



Crop Insurance Reform

By Caroline Melear and Jerry Theodorou

Dramatically reducing crop insurance subsidies and introducing means testing for these subsidies will both curtail waste and allow smaller family farms a greater opportunity to grow and thrive.

Executive Summary

The goal of the federal crop insurance program (FCIP) is to promote the economic stability of U.S. agriculture. The Federal Crop Insurance Corporation (FCIC) administers this program and offers farmers insurance protection against the adverse impacts of below-normal yields and lower-than-expected market prices.

Since its founding in 1938, the crop insurance program has expanded in size and scope into a complex program that provides significant financial protection for farmers by transferring the risks of farming to the federal government.¹ Unfortunately, although the program is meant to serve as a safety net, it has become an example of wasteful government spending, enriching some farmers and private insurers at taxpayers' expense.

At the core of this issue is the fact that the program pays out significantly more to farmers than what farmers pay into the program: Farmers pay an average of only 38 percent of the premium, and the government subsidizes the remaining

1. Risk Management Agency, "History of the Crop Insurance Program," United States Department of Agriculture, last accessed March 3, 2023. <https://legacy.rma.usda.gov/aboutrma/what/history.html>.

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amount. In addition, the program is administered by 14 private market insurance companies that handle policy issuance, claims adjustment and other administrative functions. These private insurers are reimbursed in full for their administrative-service costs, gaining an attractive profit margin from their involvement.

Overall, the crop insurance program costs taxpayers close to \$10 billion annually.² Its ample subsidies and administrative-cost reimbursement structure have made it a bloated government program that weakens efforts to improve risk management. Instead, it provides a win-win source of guaranteed support for farmers and guaranteed income for participating insurers. The only losers are taxpayers who are burdened with supporting a farm welfare program.

Understandably, many farmers are ardent supporters of the program because they benefit from its generous provisions, which practically eliminate any risk in farming. Yet the FCIP disproportionately benefits the farmers who need it the least—the country’s largest agribusiness farmers. Smaller farmers benefit significantly less from its provisions, and many farmers growing a wide variety of fruit and vegetable products do not benefit at all.

The goal of reducing risk in farming is an admirable one. We do not want American farmers to face the hardships they endured in the 1930s. However, considering today’s farming demographic and economic realities, the FCIP has gone too far. It excludes a large portion of the farming community from its protections, sends wrong signals, encourages unwise farming practices and is severely fiscally unsound. This paper proposes 10 reforms to the FCIP that would reduce the financial burden on the taxpayer; eliminate wasteful and redundant spending via subsidies and handout programs; increase sustainability and resiliency; and improve food quality and nutrition.

Introduction

Farmers, ranchers and other agricultural producers buy crop insurance, also known as multiple-peril crop insurance (MPCI), for protection against crop losses from natural disasters, including drought, flood and hail. MPCI also reimburses farmers for revenue loss when farm product prices decline before harvest.

The two main types of non-disaster crop insurance are yield insurance and revenue insurance. Yield insurance covers farmers from losses due to lower yields per acre based on historical average yields in particular areas, such as a county. Revenue insurance provides coverage for losses caused by a price decline from the time of planting to the time of harvesting a particular crop. Farmers often purchase both types of crop insurance, though revenue insurance is more popular, as it eliminates the risk of farmers losing money as a result of lower crop prices.

The crop insurance program costs taxpayers close to \$10 billion annually.

It provides a win-win source of guaranteed support for farmers and guaranteed income for participating insurers. The only losers are taxpayers.

2. Economic Research Service, “Crop Insurance at a Glance,” United States Department of Agriculture, May 31, 2022. <https://www.ers.usda.gov/topics/farm-practices-management/risk-management/crop-insurance-at-a-glance>.

Federal crop insurance was introduced as a component of the Roosevelt administration’s depression-era New Deal programs.³ Today, it is a major component of the broader farm bills—a massive piece of omnibus legislation covering agriculture, natural resources and food-assistance programs.⁴ These broad farm bills must be reauthorized by Congress every five years, and 18 such bills have been enacted since 1930.⁵ The current farm bill, the Agricultural Improvement Act of 2018, was enacted in December 2018.⁶

The FCIC was created with the passage of the Agricultural Adjustment Act of 1938 to address major issues facing the nation in the 1930s, including The Great Depression and The Dust Bowl. It was considered an experimental program and was limited geographically, by crop. Participation in the program was initially low, but as the scope of the program and its protections grew, more farmers began to take advantage of its offerings.

Initially, federal crop insurance only covered crop losses caused by natural disasters, drought and flood, but it has since expanded significantly.⁷ The 1980 farm bill introduced a premium subsidy of 30 percent to encourage participation, and the 1994 bill further increased the subsidy and made reinsurance protection available at no cost to farmers.⁸ In addition, the FCIP now offers insurance products such as revenue protection and relies on private insurers to service the policies managed through the FCIC.

This paper outlines the current crop insurance landscape, and discusses the two main types of non-disaster crop insurance. We also propose 10 reforms to the FCIP that would reduce the financial burden on the taxpayer; eliminate wasteful and redundant spending via subsidies and handout programs; increase sustainability and resiliency; and improve food quality and nutrition.

Crop Insurance Financials

The total cost of the current five-year (FY 2019-2023) farm bill is \$428 billion. Crop insurance is covered in Title XI of the bill, and it accounts for approximately 9 percent of the bill’s total cost, or \$39 billion (roughly \$7.9 billion per year).⁹

The farm bill’s crop insurance program features heavily subsidized federal insurance programs for farmers, with participating farmers paying approximately one-third of the premiums for the insurance, and the program paying two-thirds. Because the 2018 farm bill authorization is expiring this year, it must be reauthorized by Sept. 30, 2023—with or without modifications—and a new bill passed in its place.¹⁰

Initially, federal crop insurance only covered crop losses due to natural disasters.



The FCIP now offers insurance products such as revenue protection and relies on private insurers to service the policies managed through the FCIC.



3. Michelle Metych, “Agricultural Adjustment Act,” Britannica, Feb. 28, 2023. <https://www.britannica.com/topic/Agricultural-Adjustment-Act>.

4. “Farm Bill,” United States Department of Agriculture, last accessed March 3, 2023. <https://www.usda.gov/farmbill>.

5. “Farm Bill Primer: What Is the Farm Bill?,” Congressional Research Service, Feb. 22, 2023. <https://crsreports.congress.gov/product/pdf/IF/IF12047>.

6. Ibid.

7. “Crop Insurance,” NAIC, July 27, 2022. <https://content.naic.org/cipr-topics/crop-insurance>.

8. “History of the Crop Insurance Program.” <https://legacy.rma.usda.gov/aboutrma/what/history.html>.

9. “Farm Bill Primer: What Is the Farm Bill?” <https://crsreports.congress.gov/product/pdf/IF/IF12047>.

10. Economic Research Service, “Farm Bill Spending,” United States Department of Agriculture, Feb. 7, 2023. <https://www.ers.usda.gov/topics/farm-economy/farm-commodity-policy/farm-bill-spending>.

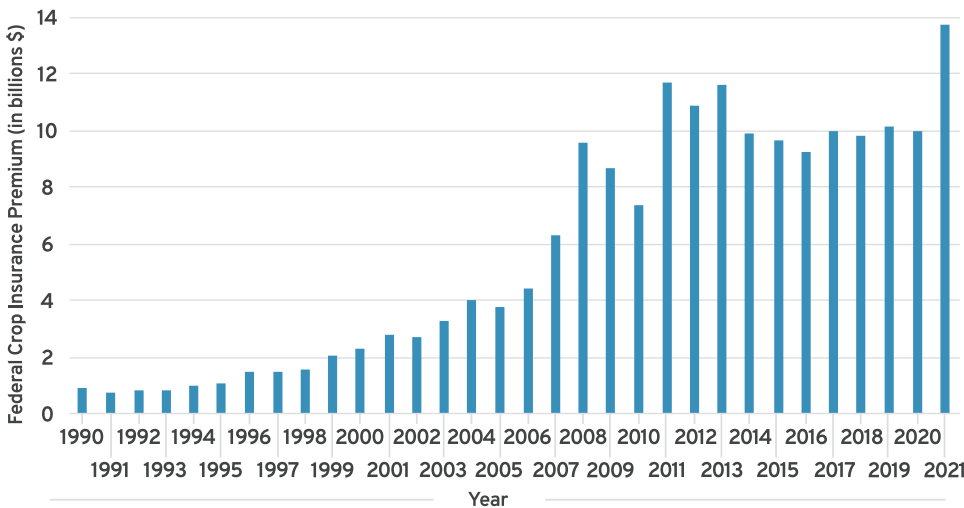
The FCIP is managed by the United States Department of Agriculture’s (USDA’s) FCIC.¹¹ As **Figure 1** shows, the cost of the program has ballooned over time, as has its reliance on subsidies—especially over the past 30 years. Crop insurance premiums rose 16-fold from \$837 million in 1990 to \$13.7 billion in 2021, and subsidies to insurers grew 40-fold in the same period. This may be partly due to crop insurance product offerings multiplying over time, with the creation of products like revenue protection, yield protection and margin protection, among others.¹² The FCIC now also provides catastrophe reinsurance. A broad range of subsidies, including the agriculture risk coverage (ARC) and price loss coverage (PLC) programs, introduced in 2014, are managed through the USDA Farm Service Agency (FSA).¹³



There are dozens of acronyms used in the crop insurance world. A guide to the most common can be found at the end of this report in Appendix A.

