

# CROP INSURANCE AND THE 2013(?) FARM BILL

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**Tri-State Ag Lenders Meeting**

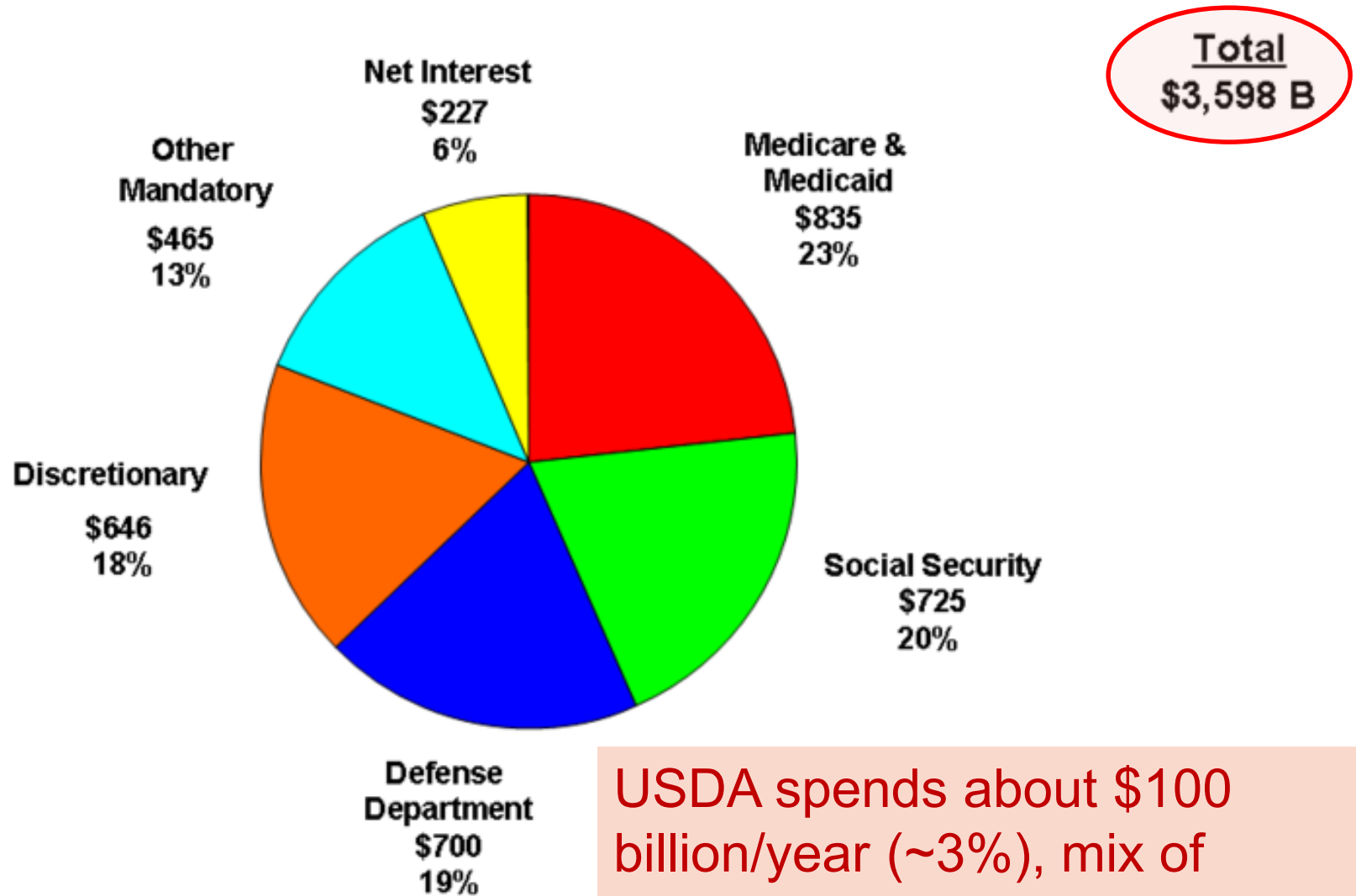
**Dubuque, IA**

**October 30, 2013**

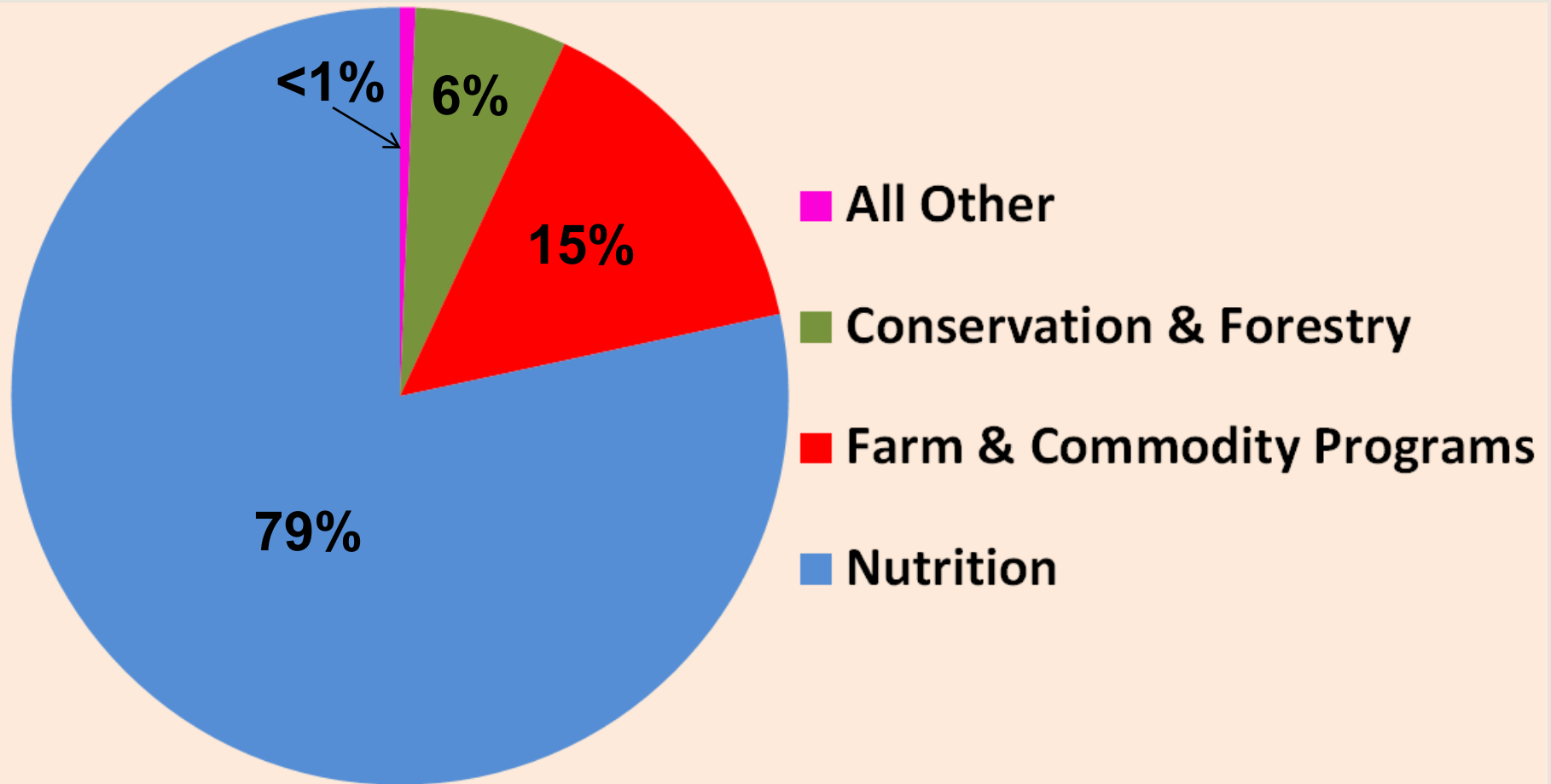
# Today's Goal

- Overview of existing Farm Programs
  - *How and where we spend about \$15 billion/year*
- Overview of likely changes in programs
  - *7-9% cut in the \$15 billion*
  - *Even more emphasis on crop insurance*

