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Subsidy Capture in Livestock Risk Protection

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As one of the most popular livestock insurance product in the United States, Livestock Risk Protection (LRP) is a federally subsidized insurance program that protects cattle and swine producers against declines in national livestock prices. Unlike multi-peril crop insurance, which covers yield or revenue losses, LRP is designed specifically to cover price risk. Producers choose a coverage price and insurance period, and if the actual ending value of the animal (a national price index linked to CME prices) falls below the coverage price at policy expiration, an indemnity is paid for the price difference.

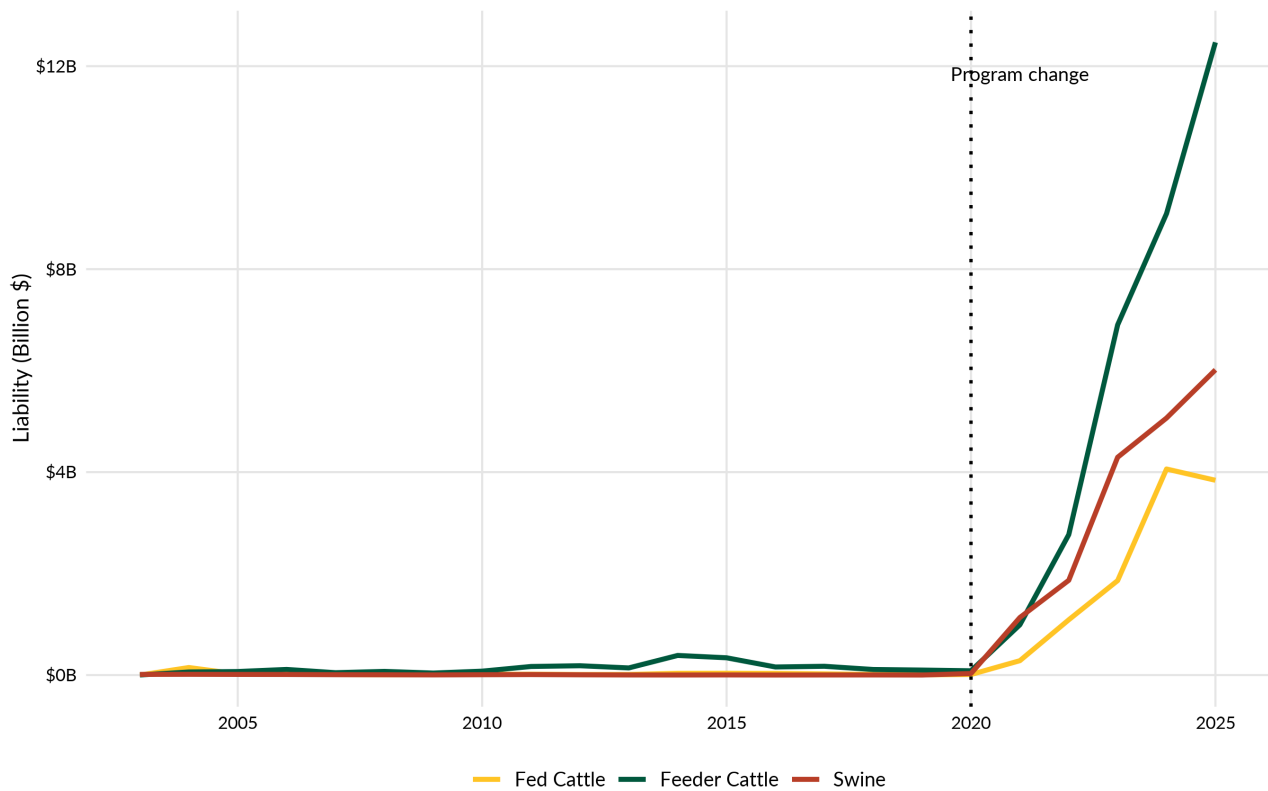
As a result, LRP establishes a price floor for future livestock sales while preserving upside potential when market prices increase. The payoff structure of an LRP endorsement is economically equivalent to that of a long put option on livestock futures. In this sense, LRP offers price protection similar to that available through private market instruments, with the distinction that coverage is provided within an insurance framework and supported by premium subsidies.

