

OVERVIEW:

FEDERAL

CROP

INSURANCE

Statement of Merritt W. Sprague, Manager
Federal Crop Insurance Corporation
U..S. Department of Agriculture
before the
ALASKA HOUSE & SENATE COMMITTEE ON RESOURCES
Juneau, Alaska
January 11, 1984

The crop insurance program administered by the Federal Crop Insurance Corporation (FCIC), and agency of the U.S. Department of Agriculture, is the first line of defense against the adverse economic impact of severely reduced crop production due to natural disasters. Crop insurance replaces many of the disaster payment programs of the past. It is the kind of user-supported program, making maximum involvement of private sector participation, that is favored by many in today's society.

The crop insurance program is expected by Congress to be conducted as a business which follows sound insurance practices and principles. It is designed to provide farmers with dependable, equitable protection that utilizes taxpayer's support in the most cost-effective manner possible.

In keeping with the mandates of the 1980 Federal Insurance Act, much progress has been made toward expanding participation, increasing number and adequacy of insurance offers, building a professional, well-trained delivery system, and developing an effective agency which meets its responsibilities in a timely and efficient manner.

Crop insurance premiums are almost entirely used to pay losses or build reserves to cover future catastrophic loss situations. The premiums are cost-shared by the U.S. Department of Agriculture to a maximum extent of 30 percent at the 65 percent coverage level. The administrative costs of the crop insurance program, including all expenses related to sales, loss adjustment, and operations of the FCIC, are paid from appropriated funds and in effect, are a further indirect subsidy to the program.

Even without state subsidy, the cost of crop insurance to the producer is often less than the cost of the seed planted. Crop insurance is a

high-value, reasonably-priced package of protection which each and every producer needs to fully consider.

The Federal Crop Insurance program seems particularly designed for and should be very useful to farmers in Alaska considering the known risks of crop production in the Alaskan areas presently producing field crops.

Mid-summer frosts, early fall rain during harvest, and the acquired taste for barley by Buffalo seems to occur with some regularity in at least the Delta Junction area where the major portion of our insurance experience has been. Federal Crop Insurance has, since the 1982 crop year, been able to help Alaskan farmers respond to these unavoidable risks to crop production in the Delta Junction and Matanuska Valley areas. Our 1983 program provided for protection from all of the natural risks on approximately 70 percent of the planted acres in the primary crop producing areas of the state. This was accomplished through a partnership between the Federal Crop Insurance Corporation and insured farmers -- both sharing in the premium costs.

As I indicated earlier, our current legislation provides for the Federal Government to participate in approximately 30 percent of the total premium payment. The intent of the proposed Alaska legislation is to provide this same premium partnership between the Alaska State Government and Alaskan farmers. This is a long range plan for a risk sharing partnership between Alaskan farmers and the legislative body which also created the legislation which provided for the development of cropland from forest ground. It is my understanding most of the area producing field crops (barley) has been developed from native forest land during recent years and much more cropland development is planned for the future.

It would be our intent that this long range partnership and risk management plan should not become a tax burden to the citizens in the great state of Alaska. Rather, this proposal would allow the Alaska State Government to make an annual investment in a three-way partnership along with Alaskan farmers and the Federal Government to help manage the considerable risks of growing field crops.

Today's crop insurance is greatly improved and can serve as a very important part of producer's risk management plan. Everyone would benefit from greater

participation; farmers most especially. Lenders are in greater numbers requiring crop insurance as a condition for farm operating loans because such insurance helps protect their investment in agriculture.

Crop insurance provides individual farmers significant help in resolving cash flow problems when production problems arise. This will further strengthen the local agricultural economies. For example, farmers will be able to meet financial obligations to the Alaska Revolving Loan Fund by insuring against crop loss due to natural hazards.

We in crop insurance have increased our level of commitment to Alaskan farmers as we have expanded the areas and crops insurable in Alaska effective for the 1984 crop year. During 1984, for the first time Federal Crop Insurance may be obtained by any Alaskan farmer producing wheat or oats, wherever they are located in the state, simply by letting us know his need.

The ultimate result of this proposed legislation will be to provide Alaskan State Government support for the tremendous efforts of individual Alaskan farmers to produce field crops on a commercial basis to meet future needs.

