Crop Insurance in America

A PUBLIC-PRIVATE PARTNERSHIP FOR U.S. AGRICULTURAL SECURITY

October 2016

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FARM CREDIT

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Like their counterparts around the world, American farmers are optimists.

Every spring they till the land, fertilize the soil, plant the seeds, protect the plants and then hope their efforts will produce a bountiful harvest. Before those seeds even germinate, farmers will have $400 to $700[1] invested in every acre they grow.

Months before the crops mature, they will be subjected to the vagaries of Mother Nature. And while U.S. farmers, generally, are blessed with favorable growing conditions, there are too many years when frosts come late in the spring or early in the fall, when too much or too little rain falls, or when hail or windstorms shred the growing plants.

But, far more often than not, American farmers manage to produce the crops that feed, clothe and provide fuel for those in our country and others around the globe – even in years like 2012, when rains came sparingly if at all. When the spring of 2013 arrived, even farmers who harvested little the prior year were able to plant again.

A key reason why those deeply affected by weather one year can plan for the next is the public–private partnership that delivers crop insurance to American farmers. Crop insurance has become the primary risk management tool of U.S. agriculture, replacing direct crop subsidies.

Cuts to this vital program, which shields growers from the effects of price volatility and yield losses from covered perils, are being opposed by the major U.S. farm and lender organizations as well as the insurance industry.

Farmers have skin in the game – investing more than $3.7 billion to purchase more than 1.2 million crop insurance policies covering 298 million acres in 2015. More than 90 percent of the acres planted to principal crops are protected by crop insurance.[2]

The program reduces taxpayers' costs, even when producers suffer serious crop loss, by preventing calls for ad hoc disaster payments.

[1]Based on Extension estimates from several Midwest states.

[2]Based on data from USDA/RMA and NASS, accessed in March 2016.

Crop Insurance in America

PART 1: HISTORY AND PROCESS

October 2016

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THE HISTORY OF CROP INSURANCE IN AMERICA

Congress first authorized federal crop insurance in the 1930s, along with other initiatives, to help agriculture recover from the combined effects of the Great Depression and the Dust Bowl. The Federal Crop Insurance Corporation (FCIC) was created in 1938 to carry out the program.

Initially, the program was started as an experiment, and crop insurance activities were mainly limited to major crops in the most important producing areas. Crop insurance remained an experiment until passage of the Federal Crop Insurance Act of 1980.[3]

The 1980 Act expanded the crop insurance program to many more crops and regions of the country. It encouraged expansion to replace the free disaster coverage offered under Farm Bills created in the 1960s and 1970s, because the free coverage competed with the experimental crop insurance program.

To encourage participation in the expanded crop insurance program, the 1980 Act authorized a subsidy to offset farmers' premium payments. The Act limits the subsidy to 30 percent of the premium for a policy that provides a 65 percent coverage level.

SEEKING HIGHER PARTICIPATION

Although more farmers took part in the program after passage of the 1980 Act, it did not achieve the level of participation that Congress had hoped for. Therefore, after a major drought in 1988, ad hoc disaster assistance was authorized in fiscal year 1989 to provide relief to affected farmers. Additional ad hoc disaster bills were passed in 1990 and again from 1992 through 1994, totaling $10.9 billion – or $18.5 billion in 2012 dollars.[4] Dissatisfaction with the annual ad hoc disaster bills that were competing with the crop insurance program led to enactment of the Federal Crop Insurance Reform Act of 1994.

The 1994 Act made participation in the crop insurance program mandatory for farmers to be eligible for deficiency payments under price support programs, certain loans and other benefits. Because participation was mandatory, catastrophic (CAT) coverage was created. CAT coverage compensated farmers for losses exceeding 50 percent of an average yield paid at 60 percent of the price established for the crop for that year. For coverage, participants paid a flat $50 per crop per county, regardless of acreage. The only limitation was on the number of different crops and counties that could be insured by one individual. Subsidies for higher coverage levels were increased.

In 1996, Congress repealed the mandatory participation requirement. However, farmers who accepted other benefits were required to purchase crop insurance or waive their eligibility for any disaster benefits that might be made available for the crop year. These provisions are still in effect.

RISK MANAGEMENT AGENCY CREATED

Also in 1996, the Risk Management Agency (RMA) was created to administer federal crop insurance programs and other non-insurance-related risk management and education programs that help support U.S. agriculture.