For much of its early history, participation in LRP was limited, in part because federal law imposed a \$20 million annual cap on total liabilities for livestock insurance programs. The Bipartisan Budget Act of 2018 removed this constraint. Following this change, USDA's Risk Management Agency (RMA) implemented a series of administrative adjustments that increased the LRP subsidies. In July 2019, the flat premium subsidy rate was raised from 13% to 20%. In 2020, RMA further revised the subsidy structure by adopting

a tiered schedule, with subsidy rates ranging from 35% at higher coverage levels to 55% at lower coverage levels, replacing the prior single-rate design. RMA also expanded program capacity by increasing the maximum number of heads that could be insured per producer and per endorsement. Collectively, these changes substantially reduced producer-paid premiums and expanded access to LRP coverage.

Participation in Livestock Risk Protection surged following the subsidy reforms. Figure 1 reports annual insured liabilities by commodity and shows large growth after 2020 across all commodities, with especially large increases for feeder cattle and swine. Aggregate insured liabilities rose from approximately \$380 million in 2015 to more than \$22 billion in 2025, indicating that higher subsidies successfully expanded access to federally supported price risk protection. At the same time, higher subsidy rates combined with market-based pricing raised concerns for the LRP program design, as more generous subsidies can influence participation incentives, including the potential for subsidy capture.

Figure 1: Livestock Risk Protection Liabilities by Commodity, 2003–2025



Source: USDA Risk Management Agency (RMA), Summary of Business.

Under RMA’s definition, subsidy capture refers to exploiting the difference between the producer-paid

LRP premium and the cost of a privately traded livestock contract, such as a futures or option position, to derive financial gain. In principle, this could occur if an insured purchases LRP at a subsidized premium while simultaneously taking an offsetting position in the futures or options market, thereby limiting price exposure while retaining the subsidy as profit. This concern arises from the option-like structure of LRP coverage, which closely parallels privately traded livestock price contracts.

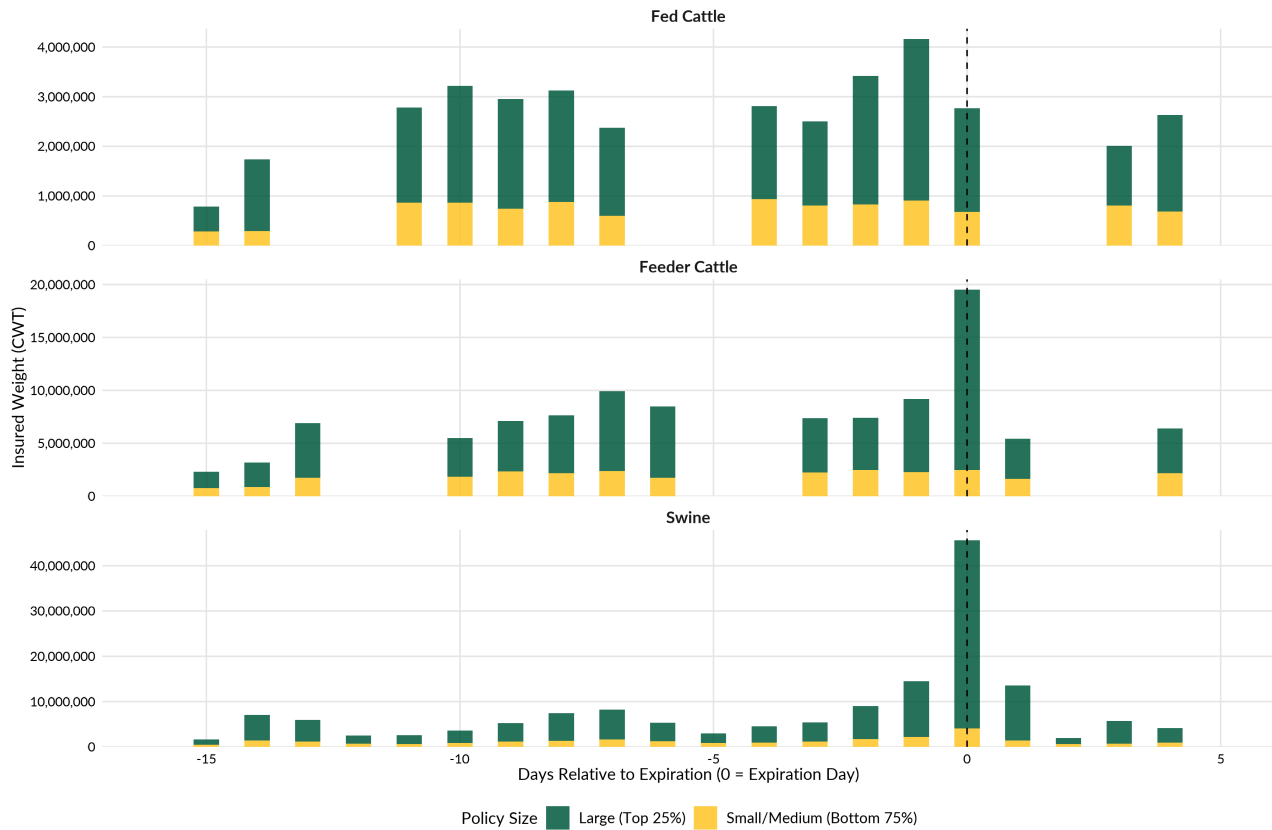
One channel through which these incentive considerations arise is purchase timing. Because LRP prices and premium rates are derived from futures and options markets, coverage prices and endorsement end dates are mechanically linked to option expiration conventions. Endorsements can be purchased on many days throughout the year, making the timing of coverage relative to these conventions observable in administrative data. [Figure 2](#) plots total insured weight under LRP endorsements by the number of days between the endorsement end date and the expiration date of the corresponding CME livestock option contract. Insured weight is aggregated across years and reported separately for fed cattle, feeder cattle, and swine, with endorsements further grouped by policy size. The vertical reference line denotes the option expiration date. We can observe clustering of LRP coverage end dates around option expiration for feeder cattle and swine.

