

Federal Crop Insurance: A Primer

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Federal Crop Insurance: A Primer

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 subsidizes the premiums that farmers pay for these insurance policies to encourage farmer participation. Farmers can choose among many types of policies and policy options to customize the coverage to their farm businesses' specific needs. Private-sector companies sell and service the policies; the U.S. Department of Agriculture (USDA) plays critical roles in subsidizing, regulating, and reinsuring the policies.

The FCIP was created in 1938 as part of the agricultural policy response to the Great Depression. The FCIP is permanently authorized under the Agricultural Adjustment Act of 1938 (P.L. 75-430) and the Federal Crop Insurance Act of 1980 (P.L. 96-365). The Federal Crop Insurance Corporation (FCIC)—the agency that finances FCIP operations—is funded with mandatory appropriations of “such sums as necessary.” The Congressional Budget Office projects that net spending for the FCIP will be almost \$40 billion for FY2021-FY2025 and more than \$80 billion for FY2021-FY2030—including expenditures to subsidize farmers' policy premiums, compensate for private insurance providers' administrative and operating expenses, and reinsure losses from policies sold.

The FCIP plays a prominent role in helping producers manage financial risk. In crop year 2019, the program sold more than 2 million policies and insured crops and livestock valued at more than \$116 billion, equivalent to about 28% of the value of U.S. agricultural production. More than 90% of planted acres for corn, soybeans, and cotton and more than 85% of wheat planted acres were insured through the FCIP. In all, the FCIP provided coverage for 124 commodities and offered 19 types of insurance policies. Sixteen companies sold crop insurance to farmers through the program, and farmers enrolled a record high 379.9 million acres in 2019.

The FCIP is a central component of the federal farm safety net, which is a collection of programs that provide risk protection and financial support to U.S. farmers in times of low farm prices and natural disasters. For 2014-2018, the FCIP accounted for the largest share (52%) of payments to farmers from farm safety net programs. The FCIP also supports conservation policy goals through conservation compliance requirements and contributes to the stability of agricultural credit markets.

Congress may be interested in understanding how FCIP implementation affects which farmers purchase crop insurance and the types of insurance they purchase, as well as the associated costs to the U.S. taxpayer for providing that coverage. Congress may also be interested in ways to expand coverage options, improve the program's efficiency and actuarial performance, provide outreach to farmers who have not previously participated in the program, and in evaluating the program against its policy objectives for the agricultural sector.

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Introduction

The federal crop insurance program (FCIP) provides insurance coverage for the production of most U.S. agricultural commodities against financial losses caused by adverse growing and market conditions. This insurance coverage helps stabilize farm business incomes, which can help farmers to repay debt, reduce farm bankruptcies, and thus avoid disruptions to food, livestock feed, and other markets for agriculture commodities, including export markets. The FCIP supplies insurance coverage that is not otherwise available from the private sector and 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. Farmers can choose from a variety of insurance coverage options to customize the coverage to the specific needs of their farm businesses. The federal government subsidizes the policy premiums to encourage participation.

The FCIP was established in 1938 as part of the agricultural policy response to the Great Depression. Congress established the FCIP following several unsuccessful attempts by private industry to market similar products.¹ Prior to 1938, the private sector was unable to fund losses stemming from agricultural weather risks, as these losses simultaneously affected numerous farmers over a broad area.² Initially, the FCIP had no private sector involvement and covered only wheat, but after a few years, Congress expanded the program to include other commodities. In response to a period of high disaster support payments in the 1970s and low crop insurance participation, Congress enacted the Federal Crop Insurance Act of 1980 (P.L. 96-365). This law expanded the commodities covered and geographic scope of the program, introduced premium subsidies, and allowed private-sector companies to sell and service policies. Since the 1980s, Congress has made numerous changes to the program that expanded crop insurance coverage options, increased premium subsidies, and aligned the FCIP with other U.S. Department of Agriculture (USDA) programs and agricultural policy goals (for more background on the history of the FCIP, see the discussion in the **Appendix**).

For FY2010-FY2019, the FCIP paid out nearly \$85 billion for losses to insured agriculture producers and more than \$14 billion in reinsurance payments to private-sector insurance companies.³ These losses affected farmers and ranchers in all 50 states who produced a wide variety of insurable crops, livestock, and animal products. FCIP payments helped mitigate the negative financial impacts to farmers and insurance companies from abnormal drought conditions, record flooding, extended periods of price declines for market commodities, and other adverse outcomes.

The FCIP plays a prominent role in helping agricultural producers manage financial risk. In crop year 2019, the FCIP provided coverage for 124 commodities and offered 19 types of insurance policies.⁴ Sixteen Approved Insurance Providers (AIPs) sold crop insurance through the program,

¹ Randall A. Kramer, “Federal Crop Insurance 1938-1982,” *Agricultural History*, vol. 57, no. 2 (April 1983), pp. 181-200.

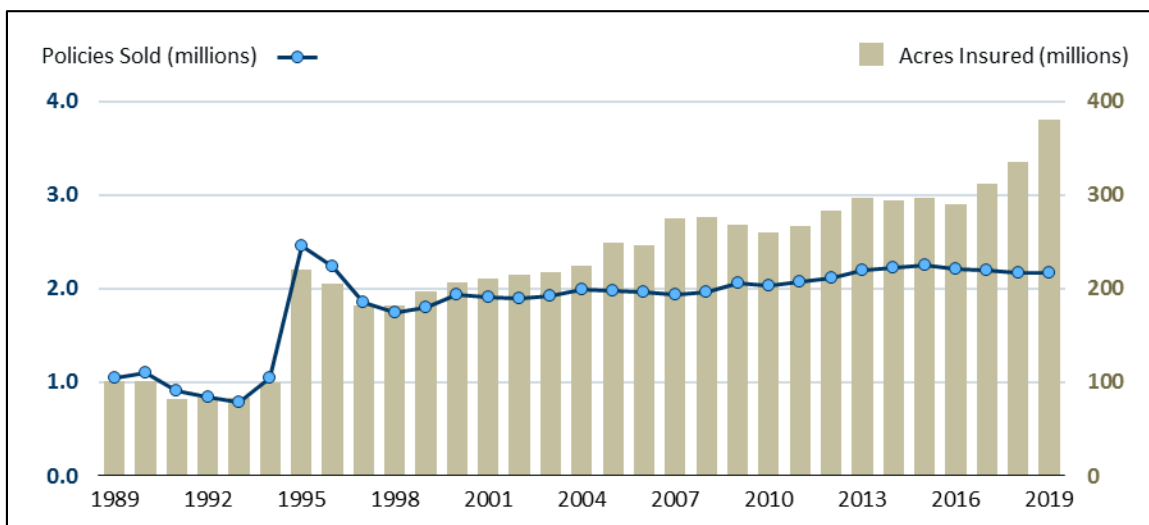
² Mario J. Miranda and Joseph W. Glauber, “Systemic Risk, Reinsurance, and the Failure of Crop Insurance Markets,” *American Journal of Agricultural Economics*, vol. 79, no. 1 (February 1997), pp. 206-215.

³ Congressional Research Service (CRS) calculations using data from the *Federal Crop Insurance Corporation/Risk Management Agency’s Financial Statements* for FY2010-FY2019. Outlays for indemnity payments were partially offset by premiums paid by farmer policyholders. Premium subsidies are not available on a fiscal year basis. For additional information about costs of premium subsidies and farmer paid premiums, see “Costs of the FCIP.”

⁴ U.S. Department of Agriculture (USDA), Office of Inspector General, *Federal Crop Insurance Corporation/Risk Management Agency’s Financial Statements for Fiscal Years 2018 and 2019*, Audit Report 05401-0011-11, November

and farmers enrolled a record high of 379.9 million acres (**Figure 1**).⁵ The AIPs sold more than 2 million policies, insuring more than \$116 billion in value, which was equivalent to about 28% of value of U.S. agricultural production in 2019.⁶ The majority of policies were purchased by producers of corn, soybeans, wheat, and cotton—the principal crops grown in the United States. In crop year 2019, farmers insured more than 90% of planted acres for corn, soybeans, and cotton and more than 85% of planted acres for wheat through the FCIP.⁷

Figure 1. Federal Crop Insurance Program: Policies Sold and Insured Acres
1989-2019 crop years



Source: Figure created by CRS using data from U.S. Department of Agriculture (USDA), Risk Management Agency (RMA), “Summary of Business.”

Private-sector AIPs sell and service FCIP policies, while USDA plays critical roles in subsidizing, regulating, and reinsuring the policies. The principal USDA entities that fund and administer the FCIP are the Federal Crop Insurance Corporation (FCIC) and the Risk Management Agency (RMA). Congress determines the types of coverage that the FCIP can insure, the rules that USDA and AIPs must follow in implementing the program, and the funding available for program operations.

This report provides an overview of the FCIP and of how farmers use federal crop insurance policies to manage financial risk. It discusses legal authorities and annual appropriations for the program, key milestones in the program’s history, and how the FCIP relates to the broader U.S. agricultural policy framework. The report also reviews the rationale for providing crop insurance by the public sector and outlines several issues Congress may consider related to program expansion, reform, and oversight.

2019.

⁵ For a list of Approved Insurance Providers (AIPs), see USDA, Risk Management Agency (RMA), “Insurance Provider List,” at <https://public.rma.usda.gov/AipListing/InsuranceProviders>.

⁶ USDA’s Economic Research Service (ERS) estimates the value of U.S. agricultural production in 2019 was \$414 billion. USDA, ERS, “Farm Income and Wealth Statistics: Value Added Years by State,” at <https://data.ers.usda.gov/reports.aspx?ID=17830>.

⁷ CRS calculations based on USDA’s National Agricultural Statistics Service (NASS) records for planted acres and USDA’s RMA records for insured acres.

Authorities and Appropriations

Statutory and Discretionary Authorities

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). These statutory authorities define the FCIP's purpose and general parameters, including the powers of the FCIC;⁸ FCIC funding and management requirements; specific types of insurance coverage that the FCIC can make available to agricultural producers;⁹ schedules and eligibility requirements for subsidies; provisions for pilot programs; and other provisions. Within these statutory requirements, USDA's RMA, as approved by the FCIC Board, has discretion to determine where policies are offered,¹⁰ what coverage is offered, and what paperwork is required. RMA can also set paperwork submission deadlines, negotiate the terms by which private insurance companies can participate in the program, and determine other aspects of the program.

Since 2008, Congress has made changes to the crop insurance program in successive farm bills,¹¹ as well as in annual and supplemental appropriations legislation. These changes have expanded the types of agricultural commodities and risks that can be insured, clarified how crop insurance interacts with commodity support and conservation programs, and directed research toward emerging priority risk management topics (e.g., greenhouse production, local foods, and subsurface and limited irrigation practices).

Appropriations, Outlays, and Budget Baseline

The FCIP has permanent, indefinite funding authority provided under the Federal Crop Insurance Act of 1980. Annual funding for the FCIP comes from both mandatory and discretionary appropriations.¹² The financial assistance offered through FCIC is funded with mandatory appropriations of "such sums as necessary" (7 U.S.C. §1516). The majority of funding for RMA salaries and expenses to administer the crop insurance program is discretionary and is provided through the annual appropriations process. RMA can also use up to \$7 million in mandatory funding from FCIC to pay costs associated with program operations.¹³

The Congressional Budget Office (CBO) projects that the FCIP will cost almost \$40 billion for the 5-year period FY2021-FY2025 and more than \$80 billion for the 10-year period FY2021-

⁸ The Federal Crop Insurance Corporation (FCIC) is a government-owned corporation that finances the federal crop insurance program's (FCIP's) operations, analogous to the Commodity Credit Corporation's role in financing USDA's farm revenue support and conservation programs. The FCIC is managed by a Board of Directors that includes certain statutorily mandated members, including the USDA Under Secretary that oversees the FCIP, the USDA Chief Economist, farmers, and representatives of the AIPs. See the section "Federal Crop Insurance Program Structure and Operations" for details on the FCIC.

⁹ Agricultural producers eligible for crop insurance coverage include farmers, ranchers, and producers of other types of eligible agricultural products (e.g., honey, aquaculture, forage crops).

¹⁰ While crop insurance is available nationwide, the availability of specific types of crop insurance policies and coverage options varies by county. See the section "Policies and Coverage Options" for more details.

¹¹ See CRS Report RS22131, *What Is the Farm Bill?*, by Renée Johnson and Jim Monke.

¹² Discretionary spending authority is established annually by Congress through the appropriations process. Mandatory spending is composed of budget outlays controlled by laws other than appropriations acts, including federal spending on entitlement programs. For more information, see CRS Report R44641, *Trends in Mandatory Spending: In Brief*, by D. Andrew Austin.

¹³ 7 U.S.C. §1516(b)(2)(C).

FY2030 (see **Table 1**).¹⁴ The average cost of the program is projected to be nearly \$8 billion per year for FY2021-FY2025 and to remain at around that level in FY2026-FY2030. This baseline represents the expected budgetary cost of the FCIP under current statutory authorities. The budgetary impacts of any legislative proposals to change aspects of the program would be measured as changes from this baseline (until the next CBO baseline has been released).

Table 1. CBO Baseline for the Federal Crop Insurance Program
\$ billion

Category	Total FY2021-FY2025	Annual Average FY2021-FY2025	Total FY2021-FY2030	Annual Average FY2021-FY2030
Budget Authority	\$39.9	\$8.0	\$81.9	\$8.2
Outlays	\$38.8	\$7.8	\$80.4	\$8.0

Source: CRS calculations using Congressional Budget Office (CBO), USDA's mandatory farm program outlay projections, March 6, 2020.

Notes: CBO projects annual budgetary authority and outlays for the federal crop insurance program (FCIP) for each fiscal year for a 10-year budget window. Budgetary authority are funds required to meet new obligations incurred in that fiscal year. Outlays are funds expended in the fiscal year. FCIP budgetary authority and outlays for any given fiscal year may not be equal because outlays tend to follow crop year and/or reinsurance year timing instead of aligning with fiscal year schedules.

Projections for the budgetary cost of the FCIP depend in part on projections of future commodity prices. Higher commodity prices in the future would increase the expected value of insured crops, thereby increasing the expected value of insured liability and premium subsidies relative to what liabilities and premium subsidies would cost with lower commodity prices.¹⁵ To put these CBO projections in context, federal outlays for the FCIP averaged \$7.7 billion per year from FY2010 to FY2019.¹⁶

How Federal Crop Insurance Works

Federal crop insurance policies can provide coverage for agricultural commodities against losses due to unavoidable natural events and market price declines. Covered perils or “causes of loss” include adverse weather conditions (e.g., hail, frost, drought, flooding); failure of irrigation water supply (if caused by an insured peril during the period of insurance coverage); fire (due to natural causes); plant diseases (provided the farmer followed guidance on proper application of disease control measures); and insect and wildlife damage (provided the farmer followed guidance on proper application of pest and wildlife control measures). Certain policies also insure against losses from market price declines.

Because a loss from any of a variety of covered causes can trigger an indemnity payment, federal crop insurance is often referred to as “multiperil crop insurance.” Other types of crop insurance available from the private sector insure against a single type of risk, such as hail damage or losses due to freezing temperatures.

¹⁴ Congressional Budget Office (CBO), USDA's mandatory farm program outlay projections, March 6, 2020.

¹⁵ Premium subsidies are funds provided by USDA on behalf of farmer policyholders to defray a portion of the premium costs of the policies sold. See “Premium Subsidies” for more details.

¹⁶ Compiled by CRS from USDA, Office of Inspector General, *Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2010-2019*. This average includes expenditures on premium subsidies, administrative and operating payments to AIPs, and underwriting costs.

Farmers purchase federal crop insurance from an insurance company approved to sell federal crop insurance, or an AIP. When a farmer incurs a loss from any of the covered causes, the farmer submits a claim to the insurer. If the insurer determines that the claim is valid, then the insurer makes an indemnity payment to the farmer. Depending on how the policy is reinsured, the AIP may also collect a reinsurance payment from USDA or a third-party reinsurer.

Types of Commodities Covered

Federal crop insurance covers the production of agricultural commodities only. Insurable commodities vary by location and can include annual crops, perennial crops, forage crops, livestock, and animal products. Federal crop insurance can be purchased separately for different commodities or bundled so that a single policy insures the entire farm's production (i.e., Whole-Farm Revenue Protection). Farm buildings, equipment, vehicles, on-farm inventories, and farm operating liability or work-related injury cannot be insured through the FCIP but may be covered through private-sector insurance products.

Depending on the type of commodity, federal crop insurance can be used to insure the market value of the commodity (e.g., market price of a bushel of corn); the replacement value of the commodity (e.g., the cost to replant an orange tree); or the marginal value of producing a commodity (e.g., the market price of a gallon of milk less the cost to produce a gallon of milk). For annual crops such as corn and tomatoes, federal crop insurance covers only the market value of annual production. For perennial crops such as certain fruit and nut trees, growers can choose to insure the replacement value of the tree itself, the market value of the annual fruit or nut harvest, or both. For livestock and animal products, agricultural producers can choose to insure the market values of the animals (e.g., cattle, clams), the operating margin¹⁷ of raising the animals, or the market value of specific animal products (e.g., milk, honey).

Time Period Covered

Federal crop insurance covers the following three categories of agricultural commodities for specific time periods.

- **Annual Crops.** Federal crop insurance insures the commodities for the period between the planting and harvesting of crops.¹⁸ After the crop is harvested, farmers seeking to insure their harvested commodities must seek coverage outside of the FCIP, such as through privately provided property coverage. Farmers must have their crops planted and harvested by specific dates in order to be eligible for crop insurance indemnities.¹⁹ However, in the event that farmers are unable to complete planting by the required date, some policies allow for the producer to choose between reduced coverage or “prevented planting” payments. Prevented planting payments provide smaller indemnities when weather conditions prevent farmers from planting their crops before the cutoff dates.²⁰

¹⁷ *Operating margin* is defined here as the difference between the market price of the animals and the operating costs incurred to raise the animals.

