April 2017

FARM BUREAU®
2018 Farm Bill

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

Oppose Means Testing on Crop Insurance

ISSUE

Some members of Congress and outside organizations are suggesting that Adjusted Gross Income (AGI) restrictions be imposed on crop insurance participation. Amendments were offered in both 2012 and 2013 by Sen. Richard Durbin (D-Ill.) to reduce average crop insurance premium discounts for producers from 62 percent to 47 percent if the farmer had an AGI greater than $750,000. Others proposed an AGI limit as low as $250,000.

BACKGROUND

Beginning with the 2002 Farm Bill, in order to participate in farm programs, a producer's AGI could not exceed certain levels. The current AGI limit for commodity programs is $900,000.

POSITION

Placing an income limit on crop insurance premium discounts would result in drastic premium increases for farmers. Depending on the coverage level a farmer chooses, those who are affected by eligibility restrictions would see up to 40 percent increases in their premiums. In other words, depending on the eligibility threshold, many full-time family farms would be priced out of the market for crop insurance.

Weakening the insurance risk pool hurts everyone. Excluding high-end farmers from the crop insurance risk pool is like excluding the best drivers from car insurance, with the result being higher rates for all. Increased costs will simply drive down coverage levels even further.

Crop insurance opponents would have you believe that this is about cutting subsidies for wealthy farmers while helping small family farmers. In reality, it's about undermining crop insurance for everyone. This proposal is guaranteed to negatively impact all farmers, regardless of their income level.

Farmers aren't asking for this. AGI means tests are a concoction of interest groups that oppose farm programs in general. All credible farm organizations and lending institutions oppose this provision—not because it directly affects their membership, but because they know it is a slippery slope that immediately undermines the insurance risk pool.

Means testing unfairly targets specialty crops, undermining participation. Fruit and vegetable growers tend to be larger and wealthier, yet their participation in crop insurance, while trending up, has lagged behind that of traditional row crops.

An AGI limit will lead to less coverage and more risk exposure. Even with premium discounts, most of the country already purchases reduced levels of crop insurance due to high premium costs. In 2016, the average crop insurance deductible was about 25 percent, meaning farmers have to lose 25 percent of production or revenue before an indemnity is paid.

Limiting crop insurance availability undermines important landlord/tenant relationships. More than half of the farmland in this country is rented, much of it using share leases where the landowner maintains some of the risk. If landowners are no longer able to afford crop insurance, they can simply transfer the risk to tenants through cash leases. Since many small-to-medium sized farms must rely on rented land to stay in business, eligibility restrictions could actually hurt smaller operations, as well as beginning farmers who aren't yet able to buy land of their own.

Imposing means testing is a slippery slope. If history is any guide, any threshold is likely only temporary and can reasonably be expected to be lowered in the future. This creates enormous uncertainty in the countryside, which is unfortunate given that the purpose of crop insurance is to help mitigate uncertainty in the first place.

FARM BUREAU POLICY

Farm Bureau policy "opposes means testing and payment limitations for crop insurance."