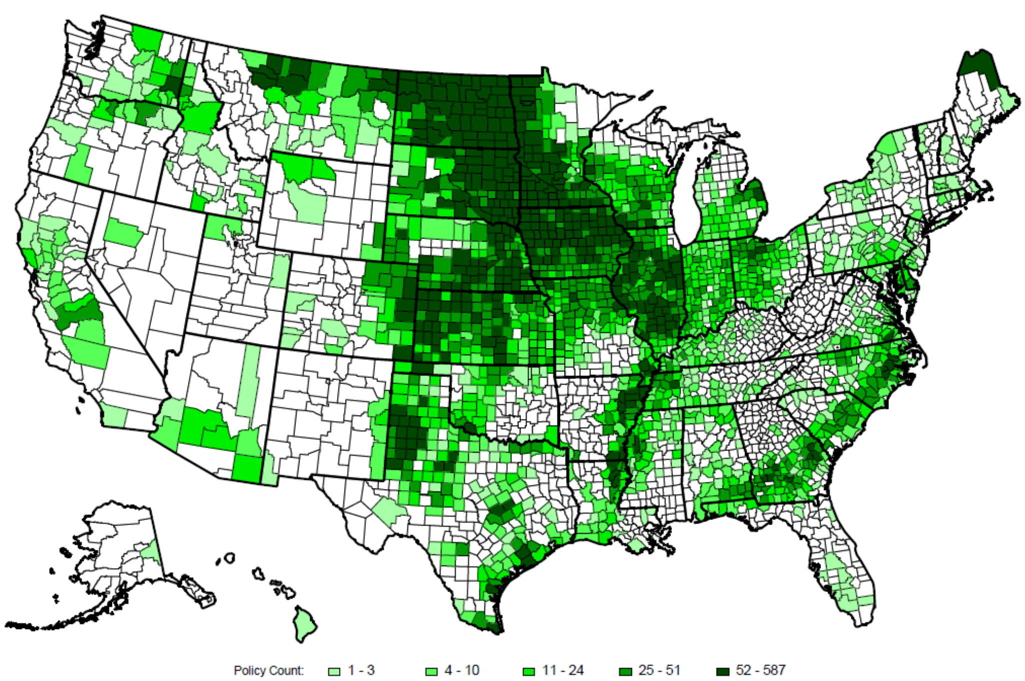
MYTH: Crop insurance makes it more difficult for beginning farmers and ranchers to enter the farming business.

FACT: The 2018 Farm Bill maintained and expanded provisions to make crop insurance an even better risk management tool for beginning farmers and ranchers.

More than 16,600 farmers used the beginning farmer and rancher benefits in crop insurance in reinsurance year 2018.

- These farmers insured more than 4.2 million acres of farmland.
- The beginning farmer and rancher benefits include a higher premium discount as well as assistance in more quickly building a yield history in line with what the land produced prior to being operated by a beginning farmer or rancher.
- Almost every single state already has beginning farmers and ranchers utilizing these benefits.
- The ability of beginning farmers and ranchers to purchase crop insurance can be linked to their ability to obtain credit as well.

BEGINNING FARMER AND RANCHER POLICIES BY COUNTY
REINSURANCE YEAR 2018



Source: Risk Management Agency, USDA

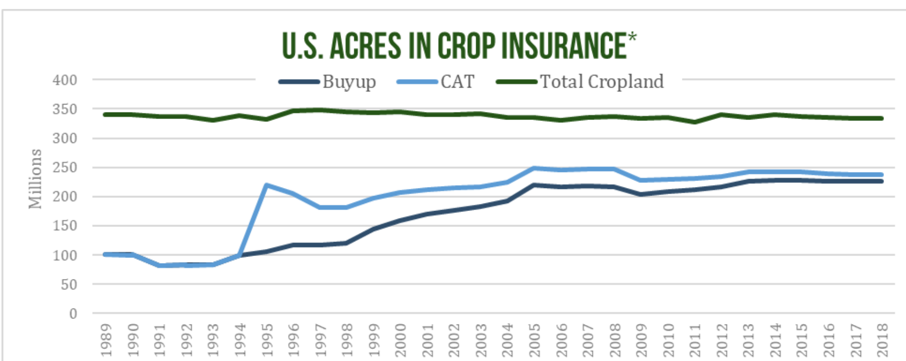
MYTH: Crop insurance encourages farmers to tear up ground.

FACT: Overall, acres in production and erosion have decreased. Additionally, the 2014 Farm Bill expanded the conservation compliance provisions and Sodsaver provisions.

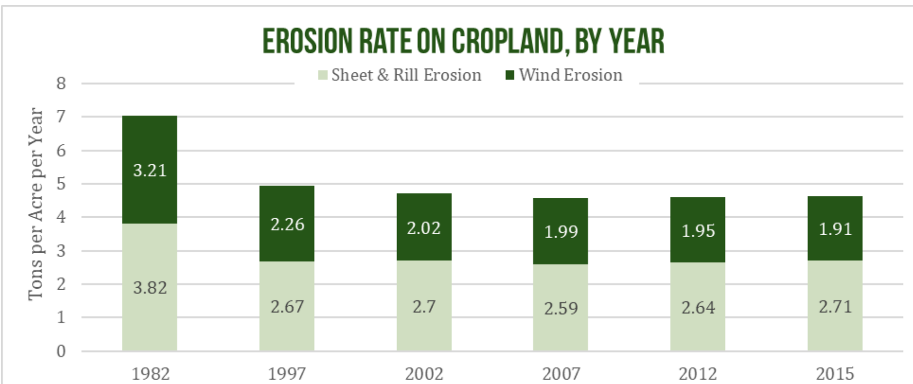
Farmers must be in compliance with highly erodible land conservation and wetland conservation provisions. They must certify that they will not:

- Produce an agricultural commodity on highly erodible land without a conservation system;
- Plant an agricultural commodity on a converted wetland; or
- Convert a wetland to make possible the production of an agricultural commodity.