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



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



# Average Annual Outlays Under 2008 Farm Bill

**Crop Insurance**  
**\$8.3 bil**

**Direct Payments (DP) \$4.9 bil**

**Risk Management**  
(field & specialty crops)  
**\$8.4 bil**

**Commodity Programs**  
(field crops)  
**\$6.0 bil**

Counter-Cyclical Payments (CCP) \$0.559 bil

OR

Average Crop Revenue Election (ACRE) \$0.311 bil

Non-insured Disaster Assistance (NAP)  
\$0.1 bil

Marketing Assistance Loans  
\$0.225 bil

Loan Deficiency Payments (LDP) \$0.225 bil

Supplemental Revenue Assistance Payments Program (SURE)

Ad hoc disaster payments

Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program

**Farm Safety Net**  
**\$15 bil**

**Disaster Assistance**  
(crops & livestock)  
**\$0.75 bil**

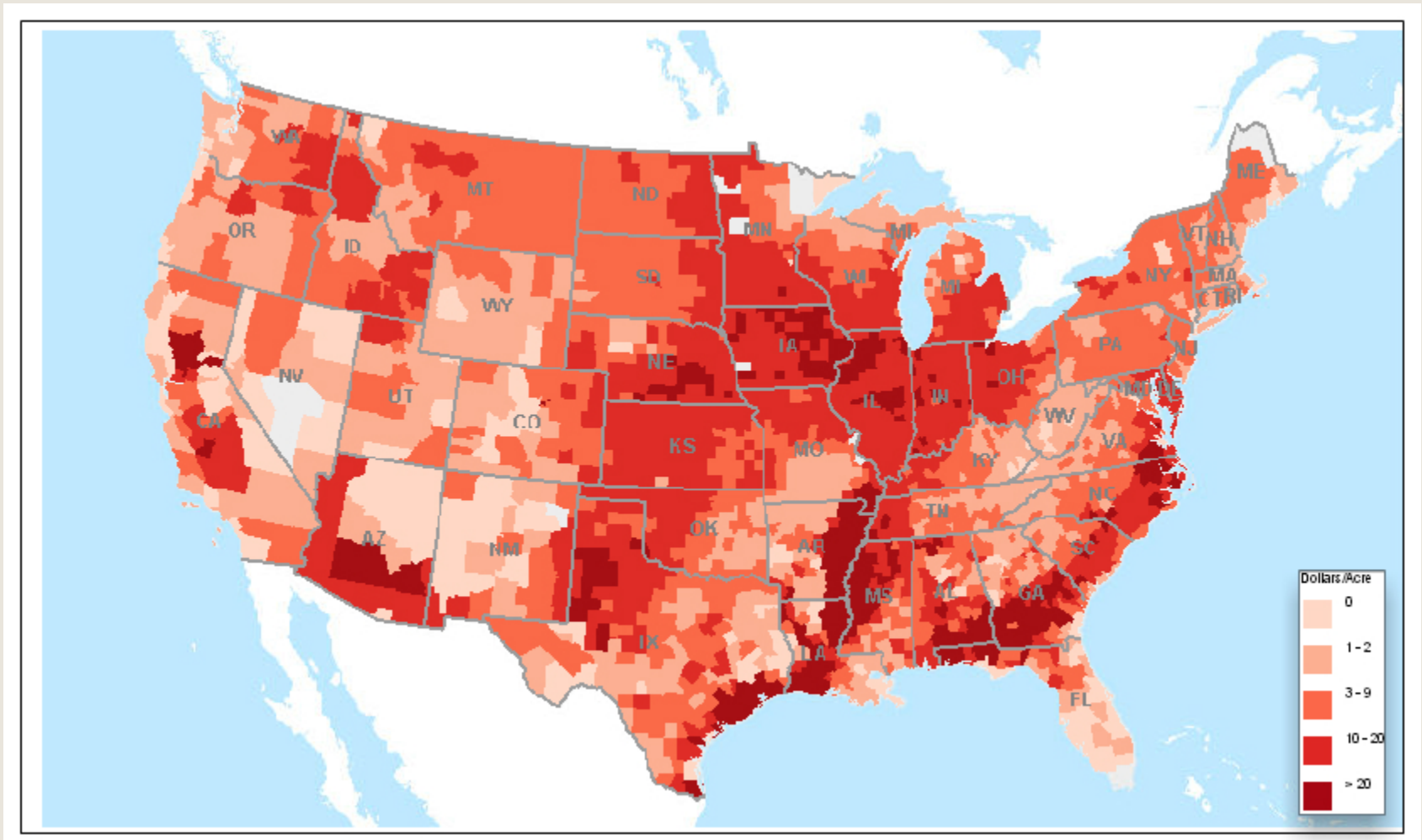
Livestock Indemnity Program

Livestock Forage Disaster Program

Tree Assistance Program

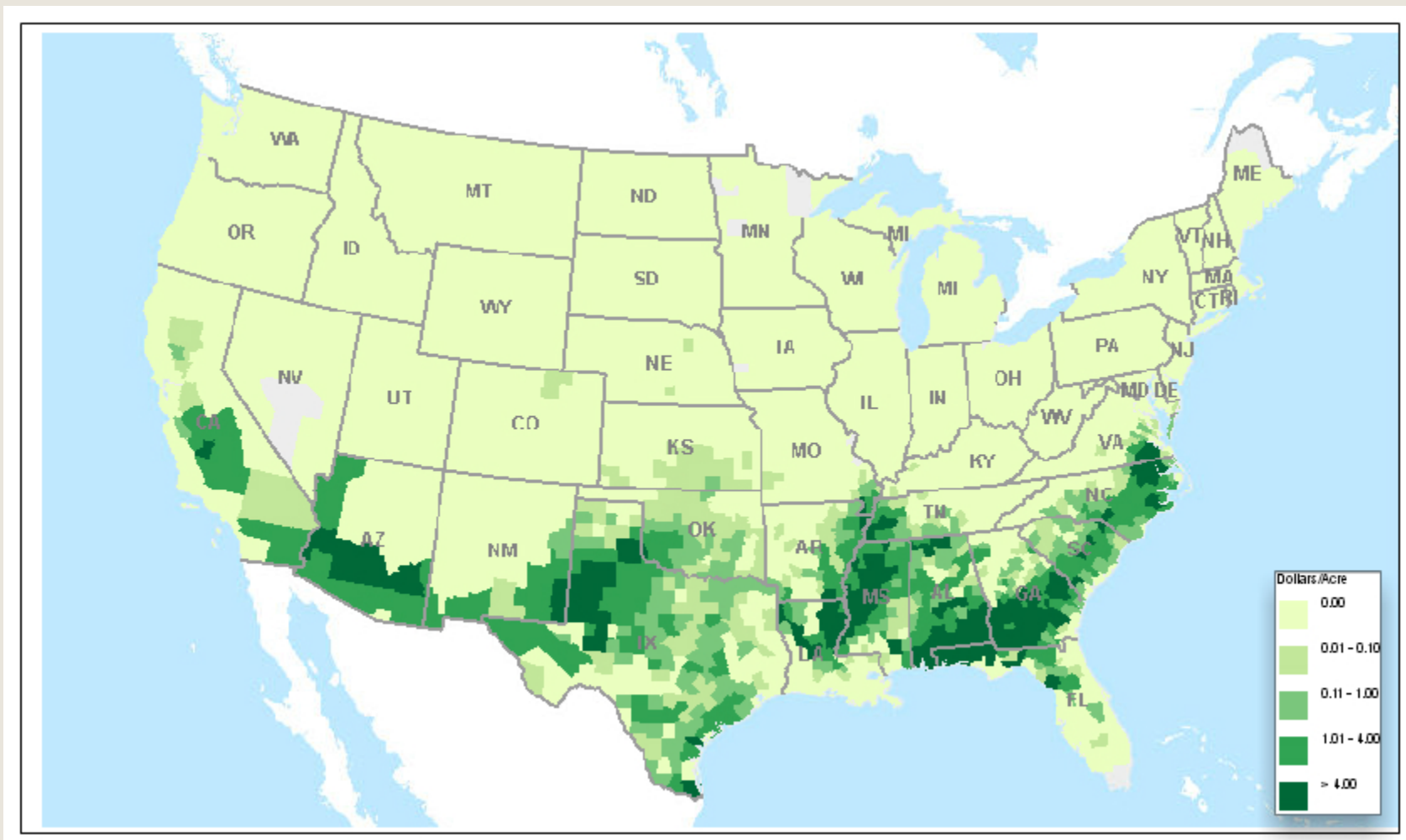
Emergency Disaster Loans

# Direct Payments \$/ac in 2009



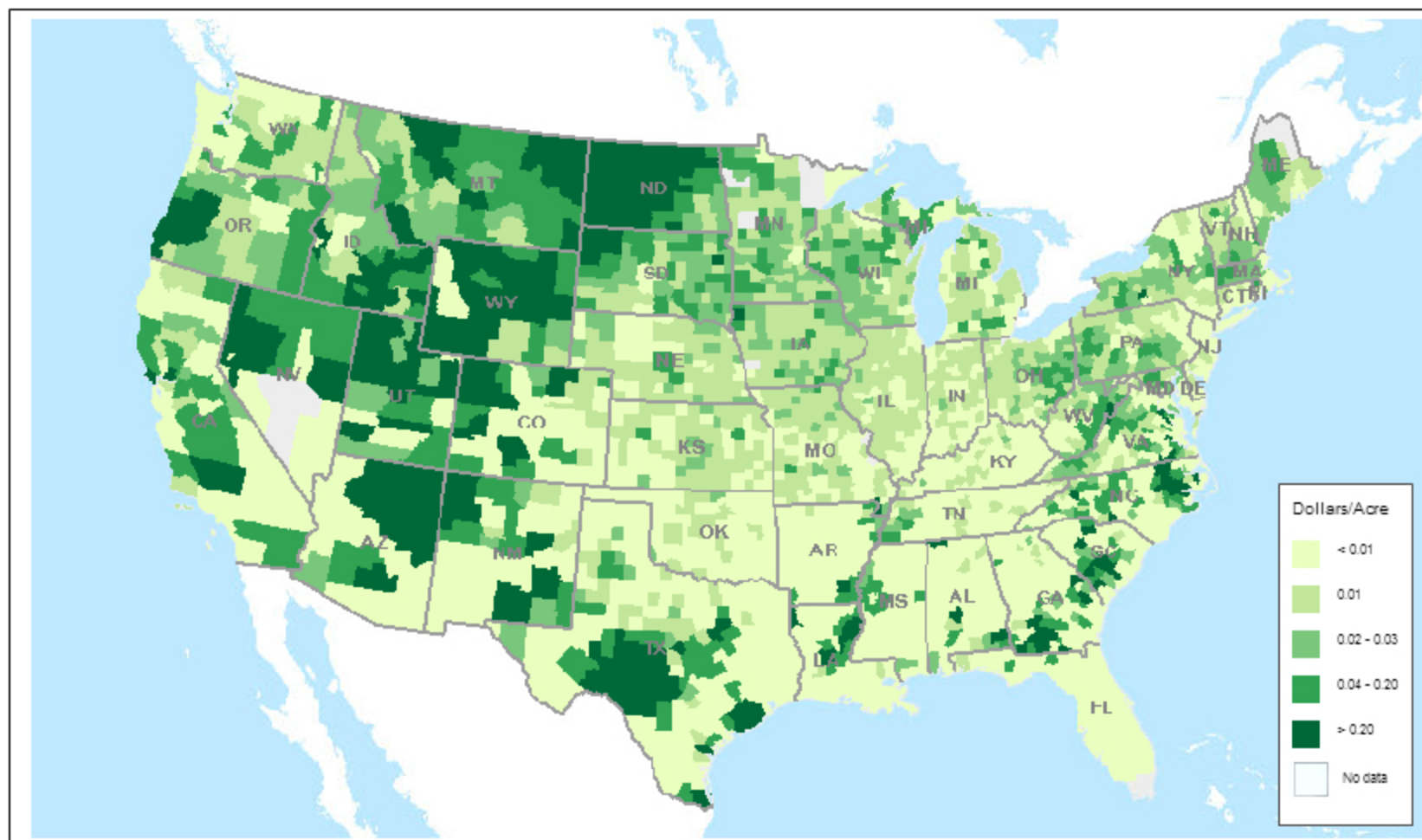
Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UgvP3pLCY6k>

