FARM BUREAU® 2018 Farm Bill

• Commodities • Conservation • Credit • Crop Insurance • Energy • Forestry • Nutrition • Research, Extension, and Related Matters • Rural Development • Specialty Crops & Horticulture • Trade •

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Should Changes be Made to the Level of Farmer Discounts Provided to Purchase Crop Insurance?

BACKGROUND

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

Farmer Crop Insurance Premium Discount Schedule Percentage									
Insurance Plan	----------------------------Deductible level % ----------------------								
	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

An 80 percent premium discount is provided for farmers who purchased buy-up coverage levels of 50-70 percent with enterprise unit structures to encourage farmers to reduce their probabilities of indemnity payments by combining their insurable units into a more aggregated coverage set.

On average, nationally, farmers receive a 62 percent premium discount. Despite the discounts for farmer premium, 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.

Reducing the farmer premium discounts result in an increase in farmer expenses and an increase in crop insurance premium expense that puts more stress on farmer operating cash flow requirements and is likely to drive down participation in the program as more producers self-insure . 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, insurance costs would increase by more than 16 percent.

ISSUE

Various legislative proposals alter the premium discounts farmers receive when they purchase crop insurance products approved by USDA's Risk Management Agency (RMA).

OPTION #1

Retain the current legislatively approved farmer premiums discounts.

OPTION #2

Modify farmer premium discounts to further incentivize farmers to purchase the most aggregated unit structure for which they are eligible. Under this option any decreases to the farmer premium assistance would be done in a manner that encourages farmers to use enterprise units if the farm operates in two or more sections within a county or to use basic units rather than optional units if using individual revenue products or to use area revenue products.

OPTION #3

Modify farmer premium discounts so that the actual farmer-paid premium increases by an equal percentage for all types, deductibles, and unit structures of insurance. Under this option, more of the premium discount reduction would be applied to policies that currently receive the lowest percentage premium discount. For example, if the goal were to increase farmer paid premium by ten 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 ten percent more for their crop insurance.

OPTION #4

Apply a constant ten percent reduction to the farmer premium discount. Under this option, a producer currently receiving a 38 percent discount would receive a 28 percent discount and the farmer currently receiving an 80 percent discount would receive a 70 percent discount. In these cases, the farmer that sees the premium discount change from 38 percent to 28 percent would be paying a premium that is 16 percent greater than currently paid and the farmer that would see the premium discount reduced from 80 percent to 70 percent would be paying 50 percent more for the same crop insurance coverage.