



# Federal Crop Insurance: Background and Issues

**Dennis A. Shields**  
Specialist in Agricultural Policy

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## Summary

In preparation for the next farm bill, the 112<sup>th</sup> Congress will likely continue reviewing the effectiveness and operations of the federal crop insurance program as part of the farm safety net. In 2010, the House Committee on Agriculture sought input from farmers and others on the program, and the U.S. Department of Agriculture (USDA) revised its agreement with the crop insurance industry to deliver crop insurance to farmers following a rapid rise in government costs of the program. This report provides a primer on the federal crop insurance program.

The federal crop insurance program began in 1938 when Congress authorized the Federal Crop Insurance Corporation. The current program, which is administered by the U.S. Department of Agriculture's Risk Management Agency (RMA), provides producers with risk management tools to address crop yield and/or revenue losses on their farms. In purchasing a policy, a producer growing an insurable crop selects a level of coverage and pays a portion of the premium—or none of it in the case of catastrophic coverage—which increases as the level of coverage rises. The federal government pays the rest of the premium (averaging about 60% of the total). Insurance policies are sold and completely serviced through 16 approved private insurance companies. The insurance companies' losses are reinsured by USDA, and their administrative and operating costs are reimbursed by the federal government.

In 2010, federal crop insurance policies covered 255 million acres. Major crops are covered in most counties where they are grown. Four crops—corn, cotton, soybeans, and wheat—accounted for three-quarters of total acres enrolled in crop insurance. Most crop insurance policies are either yield-based or revenue-based. For yield-based policies, a producer can receive an indemnity if there is a yield loss relative to the farmer's "normal" (historical) yield. Revenue-based policies protect against crop revenue loss resulting from declines in yield, price, or both. Other insurance products protect against losses in whole farm revenue (rather than just for an individual crop) or gross margins for livestock enterprises.

Government costs for crop insurance have increased substantially in recent years. After ranging between \$2.1 and \$3.6 billion during FY2000-FY2006, costs rose to \$7.3 billion in FY2009 as higher policy premiums from rising crop prices drove up premium subsidies to farmers and expense reimbursements (which are based on total premiums) to private insurance companies. In FY2010, total costs declined to \$3.7 billion following a decline in crop prices. Reimbursements and risk-sharing between USDA and private insurance companies are spelled out in a Standard Reinsurance Agreement (SRA), which plays a large role in determining program costs. In 2010, USDA renegotiated the SRA for the 2011 reinsurance year (which began July 1, 2010) to save money and make adjustments to improve program delivery.

Over the next 10 years, federal spending on crop insurance is projected to outpace spending on traditional commodity programs by about one-third, which might capture the attention of budget cutters looking for potential sources of savings. Insurance companies, farm groups, and some members of Congress are concerned that additional reductions in federal support will negatively impact the financial health of the crop insurance industry and possibly jeopardize the delivery of crop insurance. A main concern for most is saving federal dollars without adversely affecting farmer participation, policy coverage, or industry interest in selling and servicing crop insurance products to farmers. From a farm policy standpoint, policymakers and observers alike remain concerned about how the crop insurance program interacts with farm commodity programs and whether together they provide a cost-effective means for helping farmers deal with business risk.

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## Crop Insurance History

Farming is generally regarded as a financially risky enterprise. Most agricultural production is subject to the vagaries of weather, and the nature of agricultural supply and demand often results in volatile market prices. Farm financial risk, periods of low returns, and the importance of agriculture in the nation's economy during the early to mid-1900s led to the development of federal policies that financially supported farmers, primarily through commodity price mechanisms. Today's farm commodity policies—authorized in the 2008 farm bill—have their roots in the 1930s.<sup>1</sup>

During the same era, Congress also first authorized federal crop insurance as an experiment to address the effects of the Great Depression and crop losses seen in the Dust Bowl. In 1938, the Federal Crop Insurance Corporation (FCIC) was created to carry out the program, which focused on major crops in major producing regions. The federal crop insurance program remained limited until passage of the Federal Crop Insurance Act of 1980 (P.L. 96-365), which expanded crop insurance to many more crops and regions of the country. Congress enhanced the crop insurance program in 1994 and again in 2000 in order to encourage greater participation. The changes also expanded the role of the private sector in developing new products that would help farmers manage their risks.<sup>2</sup> Today, many banks, when making operating loans, require that farmers purchase crop insurance.

The federal crop insurance program is permanently authorized by the Federal Crop Insurance Act, as amended (7 U.S.C. 1501 et seq.). It is periodically modified, most recently in the 2008 farm bill (P.L. 110-246). Congress chose to revise the legislation in the 2008 farm bill to achieve budget savings and to supplement crop insurance with a permanent disaster payment program.<sup>3</sup> The U.S. Department of Agriculture's (USDA's) Risk Management Agency (RMA) operates and manages the FCIC.

## Program Basics

The federal crop insurance program provides producers with risk management tools to address crop yield and/or revenue losses on their farms.<sup>4</sup> Insurance policies are sold and completely

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<sup>1</sup> For details on farm programs, see CRS Report RL34594, *Farm Commodity Programs in the 2008 Farm Bill*, by Jim Monke.

<sup>2</sup> For more on the history of federal crop insurance, see <http://www.rma.usda.gov/aboutrma/what/history.html>. Law citations are the Federal Crop Insurance Act of 1980 (P.L. 96-365), the Federal Crop Insurance Reform Act of 1994 (P.L. 103-354), and the Agriculture Risk Protection Act (ARPA) of 2000 (P.L. 106-224).

<sup>3</sup> For more information, see CRS Report RL34207, *Crop Insurance and Disaster Assistance in the 2008 Farm Bill*, by Ralph M. Chite and Dennis A. Shields, and CRS Report R40452, *A Whole-Farm Crop Disaster Program: Supplemental Revenue Assistance Payments (SURE)*, by Dennis A. Shields.

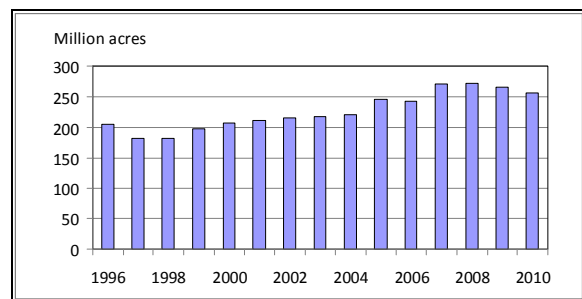
<sup>4</sup> Portions of this section are from CRS Report RL30739, *Federal Crop Insurance and the Agriculture Risk Protection* (continued...)

serviced through 16 approved private insurance companies. Independent insurance agents are paid sales commissions by the companies. The insurance companies' losses are reinsured by USDA, and their administrative and operating costs are reimbursed by the federal government (see "Federal Program Costs," below).

In purchasing a policy, a producer growing an insurable crop selects a level of coverage and pays a portion of the premium, which increases as the level of coverage rises. The remainder of the premium is covered by the federal government (about 60% of total premium, on average, is paid by the government).<sup>5</sup> In the case of catastrophic coverage, the government pays the full premium. In the absence of subsidies, farmer participation in the crop insurance program would be substantially lower. A major benefit for producers is the timely payment for crop losses (about 30 days after the farmer signs the claim form).

In 2010, crop insurance policies covered 255 million acres (**Figure 1**). Major crops are covered in most counties where they are grown. Four crops—corn, cotton, soybeans, and wheat—accounted for three quarters of total enrolled acres. For these major crops, a large share of plantings is covered by crop insurance: corn at 83% of plantings; cotton, 91%; soybeans, 84%; and wheat, 86%.

