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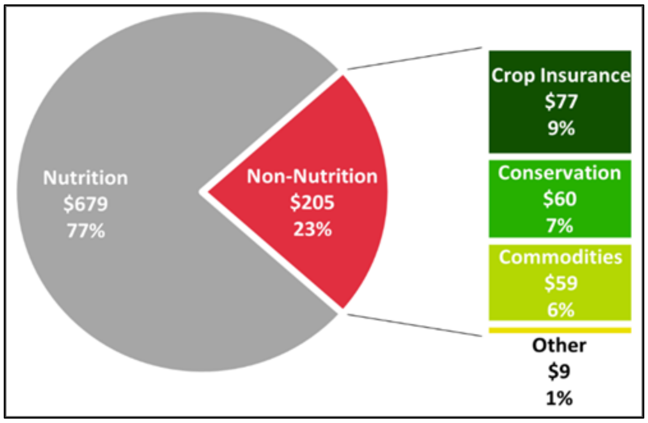
September 17, 2018

Farm Bill Primer: Federal Crop Insurance

Background

Since its inception in 1938, federal crop insurance has grown from an ancillary program with low participation to a central pillar of federal support for agriculture. From 2008 to 2017, the direct costs of the federal crop insurance program totaled about $74 billion in current dollars. For FY2018 through FY2027, the Congressional Budget Office (CBO) projects that crop insurance will cost about $77 billion, the highest projected cost for an individual U.S. Department of Agriculture (USDA) program not related to nutrition, assuming extension of current law (**Figure 1**).

Figure 1. Projected Cumulative Farm Bill Spending



Source: CRS using CBO baseline projections from June 2017.

Notes: CBO bases its projections on the extension of current law through the projection period. Nutrition programs include the Supplemental Nutritional Assistance Program and others. The "Other" category in this figure includes farm bill programs supporting trade, horticulture, research, energy, rural development, and forestry.

Program Operation

Since 1980, federal crop insurance has operated through a shared public-private arrangement funded by taxpayers and producers. Three principal actors operate the program:

1. Private insurance companies, known as Approved Insurance Providers (AIPs), which sell and service the insurance policies;
2. The Federal Crop Insurance Corporation (FCIC), which reinsures the policies and subsidizes the delivery expenses of AIPs; and
3. The Risk Management Agency within USDA, which determines policy terms, sets premium rates, and regulates AIPs.

The terms of the financial arrangement between FCIC and AIPs are set out in a mutually negotiated Standard Reinsurance Agreement (SRA). Each AIP signs an SRA with FCIC annually.

Legislative Authority

Federal crop insurance is permanently authorized by the Federal Crop Insurance Act (7 U.S.C. §1501 *et seq.*) and, thus, would continue to operate if Congress does not enact a new farm bill. However, past farm bills have made changes to the underlying authority.

Program Participation

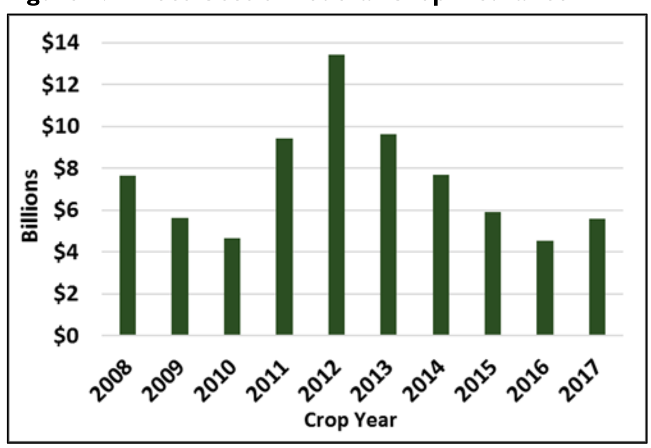
In contrast to the program's limited scope and low participation rate in its early years, by 2017 federal crop insurance was providing approximately $106 billion of annual insurance protection (liability) for over 100 crops (excluding hay, livestock, nursery, pasture, rangeland, and forage) on about 312 million acres (excluding policies insured in tons, colonies, or trees). Policy offerings and participation were smaller for the livestock sector—about $255 million in liability on about 467,000 head and $303 million on about 18 million hundredweight (100 pounds) of milk.

In 2017, total premium for crops (excluding livestock and other policies) was about $10 billion, of which FCIC paid about 63% and producers paid about 37%. In 2017, two crops accounted for 64% of total liabilities: corn (37%) and soybeans (27%).

Program Costs

Total direct costs of the program for crop years 2008-2017 was about $74.0 billion in current dollars, of which about $44.6 billion (60%) was of direct benefit to producers and $29.4 billion (40%) went to private insurance companies.

Figure 2. Direct Cost of Federal Crop Insurance



Source: CRS using Risk Management Agency Direct Costs of the Federal Crop Insurance Program, as of April 30, 2018.

Notes: Dollars are current, not constant.

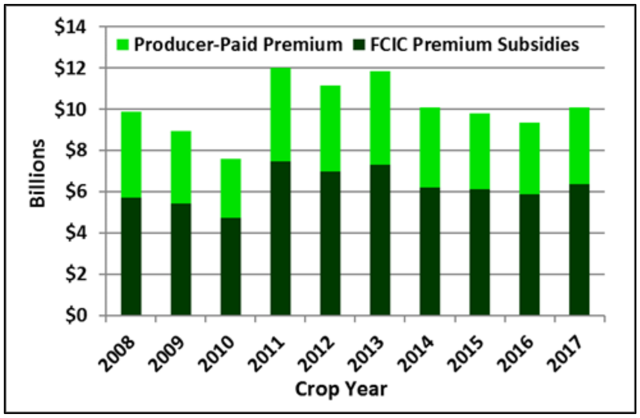
Three principal types of federal subsidy are embedded in the federal crop insurance program: producer premium subsidies, delivery subsidies paid to AIPs, and shared underwriting risk with the AIPs. The accounting of costs among these categories and others is complex.