Participation in the crop insurance program increased significantly following enactment of the 1994 Act. For example, in 1998, more than 180 million acres of farmland were insured under the program. This is more than three times the acreage insured in 1988 and more than twice the acreage insured in 1993.

According to estimates by the U.S. Department of Agriculture (USDA) National Agricultural Statistics Service (NASS), in 1998, about two-thirds of the country's total planted acreage of field crops (except for hay) was insured under the program. The liability (or value of the insurance in force) in 1998 was $28 billion, the largest amount since the inception of the program. The total premium, which includes subsidy and the premium paid by insured persons (nearly $950 million) also set records.

"FOR THE PAST 17 YEARS, MOST FARMERS HAVE BEEN PAYING ACTUARIALLY SOUND PREMIUM RATES AND SEVERAL YEARS HAVE GENERATED UNDERWRITING GAINS FOR THE GOVERNMENT. THEREFORE, THE EFFECTIVE TOTAL DOLLAR OF SUBSIDY HAS BEEN LESS THAN THE BILLIONS CITED BY CRITICS."

DR. G. ART BARNABY, JR.
PROFESSOR OF AGRICULTURAL ECONOMICS, KANSAS STATE UNIVERSITY

[3] U.S. Department of Agriculture, Risk Management Agency website.

[4] Adapted from Congressional Research Service report RL31095, "Emergency Funding for Agriculture: A History of Supplemental Appropriations, FY1989-FY2009." Inflation calculated with Bureau of Labor Statistics CPI Calculator: http://www.bls.gov/data/inflation_calculator.htm.

AGRICULTURAL RISK PROTECTION ACT

In 2000, Congress enacted the Agricultural Risk Protection Act, which expanded the role of the private sector, allowing entities to participate in conducting research and development of new insurance products and features. One objective was to eliminate the need for ad hoc disaster aid.

Premium subsidies were increased to encourage producers to purchase higher insurance coverage levels and to make the insurance program more attractive to prospective customers. Per-acre coverage more than doubled to $432, as did the farmer-paid premium of $18.28. The per-acre subsidy rate increased from 56.2 percent to 61.4 percent.[5]

The changes made in the 2000 legislation have enhanced the program's financial performance, according to Dr. G. Art Barnaby, Jr., a Kansas State University agricultural economics professor. "For the past 17 years, most farmers have been paying actuarially sound premium rates and several years have generated underwriting gains for the government," Barnaby wrote in a 2012 report. "Therefore, the effective total dollar of subsidy has been less than the billions cited by critics."

HOW CROP INSURANCE WORKS

The United States' crop insurance program is built on a partnership between the federal government and private companies. The RMA, through the FCIC, provides crop insurance to American producers. Seventeen private-sector insurance companies underwrite and service the policies through more than 15,000 crop insurance agents.

Two main types of crop insurance are available to farmers in the United States: government sponsored and privately offered policies, which vary among companies and change from one year to the next. Federal Multiple Peril Crop Insurance (MPCI) includes yield, revenue and area-based policies, including Whole Farm Revenue Protection and Pasture, Range and Forage. The most common private policy is Crop-Hail.

Multiple Peril Crop Insurance. MPCI policies must be purchased prior to planting – the RMA sets specific deadlines for each covered crop by county. These policies cover loss of crop yields from natural causes, including drought, excessive moisture, hail, wind, frost, insects and disease. Newer revenue coverage options combine yield protection and price protection to guard farmers against potential loss in revenue, whether due to low yields or changes in market price.

The 17 private companies authorized to write MPCI policies handle the delivery side of the program – writing and reinsuring the policies, marketing, adjusting and processing claims, training and recordkeeping, etc.

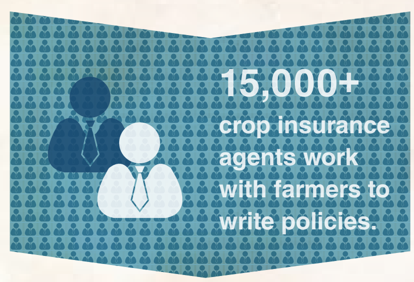
The RMA oversees and regulates the program. It sets the rates that can be charged and determines which crops can be insured in different parts of the country. The private companies are obligated to sell insurance to every eligible farmer who requests it and retain a large portion of the risk on more than 80 percent of the policies written.

