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CROP INSURANCE

Considerations in Reducing Federal Premium Subsidies

GAO Highlights

Highlights of GAO-14-700, a report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Federally subsidized crop insurance, which farmers can buy to help manage the risk inherent in farming, has become one of the most important programs in the farm safety net. Revenue policies, which protect farmers against crop revenue loss from declines in production or price, are the most popular policy type and account for nearly 80 percent of all premium subsidies. The crop insurance program's cost has come under scrutiny while the nation's budgetary pressures have been increasing.

GAO was asked to look at the cost of the crop insurance program. This report examines (1) trends in federal crop insurance costs and farm sector income and wealth from 2003 through 2012 and (2) the potential savings to the government and impacts on farmers, if any, of reducing federal premium subsidies for revenue policies. GAO analyzed USDA crop insurance program data and farm sector income and wealth data from 2003 through 2012 (most recent year with complete crop insurance data); reviewed economic literature and documents from stakeholders including farm industry groups and researchers; and interviewed USDA officials.

What GAO Recommends

To reduce the cost of the crop insurance program, Congress should consider reducing the level of federal premium subsidies for revenue crop insurance policies, including a phased reduction, if appropriate, and directing USDA to monitor and report on the impact, if any, of this reduction on crop insurance program participation. In written comments, USDA said it had no comments on the report's findings.

View GAO-14-700. For more information, contact Anne-Marie Fennell at (202) 512-3841 or fennella@gao.gov.

What GAO Found

The cost of the federal crop insurance program and farm sector income and wealth grew significantly from 2003 through 2012. The cost of crop insurance averaged $3.4 billion a year from fiscal years 2003 through 2007, but it increased to $8.4 billion a year for fiscal years 2008 through 2012. According to the U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA), the agency that administers the crop insurance program, subsidies for crop insurance premiums accounted for $42.1 billion—or about 72 percent—of the $58.7 billion total program costs from 2003 through 2012. Revenue policies, the most frequently purchased crop insurance option, accounted for $30.9 billion of the total premium subsidy costs for 2003 through 2012. Crop insurance premium subsidy rates—the percentage of premiums paid by the government—are set by Congress and would require congressional action to be changed. For most policies, the rates range from 38 to 80 percent, depending on the policy type, coverage level chosen, and geographic diversity of crops insured. As premium subsidy costs increased, farm sector income and wealth indicators also increased. For example, for each year from 2003 through 2012, median farm household income exceeded median U.S. household income. Specifically, on average, median farm household income was $7,205, or 13.8 percent, greater each year than U.S. household income, in constant 2012 dollars. Farm sector income also grew from $73.8 billion in 2003 to $113.8 billion in 2012, in constant 2012 dollars. Farm real estate values, another measure of farm prosperity, increased by 72 percent from 2003 through 2012, in constant 2012 dollars, and farmers relied less on borrowed funds to finance their holdings.

Reducing premium subsidies for revenue policies could potentially result in hundreds of millions of dollars in annual budgetary savings with limited costs to individual farmers. For example, the federal government would have potentially saved more than $400 million in 2012 by reducing premium subsidies by 5 percentage points, and the savings would have been nearly $2 billion by reducing these subsidies by 20 percentage points. Although such reductions would have required farmers to pay more of their premiums, the impact on their average production costs per acre would have been limited, usually less than 2 percent, and often less than 1 percent. For example, for corn, premium subsidy reductions of 5 and 20 percentage points in 2012 would have raised average production costs per acre by about $2.80 and $11.20, respectively. These increases would have been about 0.4 percent and 1.7 percent, respectively, of the total average production cost per acre of $656 that year for corn. The ultimate impact of such limited production cost increases on farmers' income would depend on their individual profit margins. However, for the industry as a whole, the impact appears to be minimal. In 2000, when Congress enacted new premium subsidy rates, the new rates immediately became effective. In contrast, when RMA increases the premiums charged for policies, it generally phases in the increases over several years to lessen the impact on farmers. Documents from farm industry groups and some researchers note that reductions in premium subsidies could result in lower farmer participation in the program and lower insurance coverage levels. However, available economic literature indicates that farmers' response to such reductions may be small due to factors such as the attractiveness of revenue policies and increasing importance of crop insurance as other farm programs are reduced or eliminated. In addition, other stakeholders identified incentives that would help keep farmers in the program, including pressure from lenders to maintain crop insurance coverage and the importance of crop insurance to many farmers as their primary risk management tool. In the event that subsidy rates were reduced, actual information on the impact on farmer participation would be available if participation were monitored.