**Figure 1. Insured Acres**



**Source:** U.S. Department of Agriculture, Risk Management Agency.

Policies for less widely produced crops are available in primary growing areas. Examples include dry peas, blueberries, citrus, pumpkins, and walnuts. In total, policies are available for more than 100 crops (including coverage on a variety of fruit trees, nursery crops, pasture, rangeland, and forage).<sup>6</sup> Many specialty crop producers depend on crop insurance as the only "safety net" for their operation, unlike field crop producers, who are also eligible for farm commodity program payments (see "Intersection with Other Government Programs").<sup>7</sup> Crop insurance covers about 75% of total area for selected specialty crops.<sup>8</sup>

Crop insurance is not necessarily limited to crops; livestock coverage has recently become available. Relatively new or pilot programs protect livestock and dairy producers from loss of gross margin or price declines.

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*Act of 2000 (P.L. 106-224)*, by Ralph M. Chite.

<sup>5</sup> In practice, the crop insurance company bills the farmer for the producer's portion of the premium (i.e., excluding the government portion). The company then sends the entire producer-paid premium to RMA. When a producer files a claim and the company pays an indemnity, RMA reimburses the company in full for the loss. At the end of the reinsurance year, there is an annual settlement where the company's proportion of any underwriting gain or loss is determined and paid.

<sup>6</sup> A complete list of 2010 crops is available at <http://www.rma.usda.gov/policies/2010policy.html#3>. For previous years, see <http://www.rma.usda.gov/policies/08croplist.html>.

<sup>7</sup> Carey Frick, "Frick: Not So Peachy," *The State*, May 26, 2010, <http://www.thestate.com/2010/05/26/1302654/frick-not-so-peachy.html>.

<sup>8</sup> Federal Crop Insurance Corporation, *Report to Congress: Specialty Crop Report*, Washington, DC, November 2010, <http://www.rma.usda.gov/pubs/2010/specialtycrop.pdf>.

The availability of crop insurance for a particular crop in a particular region is an administrative decision made by USDA. The decision is made on a crop-by-crop and county-by-county basis, based on farmer demand for coverage and the level of risk associated with the crop in the region, among other factors. In areas where a policy is not available, farmers may request that RMA expand the program to their county. The process usually starts with a pilot program in order for RMA to gain experience and test the program components before it becomes more widely available. Alternatively, a policy can be reviewed and later discontinued if it fails to perform at an acceptable level (e.g., low participation or high losses). RMA also regularly responds to requests from commodity organizations or industry representatives for enhancements to existing coverage, such as adding revenue coverage.

Current law requires that RMA strive for actuarial soundness for the entire federal crop insurance program (that is, indemnities should equal total premiums, including premium subsidies).<sup>9</sup>

## Types of Insurance

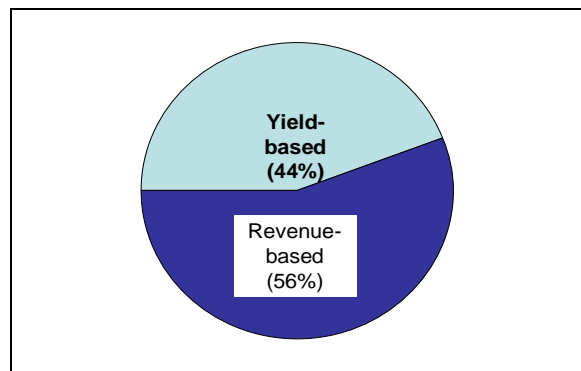
Federal crop insurance policies are generally either yield-based or revenue-based. For most yield-based policies, a producer can receive an indemnity if there is a yield loss relative to the farmer's "normal" (historical) yield. Revenue-based policies were developed after yield-based policies, in the mid-1990s, to protect against crop revenue loss resulting from declines in yield, price, or both. The most recent addition has been products that protect against losses in whole farm revenue rather than just for an individual crop. These two basic forms—yield-based and revenue-based—are discussed below. The text boxes in this report entitled "Crop Insurance Examples: Yield-Based vs. Revenue-Based" and "Federal Crop Insurance: Range of Coverage and Policies" explain program operation within these two broad categories.

Two million crop insurance policies were sold in 2010, with revenue-based policies accounting for 56% of the total (**Figure 2**), and the remainder being yield-based policies. On a premium basis, revenue policies account for three-quarters of all policies.

### Yield-Based Insurance

When purchasing a crop insurance policy, a producer is assigned (1) a "normal" crop yield based on the producer's actual production history, and (2) a price for his commodity based on estimated market conditions. The producer can then select a percentage of his normal yield to be insured and a percentage of the price he wishes to receive when crop losses exceed the selected loss threshold. The level of crop yield coverage is viewed by farmers as a critical feature of crop insurance, and a major determinant of whether a farmer will purchase insurance.<sup>10</sup>

**Figure 2. Types of Crop Insurance Policies**  
(total policies sold in 2010 = 2.03 million)



**Source:** U.S. Department of Agriculture, Risk Management Agency.

<sup>9</sup> U.S. Department of Agriculture, Risk Management Agency, <http://www.rma.usda.gov/help/faq/basics.html>.

<sup>10</sup> A number of university and Extension Service offices provide information to farmers when making crop insurance (continued...)

In determining what a normal production level is for an insurable farmer, USDA requires the producer to present actual annual crop yields (usually stated on a bushel-per-acre basis) for the last 4 to 10 years. The simple average of a producer's annual crop yield over this time period then serves as the producer's actual production history (APH). If a farmer does not have adequate records, he can be assigned a transition yield (T-yield) for each missing year of data, which is based on average county yields for the crop.

The most basic policy is called catastrophic (CAT) coverage. The premium for this level of coverage is completely subsidized by the federal government. The farmer pays an administrative fee for CAT coverage (\$300 per crop per county under the 2008 farm bill, up from \$100 previously), and in return can receive a payment on losses in excess of 50% of normal yield, equal to 55% of the estimated market price of the crop (called 50/55 coverage).

Coverage levels that are higher than CAT are called "buy-up" or "additional" coverage.<sup>11</sup> For an additional premium paid by the producer, and partially subsidized by the government, a producer can "buy up" the 50/55 catastrophic coverage to any equivalent level of coverage between 50/100 and 75/100 (i.e., up to 75% of "normal" crop yield and 100% of the estimated market price). In limited areas, production can be insured up to the 85/100 level of coverage.

APH policies account for more than 90% of yield-based policies sold. The remaining policies, including the Group Risk Plan and Dollar Plan (see box on page 6), are not widely used but can be important for certain crops. Some of these policies use an area-wide index—county-level yield in the case of the Group Risk Plan—to measure losses.

## Revenue-Based Insurance

Revenue insurance accounts for more than half of all crop insurance policies (**Figure 2**). It began in 1997 as a buy-up option on a pilot basis for major crops. By 2003, acreage under revenue-based insurance exceeded acreage covered by APH policies. Revenue insurance combines the production guarantee component of crop insurance with a price guarantee to create a target revenue guarantee.

Under revenue insurance programs, participating producers are assigned a target level of revenue based on market prices for the commodity and the producer's yield history. A farmer who opts for revenue insurance can receive an indemnity payment when his actual farm revenue (crop-specific or entire farm, depending on the policy) falls below a certain percentage of the target level of revenue, regardless of whether the shortfall is caused by low prices or low production levels.

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decisions. Some examples include [http://www.agmanager.info/crops/insurance/risk\\_mgt/default.asp](http://www.agmanager.info/crops/insurance/risk_mgt/default.asp), <http://www.ag.ndsu.nodak.edu/aginfo/cropmkt/cic.htm>, <http://www.farmdoc.uiuc.edu/cropins/index.asp>, and <http://extension.umaine.edu/cropinsurance/default.htm>.

<sup>11</sup> Participation at the CAT level has steadily decreased, particularly since subsidies on buy-up levels were increased in the Agriculture Risk Protection Act (ARPA) of 2000. In 2008, only about 11% of insured acres were insured at the CAT level.