RMA recently introduced Whole-Farm Revenue Protection to provide greater access and coverage beyond the principal crops covered by traditional MPCI programs. This allows for coverage for non-traditional crops, livestock and consumer-direct operations. In essence, all producers have access to an effective risk management tool.

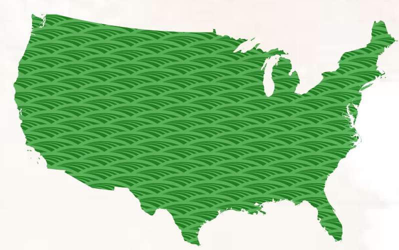
HOW CROP INSURANCE WORKS

Crop insurance starts with a public-private partnership.

17 insurance companies are authorized to write policies for crop insurance through the USDA – RMA – FCIC.



Two types of crop insurance are available to farmers in the United States:



Multiple Peril Crop Insurance

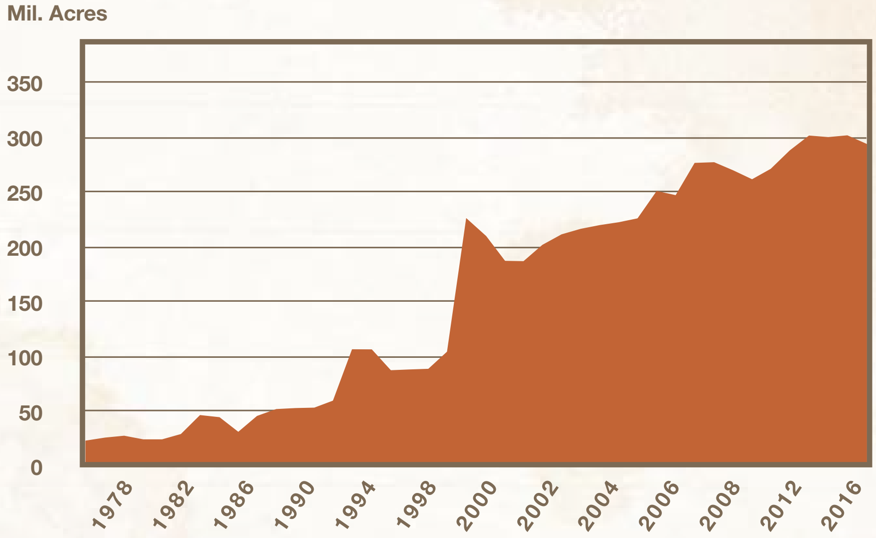
Deadline driven. Protects against production loss, with an option for price protection.

Crop-Hail Insurance

Privately purchased anytime on its own or in conjunction with other crop insurance. Protects against hail, fire, lightning and more.

[5]"Revenue and Price Based Commodity Policy and Crop Insurance," Dr. G. Art Barnaby, Jr., Kansas State University, August 2012.

U.S. Acres in Crop Insurance, 1976-2016[6]



American farmers have responded to improvements in the federal crop insurance program, purchasing policies to cover an ever-greater percentage of acres.

Crop-Hail. Crop-Hail policies are not part of the federal crop insurance program; private insurers provide them directly to farmers. Many farmers purchase Crop-Hail coverage to supplement federal crop insurance because hail has the unique ability to destroy a significant part of a planted field while leaving the rest undamaged. Unlike MPCI, a Crop-Hail policy can be purchased anytime during the growing season.

PREMIUMS AND SUBSIDIES

The federal government subsidizes the premiums to reduce the cost to farmers. In addition, it provides reimbursement to the private insurance companies to offset operating and administrative costs that otherwise would be paid by farmers as part of their premiums. Through this federal support, crop insurance remains affordable for a majority of America's farmers and ranchers.

By combining the regulatory authority and financial support of the federal government with the efficiencies of the private sector, the crop insurance program has succeeded in meeting and even surpassing the goals set forth by Congress. Risk and profit opportunities are shared among the private companies as well as the government.

[6]Risk Management Agency, U.S. Department of Agriculture.

Crop Insurance in America

PART 2: CASE IN POINT: THE DROUGHT OF 2012

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JOE FEHR
EMPORIA, KANSAS

Joe Fehr knows he's never going to break any world yield records on his Emporia, Kansas, row crop, wheat and beef cattle operation. But, he's just fine with that, and he credits smart crop input-buying and a risk management plan, including crop insurance, for his eastern Kansas operation's success and his ability to sleep well at night.

