MYTH: Crop insurance company profits are guaranteed.

FACT: The Risk Management Agency (RMA) at USDA sets a “target rate of return” for crop insurance companies, but this target is neither a guarantee, nor a profit.

- Since 2011, when the current Standard Reinsurance Agreement was negotiated, companies’ return on retained premium has been below the target rate of return of 14.5% in 4 of the 7 years, demonstrating this is a target, not a guarantee.

- Between 2011 and 2012, the return on retained premium swung more than 32 points.

- The current target rate of return for crop insurance companies was set by USDA in 2011 at 14.5%, a reduction from a historical level of more than 16%.
  
  o Time and again critics confuse basic business concepts like gross returns and net income. The target rate of return and gross returns tracked by USDA simply do not reflect the actual financial health of crop insurance companies.

  o The National Corn Growers Association (NCGA) asked economists from the University of Illinois and Cornell University to study the issue of crop insurance company returns in depth*: “What we discovered is that the returns private crop insurance companies receive are much smaller than opponents claim, and they are well within the standards set by [the USDA].”

- Like farming, crop insurance companies can face great fluctuations in their profits from year to year, depending on what Mother Nature and market forces have in store. Also, like farming, there will be years of profit and years of great loss, and crop insurance companies require good years to help them through the bad years.

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