¹⁸ The relevant calendar dates for crop insurance vary by type of policy, year, crop, and location. For the specific dates for each type of policy by year, crop, and location, see USDA, RMA, “Actuarial Information Browser,” at <https://webapp.rma.usda.gov/apps/actuarialinformationbrowser/>.

¹⁹ CRS Report R45193, *Federal Crop Insurance: Program Overview for the 115th Congress*, by Isabel Rosa.

²⁰ CRS Report R46180, *Federal Crop Insurance: Record Prevent Plant (PPL) Acres and Payments in 2019*, by Randy Schnepf.

- **Perennial Tree Crops.** Federal crop insurance coverage for the trees is for a single crop year, not the full life span of the tree.
- **Livestock and Animal Products.** Federal crop insurance can be purchased by the month, by the quarter, or annually, depending on the life cycle of the animal or animal product involved.

Federal crop insurance policies renew automatically for the next year, and each year thereafter, unless canceled by the farmer or the AIP. Just as with new policies, farmers purchasing renewed federal crop insurance coverage must pay their share of the annual premium every year for which they purchase coverage.

Policies and Coverage Options

Farmers can choose between a variety of options to tailor their crop insurance coverage to suit their particular farm management goals and production practices. Farmers growing certain annual crops can choose from various types of coverage under federal crop insurance. For example, policy types are available to insure a farm's average crop yield, its crop revenue, the county's average crop yield, or the county's average crop revenue. Insurance coverage for revenue is more expensive to purchase than yield coverage because revenue policies also insure against an additional risk (i.e., lower revenue from a decline in the market price), while yield policies do not. Insurance coverage for the farm is more expensive to purchase than coverage for the county because the risk of crop losses to any one farm is greater than the risk of crop losses for the county as a whole. Coverage can be even more specific by insuring all of a farm's fields in the same county, the same township, or in some cases, insuring a specific field (described below under "Crop Ownership and Covered Units").

Selected Federal Crop Insurance Program (FCIP) Policies

FCIP offered 26 different insurance policies for crop year 2019. Selected policy types included the following:

- **Yield-Based Policies.** Actual Production History (APH) and Yield Protection (YP) policies insure farmers against yield losses for a specific crop. Farmers select the percentages of average yield and projected price to insure. For APH policies, the price is established annually by the Risk Management Agency (RMA). For YP policies, the price is based on futures market prices.
- **Revenue-Based Policies.** Revenue Protection (RP) and Revenue Protection with Harvest Price Exclusion (RP-HPE) insure farmers against revenue losses for a specific crop. Farmers select the percentage of the revenue guarantee to insure. The revenue guarantee is based on the farmers' APH and either the projected price or the harvest price. Futures market prices are used to determine the projected price and the harvest price. For RP policies, the revenue guarantee uses the higher of the projected price or the harvest price. For RP-HPE policies, the revenue guarantee uses the projected price only.
- **Area-Based Policies.** Area Yield Protection (AYP), Area Revenue Protection (ARP), and Area Revenue Protection with Harvest Price Exclusion (ARP-HPE) insure farmers against losses for county yields or county revenues for a specific crop. Farmers select the percentage of the county's yield or the county's revenue guarantee to insure.
- **Rainfall Index (RI).** RI insures farmers and ranchers against rainfall losses in target geographic areas. Producers select the percentage of an index of rainfall to insure. The rainfall index is based on weather data collected and maintained by the National Oceanic and Atmospheric Administration's Climate Prediction Center.
- **Whole-Farm Revenue Protection (WFRP).** WFRP insures farmers against revenue losses for all insurable crops and livestock produced. Farmers select the percentage of their historic average revenue to insure. Historic average revenue is based on farmers' Schedule F tax forms and current-year expected farm revenues from insurable crops and livestock.
- **Dairy Revenue Protection (Dairy-RP).** Dairy-RP insures farmers against revenue losses on quarterly milk production. Farmers select the quarter(s) of the year to insure, the milk category or components used

to establish the value of milk production, and the percentage of quarterly milk production to insure. Prices for milk categories or components are based on monthly average prices announced by USDA's Agricultural Marketing Service. Yields for milk categories or components are based on USDA's National Agricultural Statistics Service Milk Production report.

Source: USDA, RMA, "Insurance Plans," at <https://www.rma.usda.gov/Policy-and-Procedure/Insurance-Plans>.

For all insured commodities, except for certain livestock and animal products, farmers must select the level of federal crop insurance coverage they want to purchase. The coverage level is the percentage of commodity value that is covered²¹—referred to as the liability—and the corresponding loss that a farmer must incur before an indemnity payment will be made—comparable to a deductible for home or auto insurance. For example, a revenue policy with 75% coverage level would insure revenue losses greater than 25% of the liability but provide no coverage for losses amounting to less than 25% of the liability. Lower coverage levels provide indemnity payments only in the event of larger losses, that is, losses that exceed the lower coverage level. Higher coverage levels are more expensive to purchase than lower coverage levels because farms are more likely to incur small losses than large losses.²²

The minimum coverage possible is catastrophic, or CAT, coverage.²³ CAT coverage makes indemnity payments only when farmers lose 50% or more of their expected yields. CAT coverage is available nationwide, but only for crops insured on an acreage basis (e.g., annual crops, forage crops).

The highest available coverage level varies by crop, location, and policy type but is always less than 100%. Farmers cannot insure the full value of their crops under federal crop insurance. This ensures that producers can never earn more money from collecting crop insurance than from harvesting and selling their crops; this is to reduce the potential for moral hazard. For the most commonly purchased federal crop insurance policies, farmers may purchase coverage levels ranging from a minimum of 50% to a maximum of 85%, in increments of 5%.²⁴

Covered Production Practices

For all insured crops, farmers are required to follow USDA's guidance on good farm management practices while planting, growing, and harvesting their crops in order to reduce the risk of operator-caused crop losses. Good farming practices are the production methods and practices used to produce a crop such that it is likely to make normal progress toward maturity and produce yields on par with average historical yields for the farm operation. USDA's requirements for good farming practices can vary by crop and location and can include actions taken before planting (e.g., choosing appropriate plant varieties for the area, preparing a field properly before planting); during the growth period (e.g., properly watering and weeding crops); and during crop harvest (e.g., harvesting in ways that minimize crop damage). Failure to adhere

²¹ For some policies, farmers can choose the amount of revenue loss covered. For other policies, farmers can choose coverage for the amount of yield and price loss separately.

²² In general, policies that provide coverage for more types of losses and/or higher levels of coverage will be more expensive to purchase than policies that cover fewer sources of loss or lower levels of coverage.

²³ Catastrophic (CAT) coverage is offered without a premium charge to the producer but carries a signup fee of \$655 per crop per county. CAT coverage was first added in 1994 when crop insurance was temporarily mandatory for participation in other farm programs. CAT coverage represented a low-cost option for the producer to meet the insurance purchase requirement. See the **Appendix** for additional background on the history of crop insurance.

²⁴ Some policies allow for maximum coverage levels above 85%.

to good farm management practices, as determined by USDA, can disqualify the farmer from receiving federal crop insurance indemnity payments.

In addition, certain farm production practices can also influence the risk of crop losses. For example, farmers who irrigate their crops have lower risks of crop loss due to drought than farmers who do not irrigate. USDA accounts for these types of differences in loss risk by pricing policies differently for irrigated crops, organic crops, follow-on crops, tillage practices, and other production practices that affect the risk of crop yield loss.²⁵

Crop Ownership and Covered Units

Farmers may own the land they farm, pay cash to rent the land they farm, and/or rent the land they farm for a share of the crop produced on the land (i.e., crop-share). Under each of these arrangements, farmers accept at least some of the financial risk associated with producing the crop and therefore would be eligible to purchase crop insurance coverage for their portion of the risk. Landlords who rent their land on a cash rent basis do not share in the financial risk of producing the crop and therefore are not eligible to purchase crop insurance for the rented acres. However, landlords who rent their land for a share of the crop produced, thereby accepting some of the financial risk of producing the crop, would be eligible to purchase crop insurance on the rented acres.²⁶

Federal crop insurance allows for differences in land and crop ownership through five types of insured units:²⁷ basic, optional, enterprise, multicounty enterprise, and whole farm.

- **Basic units** are all the insurable land in the county that is either owned or cash rented and planted to one crop.²⁸ Farmers can also insure as a basic unit land that is rented based on crop-share, but farmers cannot combine multiple crop-share agreements into a single basic unit. For example, consider a farmer who plants corn on four fields: one field the farmer owns, one field the farmer cash rents, one field that is farmed under a crop-share rental agreement with Landlord A, and another field that is farmed under a second crop-share rental agreement with Landlord B. If the farmer wants to insure these fields using only basic units, then the farmer would need to use three basic units in total. The farmer can combine the corn planted on the field that he owns and the field that he cash rents under a single basic unit, but he must use separate basic units to insure each of the fields under crop-share agreement reflects the differences in crop-share ownership. Basic units are available nationwide to all farms with insurable crops and impose no minimum or maximum acreage requirements.
- **Optional units** subdivide a basic unit by geographic boundaries and allow farmers to tailor their crop insurance coverage for differences in growing conditions within the basic unit. If a basic unit includes land in multiple sections

²⁵ For background on how USDA prices crop insurance policies, see “Pricing Crop Insurance Policies.”

²⁶ Landlords cannot purchase coverage on a tenant’s share of the crop (and vice versa) without written approval from the other party. See USDA, RMA, “Final Agency Determination: FAD-122,” at <https://legacy.rma.usda.gov/regs/533/2010/fad-122.html>.

²⁷ In addition to the five unit-level coverage plans shown here, area plan coverage (yield or revenue) is available for basic, enterprise, or multicounty enterprise units.

²⁸ County boundaries can affect the calculation of yield risk and therefore how premiums get priced for an insured unit. See discussion below under “Yield Risk.”

of a county,²⁹ the farmer can insure the land in each section under a separate optional unit. Farmers can also use optional units to insure irrigated acreage separately from nonirrigated land. Optional units have no minimum or maximum acreage requirements and can be established wherever counties can be subdivided into distinct geographic areas.³⁰

- **Enterprise units** include all the insurable acreage for a crop in a county, regardless of whether the land is owned or rented. To qualify for an enterprise unit, a farmer must have a minimum number of acres (either 20 acres or 20% of the total insurable acres, whichever is the smaller amount) in each of two or more different geographic areas within the county.
- **Multicounty enterprise units** are enterprise units that include all the insurable acreage in two contiguous counties. Multicounty enterprise units have the same minimum acreage requirements as enterprise units, plus limits on total insurable acres in the second county. These limits prevent farmers from pooling land in two counties in a single multicounty enterprise unit when the acres could be insured under separate enterprise units for each county.
- **Whole farm units** must include all crops grown and all land insured for the farm, regardless of county boundaries. Whole farm units are available nationwide and impose no minimum or maximum acreage requirements.

In general, farmers select the unit or combination of units to insure that suit their particular crop insurance goals. Whole farm units can be used to cover multiple crops planted in multiple counties in a single unit. The other unit types are crop and location specific, such that a farmer could use one unit type for corn and a different unit type for soybeans planted in the same county. Enterprise and multi-enterprise units allow farmers to cover their crops with fewer insurance policies than they would need to purchase using basic units. Because enterprise and multi-enterprise units pool acreage from multiple basic or optional units, enterprise and multi-enterprise units also have lower risks of average crop losses compared with basic units and therefore cost less to insure than the equivalent acreage covered under basic units.

As a general rule, the smaller and more specific the insured unit, the more costly will be the insurance premium. By the same logic, the greater the number of fields pooled together under the insured unit, the lower the premium rate. Optional units, which may subdivide coverage into the smallest geographic area, usually have the highest premium rates. Whole farm policies usually have the lowest premium rates because they pool risk from the largest geographic area and across multiple crops.

Who Buys Crop Insurance

While over 85% of cropland planted to corn, soybeans, wheat, or cotton is insured by the FCIP,³¹ not all farmers planting insurable crops choose to purchase crop insurance. According to the 2017 Census of Agriculture, 380,236 farms enrolled cropland, pasture, and/or rangeland in the FCIP in 2017. These farms constituted approximately 19% of all farms and approximately 26% of all

²⁹ A section is a demarcation of land under the Public Land Survey System. Sections are one square mile areas containing 640 acres.

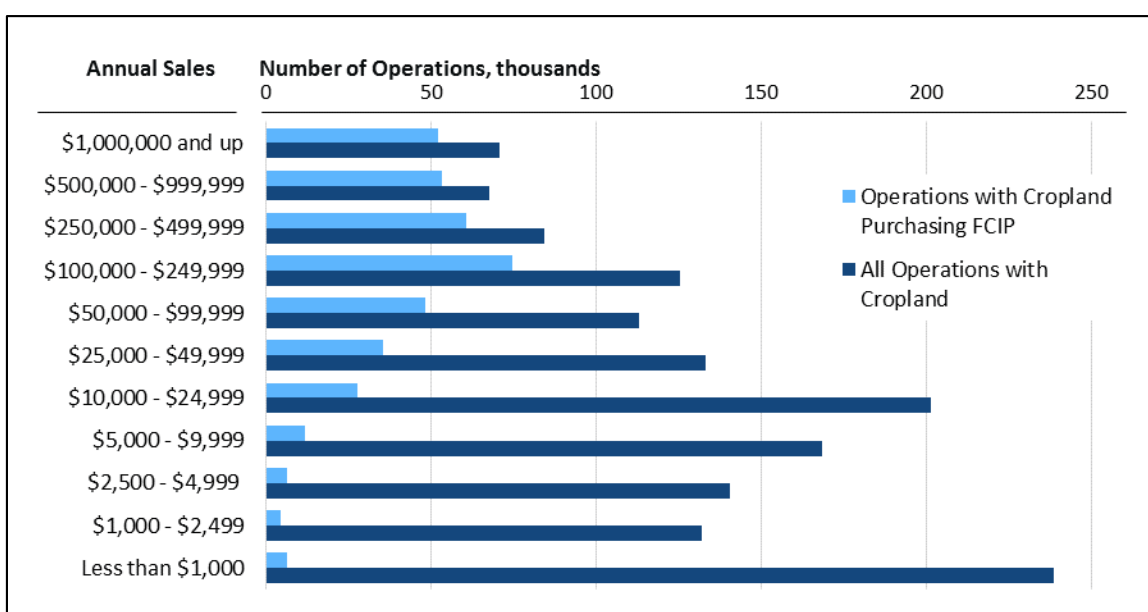
³⁰ Geographic areas can be county sections, section equivalents, areas farmed under separate Farm Service Agency farm numbers, or areas that otherwise qualify for different optional units.

³¹ CRS calculations using data from various NASS *Acreage* reports and RMA Summary of Business data.

farms with cropland acreage in 2017.³² However, the Census of Agriculture counts farms that enrolled land in the FCIP, which may not include some farms that insured crops, livestock, or animal products on a non-acreage basis. In 2017, the FCIP sold more than 19,000 policies that provided coverage on a non-acreage basis.³³

While crop insurance coverage can be purchased by any size operation, the average crop farm insured under an FCIP policy usually has larger annual sales (**Figure 2**) and operates more acres (**Figure 3**) than the average crop farm. This pattern may reflect underlying differences in crop risk across different farm production scales.³⁴ This pattern could also reflect other factors associated with farm size, such as region of the country, mix of crops grown, production practices used, risk management practices employed, and other farm characteristics.

Figure 2. All Farms and Farms Purchasing FCIP Policies, by Annual Sales
2017 data



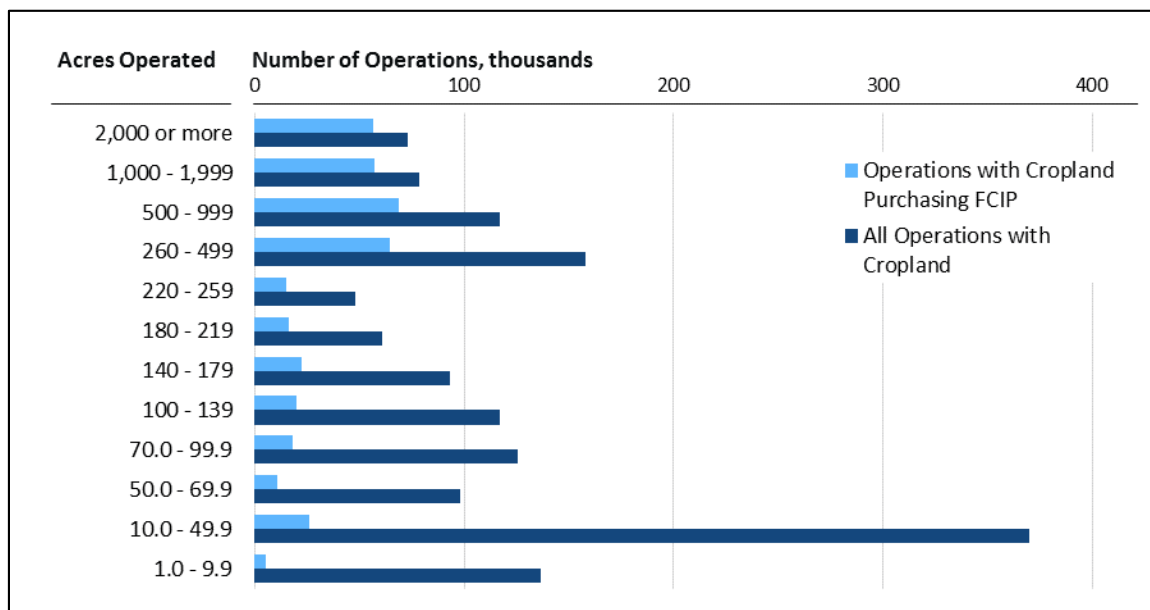
Source: Figure created by CRS using data from USDA, National Agricultural Statistics Service (NASS), *2017 Census of Agriculture*.