# Counter-Cyclical Payments \$/ac in 2009



Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UgvP3pLCY6k>

# Marketing Loan Benefits \$/ac in 2009

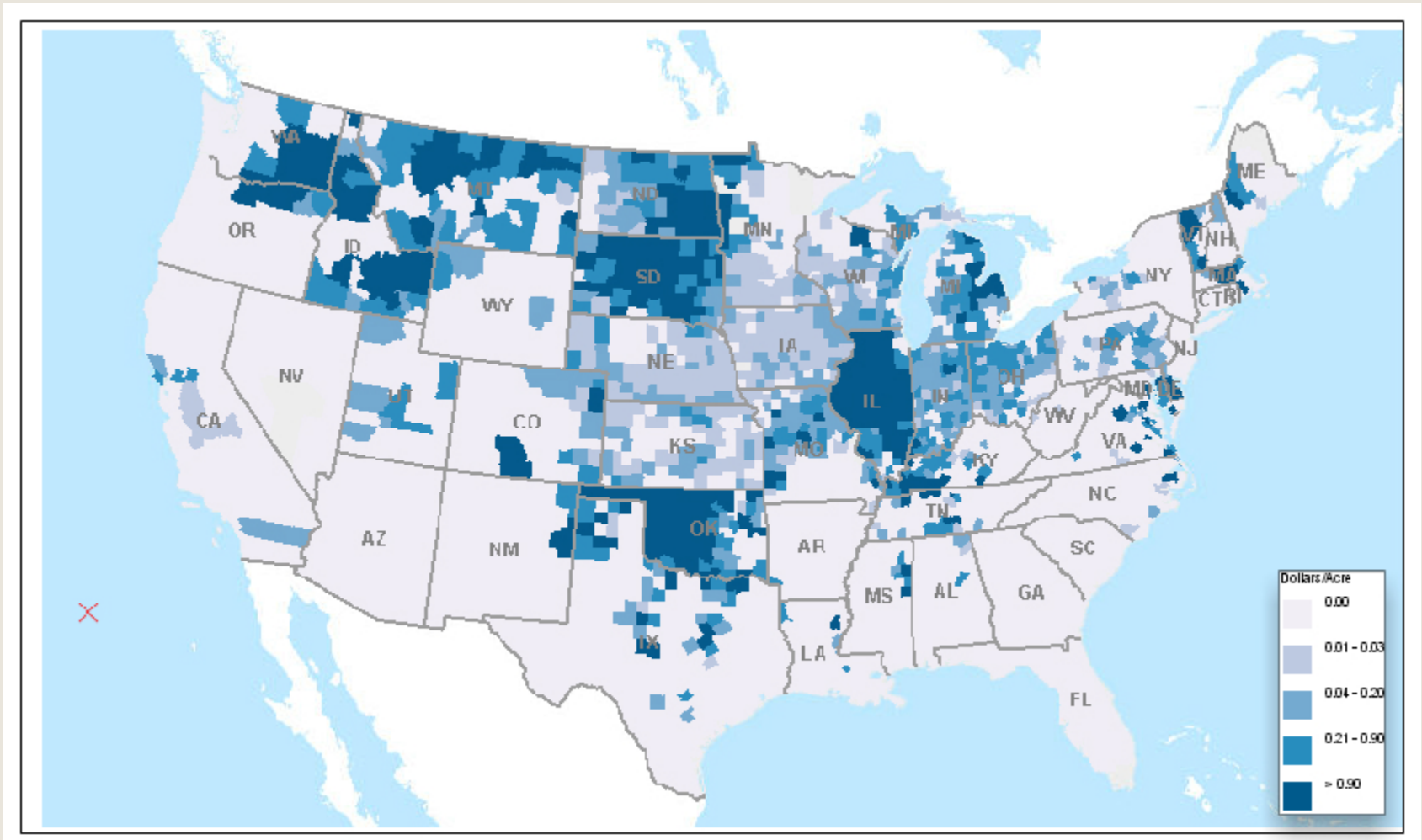


Total MLBs per cropland acre, 2009

Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UqvP3pLCY6k>

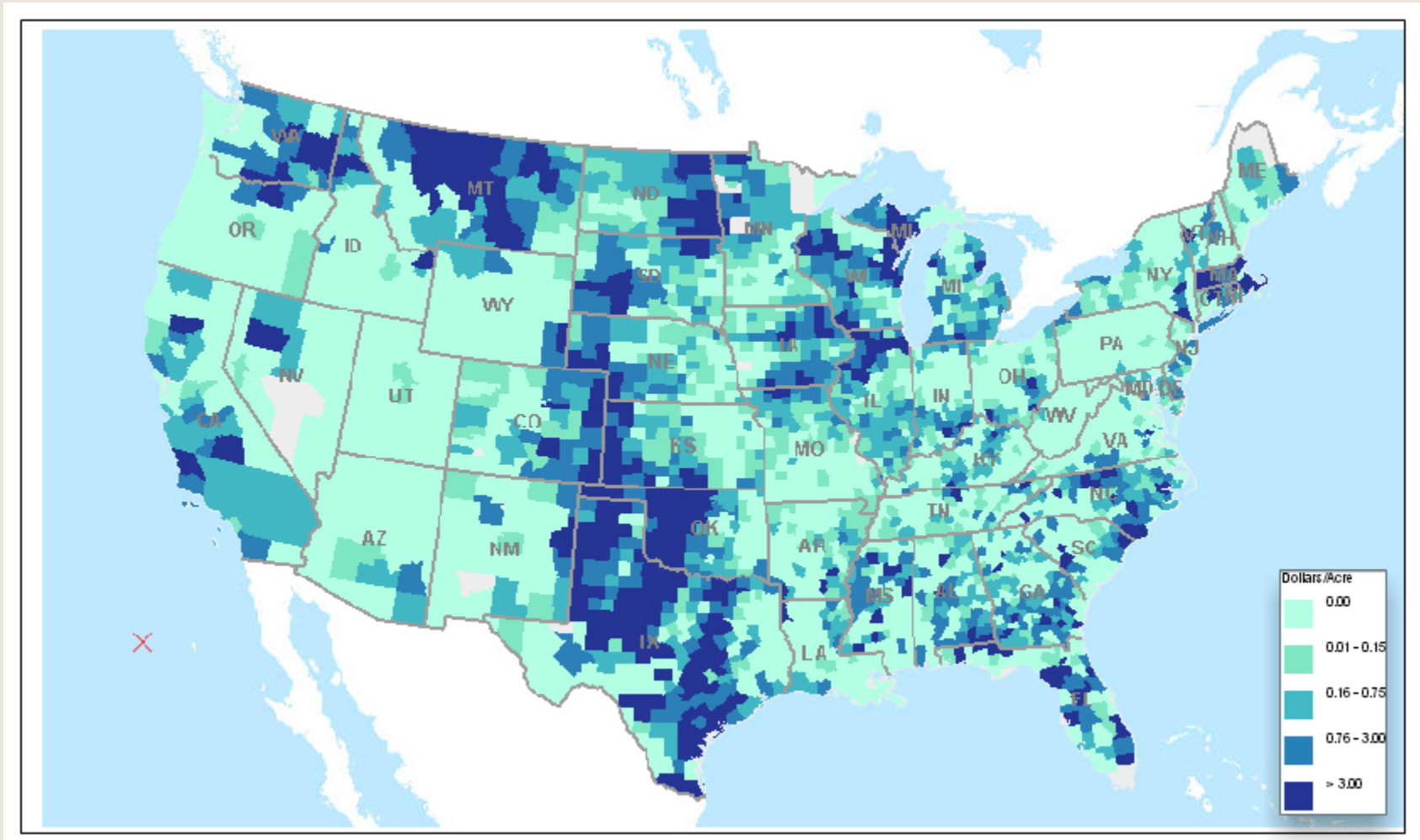


# ACRE Payments \$/ac in 2009



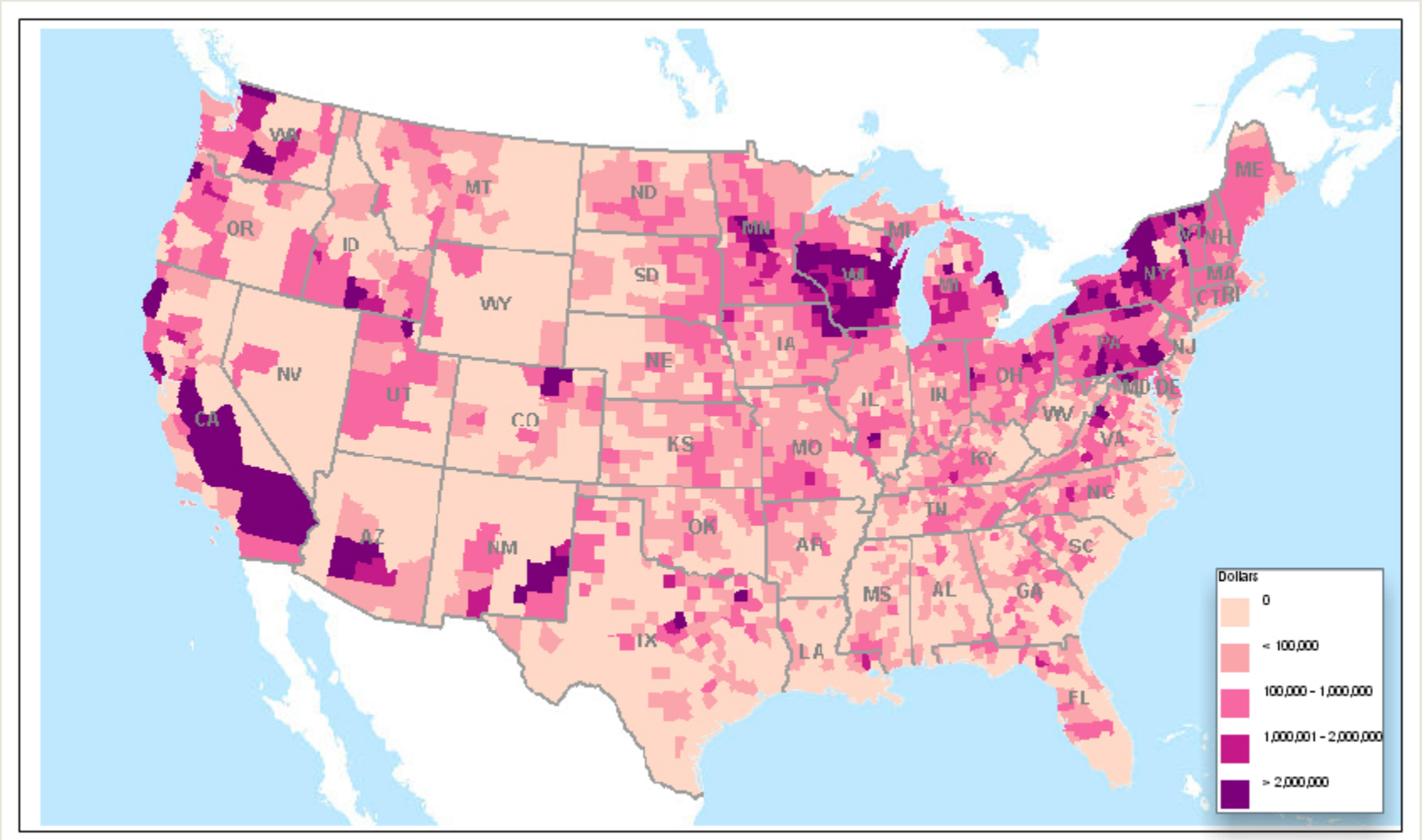
Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UgvP3pLCY6k>

