Crop insurance is an important risk management tool available to agriculture producers’ including farmers and ranchers to help protect them against declines in crop yields and/or revenue. According to the National Crop Insurance Services, in 2013 farmers spent roughly $4.5 billion to purchase 128 different kinds of crops. There are two types of crop insurance; the federally subsidized multiple-peril crop insurance and state-regulated private crop insurance.

The U.S. Department of Agriculture’s (USDA) Risk Management Agency (RMA) administers the subsidized multiple-peril federal crop insurance program. The program is permanently authorized by the Federal Crop Insurance Act; however, it is occasionally modified by Congress. Typically, every five years Congress passes a “farm bill,” that sets national agricultural policy. In 2012, the Food, Conservation, and Energy Act of 2008 (the 2008 farm bill) expired and then was consequently extended for one year. After long, careful deliberations, a new farm bill has finally emerged. The U.S. House of Representatives approved the Agricultural Act of 2014 (the 2014 farm bill) by a vote of 251-166 and the U.S. Senate by a vote of 68-32, and President Barack Obama signed the measure into law Feb. 7, 2014.

The 2014 farm bill makes major changes in commodity programs, adds new crop insurance options and expands programs for specialty crops, organic farmers, bioenergy and rural development. While the 2014 farm bill affects much more than just farming, this article focuses mostly on the impacts on crop insurance. For an overview of crop insurance, please see the article Crop Insurance Takes Center Stage published in the January 2013 CIPR Newsletter and visit some of the websites provided at the end of the article.

**Commodity Programs**

One of the biggest changes in the 2014 farm bill is the commodity title of the law repeals direct payments, countercyclical payments, and the Average Crop Revenue Election (ACRE) Program. Instead of receiving direct and countercyclical payments, which were automatic and based on farm prices, acreage and yields, the role of crop insurance as producers’ safety net will expand. The federal government will continue to subsidize a portion of producers’ crop insurance premiums. Beginning with the 2014 crop year, a producer will have the option to choose between two new programs to augment their crop insurance policy: either the Price Loss Coverage (PLC) program or the Agricultural Risk Coverage (ARC) program.

These new programs, in addition to their crop insurance policy, are designed to compensate farmers against losses or low farm prices. PLC provides payments when the price of a crop drops below a fixed reference price while ARC covers revenue losses at either the individual farm level or at the county-level. Another provision in this section permanently establishes a livestock disaster program and provides emergency assistance to eligible producers of livestock, honey bees, and farm-raised fish. This section provides livestock indemnity payments to eligible producers on farms that have incurred excess livestock death losses.

**Crop Insurance**

The 2014 farm bill also introduces new products—including Supplemental Coverage Option (SCO) and the Stacked Income Protection Plan (STAX)—to help producers expand their protection against losses due to natural disasters or price declines.

**Supplemental Coverage Option:** SCO covers part of a crop insurance policy deductible. This insurance program establishes coverage levels beginning when losses exceed 14% and has a premium subsidy of 65%.

**Stacked Income Protection Plan:** STAX was created for cotton producers and covers county-wide revenue losses less than 10% and not more than the farmer-selected deductible amount.

**Beginning Farmers and Ranchers Development Program:** Under the law, a “beginning farmer or rancher” is defined as 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 five crop years. Beginning farmers and ranchers will be exempt from paying the premium.

(Continued on page 16)
$300 administrative fee for catastrophic coverage policies, and will receive premium subsidy assistance for additional coverage policies. Additionally, there is increased access to credit and loans provided for in Title V which allows for more opportunities to beginning farmers and ranchers.

**Conservation Compliance:** The 2014 farm bill includes a new provision stipulating crop insurance premium subsidies are available only if farmers are in compliance with wetland conservation requirements and conservation requirements for highly erodible land.

**Other Related Provisions:** The law also tasks the USDA to carry out research and development for new crop insurance policies; establish a peanut revenue insurance program; develop a whole farm risk management insurance plan; and undertake a study of food safety insurance.

**OVERALL IMPACT**
According to the U.S. House of Representatives’ Committee on Agriculture, the Agricultural Act of 2014 will save taxpayers $23 billion in mandatory federal spending and includes the most significant reduction to farm policy spending in U.S. history. This farm bill puts much more emphasis on risk management and crop insurance. In its newsletter, the National Crop Insurance Services, a statistical agency for crop insurance writers, reported the widespread industry support for the farm bill.9

**ADDITIONAL INFORMATION**
For additional information on the Agricultural Act of 2014 or to understand the different types of crop insurance, you can visit the USDA10 and RMA11 websites. You can also visit the following helpful links.

- NAIC Crop Insurance Working Group (www.naic.org/committees_c_ciwg.htm)
- National Crop Insurance Services (www.ag-risk.org/)

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**ABOUT THE AUTHORS**

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10 United States Department of Agriculture (www.ers.usda.gov)
11 Risk Management Agency (www.rma.usda.gov/help/faq/farmbill.html)
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