### Crop Insurance Examples: Yield-Based vs. Revenue-Based

Two basic forms of crop insurance are yield-based and revenue-based. Yield-based insurance provides an indemnity when the actual yield falls below the guarantee level. Revenue-based insurance provides an indemnity when the revenue (actual yield x price) falls below the guarantee.

#### Actual Production History (APH) Example:

A loss occurs when the bushels of soybeans produced for the insurance unit (insurable acreage) fall below the production guarantee as a result of damage from a covered cause of loss. Assumptions: "normal" production = 48 bushels / acre; yield coverage level = 75%; established price coverage = 100%; price election = \$9.90 / bushel; actual production = 20 bushels per acre.

48	bushels per acre APH yield
x .75	coverage level
<hr/>	
36.0	bushel / acre guarantee
- 20.0	bushels / acre actually produced
<hr/>	
16.0	bushels / acre of covered loss
x \$9.90	per-bushel price election
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\$158.40	per-acre gross indemnity payment
- \$6.00	estimated producer-paid premium per acre (varies)
<hr/>	
<b>\$152.40</b>	<b>per-acre net indemnity</b>

#### Revenue Product Example:

36.0	bushels / acre guarantee (see prior example)
x \$11.00	per-bushel base price (announced in March)
<hr/>	
\$396.00	per-acre guarantee
20	bushels / acre actually produced
x \$10.00	per-bushel harvest price (announced in November)
<hr/>	
\$200.00	per-acre revenue
\$196.00	per-acre gross indemnity payment (\$396.00 - \$200.00)
- \$13.00	estimated producer-paid premium (varies)
<hr/>	
<b>\$183.00</b>	<b>per-acre net indemnity</b>

**Source:** U.S. Department of Agriculture, Risk Management Agency, *2009 Commodity Insurance Fact Sheet - Soybeans - Iowa*, January 2009, [http://www.rma.usda.gov/fields/mn\\_rso/2009/2009iasoybeans.pdf](http://www.rma.usda.gov/fields/mn_rso/2009/2009iasoybeans.pdf).

After years of development, USDA's Risk Management Agency issued the "COMBO" rule in late March 2010 to consolidate several crop insurance plans into a single "Common Crop Insurance Policy" beginning with the 2011 crop year.<sup>12</sup> Yield-based plans (APH) continue, with the addition of a Yield Protection policy that functions like APH but uses a projected price based on the futures market (rather than a price determined by RMA). The biggest change is the consolidation of several previous revenue products (Crop Revenue Coverage, Income Protection, Indexed Income Protection and Revenue Assurance) into a single revenue product called Revenue Protection and its companion, Revenue Protection With Harvest Price Exclusion.<sup>13</sup> RMA expects the move to greatly simplify the insurance process for agents and promote better understanding of the options available for producers.

<sup>12</sup> USDA, Risk Management Agency, "RMA Releases New Common Crop Insurance Policy Basic Provisions," press release, March 31, 2010, <http://www.rma.usda.gov/news/2010/03/combo.html>.

<sup>13</sup> Crop are barley, canola, corn, cotton, grain sorghum, rapeseed, rice, soybeans, sunflowers, and wheat.

## Federal Crop Insurance: Range of Coverage and Policies

**I. Catastrophic Coverage (CAT)** pays 55% of the established price of the commodity on crop losses in excess of 50%. The premium on CAT coverage is paid by the federal government; however, producers must pay a \$300 administrative fee (as of the 2008 farm bill, up from \$100) for each crop insured in each county. Limited-resource farmers may have this fee waived. CAT coverage is not available on all types of policies.

### II. Buy-up Coverage (any coverage level higher than CAT)

#### Yield-based policies:

**Actual Production History (APH)** and **Yield Protection** policies insure producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. The farmer selects the amount of average yield he or she wishes to insure; from 50% to 85%. The farmer also selects the percentage of the projected price he or she wants to insure—between 55% and 100% of the crop price (for APH, the price is established annually by RMA; for Yield Protection, the price is based on futures market prices). If the harvest is less than the yield insured, the farmer is paid an indemnity based on the difference. Indemnities are calculated by multiplying this difference by the insured percentage of the selected price.

**Group Risk Plan (GRP)** insures against widespread loss of production based on county average yields. When the county yield for the insured crop, as determined by the National Agricultural Statistics Service, falls below the trigger level chosen by the farmer, an indemnity is paid regardless of the individual farmer's actual yield. Yield levels are available for up to 90% of the expected county yield. GRP protection involves less paperwork and costs less than the farm-level coverage described above. However, individual crop losses may not be covered if the county yield does not suffer a similar loss. This insurance is suitable for farmers whose crop losses typically follow the county pattern.

**Dollar Plan** provides protection against declining value due to damage that causes a yield shortfall. (Crop examples include cherries, chili peppers, citrus, and nursery crops.) Amount of insurance is based on the cost of growing a crop in a specific area. A loss occurs when the annual crop value is less than the amount of insurance. The maximum dollar amount of insurance is stated on the actuarial document. The insured may select a percentage of the maximum dollar amount equal to CAT (catastrophic level of coverage), or additional coverage levels.

The **Vegetation Index** and **Rainfall Index** do not measure direct production or loss; rather the farmer is insuring against an index that is expected to estimate production. The Pasture, Rangeland, and Forage (PRF) pilot program and the Apiculture pilot program (for beekeepers) use an index for different parts of the country.

#### Revenue-based policies:

**Revenue Protection** insures producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease, and revenue losses caused by a change in the harvest price from the projected price. The producer selects the amount of average yield he or she wishes to insure; from 50% to 75% (in some areas to 85%). The projected price and the harvest price are 100% of the price determined by futures contracts. The amount of insurance protection is based on the greater of the projected price or the harvest price. If the harvested plus any appraised production multiplied by the harvest price is less than the amount of insurance protection, the producer is paid an indemnity based on the difference.

**Revenue Protection With Harvest Price Exclusion** insures producers in the same manner as Revenue Protection, except the amount of insurance protection is based on the projected price only (i.e., the amount of insurance protection is not increased if the harvest price is greater than the projected price).

**Actual Revenue History (ARH)** insures an average of historical grower revenues instead of insuring historical yields as done under APH. Like other revenue coverage plans, ARH protects growers against losses from low yields, low prices, low quality, or any combination of these events.

**Group Risk Income Protection (GRIP)** makes indemnity payments only when the average county revenue for the insured crop falls below the revenue chosen by the farmer.

**Adjusted Gross Revenue (AGR)** and **AGR-Lite** insure revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. The plan uses information from a producer's Schedule F tax forms, and current-year expected farm revenue, to calculate the policy revenue guarantee.

**Livestock Policies** insure against declining market prices or gross margins. Policies are available for swine, cattle, lambs, and milk.

**Source:** USDA's Risk Management Agency, <http://www.rma.usda.gov/policies/>.

## Crop Insurance Premium Subsidies

The producer's premium for a policy increases as the levels of insurable yield and price coverage rise, and the premium on buy-up coverage is subsidized by the government at amounts ranging from 38% to 80%, depending on the coverage level (**Table 1**). The subsidy rate declines as the coverage level rises, but the total premium subsidy in dollars increases because the policies are more expensive.

**Table 1. Crop Insurance Premium Subsidies**  
(government-paid portion of premium as a percent of total premium)

Yield coverage level (%)	CAT	50	55	60	65	70	75	80	85
Premium subsidy (%) for most policies (including those using basic and optional units)	100	67	64	64	59	59	55	48	38
Premium subsidy (%) for enterprise units		80	80	80	80	80	77	68	53
Premium subsidy (%) for whole farm units					80	80	80	71	56

**Source:** USDA, Risk Management Agency (<http://www.rma.usda.gov/data/premium.html>).

**Notes:** Separate schedules apply for Group Risk Plan, Group Risk Income Protection, and livestock policies. A basic unit covers land in one county with the same tenant/landlord. An optional unit is a basic unit divided into smaller units by township section. An enterprise unit covers all land of a single crop in a county for a producer, regardless of tenant/landlord structure. A whole farm unit covers more than one crop.

