

AQHA Incentive Fund

AQHA explains the new improvements designed to reinvigorate the AQHA Incentive Fund

The American Quarter Horse Journal
November 4, 2011

The AQHA Incentive Fund Task Force hashed out the ideas for giving the program a facelift and making it more beneficial.

Recently, AQHA, working through a task force that was assembled to review the AQHA Incentive Fund, announced changes to the valuable fund that are aimed to keep it viable and stimulate participation.

Those changes, the first significant changes other than modifications to stallion nomination fees since the fund's inception in the 1980s, have been getting a lot of discussion since the announcement.

In this question-and-answer piece, AQHA explains how the changes can benefit all participants, and why the changes were necessary.

Q: Why is AQHA making changes to the Incentive Fund?

A: Believe it or not, other than some fee modifications, there have not been any changes made to the AQHA Incentive Fund to keep up with the changes we have seen in the show industry. During the heyday of breeding, the fund's value and, subsequently, the point values were fairly substantial and rewarding. As fewer stallions have bred fewer mares, the fund and the dollar-per-point value has declined.

If you think about it, changes to the Incentive Fund were long overdue. Since the 1980s, AQHA has added classes, added divisions (Select) and added more ways for people to show their Incentive Fund horses for longer periods of time. If the fund is going to be valuable to stallion owners (making offspring more valuable) and lucrative for competitors (rewarding them for their points), sweeping changes had to be made.

Q: Why are you making changes all at once?

A: The task force that met considered phasing in changes to the fund over a period of a few years. However, after careful reflection, the task force members believed it was better to stimulate the fund sooner so that breeders and competitors could see the financial benefits as soon as possible. The goal is to try to push the point values toward the \$50-per-point range. While that still won't happen immediately, projections indicate we can get close to that goal if participation levels are high.

Q: Now you're making exhibitors pay while reducing their take of the fund by 10 percent. Why?

A: Since inception, stallion owners have been the biggest supporters of the Incentive Fund by continuing to nominate their stallions year-in and year-out. Additionally, in many instances, a stallion owner also is a foal nominator, further putting the burden of support on that single group. While Incentive Fund eligibility does make their foals more attractive at the time of sale and thus provide them with a return on their investment, the task force wanted to investigate other revenue streams for the Incentive Fund while simultaneously boosting support to stallion owners and nominators. While it doesn't go unrecognized that exhibitors are the ones paying to show throughout the year, as a group, they have been the biggest beneficiaries of the fund while supporting it the least from an investment/financial point of view, which is why the task force recommended the moderate, annual fee of \$50 per division. Remember, too, that 100 percent of that new annual license goes into the fund. AQHA is not keeping any of it.

Hypothetically, let's say AQHA is successful in the first year at getting point values to \$35 per point. Exhibitors would earn 70 percent of that \$35 or \$24.50 per point. If they paid for one division only (\$50), they would see a return on their

investment after earning only 2,5 points (\$61.25). If they continue showing, their returns will increase more quickly than they would if point values remain where they are today (for 2011 payouts, it is expected that point values will be less than \$20 per point - \$20 @ 80 percent = \$16 per point paid to exhibitors). An exhibitor who pays the Incentive Fund competition license for both open and amateur would have to earn 4.5 points to be ahead.

NOTE: Based on exhibitor feedback: The Incentive Fund competition license fee may be paid at any point during the year. This is a change from what was previously announced. Many exhibitors felt they wanted to gauge how active their show year might be before paying the Incentive Fund license. If an exhibitor opts to wait until March to pay, he or she will be eligible to start earning Incentive Fund money from that point forward.

Q: Is this the right time to “tax” exhibitors who might already be feeling the pinch?

A: Nobody – least of all AQHA – wants to ask exhibitors to pay anything more than they already are. Again, if enough exhibitors will support these changes, it will be an investment that should pay them larger dividends for showing, and that’s good for everyone.

Q: Is the Incentive Fund going broke or at risk of being depleted?

A: The short answer is no, and AQHA will do everything in its power and within its financial resources to ensure that the Incentive Fund stays viable. However, in the interest of full disclosure, the fund is stressed primarily due to reduced breeding (stallion owner support) and fewer foals (nominator support). What the task force and AQHA want to do is make equitable changes across the board that will bring the Incentive Fund back into alignment and good financial health.

Q: If you’re trying to support stallion owners and nominators, why did you increase the fee to enroll foals by \$25 (now \$125)?

A: As previously stated, the task force was looking for revenue streams for the Incentive Fund. The fee to enroll weanlings (7 months of age and younger) had not changed since the program began in the 1980s. While increasing that enrollment fee slightly, the task force also boosted paybacks to stallion owners and nominators by an additional 5 percent each (from 10 percent each to 15 percent each). The hope is that the slight increase in the weanling fee will be rewarded back to the nominator by upping the percentage paid back.

Simply put, the Incentive Fund works for two primary reasons: 1). Stallion owners nominate their stallions based on the number of mares bred; and 2). mare owners enroll their foals into the program for a lifetime of opportunities. If these two groups are rewarded with larger percentages and continue to see the benefits of the Incentive Fund, then they will continue to support it – or, hopefully, increase their support.

When you add in the new support of the owner/exhibitor, the fund’s sustainability looks a lot better for the long term.

NOTE: Based on nominator and stallion owner feedback, if a stallion owner who nominates his or her foal(s) into the program is the record owner of the same horse(s) in its first year of showing, that stallion owner/nominator will not have to pay the first year’s Incentive Fund license fee for that horse. They have supported the fund by nominating their stallion(s) and enrolling their offspring, so the task force modified its original motion by giving stallion owners/nominators their first year of showing without having to pay the license fee.

Q: Why the transfer fee? It seems like once a horse/owner has paid the Incentive Fund license fee, it should extend to subsequent owners during that competition year.