[View Appendix A.](#)

Figure 1: Federal Crop Insurance Premium, by Year



Source: Risk Management Agency, “Summary of Business,” United States Department of Agriculture, last accessed March 3, 2023. <https://www.rma.usda.gov/SummaryOfBusiness>.

As **Figure 1** shows, in the past three decades, federal crop insurance has become an increasingly more profitable proposition for farmers and participating private market insurance companies, but it has also become increasingly costly for taxpayers, who ultimately bear the financial brunt of the program. The program’s loss ratio—the standard measure of insurer underwriting profitability—has decreased. The loss ratio is calculated as insurance losses divided by premiums. The profitability increase has also benefited 14 private insurers that are approved insurance providers (AIPs) authorized by the Risk Management Agency (RMA) to administer the FCIP.¹⁴

Farmers pay an artificially low premium because of the premium subsidy, and if one strips out that 62 percent government subsidy, crop insurance cannot stand on its

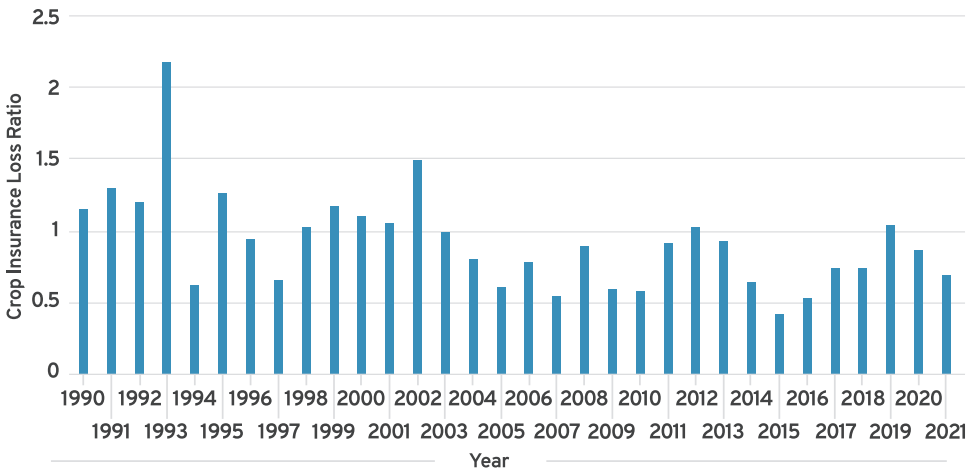
**FIGURE 1
KEY TAKEAWAY**

In the past three decades, federal crop insurance has become an increasingly more profitable proposition for farmers and participating private market insurance companies, but it has also become increasingly costly for taxpayers, who ultimately bear the financial brunt of the program.

11. Economic Research Service, “Crop Insurance,” United States Department of Agriculture, Aug. 20, 2019. <https://www.ers.usda.gov/agriculture-improvement-act-of-2018-highlights-and-implications/crop-insurance>.
 12. Risk Management Agency, “Insurance Plans,” United States Department of Agriculture, last accessed March 3, 2023. <https://www.rma.usda.gov/Policy-and-Procedure/Insurance-Plans>.
 13. Farm Service Agency, “ARC/PLC Program,” United States Department of Agriculture, last accessed March 3, 2023. https://www.fsa.usda.gov/programs-and-services/arcplc_program/index.
 14. “Approved Insurance Providers,” Crop Insurance Keeps America Growing, last accessed March 3, 2023. <https://cropinsuranceinamerica.org/insurance-providers-list/#.WOZcVIKZMUE>.

own financially. The rich government subsidy keeping the program afloat is ultimately paid by taxpayers, while private insurers benefit significantly and farmers benefit substantially. The crop insurance loss ratio from 1990 to 2022 is shown in [Figure 2](#).

Figure 2: Crop Insurance Loss Ratio, by Year



Source: Risk Management Agency, “Summary of Business,” United States Department of Agriculture, last accessed March 3, 2023. <https://prodwebnlb.rma.usda.gov/apps/SummaryOfBusiness/PreparedReports>.

The latest Government Accountability Office (GAO) report on the FCIP found that AIPs have rates of return far in excess of what is normal for most businesses.¹⁵ It reported that the program’s built-in 14.5 percent rate of return could reasonably be reduced to 9.6 percent ([Table 1](#)). This would decrease underwriting gains of AIPs by \$364 million annually, rendering returns more in line with market averages.

Table 1: GAO Calculations of Reasonable and Actual Rates of Return (ROR), 1998-2015

Years	Capital Asset Pricing Model ROR on Equity (%)	Discounted Cash Flow Model ROR on Equity (%)	Reasonable ROR on Equity (%)	Actual ROR on Retained Premiums (%)
1996-2015 (20-year average)	11.4	10.7	11.0	18.0
2009-2015 (7-year average)	9.7	9.6	9.6	16.0
2015	9.0	8.6	8.8	24.8

Source: “Crop Insurance: Opportunities Exist to Improve Program Delivery and Reduce Costs,” Government Accountability Office, July 2017. <https://www.gao.gov/assets/gao-17-501.pdf>.

Largely as a result of the large government premium subsidy, federal crop insurance has been highly profitable over the years. Except for 2012, premiums have typically exceeded loss (indemnity) payments ([Figure 3](#)).¹⁶ Adverse results in 2012 were caused by a historic drought that year—the worst in 25 years—resulting in losses

Key Term

Loss Ratio:

The standard measure of insurer underwriting profitability, loss ratio is calculated as insurance losses divided by premiums.



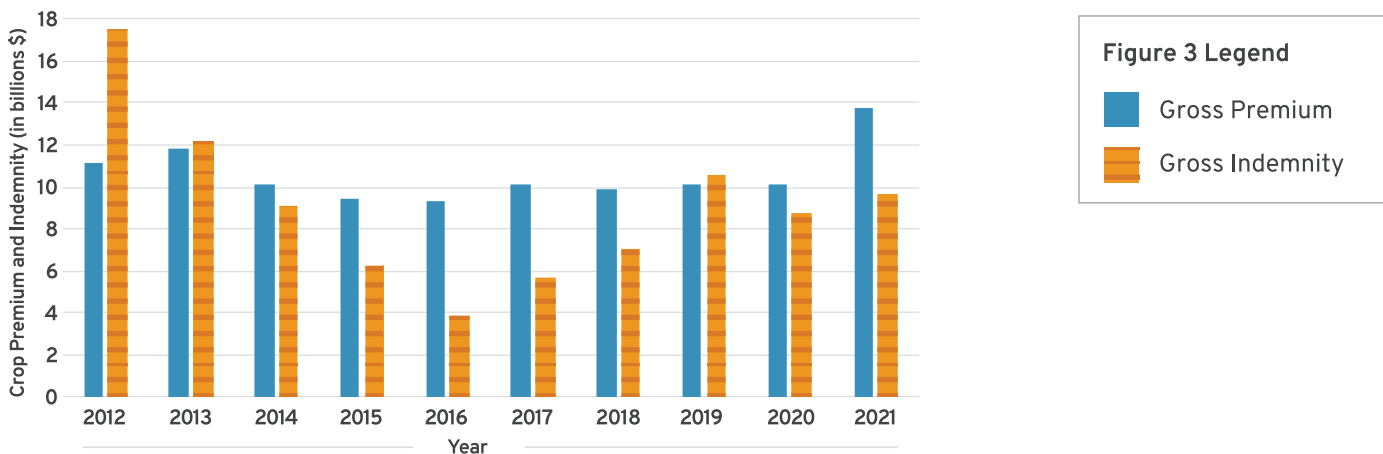
The latest GAO report found that reducing the 14.5 percent rate of return to 9.6 percent would reduce underwriting gains of AIPs, better aligning them with market averages.

15. “Crop Insurance: Opportunities Exist to Improve Program Delivery and Reduce Costs,” Government Accountability Office, July 2017. <https://www.gao.gov/assets/gao-17-501.pdf>.

