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Crop Insurance Provisions in the 2014 Farm Bill (P.L. 113-79)

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Summary

The enacted 2014 farm bill (the Agricultural Act of 2014; P.L. 113-79) enhances the federal crop insurance program by expanding its scope, covering a greater share of farm losses, and making other modifications that broaden policy coverage. The changes stem from the desire of many in Congress, particularly members of the agriculture committees, to bolster what they consider to be the most significant aspect of the farm safety net.

Under the federal crop insurance program, which is administered by the U.S. Department of Agriculture's Risk Management Agency (RMA), producers purchase subsidized policies to help manage financial risks associated with crop yield or revenue losses, primarily from natural disasters. In contrast, farm commodity programs apply to a narrower set of "program" crops, require no participation fees, and make payments when prices fall below statutory minimums or when crop revenue is low relative to historical levels.

A prominent crop insurance feature of the 2014 farm bill is the authorization of policies designed to reimburse "shallow losses"—an insured producer's out-of-pocket loss associated with the policy deductible. A new crop insurance policy called Stacked Income Protection Plan (STAX) is made available for upland cotton producers, while the Supplemental Coverage Option (SCO) is made available for other crops. The STAX policy indemnifies losses in county revenue of greater than 10% of expected revenue but not more than the deductible level (e.g., 25%) selected by the producer for the underlying individual policy. (It can also be purchased as a stand-alone policy.) Similarly, SCO is based on expected county revenue (or yields) and covers part of the deductible under the producer's underlying policy. The government subsidy as a share of the policy premium is set at 80% for STAX and 65% for SCO.

A variety of additional provisions are expected to expand existing crop insurance products or require examination of the potential for new products, including those that would benefit specialty crops and animal agriculture. Provisions revise the value of crop insurance for organic crops to reflect generally higher prices of organic (not conventional) crops. USDA is also required to conduct more research on whole farm revenue insurance with higher coverage levels than currently available. Studies or policies are also required for insuring (1) specialty crop producers for food safety and contamination-related losses, (2) swine producers for a catastrophic disease event, (3) producers of catfish against reduction in the margin between the market prices and production costs, (4) commercial poultry production against business disruptions caused by integrator bankruptcy, (5) poultry producers for a catastrophic event, (6) producers of biomass sorghum or sweet sorghum grown as feedstock for renewable energy, and (7) alfalfa producers. A peanut revenue insurance product and rice margin insurance also are mandated. Another provision provides funding for index weather insurance for protecting against weather.

To address conservation concerns, the 2014 farm bill links eligibility for crop insurance premium subsidies to compliance with wetland and conservation requirements for highly erodible land. Also, crop insurance subsidies are reduced for plantings on native sod acreage in certain states.

In total, the crop insurance title increases funding for crop insurance by an additional $5.7 billion over 10 years relative to projected levels that assumed no change in policy. The largest cost items are for STAX ($3.3 billion) and SCO ($1.7 billion), according to the Congressional Budget Office. A controversial item not included in P.L. 113-79 was the reduction of premium subsidies for high-income farmers, which had been included in the Senate farm bill but not the House bill.

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Introduction

The federal crop insurance program is considered by many farmers and policy makers as the centerpiece of the farm safety net. The program makes available subsidized insurance policies for about 130 commodities ranging from apples to wheat. These "multiple peril" policies help producers manage financial risks associated with crop yield or revenue losses. Insurable causes of losses include adverse weather (e.g., drought and flood), insects or disease outbreaks, and failure of irrigation water supply.

The enacted 2014 farm bill (the Agricultural Act of 2014; P.L. 113-79) enhances the federal crop insurance program by expanding its scope, covering a greater share of farm losses, and making a variety of other modifications that broaden policy coverage. This report describes in detail changes made to the program as part of the 2014 farm bill. A table at the end of this report (**Table A-1**) provides a side-by-side comparison of the crop insurance provisions in Title XI of the 2014 farm bill and the permanent authorizing statute for federal crop insurance (Federal Crop Insurance Act, 7 U.S.C. §1501 et seq.), prior to enactment of the 2014 farm bill.

Two other key elements of the farm safety net are (1) the farm commodity programs, which provide price and income support for a much narrower list of "covered and loan commodities" such as corn, soybeans, wheat, rice, and peanuts; and (2) agricultural disaster programs, which primarily assist producers owning livestock or fruit trees. For information on these programs as modified by the 2014 farm bill, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79)*, and CRS Report RS21212, *Agricultural Disaster Assistance.*

Crop Insurance Background[1]

Policy Rationale for Federal Crop Insurance

In 1938, Congress established the federal crop insurance program following several unsuccessful attempts by the private sector to sell multiple-peril policies, beginning in the late 1800s.[2] These ventures lost money and were discontinued because areas they covered were too small to adequately distribute risks when crops failed. Since then, private crop insurance has focused on single peril insurance for causes of loss not correlated across wide areas, such as hail or fire.[3]

Agricultural weather risks typically affect a large area rather than individual farms, resulting in potential losses that historically have been considered too large for private insurers. Others, though, contend that international financial markets have expanded dramatically in recent decades

[1] Additional background on the federal crop insurance program is available in CRS Report R40532, *Federal Crop Insurance: Background.*

[2] Randall A. Kramer, "Federal Crop Insurance 1938-1982," *Agricultural History*, vol. 57, no. 2 (April 1983), pp. 181-200.

[3] An example of hail or fire insurance is https://www.rainhail.com/pdf_files/MKTG/MKTG_4000.pdf. Examples of other single peril coverage include (1) insurance for specific weather variables such as low temperature offered by Total Weather Insurance, http://climate.com/products/total-weather-insurance/; and (2) riders on federal policies to increase crop price protection contained in the Hudson Insurance Price Flex contract, http://www.hudsoncrop.com/index.php?option=com_content&view=article&id=51&Itemid=70.

and now have significant capacity to provide coverage of risks that are much greater than those associated with potential crop losses.[4]

Separately, the crop insurance program must address problems associated with moral hazard, such as farmers intentionally under-applying crop inputs to collect indemnities. Another issue is adverse selection, whereby high-risk farmers tend to participate more than low-risk farmers, thus increasing program costs. Some argue that the government is in a better position than the private sector to address these issues and monitor farm behavior and losses given better access to data and linkages with farm program benefits.

From a demand standpoint, federal subsidies for purchasing crop insurance have been increased over the years to improve affordability and boost farmer participation.[5] In general, the premium required to cover the cost of crop insurance is more than producers are willing to pay. As a result, in the absence of federal subsidies, U.S. agricultural acreage covered by crop insurance and coverage levels selected by farmers would likely be lower, potentially increasing the odds of a costly federal bailout in the event of a catastrophic weather event.

Proponents of federal crop insurance argue that the program is essential because it provides specific risk management solutions that benefit farmers, input suppliers, the entire agricultural sector, and ultimately all food consumers. They also say widespread participation reduces the potential for ad-hoc disaster spending, a longstanding policy goal. In contrast, critics argue that the program covers an excessive amount of producer risk, inappropriately subsidizes large farms, wastes taxpayer dollars, and encourages crop production on environmentally fragile lands.

Authorizing Legislation

The federal crop insurance program is permanently authorized by the Federal Crop Insurance Act, as amended (7 U.S.C. §1501 et seq.). The Federal Crop Insurance Corporation (FCIC) was created as a wholly-owned government corporation in 1938 to carry out the program. The program is administered by the U.S. Department of Agriculture's Risk Management Agency (RMA).

Insurable Commodities and Types of Policies

Policies are available for approximately 130 crops and cover more than 250 million acres nationwide. Insurable commodities include major field crops such as wheat, corn, soybeans, cotton, peanuts, and rice, as well as many specialty crops (including fruit, tree nut, vegetable, and nursery crops), pasture, rangeland, and forage crops.[6] For major crops, three-fourths or more of U.S. planted acreage is insured under the federal crop insurance program.

[4] Vincent H. Smith and Barry K. Goodwin, "Private and Public Roles in Providing Agricultural Insurance in the United States," in *Public Insurance and Private Markets*, ed. Jeffrey R. Brown (Washington, DC: AEI Press, 2010), p. 184.

