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Understanding AgriStability

2020-06-05

Understanding AgriStability

This presentation covers:

1. What is AgriStability?
2. See how AgriStability responds
3. How AgriStability works
4. Trends in coverage
5. AgriStability program features
6. Program tools and resources

1. What is AgriStability?

What is AgriStability?

Disaster coverage

- Protects the net income of your *whole farm* instead of buying coverage one commodity at a time.
- Covers crops, livestock and by-products, including all supply managed commodities.
- Covers *large declines* in net income, caused by:

Production loss

Increased costs

Market conditions

AgriStability helps to offset losses. It won't increase your profits, but it will protect your net income if it has a large decline.

Funded by government

- Available under the *Canadian Agricultural Partnership* agreement on agricultural policy.
- The costs of AgriStability are shared by the federal and provincial governments on a 60:40 basis.
- In Ontario, AgriStability is delivered by Agricorp.

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AgriStability is part of a comprehensive suite of programs

AgriStability	AgriInvest	Production Insurance	RMP/SDRM*
Large income declines	Small income declines	Yield reduction and quality loss	Fluctuating costs and markets

*RMP and SDRM are provincially funded only.

Different programs cover different risks

Your risk:	AgriStability	Production Insurance	AgriInvest	Ontario's RMP/SDRM
Large declines in net income	✔			
Small declines in net income			✔	
Lost markets	✔		✔	
Increased costs	✔		✔	✔
Lower market prices	✔		✔	✔
Yield reductions and quality losses caused by weather, infestation, disease or wildlife	✔	✔	✔	

Other benefits of AgriStability

Whole farm protection

AgriStability protects your farm's net income as a whole instead of one commodity at a time. You receive a payment if your net farming income falls below 70 per cent of your farm's recent average.

Unique coverage

Your payment is based on your average net income using your whole farm's current and historical income and expenses directly related to your farm's production.

Affordable coverage

For a low fee, you protect your farm against production losses, adverse market conditions and increased costs. You get coverage for the low fee of $315 for every $100,000 of reference margin.

Other benefits of AgriStability (cont'd)

Payments in times of financial distress

- In 2020, You can apply to receive an interim payment of 75% on your estimated AgriStability payment to help with cash flow.

Easier record keeping

- The AgriStability renewal process and simplified forms makes it easier to keep your business information up to date on an annual basis.

Access to other credit options

- AgriStability can give you access to credit options and may make you eligible for other government programs like the Advance Payments Program.

Extended timelines for 2020

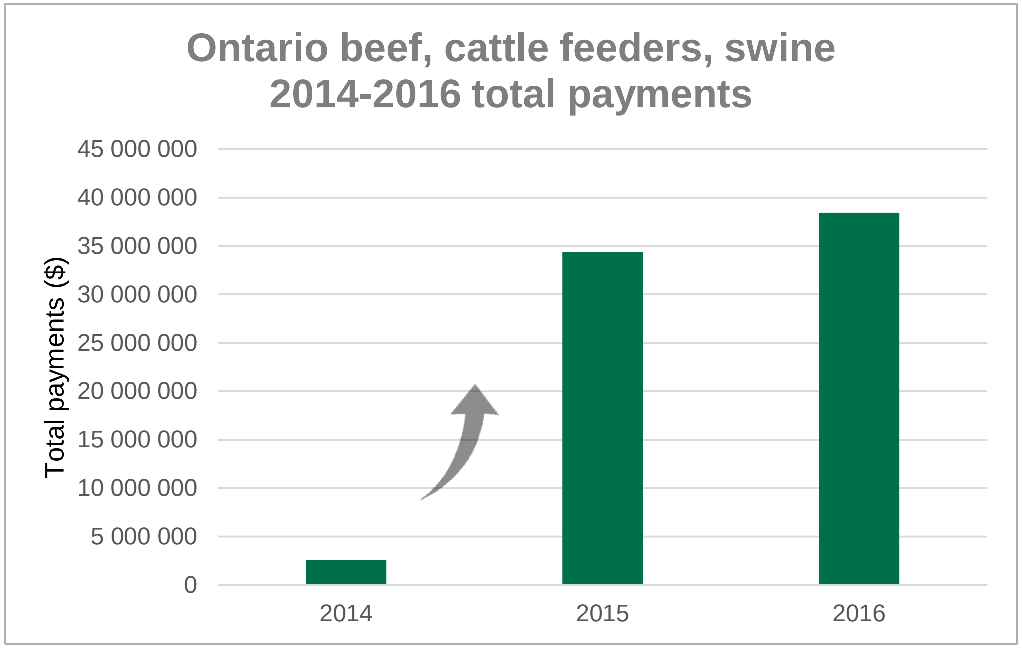
- **More time and flexibility to assess coverage needs**

