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Federal Crop Insurance Program (FCIP): Limits on Administrative and Operating Subsidies

The federal crop insurance program (FCIP) offers farmers the opportunity to purchase insurance coverage against financial losses caused by a wide variety of perils, including certain adverse growing and market conditions. The federal government regulates the policies offered and subsidizes the premiums that farmers pay in order to encourage farmer participation in the program. The FCIP plays a prominent role in helping farmers manage financial risk, with more than 444 million acres and $150 billion in crop and livestock value insured in crop year 2021. Annual federal program outlays averaged $9.1 billion for FY2012-FY2021, adjusting for inflation.

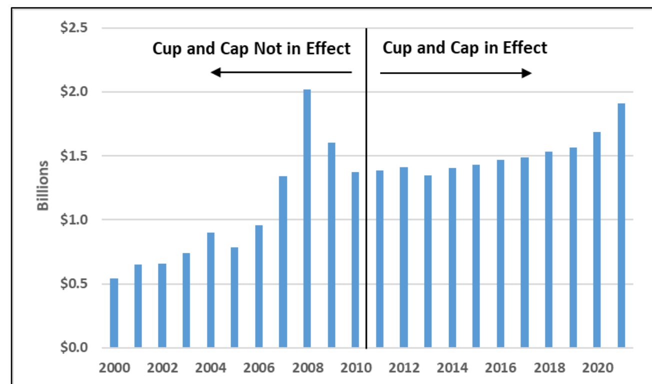
The U.S. Department of Agriculture (USDA) does not sell FCIP policies to farmers directly. Private sector companies—referred to as Approved Insurance Providers (AIPs)—sell and service FCIP policies under two annual agreements with USDA: the Standard Reinsurance Agreement (SRA) and the Livestock Price Reinsurance Agreement (LPRA). USDA provides subsidies to the AIPs to compensate for the cost of selling and servicing FCIP policies, as per the terms specified in the SRA and LPRA.

Program Delivery Subsidies

Under the SRA and LPRA, USDA provides program delivery subsidies to AIPs calculated as a percentage of the total premium rate for each policy sold. For catastrophic (CAT) coverage, the associated program delivery subsidy is 6%. Program delivery subsidies for non-catastrophic coverage are referred to as administrative and operating (A&O) subsidies and range from 12% to more than 22% of the total premium depending on the policy type. For example, a Revenue Protection policy with a total premium rate of $60 per acre would receive an A&O subsidy of $11.10 per acre (18.5% of the premium rate). A Yield Protection policy with a total premium of $20 per acre would receive an A&O subsidy of $4.38 per acre (21.9% of the premium rate). USDA provides an additional 1.15% in so-called "SnapBack" subsidies for certain policies sold in certain states with high loss risk. The total amount that each AIP earns in program delivery subsidies depends on the volume, types, and locations of policies sold.

USDA sets premium rates for FCIP policies each year based on projections of market prices, crop yields, and yield and price risks. As market prices increase, premiums and A&O subsidies per policy also tend to increase. Higher valued crops tend to have higher premium rates than lower valued crops, and therefore higher A&O subsidies. The total cost of program delivery subsidies has tended to increase over time as the number of policies sold has increased, and FCIP coverage offerings have expanded (**Figure 1**).

Figure 1. FCIP Expenditures on Program Delivery Subsidies, FY2000-FY2021



Source: CRS using Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements, various fiscal years.

Notes: Amounts not adjusted for inflation. The cup and cap are annual minimum and maximum limits on certain program delivery subsidies as specified under the Standard Reinsurance Agreement.

Limits on A&O Subsidies

Prior to 2011, the SRA did not include limits on A&O subsidies. In the Food, Conservation, and Energy Act of 2008 (P.L. 110-234; 2008 farm bill, §12016), Congress mandated a reduction in program delivery subsidy rates to generate cost savings. The 2008 farm bill also required USDA to renegotiate the SRA to take effect for the 2011 reinsurance year (§12017(8)(A)(i)).

Beginning in 2011, the renegotiated SRA introduced annual minimum and maximum limits (i.e., cup and cap) on the total amount of money spent on A&O subsidies for certain policies, aggregated across all AIPs. If the total A&O subsidy for all AIPs for all applicable policies were to exceed the cap for any year, each AIP would receive a portion of the cap prorated based on the company's share of total applicable A&O subsidy. If the total applicable A&O subsidy amount were less than the cup for any year, each AIP would receive a portion of the cup prorated based on the company's share of total A&O subsidy.

The cup on A&O subsidies ensures that AIPs collectively receive at least a minimum level of A&O subsidies for selling certain FCIP policies. The cap on A&O subsidies limits increases in program delivery costs as policy sales and/or market prices increase.

The SRA included annual increases in the cup and cap levels from 2011 to 2015 to adjust for inflation. Since 2015, the cup and cap levels have remained fixed (**Table 1**).

