CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 22, 2000

S. 2251
Risk Management for the 21st Century Act

As reported by the Senate Committee on Agriculture, Nutrition, and Forestry on March 20, 2000

SUMMARY

S. 2251 would amend the Federal Crop Insurance Act to reduce the cost to producers of purchasing crop insurance. The bill would make adjustments in how expected yields are calculated for producers who have suffered multi-year losses, provide payments to producers for using additional risk management tools, and make a number of other changes designed to encourage participation in the crop insurance program and address perceived inequities among crops and regions. Many of these changes to current law would be limited to crop years 2001 through 2004. The legislation also would change the administrative structure of the Department of Agriculture's Risk Management Agency (RMA), which oversees the program.

CBO estimates that enactment of S. 2251 would increase direct spending for federal crop insurance by $6.3 billion over fiscal years 2000 through 2005. Because the bill would affect direct spending, pay-as-you-go procedures would apply. S. 2251 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2251 is summarized in Table 1. The costs of this legislation fall within budget function 350 (agriculture). Table 2 provides details on the federal cost of each provision of the bill.

Table 1. Estimated Budgetary Impact of S. 2251

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
DIRECT SPENDING						
Crop Insurance Spending Under Current Law						
Estimated Budget Authority	2,179	1,488	1,533	1,583	1,648	1,695
Estimated Outlays	2,200	1,892	1,524	1,557	1,615	1,671
Proposed Changes						
Estimated Budget Authority	20	1,327	1,572	1,646	1,738	-33
Estimated Outlays	20	638	1,532	1,609	1,690	800
Crop Insurance Spending Under S. 2251						
Estimated Budget Authority	2,199	2,815	3,105	3,229	3,386	1,662
Estimated Outlays	2,220	2,530	3,056	3,166	3,305	2,471

BASIS OF ESTIMATE

The Federal Crop Insurance Corporation (FCIC), a wholly owned corporation of the Department of Agriculture, subsidizes the cost to producers of purchasing federal crop insurance. Crop insurance, which is sold and serviced by private companies, makes indemnity payments to insured producers who suffer crop yield or revenue losses.

Producers receive premium subsidies from the federal government that reduce the cost of purchasing such insurance. Private insurance companies receive compensation for the cost of selling and servicing crop insurance. The amount of compensation received by the companies is based on the premium charged for the policies they sell.

Private insurance companies also share with FCIC the risk of gains and losses on the policies they underwrite. Because these risks are not shared proportionally, private companies, in aggregate, realize underwriting gains and the government incurs underwriting losses in most years.

This bill would increase the federal cost for the crop insurance program primarily by (1) increasing premium subsidies, (2) changing how expected crop yields are calculated for producers with multi-year losses, (3) providing additional subsidies for insurance policies developed by private companies, and (4) paying producers for using certain alternative risk management practices. Together, these four provisions account for about 90 percent of the estimated cost of the bill.

Table 2. Components of the Estimated Costs of S. 2251

	By Fiscal Year, in Millions of Dollars							
	2000	2001	2002	2003	2004	2005	2000-2005	2000-2010
Change in Budget Authority	20	1,327	1,572	1,646	1,738	-33	6,270	6,071
Change in Outlays								
Increase premium subsidy rates	0	464	951	1,014	1,054	556	4,039	4,059
Change multi-year disaster yield adjustments	0	13	39	40	42	29	163	163
Pay full premium subsidy on 508(h) insurance policies	0	74	161	178	195	114	722	727
Provide payments for choice of risk management options	0	0	167	167	166	0	500	500
Other provisions:								
Amend prevented planting provisions	0	4	7	7	7	3	28	28
Remove area trigger and collect NAP fees	0	56	139	115	121	59	490	458
Expand RMA authority for pilot programs	0	10	30	50	70	38	198	200
Change double cropping rules	0	-15	-29	-32	-33	-33	-142	-336
Provide for year-round sales of specialty crop policies	0	20	41	44	45	23	173	175
Increase specialty crop research and development	0	9	20	20	20	11	80	80
Increase funds for studies of alternative rating methods	0	0	1	1	0	0	2	2
Amend structure and funding of Board of Directors	0	1	0	0	0	0	1	1
Establish Crop Insurance Commission	0	2	5	5	3	0	15	15
Settle litigation on durum wheat insurance	20	0	0	0	0	0	20	20
Total Change in Outlays	20	638	1,532	1,609	1,690	800	6,289	6,092

Increases in Premium Subsidy Rates

Much of the bill's impact on direct spending would come from increases in premium subsidies authorized for crop years 2001 through 2004. Under current law, FCIC estimates a total premium cost for each crop insurance policy based on expected losses in a given year for that policy. The total premium cost for a policy depends on a number of factors, including the level of crop insurance coverage chosen by the producer. Generally, crop insurance coverage is the percent of expected crop production or value insured. For example, if a producer buys a yield loss insurance policy at the 65-percent coverage level, then 65 percent of expected production (as determined by FCIC) is insured. If actual production is less than 65 percent of expected production, the producer receives an indemnity payment. Other things being equal, the total premium cost is higher at higher coverage levels because losses occur more often at those levels.

