

**Bob Haney Testimony**  
**House Agriculture Committee**  
**Subcommittee on General Farm Commodities and Risk Management**  
**Hearing on Crop Insurance**  
**July 20, 2022**

Chairwoman Bustos, Ranking Member Scott, and members of the General Farm Commodities and Risk Management Subcommittee – thank you for allowing me the opportunity to testify today on the importance of crop insurance and the vital role it plays in providing risk management to farmers across the country.

My name is Bob Haney, and I am Executive Chairman of Agri-Sompo North America, one of the 13 Approved Insurance Providers that sell crop insurance policies to farmers and ranchers across the country. I'm also a farmer in Iowa. I've been in the crop insurance industry for more than 40 years and retired once, only to come back to lead Agri-Sompo and to continue work in an industry that I love and that I believe is of critical importance to American agriculture. Our company has a national footprint, so we serve farmers in every single state represented on this Subcommittee today. Agri-Sompo is also a member of the Crop Insurance and Reinsurance Bureau, the American Association of Crop Insurers, and National Crop Insurance Services.

The Federal crop insurance program was initially created in the 1930's, but it wasn't until the development of the public-private partnership and the positive changes made by Congress in the 1990's and 2000 that the program really became the cornerstone of risk management on the American farm. Farmers in 1980's and 1990's faced numerous challenges that were met by years of unreliable, untimely, and unbudgeted ad hoc disaster assistance. After spending billions in unbudgeted dollars, Congress decided that it was time to find a better way to help farmers across the country, so this body worked to make crop insurance more widely available and affordable to farmers and ranchers.

One of the things that is critical to the success of this program is its "three-legged stool" design. The risk of these policies is shared by crop insurance companies such as AgriSompo, the farmers who pay a premium for the policy, and the Federal government that helps to reduce the premium paid by farmers and helps to underwrite part of the risk for the policies. Each player has skin in the game, which helps to ensure the success of the program over the long-term.

As an Approved Insurance Provider, we underwrite crop insurance policies - which means we share in bearing the risk of policies, so the taxpayer is not solely responsible for covering losses. We hire agents to sell policies and adjusters to assess and confirm losses. We invest in technology, training and services to ensure the highest integrity of the program. This investment helps to ensure one of the lowest improper payment rates amongst USDA programs.

Crop insurance is a big tent. Our industry protects farmers of all types and sizes and covers 130 different commodities, including a significant number of specialty and organic crops. For those crops without individual policy coverage, Whole Farm Revenue insurance is available. And more recently, the program has been expanded to include dairy farmers and a more robust option for livestock producers.

We believe that crop insurance is one of the best tools available to farmers to protect against Mother Nature because crop insurance is a rapid response solution to disasters and is a farmer's first line of defense against climate change. Private companies like mine are typically able to deliver indemnity

payments to farmers in fewer than thirty days after a loss occurs – not months or years later. The private sector delivery of crop insurance also means that farmers have a choice in who they do business with, and this choice ensures that a farmer is able to find an agent and a company that can provide them with the best service for their operation.

The cost-share with the Federal government helps to keep crop insurance affordable for most farmers, while also ensuring that the program is fiscally responsible. Although Federal crop insurance has been around since 1938, it wasn't fully utilized until almost 60 years later. During this time, natural disaster management typically came solely in the form of ad hoc disaster bills, which were slow in delivering assistance, very costly, and relied completely on taxpayers to fund. It was the legislation created in 1994, 2000 and 2014 that helped kick start involvement from the private sector, made the program more actuarially sound, encouraged participation, and improved availability of coverage. With the continued bipartisan support for the public-private partnership crop insurance provides, farmers are able to receive a reliable and cost-efficient safety net to protect both themselves and the future of farming.

Crop insurance is also flexible. Farmers can tailor their coverage to fit the needs of their specific operation. The program is continuously evolving and improving to meet the needs of America's farmers and ranchers. Some recent advances have included cost-conscious hurricane endorsement policy to assist farmers who have been impacted by increasingly severe storms as well as an endorsement for farmers who choose to split-apply nitrogen on their field.

If a farmer or commodity organization doesn't believe there is an existing policy that works on their farm, the Federal government will actually provide significant reimbursement to them to develop a product that does through the 508(h) provisions in the Federal Crop Insurance Act. And most changes don't require a farm bill or any other legislation. It just requires an interested party to be willing to work with the Federal Crop Insurance Corporation Board to design a better product in an actuarially sound and marketable way.

We know that crop insurance has not solved every problem that America's farmers have faced in recent years. The program simply isn't designed to address every type or cause of extreme loss. The program is also, by statute, prevented from covering some losses – such as those that occur after the harvest of a crop. But for those losses that can be appropriately covered by crop insurance – such as in-season commodity price decreases, yield losses due to Mother Nature, and even squeezes in farmer margins – there is no better way to get assistance into the hands of farmers in a timely fashion than through crop insurance.

The bottom line is that the crop insurance program is successfully meeting the needs of thousands of farmers who can tailor their risk management needs to serve them best with the help of a local agent. This protection also represents a good value for America's taxpayers when compared to other alternatives for addressing losses incurred by American farmers.<sup>1</sup>

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<sup>1</sup> More on the structure and benefits of crop insurance can be found in the attached one-pagers that are utilized by the Crop Insurance Coalition. This Coalition consists of a variety of farm organizations, agricultural lenders, ag input organizations, the crop insurance industry and conservation groups that support protecting and preserving Federal crop insurance.

### Crop insurance complements climate-smart agriculture

As the Committee continues its work in evaluating the intersection between agriculture and climate change, it is important to note that a farmers' best tool in defense against climate change is crop insurance. Crop insurance and climate-smart agriculture intersect in positive ways. For example, in order to be eligible for crop insurance, farmers must follow Good Farming Practices, as defined by local agronomic experts. Farmers who follow those Good Farming Practices that help mitigate climate change – like no-till farming and planting cover crops, for example – can see lower production costs, better soil health and increased yields, all of which can lower their crop insurance premiums and increase their production guarantees in an actuarially sound way. By promoting Good Farming Practices that can help lead to lower premiums, crop insurance helps complement healthy soil and improve conservation efforts. The *Journal of Environmental Management* published a peer-reviewed study that credited crop insurance with encouraging the adoption of conservation practices. In fact, one key takeaway from that study is that farmers who purchase crop insurance are *more* likely to undertake climate-smart agricultural practices than those who do not.

The 508(h) process is another tool that can be used to enhance the intersection between climate and crop insurance. 508(h) allows for individuals or groups who would like to add additional insurance products into the marketplace a pathway for getting those products considered and approved by the Federal Crop Insurance Corporation Board of Directors. Products considered under this process are farmer-driven, actuarially sound, and follow sound insurance principles. Recent examples of products approved by the FCIC Board, which highlight the effectiveness of the 508(h) process in driving adoption of climate-smart agriculture practices, include a policy to support split-application of nitrogen and the Sprinkler Irrigated Rice Endorsement, with other climate-related policies currently under consideration.

When Congress considers legislative proposals addressing the intersection between climate and crop insurance, we would like to share the criteria by which we will evaluate such proposals.

