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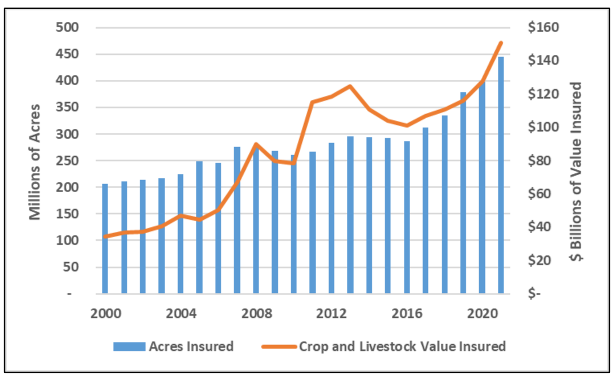
# Farm Bill Primer: Federal Crop Insurance Program

The federal crop insurance program (FCIP) helps make insurance coverage available to farmers from private sector insurers to help mitigate potential financial consequences of adverse growing and market conditions. The U.S. Department of Agriculture (USDA) regulates the policies offered and subsidizes the premiums that farmers pay in order to encourage farmer participation in the program. Premium subsidies covered about 62% of the total premium on average for all policies sold in 2021. Since its inception in 1938, the FCIP has grown from an ancillary program with low participation to a central pillar of federal farm support, with more than 444 million acres and $150 billion in crop and livestock value insured in 2021 (**Figure 1**).

**Figure 1. Acres and Value Insured by the Federal Crop Insurance Program, 2000-2021**




**Source:** CRS using data from U.S. Department of Agriculture (USDA) Risk Management Agency Summary of Business database, downloaded August 19, 2022.

**Notes:** Values not adjusted for inflation. Years are crop years.

The FCIP is permanently authorized under the Agricultural Adjustment Act of 1938 (P.L. 75-430, 52 Stat. 72) and the Federal Crop Insurance Act of 1980 (P.L. 96-365, 7 U.S.C. §§1501 et seq.), as amended. Title XI of the Agriculture Improvement Act of 2018 (2018 farm bill; P.L. 115-334) made minor modifications to the FCIP to expand coverage offerings and reduce program outlays.

## Program Overview

The FCIP offers insurance coverage for most field crops, a wide variety of specialty crops, certain types of livestock and animal products, and grazing lands. FCIP coverage is available for purchase in all U.S. counties, although coverage for some crops may be limited in certain areas. Farmers can choose among many types of policies and policy options to customize coverage to their farm businesses' specific needs. The amount of premium subsidy farmers receive depends on the coverage purchased. USDA fully subsidizes premiums for catastrophic-only (CAT) coverage; farmers pay only an administrative fee. Farmers pay an increasing share of premiums for higher levels of coverage, up to a maximum of 62% of the total premium.

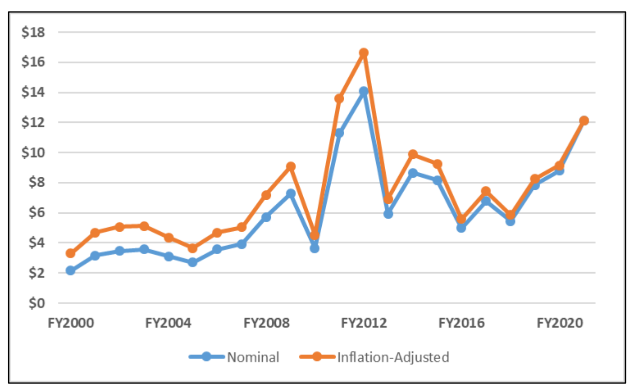
FCIP policies insure agricultural commodities against losses due to unavoidable natural events. Certain policies also insure against losses from seasonal market price declines. Covered perils or "causes of loss" include adverse weather conditions (e.g., hail, frost, drought, flooding); failure of irrigation water supply; fire; plant diseases; and insect and wildlife damage. Farmers are required to follow USDA's guidance on good farm management practices in order to maintain coverage eligibility.

Authorized insurance companies, called Approved Insurance Providers (AIPs), sell and service FCIP policies. USDA regulates the policies offered and their pricing. USDA also provides program delivery subsidies to the AIPs to compensate for the cost of selling and servicing FCIP policies and reinsures a portion of the policies sold as per the terms of two annual agreements between USDA and the AIPs: the Standard Reinsurance Agreement (SRA) and the Livestock Price Reinsurance Agreement (LPRA).

## Appropriations and Program Outlays

The Federal Crop Insurance Corporation—the agency that finances FCIP operations—is funded with mandatory appropriations of "such sums as necessary." Annual federal program outlays averaged $9.1 billion for FY2012-FY2021, adjusting for inflation (**Figure 2**).

**Figure 2. Federal Crop Insurance Program Outlays**
FY2000-FY2021




**Source:** CRS using data from USDA, *Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements*, audit reports, various fiscal years.

**Notes:** Adjusted for inflation using the U.S. Bureau of Economic Analysis Implicit Price Deflators for Gross Domestic Product where 2021=100, updated July 28, 2022.

