Appendix I

The Federal Multiple-Peril Crop Insurance Program

Although the Federal multiple-peril crop insurance program has experienced many changes over time, it has existed in one form or another since 1938. The program currently covers about 60 crops, although not all crops are covered in all locations. The crop policies that USDA's Risk Management Agency developed provide protection against most naturally occurring perils, including drought, floods, hail, high winds, and other catastrophes. All major field crops (such as corn, wheat, and soybeans) are covered against yield losses due to natural perils. The coverage of fruit, vegetable, and nut crops has expanded over time, although livestock are not currently covered.

A farmer's coverage level is based on his or her historical average yield per acre. The farmer can select coverage at up to 75 percent of the farm's historical yield, and at up to 100 percent of the projected season average price. If the farmer has a 100-bushel historical yield for his or her corn crop, for example, and chooses the 65-percent coverage level at 100 percent of the price election, he or she is guaranteed a yield of 65 bushels per acre. Suppose that drought reduces the farmer's yield to 50 bushels per acre. For each bushel of loss below 65 bushels (that is, 15 bushels in this example), the producer receives a payment at a rate of 100 percent of the projected price.

Policies are typically sold through private insurance companies, and farmers pay a premium for coverage, except at the catastrophic coverage level (see discussion below). The Federal government subsidizes farmer premium costs, reimburses private companies for their selling costs, reinsures policies sold by private companies (shares in the risk of loss), and pays any excess losses incurred by the program (in disaster years when indemnities exceed premiums).

During the 1980's, participation in the Federal crop insurance program averaged less than 30 percent of eligible acreage. In part due to low crop insurance participation, *ad hoc* disaster was enacted in response to the major drought that occurred in 1988. *Ad hoc* assistance provided similar coverage to Federal crop insurance, but did not require a premium payment. It was available for virtually all crops (unlike crop insurance), and covered 1988-94 crop losses. In many cases, producers who experienced yield losses received a payment under both the crop insurance and *ad hoc* disaster assistance programs. This dual system of insurance and disaster assistance was considered to be costly and inefficient.

As a result, a major overhaul of the program occurred in October 1994, when the President signed into law the Federal Crop Insurance Reform Act. This legislation made future outlays for emergency crop losses (*ad hoc* disaster assistance) "on-budget," requiring an offset in spending if passed. In addition, a "catastrophic" level of coverage was introduced that provided a basic level of coverage for a processing fee but no premium payment. In prior years, producers were required to pay a premium for all levels of coverage, ranging from a minimum of 50-percent yield coverage to a maximum of 75-percent. The reformed program was put in place for 1995 spring-planted crops.

More specifically, the Reform Act designates two categories of crop insurance coverage: the catastrophic (or CAT) level, and "buy-up" coverage, which refers to any purchase above CAT. CAT-level insurance provides producers with 50-percent yield coverage at 60 percent of the expected season average price. The producer cost is a $50 processing fee per county per crop, up to a maximum of $600 in total (for all counties in which a producer may farm and for all of the producer's crops). As specified in the regulation implementing the Reform Act, the fee is waived for limited-resource farmers (see the Limited-Opportunity Farm Operator Households section for more explanation).

"Buy-up" coverage requires a processing fee and a premium payment and is available at up to 75-percent yield coverage. Price protection is available at up to 100 percent of the expected season average price. The average premium subsidy at 65-percent yield coverage is 42 percent, higher than the 30 percent available under the pre-reform program.

A Non-insured Assistance Program (NAP) is provided for crops not covered by crop insurance. NAP offers coverage similar to CAT coverage, but requires a 35-percent area loss to be met for individual payments to trigger. An area can be defined as a county, a geographic parcel encompassing at least 320,000 acres, or a parcel accounting for a crop value of at least $80 million. For producers to be eligible for NAP, they are required to sign up (reporting their acreage and past yields) before the beginning of the season. There is no cost to the producer for NAP coverage. NAP is not available for a crop in a

county if crop insurance is offered for that crop in that county.

The reform program is designed to reduce the likelihood of *ad hoc* disaster assistance and crop insurance payments on the same loss, while increasing the number of producers covered in the aggregate. The 1994 act required that producers obtain at least CAT coverage to be eligible for deficiency payments, commodity loans, or extended Conservation Reserve Program (CRP) contracts. With the 1996 act, "linkage" was modified, and now farmers who wish to remain eligible for other USDA benefits must obtain CAT or higher levels of coverage or sign a waiver forgoing any future emergency crop loss assistance. Both "linkage" and "modified linkage" provisions, as well as the higher subsidies associated with the reform program, have substantially increased participation in the Federal crop insurance program.

During the 1990's, new risk management programs have emerged that provide new types of risk protection to producers. The "Group Risk Plan" (GRP), first offered on a pilot basis in 1993 for soybeans, pays producers an indemnity when the county yield for the insured crop falls below a pre-set level. It is most effective for farmers whose yields are highly correlated with county-level yields. USDA's Risk Management Agency administers GRP and subsidizes the program similar to the standard crop insurance program.

In the spring of 1996, two new revenue insurance programs were introduced on a pilot basis for selected crops. Revenue insurance policies provide farmers with protection against low yields, low prices, or both. Rather than using a yield guarantee, as in the example above, the producer's guarantee is based on his or her average historical yield multiplied by the expected harvest-time price. Indemnities are paid when the producer's actual yield, multiplied by the actual harvest-time price, falls below the guarantee. These new types of programs expand the types of risk protection available to producers, and allow producers to choose among options that will help them best manage the risk associated with their operation.

Multiple-Peril Crop Insurance is available for the following crops:

Almonds
Apples
Avocado Trees
Barley
Blueberries
Canning Beans
Canola
Carambola Trees
Citrus
Citrus Trees
Corn
Cotton
Cotton, Extra Long Staple
Cranberries
Dry Beans
Dry Peas
Figs
Flax
Forage Production
Forage Seeding
Grain Sorghum
Grapes
Green Peas
Hybrid Corn Seed
Hybrid Sorghum Seed
Mango Trees
Macadamia Nuts
Macadamia Trees
Millet
Nursery
Oats
Onions
Peaches
Peanuts
Pears
Peppers
Plums
Popcorn
Potatoes
Prunes
Raisins
Rice
Rye
Safflower
Soybeans
Stonefruit
Sugar Beets
Sugarcane
Sunflowers
Sweet Corn
Table Grapes
Tobacco
Tomatoes
Walnuts
Wheat

Multiple-Peril Crop Insurance is not available for all crops in all counties.