

# FARM BILL AND CROP INSURANCE: 2013 AG POLICY UPDATE

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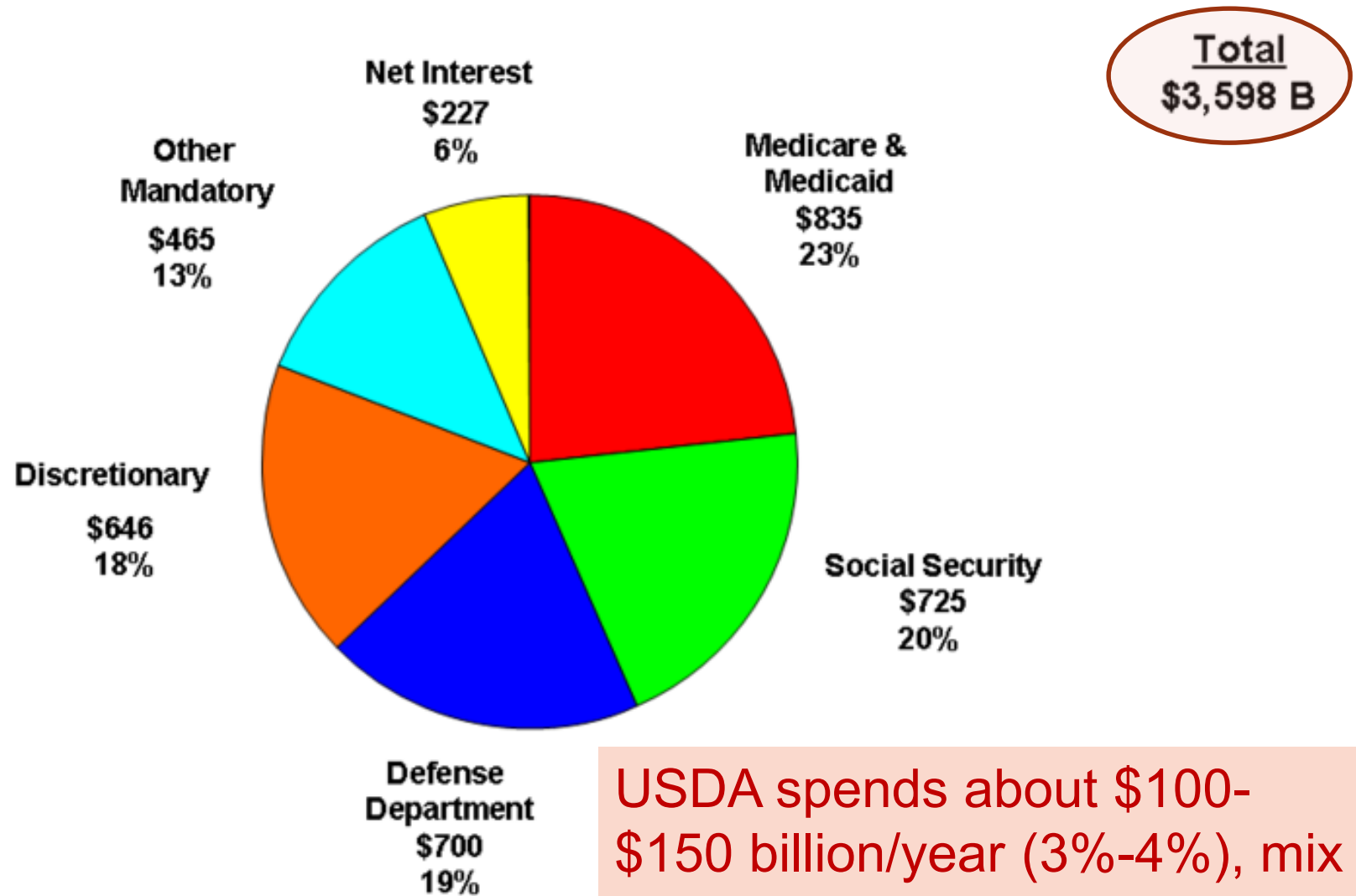
Madison, WI

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# Presentation Overview

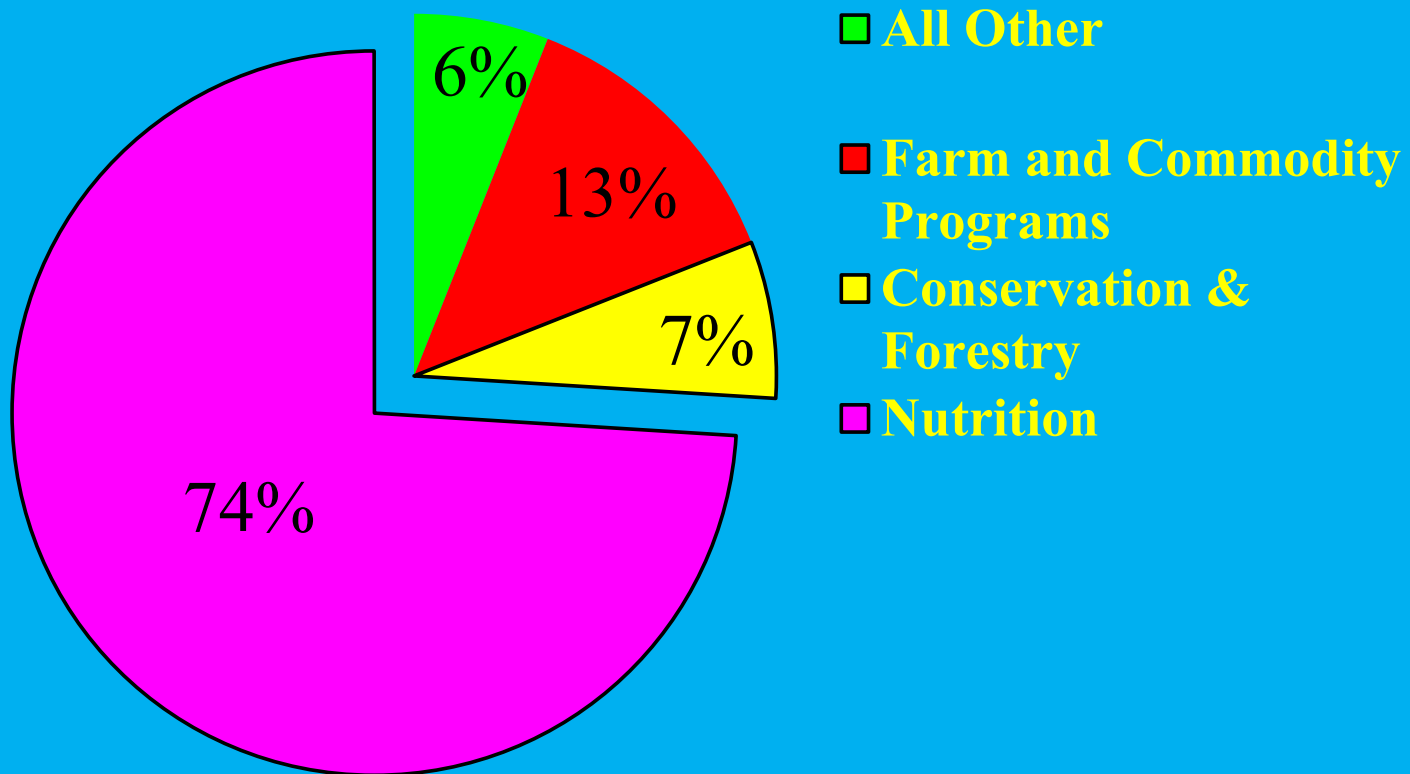
- Federal Fiscal Reality and the Farm Bill
  - Where Farm Bill fits into federal budget
  - Farm Bill Extension from Farmer's Perspective
- Where Crop Insurance fits into the Farm Bill
  - Crop insurance has become the core of Commodity Support
- My thoughts on 2013 Farm Bill
  - Crop insurance continuing as the core of Commodity Support

