Crop Insurance Background

Today, the federal government's crop insurance program costs taxpayers $9 billion per year. The program indirectly subsidizes on average 62% of farmers' crop insurance premiums, reimburses insurance companies for 100% of their administrative and operating expenses, takes the riskiest crop insurance policies off the companies' books, and until the recent budget deal, adjusted premiums in order to produce an annual average 14.5% return on total premiums paid into insurance pools for crop insurance companies.

The Assisting Family Farmers through Insurance Reform Measures (AFFIRM) Act SUMMARY

Limit Federal Crop Insurance Subsidies to $40,000 per Farmer, per Year

The AFFIRM Act limits the total value of crop insurance subsidies to $40,000 per person each year. While direct payments and counter-cyclical payments have been subject to means tests and payment limits of $40,000 and $65,000 per farmer respectively, crop insurance premium subsidies have no limits, setting up an unfair playing field that benefits the largest, most profitable farm businesses. The bottom 80 percent of policyholders received only 27 percent of subsidies in 2011, with an average subsidy of around $5,000. Capping the premium subsidy would maintain the strong safety net for the vast majority of family farming operations while saving taxpayers money. When combined with means testing, CBO estimates this would save over $2.3 billion over ten years.

Extend AGI Limit of $250,000 to Crop Insurance

The legislation eliminates crop insurance premium subsidies for individuals with an adjusted gross income (AGI) of more than $250,000. Currently, crop insurance is the only major agriculture program not subject to income limits. Premium subsidies should be going to family farms and not large agribusinesses that can afford to manage their own risk. It is imperative that crop insurance subsidies go to those individuals who need them and that the crop insurance program is not exploited at the expense of taxpayers. This would save over $2.3 billion over ten years when paired with limits on crop insurance premium subsidies.

Promote Crop Insurance Company Efficiency by Ending 100% Gov. Subsidy of A&O Costs

The bill requires administrative and operating (A&O) costs to be shared by the private companies that offer coverage. Currently, the government pays 100% of an insurer's A&O costs. Over the past four years (2011-2014) the USDA has spent an average of $1.3 billion per year on A&O payments to crop insurance companies. The bill caps government payments for insurer A&O costs at $900 million, consistent with Administration proposals. The CBO estimates that the new cap will save $3 billion over 10 years.

Ends the Ban on Deficit Reduction in Standard Reinsurance Agreement Renegotiations

The bill ends the provision that prohibits the USDA from negotiating a better deal for taxpayers in Standard Reinsurance Agreement (SRA). When the SRA was renegotiated in 2010, over $6 billion in taxpayer savings was found. Unfortunately, the 2014 farm bill prohibits the USDA from finding any additional savings that could reduce the deficit. In fact, any savings are currently required to be put back into the crop insurance program.

Lowers Profit Guaranteed by the Government to 8.9%

The AFFIRM Act lowers the "target rate of return" that the USDA builds into the SRA in order to guarantee long-term profitability for crop insurance companies. Until the recent Bipartisan Budget Act, the guaranteed rate of return was set at 14.5%, but will be decreased with enactment of this bill to 8.9%. In no other industry does the federal government guarantee a 14.5% return on investment. Insurers argue that without at 14.5% rate of return, they would be unable to deliver a high quality product. An 8.9% guaranteed rate of return still ensures profitability for insurance companies, saves almost $3 billion over 10 years, and won't affect farmers at all.

Eliminates Subsidies for the Harvest Price Option

The bill eliminates subsidies for the taxpayer-subsidized Harvest Price Option (HPO). Rather than a safety net that protects farmers from bad weather, HPO policies instead pick up much of the risk farmers take on when they use future markets to get a better price for their grain. The USDA would still be able offer HPO plans as long as the policyholder pays the full insurance premium. This bill **would save over $19 billion over 10 years** by eliminating this profit guarantee program.

Promoting Transparency

Finally, the bill introduces transparency into the crop insurance program by requiring the reporting of all producers/ entities that receive federally subsidized crop insurance. Also, it requires the reporting of the underwriting gains, A&O reimbursements, and indemnities and reinsurance of the crop insurance providers. Unlike other subsidies, Congress does not know who receives crop insurance subsidies. Taxpayers deserve to know where their tax dollars are going.