- If additional intersections are going to be explored, these intersections should provide farmers with incentives, rather than mandates or regulation, to adopt climate-smart agriculture.
- Incentives must be designed so that insurance policy premiums continue to be set at appropriate rates for the integrity and success of the crop insurance program.
  - By statute, crop insurance premiums must align with the risk associated with the policy, and because of the self-correcting nature of crop insurance, premiums adjust to reflect farmers' individual risk and production.
  - The methodology for setting premium rates inherently takes climate into account. For example, premium rates are determined from more recent years of loss experience, thereby reflecting changes in weather and weather patterns. The program performs well, with premiums continuing to match indemnities paid to farmers, thereby ensuring the financial stability of the program for farmers, taxpayers, and the private sector providers of policies.
  - Agronomic data is critical to making changes to total crop insurance premiums, whether those premium changes are for climate-smart agriculture practices or other reasons.

- Lawmakers seeking to reward farmers for climate-smart practices should first look to the flexible 508(h) process that offers potential for new and creative solutions for addressing the intersection of climate change and risk management. It is important that farmers be incentivized in the adoption of Good Farming Practices that are climate-smart and that the crop insurance program not be turned into a policing mechanism for these practices. If incentives are created, they should be evaluated to ensure that they do not encourage practices that could harm yields and that there are appropriate incentives available for varying regions and crops.
- New climate initiatives should be funded on their own terms and not take money away from the crop insurance program.
  - Crop insurance is vital to America's farmers and has been working well for them for over 80 years. It is a critical tool for farmers as they adapt to the changing climate pressures. Weakening the program in any way will do more harm to farmers coping with climate change and will only increase the need for ad hoc disaster programs.
  - The program must be adequately funded in order to continue to provide this timely and effective risk management tool for farmers.

#### **Crop insurance and disaster assistance**

Crop insurance provides certainty to farmers and their lenders and it is targeted directly to actual losses incurred by a farmer. If a farmer has a loss, they will typically receive a crop insurance payment within 30 days of a claim being finalized through an efficient private-sector delivery system. By contrast, other types of assistance can often take a year, or oftentimes more than a year, after a disaster before a farmer receives a payment. Farmers get to choose their level and type of coverage, which provides a predictable financial backstop for lenders in times such as these where input costs are rising rapidly, and farmers are borrowing more to purchase these inputs.

The last several years have seen a drastic increase in ad hoc disaster payments as unprecedented crises have hit rural America. As an industry, we are continuously evaluating where the gaps in the program exist and what we can do to help more farmers better manage their risk through the Federal crop insurance program. This has been particularly true in the last few years of turbulence. For example, as ad hoc assistance was required to address increasingly intense hurricanes, the Risk Management Agency developed and the industry implemented a simple, inexpensive coverage for hurricanes that is based on wind speed and can help to address the concerns of many southern farmers who have often felt that more traditional coverage is too expensive for their needs.

Policies have also been developed to assist micro farms that are contributing to the diversification and strengthening of our supply chains and better options for our nation's livestock producers have been implemented. Existing margin insurance policies are also being evaluated to ensure the best coverage possible for farmers during these tumultuous times.

This is not to say that crop insurance can solve every problem. However, if this Committee considers a permanent disaster program, this legacy of improvement should lead the Committee to pose several questions during the development of the next farm bill. Where are there gaps in the safety net? Can and

should these gaps be filled by crop insurance? What gaps would not be appropriate to cover through the crop insurance program? How do you prevent overlap in payments between crop insurance and other programs? How do you ensure that any new programs that are created do not compete with the efficient and already-successful program that is crop insurance?

Regarding any proposals considered by this Subcommittee and the full House Ag Committee, we:

- Discourage any disaster assistance program that would disincentivize farmers from purchasing crop insurance. Often crop insurance and disaster programs work together through purchase requirements to ensure that crop insurance participation is encouraged. However, even the existing ad hoc programs created by USDA and authorized by Congress, as they are designed today, discourage farmers from purchasing the highest levels of coverage available to them.
- Oppose double paying farmers for the same loss. In addition to indirectly discouraging crop insurance purchases, a duplicative policy design is not in the best interest of the taxpayer or the farmer over the long-term.
- Oppose any disaster package that is funded by cutting crop insurance.
- Encourage the use of the 508(h) process for the creation of additional policies that can better address existing gaps. The predecessors on this Committee understood the ever-changing agricultural landscape and designed mechanisms within the crop insurance program, including 508(h), that would help agriculture adjust to changing times. These processes should be protected and utilized moving forward.

#### **Improvements to 508(h)**

Given the multiple mentions in this testimony of 508(h), I would be remiss not to mention that we are working actively with the Risk Management Agency and look forward to working with this Subcommittee to ensure transparency and timeliness in the rollout of future products submitted through 508(h) process. In the past, companies have been faced with the implementation of new crop insurance products at such a late date and with so little information that it has been difficult to support a successful product launch for our farmer customers. When new products are rolled out, we want to see successful product launches, and the best way to ensure success is to have transparency with the companies that will be responsible for underwriting, selling and servicing the product.

For example, we recently implemented a 508(h) product that was released two months after our training programs were completed and just weeks before sales closing date. We spent hundreds of thousands of dollars to rework our IT systems and rushed to put out information on the product to our internal team, our agents, and our farmer customers. But because the product was rushed and companies, agents and our farmer customers were not comfortable with the product, we only sold 17 policies this year.

**Ultimately, we want what is in the best interest of our farmer customers and the program, and we believe more transparency and timeliness in the 508(h) process is critical to those interests.**

#### **Concluding Remarks**

Crop insurance is the premier risk management tool for the American farmer. A number of factors combine to make crop insurance the cornerstone of many farmers' financial and risk management plans: the ability to tailor coverage to their own operation at a meaningful level and affordable price, the

comfort of working with a local and trusted insurance professional and the knowledge that losses will be covered in a timely manner and before the banker comes to collect. Throughout time, these crop insurance benefits have accounted for the success and acceptance of the program and will continue to do so well into the future.

Again, thank you for having me here today and for your continued support of the crop insurance program. I look forward to answering any questions you have, and I am happy to be a continuous resource for you during the upcoming farm bill discussions.

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# Protect, Preserve & Improve Crop Insurance

In the coming year, we urge Congress to protect, preserve and improve the program:

- **Keeping crop insurance affordable to farmers.**
  - **Maintain the size and diversity of the risk pool by keeping farmers of all sizes in the program.**
  - **Maintain the efficient and effective private sector delivery of crop insurance.**
  - **Work with farmers, agents, AIPs and USDA to identify potential actuarially sound improvements to crop insurance.**
  
  - **Crop insurance protects when disaster hits.**
    - In 2019, a record setting number of acres were not planted due to flooding and excess moisture. As the nation's premier risk management tool for farmers, crop insurance protected farmers from losses associated with not being able to plant their crop. Approved Insurance Providers (AIPs) have already paid out almost \$4.6 billion in indemnities, with more payments expected in the coming months.
    - In 2018, more than \$7.2 billion in indemnity payments were made for disasters including hurricanes and drought, all while some farmers are still waiting on their ad hoc assistance dollars to arrive.
  
  - **Crop insurance is a successful public-private partnership, and unlike other farm programs or ad hoc disaster assistance that is 100% paid for by the taxpayer, crop insurance losses are shared by farmers, private sector companies, and the government.**
    - Premium rates are set by the government and farmers cannot be refused a policy.
    - Crop insurance is a rapid response solution to disasters. Private sector delivery typically allows farmers who have losses and have met their deductible to receive indemnity payments in less than thirty days. Ad hoc disaster assistance cannot be relied upon by lenders and isn't delivered in a timely or precise manner.
  
