

**House Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management**

“How Farm Policy Helps Farmers in Adverse Conditions”

June 20, 2019

Testimony of Ruth Gerdes

Chairman Vela, Ranking Member Thompson, and Members of the Subcommittee, thank you for holding this very important and well-timed hearing concerning the extraordinarily adverse conditions farmers have been facing and how federal farm policy is designed to help our nation’s farmers through these challenges.

I am grateful for the opportunity to present this testimony as a Crop Insurance agent serving farmers in one of the most devastated regions of the country, in eastern Nebraska where we have been deluged by flooding.

I am Ruth Gerdes, and while I serve as President of The Auburn Agency Crop Insurance, Inc., I am really just a farm and ranch girl from Nebraska who loves to take care of my farmer customers.

Some 33 years ago, after nearly losing our family farm, I decided I wanted to help other farmers avoid the situation we had found ourselves in after a string of bad weather coupled with some very tough markets.

I got into Crop Insurance, believing it could prove to be a powerful tool for farmers. It is still that same belief and passion that drives me in my work each day. With each and every year, it seems, my work as an agent becomes both more challenging and fulfilling as the risks farmers face, and that I help them deal with, are only growing and becoming more complex.

In addition to working for my farmer clients, I have served on a number of industry task forces and working groups through the years, both with grower associations, such as the National Corn Growers Association and within the Crop Insurance industry, including the Crop Insurance Professionals Association (CIPA).

Through the 1990s, I was fortunate to be a part of what I believe proved to be four seminal fronts in the effort to make Federal Crop Insurance what it is today. In 1993, I was active in the effort to have prevented planting covered to ensure farmers had a safety net in years like this one where they could not plant a crop. In 1995, I served on USDA’s Risk Management Agency (RMA) Task Force on Actual Production History (APH) to ensure that coverage more closely approximated production actually at risk. During this time, I also sold and serviced the first-ever revenue insurance policies under a pilot program developed by Dr. Art Barnaby, at Kansas State

University, and which now accounts for about 80 percent of policies. And, finally, in the depressed period of the late 90s, I served on an Advisory Committee for then-Senator Bob Kerrey (D-NE) that was instrumental in the development of the Agricultural Risk Protection Act of 2000 (ARPA) – legislation crafted in this Committee that was the game-changer in Crop Insurance in terms of affordability, access, and quality of coverage.

Within CIPA, I served as Chair of the Regulatory Affairs Committee of the Crop Insurance Professionals Association (CIPA), an association of premier and long-serving agents from across the country founded for the purpose of strengthening Federal Crop Insurance to better serve the needs of America’s farmers, ranchers, and dairy producers.

I volunteer and serve in these capacities because I care about my farmer clients, and because I believe in the product I sell. From just a handful of customers in 1984, the Auburn Agency has grown to serve more than 2,000 farmers in 10 states, with an average coverage level exceeding 80 percent.

I strongly believe the role farmers play in our society is a noble one. I understand that Federal Crop Insurance is about the farmer first, and I am honored to play a role in helping farmers, ranchers, and dairy producers learn how to use this vital tool to its maximum potential.

I hope my testimony today will provide you with some useful insight to guide the Agriculture Committee as you oversee the administration of our nation’s farm safety net.

2019 Devastation of Midwest Flooding Coupled with Depressed Prices

Today’s depressed farm economy combined with this spring’s devastating flooding in the Midwest is an eerie reminder of the very situation that nearly cost my husband’s and my farm more than 30 years ago. We are now fully into the sixth straight year of recession for agriculture. The result has been a 50 percent drop in net farm income. On the ground, I have witnessed not only a tremendous loss in equity among farmers, but also fading optimism and an alarming reluctance among farm families to make investments in their operations for the future.

It is this “farmers’ optimism” and hope for a better day that has always made U.S. agriculture a marvel of the world and somehow we must recover it.