"In a good year, we'll raise 120- to 140-bushel corn, but it doesn't really pay to push for more than that," Fehr says. "I used to worry myself sick. But I feel a little more comfortable now. I don't spend as many nights lying awake wondering if I've done the right things."

A big reason for that is Fehr's crop insurance coverage, which he today keeps around 70 percent for his acres, a level that has proven sustainable for his farm. In the drought of 2012, his insurance coverage helped "cover a large bulk" of his input costs and allowed him to continue farming when such a disaster otherwise would have inflicted long-term damage to his business.

Today, crop insurance is a critical part of not just maintaining a safety net under his crop income, but his grain management and marketing strategy in general.

"It is totally a risk management tool for us," Fehr says. "I use it a bit from a marketing standpoint. I'm never really big on selling something I don't actually have yet, but it gives me a little backbone to do some forward-pricing for the amount I've covered with my insurance."

THE DROUGHT OF 2012

Crop insurance coverage for farmers is built on two factors: yield and price. The drought of 2012 demonstrates the volatility that unexpected events can impose on these factors – and the value of crop insurance.

The drought seriously impacted U.S. agriculture, with effects on the crop and livestock sectors and with the potential to affect consumers' food prices at the retail level. According to the USDA's Economic Research Service (ERS), what began as a promising year for U.S. crop production – with high total acreage planted and favorable early-season planting conditions – turned into one of the most serious adverse weather situations in at least 25 years.[7]

Crop production estimates for corn, soybeans and hay declined throughout the summer as the drought intensified. In the final analysis, USDA's NASS reported production of corn down 26.7 percent from its initial estimate in May, while soybeans fell 6 percent over the same period. Production of corn and soybeans, as well as other crops, was particularly critical during the 2012-13 marketing year because of low beginning stocks and resulting relatively tight U.S. and global supply conditions. Instead of building during the new marketing year, stocks of corn and soybeans remained low, with higher prices and reductions in all major use categories required to balance demand with supply.

Projected prices for key commodities rose in response to anticipated short supplies. Early-season estimates pegged corn prices for the year at $4.20 to $5.00 a bushel. In October, season-average corn prices for the 2012-13 marketing year were forecast to be within a range of $7.10 to $8.50 per bushel. The marketing year cash corn price ended at $6.89. For soybeans, the ERS projection in October was $14.25 to $16.25 per bushel, also well above early-season estimates of $12.55 a bushel. Soybeans grown in 2012 ended up averaging $14.40 a bushel.

Producers who contracted for delivery at what appeared to be good prices faced large fall expenses if they were forced to buy bushels to fulfill contracts due to production shortfalls. Revenue insurance's fall price option helped cover that liability.

2012 Kansas Crop Insurance Policies, Coverage and Premiums Paid

Policies Sold	273,282
Acres Insured	19,337,187
Farmer-Paid Premiums	$396,940,232

[7] "U.S. Drought 2012: Farm and Food Impacts," USDA Economic Research Service, October 2012.

CROP INSURANCE DELIVERED

The foresight of producers who purchased crop insurance mitigated the direct financial impact on their operations even though final corn and soybean yields in 2012 were significantly below the trend lines for both crops. Farmers bought revenue protection coverage at levels of 70 percent or greater on more than 90 percent of insured corn acres within Frontier Farm Credit's territory.

Crop insurance performed as it was intended: Though each case is different, farmers who purchased crop insurance generally received income that would at least cover their investment in the 2012 crop. That means most were able to plant again in 2013, continuing to produce feed, food and energy and averting consumer inflation. They also were able to make purchases at their neighbors' stores and other businesses, which help support the economy in every local community. Finally, the insurance program also averted the need for ad-hoc disaster assistance.

In 2012, farmers across the country invested more than $4.1 billion to purchase 1.2 million crop policies providing $117 billion of insurance covering 283 million acres – 85 percent of eligible farmland. Of the 128 crops covered by crop insurance, the categories that suffered the most damage were corn, wheat, cotton, soybeans and pasture, rangeland and forage.

