCO Indemnity***

$64.34 X 1.00 = $64.34

How does it work?

2024CY MCO-RP Cotton: Hale County, TX – Irr.

Step 1: Underlying Revenue Policy and Expected Crop Value

Projected Price or Harvest Price X Approved Yield = ***Expected Crop Value***

MAX($0.80, $0.72) X 698.0 = $558.40

Step 2: Coverage Range

Trigger Level – Lower Coverage Level = ***Coverage Range***

95% - 86% = 9%

Step 3: MCO Protection (per acre)

Expected Crop Value X Coverage Range X Coverage Percentage = ***MCO Protection***

$558.40 X 9% X 100% = $50.26

Step 4: Expected Margin

Expected Area Yield X Higher of Projected or Harvest Price = Expected Area Revenue

698.0 X MAX($0.80, $0.72) = $558.40

Expected Area Revenue – Expected Cost = ***Expected Margin***

$558.40 - $88.99 = $469.41

How does it work?

2024CY MCO-RP Cotton: Hale County, TX – Irr.

Step 5: Trigger Margin

Expected Margin – ((1- Trigger Level %) X Expected Area Revenue) = ***Trigger Margin***

$469.41 – (5% X $558.40) = $441.49

Step 6: Harvest Margin

Final Area Yield X Margin Harvest Price = Harvest Area Revenue – Harvest Cost = ***Harvest Margin***

698.0 X $0.72 = $502.56 – *$153.50* = *$349.06*

Step 7: Payment Factor

Trigger Margin – Harvest Margin = Area Margin Loss

$441.49 – 349.06 = $92.43

Area Margin Loss / (Expected Area Revenue X Coverage Range) = ***Payment Factor (MAX 1.00)***

$92.43 / $50.26 = MIN(1.84, 1.00)

Step 8: MCO Indemnity (per acre)

MCO Protection X Payment Factor = ***MCO Indemnity***

$50.26 X 1.00 = $50.26

How does it work?

2024CY MCO-RP Cotton: Dawson County, TX – NI
With 90% STAX

Step 1: Underlying Revenue Policy and Expected Crop Value

Projected Price or Harvest Price X Approved Yield = ***Expected Crop Value***

MAX($0.80, $0.72) X 205.0 = $164.00

Step 2: Coverage Range

Trigger Level – Lower Coverage Level = ***Coverage Range***

95% - 90% = 5%

Step 3: MCO Protection (per acre)

Expected Crop Value X Coverage Range X Coverage Percentage = ***MCO Protection***

$164.00 X 5% X 100% = $8.20

Step 4: Expected Margin

Expected Area Yield X Higher of Projected or Harvest Price = Expected Area Revenue

205.0 X MAX($0.80, $0.72) = $164.00

Expected Area Revenue – Expected Cost = ***Expected Margin***

$164.00 - $21.99 = $142.01

How does it work?

2024CY MCO-RP Cotton: Dawson County, TX – NI
With 90% STAX

Step 5: Trigger Margin

Expected Margin – ((1- Trigger Level %) X Expected Area Revenue) = ***Trigger Margin***

$142.01 – (5% X $164.00) = $133.81

Step 6: Harvest Margin

Final Area Yield X Margin Harvest Price = Harvest Area Revenue – Harvest Cost = ***Harvest Margin***

205.0 X $0.72 = $147.60 – *$37.01* = *$110.59*

Step 7: Payment Factor

Trigger Margin – Harvest Margin = Area Margin Loss

$133.81 – 110.59 = $23.22

Area Margin Loss / (Expected Area Revenue X Coverage Range) = ***Payment Factor (MAX 1.00)***

$23.22 / $8.20 = MIN(2.83, 1.00)

Step 8: MCO Indemnity (per acre)

MCO Protection X Payment Factor = ***MCO Indemnity***

$8.20 X 1.00 = $8.20

How does it work?

