Mr. Chairman, and Members of the Committee, my name is Ray Buttars, and I grow wheat in the great state of Idaho. I am pleased to be here on behalf of the National Association of Wheat Growers (NAWG), and I'm pleased to have this opportunity to offer NAWG's thoughts on the federal crop insurance program.

We have great respect and appreciation for this committee. We thank you for your ongoing efforts to provide effective and affordable crop insurance for America's farmers.

The passage of the Agricultural Risk Protection Act (ARPA) in 2000 was a major improvement in crop insurance, and today, 80% of planted acres are covered by some level of crop insurance. Our testimony and suggestions today build on ARPA's improvements.

Crop insurance is a critical risk management tool. And, like any other important tool on the farm it needs periodic maintenance and "sharpening," which will extend the useful life of this tool as well as increase its utility and effectiveness.

Over the past few years Congress has passed disaster legislation to provide risk protection where crop insurance could not. America's farmers have listed crop insurance as one of their top priorities. The "sharpening" which we recommend is identified in four primary improvements as follows:

1. Affordable premiums for higher levels of coverage.

2. Minimize the "erosion effect" of consecutive disasters on Actual Production History (APH) and a farmer's ability to obtain adequate insurance thereafter.

3. Establish Risk Management Accounts, which would enable a farmer to co-insure the portion of his, or her crop which is presently unprotected.

4. Insure a minimum Harvestable Value.

Coverage levels

The higher levels of coverage currently available are not affordable. Even with the existing premium support, most farmers can only afford either 65 or 70 percent coverage. With fuel and fertilizer costs being double of just a crop or two ago, it's easy to understand that production costs usually exceed 90 percent of the average crop value. At 70% coverage, a farmer loses three years of income before any claim is paid. Higher coverage is critical. However, it must also be affordable.

NAWG has requested that Group Risk Plans be made available to wheat growers. These policies are more affordable, but will only work for a portion of our farmers because counties in the Wheat Belt tend to be large and have multiple climates. Greater premium subsidies for the 75 to 85 percent levels appear to be the only real solution to making these higher levels attractive.

Risk Management Accounts

We have developed a concept we call Risk Management Accounts. Such accounts could provide a mechanism for a federal and private partnership to address the most glaring hole in the crop insurance program: The uninsured portion between a farmer's average crop, and the percentage of his crop which he is able to insure. Presently, this initial "deductible" is far greater than the slim margins we work with. Recent ad hoc programs have tried to address this. We believe the time is right for a proactive solution.

These Accounts would be available to farmers who buy a crop insurance policy, and would be linked to the value of the crops insured. Policyholders would be allowed to deposit 4% (as an example) of the value of their crop in a tax deferred account each year, with a smaller federal contribution. Limits and caps would define the program, and facilitate budget scoring. Farmers could draw from this co-insurance account when yields fall to 92.5% or less. Participants would not be eligible to withdraw to cover losses which are covered by the primary insurance policy.

We believe Risk Management Accounts are a responsible solution to a difficult problem. We have made an effort to be conservative in outlining their rules and structure. Further details are attached to this testimony.

Actual Production History (APH)

The nation's wheat growers know all too well the effects of prolonged drought. Over the last several years, much of the nation's Wheat Belt suffered from extensive drought and therefore loss of the crop. Each year of crop failure reduces a farmer's APH, eroding the safety net provided by crop insurance. We are exploring and would like to suggest two separate remedies.

First, we could use the producer's previous APH, rather than the current county yield. Also, we recommend replacing the 60% factor with the coverage percentage purchased by the insured (a producer with 70% coverage would use a yield plug of 70% times his APH).

The second remedy would index the producer's APH to a graph of county yield trends, effectively installing a "shock absorber" on individual insurability. This concept has good potential, and needs to be tested on a large model to determine the cost and benefit.

The Risk Management Agency is aware of the problems associated with APH erosion. Given the crop production challenges of the last several years, we anticipate a prompt solution.

Minimum Harvestable Value

Many times the residual value of a damaged crop is less than the cost of gathering or harvesting the remaining crop. Determining the point at which a crop is not worth harvesting, and the actuarial cost of this option should be very simple. We suggest that farmers be allowed to purchase optional coverage to insure the un-harvestable residual. We also recommend that this option be assignable to a custom harvester.

Conclusion

Mr. Chairman, members of the Committee, we sincerely thank you again for this opportunity. The NAWG leaders, staff and I are ready to respond to any questions you have. We pledge our support and assistance. We look forward to working with you to sharpen the risk management tools of the American farmer.

(attachment also submitted as part of the record by Mr. Buttars):

Risk Management Accounts

NAWG has developed a concept we call Risk Management Accounts (RMA), which would provide a mechanism for producers to self-insure the initial deductible not covered in current policies. These Accounts would function in a manner similar to the co-insurance of the health insurance sector on the initial portion of a loss. These are the details:

(a) Tax Status: Funds deposited into RMA's will be tax-deferred, to be taxed on withdrawal.

(b) Who is Eligible: Producers who buy crop insurance at any level are eligible. Accounts must be held in the name of the policy holder.

(c) Annual Contribution Percentage: Up to 4% of the Whole Policy Projection (WPP) for the current year. The formula for the Whole Policy Projection is as follows: (WPP = APH X Crop Insurance Indemnity Price X Total Acres Insured X Insured's Share).

(d) Maximum Annual Contribution: A $20,000 limit per policy holder would allow full participation for farms with WPP up to $500,000.

(e) Government Match: The match is based on the level of crop insurance purchased, and could be up to 4% of total crop insurance guarantee. For example, at a 70% level of coverage, and assuming the producer contributes the maximum 4% of WPP, the match would be 4% X 70% x APH X Crop Insurance Indemnity Price X Total Acres Insured X Share. Or, more simply, 4% X 70% X WPP.

(f) Maximum Fund Balance: 30% of WPP, up to a maximum of $150,000. This allows full participation for farms with WPP up to $500,000.

(g) Withdrawal Trigger: Triggered by a 7.5% minimum yield loss based on WPP. At this level, a crop that is 92.5% of normal or less could be supplemented with the Risk Management Account.

(h) Maximum Withdrawal: In any year, withdrawal would be limited to actual whole policy loss, less crop insurance payments.

(i) Termination of Farming Business: Mandatory distribution to policy holder or heirs & assigns, not to exceed five years from date of termination.
Account Investment Restrictions: Accounts held at financial institutions. Investments are limited to insured instruments.