16. Risk Management Agency, “Reinsurance Reports,” United States Department of Agriculture, last accessed March 3, 2023. <https://public-rma.fpac.usda.gov/apps/ReinsuranceReports>.

exceeding premium.¹⁷ In 2012, reinsurance removed much of the sting. In the 10-year period between 2012 and 2021, federal crop insurance generated \$106 billion in premium and \$91 billion in losses. This result appears favorable, but is only so because the rich premium subsidy artificially inflates the premium amount. Absent the subsidy, crop insurance could not stand on its own. Crop insurance premium and loss history is shown in [Figure 3](#).

Figure 3: Crop Insurance Premium and Loss (Indemnity) History



Source: Risk Management Agency, “Reinsurance Reports,” United States Department of Agriculture, last accessed March 3, 2023. <https://public-rma.fpac.usda.gov/apps/ReinsuranceReports>.

As demonstrated in [Figure 3](#), federal crop insurance generated \$14.9 billion in premium in 2021, up from \$10.8 billion in 2020. The increase was due to higher crop prices in 2021. Crop insurance was profitable in 2021, with a direct loss ratio of 72.8 percent—a sharp improvement from 91.2 percent in 2020.¹⁸ For comparative purposes, the loss ratios of 10 major insurance companies can be viewed in [Table 2](#). The results for the private insurers participating in the program shown below are excellent, with double-digit margins. Of note, unlike standard insurance practice where insurers’ operating expenses are borne by the insurers themselves, in crop insurance, the government reimburses insurers for their operating expenses.

Table 2: Comparative Loss Ratios of Major Crop Insurers

Insurer	2021 MCPI Direct Loss Ratio (%)
Chubb	88.0
QBE	82.4
Sompo	86.8
Zurich	68.7

17. “How Did Crop Insurance Perform During The Historic 2012 Drought?,” Crop Insurance Keeps America Growing, April 2020. <https://cropinsuranceinamerica.org/how-did-crop-insurance-perform-during-the-historic-2012-drought>.

18. Risk Management Agency, “Reinsurance Reports.” <https://public-rma.fpac.usda.gov/apps/ReinsuranceReports>.

Insurer	2021 MCPI Direct Loss Ratio (%)
Great American	63.1
Farmers Mutual Hail	45.1
Fairfax	81.7
AIG	72.4
Tokio	64.4
AXA	94.7

Source: S&P’s Global Market Intelligence, last accessed March 3, 2023.

Crop Insurance: Relevant History

The FCIC has morphed in the years since its inception. The most notable changes were those introduced in the 1980 and 1994 farm bills.¹⁹

The 1980 act expanded the program tremendously. The capital stock of the FCIC more than doubled to \$500 million via statute to provide more working capital. The entirety of the capital stock is subscribed by the U.S. federal government and issued to the Secretary of the Treasury.²⁰ Federal courts took on a more pronounced role, removing state court jurisdiction for suits for or against the FCIC. Furthermore, the act directed the FCIC to pay at least 30 and up to 65 percent of the producer’s insurance premiums, with the option of having individual states pay an additional premium subsidy. It also mandated that producers elect either disaster payments on crops—initially implemented in the Agricultural Act of 1949—or coverage by crop insurance in which the FCIC paid a portion of the premium.²¹ The act also significantly expanded the crops covered by the program, among other changes.

Even with the program’s expansion from the acts of 1980 and 1994, uptake by farmers of federal crop insurance remained lower than desired among members of Congress. As a result, the 1994 act implemented even broader changes. It included a “participation requirement,” meaning producers could be eligible for federal price support (a common route at the time via the use of ad hoc disaster funding) only if they also participated in the FCIP.²² What is more, due to this requirement, catastrophic coverage was introduced with the premium being fully subsidized by the taxpayer. This led to greater adoption of federal crop insurance.



19. S.1125, Federal Crop Insurance Act of 1980, 96th Congress, last accessed March 3, 2023. <https://www.congress.gov/bill/96th-congress/senate-bill/1125>; H.R.4217, Federal Crop Insurance Reform and Department of Agriculture Reauthorization Act of 1994, 103rd Congress, last accessed March 3, 2023. <https://www.congress.gov/bill/103rd-congress/house-bill/4217>.

20. “7 USC 1504: Capital stock of Corporation,” US Code, last accessed March 3, 2023. <https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title7-section1504&num=0&edition=prelim>; Office of Inspector General, “Federal Crop Insurance Corporation/Risk Management Agency’s Financial Statements for Fiscal Years 2018 and 2017,” United States Department of Agriculture, last accessed March 3, 2023. <https://www.usda.gov/sites/default/files/05401-0010-11.pdf>.

21. S.1125. <https://www.congress.gov/bill/96th-congress/senate-bill/1125>.

22. H.R.4217. <https://www.congress.gov/bill/103rd-congress/house-bill/4217>.

In 1988, only 24.9 percent of U.S. farmland was covered by federal crop insurance.²³ Three years after the passage of the 1994 act, 63.7 percent of U.S. farmland acres were enrolled in the FCIP.²⁴ Insured acres rose from 26 million in 1980 to 100 million in 1990. The program continued to grow over the next decade; by 2017, 88.9 percent of harvested U.S. cropland was enrolled in the FCIP.²⁵

By 1996, the mandatory eligibility requirement for federal crop insurance price supports was repealed. This meant farmers were no longer required to participate in the FCIP in order to be eligible for federal price support. However, for farmers who accepted other types of benefits, the participation requirement remained. It is still in effect today.

Crop Insurance Today

The FCIC continues to manage crop insurance for farmers and producers, and the FCIP continues to offer large insurance premium subsidies via taxpayer funding. The FCIC also offers reinsurance for crop insurance covering catastrophes via the Standard Reinsurance Agreement (SRA).²⁶ Reinsurance is insurance for insurance companies—it allows insurers to limit their potential losses by transferring some of their risk to reinsurance companies. Typically, reinsurance is purchased in the private market either directly from a reinsurer or through an intermediary reinsurance broker. The federal government provides crop reinsurance through taxpayer funding. Federal crop insurance, though heavily regulated and subsidized, continues to utilize private insurers to provide the policies. It provides direct payments to private insurance companies and their agents for costs to service the policies. These are called administrative and operating (A&O) costs.

The FCIC is managed and operated under the RMA, which was created via the Federal Agriculture and Improvement Act of 1996.²⁷ The RMA has three program areas:

- Insurance services (provides federal crop insurance)
- Product management (develops and reviews products for actuarial soundness)
- Compliance (fraud, waste, abuse)

There are 14 insurance companies that provide coverage via the FCIP.²⁸ Collectively, they issued more than 1.1 million policies in total in 2022, covering more than 290



Today's Crop Insurance: The Highlights

In 2022, there were

1.1 million policies
issued, covering more than
290 million acres
of farmland.

23. "Crop Insurance: Participation in and Costs Associated With the Federal Program," United States General Accounting Office, July 1988. <https://www.gao.gov/assets/rced-88-171br.pdf>.

24. "Crop Insurance: USDA's Progress in Expanding Insurance for Specialty Crops," GovInfo, April 16, 1999. <https://www.govinfo.gov/content/pkg/GAOREPORTS-RCED-99-67/html/GAOREPORTS-RCED-99-67.htm>.

25. National Agricultural Statistics Service, "2017 Census of Agriculture: Table 73. Summary by Combined Government Payments and Market Value of Agricultural Products Sold," United States Department of Agriculture, last accessed March 3, 2023. https://www.nass.usda.gov/Publications/AgCensus/2017/Full_Report/Volume_1_Chapter_1_US/st99_1_0073_0073.pdf.

26. Risk Management Agency, "Standard Reinsurance Agreement," United States Department of Agriculture, last accessed March 3, 2023. <https://rma.usda.gov/-/media/RMA/Regulations/Appendix-2021/21sra.ashx?la=en>.

27. Federal Register, "Risk Management Agency," National Archives and Records Administration, last accessed March 15, 2023. <https://www.federalregister.gov/agencies/risk-management-agency>.