Premiums Paid and Indemnity Payments in Kansas Counties, 2012 Crop Year[8]

County	Premiums Paid	Indemnity Payments
Allen	$3,968,192	$12,551,458
Anderson	$4,912,692	$24,184,304
Atchison	$5,231,873	$18,792,014
Bourbon	$1,706,313	$4,875,028
Brown	$9,619,191	$15,826,999
Chase	$1,176,544	$2,296,309
Chautauqua	$466,825	$916,874
Cherokee	$7,258,942	$18,818225
Clay	$8,072,317	$5,622,021
Coffey	$3,900,904	$15,309,702
Crawford	$4,596,959	$12,613,893
Dickinson	$8,680,157	$9,844,184
Doniphan	$5,734,822	$7,921,450
Douglas	$2,606,447	$10,023,494
Elk	$807,900	$2,049,455
Franklin	$4,322,790	$19,568,925
Geary	$1252,198	$2,589,295
Greenwood	$1,679,172	$4,614,559
Jackson	$3,328,049	$11,795,751
Jefferson	$3,417,282	$13,769,402
Johnson	$1,497,599	$7,034,984
Labette	$5,551,337	$10,970,385
Leavenworth	$2,146,867	$5,030,152
Linn	$3,199,555	$8,510,719
Lyon	$4,429,633	$13,877,238
Marion	$7,945,682	$15,152,054
Marshall	$13,585,239	$16,532,178
Miami	$2,728,665	$9,876,985
Montgomery	$4,225,110	$5,351,978
Morris	$3,415,672	$9,260,127
Nemaha	$11,768,788	$30,628,336
Neosho	$4,695,766	$5,477,270
Osage	$3,911,599	$18,458,986
Pottawatomie	$3,386,146	$4,213,417
Riley	$2,071,072	$1,906,102
Shawnee	$2,868,062	$5,882,750
Wabaunsee	$2,292,374	$5,173,051
Washington	$10,655,210	$11,184,174
Wilson	$5,216,256	$5,710,270
Woodson	$2,040,530	$7,113,620
Wyandotte	$397,109	$313,210

[8]Prepared using USDA RMA Summary of Business Data as of February 26, 2013. For more information, see http://www.rma.usda.gov/data/sob/scc/index.html.

KEVIN SPENCER
OTTAWA, KANSAS

Kevin Spencer has a simple goal with crop insurance: He never wants to use it or collect on it. "If we have to collect on it, it means things aren't going well," Spencer says.

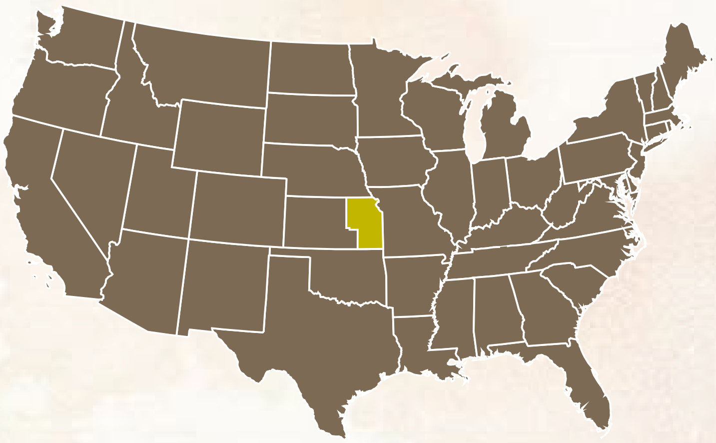
But, he's quick to say he'd never farm without it – it's a critical part of Spencer's crop management plan on his farm near Ottawa in eastern Kansas.

During the 2012 drought, he had several fields declared a total loss and many others relegated to forage. His 80 percent coverage level helped protect a portion of his crop income potential. "We were really dependent on crop insurance that year," Spencer says, noting the 2012 drought was one of three times he's had considerable insurance claims since he started farming in 1995.

Spencer strives to raise crops well above the average county yield, an effort he credits with why he's had to file few crop insurance claims in the two decades he's been farming. But in years like 2012, it has proven its mettle in helping him avoid farm revenue disasters.

"We don't farm crop insurance. It's a safety net. We don't get rich on it, but we don't go broke with it. Every time we've needed it, we've come out in good shape," Spencer says. "I never want to have to rely on it, but I'd hate to farm without it."

ROLE OF THE AGENT: THE FRONTIER FARM CREDIT CASE



Frontier Farm Credit is a member of the Farm Credit System, and as a cooperative, is owned by its more than 5,000 customers.

