Understanding

AgriStability

2013

Understanding AgriStability is an information series aimed at explaining how AgriStability provides business risk management support for producers. The series has been updated to reflect changes announced in the federal, provincial and territorial Growing Forward 2 policy framework.

What you need to know about AgriStability

Ontario's producers work hard in an increasingly complex and demanding environment. It requires commitment, an entrepreneurial spirit and an understanding of the risks that can occur. Yet, no matter how stable an operation is, sometimes the unexpected happens.

AgriStability is one of the risk management programs offered under the Growing Forward 2 agreement on agricultural policy. AgriStability is designed to target assistance to farm operations facing large margin declines caused by production loss, increased costs or market conditions.

Growing Forward 2 also includes investments in innovation, competitiveness and market development. Program costs are shared between the federal and provincial governments on a 60:40 basis.

AgriStability provides peace of mind when you need it most.

Why choose AgriStability?

- To secure your net farming income if you are impacted by production losses, adverse market conditions or increased costs
- To complement other risk management programs you may already have with Agricorp
- To take advantage of affordable protection for your farm business

How does AgriStability work?

If your net farming income falls below 70 per cent of your recent average due to any combination of production loss, adverse market conditions or increased costs, AgriStability will help offset the difference.

AgriStability calculates a production margin and a reference margin. If your production margin falls below your payment trigger (70 per cent of your reference margin), AgriStability will pay you 70 per cent of the difference.

The annual AgriStability fee is 0.45 per cent of your fee reference margin, multiplied by the 70 per cent coverage level. This works out to be $315 for every $100,000 of reference margin.

Production margin

The current year's net farming income is called your production margin. It is based on the income and expenses directly related to your production. Allowable income and expenses ensure that AgriStability coverage is restricted to production or price declines, rising input costs and market losses.

The program considers your entire farm operation and not just one commodity. Payments can be triggered by the combined effects of several factors that on their own might not trigger a payment. On the other hand, one situation may offset another. For example, a bumper crop year could offset the effects of poor commodity prices.

Your production margin also includes inventory adjustments that measure changes in the value of your accounts receivable, accounts payable and commodity inventories. Inventory changes are valued using fair market values. Essentially, if your inventory value increases, it increases your production margin; if your inventory value decreases, it reduces your production margin.

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Reference margin

Your reference margin is an olympic average (highest and lowest values are removed) of your five most recent production margins or an average of your adjusted expenses in the same three years – whichever is less.

You should know…

If you have been farming for less than five years, your reference margin will be based on your three most recent margins (if available) or typical industry margins for the commodities you produce.

If you change commodities, expand or downsize your operation, you can expect your margin to be different.

In this case, AgriStability adjusts your historic production margins. Then, AgriStability calculates your reference margin using these adjusted figures. This ensures an apples-to-apples comparison between your farm's net income this year and in previous years.

Your production and reference margins are based on your income tax information. AgriStability payments are made after your tax year is complete and you have submitted your tax and AgriStability forms. (See 2013 Program deadlines.)

What does a typical annual program cycle look like?

Like insurance for your house or car you sign up before something goes wrong. With AgriStability, you pay your fee by April 30 before the production year begins. Then you farm knowing AgriStability will help you if the unexpected happens. After your tax year ends, submit your tax and AgriStability forms. The deadline is June 30 of the following calendar year. The earlier you submit your forms, the sooner Agricorp can process them and make a payment, if applicable. The annual program cycle for AgriStability is about 18 months from start to finish.

If you experience financial distress in the middle of the year, you can also apply for an interim payment based on the first six months of your fiscal year. Agricorp will then process interim and final payments on a priority basis (Refer to steps 1 – 3 in the following tables.).

Step 1: Your fee is calculated

The fee is 0.45 per cent of your fee reference margin, multiplied by the 70 per cent coverage level. This works out to be $315 per $100,000 of reference margin. You also pay $55 to help cover administrative costs.