The FCIC will work with the State of Alaska to minimize administrative expenses associated with state support for crop insurance. The only required administrative costs to the state should relate to the preparation and transmission of payments by the state to FCIC on the behalf of Alaska producers.

In summary, the bill being discussed today should lead to greater participation by Alaska producers in the crop insurance program. The reduced cost to the producer should make it far more attractive to individual farmers. It will be a higher value package in relation to its cost.

Increased participation will mean that the needs of producers for risk management protection will be better met. This is particularly significant in view of the absence of other disaster payment programs. Also, increased risk protection for more Alaskan farmers will have a beneficial impact on other segments of your economy whose viability depends on a healthy agriculture.

The recent improvements in crop insurance contracts and operational procedures make crop insurance more attractive than ever to producers. The need for financial protection in uncertain economic times is greater than ever. As a result, high levels of participation in crop insurance are vital to the protection and maintenance of the modern agricultural economy. The bill, which would provide additional incentives to participation in crop insurance, should benefit all segments of Alaska society.

We, at FCIC, are committed to working with you in any appropriate fashion in what we consider to be a major initiative to help Alaska producers. We commend you for your foresight and efforts. I thank you for this opportunity to appear before the committee.

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARLISS STURGULEWSKI



POUCH V
STATE CAPITAL
JUNEAU, ALASKA 99811
(907) 465-3834
(907) 465-3835

Senate

Committee on Resources

MEMORANDUM

DATE: January 9, 1984

TO: Senate Resources Committee Members

FROM: Senate Resources Committee Staff

RE: Federal Crop Insurance Program

On Wednesday, January 11, at 3:00pm in the House Resources Committee Room (Room 118, Capitol), the Senate and House Resources Committees will be briefed on the Federal Crop Insurance Program.

The Federal Crop Insurance Program provides risk protection for crop producers nationwide. In effect since 1939, the program initially provided coverage on wheat, cotton, and flax. In 1980, Federal Crop Insurance was overhauled by the Federal Crop Insurance Act, which expanded the scope of the program, both in terms of crops insurable and areas insured, and authorized state participation in the program.

The current program protects against losses from natural disasters, freeze, wind, disease, drought, excess moisture and animal damage, and covers barley, oats, potatoes, forage, and nearly 30 other major crops. It essentially guarantees the farmer a certain income despite his actual crop yield. A guaranteed yield is determined based on average historical yields. Insurance coverage is provided on this guaranteed yield, which is limited to 50, 60, or 75% of the farm's average yield. In the event of a poor crop year, indemnities are paid on the difference between the producer's actual yield and his guaranteed yield. The settlement price, which is the dollar amount that will be paid on each bushel or pound that is not harvestable, is limited to 90% of the estimated harvest price.

Coverage of Delta area farmers' barley crop began with the 1981 crop year. (Coverage of the Pt. MacKenzie area and of oats and wheat is expected to begin in 1984.) During 1983, approximately 75% of the 12,000 Delta barley acres were insured, at an average insurance cost of \$12 per acre. Under the program, the federal government subsidizes 30% of each farmer's premium payment, on coverage of up to 65% of the farm's average yield. The 1980 Act authorized state participation in the program by allowing states to provide an additional subsidy (up to 30%) over and above the federal contribution.

Authorizing the State of Alaska to provide an additional 30% subsidy to Alaskan farmers would reduce the cost of crop insurance to the farmers, and since most farms are initially financed through the Agricultural Revolving Loan Fund, would conceivably help protect the state's collateral against natural disaster. The Division of Agriculture, Department of Natural Resources, estimates the cost to the state for its participation at \$140,000 for FY 85 (for the 1984 and 1985 crop years), \$80,000 for FY 86, and \$90,000 for FY 87. These figures are based on a total premium of \$12 per acre, with the state's share figured at \$4 per acre.

To date, Texas is the only other state to have introduced legislation that would authorize state participation in the Federal Crop Insurance Program.

RECORDS PROVIDED BY USDA 11/85

A CROP INSURANCE PRIMER

BACKGROUND

The Federal Crop Insurance Corporation (FCIC), some 45 years old, is the Federal agency charged with administering a nationwide crop insurance program which is the American producer's primary source of risk protection.

