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Crop Insurance and Disaster Assistance: 2007 Farm Bill Issues

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Summary

The federal government has relied primarily on two policy tools in recent years to help mitigate the financial losses experienced by crop farmers as a result of natural disasters — a federal crop insurance program and congressionally mandated *ad-hoc* crop disaster payments. Congress has made several modifications to the crop insurance program since the 1980s, in an effort to forestall the demand for supplemental disaster payments. Although the scope of the crop insurance program has widened significantly over the past 25 years, the anticipated goal of crop insurance replacing disaster payments has not been achieved.

The federal crop insurance program is permanently authorized and hence does not require periodic reauthorization in an omnibus farm bill. However, modifications to the crop insurance program are being discussed in the context of the omnibus 2007 farm bill currently before Congress. Some policymakers have expressed interest in expanding the crop insurance program and/or complementing it with a permanent disaster payment program. Others view the crop insurance program as a potential target for program cost reductions, and propose using these savings to fund new initiatives in various titles of the farm bill.

Both the House- and Senate-passed versions of the 2007 farm bill (H.R. 2419) contain several revisions to the crop insurance program, most of which are cost-saving measures. Over the five-year period of the next farm bill (FY2008-FY2012), crop insurance outlays would be reduced by $4.0 billion in the House bill and approximately $3.7 billion in the Senate bill, as estimated by the Congressional Budget Office (CBO). Both bills achieve most of their savings through a change in the timing of crop insurance payment and receipts that will have no financial impact on the program and its participants. The rest of the savings is generated through other measures including proposed higher fees paid by farmers for catastrophic coverage and smaller reimbursements to the participating insurance companies for their operating expenses. In the House bill, the companies would be required to share more of their potential underwriting gains with the government. A similar requirement was offered as an amendment to the Senate farm bill but defeated on the Senate floor. The Senate bill gives farmers participating in the commodity support programs a choice between a new statewide "average crop revenue program" or traditional farm program payments. An amendment adopted in committee deleted a provision that would have required USDA to re-rate (reduce) crop insurance premiums for ACR participants.

The Senate version of the 2007 farm bill also contains a provision that authorizes a $5.1 billion trust fund to cover the cost of making agricultural disaster payments available on an ongoing basis over the next five years. Conference on the farm bill has been stalled primarily over funding issues, including how the cost of new spending initiatives such as the proposed disaster payment program would be offset.

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Agriculture is generally viewed as an inherently risky enterprise. Farm production levels can vary significantly from year to year and by location, primarily because farmers operate at the mercy of nature, and frequently are subjected to weather-related and other natural disasters. Since the Great Depression, policymakers have decided that the federal government should absorb some portion of the weather-related production losses that otherwise would depress farm income and could alter farmers' decisions about what to produce in some high-risk locations.

Federal crop insurance is the primary ongoing crop loss assistance program. It is permanently authorized by the Federal Crop Insurance Act, as amended (7 U.S.C. 1501 *et seq*.), and is administered by the U.S. Department of Agriculture's Risk Management Agency (RMA). This is complemented with the Non-Insured Assistance Program, administered by the Farm Service Agency (FSA), which is available to producers not offered insurance coverage. Lack of insurance availability occurs in locations where there is insufficient production history to determine actuarial risks of a crop or in regions where production of a specific commodity is relatively small. Following a widespread and severe drought in 1988, Congress approved a large *ad hoc* disaster assistance program to supplement the ongoing disaster programs. Such *ad hoc* assistance subsequently has became routine.

For more information on currently available agricultural disaster assistance, see CRS Report RS21212, *Agricultural Disaster Assistance*.

Crop Insurance Program Design and Operation

Federal crop insurance policies are marketed and serviced by private insurance companies. In purchasing a policy, a producer growing an insurable crop may select a level of crop yield and price coverage and pay a portion of the premium, which increases as the levels of yield and price coverage rise. The remainder of the premium is covered by the federal government. Coverage is made available through various insurance products, including revenue insurance, which allows a participating producer to insure a target level of farm revenue rather than just production levels. According to the USDA, the federal crop insurance program provided coverage in 2007 to over 100 crops covering more than three-fourths of planted acreage in the country. Although the list of covered commodities has grown in recent years, 80% of total policy premiums (and federal subsidies) are accounted for by just four commodities — corn, soybeans, wheat, and cotton.

