

REDUCTION: CROP INSURANCE PREMIUMS/UNDERWRITING GAINS & FEES

Department of Agriculture

This proposal would reduce the Federal subsidy to both farmers and the insurance companies in three ways: 1) reduce premium subsidies by five percentage points on all coverage levels; 2) increase the Government's share on underwriting gains to 20 percent from 5 percent; and 3) reduce the premium on Catastrophic Crop Insurance (CAT) by 25 percent and charge a sliding scale fee for CAT coverage from \$300 up \$5,000 depending on the crop value. These changes are justified because the 2008 Farm Bill created several new subsidized programs in this area, and farmers and the crop insurance companies have recognized the value of crop insurance, so such a heavy subsidy is no longer needed.

Funding Summary

(In millions of dollars)

	2010	2011	2012	2013	2014	2010-2014	2010-2019
Baseline Outlays.....	7,654	7,306	2,148	7,089	7,356	31,553	70,520
Proposed Change from Current Law.....	0	-429	-427	-595	-599	-2,050	-5,184

Justification

Crop insurance costs have ballooned in recent years from \$2.4 billion in 2001 to a projected \$7 billion in 2009.¹ The 2010 proposal would rein in these costs by reducing the crop insurance subsidies to both the farmers and the crop insurance companies. This is reasonable given that the 2008 Farm Bill created new subsidized programs for risk management for farmers such as Supplemental Revenue Assistance (SURE) and Average Crop Revenue Election (ACRE). With these new programs, the current crop insurance program does not need to be so heavily subsidized to provide all farmers with a backstop for loss.

While the cost of the crop insurance program has increased in part due to high commodity prices, the primary reason is that farmers have been opting for higher levels of coverage for both yield and revenue. This is a strong indicator that need for the deep premium subsidy currently offered to get farmers to participate no longer exists -- farmers understand and appreciate the value of the program and participation rates are unlikely to get significantly higher.² Meanwhile, increasing the Government's share of underwriting gains reduces a corporate subsidy that has grown disproportionately as participation has increased since 2001.³

Citations

¹ House of Representatives, Committee on Oversight and Government Reform, *Hearing Transcript, Waste Fraud and Abuse in the Federal Crop Insurance Program*, Serial No. 110-74 (May, 3 2007).

² Government Accountability Office, *Crop Insurance: Actions Needed to Reduce Program's Vulnerability to Fraud, Waste, and Abuse*, GAO-05-528 (September 2005).

³ Government Accountability Office, *Crop Insurance: Continuing Efforts Are Needed to Improve Program Integrity and Ensure Program Costs Are Reasonable*, GAO-07-944T (June 7, 2007).