# U.S. Federal Spending – Fiscal Year 2011 (\$ Billions)



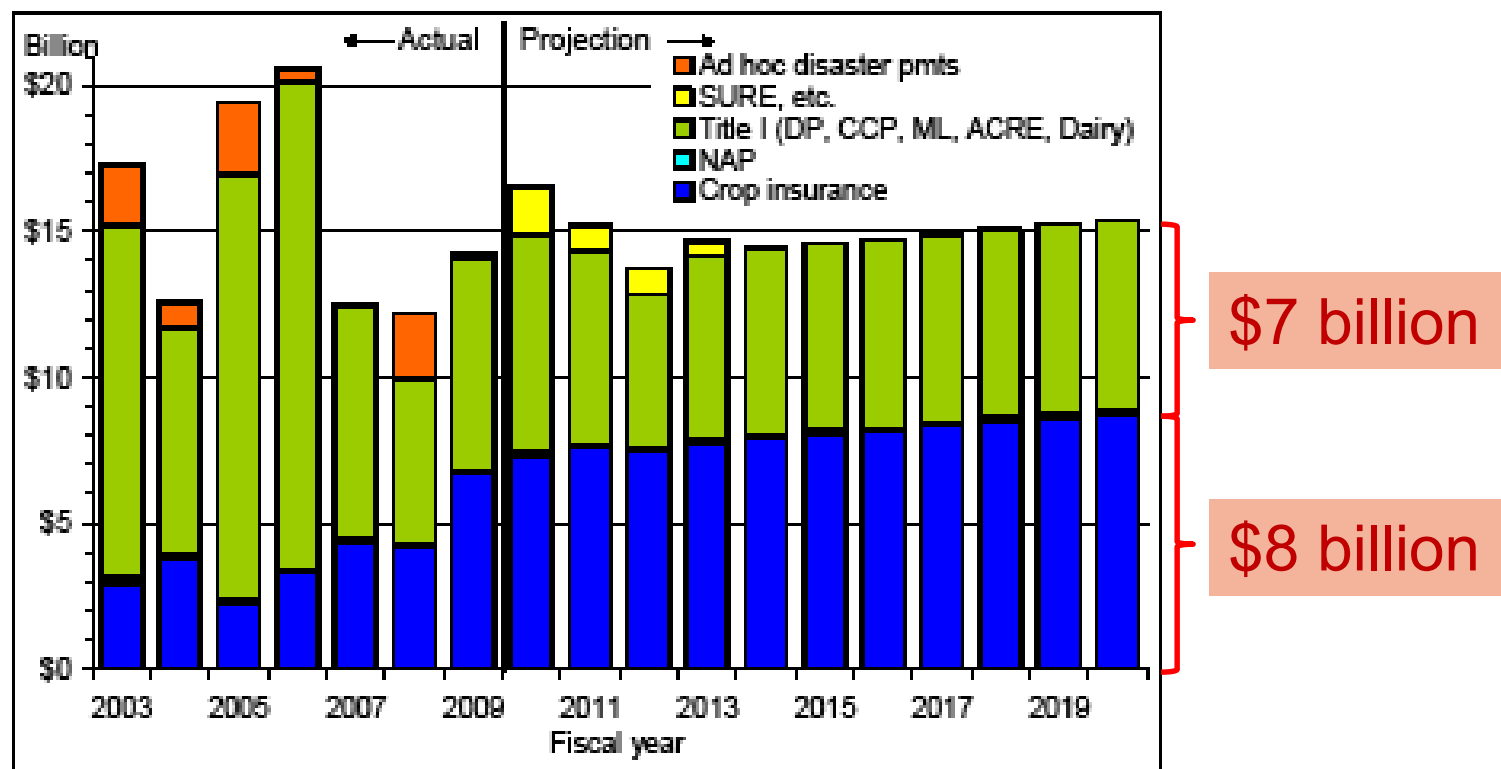
USDA spends about \$100-\$150 billion/year (3%-4%), mix of mandatory & discretionary

# Most of the USDA budget is for Mandatory Nutrition Programs (SNAP/Food Stamps, WIC, School Lunch Program)



# Closer look at the “red slice” Commodity Spending

Figure 3. Actual and Projected Spending for Farm Commodity Programs, Crop Insurance, and Disaster Programs



Source: CRS compilation, based on the August 2010 CBO baseline projections for FY2010-FY2020, and various prior-year CBO baselines for actual amounts in FY2003-FY2009.

Notes: Amounts for the Title I programs exclude the sugar program and tobacco buyout payments.