  - **Crop insurance is purchased by farmers to protect against yield and revenue losses due to natural disasters and single-year declines in prices. It is the only safety net available to all types and sizes of producers in all regions.**
    - Crop insurance is a cost share with farmers where farmers pay a discounted rate for their crop insurance premiums, which total \$3.5 to \$4 billion each year.
    - On average, farmers meet a 27% deductible before they receive a crop insurance indemnity payment.
    - About 30% of crop insurance policies pay an indemnity in an average year. It is not unusual for farmers to pay their crop insurance bill for years without
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receiving an indemnity payment.

- **Crop insurance is critical to the rural economy. Without crop insurance most producers simply cannot qualify for the operating loans needed to plant a crop.**
  - Due to the extremely tight margins and incredible risk in agriculture, regulators examining ag lending portfolios typically insist borrowers have crop insurance to ensure repayment of loans.
  - Increasing the cost of farmer-paid premiums or disqualifying some farmers from participating in the crop insurance program will force farmers to decrease coverage, making it more difficult to qualify for operating capital and loans in the current ag economy.
  - Crop insurance protects jobs, both on and off the farm. Crop insurance enables farmers to rebound quickly after disaster and allows producers to pay credit obligations and other input expenses, such as fertilizer or farm equipment.
  
- **By statute, crop insurance is actuarially sound. That means a large and diverse risk pool is needed to make premiums affordable. Removing some farmers from the crop insurance risk pool via means testing will impact the rates for every single farmer still participating in crop insurance.**
  
- **Crop insurance has environmental benefits.**
  - Conservation compliance measures, including wetlands protections and highly erodible lands protections, are a requirement for receiving a discount in the purchase of crop insurance.
  - The 2018 Farm Bill included language to clarify that planting soil-nurturing cover crops is allowed under crop insurance policies.
  
- **Crop insurance is nimble.**
  - Crop insurance improves each year to meet the needs of all types of farmers.
  - Where there are gaps in the program, USDA, stakeholders and the private sector have mechanisms available to fill these gaps with meaningful risk management tools.



# Oppose Cuts to Farmer Discounts for Crop Insurance

There have been various proposals to cut the discount farmers receive when purchasing crop insurance. These proposals vary in the details, but are fundamentally flawed, regardless of how the cuts are structured.

- **Any reduction in the discount for crop insurance will increase the cost of crop insurance to farmers.** Premium support does not go to crop insurance companies or agents – it simply keeps crop insurance affordable for farmers. According to a national public opinion poll released in May 2016, nearly 80 percent of Americans said they supported giving farmers discounts on insurance premiums and the vast majority agreed that the current premium and deductible amounts absorbed by farmers were appropriate.
- **The alternative to affordable and viable crop insurance for which farmers pay about \$3.5 to \$4 billion per year in premiums is ad hoc disaster assistance that is 100% paid for by the taxpayer and may not arrive until more than a year after the disaster.** Crop insurance is the only component of the farm safety net that farmers can literally take to their banker, thereby supporting the rural economy and protecting jobs on and off the farm.
- **Any increase in the cost of crop insurance will decrease demand for the product and increase the likelihood for calls for ad hoc disaster assistance.** Economists can debate how much of a decrease in demand will result from an increase in cost, but the fundamental fact remains: if you increase the cost of crop insurance for farmers, they will buy less crop insurance. This is particularly true in the current environment of historically low farm income and increased market volatilities.
- A recent study by Keith Coble and Brian Williams from Mississippi State found that farmers are willing to pay out-of-pocket no more than four percent of the expected value of their crop on crop insurance. So, as the cost of insurance increases, purchase levels will decrease.
- As commodity prices decline and farmers' budgets tighten, an increase in the cost of crop insurance is only more likely to result in a decrease in crop insurance purchases. Recent analysis found that reducing the aggregate subsidy rate by 14 percentage points could decrease the acres covered by crop insurance by 17%, potentially further increasing the pressure for ad hoc disaster assistance.

- As a reference point, recent analysis has shown that a 10-percentage-point decrease in premium assistance would increase the bill a typical Midwest grain farmer pays by 50% for a policy at the 70% coverage level. On a policy with an 80% coverage level, the farmer's bill would increase by over 30%.
- To gauge the impact of a reduction in the discount for crop insurance, we have history to guide us. Premium discounts were increased in 2000 with passage of the Ag Risk Protection Act (ARPA). Prior to ARPA, both premium discounts for farmers and crop insurance participation levels were much lower than they are today.

	<b>1998 Crop Year</b>	<b>2018 Crop Year</b>
<b>Acreage</b>	181 million	<b>369.9 million</b>
<b>Total Premium</b>	\$1.8 billion	<b>\$10.0 billion</b>
<b>Farmer Paid Premium</b>	\$929 million	<b>\$3.8 billion</b>
<b>Premium Assistance</b>	\$946 million	<b>\$6.2 billion</b>
<b>Insured Liability</b>	\$27.9 billion	<b>\$104.1 billion</b>

*Source: USDA RMA, March 9, 2020*

# Means Testing and Crop Insurance

Federal crop insurance is, by statute, required to be actuarially sound. Over the long-term, every dollar of indemnities (payments to producers for losses) must be equal to the assigned premium. So when adjusted gross income (AGI) limits or premium support caps are proposed for farmers, what does that mean for farmers and crop insurance?

- **Every single producer who purchases crop insurance will be impacted.** It might only be a small number of farmers who are directly impacted by a premium subsidy cap or an AGI limit, but don't be fooled – every single producer in the program will be indirectly impacted. As limitations are placed on the discounts for crop insurance, farmers will buy less crop insurance or not buy it at all. The impact will be largest for lower risk farmers, crops and regions. That will change the “risk pool.” As the pool becomes more risky, the premiums for every farmer in that risk pool are likely to increase.
- **GAO analysis shows that a \$40,000 premium support cap would have affected 26% of total insured liability in the crop insurance program in 2011.** So while a premium subsidy cap might only impact a small number of producers, it would put a very large portion of crop production at risk.
- **USDA has called a cap on premium support “ill advised,” noting regions with high-value crops, large-acreage farms, and/or a higher risk of crop loss would be especially hard hit.** High-value crops would include such things as fruits and vegetables and organic crops. Arizona, California, Georgia, Hawaii, Louisiana, New Mexico, North Carolina, North Dakota, South Carolina, South Dakota and Utah have all been identified by USDA as shouldering disproportionate effects under a cap on premium support.
- **Whole-Farm Revenue Protection will also be disproportionately affected.** The average premium subsidy nationwide for 2017 was \$38,000, indicating that many policies would be above a \$40,000, or even \$50,000 cap. In 9 states, the average premium subsidy is above \$50,000 (California, Delaware, Florida, Georgia, Louisiana, North Carolina, New Jersey, South Carolina, and Texas).
- Any means testing proposal, whether an AGI limit or a premium support cap, that has significant budget savings directly translates into an increase in cost to farmers. **A dramatic increase in premium costs on a large percentage of acres would inevitably lead to decreased participation in crop insurance.**
  - To be clear, reduced participation in crop insurance impacts every producer. Because crop insurance is required by law to be actuarially sound, as the risk pool changes, premium rates must change to reflect the risk. Reduced coverage on a large number of acres will change the riskiness of the overall pool, thereby altering rates for everyone in the program. It's critical to remember that in looking at risk pools it is not the number of farmers impacted, but the number of acres impacted that will alter premiums.

- Reduced participation can only lead to an increase in calls for ad hoc disaster programs as farmers no longer have the critical protection of crop insurance.