[5] Joseph W. Glauber, "Crop Insurance Reconsidered," *Amer. J. Agr. Econ.*, vol. 86, no. 5 (2004), pp. 1179-1195.

[6] Producers who grow a crop not covered by crop insurance can purchase coverage through the Noninsured Crop Disaster Assistance Program (NAP). For more information, see CRS Report RS21212, *Agricultural Disaster Assistance.*

Farmers annually purchase about 1.2 million policies, with many producers purchasing multiple policies depending on farm size and number of crops grown. The policies protect against individual farm losses in yield, crop revenue, or whole farm revenue. Area-wide policies are available for some crops, whereby an indemnity is paid when there is an overall loss over a broad area level. In general, yield-based policies offer a guarantee at the individual farm level or area-wide (e.g., county) level. For revenue policies, the insurance guarantee also incorporates the expected market price prior to planting (i.e., no statutory minimum prices as provided in some farm programs). For some policies, the guarantee can increase if the harvest price is higher than the expected price, thereby increasing the point at which indemnities are triggered.

The producer selects a coverage level and absorbs the initial loss through the deductible. For example, a coverage level of 70% has a 30% deductible (for a total equal to 100% of the expected value prior to planting the crop). The producer pays a portion of the premium which increases as the level of coverage rises. The federal government pays the rest of the premium—62%, on average, in 2013—plus the cost of selling and servicing the policies. This differs from farm commodity programs, which require no participation fees. Also unlike farm commodity programs, crop insurance has no subsidy limits, and participants can be eligible regardless of income levels.

Program Structure and Federal Costs

The federal crop insurance program is a partnership between RMA (through the FCIC) and private industry. RMA approves and supports products, develops and approves the premium rates, administers premium subsidies, reimburses private companies for their administrative and operating costs (i.e., delivery costs for selling and servicing the policies), and reinsures company losses. RMA also sponsors educational and outreach programs and seminars on the general topic of risk management.

Approximately 19 private insurance companies provide the "boots on the ground" for selling and servicing the insurance policies through a network of agents. They also share risk (profit/loss potential) with the government. The Standard Reinsurance Agreement (SRA) defines the risk-sharing arrangement, whereby insurance companies may transfer some liability associated with riskier policies to the federal government and retain profits/losses from less risky policies.[7]

During FY2009-FY2013, federal costs averaged $8.4 billion per year, varying between $3.7 billion in FY2010 and $14.1 billion in FY2012, depending on crop losses and commodity prices, which affect premium subsidy amounts and program liability (e.g., high market price result in high premiums and liability).

Crop Insurance Provisions in the 2014 Farm Bill

The general enhancement of the federal crop insurance program in the 2014 farm bill stems from the desire of many in Congress, particularly members of the agriculture committees, to bolster

[7] This transfer of risk is accomplished through a set of reinsurance funds maintained by FCIC. The assigned risk fund, for example, is used by companies for policies believed to be high-risk because it provides the most loss protection to insurance companies through "stop-loss" coverage that reinsures against state-level disasters.

what they consider to be the most significant aspect of the farm safety net. Unlike farm commodity programs, federal crop insurance is applicable to a wide variety of crops and requires producers to pay for at least part of the program. Producers are indemnified only after an insurable crop loss. During the farm bill debate, some in Congress voiced concerns that the program is too generous. Congress considered but did not pass premium caps and/or income limits on crop insurance similar to ones governing farm commodity program payments.

For crop insurance in the 2014 farm bill, a prominent feature is the authorization of policies designed to reimburse "shallow losses"—an insured producer's out-of-pocket loss associated with the policy deductible. These include a new crop insurance policy called Stacked Income Protection Plan (STAX) for upland cotton and the Supplemental Coverage Option (SCO) for other crops. A variety of additional provisions are expected to expand existing crop insurance products or require FCIC to examine the potential for new products, including those benefiting specialty crops and animal agriculture.

Stacked Income Protection Plan (STAX) for Upland Cotton

Beginning with the 2014 farm bill, upland cotton is no longer a "covered commodity," making upland cotton producers ineligible for either Price Loss Coverage (PLC) or Agriculture Risk Coverage (ARC) under the farm commodity support programs. Instead, upland cotton is eligible for Stacked Income Protection (STAX), which is a revenue-based, area-wide crop insurance policy that may be purchased as a stand-alone policy for primary coverage or purchased in tandem with an individual farm loss policy or area policy. This major policy revision was sought by U.S. cotton producers in an attempt to resolve a long-running trade dispute with Brazil that requires changing the U.S. cotton support program so it does not distort international markets.[8]

Critical to participation, and as part of the agreement to make upland cotton ineligible for the PLC/ARC programs, is the government's share of the premium cost. The federal subsidy is 80% for STAX and the government pays for delivery costs. Policies are to be offered in all producing counties at the county level, or on the basis of a larger geographic area if necessary. A payment rate multiplier of 120% is available if producers want to increase the amount of protection per acre.

The indemnity from STAX is triggered by a revenue loss at the county level. When purchased as a "stacked" policy, the indemnity is designed to cover part of the deductible of the underlying policy. Specifically, STAX would indemnify losses in county revenue of greater than 10% of expected revenue but not more than 30%.[9] For producers purchasing STAX in conjunction with

[8] As part of the transition, farm payments are made for upland cotton for the 2014 crop year, and for 2015 if STAX is not available. Payment acres in 2014 equal 60% of 2013 cotton base acres and 36.5% of 2013 cotton base acres in 2015. For more information on PLC and ARC, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79)*. For information on the cotton trade case, see CRS Report R43336, *Status of the WTO Brazil-U.S. Cotton Case.*

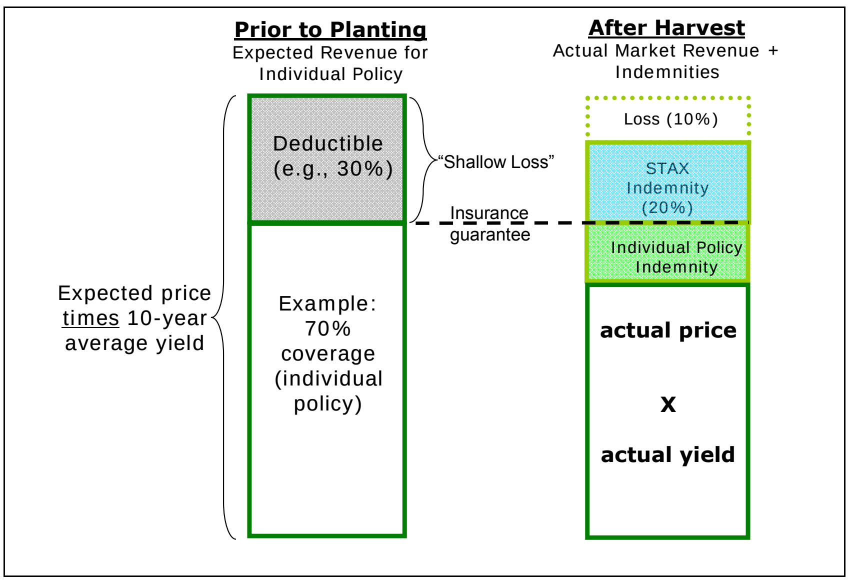
[9] The revenue guarantee is the producer's selected coverage level times the expected per-acre revenue prior to planting (expected yield times expected price). The expected county yield is the higher of either the historical yield used for existing area-wide policies or the five-year county area average yield, excluding the high and low years, using data from USDA's Risk Management Agency and/or National Agricultural Statistics Service. As with many crop insurance policies for major crops, the expected price component of the guarantee for STAX is based on the average futures market price for cotton prior to planting time. In a previous farm bill proposal in 2012, specifically the 2012 House Agriculture Committee bill (H.R. 6083), a minimum price of $0.6861 per pound would have been used in the (continued...)

an individual policy, the maximum coverage under STAX cannot exceed the deductible level selected by the producer in the underlying individual policy. For individual producers, indemnities for STAX and other policies cannot overlap.