Source: <http://ncseonline.org/NLE/CRSreports/10Oct/R41317.pdf>

**Main Point: Shift to Crop Insurance for Commodity Support**

# Farm Bill Extension

- Congress extended the 2008 Farm Bill until Sept 30, 2013
- Programs that will be around for (at least) one more year
  - **Direct Payments**
  - Counter-Cyclical Payments
  - ACRE Payments (**Can opt out of ACRE if you want**)
  - Marketing Assistance Loans/Loan Deficiency Payments
  - **Crop Insurance Premium Subsidies**
  - Milk Income Loss Contract
- Means nothing changes: **Same old same old**

# Farm Bill Extension: 37 Programs Dropped

- Farm Bill extension did not include programs without “baseline funding” after Sept 30, 2012
- Many of the programs were small in terms of money and few people have even heard of them
  - Energy, Conservation, Horticulture/Organic Ag, Rural Development, Research, Trade, Nutrition, Forestry, etc.
- In terms of spending, the largest programs eliminated are
- **SURE Program** No crop disaster program for 2012
- **Wetlands Reserve Program** (plus Grassland Reserve Program and a few other conservation programs)
- SURE and conservation programs account for about 75% of the total spending that was eliminated

# Farm Bill and Federal Fiscal Reality

- Farm Bill is only 3%-4% of total federal spending
- Farm Bill spending
  - Most is for mandatory Nutrition Programs
  - Small part for commodity support, about \$15 billion/year
  - Crop Insurance is more than half of commodity support
- Farm Bill and Commodity Support may be “small potatoes” but are an easy target for some savings in federal spending



# Where does Crop Insurance Fit in?

## Crop Insurance Subsidies

- Administered by USDA-Risk Management Agency (RMA) and Federal Crop Insurance Corporation (FCIC)
- USDA develops policies, rules, and premium rates
  - Development & administration costs paid by the public
- USDA subsidizes the premiums
  - Farmers pay ~35% to 45% of fair premiums on average
- USDA pays subsidy to companies for Administration and Operating (A&O) ~18%-20% of total premiums
- FCIC reinsures the insurance companies, plus retains some of the policies
  - Means FCIC pays some of the indemnities

# Crop Insurance Data for 2012

## (all units in Millions)

Crop	Region	Acres	Liability	Farmer Premiums	Premium Subsidies	Indemnities*
Corn	<b>WI</b>	<b>3.04</b>	<b>1,894</b>	<b>63.5</b>	<b>121</b>	<b>312</b>
	USA	81.1	53,421	1,632	2,674	9,270
Soy	<b>WI</b>	<b>1.27</b>	<b>499</b>	<b>18.9</b>	<b>36</b>	<b>33</b>
	USA	65.0	25,569	874	1,467	1,853
Other	<b>WI</b>	<b>0.88</b>	<b>439</b>	<b>10.8</b>	<b>17.9</b>	<b>11</b>
	USA	135.7	37,606	1,607	2,796	3,106
Total	<b>WI</b>	<b>5.19</b>	<b>2,833</b>	<b>93.2</b>	<b>175</b>	<b>356</b>
	USA	282	116,596	4,113	6,937	14,229

\*As of 2/11/2013

# Crop Insurance Data for 2012

- **Corn and Soybeans dominate crop insurance**
- 50% of the acres, 60% of the subsidies, almost 70% of the liability and almost 80% of the indemnities (so far)

Region	Acres	Liability	Farmer Premiums	Premium Subsidies	Indemnities*
<b>WI</b>	<b>5.2</b>	<b>2,832</b>	<b>93</b>	<b>175</b>	<b>356</b>
<b>USA</b>	<b>282</b>	<b>116,596</b>	<b>4,113</b>	<b>6,937</b>	<b>14,229</b>
Percentage of Total in Corn and Soybeans					
<b>WI</b>	<b>83%</b>	<b>84%</b>	<b>88%</b>	<b>90%</b>	<b>97%</b>
<b>USA</b>	<b>52%</b>	<b>68%</b>	<b>61%</b>	<b>60%</b>	<b>78%</b>

\*As of 2/11/2013

# Crop Insurance Subsidies in the News

- Jan 15<sup>th</sup> New York Times Article “Record Taxpayer Cost is Seen for Crop Insurance”
- \$7 billion in premium subsidies
- \$1.3 billion in A&O subsidies to companies
- \$11.4 billion in indemnities, may reach \$20 billion
  - (\$13 billion by 1/28/2013)
- Maybe \$7 billion underwriting losses/reinsurance for Govt.

Crop	Region	Acres	Liability	Farmer Premiums	Premium Subsidies	Indemnities*
Corn	USA	81.1	53,421	1,632	2,674	8,349
Soy	USA	65.0	25,569	874	1,467	1,709
Other	USA	135.7	37,606	1,607	2,796	2,966
Total	USA	282	116,596	4,113	6,937	13,024

\*As of 1/28/2013

# Crop Insurance Subsidies in the News

- Premium subsidies track crop prices/crop values and crop prices have increased
  - Premium subsidies were larger last year
- Losses track disasters and we had a bad year
- Why the surprise???

Year	Premium Subsidies (\$ Billion)	% Change to 2012 Level	Corn Price (\$/bu)	% Change to 2012 Level	Soybean Price (\$/bu)	% Change to 2012 Level
2012	6.94		5.68		12.55	
2011	7.46	-7.0%	6.01	-5.5%	13.49	-7.0%
2010	4.71	47%	3.99	42%	9.23	36%
2009	5.43	28%	4.04	41%	8.80	43%