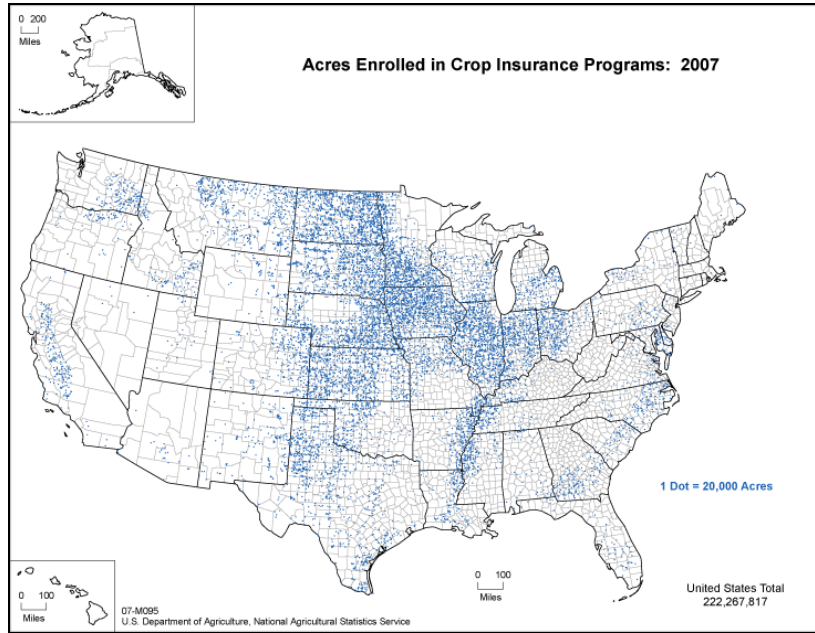
Subsidy rates range from 38% to 67% for policies using either “basic” units or “optional” units. Basic units cover all plantings in a single county of a crop with the same tenant/landlord. Optional units are basic units divided into smaller units by township section. As newly authorized under the 2008 farm bill, a higher subsidy rate (up to 80%) is provided for policies using enterprise units (all land for a single crop in a county, regardless of the tenant/landlord structure). Because the premium for policies using enterprise units is lower (i.e., a discount is given because the combined unit has greater geographic diversity and hence is less risky), a higher subsidy rate for enterprise units provides for an equal dollar amount of premium subsidy regardless of the type of unit used. Overall, the average subsidy rate was 58% in 2008, 61% in 2009, and 62% in 2010. The rising trend results from a shift to policies using enterprise units by some farmers.

## Geographic Distribution of Program Participation and Indemnities

With widespread use of crop insurance products for major crops (corn, cotton, soybeans, and wheat), the geographic distribution of acreage enrolled in crop insurance mirrors that of major producing areas (**Figure 3**). Crop insurance indemnities follow the same pattern, but with an emphasis on producing areas with less rainfall and more variable crop-weather conditions. For example, **Figure 4** shows crop insurance indemnities by county. In 2010, relatively high indemnities were paid in the Great Plains, a region with generally low but variable rainfall.<sup>14</sup> In other years, the distribution of indemnities is similar, especially with respect to payments across the Great Plains. However, the concentration of payments shifts within major producing areas, primarily depending upon the prevalence of local weather problems.

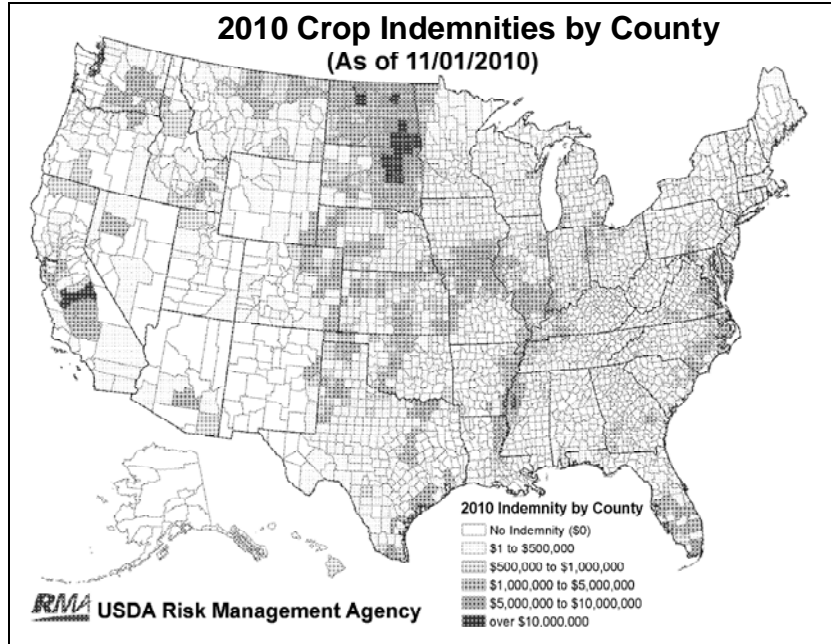
<sup>14</sup> Adverse weather can affect crops in various ways. For example, in some North Dakota counties in 2009, the cause of loss was drought for some wheat policies, while it was excess moisture for other wheat policies in the same county.

**Figure 3. Acres Enrolled in Crop Insurance, 2007**



Source: USDA, National Agricultural Statistics Service, 2007 Census of Agriculture.

**Figure 4. Crop Insurance Indemnities**



Source: USDA, Risk Management Agency, <http://www.rma.usda.gov/data/indemnity/>.

## Distribution of Producer Subsidies

Producer subsidies for crop insurance are proportional to the value of the premiums and underlying liability of the policies. Compared with small farms, larger operations have greater crop liability, which increases the total costs of insurance and value of the government-paid portion of the total premium. Based on the distribution of insurance costs from USDA's Agricultural Resource Management Survey (ARMS) and actual premium subsidies from RMA (\$5.4 billion in 2009), CRS estimates that the producer subsidy in 2009 averaged \$2,500 per farm (the calculation includes all U.S. farms, not just those purchasing crop insurance). By farm size, the calculated average ranged from \$400 per farm for operations with less than \$100,000 in sales to \$32,000 for farms with more than \$1 million in sales (see **Figure 5**). Farms in the largest sales category accounted for an estimated \$1.6 billion, or 29% of the total producer subsidy in 2009. Unlike farm commodity programs, subsidies received under the crop insurance program are not subject to payment limits.

**Figure 5. Estimated Average Crop Insurance Premium Subsidy Per Farm in 2009**

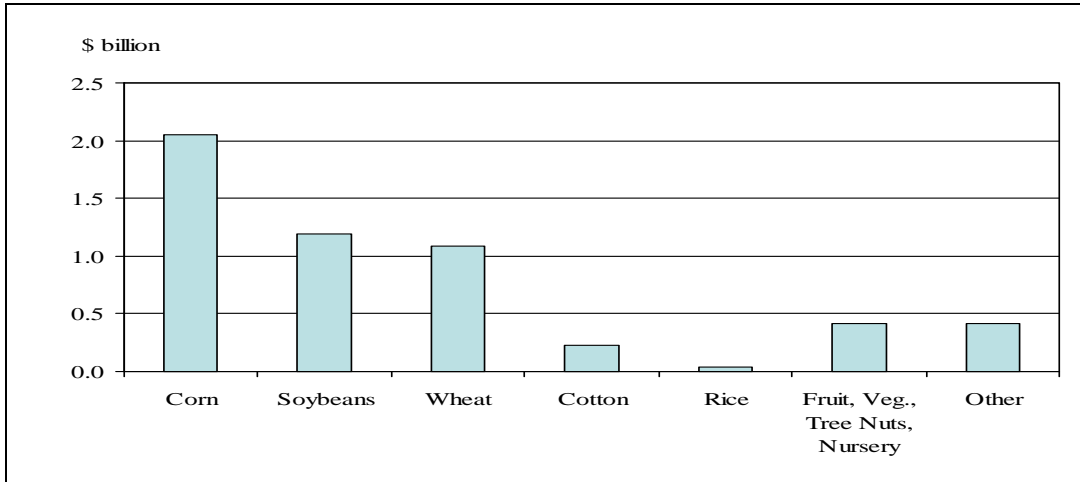


**Source:** CRS calculation using total premium subsidies reported by USDA's Risk Management Agency and the distribution of crop insurance expenses by farm sales class from USDA's Agricultural Resource Management Survey.

