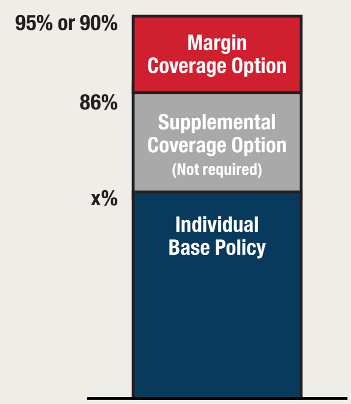
Margin Coverage Option (MCO)

Area-based coverage against an unexpected decrease in operating margin due to reduced county yields, reduced commodity prices or increased input costs.



What is MCO?

Growers often face yield, commodity price, as well as input cost uncertainty. While many MPCI products provide coverage for yield and/or price losses, MCO uniquely helps producers manage certain input cost fluctuations as well. As a supplemental endorsement, MCO adds a band of coverage from 86% up to 90 or 95%, that aligns with a grower's underlying yield or revenue-based individual policy.

When are Indemnities Triggered?

An indemnity payment occurs 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. Because MCO is area-based, losses may not reflect a grower's individual yield or input cost experience on their operation.

MCO and Other Programs

- ✓ MCO endorsement must be attached to an RP, RP-HPE, YP or APH underlying policy.
- ✓ MCO can be added to STAX-insured acreage. If STAX coverage is 85% or less, the MCO trigger can be 90% or 95%. If STAX is at 90%, the MCO trigger must be 95%, covering a 5% band.
- ✓ A gap in coverage is allowed between the underlying policy and MCO's 86% lower threshold.
- ✗ MCO cannot be elected with an Area Risk Protection Insurance policy.
- ✗ ECO & HIP-WI cannot be elected on the same underlying policy as MCO.

Determining Margin

Margin is determined by subtracting input costs from revenue, the following inputs are included:

- Diesel
- Natural Gas
- Diammonium Phosphate
- Potash
- Urea*

**Not included as an input on soybean crops.*

Coverage Availability

MCO is available in select counties for the crops and states listed below.

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

Coverage Options

1. Select a band of coverage from 86 to 90 percent or 95 percent
2. Select a payment factor of .50 to 1.00

Indemnity Example: Insured Scenario

Approved yield: 181 bu
Acres: 500 (at same coverage level, type, and practice in county)
Share Percent: 100
Expected area yield: 180 bu
Final Area Yield: 165 bu

Trigger Level: 95% (9% coverage range)
Coverage Percent: 100%
Margin Projected Price: $6.00 per bu
Margin Harvest Price: $6.25 per bushel
Projected Cost: $182.70 per acre
Harvest Cost: $205.57

Below is how MCO coverages and indemnities would be calculated based on the underlying policy.

RP UNDERLYING POLICY	RP-HPE UNDERLYING POLICY:	YP UNDERLYING POLICY:
Expected Margin: $1,125.00 - $182.70 = $942.30 per acre	**Expected Margin:** $1,080 - $182.70 = $897.30 per acre	**Expected Margin:** $1,080 - $182.70= $897.30 per acre
Trigger Margin: $942.30 - ($1,125.00 × (1.00 - 0.95)) = $886.05 per acre	**Trigger Margin:** $897.30 - ($1,080.00 × (1.00 - 0.95)) = $843.30 per acre	**Trigger Margin:** $897.30 - ($1,080.00 × (1.00 - 0.95)) = $843.30 per acre
MCO Protection: 181 bu. × $6.25 × 500 acres × 0.09 × 1.00 (Coverage Percent) × 1.00 (Share) = $50,906	**MCO Protection:** 181 bu. × $6.00 × 500 acres × 0.09 × 1.00 (Coverage Percent) × 1.00 (Share) = $48,870	**MCO Protection:** 181 bu. × $6.00 × 500 acres × 0.09 × 1.00 (Coverage Percent) × 1.00 (Share) = $48,870
Harvest Area Revenue:165 bu. (Final Area Yield) × $6.25 per bushel = $1,031.25 per acre	**Harvest Area Revenue:** 165 bu. (Final Area Yield) × $6.25 per bushel = $1,031.25 per acre	**Harvest Area Revenue:** 165 bu. (Final Area Yield) × $6.00 per bushel = $990.00 per acre
Harvest Margin: $1,031.25 - $205.57 = $825.68 per acre	**Harvest Margin:** $1,031.25 - $205.57 = $825.68 per acre	**Harvest Margin:** $990.00 - $205.57 = $784.43 per acre
The indemnity is calculated as:	**The indemnity is calculated as:**	**The indemnity is calculated as:**
Trigger Margin - Harvest Margin: $886.05 - $825.68 = $60.37	**Trigger Margin - Harvest Margin:** $843.30 - $825.68 = $17.62	**Trigger Margin - Harvest Margin:** $843.30 - $784.43 = $58.87
Expected Area Revenue × Coverage Range: 180 × $6.25 × 0.09 = $101.25	**Expected Area Revenue × Coverage Range:** 180 × $6.00 × 0.09 = $97.20	**Expected Area Revenue × Coverage Range:** 180 × $6.00 × 0.09 = $97.20
MCO Payment Factor: min (60.37 ÷ 101.25, 1.000) = 0.5962	**MCO Payment Factor:** min (17.62 ÷ 97.20, 1.000) = 0.1813	**MCO Payment Factor:** min (58.87 ÷ 97.20, 1.000) = 0.6057
MCO Protection x Payment Factor: $50,906 × 0.5962 =	**MCO Protection x Payment Factor:** $48,870 × 0.1813 =	**MCO Protection x Payment Factor:** $48,870 × 0.6057 =
$30,350 Indemnity	**$8,860 Indemnity**	**$29,600 Indemnity**