Oppose Cuts to Premium Support for Crop Insurance

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

- **<u>Any cut to the level of premium support will increase the cost of crop insurance to farmers</u>**. Premium support does not go to crop insurance companies or agents – it simply keeps crop insurance affordable for farmers.

- **<u>Any increase in the cost of crop insurance will decrease demand for the product</u>**. 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.

    - 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.

    - As a reference point, a 10-percentage-point decrease in premium support (as proposed in the administration's budget) would increase the premium a typical Midwest grain farmer would pay by 50% for a policy at the 70% coverage level. On a policy with an 80% coverage level, the farmer paid premium would increase by over 30%. Other proposals call for much larger increases for farmers. Clearly, price increases of 30-50% and more would reduce farm cash flow and cause a large reduction in the use of crop insurance.

    - To gauge the impact of reduced premium subsidies, we have history to tell guide us. Premium support was increased in 2000 with passage of the Ag Risk Protection Act (ARPA). Prior to ARPA, both premium assistance for farmers and crop insurance participation levels were much lower than they are today.

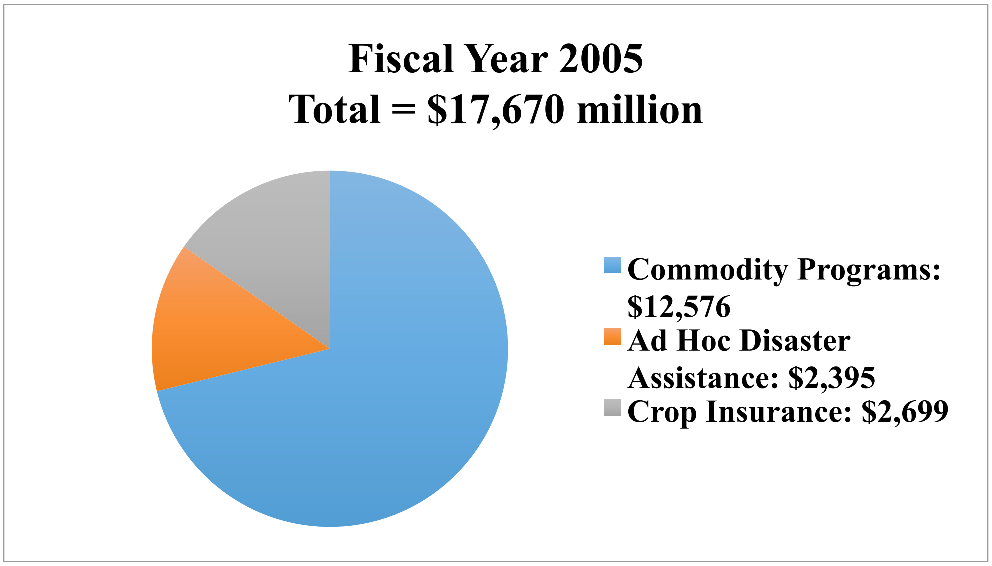
<u>Here's what history tells us:</u>

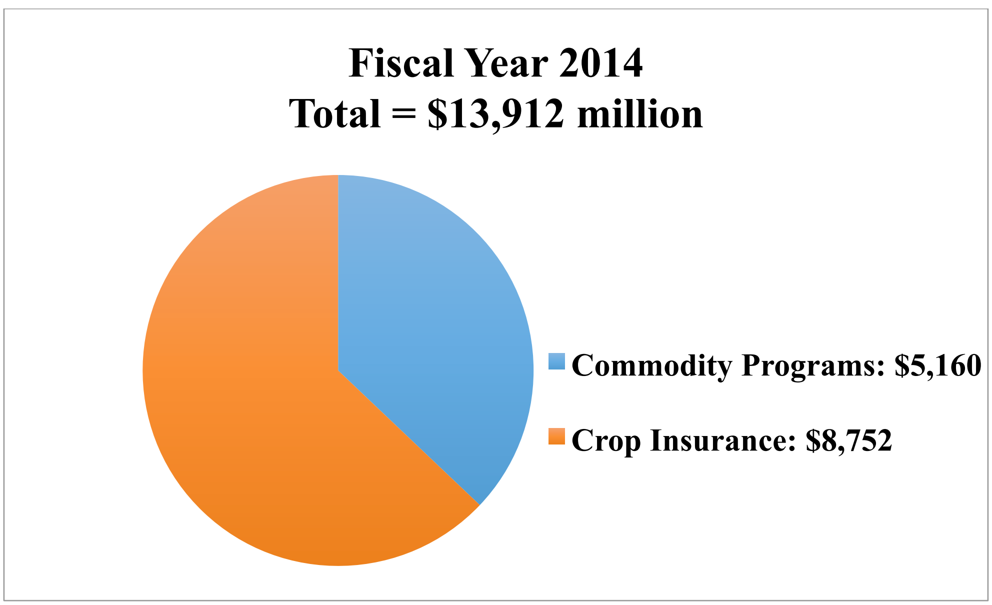
	1998 Crop Year	2014 Crop Year
Acreage	181 million	**294 million**
Total Premium	$1.8 billion	**$10.0 billion**
Farmer Paid Premium	$929 million	**$3.9 billion**
Subsidy	$946 million	**$6.2 billion**
Insured Liability	$27.9 billion	**$109.7 billion**
Ad Hoc Disaster Assistance	Approx $6 billion	**None**

Source: USDA RMA

- **<u>The alternative to an affordable and viable crop insurance program for which farmers pay about $4 billion per year in premiums is off-budget, ad hoc disaster assistance that is 100% paid for by the taxpayer</u>**. Ad hoc disaster programs are inefficient and unpredictable both for the American taxpayer and for the American farmer. Some have argued that ad hoc disaster assistance would have been less expensive than crop insurance. However, this bold statement doesn't take into consideration that crop insurance hasn't just been a replacement to ad hoc disaster assistance in recent years…crop insurance has become the lynchpin of the entire farm safety net, supporting the rural economy and protecting jobs on and off the farm.

- **<u>While farmers have utilized crop insurance more in recent years, spending on both ad hoc disaster assistance and other farm safety net programs has decreased significantly:</u>**





Source: USDA