Table 1. Government Cost of Federal Crop Insurance

(millions of dollars)

Fiscal Year	Program Losses or (Gains)[a]	Federal Premium Subsidy	Private Company Admin. Expense Reimbursements	Other Costs[b]	Total Gov't. Cost
1981	97	47	0	105	**248**
1982	(60)	91	18	110	**160**
1983	147	64	26	97	**334**
1984	211	98	76	102	**487**
1985	216	100	107	98	**521**
1986	216	90	101	97	**504**
1987	55	73	107	73	**309**
1988	609	103	155	78	**945**
1989	400	190	266	88	**945**
1990	234	213	272	87	**806**
1991	247	196	245	84	**772**
1992	232	197	246	88	**764**
1993	750	197	250	105	**1,303**
1994	(127)	247	292	78	**489**
1995	188	774	373	105	**1,440**
1996	88	978	490	64	**1,621**
1997	(373)	945	450	74	**1,096**
1998	(75)	940	427	82	**1,374**
1999	(74)	1,295	495	66	**1,783**
2000	196	1,353	540	86	**2,175**
2001	725	1,707	648	83	**3,163**
2002	1,182	1,513	656	114	**3,466**
2003	822	1,873	743	150	**3,589**
2004	(303)	2,387	899	142	**3,125**
2005	(591)	2,368	782	139	**2,698**
2006	(298)	2,782	960	126	**3,571**

Source: USDA Office of Budget and Program Analysis. Totals may not add due to rounding.

a. The difference between total premiums (farmer and government paid) and total indemnity payments for crop losses, plus or minus any private company underwriting losses or gains.

b. Other costs primarily include federal salaries of USDA's Risk Management Agency and beginning in 2002, various research and development initiatives mandated by ARPA of 2000 (P.L. 106-224).

Because the program is not subject to periodic reauthorization, major changes to the crop insurance program usually are not addressed in the context of an omnibus farm bill. Over the past 25 years, the program has been subject to three major legislative enhancements (in 1980, 1994, and 2000),[1] each of which has pumped additional federal dollars into the program in order to enhance farmer participation levels in anticipation of precluding the demand for *ad hoc* disaster payments.

Since the last major modification in 2000, the federal subsidy to the crop insurance program has averaged about $3.25 billion per year, up from an annual average of $1.1 billion in the 1990s and about $500 million in the 1980s. Nearly two-thirds of the current federal spending is used to subsidize insurance policy premiums, and the balance primarily covers the government share of program losses and reimburses participating private insurance companies for their administrative and operating expenses (see **Table 1**).

Although the scope of the program has widened significantly over the past 25 years, the anticipated goal of crop insurance replacing disaster payments has not been achieved. In virtually every crop year since 1988, Congress has provided *ad hoc* disaster payments to farmers with significant weather-related crop losses. These have been made available primarily through emergency supplemental appropriations, and, until recently, regardless of whether a producer had an active crop insurance policy. The exception to the historical pattern is the FY2007 supplemental appropriations act (P.L. 110-28, as amended by the FY2008 Consolidated Appropriations Act), which is expected to provide an estimated $2.4 billion in crop disaster payments for 2005, 2006, or 2007 crop losses, but only to those producers who held an active crop insurance policy or enrolled in the noninsured assistance program in the year of the crop loss.[2]

Since FY1989, total disaster payments have amounted to more than $20 billion, or just over $1 billion per year. Over the past six years (FY2001-FY2006), the federal cost of the crop insurance program combined with *ad hoc* supplemental disaster payments has averaged $4.5 billion per year (see **Figure 1**).

For a summary of all agricultural disaster assistance provided by Congress since 1988, see CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2007*.

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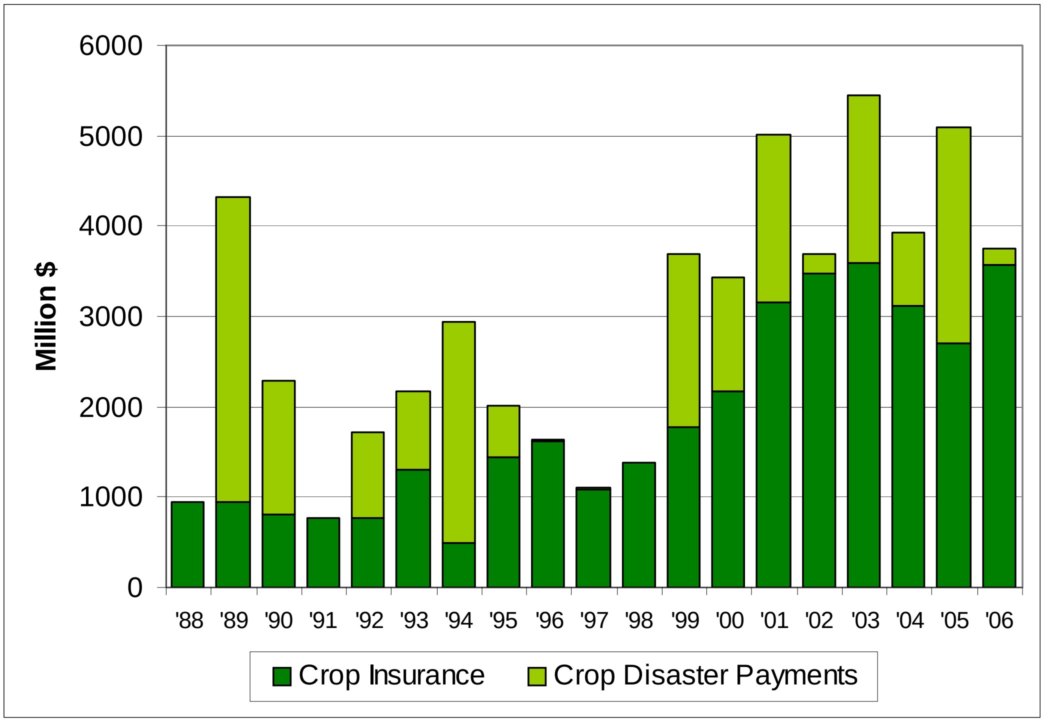
[1] Federal Crop Insurance Act of 1980 (P.L. 96-365), Federal Crop Insurance Reform Act of 1994 (P.L. 103-354), Agriculture Risk Protection Act (ARPA) of 2000 (P.L. 106-224). For information on ARPA of 2000, see CRS Report RL30739, *Federal Crop Insurance and the Agriculture Risk Protection Act of 2000 (P.L. 106-224)*.