- These compliance provisions have been linked to the ability to receive commodity programs since 1985, but the 2014 Farm Bill relinked those provisions with eligibility for premium support paid under the federal crop insurance program.
- In addition, the 2014 Farm Bill expanded a Sodsaver provision which reduces the federal crop insurance premium discount available to landowners by 50 percent for four years on any lands they convert from native prairie to cropland.
- The charts below tell an entirely different story than the myth suggests. The number of acres covered by crop insurance has more than tripled since the 1980's—from less than 100 million acres to more than 300 million acres today, while overall crop acreage has decreased. Over the same time period, USDA's Natural Resources Inventory shows cultivated cropland has dropped from 376 to 309 million acres. In addition, erosion has decreased significantly over that time period.



Source: Risk Management Agency, Economic Research Service, USDA | *Excludes PRF



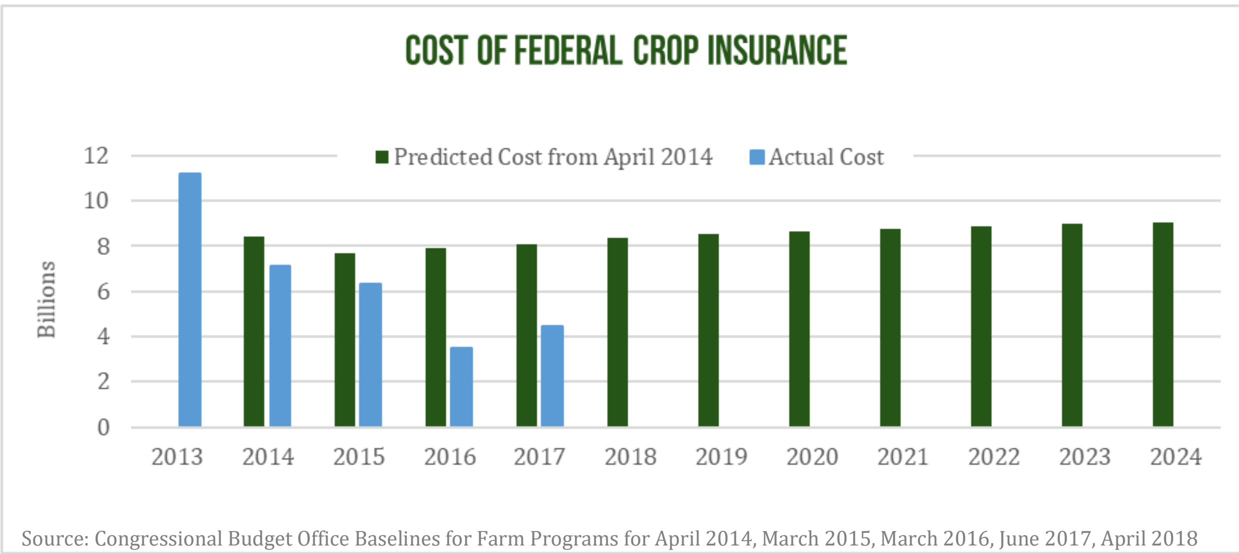
Source: National Resources Conservation Service, National Resources Inventory

MYTH: Crop insurance is over budget.

FACT: Crop insurance costs are currently well below budget.

Annual crop insurance costs peaked in 2013 at $11 billion, due largely to the devastating 2012 drought combined with the high value of crops at the time.

- According to the first CBO estimates provided after passage of the 2014 Farm Bill, the actual cost of crop insurance has been almost $10.7 billion under budget between 2014 and 2017.



