

Removing Obstacles to Conservation in Crop Insurance



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The Biden Administration's renewed focus on climate change provides an opportunity to explore the role federal policy plays in efforts to reduce greenhouse gas emissions and to mitigate the effects on consumers, businesses, and taxpayers. As part of this opportunity, policymakers and industry groups are debating how the agriculture sector can effectively contribute to the President's climate goals. Several administrative and legislative proposals seek to pay farmers, through private markets or federal programs, to sequester carbon in soils by planting cover crops, reducing tillage, or implementing other climate-friendly conservation practices. Left out of most of these debates is an exploration of how federal policy currently serves as a disincentive to conservation adoption. If Congress and the President aim to achieve climate goals, while helping farmers implement better conservation measures, federal farm subsidies must first be reformed to not be an obstacle to agricultural climate adaptation.

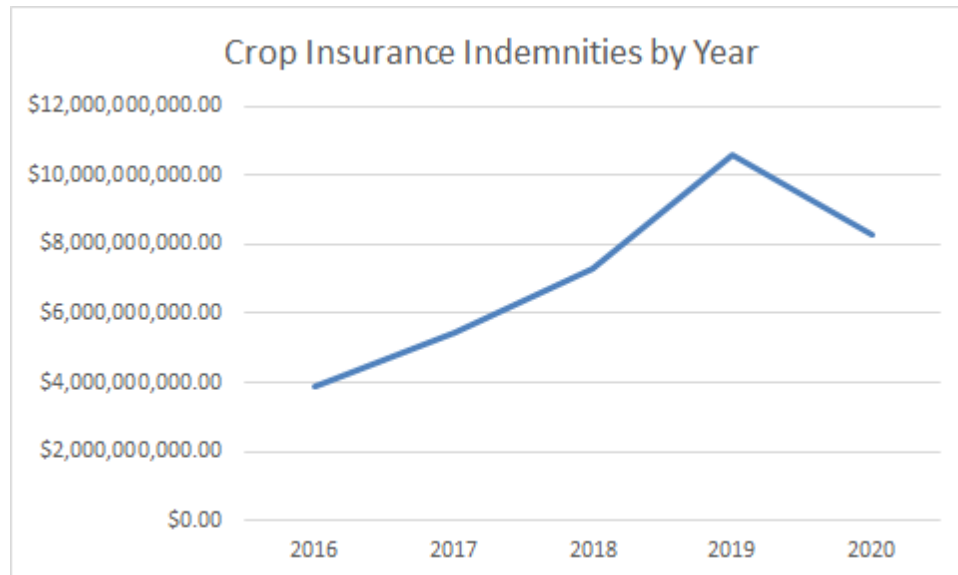
Agricultural conservation practices, if implemented properly on the ground and continued from year to year, provide many benefits. Incorporating conservation practices into agricultural production can help farmers and ranchers increase efficiency, reduce operator costs, increase yields, and ultimately position themselves to be better prepared for the next disaster or financial challenge. This increased physical and financial resilience reduces dependence on federal income subsidies. However, current federal agriculture policies and subsidies – particularly crop insurance subsidies – often discourage the uptake of smart conservation practices. These programs in turn over-insulate producers from the effects of climate change.

Before creating new subsidies in unproven programs such as a new carbon bank or expanding the federal government's role in crop insurance, federal farm subsidy programs should be reformed to eliminate perverse incentives, remove barriers to conservation within the existing federal farm safety net, and reduce – instead of expand – taxpayers' role in mitigating risks that should be borne by producers themselves.

Crop Insurance Background

The federal crop insurance program is routinely the costliest farm income subsidy program, costing taxpayers on average \$8 – 9 billion annually. Most crop insurance policies (70 percent) are revenue policies, subsidizing farm businesses due to dips in annual revenue, rather than from crop loss due to unexpected weather or disease. Crop insurance thus ensures an expected level of income for producers every year, regardless if they experience an actual loss of crops (known as yield). In 2020, \$8.2 billion in [indemnities](#) were distributed to agribusinesses (please see figure below). The program provides subsidized insurance for over 100 crops, though nearly three-fourths of indemnities regularly go to producers of just five crops – corn, soybeans, wheat, rice, and cotton. Because federally subsidized crop insurance is tied to planted acreage, agribusinesses can expand their eligibility for federal payments if they plant more acres to these favored crops.