³² The data suggest that many small farm operations—as defined by USDA’s Census criteria of having at least \$1,000 in sales during the year—do not purchase crop insurance. CRS calculations using data from USDA, NASS, *2017 Census of Agriculture*.

³³ RMA Summary of Business data.

³⁴ Keith H. Coble and Brian Williams, “Are Large Farms Less Risky to Insure than Small Farms?,” *Choices*, vol. 33, no. 4 (2018), pp. 1-5.

Figure 3. All Farms and Farms Purchasing FCIP Policies, by Acres Operated
2017 data



Source: Figure created by CRS using data from USDA, NASS, *2017 Census of Agriculture*.

Certain types of farms may also be less likely to purchase crop insurance than other types of farms. For example, certified organic farms have historically tended to insure a smaller percentage of their acreage and crop value on average than farms producing with conventional techniques.³⁵ Some possible reasons for the lower take-up rates among organic producers could include policies that may not be well suited to the specific needs of these growers, difficulties in pricing insurance policies for crops that command premium pricing in markets, lack of insurance agents who understand organic farming practices, and difficulties in filing and processing claims related to disputes over requirements for good farming practices for organic producers.³⁶

Why Farmers Purchase Crop Insurance

Farmers may purchase crop insurance for a variety of reasons. The available studies commonly list four reasons why farmers purchase crop insurance:³⁷ (1) as a tool for managing farm financial risk; (2) as a means of being able to access farm credit; (3) as a complement to other farm yield

³⁵ Mike Morris, Eric Belasco, and Jeff Schahczenski, *Is Organic Farming Risky? Improving Crop Insurance for Organic Farms*, National Center for Appropriate Technology, October 2019, at <https://attra.ncat.org/product/is-organic-farming-risky/> (hereinafter Morris, Belasco, and Schahczenski, *Is Organic Farming Risky?*, 2019).

³⁶ Morris, Belasco, and Schahczenski, *Is Organic Farming Risky?*, 2019.

³⁷ See, for example, Bruce J. Sherrick et al., "Factors Influencing Farmers' Crop Insurance Decisions," *American Journal of Agricultural Economics*, vol. 86, no. 1 (2004), pp. 103-114 (hereinafter Sherrick et al., "Factors Influencing Farmers' Crop Insurance," 2004); Jennifer Ifft, Todd H. Kuethe, and Mitchell Morehart, "Farm Debt Use by Farms with Crop Insurance," *Choices*, vol. 28, no. 3 (2013) (hereinafter Ifft, Kuethe, and Morehart, "Farm Debt Use," 2013); and Bruce A. Babcock, "Using Cumulative Prospect Theory to Explain Anomalous Crop Insurance Coverage Choice," *American Journal of Agricultural Economics*, vol. 97, no. 5 (2015), pp. 1371-1384 (hereinafter Babcock, "Cumulative Prospect Theory," 2015).

and revenue risk management strategies; and (4) as a financial investment with an expected positive rate of return.

1. **Risk Management.** Crop insurance is a tool that can help farmers manage farm financial risk. Farm revenues can vary significantly from year to year due to market price movements and changes in crop yields. Crop insurance payments may help smooth farm revenues in the advent of poor yields or lower market prices.
2. **Lending Requirement.** Farm lenders sometimes require farmers to purchase crop insurance as a condition for obtaining a loan.³⁸ Farming can be a capital-intensive business, and lenders may require farmers to purchase crop insurance to reduce the risk that farmers would be unable to repay their loans after poor harvests or during a period of low market prices.³⁹
3. **Risk Diversification.** Purchasing crop insurance may be part of a diversified farm risk management strategy. Farmers have many options for managing crop revenue risk, including using forward contracts to lock in market prices,⁴⁰ purchasing futures and options contracts on commodity stock exchanges to hedge against adverse price movements,⁴¹ self-insuring using their own savings, and other risk management strategies.⁴² Farmers can also invest in a variety of different production practices that affect crop yield risk and thereby crop revenue risk. Farmers may seek to use crop insurance in conjunction with these yield and revenue risk management strategies to manage farm financial risk at lower total cost than would be available without crop insurance.⁴³
4. **Positive Return.** Some farmers may view crop insurance as a financial investment with an expected positive rate of return.⁴⁴ Federal crop insurance is designed such that the average indemnity payment is approximately equal to the total premium collected. Because of premium subsidies, farmers do not pay the full amount of the total premium—they pay the cost of the total premium less the value of premium subsidies provided by USDA. If there were no premium subsidies and farmers were responsible for paying the full cost of the premium, then the expected rate of return from purchasing insurance would be zero. The federal government pays a substantial portion of crop insurance premiums as a means of encouraging farmers to purchase policies. Because of premium subsidies, farmers are likely to recoup more in indemnity payments over time

³⁸ Ifft, Kuethe, and Morehart, “Farm Debt Use,” 2013.

³⁹ David Oppedahl, *AgLetter: August 2017*, Federal Reserve Bank of Chicago, no. 1977, at <https://www.chicagofed.org/publications/agletter/2015-2019/august-2017>.

⁴⁰ A forward contract is an agreement between a farmer and a buyer under which the farmer agrees to deliver a set quantity of a commodity to the buyer at a future date in return for a specified price.

⁴¹ A futures contract is an agreement that obliges a buyer to buy or a seller to sell a set quantity of a standardized commodity (e.g., number 2 yellow corn) traded on a commodity exchange at a future date. An options contract is an agreement that can give a buyer the right (but not the obligation) to buy or a seller the right (but not the obligation) to sell a standardized commodity traded on a commodity exchange at a future date.

⁴² Joy Harwood et al., *Managing Risk in Farming: Concepts, Research, and Analysis*, USDA, ERS, Agricultural Economic Report no. 774, March 1999.

⁴³ Sherrick et al., “Factors Influencing Farmers’ Crop Insurance,” 2004.

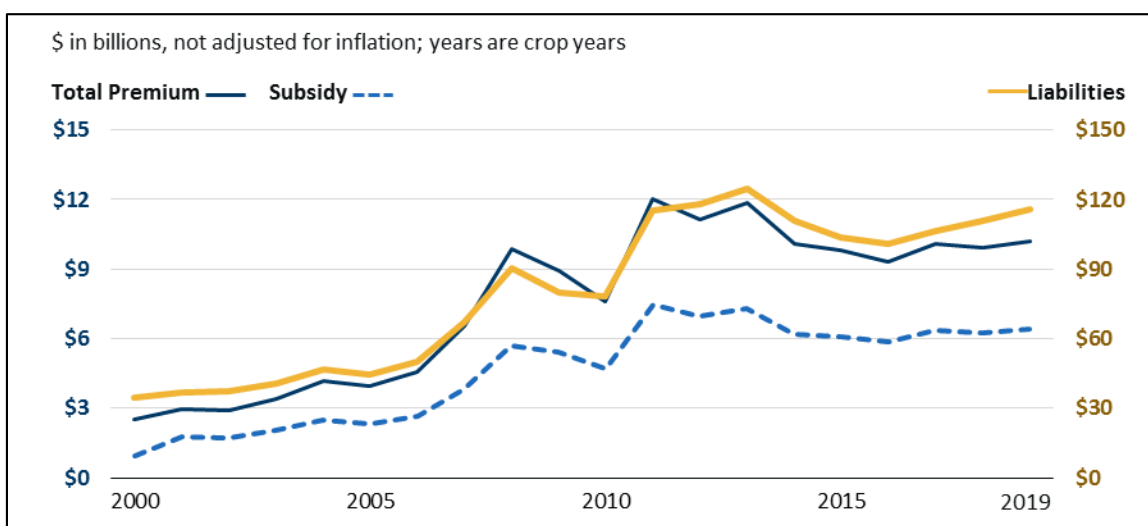
⁴⁴ Babcock, “Cumulative Prospect Theory,” 2015.

than they pay in premiums, generating a net positive financial return from purchasing crop insurance.

Scope of the Current Program

The scope of the program in any year depends on the policies that farmers choose to purchase that year. In recent years, the number of policies sold has remained relatively constant, and the total acreage insured has increased (see **Figure 1**). Annual liabilities, total premium, and premium subsidies have increased since 2016 but remain below the record high levels in the early 2010s (see **Figure 4**).⁴⁵ Trends in commodity prices, which were relatively higher in 2008-2014 compared with the 2009-2019 period, affect insured liabilities, total premium, and premium subsidies.

Figure 4. Annual FCIP Total Premium, Premium Subsidies, and Liabilities

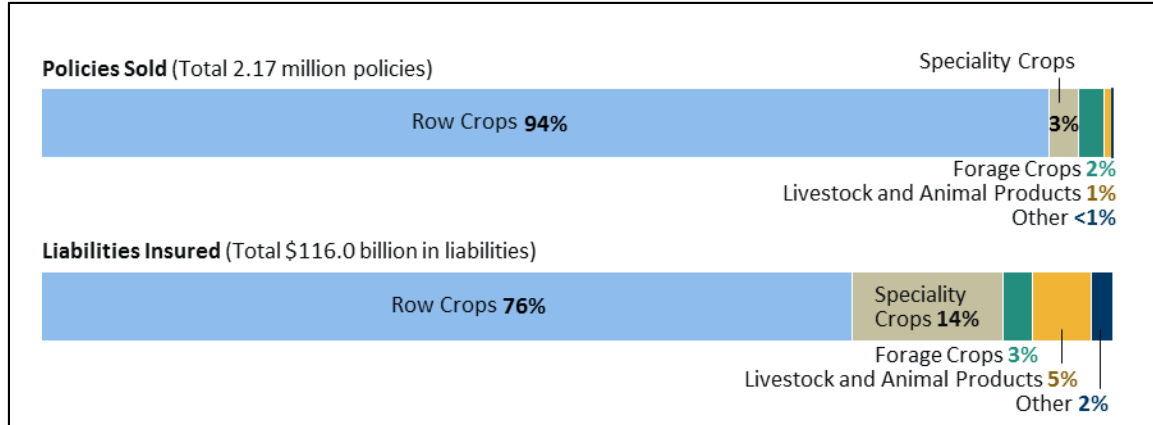


Source: Figure created by CRS using data from USDA, RMA, "Summary of Business."

Covered Crops, Livestock, and Livestock Products

In 2019, the majority of policies sold were for row crops, including grains, oilseeds, pulses, and other commodity crops covered by commodity support programs (see **Figure 5**). Specialty crops (e.g., fruits, vegetables, and nuts), forage crops, and policies insuring livestock and animal products accounted for less than 10% of all policies sold. In terms of insured liabilities, however, row crops accounted for 76%, specialty crops accounted for 14%, and the other commodities accounted for 10% of total liabilities.

⁴⁵ Additional background on premium subsidies is available in "Premium Subsidies."

Figure 5. Policies Sold and Liabilities Insured in 2019, by Commodity Type

Source: Figure created by CRS using data from USDA, RMA, “Summary of Business.”

Notes: Row crops include grains, oilseeds, pulses, and other commodities covered under Title I Commodity Support Programs. Specialty crops include fruits, vegetables, nuts, nursery, and other crops. Forage crops include hay, alfalfa, and other commodities grown specifically as livestock forage. Livestock and animal products include cattle, bees, swine, lamb, and dairy production. Other includes Whole-Farm Revenue Protection.

Corn, soybeans, and wheat accounted for the largest share of policies sold and insured liabilities among insured commodities (see **Table 2**). Forage crops, however, accounted for the largest share of total insured acres. Milk accounted for the largest share of insured liabilities for livestock and animal products and had the fourth largest liabilities of any insured commodity. Almonds, grapes, nursery, and apples had the largest share of insured liabilities for specialty crops.

Table 2. Major Crops, Livestock, and Livestock Products Insured in 2019

determined based on insured liabilities

Commodity Type	Commodity	Share of Total Policies Sold	Share of Total Insured Acres	Share of Total Insured Liabilities
Row Crops	Corn	26%	23%	38%
	Soybeans	24%	19%	21%
	Wheat	14%	10%	6%
	Cotton	4%	4%	5%
Forage Crops	All Forage Crops	2%	38%	3%
Specialty Crops	Almonds	< 1%	< 1%	2%
	Grapes	< 1%	< 1%	1%
	Nursery	< 1%	N/A	1%
	Apples	< 1%	< 1%	1%
Livestock and Animal Products	Milk	< 1%	N/A	5%
	Bees	< 1%	N/A	< 1%
	Cattle	< 1%	N/A	< 1%
	Swine	< 1%	N/A	< 1%

Source: CRS calculations using data from USDA, RMA, “Summary of Business.”

Notes: N/A = not applicable. Cattle includes dairy, feeder, and fed cattle. Table lists only the top four crops for each commodity type. Due to omitted insured crops, the columns do not sum to 100%.

For row crops, the pattern of crop insurance purchases largely aligns with crop planting patterns. Corn, soybeans, wheat, and cotton were the top four row crops by planted area in 2019.⁴⁶ For specialty crops, the pattern of crop insurance purchases largely aligns with production value. In 2019, the top four specialty crops by production value were almonds, grapes, apples, and strawberries.⁴⁷ The pattern of crop insurance purchases for livestock and animal products do not reflect commodity rankings based on the 2019 value of production. The top four livestock and animal products in 2019 by value of production were cattle, milk, chickens, and hogs.⁴⁸ The FCIP has never offered coverage for chickens. Additionally, even though cattle producers insured a small share of their animals, they purchased insurance coverage for cattle forage equivalent to approximately 14% of the value of 2019 U.S. hay production.⁴⁹

Covered Locations

Agricultural producers purchased crop insurance policies in all 50 states in 2019. The five states with the largest insured liabilities were Iowa, Illinois, California, Minnesota, and Nebraska (see **Figure 6**). These states were among the top 10 agricultural producing states for 2019,⁵⁰ and insured liabilities reflect the extent of agricultural production in those states.

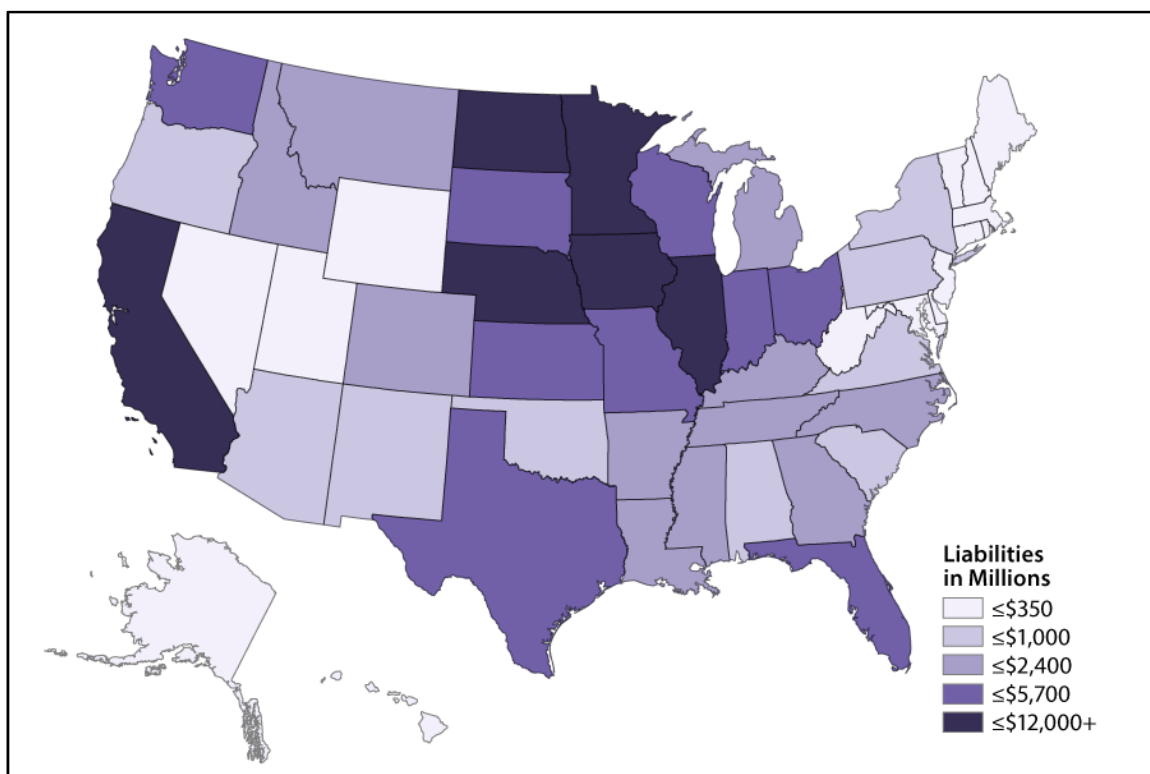
⁴⁶ The top 10 rowcrops by 2019 planted acres were corn, soybeans, wheat, cotton, sorghum, oats, barley, rice, canola, and rye. See USDA, NASS, *Crop Production: 2019 Summary*, January 2020, at https://www.nass.usda.gov/Publications/Todays_Reports/reports/cropan20.pdf.

⁴⁷ According to USDA NASS records, the top 10 specialty crops by 2019 value of production were almonds, grapes, apples, strawberries, lettuce, pistachios, oranges, tomatoes, walnuts, and onions. Statistics on the 2019 value of production for nursery crops are not available.

⁴⁸ According to USDA NASS records, the top 10 livestock and animal products by 2019 value of production were cattle (including calves), milk, chickens, hogs, turkeys, catfish, trout, mink, wool, and mohair. Statistics on the 2019 value of apiculture or honey production are not available.