Because the Association is financially strong, with nearly $1.9 billion in assets, it has the capacity to serve its customers in good times and in tough times.

To protect the long-term financial well-being of its customer-owners, Frontier Farm Credit has become a leading crop insurance agency within its territory, writing policies with five premier insurance companies – all financially stable so they can pay indemnities in a high-loss year such as 2012, which followed a high-loss year in 2011.

Since the rates for crop insurance are set by the RMA and thus are common for all companies and agents, each agency must differentiate itself another way. For Frontier Farm Credit, the difference maker is service driven by broad, deep knowledge of agriculture combined with financial expertise. Its agents are full-time employees who focus solely on crop insurance year-round. More than 14 dedicated crop insurance officers and support staff are located in six of the Association's retail offices, in close proximity to their customers. The company also has invested in bringing advanced online tools to customers to help them manage their operations' risks.

Producers have multiple options within the major types of coverage. Among the key decisions each year are levels of coverage, policy endorsements, unit structure, how to insure added land and allowed yield adjustments, to name a few.

Focused training and expertise – along with Frontier Farm Credit's financial expertise – enable Frontier Farm Credit crop insurance officers to design customized risk management plans tailored to the needs of each producer. And, because of our co-op structure, they are motivated solely by the desire to identify the best coverage plans for each individual producer rather than choosing products that would mean higher commissions.

ADJUSTING CLAIMS

Crop insurance company adjusters in the Corn Belt and other drought-stricken areas worked long hours to ensure that farmers who had crop damage could get their claims process started. With 5,000 adjusters working in all 50 states, the industry moved adjusters from regions spared from the drought to regions that were hit hardest.

U.S. farmers with crop insurance received north of $17.4 billion for the losses they incurred in 2012. Crop insurance indemnities for farmers in Frontier's territory totaled over $427 million.[9]

As a crop insurance agency, Frontier Farm Credit provided its crop insurance customers continuous support during the year. The company published a special newsletter in July to offer guidance on how policies work in the event of a loss and responsibilities in filing a claim, with an emphasis on the required recordkeeping. It hosted group meetings in its local offices to answer questions and provide information and assistance to customers. The company's full-time, salaried crop insurance specialists stand ready every year to help customers as they plan and grow their next crop.

In keeping with its role as a financial services cooperative, Frontier Farm Credit offers a Disaster Assistance Program for eligible customers. Among other things, this program is intended to provide relief to customers directly and adversely affected by weather-related disasters. It also is designed to minimize diverse effects of disaster on profitability, financial condition, operating efficiency and morale for customers and the cooperative.

THE COST OF CROP INSURANCE

The $17.4 billion in total losses under the MPCI program, caused by the extent and seriousness of the 2012 drought, set a new record.

Some infer that this loss total represents government or taxpayer cost. While the government bears some of the cost, the MPCI premium and the approved insurance providers (AIPs) that administer the program covered a greater portion of the loss. Also, the government and AIPs share the overall underwriting gain or loss each year based on the terms of the standard reinsurance agreement.

The national gross insurance premium for the U.S. was $11.1 billion, and losses were $17.4 billion. The following table approximates the portions covered by the gross premium, the AIPs and private reinsurers, and the government.

Calculating Crop Insurance Costs, 2012

Total MPCI losses	$17.4 billion
Gross premium	$11.1 billion
Losses above gross premium	$6.3 billion
Estimated losses covered by AIPs and private reinsurers	$3.15 billion
Estimated losses covered by the government	$3.15 billion
Premium subsidy paid by the government	$7.0 billion
Total costs to government under this scenario were $7.0 billion premium subsidy, $3.15 billion of the total losses and $1.37 billion in administrative and operating reimbursement paid to AIPs to deliver the program. Total cost to government equaled:	$11.52 billion

It is important to remember that farmers also absorbed approximately $12.7 billion in losses through deductibles.

Also note that the government (and taxpayers) shares in the underwriting gains as well as underwriting losses every year. Over the period from 2002-2012, the government's portion of the underwriting gain was $5.77 billion.[10]

[9]Prepared using USDA RMA Summary of Business Data accessed July 27, 2016. For more information, see http://www.rma.usda.gov/data/sob/scc/index.html.
[10]"Initial Perspectives of Crop Insurance Underwriting Losses due to the 2012 Drought," FarmDoc Daily, August 7, 2012.