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Crop insurance negatively impacts the nation's soil health by incentivizing production over risk management. This leads to increased fertilizer use to produce more yield, increased [input costs](#) for producers, and decreased [water quality](#) due to agricultural runoff of fertilizers into nearby waterways. The crop insurance program is geared toward monoculture production practices. For instance, corn receives the most subsidies each year while farmers planting cover crops or restoring native grasslands receive no subsidies at all.

How Federal Crop Insurance Discourages Conservation

While called insurance, federal crop insurance is effectively an income guarantee program. As a whole, for every \$1 in premiums paid by producers, they've received [\\$2.34 in indemnity payments](#) since 2011. Meanwhile the program costs federal taxpayers between [\\$8-9 billion](#) annually. This is because of taxpayer subsidies and the design of the program. These consist of subsidies to purchase policies (60% of premium is covered by taxpayers), to private companies for servicing policies (\$1.5 billion), and underwriting agreements where taxpayers bear most risk of loss. Besides its "generosity," the federal crop insurance program differs from traditional insurance by muting, or eliminating, market signals:

- **Mitigating Risk Mitigation.** Unlike normal insurance, the federal crop insurance program fails to individualize premium rates and treats all individuals in certain areas as equally risky. Producers do not receive discounts for implementing risk-reducing conservation practices such as installing grassed buffers near waterways, reducing tillage, planting cover crops, or other practices known to reduce risk of loss. In other words, a "good driver" discount does not currently exist in crop insurance.

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- **Maximizing Payment through Monoculture.** Crop insurance policies are purchased on an individual crop basis (corn, soybeans, cotton, etc.) and tied to planted acres. Cover crops or fallow ground are not insurable. Producers can maximize subsidies by maximizing planted acres – such as plowing under existing grassed buffers, tearing out fences, bulldozing old farmhouses, cutting down trees, and installing drainage tile that speeds the flow of rainwater from the field to nearby waterways. These are just a few obstacles as to why producers do not implement conservation practices on their own – particularly commodity crop growers – because the farm subsidy system favors fencerow-to-fencerow production versus long-term sustainability.
- **Ignoring Reality.** An individual's crop insurance revenue guarantee is supposed to be based on an expected price (from public futures markets) and the producer's "Actual Production History" (20 years) on the land being cultivated. But the 2014 farm bill allows producers to exclude the bad years, up to 12 years worth, from the revenue calculation. This yield exclusion provision allows producers to ignore reality and provides an artificially high level of expected revenue.

While limited conservation accountability strings were attached to crop insurance eligibility in the 2014 farm bill, these provisions have not been implemented properly on the ground, meaning a farmer can plow native grasslands in certain states and still receive the same level of crop insurance subsidies that would otherwise be available. However, crop production on this land is usually riskier and more prone to crop losses from drought, floods, etc. Other conservation standards aimed at limiting wetland drainage and better conserving soil on highly erodible land have also been watered down in practice. For these reasons, the federal crop insurance program incentivizes production over risk management.

Conservation Practices Reduce Risk and Maximize Productivity

[Evidence](#) shows that adopting conservation practices can make farmers and ranchers more profitable. [American Farmland Trust](#) studies have documented the net economic benefits that result from when farm businesses – ranging from corn and soybean producers in the Corn Belt to almond growers in California - invest in various soil health practices. The [Environmental Defense Fund](#) conducted a similar analysis, finding that four Pennsylvania dairy operations varying in size from 70 to 1,300 head and cultivated crop lands from 50 to 700 acres, benefited from increased yields, reduced input costs, and increased profitability from the adoption of conservation practices. Repeatedly studies and observations are finding [increased yields](#) in drought years, [increased water filtration](#), and [increased profitability](#) from the incorporation and maintenance of soil, crop, and operationally appropriate conservation.