**Notes:** Total producer subsidy was \$5.4 billion for crop year 2009. The calculated average was \$2,500 per farm (calculation includes all U.S. farms, not just those purchasing crop insurance).

By crop, the bulk of producer subsidies are for corn, wheat, soybeans, and cotton, which together account for more than 80% of the subsidies and about three-quarters of total acres enrolled in the program (**Figure 6**). By state, premium subsidies are greatest in states where these crops are grown, primarily across the Great Plains, Corn Belt, and parts of the South (**Figure 7**).

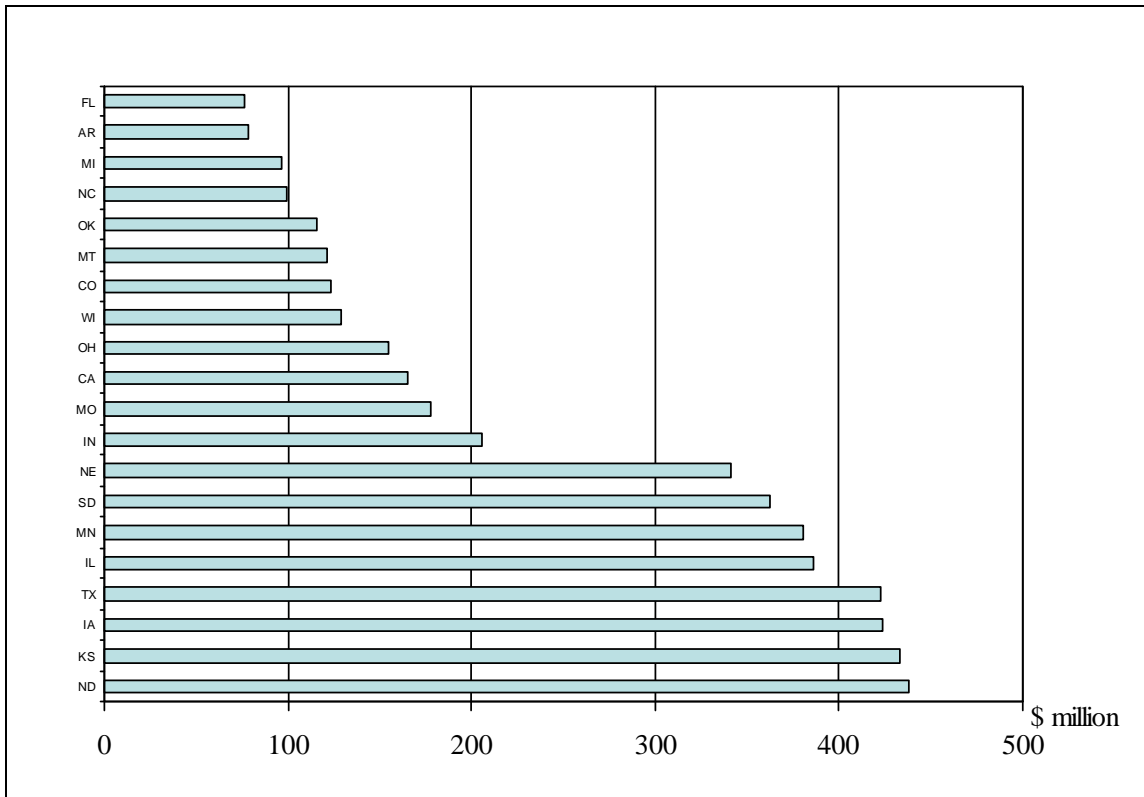
**Figure 6. Crop Insurance Premium Subsidies by Crop in 2009**



**Source:** USDA's Risk Management Agency, Summary of Business.

**Notes:** Total is \$5.4 billion in crop year 2009. Corn, soybeans, wheat, and cotton account for 84% of the total. Other includes minor oilseeds, other feed grains, tobacco, peanuts, sugar beets and sugar cane, pasture, and other crops.

**Figure 7. Crop Insurance Premium Subsidies for Top 20 States in 2009**



**Source:** USDA's Risk Management Agency, Summary of Business.

**Notes:** Total producer subsidy was \$5.4 billion in crop year 2009. The states shown in chart accounted for 87% of the total.

## Federal Program Costs

The annual agriculture appropriations bill traditionally makes two separate appropriations for the federal crop insurance program. It provides discretionary funding for the salaries and expenses of the RMA. It also provides “such sums as are necessary” for the Federal Crop Insurance Fund, which finances all other expenses of the program, including premium subsidies, indemnity payments, and reimbursements to the private insurance companies.

Government costs for crop insurance have increased substantially in recent years. After ranging between \$2.1 and \$3.6 billion during FY2000-FY2006, costs rose to \$5.7 billion in FY2008 and \$7.3 billion in FY2009 as higher policy premiums from rising crop prices drove up premium subsidies and expense reimbursements to private insurance companies. Costs declined to \$3.7 billion in FY2010 following a decline crop prices. Expenditures in a particular fiscal year mainly reflect the previous crop year (since fall harvest overlaps with the beginning of the fiscal year).

The largest cost component is the subsidy on policy premiums for producers, which totaled \$4.7 billion in FY2010 (**Table 2**). The next largest item is reimbursement of administrative and operating (A&O) expenses to private insurance companies (\$1.4 billion in FY2010). With premiums reflecting only costs associated with policy risk, the A&O reimbursement is meant to pay delivery costs. In recent years, the federal government also has realized underwriting gains (premiums received in excess of indemnities), which has partially reduced total costs. The underwriting gains (or losses) are derived in part from the federal government’s role in providing the first level of reinsurance—that is, insurance for insurance companies.

**Table 2. Government Cost of Federal Crop Insurance**  
(millions of dollars)

Fiscal Year	Program Losses or (Gains) <sup>a</sup>	Federal Premium Subsidy	Private Company A&O Expense Reimbursements <sup>b</sup>	Other Costs <sup>c</sup>	Total Government Cost
2000	196	1,353	540	86	2,175
2001	725	1,707	648	82	3,162
2002	1,182	1,513	656	115	3,466
2003	822	1,874	743	149	3,588
2004	(305)	2,387	900	143	3,125
2005	(293)	2,070	783	139	2,699
2006	(31)	2,517	960	125	3,571
2007	(1,068)	3,544	1,341	123	3,940
2008	(1,717)	5,301	2,016	137	5,737
2009	108	5,198	1,602	131	7,039
2010	(2,523)	4,680	1,371	143	3,671

**Source:** U.S. Department of Agriculture, Risk Management Agency.

- Government’s underwriting loss (gain if negative) = the difference between total indemnity payments for crop losses and total premiums (farmer and government paid), plus or minus any private company underwriting gains or losses.
- A&O = administrative and operating.
- Other costs primarily include federal salaries of USDA’s Risk Management Agency and, beginning in 2002, various research and development initiatives mandated by the Agriculture Risk Protection Act of 2000 (P.L. 106-224).

