Crop Insurance —

How a Safety Net Became a Farm Policy Disaster

A Land Stewardship Project Special Report

FACT SHEET

How Federally Subsidized Crop Insurance Works

Federal crop insurance began with the Federal Crop Insurance Act of 1938 as a way to guarantee a steady supply of food for the United States. Crop insurance's initial goal was to provide a safety net for farmers so that one year of catastrophic weather would not put them out of business. It was privatized and expanded in 1980, when the government added coverage for more crops and introduced government subsidies in order to decrease the cost of insurance premiums to farmers, and to increase the number of policies farmers purchased from insurance corporations. The percentage of the premium covered by these subsidies was increased in 1994, which led to enrolled acres going from 100 million acres in 1994 to more than 220 million acres in 1995.

Today, crop insurance is administered by the USDA's Risk Management Agency (RMA) and offered to farmers through a select group of insurance corporations. This program cost the federal government $14 billion in 2012 and is projected to cost $90 billion over the next 10 years, according to RMA data collected by the Environmental Working Group. Premium subsidies, which covered 62 percent of the cost of producers' premiums in 2012, are the most expensive component of the program.

In 2014, there were 19 corporations nationwide whose crop insurance divisions had the government's approval to sell and service crop insurance policies. These firms include companies owned by Wells Fargo, the American Farm Bureau Federation and Archer Daniels Midland. The federal government reimburses crop insurance corporations for their administrative and operating costs. Crop insurance must be offered to all farmers who are raising approved crops and the federal government takes on the riskiest policies that are most likely to result in indemnity payments. By only servicing the least risky policies, insurance corporations are nearly always assured significant profits.

In 2011, a total of 486,867 farmers signed up for crop insurance—that's 22.3 percent of United States farm operations, covering 266 million acres. Sixty-four percent of policies cover corn, soybeans and wheat; 76 percent of premium subsidies go to producers of these crops.

Farmers work with local agents who are retained on commission by the insurance corporations. Besides yield loss insurance, farmers are now able to choose other forms of coverage, such as revenue insurance, which accounted for 63 percent of policies sold in 2013 and 85 percent of paid claims. Revenue insurance triggers a payment if, upon harvest, the market price of the covered crop is a certain percentage below the price the farmer locked in when the policy was purchased.

After harvest, insurance adjustors determine whether farmers have incurred a loss (caused by low yields, low prices, or both) and whether they are eligible for a payment.

White papers in the "Crop Insurance: How a Safety Net Became a Farm Policy Disaster" series

- Crop Insurance—The Corporate Connection
- Crop Insurance Ensures the Big Get Bigger
- How Crop Insurance Hurts the Next Generation of Farmers

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To read all of these white papers and for more information on the Land Stewardship Project's "Crop Insurance: How a Safety Net Became a Farm Policy Disaster" initiative, see: www.landstewardshipproject.org/organizingforchange/cropinsurance.

More information is also available by contacting **Mark Schultz**, **Land Stewardship Project Policy Program Director, at 612-722-6377 or marks@landstewardshipproject.org.**