



Crop Insurance Reform Amendment: Background FAQ

How does federal crop insurance work?

In order to provide farmers with a reliable means to mitigate the financial losses experienced when crops are damaged due to natural disasters, the federal government created the federal crop insurance program. The federal crop insurance policies are marketed and serviced by private insurance companies which are subsidized by the federal government. The federal government does this in three ways:

- 1) By providing a reimbursement for the delivery of crop insurance (called administrative and operating subsidies (A&O));
- 2) By establishing a risk-sharing formula that provides companies with underwriting gains; and
- 3) By subsidizing farmer-paid crop insurance premiums.

Reimbursement for delivery costs, or A&O subsidies, are based on a percentage of total premiums. As commodity prices have risen, so has the value of the crop and thus the premiums. As a result, A&O reimbursements have risen as well. A GAO report shows that A&O reimbursements will be triple what they were less than ten years ago on a per policy basis even though there is no connection between the level of delivery costs and the prices.

The federal government also shares a percentage of the risk of loss and opportunity for gain associated with each policy. A recent report from the Government Accountability Office (GAO) stated that this risk-sharing agreement has paid crop companies in 9 out of the last 10 years. These underwriting gain payments totaled \$2.8 billion, from 2002 through 2006.

The Brown-Sununu amendment will not affect crop insurance premium subsidies and thus will not increase the cost of crop insurance for any farmer.

Wasn't crop insurance already cut in the committee-passed bill?

The majority of savings in crop insurance in the committee-passed bill are due to shifting the timing of payments rather than an actual reduction in spending. The CBO cost estimate of the farm bill indicates that \$2.8 billion out of the \$3.5 billion in "cuts" to crop insurance were actually budgetary sleights of hand in which the government expenditures were shifted out of the 2008-2012 period.

Moreover, the Permanent Disaster Trust Fund passed by the Senate Finance Committee will increase the incentives to buy private crop insurance. CBO estimates that these changes will increase federal spending on crop insurance by an additional \$2 billion over 5 years.

Visit American Farmland Trust's Farm and Food Policy Campaign Web site (www.farmland.org/farmpolicy) for more information on how we're working to strengthen the future of American agriculture and ensure fresh, healthy, local food for generations to come.