United States Senate

WASHINGTON, DC 20510

May 8, 2012

The Honorable Debbie Stabenow
Chairwoman
U.S. Senate Committee on Agriculture
Washington, DC 20510

The Honorable Pat Roberts
Ranking Member
U.S. Senate Committee on Agriculture
Washington, DC 20510

Dear Chairwoman Stabenow and Ranking Member Roberts,

We support further reforms to the federal crop insurance program that would be consistent with the findings and recommendations of the recent Government Accountability Office (GAO) report.

The federal crop insurance program was established to protect against the inherent volatility of commodity prices and to guard against large taxpayer bailouts in times of natural disaster. As commodity prices have increased significantly in recent years, program costs also are growing at an alarming pace.

The federal crop insurance program outlaid $7.4 billion in premium subsidies in 2011 and is projected to reach $39 billion—an average of $7.8 billion annually—over the next five years. Given the increasing costs associated with administering the federal crop insurance program, Congress should explore potential adjustments that would provide a leaner, more efficient program that provides needed support in a cost-effective manner.

GAO recently analyzed the costs of crop insurance and how those costs could be contained while ensuring it remains the tool originally envisioned by Congress.[1] GAO's most compelling finding relates to premium subsidies. The federal government subsidizes the premiums farmers pay to participate in the crop insurance program, ranging from 38 percent to 80 percent of an entire policy premium. In 2011, this subsidy accounted for 62 percent of total premiums paid, or $7.4 billion. At present, crop insurance is the only farm safety net program that operates without any kind of payment limit. In 2011, for example, more than 50 farmers received more than $500,000 in premium subsidies. The largest single recipient was a corporation that received $2.2 million.

In an effort to find ways to reduce costs in this program, GAO modeled a payment limit for premium subsidies. In a scenario with a $40,000 payment limit, GAO found the program could have reduced costs by $1 billion in 2011. The report also found that establishing such a payment limit would affect 3.9 percent of total participants, suggesting 96 percent of those participating in the crop insurance program would not be impacted by a $40,000 payment limit, and it would yield meaningful savings for taxpayers at the same time.

[1]GAO-12-256, Crop Insurance: Savings Would Result from Program Changes and Greater Use of Data Mining, Government Accountability Office.

Based on GAO's findings, we believe further investigation into the efficacy of reducing premium subsidies is warranted. Large farms are better positioned than smaller farms to pay a higher share of premiums, according to GAO. This is especially true considering other risk management tools that remain available to them. Moreover, the report found that *not* limiting premium subsidies for individual farmers and farm entities could be prohibitive for small and beginning farmers. According to GAO's findings, federal benefits like premium subsidies could contribute to an increase in land prices, which make expanding or even entering the industry difficult for small and beginning farmers.

We would also point out that the Congressional Budget Office (CBO), in its 2011 Budget Options, proposed an across-the-board reduction in premium subsidies, which it claims would not significantly reduce participation.[2] While we believe a payment limit approach could provide a more tailored solution to avoid negatively impacting low- and middle-income farm operations, we relay the information to demonstrate broad support to limit excessive premium subsidies.

Finally, while some would argue crop insurance has experienced enough cuts already, we suggest that these cuts occurred for a reason. Let us be clear: further reductions to crop insurance are not a reflection of opposition to the program. In fact, we would argue the opposite—it is critical to make good programs better to ensure they are performing as intended and are fiscally sound taxpayer investments. Good programs should never be immune to oversight and improvement when needed. Maintaining the integrity of crop insurance will help ensure it continues to serve as a primary safety net program for our nation's farmers.

Based on GAO's findings, it is our belief that the crop insurance program can benefit from commonsense structural changes and save significant taxpayer dollars while maintaining the necessary safety net. We would appreciate your feedback and input on the issue as we continue exploring changes to this program.

Sincerely,

Tom A. Coburn, M.D.
U.S. Senator

Richard Durbin
U.S. Senator

[2] Reducing the Deficit: Spending and Revenue Options, March 2011, Congressional Budget Office. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12085/03-10-reducingthedeficit.pdf