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Federal Crop Insurance and Conservation

The Federal Crop Insurance Program is projected to cost taxpayers an average of more than \$12 billion annually over the next decade. Heralded as a risk management tool, in reality it often acts to disincentivize farmers and ranchers from incorporating risk reducing conservation practices in their operations. High subsidy levels shift economic risk from producers to taxpayers, while programmatic barriers often fail to reward producers that implement practices that reduce their risks of physical and financial loss.

With nearly \$37 trillion in national debt, U.S. taxpayers cannot afford to provide unlimited premium subsidies in the crop insurance program with little to no assurance the investment increases the economic resilience of agricultural operations. Common sense reforms to make the program more receptive to incorporation of conservation practices will save taxpayer dollars while improving farm income and crop production stability, a win-win-win scenario.

Background on Federal Crop Insurance

Since federal crop insurance was first made available to farmers in 1938, the program has grown steadily as more operations participate. After the first several decades of the program's existence saw only modest levels of participation, the introduction of taxpayer-funded subsidies for crop insurance premiums in 1980, and a shift to policies insuring expected revenue in 2000, contributed to a significant increase in participation and a much more significant increase in cost to the federal government.^{1,2,3} Agricultural producers receive hefty taxpayer subsidies in federal crop insurance. On average, taxpayers pay 60 cents for every \$1 of crop insurance premium, while the producer pays just 40 cents on the dollar. Yet as the cost of this risk management program balloons – projected to cost taxpayers an average of more than \$12 billion annually over the next decade⁴ – the program has not yielded a corresponding decrease in economic risk.

¹ History of RMA: History of the Crop Insurance Program.” USDA Risk Management Agency. Accessed March 25, 2025. <https://www.rma.usda.gov/about-rma/history-rma#:~:text=Congress%20first%20authorized%20Federal%20crop,to%20carry%20out%20the%20program.>

² Lubowski, Ruben, et. al. 2006. “Environmental Effects of Agricultural Land-Use Change: The Role of Economics and Policy.” 25. Economic Research Report. United States Department of Agriculture Economic Research Service.

³ Claassen, Roger, Fernando Carriazo, Joseph C Cooper, Daniel Hellerstein, and Kohei Ueda. 2011. “Grassland to Cropland Conversion in the Northern Plains: The Role of Crop Insurance, Commodity, and Disaster Programs.” Economic Research Report 120. United States Department of Agriculture Economic Research Service. [https://ers.usda.gov/sites/default/files/_laserfiche/publications/44876/7477_err120.pdf?v=63593.](https://ers.usda.gov/sites/default/files/_laserfiche/publications/44876/7477_err120.pdf?v=63593)

⁴ Korth, Sheila. 2025. “Taxpayer Benefits of Modernizing Federal Crop Insurance Program.” Taxpayers for Common Sense.

Crop Insurance Subsidies can Increase Risky Practices

“It is simple: Subsidizing risk leads to more risk.”

American Enterprise Institute

While other types of insurance, such as homeowner’s, auto, and liability, incentivize risk reduction by offering discounts or lower premiums to policyholders who take steps to reduce their risk, crop insurance does not adequately factor in a producer’s efforts to reduce their risk.⁵ Worse, by subsidizing crop insurance premiums, the program can actually incentivize the use of “higher risk production practices because farmers benefit from any upside in yields and revenues in good years, but they bear few of the losses when yields are low.”⁶

Crop insurance subsidies and other Farm Bill safety net programs can spur the conversion of sensitive, carbon-rich land to cropland.⁷ A 2001 study simulated the effects of a variety of insurance options and concluded that the decision to convert economically marginal land to crop production was made only when subsidized insurance was offered.⁸ In 2012, researchers performed an econometric analysis of land use change that projected how the probability of devoting land to cropland, hay/pasture, or natural grassland would change under the condition that crop insurance, marketing loans, and disaster aid didn’t exist. The researchers concluded that “without crop insurance, ... producers would have devoted, on average, roughly 235,000 fewer acres to crop production over 1998-2007, an average increase in cropland acreage of about 1 percent.” Further, they concluded that “disaster assistance resulted in 292,000 additional crop acres,” implying that some planting decisions are made with the express purpose of losing the crop and getting payouts.⁹

