

Oppose Cuts to Farmer Discounts for Crop Insurance

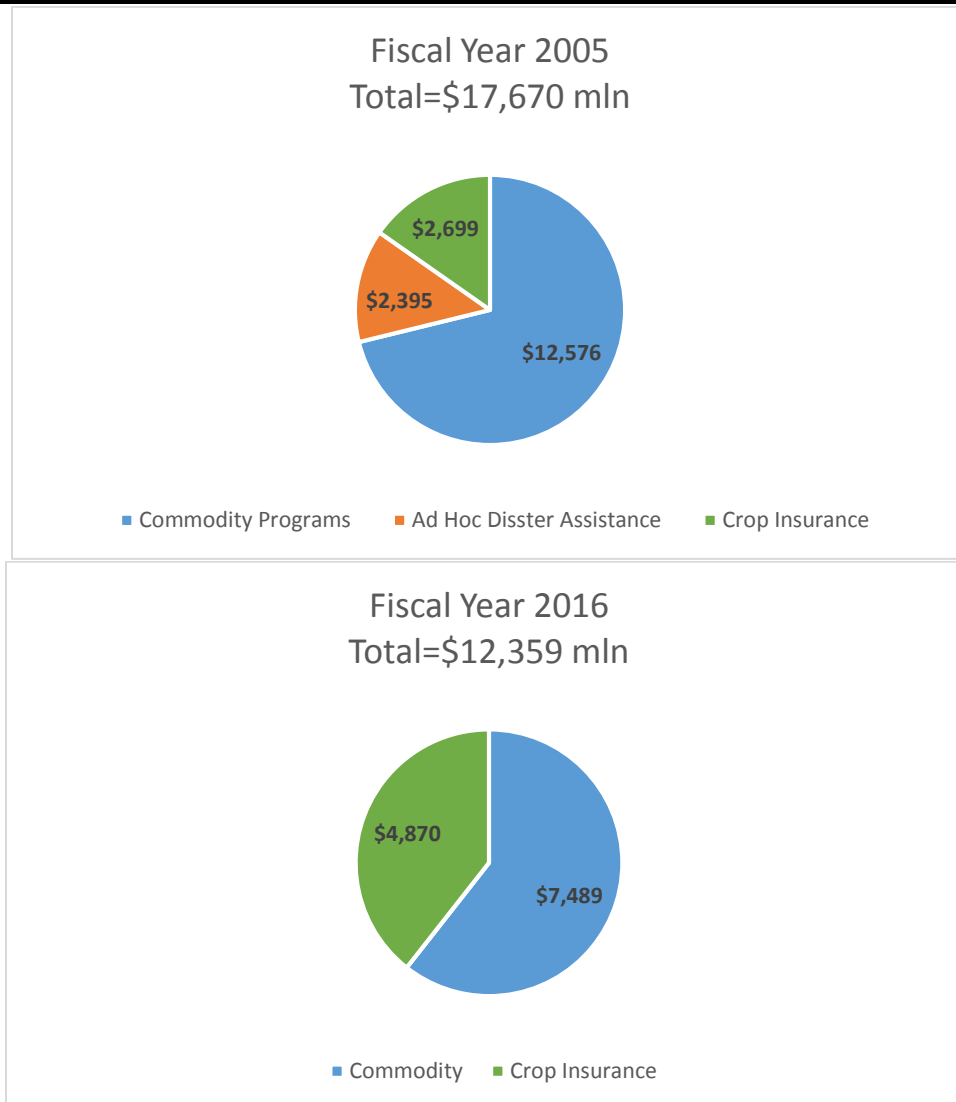
There have been various proposals to cut the discount farmers receive for purchasing crop insurance. These proposals vary in the details, but are fundamentally flawed, regardless of how the cuts are structured.

- **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.
- **Any increase in the cost of crop insurance will decrease demand for the product.** 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.
 - 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.
 - 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	2016 Crop Year
Acreage	181 million	291 million
Total Premium	\$1.8 billion	\$9.3 billion
Farmer Paid Premium	\$929 million	\$3.5 billion
Premium Assistance	\$946 million	\$5.8 billion
Insured Liability	\$27.9 billion	\$100.5 billion
Ad Hoc Disaster Assistance	Approx \$6 billion	None

Source: USDA RMA

- The alternative to affordable and viable crop insurance for which farmers pay about \$4 billion per year in premiums is off-budget, ad hoc disaster assistance that is 100% paid for by the taxpayer.** Ad hoc disaster programs are inefficient and unpredictable both for the American taxpayer and for the American farmer. Some have argued that ad hoc disaster assistance would have been less expensive than crop insurance. However, this bold statement doesn't take into consideration that crop insurance hasn't just been a replacement to ad hoc disaster assistance in recent years...crop insurance has become the linchpin of the entire farm safety net, supporting the rural economy and protecting jobs on and off the farm.
- While farmers have utilized crop insurance more in recent years, spending on both ad hoc disaster assistance and other farm safety net programs has decreased significantly:**



Source: USDA and the Congressional Budget Office