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ADMINISTRATOR, RISK MANAGEMENT AGENCY**

00:00:19:00 Q: Today is December 5th of the year 2000, I'm Larry Quinn with the Office of Communications at the U.S. Department of Agriculture in Washington. And today we're visiting with Ken Ackerman who is the Administrator of the Risk Management Agency.

00:00:30:08 And Ken you've been in the Department since 1993 working with Crop Insurance and you've seen quite a dramatic change in the need for crop insurance and how the whole program operates. Let's talk a bit about what's happened during this period of time.

00:00:47:11 A: Okay, well the program really has changed a lot during this period of time. When I came to USD it was October of 1993, I was brought in it was right at the tail end of the large flood in the Midwest, that summer. The Midwest that year had the worse flood in 500 years, it was a very traumatic event.

00:01:09:11 And at that point the Department was dealing with a lot of problems that it had created. There had been a number of disasters over the years leading up to it. Congress just passed a major disaster bill, the

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administration was still brand new. Mike Espey was the Secretary and he and the President spent a lot of time traveling through the Midwest during the flood.

00:01:30:13      And they realized that despite all the money being spent on flood relief and disaster aid, there was a lot of dissatisfaction with how the basic system worked. At that point in 1993 there was a much smaller crop insurance program, it covered maybe 80 odd million acres.

00:01:49:29      But at the same time Congress and the administration had passed ad hoc disaster bills for literally nine out of nine years or eight out of eight years. And as a result every year the two worked at cross purposes. People did not buy crop insurance cause they knew Congress would bail them out.

00:02:08:09      Congress would step in every year because not enough people bought crop insurance and it became a vicious cycle. As a result when you had something like the 1993 flood, farmers were sitting in the middle, these ad hoc disaster programs were very unreliable, you

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didn't know til the middle of the year or later in the year when Congress was going to act.

00:02:28:29 They were very political, they had to be organized from scratch year in and year out. The formulas changed every year, they weren't something you could plan around. So there was a lot of feeling that the system had to be changed. And that summer, late in the summer, Mike Espey the Secretary, had a crop insurance roundtable where he called in people from the industry, farm groups, USDA, from Capitol Hill.

00:02:55:26 At that point I was still counsel to the Senate Agriculture Committee, I was the staff counsel in the Senate and I attended Mike Espey's roundtable in that capacity. But that started the ball rolling towards making a major change in crop insurance and putting forward legislation.

00:03:11:19 I came into USDA, they hired me for this job to head the crop insurance program a few weeks after the roundtable and my assignment was basically to work with people here, come up with a plan, a piece of

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legislation, take it to Capitol Hill and try to get it passed. That ultimately became the 1994 Crop Insurance Reform Act which really set the stage for six years of very major change in this program.

00:03:41:29 I don't know, do you want to ask me questions...

00:03:46:14 Q: Well as a matter of fact I think it's quite interesting that you were on the hill and leading to the development of this and as you progressed and came to USDA you knew a lot of the policy background for us to write the legislation.

00:04:02:04 A: Well I came from a non-agriculture background actually. I'm not from a farm, I'm one of the... I guess one of the few political pointees here in agency administrator positions without a farm background. I'm from Upstate New York. I came to the Senate Agriculture Committee having worked on commodity futures.

00:04:26:18 The Commodity Futures Trading Commission, on the Commodity Exchange, but from that financial background

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when crop insurance came up in different legislation, they had me work on it as a sideline. And the way Congress works, once you know a little bit about an issue, then suddenly you're the expert.

00:04:43:06 And so that's how I got involved with crop insurance. When I came to USDA, once the '94 act was passed, the changes were really very dramatic and I'm used to talking from charts and I'll just do this briefly because I know that they're time limits.

00:05:02:05 This is the participation in crop insurance over the last 10 years and you'll notice it was very flat until 1993. Since the time the law was passed, program participation has literally tripled going from about 11 billion dollars in protection to almost 35 billion dollars in protection.

00:05:22:04 These other charts basically show the same thing in different ways. The kinds of products that we offer farmers based on the new legislation are much more varied, rather than simply one crop insurance product, we now have revenue insurance, the group risk plan,

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whole farm insurance, a whole menu of different things farmers can choose from.

00:05:48:13 And finally the other major change and then I'll stop using props, is financial soundness. Up until that point in '93, Congress had thought of getting rid of crop insurance altogether because it was a major money looser for the taxpayers. The loss ratio which measure the amount of money paid out versus the amount of money collected was very, very high.

00:06:13:14 Since 1993 in the last six, seven years, it's been much lower. As a result we've gotten our financial books under control, it's made the program much more credible with the budget committees, with OMB, our overseers and it's been a better deal for the taxpayers.

00:06:31:03 So these changes have been very dramatic.

00:06:34:13 Q: This has been a public and private partnership from the very beginning where you've used private underwriters and insurance agents to handle a lot of this, but yet you've had the administrative side of

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working with farmers that must have been quite a challenge with the increase in volume that you experienced.