# SURE Disaster Payments \$/ac 2009



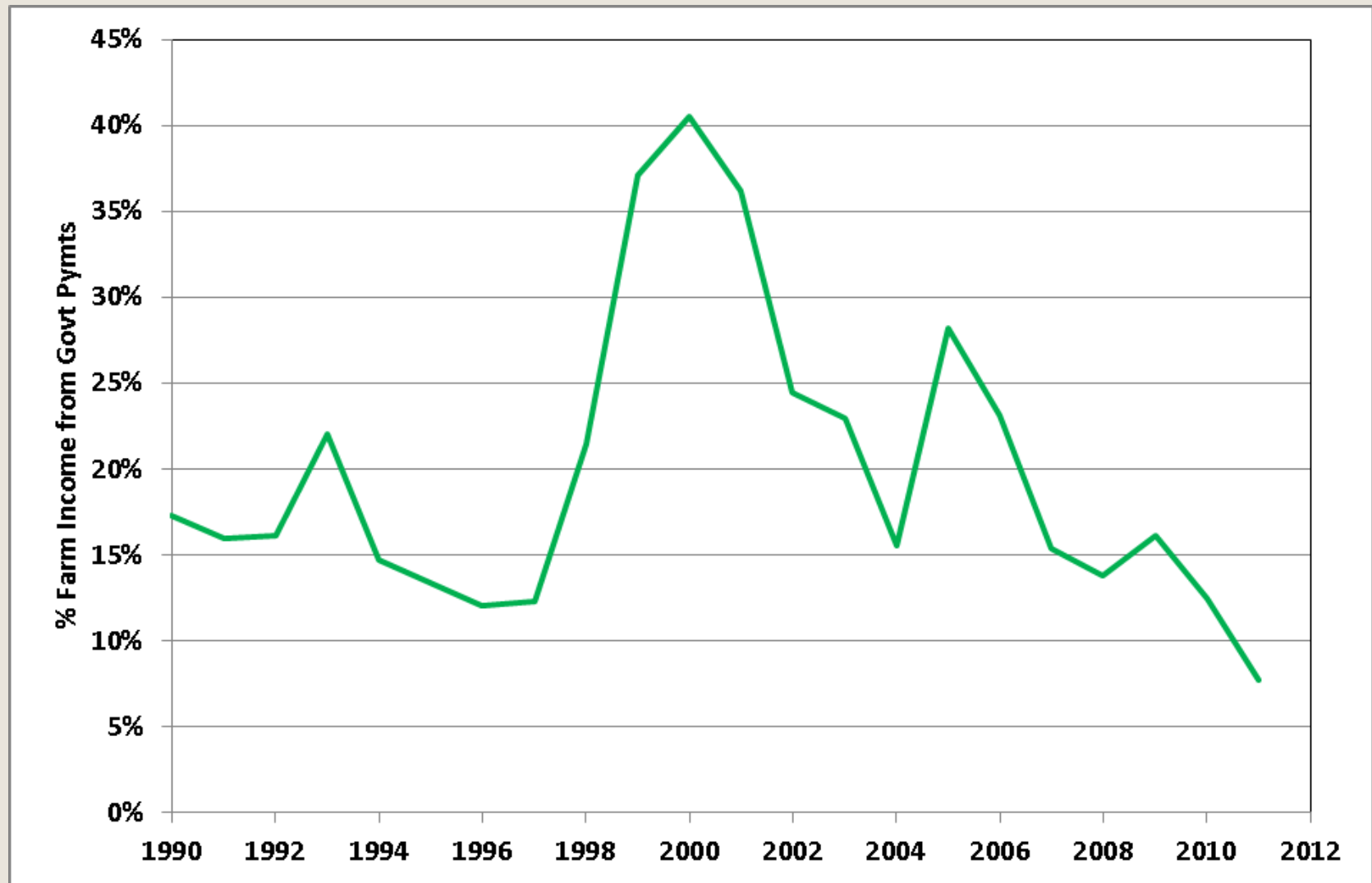
Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UgvP3pLCY6k>

# MILC Payments 2009



Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UqvP3pLCY6k>

# % Net Cash Income from Govt. Payments (not including premium subsidies or indemnities)



# Main Point

- Roughly \$7 billion in commodity support
- **Direct Payments** dominate commodity support spending
  - Spread all around, but big in the South
- **Counter-Cyclical Payments**: Only in the South
- Commodity payments have constituted **5% to 40% of Net Farm Income** over the last decade
- No disaster program (SURE) for 2012, though crop yields were low, grain farmers not asking for disaster aid – Why?
  - Crop insurance took care of the problem!
- Let's take a closer look at where the \$8 billion in crop insurance fits into commodity support

# 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 (govt) 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>397</b>
	USA	81.1	53,421	1,632	2,674	11,812
Soy	<b>WI</b>	<b>1.27</b>	<b>499</b>	<b>18.9</b>	<b>36</b>	<b>37</b>
	USA	65.0	25,569	874	1,467	2,129
Other	<b>WI</b>	<b>0.88</b>	<b>439</b>	<b>10.8</b>	<b>17.9</b>	<b>16</b>
	USA	135.7	37,606	1,607	2,796	3,439
Total	<b>WI</b>	<b>5.19</b>	<b>2,833</b>	<b>93.2</b>	<b>175</b>	<b>450</b>
	USA	282	116,596	4,113	6,937	17,380

- Premium subsidies = \$6.9 billion (65% WI, 63% US)
- Subsidies to companies \$1.3 billion
- USDA administration costs = ???, govt indemnities = ???

# Crop Insurance Data for 2012

- **Corn and Soybeans dominate crop insurance**
- USA: 50% of the acres, 60% of the subsidies, almost 70% of the liability and 80% of the indemnities in 2012
- Corn and soybeans dominate US crops: corn and soy were 66% of the farm gate value of all US crops in 2011

Percentage of Total in Corn and Soybeans					
Region	Acres	Liability	Farmer Premiums	Premium Subsidies	Indemnities
IL	97%	97%	96%	95%	99%
IA	99%	99%	98%	98%	99%
WI	83%	84%	88%	90%	96%
USA	52%	68%	61%	60%	80%



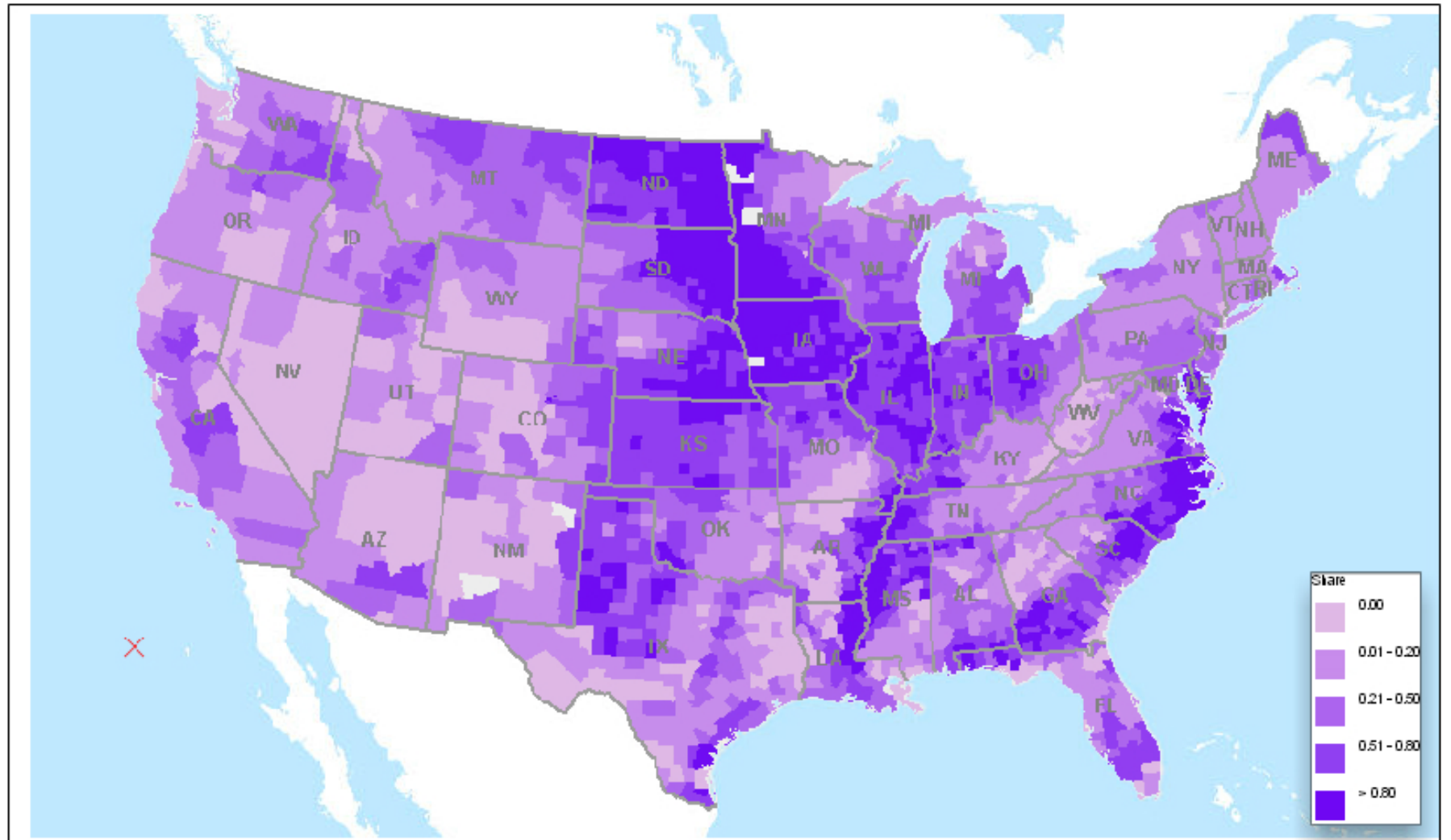
# Main Point

- \$8 billion direct govt. spending on crop insurance
  - \$6.9 billion premium subsidies + \$1.3 billion A&O
  - Farmers pay \$4.1 billion of \$11.0 billion total premium
- If priced “fairly”, farmers spend \$4.1 billion to get \$11.0 billion in average indemnities (\$2.68 for each \$1 spent)
- **Crop insurance has become the primary mechanism federal govt. uses to support commodity agriculture**
- Where geographically does that money go?

