



Hearing Summary

HEARING ON WASTE, FRAUD, AND ABUSE IN FEDERAL CROP INSURANCE PROGRAM

Rep. Henry A. Waxman

Chairman, Committee on Oversight and Government Reform

On Thursday, May 3, 2007, the Committee held an oversight hearing on waste, fraud, and abuse in the federal crop insurance program. Witnesses at this hearing included the USDA Risk Management Agency, the USDA Inspector General, the Government Accountability Office (GAO), and several independent agricultural economists and budget experts. At the hearing, the Committee heard about billions of dollars in waste, fraud, and abuse in this USDA program.

Waste of over \$10 billion over the last decade. GAO's testimony indicated that between 1997 and 2006 the federal government provided approximately \$15 billion in aid to farmers through the program — but spent over \$26 billion in the process. The remaining \$11 billion was consumed in subsidies for private insurers and insurance agents. Both GAO and the Iowa State University's Bruce Babcock testified that over 40 cents of every dollar on the program was wasted — spent on insurance company profits rather than the farmers and ranchers for whom it was designed to benefit.

Three separate federal subsidies for private insurers. Insurance companies receive three large government subsidies under the program. First, they receive the benefit of billions of dollars in federal premium subsidies. Second, they receive large additional subsidies — over \$4 billion in the last five years alone — to cover their administrative and operating costs. And finally, the companies are allowed to hand over the indemnities from their riskiest policies to the federal taxpayer, significantly reducing their chances of having to pay large settlements when disasters do strike.

Large profits for crop insurers. Sixteen crop insurance companies are authorized to sell policies under the federal program. GAO testified that since passage of the Agricultural Risk Protection Act of 2000, the last rewrite of federal crop insurance law, these companies have earned average underwriting profits of 17.8% annually. This is almost three times higher than profits for the insurance industry as a whole over this same time period. The 16 crop insurance companies have earned almost \$3 billion in profits over the last five years.

Failure to eliminate annual disaster payments. The crop insurance program was designed to protect farmers from unexpected disasters and provide them with enough support so that Congress did not need to pass annual "ad hoc" disaster bills. But despite the expenditure of tens of billions of dollars in taxpayer funds on the crop insurance program, Congress has been forced to pass these annual disaster bills to assist farmers for seven consecutive years.

The Bush Administration, as part of its 2007 farm bill proposals, has recommended several potential changes to the program to reduce waste, fraud, and abuse of taxpayer dollars. Witnesses at the hearing proposed numerous changes, ranging from the Bush Administration proposals, to a wholesale redesign of the program, to elimination of the federal crop insurance program entirely.

Additional information, including copies of testimony and a web video of the hearing, is available at www.oversight.house.gov.