Means Testing and Crop Insurance

Federal crop insurance is, by statute, required to be 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 crop insurance?

- **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 limitations are placed on the discounts for 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.** High-value crops would include such things as fruits and vegetables and organic crops. Arizona, California, Georgia, Hawaii, Louisiana, New Mexico, North Carolina, North Dakota, South Carolina, South Dakota and Utah have all been identified by USDA as shouldering disproportionate effects under a cap on premium support.
- **Whole-Farm Revenue Protection will also be disproportionately affected.** The average premium subsidy nationwide for 2017 was $38,000, indicating that many policies would be above a $40,000, or even $50,000 cap. In 9 states, the average premium subsidy is above $50,000 (California, Delaware, Florida, Georgia, Louisiana, North Carolina, New Jersey, South Carolina, and Texas).
- Any means testing proposal, whether an AGI limit or a premium support cap, that has significant budget savings directly translates into an increase in cost to farmers. **A dramatic increase in premium costs on a large percentage of acres would inevitably lead to decreased participation in crop insurance.**
    - To be clear, reduced participation in crop insurance impacts every producer. Because crop insurance is required by law to be actuarially sound, as the risk pool changes, premium rates must change to reflect the risk. Reduced coverage on a large number of acres will change the riskiness of the overall pool, thereby altering rates for everyone in the program. It's critical to remember that in looking at risk pools it is not the number of farmers impacted, but the number of acres impacted that will alter premiums.
    - Reduced participation can only lead to an increase in calls for ad hoc disaster programs as farmers no longer have the critical protection of crop insurance.