These programs also encourage the retention of marginal land in crop production, in addition to incentivizing the original conversion. An analysis of land use changes between grassland and cropland in the Northern Plains concluded that disaster payments are encouraging producers to keep lower quality land in crop production that would have been reallocated for grazing if disaster payments did not exist.¹⁰

⁵ Korth. “Taxpayer Benefits of Modernizing Federal Crop Insurance Program.”

⁶ Smith, Vincent, and Barry Goodwin. 2023. “What Harm Is Done by the Federal Crop Insurance Program Today?” American Enterprise Institute. <https://www.aei.org/wp-content/uploads/2023/03/What-Harm-Is-Done-by-the-Federal-Crop-Insurance-Program-Today.pdf>.

⁷ Taxpayers for Common Sense. “Record Taxpayer Costs of Federal Crop Insurance Program: Unlimited Subsidies and Lack of Transparency Means Program Is in Dire Need of Reform.”

⁸ LaFrance, Shimshack & Wu. “The Environmental Impacts of Subsidized Crop Insurance.” 15-16.

⁹ Sumner, Daniel A, and Carl Zulauf. 2012. “Economic & Environmental Effects of Agricultural Insurance Programs.” The Conservation Crossroads in Agriculture: Insight from Leading Economists. The Council on Food, Agricultural & Resource Economics (C-FARE). https://static.ewg.org/pdf/Sumner-Zulauf_Final.pdf. 37-43.

¹⁰ Claassen et al. “Grassland to Cropland Conversion in the Northern Plains: The Role of Crop Insurance, Commodity, and Disaster Programs.” 48.

Injecting Common Sense into Crop Insurance

The Federal Crop Insurance Program is currently out of step with reality and in need of common sense measures to bring it into the 21st Century. Just a handful of reasons include the following:

- **Guaranteed yields do not reflect reality:** Recent research by University of Nebraska - Lincoln agricultural economist Cory Walters, et al. found that two subsidized crop insurance policy add-ons, entitled Supplemental Coverage Option (SCO) and Enhanced Coverage Option (ECO), do not utilize actual irrigated and non-irrigated yields experienced in the field. The U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) instead blends the yields together which results in inaccurate information for both crop insurance companies and farmers, impacting taxpayer-subsidized indemnity payouts.¹¹ Crop insurance also has a history of fudging historic yield figures to increase the likelihood of indemnity payouts, through transitional (T) yields and elimination of poor yields during wet spring seasons which may cause a farmer to not plant a field.
- **Promotion of less diverse crop rotations:** Currently, no crop insurance policy exists for cover crops or alfalfa, which are planted in rotation with other crops to enhance soil moisture, prevent soil erosion, provide forage for livestock, and improve water quality. However, crop insurance does not reward producers for these practices, or provide insurance options for producers utilizing these age-old tactics to improve soil productivity.
- **Promotion of crop planting in risky areas:** GAO also found that the "federal government's crop insurance costs are substantially higher in areas with higher crop production risks (e.g. drought risk) than other areas."¹² To bring the program in line with reality, GAO recommended adjusting premium rates to reflect actual risk of crop and revenue loss¹³ and consider incorporating resilience measures into crop insurance rates, or in the alternative, offering premium subsidies for more resilient operations.¹⁴ An example could include a range of crop insurance premium discounts for a producer planting drought-tolerant crops like sorghum/milo in rotation with other crops, utilizing cover crops, and planting grass buffers along waterways to enhance soil quality and limit soil erosion.
- **Reality of risk and water availability:** GAO's February 2025 High Risk report of federal programs subject to waste, fraud, abuse, and/or mismanagement¹⁵ highlighted the federal crop and flood insurance programs as those which the government has failed to adequately reform to minimize unnecessary fiscal expenditures and financial risk. Ways to improve the

