

Flake Amendment to End Subsidies for “Cadillac” Crop Insurance Coverage Prohibits Premium Subsidies for Policies with Harvest Price Option

- The Cadillac coverage dramatically increases the cost of crop insurance and far overshoots what is needed to protect farmers when disaster strikes. According to Iowa State University agricultural economist Bruce Babcock, corn and soybean insurance payouts were \$6 billion higher in 2012 than they needed to be to put a solid floor under drought-stricken farmers revenue.
- CBO estimates that ending subsidies for this Cadillac coverage would save \$7.7 billion over ten years.
- Payouts from policies with the harvest price option – unlike all other insurance policies – go up as a drought or other disaster inflates crop prices. As a result, a farmer may come out ahead even if he or she suffered a large yield loss because large insurance payouts are combined with revenue from selling the crop at drought-inflated prices.
- For example, in 2012, corn farmers insured their crop for \$5.68 per bushel at planting. Severe drought decimated yields, however, causing the price to skyrocket to \$7.50 at harvest. Corn farmers with HPOs got insurance payments for their lost crop at the drought-inflated \$7.50 per bushel -- 32 percent more than they expected to receive when they planted.
- A standard federal crop insurance policy puts a solid floor under a farmer’s revenue. The revenue floor is determined by multiplying the farmer’s average yield by the price the crop is insured at in spring. The insurance policy pays out if the producer’s revenue falls below the insured level because of a yield loss, a price decline or some combination of the two.
- The standard revenue insurance policy provides a fiscally responsible and effective safety net. The harvest price option overshoots what is needed to make sure farmers are protected from potential crippling losses.
- Taxpayers subsidize harvest price option policies far more than the standard policy on a per acre basis. As a result, most farmers select the Cadillac coverage because the subsidies are so much higher, thereby boosting the cost of the federal crop insurance program.
- This amendment does not prohibit farmers from purchasing policies with the harvest price option.
- At a time of record farm incomes and stark fiscal realities, this amendment puts an end to wasteful subsidies that incentive risk.

Endorsing Organizations

American Conservative Union
Americans for Prosperity
Americans for Tax Reform
Campaign for Liberty
Center for Individual Freedom
Club for Growth
Competitive Enterprise Institute
ConservAmerica
Cost of Government Center
Council for Citizens Against Government
Waste
Defenders of Wildlife
Environmental Working Group
Food Democracy Now
FreedomWorks
Heritage Action for America
Less Government
National Hmong American Farmers
National Taxpayers Union
R Street Institute
Roots of Change
San Diego Hunger Coalition
Slow Food USA
Taxpayers for Common Sense
Taxpayers Protection Alliance
U.S. PIRG
Wild Farm Alliance