Program	Activity	Date (2020)
AgriStability	Enrol and pay fee	July 3
AgriInvest	Submit tax forms	September 30
Production Insurance	Enrol	June 1
RMP	Enrol	June 30
SDRM: Edible Horticulture	Deposit/withdrawal	Fall

2. See how AgriStability responds

Payments to cattle and hog farmers

- In 2015, cattle and hog market prices fell.
- At the same time, feed and replacement costs went up.
- This led to large income declines.
- AgriStability responded with a significant increase in payments to cattle and hog producers in 2015 and 2016.
- In 2015, average payments for cattle and hogs were $48,000.

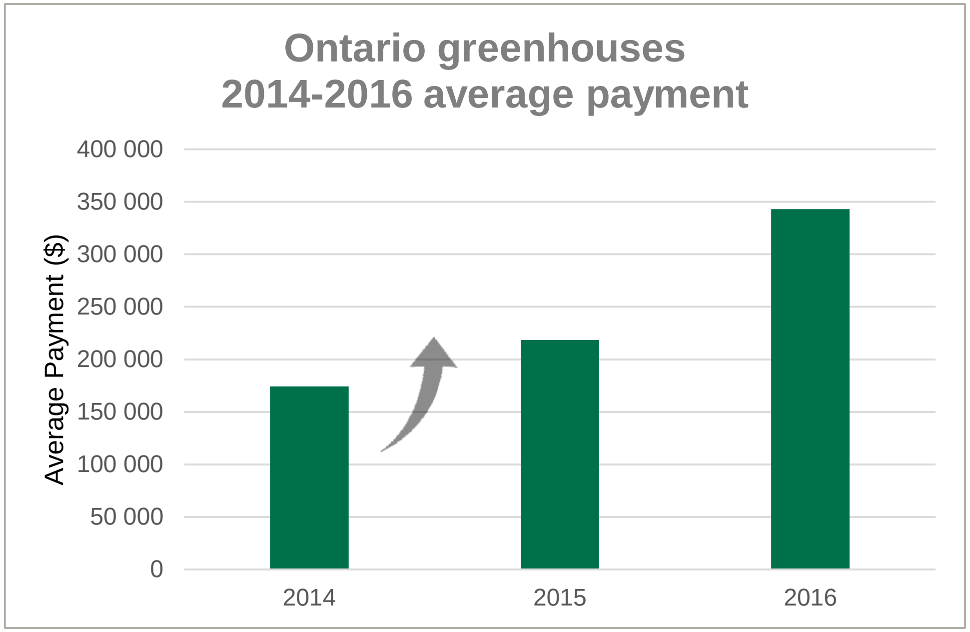


Remember: AgriStability provides disaster coverage and works with other programs to create a broad risk management plan. Farmers may also be eligible for payments from:

Production Insurance **AgriInvest** **RMP** **SDRM**

Payments to greenhouse growers

- Greenhouse growers are especially impacted by energy costs.
- Many greenhouse growers have been experiencing large income declines.
- AgriStability responded in 2014 with increased payments.