¹¹ https://digitalcommons.unl.edu/agecon_cornhusker/1271/

¹² [https://www.gao.gov/products/gao-15-215#:~:text=The%20federal%20government's%20crop%20insurance,risk\)%20than%20in%20other%20areas.](https://www.gao.gov/products/gao-15-215#:~:text=The%20federal%20government's%20crop%20insurance,risk)%20than%20in%20other%20areas.)

¹³ <https://www.gao.gov/assets/gao-15-215.pdf>

¹⁴ <https://www.gao.gov/products/gao-23-104557>

¹⁵ <https://www.gao.gov/assets/gao-25-107743.pdf>

program could include changing premium rates in areas subject to water restrictions, for instance, which limit irrigation instead of making indemnity payments year after year in areas where wells are running dry, such as western Kansas. The current crop insurance program promotes crop production in drought-prone areas - at the expense of taxpayers and long-term financial viability for agricultural producers who make business plans contingent on sufficient water availability.

- **Revenue and profit margin subsidies:** Taxpayer subsidies currently flow to producers enrolling in profit margin and revenue guarantee programs. These programs are subsidized at a higher level than other yield insurance programs and subsequently cost taxpayers billions each year. No other U.S. industry receives business profit margin guarantees from the U.S. government, and agriculture should not be an exception to this rule. Guaranteeing profit margins and high revenue levels annually removes risk from production agriculture, which fails to promote innovation in the long-run with producers dependent on government subsidies. Furthermore, discounts are not available within crop insurance for producers who minimize revenue losses through unsubsidized risk management techniques such as forward contracting, utilizing private insurance options, vertical integration, and more.
- **Precision agriculture:** While a new crop insurance policy exists for split application nitrogen fertilizer applications,¹⁶ crop insurance generally does not reward producers for applying fertilizer, herbicides, or irrigation in an efficient, limited, and targeted manner. These practices can save farmers money, conserve water, reduce input costs, and reduce taxpayer costs as well.
- **No time limit to subsidies:** Crop insurance subsidies are not currently time-limited, meaning a 20-year-old farmer may receive the same level of subsidies as a 70-year-old producer who has signed up for subsidized crop insurance for each of the past 25 years. Participation in other social safety net programs, such as those for food assistance, is often limited to months, not years.

Risk of Doing Nothing

If crop insurance is not modernized, taxpayers will be forced to subsidize agricultural production practices that worsen droughts, floods, wildfires, and other risks, while taxpayer costs skyrocket. Taxpayer costs of crop insurance experienced during the 2012 drought reached record highs, but costs have been eclipsed in recent years with persistent drought for the past four years in states like Nebraska and others in the Great Plains. With no cap on costs within crop insurance, taxpayers are on the hook for tens of billions in costs each year.

¹⁶ <https://pacecropinsurance.com/>

Not only does the status quo ultimately increase the price of food and other consumer goods, when crops and livestock are lost to natural disasters, resulting in less supply and higher prices, but taxpayers are also on the hook for disaster recovery costs. Unbudgeted disaster assistance, economic bailouts, and other federal handouts, typically paid months or years after disasters strike, do nothing to make the U.S. more resilient to inevitable future disasters. Plus, both budgeted and unbudgeted [agricultural disaster programs](#) cost taxpayers tens of billions of dollars.

Across the country, farmers still face high input costs, low crop prices, trade uncertainty, and weather risks. Water is so polluted in certain agricultural communities that farmers themselves cannot safely drink well water without expensive reverse osmosis or other systems designed to remove high levels of nitrates from water supplies. Populations of pheasants and other wildlife have diminished on otherwise popular hunting ground. Reports of soil erosion worsen, with soil visibly washing down hills during heavy rains. The lack of adequate plant cover on some crop fields leaves soil blowing across major U.S. highways on dry, windy days, resulting in visibility challenges for drivers. Housing tens of thousands of chickens in a few buildings increases the risk of disease, placing consumers at a disadvantage when egg prices continue to be above-average around the country. Rates of cancer are staggering in certain agricultural areas as well, with cancer risk tied directly to use of certain farm chemicals.

