Center on Federal Financial Institutions

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The Center on Federal Financial Institutions (COFFI) is a nonprofit, nonpartisan, non-ideological policy institute focused on federal insurance and lending activities.

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Federal Crop Insurance Corporation

The FCIC's mission. The Federal Crop Insurance Corporation's goal is improve the economic stability of agriculture through a sound system of multi-peril crop insurance.

The FCIC has been serving the needs of farmers for nearly 70 years. Created in 1938, the FCIC was a New Deal program born out of the severe hardship of farmers during the Great Depression and the Dust Bowl. The program was significantly and permanently expanded in 1980. More crops were covered in more areas in order to stem emergency grant aid paid out by Congress every time a natural disaster hit agricultural areas. The FCIC was significantly reformed in 1994 and 1996 through reduced price supports, new education and mitigation activities, and reorganization of the FCIC's administrative structure.

FCIC

Insurance in Force: $40.7 billion

Reserves: $2.1 billion

Statutory Taxpayer Exposure*: $40.7 billion

Budget Cost FY 2004: $3.4 billion

*Note: Reflects total federal losses in a worst case scenario given current law and current financial commitments

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Structure and Functions

Nuts and bolts. The FCIC is a program of the Department of Agriculture's Risk Management Agency. It is headed by a Board of Directors under the supervision of the Secretary of Agriculture. The Board consists of four USDA personnel, four farmers, and two insurance experts. The FCIC's guidelines are set by Congress pursuant to 7 U.S.C 36. Each year, Congress appropriates funds for the operating costs of the program. The FCIC is overseen in Congress by the House's Agriculture committee and the Senate's Agriculture, Nutrition, and Forestry committee.

FCIC's functions. The FCIC performs two insurance functions. First, it reinsures participating commercial insurers for crop losses under program guidelines. Farmers buy insurance directly from these insurers. Second, the FCIC subsidizes farmer's premiums that pay for this crop insurance. This subsidy ranges from 100% for catastrophic coverage to 56% for expanded coverage.

Catastrophic crop insurance. Catastrophic Crop Insurance (CAT) covers 55% of the expected market price on crop losses in excess of 50% of a farmer's average yield. The FCIC fully subsidizes all CAT premiums. The farmer pays an administrative cost of $100 per crop per county or 10% of the premium, whichever is greater. This crop insurance covers losses due to drought, flood, or other natural disasters as determined by the USDA.

Expanded crop insurance. Farmers can elect to have expanded coverage above the CAT limit. They may insure up to 100% of the expected market value for each unit of production below their insured yield. Yields may be insured up to 85% of a farmer's yield or 95% of an area's yield. This coverage is partially subsidized and varies by crop and county. The partial FCIC subsidy ranges approximately from 40% to 70% depending on coverage levels. A fee of $30 per crop per county is assessed on farmers for this program.

Revenue-based insurance. The FCIC also provides a revenue insurance program for selected crops such as

Crop Insurance Types

There are two main types of coverage:

CAT: Provides catastrophic coverage for natural disasters on losses over 50% of average yields; fully subsidized

Policies: 156,522

Insurance in Force: $7.1 billion

Total Premiums: $242 million

Premiums Subsidized: $242 million

Expanded: Extension of the CAT that covers losses over 15% (maximum) of average yields; partially subsidized

Policies: 1,072,318

Insurance in Force: $39.5 billion

Total Premiums: $3.9 billion

Premiums Subsidized: $2.2 billion

Payouts on the above two types of coverage are determined by the type of policy:

Yield Based:

Actual Production History: Yield losses due to natural disasters trigger payments based on average individual farmer yields

Group Risk Plan: County-wide yield losses of a crop due to natural disasters trigger payments to all farmers in the county with GRP policies

Dollar Plan: Covers losses due to natural disasters when the value of the crop harvest falls below insured levels; available for certain crops such as tomatoes and strawberries

Revenue Based:

Group Risk Income Protection: County-wide revenue losses of a crop due to natural disasters or price movements trigger payments to all farmers in the county with GRIP policies

Adjusted Gross Revenue: Covers a portion of average revenue of a whole farm (all crops and some livestock) against natural disaster losses or price movements

Crop Revenue Coverage: Covers revenue losses of one crop due to low yields or low prices; coverage based on higher of early-season or harvest price

Income Protection: Covers gross income for a given crop when its prices or yield fall below early-season expectations wheat, rice, soybeans, and cotton. This program ensures that a farmer receives a certain revenue from his yearly production regardless of whether lower revenues were caused by low prices or low yields. For example, the Adjusted Gross Revenue-Lite insurance plan provides coverage up to $250,000, and insures adjusted gross revenues based upon 5 years of tax returns.

Premiums. Premium levels are fixed by the FCIC's Board annually so that the Corporation will cover its expected losses, pay for its administrative expenses, and retain a reasonable reserve.