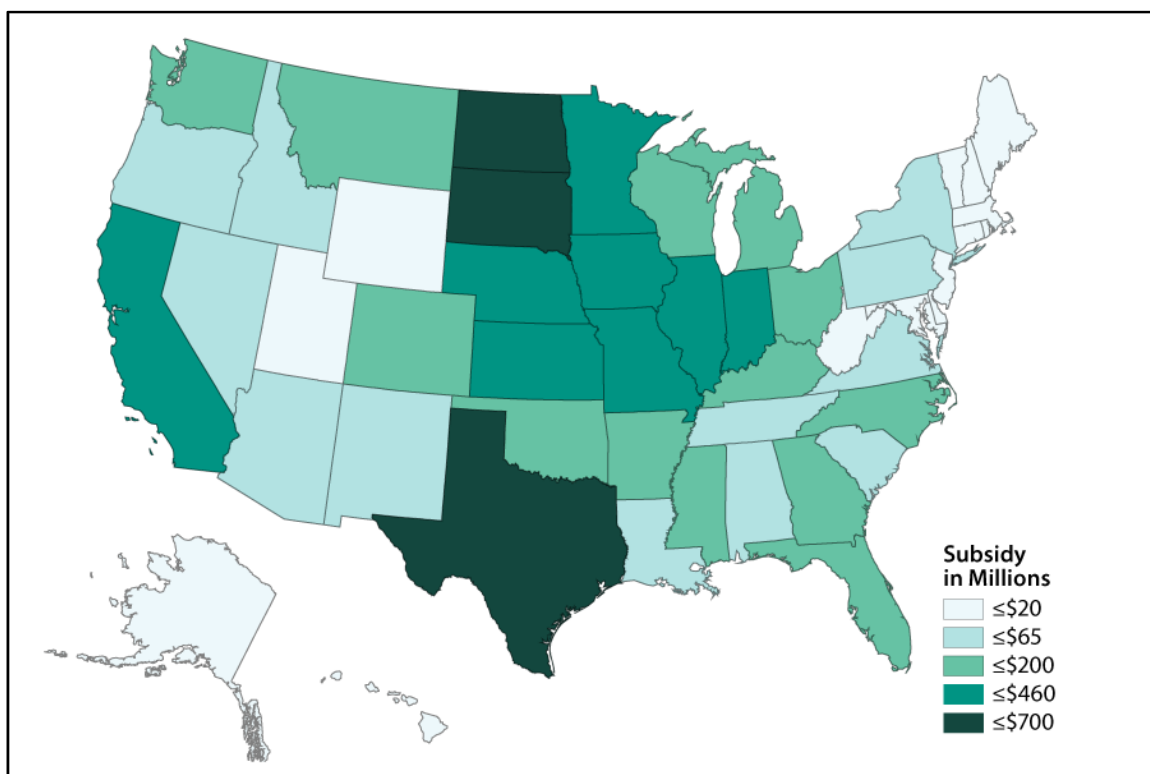
⁴⁹ CRS calculations based on data from USDA's RMA and NASS.

⁵⁰ According to USDA's ERS, the top 10 agricultural producing states in terms of 2019 cash receipts were (in descending order) California, Iowa, Nebraska, Texas, Minnesota, Illinois, Kansas, Wisconsin, North Carolina, and Indiana. See USDA, ERS, "FAQs," at <https://www.ers.usda.gov/faqs/>.

Figure 6. 2019 FCIP Liabilities by State

Source: Figure created by CRS using data from USDA, RMA, “Summary of Business” and Esri Data and Maps 2019.

In 2019, the five states in which producers received the most premium subsidies were Texas, North Dakota, South Dakota, Kansas, and Illinois (see **Figure 7**). The total amount of the premium subsidies received by farmers in a state depends on the number of policies sold and the subsidy received per policy. Premium subsidies are calculated as a fixed proportion of the total premium for each policy. For high-valued crops, such as cotton, rice, and many specialty crops, premium rates per acre are much higher than for lower-valued crops, such as corn and wheat.

Figure 7. 2019 FCIP Premium Subsidies by State

Source: Figure created by CRS using data from USDA, RMA, “Summary of Business” and Esri Data and Maps 2019.

Premium subsidies may also be higher in certain states due to differences in yield risk for crop production in those states.⁵¹ In areas where crop production is more risky, total premiums are more expensive than for less risky areas.⁵² This means that the premium subsidy must also be higher to cover the same proportion of the total premium.

Policies Purchased

The types of policies purchased reflect the type of commodities insured under the FCIP. Revenue Protection was the most frequently purchased policy type in 2019 (**Table 3**), accounting for almost 70% of policies purchased, 53% of acres insured, and 65% of the total liabilities insured for the program. Actual Production History (APH) and Yield Protection, two types of yield insurance policies, were the second and third most frequently purchased in terms of liabilities insured. Revenue Protection (RP), APH, and Yield Protection policies are the most commonly selected policies for most row and specialty crops.

Area-based policies—including Rainfall Index, Area Revenue Protection, and Margin Protection—accounted for a small share of liabilities insured, although Rainfall Index covered 37% of total acres insured under the program. Whole-Farm Revenue Protection also accounted for a very small share of total number of policies sold and the total liabilities insured.

⁵¹ Additional background on yield risk is available in “Yield Risk”.

⁵² Yield risk is one of multiple factors that impact total premiums. Additional background on how premium rates are calculated is available in “Pricing Crop Insurance Policies”.

Table 3. FCIP Policies Purchased in 2019

Policy Type	Share of Total Policies Sold	Share of Total Acres Insured	Share of Total Liabilities Insured
Revenue Protection	69%	53%	65%
Actual Production History	9%	3%	12%
Yield Protection	14%	6%	6%
Dairy Revenue Protection	< 1%	N/A	5%
Rainfall Index	2%	37%	2%
Whole-Farm Revenue Protection	< 1%	N/A	2%
All Other Policies	5%	1%	8%
Total	100%	100%	100%

Source: CRS calculations using data from USDA, RMA, “Summary of Business” database.

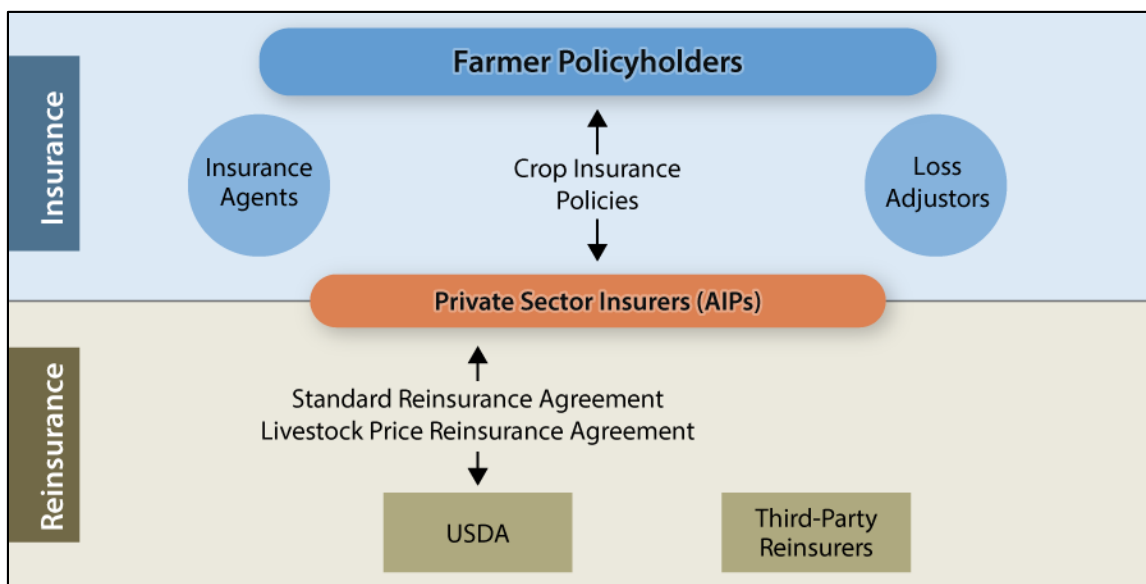
Note: Policies ordered by share of liabilities insured. N/A = not applicable.

Federal Crop Insurance Program Structure and Operations

The FCIP operates as a public-private partnership. Authorized private-sector insurance companies, called AIPs, sell and service crop insurance policies (**Figure 8**). USDA regulates the policies offered and their pricing and subsidizes the costs that farmers pay to purchase the policies.

Two entities within USDA are responsible for operating the FCIP. The FCIC, a corporation wholly owned by the federal government,⁵³ administers payments to AIPs to cover the federal subsidy of policy premiums, reinsurance costs, and direct costs incurred in delivering and servicing the policies. RMA administers the FCIP; determines crop insurance policy terms; sets premium rates, underwriting provisions, and loss adjustment standards; and regulates AIPs.

⁵³ The federal government owns a variety of corporations, including the U.S. Postal Service and Federal Deposit Insurance Corporation. For a discussion of the issues related to government-owned corporations, see archived CRS Report RL30365, *Federal Government Corporations: An Overview*, June 8, 2011 (available to congressional clients upon request).

Figure 8. Key Entities Involved in FCIP Implementation

Source: CRS.

Notes: The federal crop insurance program (FCIP) is implemented as a public-private partnership. Farmer policyholders work with insurance agents to purchase crop insurance policies sold by private sector insurers, known as Approved Insurance Providers (AIPs). When farmers file claims on the insurance policies, AIPs hire loss adjustors to determine the extent of losses incurred by the farmers. USDA provides reinsurance to AIPs for a portion of the losses from crop insurance policies sold. AIPs may purchase additional reinsurance from third-party reinsurers. USDA also regulates the policies sold by AIPs, subsidizes farmer premiums, and subsidizes AIPs for the cost of selling and servicing crop insurance policies.

Pricing Crop Insurance Policies

Crop insurance policies, like other types of commercially available insurance, are priced according to their actuarial ratings. Any premium subsidies are then applied to the price determined by the actuarial rating. Actuarial rates are an estimate of losses likely to be incurred in the future based on losses that were incurred in the past. Crop insurance policies are priced with the goal of being actuarially fair, meaning that the total value of premiums paid over many years should be approximately equal to the total value of indemnity payments paid over that same time period. To make an evaluation of the risk of loss associated with a policy, USDA sets the premium rates for policies based on projections of market prices, crop yields, and yield and price risks.

Unlike some other private-sector insurance products, premiums for crop insurance are not “expense loaded.”⁵⁴ USDA incurs costs from running the program, including costs for compensating AIPs for selling and servicing policies and for reinsuring against losses from policies sold. These costs are specified under the terms of the Standard Reinsurance Agreement (SRA) and Livestock Price Reinsurance Agreement (LPRA), (see “Reinsurance Agreements”). Neither AIP compensation nor costs associated with reinsuring AIPs factor into the calculation of premium rates. Crop insurance premiums are calculated to cover only the liability associated with crop loss payments.

⁵⁴ Expense loading is a practice used by commercial insurers that increases premium rates to cover the insurers’ administrative and operating expenses (e.g., taxes, agent commissions, reinsurance costs), as well as a profit margin.

The Role of Projected Market Prices

An agricultural producer selects and signs a crop insurance policy at the start of the growing season. Each policy must establish the insured value for the crop at the time of signing, which is before USDA, producers, or AIPs know what the market price of the crop will be at harvest. To value each commodity, USDA uses what is referred to as a “projected price.”

For crops that are traded on commodity exchanges, USDA uses futures contract prices to set the projected price and estimate the commodity’s price risk for revenue insurance coverage. Futures markets trade contracts for different delivery points in the future (e.g., delivery in November, delivery in March). USDA uses the prices quoted before the start of planting for the futures contract date closest to the end of the crop’s harvest period. For example, the projected price for corn insurance policies is the average price over the month of February for the Chicago Mercantile Exchange’s December corn futures contract.⁵⁵ For crops that are not traded on commodity exchanges, USDA uses other data sources, such as contract prices, to calculate the insured value of the crop, that is, the policy’s liability.

The futures market prices are national prices; as such, they may differ from the prices farmers receive when they sell their crops to local buyers. This difference is known as “basis” and represents an additional crop marketing risk for producers since the basis amount cannot be insured with federal crop insurance.

Crop insurance premiums are sensitive to futures contract prices. Higher prices of harvest-time futures contracts before planting will increase the value of the insured crop at the time the policy is purchased and therefore the crop insurance premium charged to insure the crop.

The Role of Yields and Actual Production History

While projected prices are common to all farmers insuring the same crop, expected yields are set individually for each insured unit. A farmer with multiple insured units will have a separate expected yield for each insured unit, so that the farmer’s crop insurance guarantee will reflect the expected yields and yield risk of the unit given the crop, location, and production practices used.

The expected yield for an insured unit is referred to as the actual production history (APH). The APH is used in conjunction with the projected price to establish the insured value covered under the policy. Higher APH yields increase the value of the insured crop and therefore the crop insurance premium charged for the policy.

For crop insurance policies that cover production losses, such as Yield Protection or APH policies, a farmer’s APH is also used to calculate the insurance guarantee that triggers indemnity payments. For example, if a farmer’s APH were 100 bushels per acre and the farmer purchases 75% coverage under an APH or Yield Protection policy, then the guarantee would be 75 bushels per acre. Any harvest of less than 100 bushels per acre could be considered a loss from the farmer’s point of view, but only harvests of less than 75 bushels per acre would qualify for indemnity payments.

⁵⁵ Corn planting in the United States usually begins each year in March or April, and harvesting usually finishes in November or December. Thus, the December futures contract is an indicator of what corn prices will be at harvest. Since crop insurance contracts must be purchased before planting begins, USDA uses the price of the December corn futures contract in February as a forecast of what harvest prices are likely to be for the purposes of calculating crop insurance premiums.

Establishing an Actual Production History

USDA uses farm production records, such as sales receipts or storage records, to establish an APH for each insured unit. Farms can submit up to 10 years of records documenting actual yields. If farmers do not have at least four years of records available, USDA substitutes a county-specific transition, or “T-yield,” for the missing years. T-yields are based on the 10-year average yield for the whole county. Farmers without such records are assigned 65% of the T-yield as their APH yield. Farmers with fewer than four years of records can receive between 80% and 100% of the T-yield for the missing years depending on how many years they provide.

The APH is calculated as an average of all the years of records provided, which means that the calculation can be strongly influenced by years with very poor harvest yields. Farmers in certain counties can purchase the ability to exclude records for some years from their APH calculations. The APH yield exclusion option allows farmers to exclude records from years when the county had severe yield losses (i.e., less than 50% of the county average trend yield over 10 years).

Farmers may not exclude years for which they experienced a severe loss, but the county overall did not experience a loss of equal severity. This requirement reduces the potential for moral hazard within the FCIP. For policies with yield exclusion options, USDA still incorporates the excluded years in its assessment of yield risk for the insured unit. Excluding any years from the assessment of yield risk could compromise the actuarial soundness of the underlying insurance policy.

Premiums for yield exclusion options are more expensive than premiums without this option. Excluding years with severe losses from the APH calculation increases the insured value of the crop and thus the premium required for the policy.

How the Yield Exclusion Option Impacts Farmers’ Indemnity Payments

By excluding years of severe county yield losses, a farmer can insure a higher Actual Production History (APH) value for the farmer’s unit and therefore receive larger indemnity payments in the event of losses or receive indemnities when a lower APH might not trigger a loss. For example, consider a farmer who has an APH of 100 bushels per acre, purchases a Yield Protection policy with 75% coverage, and harvests 65 bushels per acre. The Yield Protection policy would provide indemnity payments on $0.75 \times 100 - 65 = 10$ bushels per acre. If that same farmer had also purchased a yield exclusion option that allowed him to increase his APH to 110 bushels per acre, the indemnity payments would be $0.75 \times 110 - 65 = 17.5$ bushels per acre, or 7.5 bushels per acre more than without the yield exclusion option.

The yield exclusion option allows farmers to collect indemnity payments for losses that are less severe than would be required without the yield exclusion option. Continuing the example of the farmer with an APH of 100 bushels per acre who purchases a Yield Protection policy with 75% coverage, suppose this farmer were to harvest 79 bushels per acre instead of 65 bushels per acre. The threshold harvest yield to collect an indemnity would be $0.75 \times 100 = 75$ bushels per acre. Because 79 bushels per acre is greater than 75 bushels per acre, the policy would provide no indemnity for this loss. If, however, the farmer were to purchase the yield exclusion option and increase the APH to 110 bushels per acre, the threshold harvest yield to collect an indemnity would be $0.75 \times 110 = 82.5$ bushels per acre. In this circumstance, the farmer would receive indemnity payments on 3.5 bushels per acre, which would not have been made without the yield exclusion option.

Yield Risk

Yield risk is the likelihood of realizing crop yields above or below typical yields for a given farm. Yield risk can vary by crop, location of the farm (i.e., the agroclimatic setting that encompasses soil type, weather, and other physical attributes of the production setting), production practice used, and type of farm or county outcome insured. For this reason, USDA prices yield risk separately for each insured unit. In general, estimating yield risk for an insured unit requires many years of data, and some farmers may not have such records available.

Since USDA is required to make crop insurance available to all eligible producers, regardless of the years of records they have available, RMA uses a variety of farm-specific and county-specific factors to estimate yield risk for each insured unit.⁵⁶ RMA sets premium rates using a crop-specific “base rate” that reflects the average yield risk for a specific county, unit type, and production practice. Then USDA adjusts premium rates from base rates as needed to reflect actuarially fair pricing for the yield risk estimated for each insured unit.

On average, crop insurance premiums are more expensive in areas where growing conditions are less favorable.

Loss Ratio

A loss ratio is a measure of the financial performance of an insurance policy or portfolio of policies. For FCIP policies, *loss ratio* is defined as the amount of indemnities paid divided by the amount of premiums collected for policies sold in a given year. The loss ratio includes neither the costs paid to AIPs for selling and servicing crop insurance policies nor the costs of reinsuring AIPs against losses from policies sold.