With FCIC's premium subsidies, a producer pays only part of the total premium cost and the government pays the rest. Under current law, the premium subsidy rate (the percent of the total premium that is paid by the government) declines as the coverage level is increased. Under S. 2251, the premium subsidy rate generally would rise as the coverage level is increased. For example, under current law, the subsidy rate declines from 46 percent to 23 percent of total premium as the coverage level is increased from 55 percent to 75 percent of expected yield. Under S. 2251, with the same increase in coverage level, the subsidy rate would increase from 45 percent to 55 percent of premium.

The total budgetary impact of higher premium subsidies would depend on what producers do with the extra subsidy dollars that they receive from the government. Producers could simply maintain the same level of crop insurance protection (which would generally be cheaper to purchase under S. 2251) and use the extra subsidy dollars for other business or personal purposes. In that case, the only extra cost for federal crop insurance would be the higher premium subsidies on existing coverage.

Alternatively, producers could choose to buy more federal crop insurance because not only would their current level of coverage be cheaper under the bill, but additional crop insurance protection would be cheaper as well. They could buy more crop insurance protection on the same acres or buy insurance for crops or acres that they currently do not insure. Because the government's costs are based on the amount of crop insurance sold, if producers buy more crop insurance, government costs will show further increases beyond those directly caused by the higher premium subsidies.

Taking into account projected increases in insurance coverage over the next four crop years, CBO estimates that the changes in premium subsidy rates specified in S. 2251 would cost $464 million in fiscal year 2001, $4.0 billion over fiscal years 2001 through 2005, and $4.1 billion over fiscal years 2001 through 2010, as shown in Table 2.

Changes in Multi-Year Disaster Yield Adjustments

The dollar amount of crop insurance that a producer is eligible to buy depends in part on the expected yield for the producer's farm. Generally, FCIC considers the expected yield for a producer's farm to be the average of actual yields in previous years. An actual yield that is very low can significantly lower the average yield, thus reducing the amount of insurance that a producer can buy. In addition, if a producer's average yield is sufficiently below the county average, the premium necessary to provide a given level of insurance is higher.

The bill would limit the downward adjustment in yields made under current law for a producer with repeated losses from natural disasters. This provision would apply only to crop years 2001 through 2004. Under S. 2251, producers who have suffered a natural disaster during at least three of the preceding five years, causing a 25-percent reduction in their expected yield, would be allowed to exclude one of every five years of experience used to calculate their expected yield. FCIC would be required to pay the additional premium and other costs associated with this charge in the expected yield calculation. CBO estimates that the yield adjustment provisions of S. 2251 would cost $13 million in fiscal year 2001, and $163 million over fiscal years 2001 through 2005.

Pay Full Premium Subsidy on Privately Developed Crop Insurance Products

Some of FCIC's crop insurance policies are developed by FCIC while others are developed by private insurance companies under section 508(h) of the Federal Crop Insurance Act. Currently, certain revenue insurance products developed by private insurance companies receive federal premium subsidies that are lower than FCIC's standard yield insurance policies. In crop years 2001 through 2004, the bill would allow these revenue products to receive the same premium subsidy as the standard yield insurance policies.

Other privately developed insurance products are not eligible for premium subsidies from FCIC and have been sold by private companies without any subsidies. S. 2251 would allow these policies to receive subsidies from FCIC in crop years 2001 through 2004. CBO estimates that adopting these provisions would cost $74 million in fiscal year 2001, $722 million over fiscal years 2001 through 2005, and $727 million over fiscal years 2001 through 2010.

Provide Payments for Choice of Risk Management Options

The bill also would authorize payments to producers to carry out risk management activities, including specified alternative strategies for managing yield risk, marketing risk, financial risk, and risks to the farm’s natural resource base. Under the bill, producers could choose between a risk management payment or subsidized crop insurance. The Secretary of Agriculture would be directed to encourage program participation; provide a mixture of program, specialty, and regional crops; and target commodities with low crop insurance participation ratios. Funding for the program would be limited to a total of $500 million for crop years 2002 through 2004, with not more than $200 million for any one crop year.

Other Provisions

The bill would make a number of other changes in crop insurance and related programs. Such changes include provisions that would (1) remove the area trigger and charge producers a fee to participate in the Non-Insured Assistance Program (NAP), (2) expand funding and authority for pilot programs (including pilot programs for livestock producers), (3) change rules concerning how producers can insure a second crop when a first crop either could not be planted or was planted and failed, (4) fund research on new crop policies and risk management products, (5) allow the sale of specialty crop insurance at any time of the year, and (6) re-establish the Crop Insurance Commission. CBO estimates that these additional provisions taken together would cost $87 million in 2001, $845 million over fiscal years 2001 through 2005, and $623 million over fiscal years 2001 through 2010.

Finally, section 401 would resolve a dispute concerning crop insurance policies for the 1999 durum wheat crop that are currently under litigation in favor of producers who purchased these policies. CBO estimates that this provision would increase outlays by $20 million in fiscal year 2000 by removing the possibility that any of the $45 million in insurance payments now being contested could be recovered by the government.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	20	638	1,532	1,609	1,690	800	-37	-37	-39	-41	-43
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2251 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Greg Hitz and Craig Jagger

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis