



United States  
Department of  
Agriculture

June 30, 2005

Risk  
Management  
Agency

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

## INFORMATIONAL MEMORANDUM

TO: All Reinsured Companies  
All Risk Management Agency Field Offices  
All Other Interested Parties

FROM: Ross J. Davidson, Jr. /s/ *Ross J. Davidson, Jr.*  
Administrator

SUBJECT: 2006 Premium Reduction Plans

### **BACKGROUND:**

Section 508(e)(3) of the Federal Crop Insurance Act (Act) authorizes approved insurance providers to offer premium reductions to producers if the insurance provider can deliver crop insurance more efficiently than the administrative and operating (A&O) subsidy provided by the Federal Crop Insurance Corporation (FCIC), subject to the limitations and procedures established by FCIC. Through the 2005 reinsurance year, approved insurance providers have been able to submit applications to be authorized to offer a premium reduction plan according to Manager's Bulletins MGR-030-008 and MGR-03-008.1, and FCIC Board of Directors Final Resolution Memorandum #694.

On November 19, 2004, the FCIC Board of Directors determined that new procedures were needed to address the significant and complex issues raised by a large number of new premium reduction plan applications from insurance providers. The Board adopted Final Resolution #2772, which directed the Risk Management Agency (RMA) to proceed as expeditiously as possible to develop and publish a rule that would establish new procedures beginning with the 2006 reinsurance year.

RMA published a proposed rule on February 24, 2005, with a public comment period that ended April 25, 2005. RMA has completed its evaluation of the comments on the proposed rule, has completed its revisions of the rule based on an evaluation of the public comments received, and is in the process of readying the rule for publication in the Federal Register. RMA expects to publish the rule soon. RMA anticipates that this rule will be published as an interim final rule under which RMA will ask for additional comments during the 2006 reinsurance year regarding the implementation of the rule.



The Risk Management Agency Administrators  
And Oversees All Programs Authorized Under  
The Federal Crop Insurance Corporation

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**ACTION:**

RMA understands that some insurance providers are concerned that any delay in the publication of the rule will not provide them sufficient time to submit and have approved an application for a premium reduction plan for the 2006 reinsurance year under the current process stated in the proposed rule. This Informational Memorandum is intended to allay these concerns and permit insurance providers to begin preparation for their requests to participate in the premium reduction plan. Requests should not be submitted until after the rule has been published and should be submitted in accordance with the requirements stated therein.

To assist insurance providers in the preparation process, this Informational Memorandum will briefly discuss the new process for requesting to participate in the premium reduction plan. The premium discounts will be based on actual costs that will be verified after the reinsurance year has ended. RMA will use a two-step process for premium reduction plans. In the first step, insurance providers will request eligibility for an opportunity to offer a premium discount. In the second step, providers will, after the end of the reinsurance year, request approval of the payment of a premium discount for each state based on their actual efficiency achieved in that state for that year. The major items to be included in the first step are a list of states in which the insurance provider intends to participate in the premium reduction plan and a detailed marketing plan that describes how the approved insurance provider will promote the premium reduction plan to small producers, limited resources farmers as defined in section 1 of the Basic Provisions, 7 CFR 457.8, women and minority producers. Such promotion must be in addition to any solicitation done by agents and must identify the appropriate media that will be used to reach such producers.

We do not plan in the first step of the process to require insurance providers to submit information to RMA on estimated costs or efficiencies as described in the proposed rule. Instead RMA will use the information submitted in Step 2 to determine if an insurance provider is approved to announce and pay a premium discount in the designated states.

The information stated above should assist approved insurance providers to begin preparation of their requests for eligibility for the opportunity to offer a premium discount. However, this Informational Memorandum only provides general guidelines and to participate in the premium reduction plan approved insurance providers must be in compliance with the requirements of the rule when it is published.

Insurance providers are advised that they should not advertise their intent to apply to be eligible to offer a premium reduction plan or any amount of discount they intend to pay or that they intend to apply for permission to pay until the rule is published and they are approved to participate in the premium reduction plan.

Specific questions regarding the pending rule cannot be addressed until the rule is published. However, general questions regarding this Informational Memorandum can be directed to Craig Witt, Director, Reinsurance Services Division, at (202) 690-2957 or at [craig.witt@rma.usda.gov](mailto:craig.witt@rma.usda.gov).

**DISPOSAL DATE:**

This Information Memorandum is for the purpose of transmitting information and the disposal date is December 31, 2005, or the publication of a rule establishing procedure.