A: The task force re-examined the transfer fee (requiring new owners to pay the Incentive Fund fee when they purchased a horse) and agreed to forego that fee for the time being. After additional consideration, it will likely make it easier at the time of sale if a seller can promote that his/her horses’ license fees are paid into the Incentive Fund for the competition year.

Q: What if an owner doesn't pay his or her license fee? Do the nominator and/or stallion owner get their 15 percent each?

A: Yes! While it wasn't clarified in the initial announcement, stallion owners and nominators will receive their Incentive Fund disbursements regardless of whether an owner has paid the license fee or not. Stallion owners/nominators support the fund by nominating and enrolling. If an owner chooses not to pay the Incentive Fund license fee, stallion owners/nominators will be paid based on the points their offspring earn just as they always have.

Q: You're allowing Racing Challenge-enrolled horses into the fund for \$500. Does that mean you will pay stallion owners and nominators of those Racing Challenge-enrolled horses that get in to the Incentive Fund?

A: As a benefit to racing owners who support the Bank of America Racing Challenge – and as a way to continue fostering second careers for racehorses, the task force chose to let Challenge-enrolled horses into the fund. However, stallion owners and nominators will only be paid if they support the program in the same fashion as show stallions and nominators do. There are some great race-bred foals that we will continue to see making their mark on the show-horse scene.

To reap the full rewards of the Incentive Fund, owners of stallions whose primary interest is racing, would have to enroll their stallions and nominate their babies. The \$500 fee allows potential buyers looking for a race-bred horse the chance to get into the fund and earn 70 percent of the point values. That \$500 fee gets the horse enrolled in the Incentive Fund. The competition license fee(s) will still need to be paid.

Q: Can I pay my license fee at a show?

A: Yes. AQHA is working with show managers to allow the license fee to be paid at a show if the owner has not sent the license fee to AQHA directly. Through a dynamic database that show managers can now access, they will be able to see if the horse has been paid into the fund and, if not, submit the payment when they send their show results to AQHA. The owner of the horse would be eligible to earn Incentive Fund money from that show date forward.

Q: If I buy an Incentive Fund-eligible horse from someone who did not pay the license fee, can I – as the new owner – pay the fee when I do purchase the horse (NOTE: This scenario is different from the previously publicized fee at time of transfer)?

A: Yes. If a horse is enrolled in the Incentive Fund but for whatever reasons an owner didn't pay the annual license fee, a new owner may pay the fee(s) and be eligible to start earning Incentive Fund money from that point forward.

Q: Why the 200-point cap?

A: While not very many horses/exhibitors earn more than 200 points during a competition year, the concentration of points that they do earn was significant enough that the task force wanted to implement a cap so that money could be spread across a larger segment of Incentive Fund horses. Hopefully, when point values travel upward, owners will look to buy an additional Incentive Fund-enrolled horse if they near the 200-point cap, so they can continue to enjoy the benefits of the program. The point cap is based on the total number of Incentive Fund points and not by division.

NOTE: In the originally publicized changes, points were "capped" at 200 with anything earned in excess of 200 points paying at 80 percent of the value. That was subsequently changed and the point cap is now 50 percent of the point value.

Q: How much money does AQHA make off the Incentive Fund?

A: Nothing. In fact, the rules for the Incentive Fund allow for the Association to take administrative costs out of the fund each year. However, AQHA has not done that, which essentially puts \$200,000 more into the fund each year. AQHA further does not charge any advertising or marketing costs to the fund. Those expenses are paid through a budget separate from the Incentive Fund.

Q: Why doesn't AQHA have a sponsor for the Incentive Fund the way it does for the Bank of America Racing Challenge?

A: The Association is investigating other sources of revenue for the Incentive Fund, including the possibility of finding a sponsor. However, at the present time, finding sponsors at the level it would take to make any measurable financial impact on the Incentive Fund is difficult. But it's certainly something that's on the roster of assets that the Association is offering to potential sponsors. In fact, a sponsor of the Incentive Fund would arguably reach one of the largest, most lucrative groups of American Quarter Horse exhibitors outside of the World Shows.

Breeders, amateur owners, professional riders and show outlets across the world could be open to potential sponsors of the AQHA Incentive Fund, giving them a reach and impressions that few programs could provide. We encourage anyone who knows of an organization that might be interested in talking to AQHA regarding sponsorship to contact us directly.

Q: Who serves on the Incentive Fund Task Force:

A: The AQHA Incentive Fund Task Force represents a group of involved owners/breeders/exhibitors/show managers. They are:

Jim McKillips, Ross Roark, J.D. Yates, Jan Bruner*, Jim Searles, Bennie Sargent, John Pipkin*, Larry Little*, Peg Edmondson*, Stephanie Lynn*, Amy Gumz, Jeff Mellott

AQHA Show Council members at the time of the meeting also met with the task force and in addition to the above-indicated people (*) included:

Jim Heird, John Trafton, Nancy Cahill, Donna Johnson, Michael Jung, Joe Carter, Sherry Tierney

AQHA Executive Committee members present included:

Peter J. Cofrancesco, Gene Graves, John Dobbs

In summary, when the Incentive Fund was instituted nearly 30 years ago, it was considered to be the most innovative show rewards program of its time to hit the American Quarter Horse industry. If stallion owners and nominators continue to support the program, along with the added support of owners of eligible American Quarter Horses, the Incentive Fund could be worth more than \$3 million for 2013 alone. And if support increases, it's easy to see how the fund, and, subsequently, the rewards paid to all supporters could yield larger dividends than are seen today.

Give us your feedback. When the initial changes were announced, we heard from interested parties and made modifications. In the end, we hope you continue to be part of horse showing's richest, most-comprehensive incentive program.