In March of this year, Mother Nature unleashed her wrath on the Midwest, turning some of the nation’s most fertile farmland into a vast lake. Due to an exceptionally wet winter and the torrential down pours that began in March, the U.S. is contending with the wettest 12 months on record.

In my area of southeastern Nebraska, where the Platte and other rivers drain into the Missouri River, the devastation was truly epic. By late March swollen rivers and what was formerly known as high ground – and, thus, safe for grain storage facilities, barns, machinery, and homes – had been submerged in water. I know that many Americans saw the flooding on the news. But, as anyone who has ever lived through a flood can attest, you simply cannot appreciate the devastation until you have been through it yourself. The living conditions of friends and

neighbors after the flood have been akin to what you might expect to see on the news concerning an international crisis in some faraway place. We still have cities and areas without potable water supplies. I know that it is not within the jurisdiction of this Committee, but I would add that I am deeply concerned that unless levees are repaired in short order that this same tragedy will unfold again, adding billions of dollars more in losses.

The flooding in March was certainly extraordinary. But subsequent persistent rains added insult to injury. We have all seen the impact on plantings of corn and soybeans in our area which have lagged far behind what they would normally be.

Based on recent United States Department of Agriculture's (USDA) numbers, by June of last year, the top 18 corn producing states reported a corn planting rate of 96 percent. However, as of June 2, the USDA also reported that this year's corn plantings in the same 18 states (which constituted 92 percent of the nation's corn acreage last year) was just 67 percent. The soybean crop was even more grim with a mere 39 percent planted rate in the top 18 soybean producing states as compared to last year's 95 percent. As you can see in excerpts from the USDA National Agricultural Statistics Service Crop Progress Report, below, Ohio and Indiana had less than a third of the corn crop planted and soybean plant rates were actually in the teens.

Corn Planted - Selected States

[These 18 States planted 92% of the 2018 corn acreage]

State	Week ending			2014-2018 Average
	June 2, 2018	May 26, 2019	June 2, 2019	
	(percent)	(percent)	(percent)	(percent)
Colorado	95	71	78	93
Illinois	100	35	45	98
Indiana	98	22	31	94
Iowa	99	76	80	99
Kansas	96	70	79	93
Kentucky	93	82	87	93
Michigan	78	33	42	87
Minnesota	97	66	76	98
Missouri	100	65	69	97
Nebraska	99	81	88	98
North Carolina	99	95	97	98
North Dakota	94	63	81	93
Ohio	89	22	33	90
Pennsylvania	73	66	74	83
South Dakota	96	25	44	96
Tennessee	98	93	95	98
Texas	95	93	96	95
Wisconsin	88	46	58	91
18 States	96	58	67	96

Soybeans Planted - Selected States

[These 18 States planted 95% of the 2018 soybean acreage]

State	Week ending			2014-2018 Average
	June 2, 2018	May 26, 2019	June 2, 2019	
	(percent)	(percent)	(percent)	(percent)
Arkansas	90	42	54	79
Illinois	93	14	21	84
Indiana	93	11	17	80
Iowa	91	32	41	89
Kansas	77	22	26	53
Kentucky	64	38	49	53
Louisiana	97	82	91	93
Michigan	62	23	31	73
Minnesota	91	35	51	90
Mississippi	92	65	80	89
Missouri	84	12	18	63
Nebraska	94	56	64	87
North Carolina	53	52	58	55
North Dakota	86	46	70	83
Ohio	79	11	18	76
South Dakota	83	6	14	82
Tennessee	68	49	64	60
Wisconsin	77	20	34	78
18 States	86	29	39	79

The only silver lining in this tragic set of circumstances is that there has been an uptick in crop prices as a result, but this is not much of a consolation for so many farm families who will have no crop to sell because they could not get the crop planted. Making matters worse for these farmers is the fact that the harvest price option was eliminated from their prevented planted claims in the context of other “cost saving” reforms discussed further below.