28. Risk Management Agency, "Insurance Provider List," United States Department of Agriculture, last accessed March 3, 2023. <https://public-rma.fpac.usda.gov/AipListing/InsuranceProviders>.

million acres of farmland. The market is heavily concentrated, with the top five crop insurers accounting for 73 percent of the total 2021 market.²⁹

Types of Crop Insurance and Coverage

All 14 AIPs offer the same policies at the same rates. The insurance is distributed by independent insurance agents (who represent multiple insurers) and by exclusive agents (who work with only one insurer). Crop insurance rates are set each winter by the USDA’s RMA.³⁰ Because the rates and forms are identical at all the authorized insurers, individual insurers compete on the basis of service, including more efficient digital technology tools.³¹

Multi-peril Crop Insurance (MPCI)

Federal crop insurance is often referred to as MPCI which covers losses due to natural disasters and revenue loss due to price fluctuations. A description of the different types of MPCI can be found in [Table 3](#). It most commonly covers the following natural disasters, listed in order:³²

1. Excess moisture/precipitation/rain
2. Drought
3. Price decline
4. All other (frost, hail, extreme heat, flood)

Table 3: Types of MPCI

Type	Description
Revenue protection (RP)	Insures against loss of revenue from price fluctuations in harvest price versus projected price
Revenue protection with harvest price exclusion (RP-HPE)	Insures against loss of revenue based on project harvest price only
Yield protection (YP)	Insures against yield losses due to natural disasters

Source: Risk Management Agency, “Insurance Plans,” United States Department of Agriculture, last accessed March 3, 2023. <https://www.rma.usda.gov/Policy-and-Procedure/Insurance-Plans>.

Catastrophic Risk Coverage

Catastrophic risk coverage is the primary product of the FCIP. The premium is 100 percent taxpayer subsidized up to a 50 percent loss in yield or revenue. At a 50 percent loss, the program pays out 55 percent of the market price. Farmers have the option to purchase higher coverage rates on a sliding scale up to 85 percent, with



Federal crop insurance that covers losses due to natural disasters and revenue loss due to price fluctuations.



Catastrophic risk coverage is the primary product of the FCIP.

29. Tyler Hammel and Hassan Javed, “US crop insurers see bumper year in 2021 as commodity prices rise,” S&P Global, July 13, 2022. <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-crop-insurers-see-bumper-year-in-2021-as-commodity-prices-rise-70974905>.

30. Hammel and Javed. <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-crop-insurers-see-bumper-year-in-2021-as-commodity-prices-rise-70974905>.

31. “Form 10-K: Chubb Limited,” United States Securities and Exchange Commission, last accessed March 3, 2023. <https://d18rn0p25nwr6d.cloudfront.net/CIK-0000896159/51b07bc8-bdb3-41ca-93e4-a80cbd040661.pdf>.

32. Risk Management Agency, “Cause of Loss Historical Data Files,” United States Department of Agriculture, last accessed March 3, 2023. <https://www.rma.usda.gov/SummaryOfBusiness/CauseOfLoss>.

each tranche having a declining rate of taxpayer subsidy. Each tranche and their respective subsidy rates are shown in [Table 4](#).

Table 4: FCIC Catastrophic Risk Protection Subsidy Rates

Loss Coverage (%)	Premium Taxpayer Subsidy (%)
50	100
≥50 <55	67
≥55 <65	64
≥65 <75	59
≥75 <80	55
≥80% <85	48
≥85%	38

Source: 7 U.S. Code § 1508, Crop Insurance.

Revenue Protection

Additional insurance products have been added to the FCIP over time, notably through the Agriculture Risk Protection Act of 2000. This act gave easier access for farmers to obtain insurance coverage outside of disasters, to include revenue protection and protection based on historic yields. Revenue protection is referred to as area revenue plans and historic yield protection is called area yield plans. Their subsidy rates can be viewed in [Tables 5 and 6](#).



It is easier for farmers to obtain insurance coverage outside of disasters including revenue protection and protection based on historic yields.

Table 5: FCIC Area Revenue Plans Subsidy Rates

Loss Coverage (%)	Premium Taxpayer Subsidy (%)
≥70 <75	59
≥75 <85	55
≥85 <90	49
≥90	44

Source: 7 U.S. Code § 1508, Crop Insurance.

Table 6: FCIC Area Yield Plans Subsidy Rates

Loss Coverage (%)	Premium Taxpayer Subsidy (%)
≥70 <80	59
≥80 <90	55
≥90	51

Source: 7 U.S. Code § 1508, Crop Insurance.

Crop insurance premium rates are fixed by the FCIC at rates determined to be actuarially sound by the Board and not to exceed a loss ratio of 1.0. A&O costs are included in the fixed premium rates and are determined by the FCIC.

Marketing Assistance Loans (MALs) and Loan Deficiency Payments (LDPs)

Marketing assistance loans (MALs) and loan deficiency payments (LDPs) allow producers to store their commodities during times of low pricing and receive cash to operate until prices rise and they are able to release commodities from storage at a more favorable price point. They may hold the loan until the commodity is sold or for a total of nine months. According to the USDA, this provides a less volatile supply of commodities throughout the year. Only specified eligible crops are allowed to participate in the program, and said crops are used as collateral to secure the loans from the federal government.



Only specified eligible crops are allowed to participate in the program, and said crops are used as collateral to secure the loans from the federal government.

The 2018 farm bill established that loans must be given out at commodity-specific loan rates. Nonrecourse loans often do not have to be fully repaid, as the repayment amount fluctuates based on market conditions. For example, when a MAL is taken out, if the market value of the crop used as collateral drops over the loan period, farmers can either repay the loan at the market price or surrender the now less valuable collateral to satisfy the loan.³³ The difference realized to the farmer is called a marketing loan gain. When the repayment rate is lower than the loan rate, the interest is also forgiven.

If market prices rise, producers who did not take out a MAL but were eligible are still able to receive the benefit of the fluctuation in price by taking an LDP. This is a handout of the market gains instead of a loan. Of note, the 2018 farm bill removed limitations on the amount an individual or entity can receive per year from a MAL or LDP.

Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC)

PLC and ARC programs, though not part of the FCIP, are additional risk management programs developed during the 2014 farm bill, reauthorized in the 2018 farm bill and managed under the Farm Service Agency (FSA). These programs are explored in depth in the “How PLC and ARC Work” section of this paper.



Financially protects farmers if crop prices drop and affect farmer revenues.

Whole-Farm Revenue Protection

An additional program, whole-farm revenue protection (WFRP) is an umbrella policy for farms not exceeding \$17 million in insured revenue.³⁴ It provides a policy for all commodities on a single farm under the same policy.



Umbrella protection for farms not exceeding \$17 million in insured revenue.

A Comprehensive Risk Management Strategy

Farmers typically bundle or couple a variety of farm bill programs to create a more comprehensive risk management strategy for their farms. This means that in addition to substantial insurance premium subsidies, many farmers are likely receiving PLC or ARC payments, MALs and/or additional benefits from their



Bundle a variety of farm bill programs.

33. Source: Stephanie Rosch, “Farm Bill Primer: MAL and LDP Farm Support Programs,” Congressional Research Service, June 22, 2022. <https://crsreports.congress.gov/product/pdf/IF/IF12140>.

34. Risk Management Agency, “Whole-Farm Revenue Protection (WFRP),” United States Department of Agriculture, last accessed March 21, 2023. <https://www.rma.usda.gov/en/Policy-and-Procedure/Insurance-Plans/Whole-Farm-Revenue-Protection>.

respective state programs, none of which are means tested. Direct government aid accounted for 39 percent of net income for farmers in 2019. It reached a record high \$46.5 billion in 2020.³⁵

U.S. Farm Demographics

The bulk of U.S. farm production and sales is dominated by relatively few large farms. As shown in [Table 7](#), in 2021, more than half of farms in the U.S. generated economic sales of less than \$10,000.³⁶ Economic sales include the gross value of agricultural products sold as well as government program payments.

Table 7: Farm Demographics by Annual Sales and Acreage

Annual Sales (\$)	No. of Farms (%)	Land (%)	Average Farm Size (acres)
1-9,999	51.0	9.3	81
10,000-99,999	30.5	20.8	304
100,000-249,000	6.7	14.7	973
250,000-499,999	4.4	14.3	1,448
500,000-999,999	3.5	15.4	1,942
1,000,000 or more	3.9	25.5	2,920
Total	100.0	100.0	445

Source: National Agricultural Statistics Service, “Farms and Land in Farms: 2021 Summary,” United States Department of Agriculture, February 2022. https://www.nass.usda.gov/Publications/Todays_Reports/reports/fnlo0222.pdf.

The number of farms in the United States has been on a long-term decline and continues to drop. The number of farms peaked in 1935 at 6.8 million and began to fall drastically into the early 1970s. The latest data from the USDA shows that there were 2.01 million farms in the U.S. in 2021, down from 2.2 million in 2007.³⁷ This drop is in part because of gains in farm productivity that were made possible by the introduction of more sophisticated agricultural machinery and technology, which mainly benefitted large agribusiness.

As shown in [Figure 4](#), small family farms with gross cash farm income (GCFI) below \$350,000 accounted for 89 percent of all U.S. farms.³⁸ [Figure 4](#) also shows that large-scale family farms (\$1 million or more in GCFI) accounted for approximately 3 percent of farms and 47 percent of the value of production. Family farms, where most of the business is owned by the operator and relatives of the operator, collectively accounted for close to 98 percent of U.S. farms in 2021.