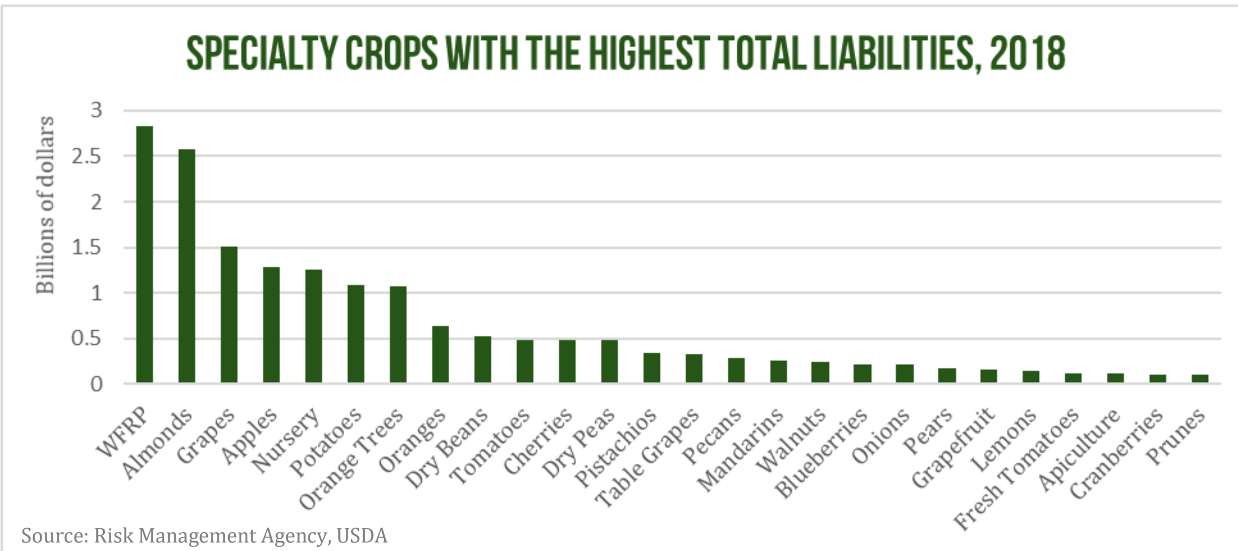
- Crop insurance has consistently been under budget, but a couple of clarifying points on the budget:
  - First, there are a number of farm programs that are not crop insurance. Crop insurance is, by statute, an actuarially sound program that farmers pay for out of their own pockets and is delivered efficiently and effectively by the private sector.
  - The cost of crop insurance is driven not only by disasters, but by the cost of commodities. Just like with any insurance, the more valuable the item being insured, the more expensive the insurance will be. As the value of commodities rise and fall, so too will the cost to insure them.
  - The cost of crop insurance can also be reduced by underwriting gains achieved by the government in years of good performance with lower losses.

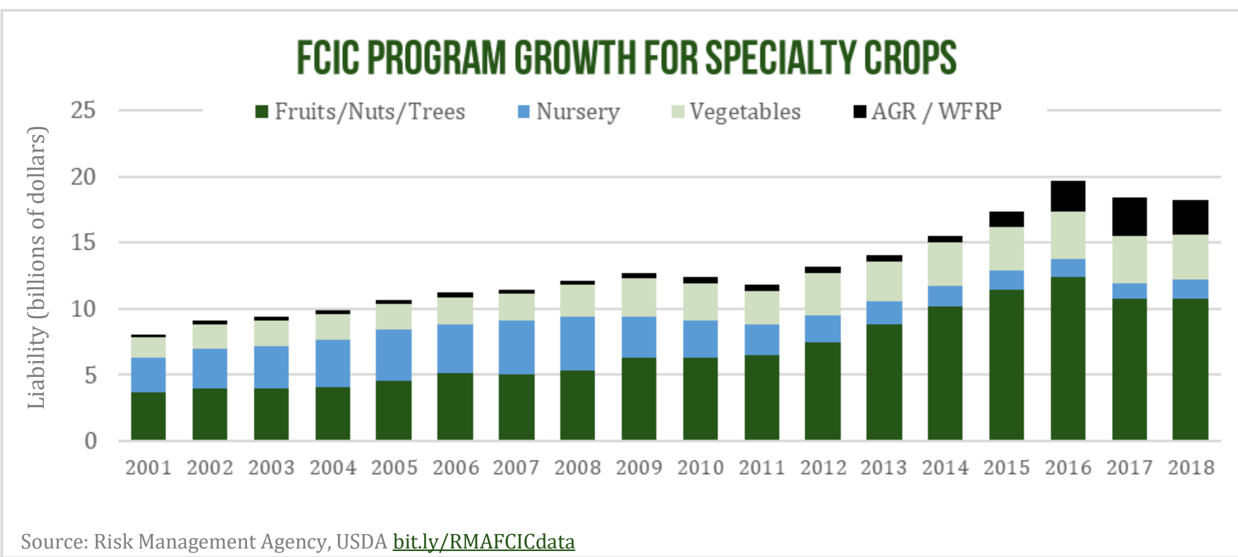
MYTH: Crop insurance is only for big corn, soybean, wheat and cotton farmers.

FACT: Crop insurance is available for more than 125 crops and to farmers of all sizes and in all 50 states.

The number of acres of fruit, vegetables and other specialty crops covered by crop insurance increased from 7.7 million acres in 2009 to about 9 million acres in 2017. That's an increase of 8 percent in just 8 years.

- Many specialty crops are insured at rates similar to row crops such as corn, soybeans, wheat and cotton. For example, 76% of apple and almond acres are insured, as well as 81% of cranberries.*





