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FARM BUREAU®
2018 Farm Bill

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Alternatives for Crop Insurance Premium Discounts

BACKGROUND

Crop insurance is the primary risk management tool for many crop producers. Policies are offered to farmers by 17 Approved Insurance Providers (AIPs) and premium rates are set by the Federal Crop Insurance Corporation (FCIC) Board of Directors. The farmer premium discount declines as levels of "buy-up" coverage increases. The level of premium discount also declines as the scope of area covered or unit structure becomes less aggregated. On average, the premium discount provided to farmers is 62%. The following table shows the current premium discount schedule for current crop insurance plans.

Farmer Crop Insurance Premium Discount Schedule Percentage									
Insurance Plan	Deductible Level Percentage								
	CAT	50	45	40	35	30	25	20	15
Basic & Optional Units	100	67	64	64	59	59	55	48	38
Enterprise Units	n/a	80	80	80	80	80	77	68	53
Area Yield Plans	n/a	n/a	n/a	n/a	n/a	59	59	55	55
Area Revenue Plans	n/a	n/a	n/a	n/a	n/a	59	55	55	49
Whole Farm Units	n/a	80	80	80	80	80	80	71	56

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The total premium paid by farmers for crop insurance has risen significantly over the past decade. In fact, producers have spent $44.6 billion of their own money to purchase crop insurance since 2000.

If the farmer premium discount is reduced, farm expenses increase which further stresses farmer operating cash flow requirements. A premium discount reduction also increases the likelihood of less participation in the program. For example, a ten percent across-the-board decrease in premium assistance does not parlay into farmers only paying ten percent more for crop insurance coverage. In fact, a typical Midwestern farmer's premium costs would increase 50 percent for policies with 25 percent deductibles and enterprise units. For farmers with the lowest levels of deductible and optional units, the farmer's insurance costs would increase by more than 16 percent.

ISSUE

Various legislative proposals recommend altering the premium discounts farmers receive when they purchase crop insurance products approved by the Risk Management Agency (RMA).

OPTION #1

Retain the current legislatively approved farmer premiums discounts

OPTION #2

Modify the farmer premium discount in such a manner as to further incentivize farmers to purchase the most aggregated unit structure for which they are eligible.

OPTION #3

Decrease the farmer premium discounts by an equal percentage for all types, deductibles and unit structures of insurance. Under this option, more of the premium discount reduction is applied to policies that currently receive the lowest percentage premium discount. For example, if you increase farmer paid premium by 10 percent, then a producer who is currently receiving a premium discount of 38 percent would receive a 32 percent discount, whereas a producer who is currently receiving an 80 percent premium discount would receive a 78 percent discount. In both cases, the producers would end up paying 10 percent more for their crop insurance.

OPTION #4

Apply a constant percentage reduction to all current premium discount schedules.