# Experience with Crop Insurance

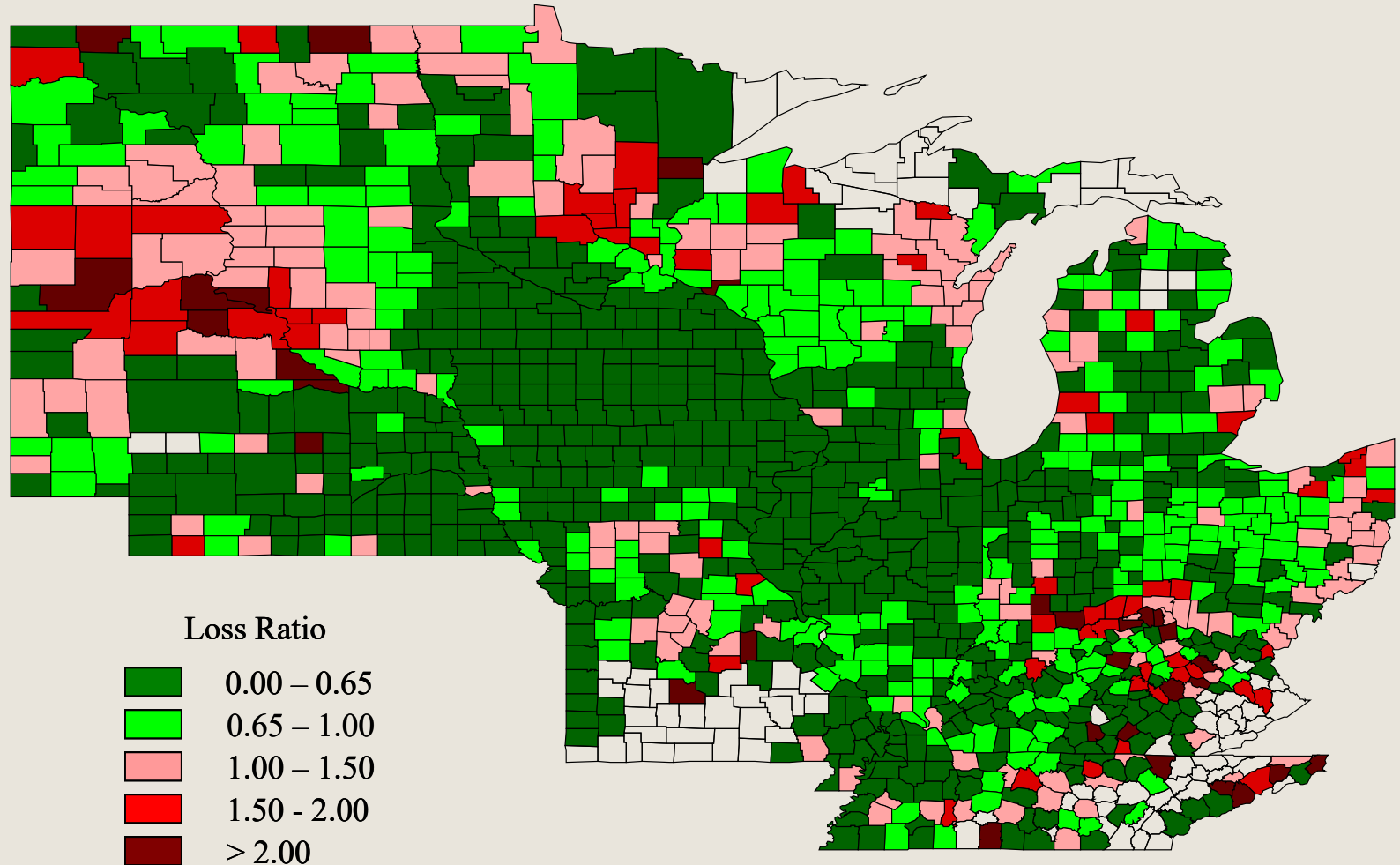
- Loss Ratio measures insurance performance
- Loss Ratio = Indemnities/Premiums
  - Loss Ratio of 1.5 means, on average, \$1.50 in indemnities paid for every \$1.00 of premiums
- Crop insurance: Subsidized premiums, farmers and government each pay part
  - Program Loss Ratio = Indemnities/(Total Premiums)  
= Indemnities/(Govt + Farmer Premiums)
  - Farmer Loss Ratio = Indemnities/(Farmer Premiums)
