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213

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

DRAFT

February 1, 1999

RECOMMENDATIONS FOR IMPROVING CROP INSURANCE:
The Administration's Principles

(1) Max. fairness

(2) Cover real losses at cost eff. rates

(3)

(4)

In his State of the Union message, President Clinton pledged to work with Members of Congress of both parties to create a farm safety net that includes an improved federal crop insurance program. This commitment builds upon many steps he has taken to strengthen the farm safety net: In 1994, the Administration proposed, and Congress passed, groundbreaking crop insurance reform legislation; when he signed the 1996 farm bill, and on many occasions since, the President expressed concern about strengthening the farm safety net; and in 1998, the President worked hard to secure congressional approval for the emergency funding to help farmers and ranchers hit not only by natural disaster and low prices in 1998, but who also had endured successive years of losses.

The Administration is committed to working with Congress to develop and enact crop insurance reform legislation, including identifying the legislation's costs and sufficient funds to pay for the reforms, that is grounded on the following principles: raising the floor on basic crop insurance coverage provided under the CAT and NAP programs; increasing the incentives for farmers to purchase higher levels of coverage; covering multi-year disasters; covering livestock; bringing new, more flexible risk management tools to farmers; providing better information and risk management education to farmers; and improving the operation of the NAP program. Those principles are discussed in more detail following a brief background on the crop insurance program and a summary of the Administration's views on weakness of the present crop insurance program.

Background

Prior to 1994, the crop insurance program served some farmers, but never achieved sufficient participation to become the primary source of federal assistance for farmers stricken by economic losses from natural disasters. As a result, Congress passed a series of ad hoc disaster payment programs in the 1980's and early 1990's and farmers relied on historic farm programs to support their incomes.

In 1994, the Administration proposed legislative reforms to merge crop insurance with ad hoc disaster payment assistance. Offered to farmers on a crop by crop basis, the government provides farmers premium-free basic coverage to cover catastrophic losses, known as CAT coverage, or farmers have the opportunity to purchase higher levels of coverage at subsidized premium rates, known as buy-up coverage. The legislation also created a non-insured assistance payment (NAP) program for crops for which insurance program is not yet developed.

In its proposals to Congress on the legislation, the Administration recommended that the 1996 farm bill enhance crop insurance by providing the Department of Agriculture (USDA) authority to offer revenue insurance -- insurance to protect against price declines, not just losses from natural disasters. Congress adopted the recommendation, and also established a program by which USDA offers risk management education to farmers. At the same time, that legislation weakened the historic farm safety net by doing away with much of the counter cyclical income support programs that had been the heart of traditional farm policy.

In 1998, farm commodity prices plummeted as world markets softened and natural disasters hit many parts of the country, and farmers elsewhere struggled with losses incurred over successive years of adverse weather; farm income fell precipitously. Neither the crop insurance program nor the 1996 farm bill were able to ameliorate the dramatic losses the farm economy suffered, so the Administration worked with the Congress to provide more than $6 billion in emergency funding through the fiscal year 1999 budget bill as compensation for market and production losses.

Consistent with its continued commitment to an adequate crop insurance program, the Administration supported a provision of that legislation requiring that uninsured recipients of the emergency assistance to obtain insurance over the next 2 years. More significantly, to encourage greater participation in crop insurance and as a down payment on crop insurance reform, USDA earmarked $400 million from the emergency aid program to provide farmers a 30 percent reduction in their crop insurance premiums on 1999 crops.

Weaknesses in the Crop Insurance Program

In spite of the improvements made to the program, through legislation and administrative actions in recent year, the Administration believes the crop insurance program still suffers major shortcomings; they are:

- Basic CAT coverage is not sufficient to provide farmers an adequate safety net in times of severe stress, and not enough farmers buy higher levels of coverage — only two-thirds of the farmers who have crop insurance purchase buy-up levels.

- Farmers can only obtain insurance based on expected market prices, which are established at the start of the year, and which may vary significantly from actual prices at the time of harvest. Also, current insurance products do not protect them against low prices that carry over year to year.