In this example, Smyth Fields is a mixed operation of cash crops and a small number of livestock. From 2007 to 2013, the operation has stayed the same in commodities produced, acreage and number of livestock. Its historical production margins ranged from $98,000 to $116,000.

	2007	2008	2009	2010	2011
Production margin	$107,000	$116,000	$98,000	$112,000	$108,000
	Used ✔	High ✗	Low ✗	Used ✔	Used ✔
Fee Reference margin			$109,000		

Assuming Smyth Fields' fee reference margin was $109,000, the fee would be calculated as follows:

Fee = (Fee reference margin × 0.45% × 70% coverage) + $55
= ($109,000 × 0.45% × 70%) + $55
= $398.35

Smyth Fields would need to pay $398.35 to participate in 2013.

Step 2: Your reference margin is calculated

Your reference margin is an olympic average of your production margins or an average of your adjusted expenses in the same three years – whichever is less. Your payment trigger is 70 per cent of your reference margin.

	2008	2009	2010	2011	2012
Adjusted expenses	$99,000	$95,000	$94,000	$102,000	$104,000
Production margin	$116,000	$98,000	$112,000	$108,000	$104,000
	High ✗	Low ✗	Used ✓	Used ✓	Used ✓

A. Olympic average of production margins	$108,000
B. Average of expenses (Same years as A)	$100,000
C. Reference margin (Lower of A or B)	$100,000
D. Payment trigger (Reference margin × 70% coverage level)	$70,000

Step 3: Your payment is calculated

Following the example above, in 2013 Smyth Fields has a production margin of $60,000. Assuming the payment trigger was $70,000 (Line D in step 2), the payment is calculated as follows:

Payment = (Payment trigger – Production margin) × 70%
= ($70,000 – $60,000) × 70%
= $7,000

Definitions

Adjusted expenses – Your historical expenses, adjusted to match your current operation.

Allowable income and expenses – Income and expenses included in the calculation of your production margin.

Non-allowable income and expenses – Income and expenses excluded from the calculation of your production margin.

Production margin – Your current year's net farming income (based on your allowable income, expenses and inventory adjustments).

Reference margin – An olympic average of your five most recent production margins or an average of your adjusted expenses in the same three years – whichever is less. For example, your 2013 reference margin uses the production margins from 2008 to 2012, dropping the highest and lowest margins.

Olympic average – An average where the highest and lowest values are removed.

Fee reference margin – Refers to an olympic average of your five historical production margins, starting two years ago (the most recent data available). For example, the 2013 fee reference margin uses the production margins from 2007 to 2011, dropping the highest and lowest margins.

2013 Program deadlines

April 30, 2013	
• Submit 2013 *New Participant Form*	
• Pay 2013 fee	
• Cancel 2013 coverage	
December 31, 2013	
• Pay 2013 fee – final deadline (with 20 per cent increase)	
• Apply for a 2013 interim payment (if applicable)	
June 15, 2014	
• Submit 2013 T1163 (individuals) to the Canada Revenue Agency	
June 30, 2014	
• Submit 2013 *Year-end application* to Agricorp	
• Submit 2013 Statement A (corporations, trusts and special individuals) to Agricorp	

Who is eligible?

To participate in AgriStability, you must:

- Farm in Canada
- Complete a production cycle and at least six consecutive months of farming activity in the program year
- Report farming income or loss to the Canada Revenue Agency unless exempt under the federal *Indian Act*

How to participate

Eligible participants must adhere to the deadlines and program guidelines. If you haven't participated in AgriStability before, complete and submit a *New Participant Form* by April 30 of the program year. The *New Participant Form* can be found on **agricorp.com**.

How to cancel coverage

Once you have signed up, your coverage will continue each year until you choose to cancel it. You will receive an invoice each year and you will have 30 days to either pay the fee or cancel your coverage. For both actions, your deadline is the due date shown on your invoice. After that date, your coverage is confirmed for the year.

Understanding AgriStability is an information series produced by Agricorp:

- *What you need to know about AgriStability*
- *Structural change explained*
- *AgriStability for livestock producers*

If you have feedback on this information series, please contact us.

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