A loss ratio of 1.0 indicates that the crop insurance indemnities paid equal the premiums collected for that year. A loss ratio greater than 1.0 indicates that indemnities exceeded premiums, and a loss ratio less than 1.0 indicates that premiums exceeded indemnities. USDA calculates the loss ratio for the program as a whole, as well as separately by crop, state, county, policy type, and coverage level.

USDA is statutorily required to operate the program in ways that “improve the actuarial soundness of federal multiperil crop insurance coverage.”⁵⁷ USDA assesses the actuarial performance of the crop insurance program based on the loss ratio. Statute requires USDA to operate the program “to achieve an overall projected loss ratio of not greater than 1.0.”⁵⁸ CBO records show overall program loss ratios have been less than 1.0 for most of the last 10 crop years, meaning that premiums have more than covered indemnities. In March 2020, CBO projected an overall FCIP loss ratio of 0.9 for crop marketing years 2020-2030.⁵⁹

Premium Subsidies

USDA provides subsidies to AIPs on behalf of farmer policyholders to defray a portion of the premium costs.⁶⁰ The subsidy rates for most acreage policies are set by statute and vary based on the coverage level and unit type the producer selects (**Table 4**). The government pays 100% of the premium rate for CAT policies, with decreasing amounts of subsidy provided for higher levels of coverage. For example, the government pays 59% of the premium cost for a farmer insuring a basic or optional unit at the 70% coverage level.

The amount of the subsidy provided is larger for enterprise and whole farm units compared with basic or optional units. Beginning and veteran farmers and ranchers are entitled to a 10% subsidy

⁵⁶ Keith Coble et al., *A Comprehensive Review of the RMA APH and COMBO Rating Methodology: Final Report*, prepared for USDA RMA, March 15, 2010, p. 15.

⁵⁷ 7 U.S.C. §1506(n)(1).

⁵⁸ 7 U.S.C. §1506(n)(2).

⁵⁹ CBO, *USDA mandatory farm program outlay projections*, March 6, 2020.

⁶⁰ The Standard Reinsurance Agreement (SRA) refers to these subsidies as “risk subsidies,” as distinct from other subsidies paid to AIPs.

rate above the amount listed in **Table 4** when insuring enterprise, area yield, area revenue, or whole farm units.⁶¹

FCIP participants also pay administrative fees for the policies they purchase. For CAT coverage, the administrative fee is \$655 per crop per county. Because CAT premiums are 100% subsidized, the administrative fee is the only cost to the farmer for the policy. For policies with higher coverage levels, the administrative fee is \$30 per crop per county, which must be paid in addition to the cost of the farmer-paid premium.

Table 4. Crop Insurance Premium Subsidies
government-paid portion of premium as a percent of total premium

Coverage Level									
Unit Type	CAT	50%	55%	60%	65%	70%	75%	80%	85%
Subsidy rate (%)									
Basic or Optional	100	67	64	64	59	59	55	48	38
Enterprise or Multicounty enterprise	n/a	80	80	80	80	80	77	68	53
Area plan (yield)	n/a	n/a	n/a	n/a	n/a	59	59	55	55
Area plan (revenue)	n/a	n/a	n/a	n/a	n/a	59	55	55	49
Whole farm	n/a	80	80	80	80	80	80	71	56

Source: CRS using 7 U.S.C. §1508(e).

Notes: N/A= not applicable; CAT = catastrophic. Table provides subsidy rates. Farmer deductibles (not shown on the table) are calculated as 100% minus the coverage level percentage shown. A basic unit covers land in one county with the same tenants and landlords. An optional unit is a basic unit divided into small units by township section. An enterprise unit covers all land of a single crop in a county for a producer, regardless of tenant and landlord arrangements. A multicounty enterprise unit covers all land of a single crop in two counties for a producer, regardless of tenant and landlord arrangements. Area plan (yield or revenue) coverage insures county losses instead of farm-specific losses and can be applied to basic, enterprise, or multicounty enterprise units. A whole farm unit covers more than one crop. For CAT coverage, a loss beyond 50% is indemnified at 55% of the expected price. CAT coverage is not available for all types of policies. For coverage levels other than CAT, losses are indemnified at more than 55% of the expected price (as selected by the purchaser) within the minimum and maximum range specified by USDA's Risk Management Agency (RMA). The whole farm subsidy shown is for farms insuring three or more commodities; for less than three commodities, whole farm coverage is not offered at 80% or 85%. Premium subsidies for beginning and veteran farmers purchasing area yield, area revenue, enterprise, or whole farm coverage are increased by 10% over the rates shown in the table.

Although the government-paid premium subsidies are paid to AIPs on behalf of farmer policyholders, the policyholders are the ultimate beneficiaries—both in terms of risk reduction and lower cost of coverage. Because crop insurance policies are actuarially fair, indemnities paid over time average out to be close to the value of total premium. As such in the long run, farmer policyholders collect indemnities that are approximately equal to the value of total premiums. Over time, the value of the premium subsidies accrues to farmers as excess indemnities received after accounting for the farmer-paid share of the premium.

⁶¹ For FCIP purposes, a beginning farmer or rancher is an individual who has not actively operated and managed a farm or ranch with an insurable interest in a crop or livestock as an owner-operator, landlord, tenant, or sharecropper for more than five years. This includes an insurable interest as an individual or as a substantial beneficial interest holder (10% or more) in another person who has an insurable interest in any crop or livestock. Crop years when the beginning farmer/rancher was under the age of 18, enrolled in post-secondary studies (not to exceed five crop years), or on active duty in the U.S. military may be excluded from consideration of the five crop years.

By providing the subsidies to AIPs on behalf of farmer policyholders, in lieu of providing the subsidy payments to farmers directly, USDA may be reducing the total cost required for distributing the subsidy payments. Millions of crop insurance policies are sold every year (see **Figure 1**), but fewer than 20 AIPs service all of these policies. An open question is whether providing premium subsidies to AIPs instead of directly to farmers may result in farmers selecting higher coverage levels than they would if they were required to pay the entire premium upfront and receive the premium subsidy from USDA afterward.⁶²

Creating New Policies and Pilot Programs

USDA has broad authority to insure or reinsure producers of agricultural commodities for losses due to “drought, flood, or other natural disaster (as determined by the Secretary).”⁶³ The FCIC Board of Directors must approve any new crop insurance policies. These can include new policies submitted by RMA or submissions from nongovernment actors, including AIPs, colleges, universities, cooperatives, trade associations, or any person.⁶⁴ Policies, provisions of policies, or premium rates submitted by the private sector are often referred to as 508(h) submissions.⁶⁵

USDA will reimburse the costs of preparing 508(h) submissions if the FCIC Board of Directors adopts the proposal. USDA can also reimburse for the costs of preparing “concept proposals” for future 508(h) submissions that a private-sector actor intends to develop.⁶⁶ External experts review concept proposals and full 508(h) submissions prior to consideration for adoption by the FCIC Board of Directors. USDA estimates that reimbursements for 508(h) submissions will cost \$12 million per fiscal year for FY2021-FY2025.⁶⁷

By statute, when considering new 508(h) proposals, the FCIC Board of Directors must consider the interests of agricultural producers and the potential for “significant adverse impact on the crop insurance delivery system.”⁶⁸ The 508(h) proposal must also provide coverage that is likely to be “viable and marketable,” address “a clear and identifiable flaw or problem in an existing policy,” or provide coverage for a commodity that either could not be covered or had low participation under the existing coverage.⁶⁹

Reinsurance Agreements

AIPs sell and service crop insurance policies under two agreements with USDA: the Standard Reinsurance Agreement (SRA) and the Livestock Price Reinsurance Agreement (LRPA). The

⁶² See, for example, Babcock, “Cumulative Prospect Theory,” 2015; Xiaodong Du, Hongli Feng, and David A. Hennessy, “Rationality of Choices in Subsidized Crop Insurance Markets,” *American Journal of Agricultural Economics*, vol. 99, no. 3 (June 2016), pp. 732-756; Tobias Dalhaus, Barry J. Barnett, and Robert Finger, “Behavioral Weather Insurance: Applying Cumulative Prospect Theory to Agricultural Insurance Design Under Narrow Framing,” *PLOS ONE*, vol. 15, no. 5 (May 2020).

⁶³ 7 U.S.C. §1508(a)(1).

⁶⁴ 7 U.S.C. §1508(h).

⁶⁵ 508(h) submissions are authorized under 7 U.S.C. §1508(h).

⁶⁶ 7 U.S.C. §1522.

⁶⁷ The FY2021 President’s Budget for USDA included a proposal to eliminate reimbursements for 508(h) proposals, which is expected to provide savings of \$12 million per fiscal year. See USDA, *2021 USDA Explanatory Notes—Risk Management Agency*, at <https://www.usda.gov/sites/default/files/documents/fpac-rma-fy2021-explanatory-notes.pdf>. This proposal was not adopted by the 116th Congress.

⁶⁸ 7 U.S.C. §1508(h)(3)(a).

⁶⁹ 7 U.S.C. §1508(h)(3)(a).

SRA covers the majority of FCIP crop insurance policies offered, while the LPRA covers livestock insurance policies.⁷⁰ The SRA and LPRA are annual agreements that must be signed before the start of each reinsurance year, which begins on July 1 of each calendar year.

These agreements specify expense reimbursements and risk-sharing arrangements by the federal government, including the terms under which FCIC provides subsidies and reinsurance (i.e., insurance for insurance companies) on eligible crop insurance contracts sold or reinsured by insurance companies. The agreements also define AIP eligibility criteria, limitations on insurance agent compensation, data reporting and privacy requirements, and other terms and conditions of participating in the FCIP.

The terms of the SRA and the LPRA are fixed and do not change for each new annual agreement. The 2008 farm bill (P.L. 110-246) allows USDA to renegotiate the SRA and LPRA once every five years starting with the 2011 reinsurance year.⁷¹ The last time USDA renegotiated either agreement was for the 2011 reinsurance year.

Congress does not directly approve any new agreements between USDA and AIPs. However, Congress may be interested in the SRA in its oversight capacity, particularly with respect to any terms that could affect farmer participation, policy coverage, or industry interest in selling crop insurance to farmers (e.g., compensation provided to AIPs and insurance agents, requirements for new policy marketing outreach to farmers).

Marketing Crop Insurance Policies to Farmers

Under the SRA and LPRA, an AIP is required to offer and market all insurance plans for any crops in any state in which the AIP operates, provided that RMA actuarial data are available for that state. AIPs must also accept and approve applications from all eligible farmers. AIPs are prohibited from providing a rebate (e.g., money, goods, or other benefits) to farmers in exchange for purchasing a crop insurance policy.

In addition to marketing efforts undertaken by AIPs, USDA also works with private partner organizations to provide risk management training and education about crop insurance options to farmers and ranchers. Training is targeted toward limited resource, socially disadvantaged, and other farmers and ranchers traditionally underserved by the FCIP. USDA also targets producers in specific states in which FCIP participation has been low historically, including Alaska, Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

Approved Insurance Provider Compensation

Under the SRA, USDA does not reimburse AIPs according to actual expenses incurred for selling and servicing crop insurance policies. Instead, AIPs receive three types of subsidies depending on the policies sold: a Catastrophic Loss Adjustment Expense (CAT LAE) subsidy, an Administrative and Operating (A&O) subsidy, and a SnapBack subsidy. The CAT LAE subsidy compensates AIPs for offering and servicing CAT coverage. A&O subsidies compensate AIPs for offering and servicing all other types of coverage.⁷² SnapBack subsidies are extra compensation

⁷⁰ For more background on the Standard Reinsurance Agreement (SRA) and the Livestock Price Reinsurance Agreement (LPRA), see USDA, RMA, “Reinsurance Agreements,” at <https://www.rma.usda.gov/pubs/ra>.

⁷¹ Requirements for renegotiating the SRA are codified in 7 U.S.C. §1508(k)(8).

⁷² Coverage that is not CAT coverage is commonly referred to as “buy-up” coverage.

provided for offering and servicing certain policies in states with high loss ratios (i.e., loss ratios of 1.2 or greater).⁷³

CAT LAE, A&O, and SnapBack subsidies are calculated in proportion to the total premiums for the policies sold (see **Table 5**). The amount each AIP earns from these three subsidies depends on the volume, types, and locations of policies underwritten by the AIP. The SRA specifies that the total amount of A&O subsidies provided to all AIPs is subject to a minimum (cup) and a maximum (cap).⁷⁴ The cup is designed to guarantee that AIPs as a group will earn a minimum amount of A&O subsidies for participating in the program. The cap is designed to guarantee that USDA will not have to pay more than a set amount in total A&O subsidies in any reinsurance year. Since 2015, the cup and cap have been fixed at \$1.02 billion and \$1.28 billion, respectively.

Table 5. 2020 Compensation Subsidies for Approved Insurance Providers

Subsidy Type	Applicable Policies	Value of Subsidy (Percent of Total Premium)	Notes
CAT LAE	CAT	6%	—
A&O	All except for CAT	12.0%-22.2%	Value of subsidy depends on the type of insurance policy sold
SnapBack	All except for CAT and area coverage	1.15%	Only available in states with loss ratios of 1.2 or greater

Source: CRS using USDA, RMA, 2020 *Standard Reinsurance Agreement*, Section III.

Notes: An approved insurance provider (AIP) will receive either a Catastrophic Loss Adjustment Expense (CAT LAE) subsidy or an Administrative and Operating (A&O) subsidy, depending on the specific policies sold. However, in locations where SnapBack is available, AIPs receive SnapBack subsidies in addition to either the CAT LAE or A&O subsidy.

Reinsurance

USDA provides reinsurance to AIPs against a portion of the losses from selling and servicing crop insurance policies.⁷⁵ USDA determines the amount of reinsurance coverage based on AIPs' "net book of premium," which is the total premium for all eligible policies sold less the value of A&O subsidies and fees. The SRA and LPRA also permit AIPs to purchase reinsurance from third parties on the portion of net book premium not reinsured by USDA. Any portion of the risk from the net book of premium retained by AIPs (i.e., not reinsured by USDA or a third party) can provide incentives for AIPs to properly adjust claims and not award excess indemnities as a means of growing their crop insurance businesses.

AIPs can choose which policies they want to retain risk for and which policies they want USDA to reinsure.⁷⁶ Additionally, AIPs can assign the reinsured policies to different USDA reinsurance

⁷³ For more information about subsidies for AIPs, see CRS Report R45291, *Federal Crop Insurance: Delivery Subsidies in Brief*, by Isabel Rosa.

⁷⁴ Congress mandated a reduction in AIP subsidy rates in the 2008 farm bill but did not require USDA to negotiate a cup or cap on subsidy rates. For additional background on the origin of the cup and cap on AIP subsidies, see archived CRS Report R40966, *Renegotiation of the Standard Reinsurance Agreement (SRA) for Federal Crop Insurance*, available to congressional clients on request.

⁷⁵ This reinsurance is also referred to as "shared underwriting risk."

⁷⁶ Under this arrangement, AIPs generally transfer the highest-risk policies to USDA for reinsurance. See discussion in CRS Report R40532, *Federal Crop Insurance: Background*, coordinated by Randy Schnepf.

fund types, allowing AIPs to further limit their exposure to losses from offering crop insurance policies in locations with higher yield risk.

Under the SRA, AIPs must cede 6.5% of the net gain or loss from their total crop insurance business nationwide—referred to as the net book quota share—to USDA. In most years, AIPs have earned gains on their crop insurance portfolios; ceding a portion of the gains to USDA has helped offset part of costs to USDA for operating the program. The LPR does not include a net book quota share provision.

USDA does not purchase third-party reinsurance for the portion of the AIPs' net book of premium ceded to USDA. USDA is able to reinsure all policies ceded from AIPs because FCIC has the ability to borrow from the U.S. Treasury to cover such losses.

Approved Insurance Provider Qualifications

AIPs must reapply for approval each reinsurance year. Applications are due April 1 for the subsequent reinsurance year, which begins July 1. An AIP must be a licensed U.S. property and casualty insurance company.⁷⁷ Section II of the SRA describes the required qualifications for AIPs.⁷⁸ AIPs must have the financial and operational resources available to successfully administer the program and maintain a satisfactory performance history over five reinsurance years, as per RMA requirements, and be able to achieve minimum financial ratio standards.⁷⁹ AIPs must also have the ability to absorb a defined level of losses, or Maximum Possible Underwriting Loss.⁸⁰ Throughout the year, RMA monitors AIPs' operational and financial performances, ratings provided by A.M. Best,⁸¹ and regulatory compliance with applicable state laws and regulations. Additionally, USDA conducts performance reviews for each AIP approximately once every three years, unless more frequent reviews are warranted.⁸² New AIP applicants must demonstrate to RMA their capacity to service policies—including sales, underwriting, claims, processing systems, accounting, and compliance—prior to being approved as an AIP.

Market Competition Among Approved Insurance Providers and Agent Compensation

AIPs must compete with each other for the opportunity to underwrite farmers' crop insurance policies. Unlike a typical private-sector insurance product, AIPs cannot compete by offering different premium pricing. USDA sets premium prices, and all AIPs must offer the same premium rates to any given farmer. AIPs do not have direct relationships with their farmer customers. Farmers work with an insurance agent, who may in turn contract with multiple AIPs.⁸³ Insurance agents can play a key role in determining which AIPs underwrite the policies for the farmers that

⁷⁷ Property insurance provides coverage for personal property and belongings, including homes, buildings, vehicles, and other types of personal property or belongings. Casualty insurance provides liability coverage for accidental injury to another person or damage to another person's property or belongings.

⁷⁸ The required qualifications are set out in 7 C.F.R. §400, Subpart L.

⁷⁹ The requirements for demonstration a satisfactory performance history are specified in SRA, Section II (a)(9), and the financial ratio standards required to qualify as an AIP are codified in 7 C.F.R. §400.162.