2024CY MCO-YP Corn: Adair County, IA – Irr.

Step 1: Underlying Yield Policy and Expected Crop Value

Projected Price X Approved Yield = ***Expected Crop Value***

$5.09 X 215.6 = $1,097.40

Step 2: Coverage Range

Trigger Level – Lower Coverage Level = ***Coverage Range***

95% - 86% = 9%

Step 3: MCO Protection (per acre)

Expected Crop Value X Coverage Range X Coverage Percentage = ***MCO Protection***

$1,097.40 X 9% X 100% = $98.77

Step 4: Expected Margin

Expected Area Yield X Projected Price = Expected Area Revenue

215.6 X $5.09 = $1,097.40

Expected Area Revenue – Expected Cost = ***Expected Margin***

$1,097.40 - $164.06 = $933.34

How does it work?

2024CY MCO-YP Corn: Adair County, IA – Irr.

Step 5: Trigger Margin

Expected Margin – ((1- Trigger Level %) X Expected Area Revenue) = ***Trigger Margin***

$933.34 – (5% X $1,097.40) = $878.47

Step 6: Harvest Margin

Final Area Yield X Projected Price = Harvest Area Revenue – Harvest Cost = ***Harvest Margin***

215.6 X $5.09 = $1,097.40 – *$142.89* = *$954.51*

Step 7: Payment Factor

Trigger Margin – Harvest Margin = Area Margin Loss

$878.47 – 954.51 = $0.00

Area Margin Loss / (Expected Area Revenue X Coverage Range) = ***Payment Factor (MAX 1.00)***

$0.00 / $98.77 = MIN(0.00, 1.00)

Step 8: MCO Indemnity (per acre)

MCO Protection X Payment Factor = ***MCO Indemnity***

$98.77 X 0.00 = $0.00

The Margin Coverage Option:

MCO Crops and Pilot Areas:

MCO is available for corn, cotton, grain sorghum, rice, soybeans, and wheat in select states and counties, as follows:

Corn & Soybeans

- Illinois
- Indiana
- Iowa
- Kansas
- Michigan
- Minnesota
- Missouri
- Nebraska
- North Dakota
- Ohio
- South Dakota
- Wisconsin

Wheat

- California
- Idaho
- Minnesota
- Montana
- North Dakota
- Oregon
- South Dakota
- Washington

(spring wheat (type 012)) only.