A graphical illustration of STAX is shown **Figure 1**. The bar on the left depicts the expected revenue (prior to planting) under a typical cotton crop insurance revenue policy with a 30% deductible (the farmer absorbs the first 30% of the loss). The expected revenue is the 10-year average yield for an individual producer times the expected market price (the average futures market price prior to planting). The insurance guarantee is set at 70% of the expected revenue (100% minus the 30% deductible). Upon harvest, if actual revenue falls short of the guarantee, an initial indemnity is triggered under the farmer's individual crop insurance policy as depicted by the green box in the right-hand column. If a STAX policy is also purchased and there is a loss at the county level, a STAX indemnity would be paid (depicted by the blue box). Overall, the farmer incurs a loss of approximately 10% (white box at top), with the STAX indemnity reducing the amount of "shallow loss" absorbed by the producer.

Figure 1. Stacked Income Protection Plan (STAX) with a Crop Loss

(STAX for upland cotton covers part of the deductible under the individual policy)



Source: CRS.

Notes: A STAX indemnity (blue box above) is triggered when actual county revenue is less than 90% of expected county revenue. Scenario assumes expected (and actual) revenue is the same at the individual farm and county level (STAX). STAX may be purchased as a stand-alone policy for primary coverage. Upland cotton acres enrolled in STAX are not eligible for SCO.

(...continued)

calculation of the insurance guarantee if it was higher than the expected market price. Inclusion of a minimum guarantee price would have provided enhanced the price protection for producers but would have introduced price supports into crop insurance and complicated the expected resolution of the cotton trade case.

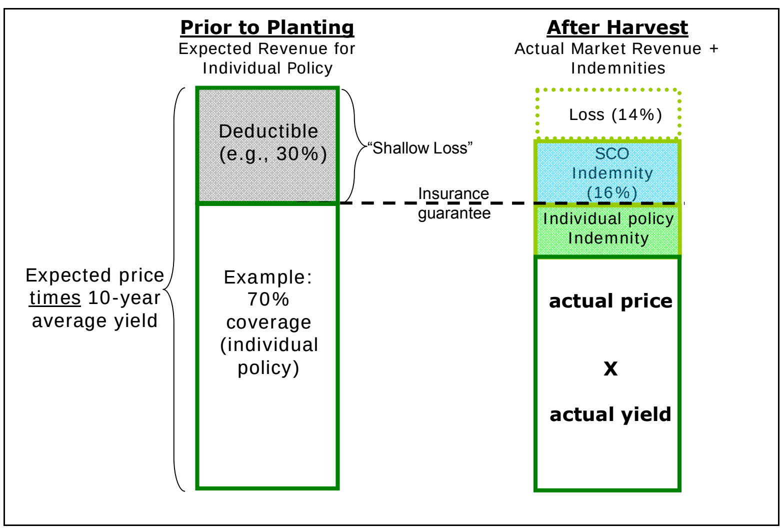
Supplemental Coverage Option (SCO)

Like STAX but for other crops, the Supplemental Coverage Option (SCO) is authorized by the 2014 farm bill to cover part of the deductible under the producer's underlying policy (the "shallow loss"). SCO is an area-wide (e.g., county) loss policy, whereby an indemnity is paid on area losses not more than the deductible level (e.g., 25%) selected by the producer for the underlying individual policy. However, unlike STAX, the SCO guarantee can be based on either expected county yields or revenue, and it must be purchased in conjunction with a traditional crop insurance policy. Indemnities are triggered by county losses greater than 14%, and policy coverage cannot exceed the difference between 86% and the coverage level selected by the producer for the underlying policy.

A graphical illustration of SCO is shown in **Figure 2**.[10] The bar on the left depicts the expected revenue (prior to planting) under a typical crop insurance revenue policy with a 30% deductible (the farmer absorbs the first 30% of the loss). The expected revenue is the 10-year average yield for a producer times the expected market price (e.g., average futures market price for major crops). The guarantee is set at 70% of the expected revenue (100% minus the 30% deductible). If a loss occurs on the farm, an initial indemnity is triggered under the farmer's individual crop insurance policy as depicted by the green box in the right-hand column. If an SCO policy is also purchased and there is also a loss at the county level, a indemnity from the SCO also would be paid (depicted by the blue box). Overall, the farmer incurs a loss of approximately 14% (white box at top), with the SCO indemnity reducing the "shallow loss" absorbed by the producer.

Figure 2. Supplemental Coverage Option (SCO) with a Crop Loss

(SCO covers part of the deductible under the individual policy)



Source: CRS.

Notes: SCO indemnity (in blue box above) is triggered by a loss in county revenue (or yield if underlying individual policy is yield-based). Scenario assumes expected (and actual) revenue is the same at the individual farm and county level (SCO).

[10] For numerical examples of SCO, see Nick Paulson, University of Illinois, *Understanding the Supplemental Coverage Option (SCO) in the 2014 Farm Bill*, March 12, 2014, http://www.farmdoc.illinois.edu/webinars/downloads/PDF/120314_farm_bill_sco_paulson.pdf.

SCO is designed to serve as a "shallow loss" program for covered commodities enrolled by producers in Price Loss Coverage (PLC) under the farm commodity support program. A separate PLC payment would be made if the farm price for the crop is below a "reference price" set in statute. For crops enrolled in the alternative Agriculture Risk Coverage (ARC) program, SCO is not available because ARC is already designed to pay for "shallow losses."[11]

SCO policies are to be offered for crops that have sufficient data for policy development, and coverage is to begin no later than the 2015 crop year. USDA has announced plans for developing 2015 policies for corn, grain sorghum, rice, soybeans, winter wheat, spring wheat, and cotton.[12] The government subsidy as a share of the policy premium is 65%.

"Enterprise Units" and Yield Guarantees

Currently available policies are enhanced through a number of provisions beginning with the 2015 crop year. To provide better coverage for producers with both irrigated and nonirrigated crops, separate insurable "enterprise" units for each practice will be available (an enterprise unit is all land for a single crop in a county, regardless of the tenant/landlord structure). Separating the acreage can increase risk protection for producers because losses on dryland crops would no longer be offset by higher yields on irrigated acreage when the two are combined.

Another concern of producers in recent years has been the treatment of poor yields used to establish the insurance guarantee, which is based on 4 to 10 years of historical yields called actual production history (APH). Current law allows a "yield plug" if the producer's actual or appraised yield for any particularly year is less than 60% of the "transitional yield," generally based on the 10-year historical county average yield. The yield plug allows the replacement of a low actual yield in the APH with a yield equal to 60% of the applicable transitional yield. The 2014 farm bill enhances this provision by keeping the yield plug unchanged from current law (except in the case of native sod) but allowing producers to exclude without replacement any recorded or appraised yield from the APH calculation if the average crop yield in the county for any particular year is less than 50% of the 10-year county average.

Peanuts and Rice

The peanut and rice industries successfully argued for enhanced crop insurance options. The 2014 farm bill mandates a peanut revenue insurance product and rice margin insurance, with both to be made available for the 2015 crop year. For several years, rice producers have been interested in protecting against rising cost of inputs (e.g., fuel, fertilizer) as it affects their margin (income minus costs). For peanut producers, the revenue policy is to use the "Rotterdam price index" or other appropriate prices as determined by the Secretary. Setting the price guarantee is problematic for peanuts because the market is considered "thin," with only two peanut shellers reportedly buying over 80% of all peanuts from growers. No futures market exists for peanuts, and private contracts between producers and shellers reportedly account for most transactions, making it

[11] The two approaches differ in that ARC price guarantee is based on historical market prices while the crop insurance guarantees (including SCO) is based on expected market prices prior to planting. For more, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79)*.

[12] U.S. Department of Agriculture, FSA-RMA Farm Bill Listening Session, Washington, DC, March 27, 2014.

difficult to independently verify pricing needed to help set price parameters in the insurance policies.

Alfalfa and Industrial Crops

The 2014 farm bill also requires FCIC to enter into contracts to conduct research and development on modifications to insurance currently available for alfalfa through the "forage production" policy. Geographic coverage of the existing policy is limited, and supporters of the provision have said that loss coverage has been inadequate.