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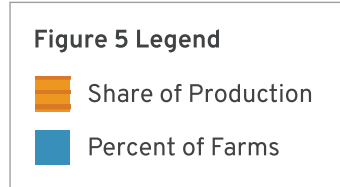
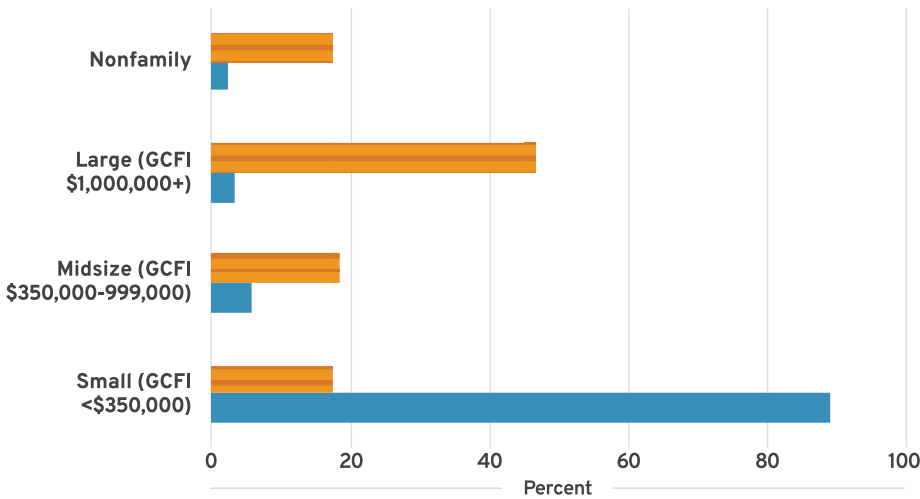
35. Mike Dorning, “U.S. Farm Profit on Track for Seven-Year High After Trump Aid,” *Bloomberg*, Dec. 2, 2020. <https://www.bloomberg.com/news/articles/2020-12-02/u-s-farm-profit-on-track-for-seven-year-high-after-trump-aid>.

36. National Agricultural Statistics Service, “Farms and Land in Farms: 2021 Summary,” United States Department of Agriculture, February 2022. https://www.nass.usda.gov/Publications/Todays_Reports/reports/fnlo0222.pdf.

37. Economic Research Service, “Farming and Farm Income,” United States Department of Agriculture, Feb. 7, 2023. <https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/farming-and-farm-income>.

38. *Ibid.*

Figure 4: Farm Landscape, 2021



Source: Economic Research Service, “Farming and Farm Income,” United States Department of Agriculture, Feb. 7, 2023. <https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/farming-and-farm-income>.

American farm production is dominated by relatively few crops. Corn and soybean sales accounted for approximately half of crop cash revenue in 2021.³⁹ Figure 5 shows that total cash crop receipts totaled \$240 billion, with corn and soybean accounting for just over \$120 billion (50.1 percent) of the total (Figure 5).

Figure 5: Crop Cash Receipts, 2021



Source: Economic Research Service, “Farming and Farm Income,” United States Department of Agriculture, Feb. 7, 2023. <https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/farming-and-farm-income>.

Additionally, the U.S. farming sector is highly profitable (Table 8). In the past decade, the profit margin has ranged between a low of 15.6 percent and a high of 29.3 percent. This is significantly higher than in most industries.

KEY TAKEAWAY

Over the past decade, the profit margin has ranged between **15.6%** and **29.3%**.

This is significantly higher than in most industries.

39. Ibid.

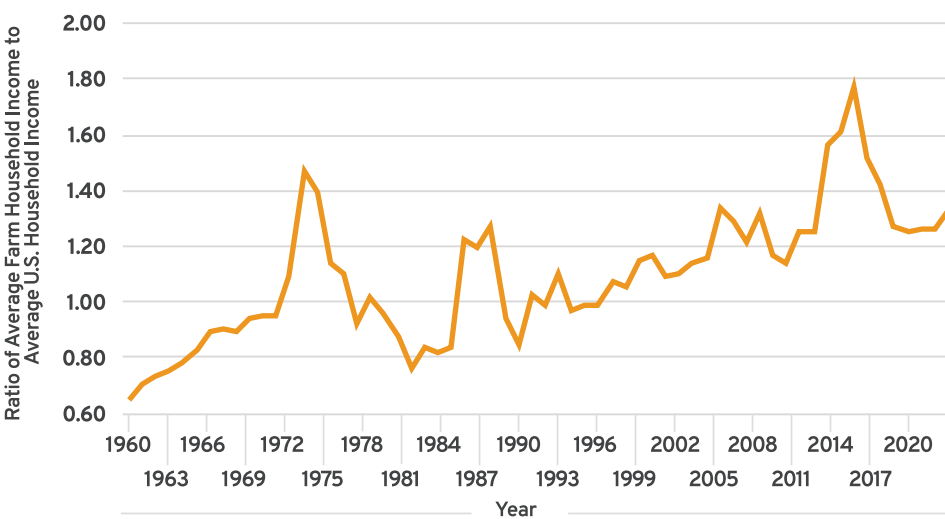
Table 8: Farm Profit Margin 2013-2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F
Gross Cash Revenue Income (in \$ billions)	423	399	423	399	413	414	424	443	494	600
Net Farm Income (in \$ billions)	124	92	82	62	75	81	79	94	141	160
Profit Margin (%)	29.3	23.1	19.3	15.6	18.2	19.6	18.7	21.3	28.5	26.7

Source: Economic Research Service, "Farm Income and Wealth Statistics," United States Department of Agriculture, Feb. 7, 2023. <https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics>.

Of note, **Figure 6** shows that average farm family income has exceeded average U.S. household income since the mid 1990s. Government farm support programs, including the FCIP, and broadly referred to as the "farm safety net," were introduced in part as a response to rural and farm poverty in the 1930s. In 1930, 25 percent of the U.S. population lived on farms.⁴⁰ Today, the percentage is closer to 1.3 percent.⁴¹ Moreover, farm households earn, on average, higher incomes than the broader U.S. household. **Figure 6** also shows that, as recently as 1960, farmers earned 65 percent of the average American household income, but the percentage has grown impressively, with farmers now earning close to 50 percent above the average U.S. household income. The sharp decline in the farm population combined with the relative wealth of farmers suggests that the generous economic benefits of government farm supports are an anachronism.

Figure 6: Ratio of Average Farm Household Income to Average U.S. Household Income, by Year



Source: Economic Research Service, "Farm Household Income and Characteristics," United States Department of Agriculture, Feb. 7, 2023. <https://www.ers.usda.gov/data-products/farm-household-income-and-characteristics>.



The sharp decline in the farm population combined with the relative wealth of farmers suggests that the generous economic benefits of government farm supports are an anachronism.

40. Carl Zulauf, "Farm Policy Background: Income of U.S. Farm vs. Nonfarm Population," FarmDoc Daily, July 3, 2013. <https://farmdocdaily.illinois.edu/2013/07/farm-policy-income-farm-nonfarm.html>.

41. Economic Research Service, "Ag and Food Sectors and the Economy," United States Department of Agriculture, Jan. 26, 2023. <https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/ag-and-food-sectors-and-the-economy>.

How PLC and ARC Work

As noted previously, PLC and ARC are risk management products created as part of the 2014 farm bill. Their purpose is to financially protect farmers in the event that crop prices drop considerably and negatively affect farmer revenues. The cost of the programs is close to \$10 billion above initial projections, and federal crop insurance payouts in 2016 reached their highest level since 2006.

Eligible farmers are required to make an election between PLC and ARC for specified crops, shown below:

- Barley
- Canola
- Large and small chickpeas
- Corn
- Crambe
- Flaxseed
- Grain sorghum
- Lentils
- Mustard seed
- Oats
- Peanuts
- Dry peas
- Rapeseed
- Long grain rice
- Medium and short grain rice
- Safflower seed
- Seed cotton
- Sesame
- Soybeans
- Sunflower seeds
- Temperate japonica rice
- Wheat

Farmers are eligible to accept PLC/ARC payments if they are actively engaged in farming and their adjusted gross Income (AGI) does not exceed \$900,000 annually.⁴² This includes both farm and nonfarm income. Payments are capped at \$125,000 per person (\$250,000 for married couples) or single entity.

PLC payments are triggered when the national marketing year average (MYA) price for a covered commodity falls below a set reference price for the commodity.

ARC provides payments when actual crop revenues fall below specified guaranteed levels and includes two separate sub-options, agricultural risk coverage county (ARC-CO) and agricultural risk coverage individual (ARC-IC). With ARC-CO, direct payments are made to farmers when crop revenue falls below 86 percent of historical revenue. With ARC-IC, payments are made when revenues fall below 66 percent of historical levels. ARC-IC is typically a less attractive option for farmers.