- Farmers who experience several years of adverse weather may be unable to obtain a enough insurance to cover their costs of production, because the coverage they can buy is linked to their actual production history. In many cases, farmers find their insurable yields declining and their premium rates increasing, a problem especially acute for farmers in the Great Plains.

- Participation in revenue insurance, while growing, remains relatively limited; only about 16 percent of the corn and soybean farmers who buy up to the higher levels of coverage also take revenue insurance.

- Measured in value of sales, the livestock industry represents the biggest segment of American agriculture, but the current crop insurance statute does not permit USDA to extend coverage for livestock losses and the private sector only insures against livestock mortality and this coverage is used only sparingly.

- Crop insurance programs have not yet been developed for many important and economically significant crops. Thus, these growers are protected only through the limited coverage offered by the non-insured assistance payment (NAP) program.

The Administration's Recommendations for Improving Crop Insurance

The Administration recommends to Congress the following principles for legislation to improve the crop insurance program:

- **Raise the floor:** Because the CAT and NAP programs only cover less than one-third of the value of a crop, crop insurance reform legislation should increase both the amount of the crop covered and the market price at which a crop is insured, thus providing a more meaningful level of relief through these basic programs.

- **Increase incentives for higher-level coverage:** The cost of crop insurance premiums is a significant deterrent to buying higher coverage levels, thus one of the principles of crop insurance improvement should be to increase the federal subsidy on the premiums that farmers pay on higher levels of insurance, above CAT coverage. One of the principles of legislation to improve crop insurance should be to ensure that the premium assistance USDA provides farmers for insurance at all buy-up levels is increased and that USDA provides the same premium assistance for all insurance plans, including revenue insurance.

- **Cover multi-year disasters:** To address the special concerns raised by multi-year crop losses and losses not severe enough to trigger current loss requirements, crop insurance improvement legislation should authorize USDA to offer a new multi-year insurance umbrella product to complement single-year policies and crop insurance price elections should be based on multi-year averages.

- **Cover livestock:** Because the current crop insurance program does not cover livestock producers, who make up the largest single sector of American agriculture in terms of value of production, crop insurance reform should include provisions to enable USDA to offer coverage of livestock, including a pilot USDA-private sector livestock revenue initiative.

- **Speed new, more flexible risk management tools to market:** To meet the changing needs of farmers and ranchers, the Administration is committed to the principle that new insurance products that meet the diverse needs of individual farmers will help expand participation. Crop insurance reform includes providing farmers more flexible products to cover their risks, including more revenue-based insurance products such as coverage of a whole farm's production and revenue, not just the current crop by crop coverage. Crop insurance reform should permit USDA to work more creatively with private companies to develop and bring to the market new risk management tools and give USDA more flexibility to use pilot projects and then expand them.

- **Provide better information and service to farmers:** Because one of the impediments to greater use of the crop insurance program is a lack of information and training for farmers on managing their risks, the Administration is committed to the principle that crop insurance reform should increase farmer education about risk management to enable them to assume more responsibility for and better manage their risks.

- **Improve the NAP program:** Because many farmers still rely on the NAP program as their primary protection from losses from natural disasters, crop insurance improvement should include changing the trigger by which farmers who depend on NAP coverage become eligible for such assistance in all areas designated as natural disasters for USDA's emergency loan program simultaneous with such designations.

In addition to these recommendations for the crop insurance program, the Administration wants to work with Congress to examine other USDA programs that assist farmers and ranchers suffering from natural disasters to improve their performance in meeting specific needs that cannot be fully addressed through crop insurance.

Next Steps

The Administration is firmly committed to improving the safety net for farmers through, among other steps, reforming the crop insurance program, and to finding the resources to pay for such changes. Having laid out these recommendations and principles, the Administration is committed to discussing them with farmers, ranchers, and Congress, developing it in complete detail, evaluating other options, and determining the cost of crop insurance reform and the best and most appropriate way to finance it.

Until the Administration and Congress agree on the details of improving crop insurance, the Administration believes it is premature to identify specific ways of off setting the costs of those policies. Once those reforms are identified, through congressional hearings and from the comments and assistance of America's farmers and ranchers, the Administration pledges that it will work cooperatively with Congress to find mutually acceptable ways of financing a modern, adequate, and acceptable crop insurance program.