00:06:50:10 A: Well in any program where you have this much change, there is a lot of turbulence and one of the perennial issues on crop insurance, we are in unusual, it is an unusual program in that it's delivered by private insurance companies and private agencies working on contract with the federal government. We have a document called the standard re-insurance agreement that sets out the financial terms which we fund the companies.

00:07:21:18 How much money the companies make, the size of their underwriting gain, the size of the administrative fee we pay them, has been a controversial item over the years, even before I came on board. Since I've come on board with the program growth, it's becoming sometimes even more controversial.

00:07:39:00 Our inspector general put out a report in this issue about two years ago now which was quite controversial.

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He argued that we were paying too much. It became the subject of a hearing in the Senate Agriculture Committee who had gone through several renegotiations of the agreement with the companies, several of them being very hard fought.

00:07:59:26 I think today as we speak in the year 2000 we have a better deal than we had seven or eight years ago. Today the administrative fee that we pay to the companies is about 22.7 I believe is the number percent of premium, 22.7 percent of premium.

00:08:24:21 In the early '90s, late '80s that percentage had been as high as 30 or 34 percent of premium. And when you have a program as big as ours is today, everyone of those percentage points represent about \$10 million in taxpayer dolla..., taxpayer money.

00:08:43:27 So if we're saving you know ten or twelve percent that's over \$100 million a year and that's belt tightening by our insurance delivery partners over the years.

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00:08:54:02 Q: Has the enhancement of crop insurance and it must have been reformed almost as many times, nearly every year since '94, I'm not sure how many time it's been reformed, but the improvement, has that lessened the need for disaster payments, or because of the economic situation are we still doing insurance and disaster payments?

00:09:13:03 A: Well it has lessened it, but it's changed it. Once the '94 bill was passed, one of the trade-offs we made were new parliamentary rules to block Congress from passing ad hoc disaster aid. And the savings was credited to the crop insurance program, that was how the bill was financed in 1994.

00:09:34:18 But the last few years, the conditions have changed. When we passed the crop insurance bill and Congress passed the farm bill in 1996, farm prices were good, crop prices were high. In the last two or three years, beginning in 1998 the price of corn, wheat, soy beans, several other has dropped sharply.

00:09:57:06 As a result Congress has had to step in with emergency

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aid on the price side. The environment changed quite a lot. All of the programs surrounding crop insurance that it was designed to work with were changed in 1996 by the Farm Bill that year, the so-called Freedom to Farm Bill.

00:10:15:08 Suddenly the traditional system of target prices and deficiency payments which basically gave farmers a built-in risk management tool for prices that was eliminated. And so the last few years you've had really ad hoc deficiency payments being passed by Congress rather than ad hoc disaster payments.

00:10:37:20 The last few years there have been small disaster payments but not on the scale that there used to be.

00:10:40:27 Q: So the crop insurance has somewhat become a safety net for the farmers. I know that Secretary Glickman has spoken a lot about that and you have too, the need for the safety net and the crop insurance seems to be playing a much more critical part of that today.

00:10:55:19 A: In sheer dollars, the role is much bigger, much

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larger. Farmers use of crop insurance is much broader.

We currently insure over 200 million acres compared to that 80 million acres that we insured in '93. Our payout this year in indemnities was about, was well over \$2 billion compared to much smaller amounts in prior years, even when disasters did occur.

00:11:21:26 There's a cultural change as well. Today farmers, about 70 or 80 percent are using crop insurance who didn't use it before. It's part of the everyday life in rural America in a way that it simply wasn't. It's been accepted, it's become part of the mainstream.

00:11:46:13 When I first started seven years ago crop insurance was really considered one of the minor programs of USDA, it was very rare that for instance, when a major issue would come up that I would be called to a meeting.. Now it's very different, crop insurance is considered one of the major programs, we are one of the large budget items, it's considered one of the keys to the Farm Bill coming up next year.

00:12:14:16 We've been the subject of major legislation three or

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four times in the last few years.

00:12:20:19 Q: The diversity of coverage has changed dramatically where a lot of the mainline commodity crops were covered but many of the horticultural crops and specialty crops were not. But that's change hasn't it?

00:12:31:14 A: It has changed although less dramatic than you would think, less dramatically than you would think. Crop insurance even when I started seven years ago still covered a lot of fruits and vegetables. I think at that point we covered about 70 different crops. That has grown from that, we now cover about 120 and we're continuing to grow.

00:12:54:12 One of the concerns about the program, one of the goals we haven't reached yet is to cover the vast number of smaller crops that farmers grow. Farmers grow almost 1000 different crops in America and that's something that I've learned becoming more and more involved, particularly in areas like California and Florida and the East Coast.

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00:13:16:18     The diversity is very great. Crop insurance has penetrated the markets very effectively in the Midwest, we do have a problem of under-serving the Northeast and under-serving some of the minority communities in the Southeast and on the West Coast.

00:13:36:13     That's a challenge that we're going to have for many years and that we were very committed to meeting. Last year in the year 2..., excuse me earlier this year, Congress passed the most recent major reform of crop insurance where they chose to invest 8.2 billion additional dollars in this program over the next five years.

