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Should Crop Insurance Premium Discounts be Capped?

BACKGROUND

By law, the Federal Crop Insurance Corporation (FCIC) program is required to be actuarially sound. That means that over the long term, every dollar of indemnity (the payment to producers for verified losses) must equal the amount of premium paid by farmers and the government.

The current program is run in an actuarially sound manner because the program insures large farmers, who generally have less risk. For larger farms, risk tends to be spread over a larger geographic region and across more commodities. Small farms tend to be more concentrated and focused on a smaller mix of crops. Sound insurance programs need high levels of participation and producers purchasing higher levels of coverage (known as "buy up") to function efficiently and effectively. Insurance programs work best when losses are spread across as many participants as possible.

While the premium discount provided to purchasers of crop insurance varies by the percentage insured and the type of policy purchased, the average premium discount provided to all farmers for all types of crop insurance coverage nationwide is 62 percent. This means the government pays 62 percent of the cost of premiums while producers pay 38 percent annually.

Farmers are working through two very challenging years in terms of commodity prices for a high percentage of insured crops. Projections are that farmers will continue to face below-average commodity prices relative to those prices received over the last decade. This may make crop insurance especially critical in the upcoming years.

ISSUE

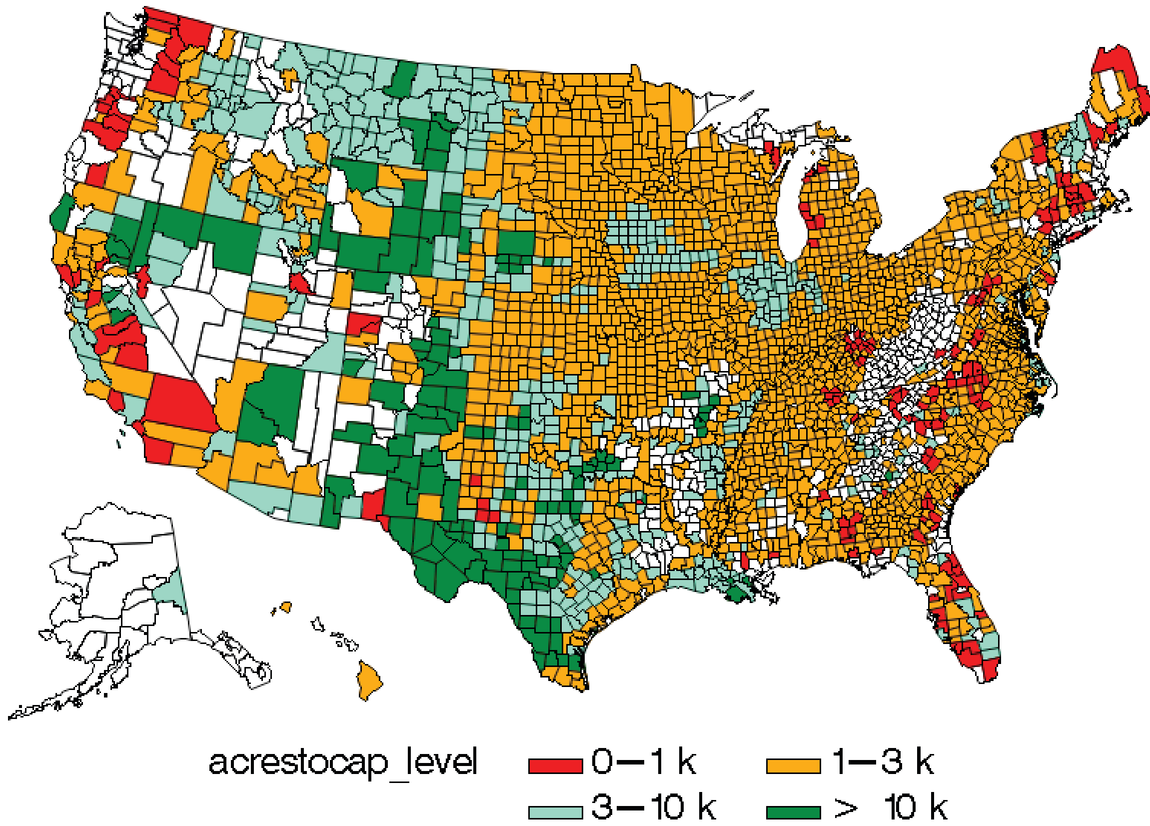
For the past several years, various members of Congress have introduced legislation to limit the amount of premium discounts each farmer may receive.

USDA called the 2011 General Accounting Office's (GAO) recommendation to cap premium discounts "ill-advised and undertaken without a comprehensive evaluation of the likely negative impacts and costs that could result." In USDA's response to GAO, the department strongly criticized such arbitrary caps due to inconsistencies with the program goals of treating all farmers equally and ensuring a flexible and consistent program, regardless of size and value of commodities produced.

USDA has indicated that capping premium discounts would affect areas producing high value crops or states with high crop insurance participation the hardest. USDA has specifically singled out Arizona, California, Hawaii, Minnesota, Mississippi, North Dakota, South Dakota, Texas, and Utah as shouldering disproportionate effects should a cap on premium support be implemented.

The GAO study indicated that a $40,000 cap on premium discounts would have affected 26 percent of total insured liability in the crop insurance program in 2011. While a premium discount cap may only impact a relatively small number of producers, it would put a very large portion of crop production at risk, potentially undermining the program for all participants. From that GAO study we know or can infer that a $40,000 cap would affect 33,690 producers that comprise almost 33 percent of the premium subsidy share. We can also infer an implied 62 percent increase in the cost of premiums for those impacted by the cap.

Attached is a map of 2014 crops, prepared by Dr. Keith Coble at Mississippi State University, which shows how various counties around the country might be impacted by a $50,000 cap on subsidies. As demonstrated, growers across the U.S. would be impacted by a cap on premium discounts, but the fruit and vegetable industry would likely be most severely disadvantaged.



OPTION #1

Oppose imposing any caps on crop insurance premium discounts.

OPTION #2

Support imposing some type of cap on crop insurance premium discounts.