Rice

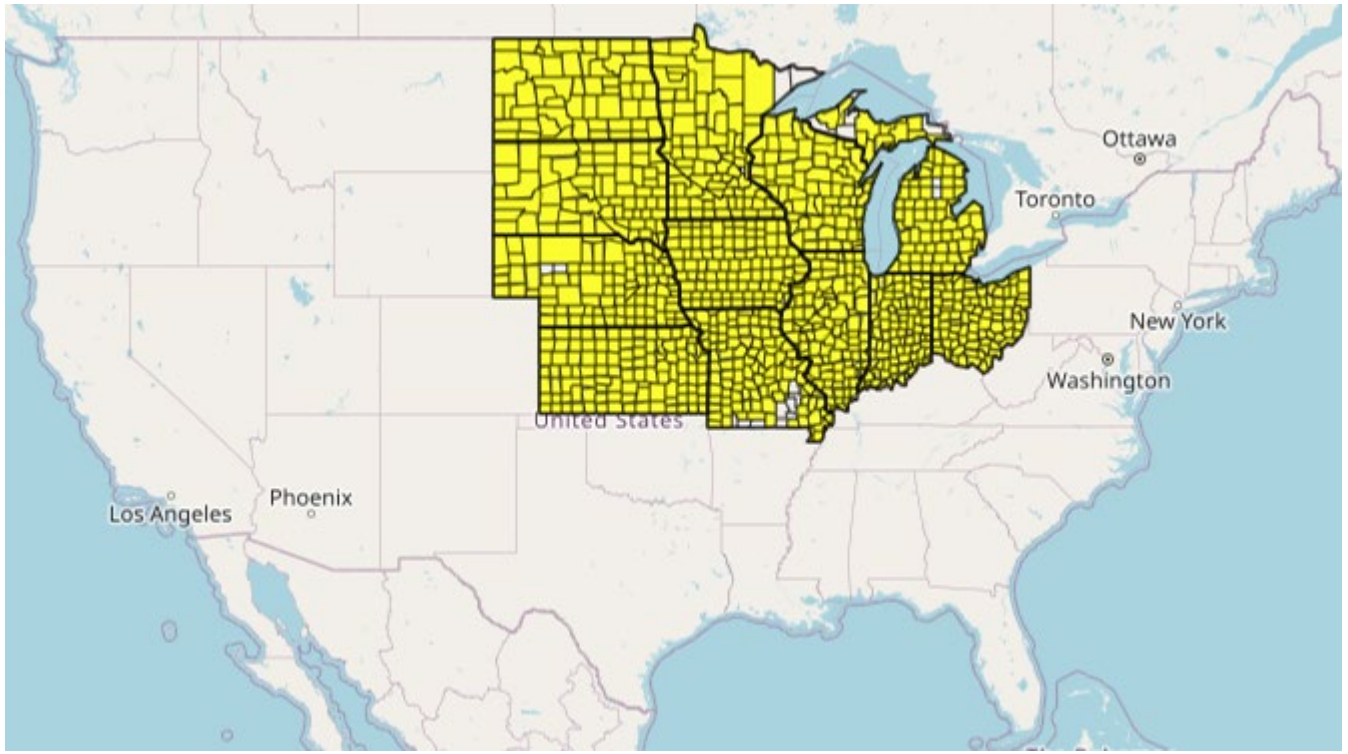
- Arkansas
- California
- Louisiana
- Mississippi
- Missouri
- Texas