This clustering pattern can be a concern because option expiration dates serve as reference points for producers and market participants when evaluating livestock price risk and hedging opportunities. If LRP coverage choices become concentrated around these reference points, it raises the possibility that purchase timing is influenced by short-term pricing conditions or hedging considerations rather than by exposure to price risk.

Beginning with the 2026 reinsurance year, RMA updated its reinsurance agreement and LRP policy provisions to explicitly address these concerns. The revised rules introduce a formal prohibition on subsidy capture, defined as “any action by the insured to derive financial gain through subsidy capture.” The rules further specify that certain combinations of LRP purchases and private market transactions will be presumed to constitute subsidy capture.

In particular, Section 25 of the LRP Basic Provisions states that subsidy capture includes situations in which an insured purchases a Specific Coverage Endorsement (SCE) and simultaneously enters into offsetting positions in private markets that effectively exchange uncertain future LRP indemnities for a more certain cash outcome. The rule identifies, among others, cases in which an insured “buys an SCE, and also opens a new short put option on the relevant livestock futures contract” when

Figure 2: Distribution of LRP Insured Weight Relative to CME Option Expiration Dates



Source: USDA Risk Management Agency (RMA), Summary of Business.

- ⇒ the option expiration date falls within four calendar days of the SCE end date,
- ⇒ the option is sold within two trading days before or five trading days after the SCE effective date,
- ⇒ the option premium exceeds 80 percent of the producer-paid SCE premium.

The provisions further extend this presumption to economically equivalent transactions, including combinations of call options and futures positions that jointly replicate the payoff of a short put option, as well as private contracts under which uncertain future SCE indemnities are effectively exchanged for a fixed dollar amount.

The inclusion of explicit thresholds for option expiration proximity, trade timing, and relative premium size reflects RMA’s emphasis on identifying transactions that closely align subsidized LRP coverage with offsetting private market positions

About the Agricultural Risk Policy Center

The Agricultural Risk Policy Center at North Dakota State University conducts independent, evidence-based economic research to inform agricultural policy and strengthen the U.S. farm safety net. The Center's work focuses on evaluating risk management tools such as crop insurance and disaster assistance, analyzing market disruptions, and providing timely insights that support producers, policymakers, and industry leaders.

ARPC Briefs communicate the outcomes of this research by presenting data, methods, and findings in a structured format. Designed to make rigorous analysis accessible, these briefs translate complex economic issues into clear insights that enhance understanding and support evidence-based decisions, contributing to the resilience and long-term prosperity of U.S. agriculture.

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