FCIC is also to research policies for crops currently not insurable, including biomass sorghum and sweet sorghum grown expressly for the purpose of producing a feedstock for renewable biofuel, renewable electricity, or biobased products.

Provisions for Specialty Crop Producers

Federal crop insurance is available for over 80 specialty crops (including fruit, tree nut, vegetable, and nursery crops), making the program the primary financial safety net for specialty crop producers. While additional policies have been introduced over the last 10 years, producer groups and some Members of Congress during the farm bill debate wanted to improve the safety net for specialty crops, in part since these crops are not eligible for farm commodity support programs.

Whole Farm Insurance

USDA is required to conduct more research on whole farm revenue insurance with higher coverage levels than currently available under the Adjusted Gross Revenue (AGR) and AGR-Lite policies which insure revenue of the entire farm rather than an individual crop.[13] In general, the AGR products are designed to protect producers with specialty crops and/or commodities not covered by individual policies. Historically, whole-farm insurance has seen limited participation, in part because the products are complex, the policies are available only in some parts of the country, and the maximum available coverage of 80% is considered too low for adequate risk protection.

FCIC has been working on a revised whole farm insurance plan that reportedly reflects provisions on whole farm insurance specified in the 2014 farm bill. The farm bill provisions include increasing available coverage from 80% to 85%, and a maximum liability of $1.5 million, up from $1 million for AGR-Lite. Also, eligible producers are to include direct-to-consumer marketers and producers who produce multiple agricultural commodities, including specialty crops, industrial crops, livestock, and aquaculture products. FCIC also may provide diversification-based additional coverage payment rates, premium discounts, or other enhanced benefits in recognition of the risk management benefits of crop and livestock diversification strategies for producers. FCIC can also expand coverage for the value of any packing, packaging,

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[13] AGR-Lite has maximum liability of $1 million compared with $6.5 million for AGR. AGR-Lite does not limit the share of livestock revenue in the guarantee (limited to 35% in AGR). Both products use a producer's five-year historical farm average revenue as reported on the Internal Revenue Service (IRS) tax return form (Schedule F or equivalent forms). Coverage levels range from 65% to 80% of historical revenue.

or any other similar on-farm activity that FCIC determines to be the minimum required in order to remove the commodity from the field.

Organic Prices for Insuring Crops

Current law requires FCIC to broaden coverage for organic crops. To reflect the higher product value and provide additional protection for producers, organic price elections have been made available for 16 crops as of early 2014. The 2014 farm bill extends the current practice by requiring FCIC to offer price elections by 2015 that reflect actual retail or wholesale prices of organic (not conventional) crops for all organic crops produced in compliance with standards issued by USDA under the Organic Foods Production Act of 1990.

"NAP" Enhancement

When crop insurance is not available, catastrophic coverage under the existing noninsured crop disaster assistance program (NAP) can be purchased from USDA's Farm Service Agency. NAP applicants pay an administrative fee (currently $250 per crop), and no premium is charged (like CAT crop insurance). In order to receive a NAP payment, a producer must experience at least a 50% crop loss caused by a natural disaster, or be prevented from planting more than 35% of intended crop acreage. For production losses in excess of the minimum, a producer receives 55% of the average market price for the commodity.

In order to expand coverage for specialty crops and others covered under NAP, the 2014 farm bill provides additional coverage at 50% to 65% of established yield and 100% of average market price. The farmer-paid premium for additional coverage is 5.25% times the product of the selected coverage level and value of production (acreage times yield times average market price). Also, the per-person payment limit is increased from $100,000 to $125,000. Separately, to assist producers with fruit crop losses in 2012, payments associated with additional coverage are made retroactively (minus premium fees) in counties declared a disaster due to freeze or frost.

Index-based Weather Insurance

FCIC is authorized to conduct two or more pilot programs (and approve subsequent policies) for index-based weather insurance. Index weather insurance protects against specific weather events and not actual losses. Priority is given to specialty crops (e.g., fruits and vegetables) and livestock commodities (including pasture, rangeland, and forage) that have had no available coverage or have low participation rates under existing coverage. The subsidy shall not exceed 60% of the estimated premium amount. Administrative and operating expenses are to be reimbursed as with other policies, but federal reinsurance, research and development costs, and other reimbursements or maintenance fees are not provided for these policies. Expenditures from the FCIC fund are limited to $12.5 million per year for FY2015-2018.

Policies may be sold by the approved insurance provider that submits the application as well as others who agree to pay maintenance fees to the submitting provider. Policies cannot be substantially similar to privately available hail insurance.

Food Safety Insurance Study

The 2014 farm bill requires FCIC to contract for a study on coverage for specialty crops that would indemnify producers for production or revenue losses related to food safety concerns such as government, retail, or national consumer group announcements of a health advisory, product removal, or recall related to a contamination concern. FCIC must submit a report to Congress within one year of enactment of the farm bill.

Studies for Animal Agriculture Insurance

Compared with the crop sector, the federal crop insurance program provides only limited coverage for the livestock industry. Relatively new or pilot programs protect livestock and dairy producers from loss of gross margin or price declines. Livestock producers can also insure against hay and forage losses through the Forage Production policy (see "Alfalfa and Industrial Crops" above) and the Pasture, Rangeland, and Forage program, which uses a rainfall index or vegetative index to determine loss.

The 2014 farm bill directs FCIC to study a variety of topics that could lead to additional insurance policies for animal agriculture. FCIC is required to enter into contracts to conduct research and development on policies for the margin between the market value of catfish and input costs and poultry business interruption insurance for poultry growers, including losses due to bankruptcy of an integrator (owner-processor). FCIC is also required to contract for studies on insuring swine producers for a catastrophic event and insuring poultry producers for a catastrophic event.

Conservation Provisions

As directed in the conservation title (II) of the 2014 farm bill, crop insurance premium subsidies are available only if producers are in compliance with wetland conservation requirements and conservation requirements for highly erodible land. USDA expects most producers will be unaffected because the same requirement has been in place for years to maintain eligibility for farm program and other USDA benefits.

Also, to limit the incentive to convert native sod to cropland, a separate provision in the crop insurance title affects producers purchasing policies for crop insurance or noninsured crop disaster assistance program (NAP). For the first four years of planting on native sod acreage in Iowa, Minnesota, Montana, Nebraska, North Dakota, and South Dakota, farmers will pay more for the risk coverage through reduced crop insurance subsidies or higher NAP fees, and the yield guarantee is reduced compared to other cropland. For details, see **Table A-1**.

Provisions for Beginning Farmers

To help develop the next generation of producers, the 2014 farm bill makes several changes to benefit beginning farmers or ranchers with less than five years of experience. For example, to reduce the cost of purchasing crop insurance for beginning farmers or ranchers, the $300 fee for purchasing catastrophic (CAT) coverage is waived. Also, the premium subsidy schedule for additional coverage is increased by 10 percentage points.

To boost the yield guarantee for beginning farmers, the calculation can now use yields recorded by prior producers on the acreage, which might be higher than the alternative when historical data are not available (i.e., 65% of the transitional yield based on county average yields). When historical data are available to establish the producer's actual production history, beginning farmers can replace low yields with a yield equal to 80% of the transitional yield.

Similar benefits are provided under the noninsured crop disaster assistance program (NAP), which provides catastrophic coverage for uninsurable crops. The provision extends the fee waiver for basic NAP coverage to beginning farmers and socially disadvantaged farmers. Premium for additional NAP coverage is reduced by 50% for limited resource, beginning, and socially disadvantaged farmers.[14]

"Budget Neutral" for the Next Standard Reinsurance Agreement

As authorized by the 2008 farm bill, the Federal Crop Insurance Corporation (FCIC) negotiated with private companies to revise the Standard Reinsurance Agreement (SRA) to save federal money and improve program delivery in underserved areas. The SRA, in place since 2011, governs the terms under which the government pays participating insurance companies to sell and service policies and shares underwriting gains or losses with them. The changes made in 2011 put a cap on administrative and operating (A&O) costs and limited agent commissions, measures opposed by the crop insurance companies. Some but not all of the estimated $6 billion in budget savings over 10 years was reinvested back into crop insurance, including expansion of the Pasture, Rangeland, and Forage crop insurance program. FCIC may renegotiate the SRA once every five years.