Cotton and Grain Sorghum

- Texas
- Oklahoma
- Kansas

Pilot and Expansion Areas

Pilot Counties – Corn

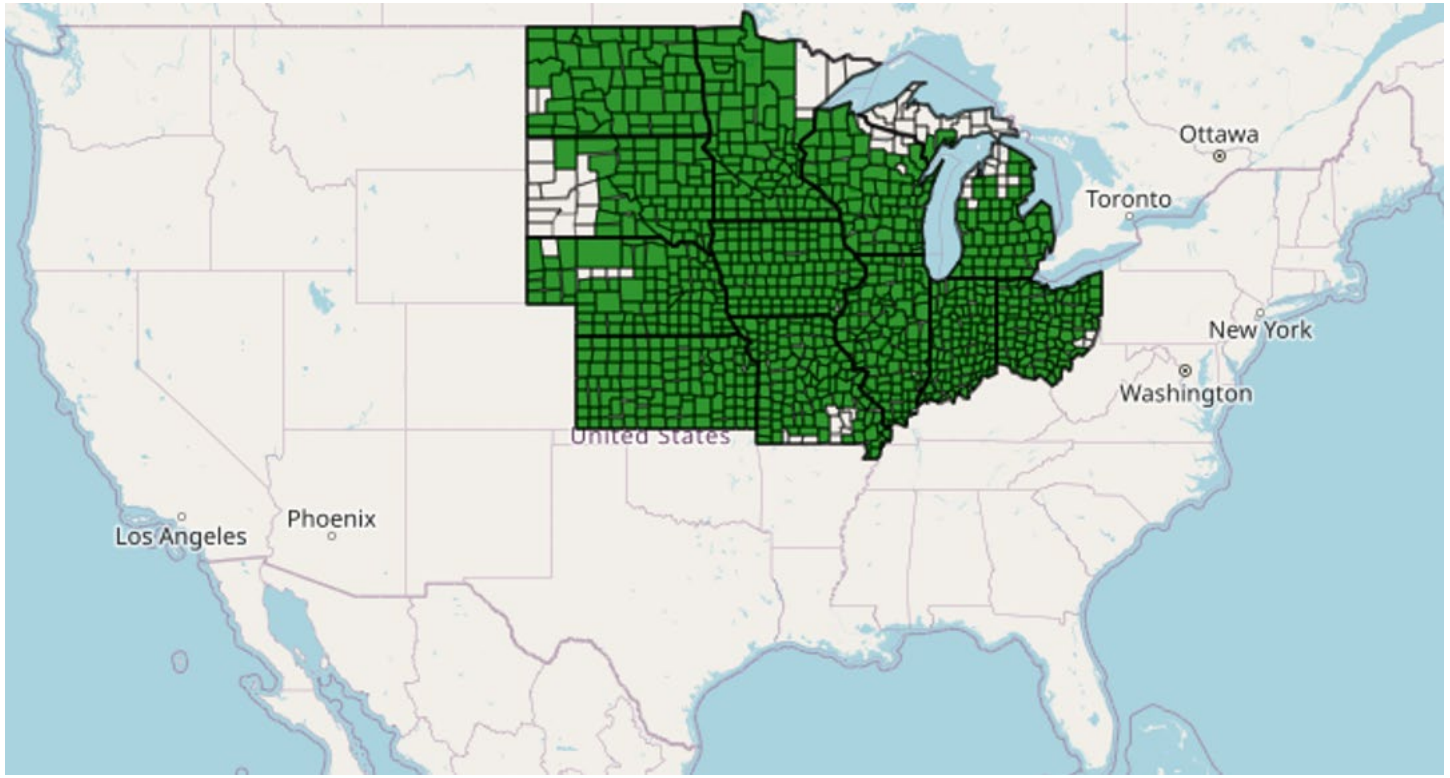


Pilot counties to be the 12 MP states that were prior to this year's nationwide expansion.

This puts MP and MCO head-to-head.

