An agency of the Government of Ontario

Discounts and Surcharges Grains and Oilseeds

Feature Sheet

Premium discounts and surcharges can help ensure a producer's premiums reflect their claim history. Premium discounts and surcharges take into account a producer's individual claim rate compared to the claim rate for the whole crop plan.

About discounts and surcharges

Base premium rates for Production Insurance are set annually to reflect factors like past performance of the plan, changes to the commodity price, and the level of the Production Insurance Fund. If you have been enrolled in Production Insurance for more than one year, your premium rate may be discounted or surcharged based on your claim history.

If you claim less than other customers in your industry, you may benefit from a discount to your premium. If you claim more than other customers in your industry, you may have a surcharge applied to your premium. A small claim may have little to no effect on your discount or surcharge. Also, in a year when many other plan participants are also in a claim situation, even a large claim may have little to no effect on your discount or surcharge because the claim rate for the plan is also likely to increase.

Discounts and surcharges are specific to each crop plan and have maximums to help premiums stay affordable.

Discount and surcharge checklist

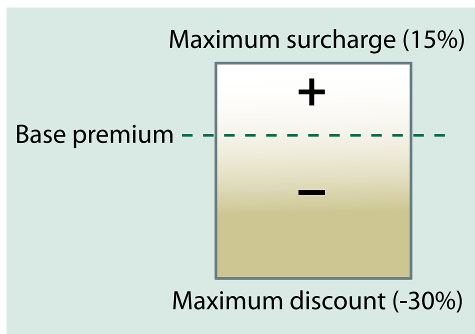
Below are the factors used to determine your discount or surcharge.

Individual crop plan factors	Industry crop plan factors
Number of years in the plan	**Number of years the plan has been in existence (capped at 20 years)**
Your accumulated liability (the maximum in total claims Agricorp could have paid since you were enrolled in the plan)	**The plan's accumulated liability** (the maximum in total claims Agricorp could have paid all participants since the existence of the plan)
Total dollar value of your claims	**Total dollar value of all claims paid**
Your individual claim rate = (your total claims ÷ your accumulated liability) x 100	**The plan claim rate** = (the plan's total claims ÷ the plan's accumulated liability) x 100

Maximum discounts and surcharges

The maximum annual discount (-) is 30 per cent of the base premium rate.

The maximum annual surcharge (+) is 15 per cent of the base premium rate.



Low claim rate compared to the plan

Farm A	
years in program **10**	previous claims = **$10,000** this year's claims = **$20,000** total claims = **$30,000**
accumulated liability **$1,072,000**	
individual claim rate **2.80%**	plan claim rate **4.00%**

- Farm A has claimed $10,000 for **corn** over the 10 years the farm has been enrolled in Production Insurance and receives a 10 per cent discount due to its good claim history.
- This year, Farm A received a $20,000 claim for corn, bringing the total claims for the plan to $30,000.
- This year, many farms had large Production Insurance claims for corn that exceeded Farm A's claim. Because Farm A claimed less than the average customer in the plan, Farm A's claim rate is less than the plan claim rate.
- The formula below shows how much of an impact Farm A's claim will have on their corn discount for next year.

Discount or surcharge formula

$$\textbf{Discount or surcharge percentage} = 100 \times \frac{\text{\# of years enrolled in plan}}{\text{\# of years plan has been in place*}} \times \left(\frac{\text{individual claim rate}}{\text{plan claim rate}} - 1\right)$$

*Capped at 20 years.

Calculating the discount or surcharge

Discount or surcharge

= 100 × (# of years in plan ÷ # of years plan has been in place*) × ([individual claim rate ÷ plan claim rate] – 1)

= 100 × (10 ÷ 20) × ([2.8 ÷ 4] – 1)

= 100 × 0.50 × -0.30

Discount = -15%

Summary

Because Farm A had a claim rate lower than the plan claim rate, they will receive a slightly larger discount of 15 per cent for corn next year.

High claim rate compared to the plan

Farm B	
years in program **10**	previous claims = **$30,000** this year's claims = **$20,000** total claims = **$50,000**
accumulated liability **$893,000**	
individual claim rate **5.60%**	plan claim rate **5.00%**

- Farm B has claimed $30,000 for **soybeans** over the 10 years the farm has been enrolled in Production Insurance and receives a two per cent discount for soybeans.
- This year, Farm B received a $20,000 claim for soybeans, bringing the farm's claims to $50,000.
- This year, few farms had Production Insurance claims for soybeans. Because Farm B claimed more than the average customer in the soybean plan, Farm B's claim rate is more than the plan claim rate.
- The formula below shows how much of an impact Farm B's claim will have on their soybean discount for next year.

Discount or surcharge formula

$$\textbf{Discount or surcharge percentage} = 100 \times \frac{\text{\# of years enrolled in plan}}{\text{\# of years plan has been in place*}} \times \left(\frac{\text{individual claim rate}}{\text{plan claim rate}} - 1 \right)$$

*Capped at 20 years.

Calculating the discount or surcharge

Discount or surcharge

= 100 × (# of years in plan ÷ # of years plan has been in place*) × ([individual claim rate ÷ plan claim rate] – 1)

= 100 × (10 ÷ 20) × ([5.6 ÷ 5] – 1)

= 100 × 0.5 × 0.12

Surcharge = 6%

Summary

Because Farm B had a higher claim rate than the plan claim rate, they will receive a surcharge of six per cent for soybeans next year.

Moving from a surcharge to a discount

Although there are many factors, in most cases producers can move from a surcharge to a discount if they have a number of claim-free years and the annual liability and claim rate for the plan remain constant.

New participants

In your first year enrolled in a Production Insurance plan, you will receive the base premium rate with no surcharge or discount applied. In the following five years, you will not have more than a five per cent discount or surcharge applied to your premium.

Discounts and surcharges are phased in at a maximum of five per cent per year. This is to protect new producers who have not had the opportunity to build up a significant amount of insured liability from the impact of major claims in their first few years of enrolment.

Errors and omissions excepted.

Agricorp reserves the right to make corrections if there are any errors or omissions on this feature sheet. For specific legal obligations of Production Insurance, consult the *Contract of insurance, Terms and conditions*. For details on the collection of information and treatment of records, refer to Part I, Section I of the Contract.

This feature sheet is for informational purposes only. It is not part of the *Contract of Insurance*.

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