⁸⁰ 7 C.F.R. §400.164.

⁸¹ A.M. Best is a credit rating agency that provides creditworthiness assessments of insurance companies.

⁸² USDA, RMA, *COM-17-004, Informational Memorandum*, August 17, 2017, at <https://legacy.rma.usda.gov/bulletins/info/2017/com-17-004.pdf>.

⁸³ CRS Report R45291, *Federal Crop Insurance: Delivery Subsidies in Brief*, by Isabel Rosa.

the agents represent.⁸⁴ Therefore, instead of competing based on price, AIPs compete based on (1) the service they provide to the insurance agents, and (2) the compensation they provide to insurance agents.⁸⁵

The compensation that AIPs provide to agents can affect the types of policies that agents choose to recommend to their farmer clients, the incentive agents have to provide outreach to farmers who may have been previously underserved by the FCIP, and the incentive agents have to become familiar with new FCIP product offerings, such as insurance options for organic producers and other new offerings. For example, some stakeholders have suggested that one reason for low uptake of whole farm revenue protection policies is due to limited promotion of the policies by insurance agents.⁸⁶

The SRA limits the amount AIPs are allowed to pay agents to not more than 80% of A&O and CAT LAE by state. However, an AIP may pay compensation up to 100% of A&O and CAT LAE by state if certain conditions are met.⁸⁷ There is no limitation on how much any given agent may receive so long as it is within the maximum amount allowable per state.⁸⁸ In addition to the limits imposed by the SRA, USDA has provided guidance to limit the use of fringe benefits and other types of compensation, including acquisitions, commissions, profit sharing payments, bonuses, consulting fees, loans, advance and deferred payments, health or other types of insurance coverage, trips or entertainment valued in excess of \$600, and advertising and promotion payments.⁸⁹

Waste, Fraud, and Abuse

USDA and AIPs share responsibility for safeguarding the FCIP against waste, fraud, and abuse. AIPs are responsible for properly adjusting claims and complying with all SRA and USDA procedures under penalty of forfeiting their A&O and CAT LAE subsidies.⁹⁰ AIPs have a duty to report suspected instances of misrepresentation, fraud, waste, or abuse to USDA, and the FCIP Spot Check List Handbook specifies requirements for AIP review of anomalous losses.⁹¹

⁸⁴ Matthew Ginder et al., “Factors Affecting Crop Insurance Purchase Decisions by Farmers in Northern Illinois,” *Agricultural Finance Review*, vol. 69, no. 1 (May 2009).

⁸⁵ Bruce Babcock, *Cutting the Fat – It Won’t Kill Crop Insurance*, prepared for the Environmental Working Group, December 2015, at https://static.ewg.org/reports/2015/cutting-the-fat/CuttingTheFat.pdf?_ga=2.260327501.1702212085.1532617233-677630425.1531861799.

⁸⁶ National Sustainable Agriculture Coalition, “Much Needed Improvement to Whole-Farm Revenue Protection,” June 21, 2019, at <https://sustainableagriculture.net/blog/whole-farm-revenue-protection-improvements/>.

⁸⁷ For example, an AIP can pay agents in excess of 80% of A&O and CAT LAE subsidies by state if the AIP received payments for an underwriting gain for certain funds reinsured through the FCIP. For additional information on limits to agent compensation, see the 2021 Standard Reinsurance Agreement Section III (a)(4)(C), available at <https://www.rma.usda.gov/-/media/RMA/Regulations/Appendix-2021/21sra.ashx?la=en>.

⁸⁸ RMA, “Frequently Asked Questions: Agent Compensation—Schemes or Devices,” at <https://www.rma.usda.gov/help/faq/agentcomp.html>.

⁸⁹ USDA, RMA, “Guidance Regarding SRA Section III(a)(4) – Agent Compensation,” Bulletin MGR-10-011, at <https://legacy.rma.usda.gov/bulletins/managers/2010/mgr-10-011.1.pdf>. See also USDA, RMA, *Information Memorandum No. IS-11-006*, July 22, 2011, at <https://legacy.rma.usda.gov/bulletins/info/2011/is-11-006.pdf>.

⁹⁰ SRA, Section IV (h)(8).

⁹¹ USDA, RMA, *Spot Check List Handbook: 2020 and Succeeding Crop Years*, at <https://rma.usda.gov/-/media/RMA/Handbooks/Program-Administration—14000/Spot-Check-List/2020-14070-Spot-Check-List.ashx>.

RMA's compliance division is responsible for assessing and investigating program vulnerability, fraud, waste, and abuse, as well as recommending changes to RMA leadership in policies, loss adjustment, and farm-service-related procedures, agreements, and contract services.⁹²

Costs of the FCIP

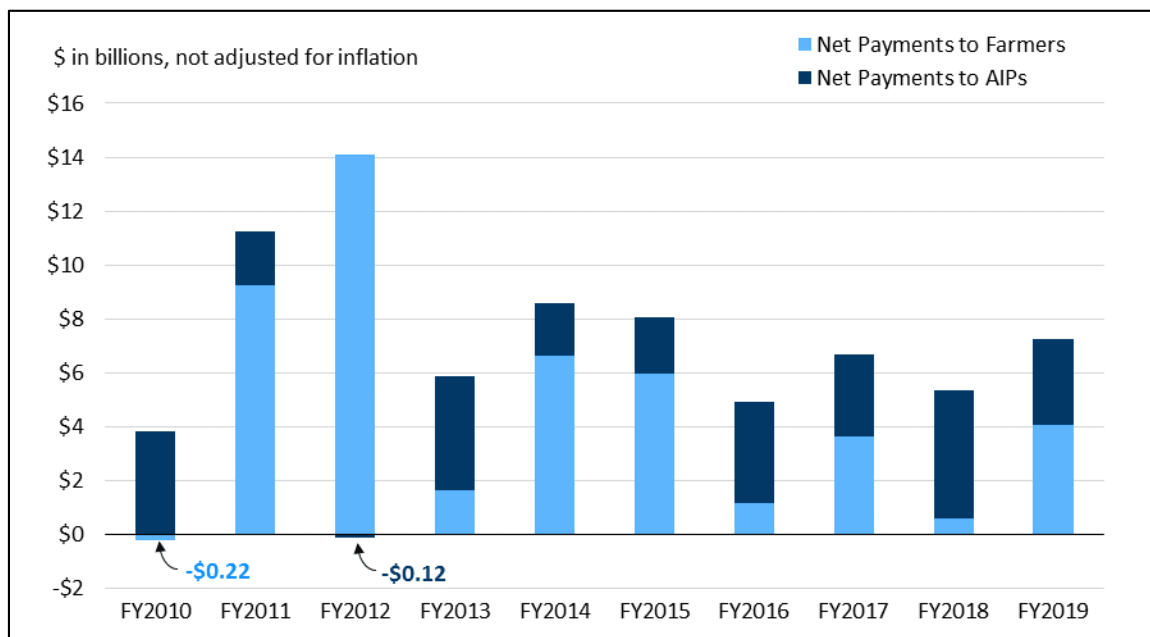
USDA reports costs for the FCIP on a fiscal year basis and in terms of net payments to farmers and AIPs. Net payments to AIPs consist of subsidies for program delivery (i.e., A&O, CAT LAE, and Snapback subsidies) plus reinsurance gains less AIP reinsurance losses. Net payments to farmers consist of indemnity payments made less premiums paid by farmers. On average, over time, indemnity payments are likely to be approximately equal to the value of premium subsidies plus farmer paid premiums. However, indemnity payments in any fiscal year may not reflect the value of premium subsidies paid by USDA on behalf of farmer policyholders in that year. USDA reports premium subsidies paid by crop year, and **Figure 4** shows premium subsidy costs for crop years 2000-2019. Because USDA does not report premium subsidies on a fiscal year basis, the rest of this section discusses costs of the FCIP in terms of net payments made to farmers—including indemnity payments made to farmers and premiums paid by farmers—and net payments made to AIPs—including subsidies for program delivery and reinsurance gains and losses.

USDA expended \$7.3 billion on FCIP net payments to farmers and AIPs in FY2019 (see **Figure 9**). This amount exceeded total net payments for the previous fiscal year but was close to the average net payments for FY2010-FY2019.⁹³ Farmers and AIPs each received positive net payments in FY2019, consistent with FCIP expenditures for most of the previous decade.

⁹² USDA, RMA, "About the Risk Management Agency," fact sheet, August 2016, at <https://www.rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/About-the-Risk-Management-Agency>.

⁹³ CRS calculates the average net payments to farmers and AIPs for FY2010-FY2019 at \$7.7 billion.

Figure 9. FCIP Net Payments to Farmers and Approved Insurance Providers
by fiscal year



Source: CRS calculations using data from USDA, Office of Inspector General, *Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements*, audit reports, FY2010-FY2019.

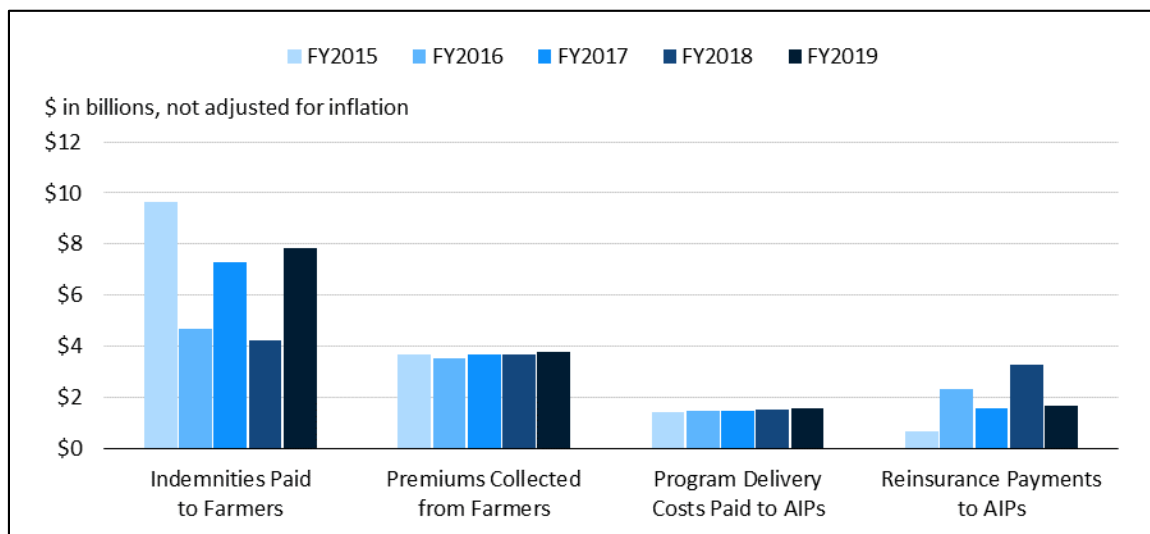
Net payments to farmers are positive when indemnities exceed farmer-paid premiums. Net payments to AIPs are positive when subsidies for program delivery (i.e., A&O, CAT LAE, and Snapback subsidies) and AIP underwriting gains on policies sold exceed underwriting losses.⁹⁴ For FY2010-FY2019, there were only two instances where farmers or AIPs did not earn positive net payments for the fiscal year. Farmers received negative net payments in FY2010, a year when low yields were offset by higher prices, thus limiting indemnities on revenue plans. AIPs received negative net payments in FY2012, a year of historic drought, below-average yields, and large indemnity payments.

In FY2019, farmers paid nearly \$4 billion in premiums and received nearly \$8 billion in indemnity payments (see **Figure 10**). AIPs received \$3.2 billion in federal outlays, approximately half of which was for selling and servicing policies (i.e., delivery expenses), and half was for underwriting gains from policies reinsured by USDA.⁹⁵

⁹⁴ Subsidies for program delivery and underwriting gains and losses are explained in the “Approved Insurance Provider Compensation” and “Reinsurance.”

⁹⁵ AIPs’ role in selling and servicing policies is explained in “Federal Crop Insurance Program Structure and Operations.”

Figure 10. Contributions to FCIP Net Payments
by fiscal year



Source: CRS using data from USDA, Office of Inspector General, *Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements*, audit reports, FY2015-FY2019.

Notes: Amounts not adjusted for inflation. Net payments to farmers (corresponding to net payments shown in **Figure 9**) are the difference between indemnities paid to farmers and premiums collected from farmers for each fiscal year. Net payments to Approved Insurance Providers (AIPs) (corresponding to net payments shown in **Figure 9**) are the sum of program delivery costs paid to AIPs and reinsurance payments to AIPs for each fiscal year. Premiums collected from farmer policyholders do not reflect premium subsidies paid by USDA on policyholders' behalf. Premium subsidies are not available on a fiscal year basis but can be seen on a crop year basis in **Figure 4**. Premium subsidies have the effect of reducing the amount of premiums collected from farmers relative to the amounts that would be collected without premium subsidies. Over time, the indemnities paid to farmers average to be approximately equal to the sum of premiums collected from farmers and premium subsidies.

Although FCIP costs vary from year to year depending on policies purchased and losses incurred, premiums collected from farmers and subsidies paid to AIPs for program delivery costs tend to be less variable than other cost components (see **Figure 10**). Farmers often renew coverage from year to year and therefore pay a similar amount for premiums over time. Subsidies for AIP delivery expenses tend to be stable over time because of the cup and cap imposed on certain delivery expenses in the SRA.⁹⁶ Indemnity payments and underwriting gains can vary considerably from year to year based on weather and market conditions. Additionally, Congress provided a supplemental “top-up” to the indemnity payments for prevented planting in FY2019, which further increased indemnity payments compared with previous years.⁹⁷

In a 2017 report, the Government Accountability Office (GAO) identified potential cost savings for the program through reducing AIPs' target rates of return and portions of premiums retained.⁹⁸ The CBO also identified several potential cost-saving strategies including limiting premium subsidies to area-based plans; changing how losses are calculated by eliminating the yield

⁹⁶ The Standard Reinsurance Agreement is explained in “Reinsurance Agreements.”

⁹⁷ For details, see CRS Report R46180, *Federal Crop Insurance: Record Prevent Plant (PPL) Acres and Payments in 2019*, by Randy Schnepf.

⁹⁸ Government Accountability Office (GAO), *Crop Insurance: Opportunities Exist to Improve Program Delivery and Reduce Cost*, GAO-17-501, July 26, 2017, at <https://www.gao.gov/products/GAO-17-501>.

exclusion and the use of the harvest price in determining the insurance guarantee; removing the harvest price option as the default revenue plan option; and lowering the expected rate of return for AIPs reflected in the SRA.⁹⁹ Proposals from other stakeholders include eliminating certain types of revenue coverage,¹⁰⁰ capping premium subsidies,¹⁰¹ and changing prevented planting rules that discourage farmers from replanting.¹⁰²

The Role of the FCIP in Agricultural Policy

The FCIP and the Farm Safety Net

The FCIP is a central component of the farm safety net, a collection of programs that provide risk protection and financial support to U.S. farmers in times of low farm prices and natural disasters. The three main components of the safety net are (1) permanently authorized federal crop insurance, (2) farm commodity price and income support programs authorized under the 2018 farm bill for crop years 2019-2023,¹⁰³ and (3) permanently authorized agricultural disaster assistance programs.¹⁰⁴ Additional support may be provided through ad hoc disaster assistance, emergency loans, and USDA discretionary assistance.¹⁰⁵

For 2014-2018, the FCIP and commodity support programs provided the largest share of outlays from farm safety net programs, with the FCIP and commodity programs providing similar levels of support. Since 2018, however, FCIP outlays have exceeded (or are projected to exceed) commodity support payments. Additionally, ad hoc payments for trade and market disruptions related to the Coronavirus Disease 2019 (COVID-19) pandemic, including forgivable loans provided through the Small Business Administration's Paycheck Protection Program (PPP), have exceeded all other categories of farm safety net spending (**Table 6**) for 2019-2020.

⁹⁹ CBO, *Options to Reduce the Budgetary Costs of the Federal Crop Insurance Program*, December 2017.

¹⁰⁰ Joseph W. Glauber, *Reform Our Crop Insurance Program to Reduce the Burden on Taxpayers*, American Enterprise Institute, November 8, 2017, at <https://www.aei.org/articles/reform-our-crop-insurance-program-to-reduce-the-burden-on-taxpayers/>.

¹⁰¹ Scott Faber, *Top 5 Reasons to Reform Crop Insurance*, Environmental Working Group, June 27, 2018, at <https://www.ewg.org/agmag/2018/06/top-5-reasons-reform-crop-insurance> (hereinafter Faber, *Top 5 Reasons*, 2018).

¹⁰² Claire O'Connor and Lara Bryant, *Covering Crops: How Federal Crop Insurance Program Reforms Can Reduce Costs, Empower Farmers, and Protect Natural Resources*, National Resources Defense Council, Issue Paper no. 17-11-A, December 2017, at <https://www.nrdc.org/sites/default/files/federal-crop-insurance-program-reforms-ip.pdf> (hereinafter O'Connor and Bryant, *Covering Crops*, 2017).

¹⁰³ CRS Report R43758, *Farm Safety Net Programs: Background and Issues*, coordinated by Randy Schnepf.

¹⁰⁴ CRS Report RS21212, *Agricultural Disaster Assistance*, by Megan Stubbs.

¹⁰⁵ For example, see CRS Report R45310, *Farm Policy: USDA's 2018 Trade Aid Package*, by Randy Schnepf et al.; CRS Report R45865, *Farm Policy: USDA's 2019 Trade Aid Package*, by Randy Schnepf; CRS In Focus IF11539, *Wildfires and Hurricanes Indemnity Program (WHIP)*, by Megan Stubbs; and CRS Report R46347, *COVID-19, U.S. Agriculture, and USDA's Coronavirus Food Assistance Program (CFAP)*, by Randy Schnepf and Jim Monke.