I know that many farm families are being forced to ask themselves the same questions my husband and I asked ourselves more than 30 years ago. Happily, I can confidently say that we have far better farm policy in place today to help these families through some extremely difficult circumstances and keep them on the family farm. Federal Crop Insurance is certainly the jewel in the crown of U.S. farm policy.

My goal in the remainder of this testimony is to highlight what is working particularly well in regard to Crop Insurance and to point out some of the key areas where can make some improvements. I leave the discussion of how to improve the Title I safety net under the Farm Bill to the real experts in the field: our farmers and ranchers themselves and those who work for them every day in Washington.

Why Crop Insurance is Uniquely Suited to Meet the Needs of Producers

While U.S. farm policy offers a number of risk management tools to farmers, ranchers, and dairy producers to help them through low prices and extreme weather events, Crop Insurance stands out as the single most important tool that farmers have.

Of course, we heard this throughout last year’s Farm Bill debate where virtually all of the nation’s farm organizations ranked the protection of Crop Insurance as the top priority. Why is this? What is it that makes Crop Insurance such a vital tool for so many? From my experience, I would offer five simple reasons:

1. Crop Insurance is real and bankable protection. It is a contract that guarantees a certain amount production of the crop at market prices, and is tailored by the farmer (working with his or her agent) to meet the specific risk management needs of the farm. What's more, after a disaster strikes, an adjuster will arrive in a timely manner and settle a claim quickly. No other farm policy is like this. Crop Insurance is so vital that most lenders today will not extend credit to producers without Crop Insurance.
2. Crop Insurance is priced to be a good value. It requires active study and participation by farmers (i.e., farmers must carefully consider what coverage is right for his or her farm and pay significant premiums for coverage and, thus, have real skin in the game), but coverage is not cost prohibitive. We know that multi-peril coverage would be prohibitively expensive without the public-private partnership and premium cost-share of Federal Crop Insurance which makes insurance affordable to farmers.
3. Crop Insurance leverages the farmer's resources. By minimizing the risk of loss, the farmer is free to use capital on other improvements that in turn allows him or her to farm better. Some measure the value of insurance in indemnities, but the real value is the peace of mind and the freedom it purchases to make investments in better seed, better equipment, and so on. Crop Insurance has greatly improved the productive capacity of our farmers.
4. Crop Insurance has an incredible delivery system. The unique public-private partnership encourages competition among agents and companies to deliver quality products to farmer customers. Crop Insurance has existed since the 1930s, but it was not until this competitive model was first adopted in 1980 that the trajectory of Crop Insurance would put us where we are today – where nearly all planted acres in the United States are covered.
5. Crop Insurance is dynamic and market focused. To the extent it is not working as well as it should for a specific crop or region, farmers producing those crops in those regions have a way to improve the product through what is called the 508(h) process, named after the section of law that allows private sector development of products. Crop Insurance has a history of critical improvements that have been made using this process.

Where Crop Insurance Can Be Improved

While Crop Insurance is the most important tool in the farmer's risk management toolbox, there are some areas where improvements can be made. We made it through more than a decade without the need for ad hoc disaster assistance, but Congressional passage of such assistance in more recent years suggests that there is still work to be done.

In order to ensure that Crop Insurance is as effective a risk management tool to hurricane-hit specialty crop producers in the Southeast, for example, as it is to row crop producers in the Midwest, we must work to identify and implement key improvements. The great news is these improvements do not require an act of Congress. Congress has already provided RMA with the legal authority the agency requires to address these needs.

