

A Review of Business Risk Management Programs Available in Ontario

There are four Business Risk Management (BRM) programs that Ontario producers can access to help mitigate various risks.

1. AgriStability
2. Production Insurance
3. AgriInvest
4. Ontario Risk Management Program (RMP)/Self Directed Risk-Management account (SDRM)

To help better understand how each program will potentially respond during the COVID-19 crisis, what follows is an overview of each program detailing how payments are triggered, payment levels including maximum payments and the timeliness of those payments to producers.

Basic overview of each program

AgriStability

AgriStability is a whole farm protection program designed to protect producers from large declines in their farming income caused by production loss, increased costs, and/or market conditions.

The term “Whole farm” comes from the fact that the program uses a producer’s eligible income and eligible expenses and therefore provides producers more holistic protection from income declines.

Payment trigger

Under the AgriStability Program, a producer’s current year margin (eligible income minus eligible expenses plus inventory adjustments) is compared to the farm operation’s reference margin. A government payment is made to the producer when the farm’s margin in the current year (known as the production margin) is lower by an amount that exceeds 30% of the farm’s reference margin. A producer’s reference margin is determined by its 5-year “Olympic average” where the highest and lowest year are removed.

There is a fee to participate in AgriStability. The fee is equal to 0.45 per cent of a producer’s reference margin multiplied by 70 per cent plus a \$55 administration fee.

AgriStability fee= (Reference margin x 0.45% x 70%) + \$55

Compensation Rate

Traditionally producers that trigger a payment under AgriStability receive a compensation rate of 70%. Meaning they receive 70 cents for every dollar their program year margin falls below their payment trigger threshold.

In 2021 the Ontario government announced it would increase the compensation rate for the *provincial only* portion of AgriStability payments to 80%. It's important to remember, that Ontario only covers 40% of the program costs and the federal government covers 60%. This has the effect of limiting the total increase in compensation rate to 74% for Ontario producers who trigger a payment under AgriStability.

AgriStability payment= (payment trigger- production margin) x 74%

Where:

Payment trigger= reference margin x 70%

Production margin= allowable income minus allowable expenses in the program year

The maximum payment under AgriStability in a any year is \$3 million.

Timing of AgriStability payments

Producers can submit their year end claim forms and tax information to AgriCorp at their fiscal year end, which is December 31st for many producers. AgriCorp will then calculate whether the claim is successful and if so, how much producers will receive.

This means there is a significant amount of time between when a loss event occurs, and an eligible producer receives their AgriStability payment. It is not uncommon for producers to wait at least a year to receive their payment.

To speed up the process, producers can apply for an interim payment provided the producer has completed a production cycle and at least six months of farming activity in the program year or could not for reasons beyond the producers' control.

Producers can apply for an interim payment equal to 50% of their estimated AgriStability payment.

An example of how AgriStability fees and payments are calculated

"Farmer A" had production margins over the past five years as follows.

2020: \$90,000
2019: \$110,000
2018: \$124,000
2017: \$155,000
2016: \$115,000

The highest margin (2017) and the lowest (2020) would be removed and the average of 2018, 2019 and 2016's margins would be used as the reference margin. That means Farmer A's reference margin is \$116,333.

In 2021, Farmer A's margins down to \$40,000.

Farmer A would pay a fee of \$420.4 to participate in the program.

Then, Farmer A's tax data and past AgriStability applications to determine production margin over the past 5 years. This will help determine Farmer A's payment.

2020: \$90,000
2019: \$110,000
2018: \$124,000
2017: \$155,000
2016: \$115,000

The 5-Year Olympic average production margin is \$116,333. Farmer A can expect a payment if his production margin 2020 falls below 70% of \$116,333. Farmer A's payment trigger is \$81,433.

Let us assume Farmer A is experiencing a significant margin decline down to \$35,000.

Farmer A's AgriStability Payment= (payment trigger- production margin) x 74%
= (\$81,433-\$35,000) x 70%
= \$34,360

Production Insurance

Production Insurance protects Ontario producers from yield reductions and crop losses caused by factors beyond their control such as.

- Drought
- Excessive moisture
- Excessive rainfall
- Flood
- Frost
- Hail
- Insect infestation
- Plant diseases
- Wildlife
- Wind
- Winterkill

Payment trigger

A producers Average Farm Yield (AFY) is calculated using the producers 10-year history of reported farm yields. Historical yields are adjusted to reflect changes to farming practices and technology over time.

Agricorp calculates a producer's guaranteed production by multiplying the producers AFY by selected coverage level. Coverage levels vary by commodity but typically range from 70 per cent to 90 per cent, increasing in 5 per cent increments.

Guaranteed production= AFY x chosen coverage level

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If a producer yield falls below their guaranteed coverage level, a payment is triggered for the difference.

Payment levels

There are three types of payments made under production insurance.

1. Unseeded acreage benefit
2. Reseeding benefit
3. Yield loss coverage

If producers are unable to plant their crop due to weather conditions, they may apply for Unseeded acreage benefits (USAB). USAB payments are processed by Agricorp after final acres are reported and are based on one third of a producer's AFY of their dominant crop. Producers must pay a \$1 premium per unseeded acre and payments are subject to a deductible. The deductible is different for tiled and untilled land.