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USDA

United States Department of Agriculture

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Washington, D.C. 20250

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2. U.P.
3. funding for [illegible] County
4. Cost

February 1, 1999

STRENGTHENING THE FARM-SAFETY NET:
The Administration's Principles and Recommendations for Improving Crop Insurance

In his State of the Union message, President Clinton pledged to work with Members of Congress of both parties to create a farm safety net that includes an improved federal crop insurance program. This commitment builds upon many steps the President has taken to strengthen the farm safety net: In 1994, the Administration proposed, and Congress passed, groundbreaking crop insurance reform legislation; when he signed the 1996 farm bill, and on many occasions since, the President expressed his interest in strengthening the farm safety net; and in 1998, the President worked hard to secure congressional approval for emergency funding to help farmers and ranchers hit not only by natural disaster and low prices in 1998, but also those who endured successive years of losses.

The Administration is committed to working with Congress to develop and enact crop insurance reform legislation, including identifying the legislation's costs and sufficient funds to pay for the reforms, that is grounded on the following principles: maximum participation, comprehensive coverage, use market mechanisms, and low cost.

In response to recent experience and to effect its principles for strengthening the farm safety net, the Administration recommends the following legislative guidance to Congress: Crop insurance improvement should include: bringing new, more flexible risk management tools to farmers; raising the floor on basic crop insurance coverage provided under the CAT and NAP programs; increasing the incentives for farmers to purchase higher levels of coverage; covering multi-year disasters; covering livestock; providing better information and risk management education to farmers; and improving the operation of the NAP program.

The recommendations are discussed in more detail following a brief background on the crop insurance program, a summary of the Administration's views on weaknesses of the present program, especially as borne out by recent experience, and the Administration's principles for crop insurance improvement.

Background

Prior to 1994, the crop insurance program served some farmers, but never achieved sufficient participation to become the primary source of federal assistance for farmers stricken by economic losses from natural disasters. As a result, Congress passed a series of ad hoc disaster payment programs in the 1980's and early 1990's and farmers relied on historic farm programs to support their incomes.

In 1994, the Administration proposed legislative reforms to merge crop insurance with ad hoc disaster payment assistance. Offered to farmers on a crop by crop basis, the government provides farmers premium-free basic coverage to cover catastrophic losses, known as CAT coverage, and farmers have the opportunity to purchase higher levels of coverage at subsidized premium rates, known as buy-up coverage. The legislation also created a non-insured assistance payment (NAP) program for crops for which insurance program is not yet developed.

In its proposals to Congress on the 1996 farm bill, the Administration recommended that the legislation enhance crop insurance by providing the Department of Agriculture (USDA) authority to offer revenue insurance -- insurance to protect against price declines, not just losses from natural disasters. Congress adopted the recommendation, and also established a program by which USDA offers risk management education to farmers. At the same time, that legislation weakened the historic farm safety net by doing away with much of the counter cyclical income support programs that had been the heart of traditional farm policy.

In 1998, farm commodity prices plummeted as world markets softened and natural disasters hit many parts of the country, while other farmers struggled with losses incurred over successive years of adverse weather; farm income fell precipitously. Neither the crop insurance program nor the 1996 farm bill were able to ameliorate the dramatic losses the farm economy suffered. Ultimately, the Administration worked with the Congress to provide nearly $6 billion in emergency funding in the fiscal year 1999 omnibus legislation as compensation for market and production losses.

Consistent with its commitment to an adequate crop insurance program, the Administration supported a provision requiring that uninsured recipients of the emergency assistance obtain insurance over the next 2 years. More significantly, to encourage greater participation in crop insurance and as a down payment on crop insurance reform, USDA earmarked $400 million from the emergency aid program to provide farmers a 30 percent reduction in their crop insurance premiums on 1999 crops.

Weaknesses in the Crop Insurance Program

In spite of improvements made to the program, through legislation and administrative actions , the Administration believes the crop insurance program still suffers major shortcomings; they are:

- Basic CAT coverage is not sufficient

to provide farmers an adequate safety net in times of severe stress, and not enough farmers buy higher levels of coverage -- only two-thirds of the farmers who have crop insurance purchase buy-up coverage.

