

## OVER VIEW OF CROP INSURANCE AND DISASTER COVERGE

### HISTORY

#### Federal Crop Insurance

Federal crop insurance was authorized by Congress in the 1930s to help agriculture to recover from the impact of the Great Depression and the Dust Bowl. The Federal Crop Insurance Corporation (FCIC) was created in 1938 to carry out the program. Federal crop insurance was initially an experiment and was mostly limited to major crops in the main producing areas (like corn and wheat). The Federal Crop Insurance Act of 1980 expanded the program to include many more crops and regions. To increase the number of participants, the 1980 Farm Bill subsidized 30% of the crop insurance premium owed by the farmer. There is no direct payment to the farmer or rancher. The Agriculture Risk Protection Act of 2000 pumped \$8.2 billion in federal spending over a 5 year period into the program primarily through more generous premium subsidies to make the program more affordable to farmers and enhance farmer participation levels, in an effort to preclude the need for ad-hoc emergency disaster payments. The Act also included provisions designed to reduce fraud, waste and abuse. Cost of federal crop insurance subsidies steadily increased from the 1980's to 2011. More than 80% of the total during 2006-2011 was used to subsidize farmer premiums and the balance covered the government share of program losses and reimbursed participating private insurance companies for their administrative and operating expenses. Currently, the Federal crop insurance premium subsidy is 65%.

#### Noninsured Crop Insurance Disaster Assistance Program (NAD)

Producers (farmers, ranchers) that grow a crop that is currently ineligible for crop insurance may be eligible for a direct payment under the USDA's Noninsured Crop Disaster Program that was authorized by the Federal Agriculture Improvement Act of 1996. The program is funded through USDA's Commodity Credit Corporations.

#### Supplemental Revenue Assistance Payments Program (SURE)

This is the largest of the farm disaster assistance programs and was authorized by the 2008 farm bill. The program is designed to compensate eligible producers for a portion of crop losses that are not eligible for indemnity under the crop insurance program (i.e., the portion of losses that is part of the deductible on the policy). To be eligible for payment, the producer must be in or contiguous to a county that has been declared a disaster area by the Secretary of Agriculture or have an overall 50% farm loss. This is a very complex program and payments for crop losses cannot be determined until after marketing year ends.

### HOW IT WORKS

Producers buy a crop insurance policy from an Approved Insurance Provider (AIP) and it is a contract between the farmer and their insurance provider. Federal crop insurance offers

separate, tailored policies for more than 100 commodities. Plans can be based on historic production records, area average or producer's business tax information. Within the plans, some offer yield only coverage, yield and revenue coverage and some cover producers risk using a set dollar amount of insurance. The insurance provider agrees to indemnify the insured farmer against perils beyond the farmer's control, such as adverse weather and its effect on crops. Under the current crop insurance program, a producer of insurable crops can instead receive catastrophic coverage without paying a premium. The premium for this coverage is completely subsidized by the government. However they are required to pay a \$300 administrative fee per covered crop for each county where the crop is grown. Under this coverage, participating producers can receive a payment equal to 55% of the estimated market price of the commodity, on crop losses in excess of 50% of normal yield.

### FINDINGS

The Federal crop insurance program has been successful in reducing the need for Ad Hoc Disaster Assistance.

The program has provided a safety net and helped family farmers to continue to farm when crops are lost or damaged, because of adverse weather conditions that are beyond their control.

Subsidies have been skewed toward commodity crops such as corn and soybeans. The newly passed Farm Bill extends crop insurance to a wider variety of crops.

According to 2011 data, 20% of farm recipients collected almost 80% of the subsidies.

### ISSUES TO BE CONSIDERED

Should premium subsidies be capped for farmers with an annual gross income at a specific level?

Should the amount of crop insurance premium subsidized by the Federal government be reduced? What effect, if any, would this have on ad hoc emergency disaster payments?

Should crop insurance expand coverage to more fresh market, specialty, and organic crops, specifically for small diverse farms?

Should administrative and operating expenses paid to Approved Insurance Providers for operating crop insurance on behalf of the government be reduced?

Should conservation compliance be reinstated as a requirement of the crop insurance policy?

Should coverage be expanded to new crops, types, practices and growing methods?