Means Testing and Crop Insurance

The Federal crop insurance program is, by statute, 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 the crop insurance program?

- **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 support limits increase the cost of 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.** North Dakota, South Dakota, Texas, Minnesota, California, Arizona, Mississippi, Utah and Hawaii have all been singled out by USDA as shouldering disproportionate effects under a cap on premium support.

- Any proposal, whether an AGI limit or a premium subsidy cap, that has significant budget savings directly translates into an increase in premium costs to farmers. **A dramatic increase in premium costs on a large percentage of acres would inevitably lead to decreased participation in the crop insurance program.**
    - To be clear, reduced participation in the crop insurance program impacts every producer. Because the crop insurance program is actuarially sound, as the risk pool changes, premium rates must change to reflect the risk. Reduced coverage on a large number of acres (it's not the number of farmers impacted but the number of acres impacted that will alter premiums!) will change the riskiness of the overall pool, thereby altering rates for everyone in the program.
    - Reduced participation can only lead to an increase in calls for off-budget, ad hoc disaster programs that have been largely averted since the Federal crop insurance program was modernized in 2000.