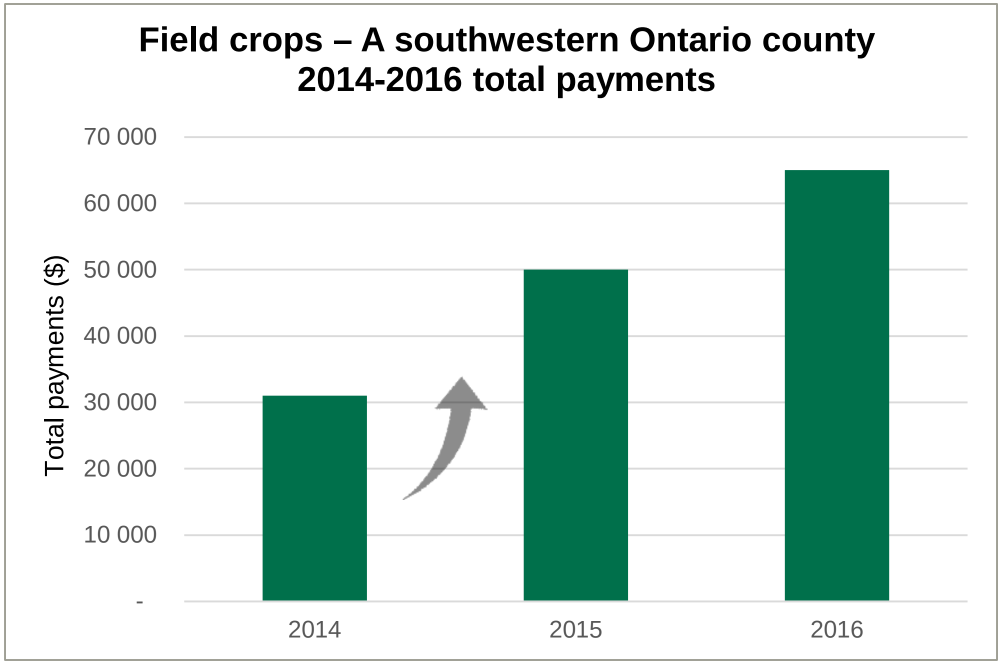


Remember: AgriStability provides coverage for disasters and works with other programs to create a broad risk management plan. Farmers may also be eligible for payments from:

- **Production Insurance**
- **AgriInvest**
- **RMP**
- **SDRM**

Payments to field crop farmers
(A 2016 example)

- In 2016, field crop farmers in a southwestern Ontario county faced a difficult year after extremely dry weather.
- Many field crop farmers in this county saw production loss and stressed corn.
- This led to large income declines for these farmers.
- AgriStability responded – with more than double the amount of payments for this county, compared to 2014.



Remember: AgriStability provides disaster coverage and works with other programs to create a broad risk management plan. Farmers may also be eligible for payments from:

- **Production Insurance**
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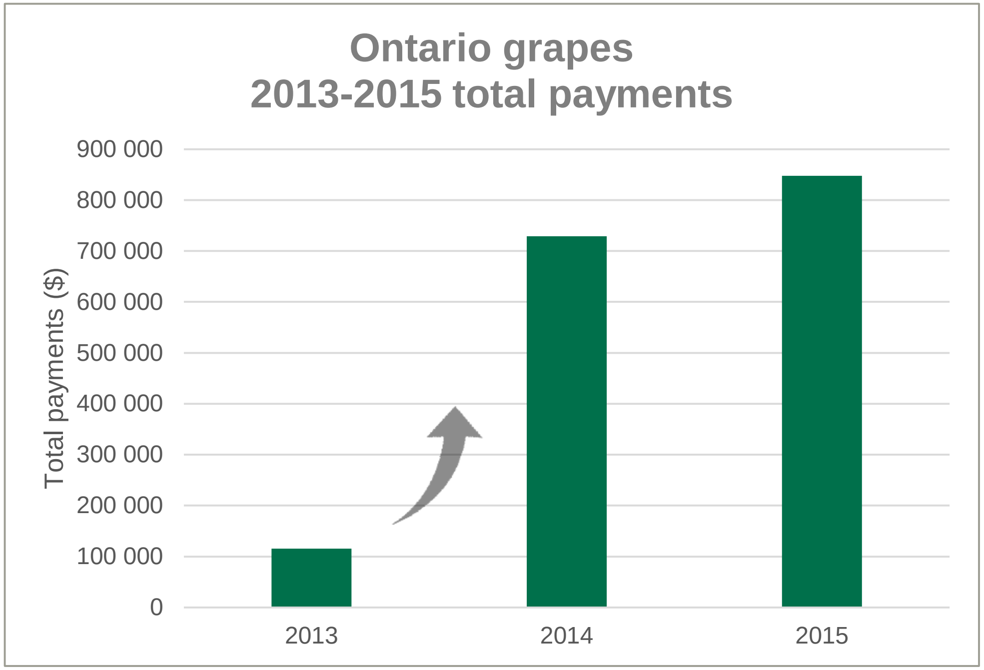
Payments to Ontario grape growers

- In 2014 and 2015, grape growers faced challenging winter conditions.
- Freezing cold temperatures early in these years led to lower yields and damaged vines.
- This led to large income declines for some farmers.
- AgriStability responded – with significantly higher payments in 2014 and 2015 than in 2013.