# Oppose Cuts to the Private Sector Delivery System for Crop Insurance

- **Crop insurance is a successful public-private partnership.** The program is federally regulated and delivered by the private sector.
  - Federal regulation ensures that farmers cannot be refused protection and that companies cannot raise premiums or impose special standards on any individual producer. Premium rates are set by the government and are based on actuarial soundness.
  - Losses are shared by farmers, private sector companies and the government. The government, and therefore taxpayers, also share in any gains.
  - Private sector delivery allows farmers who have losses and have met their deductible to typically receive indemnity payments in less than thirty days, whereas ad hoc disaster assistance or other government safety net programs can take a year or more to provide assistance to farmers.
  - According to a national public opinion poll released in May 2016, voters agreed by a 20-point margin that farmers and taxpayers were better served by private companies delivering crop insurance instead of the government.
- **The private sector delivery system has already absorbed significant cuts through the 2008 farm bill and administrative actions taken in 2011.** These cuts are estimated to be \$12 billion over a 10 year window.
  - One such Administrative change already decreased the targeted rate of return for crop insurance companies to 14%.
  - This target rate is neither a guarantee nor a profit for crop insurers. Profits are significantly lower than the target rate of return.
  - As in farming, the crop insurance sector will have good years and bad years. The good years are particularly important to help sustain the sector during the bad years.
- **Proposals to cut the private sector delivery system would harm the rural economy and negatively impact service and timely delivery of payments when there is a disaster.**
  - In order to deliver timely service, the crop insurance industry employs thousands of professionals in rural America. More than 20,000 licensed agents, certified claims adjusters and company staff are committed to getting farmers who have sustained losses and met their deductible back on their feet quickly.
- **Former USDA Farm and Foreign Agricultural Services Under Secretary Michael Scuse** might have said it best during the devastating drought of 2012: "To this day, I have yet to have a single producer call me with a complaint about crop insurance. This is a testament to just how well your agents, your adjusters, the companies, and the Risk Management Agency worked together in one of the worst droughts in the history of this nation."

## CROP INSURANCE MYTH VS. FACT: BEGINNING FARMERS AND RANCHERS

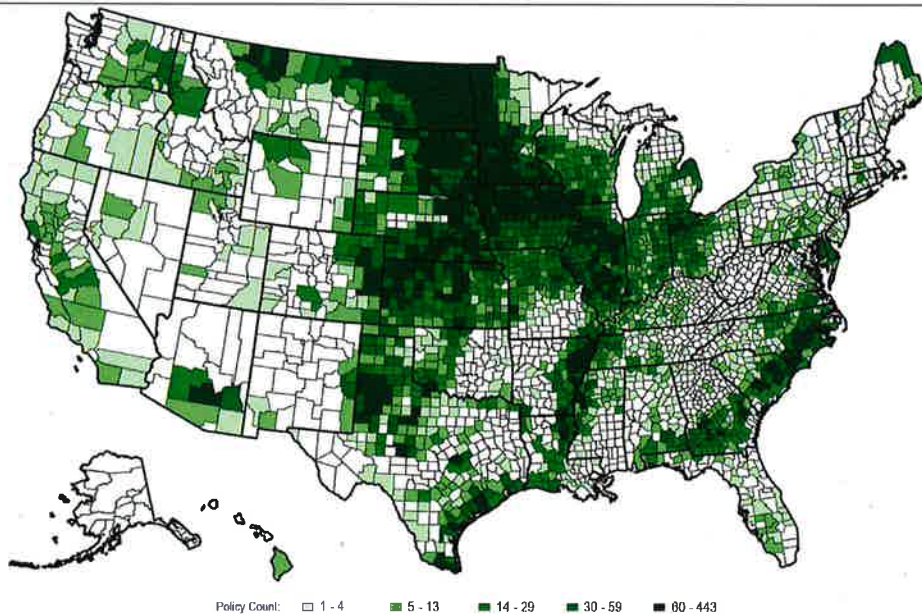
**MYTH:** Crop insurance makes it more difficult for beginning farmers and ranchers to enter the farming business.

**FACT:** The 2018 Farm Bill maintained and expanded provisions to make crop insurance an even better risk management tool for beginning farmers and ranchers.

More than 17,000 farmers used the beginning farmer and rancher benefits in crop insurance in reinsurance year 2021.

- These farmers insured more than 5.2 million acres of farmland.
- The beginning farmer and rancher benefits include a higher premium discount and assistance in building a yield history more quickly that is in line with what the land produced before being operated by a beginning farmer or rancher.
- Almost every state already has beginning farmers and ranchers utilizing these benefits.
- The ability of beginning farmers and ranchers to purchase crop insurance can be linked to their ability to obtain credit as well.

### BEGINNING FARMER AND RANCHER POLICIES BY COUNTY REINSURANCE YEAR 2021



Source: Risk Management Agency, USDA

## CROP INSURANCE MYTH VS. FACT: CONSERVATION

MYTH: Crop insurance encourages farmers to tear up ground.

**FACT: Overall, acres in production and erosion have decreased. Additionally, the 2014 Farm Bill expanded the conservation compliance provisions and Sodsaver provisions to apply to crop insurance.**

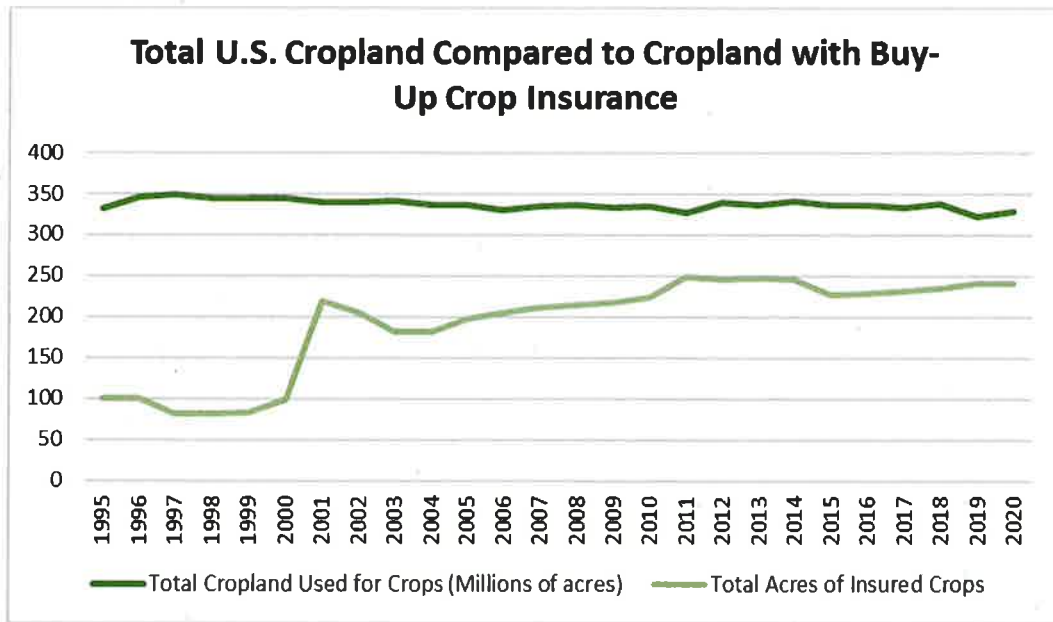
Farmers must comply with highly erodible land conservation and wetland conservation provisions. They must certify that they will not:

- Produce an agricultural commodity on highly erodible land without a conservation system;
  - Plant an agricultural commodity on a converted wetland; or
  - Convert a wetland to make possible the production of an agricultural commodity.
- 
- These compliance provisions have been linked to the ability to receive commodity programs since 1985, but the 2014 Farm Bill relinked those provisions with eligibility for premium support paid under the federal crop insurance program.
  - In addition, the 2014 Farm Bill expanded a Sodsaver provision which reduces the federal crop insurance premium discount available to landowners by 50 percent for four years on any lands they convert from native prairie to cropland.
  - The 2018 Farm Bill explicitly deemed cover cropping a “good farming practice” when paired with an approved termination date for the cover crop. The purpose of the provision was to ensure that crop insurance would not discourage farmers from adopting cover crop practices.
  - A peer-reviewed study in the Journal of Environmental Management found that crop insurance can actually be complementary to the adoption of conservation practices. Adoption rates of conservation practices like cover crops and no-till are higher amongst growers who utilize crop insurance versus those who don't. <sup>2</sup>

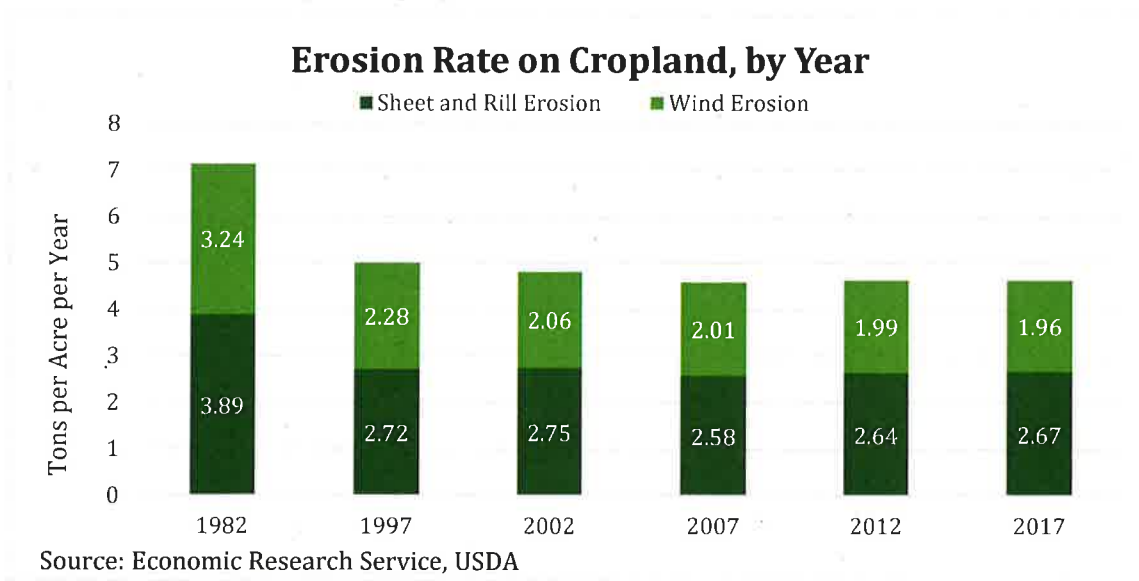
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<sup>2</sup> [Crop insurance: A barrier to conservation adoption? - ScienceDirect](#)

- The charts below tell an entirely different story than the myth suggests. The number of acres covered by crop insurance has almost tripled since the 1990s—from fewer than 85 million acres to more than 240 million acres today, while overall crop acreage has decreased. Over the same period, USDA’s Natural Resources Inventory shows cultivated cropland has dropped from 349 to 329 million acres. In addition, erosion has decreased significantly over that period.



Source: Risk Management Agency, USDA



Source: Economic Research Service, USDA



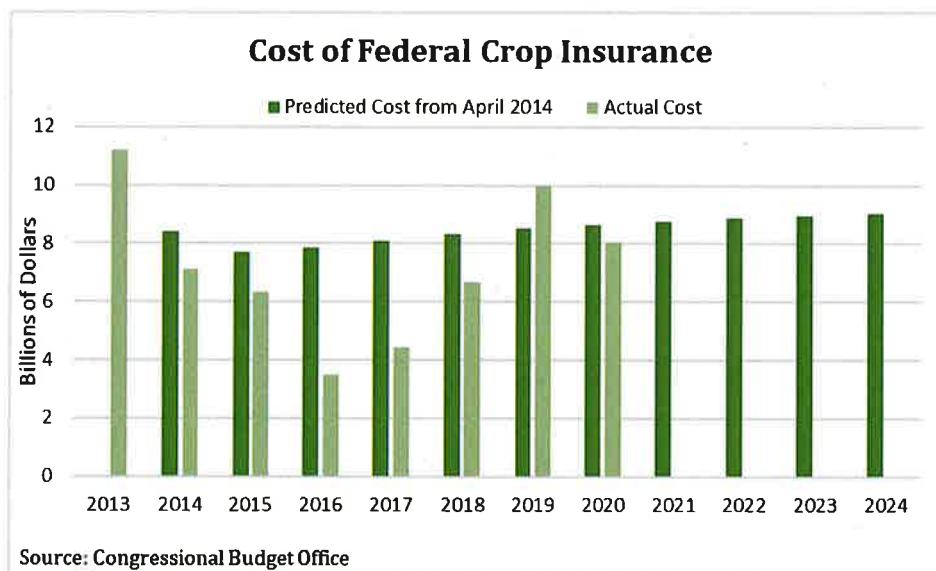
## CROP INSURANCE MYTH VS. FACT: CROP INSURANCE AND THE BUDGET

MYTH: Crop insurance is over budget.

**FACT: Crop insurance costs are currently well below budget.**

Annual crop insurance costs peaked in 2013 at \$11 billion, mainly due to the devastating 2012 drought combined with the high value of crops at the time.

- According to the first CBO estimates provided after the passage of the 2014 Farm Bill, the actual cost of crop insurance has been around \$11 billion under budget between 2014 and 2020.



- Crop insurance has consistently been under budget, but a couple of clarifying points on the budget:
  - First, there are several farm programs that are not crop insurance. Crop insurance is, by statute, an actuarially sound program that farmers pay for out of their own pockets and is delivered efficiently and effectively by the private sector.
  - The cost of crop insurance is driven not only by disasters but by the cost of commodities. Like with any insurance, the more valuable the item is, the more expensive the insurance will be. As the value of commodities rise and fall, so too will the cost to insure them.
  - The overall cost of crop insurance can also be reduced by underwriting gains achieved by the government in years of good performance with lower losses.
  - The forward-looking budget estimates for the cost of crop insurance, by and large, remain consistent from year to year, as the Congressional Budget Office

does not attempt to make predictions about what Mother Nature will do in any given year.