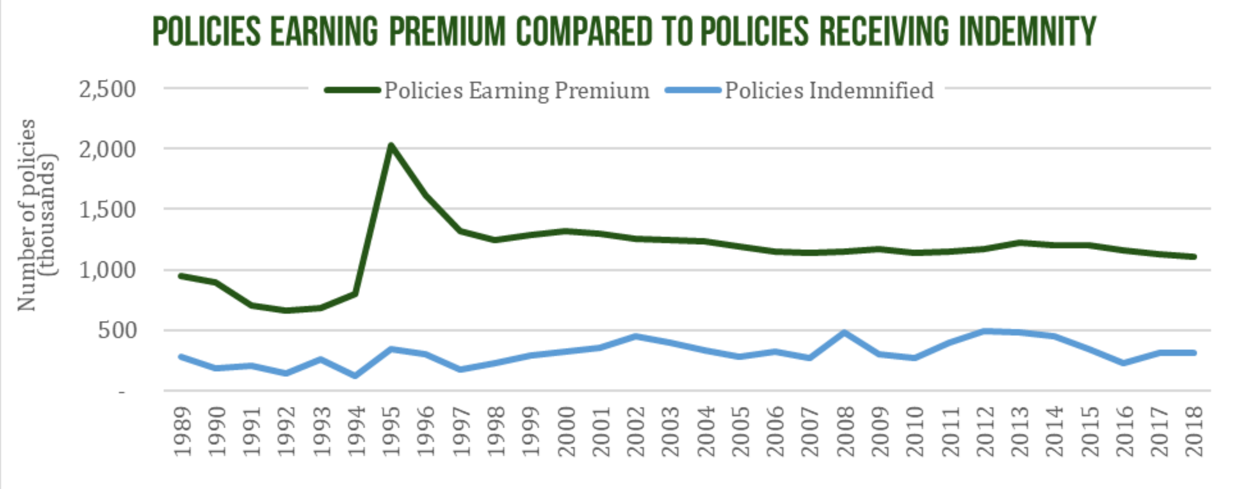
* Risk Management Agency, USDA

For more information, visit CropInsurance.org

MYTH: Crop insurance doesn't even require a farmer to have a loss.

FACT: Crop insurance requires a deductible to be met before a payment is made. Losses must be verified by certified adjusters before payments are made, and these payments are subject to audits.

First and foremost, farmers must have a loss to receive assistance. The vast majority of farmers who purchase crop insurance policies do not receive payments.



Source: Risk Management Agency, USDA. bit.ly/RMApremiumdata

- **The average deductible for crop insurance policies sold is 27 percent**, which means a farmer must lose 27 percent of their crop or the value of their crop before they receive any benefit from crop insurance.
- **Even if a farmer does not meet this deductible, they must still pay their premium.**
- Crop insurance can be broken down into two types of products: those based on the farm and those based on county numbers.*
    - In the first type, the farmer actually purchases coverage for his or her individual farm. For these types of products, farmers must meet a minimum deductible of 15 percent. This type of coverage is often costly, so it is common for farmers to purchase insurance with larger deductibles.
    - For traditional county-based products, farmers purchase insurance based on whether or not area-average yields or revenues are below a ten-year average. This product is typically less expensive and is more difficult to use as collateral for loans because a farmer could experience an actual loss on the farm and still not receive a payment. The minimum deductible for this product is 10 percent. Less than 1 percent of all policies earning premium in 2018 were traditional area-based plans.†

* There are pilot programs based on rainfall instead of yields or revenue, farmers pay a premium whether or not they receive an indemnity, and rainfall is scientifically measured by USDA.
† Risk Management Agency, USDA

MYTH: Disaster assistance would be better and cheaper than crop insurance.

FACT: Crop insurance provides certainty to farmers (and their lenders) that ad hoc disaster assistance can never provide. Crop insurance payments are also timely, unlike ad hoc disaster payments which often come years after a loss. The cost of crop insurance versus ad hoc disaster assistance is difficult to compare because ad hoc disaster assistance packages vary significantly. They can cover different commodities and different types of losses.

Farmers and ranchers (and their lenders) know going into any given year what their crop insurance coverage is going to be. Ad hoc disaster assistance can never provide that certainty.

- If a farmer has a loss, they will typically receive a crop insurance payment within 30 days of a claim being finalized through an efficient private-sector delivery system, whereas ad hoc disaster assistance can often take years after a disaster before a farmer receives a payment.

- In some cases, ad hoc disaster packages have not even required a farmer or rancher to prove a loss. They have often just required a farmer to grow a specific crop or be in a specific region of the country, and yet could exclude actual losses to other crops in other regions.

- Several studies have attempted to compare various ad hoc disaster packages to the cost of crop insurance. However, these analyses have several flaws that a critical eye should consider.

    - First, it's important to take into account the commodities covered in ad hoc disaster assistance analysis. In some cases, ad hoc disaster assistance will provide assistance to a few hard-hit commodities. For example, the 2010 disaster package only covered upland cotton, rice, soybean and sweet potato losses from excessive moisture. Crop insurance, on the other hand, provides coverage to more than 125 commodities every single year, and covers a variety of types of losses.

    - Second, it's important to take into account what prices were used in any analysis comparing crop insurance to disaster assistance. Comparing crop insurance's most expensive year (2013) to ad hoc disaster payments a decade ago is not a useful analysis. Market prices for commodities in 2013 were in some cases double those from five or ten years prior. As commodity prices have decreased, so too has the cost of crop insurance.

    - Finally, it's important to take into account what other farm programs were in existence when ad hoc disaster packages were more prevalent. Recent years have seen significant cuts to the farm safety net, which makes crop insurance even more critical to farmers.

MYTH: Most agricultural production comes from large farms that can manage their own risk. Besides, farm household income is up and crop insurance payments are only a small portion of total farm household income so they must not matter.

FACT: Farmers of all sizes use crop insurance, and crop insurance provides meaningful collateral to lenders when farmers seek operating capital.