Remember: AgriStability provides coverage for disasters and works with other programs to create a broad risk management plan. Farmers may also be eligible for payments from:

► **Production Insurance** ► **AgriInvest** ► **RMP** ► **SDRM**

Risks farmers are facing in 2020

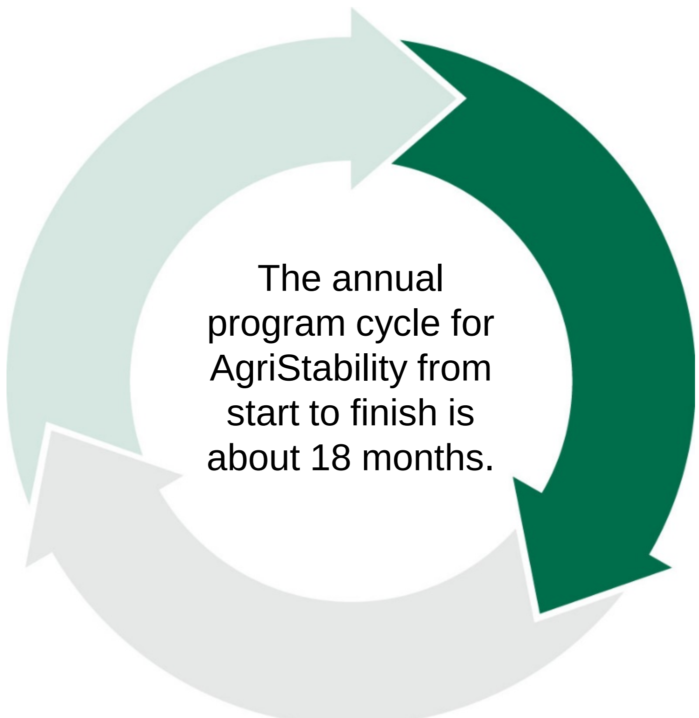
- **Increased costs for:**
  - Livestock feed
  - Labour
  - Supplies/ equipment

- **Lost income:**
  - Shortages of labour due to illness or travel restrictions
  - Loss of markets from closures of processing plants, restaurants and farmers' markets
  - Lower market prices
  - Lack of supplies and equipment that might prevent planting or harvesting

3. How AgriStability works

The 2020 AgriStability cycle

- Like insurance for your house or car, you sign up before something goes wrong.



- You pay your fee by July 3, **2020**

- After your tax year ends, you submit your tax and AgriStability forms by June 30, **2021**

AgriStability terminology

To understand how the program works, it is important to understand the terminology first.

Key terminology

- Allowable income and expenses
- Production margin
- Reference margin limit
- Reference margin
- Olympic average

Allowable income and expenses

Definition

- The farm income and expenses you reported on your tax form are used to calculate your payment.
- Only income and expenses that are directly related to the production of a commodity are allowable. Find out more about allowable income and expenses (read *RC 4060*).

Example

	Allowable	Non-allowable
Income	Sale of commodities such as apples, corn, chickens, eggs, milk, cattle, and swine	Machine rentals, interest, resale of commodities
Expenses	Containers and twine, fertilizer, pesticides, prepared feed, machinery fuel	Office expenses, rent, purchase of commodities resold

Production margin

Definition

- Your net farming income in a given year
- Reflects your allowable income minus allowable expenses

Example

In 2020…	Amount
Your allowable farming income	$200,000
Less: Your allowable farming expenses	($120,000)

Your 2020 production margin: **$80,000**

Reference margin limit (RML)

Definition

- Your adjusted expenses in a given year
- Reflects at least 70% of your production margin

Why is there an RML?

- The RML was introduced in 2013 under the *Growing Forward 2* agreement on agricultural policy to keep the focus of AgriStability on protecting against severe margin declines and disasters and less on profit fluctuation.
- Under the 2018 *Canadian Agricultural Partnership*, the government introduced a minimum RML of 70%, which increases the potential for payment.

Reference margin limit (RML) (cont'd)

Example

If the average of your production margins is $207,000, your RML will be **a minimum of** $144,900 ($207,000 × 70% = $144,900)

Your 2020 RML will be **a minimum** of: **$144,900**

Reference margin

Definition

- A benchmark used to determine if your current production margin declined
- Based on either your average **production margin** or your **RML** for the last five years, whichever is less
- Calculated using an Olympic average, which eliminates the highest and lowest values and averages the remaining numbers (For RML, use the same years used to calculate the average production margin.)