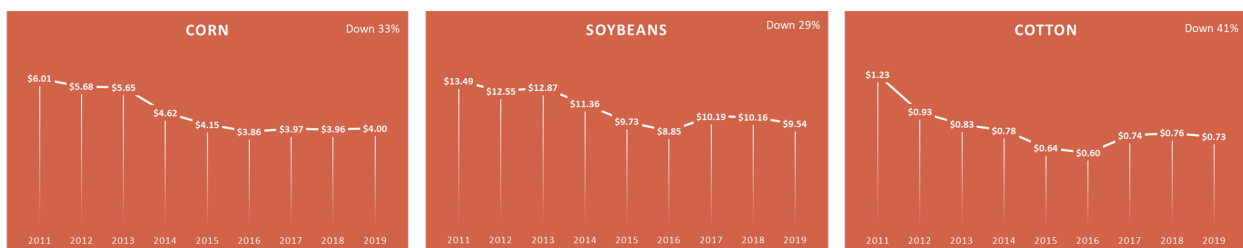
Certainly, catastrophic events such as hurricanes, wildfires, and massive flooding will put any system to the test, but I believe that effective coverage to insure these kinds of events can be found within the context of Federal Crop Insurance. Will Crop Insurance ever be able to totally

obviate the need for ad hoc disaster? Well, we know that certain events like Katrina required ad hoc relief for everyone affected even though most of those affected had home, business, and auto insurance in effect. But, I do believe with further effort, we can make the need for ad hoc assistance very rare and less and less costly. We've already made a lot of headway.

Beyond more effectively addressing certain natural disasters and specific crop perils, there is another area where Crop Insurance has to evaluate how to better serve all farmers and ranchers. As you know, the competition in agriculture is stiff. And, as the costs of inputs continue to rise even as prices fall and profit margins become thinner and thinner, farmers are increasingly taking on more risk in order to improve efficiency and economies of scale. As a result, I think it is fair to say that at no time have the stakes in farming been higher than they are for farm families today. Farming has always been a gamble, but the gamble is just a lot bigger today than it's ever been before. Those who understand this and appreciate the vital importance of Crop Insurance need to really think on how Crop Insurance can better serve farm families in this new market dynamic.

To put things into the current context, consider this: depressed crop prices have taken their toll on those fortunate enough to have produced a crop but they have doubly hurt farmers with no crop. Why? First, because Crop Insurance is not meant to make farmers whole in the event of a loss. There are deductibles farmers must pay, typically ranging from 15 percent on the low (and most expensive) end, to 50 percent on the high end. But, even beyond this, because commodity prices are very much a function in determining the value of Crop Insurance coverage, lower prices mean lower coverage and lower coverage means lower recovery on a loss.

The chart below illustrates the price elections from 2011 through the current 2019 crop year. Price elections reflect the value of Crop Insurance by unit of production. As you can see, the value of a bushel of corn, and therefore that bushel's coverage value, has sharply dropped. This not only means smaller recoveries on losses but also translates into trouble securing credit from lenders to produce a crop or to make improvements on the farm.



In short, Crop Insurance is vital to farmers and is working. And, where there are areas in need of improvement, thankfully, RMA has the legal authority necessary to make these improvements.

That said, had some of the amendments to Crop Insurance proposed during the Farm Bill been enacted into law, I do not believe that I could be so confident. Proposals that would have reduced access, affordability, and quality of coverage – including the imposition of arbitrary pay limits and Adjusted Gross Income (AGI) means testing; premium rate increases; and, the elimination of the Harvest Price Option (i.e. replacement insurance) – and proposals that would have hobbled private sector delivery through unsustainable cuts were rightly rejected by

Congress because they would have put Crop Insurance back where it was prior to 1980: a program dying on the vine.

Though most threats to the program were averted, one change that was made to Crop Insurance that has caused serious problems for farmers this year is with respect to prevented planting coverage. Briefly, the Office of Inspector General at USDA conducted an audit and concluded that, based solely on high price-election years when crop prices are high, the guarantees provided in the prevented planted portion of the coverage were too high. As a result, RMA lowered the guarantee anywhere from 5 to 15 percentage points across various major commodities beginning in 2016, and reduced buy-up options for producers. The problem is that prices have been dropping dramatically and so, therefore, did prevented planting (PP) coverage.