The economic disruptions caused by the COVID-19 pandemic especially show the value of these practices. Incorporating conservation practices that increase efficiency, reduce operator costs, and ultimately increase yields provide producers an economic advantage. When margins are thin, operations that have improved their resilience will fare better in the long-run.

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Recommendations

Reforming the federally subsidized crop insurance program to incentivize – instead of disincentivize – conservation practices, the uptake of cover crops, regenerative agriculture, and other risk-reducing activities will increase productivity and resilience for farmers and ranchers. Crop insurance should be reformed to act more like regular insurance – to assist only when disaster strikes – rather than help producers seek maximum subsidies while risks are unnecessarily shifted onto taxpayers’ backs, with negative environmental and climate impacts. Effective conservation practices can produce both short- and long-term benefits and cost savings, while preparing agriculture for the next inevitable disaster or financial downturn. Specific recommendations to improve the fiscal and environmental benefits of the federal crop insurance program include the following:

- **Reform risk ratings to ensure crop insurance accurately assesses risk reduction benefits** of conservation practices – such as the adoption of regenerative agriculture, cover crops, and other effective practices - which can result in real, durable environmental and climate benefits. Policymakers can also approve crop insurance policy endorsements for risk-reducing conservation practices and implement premium discounts for producers planting cover crops, for instance, which was implemented in [Iowa](#).
- **Improve and update crop insurance risk ratings**, for instance, by eliminating subsidies for production on marginal and risk-prone land.
- **Only allow taxpayer subsidies for crop yield losses** (instead of revenue losses that guarantee profits and incentivize risk taking). At a minimum, reduce subsidies for optional and basic units that allow farmers to break up farms into different parcels to reduce their risk of revenue loss – at taxpayer expense. And ensure the “Actual Production History” policy is based on the *actual* history of production.
- **Reject ad hoc bailouts with no conservation strings attached**, sometimes for farmers who chose not to enroll in the federal crop insurance program in the first place.
- **Oppose new risky proposals** for policies and policy add-ons that shift unnecessary risk onto taxpayers’ backs, such as covering shallow losses and splitting high- and low-risk land into separate units for insurance purposes, which leads to less conservation as producers seek to maximize subsidies and insurance payouts at taxpayer expense.
- **Increased data sharing and creation of a data warehouse** to enable research leading into more accurate risk ratings and the relationship between conservation practice uptake and farm profitability.
- **Increase equity** by introducing enforceable limitations on the amount of subsidies any one producer can receive, in addition to ensuring that producers with high incomes are not benefiting from taxpayer subsidies, or otherwise additional barriers to entry are raised for small, beginning, and socially disadvantaged farmers and ranchers.
- **Increase the share of risk private insurance companies bear and reform crop insurance delivery.** The share of underwriting gains (or losses) assumed by taxpayers should be reformed,

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in addition to subsidies for private insurance companies being scaled back from the current high level of \$1.5 billion annually.

Conclusion

The federal farm safety net as a whole – of which crop insurance is just one piece – too often discourages conservation. The federal crop insurance program specifically shifts undue risk onto taxpayers while discouraging producers from implementing risk-reducing conservation practices. The program treats farmers the same regardless of location or production choices. The farm safety net should be refocused on helping producers better manage and reduce risk to improve their bottom lines. Reforming risk ratings and risk sharing in crop insurance – including accounting for risk reduction produced by conservation practices – will not only lead to more resilience for farmers in the long-run, but also taxpayer savings and significant environmental benefits. Farmers should receive discounts for implementing additional, effective, and durable conservation practices that lead to soil, water, and climate benefits and reduced reliance on financial safety net programs. That way, agriculture policy will work in concert with the President's climate goals instead of working at cross purposes with them and continuing the status quo. Better integrating effective conservation with agriculture policy will benefit farmers, the environment, climate, and taxpayers alike.

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