[2] This assistance was provided in Title IX, Section 9001 of the FY2007 Iraq War Supplemental Act (P.L. 110-28). The projected spending of $1.5 billion for 2005, 2006 and early 2007 crop losses will be made in FY2008. For a description of this and other types of agricultural assistance made available in P.L. 110-28, see CRS Report RS21212, *Agricultural Disaster Assistance*.

Figure 1. Crop Insurance and Disaster Payments: Total Federal Cost, by Fiscal Year



Source: Primary data are from USDA's Table 35, CCC Net Outlays by Commodity & Function for disaster payments, and USDA's Office of Budget & Program Analysis for crop insurance.

Current Issues

Reducing Crop Insurance Program Costs. Although crop insurance is sold and serviced by private insurance companies, the federal government absorbs a large portion of program losses and reimburses the companies for their administrative and operating (A&O) expenses. Loss sharing and A&O reimbursements currently are spelled out in a Standard Reinsurance Agreement (SRA) between USDA and the private companies.[3] The Administration and others contend that the private insurance companies should be required to absorb more of the program losses, and that the reimbursement rate for company A&O expenses needs to be reduced as a means of reducing federal costs. Under the SRA, the reimbursement rate for A&O expenses currently averages about 22% to 24% of total premiums. Proponents for change point out that A&O reimbursements to the companies have doubled over the last seven years (see **Table 1**), mainly because farmers have been buying up to higher levels of insurance coverage, causing total premiums to rise. Since A&O reimbursements are based on a percentage of total premiums (and premiums have been rising significantly in tandem with crop prices), the Administration contends that the companies are being overcompensated for their expenses. The private crop insurance companies contend that any reductions in their

[3] For more background and for the text of the SRA, see [http://www.rma.usda.gov/pubs/ra/].

A&O reimbursement would negatively impact the financial health of the crop insurance industry and possibly jeopardize the delivery of crop insurance, particularly in high-risk areas.

Permanent Disaster Payments. Some policymakers want to make permanent in the farm bill some level of disaster payments to supplement the crop insurance program. Supporters say that ongoing farm disaster programs do not adequately address emergency needs when a major disaster strikes and that USDA should have at its disposal a permanent source of disaster funds in the same manner as the Federal Emergency Management Administration (FEMA). Questions in the debate include how such a program would be funded given current budget constraints, and whether the permanent availability of disaster payments would adversely affect participation in the crop insurance program, and possibly encourage production on high-risk lands.

Revenue Insurance Expansion. Historically, farm risks associated with low commodity prices have been shared with the federal government through the commodity price and income support programs. Separately, production risks associated with weather have been shared with the federal government through subsidized crop insurance (and supplemented by disaster payments). A proposed concept that has gained momentum recently is to combine these programs into a single revenue insurance program. The concept is not new and received some consideration by Congress during the 1985 farm bill debate.[4]

The National Corn Growers Association has proposed a version of revenue insurance that potentially would combine or replace the commodity support programs and crop insurance programs for the so-called covered commodities (corn and other feed grains, soybeans and other oilseeds, wheat, rice, and cotton).[5] One justification for a shift from commodity support programs to a revenue insurance system is to reduce the production and trade distorting impacts of the federal commodity subsidies. However, even for revenue insurance programs there are limits under World Trade Organization (WTO) rules for what would qualify as "green box" or non-trade distorting support. Under current WTO rules, a federally subsidized revenue insurance program can provide benefits for a level of coverage only below 70% of revenue to qualify as non-trade distorting.

Waste, Fraud, and Abuse. For many years, policymakers have been concerned about waste, fraud, and abuse within the federal crop insurance program. The Agricultural Risk Protection Act (ARPA) of 2000 (P.L. 106-224) contained several provisions that were designed to enhance USDA's recognition of and response to challenges to program compliance and integrity. In response to the ARPA requirements, USDA used "data mining" techniques to compile an annual list

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[4] Revenue insurance options are examined by Robert Dismukes and Keith H. Coble, "Managing Risk With Revenue Insurance," *Amber Waves*, November 2006, at [http://ers.usda.gov/AmberWaves/November06/Features/Managing.htm].