Table 6. Farm Safety Net Program Outlays Since 2014

annual average in \$ billion for five years from 2014 to 2018 and two years from 2019 to 2020

Years	FCIP ^a	Commodity Support ^b	Permanent and Supplemental Disaster Programs ^c	Trade and COVID-related Support ^d	Total Farm Safety Net Support
2014-2018	6.2	6.2	1.8	1.0	15.2
2019-2020	6.6	4.8	2.0	23.8	37.2

Sources: CRS calculations using data from USDA, ERS, *Farm Incomes and Wealth Statistics: U.S. and State Farm Income and Wealth Statistics*, updated as of February 5, 2021; and USDA, RMA, "Summary of Business" database, downloaded on February 5, 2021.

Notes: To the extent possible, the data are on a calendar year basis and reflect the timing of the payments. FCIP data are by crop year. Data for 2020 for commodity support, permanent and supplemental disaster programs, and trade and COVID-related support are forecast. Descriptions of and authorities for commodity, permanent disaster, supplemental disaster, trade, and COVID-19-related support programs are available in CRS Report R46577, *U.S. Farm Support: Outlook for Compliance with WTO Commitments, 2018 to 2020*, by Randy Schnepf.

- a. FCIP outlays include premium subsidies and indemnity payments to farmers in excess of total premiums paid (i.e., excess losses).
- b. Commodity support includes payments under the Agricultural Risk Coverage, Price Loss Coverage, and marketing assistance loan programs, the Dairy Margin Protection Program and Dairy Margin Coverage programs, cotton ginning cost share program in 2016 and 2018, and other miscellaneous commodity-specific programs.
- c. Permanent and supplemental disaster payments include the Livestock Forage Disaster Program, Livestock Indemnity Program, Tree Assistance Program, and Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program, as well as supplemental and emergency payments made under programs such as the Wildfire and Hurricane Indemnity Program (WHIP) and WHIP+.
- d. Ad hoc support for trade and COVID-19-related market disruptions includes payments under the 2018 Market Facilitation Program (MFP) of \$8.6 billion; the 2019 MFP of \$14.5 billion; portions of the two 2020 Coronavirus Food Assistance Programs (CFAP-1 and CFAP-2), valued at \$16 billion and \$14 billion, respectively; and portions of the \$7.3 billion in forgivable loans under the PPP.

Most farmers and ranchers are eligible for at least one of the aforementioned federal programs. Some commodities are supported by a single program; others can receive support through a combination of programs. Within the farm safety net, federal crop insurance covers the widest variety of U.S. agricultural production. In addition to the FCIP, certain row crops (e.g., corn, soybeans, wheat) are eligible for multiple farm commodity support programs, including Agriculture Risk Coverage (ARC), Price Loss Coverage (PLC), and marketing loans.¹⁰⁶ Sugar and dairy have their own support programs in addition to coverage through the FCIP. Specialty crop and livestock producers have coverage through the FCIP and may receive support from permanent disaster programs.

Some farm support programs are designed to provide benefits that do not overlap with FCIP benefits. For example, ARC and PLC provide support for market price declines in ways that differ from how crop insurance Revenue Protection (RP) policies insure against market price losses.¹⁰⁷ The Dairy Margin Coverage program provides support for changes in market prices and

¹⁰⁶ Agriculture Risk Coverage, Price Loss Coverage, and marketing loans are the principal farm-bill-authorized revenue support programs for U.S. grain, oilseed, and pulse producers. For additional information about these programs, see CRS Report R46561, *U.S. Farm Policy: Revenue Support Program Outlays, 2014-2020*, by Randy Schnepf.

¹⁰⁷ CRS Report R45730, *Farm Commodity Provisions in the 2018 Farm Bill (P.L. 115-334)*, by Randy Schnepf.

feed input costs, while Dairy Revenue Protection under crop insurance insures against changes in dairy revenue.

USDA administers the Noninsured Crop Disaster Assistance Program, which provides benefits similar to FCIP CAT coverage but is available only for crops and/or locations that cannot be insured through the FCIP. USDA also administers four permanently authorized disaster programs for livestock and trees: the Livestock Forage Disaster Program (LFP), the Livestock Indemnity Program (LIP), the Tree Assistance Program (TAP), and Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP). LIP and ELAP provide compensation for animal losses that cannot be insured under FCIP policies. LFP provides compensation for grazing losses, which is similar to the coverage provided by pasture, rangeland, and forage (PRF) coverage under the FCIP. However, PRF coverage makes payments based on acres affected by adverse weather conditions, whereas LFP makes payments based on the head of livestock affected by adverse weather conditions. TAP makes payments for replacement or rehabilitation of trees, bushes, and vines damaged by natural disasters, which can overlap with indemnity payments from FCIP tree coverage policies.¹⁰⁸

Most farm safety net programs are provided free of charge or for a nominal participation fee. The FCIP is one of the few farm safety net programs that requires farmers to pay a significant contribution toward the cost of coverage provided under the program. The FCIP is also the only farm safety net program implemented as a public-private partnership. USDA program agencies deliver all other farm safety net programs.

The FCIP and Conservation Requirements

The FCIP incentivizes farmers to conserve wetlands and highly erodible lands through conservation compliance requirements. Conservation compliance requires that producers agree to maintain a minimum level of conservation on highly erodible land and to not convert wetlands to crop production.¹⁰⁹ The 2014 farm bill (P.L. 113-79) returned crop insurance premium subsidies to the list of USDA program benefits that could be lost if a producer is determined to be out of compliance with the conservation compliance provisions.¹¹⁰ USDA's Economic Research Service concluded in 2017 that the inclusion of crop insurance premium subsidies to the list of potential lost program benefits significantly increased the incentive to comply with conservation compliance requirements for many farms.¹¹¹

The 2014 farm bill also amended and expanded the *sodsaver* provision in the 2008 farm bill (P.L. 110-246).¹¹² Under *sodsaver*, approved yield guarantees and crop insurance premium subsidies are lowered by 50 percentage points for production of annual crops on native sod¹¹³ during the

¹⁰⁸ The FY2021 President's Budget included a proposal to prevent producers from claiming duplicate benefits under the Tree Assistance Program and the FCIP. White House, Office of Management and Budget, *President's Budget FY 2021: Budget Appendix*, pp. 61-185, at https://www.whitehouse.gov/wp-content/uploads/2020/02/agr_fy21.pdf. This proposal was not adopted by the 116th Congress.

¹⁰⁹ For more information on conservation requirements, see CRS Report R42459, *Conservation Compliance and U.S. Farm Policy*, by Megan Stubbs.

¹¹⁰ P.L. 113-79, §2611. See **Appendix** for history of the FCIP and conservation compliance requirements.

¹¹¹ Roger Claassen et al., *Conservation Compliance: How Farmer Incentives Are Changing in the Crop Insurance Era*, USDA, ERS, Economic Research Report no. ERR-234, July 2017.

¹¹² Referred to in statute as "Crop Production on Native Sod." 7 U.S.C. §1508(o).

¹¹³ Native sod is land that has never been tilled or for which there is no history of prior tilling for crop production. Native sod and native grasslands can provide habitat for numerous species, including birds, breeding waterfowl, and

first four years of planting. The 2018 farm bill extended the sodsaver penalties to apply to any insurable crop, including perennial crops. The sodsaver provision applies to native sod in six states—Minnesota, Iowa, North Dakota, South Dakota, Montana, and Nebraska. These states included some of the areas with the highest rates of conversion of native sod to cropland during 2008-2016.¹¹⁴

In addition to incentivizing conservation of wetlands and highly erodible lands, Congress and USDA have made changes to certain FCIP procedures that previously could have deterred farmers from planting cover crops, a practice that could improve soil quality and help reduce soil erosion. The 2018 farm bill introduced new provisions to qualify certain voluntary uses of cover crops as a type of good farming practice,¹¹⁵ thereby allowing land planted with cover crops to maintain eligibility for crop insurance. USDA also adjusted certain cutoff dates that applied to prevented planting acres in 2019 and 2020 because the original dates could have deterred farmers from applying cover crops to their prevented planting acreage.

The FCIP also supports state conservation efforts in Iowa and Kansas as part of a collaboration with their state departments of agriculture. USDA is conducting a multiyear demonstration project, started in 2017, that aims to increase use of cover crops in Iowa by providing crop insurance premium discounts for farmers who plant cover crops. For certain counties in Kansas, USDA introduced a limited irrigation policy option for corn and soybeans that allows producers to voluntarily reduce irrigation applications while maintaining insurance coverage and FCIP records on historical yields and irrigation water usage.

The FCIP and Farm Credit

Several types of lenders make farm loans, including commercial banks, Farm Credit System (FCS) institutions, USDA's FSA, life insurance companies, individuals, and other types of lenders.¹¹⁶ The extent of loans offered and terms of credit available from each of these sources can depend on the creditworthiness of farmer borrowers. In general, purchasing federal crop insurance improves the likelihood repayment in the event of a poor harvest or low market prices. Some lenders may require a farmer to purchase crop insurance to obtain a loan.

FSA is the primary federal lender to farmers. By statute, farmers are required to purchase at least CAT coverage as a condition for FSA operating, ownership, and emergency loans in areas where crop insurance is available.¹¹⁷ The requirement applies to loans that FSA makes directly and loans guaranteed by FSA. Farmers can use FSA loans to purchase crop insurance coverage and can be disqualified from FSA direct loans for violations of the Federal Crop Insurance Act (e.g., crop insurance fraud).

FCS institutions are borrower-owned and funded by the private sector but operate under a federal charter with a statutory mandate to serve only agriculture-related borrowers. By statute, FCS

pollinators.

¹¹⁴ Tyler J. Lark et al., "Cropland expansion in the United States produces marginal yields at high costs to wildlife," *Nature Communications*, vol. 11, no. 4295 (September 2020).

¹¹⁵ P.L. 115-334, §11107.

¹¹⁶ For a description of these lenders, see CRS Report RS21977, *Agricultural Credit: Institutions and Issues*, by Jim Monke.

¹¹⁷ 7 U.S.C. §2008f.

institutions are allowed to sell crop insurance to their members,¹¹⁸ although they cannot require members to take out loans in order to purchase crop insurance.

The FCIP and Trade

As a signatory member of the World Trade Organization (WTO), the United States has committed to abide by WTO rules and disciplines—including those that govern domestic farm policy and its effects on international markets. Under the WTO's Agreement on Agriculture, agricultural support programs must be classified and reported based on their potential to distort markets (i.e., to alter the supply and market price of a commodity) from the equilibrium that would otherwise exist in the absence of the program's influence.¹¹⁹ The WTO uses a traffic light analogy to group programs into four boxes (red, amber, blue, and green) and imposes spending limits for national spending on programs classified in certain boxes. At one extreme, red box programs are prohibited due to their trade distortionary effects. At the other extreme, green box programs are considered minimally or nontrade distorting and are not subject to spending limits. Amber box programs are considered trade distorting and subject to different spending limits depending on whether they are classified as product-specific (PS) or nonproduct-specific (NPS). Exceeding amber box spending limits could constitute a violation of WTO rules, which if successfully challenged by another WTO member under the WTO dispute settlement process, could require elimination, alteration, or amendment by Congress of the program(s) to bring amber box spending into compliance.

Table 7. Program Classifications under WTO's Agreement on Agriculture

Box	Trade Distorting	Production Limiting	Prohibited	Annual Spending Limit for the U.S.
Green	None or Minimal	No	No	None
Blue	Not Minimal	Yes	No	None
Amber	Not Minimal	No	No	\$19.1 billion
Red	Not Minimal	No	Yes	\$0

Source: CRS using the WTO Agreement on Agriculture, as previously described in CRS Report R45305, *Agriculture in the WTO: Rules and Limits on U.S. Domestic Support*, by Randy Schnepf.

Notes: Amber box spending limit includes aggregate spending on a country's product-specific and nonproduct-specific programs. Outlays for nonproduct-specific amber box programs may be exempt from counting against the amber box limit if the outlays amount to less than 5% of the value of total U.S. agricultural output. Outlays for product-specific amber box programs may be exempt from counting against the amber box limit if the outlays amount to less than 5% of the commodity's production value. WTO rules prohibit spending on red box programs.

Insurance underwriting costs and A&O expenses are notified to the WTO as green box outlays, whereas premium subsidies are notified to the WTO as amber box outlays. However, USDA has discretion in how it classifies and reports amber box FCIP premium subsidies to the WTO. From 1995 to 2011, USDA classified FCIP premium subsidies as NPS amber box outlays such that the total value of premium subsidies was perennially exempted from counting against the amber box spending limit under the NPS de minimis exemption.¹²⁰ Since 2012, USDA has classified FCIP

¹¹⁸ 12 U.S.C. §618.8040.

¹¹⁹ CRS Report R45305, *Agriculture in the WTO: Rules and Limits on U.S. Domestic Support*, by Randy Schnepf.

¹²⁰ Nonproduct-specific outlays may be exempt from counting against the amber box limit if they are less than 5% of

premium subsidies as PS amber box outlays. Under this change in notification, USDA evaluates premium subsidies at the individual commodity level. If total farm support for a commodity (including revenue support, premium subsidies, and any other program support) amounts to less than 5% of the commodity's value of production, it may be exempted from counting against the amber box spending limit.¹²¹ On a crop-specific basis, most crop insurance subsidies are exempt from the tally because they do not exceed the 5% threshold. For example, U.S. crop insurance subsidies in 2014 totaled more than \$6.4 billion, but 70% of those subsidies were exempt from the amber box tally on a product-specific basis.¹²² However, in years where substantial additional farm support payments have been made, such as in 2019 and 2020 (see **Table 6**), there is a greater likelihood that premium subsidies coupled with the other support payments may exceed the 5% PS de minimis threshold, thus counting against the U.S. amber box spending limit. The United States has not notified the WTO of its domestic support spending for 2018, 2019, or 2020, so it remains to be seen how it will classify spending in recent years and whether those totals will exceed the amber box limit.

Rationale for Publicly Supported Crop Insurance

The federal government conducts a wide variety of insurance activities beyond agriculture,¹²³ some of which parallel coverage currently, or previously, offered by private insurers. Private insurers have a long history of selling insurance coverage for a single type of losses (e.g., damage from hail) without intervention or support from the federal government. Although the private sector previously experimented with offering multiperil¹²⁴ crop insurance from about 1899 to the early 1920s,¹²⁵ the FCIP is the only supplier of multiperil crop insurance in the U.S. today. While the FCIP offered multiperil crop insurance without premium subsidies prior to 1980, history has shown that farmers have been unwilling to purchase unsubsidized multiperil crop insurance.¹²⁶

Like all insurance products, crop insurance is susceptible to problems of adverse selection and moral hazard. Adverse selection arises when insured farmers have more information about their own risk of loss than the insurers offering the policies. Without information to distinguish high- and low-risk farmers, insurers tend to offer products at prices that appeal more to high-risk farmers than to low-risk farmers. Moral hazard in the insurance industry refers to the general tendency of an insured party to take on greater risk once insured. Congress and USDA work to mitigate problems of adverse selection and moral hazard through policy design and premium rating procedures.

the value of total U.S. agricultural output.

¹²¹ Product-specific (PS) amber box subsidies for any commodity are included in the tally of total amber box support if the value of the subsidies exceeds 5% of the commodity's production value. Subsidies of less than 5% are considered to be PS de minimis exempt and are excluded from the amber box tally.

¹²² Vincent H. Smith, Joseph W. Glauber, and Barry K. Goodwin, *Time to Reform the US Federal Agricultural Insurance Program*, American Enterprise Institute, October 2017, at <http://www.aei.org/wp-content/uploads/2017/10/Time-to-Reform-the-US-Federal-Agricultural-Insurance-Program.pdf>.

¹²³ A 2005 GAO report detailed 95 different federal insurance activities and noted that "no generally accepted definition of federal insurance exists" (GAO, *Catalogue of Federal Insurance Activities*, GAO-05-265R, March 4, 2005, p. 2, at <http://www.gao.gov/assets/100/93046.pdf>).

¹²⁴ FCIP policies are referred to as multiperil policies because they insure against multiple types of losses. Multiperil insurance is distinct from other private-sector crop insurance products that insure against a single type of loss.

¹²⁵ Randall A. Kramer, "Federal Crop Insurance 1938-1982," *Agricultural History*, vol. 57, no. 2 (April 1983), pp. 181-200.

¹²⁶ Joseph W. Glauber, "Crop Insurance Reconsidered," *American Journal of Agricultural Economics*, vol. 86, no. 5 (December 2004), pp. 1179-1195.

Costs and Benefits of the FCIP

The FCIP imposes costs and provides benefits to producers, AIPs, and the public. These costs and benefits include direct costs and benefits, as well as indirect costs incurred and benefits received from the FCIP, such as ancillary effects on risk management decisions, credit markets, and the environment.

Costs incurred include the following:

- **Costs to Producers.** Producers incur direct costs for their share of premiums.
- **Costs to AIPs.** AIPs incur direct costs for underwriting losses not otherwise reinsured by USDA or third-party reinsurers.
- **Costs to the Public.** The public incurs costs for FCIP outlays, including subsidies paid to farmers and AIPs, as well as the costs to USDA for running the program. In addition to the direct costs associated with the FCIP, some researchers have suggested that the FCIP imposes indirect costs on the public including rent seeking,¹²⁷ encouraging production on land prone to flooding and on marginal land subject to large yield variability,¹²⁸ excess production of agricultural commodities,¹²⁹ and environmental impacts from excess production.¹³⁰ Other researchers have found limited impacts of the FCIP on planted acres, crop selection, and environmental pollution.¹³¹ There is also potential for the FCIP to “crowd out” private-sector insurance and financial risk management securities, such as catastrophic bonds and weather derivatives.¹³² Crowding out occurs when government intervention in a market deters actions from private-sector participants. If crowding out were to occur, it would impose indirect costs on the public.