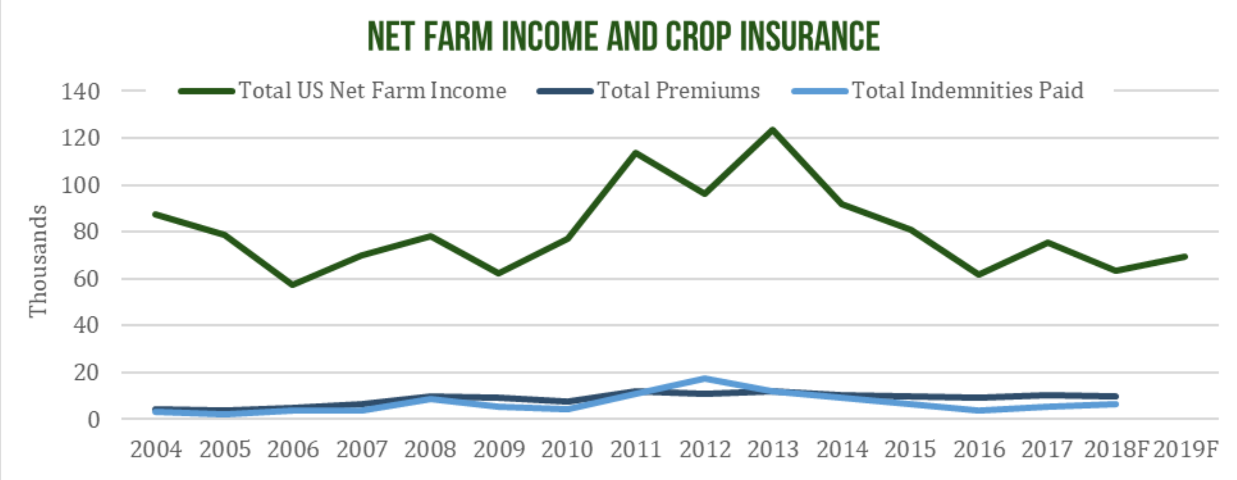
Since 2014, average U.S. farm household income has decreased by 14%. The main cause of this decline is reduced income from farming operations as a share of total farm household income. In fact, net farm income for 2019 is forecasted to be down by 44% from its 2013 levels.

- During this downturn, crop insurance is even more important to farmers who are looking to lenders for the operating capital required to continue to farm. Lenders look at crop insurance as a form of collateral for an operating loan, and it can enhance a prospective borrower's capacity to qualify for a loan.

- Although crop insurance payments are a small percent of some farmers' overall household income, in times of crop loss and economic downturn, receiving a crop insurance indemnity payment can make the difference between being able to continue farming for another year or not.

- Crop insurance enables farmers, both big and small, to manage their risk in a way that helps them invest in and improve their operations. Many farmers would not be able to afford to do this if they were forced to self-insure and could not qualify for loans.

- Including farms of all sizes in the crop insurance program diversifies the risk of the program across a greater number and variety of farms, which improves the actuarial soundness of the overall program. This soundness is a benefit to all, including taxpayers.



Source: USDA, ERS-Farm Income and Wealth Statistics & RMA-National Summary of Business Report

MYTH: Harvest price coverage eliminates all risk from farming and is unnecessary.

FACT: Even with the harvest price coverage, farmers must meet a deductible for loss and pay a premium for coverage. Risk still exists for these farmers. The harvest price coverage simply provides these farmers with the replacement value for their lost crop.

The harvest price coverage in crop insurance policies provides protection on lost production at the higher of the price projected just before planting time or the price at harvest.

- There are two very practical and common scenarios in agriculture that make harvest price coverage a critical risk management tool.
  - Harvest price coverage is critical to farmers who use forward contracting as another means of mitigating their risk. If there is a natural disaster that results in a large drop in production of a commodity, the price of that commodity is likely to increase sharply. Many farmers enter forward contracts before harvest to sell a portion of their production at a set price. Usually these contracts pay the farmer for the production they deliver after harvest based on harvest prices. If the farmer loses the crop, they are still obligated to deliver under the forward contract. But since the crop is lost, the farmer would have to buy the commodity on the open market at the harvest price or financially settle at the harvest price in order to meet the obligations of their contract. The purpose of harvest price coverage is to provide the farmer with sufficient funds to settle the forward contract, because without the harvest price coverage, the farmer's loss would be indemnified at the lower price projected at the start of the season.
  - Harvest price coverage is critical to livestock producers who grow their own feed. Harvest price coverage ensures these farmers will have funds to afford the higher feed costs when they need to purchase feed.
    - Caleb Ragland, a farmer from KY said, "Harvest price coverage in crop insurance proved its importance during the 2012 drought on my farm. Having forward contracted much of my expected corn production, I was forced to buy back all my contracts so I had enough corn to feed my hogs. Without the harvest price option, I would have faced a devastating choice between selling my hogs or paying the $2 a bushel difference in my contracts and the current market price from my operation budget."
- Think of harvest price coverage like the replacement value for car insurance, as explained in a popular insurance commercial*:
  - "You totaled your brand-new car. Nobody's hurt, but there will still be pain. It comes when your insurance company says they will only pay three-quarters of what it takes to replace it. What are you supposed to do? Drive three-quarters of a car? Now if you had…new car replacement, you'd get your whole car back. I guess they don't want you driving around on three wheels. Smart."