## Private Company Reimbursement and Risk Sharing

A&O reimbursements to the companies and risk sharing between USDA and the private companies are spelled out in a Standard Reinsurance Agreement (SRA), which plays a large role in determining program costs. The current SRA was completed in summer 2010.<sup>15</sup>

### Standard Reinsurance Agreement (SRA)

Under the SRA and cuts specified in the 2008 farm bill, the reimbursement rate for A&O expenses averaged 18% of total premiums in 2009.<sup>16</sup> This means that for every \$100 in premiums collected, the companies receive a reimbursement of \$18 from the federal government. The reimbursement rate varies by insurance product, depending on whether it is for a yield-based or a revenue insurance product.

The SRA places a maximum for A&O reimbursements at \$1.3 billion per year (adjusted annually for inflation) and a minimum at \$1.1 billion. The cap controls government costs when crop prices rise (price levels directly affect policy premiums), while the minimum is intended to protect companies against low market prices.

The SRA also defines risk-sharing between the government and private insurance companies. Under the SRA, insurance companies may transfer some liability associated with riskier policies to the government and retain profits/losses from less risky policies.<sup>17</sup> This transfer of risk is accomplished through a set of reinsurance funds maintained by FCIC. Within 30 days of the sales closing dates for each crop, companies allocate each policy they sell to one of two funds that are maintained for each company by state: Assigned Risk or Commercial. (The previous SRA had three funds.) Each company then decides what proportion of premiums (and potential for losses/gains) to retain within each reinsurance fund, subject to required retention limits of individual funds. The by-state retention requirements are 20% for the Assigned Risk Fund and at least 35% for the Commercial Fund. The ceded (i.e., not retained) portion of premiums goes to the government.

The assigned risk fund is used for policies believed to be high-risk because it provides the most loss protection to insurance companies through “stop-loss” coverage that reinsures against state-level disasters. For producers, it helps ensure that benefits of the federal crop insurance program are extended to all eligible farmers, regardless of risk. Because companies retain only 20% of their business as specified in the SRA, the federal government assumes a large portion of liability associated with high-risk policies. The SRA also specifies a 75% limit (by state) on the proportion of a company’s business that may be placed in the Assigned Risk Fund.

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<sup>15</sup> The 2008 farm bill allows USDA to renegotiate the SRA once every five years starting with the 2011 reinsurance year (the 12-month period beginning July 1, 2010). For more information on the SRA and related issues, see CRS Report R40966, *Renegotiation of the Standard Reinsurance Agreement (SRA) for Federal Crop Insurance*.

<sup>16</sup> The 2008 farm bill (Sec. 12016(E)) reduced the A&O reimbursement by 2.3 percentage points beginning with the 2009 reinsurance year (July 1, 2008). Also, the farm bill reduced the A&O reimbursement rate to 12% for any plan of insurance that is based on area-wide losses. The farm bill also reduced the target loss ratio (indemnities paid divided by premiums collected of the entire program) from 1.075 to 1.00.

<sup>17</sup> Dmitry V. Vedenov et al., “Portfolio Allocation and Alternative Structures of the Standard Reinsurance Agreement,” vol. 31, no. 1 (April 2006), pp. 57-73, <http://ageconsearch.umn.edu/bitstream/10145/1/31010057.pdf>.



The Commercial Fund is for policies that the companies expect to have the greatest opportunity for profit and only a small amount of losses. While the profit potential is greater compared with the Assigned Risk Fund, so is the loss potential.

Once the policies are allocated to one of the two funds, the gain/loss sharing for a company's retained business is based on loss ratios (indemnities paid divided by premiums collected) as established in the SRA. As a general rule, the higher the loss ratio, the lower the company share of gains or losses (and vice versa, except at very low loss ratios when the company share of gains declines). See **Table 3** for the schedule contained in the current SRA.

**Table 3. Share of Crop Insurance Company's Gains/Losses by Fund and Loss Ratio**  
(share of gains/losses in percent)

Loss Ratio (%)	Share of Company's Gains/Losses in Assigned Risk Fund (%)	Share of Company's Gains/Losses in Commercial Fund (%)	
		Group I states	All other states
0 to 50	3	5	5
>50 to 65	13.5	40	40
>65 to 100	22.5	75	97.5
>100 to 160	7.5	65	42.5
>160 to 220	6	45	20
>220 to 500	3	10	5
>500	0	0	0

**Source:** U.S. Department of Agriculture, Risk Management Agency, Standard Reinsurance Agreement dated June 30, 2010, <http://www.rma.usda.gov/news/2010/06/630sra.pdf>.

**Notes:** Loss ratio is indemnities divided by total premiums. Group I states include Illinois, Indiana, Iowa, Minnesota, and Nebraska.

For the Commercial Fund, policies from states with historically lower underwriting gains have a more favorable gain/loss sharing structure for insurance companies than policies sold in five states with better underwriting performance (Illinois, Indiana, Iowa, Minnesota, and Nebraska). The provision is expected to provide insurance companies with more financial incentives than in the past to sell and service policies in the areas of the country that have historically attracted less interest because companies had expected fewer underwriting gains in those areas.

The final risk-sharing component of the SRA is the "net book quota share," defined as the proportion of a company's overall gain or loss over its entire "book of business" that is ceded to the government after all other reinsurance provisions in the SRA have been applied. Under the SRA, companies must cede a 6.5% share of their cumulative underwriting gains/losses to the government. During years in which there are underwriting gains, 1.5% of this share is distributed back to companies that sell and service policyholders in 17 underserved states. Through the net book quota share, the government receives a portion of underwriting gains from a company's retained business (but will also pay a portion of the losses, if realized). Since the company's total book includes a higher proportion of policies with lower risk, this portion is generally a positive value, which offsets part of the government costs of the program.

## Trends in A&O Reimbursement and Underwriting Gains

Since A&O reimbursements are based on a percentage of premiums, the dollar amount of A&O reimbursement has risen sharply in recent years as premiums have risen to reflect higher crop prices. The A&O reimbursement increased from an average of \$881 million during 2004-2006 to \$2.0 billion in 2008. A&O reimbursements declined to \$1.6 billion in FY2009 following a decline in crop prices. RMA data also indicate that A&O reimbursement per policy increased from \$750 in 2004-2006 to \$1,749 in 2008 and \$1,373 in 2009.<sup>18</sup> Similarly, company underwriting gains (the amount by which a company's share of retained premiums exceeds its indemnities) have increased substantially in recent years as weather has been generally favorable for growing crops (Table 4). During this period, increases in insured acreage and higher crop prices have also increased gross liability. Liability represents total exposure of the program, meaning that if all participating farmers suffer losses to the full extent of coverage, program indemnities would be the total liability.

**Table 4. Federal Crop Insurance Program and Company Data**

Re-insurance Year	Gross Premium <sup>a</sup> (\$ million)	Gross Liability <sup>b</sup> (\$ million)	Gross Loss Ratio <sup>c</sup>	Private Company Loss Ratio <sup>c</sup>	Private Company Underwriting Gain (Loss) <sup>d</sup> (\$ million)
2000	2,538	34,000	1.02	0.70	282
2001	2,979	37,000	1.00	0.73	346
2002	2,911	37,000	1.39	0.91	(47)
2003	3,436	41,000	0.95	0.76	381
2004	4,087	47,000	0.79	0.62	691
2005	3,945	44,000	0.52	0.43	917
2006	4,709	55,000	0.75	0.54	819
2007	6,548	67,000	0.53	0.49	1,572
2008	9,852	89,000	0.88	0.85	1,102
2009 (est.)	8,950	80,000	0.58	0.59	2,194

**Source:** U.S. Department of Agriculture, Risk Management Agency.

- Farmer-paid premium plus government-paid premium subsidy.
- Liability represents total exposure of the program, meaning that if all participating farmers suffered losses to the full extent of coverage, program indemnities would be the total liability.
- Indemnities divided by premiums. Gross loss ratio is for the program in total (government plus private companies).
- The underwriting gains represent the amount by which the company's share of retained premiums exceeds its indemnities (vice versa for underwriting losses).

<sup>18</sup> USDA, Risk Management Agency, "Federal Crop Insurance Program History" data sheet, Washington, DC, March 1, 2010.