- Farmers can only obtain insurance based on expected market prices, which are established at the start of the year, and which may vary significantly from actual prices at the time of harvest. Also, current insurance products do not protect them against low prices that carry over year to year.

- Farmers who experience several years of adverse weather may be unable to obtain enough insurance to cover their costs of production, because the coverage they can buy is linked to their actual production history. In many cases, farmers find their insurable yields declining as their premium rates increase, a problem especially acute in the Great Plains.

- Participation in revenue insurance, while growing, remains relatively limited; only about 16 percent of the corn and soybean farmers who buy up to the higher levels of coverage also take revenue insurance.

- Measured in value of sales, the livestock industry represents the biggest segment of American agriculture, but the current crop insurance statute does not permit USDA to extend coverage for livestock losses; the private sector only insures against livestock mortality and this coverage is used only sparingly.

- Crop insurance programs have not yet been developed for many important and economically significant crops. Thus, these growers are protected only through the limited coverage offered by the non-insured assistance payment (NAP) program.

Principles for Strengthening the Farm Safety Net through Improving Crop Insurance

To strengthen the farm safety net, the Administration believes legislation to improve crop insurance should be ground in the following principles:

- **Maximize participation:** The farm safety net, and the crop insurance program, should cover as many farmers and ranchers as possible.

- **Comprehensive coverage:** Insurance coverage and risk management tools should be as comprehensive as possible, covering as much agricultural production – crops and livestock – and as many risks to economic and production loss as possible.

- **Use market mechanisms:** The farm safety net should make maximum use of market efficiency and be as flexible and efficient as possible.

- **Lost cost to taxpayers:** USDA should deliver these programs at the lowest possible cost to taxpayers and farmers and ranchers.

The Administration's Recommendations for Improving Crop Insurance

To achieve its principles for strengthening the farm safety net by improving crop insurance, the Administration recommends the following legislative guidance to Congress:

- **Speed new, more flexible risk management tools to market:** To meet the changing needs of farmers and ranchers, the Administration is committed to developing new insurance products that meet the diverse needs of individual farmers will help expand participation. Crop insurance reform includes providing farmers more flexible products to cover their risks, including more revenue-based insurance products such as coverage of a whole farm's production and revenue, not just the current crop by crop coverage. Crop insurance reform should permit USDA to work more creatively with private companies to develop and bring to market new risk management tools and give USDA more flexibility to use pilot projects and expand them.

- **Raise the floor:** Because the CAT and NAP programs only cover less than one-third of the value of a crop, the Administration recommends that crop insurance reform legislation increase both the amount of the crop covered and the market price at which a crop is insured, thus making relief through these basic programs more financially worthwhile.

- **Increase incentives for higher-level coverage:** The cost of crop insurance premiums is a significant deterrent to buying higher coverage levels, thus crop insurance improvement legislation should make more affordable the premiums that farmers pay on higher levels of insurance, above CAT coverage. The Administration also recommends that legislation to improve crop insurance increase the premium assistance USDA provides farmers for insurance at all buy-up levels and provide farmers the same premium assistance for all insurance plans, including revenue insurance.

- **Cover multi-year disasters:** To address the special concerns raised by multi-year crop losses and losses not severe enough to trigger current loss requirements, the Administration recommends that crop insurance improvement legislation authorize USDA to offer a new multi-year insurance umbrella product to complement single-year policies and crop insurance price elections should be based on multi-year averages.

- **Cover livestock:** Because the current crop insurance program does not cover livestock producers, who make up the largest single sector of American agriculture in terms of value of production, the Administration recommends that crop insurance reform legislation include provisions to enable USDA to offer coverage of livestock, including a pilot USDA-private sector livestock revenue initiative.

- **Provide better information and service to farmers:** Because one of the impediments to greater use of the crop insurance program is a lack of information and training for farmers on managing their risks, the Administration recommends that crop insurance reform increase farmer education about risk management to enable them to assume more responsibility for and better manage their risks, through crop insurance and the agricultural futures and options markets.

