 By Dan Looker

# Costly Crop Insurance?

Crop insurance has solid support from the leaders of the House and Senate Agriculture Committees. They opposed Obama administration budget cuts for 2013 that would shave crop insurance premium subsidies for farmers by two percentage points.

"Don't kill the program by taking away the incentives to participate," House Agriculture Committee Chairman Frank Lucas (R-OK) said at a meeting of North American Agricultural Journalists earlier this year.

Yet, the version of a 2012 Farm Bill passed by the Senate in June links eligibility for insurance coverage to meeting conservation rules, and it reduces premium subsidies for farms with adjusted gross income above $750,000.

Neither change is law yet. Both were opposed in the Senate by its Agriculture Committee Chairwoman Debbie Stabenow (D-MI) and ranking Republican Pat Roberts (R-KS). And in the House, Lucas and his committee's ranking Democrat, Collin Peterson, also have been skittish about tinkering with the one USDA program – crop insurance – that most farmers and ag groups want protected.

But because both the Obama administration and House Budget Committee Chairman Paul Ryan (R-WI) have proposed bigger cuts to crop insurance spending, it's worth a look at what the Senate did and didn't do.

The close vote of 52-47 in favor of a conservation compliance amendment offered by Senator Saxby Chambliss (R-GA) was followed by a 66-33 vote in favor of the premium subsidy cut for large farms that was backed by Senators Tom Coburn (R-OK) and Dick Durbin (D-IL), who is the assistant majority leader for the Democrats in the Senate.

That reduction in subsidies would affect only 1,500 farmers out of 1.5 million, Durbin said. For those large farms, the USDA premium subsidy would drop from an average of 62% to 47%.

Coburn said his amendment was not as severe as an option studied by the Government Accountability Office (GAO) to cap insurance premium subsidies for all farmers at $40,000.

The GAO found that if the same limit of $40,000 on direct payments was applied to federal subsidies for farmers' crop insurance premiums, it would have saved the federal government $1 billion in 2011. Last year, federal crop insurance was the most expensive program for farmers, costing the federal government nearly $9 billion. Of that amount, about $7.4 billion went to farmer premium subsidies. The rest helped cover insurer costs.

Currently, USDA picks up between 38% and 80% of your crop insurance premium. The average subsidy is 62%. If premium subsidies were limited to $40,000, it would have affected 3.9% of all farmers who participate in crop insurance.

That may not sound like much. It's about 4% of some 875,000 farmers buying crop insurance last year. The GAO did say that the small percentage of farmers who would have been hit by a $40,000 premium cap last year "accounted for about one third of all premium subsidies and were primarily associated with large farms."



Illustration: Neal Aspinal

## Acres to Reach the $40,000 Limit:

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| 2007 | 2,439 acres = $40,000 limit / | ($20 per-acre risk subsidy × .82 adjustment factor) |
| 2008 | 1,876 acres =$40,000 limit / | ($26 per-acre risk subsidy × .82 adjustment factor) |
| 2009 | 2,217 acres = $40,000 limit / | ($22 per-acre risk subsidy × .82 adjustment factor) |
| 2010 | 2,710 acres = $40,000 limit / | ($18 per-acre risk subsidy × .82 adjustment factor) |
| 2011 | 1,682 acres = $40,000 limit / | ($29 per-acre risk subsidy × .82 adjustment factor) |

Source: Department of Agricultural and Consumer Economics, University of Illinois

What counts as a large farm might surprise you. University of Illinois agricultural economist Gary Schnitkey, a national authority on crop insurance, has looked at the effects of a $40,000 cap.

The insurable value of your crop revenue goes up with high prices, and so do the premiums. That means you'll hit the cap sooner in years like last year. By Schnitkey's calculation, a farm in Illinois with 1,682 insured acres would have hit the limit in 2011. In 2010, it would have taken 2,710 acres (see chart above).

Schnitkey uses Illinois Farm Business Farm Management (FBFM) records to adjust his calculations to reflect that a portion of a typical farm in that state is on a 50-50 share-rent arrangement, where the farmer would pay half of the premium. Farms that are all owned or cash-rented would be affected differently.

As Schnitkey explains at one point, "A payment limit could have differential impacts on farms. Fewer acres would be required in areas of higher risk, as premiums are higher in high-risk areas. Farms with higher amounts of cash-rental acres will reach the dollar limit faster than farms with share-rent acres. In general, total premiums are higher for higher risk situations. Since risk subsidies are a percent of total premium, farms in riskier situations will reach limits quicker than farms in less risky situations."

But the cutoff is just over the average size of farms enrolled in the Illinois FBFM service – 1,180 acres.

If a $40,000 cutoff existed, in theory, farms would pay the full cost of premiums on acres above that level.

Here's an example from Schnitkey: "To illustrate premium setting, take a 2012 revenue protection policy at an 80% coverage level for a 400-acre enterprise unit having a 187 trend adjusted actual production history yield. This product has a total premium of $33 per acre. The risk subsidy is $22.44 per acre ($33 total premium × .68 risk subsidy). The farmer-paid premium is $10.56 per acre ($33 total premium − $22.44 risk subsidy)."

In his example, USDA pays 68% of the premium cost. That's what you could lose on the acres above the limit.

All farms of any size would get full indemnity payments for insured losses under any of the proposals to trim premium subsidies. The Durbin-Coburn subsidy cut for high-income farmers may not survive in a final bill. But the issue won't go away. "The Durbin and Coburn successful amendment really crystalizes the key question for policy makers," says Craig Cox of the Environmental Working Group. "What share should taxpayers shoulder and what share should producers shoulder?" •