To ensure that insurance companies are not adversely affected by changes in the next SRA, the 2014 farm bill requires that any revised SRA is budget neutral with respect to estimates of future underwriting gains for the private companies, and the estimated total A&O reimbursements cannot be less than the amounts that would have been provided under the previous SRA. The Manager's Report states their intent is that a renegotiated SRA should not be used as a means of achieving further cuts in the federal crop insurance program. During the farm bill debate, some Members of Congress argued that such cuts, if any, should be made by Congress so it could claim the budget savings towards either deficit reduction or to offset the cost of any new legislative initiative.

Premium Subsidies

Unlike farm commodity programs, the federal crop insurance program does not have an income limit test for program eligibility or premium subsidy limits. The topic was widely discussed in Congress during the farm bill debate, particularly in 2012 and 2013.

A controversial item not included in P.L. 113-79 was the reduction of premium subsidies for high income farmers, a provision that was included in the Senate bill but not the House bill. In the

[14] USDA defines a limited resource farmer or rancher as one who has farm sales not more than $172,800 and household income at or below the national poverty level for a family of four. "Socially disadvantaged" means a group whose members have been subjected to racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities. (7 U.S.C. 2279(e)).

2012 farm bill passed by the Senate in the 112th Congress, an amendment was adopted during floor debate to reduce crop insurance premium subsidies by 15 percentage points for producers with average adjusted gross income greater than $750,000. In 2013, the Senate Agriculture Committee-reported version of S. 954 did not include the provision, but an amendment to S. 954 requiring the subsidy reduction was adopted on the Senate floor in June 2013 by a vote of 59-33. A House amendment to limit crop insurance premium subsidies failed during floor debate in June 2013.[15]

Estimated Cost of the Crop Insurance Title

Prior to enactment of the 2014 farm bill, projected baseline expenditures for the federal crop insurance program were estimated at $84.1 billion over 10 years, according to the Congressional Budget Office. The enacted 2014 farm bill (P.L. 113-79) increased expected outlays for crop insurance relative to this 10-year baseline level by an additional $5.7 billion (**Table 1**).

The largest cost items are the Stacked Income Protection (STAX) for cotton, estimated at $3.3 billion over 10 years, and the Supplemental Coverage Option (SCO), estimated at $1.7 billion over 10 years. Several general enhancements involve expanded coverage for irrigated crops and revising yield history for setting yield guarantees. The combined cost of these upgrades is more than $1 billion over 10 years.

The largest cost savings item for Title XI relates to the interaction between crop insurance and farm programs authorized in Title I. The Agricultural Risk Coverage (ARC) program is designed to cover some losses that crop insurance might otherwise cover. Therefore, producers who enroll their crop in ARC might purchase reduced coverage levels for crop insurance, which would reduce federal expenditures on total premium subsidies and administrative and operating costs.

[15] In the House farm bill debate, prior to the floor vote on the farm bill on June 20, 2013 (which was rejected by a vote of 195-234), the House rejected H.Amdt. 216 by a vote of 208-217. It would have limited premium subsidies to those producers with an adjusted gross income under $250,000, limited per-person premium subsidies to $50,000, and capped crop insurance providers' reimbursement of administrative and operating expenses at $900 million and reduced their rate of return to 12%.

Table 1. Cost of Provisions in the Crop Insurance Title of the 2014 Farm Bill

(in millions of dollars)

Description	5 years: FY2014-FY2018	10 years: FY2014-FY2023
CBO baseline, May 2013, Crop Insurance	**39,592**	**84,105**
CBO score of changes in Title XI (Crop Insurance) of the 2014 farm bill		
Provisions with net savings:		
Premium amounts for catastrophic (CAT) crop insurance	-153	-426
Crop production on native sod	-34	-114
Participation effects of commodity programs[a]	-240	-464
Provisions with net additional costs:		
Supplemental Coverage Option (SCO)	544	1,716
Crop margin coverage	15	40
Enterprise units for irrigated and nonirrigated crops	188	533
Adjustment in actual producer history (APH) yields	120	357
Coverage level by practice	60	168
Beginning farmer and rancher provisions	84	261
Stacked Income Protection (STAX) for cotton	1,054	3,288
Peanut revenue crop insurance	44	119
Implementation	55	70
Crop insurance fraud	36	81
Research and development priorities	16	36
Crop Insurance for organic crops	3	8
Index-based weather insurance	37	50
Subtotal: CBO Score of 2014 Farm Bill changes, Title XI	**1,828**	**5,722**
CBO Estimate of Total Cost of Crop Insurance	**41,420**	**89,827**

Source: CBO baseline and score of the conference agreement of H.R. 2642, the Agricultural Act of 2014, as reported on January 27, 2014.

Notes: Changes to the noninsured crop assistance program (NAP) in Title XII are estimated to increase outlays by $159 million during 2014-2018 and $226 million during 2014-2023.

a. Producers are expected to purchase less crop insurance (which reduces federal costs) when participating in the Agricultural Risk Coverage (ARC) program authorized in Title I.

Appendix. Crop Insurance Provisions in the Enacted 2014 Farm Bill

Table A-1. Crop Insurance Provisions in the Enacted 2014 Farm Bill Compared with Previous Law