- **Improve the NAP program:** Because many farmers rely on the NAP program as their primary protection from losses from natural disasters, the Administration recommends that crop insurance improvement include changing the trigger by which such farmers become eligible for such assistance in areas designated as natural disasters for USDA's emergency loan program simultaneous with such designations.

While the crop insurance program is a mainstay of the farm safety net, the Administration also wants to work with Congress to examine other USDA programs that assist farmers and ranchers suffering from natural disasters to improve their performance in meeting specific needs that cannot be fully addressed through crop insurance.

Next Steps

The Administration is firmly committed to improving the safety net for farmers through, among other steps, reforming the crop insurance program, and to finding the resources to pay for such changes. Having laid out these principles and recommendations, the Administration is committed to discussing them with farmers, ranchers, and Congress, developing it in complete detail, evaluating other options, and determining the cost of crop insurance reform and the best and most appropriate way to finance it.

Secretary of Agriculture Dan Glickman will conduct at least 3 regional forums around the country on improving crop insurance, at places and on dates that will be announced in the next few weeks. Through these forums and discussions with Congress, the Administration intends to build upon the proposals laid out in this document to forge a bipartisan agreement on principles for crop insurance improvement, developing specific legislative recommendations, and determining a fair and appropriate allocation of resources to pay for improving the federal crop insurance program.

Until the Administration and Congress agree on the details of improving crop insurance, the Administration believes it would be acting prematurely to identify specific ways of off setting the costs of those policies. Once those reforms are identified, through congressional hearings and from the comments and assistance of America's farmers and ranchers, the Administration pledges to work cooperatively with Congress to find mutually acceptable ways of financing a modern, adequate, and acceptable crop insurance program.

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USDA

Saturday, January 30, 1999

GREG FRAZIER
Chief of Staff

To Tom Freedman --

Revised crop insurance paper follows.

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213-0693

Tom Freedman
Comments due
to Sally Katzen
by 10:30am

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February 1, 1999

STRENGTHENING THE FARM SAFETY NET:
The Administration's Principles and Preliminary Proposals for Reforming Crop Insurance

In his State of the Union message, President Clinton pledged to work with Members of Congress of both parties to create a farm safety net that includes an improved federal crop insurance program. This commitment builds upon many steps the President has taken to strengthen the farm safety net: In 1994, the Administration proposed, and Congress passed, groundbreaking crop insurance reform legislation; when he signed the 1996 farm bill, and on many occasions since, the President expressed his interest in strengthening the farm safety net; and in 1998, the President worked hard to secure congressional approval for emergency funding to help farmers and ranchers hit by natural disaster and low prices in 1998 and who endured successive years of losses.

The Administration is committed to working with Congress to develop and enact crop insurance reform legislation that is based on the following principles: maximum participation in the programs, comprehensive coverage, flexibility, use of market mechanisms, and lowest cost to both farmers and ranchers and taxpayers.

In response to recent experience, the Administration offers the following preliminary proposals that meet the principles for ~~reform.~~ crop insurance reform: ~~improvement should include:~~ bringing new, more flexible risk management tools to farmers; making the basic program more financially worthwhile by raising the floor on basic crop insurance coverage; increasing the incentives for farmers to purchase higher levels of coverage; covering multi-year disasters; covering livestock; making farmers in designated disaster areas eligible for NAP assistance once such a designation occurs; and providing better information and risk management education to farmers.

These proposals are discussed in more detail following background on the crop insurance program, a summary of its those weaknesses, especially ~~as borne out~~ ~~reflects~~ reveals by recent experience, and the Administration's principles for crop insurance reform.

Background

Prior to 1994, the crop insurance program served some farmers, but never achieved sufficient participation to become the primary source of federal assistance for farmers stricken by economic losses from natural disasters. As a result, Congress passed a series of ad hoc disaster payment programs in the 1980's and early 1990's and farmers relied on historic farm programs to support their incomes.

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- Farmers who experience several years of adverse weather may be unable to obtain enough insurance to cover their costs of production, because the coverage they can buy is linked to their actual production history. In many cases, farmers find their insurable yields declining as their premium rates increase, a problem especially acute in the Great Plains.

- Participation in revenue insurance – which protects against falling prices – while growing, remains relatively limited; only about 16 percent of the corn and soybean farmers who buy up to the higher levels of coverage also take revenue insurance.