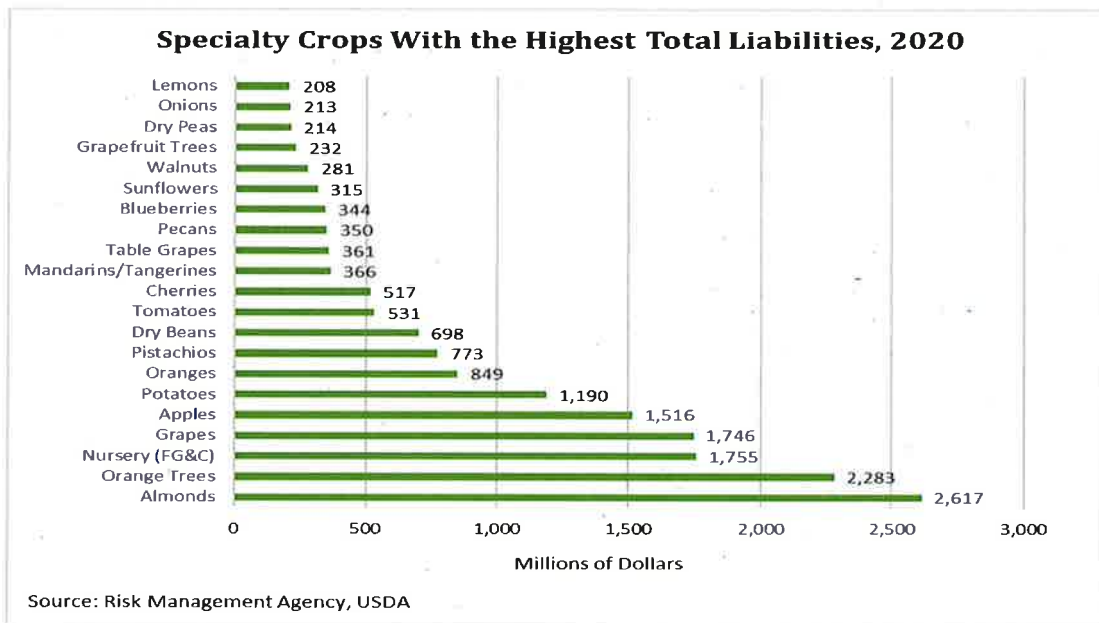
## CROP INSURANCE MYTH VS. FACT: CROP TYPES

**MYTH:** Crop insurance is only for big corn, soybean, wheat and cotton farmers.

**FACT:** Crop insurance is available for more than 125 crops and to farmers of all sizes and in all 50 states.

The number of acres of fruit, vegetables, and other specialty crops covered by crop insurance increased from 7.7 million acres in 2009 to about 10 million acres in 2020. That's an increase of 30% in just eleven years.

- Many specialty crops are insured at rates similar to row crops such as corn, soybeans, wheat, and cotton. For example, 70% of apple and 71% of almond acres are insured, as well as 77% of cranberries.<sup>3</sup>



<sup>3</sup> Risk Management Agency, USDA

## CROP INSURANCE MYTH VS. FACT: DISASTER ASSISTANCE

**MYTH:** Farmers don't need crop insurance, because when disaster strikes, they can simply turn to ad hoc disaster assistance.

**FACT:** Crop insurance provides certainty to farmers and their lenders that ad hoc disaster assistance cannot provide because, by definition, ad hoc assistance is never a certainty and can change from year to year. Crop insurance is the timeliest component of the farm safety net, with payments made immediately after a loss is incurred.

- If a farmer has a loss, they will typically receive a crop insurance payment within 30 days of a finalized claim through an efficient private-sector delivery system. Other types of assistance can often take a year or more after a disaster before a farmer receives a payment.
- Crop insurance payments are tied directly to the loss incurred by a farmer and the coverage level purchased by the farmer. The deeper the loss, the higher the indemnity

### Federal Crop Insurance Program Growth for Specialty Crops



SOURCE: RISK MANAGEMENT AGENCY, USDA

payment a farmer will receive.

- Crop insurance can provide coverage to more than 125 commodities every year and covers various types of losses. Whole farm revenue protection is also available for those crops that do not have an individual policy available. This gives crop insurance more breadth and depth than any other component of the farm safety net.
- Crop insurance is created to be flexible to meet the changing needs of America's farmers and ranchers. Crop insurance has the regulatory flexibility to make certain adjustments mid-season to address extreme weather events. New policies can be continuously developed to fill gaps identified in the program's protection.
- Often, crop insurance and ad hoc disaster assistance work together for farmers who purchase insurance to be eligible for higher ad hoc assistance payments. Crop

insurance purchase requirements are also typically included in Congress's ad hoc disaster assistance bills.

## CROP INSURANCE MYTH VS. FACT: FARM INCOME

MYTH: Most agricultural production comes from large farms that can manage their own risk.

**FACT: Farmers of all sizes use crop insurance, and crop insurance provides meaningful collateral to lenders when farmers seek operating capital.**

- Crop insurance enables farmers, both big and small, to manage their risk in a way that helps them invest in and improve their operations. Many farmers would not be able to afford to do this if they were forced to self-insure and could not qualify for loans.
- Including farms of all sizes in the crop insurance program diversifies the risk of the program across a greater number and variety of farms, which improves the actuarial soundness of the overall program. This soundness is a benefit to all, including taxpayers.
- During these uncertain times, crop insurance is even more important to farmers looking to lenders for the operating capital required to continue to farm. Lenders look at crop insurance as a form of collateral for an operating loan, and it can enhance a prospective borrower's capacity to qualify for a loan.
- Although crop insurance payments are a small percentage of some farmers' overall household income, in times of crop loss and economic downturn, receiving a crop insurance indemnity payment can make the difference between being able to continue farming for another year or not.

**"We utilize crop insurance when incidents happen that are completely beyond our control. And we are thankful we have it because it's saved our lives. Crop insurance has helped my dad sleep better at night." – Alicia Abendroth (New York Apple Farmer)**

## CROP INSURANCE MYTH VS. FACT: HARVEST PRICE

MYTH: Harvest price coverage eliminates all risk from farming and is unnecessary.

**FACT: Even with the harvest price coverage, farmers must meet a deductible for loss and pay a premium for harvest price coverage. Risk still exists for these farmers. The harvest price coverage simply provides these farmers with the replacement value for their lost crop.**

The harvest price coverage in crop insurance policies provides protection on lost production at the higher of the price projected just before planting time or the price at harvest.

- There are two very practical and common scenarios in agriculture that make harvest price coverage a critical risk management tool.
  - Harvest price coverage is critical to farmers who use forward contracting as another means of mitigating their risk. If there is a natural disaster that results in a large drop in the production of a commodity, the price of that commodity is likely to increase sharply. Many farmers enter forward contracts before harvest to sell a portion of their production at a set price. Usually, these contracts pay the farmer for the production they deliver after harvest based on harvest prices. If the farmer loses the crop, they are still obligated to deliver under the forward contract. But since the crop is lost, the farmer would have to buy the commodity on the open market at the harvest price or financially settle at the harvest price to meet their contractual obligations. The purpose of harvest price coverage is to provide the farmer with sufficient funds to settle the forward contract. Without the harvest price coverage, the farmer's loss would be indemnified at the lower price projected at the start of the season.
  - Harvest price coverage is critical to livestock producers who grow their feed. Harvest price coverage ensures these farmers will have the funds to afford the higher feed costs when they need to purchase feed.
    - Caleb Ragland, a farmer from KY, said, "Harvest price coverage in crop insurance proved its importance during the 2012 drought on my farm. Having forward contracted much of my expected corn production, I was forced to buy back all my contracts, so I had enough corn to feed my hogs. Without the harvest price option, I would have faced a devastating choice between selling my hogs or paying the \$2 a bushel difference in my contracts and the current market price from my operation budget."
- Think of harvest price coverage like the replacement value for car insurance, as explained in a popular insurance commercial<sup>4</sup>:
  - "You totaled your brand-new car. Nobody's hurt, but there will still be pain. It comes when your insurance company says they will only pay three-quarters of what it takes to replace it. What are you supposed to do? Drive three-quarters of a car? Now, if you had...new car replacement, you'd get your whole car back. I guess they don't want you driving around on three wheels. Smart."

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<sup>4</sup> Liberty Mutual, 2016 <https://www.youtube.com/watch?v=5twvX-zo0v4>

## CROP INSURANCE MYTH VS. FACT: IMPROPER PAYMENT RATE

MYTH: Waste, fraud and abuse are rampant in crop insurance.