[5] The proposal is explained in the National Corn Grower Association report titled *Forging a New Direction for Farm Policy*, October 19, 2006, at [http://www.ncga.com/news/notd/pdfs/10_23_06NFSA.pdf].

of producers who either exhibit high loss ratios (i.e., high indemnity payments relative to total premiums), high frequency and severity of losses, or who are suspected of poor farming practices that might contribute to production losses. USDA estimates that the use of the spot-check list has prevented between $70 million and $110 million each year in improper payments. Mandatory funding authorized by ARPA for data mining and other ARPA-related program integrity activities expired at the end of FY2005. The FY2006 agriculture appropriations act (P.L. 109-97) and the FY2007 continuing appropriations resolution (P.L. 110-5) each allowed $3.6 million in discretionary funds for data mining and warehousing activities, within the regular annual appropriation for the Risk Management Agency. More recently, a general provision in the FY2008 Consolidated Appropriations Act (P.L. 110-161) allows USDA to use up to $11.166 billion in mandatory funds to strengthen its ability to reduce waste, fraud, and abuse within the crop insurance program. However, future funding for this activity remains uncertain. Some would like to see permanent funding for program integrity activities addressed in the farm bill.

2007 Farm Bill Action

Some policymakers have expressed interest in expanding the crop insurance program in the context of the 2007 farm bill and/or complementing it with a permanent disaster payment program. However, many view the crop insurance program as a potential target for program cost reductions, and propose using these savings to fund new initiatives in various titles of the farm bill.

House-Passed 2007 Farm Bill (H.R. 2419). As passed by the House, H.R. 2419 contains several revisions to the crop insurance program. Virtually all of these changes are cost-saving measures, which CBO has estimated at $4.04 billion in reduced federal outlays over five years (FY2008-FY2012).

Approximately $2.8 billion of this estimated savings is attributable to changes in the timing of premium receipts from farmers, and payments to the companies. Neither would directly affect the final monetary amounts for participating farmers or insurers, but would still be scored as savings within the five-year horizon of the bill. However, approximately $1 billion of the five-year savings is realized by requiring insurance companies and farmers to share more in program costs. Farmers would be required to pay higher fees for catastrophic coverage and some plans would provide somewhat lower premium subsidies. Participating insurers would see smaller reimbursements for their operating expenses and would be required to share more of their underwriting gains with the government. The House-passed bill also authorizes $11 million in mandatory funding in FY2008 and $7 million in FY2009 and subsequent years for data mining activities of USDA's Risk Management Agency, in an effort to reduce waste, fraud, and abuse within the program. Based on past experience of agency activities to monitor program abuses, CBO estimates that this funding will generate $125 million in program savings, more than offsetting the cost of the initiative.

The House-passed bill does not include a provision for a permanent disaster payment program. The House Agriculture Committee reported version of the bill would have authorized USDA to implement a permanent disaster payment program, but only if a budgetary offset was made for the additional cost. CBO projected that this permanent program for crops, livestock, and trees, as proposed by Chairman Peterson, would have cost approximately $950 million per year. The House-passed bill also does not contain a committee provision that would have allowed insured farmers to opt for additional coverage on the deductible portion of their policies, which was similar in concept to the Administration-proposed supplemental deductible coverage plan (see "Administration Proposal" below).

Senate-Passed 2007 Farm Bill (H.R. 2419). On December 14, 2007, the Senate completed action on its version of the 2007 farm bill, which contains crop insurance program savings of approximately $3.75 billion over five years, as estimated by CBO. Like the House bill, the Senate bill generates much of its savings ($2.9 billion) by changing the timing of payments to the insurance companies and premium receipts from farmers. Also as in the House measure, the Senate bill includes an increase in the administrative fees paid by farmers for catastrophic crop insurance coverage and the Noninsured Assistance Program (NAP) from the current $100 per crop per county to $200 per crop (for savings of $228 million over five years). The Senate bill also includes an across-the-board 2 percentage point reduction in the reimbursement rate to the participating private insurance companies for their administrative and operating expenses, compared with a 2.9 percentage point reduction in the House bill.

Separately, the commodity support provisions in the Senate bill offer farmers a choice between traditional farm commodity program payments and an average crop revenue (ACR) payment. The ACR plan is based on whether actual state-level revenue drops below an expected revenue target, on a crop by crop basis. The program would begin with the 2010 crop year and participation would apply to all of the covered crops on a farm for the remainder of the farm bill. An amendment adopted in committee struck a provision in the bill that would have required USDA to re-rate (reduce) insurance premiums for ACR participants. (If they were re-rated, crop insurance premiums would likely fall for ACR participants, since statewide production risks are being shifted from the crop insurance program to the ACR program.) ACR supporters consider a re-rating of premiums to be an integral feature of the proposed ACR program. Supporters of the amendment were concerned that a reduction in insurance premiums in lower risk areas might lead to an increase in premiums for the higher risk areas.

