Oppose Cuts to Farmer Discounts for Crop Insurance

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

- **Any reduction in the discount for crop insurance will increase the cost of crop insurance to farmers**. Premium support does not go to crop insurance companies or agents – it simply keeps crop insurance affordable for farmers. According to a national public opinion poll released in May 2016, nearly 80 percent of Americans said they supported giving farmers discounts on insurance premiums and the vast majority agreed that the current premium and deductible amounts absorbed by farmers were appropriate.

- **The alternative to affordable and viable crop insurance for which farmers pay about $3.5 to $4 billion per year in premiums is ad hoc disaster assistance that is 100% paid for by the taxpayer and may not arrive until more than a year after the disaster**. Crop insurance is the only component of the farm safety net that farmers can literally take to their banker, thereby supporting the rural economy and protecting jobs on and off the farm.

- **Any increase in the cost of crop insurance will decrease demand for the product and increase the likelihood for calls for ad hoc disaster assistance**. 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. This is particularly true in the current environment of historically low farm income and increased market volatilities.

- A recent study by Keith Coble and Brian Williams from Mississippi State found that farmers are willing to pay out-of-pocket no more than four percent of the expected value of their crop on crop insurance. So, as the cost of insurance increases, purchase levels will decrease.

- 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. Recent analysis found that reducing the aggregate subsidy rate by 14 percentage points could decrease the acres covered by crop insurance by 17%, potentially further increasing the pressure for ad hoc disaster assistance.

- As a reference point, recent analysis has shown that a 10-percentage-point decrease in premium assistance would increase the bill a typical Midwest grain farmer pays by 50% for a policy at the 70% coverage level. On a policy with an 80% coverage level, the farmer's bill would increase by over 30%.

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

	1998 Crop Year	2018 Crop Year
Acreage	181 million	**369.9 million**
Total Premium	$1.8 billion	**$10.0 billion**
Farmer Paid Premium	$929 million	**$3.8 billion**
Premium Assistance	$946 million	**$6.2 billion**
Insured Liability	$27.9 billion	**$104.1 billion**

Source: USDA RMA, March 9, 2020