Crop Insurance in America

PART 3: A RATIONAL CASE

October 2016

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WHY CROP INSURANCE?

The drought of 2012 and the rapid response by the crop insurance program illustrate why this protection matters to the entire nation.

Societal benefits. Americans share a common desire for a reliable supply of domestically produced, safe and affordable food for their families. America's farmers and ranchers provide that, and more, for families in the United States and around the world. Crop insurance provides a safety net against perils such as frost, drought, flooding and hail. Without a strong crop insurance program, uncontrollable weather impacts could undermine the financial security of individual farmers and place the entire farm economy in jeopardy. This would translate into more expensive food and other products for consumers.

American-made materials. Farmers and ranchers don't just grow food; they grow the plants that provide fiber for our clothes, feed for livestock that provides materials for hundreds of essential products, manufacturing and pharmaceutical products, and renewable energy that helps our nation move closer to energy independence.

Economic security. Farmers and ranchers depend on crop insurance as an essential business tool in today's global agricultural economy. In an increasingly volatile environment – financial, political and climatic – crop insurance provides peace of mind.

Beyond covering production expenses, it allows more flexibility in marketing by ensuring funds to fulfill forward contracts if production falls short of the delivery amount.

Crop insurance facilitates the access to capital and financial security that farmers need to insulate their operations from uncontrollable losses while they focus on increasing crop yields and improving efficiencies that enable them to remain competitive in world markets. Additionally, a healthy farm sector is essential to the stability of America's economy.

ALTERNATIVES TO CROP INSURANCE

Because of the large indemnities after the severe 2012 drought – considered somewhere between a one in 25- to one in 50-year event – the program has been criticized. But weather events such as the drought are exactly the reason why the federal crop insurance program relies on a public-private partnership.

The alternatives to the current program aren't attractive. Demise of the program would leave farmers – and the people they feed and clothe around the world – subject to much greater volatility in both supply and price of crops produced.

A return to reliance on ad hoc disaster programs also is unpalatable. Indeed, the distaste for the series of disaster

SHAWN TIFFANY
HERINGTON, KANSAS

Brothers Shawn and Shane Tiffany have parlayed strong work ethics and the right situation into an east-central Kansas row crop and cattle-feeding business that has doubled in size in the nine years since they took the reins.

When a neighboring cattle feeder sought to transfer his operation to the next generation, the Tiffany brothers of Herington, Kansas, bought and took over the 15,000-head finishing yard and 1,400 crop acres "with a handshake."

"We were his succession plan," Shawn says. "We said we'd work our tails off, bring good management to the table, and he sold it to us and financed us."

Those early days weren't always easy, and having the safety net crop insurance provided made it easier for both generations to trust their plan would work.

"Our predecessor saw us as young producers facing the staggering amount of capital we needed to just get a crop to harvest," Shawn says. "We were leveraged to the point where one little hiccup would have derailed the whole plan."

Tight margins like these are all too common for young and beginning farmers today, making a strong case for crop insurance coverage.

"As we transition this industry from one generation to the next, young producers don't have the wherewithal in most situations to weather one or two really bad crop years. Crop insurance helps alleviate that burden and at least gets you back to even," Shawn says. "At least you'll get your input costs back. That's invaluable to a young producer."

programs in the 1980s and 1990s is what caused Congress to improve the crop insurance program by making it more attractive to farmers and the companies that serve them. Under disaster programs, farmers face great uncertainty about whether they will receive any payment and, if so, how much.

University of Illinois economists Gary Schnitkey and Bruce Sherrick put the 2012 drought and indemnities into perspective. Over time, they wrote, "most years there will be gains or modest losses punctuated by a small number of years in which losses will be extremely large. The existence of large loss years is one reason for federal involvement in crop insurance as private companies have difficulty bearing the risks of large losses that periodically occur in agriculture."[11]

The insurance industry uses the terms "underwriting gain" and "underwriting loss" to describe the difference between premiums paid in and claims paid out. In 2015, for example, insurers collected $9.7 billion in premiums and paid $5.8 billion in claims, resulting in an industrywide underwriting gain of $3.9 billion. Of the total gain, $1.9 billion stayed with the 17 private insurance companies that underwrite polices, and $1.4 billion was returned to taxpayers through the FCIC.