See **Table 2** below for a comparison of selected crop insurance provisions in the House- and Senate-passed versions of the farm bill (H.R. 2419) compared with current law and the Administration's legislative proposal.

Permanent Disaster Payment Program. The Senate-passed version of the 2007 farm bill also authorizes a permanent trust fund to make agricultural disaster payments available on an ongoing basis over the life of the next farm bill. The proposed new program would supplement the current crop insurance program, and would require a farmer to carry at least the catastrophic level of coverage as a prerequisite for a payment. According to CBO, the program would cost $5.1 billion over five years (FY2008-FY2012). CBO estimates that $2.9 billion of that amount would go directly to crop and livestock producers in the form of direct disaster payments and the other $2.2 billion would cover increased crop insurance costs associated with the crop insurance purchase requirement. Most of the cost would be funded through a mandated transfer of 3.34% of annual customs receipts from the U.S. Treasury to the new trust fund.

Under the proposed program, an eligible farmer in a disaster-declared county would receive 52% of the difference between an established guaranteed level of revenue and actual total farm revenue. The target level of revenue would be based on the level of crop insurance coverage selected by the farmer, thus increasing if a farmer opts for higher levels of coverage. The proposal also allows the trust fund to be tapped for indemnity payments to livestock producers and orchardists to compensate for significant mortality losses caused by a natural disaster. Up to $35 million annually from the fund also could be used for livestock, honey bee, and farm-raised fish losses caused by adverse weather or other environmental conditions.

Administration Proposal. The Administration's farm bill proposal contains several crop insurance recommendations that it claims will enhance participation; address issues of waste, fraud and abuse; reduce costs; and reduce the need for emergency supplemental disaster payments.[6]

One Administration-proposed change to the program would allow participating farmers to purchase insurance for the portion of their production that is part of their deductible, and not currently covered by crop insurance. The Administration is opposed to a permanent disaster payment program, and contends that its proposed deductible or "gap" coverage would help preclude the need for supplemental disaster payments. Under this proposed supplemental deductible coverage plan, a producer could purchase an additional policy, and a payment would be made when losses in the producer's county exceed a certain threshold.

The Administration also recommends several cost-saving measures to the program, including reducing premium subsidies by 2 to 5 percentage points, and charging premiums for the catastrophic level of coverage (which currently is premium-free). The Administration proposal would require the private insurance companies to absorb more of the cost of the program through a proposed 2 percentage point reduction in the A&O expense reimbursement and by requiring the companies to absorb more of the program losses. The Administration also proposes a requirement that farmers purchase crop insurance as a prerequisite for participating in the farm commodity support programs.[7] The Congressional Budget Office estimates that all of the Administration's cost-saving proposals would reduce federal outlays by $882 million over five years (FY2008-FY2012), while the proposed supplemental deductible coverage would increase spending by $148 million over the same period.

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[6] For the legislative text of the portion of the Administration's farm bill proposal dealing with crop insurance, see [http://www.usda.gov/documents/FBmisc_2007.pdf].

[7] Such a requirement was instituted in 1994 crop insurance legislation (P.L. 103-354), but was subsequently rescinded in the 1996 farm bill (P.L. 104-127).

Table 2. Crop Insurance Provisions: House and Senate 2007 Farm Bill, Administration Proposal, and Current Law