Outlays tend to increase with the number of policies sold and with increases in commodity prices. Between 2012 and

2021, premium subsidies for corn, soybeans, wheat, and cotton averaged 78% of all premium subsidies paid.

## 2018 Farm Bill Changes

The crop insurance title in the 2018 farm bill was nearly budget neutral, with small increases and decreases across several provisions. Changes that were projected to increase budgetary outlays included authorizing CAT coverage for grazing crops and grasses; allowing separate coverage for crops that are grazed and mechanically harvested in the same season; redefining the term beginning farmer or rancher for whole-farm revenue protection policies; and waiving certain requirements for hemp coverage proposals submitted by the private sector. Changes that were projected to reduce budgetary outlays included increasing the administrative fee for CAT coverage; authorizing multicounty enterprise units; reducing funds for certain research and development contracts and partnerships; reducing funds for review, compliance, and program integrity; as well as changes in how producer benefits are reduced when planting on native sod.

The 2018 farm bill also added hemp to the list of crops eligible for FCIP premium subsidies and post-harvest coverage; established a specialty crops coordinator; amended the rules for cover crop termination; expanded the definition of underserved producers; and directed USDA to conduct research for developing FCIP coverage for priority items, among other changes. In response to research priorities identified in the 2018 farm bill, USDA updated Whole Farm Revenue Protection policies and introduced coverage for hurricanes, quality losses, water conservation practices for irrigated rice production, and micro farms.

## Non-Farm Bill Changes Since 2018

Since 2018, USDA has used administrative authorities to make additional changes to the FCIP. Using the FCIP's authority to adopt coverage developed by the private sector (7 U.S.C. §1508(h)), USDA introduced the Enhanced Coverage Option (ECO)—an area-based insurance policy that covers a portion of a farmer's deductible not otherwise insurable with FCIP coverage—and the Post-Application Coverage Endorsement (PACE) for farmers who apply certain fertilizers in both the fall and spring. USDA used administrative authorities to make changes to grazing rules on land that was prevented from planting during the crop season due to adverse weather and to increase premium subsidies available for certain livestock policies. Prior to 2018, the Agricultural Risk Protection Act of 2000 (P.L. 106-224, §132) limited the funds available for premium subsidies for livestock. Section 60101(c) of the Bipartisan Budget Act of 2018 (P.L. 115-123) removed this limitation.

In addition, USDA made other changes to the FCIP in response to provisions from annual and supplemental appropriations acts. USDA used funds provided by the Additional Supplemental Appropriations for Disaster Relief Act, 2019 (P.L. 116-20) to provide additional payments to insured acres that were prevented from being planted in 2019. USDA used funds appropriated by Congress in the Consolidated Appropriations Act, 2021 (P.L. 116-260) to create the Pandemic Cover Crop Program (PCCP). The PCCP provided up to $5 per acre in additional premium subsidies to farmers who planted cover crops in 2021 and/or 2022.

## Issues for Congress

The FCIP is a central component of the federal farm safety net, a collection of programs that provide risk protection and financial support to farmers in times of low farm prices and natural disasters. In the last three farm bills, Congress has expanded the FCIP to cover more commodities and more types of risks. Although crop insurance market penetration for field crops has been high historically, opportunities exist to expand participation, especially for specialty crops, livestock, and animal products.

Numerous stakeholders have proposed reducing the cost of the FCIP by capping underwriting gains for AIPs, reducing premium subsidies for producers, introducing premium subsidy eligibility criteria based on the producer's adjusted gross income, among other proposals. Additionally, the SRA has been in effect since 2011. In 2017, the Government Accountability Office recommended that Congress repeal Section 11012 of the Agricultural Act of 2014 (P.L. 113-79)—which requires SRA renegotiations to be budget neutral—and that it direct USDA to renegotiate the SRA to achieve additional cost savings. Congress could consider whether existing authorities and the terms of the SRA and LPRA are sufficient to achieve desired cost control aims for the program.

The PACE endorsement and the PCCP provide incentives within the FCIP for farmers' use of conservation practices. Some environmental stakeholders have proposed to enhance the FCIP's role in promoting conservation and improving soil health. Congress may consider the potential environmental benefits of these proposals and what their effects might be on the actuarial soundness of the program.

The number of private-sector insurers participating in the FCIP has decreased over time, largely due to consolidation in the insurance industry. Congress may choose to examine the drivers of this consolidation, as well as any implications of consolidation on outreach to producers in underserved areas and on insurers' willingness to market new types of crop insurance coverage.

For additional background, see the following CRS reports:

- CRS Report R46686, *Federal Crop Insurance: A Primer*
- CRS Report R46874, *Federal Crop Insurance Program (FCIP): Replanting, Delayed Planting, and Prevented Planting*
- CRS Report R45291, *Federal Crop Insurance: Delivery Subsidies in Brief*
- CRS In Focus IF11919, *Federal Crop Insurance for Hemp Crops*

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