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House Committee on
Appropriations

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION

Statement of Brandon Willis, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

Chairman Aderholt, Ranking Member Farr and members of the Subcommittee, I am pleased to discuss the FY 2016 Budget for the Risk Management Agency (RMA) and the Federal Crop Insurance program. As the Agency moves forward with implementation of the 2014 Farm Bill provisions, I am pleased to report to this Subcommittee that we have accomplished implementation of almost every crop insurance provision in the 2014 Farm Bill.

I would like to express my gratitude for the hard work performed by the employees of the Risk Management Agency and their great efforts in implementing the 2014 Farm Bill. Throughout all of the efforts of implementation, the regular business of the RMA was conducted as expected. For the 2014 crop year, this was done with nearly $110 billion in liability and paying over $8 billion in indemnity payments to date. Through the combined efforts of the agency and our private industry partners, appraisals and claims adjustments were made in a timely manner, indemnities were promptly paid, and farmers were able to get through the process smoothly.

Overview of the 2016 RMA Budget Proposal

The 2016 budget requests more than $8.2 billion for the Federal Crop Insurance Corporation (FCIC), including $8.17 billion for mandatory expenses and $77 million for RMA salaries and expenses. This reflects a net decrease of approximately $753 million over 2015 levels which includes: decreases of $648 million in premium subsidy and $125 million in underwriting gains, as well as increases of $18 million in delivery expenses and $2.1 million for RMA salaries and expenses.

While the Agricultural Act of 2014 included several reforms to the crop insurance program, there remain further opportunities for improvements and efficiencies. The budget proposes legislation for two significant Federal crop insurance policy changes that will result in a savings of $1.1 billion in the FCIC budget in 2016 and $16 billion over 10 years. The proposals provide a balanced approach by reducing premium subsidies paid on behalf of producers as well as reforming the prevented planting program. The changes will allow RMA to maintain crop insurance as a significant part of the safety net for producers while operating the program at less cost to the taxpayers.

The proposed crop insurance legislation focuses on the following two elements:

The first proposal is to reduce the premium subsidy rate by 10 percentage points for revenue coverage that protects the price at the time of harvest. The current average premium subsidy rate is about 62 percent. The harvest price revenue protection compensates producers for their lost bushels of production based on the price at harvest – if it is higher than the original planting-time price. This proposal would continue to provide producers an affordable and sound risk management product while saving $14.6 billion over ten years.

The second proposal, which came about in part as a response to an OIG audit, reforms the prevented planting program by adjusting payment rates for prevented planting, eliminating optional add-on coverage, and requiring that 60 percent of the county transitional yield be applied to the producer's actual production history (APH) even if a second crop is not planted. Current prevented planting rules do not apply the 60 percent county transitional yield if a producer does not plant a second crop, which creates a disincentive for produces to plant a second crop. The proposed changes will save $1.4 billion over ten years.

Implementation of the 2014 Farm Bill

After just over one year since the passage of the 2014 Farm Bill, RMA has implemented almost all of the crop insurance provisions. From providing a new crop insurance policy for highly diversified farms to ensuring that all producers are made aware of new conservation compliance certification, I am proud of the accomplishments RMA has achieved over the past year. While there is work to be completed, I am glad to report that much of the implementation is complete and farmers and ranchers are now beginning to take advantage of the new crop insurance options.

The 2014 Farm Bill required RMA to offer a product to cover diversified farms, but RMA began work on this effort well before the 2014 Farm Bill was enacted into law. Prior to the passage of the 2014 Farm Bill, RMA developed the Whole Farm Revenue Protection policy and the Federal Crop Insurance Corporation Board of Directors approved the policy shortly after the 2014 Farm Bill became law. As a result, Whole Farm Revenue Protection is available for purchase for the 2015 crop year. I am happy to report that it has been generally well received when presented at conferences for specialty crop and organic growers around the country.

Whole Farm is well-suited for highly diverse farms and farms with specialty or organic commodities that provides for all farm revenue to be covered under one policy. It also allows for other Federal crop insurance policies to be purchased covering individual commodities of significant importance to the operation. Premium subsidy is available and depending on farm diversification, farms with 2 or more commodities, may receive whole farm premium subsidy similar to other revenue plans of insurance; farms selling to direct markets, specialty markets, regional or local markets, and farm-identity preserved markets.

RMA is also making progress on offering organic price election for all crops, as required in the 2014 Farm Bill. Since 2010, RMA has eliminated the organic surcharge, added price elections for 18 crops, and created the contract price addendum, which is available for 62 crops. Last year nearly 10 percent of the organic policies utilized the price addendum in its first year. Overall, these changes resulted in nearly a ten percent increase in organic acreage covered by crop insurance. In 2016 we will continue to aggressively increase the number of organic crops with price elections.

The beginning farmers and ranchers incentives authorized in the 2014 Farm Bill were made available to farmers and ranchers for fall planted wheat in 2014. These provisions make crop insurance more affordable for beginning farmers and ranchers by providing a 10 percent premium discount, as well as a waiver of the catastrophic and additional coverage administrative fees. In addition, these changes improve crop insurance for beginning farmers by allowing, in certain instances, production history from previous operations to be used, which provides beginning farmers and ranchers greater risk protection.