- 2008 Farm Bill Mandates a Program Loss Ratio of 1.0
- Farmers pay about 35%-45% of premiums on average

# 2012 Loss Ratios = Indemnities/Premiums (as of 2/11/2013)

Crop	Region	Program Loss Ratio	Farmer Loss Ratio
Corn	WI	1.68	4.90
	USA	2.15	5.67
Soy	WI	0.53	1.76
	USA	0.79	2.12
Total	WI	1.21	3.82
	USA	1.29	3.45

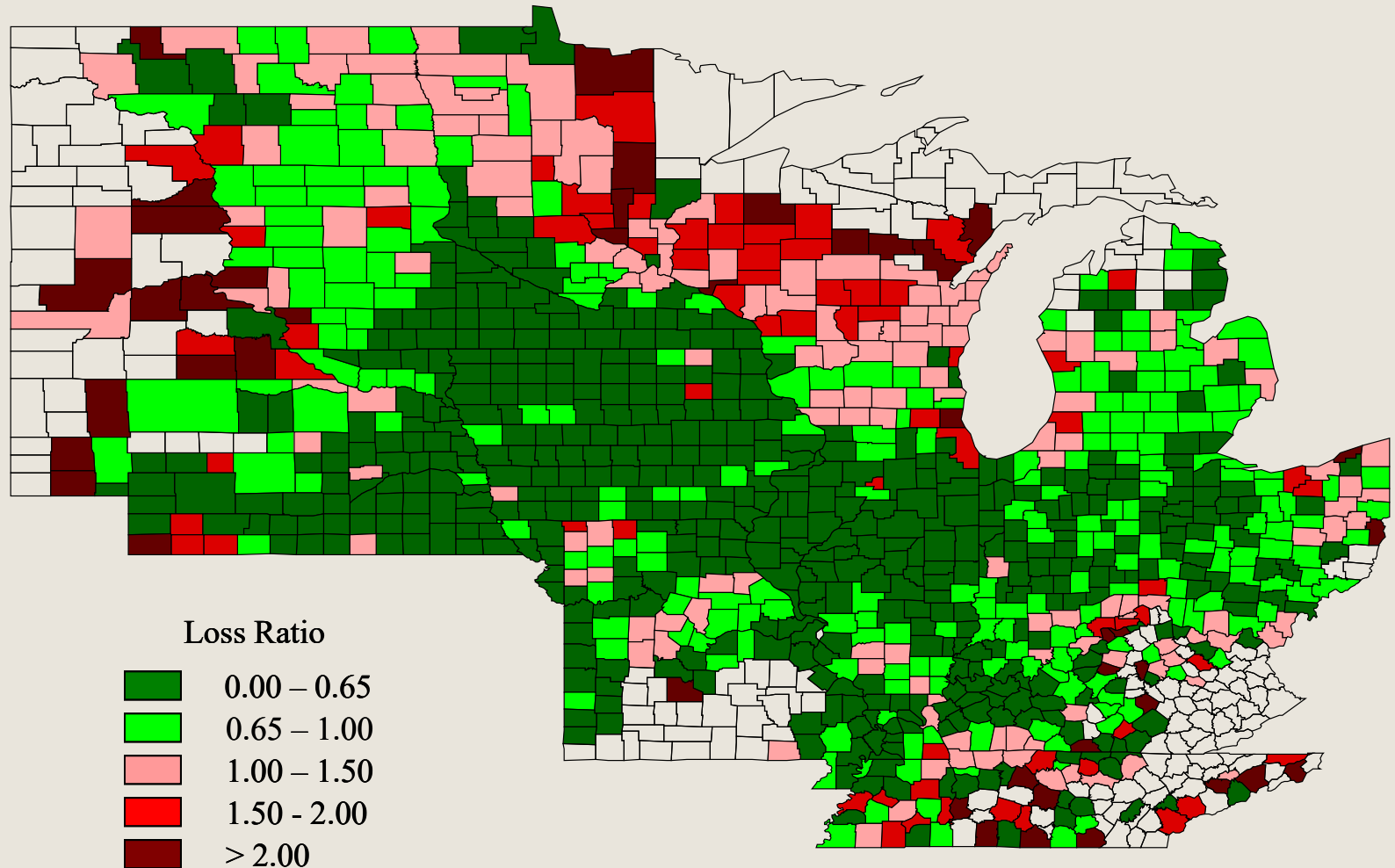
- Program loss ratio not high for drought year, but not done
- Farmer loss ratio much larger than program loss ratio