PLC and ARC provide direct income to farmers and producers to shield against revenue declines or declines in crop prices, with eligible farmers electing the program most advantageous to them.

PLC and ARC At Work



PLC and ARC financially protect farmers in the event that crop prices drop considerably and negatively affect farmer revenues.

42. Megan Stubbs and Stephanie Rosch, "U.S. Farm Programs: Eligibility and Payment Limits," Congressional Research Service, Dec. 7, 2020. <https://crsreports.congress.gov/product/pdf/R/R46248>.

A farmer grew 725 acres of corn during the 2019 crop year, yielding 108,750 bushels of corn at a reference price of \$3.70 per bushel. When ready to sell, however, the national MYA price fell to \$3.55. **As a result, the farmer receives a direct subsidy of \$13,865.63 ($108,750 \times (3.70 - 3.55) \times 0.85$) or \$19.13 per acre.**

During the 2019 crop year, a farmer in Vermilion County, Illinois, had 250 acres of soybeans yielding 12,500 bushels of soybeans at an MYA price of \$8.57 per bushel and an ARC benchmark price of \$9.63 per bushel. **Payments are triggered when actual yield is less than 97 percent of the county's benchmark yield, in this case allowing \$53 per acre for a direct subsidy of \$62,500 (53×250) or \$53 per acre.**

Note: Numbers used are averages of acres per farm of corn and soybeans, respectively, in the United States and average bushels per acre. Reference price, MYA price and county-level payment for Vermilion County, Ill., are actual numbers for 2019.

Source: Nick Paulson et al., "2019 ARC-CO Payments for Corn and Soybeans in Illinois," FarmDocDaily, Oct. 14, 2020. <https://farmdocdaily.illinois.edu/2020/10/2019-arc-co-payments-for-corn-and-soybeans-in-illinois.html>; Gary Schnitkey et al., "Revised 2019 ARC and PLC Payments Due to Lower 2019 Market Year Average Prices," FarmDocDaily, April 17, 2020. <https://farmdocdaily.illinois.edu/2020/04/revised-2019-arc-and-plc-payments-due-to-lower-2019-market-year-average-prices.html>.

PLC Election Payment Example

ARC-CO Election Payment Example

Farmers were able to make their PLC/ARC selections in March 2020 for the 2019/2020 program years. This means calculations could be made to select the program that would yield the highest taxpayer subsidy, including calculations on county-level ARC-CO subsidies. As such, ARC-CO was chosen by farmers on 18.6 percent of corn base acres nationally and on 79.7 percent of soybean base acres.⁴³

The selection of either PLC or ARC varies across the country, with PLC considered to be a "deep loss" solution and ARC better suited for a "shallow loss." PLC provides considerable protection against large drops in price, whereas ARC provides little protection against modest price and yield declines. Farmers may start fresh each crop year, electing either PLC or ARC based on their needs and projected calculations of highest subsidy benefit.

It is important to note that the crops covered by PLC/ARC (bulleted list above) are part of the "eligible commodities" defined in Title I of the farm bill; the selection of these crops is highly susceptible to lobbying efforts and not based on national need or nutrition.

Crop Insurance: A Program Rife with Waste

This section broadly outlines some of the larger issues within the crop insurance program, before presenting possible reforms.

Budget Breakdown

The current farm bill allocates \$38 billion to the FCIP, which is 9 percent of the USDA's \$428 billion budget over the five-year period from 2019 to 2023.⁴⁴ This allocation is largely for insurance premium subsidies. Commodity programs, including PLC, ARC, MAL and LDP make up the majority of the commodity outlays

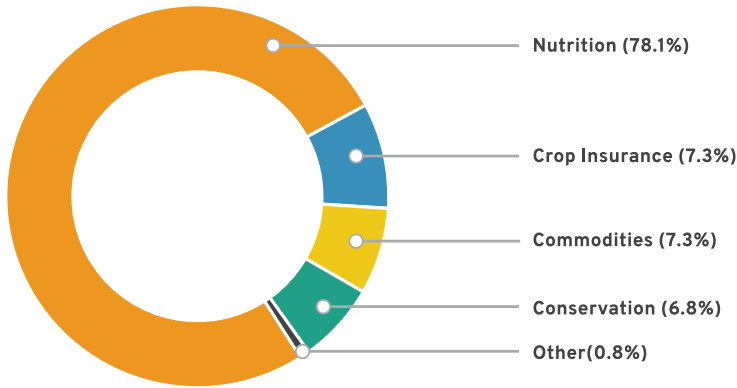


43. Ibid.

44. Economic Research Service, "Farm Bill Spending." <https://www.ers.usda.gov/topics/farm-economy/farm-commodity-policy/farm-bill-spending>.

and account for 7.3 percent or \$31.5 billion of the farm bill budget.⁴⁵ Nutrition programs account for approximately three-fourths of the farm bill total (Figure 7).

Figure 7: Farm Bill Expenditure Breakout, 2019-2023



Source: Economic Research Service, “Farm Bill Spending,” United States Department of Agriculture, Feb. 7, 2023. <https://www.ers.usda.gov/topics/farm-economy/farm-commodity-policy/farm-bill-spending>.

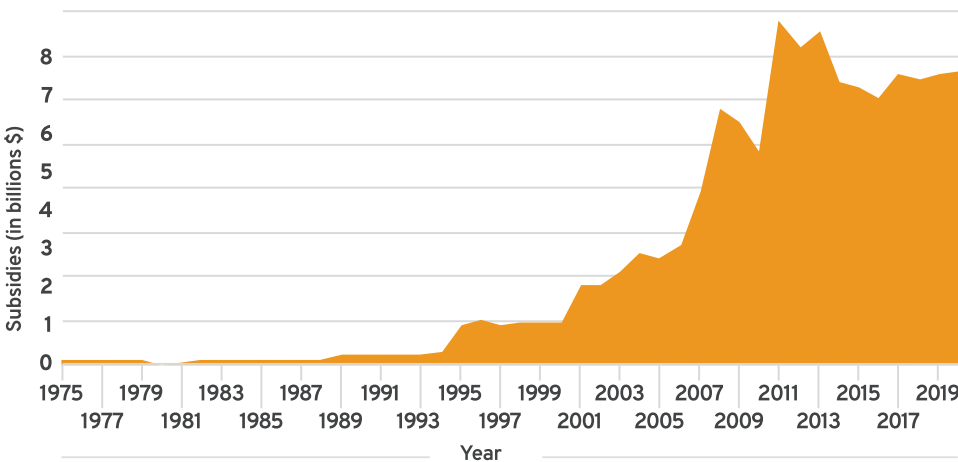
Insurance Premium Subsidies

FCIP premiums are, on average, 62 percent subsidized by taxpayers, often for farmers who do not require the financial assistance.⁴⁶ This has created an environment that encourages consolidation and buyouts and discourages smaller family farms from thriving or having the capital necessary to invest in technologies to increase yield or protect air, water and land quality.



As can be seen in Figure 8, premium subsidies have ballooned over the years. Although they were in the low hundreds of millions of dollars/year through the early 1990s, in recent years, they have increased to \$7 to \$8 billion.

Figure 8: Premium Subsidies, by Year



Source: Economic Research Service, “Crop Insurance at a Glance,” United States Department of Agriculture, May 31, 2022. <https://www.ers.usda.gov/topics/farm-practices-management/risk-management/crop-insurance-at-a-glance>.

45. “Farm Commodity Programs: An Overview,” The National Agricultural Law Center, last accessed March 3, 2023. <https://nationalaglawcenter.org/overview/commodity-programs>.

46. Stephanie Rosch, “Farm Bill Primer: MAL and LDP Farm Support Programs,” Congressional Research Service, June 22, 2022. <https://crsreports.congress.gov/product/pdf/IF/IF12140>.