In an effort to ensure that producers continue to receive premium subsidies, RMA worked with our sister agencies, the Natural Resource Conservation Service (NRCS) and the Farm Service Agency (FSA), to develop comprehensive guidelines for farmers so it is easier for them to comply with USDA conservation requirements. The three agencies worked together to get information out to RMA field offices, FSA state offices, and NRCS field offices and develop material for all three agencies to use to inform our customers of the new guidelines. Outreach efforts will continue well into this spring.

I am also glad to report that Coverage Level by Practice and Enterprise Unit by Practice were developed and made available to farmers for the 2015 crop year, beginning with spring planted crops. These new programs provide a farmer that produces a crop on both dry land and irrigated land the option to elect a different coverage level for each production practice or by enterprise unit.

Coverage Level by Practice is now available for 36 crops. Enterprise Unit by Practice is now available for 14 crops. These options will provide producers more options to tailor crop insurance for their specific needs.

Yet another program implementation is the Peanut Revenue Policy, which allows peanut farmers to cover their revenue by buying this policy. This policy was approved by the Federal Crop Insurance Corporation Board of Directors less than a year after the 2014 Farm Bill became law. Peanut farmers will now have the ability to manage risk for both yield and revenue losses.

The Supplemental Coverage Option (SCO) and Stacked Income Protection Plan for Upland Cotton (STAX) were also made available for the 2015 crop year. SCO is available for corn, cotton, cottonseed, grain sorghum, rice, soybeans, spring barley, spring wheat, and winter wheat in selected counties for the 2015 crop year – representing over 80 percent of the acres covered in the Federal crop insurance program. RMA is looking to expand to more crops and counties for the 2016 crop year.

STAX is currently available for every county that has a crop insurance policy for cotton, representing 98 percent of cotton acres in the United States. RMA is looking to expand STAX to remaining counties in the future.

Because of the list of Farm Bill sections implemented by RMA, one of the items we thought would not be accomplished this year is APH Yield Exclusion. However, RMA developed and released the Actual Production History Yield Exclusion insurance product for the 11 largest row crops in the country. Nearly three quarters of all acres and liability in the Federal Crop Insurance Program will be covered under this product. The product was developed to allow farmers to drop their lowest yields addressing the constant, historical problem farmers have faced when dealing with multi-year disasters. I am especially grateful for the consistent diligence of the employees of the Risk Management Agency for their hard work in implementing this Farm Bill and especially grateful that this program was partially implemented this crop year. We expect to expand the crops eligible for the 2016 crop year.

Every one of the aforementioned items was completed less than one year after the passage of the 2014 Farm Bill and in time for each respective planting season because of the outstanding Farm Bill implementation work performed by employees of RMA.

Compliance and Program Integrity

In addition to our efforts in implementing the 2014 Farm Bill, RMA has been working on a process to reduce improper payments. RMA has developed and received approval from the Office of Management and Budget of a new sampling and review methodology for measuring improper payments. Throughout the development process RMA Compliance worked closely with the Office of the Inspector General to address concerns the oversight agency had with the previous methodology. The collaborative effort has resulted in significant improvements to the improper payment methodology and review process. The new methodology will allow RMA to more accurately estimate an improper payment rate for the crop insurance program and identify root causes of the improper payments. The improper payment rate will be derived from a statistically valid sample of policies and reflect all payment categories, including premium subsidy benefits and indemnity payments provided to insured farmers, and administrative and operating expense payments made to approved insurance providers. Insights and knowledge gained during the development process will be applied to other program review areas to strengthen the effectiveness of RMA Compliance's overall program integrity activities.

In addition to work on improper payments, RMA Compliance has entered into a contract for a program-level assessment of operational processes and controls for assuring program integrity. The study will assess the benefits and effectiveness of RMA's current quality control activities and provide recommendations to better leverage available resources to enhance program integrity, including modification of existing processes and the development of new initiatives. Based on the results of the assessment, a new auditing program will be developed to evaluate the effectiveness of the internal processes and controls used by approved insurance providers in administering the crop insurance program. In addition, RMA requests a funding increase of $2.1 million to provide salaries and expenses for an additional 12 staff years, and to enter into contracts and agreements that will improve the agency's ability to act upon previous audit findings, improve improper payment rates, and reduce audit findings in the future.

Conclusion

I am pleased to report the Federal crop insurance program is functioning as intended by providing new and innovative provisions from the 2014 Farm Bill, as well as timely assistance to producers that have suffered losses. It helped producers and the surrounding rural economies to maintain their local economic infrastructure. Crop insurance helps to provide a reliable and abundant food supply. It also benefits those outside of agriculture by adding stability to lenders, and rural businesses; thereby making a major contribution to local economies. It benefits all consumers in the long run to have a stable and safe food supply, and in doing so allowing America's producers to be the most efficient in the world. Again, thank you for inviting us here today and I look forward to working with you.

Mr. Chairman, I would be pleased to answer any questions that you and other Members of the Subcommittee may have. Thank you.

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