OFF THE CUFF

BY: Ron Kern

Week of July 1

Thought the last number I heard was the US had a $32 trillion debt. What's a trillion? Just a crooked number with 12 zeroes behind it. I'm sure we all have better ideas on how Uncle Sam can spend or save our money, and yes I did say our money; seeing as the only source of income from the government is us.

Now I've heard grumbling at times from folks about government farm programs and subsidies. Lest we forget the government subsidizes all kinds of things including your mortgage. So I guess we all get a little.

But let's look at government farm programs, particularly crop insurance, and understand where our money goes and why.

Given historically slim, and often negative, profit margins, farmers are often reliant on lines of credit borrowed from financial institutions at the cost of interest. When all or nearly all of a crop is lost, farmers, who don't have significant cash reserves to begin with, risk defaulting on their loans and losing their farm. Without some form of risk management protection in place, the liability of farming becomes impossible to maintain. Crop insurance is not merely a safety net but a lifeline for farm businesses, the rural communities they support.

The Federal Crop Insurance Program (FCIP) is authorized by the Agricultural Adjustment Act of 1938 and the Federal Crop Insurance Act of 1980 and operates as a public-private partnership. Through farm bills and appropriations, Congress makes changes to the program, expands coverage and directs research. USDA, through the Risk Management Agency (RMA) and the Federal Crop Insurance Corporation (FCIC), supports a portion of premiums needed for farmers to acquire insurance plans and compensates Approved Insurance Providers for the cost of administering and delivering those plans.

In February 2024, the Congressional Budget Office (CBO) projected that crop insurance expenses from 2024 to 2034 would total $124 billion, accounting for approximately one-tenth of 1% of total projected federal spending. To put this in perspective, CBO projects spending on interest to service public debt at $12.44 trillion during this same period, over 100 times larger than the cost of delivering and administering crop insurance. The entire farm bill, including the Supplemental Nutrition Assistance Program (SNAP), plus non-farm bill nutrition programs represent only 2.09% of the total federal budget. Just 2% of federal spending directly supports essential farm and nutrition programs crucial for food security, farm economic sustainability, conservation and natural resource preservation efforts.

At its core, crop insurance is the farm bill program that keeps farmers farming year-to-year, maintaining a supply of domestically grown agricultural products to feed and fuel consumers at home and abroad. So, how much would, or should, a taxpayer pay for this service?

By statute, crop insurance must be actuarily sound: over time, every dollar paid out in indemnities should match every dollar collected in premiums. Plus, premiums are adjusted as risk conditions change, similar to a driver's policy if they were in a car accident or accumulated several speeding tickets. These requirements and conditions keep program costs in check.

Consider a home insurance example: If you live on the coastline in the hurricane-prone Southeast, you likely pay more for your homeowners' insurance than someone who lives in the less hurricane-prone Northeast. In this case, premiums, the cost of the policy, are set in terms of risk exposure. The business of growing crops is, comparatively, riskier than owning a home. Conditions like freezes and heavy rains rarely destroy homes and cars but can eliminate millions of acres of agricultural production, thus business revenue, in mere hours. Crop insurance offers protection for farm businesses from events completely out of their control. The cost of the premium is shared across the food system because the cost of the policy, due to the high-risk nature of farming, would be too high for farmers to make ends meet from year-to-year. This would make crop insurance products financially unattainable for farmers without government support. The premium support keeps the insurance costs from being too high for farmers to make ends meet even during good years. Premium discounts authorized by the farm bill exist to both protect the domestic food system and sustain farmer enrollment.

Premium discounts are set by Congress and are permanent until Congress changes them. Discount rates decrease as coverage levels increase and the corresponding deductible chosen by the farmer decreases. This deductible can be anywhere from zero to a couple of thousand dollars. Even at the highest levels of crop insurance coverage, individual crop insurance plans pay a maximum of 85% of the expected value of the crop. This means 15% of the liability of a farmer's crop is lost as a deductible, which can equal tens of thousands of dollars even for the most expensive policy. Yet farmers still purchase at that level because it's so essential to their risk management.

For most farmers, selected coverage levels are closer to the 70% range, meaning farmers must experience a 30% decline in actual revenue before crop insurance comes into play. For example, an average corn farmer must face over $204 in lost revenue per acre before crop insurance would trigger, a bit more than 31% of the total value of the crop. To put things in perspective, in 2023, the cost to grow and harvest an acre of corn in Illinois (excluding any cash rent) was at $812. For a 350-acre farm this means the same farmer would have to face over $70,000 in revenue losses before crop insurance is triggered, an area of land that easily could cost $284,000 to farm.

There are quite a few reasons indemnities have increased. In recent years, market conditions have driven up the prices of many crops. When the program insures farmers' crops at these higher market-driven prices, it naturally results in higher payouts in the event of crop losses or a decline in revenue. Elevated commodity prices between 2011-2012 and 2021-2022 have led to higher insured liabilities and associated indemnity payments compared to periods of lower prices in between.

Moreover, the FCIP has expanded its offerings significantly over the past two decades. From 2000 to 2023 the number of policies sold has increased from 1.94 million to 2.34 million, and insured acreage has correspondingly swelled from 206 million to 539 million acres. More coverage options for more crops incentivizes more enrollment, leading to higher overall insured liabilities and corresponding indemnities. Between 2000 and 2023, liabilities have increased from $34 billion to $181 billion. Of note, this time period also saw an increase in farmer-paid premiums from $1.59 billion to $6.78 billion. Broader participation from more farms in more locations that grow different crops and are of different sizes balances the overall risk pool and contributes significantly to the stability of the crop insurance program.

Importantly, the percentage of liabilities indemnified reveals whether losses are becoming increasingly larger. Between 2000 and 2023, an average of 8% of liabilities were indemnified under crop insurance with no upward trend in losses present. An indemnification rate of 8% was even common between 2000-2011 and 2012-2023, showing that as the program grew, payouts did not become proportionally higher. Indemnified liabilities peaked in 2012 at 15% during a massive drought. Rains in 2019 caused over 20 million acres of prevented planting, pushing indemnified liabilities up to 10%. In 2022 extreme drought pressured plans again with 11% of liabilities indemnified. Comparatively low losses in other years offsets years with major weather disasters. As of May 2024, 2023 indemnified liabilities were 9%. As crop insurance options continue to become more widely available, participation will increase, which also leads to a higher likelihood of more indemnities triggered when a severe event occurs.

Crop insurance, alongside Title I and standing disaster programs, stands as a cornerstone of agriculture's resilience, providing a vital safety net for nearly 370,000 farmers amid weather, pests and market fluctuations. Despite its critical value to farmers and ranchers, it faces significant criticism. The reality is that crop insurance is an actuarially sound government program that represents a small fraction of federal spending. It is a public-private partnership that works to secure the nation's food supply and support farmer sustainability in a way that is not entirely dependent on taxpayer funding, but instead spreads the risk of the program among farmers, private sector crop insurance companies and taxpayers. Crop insurance not only aids individual farmers in weathering the inherent risks of their profession but does so at a low per capita cost to each and every consumer.

As the U.S. navigates an increasingly uncertain future, improving and enhancing crop insurance through passage of a new five-year farm bill is essential for safeguarding the livelihoods of farmers, the stability of rural economies and the reliability of our food system.
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I am not a pig farmer. The pigs had a great time, but I didn't make any money.

Willie Nelson