The program, initially very limited, was overhauled by the Federal Crop Insurance Act of 1980, which authorized crop insurance coverage of every commercially grown crop in the U.S., plus timber, livestock, and aquiculture. Today, crop insurance coverage is offered on over 30 major crops in 3,000 U.S. counties. Virtually all former "disaster crop" acreage is or soon will be covered.

HOW DOES IT WORK

A crop insurance policy can be designed to accommodate a producer's individual needs; more than 50 different coverage options are available.

YIELD GUARANTEES. The 1980 FCI Act limits crop insurance coverage to 75 percent of a producer's average yield. Crop insurance offers yield guarantees at 50, 65, or 75 percent of average yield.

Although the average yield on most crops is determined on an "area coverage" basis, FCIC's Board of Directors recently approved using a producer's actual production history as the sole basis for yield guarantees. Producers have often complained that area coverages are substantially lower than the production expectations on their farms, making crop insurance less desirable.

Actual production history will be used to determine guarantees on cotton and rice beginning in 1984; other insured crops will join the program by 1987.

PRICE SELECTIONS. A producer may select one of three different prices for his policy. Price selections are made for each crop by estimating the harvest price for the crop, and pegging the top value at 90 percent of that price. Price selections change annually and represent high, medium and low harvest price estimates.

PREMIUMS. Premiums are calculated to cover risk of loss and are adjusted periodically to account for changes in loss history. The FCI Act of 1980 requires that the crop insurance program be actuarially sound. To accomplish this, FCIC maintains a loss ratio (indemnities paid vs. premiums collected) goal of .90, with the remainder intended to cover catastrophic losses.

The Federal Government subsidizes producer premiums at 70 percent up to the 65 percent coverage level. The dollar subsidy at the 75 percent coverage level remains the same, but the percentage is understandably lower.

INDEMNITIES. Indemnities are paid whenever the producer's actual yield falls below his yield guarantee. The difference between the two yields is multiplied by the price election and the number of acres insured. The result is the indemnity due.

HAIL-FIRE OPT OUT. A producer carrying private hail-fire coverage may exclude such coverage from his policy and receive a commensurate premium reduction. Private hail-fire coverage, however, must be in an amount equal to or greater than that which would be provided under an FCIC policy.

CROP INSURANCE-POLICIES. Crop insurance policies are continuing contracts which renew automatically unless specifically cancelled in writing by the insured or insurer. Unpaid premiums may result in the cancellation of a policy if the account is not settled by a predetermined "termination date."

HOW IS IT DELIVERED

The FCI Act of 1980 established a dual delivery system for crop insurance, with each system utilizing the insurance resources of the private sector.

MASTER MARKETERS. General Sales and Service Agencies (known as Master Marketers) with at least 25 agents contract with FCIC to write policies on FCIC paper. Master Marketers provide management, supervision, contract servicing and quality control, and the Federal Government compensates the agencies on a commission basis.

Training for Master Marketing agents is provided by FCIC, and all such agents must be licensed and certified in the crops they intend to sell.

Additionally all loss adjustment functions on master marketer policies are carried out by FCIC.

REINSURED COMPANIES. Under this system, private Multi-Peril Crop Insurance Companies write crop insurance policies under their own brand names, but in identical terms and conditions as Master Marketers. The Federal Government reinsures the private companies against catastrophic loss and compensates them for sales and loss adjustment functions.

Reinsured companies provide marketing, distribution, servicing, training, quality control, premium collection and loss adjustment functions.

ASCS. In a small number of counties with marginal agricultural activity, ASCS will continue to provide crop insurance sales and service. As private delivery systems become available in these counties, it is anticipated that ASCS activity will be phased out.

SHARE OF BUSINESS. As more private companies handle the crop insurance line, the share of business written by reinsured companies will continue to grow. In crop year 1982, when relatively few MPCIC companies were writing crop insurance, reinsured companies accounted for only 20 percent of FCIC's total book of business. Although final crop year 1983 figures are not yet in, it is estimated that the reinsured share will increase to approximately 35 percent. For 1984, we expect reinsurance to continue to grow and account for approximately 45 percent of all crop insurance business.