USAB Payment= USAB Benefit x (1/3 AFY) x (unseeded acres – deductible) – (\$1 x # of unseeded acres)

USAB Example

A producer is unable to plant 250 acres of untilled land and has a \$4 USAB benefit. His AFY for his dominant crop of corn is 165 bushels per acre.

$$\begin{aligned}\text{USAB Payment} &= \$4 \times (1/3 \times 165) \times (250 - 7.5) - (\$1 \times 250) \\ &= \$4 \times 54.45 \times (242.5) - \$250 \\ &= \mathbf{\$52,567}\end{aligned}$$

If a producer's crop is damaged and decides to replant after the final planting date or replant an uninsurable crop, they may be eligible for a reseeding payment. Reseeding payments are made after the final acres are reported to Agricorp and are only made if three or more adjoining acres are damaged and are based on the crop originally enrolled in the program.

Reseeding Benefit Payment= # of acres damaged x maximum reseeding benefit

The maximum reseeding benefit is set by Agricorp each year for each crop.

If a producer experiences damage from an insurable peril to their crop and they maintain their crop to harvest they may be eligible for a standard yield loss payment.

Yield Loss Claim Payment= (total guaranteed production- actual reported yield) x claim price.

Example

A producer plants 250 acres of corn, has an AFY of 165 bushels per acre and chooses an 80 per cent coverage level. The producer reports an actual total yield for the year of 23,375 bushels. We will assume a claim price of \$4.25.

$$\begin{aligned}\text{Yield Loss Claim Payment} &= ((165 \times 80\% \times 250) - (23,375)) \times 4.25 \\ &= (33,000 - 23,375) \times 4.25 \\ &= \mathbf{\$40,906}\end{aligned}$$

AgrilInvest

AgrilInvest is a savings account that allows producers to make deposits with matching contributions. Each year, producers can deposit up to 100% of their Annual Net Sales (ANS) with the first 1% matched by the government, subject to a \$10,000 annual limit. This caps the government matching ANS at \$1 million.

ANS= sales of eligible commodities minus purchases of eligible commodities.

Supply managed commodities are not eligible.

For example, if a producer has ANS equal to \$850,000 and deposited \$8,500 into an AgrilInvest account, they will receive a matching \$8,500 from the government.

The balance of an AgrilInvest account can be withdrawn at any point. The government matching contribution must be accessed first and is considered taxable income. Since producers make deposits with after-tax income, their initial deposit is not taxable upon withdrawal.

RMP

Ontario's Risk Management Program (RMP) helps producers manage risks beyond their control, and acts as insurance to help Ontario farmers offset losses caused by low commodity prices and rising production costs

Payment trigger

For eligible livestock and grains and oilseeds commodities a payment is triggered if the market price of commodities drops below annual support levels.

Payment levels

For livestock producers, the amount of the payment is based on the industry average cost of production (known as the strike price) multiplied by a producer's chosen coverage level for each animal sold. Livestock producers can choose a coverage level of 80, 90, 95 or 100 per cent.

Livestock Payment= # of head sold x (average cost of production x chosen coverage level)

For grains and oilseed producers, the amount of the payment is based on their Average Farm Yield (AFY), total number of acres and the support level which is equal to the industry average cost of production multiplied by chosen coverage level.

Grains & Oilseed Annual Payment= # of acres x (AFY) x (average cost of production x chosen coverage level)

Grains and oilseeds producers can choose a coverage level of 80, 90 or 100 per cent.

The maximum payment a single participant can receive is \$1.2 million. Available funding under the \$150 million cap will also impact payments.

Timing of RMP payments

For livestock producers, payments are made semi-annually for cow-calf producers and three times a year for other eligible livestock.

Grains and oilseeds receive a pre-harvest payment in November and a post-harvest payment in May or June of the following year.

SDRM

As part of the RMP program eligible horticulture producers can open a Self-Directed risk management account (SDRM).

How SDRM works

A producer makes a deposit into an SDRM account, and the Ontario government will contribute, up to the maximum indicated on the deposit notice. The maximum government contribution is based on Allowable Net Sales (sales of eligibility commodities minus purchases for those commodities) and the current \$150 million funding cap for the RMP program.

Producers with different levels of sales have a different threshold for maximum ANS they can deposit into their SDRM account.

- Producers with ANS of \$2.5 million or less can make a maximum deposit equal to 2% ANS.
- Producers with ANS between \$2.5 million and \$5 million can make a maximum deposit equal to 2% of the first \$2.5 million and 1.5% of ANS above \$2.5 million.
- Producers with ANS greater than \$5 million can make a maximum deposit equal to 2% of the first \$2.5 million and 1.5% of ANS between \$2.5-\$5 million and 1% of ANS above \$5 million.
- Greater than \$5 million, your maximum deposit amount equals 2% of the first \$2.5 million, 1.5% of the amount over \$2.5 million up to \$5 million, and 1% of the balance of your ANS.

It is also worth noting that unlike AgrilInvest, government contributions withdrawn from SDRM are not taxable and do not earn interest.

SDRM Timing

Producers must complete the deposit request form and submit it to Agricorp along with a cheque for the deposit amount prior to February 1st of the program year. Withdrawals can be made at any time.

Comparison of the five risk management programs available to Ontario producers

	AgriStability	Production Insurance	AgriInvest	SDRM	RMP
Coverage Type	Whole Farm	Production	ANS	ANS	Cost of Production
Yield Loss	Yes	Yes	No	No	No
Price Loss	Yes	No	No	No	Yes
Increased Costs	Yes	No	No	No	Yes
Payment Timeline	1 year or more	Immediate after claim is filed	Immediate	Immediate	Semi-Annually
Maximum payment	\$3 million	Depends on coverage.	\$10,000 max Gov't contribution	Depends on ANS	\$1.2 million