* Liberty Mutual, 2016 https://www.youtube.com/watch?v=5twwX-zoOv4

MYTH: Waste, fraud and abuse are rampant in crop insurance.

FACT: According to the Risk Management Agency (RMA) at USDA, the improper payment rate for crop insurance for fiscal year 2018 was 1.81 percent, which is less than half of the average rate for all government programs (4.67 percent)*.

All participants in crop insurance - farmers, agents, crop insurance companies, reinsurers and taxpayers - are dedicated to detecting and eliminating fraud, waste and abuse in the program.

- Crop insurance uses data mining to identify potential improper payments and also uses spot-checking of the work of insurance agents and adjusters.
- Because crop insurers have money at stake with every policy written, companies also spend money on training and monitoring.
- Actual fraud rates in the program are even lower than the improper payment rate reported by RMA. Improper payments are defined as over-payments, under-payments as well as simple errors such as inadequate documentation. The improper payment designation does not necessarily include the existence of any intent to defraud the government.

CLASSIFICATION OF "IMPROPER PAYMENTS" FISCAL YEAR 2018

Types of Errors	% of Occurrences	Reason for Improper Payment
Audit of Production Records	38%	*Records not supported by evidence, incorrect or incomplete documents, and unverifiable evidence*
Production Records – Acceptability	11%	*Unacceptable, unverifiable, inaccurate, and/or missing production records*
Acreage Reporting	9%	*Over reported acreage or share, units not planted, and acreage not reported in correct county*
APH Yield Verification	9%	*APH database not corrected after revision, incorrect transmittal, input errors, yields not applied or removed, and production reporting errors*
Production Reports – Support Units	9%	*Production comingled, records not separated, and/or units not substantiated by records*
Applications/Contract Selections	7%	*Keying error, producer's selection not transferred from application or applied to insurance schedule, premium not paid for the endorsement or option*
Production - Revenue to Count	4%	*Claim worked incorrectly at loss, appraisal not performed, quality adjustment not accounted for, and harvested production not determined correctly*
Production Reports - Signature	2%	*Forms were not signed by insured; unable to verify insured signed forms by production reporting date*
Signature Type	2%	*Forms not signed by someone with proper authority to sign/an authorized person*
Additional Error Types	9%	*Other errors, each representing about 1% of FY 2018 improper payments*
Total	**100%**	

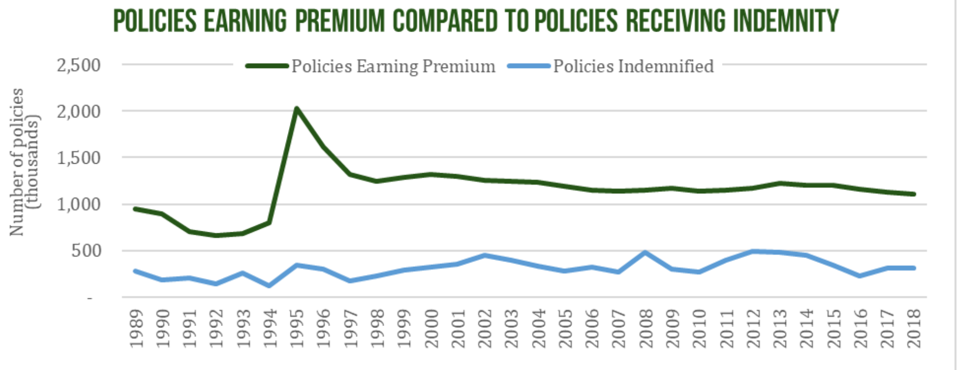
Source: Risk Management Agency, USDA

MYTH: Farmers get crop insurance indemnity payments every year, and the program is so rich that farmers farm the program instead of the ground.

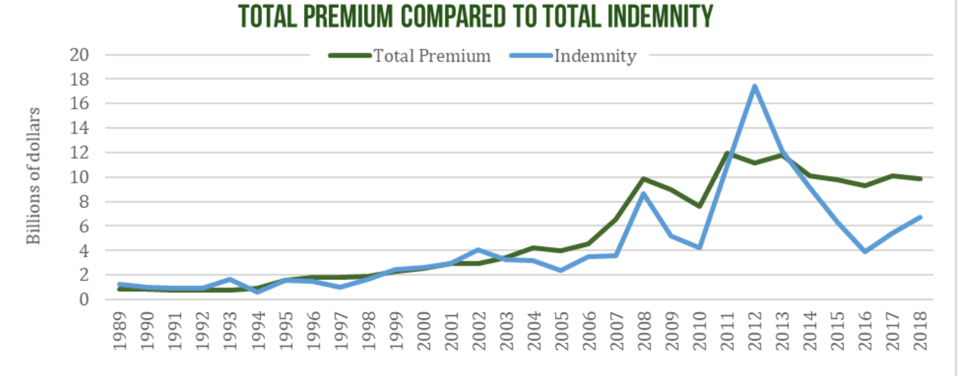
FACT: Farmers can pay crop insurance premiums year in and year out without receiving a single indemnity payment. In fact, on average, only about 30 percent of policies pay an indemnity in any given year. Any farmer who tries to make a living "farming" crop insurance isn't going to be in business very long.

