# GAO Highlights

Highlights of GAO-15-356, a report to congressional requesters

March 2015

# CROP INSURANCE

## Reducing Subsidies for Highest Income Participants Could Save Federal Dollars with Minimal Effect on the Program

### Why GAO Did This Study

The federally subsidized crop insurance program helps about 1 million participants manage the risk inherent in farming. In recent years, the government's costs for the crop insurance program have increased substantially, and these costs have come under scrutiny as the nation's budgetary pressures have been increasing. Unlike farm and conservation programs, the crop insurance program provides the same level of subsidies to participants regardless of their income.

GAO was asked to examine the potential effects of reducing premium subsidies for the highest income crop insurance participants. This report examines: (1) the percentage and characteristics of participants that would be affected; (2) the impact, if any, on the crop insurance program; and (3) how USDA could implement a reduction in premium subsidies for the highest income participants. GAO analyzed RMA crop insurance data and FSA data on compliance with income limits from 2009 through 2013 (most recent year of available data), analyzed RMA data to examine the impact on the program and calculate potential savings, reviewed agency guidance and industry and academic publications, and interviewed USDA officials and stakeholders.

### What GAO Recommends

To reduce the cost of the crop insurance program and achieve budgetary savings for deficit reduction or other purposes, Congress should consider reducing premium subsidies for the highest income participants. In written comments, USDA stated that it had no comments on the draft report.

View GAO-15-356. For more information, contact Anne-Marie Fennell at (202) 512-3841 or fennella@gao.gov.

### What GAO Found

About 1 percent of crop insurance participants would have been affected if premium subsidies had been reduced for the highest income participants from 2009 through 2013, based on GAO's analysis of data from the U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) and Farm Service Agency (FSA). The highest income participants were those with incomes that exceeded limits in place for farm and conservation programs. In terms of characteristics, the highest income participants insured more farmland and had more premium subsidies provided on their behalf than other participants from 2009 through 2013. However, all crop insurance participants generally insured major crops, such as corn, soybeans, and wheat, while the highest income participants were more likely to insure specialty crops such as fruits, vegetables, and nursery crops. The highest income participants also made similar choices as other participants in terms of the type of crop insurance and the levels of coverage they chose.

Reducing crop insurance subsidies for the highest income participants would have a minimal effect on the program and save millions of dollars. RMA is directed by law to adopt rates and coverages that will improve the actuarial soundness of the crop insurance program. Actuarial soundness under the program means that premiums are adequate to cover expected claims and a reasonable reserve. Based on GAO's analysis of agency data, participants' premiums generally corresponded to their likelihood of collecting claims payments, regardless of their income level. Also, the highest income participants account for only about 1 percent of the premiums in the program. As a result, their decisions to stay in or leave the program would likely not affect the crop insurance program's actuarial soundness at the national level. If premium subsidies had been reduced by 15 percentage points for the highest income participants from 2009 through 2013, the federal government would have saved more than $70 million over the 5-year period, according to GAO's analysis of agency data. The current income limit, enacted in 2014 for farm and conservation programs, would likely affect fewer crop insurance participants than did the previous limit. Consequently, the savings would be smaller.

USDA could use existing procedures to implement a reduction in subsidies for the highest income participants. FSA has procedures to verify participants' compliance with income limits applicable to some farm and conservation programs. About two-thirds of crop insurance participants, on average, participated in programs that had income limits from 2009 through 2013 and would not need to provide additional information. Opportunities exist for RMA to access FSA's eligibility data system and work with insurance companies to apply the reduction in premium subsidies for the highest income participants. According to RMA officials, administering a provision that would reduce premium subsidies for the highest income participants would pose some challenges. For example, RMA and FSA would need to reconcile certain data on participants that are subject to the income limit. However, USDA is developing procedures to administer conservation compliance requirements in the Agricultural Act of 2014 that could help administer a premium subsidy reduction for the highest income crop insurance participants.