During 2006-2015, crop insurance paid an average of $8.05 billion a year in indemnities nationally. That's a big number, but total premiums averaged $9.02 billion, so the crop insurance program generated a gross gain of $972 million.[12] The government's share of the gain during that decade was $4.1 billion.[13] Government analysis indicates the industry return was 4.3 percent—well below the return on the S&P 500 if you reinvested dividends during the same decade: 7.1 percent.

WHY CROP INSURANCE IS ESSENTIAL

Crop insurance helps make America's farmers and ranchers world leaders in agriculture, allowing producers to stay competitive and be more innovative. It also helps them sleep better at night knowing that, should the uncontrollable happen, they would have the financial security to stay in business and go on to plant a crop the next season.

A vibrant federal crop insurance program is a key component of the tremendous success of our country's agricultural economy. Here are nine reasons why crop insurance is an essential business tool for America's agricultural producers.[14]

1. Individualized risk management. Most farm programs, in general, are similar across all crops and producers, despite variations in an individual farmer's operations. However, crop insurance allows farmers to customize their plans and coverage to accurately reflect individual potential for losses, their unique yield experience and their financial situation and risk-bearing ability.

2. Premium investments. Producers must contribute financially in order to receive crop insurance. Though partially subsidized by the federal government, these contributions help defray taxpayer costs and encourage financial discipline.

3. Personal responsibility. Producers work with their agents to design their own risk management plans and, when participating in crop insurance, must assess the farm's risks and develop a crop insurance program that mitigates those risks and is financially responsible. Producers also are required by the policy to meet the standards of "good farming practices" and comply with conservation requirements in order to be eligible for premium subsidies and indemnities.

4. Appropriate payments. Crop insurance payments are related to actual loss caused by price volatility or natural disaster, while some farm program payments are not related to need or performance. In addition, a trained crop insurance loss adjuster assesses the producer's claim, and the company pays an indemnity based on documented losses that are covered by the specific insurance policy selected by the producer.

5. Loan collateral. Farmers' operating loans often use each year's crop as collateral. Lenders prefer crop insurance as a risk management tool because it protects the value of this collateral against covered disasters, helping to stabilize borrowers' income streams and their ability to repay operating loans. The program also is fiscally sound and has never required a government bailout.

6. Marketing plan improvement. Crop insurance products provide the financial backstop needed to optimize farm marketing. In the case of a disaster affecting yields or prices, crop insurance works in concert with other risk management tools, providing farmers with the income needed to settle cash forward contracts, or futures and options positions.

7. Rapid payments. Crop insurance payments are made as soon after the loss event as possible once the loss is adjusted based on policy provisions.

[11] "Initial Perspectives of Crop Insurance Underwriting Losses due to the 2012 Drought," FarmDoc Daily, August 7, 2012.
[12] From USDA/RMA Summary of Business Reports accessed March 8, 2016. Inflation calculated with Bureau of Labor Statistics CPI Calculator: http://www.bls.gov/data/inflation_calculator.htm.
[13] "Based on USDA/RMA Summary of Business, accessed March 8, 2016.
[14] National Crop Insurance Services.

8. Efficient delivery. Seventeen private sector companies deliver the crop insurance program, all driven by competition to meet producer needs. Agents are trained on an ongoing basis to understand and educate producers about changes in policies and program delivery.

9. Comprehensive coverage, adjustable features. Losses under the crop insurance program are adjusted during the insurance period and indemnities are paid per the policy in effect during the insurance period. The RMA is authorized to make annual program changes without the need for a lengthy legislative process, as well as to bring new products to producers as needed.

SUMMARY

The most severe and widespread drought in at least 25 years demonstrated that crop insurance is doing the job it was created to do for American agriculture.

Crop insurance helps maintain stability of farm operations as well as the rural communities where producers live, shop, serve on school boards and attend churches. The crop insurance system will adjust to meet tomorrow's needs as it helps support the economic vitality of an agricultural system that provides food, fiber and energy to America and the world.

Abbreviations Used in this Report

AIP	Approved Insurance Provider
ARPA	Agricultural Risk Protection Act of 2000
CAT	Catastrophic Coverage
ERS	Economic Research Service
FCIC	Federal Crop Insurance Corporation
MPCI	Multiple Peril Crop Insurance
NASS	National Agricultural Statistics Service
RMA	Risk Management Agency
USDA	United States Department of Agriculture
WFRP	Whole-Farm Revenue Protection

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