**FACT: According to the Risk Management Agency (RMA) at USDA, the improper payment rate for crop insurance for fiscal year 2021 was 1.41percent, which is less than the average rate for all government programs (4.67 percent). Actual fraud is only a small fraction of improper payments in the program.**

All participants in crop insurance - farmers, agents, crop insurance companies, reinsurers, and taxpayers - are dedicated to detecting and eliminating fraud, waste, and abuse in the program.

- Crop insurance uses data mining to identify potential improper payments and also uses spot-checking of the work of insurance agents and adjusters.
- Because private crop insurance companies have money at stake with every policy written, these companies also spend money on training and monitoring.
- Actual fraud rates in the program are even lower than the improper payment rate reported by RMA. Improper payments are defined as over-payments, under-payments, and simple errors such as inadequate documentation. The improper payment designation does not necessarily include the existence of any intent to defraud the government.

### CLASSIFICATION OF IMPROPER PAYMENTS FISCAL YEAR 2020

Types of Errors	% of Improper Dollars	Reason for Improper Payments
<b>Production Reports - Support Units</b>	26%	Production evidence did not support unit structure certification
<b>Production Records - Acceptability</b>	20%	Unacceptable, unverifiable, and/or missing production records
<b>Audit of Actual Production History</b>	18%	Production evidence did not match the actual yields certified.
<b>Were Insurability Conditions Met</b>	16%	Insurability criteria was not met, did not meet the definition for insurability
<b>Share</b>	8%	Incorrect share reported, records do not support reported share
<b>Production/Revenue to Count</b>	4%	Transcription errors, production to count not determined correctly, allocation errors
<b>Uninsured Causes</b>	2%	Adjuster did not follow correct procedures for assessing uninsured causes of loss,
<b>Certification Form</b>	2%	Incomplete certification form, certification form not completed,
<b>Application Signature</b>	2%	Application not signed timely, not signed by someone with proper authority
<b>Additional Error types</b>	2%	All other errors



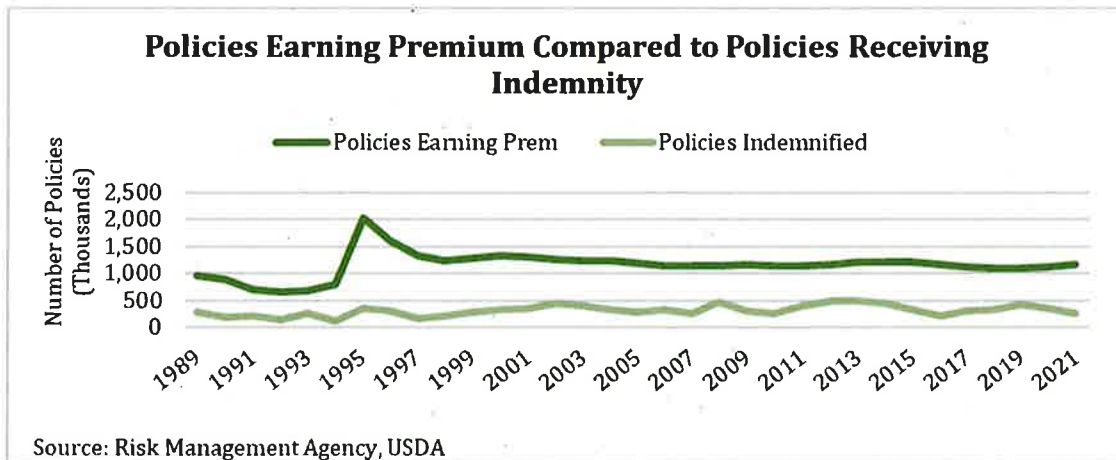
## CROP INSURANCE MYTH VS. FACT: INDEMNITY PAYMENTS

**MYTH:** Farmers get crop insurance indemnity payments every year, and the program is so rich that farmers farm the program instead of the ground.

**FACT:** Farmers can pay crop insurance premiums year in and year out without receiving a single indemnity payment. In fact, on average, only about 30 percent of policies pay an indemnity in any given year. Any farmer who tries to make a living “farming” crop insurance isn’t going to be in business very long.

Since 1989, crop insurance policies have covered nearly \$2.1 trillion in liabilities to guard against losses. During that same time, total premiums<sup>5</sup> for crop insurance were \$189 billion, and farmers were paid \$157 billion in indemnities. By statute, the loss ratio must be equal to or less than 1.0.

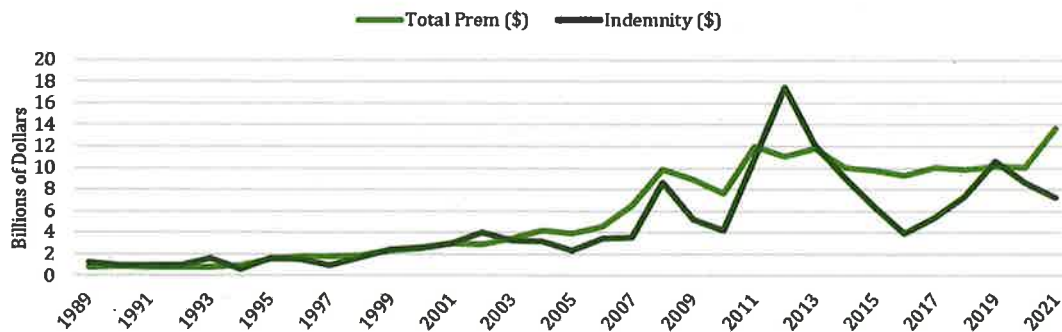
- Indemnity payments are made to farmers only when production or price disruptions result in crop yields or revenues below those guaranteed by the insurance contract. When production or revenues are above those guaranteed by a crop insurance policy purchased by a producer, an indemnity payment is not made, but the farmer must still pay the premium due to the insurance provider.
- Similar to weather risks, the cost of indemnities paid vary from year to year. In 16 of the last 20 years, total crop insurance premiums have exceeded indemnities paid to



farmers.

<sup>5</sup> This includes farmer paid premium as well as the premium discount.

### Total Premium Compared to Total Indemnity



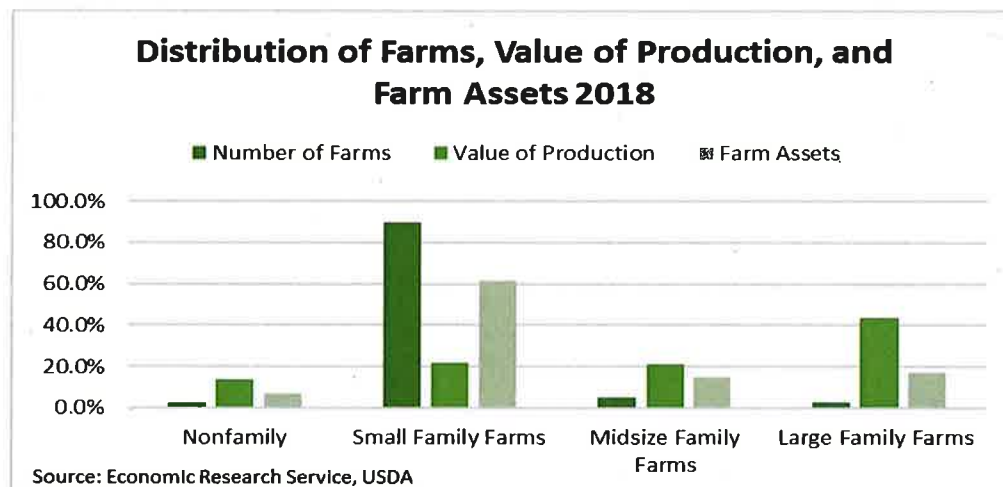
Source: Risk Management Agency, USDA

## CROP INSURANCE MYTH VS. FACT: MEANS TESTING

**MYTH:** Means testing, such as adjusted gross income (AGI) limits and premium assistance caps, will keep large, wealthy farmers from receiving assistance they do not need.