In simple terms, a 65 percent PP factor of a 200-bushel corn yield with a \$5.68 per bushel price election and 75 percent coverage level provides a PP guarantee of \$553.80 per acre. In contrast, a 55 percent PP factor on the same farm but with a \$4.00 price election provides a PP guarantee of just \$330.00 per acre. You see the problem.

Not surprisingly, as a result of these changes, prevented planting supplemental support had to be added to the disaster package. This means the cost is borne solely by the government rather than through premiums paid by farmers under Crop Insurance with companies sharing in the risk of losses. I think we can and should learn from this.

Support for Supplemental Disaster but Crop Insurance is the Better Way

As a Crop Insurance agent who fights every day for my farmer clients, I supported the supplemental disaster package because of the extraordinary nature of the disasters and the record extent of the losses. I know this is also true of other Crop Insurance agents in the CIPA organization that I represent. Because the stakes are so high and times have been so incredibly hard on farmers, we support this ad hoc assistance and the help provided by the Market Facilitation Program. When people are drowning, they don't care who throws them a life vest.

However, with that said, I also strongly contend that it would be wise for us to start looking to Crop Insurance for the answers again — because it is the better way. We need to think boldly about how it can be more responsive in more circumstances around both natural disasters and market disruptions.

Farmers have proven willingness to invest in their own risk management. They would rather not have to depend on the possibility of a hand out. While ad hoc disaster serves a purpose by mitigating truly extenuating circumstances, Crop Insurance is the viable long-term strategy that protects farm families year after year, and farmers are willing to pay for it. The reasons for investing in Crop Insurance as a better alternative to ad hoc assistance are just as valid today as always: it is more cost effective for the taxpayer; every farmer is helped and can tailor that help to particular needs on the farm; it enables farmers to secure financing to produce a crop and to make investments; and, it has an incredible delivery system that will settle claims in a timely way and allow the farmer to move on and build for next year.

In this vein, I want to offer my sincere thanks for what was done in the 2018 Farm Bill. Not only did you preserve and protect Crop Insurance, but you provided direction and new resources for the development of new products to better serve farmers, regions, and crops with unmet needs. For example, you emphasized critical improvements to the Whole Farm Revenue Program (WFRP) to make it more simple and usable for more producers. You laid the groundwork for potential in-season buy-up products to guard against late season events like hurricanes. Finally, and very importantly to my agency, you included smart language seeking to empower farmers who use precision technology. Farmers who are willing to make investments in technology not only enjoy a more robust risk management strategy, but also gain efficiencies within their operations and improve the integrity of Federal Crop Insurance.

To further build upon the achievements of the 2018 Farm Bill and particularly to help those who suffered the most under recent disasters, I would urge consideration of the following:

First, better structure prevent plant coverage so that the factor can move with the market, but also provide reliable coverage for pre-plant costs. In short, when prices decline by 40 percent, prevent planting coverage should not drop by that same amount, because pre-plant costs do not drop by that amount.

Second, in a true disaster situation, such as this year, allow farmers the Enterprise Unit premium discount even if the producer cannot meet the 20 acres planted in 2 sections requirement. This would have prevented some acres from being planted this year that should not have been. It would also provide much needed relief to those hardest hit. There are many farmers who will not meet the EU requirements this year due to conditions beyond their control and many of them do not understand how this will affect them yet (i.e., unexpected increases in premiums that they did not bank on and cannot likely afford). CIPA addressed this and related issues in a June 4, 2019 letter to USDA which has been attached to this testimony.

Third, I would hope the private industry might be unleashed to explore ways a crop could be covered in the bin against certain perils. This year's disaster bill rightly covered these losses in the absence of Crop Insurance coverage, and where virtually all private farm-level insurance products excluded losses from rising water.

Fourth, and this is really from my backyard, I think it is important to ask what we must do to manage risk for the farmer, companies, or Uncle Sam when there are holes in the levees. Although levee repairs are not within the jurisdiction of the Agriculture Committee, their repair is critical because weaknesses only expose farmers, companies, and the government to risk.