Since 1989, crop insurance policies have covered nearly $17 trillion in liabilities to guard against losses. During that same time total premiums* for crop insurance were $155 billion and farmers were paid $130 billion in indemnities. By statute, the loss ratio is required to be equal to or less than 1.0.

- Indemnity payments are made to farmers only when production or price disruptions result in crop yields or revenues below those guaranteed by the insurance contract. When production or revenues are above those guaranteed by a crop insurance policy purchased by a producer, an indemnity payment is not made, <u>but the farmer must still pay the premium due to the insurance provider.</u>
- Similar to weather risks, the cost of indemnities paid vary from year to year. In 14 of the last 20 years, total crop insurance premiums have exceeded indemnities paid to farmers.



Source: Risk Management Agency, USDA. bit.ly/RMApremiumdata



Source: Risk Management Agency, USDA. bit.ly/RMApremiumdata

* This includes farmer paid premium as well as the premium discount.

For more information, visit CropInsurance.org

MYTH: Crop insurance company profits are guaranteed.

FACT: The Risk Management Agency (RMA) at USDA sets a "target rate of return" for crop insurance companies, but this target is neither a guarantee, nor a profit.

- Since 2011, when the current Standard Reinsurance Agreement was negotiated, companies' return on retained premium has been below the target rate of return of 14.5% in 4 of the 7 years, demonstrating this is a target, not a guarantee.

- Between 2011 and 2012, the return on retained premium swung more than 32 points.

- The current target rate of return for crop insurance companies was set by USDA in 2011 at **14.5%**, a reduction from a historical level of more than 16%.

    - Time and again critics confuse basic business concepts like gross returns and net income. The target rate of return and gross returns tracked by USDA simply do not reflect the actual financial health of crop insurance companies.

    - The National Corn Growers Association (NCGA) asked economists from the University of Illinois and Cornell University to study the issue of crop insurance company returns in depth[*]: *"What we discovered is that the returns private crop insurance companies receive are much smaller than opponents claim, and they are well within the standards set by [the USDA]."*

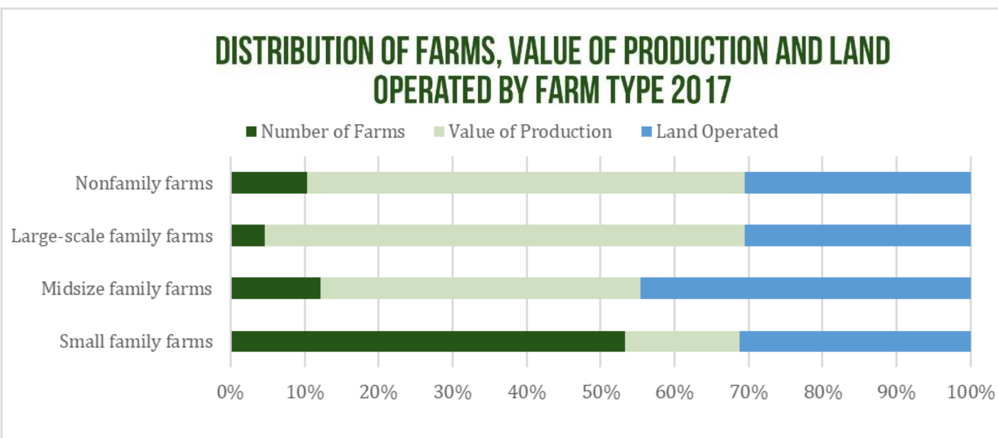
- Like farming, crop insurance companies can face great fluctuations in their profits from year to year, depending on what Mother Nature and market forces have in store. Also, like farming, there will be years of profit and years of great loss, and crop insurance companies require good years to help them through the bad years.

[*] Gary Schnitkey, Joshua Woodard and Bruce Sherrick. *Evaluation of Returns and Delivery Costs of Private Crop Insurance Companies.* Prepared for National Corn Growers Association. January 2017.

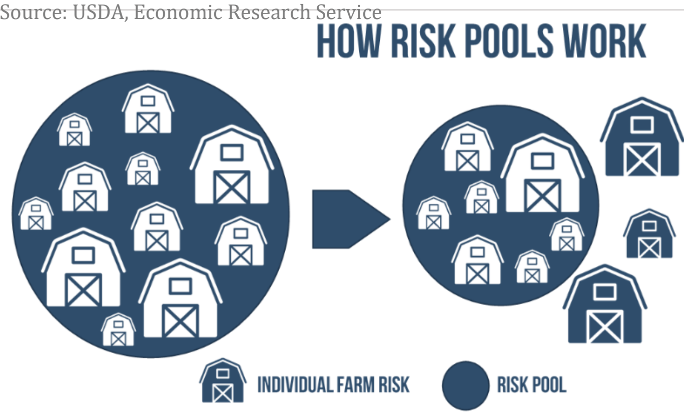
MYTH: Means testing, such as adjusted gross income (AGI) limits and premium assistance caps, will keep large, wealthy farmers from receiving assistance they do not need.

FACT: Reducing participation from any group of farmers will change the premiums for ALL farmers because it will change the risk pool. Crop insurance is, by statute, an actuarially sound program, which means more participants and more acres in the program, the more the risk will be spread - keeping premiums and costs down for all participants.