Premium Subsidies

Figure 3 shows total premiums broken into its two components—the producer-paid portion and FCIC subsidies—for crop years 2008-2017. Premium subsidy rates are statutorily set by the Federal Crop Insurance Act. FCIC subsidy outlays vary with producer coverage choices.

Catastrophic level coverage (CAT), the lowest level of coverage, has a 100% premium subsidy. Subsidy rates for coverage levels above CAT ("buy-up") on yield and revenue policies range from 38% to 80%. The percentage depends on the policy type, coverage level, and unit structure. Producers pay an administrative fee of $300 per county per crop for CAT coverage and $30 per county per crop for buy-up coverage. The average premium subsidy rate was 62% for crop years 2008-2017.

Figure 3. Producer-Paid and FCIC-Paid Premium



Source: CRS using Risk Management Agency Direct Costs of the Federal Crop Insurance Program, as of April 30, 2018.

Notes: Dollars are current, not constant.

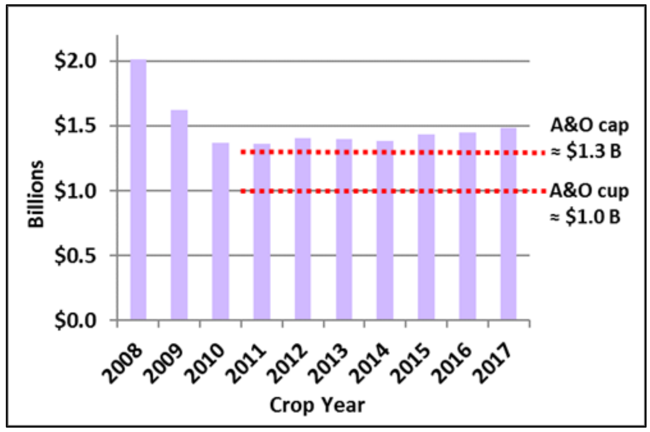
Delivery Subsidies

Program "delivery" generally refers to selling and servicing policies, including loss adjustment. The amount of these subsidies is based not on actual expenses incurred by AIPs but on percentages of premium set in the SRA that vary by policy type. FCIC subsidizes AIPs' delivery costs for the two main levels of insurance coverage—CAT and buy-up:

1. Catastrophic Loss Adjustment Expense subsidy (CAT LAE), for policies with CAT coverage, is fixed at 6% of premium.
2. Administrative and Operating subsidy (A&O), for policies with buy-up coverage, varies between 12% and 21.9% of premium.

The 2011 SRA established a maximum (cap) for A&O subsidies of approximately $1.3 billion per year and a minimum (cup) of approximately $1.0 billion. Since the A&O cup and cap went into effect, the total amount spent on delivery subsides (A&O and CAT LAE) has exceed the A&O cap every year (**Figure 4**), reflecting policies, coverages, and bonus A&O not subject to the cup and cap.

Figure 4. Federal Crop Insurance Delivery Subsidies



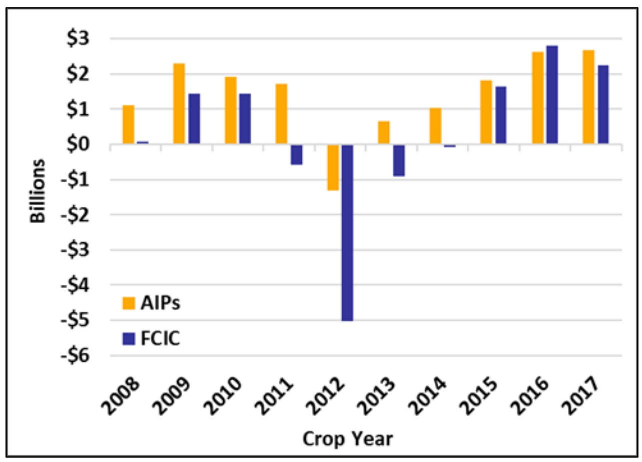
Source: CRS using Risk Management Agency Direct Costs of the Federal Crop Insurance Program, as of April 30, 2018.

Notes: Dollars are current, not constant.

Underwriting Gains and Losses

Figure 5 shows the net underwriting results of FCIC and the AIPs. The orange bars represent the AIPs' underwriting gains (positive bars) or losses (negative bars). The blue bars represent FCIC's underwriting gains/losses.

Figure 5. Net Underwriting Results of FCIC and AIPs



Source: CRS using Risk Management Agency Direct Costs of the Federal Crop Insurance Program as of April 30, 2018.

Notes: Dollars are current, not constant.

From crop year 2008 to 2017, the program had a net total underwriting gain of about $17.55 billion, of which about $3.05 billion (17%) went to FCIC and $14.50 billion (83%) went to AIPs (**Figure 5**). During those years AIPs had an underwriting loss in 2012, whereas FCIC had underwriting losses in 2011, 2012, 2013, and 2014. FCIC outperformed AIPs in 2016 but not other years.

Conclusion

The crop insurance program is a central part of federal support for agriculture. Congressional oversight has a significant role in ensuring that the program meets its intended policy goals and operates efficiently.

Isabel Rosa, Analyst in Agricultural Policy

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