# Average County Program Loss Ratios for Corn 1995-2007 (CRC, RA, APH)

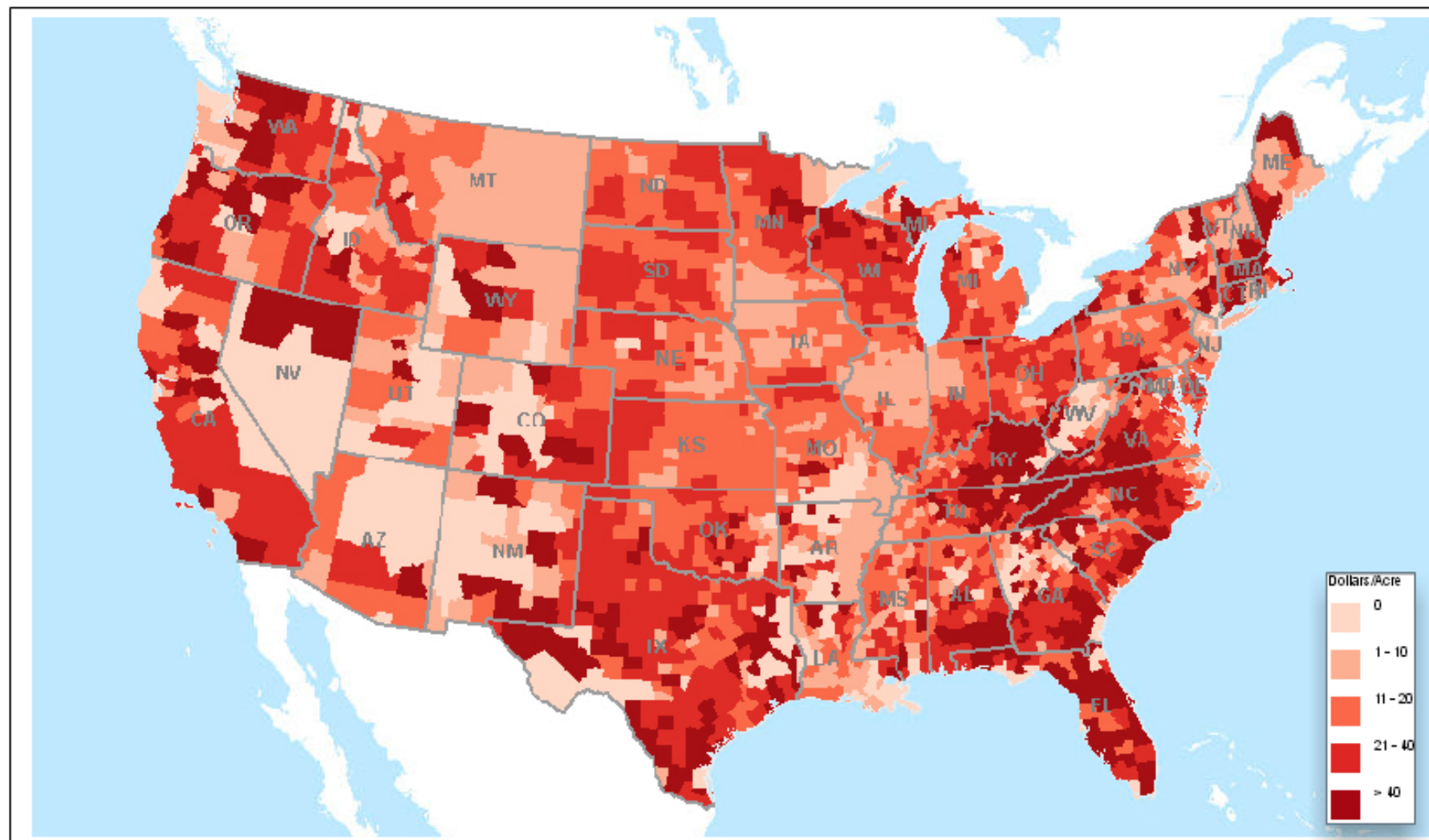




# Average County Program Loss Ratios for Soybeans 1995-2007 (CRC, RA, APH)



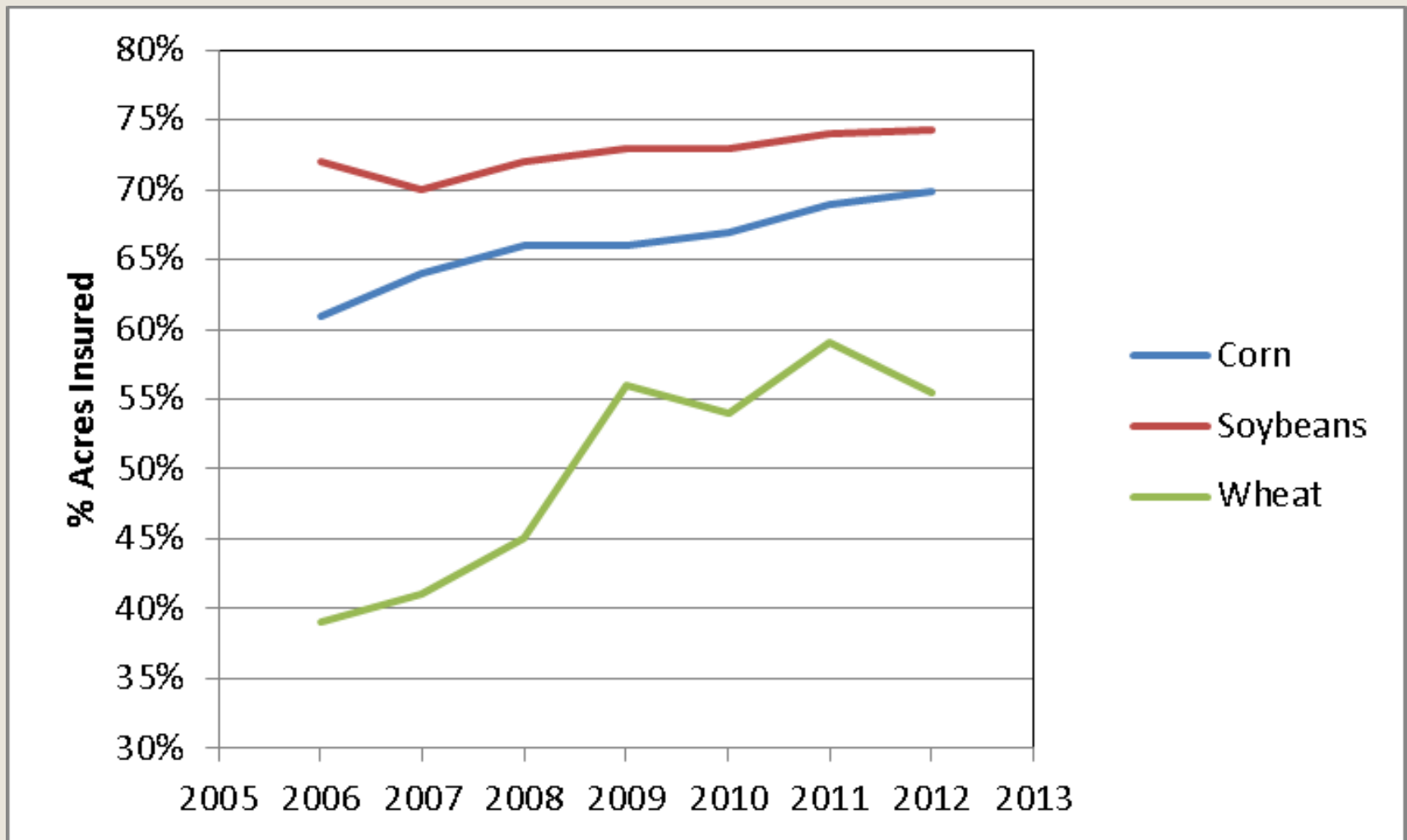
# Average Indemnities Net of Farmer Premiums (\$/acre) 2000-2009



# Program Loss Ratios and Reform

- Corn and soybeans “carry” the crop insurance program
  - Program loss ratios too low for corn and soybeans
  - Crop insurance a “tax” on Midwestern corn & soybean acres that transferred to “marginal” production areas
- Recent premium rate adjustments to remedy the problem
  - Trend Adjusted APH (new in 2012)
  - New premium rates phased in 2012 and 2013 so that about 6% lower for Midwest corn and soybeans