- USDA has called a cap on premium support "ill advised," noting regions with high-value crops (such as fruit, vegetable and organic crops), large-acreage farms and areas with a higher risk of crop loss would be hit especially hard. USDA has noted that North Dakota, South Dakota, Texas, Minnesota, California, Arizona, Mississippi, Utah and Hawaii would all bear a disproportionate share of the effects of a cap on premium support.
- Keith Coble and Brian Williams, economists with Mississippi State University, found that "large farms are a less risky sub-population in the insurance pool. Average per acre indemnities decline rapidly for both corn and soybean acres as the size of the insurance policy increases." Removing the less risky farmers from the risk pool would drive up the costs for everyone who remains in the program.
- Even though crop insurance opponents note that only a small number of farmers would be affected by an AGI limit, it's important to keep in mind that these farmers often farm a large number of acres. <u>It is the acres impacted by an AGI limit, not the number of producers that will drive changes to premiums for ALL farmers.</u>



Source: USDA, Economic Research Service



Means Testing works against the law of large numbers, not just harming those excluded but all American farmers.

Reducing the risk pool would raise premiums for all farmers, potentially reducing coverage further as farmers opt out to avoid higher costs. In turn, taxpayer liability would increase with the return of the specter of ad hoc disaster assistance, the very problem our modern crop insurance system was designed to solve.

For more information, visit <u>CropInsurance.org</u>

MYTH: Crop insurance discourages farmers from using other risk management tools such as market hedging, cover crops and off-farm income. The use of these other risk management tools without crop insurance would be enough risk management for farmers.

FACT: Farming is risky, so farmers use a multitude of risk management strategies to manage the enormous hazards they face every year when they plant a crop. However, crop insurance is the only risk management tool that farmers can literally take to the bank to prove their ability to pay back annual operating loans required to keep the farm going.

Because each farm is unique, the types of risk management strategies used by each farm can vary, but crop insurance is a critical tool in a farmer's tool box. Here are a few examples of the other risk management tools utilized by farmers:

- The use of **market hedging** has increased significantly since 2000, and approximately one quarter of all corn, soybeans and wheat are hedged.[*] Additionally, farmers of other commodities often utilize **production or marketing contracts** to lock in prices for their goods. USDA estimates that more than one-third of the value of all agricultural production is grown under contract, with this risk management tool being most-utilized in livestock, dairy, sugar beets, fruit and processing tomatoes.

- Most farms in the United States already rely heavily on **off-farm income** to maintain their operations and carry the enormous risk that comes with farming. According to USDA, recent increases in total farm income "largely reflect greater income from off-farm sources, where the majority of farm households earn most, if not all, of their income."

- **Cover crops** were planted on more than 15.4 million acres of US farmland in 2017[†], a nearly 50 percent increase from 2012. Planting cover crops can help manage risk in a variety of ways, including the improvement of soil health and an increased ability of soil to hold moisture in dry regions.

- **Conservation tillage** practices are utilized on approximately 70 percent of soybean, 65 percent of corn, 67 percent of wheat and 40 percent of cotton acres in the United States. These practices help manage risk by reducing topsoil erosion and improving soil health.[‡]

- <u>Clearly the existence of crop insurance is not keeping farmers from utilizing other risk management strategies. However, cover crops and conservation tillage are not going to be enough for lenders who are looking to pencil out operating loans.</u>

[*] Economic Research Service, USDA
[†] 2017 Census of Agriculture, USDA
[‡] Economic Research Service, USDA

MYTH: Crop insurance is market distorting and discourages farmers from following market signals.

FACT: Markets do not respond to crop insurance; crop insurance responds to markets. Crop insurance uses current-season market prices to determine coverage, losses, indemnities and premiums.

- Crop insurance policies do not use an artificial price to determine coverage, losses, indemnities or premiums. As designed today, crop insurance uses real-time tools such as various commodity exchange prices to determine coverage, losses, indemnities and premiums. In other words, markets do not respond to crop insurance; crop insurance responds to markets.
    - For example, if corn prices are comparatively higher than soybean prices, crop insurance will reflect that market dynamic. Crop insurance is a reflection of the market and is available for all crops.
- Crop insurance is available to all types of farms in all parts of the country, so the availability of crop insurance for one commodity and not another is also not a determining factor when farmers make planting decisions.
    - More than 125 commodities are covered with individual crop policies, from corn to cantaloupe to cotton. There are more than 127,000 crop and county combinations for policies across the United States, providing multiple options to farmers.
    - For commodities that do not have a commodity-specific policy available in a given county, the 2014 Farm Bill created a whole farm revenue policy that allows all farmers of all commodities to have a crop insurance option.
- All crops get the same premium discounts for policies, so crop insurance does not artificially incentivize the production of one commodity over another commodity.
- Per the 2014 Farm Bill, new crop insurance products that are proposed for sale must go through a consultation process specifically to assess if there would be a detrimental impact on the marketing and production of a commodity if a new policy is approved.
    - The process for approving new crop insurance policies requires approval by the Federal Crop Insurance Corporation Board, which includes the Chief Economist at the USDA, whose mission it is to advise on the economic implication of agricultural policies and programs.
- New technologies, data mining algorithms, and extensive training and education programs for agents and adjusters are all used to ensure crop insurance is being used properly as a risk management tool and to identify fraudulent claims. These rigorous checks on the program also help to ensure that farmers are not farming for the program itself, but for the market.