Prior to the 2010 renegotiation of the SRA, some observers argued that the reimbursement rate should be pegged to something other than premium value, such as the number of policies sold, to better reflect actual costs and to help reduce federal expenditures. If premiums are actuarially sound, the administrative costs of writing a policy are likely not proportional to the value of the policy (e.g., whether 10 acres or 1,000 acres, or \$3 per bushel or \$9 per bushel). In order to control costs, A&O reimbursement under the current SRA is still based on premiums (which are directly affected by crop prices) but it is limited to approximately \$1.3 billion in 2011 and adjusted upward in subsequent years with an inflation factor. The private crop insurance companies remain concerned that limits on the A&O reimbursement will negatively affect the crop insurance industry and possibly jeopardize the delivery of crop insurance, particularly in high-risk areas.

Part of the criticism on the A&O stemmed from a study by the Government Accountability Office (GAO) on costs associated with administering the crop insurance program.<sup>19</sup> In 2009, GAO concluded that the structure of A&O reimbursements “present[s] an opportunity to reduce government spending without compromising the crop insurance program’s safety net for farmers.” According to GAO, the method for calculating the A&O reimbursement should be redesigned to better reflect reasonable business expenses, in terms of dollars per policy, rather than crop prices. Using crop prices, GAO said, generated a “kind of windfall” for many insurance agencies/agents as insurance companies, using funds from increased levels of A&O reimbursements, pay higher commissions to compete for each other’s “book of business” and associated underwriting gains. In response, the crop insurance industry contended that overall agent compensation was consistent with compensation paid in related insurance industries.<sup>20</sup>

## Intersection with Other Government Programs

The intersection between crop insurance and other government programs varies by commodity. For “program crops” such as wheat, corn, and soybeans, eligible producers receive government payments from several programs. These include the direct/counter-cyclical payment program (with fixed payment rates/price-dependent rates, respectively), the average crop revenue election (ACRE) program (revenue-dependent), and the marketing assistance loan program (price-dependent).<sup>21</sup> These programs (except for direct payments) have elements of risk reduction (i.e., reducing the variability of farm income or the “effective” farm price of a commodity).<sup>22</sup> They can also enhance farm income for participating producers. Compared with these national farm programs, with the exception (to some extent) of the ACRE program and its state yield component, crop insurance provides a more exact (i.e., location-specific) benefit to farmers trying to manage price and income risk. For the other major farm programs (direct/counter-cyclical and

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<sup>19</sup> U.S. Government Accountability Office, *Crop Insurance—Opportunities Exist to Reduce the Costs of Administering the Program*, Washington, DC, April 2009, <http://www.gao.gov/new.items/d09445.pdf>.

<sup>20</sup> On June 1, 2009, 14 organizations affiliated with the crop insurance industry wrote to Congress to comment on the crop insurance program performance and the need for maintaining current subsidies and A&O reimbursements. See <http://www.farmpolicy.com/wp-content/uploads/2009/06/gaocropinsuranceletter.pdf>.

<sup>21</sup> For more on USDA commodity programs, see CRS Report RL34594, *Farm Commodity Programs in the 2008 Farm Bill*, by Jim Monke; and CRS Report R40422, *A New Farm Program Option: Average Crop Revenue Election (ACRE)*, by Dennis A. Shields.

<sup>22</sup> For an overview of government programs designed to support farmers and help manage risk, see CRS Report R41317, *Farm Safety Net Programs: Issues for the Next Farm Bill*, by Dennis A. Shields, Jim Monke, and Randy Schnepf.

marketing assistance loan), payments are independent from crop insurance indemnities, but the same market factors may play a role in triggering payments in some instances. For crops not receiving payments under federal commodity programs, crop insurance serves as a primary risk management tool for farmers, particularly with respect to losses in yields.<sup>23</sup>

Crop insurance and other government programs for farmers are also linked via disaster programs. The Supplemental Revenue Assistance Payments Program (SURE) requires the purchase of crop insurance for program eligibility.<sup>24</sup> For participation in commodity programs listed above, there is no crop insurance requirement. Generally, ad-hoc disaster bills in the past have not required crop insurance for eligibility, although most required future crop insurance purchases (or participation in the noninsured assistance program) and/or linked payment rates to crop insurance participation. In 2010, USDA implemented a disaster program (Crop Assistance Program) for producers of rice, upland cotton, soybeans, and sweet potatoes in designated disaster counties. Program eligibility did not require prior (or future) purchase of crop insurance.<sup>25</sup>

When crop insurance is not available, USDA's noninsured crop disaster assistance program (NAP) provides catastrophic coverage if purchased by the producer. To be eligible for a NAP payment, a producer first must apply for coverage under the program by the application closing date, which varies by crop, but is generally about 30 days prior to the final planting date for an annual crop. Like catastrophic crop insurance, NAP applicants pay an administrative fee (currently \$250 per crop).

## **Farmer Concerns with Crop Insurance**

The House Agriculture Committee held hearings in spring 2010 to review agricultural policy ahead of the next farm bill debate. Comments on crops insurance surfaced as farmers, academics, other panelists, and members discussed the farm safety net and the role of crop insurance. Previously, in spring 2009, the Subcommittee on General Farm Commodities and Risk Management of the House Agriculture Committee held a hearing to receive input on the crop insurance program from farmers. Based on the testimony, farmers appear to be generally satisfied with the overall crop insurance program and do not seek major changes. However, producer groups point to several issues that need attention.

## **Rice and Other Crops Produced in the South**

While the crop insurance program receives favorable marks from farmers in general, producers of some crops, such as rice, contend that current policies are of little value to them. According to rice producers in California and the southern United States, drawbacks include high premiums relative to the insurance guarantee levels and low historical yields that adversely affect guarantees. Also, rice producers say crop insurance does not protect them against one of their

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<sup>23</sup> In some cases, a farmer's price risk can also be managed by contracting production with buyers or by using the futures market to lock in selling prices.

<sup>24</sup> For more details on agricultural disaster programs, see CRS Report RS21212, *Agricultural Disaster Assistance*, by Dennis A. Shields and Ralph M. Chite, and CRS Report R40452, *A Whole-Farm Crop Disaster Program: Supplemental Revenue Assistance Payments (SURE)*, by Dennis A. Shields.

<sup>25</sup> CRS Report RS21212, *Agricultural Disaster Assistance*, by Dennis A. Shields and Ralph M. Chite.

biggest risks—fluctuations in the cost of energy-related inputs, particularly fertilizer, fuel, and irrigation pumping. The rice industry is working with RMA to develop a policy to address input risk.<sup>26</sup>

Some farmers in southern U.S. producing regions and elsewhere also contend that their insurance guarantees are too low because the calculation uses 10 years of data, which gives insufficient weight to recent yield gains or the potential for such gains given improved seeds or management practices. As a result, producers say insurance does not fully cover total production, and they must self-insure the remainder.<sup>27</sup>

## More Affordable Premiums

Some southern producers also feel that premiums for buy-up coverage or revenue products are not affordable, leaving catastrophic policies (with minimal coverage) as the only viable option for many farmers. More broadly, some farm groups have requested that current subsidies be maintained or increased so premiums would be more affordable.<sup>28</sup> Corn producers want their premiums reduced because the loss ratio has been well below 1.0 (indemnities paid divided by premiums). RMA is reviewing the use of historical loss data, specifically whether all historical loss should be given the same weight in determining premium rates given current crop production technology. According to RMA, such consideration might result in lower premium rates in several parts of the country, especially the Corn Belt.<sup>29</sup>

## Nursery Products

The nursery program is an asset-based form of insurance that insures against declines in asset values rather than insuring a percentage of average historical yield or revenue.<sup>30</sup> Approximately 25,500 plants are listed as insurable, and coverage is available for either field-grown or container products.

