INTERNATIONAL CENTER FOR AGRICULTURAL COMPETITIVENESS

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Margin Coverage Option: A Different Approach to Covering Shallow Losses

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August 19, 2026

When it comes to covering shallow losses there are many options available to growers. The least expensive options are no-cost programs available through the USDA Farm Service Agency that offer either revenue or price protection, albeit with the limitations of narrow coverage bands and pay limits. A second are insurance-based products offered through the USDA Risk Management Agency and the Federal Crop Insurance program that typically offer wider bands of coverage and no arbitrary limits on the benefits a grower can receive when indemnities are triggered.

Over the last decade we have become familiar with products like the Supplemental Coverage Option (SCO) and, for cotton producers specifically, the Stacked Income Protection Plan (STAX). We are accustomed to comparing the potential benefits of adding this additional layer of insurance protection, which provide county-based revenue to yield coverage, against the alternative protection of the USDA Farm Service Agency's Agriculture Revenue Coverage (ARC) program and Price Loss Coverage (PLC).

Growers benefit greatly by having these choices available and having an opportunity to see which shallow-loss coverage option can best fits their needs. The fact that a grower can typically make this choice during a window immediately prior to the start of the growing season gives them a chance to weigh current market and weather conditions/forecasts into their decision-making process.

Recent changes to USDA FSA program offerings and Federal Crop Insurance products following implementation of agriculture provisions approved by Congress in the "One Big Beautiful Bill Act" (OBBBA) streamline some of these choices. The OBBBA aligned program offerings and eliminated prohibitions on simultaneous participation for several FSA and crop insurance program options to further expand risk management options for growers.

Producers now have a more cohesive and, thanks to higher subsidy levels for multiple insurance products, more affordable options to fill the gap between their underlying crop insurance coverage and their expected yield or revenue goals.

SCO and STAX (which is still a cotton-only product) were designed to fit just above the coverage provided by a Yield or Revenue insurance plan. Two additional products, however, can add a second layer of protection to help with even shallower losses.

Those products are the Enhanced Coverage Options (ECO), which provides the same type of coverage provided by SCO with a five percent coverage band from 95 percent down to 90 percent of expected county revenue or yield, and the even newer Margin Coverage Option (MCO), which also covers a five percent band from 95 percent down to 90 percent, but adds changes in input costs (instead of just price and yield) to determine when a loss of potential margin (i.e.-profit) has been incurred.

This article will focus on the Margin Coverage Option product for two reasons, first, it is the newest of the shallow loss products available, and second because it has a significantly different decision point compared to the ECO alternative.

Growers considering the addition of the MCO endorsement to their insurance program must make their decision much earlier than when they are considering ECO or other products that have later sales deadlines. The reason is that the MCO Sales Closing Date (SCD) is September 30 prior to the crop year that will be covered. This early SCD for MCO is necessary because of the price discovery window the product uses for expected and final costs of the crop inputs used to determine when losses in margin occur.

MCO provides area-based coverage against an unexpected decrease in operating margin (revenue minus input costs) caused by reduced county yields, reduced commodity prices, increased prices of certain inputs, or any combination of these perils. Because MCO is area-based like ECO and SCO, it may not reflect a producer's individual experience.

MCO uses the same expected and final area yields, and harvest prices as SCO and ECO but covers a band from 90 percent (where SCO coverage triggers) up to 95 percent of Expected Crop Value (ECV). Like SCO and ECO, MCO is based on your underlying policy plan of insurance for the type of coverage (RP or YP). The amount of protection offered by MCO is also based on your individual ECV established at the fall SCD (or increased at harvest under the RP option). A payment may be made when the harvest margin for the county is lower than the trigger margin due to a decrease in revenue and/or an increase in input costs.

MCO is available in select counties for corn, cotton, grain sorghum, rice, soybeans, and spring wheat in states listed below:

- **Corn & Soybeans**: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin.
- **Cotton & Grain Sorghum:** Kansas, Oklahoma, Texas.
- **Rice:** Arkansas, California, Louisiana, Mississippi, Missouri, Texas.
- **Spring Wheat:** California, Idaho, Minnesota, Montana, North Dakota, Oregon, South Dakota, Washington.

MCO begins to pay (triggers) when area margin falls below 95 percent of the expected margin. The trigger margin is calculated by subtracting the deductible of 5 percent of the expected area revenue from the expected area margin. The amount of area margin loss is calculated by subtracting the harvest margin from the trigger margin. A payment factor is calculated by dividing the amount of area margin loss by the band of area coverage value. The payment factor ranges from 0.00 to 1.00. The MCO protection is then multiplied by the payment factor to get the indemnity. This procedure for calculating losses is the same as what is used in ECO.

When determining the margin, the following inputs are considered:

- **Corn, Cotton, Grain Sorghum, Rice, and Spring Wheat**: diesel, natural gas, diammonium phosphate, urea, potash.
- **Soybeans**: diesel, natural gas, diammonium phosphate, potash.

Any indemnities owed will be paid when final county yields are available, in the summer of the following year.

To learn more about MCO and what it can add to you or your customers risk management portfolio, the Texas Tech International Center for Agricultural Competitiveness (ICAC) will conduct a free, online webinar with the developers of the Margin Coverage Option endorsement on **Friday, September 11, 2026**. The webinar will run from 9:30 am – 11:30 a.m. and offer a detailed overview of the product and provide opportunities for participants to ask questions and see examples of how the product would work under different market scenarios.

To attend the MCO webinar scan the QR code or use the link below to register:

https://app.smartsheet.com/b/form/01a0118915c07a6a83a2297df7bf3bf3