# Trends in WI Crop Insurance Participation



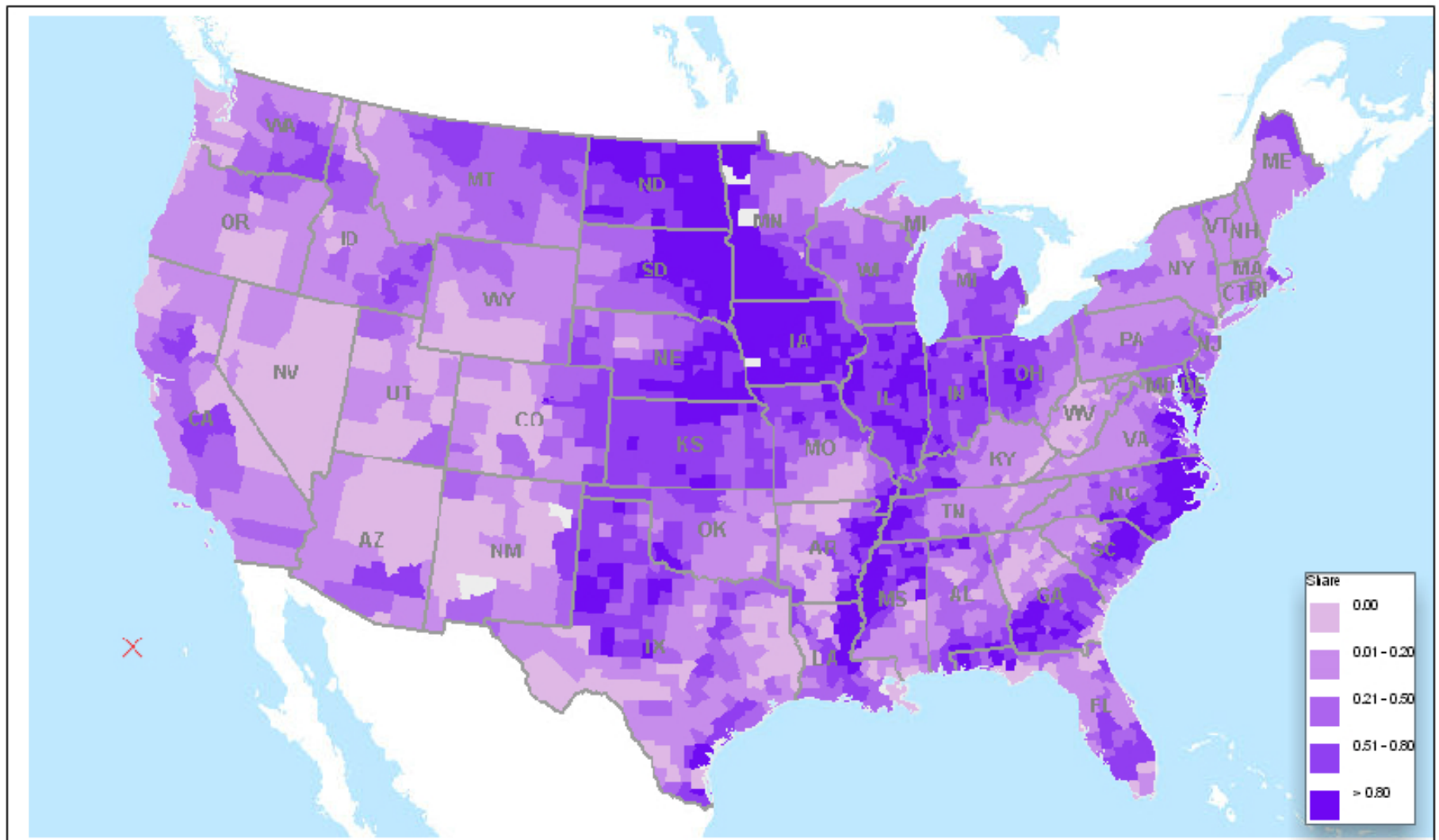
# WI vs. neighboring states

## % Planted Acres Insured in 2011

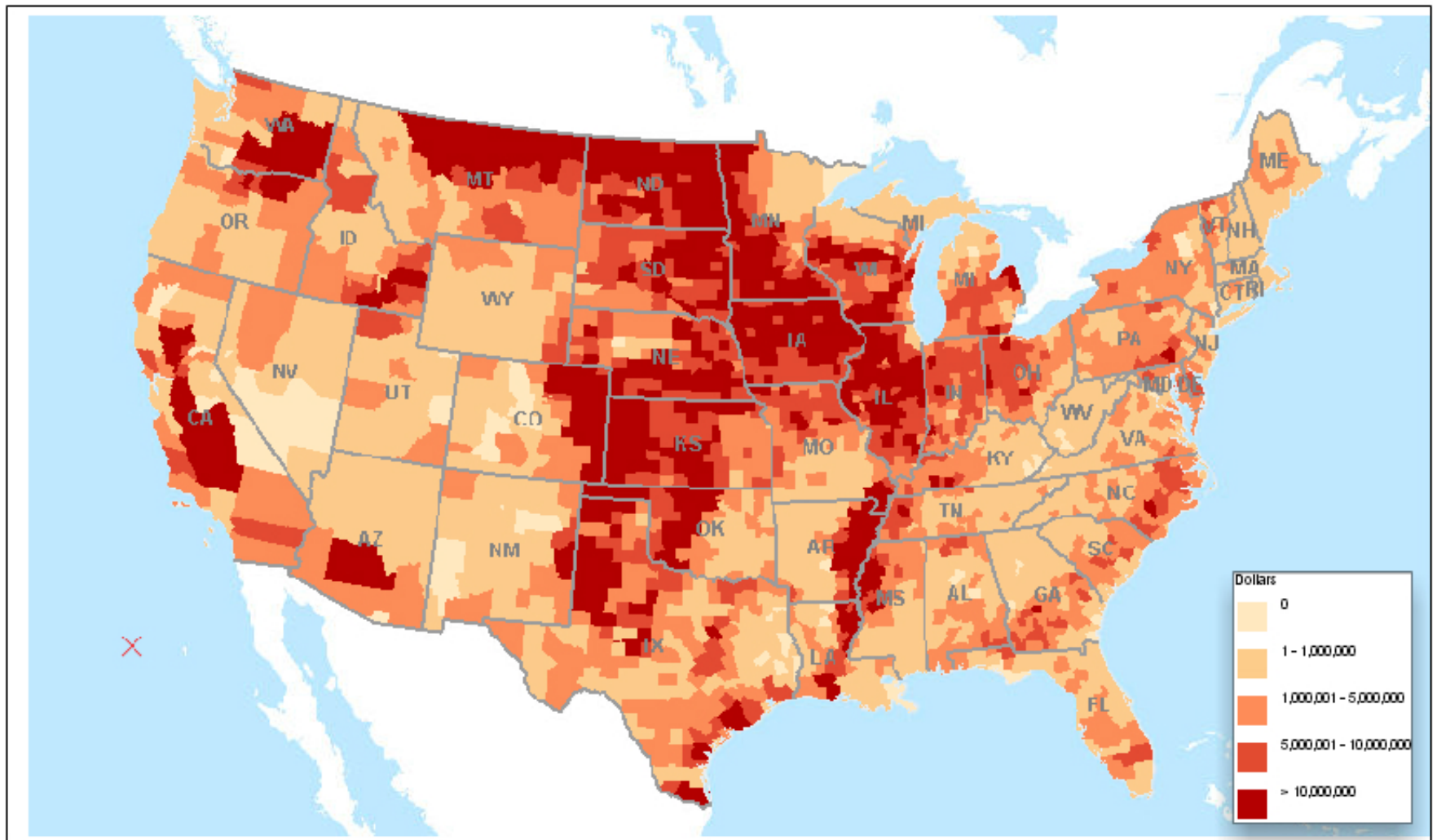
State	Corn	Soybeans	Wheat
IA	90%	91%	34%
IL	81%	78%	62%
MN	94%	94%	94%
MI	72%	71%	63%
WI	69%	74%	59%

