

LRP Subsidies and Arkansas Cattle Producers

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Recent increases in premium subsidy levels for Livestock Risk Protection (LRP) have made it an attractive tool for cattle producers who want to manage price risk by establishing a price floor while remaining open to market upside. Put options are a market-based alternative that provides similar price protection. For producers, it is important to understand how the two products compare functionally and in terms of cost, or premiums. Park et al. (2026) compare the cost of these two alternatives for fed and feeder cattle from 2005 through 2024.

The study compares producer-paid LRP premiums with matched CME put-option premiums. A matched comparison takes an LRP contract and compares it with a similar put option that provides comparable price protection over a similar time period. The price wedge is defined as the matched CME put premium minus the producer-paid LRP premium. A positive wedge indicates that the comparable put option is more expensive than LRP, while a negative wedge

indicates that LRP is more expensive.

Park et al. (2026) find that the 2019-2020 subsidy expansions lowered producer-paid LRP premiums enough to reverse the average matched-price wedge after July 2020. Arkansas producers should compare LRP and CME protection on an all-in \$/cwt basis while accounting for contract size, sale timing, and local basis.

At a Glance

- **Arkansas:** UADA reports an average beef herd of 35 head, with 80% of farms below 50 head. LRP can be tailored by number of head and target weight, while CME cattle options correspond to standardized futures contracts of 40,000 pounds for live cattle contracts and 50,000 pounds for feeder cattle contracts. (UADA, n.d.; USDA RMA, 2026b; CME Group, 2026).
- **Main finding:** Average net wedges were negative before the 2019-2020 subsidy expansion, indicating that

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producer-paid LRP premiums were generally higher than comparable put-option premiums. After the tiered schedule began on July 1, 2020, the relationship reversed. Post-2020 averages were \$0.105/cwt for fed cattle and \$0.119/cwt for feeder cattle (Park et al., 2026).

- **Local relevance:** Arkansas had \$91.5 million in feeder cattle LRP liability in the 2025 crop year, compared with \$2.1 million for fed cattle. The feeder-cattle findings therefore provide the more immediate local focus (USDA RMA, 2026a).
- **Practical takeaway:** Align the LRP endorsement end month with the CME contract month, compare similar coverage on the same \$/cwt basis, and assess how each benchmark relates to the likely Arkansas cash sale price (Park et al., 2026).

Why This Matters in Arkansas

Arkansas had 1.56 million cattle and calves, including 848,000 beef cows, on January 1, 2026 (USDA NASS, 2026). UADA reports that 80% of beef farms have fewer than 50 head (UADA, n.d.). This combination makes customizable LRP

coverage especially relevant when comparing it with standardized CME contracts (USDA RMA, 2026b; CME Group, 2026).

According to USDA RMA (2026a), Arkansas LRP liability in the 2025 crop year was \$91.5 million for feeder cattle and \$2.1 million for fed cattle. Given the much larger feeder-cattle liability, the study's feeder-cattle findings have the clearest immediate local application, although sale timing and local basis can still change the farm-level comparison (Park et al., 2026).

What the Data Say

Park et al. (2026) match LRP endorsements with CME put options from 2005 through 2024. The main sample contains 6,115 fed cattle and 34,645 feeder cattle LRP endorsements. Each endorsement is matched with a put traded on the sales effective date, written on the same cattle market, linked to a contract month equal to the LRP endorsement end month, and within one percentage point of the LRP coverage level.

The comparison asks a straightforward question. After subtracting an assumed baseline implementation cost of \$0.20 per cwt, is the

Figure 1. Average net LRP-CME put wedges were negative before the subsidy expansion and positive from July 2020 onward. Values are dollars per cwt after the assumed baseline implementation cost. Source: Park et al. (2026), Table 2.