Pilot and Expansion Areas

Pilot Counties – Soybeans

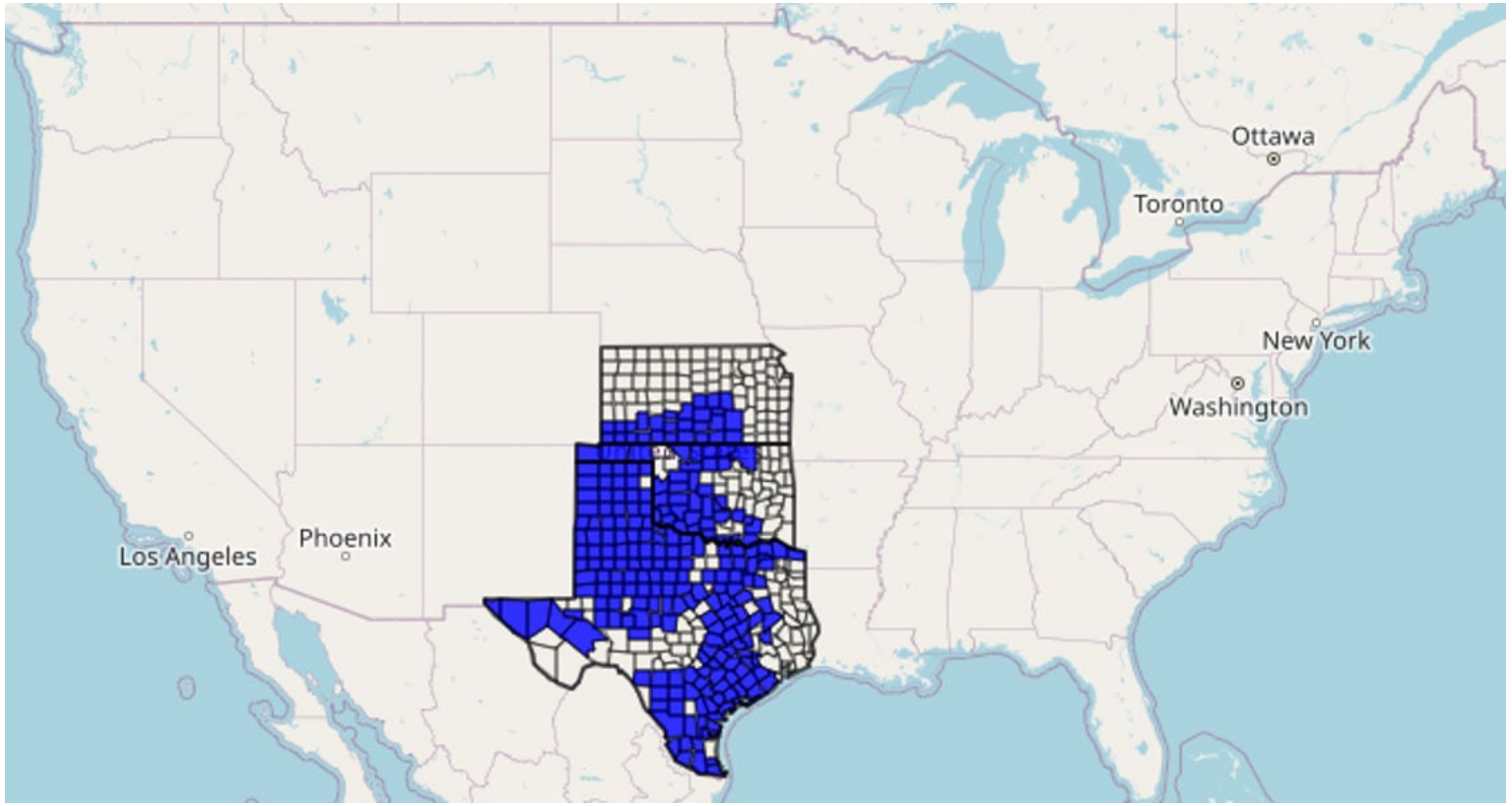


Pilot counties to be the 12 MP states prior to this year's nationwide expansion.

This puts MCO and MP head-to-head.