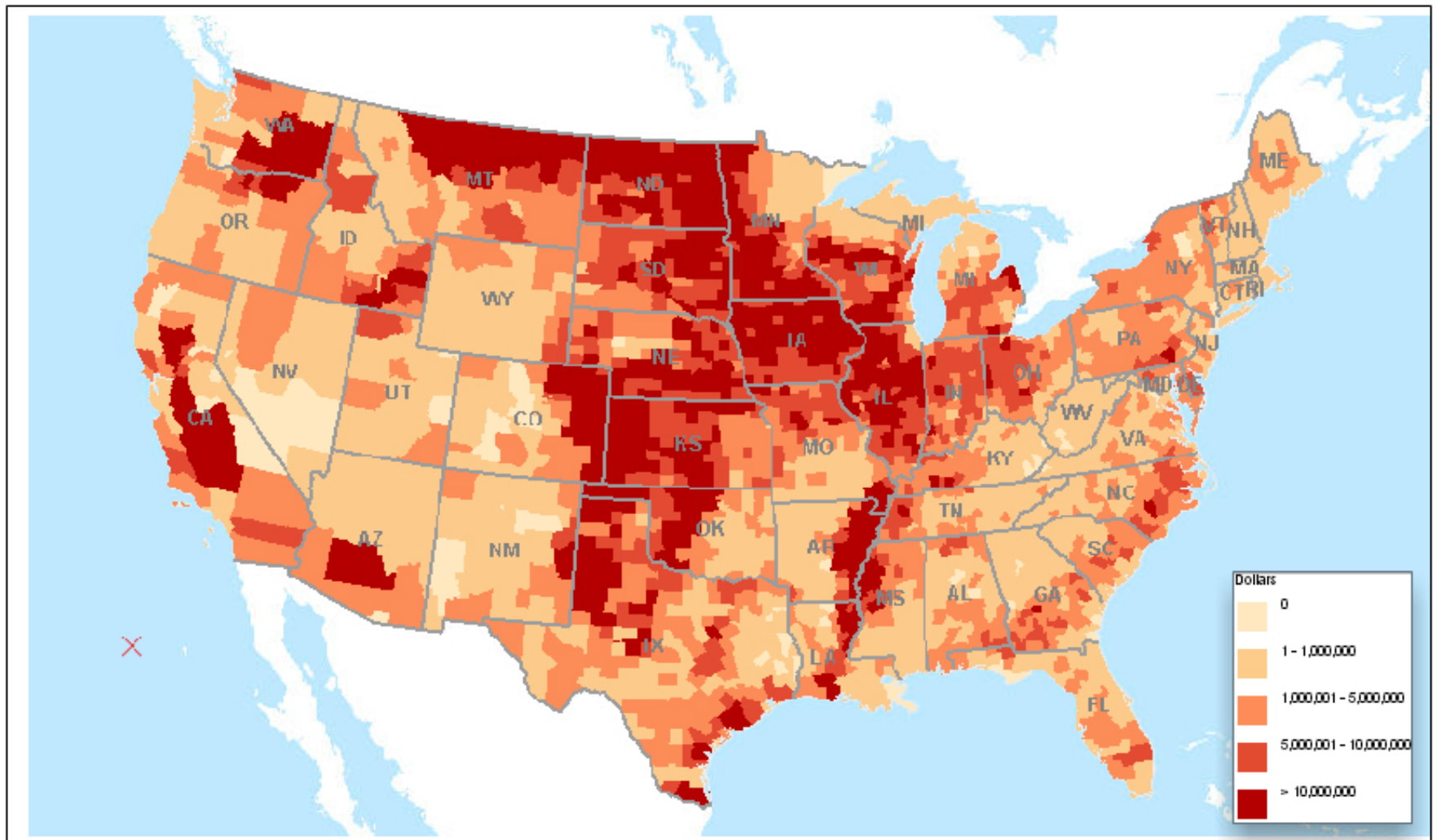
# % Planted Acres Insured in 2012

State	Corn	Soybeans
MN	94%	94%
IA	94%	91%
IL	80%	77%
WI	70%	74%
MI	70%	70%

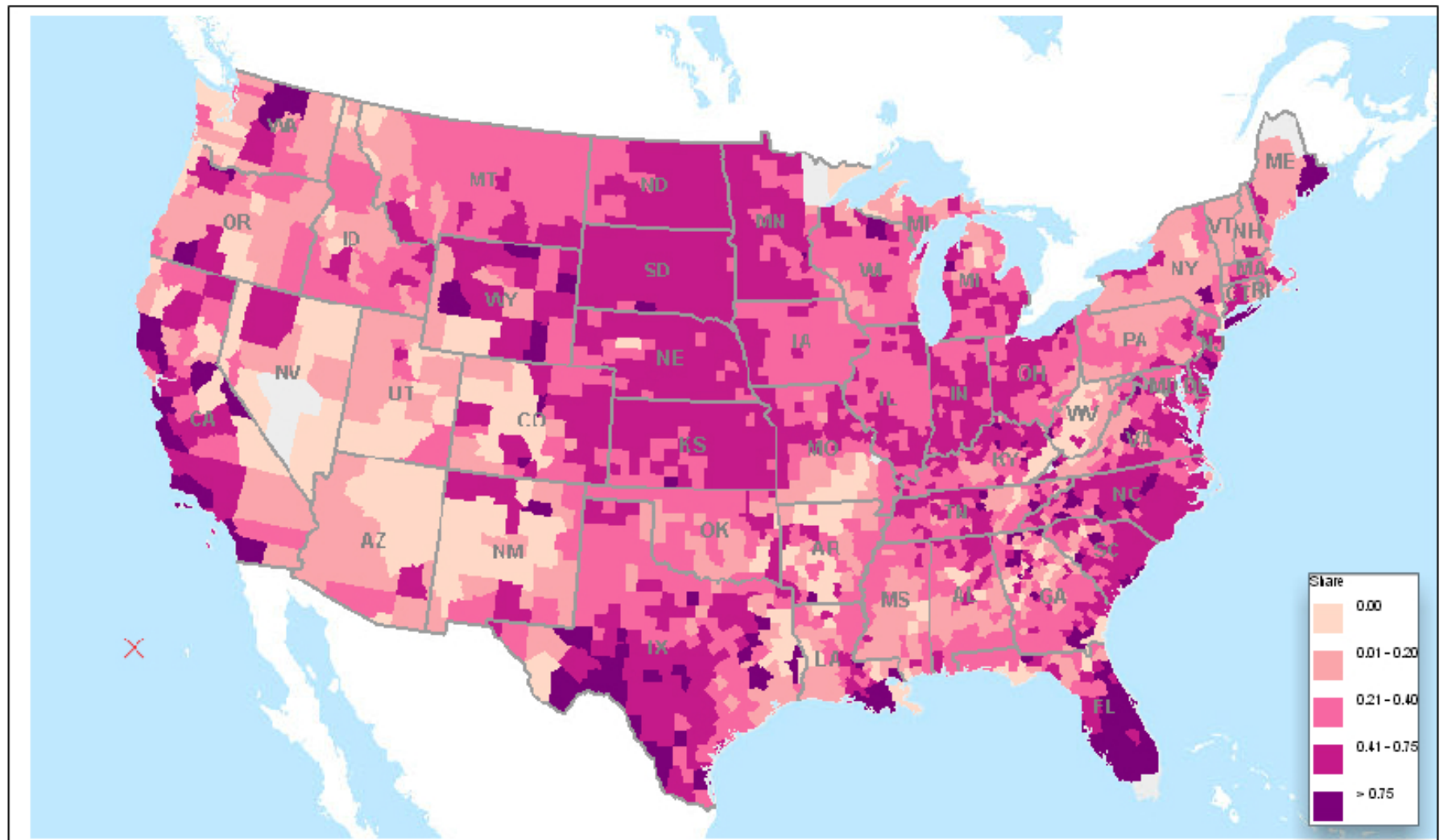
# % of 2009 Crop Acres Insured



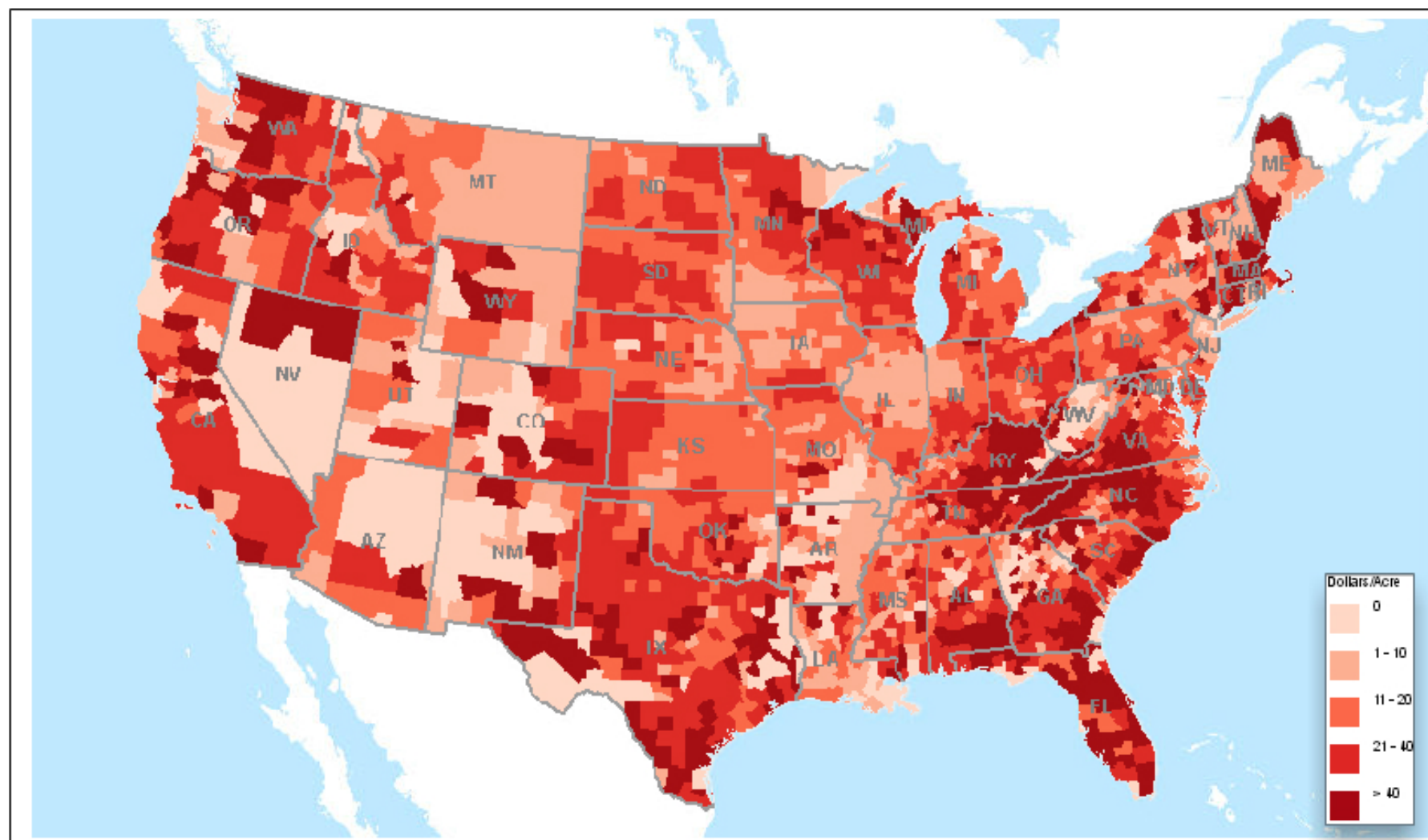
# 2009 Total Payments (DCP, ACRE, LDP, SURE, MILC, CRP, Premium Subsidies)



# Share of 2009 Total Payments from Crop Insurance Premium Subsidies



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



# Main Point

- Crop insurance popular in many regions:
  - Western Corn Belt, High Plains, Lower Mississippi River Valley, Piedmont
- Premium subsidies and net indemnities
  - Exceed commodity payments in many regions
  - More significant in “fringe” production areas
- Farm Bill proposals and passed versions emphasize crop insurance even more, usually to benefit Midwestern corn and soy farmers more

# 2013? Farm Bill

- Senate passed Farm Bill
- House passed a Farm Bill without nutrition programs
- Conference committee starts today!
- Will we see a Farm Bill in 2013???
- Quick summary of 2013 Farm Bills



# 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 with the same loan rates
- Create new Farm Safety Nets with new acronyms

# Differ on Farm Safety Net

- Keep price support like Counter-Cyclical program