Similar to organizations representing field crop producers, the American Nursery and Landscape Association say that the nursery industry considers the federal crop insurance program to be a valuable component of risk management practices. According to the association, incremental program enhancements have been made in recent years, including the use of a grower's wholesale

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<sup>26</sup> U.S. Congress, House Committee on Agriculture, *Testimony of Frank Rehermann*, hearing to review U.S. agriculture policy in advance of the 2012 farm bill, 111<sup>th</sup> Cong., 2<sup>nd</sup> sess., May 3, 2010, <http://agriculture.house.gov/testimony/111/h050310/Rehermann.pdf>.

<sup>27</sup> U.S. Congress, House Committee on Agriculture, *Testimony of David Waide*, hearing to review U.S. agriculture policy in advance of the 2012 farm bill, 111<sup>th</sup> Cong., 2<sup>nd</sup> sess., May 15, 2010, <http://agriculture.house.gov/testimony/111/h051510/Waide.pdf>.

<sup>28</sup> Statements from witnesses are available at <http://agriculture.house.gov/hearings/statements.html>. U.S. Congress, House Committee on Agriculture, Subcommittee on General Farm Commodities and Risk Management, hearing to review producers' views on the effectiveness and operations of the federal crop insurance program, 111<sup>th</sup> Cong., 1<sup>st</sup> sess., April 22, 2009.

<sup>29</sup> U.S. Congress, House Committee on Agriculture, Subcommittee on General Farm Commodities and Risk Management, *Testimony of William J. Murphy, Administrator of the Risk Management Agency*, 111<sup>th</sup> Cong., 2<sup>nd</sup> sess., July 22, 2010, <http://agriculture.house.gov/testimony/111/h072210/Murphy.pdf>.

<sup>30</sup> The insured causes of loss include adverse weather but not price declines. For more information on the nursery program, see <http://www.rma.usda.gov/pubs/rme/nursery.pdf>.

price list for the basis of coverage. However, they contend that the program falls short of adequately addressing the extreme diversity and unique situations found in the industry because production practices are less uniform than for major field crops. Producers say there is a great degree of variation in program management across the country, depending upon agents' and claim adjusters' familiarity with industry practices. A certification program would be helpful, they say.

## **“Shallow” Losses and Other Concerns**

Farmers have several general concerns about crop insurance voiced by national farm organizations representing a cross-section of American agriculture. The American Farm Bureau Federation (AFBF) and others would like USDA to address shallow losses, which occur when losses are significant for the farmer but not enough to trigger an indemnity.<sup>31</sup> Also, this group and others point out a need to address declines in actual production history (APH), which is used for determining the insurance guarantee. Some farmers are subject to a declining insurance guarantee because of recent repeated disasters. (The American Sugar Cane League has commented on the inadequacy of the APH for sugar cane because it is adversely affected by an old variety that is no longer being planted.)

Another broad-based farm organization, the National Farmers Union (NFU), contends that crop insurance remains inadequate for those with multi-year disasters, and that crop quality loss discounts applied in insurance contracts do not reflect realities of the marketplace. The organization also wants insurance companies to offer coverage in all areas and not “cherry pick” regions that are most profitable, a concern that USDA attempted to address in the Standard Reinsurance Agreement signed in 2010. Finally, the organization requests a revised auditing procedure that could avoid duplicative reviews of records. Currently, RMA requires an automatic review if a farmer receives an indemnity exceeding \$100,000.

Farm groups also have identified the need for better information management. The National Association of Wheat Growers wants streamlined acreage reporting between crop insurance and other USDA farm programs, while the AFBF has asked Congress to push for USDA's completion of the Comprehensive Information Management System (CIMS) project. The project is designed to manage data used for both crop insurance and farm commodity programs, thereby reducing duplicative efforts by both producers and USDA personnel.

## **Issues for the 112<sup>th</sup> Congress**

A general policy question as Congress considers the next farm bill is whether or not there is overlap in program benefits between crop insurance and other farm programs that together form the farm safety net. Most critically, some observers have noted that ACRE and crop insurance can provide duplicate coverage in certain instances and question why taxpayers should fund both programs.<sup>32</sup> To some extent, the potential for overpayment is reduced in SURE by including crop

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<sup>31</sup> Under the 2008 farm bill, the new Supplemental Revenue Assistance Payments Program (SURE) has provisions to partially address the shallow loss problem, at least at the whole-farm level, by applying factors to the individual farm program guarantee level (115% of insured value of each insurable commodity and 120% of value of non-insurable commodity).

<sup>32</sup> U.S. Congress, House Committee on Agriculture, *Testimony of Bruce A. Babcock*, hearing to review U.S. agriculture policy in advance of the 2012 farm bill, 111<sup>th</sup> Cong., 2<sup>nd</sup> sess., May 13, 2010, <http://agriculture.house.gov/testimony/> (continued...)

insurance indemnities (and other program payments) in its farm revenue calculation for individual producers. However, the ACRE program includes producer-paid crop insurance premiums in the producer's farm benchmark revenue guarantee. This helps trigger a payment earlier than would otherwise occur, but does not alter the program payment rate, which is based on state-level yields and national prices.

For the broader farm community, given that many farmers and ranchers who do not benefit from commodity programs use crop insurance as their primary or perhaps only federal risk management tool, policymakers may consider how effective federal crop insurance has been for producers of specialty crops and livestock.

Across the federal government, controlling or reducing program costs continues to be an issue. Over the next 10 years, federal spending on crop insurance is projected to outpace spending on traditional commodity programs by about one-third, which might capture the attention of budget cutters looking for potential sources of savings.

Both congressional and Administration estimates show that the renegotiation of the Standard Reinsurance Agreement (SRA) in 2010 reduced crop insurance program costs by \$6 billion over 10 years. The Administration designated \$4 billion of the total for deficit reduction. However, because changes to the SRA, and resultant cost savings, were established through administrative and not congressional action, the implied funding changes were not captured in the budget baseline and hence do not count as budget savings in congressional scoring of future legislation. As a result, if there is a call for reduction in mandatory spending, including funds for agriculture, these cuts made administratively by USDA under the SRA signed in 2010 will not be credited toward any reductions that the House and Senate Agriculture Committees might need to make to agricultural spending.

Insurance companies, farm groups, and some members of Congress remain concerned that any additional reductions to crop insurance spending will negatively impact the financial health of the crop insurance industry and possibly jeopardize the delivery of crop insurance, particularly in high-risk areas.<sup>33</sup> If policymakers conclude that savings from the 2010 changes in program delivery costs and reinsurance are sufficient, they might focus on finding potential savings within the crop insurance program by seeking cuts in the premium subsidy for producers, which is set as high as 80%, and totals about \$5 billion annually. For example, a reduction in the average producer subsidy from 60% to 50% is among many budget-cutting ideas in a November 2010 report by the nonprofit Bipartisan Policy Center.<sup>34</sup>

For policymakers, a main concern when contemplating financial changes to the crop insurance program would likely be saving federal dollars without adversely affecting farmer participation, policy coverage, or industry interest in selling and servicing crop insurance products to farmers. For many farmers, crop insurance is the most important component of the farm safety net, given

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<sup>33</sup> For farm bill changes, see CRS Report RL34207, *Crop Insurance and Disaster Assistance in the 2008 Farm Bill*, by Ralph M. Chite and Dennis A. Shields.

<sup>34</sup> Bipartisan Policy Center, The Debt Reduction Task Force, *Restoring America's Future—Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System*, Washington, DC, November 2010, p. 113, <http://bipartisanpolicy.org/sites/default/files/FINAL%20DRTF%20REPORT%2011.16.10.pdf>.

the breadth of commodity coverage and, compared with previous periods, less protection from a decline in prices because other farm program parameters remain generally below market prices, which reduces the potential for farm payments when prices decline.

## **Author Contact Information**

Dennis A. Shields  
Specialist in Agricultural Policy  
dshields@crs.loc.gov, 7-9051