Waste in PLC and ARC

Because the PLC and ARC programs are indemnity payments based on revenue loss, they give farmers a baked in way to ensure that their business is financially protected from economic forces outside their control—something afforded to few other industries. The programs have cost taxpayers \$32.04 billion between 2014 and 2019. They make up a large portion of the 7.3 percent of the farm bill budget, nearly as much as the entirety of the FCIP. Notably, these revenue loss programs are payments made in addition to the already significant premium subsidies for insurance policies, including those for revenue protection.⁴⁷



The Insurance Target Rate of Return

The crop insurance guaranteed profit margin exceeds rates of return ordinarily seen in insurance business. The property and casualty insurance industry had a 2011 profit margin of 7.9 percent (\$63 billion of net income divided by \$793 billion in direct premium written).⁴⁸ The federal government’s role in inflating the return rate is an unnecessary waste of taxpayer funding. According to Congressional Budget Office (CBO) projections, AIPs underwriting gains will average \$1.4 billion per year from 2017 through 2026.⁴⁹ Reducing the target rate of return from 14.5 percent to 9.6 percent, as recommended by the GAO, would result an annual savings of \$364 million while still allowing significant incentive for AIPs to underwrite the business.⁵⁰



MALs and LDPs

MAL and LDP are distortions of normal market fluctuations. The federal government provides loans and direct payments in an attempt to keep prices uniform throughout the year and to enable farmers to use their yield as collateral on loans. According to the Congressional Research service, from 2019 to 2022, MAL and LDP programs cost an average of \$444 million per year (with 2022 as an estimated and not actual cost) (Table 9).⁵¹



Table 9: MAL and LDP Program Outlays, FY2019-FY2022

	FY2018	FY2020	FY2021	FY2022
	In millions \$, not adjusted for inflation			
MAL Recourse Loans	43	63	17	16
MAL Nonrecourse Loans	7616	8394	6446	6283
Loans Repaid	-7239	-6502	-7161	-6236
LPDs	1	24	10	2
Total	421	1979	-688	65

Source: Stephanie Rosch, “Farm Bill Primer: MAL and LDP Farm Support Programs,” Congressional Research Service, June 22, 2022. <https://crsreports.congress.gov/product/pdf/IF/IF12140>.

47. USDA Mandatory Farm Programs, “Actual outlays” (2016-2020), USDA Budget Explanatory Notes; estimated outlays (2021-2026) and projected outlays (2027-2031),” Congressional Budget Office, May 2022. <https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjCs74ktz9AhWcTTABHU8aBEwQFnoECBAQAQ&url=https%3A%2Fwww.ers.usda.gov%2Fmedia%2Ftmifslm%2Fagriculture-risk-coverage-arc-and-price-loss-coverage-plc-outlays.xlsx&usg=AOvVaw2PnYYHXZ9MNFDIW9TAXzKU>.

48. Capital IQ Pro, last accessed March 3, 2023. <https://www.capitaliq.spglobal.com/web/client?auth=inherit#news/home>.

49. “Crop Insurance: Opportunities Exist to Improve Program Delivery and Reduce Costs.” <https://www.gao.gov/assets/gao-17-501.pdf>.

50. Rosch. <https://crsreports.congress.gov/product/pdf/IF/IF12140>.

51. Ibid.

Other Program Issues

Corporate Welfare

More than 56 percent of crop insurance subsidies go to the top 10 percent of largest farms in the United States, while nearly 32 percent of farms receive no government subsidies at all.⁵² This is unnecessary and burdensome for taxpayers, and, given the nature of the FCIP, a barrier to entry for small family farms. Crop insurance subsidies are calculated based on total yield per acre, which greatly favors large farms that have the technology and manpower to make the most of the land.



Large farms with the technology and manpower to make the most of the land are greatly favored.

Incentivizing Investment in Certain Crops

Seventy percent of subsidies go to corn, wheat and soybean producers.⁵³ Very little goes to fruit and vegetable producers. As noted previously, the crops eligible for FCIP payment are not selected based on the needs of the population, as evidenced by the inclusion of corn (very little corn is used as a source of nutrition for the population). Approximately 44 percent of corn is used in ethanol production and 45 percent as animal feed.⁵⁴ One-third of the remaining 10 percent is processed into high-fructose corn syrup.⁵⁵



Crops eligible for FCIP payment are not selected based on the needs of the population.

Soybean use is similar to corn use, with 68 percent of U.S. production being used as animal feed and 17 percent being used as vegetable oil. What is more, certain animals, including cows, are not meant to eat corn and soy. Including these substances in their feed may harm them in ways considered to be unethical and detrimental to human health upon consumption of the meat.⁵⁶

Reform Measures

Based on the factors discussed herein, we recommend the following 10 reforms to the FCIP. These reforms are aimed at reducing the burden to taxpayers while maintaining adequate support to farmers and incentivizing sustainable, nutrition-forward farming practices. These recommendations focus on realistic measures that could help trim a massive federal government program that has become a wasteful juggernaut.

Reduce Crop Insurance Premium Subsidies

The FCIP premium subsidies have ballooned to unjustifiably high levels, approaching \$12 billion in 2022. This is a considerable rise from just under \$2 billion in 1996. Many of these subsidies go to the largest farms in the nation. On average, taxpayers subsidize 62 percent of the premiums. The R Street Institute recommends capping premium subsidies at 40 percent, depending on the policy type, and allowing farmers the option to purchase additional insurance for revenue protection or higher

#1 Reform Recommendation

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52. "Farms getting government payments, by state, according to the 2017 USDA Census of Agriculture," EWG, April 2010. https://farm.ewg.org/farms_by_state.php.
53. "CBO's June 2017 Baseline for Farm Programs," Congressional Budget Office, June 29, 2017. <https://www.cbo.gov/sites/default/files/recurringdata/51317-2017-06-usda.pdf>.
54. "Corn," Engage the Chain, last accessed March 3, 2023. <https://engagethechain.org/corn>.
55. "What Makes High Fructose Corn Syrup So Bad?," Hartford HealthCare, Aug. 19, 2020. <https://www.hartfordhospital.org/about-hh/news-center/news-detail?articleId=27851>.
56. Robin Graber, "A Difficult Reality to Digest: The Effects of a Corn-Based Diet on the Digestive System of Cattle," Lake Forest College, March 5, 2012. <https://www.lakeforest.edu/news/a-difficult-reality-to-digest-the-effects-of-a-corn-based-diet-on-the-digestive-system-of-cattle>.

repayment limits. This is more in line with traditional lines of insurance, which allow for protection in the event of damage from natural disasters, and is a solution that would be unlikely to drive farmers away from the business or from participating in crop insurance altogether. Of note, this recommendation aligns with that of the CBO, which has also advised that premium subsidies not exceed 40 percent.⁵⁷

Introduce Means Testing

Much of the waste in crop insurance subsidies is centered around subsidies for farms that have no need for financial assistance. A unique situation occurs in crop insurance subsidies, which is an inverse of means testing. As a result of subsidies being correlated with production, the bulk of taxpayer funding goes to the wealthiest farms. This is both financially unnecessary and a barrier to entry for new, small farmers who do not have the same level of government-funded financial backing to sustain or grow their business. A variety of thresholds for means testing have been suggested over the years, ranging from \$250,000 to \$750,000 AGI per individual or entity. The R Street Institute recommends a means testing glidepath to begin at \$750,000 AGI with a reduction in premium subsidies to begin at 25 percent. Over a five-year period, ultimate reductions in subsidies should reach 50 percent. Upon annual evaluation of farm retention and participation in crop insurance, additional premium subsidies could be recommended.

Eliminate the PLC and ARC Programs

The immediate elimination of the PLC and ARC programs would save taxpayers more than \$50 billion over 10 years with little financial harm to farmers. Due to the nature of these programs, farmers are often paid twice for the same loss when they receive subsidies for crops that are also covered under their subsidized insurance policies. These are unfair taxpayer subsidies paid to individuals with gross income limits of nearly seven figures. The \$250,000 subsidy allowed to married couples is more than three and a half times the median American household income of \$70,000 annually. The R Street Institute recommends immediate elimination of the PLC and ARC programs.

Reform the MAL Program and Eliminate the LDP Program

MAL programs in their current form should be reformed. Using crops as collateral for loans is reasonable, but it is unreasonable to allow farmers to intentionally satisfy their loans at below-MLR prices to realize a gain. MAL and LDP programs are far more similar in nature to financial leverage than a loan, but without any downside risk. The R Street Institute recommends reforms to the MAL program so that it would operate as a true loan program, while still allowing the use of crops as collateral, as well as the elimination of the LDP program.

Reduce Guaranteed Profit Margin to AIPs

Guaranteed insurer (AIP) profits should be reduced to levels more in line with levels prevailing at property and casualty insurance business—on the order of 9 percent.

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#3 Releafform
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#5 Releafform
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57. "Reduce Subsidies in the Crop Insurance Program," Congressional Budget Office, Dec. 13, 2018. <https://www.cbo.gov/budget-options/54714>.

The USDA currently provides a guaranteed profit of 14.5 percent to AIP's as part of the SRA. There is no defensible argument for the federal government to continue guaranteeing a rich margin for private companies at the expense of taxpayers. The R Street Institute recommends reigning in guaranteed profit margins from 14.5 percent to at least 9.6 percent to align with recommendations from the GAO. This will provide a savings of \$364 million annually while still being more than 2 percentage points higher than property insurance averages.

