

Congress of the United States
House of Representatives
Washington, D.C. 20515

December 17, 2009

The Honorable Tom Vilsack
Secretary
U.S. Department of Agriculture
1400 Independence Avenue SW
Washington, DC 20250

Dear Secretary Vilsack:

We are writing to urge you to take all appropriate actions to reduce waste, fraud, and abuse in the federal crop insurance program as the USDA Risk Management Agency (RMA) renegotiates the new standard reinsurance agreement between crop insurers and the agency.

In May 2007, the House Committee on Oversight and Government Reform held hearings on the crop insurance program.¹ The Committee heard testimony from agricultural economists, GAO, and the USDA. The Committee learned that over the last decade, over 40% of program funds did not go to the farmers and ranchers the program was designed to help; instead, almost \$11 billion in payments were squandered in excess payments to insurers and other middlemen. Payments to insurers for administrative and overhead costs increased at rates well beyond the inflation rate. Crop insurers' underwriting profits were almost three times the industry average, in part due to a program structure that allowed them to turn their highest risk clients over to the USDA.

Since that hearing, other independent studies have also found high levels of wasteful spending in the USDA crop insurance program. In April 2009, GAO reported that the program paid \$2 billion in administrative and operating costs to insurers in 2008, representing 31% of program costs, and that the commission rates paid by insurers had increased much faster than the increase in the costs to administer the policies.² GAO also found that there were significant problems with the reporting of expenses to USDA, with companies incorrectly reporting items such as profit sharing bonuses as part of their basic administrative and operating costs for delivering crop insurance.

In September 2009, the independent consulting firm Millman, Inc, at the request of the RMA, found that the crop insurance industry as a whole had earned a profit in 19 of the last 20 years and that the average rate of return on equity for crop insurers was 17.8% since 1989 – over

¹ House Committee on Oversight and Government Reform, *Hearing on Waste, Fraud, and Abuse in the Federal Crop Insurance Program* (May 2007).

² GAO, *Crop Insurance: Opportunities Exist to Reduce the Costs of Administering the Program* GAO-09-445 (April 29, 2009)

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30% higher than an expected "reasonable rate of return" for the industry.³ These industry profits were paid for with billions of dollars in taxpayer funds.

Taxpayers cannot afford this astounding level of wasteful spending. While Congress took some action in the 2008 Farm Bill to reduce program costs, there are additional administrative actions that can be taken by USDA. In particular, the RMA is presently negotiating a new Standard Reinsurance Agreement (SRA) with the crop insurers. This agreement will dictate many key crop insurance payment rules that will be in effect until the next Farm Bill.

GAO's April 2009 study provided several key recommendations for USDA. We hope that you will implement these and other recommendations that will reduce excess program costs and save taxpayer money. Specifically, GAO has recommended that USDA develop a new methodology for calculating insurers' administrative and operating costs so that payments are more closely aligned with expenses; that USDA require companies to annually report commissions paid to insurance agencies; that USDA develop a standard method for assessing agencies' reasonable costs in selling and servicing policies; and that USDA clarify the expenses permitted as reasonable administrative and operating costs, and the reporting requirements for these expenses.⁴ GAO has also suggested that USDA reduce crop insurers' opportunities for underwriting gains to bring their profits in line with the rest of the insurance industry.

The crop insurance industry is making billions of dollars in excess profits from the current arrangement and will aggressively defend the existing program. We urge you to focus on the interests of taxpayers and farmers and reduce waste and abuse in the crop insurance program as USDA completes its work on these critical reforms.

Sincerely,



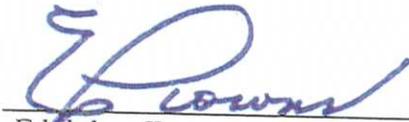
Henry A. Waxman
Chairman
Committee on Energy and Commerce



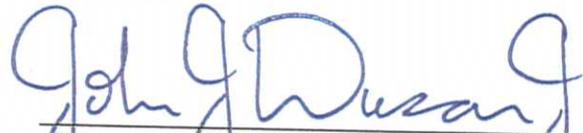
Thomas E. Petri
Member of Congress

³ Millman, Inc., *Historical Rate of Return Analysis Prepared for USDA Risk Management Administration* (Aug. 2009)

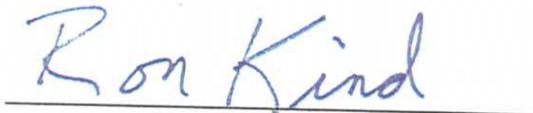
⁴ GAO, *supra* note 2.



Edolphus Towns
Chairman
Committee on Oversight and
Government Reform



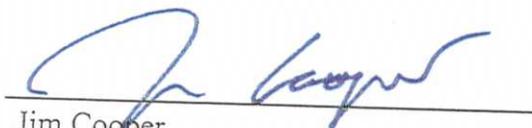
John J. Duncan, Jr.
Member of Congress



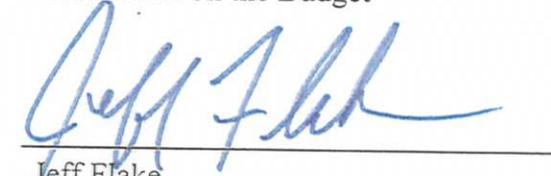
Ron Kind
Member of Congress



Paul Ryan
Ranking Member
Committee on the Budget



Jim Cooper
Member of Congress



Jeff Flake
Member of Congress