CURRENT LAW/POLICY	ADMINISTRATION'S LEGISLATIVE PROPOSAL -SPRING 2007	HOUSE-PASSED BILL (H.R. 2419)	SENATE-PASSED SUBSTITUTE AMENDMENT (H.R. 2419)
"Farm Security and Rural Investment Act of 2002" ***[7 U.S.C. 7901 note]***	Released Spring 2007 [http://www.usda.gov/farmbill/]	"Farm, Nutrition, and Bioenergy Act of 2007"	"Food and Energy Security Act of 2007"
CROP INSURANCE AND DISASTER ASSISTANCE — TITLE X -MISCELLANEOUS (ADMIN. PROPOSAL), TITLE XI - MISCELLANEOUS (HOUSE), TITLE I (SENATE)			
Timing of Crop Insurance Payments and Receipts			
The federal government provides three levels of subsidies to the crop insurance program by: (1) subsidizing a portion of the farmer-paid premium, (2) reimbursing the private crop insurance companies for most administrative and operating expenses, and (3) absorbing most of the program losses. ***[7 USC 1501 et seq.]***	No comparable provision.	Changes the timing of crop insurance receipts (premium collections) and the timing of payments to the insurance companies. Two insurance years of program receipts will be received in the same fiscal year (FY2012) and payments will be delayed until the next fiscal year. ***[Secs. 11001(c), 11001(e), and 11010]*** CBO 5-yr. savings score = $2.79 billion.	Similar, but not identical, language as the House bill, which effectively requires premiums to be collected from producers slightly earlier, and payments to the insurance companies to be made slightly later, beginning in the 2012 crop year. ***[Secs. 1906 and 1914]*** CBO 5-yr. savings score = $2.89 billion.
Reimbursement of Administrative and Operating Expenses			
Current law prohibits companies from receiving a reimbursement greater than 24.5% of total premiums. The current Standard Reinsurance Agreement (SRA) establishes the reimbursement rate below the statutory maximum for all insurance plans, ranging from 18.1% to 24.2%. ***[7 USC 1508(k)(4)(A)]***	Beginning in the 2008 reinsurance year, the reimbursement rate drops from the current maximum of 24.5% to 22.5%. ***[Sec. 10102(f)]***	Beginning in the 2009 reinsurance year, the reimbursement rate to the insurance companies for their administrative and operating expenses for all policies declines by 2.9 percentage points from the current rate. The range of reimbursement rates declines to between 15.2% to a maximum of 21.3%. ***[Sec. 11001(d)(1)]*** CBO 5-yr. savings score = $625 million.	Beginning in the 2009 reinsurance year, the reimbursement rate for additional coverage policies falls by 2 percentage points. An exception is any reinsurance year in any state that has a loss ratio greater than 1.2 (i.e., when indemnity payments exceed total premiums by more than 20%.) The reimbursement rate for policies based on area-wide losses is reduced to 17% of premiums. ***[Sec. 1912]*** CBO 5-yr savings score = $419 million.
Premiums and Fees			
For catastrophic (CAT) coverage, producers pay no premium, but pay an administrative fee of $100 per crop per county. ***[7 USC 1508(b)(5)(A)]*** Growers of uninsurable crops are eligible for a Noninsured Assistance Program (NAP) and pay a fee of $100 per crop, or $300	Requires producers to pay a fee per crop per county for CAT coverage equal to 25% of the premium for such coverage, or $100, whichever is greater. Maximum fee per producer is $5,000 for all crops in all counties. The imputed premium for CAT coverage can be reduced by USDA	Increases the producer-paid fee for catastrophic coverage to $200 per crop per county. For NAP, the fee also is raised to $200 per crop per county, or $600 per producer per county, not to exceed $1800 per producer. ***[Secs. 11002 and 11009]***	Similar to the House bill for raising the CAT fee to $200. The NAP fee is increased to $200 per crop per county, or $600 per producer per county, not to exceed $1,500 per producer. ***[Secs. 1905 and 1926]***

CURRENT LAW/POLICY	ADMINISTRATION'S LEGISLATIVE PROPOSAL -SPRING 2007	HOUSE-PASSED BILL (H.R. 2419)	SENATE-PASSED SUBSTITUTE AMENDMENT (H.R. 2419)
per producer per county, not to exceed $900 per producer. [*7 USC 7333(k)(1)]*	in any areas where losses have been historically low. ***[Sec.10102(a), Sec. 10102(d)]***	CBO 5-yr. savings score = $228 million	CBO 5-yr. savings score = $228 million
When permitted by state law, a cooperative or trade association may pay on behalf of its members, any or all of the administrative fee for CAT coverage. ***[7 USC 1508(b)(5)(B)] .***	No comparable provision.	Limits the ability of associations to pay the CAT fee on behalf of a producer. ***[Sec. 11001(b)]*** Prohibits insurance companies from paying or rebating premiums, or making any inducements to purchase crop insurance. ***[Sec. 11001(a)]***	Revises current law to clarify that the provision applies only to fees for CAT coverage. ***[Sec. 1905]***
Authorizes crop insurance companies to offer customers a discount when the insurance companies adopt efficiencies that reduce their administrative and operating costs. ***[7USC 1508(b)(5)(A)]***	No comparable provision.	Strikes authority for companies to offer a Premium Reduction Plan (PRP). ***[Sec. 11001(f)]***	Similar to the House bill and requires USDA to commission a study on the feasibility of the PRP within 18 months of enactment. ***[Sec. 1908]***
No comparable provision.	No comparable provision.	Reduces the premium subsidy for area risk plans by 4 percentage points. ***[Sec. 11013]*** CBO 5-yr. savings score = $73 million.	No comparable provision.
Requires USDA to set premiums so that the overall program loss ratio is 1.075. ***[7 USC 1506(o)]***	Same as the Senate bill, and also requires USDA to report the projected loss ratio for the coming reinsurance year by March 1. ***[Sec. 10101]***	No comparable provision.	Reduces the statutory loss ratio to 1.0, meaning that total premiums should be established to equal expected total indemnity payments. ***[Sec. 1903]*** CBO 5-yr. savings score = $65 million.
Authorizes an Agricultural Management Assistance (AMA) program to in part help certain states make better use of risk management tools. ***[7 USC 1524(b)]***	No comparable provision.	No comparable provision.	Allows USDA to use AMA funds to match state funds used to provide additional premium discounts to underserved states. ***[Sec. 1923]***
USDA is required to provide a premium subsidy to participating producers ranging from 38% to 67% of the total premium depending on the level of coverage. ***[7 USC 1508(e)(2)]***	Reduces the premium subsidy by either 2 or 5 percentage points, so that the range of subsidy is from 36% to 62%. ***[Sec. 10102(c)]***	No comparable provision.	No comparable provision.