Finances

Overall size. The FCIC currently insures $40.7 billion in crop insurance spread over approximately 221 million acres in all 50 states. For FY 2004, the FCIC collected $928 million in premiums, subsidized $2.0 billion in premiums, and incurred $3.2 billion in losses. See Table 1.

Table 1: Insured Policies

Fiscal Years	**2003 Act.**	**2004 Act.**	**2005 Est.**	**2006 Proj.**
Coverage *(Crop Years, July-June) in millions*				
Insured Coverage	$ 40,586	$ 40,692	$ 40,032	$ 41,336
Insured Acreage	219	221	222	220
Premiums and Premium Subsidies *in millions*				
Producer Premiums (revenues)	$ 1,072	$ 928	$ 1,324	$ 1,150
Catastrophic Coverage Subsidies (from appropriations)	$ 248	$ 226	$ 241	$ 230
Additional Coverage Subsidies (from appropriations)	$ 1,612	$ 1,818	$ 2,224	$ 1,936
	$ 2,932	$ 2,972	$ 3,789	$ 3,316
Losses *in millions*				
Catastrophic Coverage Losses	$ 283	$ 252	$ 176	$ 249
Additional Coverage Losses	$ 3,485	$ 2,898	$ 3,478	$ 3,689
	$ 3,768	$ 3,150	$ 3,654	$ 3,938
Loss Ratio *(Crop Years, July-June)*				
Loss Ratio (see explanation below)	1.120	0.840	1.075	1.075

Source: President's FY2005-6 Budget Appendix

Statutory taxpayer exposure. Total potential taxpayer exposure to the Federal Crop Insurance Program at the current time stands at the total amount of coverage in force. This amounts to $40.7 billion.

FCIC budgeting. The FCIC plays three major budget roles: it subsidizes premiums to farmers through its approved programs; it reinsures private companies providing approved insurance lines; and, it reimburses these companies for their associated administrative costs. See Table 2.

Administrative and operational expenses. The FCIC reimburses commercial insurers for their administrative and operating costs incurred by providing crop insurance. This reimbursement cannot exceed 24.5% of the premium. In FY 2004, reimbursements totaled $859 million.

Loss ratio. The USDA defines a loss ratio to be the proportion of premiums to losses in given year. This ratio is calculated in crop years, not fiscal years, and, therefore, does not directly correlate to premium and indemnity levels displayed in Table 1. Under reforms enacted in 2005, the FCIC is required to adjust premiums to ensure that it has a loss ratio of below 1.075.

Table 2: Budget Costs

Fiscal Years	FCIC Fund 2004 Act.	FCIC Fund 2005 Est.
Costs *in millions*		
Losses	$ 3,150	$ 3,654
Administrative Reimbursements	$ 859	$ 769
ARPA Obligations	$ 82	$ 76
	$ 4,091	$ 4,499
Revenues *in millions*		
Discretionary Appropriations (from general revenues)	$ 0	$ 4
Mandatory Appropriations (from general revenues)	$ 3,366	$ 2,242
Premiums	$ 928	$ 1,324
	$ 4,294	$ 3,566
Balance *in millions*		
Balance from previous year	$ 1,854	$ 2,057
Total Costs	$ -4,091	$ -4,499
Total Revenues	$ 4,294	$ 3,566
Balance carried forward	$ 2,057	$ 1,124

Source: President's FY2006 Budget Appendix

Cost to general revenues. Mandatory appropriations from general revenues are made annually to the FCIC for premium subsidy costs, administrative and operating expense reimbursements to commercial insurers in the program, losses in excess of premiums, and agricultural research costs due to the Agricultural Risk Protection Act of 2000 (ARPA).

Administrative costs incurred by the FCIC are not included in the above calculations because they come from discretionary appropriations to a separate administrative and operating account for the USDA's Risk Management Agency. These costs total approximately $71 million for FY 2004 and are a discretionary appropriation from general revenues. This, together with appropriations, brings the total FY 2004 budget cost for the FCIC to $3.4 billion.

Sources

FCIC: Program descriptions and annual performance reports; available via http://www.rma.usda.gov/aboutrma/fcic/

U.S. Code: Full Text of 7 U.S.C. 36; available via http://uscode.house.gov

OMB: President's FY2006 Budget; available via http://www.whitehouse.gov/omb

Current Issues

Proposed programs. The President's FY 2006 Budget proposes to tie farm payments by other branches of the USDA (as was the case from 1994 to 1996) to the purchase of crop insurance. This is meant to provide a broad safety net for farmers in a catastrophic year since it would require a broader base of farmer participation. In addition, CAT coverage levels would be increased to minimize farmer reliance on disaster assistance loans. It would also raise some additional premiums to offset federal costs.