Reduce or Eliminate Administrative Expense Reimbursement to AIPs

Reimbursements to AIPs for A&O costs do not incentivize insurers to operate with efficiency in mind and are out of line with typical insurance company business practices. The R Street Institute recommends transferring A&O costs to the policyholder. This will allow A&O costs to be accurately reflected in the free market and give further incentive to operate efficiently. This will also allow policyholders to select providers who adapt based on their needs. The CBO recommends an A&O of 9.25 percent—a reduction from the current 18.5 percent for revenue insurance—and 21.9 percent for yield insurance.⁵⁸ The CBO estimates that such a reduction would save \$21 billion from 2020 through 2028.

Eliminate Harvest Price Option

The harvest price option acts as a windfall for farmers whose crop price is higher at harvest time than it was when the crop was planted. This is the reverse of crop insurance where farmers earn less at harvest than was projected during planting. With harvest price option, the insurance payment is determined on the basis of a higher harvest price, effectively rewarding farmers twice.

Reduce the Availability of Ad Hoc Funding

One of the goals of the FCIP is to provide farmers with enough coverage that ad hoc disaster funding becomes almost unnecessary. However, ad hoc funding programs have continued despite the already large amount of federal government funding for farms. Two such examples are the Market Facilitation Program (MFP) and the Coronavirus Food Assistance Program (CFAP). According to data from the EWG, nearly 60 percent of MFP payments went to just 10 percent of farmers, and many of these payments were for crops already covered by insurance or other subsidy programs such as PLC/ARC.⁵⁹ The R Street Institute recommends disallowing any supplemental ad hoc funding for crops already covered by one or more taxpayer subsidized insurance or subsidy program.

Incentivize Sustainable and Resilient Farming Practices

The RMA's "Good Farming Practices" publication does not include any conservation requirements or recommendations. Overuse of the land ultimately leads to farming

#6 Re^{form} Recommendation

#7 Re^{form} Recommendation

#8 Re^{form} Recommendation

#9 Re^{form} Recommendation

58. "Reduce Subsidies in the Crop Insurance Program." <https://www.cbo.gov/budget-options/54714>.

59. "EWG analysis: From 2018 to 2020, farmers reaped \$91.6B in taxpayer-funded USDA subsidies," EWG, June 2022. <https://www.ewg.org/news-insights/news-release/2022/06/ewg-analysis-2018-2020-farmers-reaped-916b-taxpayer-funded-usda>.

failures and, in the case of American agriculture, comes at a massive cost to its citizens—twice. Once via tax dollars given to the RMA, and again at the grocery store. The federal government has a role to play when it comes to sustainability and resiliency and should focus efforts on environmentally conscious farm practices as opposed to overuse of the land.

Reevaluate Subsidies Through Nutritional Lens

According to the CDC, more than 40 percent of Americans and 20 percent of children are obese.⁶⁰ This is an issue that disproportionately affects low-income and underrepresented communities, with nearly one-half of Black adults suffering from obesity. Many of the most heavily subsidized crops, including corn, soybeans and canola, are used as cheap, highly processed, high calorie and/or sugar-rich fillers, which can be found in nearly every packaged product in U.S grocery stores. Notably, the list of covered crops by PLC/ARC does not include a single fruit or vegetable, despite many Americans including these in their daily lives as a vital part of a well-balanced diet. If PLC/ARC and other commodity subsidies are to continue, the R Street Institute recommends shifting the program focus toward nutrition.

Conclusion

Farmers play an essential role in our economy and enable nationwide food security. The factory-style, large-scale nature of our farming system necessitates some level of federal government involvement and oversight. However, the decades-long ballooning of the FCIP, in addition to the introduction of new programs including PLC and ARC, has left the farm system over-subsidized and monopolistic. Dramatically reducing crop insurance subsidies and introducing means testing for these subsidies will both curtail waste and allow smaller family farms a greater opportunity to grow and thrive.

Just six commodities—corn, soy, wheat, cotton, peanuts and rice—account for 94 percent of farm-program support. Many of these commodities are not used to provide affordable nutrition to the nation but are instead heavily processed into the fillers and sugars that are thought to have contributed to a variety of health issues among the American population. The current FCIP is a program that has strayed far from its intended purposes and largely exists to ensure that farmers, most of whom make well above the average annual income of Americans, are doing well financially and receive a steady income.

#10 Reform Recommendation



Farmers play an essential role in our economy and enable nationwide food security.

60. “Adult Obesity Facts,” Centers for Disease Control and Prevention, May 17, 2022. <https://www.cdc.gov/obesity/data/adult.html>; “Childhood Obesity Facts,” Centers for Disease Control and Prevention, May 17, 2022. <https://www.cdc.gov/obesity/data/childhood.html>.

About the Authors

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Appendix A: Crop Insurance Acronyms

Acronym	Expanded Term	Description
A&O	Administrative and Operating	The subsidy for the administrative and operating expenses paid by FCIC on behalf of the policyholder to the Company for additional coverage level eligible crop insurance contracts in accordance with section 508(k)(4) of the Act (7 U.S.C. § 1508(k)(4))
AIP	Approved Insurance Provider	A legal entity, including the Company, which has entered into a Standard Reinsurance Agreement with FCIC for the applicable reinsurance year
APH	Actual Production History	A farm's actual yield in a given year
APH YE	Actual Production History Yield Exclusion	Allows farmers to exclude eligible yields that occur from exceptionally bad years
ARC	Agriculture Risk Coverage	Provides income support tied to historical base acres, not current production, of covered commodities
ARC-CO	Agriculture Risk Coverage County	Provides income support tied to historical base acres, not current production, of covered commodities on a county-wide basis
ARC-IC	Agriculture Risk Coverage Individual Coverage	Provides income support tied to historical base acres, not current production, of covered commodities on an individual farm basis
CAT LAE	Catastrophe Loss Adjustment Expense	The reimbursement paid by FCIC for eligible crop insurance contracts at the CAT level (as authorized in section 508(b) of the Act) (7 U.S.C. § 1508(b)) in accordance with section 508(b)(11) of the Act (7 U.S.C. § 1508(b)(11))
CBO	Congressional Budget Office	Provides Congress with objective, nonpartisan and timely information, analyses and estimates related to federal economic and budgetary decisions
EPR	Earned Premium Rate	The total net book premium earned by all AIPs for the 2008 reinsurance year on all eligible crop insurance contracts for which A&O subsidy was paid by FCIC, divided by total liability, as of the January 2010 monthly settlement report
ERS	Economic Research Service	Conducts high-quality, objective economic research to inform and enhance public and private decision making in agriculture, food, the environment and rural America
FCIC	Federal Crop Insurance Corporation	Government corporation overseeing the FCIP
FCIP	Federal Crop Insurance Program	Government program responsible for nationwide crop insurance
FSA	Farm Service Agency	Government agency that delivers agricultural programs nationwide
GAO	Government Accountability Office	Provides Congress, the heads of executive agencies and the public with timely, fact-based, nonpartisan information that can be used to improve government and save taxpayers billions of dollars
HFCS	High-Fructose Corn Syrup	Sweetener made from corn, used in a wide range of packaged products
LDP	Loan Deficiency Payments	Payments made to producers who, although eligible to obtain a MAL, agree to forgo the loan in return for a payment on the eligible commodity

Acronym	Expanded Term	Description
MAL	Marketing Assistance Loans	Provides an influx of cash when market prices are typically at harvest-time lows, which allows the producer to delay the sale of the commodity until more favorable market conditions emerge
MPCI	Multi-peril Crop Insurance	General name given to crop coverage by the FCIC
MYA	Market Year Average	Reflects the average price received by farmers across the nation at the point of first sale, across all grades and qualities of the crop
PLC	Price Loss Coverage	Program that issues payments when the effective price of a covered commodity is less than the respective reference price for that commodity
RMA	Risk Management Agency	Government agency overseeing the FCIC
RP	Revenue Protection	Insurance that protects producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects and disease and revenue losses caused by a change in the harvest price from the projected price
RP-HPE	Revenue Protection with Harvest Price Exclusion	Insures against loss of revenue based on project harvest price only
SRA	Standard Reinsurance Agreement	Establishes the terms and conditions under which the FCIC will provide subsidy and reinsurance on eligible crop insurance contracts sold by the Company
USDA	United States Department of Agriculture	Government agency overseeing the RMA
WFRP	Whole-Farm Revenue Protection	Provides a risk management safety net for all commodities on the farm under one insurance policy and is available in all counties nationwide
YP	Yield Protection	Insures against yield losses due to natural disasters

Source: Risk Management Agency, “Standard Reinsurance Agreement,” United States Department of Agriculture, July 1, 2020. <https://rma.usda.gov/-/media/RMA/Regulations/Appendix-2021/21sra.ashx?la=en>.