CURRENT LAW/POLICY	ADMINISTRATION'S LEGISLATIVE PROPOSAL -SPRING 2007	HOUSE-PASSED BILL (H.R. 2419)	SENATE-PASSED SUBSTITUTE AMENDMENT (H.R. 2419)
Standard Reinsurance Agreement and Risk-Sharing			
The current Standard Reinsurance Agreement (SRA) between the federal government and private crop insurance companies determines levels of risk sharing. The current agreement requires companies to reinsure 5% of their retained premium with the government.	Same as the House bill. ***[Sec. 10102(e)]***	Requires the private insurance companies to reinsure at least 22% of their retained premiums with the government, and in return the government will provide a ceding commission of 2% to companies, allowing the government to receive some underwriting gains that would otherwise accrue to the companies. ***[Sec. 11014]*** CBO 5-yr. savings score = $123 million	No comparable provision.
No comparable provision.	USDA can renegotiate the SRA no more frequently than once every 3 years. ***[Sec. 10103(a)]***	USDA can renegotiate the SRA starting with the 2012-13 reinsurance year, and once every 5 years thereafter. Insurance companies can confer with each other during the process. ***[Sec. 11001(d)(2)]***	Similar to the House bill, except that USDA has discretion to renegotiate the SRA more frequently than every 5 years, with congressional notification of such action. ***[Sec. 1913]***
Program Integrity (Waste, Fraud, and Abuse)			
Annual mandatory funds of $23 million for data mining and program integrity activities expired at the end of FY2005. ***[7 USC 1516(k)]*** Annual appropriations acts provided $3.6 million in annual discretionary funds (FY2006, FY2007). FY2008 appropriations act authorized mandatory funds of $11.2 million.	Requires USDA to establish a program under which participating private crop insurance companies pay USDA a user fee in exchange for access to its data mining system used to detect fraud and abuse. Funds collected will be used to maintain and improve the data mining system. ***[Sec. 10104]***	Authorizes mandatory funding of $11 million in FY2008, and $7 million in FY2009 and subsequent years for crop insurance program compliance and integrity activities, including data mining. ***[Sec. 11008]*** CBO estimates that enhanced data mining activities will save $125 million over 5 years, more than offsetting the $38 million in new, 5-year funding (for net savings of $87 million).	Requires USDA to establish a program whereby crop insurance companies pay USDA a fee for access to its data mining system, and USDA uses proceeds for its data system (no net cost). ***[Sec. 1915]*** Prohibits farmers from collecting commissions as agents on policies in which their family has a substantial interest. ***[Sec. 1904]***
Risk Management Research and Development			
USDA is required to reimburse an applicant for the R&D costs associated with developing a new plan of crop insurance that is approved by USDA ***[7 USC 1522]*** and with developing crop insurance education programs. ***[7 USC 1524]*** Current annual mandatory funding is $15 million for R&D reimbursements and $25 million for contracting and	Provides USDA with the contracting authority to use existing funds to review, evaluate, and improve its existing programs to keep pace with technology, changing farming practices, alternative crop uses, genetically modified crops, value-added commodities, and food grade quality crop production. ***[Sec. 10105]*** Any unused R&D funding (up to	Authorizes USDA to use no more than $30 million annually in mandatory funds for grants for R&D and education and information programs, of which $5 million is for underserved states. Stipulates criteria for which grants will be awarded. Requires USDA to enter into contracts to improve coverage for organic crops, and to address the needs of	Reduces mandatory funding for R&D from $15 million to $7.5 million, and for contracting and partnerships from $25 million to $12.5 million. Prohibits a surcharge on premiums for organic crops, unless greater loss history is confirmed. Establishes an alternative reimbursement grant process. Requires USDA to enter into contracts to expand coverage for