Benefits provided include the following:

- **Benefits to Producers.** Producers receive direct benefits from premium subsidies and indemnity payments for excess losses. These direct benefits accrue mostly to larger-scale operations.¹³³ Producers can also receive indirect benefits, including

¹²⁷ Vincent H. Smith, “The US federal crop insurance program: a case study in rent seeking,” *Agricultural Finance Review*, vol. 80, no. 3 (December 2019).

¹²⁸ Ron Wirtz, *Crop insurance: Helping farmers, but not without consequences*, Federal Reserve Bank of Minneapolis, at <https://www.minneapolisfed.org/article/2018/crop-insurance-helping-farmers-but-not-without-consequences>.

¹²⁹ C. Edwin Young, Monte L. Vandever, and Randall D. Schnepf, “Production and Price Impacts of US Crop Insurance Programs,” *American Journal of Agricultural Economics*, vol. 83, no. 5 (December 2001), pp. 1196-1203; and Barry K. Goodwin and Vincent H. Smith, “What Harm Is Done by Subsidizing Crop Insurance?,” *American Journal of Agricultural Economics*, vol. 95 no. 2 (January 2013), pp. 489-497.

¹³⁰ JunJie Wu, “Crop Insurance, Acreage Decisions, and Nonpoint-Source Pollution,” *American Journal of Agricultural Economics*, vol. 81, no. 2 (May 1999), pp. 305-320.

¹³¹ Jeremy G. Weber, Nigel Key, and Erik O’Donoghue, “Does Federal Crop Insurance Make Environmental Externalities from Agriculture Worse?,” *Journal of the Association of Environmental and Resource Economists*, vol. 3, no. 3 (September 2016), pp. 707-742; and Roger Claassen, Christian Langpap, and JunJie Wu, “Impacts of Federal Crop Insurance on Land Use and Environmental Quality,” *American Journal of Agricultural Economics*, vol. 99, no. 3 (April 2017), pp. 592-613.

¹³² Joshua D. Woodard et al., “A Spatial Econometric Analysis of Loss Experience in the US Crop Insurance Program,” *Journal of Risk and Insurance*, vol. 79, no. 1 (March 2012), pp. 261-286.

¹³³ Daren Bakst, *What You Should Know About Who Receives Farm Subsidies*, The Heritage Foundation, Background no. 3306, April 16, 2018, at <https://www.heritage.org/agriculture/report/what-you-should-know-about-who-receives->

reduced farm revenue risk, reduced total expenditure on farm risk management, access to farm credit from lenders who require crop insurance as a condition for approving farm operating loans, and/or lower cost farm loans. These indirect benefits vary in value across farm operations.

- **Benefits to AIPs.** AIPs receive benefits for any A&O, CAT LAE, and SnapBack subsidies that exceed costs incurred to sell and service policies, as well as underwriting gains from reinsurance. AIPs also receive benefits from developing and marketing private add-on coverage to federal crop insurance.¹³⁴
- **Benefits to the Public.** The public does not receive direct benefits from the FCIP. However, the public may benefit from indirect effects of the FCIP that help to stabilize farm businesses, agricultural production, and commodity prices. As the farm lender of last resort, USDA incurs costs from operating farm loan programs. To the extent that the FCIP facilitates commercial lending to agriculture, the public may indirectly benefit from reduced USDA outlays for farm lending programs. Additionally, the public may also indirectly benefit from reduced spending on ad hoc farm disaster program payments.¹³⁵

Issues for Congress

Over the last three farm bills, Congress has acted to expand the FCIP to cover more commodities and more types of risks. Although current crop insurance market penetration for row crops has been high historically, opportunities exist to expand coverage, especially for specialty crops, livestock, and animal products. Additionally, farmers have shown limited interest in policies designed to appeal to organic producers and to highly diversified fruit and vegetable producers. Congress may consider investigating issues that have made FCIP coverage less appealing to producers of these commodities.

Numerous stakeholders have proposed reducing the cost of the FCIP. For example, the FY2021 President's Budget recommended several proposals, including capping underwriting gains for AIPs, reducing premium subsidies for producers, and introducing premium subsidy eligibility criteria based on the producer's adjusted gross income.¹³⁶ The GAO and CBO also have identified a number of changes to the program that Congress could consider to lower FCIP costs to the government. Although all of these proposals have the potential to impact which farmers choose to purchase crop insurance, proposals that reduce federal costs by targeting payments to AIPs are less likely to change producers' incentives to purchase crop insurance than proposals that target premium subsidies or coverage options.

Additionally, Congress may also be interested in how the SRA affects the cost effectiveness of the FCIP and the baseline spending levels that determine funding for the next farm bill. The distribution of risk sharing between AIPs and USDA has been an issue of perennial concern for

farm-subsidies.

¹³⁴ Selected examples include CLIFF, Excess Moisture, MPowerD, Variable Interval Product, Increased Coverage Election (ICE), Price-Flex, and Supplemental Replant Coverage.

¹³⁵ Keith H. Coble and Barry J. Barnett, "Why Do We Subsidize Crop Insurance?," *American Journal of Agricultural Economics*, vol. 95, no. 2 (January 2013), pp. 498-504.

¹³⁶ White House, Office of Management and Budget, *President's Budget FY 2021: Budget Appendix*, pp. 61-185, at https://www.whitehouse.gov/wp-content/uploads/2020/02/agr_fy21.pdf. These proposals were not adopted by the 116th Congress.

some policymakers. Congress may be interested in requiring greater transparency of the actual cost of federal underwriting and the extent that it is shared with AIPs.

Three topic areas, in particular, may be of interest for Congress in performing oversight of FCIP operations.

- Research has suggested that the program could be vulnerable to waste, fraud, and abuse by using certain unit types in areas where farmers insured a higher proportion of acres at high coverage levels and in times of unfavorable economic and/or adverse weather conditions.¹³⁷ Congress may consider whether RMA's waste, fraud, and abuse detection procedures need to be strengthened to counter any such vulnerability.
- Socially disadvantaged farmers may be less likely to purchase crop insurance than nonsocially disadvantaged farmers, primarily due to the size of their operations and commodities grown.¹³⁸ The 2018 farm bill requires USDA to make recommendations on ways to increase crop insurance participation among underserved producers as part of the regular review of FCIP insurance plans and policies.¹³⁹ Congress may seek to understand the steps that USDA is taking to prepare their recommendations, including any efforts that USDA and AIPs are undertaking to solicit input directly from underserved producers.
- The number of AIPs participating in the FCIP has decreased over time, largely due to consolidation in the insurance industry. Congress may wish to inquire into the drivers of this consolidation, as well as any implications it may be having on AIPs' outreach to producers in underserved areas and on their willingness to market new types of crop insurance coverage.

Additionally, Congress may be interested in reassessing the role of the FCIP in agricultural policy more broadly. Numerous environmental stakeholders have issued proposals to enhance the FCIP's role in promoting conservation by incentivizing the use of cover crops and other practices to improve soil health.¹⁴⁰ Congress may consider the potential environmental benefits of these proposals and what their effects might be on the actuarial soundness of the program. Congress may also consider the interplay, and possible overlap, among the benefits that various producer groups have received from crop insurance, as well as from ad hoc payments to producers since 2018 for trade-related damages through USDA's Market Facilitation Program and for market disruptions related to COVID-19 through USDA's Coronavirus Food Assistance Program. A substantial portion of these ad hoc payments were targeted at commodities that have high crop insurance penetration rates.¹⁴¹ One of the reasons Congress introduced crop insurance premium subsidies in 1980 was to increase participation in the FCIP and reduce the need for future ad hoc

¹³⁷ Sungkwol Park et al., "Contract elements, growing conditions, and anomalous claims behaviour in US crop insurance," *The Geneva Papers on Risk and Insurance-Issues and Practice*, vol. 45, no. 1 (August 2019), pp. 157-183.

¹³⁸ For examples of how farm size and commodity specialization can impact crop insurance purchases by socially disadvantaged farmers and ranchers, see GAO, *Agricultural Lending: Information on Credit and Outreach to Socially Disadvantaged Farmers and Ranchers is Limited*, GAO-19-539, July 2019, at <https://www.gao.gov/assets/710/700218.pdf>.

¹³⁹ 7 U.S.C. §1508(a)(7)(C).

¹⁴⁰ See, for example, O'Connor and Bryant, *Covering Crops*, 2017; and Faber, *Top 5 Reasons*, 2018.

¹⁴¹ See CRS Report R46577, *U.S. Farm Support: Outlook for Compliance with WTO Commitments, 2018 to 2020*, by Randy Schnepf for a discussion of USDA's Market Facilitation Program and Coronavirus Food Assistance Program payments for different agricultural commodities.

disaster spending.¹⁴² Congress may consider whether the crop insurance program could be adapted to provide post-harvest production loss and price risk protection tools and whether such adaptations could further its policy objectives for the agricultural sector.¹⁴³

¹⁴² See **Appendix** for details about the history of premium subsidies in the FCIP.

¹⁴³ The FY2021 President's Budget for USDA included a proposal to commission the National Academies of Sciences, Engineering, and Medicine to present recommendations on the effectiveness of current farm support programs. See USDA, *2021 USDA Explanatory Notes—Risk Management Agency*, at <https://www.usda.gov/sites/default/files/documents/fpac-rma-fy2021-explanatory-notes.pdf>. This proposal was not adopted by the 116th Congress.

Appendix. A Brief History of Crop Insurance

The federal crop insurance program (FCIP) was created in 1938 as part of the agricultural policy response to the Great Depression.¹⁴⁴ The program initially had no private sector involvement and covered only wheat, but after a few years, the program was expanded to include cotton, flax, and other commodities (see **Table A-1**). Because of consistently high loss ratios in certain areas and for the program as a whole, Congress enacted legislation to restrict the geographic scope of the program in 1947.

In response to a period of high disaster support payments in the 1970s and low crop insurance participation, Congress enacted the Federal Crop Insurance Act of 1980 (P.L. 96-365). This law expanded the commodities covered and geographic scope of the program, introduced premium subsidies, and allowed private-sector companies to sell and service policies. By passing this law and providing incentives for farmers to expand their use of crop insurance, policymakers reportedly hoped to reduce the demand for future disaster assistance payments.¹⁴⁵ However, the 1980s were characterized by low farmer participation rates, high program loss ratios, and large outlays for disaster programs.¹⁴⁶ Additionally, Approved Insurance Providers (AIPs) accrued net underwriting gains over this period, raising concerns about how reinsurance risks were shared between the U.S. Department of Agriculture (USDA) and AIPs.¹⁴⁷

In 1994, Congress enacted the Federal Crop Insurance Reform and Department of Agricultural Reauthorization Act (P.L. 103-354), which increased premium subsidies, created catastrophic (CAT) coverage, authorized prevented planting coverage, and required farmers to purchase crop insurance as a condition for receiving commodity support payments. Farmers responded to these changes by purchasing a record number of policies and expanding acreage insured under the program (see **Figure 1**). Congress removed the crop insurance purchase requirement for receiving commodity support payments in the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127). This act also allowed for the creation of USDA's Risk Management Agency, which has administered the FCIP since 1996 (see **Table A-2**) and required USDA to cease selling crop insurance policies directly to farmers in areas where AIP coverage was available.

The Agriculture Risk Protection Act of 2000 (P.L. 106-224) further expanded the FCIP by authorizing sales of crop revenue insurance and insurance for livestock. The legislation increased premium subsidies to their current levels for basic and optional units and introduced the 508(h) mechanism for the private sector to propose and develop new types of crop insurance coverage.

¹⁴⁴ Randall A. Kramer, "Federal Crop Insurance 1938-1982," *Agricultural History*, vol. 57, no. 2 (April 1983), pp. 181-200.

¹⁴⁵ Kramer, 1983, pp. 181-200.

¹⁴⁶ Bruce L. Gardner, "Crop Insurance in US Farm Policy," in *Economics of Agricultural Crop Insurance: Theory and Evidence*, eds. Darrell L. Hueth and William H. Furtan (New York, NY: Springer Science+Business Media, 1994), pp. 17-44.

¹⁴⁷ See discussion in Joseph W. Glauber, "Crop Insurance Reconsidered," *American Journal of Agricultural Economics*, vol. 86, no. 5 (December 2004), pp. 1179-1195. Although there have been changes in how reinsurance risks are shared between USDA and the AIPs since the 1980's, some stakeholders still consider this issue to be of concern in the modern FCIP. See, for example, Joseph W. Glauber, "Crop Insurance and Private Sector Delivery: Reassessing the Public-Private Partnership," *Taxpayers for Common Sense*, December 2016; Barry Barnett et al., "Public and Private Roles in Agricultural Risk Transfer," *AGree*, March 2016; and Vincent Smith et al., "Time to Reform the US Federal Agricultural Insurance Program," *American Enterprise Institute*, October 2017. For additional background, see CRS Report R45291, *Federal Crop Insurance: Delivery Subsidies in Brief*, by Isabel Rosa.

One of these new policy types was revenue coverage, which has proved to be a popular option; within a decade, revenue coverage accounted for the largest share of all policies sold.¹⁴⁸

The 2008, 2014, and 2018 farm bills continued to expand crop insurance coverage options available (see **Table A-1**). The 2008 farm bill introduced enterprise and whole farm units and increased subsidies for area-based coverage. The 2014 farm bill authorized shallow loss coverage and yield exclusion options. The 2018 farm bill introduced multicounty enterprise units. In addition to expanding the coverage options available, the 2008 farm bill authorized USDA to renegotiate the Standard Reinsurance Agreement (SRA) for the 2011 reinsurance year beginning in July 2010. Since 2011, each annual SRA has included limits on certain subsidies paid to AIPs.¹⁴⁹

The 2014 farm bill restored conservation compliance as an eligibility requirement for producers to receive crop insurance premium subsidies, a requirement that had previously been in effect from 1985 to 1996.

Table A-1. Selected Legislation Affecting the Development of the Federal Crop Insurance Program

Year	Legislation	Major Changes to FCIP
1938	Agricultural Adjustment Act of 1938	Established the Federal Crop Insurance Corporation (FCIC). Authorized insurance for wheat.
1941	55 Stat. 255	Authorized insurance for cotton.
1944	Agricultural Appropriation Act of 1944	Prohibited FCIC from issuing any policies.
1944	58 Stat. 918	Reauthorized FCIC to issue policies for wheat, cotton, and flax. Established experimental program to insure other major commodities in geographically limited areas.
1947	61 Stat. 718	Restricted FCIC policies for all crops to limited areas to improve actuarial performance.
1980	Federal Crop Insurance Act of 1980	Authorized FCIC to issue policies for all commodities and geographic areas. Subsidized 30% of insurance premiums. Allowed private companies to sell FCIC policies.
1985	Food Security Act of 1985	Introduced conservation compliance requirements for crop insurance purchases.
1994	Federal Crop Insurance Reform and Department of Agriculture Reauthorization Act	Increased premium subsidies and introduced catastrophic coverage. Required crop insurance purchases for eligibility for commodity support. Authorized prevented planting coverage.
1996	Federal Agriculture Improvement and Reform Act of 1996	Removed requirement linking commodity support and conservation compliance to crop insurance purchases. Created USDA's Risk Management Agency. Disallowed sales of crop insurance through USDA county offices unless approved insurance provider coverage is unavailable.
2000	Agriculture Risk Protection Act of 2000	Increased premium subsidies to present levels. Granted authority for revenue coverage and insurance for livestock. Authorized creation of 508(h) pilot programs.

¹⁴⁸ Joseph W. Glauber, "The Growth of the Federal Crop Insurance Program, 1990–2011," *American Journal of Agricultural Economics*, vol. 95, no. 2 (January 2013), pp. 482–488.

¹⁴⁹ For background on limits to AIP subsidies imposed in the Standard Reinsurance Agreement, see "Approved Insurance Provider Compensation."

Year	Legislation	Major Changes to FCIP
2008	Food, Conservation, and Energy Act of 2008	Introduced enterprise and whole farm units. Increase subsidies for area coverage plans. Authorized renegotiation of the Standard Reinsurance Agreement for the 2011 reinsurance year.
2014	Agricultural Act of 2014	Introduced area-based shallow loss coverage and yield exclusion options. Relinked conservation compliance requirements.
2018	Agricultural Improvement Act of 2018	Introduced multicounty enterprise coverage.

Sources: CRS using Randall A. Kramer, "Federal Crop Insurance 1938-1982," *Agricultural History*, vol. 57, no. 2 (April 1983), pp. 181-200, for legislation enacted prior to 1983; Joseph W. Glauber, "Crop Insurance Reconsidered," *American Journal of Agricultural Economics*, vol. 86, no. 5 (December 2004), pp. 1179-1195 and Joseph W. Glauber, "The Growth of the Federal Crop Insurance Program, 1990-2011," *American Journal of Agricultural Economics*, vol. 95, no. 2 (January 2013) for legislation enacted prior to 2014; and USDA, Office of Inspector General, *Annual Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2019 and 2018*, Audit Report 05401-0011-11, November 2019, for legislation enacted after 2014.

Notes: See CRS Report R42459, *Conservation Compliance and U.S. Farm Policy*, by Megan Stubbs for a history of conservation compliance requirements in USDA programs.

Table A-2. USDA Agencies Administering FCIP Since 1938

Period	USDA Agency Administering FCIP
1938-1942	Agricultural Adjustment Administration
1942-1945	Agricultural Adjustment Agency
1945-1953	Production and Marketing Administration
1953-1961	Commodity Stabilization Service
1961-1994	Agricultural Conservation and Stabilization Service
1994-1996	Consolidated Farm Service Agency
1996-Present	Risk Management Agency

Source: CRS using National Archives guides to records for the Federal Crop Insurance Corporation (FCIC) and the Farm Service Agency (FSA).

Note: In 1996, the Consolidated FSA became the FSA as per the Secretary of Agriculture's Notice (61 *Federal Register* 1109, January 16, 1996).

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