



United States
Department of
Agriculture

Risk
Management
Agency

1400 Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

INFORMATIONAL MEMORANDUM: IS-08-009

TO: All Approved Insurance Providers
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: William J. Murphy /s/ *William J. Murphy* 9/30/2008
Deputy Administrator for Insurance Services

SUBJECT: Premium Bills and the 2009 A&O Subsidy

BACKGROUND:

On May 22, 2008 the crop insurance provisions of the Food, Conservation, and Energy Act of 2008 became law. Section 12016 amended the Federal Crop Insurance Act by reducing the administrative and operating expense (A&O) subsidy rates for the 2009 and future reinsurance years by 2.3 percent of net book premium for buy-up policies other than group plans of insurance from the A&O rates in effect for the 2008 reinsurance year. However, in any State in which the loss ratio exceeds 1.20, the A&O subsidy rate is reduced by only 1.15 percentage points from the 2008 reinsurance year rate. The A&O subsidy for group plans of insurance was reduced to 12 percent of net book premium without exception.

Section IV.B.10. of the Standard Reinsurance Agreement, section IV.B.6 of the Livestock Price Reinsurance Agreement, and section 508(e)(5) of the Federal Crop Insurance Act require approved insurance providers (AIPs) to display the A&O subsidy amount on all premium billing statements and Summaries of Coverage provided to the policyholder. Given that the A&O subsidy for buy-up policies other than group plans of insurance is conditional on a State's loss ratio starting with the 2009 reinsurance year, it will not generally be known at the time these documents are issued.

RMA has received questions from AIPs regarding how the A&O subsidy amount should be displayed on statements of account, bills, and any other document issued to the producer that displays A&O subsidy. This memorandum provides guidance for all AIPs for displaying the A&O subsidy amount on such documents.

ACTION:

On statements of account, bills, and other documents issued to the producer on which the A&O subsidy amount is required to be displayed and for which the A&O subsidy amount is contingent on the loss ratio in the State, AIPs shall display the A&O subsidy amount based on the full 2.3 percent reduction, but shall include an asterisk and a footnote stating the following:



The Risk Management Agency Administers
And Oversees All Program Authorized Under
The Federal Crop Insurance Corporation

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“*Note: This amount may increase by 1.15 percent of net book premium (except for group plans of insurance) if the loss ratio in the State exceeds 1.20. However, the amount of premium the producer must pay will not change.”

Alternatively, the actual dollar amount that is the difference between the 2.3 percent reduction and the 1.15 percent reduction may be substituted for the phrase “...1.15 percent of net book premium...” in the above footnote.