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partnerships. ***[7 USC 1522(e)]***	$10 million per year) can be used to improve program integrity. ***[Sec 10106]***	beginning and minority farmers. ***[Secs. 11003-11006]*** CBO 5-yr. savings score = $87 million.	organic crops, aquaculture, energy crops such as switchgrass, and to address the needs of beginning and minority farmers. ***[Secs. 1917-1919, 1907]*** CBO 5-yr. savings score = $87 million.
Other Crop Insurance Provisions			
No comparable provision.	No comparable provision.	**Native grassland and pasture** never used for crop production are ineligible for crop insurance for the first 4 years of planting. ***[Sec. 11007]*** CBO 5-yr. savings score = $33 million.	Makes lands over 5 acres converted from native sods ineligible for crop insurance and noninsured assistance. Directs USDA to report on conversion of non-cropland since 1985. ***[Sec. 2608]*** CBO 5-yr. savings score = $23 million.
No comparable provision.	No comparable provision.	Establishes a **National Drought Council** within USDA and national drought preparedness plans, including a Drought Assistance Fund to provide technical and financial assistance to states for mitigating drought risk. ***[Sec. 11012]***	No comparable provision.
Ad-hoc emergency disaster payments are available to producers who experienced significant losses to a 2005, 2006, or 2007 crop. (Sec. 9001 of P.L. 110-28, as amended by P.L. 110-161).	No comparable provision.	Prohibits USDA from using production data from the **sweet potato** crop insurance pilot program in determining crop disaster payments for 2005 and 2006. ***[Sec. 11016]***	Similar to the House bill. Also requires USDA to extend the disaster application deadline for sweet potato growers, if necessary, to implement this provision. ***[Sec. 1927]***
Authorizes USDA to create crop insurance pilot programs. ***[7 USC 1523]***	No comparable provision.	Mandates a sesame insurance **pilot program** for Texas. ***[Sec. 11011]***	Creates pilot programs for sesame ***[Sec. 1921]***, camelina ***[Sec. 1920]***, and enterprise/whole farm units ***[Sec. 1909]***. CBO 5-yr. savings score = $22 million (for enterprise and whole farm units)
No comparable provision.	No comparable provision.	No comparable provision.	Makes **contract livestock producers** eligible for crop insurance, if not covered by other policies. ***[Sec. 1916]*** Requires a USDA report on issues regarding declining crop insurance yields, especially for **perennials**. ***[Sec. 1928]***

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Eligible producers who seek a USDA direct or guaranteed farm loan must purchase at least CAT coverage, when available, as a prerequisite for a loan. *[7 USC 2008f]*	**Program Linkage:** Requires producers to purchase the minimum level (50/100, i.e., 50% of production at 100% of market price) of buy-up insurance coverage as a prerequisite for participation in the farm commodity support programs, Conservation Reserve Program, and USDA farm loans. ***[Sec. 10102(b)]***	No comparable provision.	No comparable provision.
Disaster Assistance			
Congress periodically provides ad-hoc emergency disaster payments to crop and livestock growers to supplement income following a natural disaster. Most recently, Congress provided emergency supplemental assistance for 2005, 2006, or 2007 production losses. ***[Sec. 9001 of P.L. 110-28, as amended by P.L. 110-161]***.	Authorizes USDA to offer a subsidized "supplemental deductible coverage" option that would cover the portion of crop losses not covered under the crop insurance program, based on area-wide losses rather than individual losses. ***[Sec. 10107]***	No comparable provision.	Creates permanent authority for a disaster payment program that provides payments to crop and livestock growers who experience significant production losses in a USDA-declared disaster area. For FY2008-12, the program is funded through a transfer of 3.34% of annual customs receipts from the U.S. Treasury. Payments are made under new permanent programs: crop disaster; livestock indemnity; tree assistance and emergency livestock assistance. ***[Sec. 12101]*** CBO 5-yr. savings score = $5.06 billion
The 2002 farm bill established the Tree Assistance Program to compensate commercial orchardists for losses due to natural disasters and authorized annual appropriations for the program. ***[7 U.S.C. 8201]***	No comparable provision.	Makes nursery tree growers eligible for disaster assistance under the program, increases the limitation on annual assistance from $75,000 to $150,000, and continues appropriations authority. ***[Sec. 10101]***	Makes nursery tree growers eligible for disaster assistance, increases the limitation on annual assistance to $100,000, adds reimbursement for orchard management to repair losses, and provides necessary mandatory funding over the life of the farm bill. ***[Sec. 1210(e)]***
The Small Business Administration offers low interest, fixed-rate loans to small businesses to help them recover from economic injury caused by a natural disaster. ***[15 USC 636(b), (c), and (f)]*** *Note*: Farmers generally are not eligible	No comparable provision.	No comparable provision.	Makes many changes to SBA disaster loan program authority including raising the loan cap from $1.5 million to $2 million; extending assistance to non-profits; enhancing SBA and FEMA coordination of disaster response, among other provisions. ***[Secs. 11111-11161]***

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for SBA loans, and instead receive assistance through USDA programs.			
Sec. 9012 of the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007 (P.L. 110-28) required that "in carrying out crop disaster and livestock assistance in this title, the Secretary shall require forage producers to have participated in a crop insurance pilot program or the Non-Insured Crop Disaster Assistance Program (NAP) during the crop year for which compensation is received." In August 2007, separate legislation was enacted (P.L. 110-80), removing this requirement for forage producers.	No comparable provision.	Amends Sec. 9012 by stating that "the purchase of a Non-insured Assistance Program (NAP) policy shall not be a requirement to receive any Federal livestock disaster assistance." ***[Sec. 11015]*** *Note*: The House farm bill was passed prior to enactment of P.L. 110-80, which removed the crop insurance or NAP purchase requirement for forage producers.	No comparable provision.