Pilot and Expansion Areas

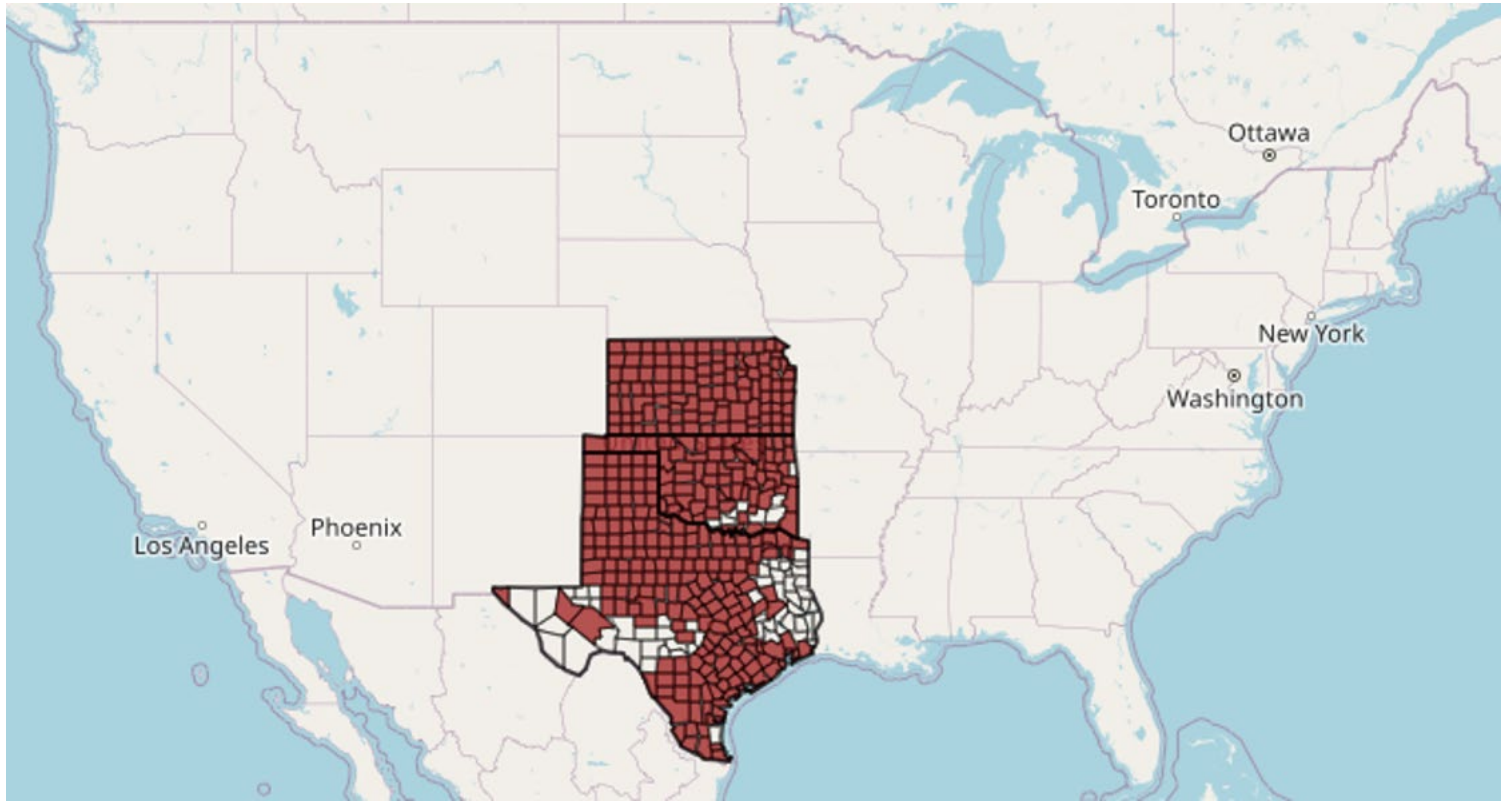
Pilot Counties – Cotton



All counties with SCO offers in Texas, Oklahoma, and Kansas.