  - New acronyms, basically same program
- Create “Shallow Loss” programs for losses not covered by crop insurance
  - Programs 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)

# Price Support Programs

- House: Price Loss Coverage (PLC)
  - Fixed target prices (i.e., \$2.63 and \$6.00)
  - Planted acres, but limited by historical base acres
- Senate: Adverse Market Payments (AMP)
  - Target prices = 55% of 5 year Olympic average
  - (In 2014, \$2.83 for corn and \$6.19 for soybean)
  - Historical base acres

# Shallow Loss Commodity Support Programs

- Senate: Agriculture Risk Coverage (ARC)
- House: Revenue Loss Coverage (RLC)
- ARC & RLC similar to ACRE program that sits on top of crop insurance, but at county or farm level
- Farmer pays first 11%-15% of losses, ARC/RLC cover up to 10% of additional losses, with any additional losses covered by crop insurance
  - 75% Revenue Protection 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 cover an additional 10% of losses, greater losses covered by crop insurance
  - Use 5-year Olympic average of yields & prices
    - Not farm yields or futures prices
  - Meant to help with multi-year losses/trends, not short-term annual losses like crop insurance

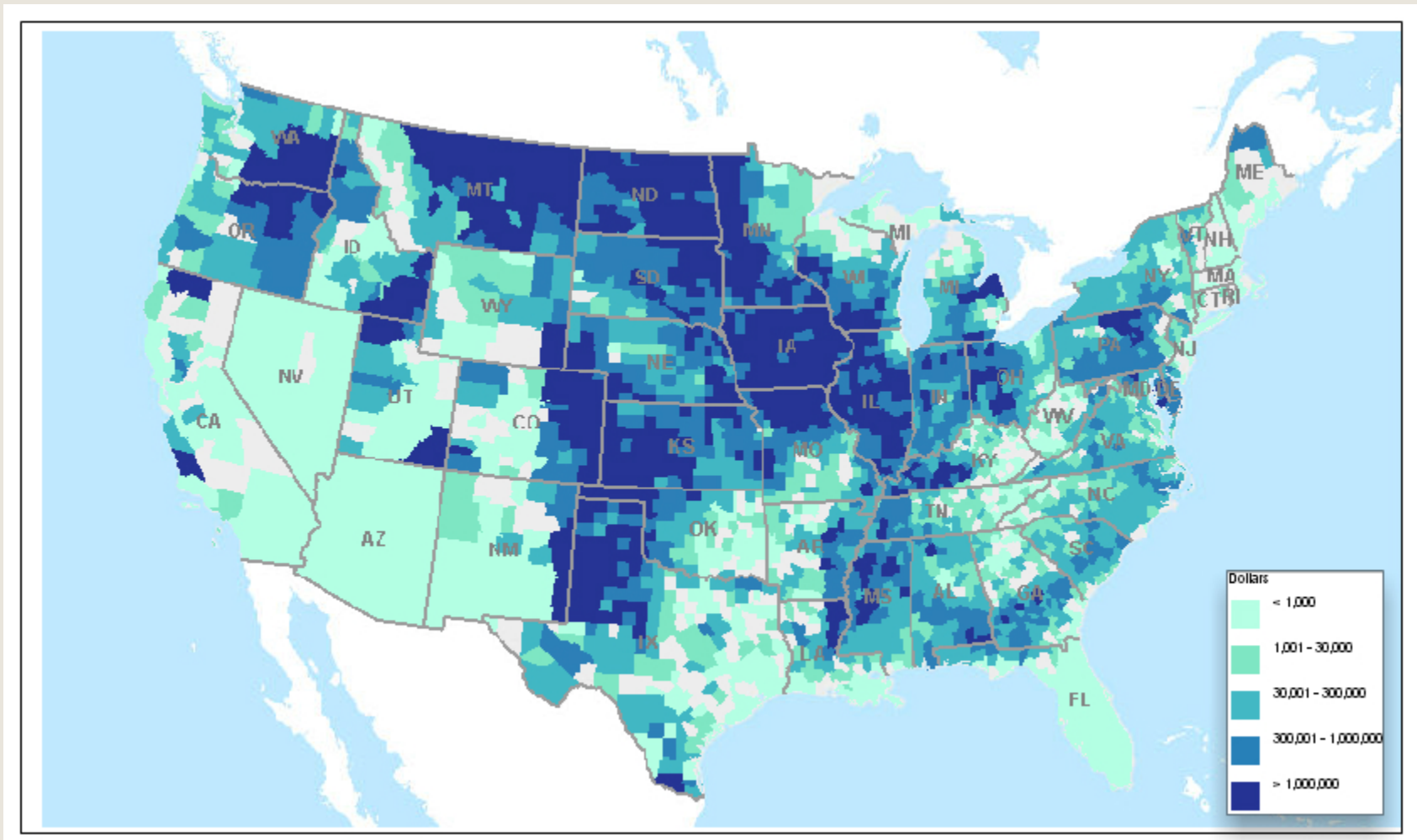
# Supplemental Coverage Option (SCO)