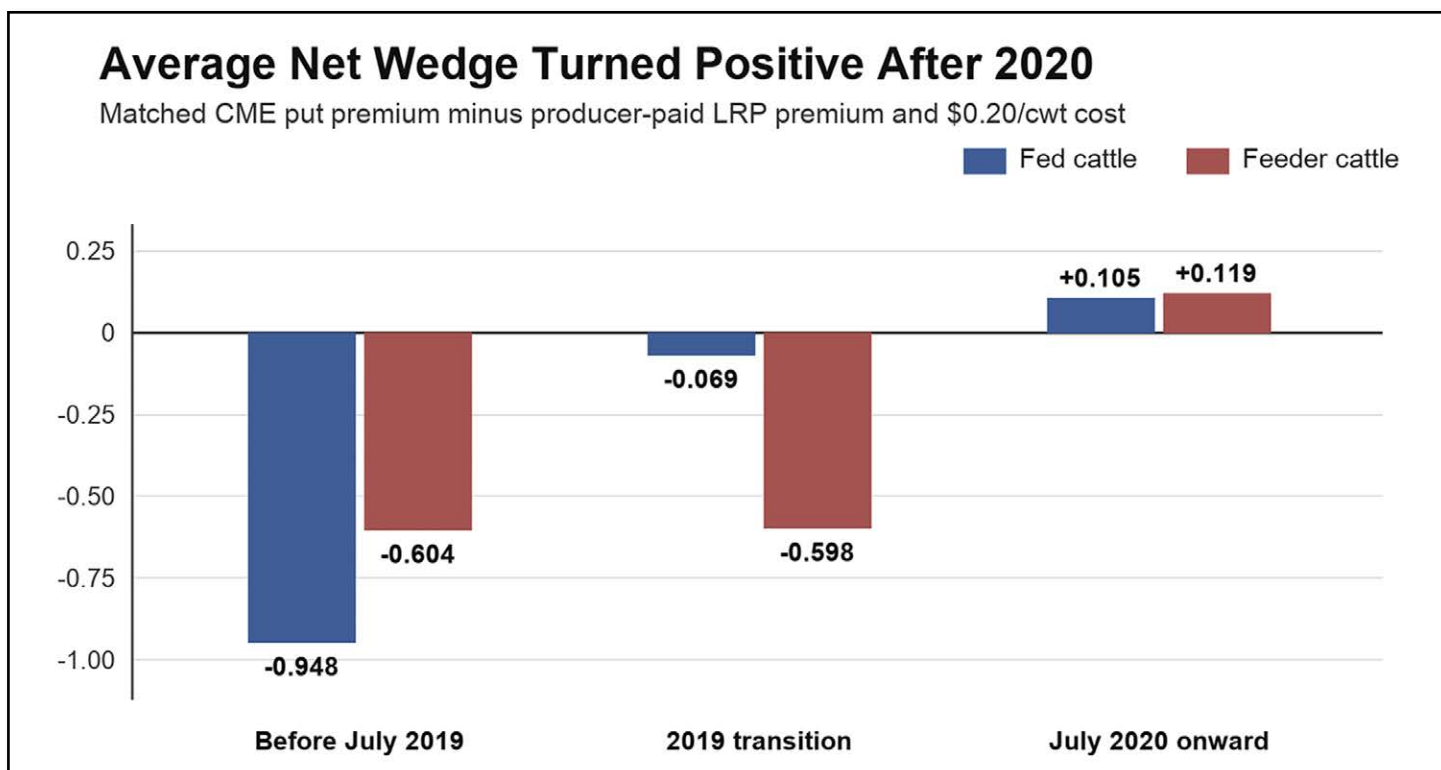
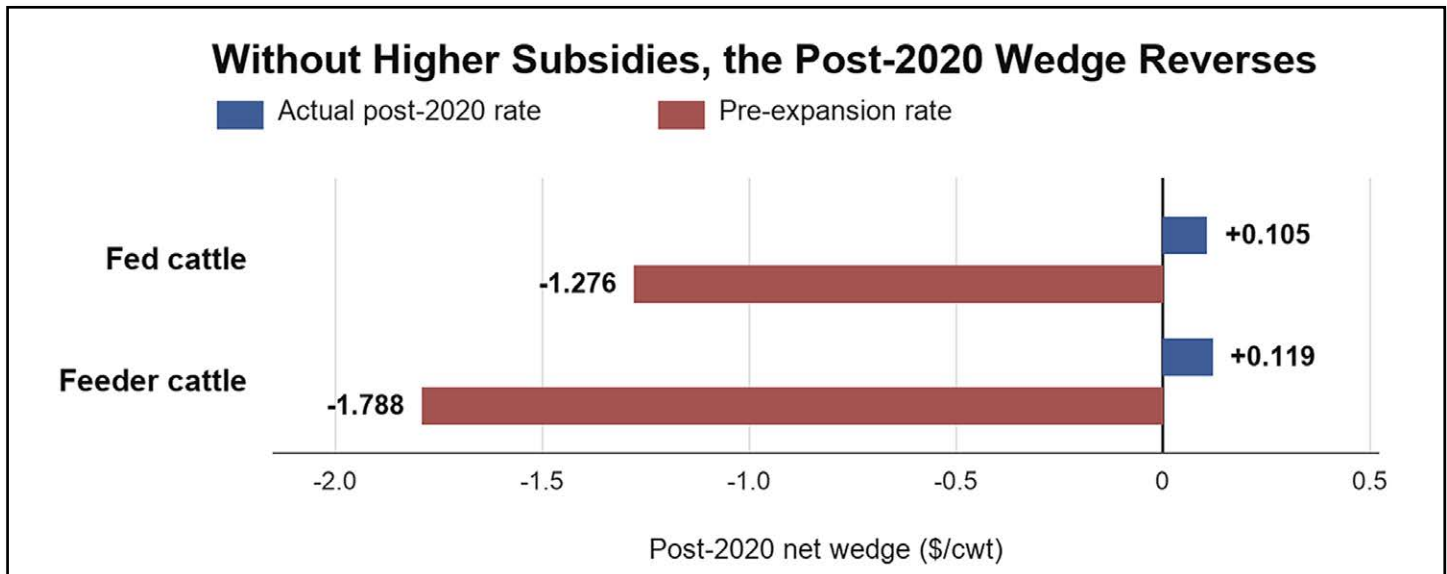