Pilot and Expansion Areas

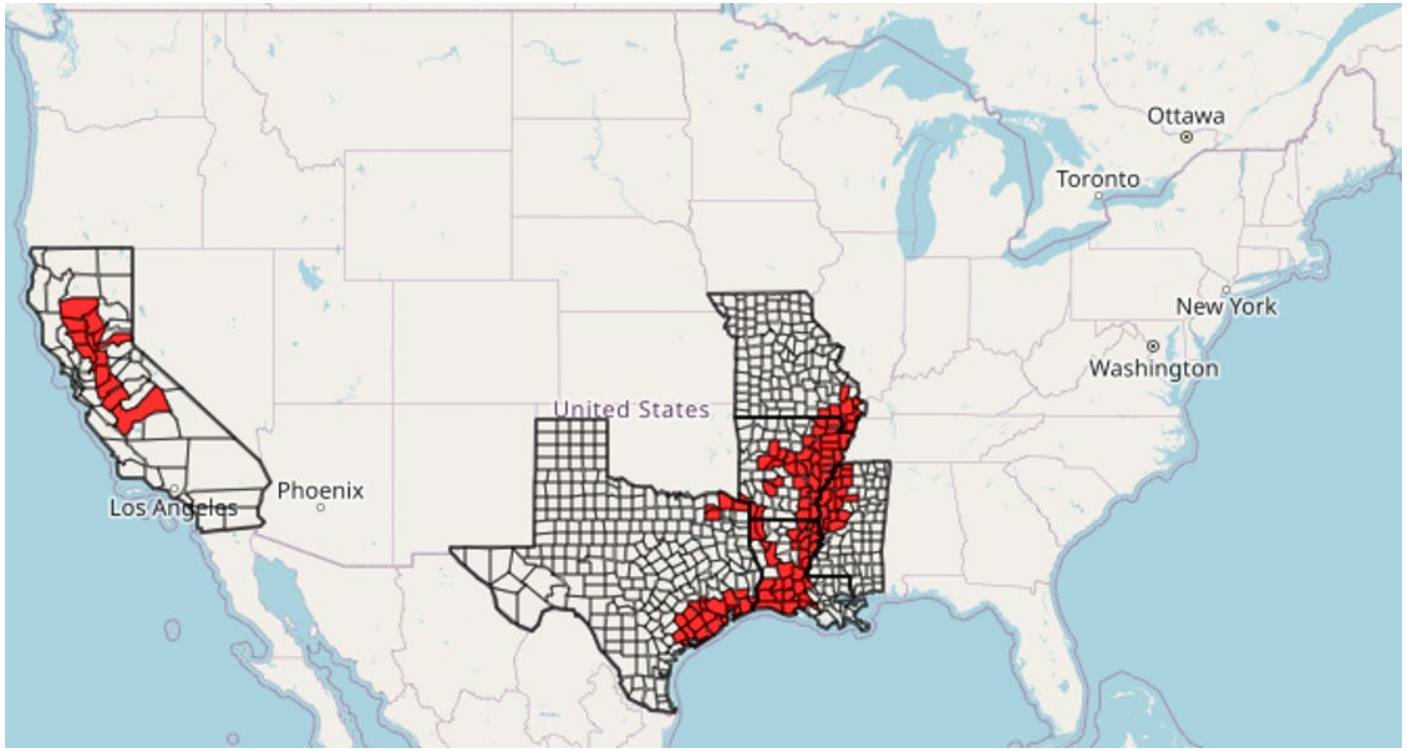
Pilot Counties – Grain Sorghum



All counties with SCO offers in Texas, Oklahoma, and Kansas.

