

Amendment 2186 — To reduce crop insurance premium subsidies by 15 percent for those with an AGI of \$750,000 or more.

According to CBO, the federal crop insurance program will cost \$94.6 billion over ten years if the Senate farm bill becomes law. This is \$5.1 billion more than what the program would cost if current law was extended.

We owe it to taxpayers to take a close look at this program, which is set to expand significantly, to ensure it is operating in an efficient and lean manner.

The crop insurance program could stand to see many changes. But the most glaring problem it faces is a complete lack of limitations on premium subsidies.

Crop insurance is the only commodity program that does not utilize some form of payment limitation or means testing to prevent excess and abuse. Meanwhile, the federal government subsidizes 62 percent of premiums on average.

As it stands, taxpayers are subsidizing farming operations that are strongly positioned to take on more risk themselves:

- Twenty-six (26) crop insurance policy holders received over \$1 million in premium subsidies in 2011.
- Fifty (50) farmers received more than \$500,000 in premium subsidies.
- The largest recipient was a corporation that received \$2.2 million.

Premium subsidies are the largest expense of the crop insurance program but are NOT kept in check by any form of congressional payment limits.

The federal government subsidizes the premiums that farmers pay to participate in the crop insurance program, ranging anywhere from 38 percent to 80 percent (62 percent on average).

In 2011, USDA paid out \$7.4 billion in premium subsidies, and this number is projected to reach \$39 billion over the next five years.

The Senate farm bill transitions nearly all farmers into the crop insurance program and repeals what they have become accustomed to over a number of years.

This means we are in uncharted policy territory, and I understand that gives heartburn to farmers who rely on this program. But that does not excuse Congress from letting a program loose without limitations, subjecting it to abuses and excess at the taxpayers' expense.

Sen. Durbin and I found a way to reasonably approach this issue by placing boundaries on the federal crop insurance program in a way that very minimally impacts participants.

This proposal is structured in a way that is already familiar to farmers and USDA alike. The limits placed on it would be similar to how existing farm programs are written:

- (1) The amendment would reduce premium subsidies for farmers who have an Adjusted Gross Income (AGI) of \$750,000 or more.
 - A \$750,000 AGI limit is already common to other farm programs (i.e. Direct Payments), so farmers are familiar with how they work, and the approach has already been accepted by Congress.
- (2) The amendment would decrease premium support by 15 percent for those who trigger the AGI limit.
 - In contrast, the underlying bill would increase premium support for small and beginning farmers by 10 percent.
 - Therefore, the policy structure of a percentage increase or decrease has already been considered, vetted, and accepted by the Senate Agricultural Committee, negating any concerns relating to implementation of this proposal.

According to CBO, this amendment would save taxpayers \$1.2 billion over ten years while impacting less than 4 percent of participants.

It would not prohibit farmers from purchasing crop insurance. Every American farmer, who is otherwise eligible, will have the opportunity to purchase crop insurance.

Under the assumption that USDA pays an average 62 percent in premium subsidies for policies, this amendment would still allow farmers to receive nearly 50 percent (47 percent *on average*) in premium support.

Farming operations that generate \$750,000 AGI or more are sufficiently capitalized to take on more risk.

Even GAO recently pointed out that large farms are better positioned than smaller farms to pay a higher share of their premiums.

This is especially true when considering there are other risk management tools available to them, such as diversifying their plantings and engaging in futures contracting (for crops *and* input costs).

Moreover, if this farm bill becomes law, farmers will also have available to them a new “shallow loss” insurance program called the Agriculture Risk Coverage (ARC) program, which essentially guarantees revenue of 90 percent.

I am often reminded when I speak with Oklahoma farmers that the average age of an American farmer is over 60 years old.

This means we are in short supply of a profession that will be needed to feed a growing population in the United States and internationally.

But young farmers face many challenges when deciding whether or not to start farming.

It is important that Congress not allow unnecessary obstacles to stand in the way of the next generation of American farmers who will be critical for our nation’s long-term health.

The Senate Agricultural Committee understands the importance of small and beginning farmers as this demographic is singled-out for special treatment numerous times throughout the farm bill.

According to GAO though, high levels of premium support can contribute to an increase in land prices, which make expanding or even entering the industry difficult for small and beginning farmers.

I urge my colleagues not to overlook the role that high premium subsidies play in causing farming to be cost-prohibitive for small and beginning farmers.

While this amendment proposal varies slightly from the recent GAO report on crop insurance premium subsidies (\$40,000 cap), it serves as a starting point as we transition away from the traditional farm safety net of old and into uncharted territory and a new era of managed risk on the farm.

We believe this approach will provide equitable treatment for the wide range of diverse farming operations in our country.

Nevertheless, I expect that there will be more than one crop insurance proposal during the forthcoming floor consideration of the farm bill.

Let me be clear: I believe the establishment of *any* limitations on premium subsidies is a good thing.

However, after extensive analysis, discussions with producers in my home state of Oklahoma, and conversations with the Senate Agricultural Committee, I believe reducing support by 15 percent for those with an AGI of \$750,000 makes the most sense at this juncture.

Finally, it is worth considering the new supplementary assistance programs that the Senate farm bill creates.

First, the bill creates a revenue assurance program called ARC (Agriculture Risk Coverage program). ARC allows producers to guarantee 90 percent of expected revenue. Revenue assurance programs remove the risk that drives savvy economic decisions and can encourage overplanting or other risky planting decisions.

If wheat, corn, soybeans, and cotton remain at their current prices, ARC will likely cost around \$3 billion. However, independent research suggests

ARC could cost above \$5 billion (the cost of Direct Payments) if prices dip. Specifically, the American Enterprise Institute (AEI) suggests the cost of ARC could reach \$7.4 billion if crop prices return to their 15-year historical averages. This price tag is more than what Direct Payments cost, negating any savings from repealing the program.

Additionally, the bill creates the Supplemental Coverage Option (SCO). SCO provides a supplementary policy based on county-level coverage and its premiums are subsidized at 70 percent. Currently, producers are prohibited from “doubling-up” on insurance policies. Under this program, when a producer is paid an indemnity, SCO pays the deductible up to 21 percent. CBO says this program will cost \$3.2 billion over ten years.