00:14:00:19     And a lot of the emphasis of this bill went to filling these depths, making sure that we cover all of the smaller crops as well as livestock and as well as focusing on these underserved areas in the next few years.

00:14:13:07     Q: I think the opportunity you've had over the last seven almost eight years of working with this has been helpful because of the continuity of your experience

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before the reform even evolved. Have you felt like you've refined it to the point where it's only fine tuning from now on or are there still major changes that will come?

00:14:37:23 A: Well I like to think that the heavy lifting's been done during the years that I've been here, but I know enough that situations change, programs evolve. I think the changes we've made the last few years have been fundamental. There's quite a bit of fine tuning to be done, but there are also a number of major things to be done.

00:14:57:29 If this trend continues, then the next few years we'll see major innovations of risk management tools for livestock, for whole farm, multi-crop policies, major new approaches. Whether we'll ever reach the point of having a single insurance program that will cover price risk as well as insurance, as production risk the way some people talk about, I don't know whether that will be feasible.

00:15:27:16 But clearly there will be a lot of changes in the

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future.

00:15:30:07 Q: I know that you've used some information technology where you're working with educating both your field staff and the farmers about plugging in their information and then checking their own risk.

00:15:43:18 A: We've used... we've brought in technology quite a lot in crop insurance. We have, I like to think one of the better websites at USDA. And we've developed a number of distance learning tools to give farmers that kind of access. One of the things that we've tried to do in the program the last few years is get away from the notion that crop insurance stands alone.

00:16:04:29 And to try to bring in the notion of risk management as a broader approach for farmers to use in developing their business plans. We've developed an integrated risk management education program, working with other agencies, working with insurance agents, local extension agents, universities, other third party influencers in rural communities, to teach farmers, to give them materials about how crop insurance fits into

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the larger scheme.

00:16:37:07      How crop insurance makes sense as part of a marketing plan, part of a financial plan that, how these things fit together. Technology is part of that but also conceptualizing is part of that to think of these things together.

00:16:51:26      Q: Did you have some goals for yourself when you came into this position?

00:16:56:01      A: Well I never expected to stay seven years. I guess originally I had expected to stay two or three years, I suppose, see through the original in 1994 reform act. But you know it became such a work in progress after that and so many of the steps were difficult steps that it always seemed like at every step of the way we were in the middle of some crisis or other.

00:17:20:18      I know the last change of administration four years ago I had thought about, about leaving then and we were in, at that point, in the middle of bringing on line crop revenue coverage, CRC which was the biggest of the

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revenue insurance products, a very major innovation of the last seven years.

00:17:40:04 And it took oh about six months to work that through, there was, we had a conflict with the sponsoring company that wanted us to give to start it out on a much broader scale. We for the government wanted to start it out on a much more limited scale because of the financial risk involved.

00:17:57:24 And it took quite a lot of work but I guess when I first started out I envisioned being here a couple of years. But it turned out to be a very difficult job, a very involving, very absorbing job. During the last seven years I've seen the country much more than I had ever had before.

00:18:18:18 I'm an East Coast person, I'd never really traveled through America very much. I made a list the other day and during my time here on behalf of USDA I've been 32 states and I've had farmer town meetings in more than 20 states. And I've, the experience has been a very good one. I've seen the country in a way that I never

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would have seen it otherwise.

00:18:42:28 Q: Must feel personally very rewarding to see the impact of your efforts to bring crop insurance to farmers?

00:18:50:10 A: It's been very, very significant and the experience of being a opinion leader which the role that agency heads are expected to have... are expected to carry has been for me a good growth experience. It's taught me a lot of skills and that will do me well in future life.

00:19:15:18 Q: On your own scorecard how would you rate your success in this job?

00:19:20:19 A: I guess the fact that I've last seven years is in itself stands pretty well.

00:19:26:22 Q: Any special memories that you'll take?

00:19:30:16 A: There are a number of things that I've enjoyed doing. The things that I found most gratifying were a lot of the work working with Congress. I've testified

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now before many, many Congressional hearings, Congressional committees. Before coming here I had been a Congressional staffer, I had been a counsel to two different Senate committees.

00:19:54:16 Now you always sit in the staff chairs advising the Senators but coming back to the Senate and to the House of Representatives in a speaking role, as being the presenter to committees and working with members of Congress very directly has been very gratifying role.

00:20:12:23 The other part that I carry away has been all of the contact around the country with local areas, local people, going to meet with farmers who just dealt with natural disasters, some of the most difficult periods of their lives and being able to be helpful, being able to give them a sense of hope, a sense of... a constructive, realistic, tangible help in time of need was also very gratifying.

00:20:47:13 A few other things which were more challenging, I've had to deal as all agency administrators with the vast bureaucracy of the USDA, but on the good side I've got

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to meet some very nice people here, people who I hope to stay in contact with long into the future.

00:21:03:18 I think our group here at USDA during this period is one that will probably stick together pretty well for many years.

00:21:12:22 Q: Thank you Ken Ackerman, Administrator of the Risk Management Agency for being with us today to talk about your tenure in that position. I'm Larry Quinn with the Office of Communications at the U.S. Department of Agriculture in Washington.

**END OF TAPE**