Pilot and Expansion Areas

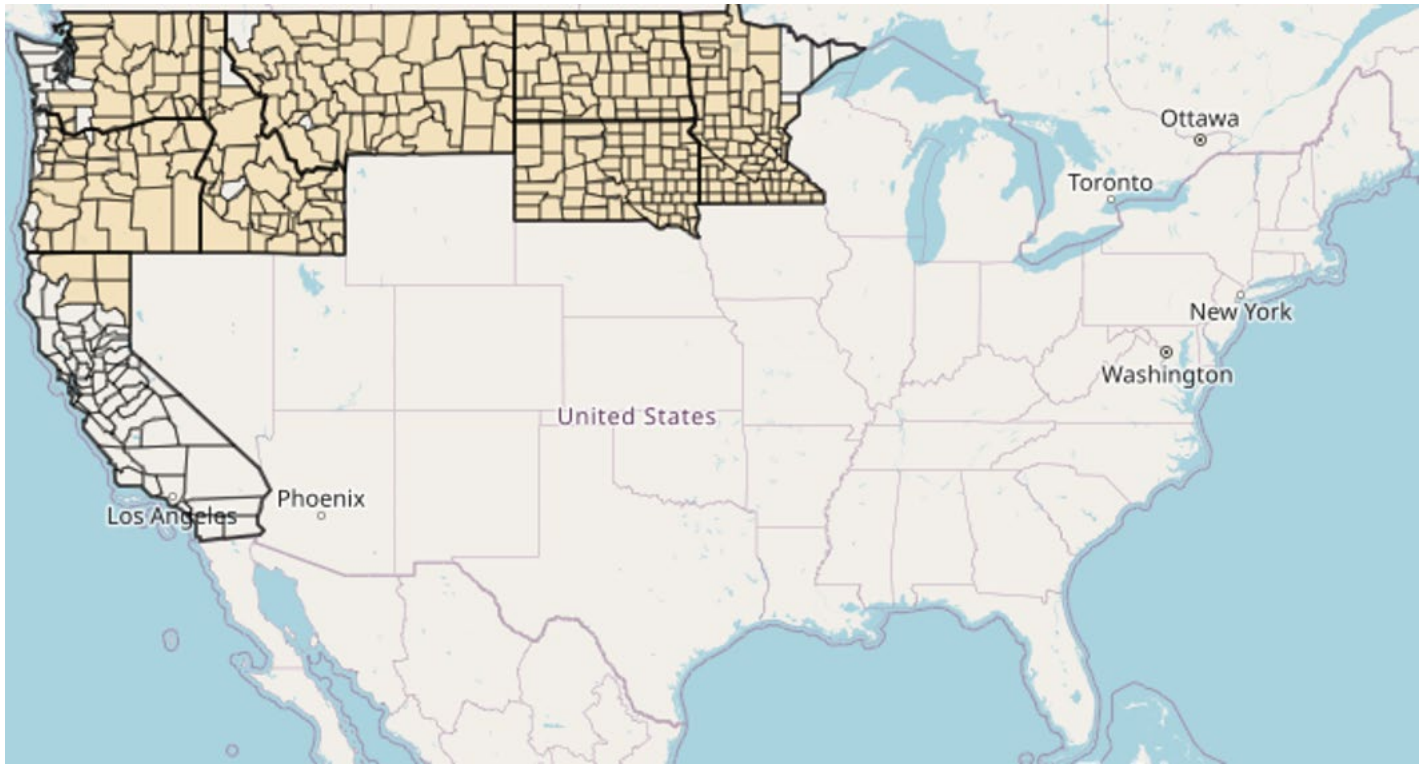
Pilot Counties – Rice



Pilot counties are all SCO rice counties in Arkansas, California, Louisiana, Mississippi, Missouri and Texas. Matches MP counties.

Pilot and Expansion Areas

Pilot Counties – Spring Wheat



Pilot area includes all counties with SCO Spring Wheat offers in the states of Minnesota, Montana, North Dakota, South Dakota, Idaho, Oregon, Washington, and the four northern-most counties in California (Lassen, Modoc, Shasta, Siskiyou).

Matches MP counties and adds PNW

The Margin Coverage Option:

The BIG picture: Program Details

- Premium Subsidy: Given that MCO offers a band of coverage that is similar to ECO, SCO, and HIP-WI which are provided at a 65% subsidy rate, **MCO was also approved at the same 65% subsidy rate.**
- Unit Structure: **All types and practices that are available or insurable under the underlying policies are insurable under MCO.**
  - MCO will aggregate into units that can be classified as Irrigated and Non-irrigated practices.
  - All types are grouped, for each practice, and shown as no-type specified.

The Margin Coverage Option:

The BIG picture: Program Details

- The following program materials have been released:
  - MCO Endorsement
  - MCO Insurance Standards Handbook
  - MCO Pricing Provisions
  - Actuarial Documents
    - Due to early SCD, all actuarial documents must be published earlier than underlying policy actuarial documents.
    - Will contain own set of AIB materials – and will NOT be published as a tab on the underlying policy as in SCO and ECO.
  - Fact Sheet Document
  - FAQ Document

The Margin Coverage Option:

Where are we now? MCO Implementation and Status Update

SCD: 9/30/2025

- **MCO will begin in the 2026 CY, with the first sales closing date being September 30th, 2025, and the first contract change date of June 30th, 2025.** These dates will be applied to all MCO crops (except rice) including corn, soybeans and wheat, and the newly added cotton and grain sorghum crops.