Table 1. A&O Subsidy Cup and Cap, in $ millions

Reinsurance Year	Cup	Cap
Prior to 2011	NA	NA
2011	$971	$1,221
2012	$985	$1,238
2013	$996	$1,253
2014	$1,007	$1,267
2015	$1,020	$1,283
Since 2015	$1,020	$1,283

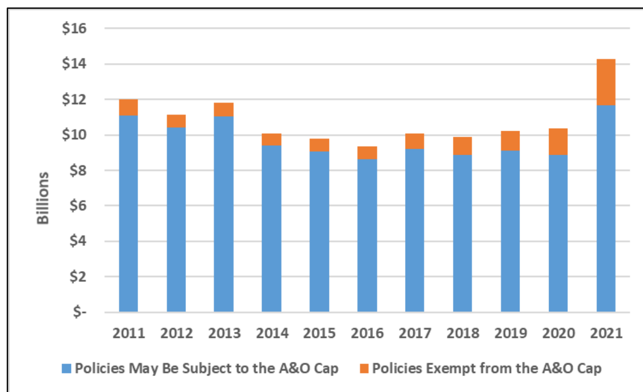
Source: CRS using Risk Management Agency data and the Standard Reinsurance Agreement.

Notes: NA = not applicable. Reinsurance years are the 12-month periods beginning on July 1 of each calendar year.

The cup and cap do not apply to CAT, area-based, weather-indexed, or margin coverage or to any policies sold under the LPRA. Policies that are generally subject to the cup and cap may exempt from these thresholds certain crops and counties. The share of total premiums exempt from the A&O subsidy cup and cap increased from 7% in 2011 to 18% in 2021 (**Figure 2**).

Figure 2. Total Premium for FCIP Policies Sold

by crop year and type of policy



Source: CRS using Risk Management Agency Summary of Business database, downloaded July 25, 2022.

Notes: Amounts include producer-paid premium and federal subsidy and are not adjusted for inflation. Policies exempt from the A&O cap include catastrophic coverage, area-based coverage, weather-indexed coverage, margin coverage, and all policies sold under the Livestock Price Reinsurance Agreement. All other policies are generally subject to the A&O cap but may be exempt for certain counties and crops.

Limits on SRA Renegotiations

USDA used administrative authority to renegotiate the terms of the existing SRA and LPRA in 2011, including creating the A&O subsidy cup and cap. The 2008 farm bill restricts USDA to renegotiate the SRA no more often than once every five reinsurance years beginning in 2011 (§12017(8)(A)(ii)). The Agricultural Act of 2014 (P.L. 113-79; 2014 farm bill, §11012) requires future SRA renegotiations to be budget neutral and to maintain or increase subsidies for program delivery relative to existing levels.

Issues for Congress

USDA estimated that the 2011 SRA renegotiation achieved an estimated $6 billion in 10-year cost savings (FY2011-FY2020) for the program relative to 2010 baseline projections. Since 2011, changes in the program have limited the continuing effectiveness of the A&O subsidy cap as a cost containment mechanism. Changes made to livestock and grazing land coverage—which have always been exempt from the A&O subsidy cap—have increased sales of these policies. The FCIP also has introduced new policies exempt from the A&O cap, including coverage mandated by Congress in the 2014 farm bill and coverage created using administrative authorities. Some Members of Congress have argued that the cap should be increased to reflect inflation. Increasing the cap could further limit its effectiveness as a cost containment mechanism.

A&O subsidies may not reflect actual costs incurred for selling and servicing policies. Historically, crop insurers have argued that A&O subsidies undercompensate relative to actual costs incurred. In a 2017 study, the Government Accountability Office (GAO) concluded that AIPs' average rate of return earned from the program exceeded USDA's target rate and comparable market rates of return. Congress may consider whether existing A&O subsidy rates are deficient, sufficient, or excessive relative to costs required for program delivery.

Additionally, GAO recommended that Congress repeal the 2014 farm bill provision requiring SRA renegotiations to be budget neutral and that it direct USDA to renegotiate the SRA to achieve additional cost savings. Congress also could consider whether existing authorities and SRA and LPRA terms are sufficient to achieve desired cost control aims for the program.

The A&O subsidy received per policy sold varies across crops and years due to changes in market prices. The cap is more likely to limit subsidies in years of high commodity prices. Insurers of specialty crops asserted that the A&O subsidy cap disproportionally impacted their businesses in 2021, as commodity prices increased and reductions required to meet the A&O cap exceeded historical norms. The House-passed bill for USDA FY2023 appropriations (H.R. 8239, §765) includes $50 million in additional funds for specialty crop A&O subsidies. Congress may consider whether existing A&O subsidy rates and limits constrain delivery of insurance to specialty crop producers.

For more information, see

- CRS Report R46686, *Federal Crop Insurance: A Primer*
- CRS Report R45291, *Federal Crop Insurance: Delivery Subsidies in Brief*
- CRS In Focus IF12047, *Farm Bill Primer: What Is the Farm Bill?*

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