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CROP INSURANCE

Update on Opportunities to Reduce Program Costs

GAO Highlights

Highlights of GAO-24-106086, a report to congressional requesters

Why GAO Did This Study

The federal crop insurance program offers subsidized crop insurance to protect producers against financial losses from crop price declines and poor harvests due to natural causes.

In 2022, the program supported about 1.2 million policies that covered 493 million acres and cost the federal government $17.3 billion, according to USDA. The program's cost is projected to total more than $101 billion over the next decade, according to the Congressional Budget Office.

USDA partners with private insurance companies to deliver the program. The federal costs for the program include compensation to these companies and subsidies to pay for part of policyholders' crop insurance premiums.

GAO was asked to review the federal crop insurance program and opportunities to reduce its cost. This report builds on GAO's prior work to provide information on (1) private delivery of the crop insurance program through insurance companies and (2) premium subsidies for crop insurance policyholders.

GAO analyzed agency data and reviewed relevant legislation, regulations, agency documents, and academic studies. GAO also interviewed agency officials and organizations representing those affected by the crop insurance program, such as producers and insurance companies.

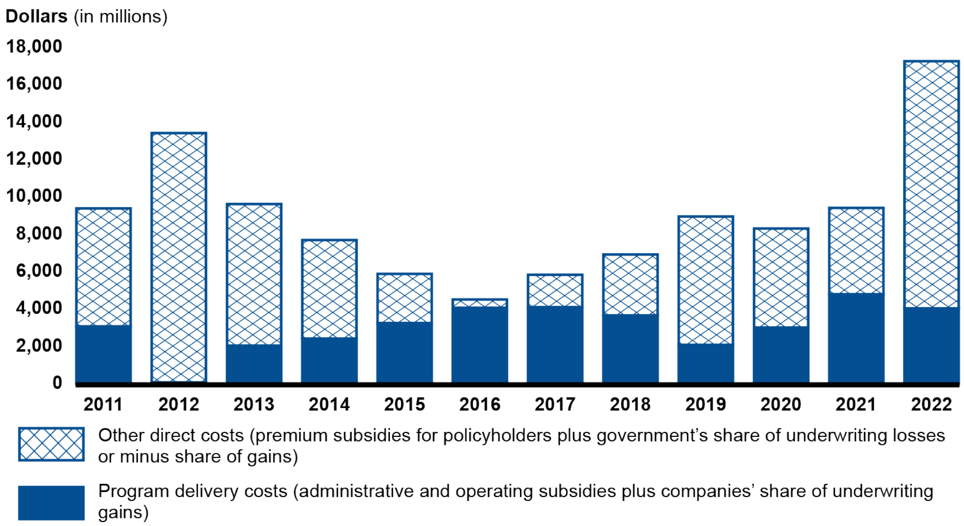
View GAO-24-106086. For more information, contact Steve Morris at (202) 512-3841 or morriss@gao.gov.

What GAO Found

Compensation to private insurers. The federal government pays private insurance companies to deliver the crop insurance program—that is, sell and service policies—to producers such as farmers. This compensation, set in reinsurance agreements between the U.S. Department of Agriculture (USDA) and the companies, includes subsidies for the companies' administrative and operating (A&O) expenses and their share of any financial gains associated with the policies (i.e., underwriting gains). The federal government and the companies may also share losses associated with the policies (underwriting losses).

In 2022, of the program's total cost of $17.3 billion, the government paid insurance companies about $3.7 billion to deliver the program. This compensation included about $2.2 billion in A&O subsidies, which are calculated as a percentage of premiums. It also included about $1.5 billion for the companies' share of underwriting gains from the premiums they retained (i.e., did not cede to the government). The compensation the government pays participating companies is projected to average $3.8 billion yearly from 2024 through 2033.

Cost of the Federal Crop Insurance Program, 2011-2022



Source: GAO analysis of Risk Management Agency data. | GAO-24-106086

From 2011 through 2022, companies received an annual rate of return on retained premiums of 16.8 percent on average (about $1.4 billion in underwriting gains per year), which exceeded a market-based rate of return (10.2 percent), according to GAO's analysis. Adjusting the program's rate of return to more closely reflect market conditions could save the federal government hundreds of millions of dollars per year.

What GAO Recommends

GAO has previously recommended and still believes that Congress should consider repealing the 2014 farm bill provision that any revision to the agreement with insurance companies not reduce their expected underwriting gains and consider reducing premium subsidies for the highest-income participants. USDA did not have any comments on the report.

GAO's analysis shows the government could achieve such savings while still providing financial incentives for companies to participate.

A provision in the 2014 farm bill prevents the government from realizing any savings through changes to the reinsurance agreements. Specifically, the provision requires that any changes negotiated in new reinsurance agreements cannot reduce the total future underwriting gains for all insurance companies. Consequently, for the government to achieve any savings through revising the agreements, Congress would need to repeal this provision, as GAO recommended that Congress consider in July 2017.

Premium subsidies for policyholders. In addition to paying companies to deliver the program, USDA subsidizes the premiums that policyholders pay. In 2022, subsidies averaged about 62 percent of policyholders' premiums and totaled $12 billion, comprising the largest portion of the program's total cost of $17.3 billion.

Congress sets the subsidy rates, regardless of income level. In contrast, other USDA farm program benefits are not available to producers with incomes that exceed a statutory limit (3-year average adjusted gross income of $900,000 or more). GAO found that, of the 460,615 policyholders who participated in the crop insurance program in 2022, 1,341 (0.3 percent) were high-income. These high-income policyholders accounted for about 0.5 percent of total premiums in the program.

Policyholders in the Federal Crop Insurance Program, by Income Level, 2022

	High-income policyholders (adjusted gross income (AGI) $900,000 or more)	Other policyholders (AGI less than $900,000)
Number of policyholders	1,341	457,650
Percentage of policyholders	0.3%	99.7%
Percentage of premiums	0.5%	99.5%

Source: GAO analysis of U.S. Department of Agriculture data. | GAO-24-106086

Note: Policyholders' AGIs are averages calculated over a specified 3-year period.

GAO found that reducing premium subsidies for high-income policyholders could generate additional savings for the federal government. For example, if subsidies for such policyholders had been reduced by 15 percentage points (e.g., from 62 percent to 47 percent) in 2022, the government could have saved about $15 million.

GAO's analysis shows the government could likely achieve such savings with minimal effects on producer participation in the program and the program's financial soundness. To realize these savings, Congress would need to reduce premium subsidy rates for high-income policyholders, as GAO recommended that Congress consider in March 2015.