TO: Interested Parties

FROM: Manager

SUBJECT: State Participation in Federal Crop Insurance

Background:

The Federal Crop Insurance Act, as amended October 1, 1980, provides under Section 508(b) (5) that:

"The Board (of Directors) may enter in to agreements with any State or agency of a State under which such State or agency may pay to the Corporation additional premium subsidy to further reduce the portion of the premium paid by farmers in each State."

Discussion:

There are presently four methods available to the Corporation to accommodate states desiring to participate in this program:

1. The State could make direct payments to the producers for a specified share of the farmer-paid portion of his premium which is paid to the Federal Crop Insurance Program. This would be in the form of a State "refund" for a pre-determined portion of that premium.
2. The State could provide tax credits for participating farmers on its State Income Tax returns. This would be regulated strictly within each State and would have no direct Federal connection other than added incentive.
3. The Federal government could bill each cooperating State for its share of the additional payment--to be determined initially by each State--at the time the acreage reports are processed and the extent of farmer participation in each State is determined for the crop year.
4. The State could offer the entire insurance plan and FCIC or a Federal agency could act as a reinsurer and share in the cost to a pre-determined extent.



Conclusion:

The Corporation will provide any information needed by states participating in this program in order to facilitate the process and will work directly with State officials to meet their particular needs. Following is an example of the Cooperation's work with officials to establish a program in their State:

A State wished to explore the possibility of providing assistance to farmers. Officials contacted us and asked that we provide estimated premium volume in their State for the current and two succeeding years. They selected option 3 as their preferred method of compensating insured farmers. At their request, we met with budget personnel and the Comptroller of that State to assist them in arriving at dollar needs over the next two years and determining the mechanism and frequency of billing for amounts due the Corporation. We also offered suggestions concerning courses of action in the event that demand exceeded funds available. At this point in time a bill is now before the State Legislature for consideration.



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

Spokane
Field Actuarial
Office

N. 112 University Rd.
Suite 200
Spokane, Washington 99206

535-6641

To: Merritt W. Sprague, Manager
FCIC, Washington, D. C.

August 25, 1983

Attention: Dennis Lynn, Comptroller

Subject: Alaska Proposed Legislation
(Conversation Knox -- J. W. Ellis)


With regards to the proposed Congressional Affairs and Legislation Division of FCI meeting with Alaskan agriculture officials to explain the advantages of Alaskan legislation subsidizing premiums paid by farmers, it has come to our attention that specific crop acreage, yields, and historical data is unavailable to your office as Alaska does not have a strong data bank of such information as it is "new" on the agriculture scene.

The attached information was put together using existing Alaska Statistical Reporting Service (SRS) data, present insurance premium rates, participation levels, and the following assumptions:

1. FCI Management will approve additional crops for insurance purposes in Alaska 1982-1990.
2. Alaska cropland eligible for insurance purposes will expand at the rate of 10 percent per year 1982-1990 inclusive.
3. Projected actuarial information, i.e. percent of participation, production guarantee's, settlement price election, and crop premium rates are based upon existing programs and projected risk rate levels as viewed by SFAO Director Knox.

With regards to data shown on attachment 5, base year of 1981 was used as it more closely fits the "norm" than 1982 due to extreme climatic conditions during 1982 crop year.

If Mr. Lynn, or one of his staff, has any questions with regards to this situation or wishes further verification, please contact Mr. Knox.


Leroy F. Knox
Director

Attachments (5)



The Federal Crop Insurance
Corporation is an agency of the
Department of Agriculture

BARLEY - ALASKA 1975-1981
(Total State Acres through 1982)

District	Year	Area Planted Acres	Area Harvested for Grain				Production Cwt.	Value (000)
			Acres	Yield Bu.	Yield Bu.	Production (000)		
Tanana Valley	1975	300	250	21.7	5.4	2,600	23.4	
	1976	157	175	34.3	6.0	2,900	26.0	
	1977	1,350	1,300	47.6	61.9	29,700	240.0	
	1978	2,500	2,450	33.9	83.1	39,900	310.0	
	1979	4,400	4,080	45.6	186.0	89,300	536.0	
	1980	12,500	10,600	29.2	309.6	148,600	904.0	
	1981	15,600	5,800	32.9	191.0	91,700	774.0	
Matanuska Valley	1975	1,200	1,200	52.4	62.9	30,200	255.0	
	1976	1,175	1,125	54.2	61.0	29,300	235.0	
	1977	1,720	1,300	49.3	64.1	30,800	239.0	
	1978	1,710	1,550	43.2	66.9	32,100	260.0	
	1979	2,050	1,720	58.7	101.0	48,500	325.0	
	1980	1,400	900	32.7	29.4	14,100	113.0	
	1981	900	700	38.6	27.0	13,000	120.0	
Kenai Peninsula	1975	100	50	33.3	1.7	800	8.6	
	1976	50	-	-	-	-	-	
	1977	30	-	-	-	-	-	
	1978	90	-	-	-	-	-	
	1979	50	-	-	-	-	-	
	1980	100	-	-	-	-	-	
	1981	-	-	-	-	-	-	
State Total	1975	1,600	1,500	47.0	70.0	33,600	287.0	
	1976	1,400	1,300	51.5	67.0	32,200	261.0	
	1977	3,100	2,600	48.5	126.0	60,500	479.0	
	1978	4,300	4,000	37.5	150.0	72,000	570.0	
	1979	6,500	5,800	49.5	287.0	137,800	861.0	
	1980	14,000	11,500	29.5	339.0	162,700	1,017.0	
	1981	16,500	6,500	33.5	218.0	104,700	894.0	
	1982	8,500						

OATS - ALASKA 1975-1981
(Total State Acres through 1982)

District	Year	Area Planted Acres	Area Harvested for Grain				Value (000)
			Acres	Yield Bu.	Bu.	Production Cwt.	
Tanana Valley	1975	3,000	250	37.2	9.3	3,000	24.5
	1976	2,900	250	39.2	9.8	3,100	24.5
	1977	1,500	300	44.8	13.4	4,300	35.5
	1978	2,000	450	48.6	21.9	7,000	57.5
	1979	400	150	54.2	8.1	2,600	19.0
	1980	2,100	450	42.9	19.3	6,200	52.0
	1981	5,100	300	47.7	14.3	4,600	39.0
Matanuska Valley	1975	900	150	50.0	7.5	2,400	19.5
	1976	700	50	43.8	2.2	700	5.5
	1977	800	100	62.0	6.2	2,000	15.5
	1978	600	150	45.8	6.9	2,200	21.5
	1979	500	150	50.0	7.5	2,400	22.0
	1980	600	150	45.3	6.8	2,200	29.0
	1981	600	200	37.0	7.4	2,400	26.0
Kenai Peninsula	1975	400	-	-	-	-	-
	1976	400	-	-	-	-	-
	1977	500	-	-	-	-	-
	1978	500	-	-	-	-	-
	1979	300	-	-	-	-	-
	1980	400	-	-	-	-	-
	1981	300	-	-	-	-	-
State Total	1975	4,300	400	42.0	16.8	5,400	44.0
	1976	4,000	300	40.0	12.0	3,800	30.0
	1977	2,800	400	49.0	19.6	6,300	51.0
	1978	3,100	600	48.0	28.8	9,200	79.0
	1979	1,200	300	52.0	15.6	5,000	41.0
	1980	3,100	600	43.5	26.1	8,400	81.0
	1981	6,000	500	43.5	21.7	7,000	65.0
	1982	3,200					

POTATOES - ALASKA 1975-1981
(Total State Acres through 1982)

District	Year	Area		Production	
		Harvested Acres	Yield Cwt.	Cwt.	Value (000)
Tanana Valley	1975	120	125	15,000	210.0
	1976	95	108	10,300	135.0
	1977	95	103	9,800	123.0
	1978	125	135	16,900	223.0
	1979	110	159	17,500	254.0
	1980	95	129	12,300	247.0
	1981	80	110	8,800	191.0
Matanuska Valley	1975	390	230	89,700	1,038.0
	1976	400	196	78,500	927.0
	1977	405	253	102,300	1,163.0
	1978	300	205	61,500	688.0
	1979	330	190	63,800	745.0
	1980	340	184	62,700	1,176.0
	1981	395	204	80,500	1,591.0
Kenai Peninsula	1975	20	200	4,000	56.0
	1976	15	147	2,200	30.0
	1977	20	145	2,900	37.0
	1978	25	105	2,600	21.0
	1979	20	185	3,700	47.0
	1980	25	80	2,000	40.0
	1981	25	228	5,700	118.0
State Total	1975	530	205	108,700	1,304.0
	1976	510	178	91,000	1,092.0
	1977	520	222	115,000	1,323.0
	1978	450	180	81,000	932.0
	1979	460	185	85,000	1,046.0
	1980	460	167	77,000	1,463.0
	1981	500	190	95,000	1,900.0
	1982	480			