**FACT:** Reducing participation from any group of farmers will change the premiums for **ALL** farmers because it will change the risk pool. Crop insurance is, by statute, an actuarially sound program, which means more participants and more acres in the program, the more the risk will be spread - keeping premiums and costs down for all participants.

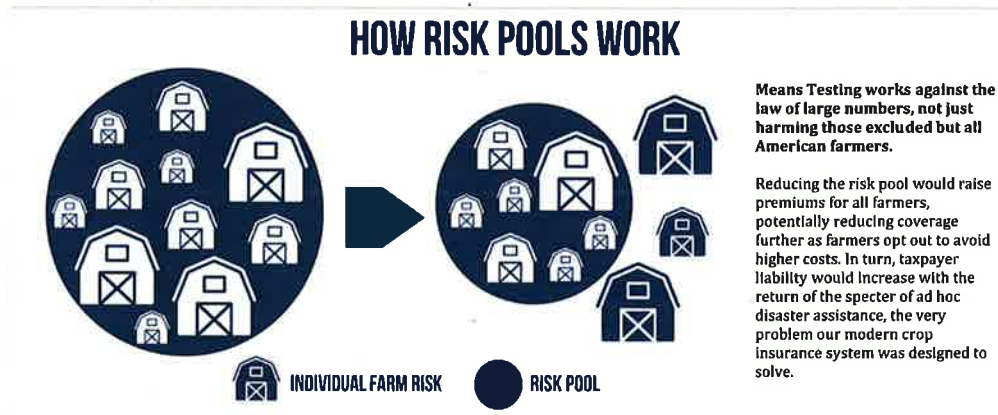
- USDA has called a cap on premium support “ill-advised,” noting regions with high-value crops (such as fruit, vegetable, and organic crops), large-acreage farms, and areas with a higher risk of crop loss would be hit especially hard. USDA has noted that North Dakota, South Dakota, Texas, Minnesota, California, Arizona, Mississippi, Utah, and Hawaii would all bear a disproportionate share of the effects of a cap on premium support.
- Keith Coble and Brian Williams, economists with Mississippi State University, found that “large farms are a less risky sub-population in the insurance pool. Average per acre indemnities decline rapidly for both corn and soybean acres as the size of the insurance policy increases.” Removing the less risky farmers from the risk pool would drive up the costs for everyone who remains in the program.
- Even though crop insurance opponents note that only a small number of farmers would be affected by an AGI limit, it’s important to keep in mind that these farmers often farm a large number of acres. It is the acres impacted by an AGI limit, not the number of producers, that will drive changes to premiums for ALL farmers.



## CROP INSURANCE MYTH VS. FACT: MULTIPLE RISK MANAGEMENT STRATEGIES

**MYTH:** Crop insurance discourages farmers from using other risk management tools such as market hedging, cover crops and off-farm income. The use of these other risk management tools without crop insurance would be enough risk management for farmers.

**FACT:** Farming is risky, so farmers use a multitude of risk management strategies to manage the enormous hazards they face every year when they plant a crop. However, crop insurance is the only risk management tool that farmers can literally take to the bank to prove their ability to pay back annual operating loans required to keep the farm going.



Because each farm is unique, each farm's types of risk management strategies can vary, but crop insurance is a critical tool in a farmer's toolbox. Here are a few examples of the other risk management tools utilized by farmers:

- The use of **market hedging** has increased significantly since 2000, and approximately one quarter of all corn, soybeans, and wheat are hedged.<sup>6</sup> Additionally, farmers of other commodities often utilize **production or marketing contracts** to lock in prices for their goods. USDA estimates that more than one-third of the value of all agricultural production is grown under contract, with this risk management tool being most utilized in livestock, dairy, sugar beets, fruit, and processing tomatoes.
- Most farms in the United States already rely heavily on **off-farm income** to maintain their operations and carry the enormous risk that comes with farming. According to USDA, recent increases in total farm income "largely reflect greater income from off-farm sources, where the majority of farm households earn most, if not all, of their income."
- **Cover crops** were planted on more than 20 million acres of US farmland in 2020<sup>7</sup>, a nearly 33 percent increase from 2017. The 2018 Farm Bill also clarified the ability to plant cover crops on acres that are insured through the Federal crop insurance program. Planting cover crops can help manage risk in a variety of ways, including the improvement of soil health and an increased ability of soil to hold moisture in dry regions. Cover crops are gaining popularity among producers as information on

<sup>6</sup> Economic Research Service, USDA

<sup>7</sup> 2019-2020 National Cover Crop Survey, SARE, USDA

benefits spread and carbon sequestration contracts become more prevalent.

- **Conservation tillage** practices are utilized on approximately 70 percent of soybean, 65 percent of corn, 67 percent of wheat, and 40 percent of cotton acres in the United States. These practices help manage risk by reducing topsoil erosion and improving soil health.<sup>8</sup>
- Clearly, the existence of crop insurance is not keeping farmers from utilizing other risk management strategies. However, cover crops and conservation tillage are not going to be enough for lenders who are looking to pencil out operating loans.

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<sup>8</sup> Economic Research Service, USDA

## CROP INSURANCE MYTH VS. FACT: MARKET DISTORTIONS

MYTH: Crop insurance is market distorting and discourages farmers from following market signals.

**FACT: Markets do not respond to crop insurance; crop insurance responds to markets. Crop insurance uses current-season market prices to determine coverage, losses, indemnities and premiums.**

- Crop insurance policies do not use an artificial price to determine coverage, losses, indemnities, or premiums. As designed today, crop insurance uses real-time tools such as various commodity exchange prices to determine coverage, losses, indemnities, and premiums. In other words, markets do not respond to crop insurance; crop insurance responds to markets.
  - For example, if corn prices are comparatively higher than soybean prices, crop insurance will reflect that market dynamic. Crop insurance is a reflection of the market and is available for all crops.
- Crop insurance is available to all types of farms in all parts of the country, so the availability of crop insurance for one commodity and not another is also not a determining factor when farmers make planting decisions.
  - More than 125 commodities are covered with individual crop policies, from corn to cantaloupe to cotton. There are more than 127,000 crop and county combinations for policies across the United States, providing multiple options to farmers.
  - For commodities that do not have a commodity-specific policy available in a given county, the 2014 Farm Bill created a Whole Farm Revenue Policy that allows all farmers of all commodities to have a crop insurance option.
- All crops get the same premium discounts for policies, so crop insurance does not artificially incentivize the production of one commodity over another commodity.
- Per the 2014 Farm Bill, new crop insurance products proposed for sale must go through a consultation process specifically to assess if there would be a detrimental impact on the marketing and production of a commodity if a new policy is approved.
  - The process for approving new crop insurance policies requires approval by the Federal Crop Insurance Corporation Board, which includes the Chief Economist at the USDA, whose mission is to advise on the economic implication of agricultural policies and programs.
- New technologies, data mining algorithms, and extensive training and education programs for agents and adjusters are all used to ensure crop insurance is being used properly as a risk management tool and to identify fraudulent claims. These rigorous checks on the program also help to ensure that farmers are not farming for the program itself but for the market.