Vast Opportunities for Change

Federal financial resources should promote resilience, instead of dependence, on Uncle Sam. Instead of spending millions of dollars on new treatment facilities to remove agricultural pollutants from groundwater, communities could reward nearby farmers for taking measures to conserve soil and water, potentially through crop insurance. Relevant practices promoting long-term financial success include: (1) crop rotations, (2) integration of livestock with cropping systems, (3) reducing unnecessary fertilizer and pesticide applications, (4) planting or conserving filter strips, grassed buffers alongside waterways, cover crops, and terraces on hilly land to minimize soil erosion and improve water quality, and (5) conserving wetlands, forests, and grasslands.

Studies have identified numerous benefits for not only taxpayers but also farmers with the use of common sense agricultural production practices. Instead of leaving farm ground bare after harvest, cover crops planted in strategic areas with enough soil moisture can result in yield gains for producers more often than not. Crops such as alfalfa and milo/sorghum fare better in dry years and if planted in rotations, they can reduce crop insurance indemnity payouts, as opposed to if corn is planted year after year on the same cropland.

Implementing these practices may not make financial sense for agricultural producers under current policies, but if perverse incentives such as farm subsidies are eliminated and crop insurance is sufficiently reformed, market signals will begin to take hold. Common sense production practices will eventually win out instead of farmers planting certain crops simply to receive subsidy handouts.

Uptake of carbon credit programs could increase, and other non-taxpayer subsidized financial opportunities would also expand. Innovation would provide opportunities for the next generation of agriculture instead of the average age of a U.S. farmer steadily increasing with beginning farmers struggling to afford land. Other federal conservation incentives could be efficiently targeted to those who

would not otherwise implement certain conservation practices, providing a high return on investment for taxpayer dollars. As a result, agricultural policy would be modernized and finally brought into the 21st century.

A Nebraska farmer recently noted that USDA crop insurance guidelines could be changed to accommodate his regenerative agricultural practices, such as delaying the termination of his cover crops in the spring. Other farmers plant cash crops directly into cover crops, which the government doesn't treat the same way as other conventional production practices. The cover crops suppress weeds during the growing season, leading to farmers needing to till the land less often and use less herbicide to kill weeds, which significantly reduces expensive input costs for farmers - a hot topic since the COVID-19 pandemic in particular.

Specifically, if federal crop insurance provided incentives for producers to reduce the risk of crop and livestock losses and the program had guardrails and means testing on income and annual subsidies, taxpayers could save billions of dollars. GAO estimated billions in savings from implementing common sense subsidy caps in 2011. Narrower crop insurance policy reforms, such as expanding common sense Sodbuster policies, have been projected to save taxpayers hundreds of millions of dollars as well. Without these smart policies in place, the program will continue to burden U.S. taxpayers with unnecessary risk, adding to our unsustainable and growing national debt.

Conclusion

Numerous opportunities exist to modernize federal agricultural policy, particularly the federal crop insurance program. Instead of rewarding risk taking at taxpayer expense, federal resources can be deployed to improve the resilience of agricultural producers to withstand both natural disasters and everyday business risks. Instead of promoting risky agricultural production practices in drought- and flood-prone areas, federal crop insurance can act more like other lines of insurance that take actual risks into account and allow the market to adjust. If certain targeted, common sense measures are adopted in crop insurance, including providing focused, fiscally responsible taxpayer assistance, the U.S. can promote resilience, instead of dependence, on federal government handouts. In the end, farmers, consumers, and taxpayers will be better off, with much needed deficit reduction to reduce our burgeoning national debt.