Crop Insurance - US Says New Crop Insurance Plan Will Save $6B

AP Wire Service
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MINNEAPOLIS, MN (AP) – The U.S. Department of Agriculture released the final draft of a new crop insurance plan June 10 that it said will save the federal government about $6 billion over 10 years.

Agriculture Secretary Tom Vilsack said $4 billion of the savings would go toward deficit reduction, while $2 billion would be used to expand farm risk management programs and the popular Conservation Reserve Program, which pays landowners to take environmentally sensitive land out of production and convert it into wildlife habitat.

"There is a growing consensus in the country and certainly in rural areas that we need to be paying attention to the deficit, and this is our effort at agriculture and USDA to do our part in deficit reduction,'' Vilsack told reporters during a briefing in Washington. The program as currently structured would cost $29.5 billion over the coming 10 years. The changes would cut that to $23.5 billion. The projected savings are down, however, from the USDA's original proposal for an $8.4 billion reduction.

The new plan achieves its savings in large part by eliminating the kind of windfall government payments that were triggered by sharp commodity price spikes in recent years. It will do that by capping the administrative and overhead expenses crop insurance companies can collect. Agents can expect average commissions of $1,140 per policy, Vilsack said.

As it began the process of drafting the new plan, which will be in place for five years, the USDA had argued crop insurance companies were making excessive profits. The industry's return on equity in 2009 was 26.4 percent, the agency noted. The companies acknowledged doing well, but said they needed to maintain large reserves in case of widespread crop failures.

Vilsack said the new plan projects the long-term return for the companies at about 14.5 percent, which he called "a fair and reasonable rate of return that maintains the stability of the system.''

Crop insurance covers part of farmers' losses when crops fail and helps them get credit because lenders know they will be able to repay their loans. While participating farmers pay premiums, the government subsidizes the program to keep it affordable. Last year, it paid crop insurers $3.8 billion, more than double the $1.8 billion it paid in 2006.

Farmers' premiums won't go up under the new plan because they're fixed by Congress, Vilsack said. Some farmers may even pay lower premiums because the plan will introduce performance discounts, he said. Details still are being worked out but the incentives likely will be based on a farm's experience with the program and for keeping good records, said Bill Murphy, administrator of the USDA's Risk Management Agency.

Online: USDA Risk Management Agency: http://www.rma.usda.gov Crop Insurance in America industry site: http://www.cropinsuranceinamerica.org