Example (numbers used to calculate your reference margin)

	2015	2016	2017	2018	2019
Production margin	$200,000	$250,000	$180,000	$75,000	$241,000
RML (adjusted expenses)	$210,000	$183,000	$222,000	$90,000	$198,000
	Used	**Not used** (highest)	**Used**	**Not used** (lowest)	**Used**

Reference margin (cont'd)

To determine your reference margin, Agricorp figures out **which is less**: your Olympic average of production margins OR your RML.

	2015	2016	2017	2018	2019	2020 reference margin
A Production margin	$200,000	$250,000	$180,000	$75,000	$241,000	**$207,000** (Olympic average of past 5 years)
B RML (adjusted expenses)	$210,000	$183,000	$222,000	$90,000	$198,000	**$210,000** (Use same years as above)
	Used	**Not used** (highest)	**Used**	**Not used** (lowest)	**Used**	

Your 2020 reference margin (the lower of A or B): **$207,000**

Let’s recap…

For 2020…	Amount
Your production margin	$80,000
Your reference margin	$207,000

Remember: Agricorp uses your reference margin as a benchmark to determine if your current production margin dropped.

In this example, there is a large drop in the 2020 production margin.

Now what?

Payment trigger

Let's look at how payments are triggered using:

- Your current 2020 production margin
- Your reference margin

The example

Production margin:	**$80,000**
Reference margin:	**$207,000**

Payment trigger (cont'd)

Definition

- AgriStability payments are triggered when your current production margin falls below 70% of your reference margin.

Example

Payment trigger = reference margin × 70%

= $207,000 × 70%

Your payment trigger: **$144,900**

The example

Production margin:	**$80,000**
Reference margin:	**$207,000**
Payment trigger:	**$144,900**

Payments at 70% coverage level

AgriStability payment calculation:

(payment trigger - current production margin) × 70%

Example

Payment = (144,900 - $80,000) × 70%

Your AgriStability payment: **$45,430**

The example

Production margin:	**$80,000**
Reference margin:	**$207,000**
Payment trigger:	**$144,900**

Summary of the example

When the farm's net income (production margin) dropped significantly compared to their average (reference margin), an AgriStability payment was triggered.

The example

Production margin:	**$80,000**
Reference margin:	**$207,000**
AgriStability payment:	**$45,430**

Remember: AgriStability provides disaster coverage and works with other programs to create a broad risk management plan. Farmers may also be eligible for payments from:

- **Production Insurance**
- **AgriInvest**
- **RMP**
- **SDRM**

AgriStability fee

- AgriStability is an affordable program
- It costs just $315 for every $100,000 of reference margin
- How the fee is calculated:

  (Fee reference margin × 0.45% × 70% coverage level) + $55

- Your **fee reference margin** is an Olympic average of your five recent production margins, using most recent data.

AgriStability fee (cont'd)

Example

	2014	2015	2016	2017	2018
Production margin	$190,000	$200,000	$250,000	$180,000	$75,000
	Used	**Used**	**Not used** (highest)	**Used**	**Not used** (lowest)

$190,000 (fee reference margin)