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
Information Sharing and Publication of Violations	
USDA, an approved insurance provider and its employees and contractors, and any other person may not disclose to the public information furnished by a producer unless it has been aggregated to avoid disclosure of an individual's information. ***[7 U.S.C. 1502(c)]***	Adds provision that, if authorized by a producer, USDA's Farm Service Agency is to provide to an insurance agent or approved insurance provider any information or maps that may assist the agent or provider insuring the producer. ***[Sec. 11001]***
Adjustments to producer premiums are prohibited as an inducement to purchase crop insurance, with few exceptions. ***[7 U.S.C. 1508(a)(9)]***	To deter potential violators, the Federal Crop Insurance Corporation (FCIC) is required to publish in detail (but without disclosing identities) any violations of the existing prohibition on adjustments to premiums, including sanctions imposed. ***[Sec. 11002]***
Supplemental Coverage Option (SCO)	
No comparable provision.	Makes available to crop producers a policy called Supplemental Coverage Option (SCO) to cover part of the deductible under the producer's underlying policy. SCO is an area-wide (e.g., county) yield or revenue loss policy, whereby an indemnity is paid on area losses not more than the deductible level (e.g., 25%) selected by the producer for the underlying individual policy. Coverage is triggered by losses greater than 14%, and policy coverage cannot exceed the difference between 86% and the coverage level selected by the producer for the underlying policy. Acres covered by Agriculture Risk Coverage (ARC) or STAX (see below) are not eligible for SCO. SCO policies are to be made available for all crops if sufficient data are available. Premium subsidized at 65%. Coverage to begin no later than the 2015 crop year. ***[Sec. 11003]*** A crop margin coverage option is available as a single policy or in combination with a yield or revenue loss policy. ***[Sec. 11004]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
Catastrophic Yield Policies (CAT)	
Catastrophic yield policies (CAT) are available for yield losses greater than 50%. Premium is fully subsidized, and producer pays an administrative fee of $300 per crop per county. Participating crop insurance companies are reimbursed for selling and servicing the policies based on the premium amount. ***[7 U.S.C. 1508(d)(2)]***	CAT remains fully subsidized, and reimbursements to private insurance companies remain tied to the calculated premium. To reduce government costs of reimbursement, the calculated premium is reduced by the percentage equal to the difference between the average loss ratio (premiums divided by indemnities times 100) for the crop and 100%, plus a reasonable reserve as determined by FCIC. ***[Sec. 11005]*** **In Title XII—Miscellaneous**: Prohibits CAT coverage on crops and grasses used for grazing. ***[Sec. 12305(b)]***
Enterprise and Whole Farm Units	
Crops are insured based on geographic units defined in the insurance policy. The basic unit covers land in one county with the same tenant/landlord. An optional unit is a basic unit divided into smaller units by township section. An enterprise unit covers all land of a single crop in a county for a producer, regardless of tenant/landlord structure. A whole farm unit covers more than one crop. For a policy with an enterprise or whole farm unit paragraph, ***<u>on a pilot basis</u>***, the percentage of the premium paid by the government shall provide the same dollar amount of premium subsidy per acre as for other units, up to 80%. ***[7 U.S.C. 1508(e)(5)]***	The subsidy for enterprise and whole farm units is made permanent (previously a pilot basis). ***[Sec. 11006]*** Beginning with the 2015 crop year, separate enterprise units will be available for irrigated and nonirrigated acreages of crops. ***[Sec. 11007]***
Data Collection for Yield Guarantees; Yield Adjustments	
FCIC bases policy guarantees on a producer's actual production history (APH) for the crop, or on county yields for area-wide policies. The APH is based on producer yields for the prior 4 to 10 years. ***[7 U.S.C. 1508(g)(2)]***	Specifically directs FCIC to use county data collected by USDA's Risk Management Agency and/or National Agricultural Statistics Service. If such data are not available, it may use other data considered appropriate by the Secretary of Agriculture. ***[Sec. 11008]***
If, for one or more of the crop years used to establish the producer's actual production history (APH) of an agricultural commodity, the producer's recorded or appraised yield of the commodity was less than 60% of the applicable transitional yield (based on 10-year historical county average yield), FCIC can at the election of the producer exclude the recorded or appraised yield and replace it with a yield equal to 60% of the applicable transitional yield. Concept is known as yield substitution with a "yield plug." ***[7 U.S.C. 1508(g)(4)(B)]***	Yield plug remains unchanged from current law but producers may elect to exclude any recorded or appraised yield from the APH calculation if the crop yield in the county is less than 50% of the 10-year county average. Separate determinations are made for irrigated and nonirrigated acreage. Producers in contiguous (adjacent) counties can do the same. ***[Sec. 11009]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
Policy Research Development, Review, Approval, and Cost Reimbursement	
An approved insurance provider, a college or university, a cooperative or trade association, or others may prepare for submission or propose to FCIC crop insurance policies and provisions of policies. ***[7 U.S.C. 1508(h)(1)]*** Under sections 522 and 523 of the Federal Crop Insurance Act, FCIC may enter into contracts to carry out research and development for new crop insurance policies (but may not conduct research itself). FCIC shall establish as one of the highest research priorities the development of a pasture, range, and forage program. It shall provide a payment to an applicant for research and development costs. ***[7 U.S.C. 1522]***	Adds requirement that FCIC must review and submit to the FCIC Board any policy developed under section 522(c) or pilot program developed under section 523 if FCIC determines that it will likely result in (i) a viable and marketable policy, (ii) would provide crop insurance coverage in a significantly improved form, and (iii) adequately protects the interests of producers. Also, the Board shall review and approve for sale a new policy if the Board determines: (i) the interests of producers are adequately protected, (ii) the proposed policy will: (I) provide a new kind of coverage that is likely to be viable and marketable; (II) provide crop insurance coverage in a manner that addresses a clear and identifiable flaw or problem in an existing policy; or (III) provide a new kind of coverage for a commodity that previously had no available crop insurance, or has demonstrated a low level of participation or coverage level under existing coverage; and (iii) the proposed policy will not have a significant adverse impact on the crop insurance delivery system. The Board is to give first priority to new policies that address underserved commodities (limited or no available coverage), and then to existing policies for which there is inadequate coverage or there exists low levels of participation. Requires by the 2015 crop year a revenue policy for peanut producers and a margin coverage policy for rice producers. ***[Sec. 11010(a)]***
The Board may approve up to 50% of the projected total research and development costs to be paid in advance to an applicant if it determines that: (i) the concept will likely result in a viable and marketable policy consistent with section 1508(h) of this title; (ii) in the sole opinion of the Board, the concept would provide crop insurance coverage-(I) in a significantly improved form; (II) to a crop or region not traditionally served by the federal crop insurance program; or (III) in a form that addresses a recognized flaw or problem in the program; (iii) the applicant agrees to provide such reports as FCIC determines are necessary to monitor the development effort; (iv) the proposed budget and timetable are reasonable; and (v) the concept proposal meets any other requirements that the Board determines appropriate. ***[7 U.S.C. 1522(b)(2)]***	Same as current law and authorizes Board to waive the 50% limitation and approve an additional 25% advance payment if the intended policy will provide coverage for a region or crop that is underserved by the federal crop insurance program, including specialty crops, and the submitter is making satisfactory progress towards developing a viable and marketable policy. ***[Sec. 11010(b)]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
A private sector entity can propose an insurance plan to be added to the FCIC portfolio of products. A process must be established to review and approve products. ***[7 U.S.C. 1508(h)(4)]***	As part of the submission process for policies involving fruits and vegetables, tree nuts, dried fruits, and horticulture and nursery crops (including floriculture), the applicant must consult with producer groups potentially affected. Any submission must contain a summary of these findings. FCIC shall determine if the policy will create adverse market distortions. ***[Sec. 11011]***
Standard Reinsurance Agreement and Risk-Sharing	
The Standard Reinsurance Agreement (SRA) between FCIC and private companies defines expense reimbursements and risk-sharing by the government, including the terms under which the government provides subsidies and reinsurance (i.e., insurance for insurance companies) on eligible crop insurance contracts sold or reinsured by insurance companies. FCIC may renegotiate the SRA once every 5 years. ***[7 U.S.C. 1508(k)(8)]***	Any renegotiated SRA is to be budget neutral with respect to underwriting gains. Also, estimated reimbursement for administrative and operating (A&O) costs cannot be less than the amounts under the immediately preceding SRA if it were extended. Any budget savings from a renegotiated SRA shall be used to increase underwriting gains or A&O reimbursements. ***[Sec. 11012]***
Corn with Low Test	
Under an insurance policy, if an agricultural commodity does not meet established quality standards, actual production (used for determining the indemnity) is reduced accordingly. ***[7 U.S.C. 1508(m)]***	FCIC shall establish procedures to allow insured producers not more than 120 days to settle claims involving corn that is determined to have low test weight. FCIC is to implement this provision on a regional basis based on market conditions and the interests of producers. Authority for this provision terminates 5 years after implementation. ***[Sec. 11013]***
Crop Production on Native Sod ("Sod Saver") and Conservation Compliance	
Sod Saver: Subject to a geographic condition below, native sod planted to an insurable crop (over 5 acres) is ineligible for crop insurance and the noninsured crop disaster assistance program (NAP) for the first 5 years of planting. May apply to virgin prairie converted to cropland only in the Prairie Pothole National Priority Area, if elected by the state. ***[7 U.S.C. 1508(o)]*** and ***[7 U.S.C. 7333(a)(4)]*** To complete the actual production history (APH) database used for calculating the yield guarantee, a farmer can use a variable percentage of the transitional yield (T-yield), depending on the number of years of actual history: 1 year = 80%, 2 years = 90%, 3 years =100%. ***[p. 254 of the 2014 Crop Insurance Handbook, FCIC 18010]*** Yield substitutes are allowed**.** ***[See above: 7 U.S.C. 1508(g)(4)(B)]***	During the first 4 years of planting, crop insurance and NAP benefits are reduced on native sod acreage in Minnesota, Iowa, North Dakota, South Dakota, Montana, and Nebraska. Provisions include: (1) a reduction in the crop insurance premium subsidy by 50 percentage points, and NAP fee is doubled; (2) annual data for APH are equal to 65% of the transitional yield for all four years rather than the higher, variable percentage applicable for other cropland; and (3) for crop insurance, yield substitutes are not allowed; that is, low farm yields must be used in the APH rather than replacing them with potentially higher T-yields. (On other cropland, producers can substitute 60% of the T-yield for any actual yield below 60% of the T-yield). USDA is required to submit an annual report to Congress that describes cropland acreage in each applicable county and state, and the change in cropland acreage from the preceding year, beginning with calendar year 2000. ***[Sec. 11014]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
Conservation Compliance: In exchange for certain USDA program benefits, including commodity support programs, conservation programs, disaster payments, and operating loans, a producer agrees to maintain a minimum level of conservation on highly erodible land. Highly erodible land can be considered eligible for program benefits if the land user agrees to cultivate the land using an approved conservation plan or qualifies for an exemption. ***[16 U.S.C. 3811 et seq.]***	**In Title II—Conservation:** Adds the federally funded portion of crop insurance premiums to the list of program benefits that could be lost if a producer is found to produce an agricultural commodity on certain converted wetlands or highly erodible land without an approved conservation plan or qualifying exemption. Violation resulting in ineligibility for crop insurance subsidy payments applies to reinsurance years subsequent to the date of the final determination of a violation (including all appeals). ***[Sec. 2611(a)]***
Coverage Levels by Practice	
No comparable provision.	Beginning with the 2015 crop year, a producer who grows a crop on both dry land and irrigated land may elect a different coverage level for each production practice. ***[Sec. 11015]***
Provisions for Beginning Farmers and Ranchers	