- Additional shallow loss coverage farmers can buy
- If covering 11% to 15% of deductible losses is too much, use Supplemental Coverage Option (SCO)
- Buy a GRIP county revenue policy for the part of the RP crop insurance deductible not covered by ARC/RLC
- SCO sits on top of individual crop insurance coverage and layered with ARC/RLC

# Other Likely Changes to Expect

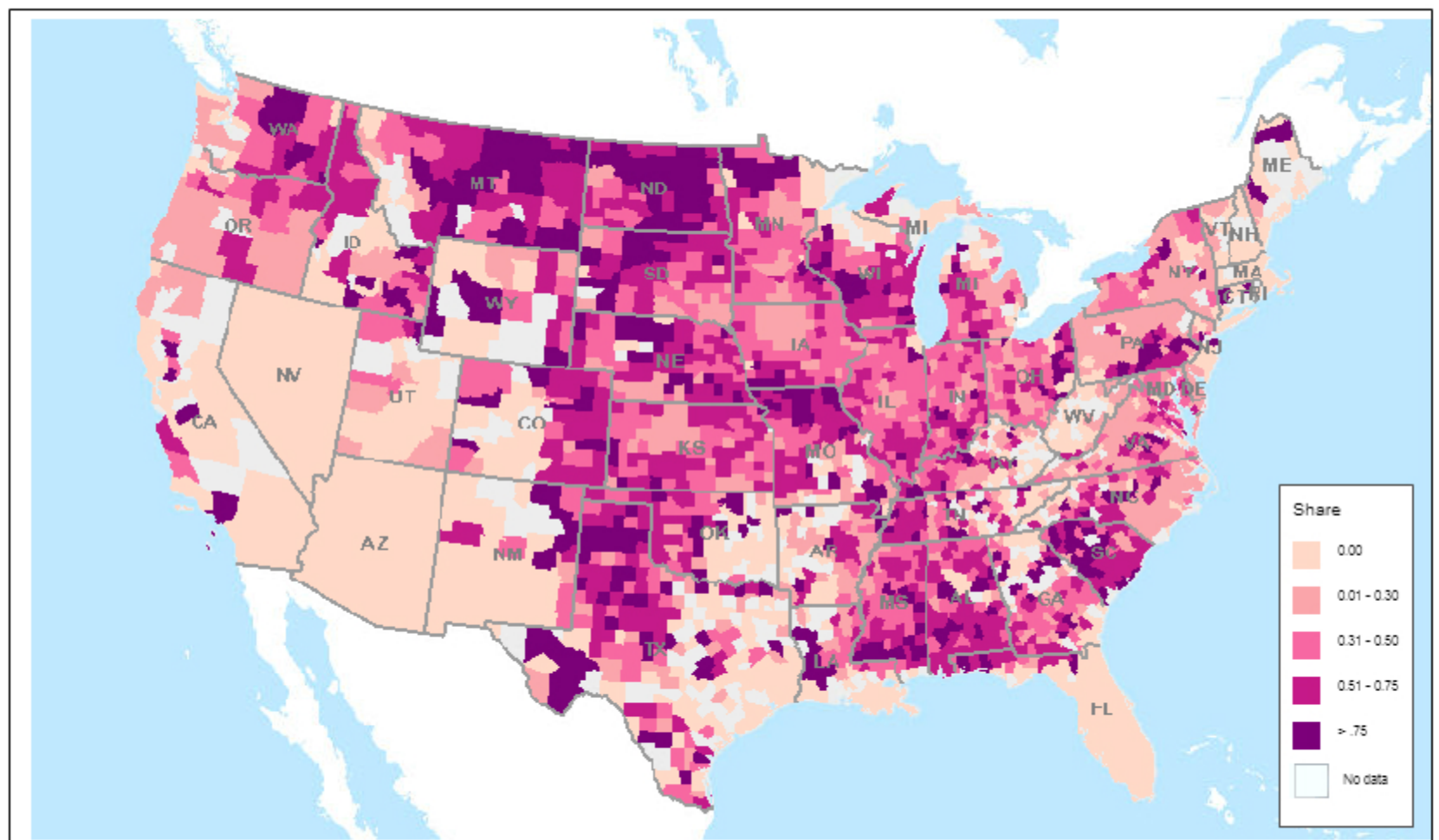
- Greater use of crop insurance as a policy tool for non-risk management purposes
- Reduced Insurance Premium Subsidies: the new fiscal and political reality
  - A small % for everyone and/or pay much higher % of premiums if exceed an AGI limit
  - Tighten payment limits
- Conservation Compliance for crop insurance
  - Will need non-ag votes to pass Farm Bill

# Conservation Reserve Program Payments 2009





# % of 2011 CRP acres expiring 2012-2014



Share of 2011 CRP acres expiring 2012 - 2014

# Proposed Changes (\$ Billion per Year)

Source: <http://www.fas.org/sgp/crs/misc/R43076.pdf>

	Senate	House Ag	
Nutrition	-\$0.39	-\$3.90	Big Difference
Crop Insurance	+\$0.50	+\$0.89	
Commodity Programs	-\$1.74	-\$1.87	
Crop Insurance + Commodity	-\$1.24	-\$0.98	7-9% cut
Conservation	-\$0.35	-\$0.48	6-8% cut
CropIns+Commdty+Consrsv	-\$1.60	-\$1.46	7-9% cut
<b>Total</b>	<b>-\$1.79</b>	<b>-\$5.19</b>	2-5% cut

- Senate and House similar in dollars for Ag
- Debate about how much to cut Nutrition and how to support commodity Ag
- Both emphasize crop insurance even more

# Main Point

- Structure of commodity support will change, but overall level will be about the same: 7% to 9% cut
- Eliminate DCP, ACRE, and SURE disaster program to create new Price Support (PLC/AMP) and Shallow Loss Programs (RLC/AMP & SCO)
- Crop insurance to become the foundation of commodity support with increased emphasis
- Commodity support programs will sit on top of crop insurance or be layered with it

# Farm Bill Expectations: My Thoughts

- 3 Scenarios seem possible
  1. Pass a separate Farm Bill
  2. Pass a Farm Bill as part of fiscal reform/budget bill
  3. Pass another extension of the 2008 Farm Bill
- Price expectations are lower, tighter margins for crops
  - \$7 corn has hidden a lot of management problems
  - The Party is Over! Time to get back to work
- My Advice: Don't count on the government
  - Crop insurance will continue, but don't be dependent on government support payments to be profitable
- Take care of your farm business, be a good farmer to maintain profits with tighter margins

# Conclusion

- We spend about \$15 billion a year in government payments to farmers
  - Nationally, more than half is for crop insurance
- New Farm Bill, if it ever passes, will likely cut spending at most 9% and put even more emphasis on crop insurance
- Price support option will stay about the same (PLC/AMP)
- New shallow loss programs will sit on top of crop insurance or be layered with it (RLC/ARC & SCO)
- Subsidy limits or AGI limits for crop insurance?
- Conservation compliance for crop insurance?

# Thanks for Your Attention!

## Questions?

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