× 0.45% × 70% + $55

Your AgriStability fee: **$653.50**

Summary of the example

The example

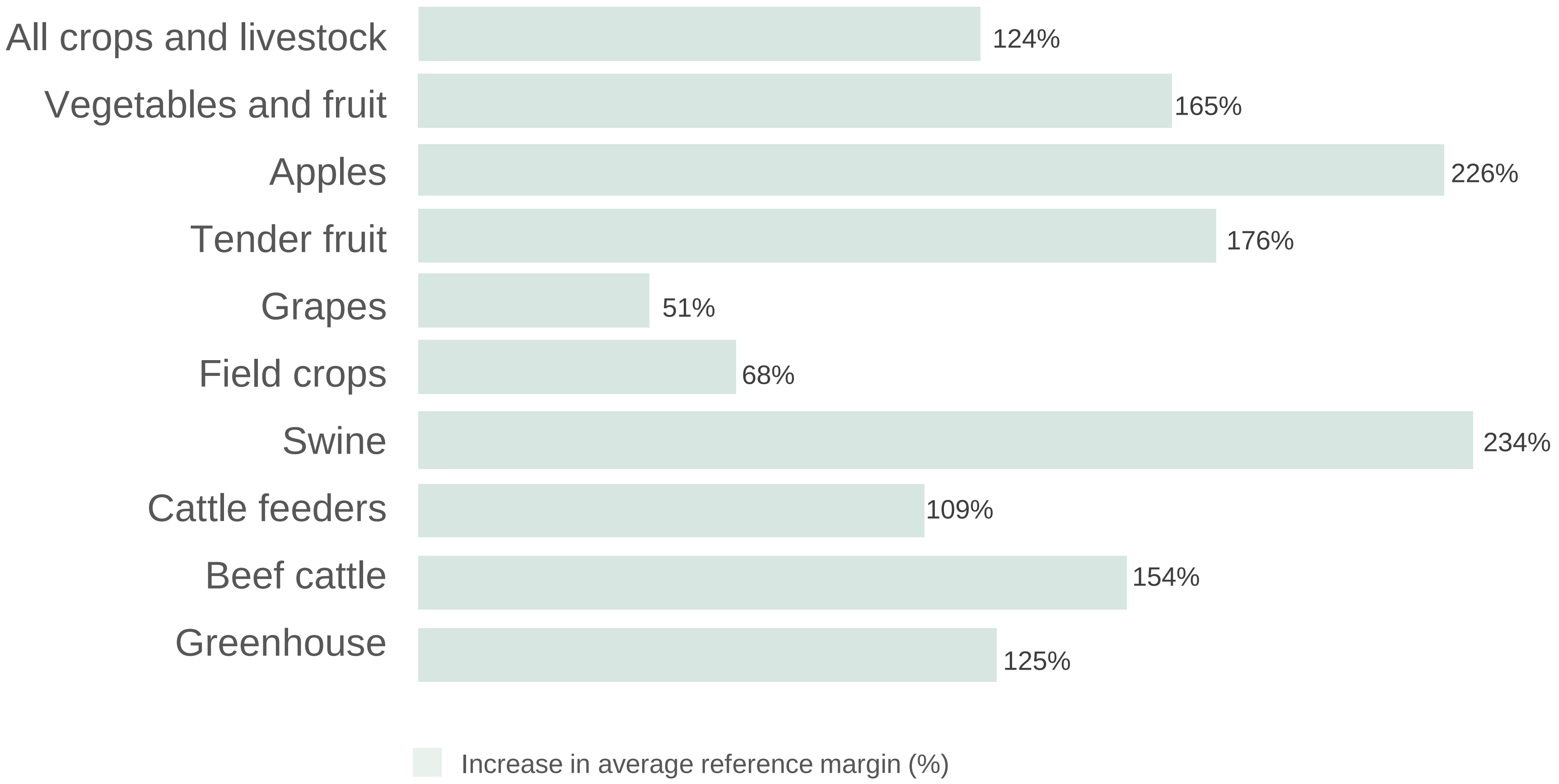
AgriStability fee paid:	**$653**
AgriStability payment received:	**$45,430**

4. Trends in coverage

Strength of the industry

- Over the years, farmers have been:
  - Producing more
  - Reaching more markets
  - Gaining efficiencies
- The strength of the agriculture industry over the past 10 years is reflected in the increased value customers receive from programs.

Increases in average reference margin (from 2009 to 2019)



Increased value of coverage

- Increased reference margins mean increased coverage.
- AgriStability has features in place so if the farm grows, the reference margin is adjusted upwards to account for the increase. This means more coverage for your farm.
- Despite substantial increases in the value of what AgriStability covers, the fee remains affordable.

5. AgriStability program features

Program features

- Structural change adjustments
- Inventory adjustments
- Interim payments

Structural change adjustments

► To provide a more accurate comparison, AgriStability may adjust your reference margin to reflect the composition and scale of your current operation.

- In AgriStability, this is called a structural change adjustment.
- Structural change adjustments may happen when your reference margin is no longer a good comparison for your current production margin.

An apple-to-apple comparison

Inventory adjustments

► Inventory adjustments may be made to your production margin.

- These adjustments reflect any changes in the value of your inventory.
- Fair market values are used to value your inventory adjustments.
- Fair market values for AgriStability are available on agricorp.com.

Interim payments

► AgriStability interim payments can provide farmers with cash flow when it is needed most.

- Farmers who project a production margin decline of more than 30% can apply.
- For 2020, interim payments provide 75% of a farmer's estimated final payment before their fiscal year is over.
- Applications are available right on the agricorp.com homepage.

6. Program tools and resources

Program tools and resources

- Apply for AgriStability
- Agricorp.com
- AgriStability Benefit Estimator
- Apply for an interim payment
- Read the program guidelines
- Find out more about allowable income and expenses*
- See Fair Market Values

*See the *RC 4060*

Thank you

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