For catastrophic risk protection (CAT), producers pay an administrative fee of $300 per crop per county. ***[7 U.S.C. 1508(b)(5)(A)]*** The fee is waived for limited resource farmers (defined by USDA as those who have farm sales not more than $172,800 and household income at or below the national poverty level for a family of four). ***[7 U.S.C. 1508(b)(5)(E)]*** Premium subsidies for buy-up coverage (above CAT) depend on level of coverage. ***[7 U.S.C. 1508(e)]*** For producers without historical yield data, the assigned yield in yield coverage plans is not less than 65% of the transitional yield of the producer or as determined by FCIC. ***[7 U.S.C. 1508(g)(2)(B)]*** When FCIC uses the actual production records of the producer to establish the producer's actual production history, an individual year may be excluded from the yield history if the appraised yield is less than 60% of the transitional yield, and the excluded yield can be replaced with a yield equal to 60% of the transitional yield. ***[7 U.S.C. 1508(g)(4)(B)(ii)]***	"Beginning farmer or rancher' means a farmer or rancher who has not actively operated and managed a farm or ranch with a bona fide insurable interest in a crop or livestock as an owner-operator, landlord, tenant, or sharecropper for more than 5 crop years, The following is provided for beginning farmers or ranchers: (1) waiver of CAT fees, (2) premium assistance that is 10 percentage points greater than general subsidy schedule, (3) in the absence of historical data, an assigned yield that can be based on the crop yields recorded by prior producers on the acreage, and (4) excluded yields can be replaced with a yield equal to 80% of the transitional yield. ***[Sec. 11016]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
New Policies: Stacked Income Protection Plan (STAX) for Producers of Upland Cotton and Peanut Revenue Crop Insurance	
No comparable provision.	Beginning with the 2015 crop, the FCIC shall make available to producers of upland cotton the Stacked Income Protection Plan (STAX), which is a revenue-based, area-wide policy that may be purchased as a stand-alone policy or purchased in addition to any other individual or area policy. Indemnifies losses in county revenue of greater than 10% of expected revenue but not more than the deductible level (e.g., 25%) selected by the producer for the underlying individual policy (or not more than 30% if used as stand-alone policy). Coverage is based on the expected price used for existing area-wide policies and the higher of expected county yields established for existing area-wide policies or the 5-year Olympic average county yield (Olympic average excludes the high and low years), using data from USDA's Risk Management Agency and/or National Agricultural Statistics Service or other data as considered appropriate by the Secretary). Indemnities are paid based on the amount that the actual county revenue falls short of the expected county revenue, as applied to the individual coverage of the producer. For individual producers, indemnities for STAX and other policies cannot overlap. The premium subsidy is 80% plus the amount for A&O. The calculated premium covers: (1) anticipated losses and a reasonable reserve, and (2) an amount for administrative and operating expenses. Policies are to be offered in all producing counties at the county level, or on the basis of a larger geographic area if necessary. Separate coverage levels are available for irrigated and nonirrigated practices. A factor of not more than 120% is available to increase protection per acre ***[Sec. 11017]*** Cotton is not a covered commodity eligible for Price Loss Coverage (PLC) or Agriculture Risk Coverage (ARC) in Title I of the 2014 farm bill. ***[Sec. 1111(6)]***
No comparable provision.	Beginning with the 2015 crop year, the FCIC shall make available a revenue policy for peanut producers and use the Rotterdam price index or other appropriate prices as determined by the Secretary. The effective price may be adjusted to correct distortions, but the adjustment must be done in an open and transparent manner and a report must be submitted to Congress describing the reasons for the adjustment. ***[Sec. 11018]*** The approval of a peanut revenue policy is to be made a priority for FCIC. ***[Sec. 11010(a)]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
Correcting Errors	
To improve program compliance and integrity, FCIC shall work with approved insurance providers to address program compliance and integrity issues. ***[7 U.S.C. 1515(a)(2)]*** Inaccurate information on an insurance application can result in noncompliance, which voids the policy and may result in civil fines and program disqualification for up to 5 years. ***[7 U.S.C. 1515(h)]*** The FCIC and USDA's Farm Service Agency shall reconcile producer-derived information on at least an annual basis in order to identify and address any discrepancies. ***[7 U.S.C. 1515(c)]***	FCIC shall establish procedures that allow an agent and approved insurance provider to correct (within a reasonable amount of time) errors in information that is provided by a producer to ensure that the eligibility (and other) information is correct and consistent with information reported by the producer for other USDA programs. Additional provisions allow for corrections of data issued by the Farm Service Agency or electronic transmission errors made by an agent, approved insurance provider, or USDA agencies. Correction may only be made if they do not allow the producer to: (1) avoid ineligibility requirements for insurance or obtain a disproportionate benefit; (2) obtain and enhance an insurance guarantee or indemnity if a cause of loss exists or has occurred before any correction has been made, or avoid premium owed if no loss is likely to occur; or (3) avoid an obligation or requirement under any federal or state law. Any corrections made within a reasonable amount of time shall not be subject to late filing fees. Also, provides authority to allow a producer to purchase crop insurance after the sales closing date under certain conditions. ***[Sec. 11019]***
Implementation and Fraud Detection	
USDA is to ensure that new hardware and software for administering the program are compatible with that already used by USDA agencies in order to maximize data sharing needed for proper program delivery. ***[7 U.S.C. 1515(j)]*** Funding is provided from the insurance fund: $15 million for each of FY2008 through FY2010 and not more than $9 million in FY2011. ***[7 U.S.C. 1515(k]***	USDA shall develop and implement an Acreage Crop Reporting Streamlining Initiative (ACRSI) project to allow producers to report acreage and other information directly to USDA. FCIC may use up to $14 million in FY2014 and $9 million per year for FY2015 through FY2018 from the insurance fund. An additional $5 million per year is available for each of FY2015-2018 if the ACRSI project is substantially completed by September 30, 2015. USDA shall notify Congress on the status of the project no later than July 1, 2015. ***[Sec. 11020]***
FCIC may use up to $3.5 million of the insurance fund to pay for costs associated with implementing plans of insurance and for review of policies. ***[7 U.S.C. 1516(b)(2)]***	Adds authority to use up to $9 million per year of the insurance fund to pay for costs associated with maintaining program integrity and compliance activities and to assist in maintaining program actuarial soundness and financial integrity. ***[Sec. 11021]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
Research and Development Priorities	
FCIC may enter into contracts to carry out research and development for new crop insurance policies but may not conduct research itself. FCIC shall establish as one of the highest research priorities the development of a pasture, range, and forage program. ***[7 U.S.C. 1522(c)]***	In addition to contracting, allows FCIC to conduct research and development activities to maintain or improve existing policies or develop new policies. ***[Sec. 11022(a)(1-3)]*** Replaces the priority on pasture, range, and forage program with policies that increase participation by producers of underserved agricultural commodities, including sweet sorghum, biomass sorghum, rice, peanuts, sugarcane, alfalfa, pennycress, dedicated energy crops, and specialty crops. ***[Sec. 11022(a)(5)]*** Requires FCIC to enter into contracts to conduct research and development on policies for: (1) the margin between the market value of catfish and input costs; (2) biomass sorghum and sweet sorghum grown expressly for the purpose of producing a feedstock for renewable biofuel, renewable electricity, or biobased products; (3) whole farm insurance (see below); (4) poultry business interruptions insurance for poultry growers, including losses due to bankruptcy of an integrator (owner-processor), with research contract entered within 180 days of enactment of the farm bill and a summary report submitted to Congress within 1 year of enactment; and (5) alfalfa crop insurance, with a summary report submitted to Congress within 1 year of enactment of the farm bill. ***[Sec. 11022(a)(7)]*** Requires FCIC to contract for studies on: (1) insuring swine producers for a catastrophic event, (2) insuring poultry producers for a catastrophic event, (3) providing production or revenue loss coverage for specialty crops related to food safety and contaminations issues, including public announcements. FCIC must submit reports on each to Congress within 1 year of enactment of the farm bill. ***[Sec. 11022(a)(7)]***
Adjusted Gross Revenue (AGR) and AGR-Lite policies insure revenue of the entire farm rather than an individual crop. Both use a producer's five-year historical farm average revenue as reported on the Internal Revenue Service (IRS) tax return form (Schedule F or equivalent forms). Coverage levels range from 65% to 80% of historical revenue, and maximum liability is $6.5 million for AGR and $1million for AGR-Lite. ***[7 U.S.C. 1523]***	Unless FCIC approves an enhanced whole farm insurance plan by 2016, FCIC shall conduct activities or enter into contracts to carry out research and development to develop an enhanced version of the whole farm risk management insurance plan. Available coverage is increased from 80% to 85%, and maximum liability is $1.5 million (up from $1 million for AGR-Lite). Eligible producers include direct-to-consumer marketers and producers who produce multiple agricultural commodities, including specialty crops, industrial crops, livestock, and aquaculture products. The FCIC may provide diversification-based additional coverage payment rates, premium discounts, or other enhanced benefits in recognition of the risk management benefits of crop and livestock diversification strategies for producers. The FCIC also may include coverage for the value of any packing, packaging, or any other similar on-farm activity that FCIC determines to be the minimum required in order to remove the commodity from the field. ***[Sec. 11022(a)(7)]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
Miscellaneous	
Organic policies: Requires FCIC to improve coverage for organic crops. ***[U.S.C. 1522(c)(10)]*** As of early 2014, USDA offered organic price elections for 16 crops, which increases the insurable value for organic producers.	By 2015, requires FCIC to offer price elections that reflect actual retail or wholesale prices of organic (not conventional) crops. Applies to all organic crops produced in compliance with standards issued by USDA under the Organic Foods Production Act of 1990. FCIC must submit an annual report to Congress on crop insurance for organic crops. ***[Sec. 11023]***
Partnerships for risk management development and implementation: FCIC is authorized to enter into partnerships with public and private entities for the purpose of increasing the availability of loss mitigation, financial, and other risk management tools for producers, with a priority given to risk management tools for producers of agricultural commodities covered by the noninsured crop assistance program (NAP), specialty crops, and underserved agricultural commodities. ***[U.S.C. 1522(d)]***	Revises the purpose and objective of partnerships to also include improving analysis tools and technology regarding compliance or identifying and using innovative compliance strategies. ***[Sec. 11024]*** Adds "farm financial benchmarking" to the list of partnership objectives. The term is defined as the process of comparing the performance of an agricultural enterprise against the performance of other similar enterprises through the use of comparable and reliable data, in order to identify business management strengths, weaknesses, and steps necessary to improve business profitability. ***[Sec. 11027]***
Pilot programs: FCIC may conduct a pilot program submitted to and approved by the Board to evaluate whether a proposal or new risk management tool is suitable for the marketplace and addresses the needs of producers. After the completion of pilot program, FCIC shall submit to Congress a report on its operation and include recommendations on implementing the program on a national basis. ***[7 U.S.C. 1523(a)]*** FCIC shall not conduct any pilot program that provides insurance protection against a risk if a policy is generally available from private companies. ***[7 U.S.C. 1523(a)(2)]***	Eliminates the requirement that FCIC evaluate pilot programs and submit a report to Congress. ***[Sec. 11025]*** FCIC is authorized to conduct two or more pilot programs to provide producers of underserved specialty crops and livestock commodities (including pasture, rangeland, and forage) with index-based weather insurance. The FCIC Board shall approve two or more proposed policies, if certain conditions are met, including experience and financial requirements of the approved provider. Priority is given to new kinds of coverage for specialty crops and livestock that previously had no available crop insurance or have low participation under existing coverage. The subsidy shall not exceed 60% of the estimated premium amount. Administrative and operating expenses are to be reimbursed, but federal reinsurance, research and development costs, and other reimbursements or maintenance fees are not provided for these policies. Policies may be sold only by the approved provider that submits the application; others may also sell them if maintenance fees are paid to the provider who submitted the proposal. The FCIC must develop and publish procedures that (1) require each approved insurance provider to report sales, acreage, and claim data to allow FCIC to evaluate sales and performance; and (2) ensure that the products do not have a significant adverse impact on the crop insurance delivery system, are in the best interests of producers, and do not result in a reduction of program integrity. Policies cannot be substantially similar to privately available hail insurance. Mandatory funding from FCIC fund is limited to $12.5 million per year for FY2015-2018. ***[Sec. 11026]***