Finally, I would conclude by saying we need to be proactive in Crop Insurance, rather than reactive. We have had many good years where Crop Insurance has more than proved its metal and this string of success lulled us into thinking we already have the solution to every problem that might arise. This has highlighted some shortcomings where we need to constantly improve to meet needs. Congress encouraging RMA to aggressively tackle these shortcomings is important.

Thank you again for holding this timely hearing. I hope these suggestions are helpful. I will do my best to answer any questions you may have and stand as a resource to any of you or your staff on these important issues.



Crop Insurance Professionals Association

June 4, 2019

The Honorable Bill Northey
Under Secretary of Agriculture for Farm Production and Conservation
U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, DC 20250

Dear Under Secretary Northey:

On behalf of the Crop Insurance Professionals Association (CIPA), I write to urge flexibility concerning certain rules governing crop insurance given the extraordinary circumstances created by this year's weather and market conditions.

CIPA applauds the Administration for stepping up once again to mitigate the impacts of unjustified retaliatory tariffs against U.S. farmers and ranchers through the announcement of the Market Facilitation Program for 2019.

CIPA also greatly appreciates the efforts made by you and the Risk Management Agency (RMA) in working to ensure that crop insurance remains the vital tool on which farmers may always rely, especially in years of extreme peril such as this one.

Under Secretary Northey, consistent with your ongoing efforts in this regard, CIPA respectfully requests that the following actions be taken by RMA:

- With respect to prevented planting, CIPA encourages you to move the “no harvest” date for cover crops from November 1 to October 1 or earlier. There is increasing concern around tight supplies and a lack of available forage for livestock producers. CIPA believes that moving this date forward, and allowing chopping in the field in addition to haying and grazing, would address the concern in a way that would not have an adverse impact on crop insurance or the market for forages but would provide meaningful help to producers. CIPA believes that announcing this change early would help farmers better plan and minimize their losses in this very difficult year.
- Concerning Prevented Planting, as it relates to the Enterprise Unit (EU) discount, for those farmers whose ground is in an area that has received an abnormal amount of rainfall or is abnormally under water through the planting season, CIPA strongly urges you to waive the twenty acres planted in two sections requirement. CIPA agrees that geographic dispersion lowers risk in the case of prevented planting just as it does when a crop is planted. However, CIPA also believes that it is not appropriate for the EU discount to be withdrawn from a producer who had purchased EU coverage in the case

The Honorable Bill Northey

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where a crop clearly cannot be planted in a section because of the excess amount of rainfall during the planting season or the land is under water. The prevent planting loss in this instance is evident and the withdrawal of the EU discount would drive up the cost of insurance to a level not anticipated or budgeted by a producer. CIPA believes that offering relief on the "twenty in two" rule for those farmers truly prevented from planting because their farm received an excessive amount of rainfall during the planting season or was under water will provide critical help to those in the greatest need. We fear that failure to provide relief on this front will appear punitive to farmers who are among the most impacted by current conditions and, thus, reflect poorly on crop insurance.

- In regard to final plant dates and late planting periods, we understand and respect the need for clear dates and timelines for getting crops planted. These are built off long-term averages and expectations and any exceptions to these should be weighed very carefully. With that said, 2019 is an exceptional year with extraordinary rainfall in most regions and cool temperatures. CIPA therefore urges you to consider extending final plant dates, late planting periods and even release dates where appropriate so that farmers can have every option available to make a crop.

CIPA hopes you will carefully consider these suggestions, particularly given the extraordinary conditions this year. CIPA stands ready to answer any questions and to quickly and efficiently relay any changes or relief provided on these fronts to the growers in the field.

Sincerely,

A handwritten signature in black ink, appearing to read "William Cole". The signature is fluid and cursive, with a prominent initial "W" and a long, sweeping tail.

William Cole, Chairman

cc: Administrator Martin Barbre

cc: Dr. Robert Johansson