Historically WI has had a low participation rate

# 2009 Insured Acres as Share of Cropland

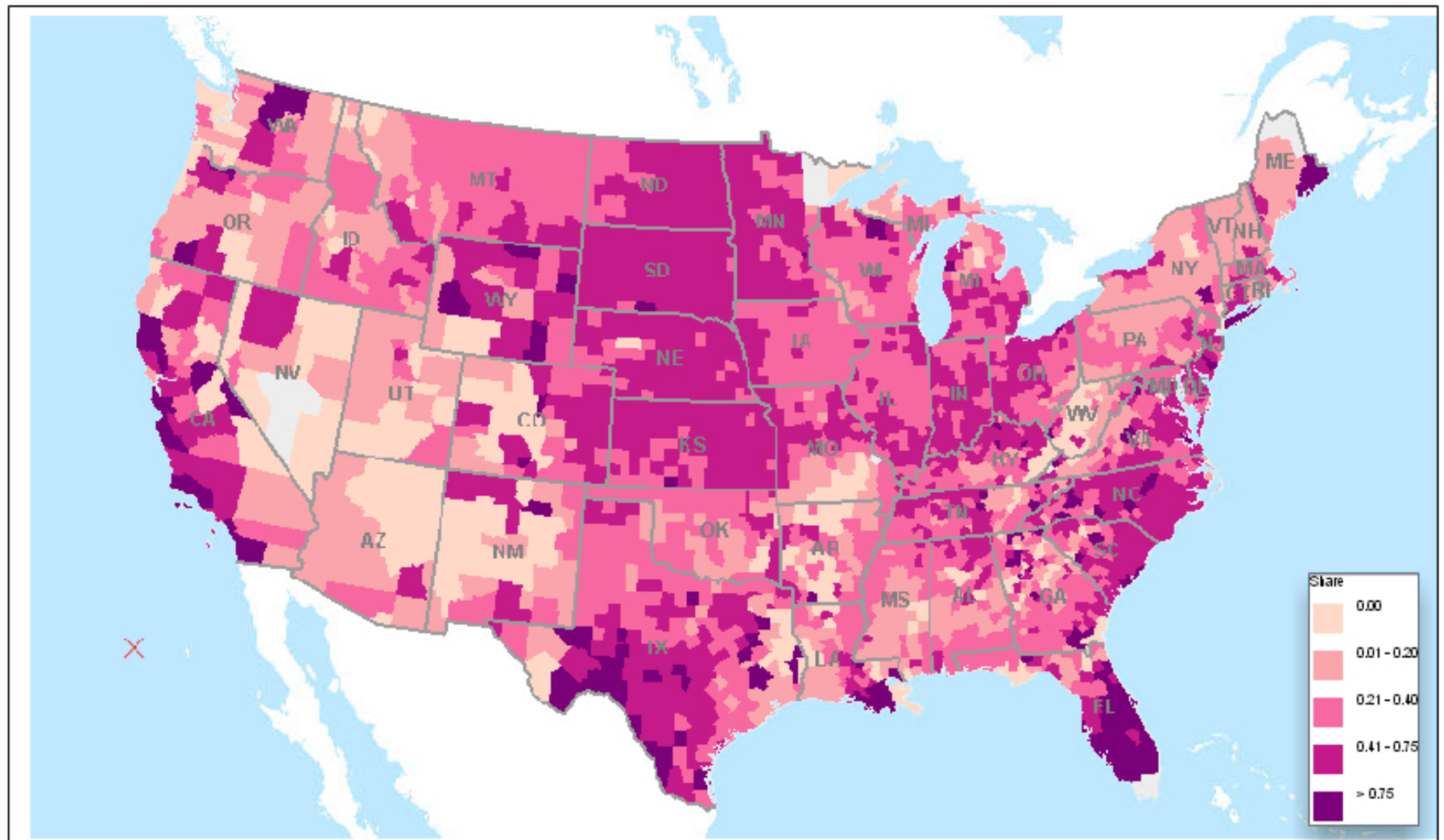


# 2009 Total Payments (DCP, ACRE, LDP, SURE, MILC, CRP, Premium Subsidies)





# Share of 2009 Total Payments from Crop Insurance Premium Subsidies





# Main Point

- Crop insurance has become the core of commodity support from the federal government
  - Most acres are insured and most subsidies are via crop insurance
- Proposed Farm Bills and Federal Budget negotiations likely to put even more emphasis on crop insurance and to decrease traditional commodity support
  - Unlike many states, Wisconsin can offset commodity support losses by increased crop insurance use
- Senate and House Ag Committee each passed a version of a Farm Bill last summer
- Congress will start over on a new Farm Bill, but these versions shed light on what they wanted
- Let's take a quick look at Senate and House Ag versions

# Proposed Cuts (\$ Billion per Year)

	Senate	House Ag
Nutrition	-\$0.4	-\$1.6
Crop Insurance	+\$0.50	+0.95
Commodity Programs	-\$1.94	-\$2.36
Crop Insurance + Commodity	-\$1.44	-\$1.41
Conservation	-\$0.64	-\$0.61
<b>Total</b>	<b>-\$2.31</b>	<b>-\$3.51</b>

-9%

- Senate and House Ag essentially the same
- Debate was about how much to cut nutrition programs and how to support commodity ag
- Both emphasize crop insurance even more

# Proposed Commodity Program Changes

- Direct Payments: both eliminated
- Counter-Cyclical Payments: both eliminated
- ACRE Program: both eliminated
- Disaster Programs: both eliminated SURE
  - Keep other programs (LIP, LFP, ELAP, TAP)
- Marketing Assistance Loans and Loan Deficiency Payments: both kept and kept same loan rates
- Created new Farm Safety Nets

# Differ on Farm Safety Net: Shallow Losses

- Proposed Farm Bill Commodity Support to cover “Shallow Losses” not covered by crop insurance
- Create programs that sit on top of crop insurance and cover part of “farmer deductible”
  - With a 75% RP policy, farmer “pays” the first 25% of revenue losses below average revenue
- Shallow Loss programs pick up part of this deductible (for free)

# Shallow Loss Commodity Support Programs

- Senate: Agriculture Risk Coverage (ARC)
- House Ag: Revenue Loss Coverage (RLC)
  - Also created Price Loss Coverage (PLC), which is CCP with higher target prices (South wanted)
- ARC & RLC similar to county-level ACRE program that sits on top of crop insurance
- Farmer pays first 11%-15% of losses, ARC/RLC cover up to 10% of additional losses, rest covered by crop insurance
  - 75% RP is most popular policy

# Shallow Loss Commodity Support Programs

- Differences between ARC and RLC
  - % losses farmer pays first (11% or 15%)
  - County revenue or farm revenue for guarantee
- Agreements between ARC and RLC
  - Only covers an additional 10% of losses, greater losses covered by crop insurance
  - Use 5-year Olympic average of yields and prices
- If covering 11% to 15% of losses is too much for a farmer, can choose Supplemental Coverage Option (SCO)
  - Buy a GRIP county revenue policy for the part of the crop insurance deductible not covered by ARC/RLC

# Main Point

- Crop insurance likely to become even greater part of commodity support
- Additional commodity support will likely be layered on top of crop insurance to cover shallow losses
- Currently no crop disaster program: Buy crop insurance
- Other Changes to expect
- Reduced premium subsidies: Fiscal and Political reality
  - Will need the savings to control federal spending
  - High crop prices have increased subsidy costs, yet despite large disasters, farm income still high
- Conservation requirements for crop insurance: To compensate for reduced conservation program spending

# Farm Bill Expectations: My Thoughts

- 3 Farm Bill Options: 1. Pass a separate Farm Bill, 2. Pass as part of fiscal reform bill, or 3. Pass another extension
- Will scrap DCP & ACRE and replace with new program
  - North wants revenue support, South wants price support
  - Committee memberships have shifted South, so expect more pro-South programs: Price support and special deals for cotton, rice, peanuts etc.
- No crop disaster program (SURE)
  - Layer commodity support on top of crop insurance in a more cost efficient public-private partnership
- Cost of crop insurance talked about a lot in press lately: Reductions in premium subsidies seem likely



# Farm Bill Expectations: My Thoughts

- Will need some urban district votes to pass
  - Reinstate programs for specialty crops, organics, farmers markets, horticulture, etc. [Low Cost]
  - More conservation rules for crop insurance to offset impact of conservation program cuts [Free to Govt]
- Some sort of dairy program reform will happen
  - I have no clue, ask Dr. Mark Stepheson, UW CDP
- Budget arguments about how much to cut Food Stamps and Crop Insurance
  - Food stamps will be cut some [Entitlement Reform]
  - Likely see reduced crop insurance premium subsidies [Fiscal/Political Reality]

# Thanks for Your Attention!

## Questions?

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