FORAGE
ALL HAY - ALASKA 1975-1981
(Total State Acres through 1982)

District	Year	Area		Production	
		Harvested Acres	Yield Tons	Tons	Value (000)
Tanana Valley	1975	4,600	1.72	7,900	979.0
	1976	4,350	1.56	6,800	788.0
	1977	3,600	1.39	5,000	635.0
	1978	3,850	1.53	5,900	711.0
	1979	3,000	1.03	3,100	380.0
	1980	4,900	.86	4,200	580.0
	1981	6,200	1.39	8,600	1,317.0
Matanuska Valley	1975	7,600	1.45	11,000	1,420.0
	1976	7,350	1.33	9,800	1,268.0
	1977	6,570	1.92	12,600	1,670.0
	1978	6,600	1.80	11,900	1,578.0
	1979	6,200	1.73	10,700	1,420.0
	1980	6,250	1.34	8,400	1,160.0
	1981	6,200	1.55	9,600	1,595.0
Kenai Peninsula	1975	2,050	1.17	2,400	370.0
	1976	1,900	1.00	1,900	255.0
	1977	2,030	1.43	2,900	462.0
	1978	1,650	1.52	2,500	349.0
	1979	1,400	1.29	1,800	232.0
	1980	1,450	1.38	2,000	300.0
	1981	1,900	1.00	1,900	304.0
Southwest <u>1/</u>	1975	150	.67	100	13.0
	1976	100	1.00	100	14.0
	1977	100	1.00	100	14.0
	1978	100	1.00	100	14.0
	1979	200	1.00	200	22.0
	1980	200	2.00	400	60.0
	1981	100	1.00	100	16.0
State Total	1975	14,400	1.49	21,000	2,782.0
	1976	13,700	1.36	18,600	2,325.0
	1977	12,300	1.67	20,600	2,781.0
	1978	12,200	1.67	20,400	2,652.0
	1979	10,800	1.46	15,800	2,054.0
	1980	12,800	1.17	15,000	2,100.0
	1981	14,400	1.40	20,200	3,232.0
	1982	13,100			

1/ Includes Southeast.

Cr/Yr	Acres	80% Insured	Bushel Guarantee	Settlement Price Election	Premium Rate	Projected Premium Subsidy
<u>Barley</u>			30	\$2.60	.20	.30
1981	16,500	13,200	396,000	\$1,029,600 Liability		\$ 62,000
1985	24,000	19,200	576,000	1,497,600 Liability		90,000
1990	38,700	30,960	928,800	2,414,880 Liability		145,000
<u>Oats</u>			50	\$1.70	.20	.30
1981	6,000	4,800	240,000	\$ 408,000 Liability		\$ 24,500
1985	8,800	7,000	352,000	598,400 Liability		35,900
1990	14,200	11,400	568,000	965,600 Liability		58,000
<u>Potatoes</u>			150 Sacks	\$4.00	.25	.30
1981	500	400	60,000	\$ 240,000 Liability		\$ 18,000
1985	800	640	96,000	384,000 Liability		28,800
1990	1,300	1,040	156,000	624,000 Liability		46,800
<u>Forage (All Hay)</u>			.8 Tons	\$45.00	.25	.30
1981	14,400	11,520	9,200	\$ 414,000 Liability		\$ 31,000
1985	21,000	16,800	13,440	604,800 Liability		45,400
1990	33,800	27,040	21,600	972,000 Liability		72,900
<u>Total Acres -- all 4 crops</u>				Total Projected Premium Subsidy - all 4 crops (based on our expansion assumptions)		
1981	37,400			1981		\$135,500
1985	54,600			1985		200,100
1990	88,000			1990		322,700

\$12.50

13.60

10.90

7.20