Figure 2. Applying the pre-expansion subsidy rate to the same post-2020 contracts reverses the average net wedge in both cattle markets, while holding CME prices and gross LRP premiums fixed. Source: Park et al. (2026), Table 4.



matched CME put premium higher or lower than the producer-paid LRP premium? Park et al. (2026) call this difference the net wedge.

Full-sample averages are close to zero, but they mask a clear policy break. Average net wedges were negative before the subsidy expansion and positive after July 2020. Even in the post-2020 period, however, only 49.9% of matched fed cattle endorsements and 46.9% of matched feeder cattle endorsements had a positive net wedge (Park et al., 2026).

What a Positive Wedge Does and Does Not Mean

In the study's decomposition and fixed-price counterfactual, the post-2020 positive average wedge is attributable to the subsidy component. Gross LRP premiums exceeded matched put premiums by \$1.880/cwt for fed cattle and \$2.696/cwt for feeder cattle, while the subsidy components were \$2.186/cwt and \$3.016/cwt, respectively (Park et al., 2026).

This does not mean LRP is always the better or low-cost choice. LRP and put options differ in several important ways, including the number of cattle that can be protected, how and when losses are calculated, basis risk, and program requirements. Producers should consider these differences along with premium cost when choosing between the two.

What Producers and Agents Can Do

- **Start with the sale:** Write down the expected head count, weight, marketing window, and likely local cash market.
- **Compare net prices:** Put the producer-paid LRP premium and a similar CME put on the same \$/cwt basis, including brokerage and other costs (Park et al., 2026).
- **Check basis and settlement:** The RMA ending value or CME benchmark may not move one-for-one with the price at a sale barn or through another marketing channel (Park et al., 2026; USDA RMA, 2026b; CME Group, 2026).
- **Ask whether the size fits:** LRP is sized by head count and target weight. CME options correspond to 40,000-lb live cattle or 50,000-lb feeder cattle futures contracts. Check current eligibility and program rules (USDA RMA, 2026b; CME Group, 2026).

Limits and Bottom Line

Park et al. (2026) use national 2005-2024 data, not an Arkansas-only sample. Their results are matched-sample averages, not guaranteed savings on a particular endorsement. Local basis, sale channel, coverage match, and the implementation-cost assumption can change the

Decision point	LRP	CME put
Size and access	Head count and target weight can be tailored to the planned lot.	One option covers a standardized 40,000-lb live cattle or 50,000-lb feeder cattle futures contract.
Price paid	Producer pays the gross premium less the statutory subsidy.	Buyer pays the market option premium plus brokerage costs.
Settlement and basis	Payment uses the program's ending value and coverage price.	Option value follows a CME futures contract and strike.
Best fit	Often easier to size for smaller or uneven lots; eligibility and policy rules apply.	Flexible exchange-traded protection; brokerage access and standardized sizing apply.

Table 1. A practical comparison of LRP and CME put protection. Sources: Park et al. (2026), USDA RMA (2026b), and CME Group (2026).

result. Current RMA policy documents govern coverage, and producers should consult an authorized crop insurance agent before purchase (USDA RMA, 2026b).

For Arkansas's many smaller cow-calf operations, the subsidy expansion makes LRP worth a fresh price comparison, especially for feeder cattle. A positive average wedge is not a guaranteed saving. Producers should place LRP and CME puts on the same \$/cwt basis, then choose the protection that fits the cattle, sale plan, cash flow, and operating constraints (Park et al., 2026; UADA, n.d.; USDA RMA, 2026a).

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