- Measured in value of sales, the livestock industry represents the biggest segment of American agriculture, but the current crop insurance statute does not permit USDA to extend coverage for livestock losses; the private sector only insures against livestock mortality and this coverage is used only sparingly.

- Crop insurance programs have not yet been developed for many important and economically significant crops. Thus, these growers are protected only through the limited coverage offered by the non-insured assistance payment (NAP) program.

Principles for Strengthening the Farm Safety Net through Reforming Crop Insurance

To strengthen the farm safety net, the Administration believes legislation to improve the crop insurance program should satisfy the following principles:

- **Maximize participation:** The farm safety net, and the crop insurance program, should cover as many farmers and ranchers as possible.

- **Comprehensive coverage:** Insurance coverage and risk management tools should be as comprehensive as possible, covering as much agricultural production – crops and livestock – and as many risks to economic and production loss as possible.

- **Use market mechanisms:** The farm

safety net should make maximum use of market mechanisms as possible.

- **Flexibility:** The crop insurance program should be flexible enough to meet the diverse demands posed by the varied risks farmers and ranchers face.

- **Lowest cost to taxpayers:** These programs should be delivered at the lowest possible cost to taxpayers and farmers and ranchers.

The Administration's Preliminary Proposals for Reforming Crop Insurance

To achieve its principles for strengthening the farm safety net by improving crop insurance, the Administration offers the following proposals to Congress:

- **Speed new, more flexible risk management tools to market:** To meet the changing needs of farmers and ranchers, crop insurance reform should include providing farmers more flexible products to cover their diverse needs, including more revenue-based insurance products and coverage of a whole farm's production and revenue. Crop insurance reform should permit USDA to work more creatively with private companies to develop and bring to market new risk management tools and give USDA more flexibility to use pilot projects and expand them.

- **Raise the floor:** Because the CAT and NAP programs only cover less than one-third of the value of a crop, crop insurance reform ~~legislation~~ should increase both the amount of the crop covered and the market price at which a crop is insured, thus making these basic programs more financially worthwhile.

- **Increase incentives for higher-level coverage:** Crop insurance reform should improve the incentives for farmers to buy more comprehensive insurance at higher buy up levels. It should also provides farmers similar incentives ~~the same premium assistance~~ for all insurance plans, including revenue insurance.

- **Cover multi-year disasters:** To address the special concerns raised by multi-year crop losses and losses not severe enough to trigger current loss requirements, crop insurance reform should authorize USDA to offer a new multi-year insurance umbrella product to complement single-year policies.

- **Cover livestock:** Because the current crop insurance program does not cover livestock producers, who make up the largest single sector of American agriculture in terms of value of production, ~~the~~

~~Administration recommends that~~ crop insurance reform ~~legislation~~ should include provisions to enable USDA to offer coverage of livestock, including a pilot USDA-private sector livestock revenue initiative.

- **Improve the NAP program:** Because many farmers rely on the NAP program as their primary protection from losses from natural disasters, crop insurance reform should change the trigger that makes NAP assistance available so those farmers become eligible for NAP assistance at the same time USDA designates areas natural disaster areas and makes farmers and ranchers eligible for emergency loans.

- **Provide better information and service to farmers:** Crop insurance reform should increase farmer education about risk management to enable them to assume more responsibility for and better manage their risks, through crop insurance and the agricultural futures and options markets.

While the crop insurance program is a mainstay of the farm safety net, the Administration also wants to work with Congress to examine other USDA programs that assist farmers and ranchers suffering from natural disasters to improve their performance in meeting specific needs that cannot be fully addressed through crop insurance.

Next Steps

Having laid out these principles and preliminary proposals, the Administration is committed to discussing them and other options with farmers, ranchers, and Congress, developing a comprehensive package to achieve our objectives, and the most appropriate way to finance it.

Secretary of Agriculture Dan Glickman will conduct at least 3 regional forums around the country on improving crop insurance, at places and on dates that will be announced in the next few weeks. Through these forums and discussions with Congress, the Administration intends to build upon the proposals laid out in this document to forge a bipartisan agreement on crop insurance reform.

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