Previous Law/Policy	2014 Farm Bill (P.L. 113-79)
Education and risk management assistance: The Secretary, acting through the National Institute of Food and Agriculture, shall establish a program under which competitive grants are made to qualified public and private entities (including land grant colleges, cooperative extension services, and colleges or universities) for the purpose of educating agricultural producers about the full range of risk management activities, including futures, options, agricultural trade options, crop insurance, cash forward contracting, debt reduction, production diversification, farm resources risk reduction, and other risk management strategies. ***[7 U.S.C. 1524(a)(3)(A)]***	Adds farm financial benchmarking to the list of risk management activities. ***[Sec. 11027]***
No comparable provision.	Various technical amendments, including a provision that requires notice to Congress if the Standard Reinsurance Agreement is renegotiated. ***[Sec. 11028]***
Noninsured Crop Disaster Assistance Program (NAP)	
The Noninsured Crop Disaster Assistance Program (NAP) has permanent authority under Section 196 of the Federal Agriculture Improvement and Reform Act of 1996, and receives such sums as necessary in mandatory funding. Growers of crops not insurable under the crop insurance program are eligible for NAP. A payment is made to an eligible producer whose actual production is less than 50% of the established (historical) yield for the crop. The payment rate is 55% of the average market price. Producers pay a fee of $250 per crop per county, or $750 per producer per county, not to exceed $1,875 per producer. The fee is waived for a limited resource farmer. The Farm Service Agency administers the program. ***[7 USC 7333]***	**In Title XII—Miscellaneous**: Makes available for crop years 2015-2018 additional coverage under NAP at 50% to 65% of established yield and 100% of average market price. Premium for additional coverage is 5.25% times the product of the selected coverage level and value of production (acreage times yield times average market price). The maximum premium is 5.25% times the payment limit ($125,000). Extends fee waiver for basic NAP coverage to beginning and socially disadvantaged farmers. Premium for additional NAP coverage is reduced by 50% for limited resource, beginning, and socially disadvantaged farmers. For producers with fruit crop losses in 2012, payments associated with additional coverage are made retroactively (minus premium fees) in counties declared a disaster due to freeze or frost. Maintains industrial crops as eligible for NAP but specifies that industrial crops include those grown expressly for the purpose of producing a feedstock for renewable biofuel, renewable electricity, or biobased products. Specifically adds sweet sorghum and biomass sorghum to list of eligible crops for NAP. Crops and grasses for grazing are not eligible for additional coverage but remain eligible for catastrophic coverage. ***[Sec. 12305(a)]***
The total amount of payments received per person for any crop year may not exceed $100,000. ***[7 USC 7333(i)(2)]***	Payment limit is increased to $125,000. ***[Sec. 12305(a)(2)]***

Source: CRS.

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