

**Bulletin B-609**

**INSURANCE**  
As Related to  
**FARM FINANCIAL**  
**RISK** In Payne County,  
Oklahoma

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# INSURANCE AS RELATED TO FARM FINANCIAL RISK IN PAYNE COUNTY, OKLAHOMA

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Farming is subject to many uncertainties which affect financial returns. Broadly speaking, farmers face two general kinds of uncertainty: those which cannot be shifted through insurance and those which can.

This publication reports results of a study to determine the kinds and amounts of insurance carried by farmers in Payne county, Oklahoma. Results also include characteristics of the farmers as related to their insurance programs.

## METHODS

Fifty-two farmers, randomly selected, were interviewed personally in Payne county, located in north central Oklahoma. Small grains, dairy and other livestock enterprises were the general types of farming in the area. Each farmer was sent a personal letter in advance, explaining the purpose of the study and requesting his cooperation in making insurance policies and other information available.

Two types of analyses were made from the data collected. The first dealt with various breakdowns into economic and other groups to determine the actual insurance practices of these farmers. The second dealt with an illustrative case study of a selected farmer to evaluate the effectiveness with which the premium dollar was being spent and to demonstrate how this effectiveness might be improved.

### Personal and Economic Characteristics

The average age of farmers interviewed was 52.9 years. They had an average of 9 years of formal schooling. There was an average of 1.3 dependent children per family but half of the families had no depend-

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ent children. The farmers owned an average of 195 acres of land but, with additional rented land, were operating an average of 396 acres. Their average net worth was almost \$20,000, and the average liability per farmer was under \$4,000.

### Types of Insurance Carried

Three general classes of insurance were encountered in the survey: personal insurance, property insurance, and casualty insurance. However, since motor vehicle insurance includes elements of both property and casualty insurance and, in some cases, personal insurance, it was treated as a separate category.

A wide variation in the types and amounts of insurance carried by farmers is shown in Table 1. Fire insurance on homes owned was carried by 84 percent of the farm families. Automobile and truck liability insurance was carried by only 76 percent of the farmers who owned vehicles. Forty-four percent of all farm families had some medical expense insurance. Only 38 percent of the operators were carrying life insurance on themselves but 30 percent of those with wives had some coverage on their wives, and 35 percent of those with dependent children had policies on some or all of their children. Only 10 percent carried disability income insurance.

**Table 1.—Types of Insurance Coverage by Families with Applicable Risks**

Type of Coverage	Families With Applicable Risk		
	Total Number	Number Covered by Insurance	Percent Covered by Insurance*
Life Insurance on Operator	52	20	38
Life Insurance on Wife	47	14	30
Life Insurance on Children	26	9	35
Disability Income Insurance	52	5	10
Medical Expense Insurance	52	23	44
Fire Insurance on House	45	38	84
Fire Insurance on Outbuildings	45	32	71
Fire Insurance on Household Goods	52	27	52
Hail Insurance on Wheat	40	12	30
Farmer's Comprehensive Liability Insurance	52	4	8
Automobile & Truck Liability Insurance	51	39	76
Automobile & Truck Medical Payments Insurance	51	25	49
Automobile & Truck Collision Insurance	51	22	43
Automobile & Truck Comprehensive Insurance	51	23	45

\*Percentages were calculated on the basis of the number of families to whom the kind of risk applied rather than all families interviewed, e.g., 35 percent of families having dependent children had life insurance on their children.

Sixty-two percent of the farm operators had no life insurance. Despite the hazardous nature of farming and the possibilities of large judgments arising from injuries to employees, 92 percent of the farmers carried no form of employer's or comprehensive liability insurance. More than a third of all farmers interviewed were not aware that such protection was available.

## PERSONAL INSURANCE

The general category of **personal insurance** includes all coverages on the operator or his family. Such coverages found in the survey included life insurance on the operator or his family, disability income insurance, and medical expense insurance.

### Life Insurance

Four general kinds of life insurance policies were found in the study. They were **term, ordinary life, limited payment life, and endowment**. The different kinds of life insurance are explained in the "Definition of Terms", Page 28.

### Distribution of Life Insurance Within Farm Families

Table 2 shows that only 40 percent of the farm families had life insurance of any kind. Seventy-one percent of the total face value of all life insurance coverage was carried on the life of the operator, 13 percent on the wife, and 16 percent on the children.

### Kinds and Amounts of Life Insurance

Nineteen percent of the total amount of life insurance coverage on **all insured persons** in the study was in the form of term insurance, 43 percent was ordinary life, 25 percent was limited payment life insurance, and 13 percent was endowment. For the **operators only**, 17 percent of the amount of insurance carried was term insurance, 50 percent ordinary life, 19 percent limited payment, and 14 percent endowment insurance (Table 3). This concentration in term and ordinary life insurance suggests that possibly Payne County farmers are more conscious of the need for protection than for savings in the form of insurance.

### Coverage Per Person

In a majority of cases, the amount of life insurance per insured operator was small relative to the long-time needs of survivors. The range of coverage on farm operators was from 0 to \$39,000. The aver-

**Table 2.—Amounts and Kinds of Life Insurance Carried in Relation to Net Worth**

Insurance as Related to Farm Financial Risk

Characteristics	Net Worth				Average All Groups
	Group I 0-10,000	Group II 10,001-20,000	Group III 20,001-30,000	Group IV Over 30,000	
Average Net Worth	4,024	15,755	23,875	58,883	19,060
Number of Families	21	14	9	8	52
Percent of Families	40%	27%	17%	16%	100%
Personal Characteristics					
Average Age of Operator	51	54	51	58	53
Average Years of Schooling of Operator	9	8	11	9	9
Average Number of Dependent Children	1	1.5	1	1	1.3
Economic Characteristics					
Average Liabilities	3,405	1,885	3,012	8,738	3,748
Average Size of Farm	377	297	358	661	396
Average Acres Owned	88	157	229	504	195
Percent of All Families Carrying Life Insurance	43%	30%	33%	50%	40%
Percent of Life Insurance on Operator	62%	40%	64%	95%	71%
Kind of Life Insurance Carried on Operator					
Term, Percent of Total Value of Coverage	22%	4%	23%	14%	17%
Ordinary Life, Percent of Total Value of Coverage	42%	28%	17%	71%	50%
Limited Pay Life, Percent of Total Value of Coverage	26%	29%	26%	12%	19%
Endowment, Percent of Total Value of Coverage	10%	39%	34%	3%	14%

Table 2 Continued on Next Page

Table 2 (Continued)

Characteristics	Net Worth				Average All Groups
	Group I 0-10,000	Group II 10,001-20,000	Group III 20,001-30,000	Group IV Over 30,000	
Percent of Life Insurance Carried on Wife	20%	21%	18%	2%	13%
Kind of Life Insurance Carried on Wife					
Term, Percent of Total Value of Coverage	46%	8%	1%	0	19%
Ordinary Life, Percent of Total Value of Coverage	38%	0	62%	33%	35%
Limited Pay Life, Percent of Total Value of Coverage	5%	15%	37%	67%	22%
Endowment, Percent of Total Value of Coverage	11%	77%	0	0	24%
Percent of Life Insurance Carried on Children	18%	39%	18%	3%	16%
Kind of Life Insurance Carried on Children					
Term, Percent of Total Value of Coverage	7%	60%	4%	0	27%
Ordinary Life, Percent of Total Value of Coverage	0	0	60%	100%	22%
Limited Pay Life, Percent of Total Value of Coverage	93%	40%	36%	0	51%
Endowment, Percent of Total Value of Coverage	0	0	0	0	0
Amount of Life Insurance Carried					
Per Insured Family, Average	\$5,189.00	\$7,937.50	\$11,375.00	\$17,750.00	\$9,283.00
Per Insured Operator, Average	3,600.00	3,187.50	7,275.00	16,875.00	6,908.00
Per Insured Wife, Average	1,860.00	1,625.00	2,700.00	750.00	1,814.00
Per Insured Child, Average	956.00	2,083.00	2,075.00	2,000.00	1,570.00

**Table 3.—Percentage Distribution of Life Insurance by Type of Insured Person**

Kind of Policy	Type of Insured Person			
	Operator	Wife	Children	All Insureds
			—Percent—	
Term	17	19	27	19
Ordinary Life	50	35	22	43
Limited Pay	19	22	51	25
Endowment	14	24	--	13
Total	100	100	100	100

age coverage on insured operators was \$6,908. The average coverage on insured wives was \$1,814 and on insured children \$1,570 (Table 2).

Since the average existing indebtedness of the insured farm operators was \$6,664, it is evident that an average insurance coverage of \$6,908 would leave little for the maintenance of survivors except that which could be realized from the assets of the farm itself.

### Net Worth of Operators

Table 2 shows that the higher the net worth, the larger the total amount of life insurance carried on the farm family. Families with \$10,000 of net worth or less carried an average of \$5,189 of life insurance; those from \$10,001 to \$20,000 carried \$7,937.50 coverage; those within the \$20,001 to \$30,000 net worth bracket averaged \$11,375 coverage; and those with more than \$30,000 net worth had \$17,750. The amount of insurance carried on the life of **the operator**, like that on the family as a whole, tended to increase as net worth increased with the exception that there was little difference between the "\$10,000 and under" net worth group whose operators averaged \$3,600 of life insurance coverage and the "\$10,001-\$20,000" net worth group for which the average operator-coverage was \$3,187.

Differences in personal characteristics of the four groups (Tables 2, 4, and 5) were not great enough to account for the differences in average coverages. Life insurance coverages appeared to be related to net worth rather than dependency needs.

### Insurance on Dependents

The study showed no consistent relationship between the net worth of farmers and the amount of insurance carried on their wives and children. However, for the two groups of insured farm families



**Table 4.—Relationship of Life Insurance Carried and Other Characteristics to Age of Operator**

Characteristics	Age of Operator			Total or
	0-39	40-59	60 & Over	Average
Average Age of Operator	33	49	67	53
Number of Families	9	26	17	52
Average Number of Dependent Children	2.6	1.6	.2	1.3
Average Years of Schooling of Operator	13	9	7	9
Average Net Worth	\$8,584	\$22,311	\$19,636	\$19,060
Percent of Families Carrying Life Insurance	56	42	29	40
Amount of Life Insurance Carried				
Average Per Insured Family	\$13,800	\$ 9,295	\$ 4,740	\$ 9,283
Average Per Insured Operator	\$ 8,900	\$ 6,868	\$ 4,525	\$ 6,908
Average Per Insured Wife	\$ 2,250	\$ 1,542	\$ 1,867	\$ 1,814
Average Per Insured Child	\$ 1,922	\$ 1,590	\$ 0	\$ 1,570

**Table 5.—Relationship of Life Insurance Carried and Other Characteristics to Number of Dependent Children**

Characteristics	Number of Dependent Children					Total or
	None	One	Two	Three	Four	Average
Average Number of Dependent Children						
Per Family	0	1	2	3	4	1.3
Number of Families	26	5	6	9	6	52
Average Age of Operator	61	47	45	46	39	53
Average Years of Schooling of Operator	8	9	9	11	10	9
Average Net Worth	\$19,307	\$9,142	\$40,278	\$16,234	\$ 8,334	\$19,060
Percent of Families Carrying Life Insurance	27	60	50	46	30	40
Amount of Life Insurance Carried						
Average Per Insured Family	\$ 8,900	\$4,500	\$10,000	\$ 8,650	\$14,000	\$ 9,283
Average Per Insured Operator	\$ 9,143	\$3,000	\$ 8,333	\$ 3,610	\$10,750	\$ 6,908
Average Per Insured Wife	\$ 1,650	\$3,250	\$ 667	\$ 1,950	\$ 2,500	\$ 1,814
Average Per Insured Child	\$ 0	\$3,500	\$ 1,000	\$ 1,582	\$ 1,000	\$ 1,570

having net worth of only \$20,000 or less, the distribution of life insurance coverage between operator, wife, and children would fail to give maximum protection per premium dollar either to the farm business or to the operator's beneficiaries. For both of these groups, the coverage on the operator was only moderately above \$3,000 (Table 2).

### **Personal Characteristics of Insureds**

The relationship of life insurance to specified personal characteristics of the interviewed farmers was not clearly evident. The younger the operator and the greater his years of schooling, the higher was the amount of insurance carried both on the operator and the family as a whole, and the higher was the proportion of insured families to all families in the operator's age bracket (Table 4). However, the data showed no clear relationship between amounts of life insurance carried and the number of dependent children (Table 5).

### **Disability Income Insurance**

Five farmers or 9.6 percent had some disability income insurance. One policy, issued to cover disability due only to automobile accidents, covered both the operator and his wife. All other policies covered the operator, only. The benefits ranged from \$12.50 per month to \$150.00 per month. Two farmers had disability income provisions included in their life insurance contracts.

### **Medical Expense Insurance**

Forty-four percent of the operators had some type of medical expense insurance, either on themselves or on some members of their families. In all but two of the cases with medical expense coverage, the entire family was insured. In one family only the operator was covered, and in another family, only the wife and child were insured. All policies, except two, covered expenses from both illness and accident. One policy covered medical expenses from automobile accidents only, and the other policy covered only expenses from polio. Fifteen of the families with medical insurance, or 65 percent, had their policies with stock companies. Four carried Blue Cross and Blue Shield coverage, three were insured with mutual companies, and one family had policies with both a stock and a mutual company.

## **PROPERTY INSURANCE**

Physical property on a farm may represent such a large investment to the farmer that a major loss could seriously impair his financial position. Many of the farmers surveyed had at least some property insurance.

### **Fire Insurance**

Seventy-seven percent of the farmers who owned buildings on the operated farm, had fire insurance of some kind. Eighty-four percent of

the operators had fire coverage on the farm house and seventy-one percent carried fire insurance on their outbuildings but only a few more than half carried insurance on household contents.

Although property fire insurance was carried by a large number of farmers, there was little evident relationship between coverage and replacement costs. Twelve farmers or 23 percent carried no fire insurance. Of the 40 who did, 10 had coverage of \$2,500 or less, 18 had from \$2,501 to \$5,000, 5 had from \$5,001-\$10,000, and 6 had coverage of more than \$10,000. The amount of coverage was not available in one case.

### **Additional Coverages**

All but three of the farmers having fire insurance carried some coverage in addition to fire and lightning. Twenty-nine of the farmers had fire insurance with additional coverages of only wind and hail. One carried additional protection against wind, hail, explosion, and aircraft damage. Seven others had fire and **extended coverage** giving protection against damage from fire, wind, hail, explosion, riot, riot attending a strike, civil commotion, aircraft, vehicles, and smoke. None carried additional **extended coverage** which would include the standard extended coverage plus damage from snow, ice, and freezing; collapse; fall of trees; rupture or bursting of steam or hot water heating systems; damage to the insured buildings by vehicles owned or operated by the insured or his tenant; vandalism; glass breakage; and water damage from plumbing and heating systems.

### **Farm Machinery Insurance**

Only three farmers carried protection against financial loss on farm machinery from certain kinds of physical damage. One had his combine covered for loss against fire, tornado, and hail. One had fire, theft, and wind damage coverage on his tractor, ensilage cutter, combine, and baler. The other farmer had fire and extended coverage on his tractor, combine, and baler.

### **Wheat Hail Insurance**

Wheat is a significant source of income on many farms in Payne County. Twelve of the forty farmers who raised wheat carried crop hail insurance.

Hail insurance in this study had coverages ranging from \$20 to \$58.33 per acre. The unweighted average coverage was \$30.63 per acre. The premium rate in Payne County at the time of the survey was \$3.50

per \$100 of insurance. At this rate, for the average coverage of \$30.63, the average premium cost per acre was \$1.07.

## LIABILITY INSURANCE

Farmers, as private business men and as property owners, are faced with a potential threat of financial liability suits. Such suits could arise from injuries to visitors on the farm, to employees, or to persons passing the farm who may be injured by livestock, dogs, or other property of the farmer, or by actions of members of his family.

### Comprehensive Personal Liability

Only four of the fifty-two farmers interviewed had comprehensive personal liability policies. Face amounts of the liability policies varied from \$20,000 to \$50,000 limits. Each policy also carried medical benefits payable, regardless of who was at fault, if someone was injured on the farm or through actions by the insured or his dependents, or from some condition of his property.

### Employer's Liability

Employer's liability provides protection for the farmer only against suits brought by employees. All four farmers who had comprehensive personal liability insurance also had employer's liability coverage. Three had separate employer's liability policies and the other had this coverage combined with comprehensive personal liability. This endorsement included protection for 185 days of hired labor a year if one man was employed, or coverage for 45 days a year if two or more men were employed. These limited provisions covered the normal amount of help hired though the year. The protection benefits under each of the three separate employer's liability policies covered up to \$10,000 damages to any one employee or \$20,000 total for any one accident. The premiums varied from \$12.00 to \$15.25.<sup>2</sup>

Employer's liability, in case of suits filed by employees, is covered by an extra premium and may cover full time or part time employment with different rates for regular hired labor, custom hired labor, and farm household employees. The study indicates that coverages and rates differ in the various policies but that for wider coverages, the

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<sup>2</sup> Commonly, farmer's comprehensive personal liability policies provide coverage in terms of a basic farm unit such, for example, as 160 acres having one set of improvements and one farm tractor. When this basic farm is exceeded, extra premiums are charged for the additional acres, dwellings, and tractors.

**Table 6.—Judgments of \$5,000 or More Arising From Causes Other Than Motor Vehicles, Payne County, Oklahoma, 1948-1958**

Class of Persons Injured	Date	Case Number	No. of Persons Involved	Results of Accident	Amount	
					Sued for	Awarded
Employee	1-10-49	15,459	1	Death	\$ 39,692	\$10,894
Employee	1-16-50	15,743	1	Death	150,000	15,000
Employee	2-25-50	15,891	1	Death	51,517	14,000
Employee	6-16-50	16,027	1	Death	30,075	11,250
Employee	11-9-57	18,077	1	Death	287,450	63,750
Non-Employee	3-10-55	17,429	1	Injured	5,277	5,277

Source: Public records, Payne County Court House, Stillwater, Oklahoma.

increase in premiums is less than proportionate to the increase in coverage. For example in one set of rates, when the comprehensive personal coverage increased from \$5,000-\$10,000-\$5,000 for the total for one person, total for one accident, and property damage respectively, to \$50,000-\$100,000-\$5,000, the premium increased only \$3.00 per year. For another addition to premium of \$2.00 per year the coverage could be raised to \$100,000-\$300,000-\$5,000.

### Judgments in Payne County

Some indication of the problem of legal liabilities may be gained by examining the judgments in Payne County over a period of years (Table 6).

In all but one case, the amount of the judgment awarded was less than the amount sued for but the amounts of the judgments were sufficient to cause serious or critical financial problems to most small business operators if they were unprotected by adequate liability insurance. There is no case among the awards in Table 6 of a totally and permanently disabled accident victim. However, consultation with one of the farm mutual insurance companies reveals that the judgments in total and permanent disability may run much higher even than those in which death occurs at the time of the accident.

## MOTOR VEHICLE INSURANCE

The common coverages in motor vehicle insurance policies are bodily injury liability, property damage liability, collision, medical payments, and comprehensive protection against theft and damages other than collision or upset.

Motor vehicle liability was carried on 79 percent of the 96 motor vehicles in the study. This percentage applied to both bodily injury and property damage. Thirty-three percent had collision coverage, 43 percent had coverage for medical payments, 33 percent had collision insurance, 42 percent had comprehensive coverage, and 6 percent had miscellaneous property coverages which were less inclusive than the comprehensive insurance. Nineteen percent of the vehicles had no insurance coverage of any kind. These percentages add to more than 100 percent because many vehicles were covered by each of several types of insurance.

### Combination of Coverages

Of the 78 motor vehicles which carried some kind of insurance, 76 carried some liability insurance either alone or in various combinations with other coverages (Table 7).

**Table 7.—Combinations of Motor Vehicle Insurance Carried**

Coverages	Number of Vehicles	Percent of Insured Vehicles	Percent of Total Vehicles
None	18		19
Liability Only	20	26	21
Liability and Medical Payments	13	17	14
Liability and Comprehensive	9	12	9
Liability and Collision	1	1	1
Liability, Collision & Comprehensive	5	6	5
Liability, Medical Payments, and Collision	2	3	2
Liability, Medical Payments, and Comprehensive	3	4	3
Liability, Medical Payments, Collision & Comprehensive	23	29	24
Collision, Fire and Theft	1	1	1
Other*	1	1	1
<b>TOTAL</b>	<b>96</b>	<b>100</b>	<b>100</b>

\*Miscellaneous property coverages.

The data indicated that possibilities of serious consequences from liability suits were recognized, but the amounts and combination of coverages showed little evidence of adequate protection from disaster situations per premium dollar spent.

### Bodily Injury Liability

The limits of bodily injury liability coverage among the interviewed farmers varied from \$5,000 maximum for one claimant and \$10,000 per accident involving more than one claimant, to \$50,000 coverage for one

**Table 8.—Judgments of \$5,000 or More Arising From the Use of Motor Vehicles, Payne County, Oklahoma, 1948-1958**

Date	Case Number	Number of Persons Involved	Results of Accident	Amount	
				Sued for	Awarded
7-5-50	15899	1	Death	\$55,321	\$ 7,985
2-28-51	16081	1	Injury	50,000	28,525
3-1-51	16123	1	Injury	56,000	12,000
11-2-51	16481	4	1 Death	75,497	33,401
	16485		3 Injuries		
11-4-53	16754	1	Injury	15,236	7,500
12-9-53	16961	1	Injury	33,823	5,000
7-30-54	17074	1	Injury	10,675	5,675
5-14-56	17084	1	Injury	20,400	9,000
3-22-56	17718	1	Injury	5,000	5,000
3-3-58	18234	1	Death	20,000	20,000

Source: Public records, Payne County Court House, Stillwater, Oklahoma.

person and \$100,000 per accident, commonly referred to as 5-10 and 50-100 coverages respectively. The lower limits of 5-10 were carried on 24 percent of the motor vehicles. It is significant that out of the ten judgments in Payne County, (Table 8) eight of the awards would not have been covered by these limits. Bodily injury insurance with 10-20 limits were carried on 22.9 percent of the vehicles, but four of the awards under the ten judgments in Table 8 would have exceeded these larger limits—three of them exceeding the \$10,000 limit for one person and the fourth exceeding the \$20,000 limit for one accident. Intermediate coverages ranging from 15-30 to 25-50 were carried on 5.1 percent of the vehicles and 13.6 percent carried limits of 50-100. The amount of coverage was not available from the farmers interviewed for 13 of the vehicles. Twenty vehicles, or slightly over one-fifth of the total, carried no insurance protection against bodily injury.

The larger amounts of bodily injury liability were carried by the farmers with higher net worth (Table 9). A majority of the vehicles covered with 5-10 bodily injury liability were owned by farmers with a net worth of \$20,000 or less. All of the 50-100 bodily injury liability was carried on vehicles owned by farmers with a net worth of over \$20,000. More of the vehicles owned by farmers with low net worth were left completely unprotected than in the higher net worth groups.

### Property Damage Liability

Amounts of property damage liability insurance on motor vehicles varied from \$5,000 on each of forty-three vehicles constituting 44.8 percent of the total, to \$50,000 coverage on each of eleven vehicles constituting

**Table 9.—Amount of Bodily Injury Liability Carried on Motor Vehicles in Relation to Net Worth of Operators**

Net Worth (Dollars)	Number of Vehicles	Number of Farmers	Percent of All Farmers Interviewed	Limits of Bodily Injury Liability Coverage						Data Not Available	
				None	5-10	10-20	15-30	20-40	25-50		50-100
0-10,000	31	21	40	9	8	5	0	0	3	0	6
10,001-20,000	25	14	27	4	9	4	1	0	0	0	7
20,001-30,000	19	9	17	4	5	5	0	0	0	5	0
Over 30,000	21	8	16	3	1	8	0	1	0	8	0
	—	—	—	—	—	—	—	—	—	—	—
Total	96	52	100	20	23	22	1	1	3	13	13



ing 11.5 percent. In the intermediate ranges, ten thousand dollars coverage was carried on seven of the vehicles, while \$15,000 and \$20,000 coverages were carried on one vehicle each. Almost 21 percent of 96 vehicles had no property liability coverage.

### **Medical Payment Coverage**

Almost 19 percent of the 96 vehicles were covered for medical payments to a maximum of \$500. Eleven and one half percent had \$1,000 coverage. Fifty-five vehicles constituting 57.3 percent of the total carried no medical expense coverage.

### **Collision Insurance**

About one-third of the automobiles in the study carried collision insurance. Of the 32 vehicles with collision insurance, 14 carried \$10 deductible, thirteen vehicles had \$50 deductible clauses, and two vehicles had \$100 deductible.

## **IMPROVING AN INSURANCE PROGRAM: A CASE STUDY**

The foregoing aggregative analysis indicates that in the random sample of Payne County farmers, insurance was commonly purchased without adequate consideration of the over-all risks. Some risks appeared to be over-insured, some under-insured, and other significant risks were not covered at all. Insurance frequently did not provide optimum protection per premium dollar to meet the stated objectives.

A case study was made to appraise the possibilities of improving protection per premium dollar. An existing insurance program was modified to give more complete protection without increasing the annual outlay for insurance premiums.

**Suggestions for changes in this insurance program do not imply that the alternative program is the best program. What is best depends on the individual's over-all financial and personal situation. The case study was designed merely to show that improvements are likely to be possible if there are weaknesses in an insurance program.**

The case analysis was divided into two broad categories: (1) property, casualty and medical expense, and (2) life insurance.

Farmer "A" was spending \$815.56 a year on his total insurance program but was still unprotected or inadequately protected against certain

risks. Of the total premium, \$513.30 was spent for property, casualty, and medical expense insurance, \$279.27 for life insurance on himself and \$22.99 for life insurance on his wife.

Farmer "A" was 33 years old, married, and had two preschool children. He owned 280 acres of land and farmed an additional 600 acres jointly owned with his brothers. Three hundred acres were under cultivation.

**Table 10.—Assets, Liabilities, and Net Worth, Farmer "A"**

Assets*		Liabilities	
Real Estate	\$17,000	Real Estate Mortgage	\$ 5,000
Power Machinery	1,920	Chattel Mortgage	2,672
Other Machinery	1,000		
Livestock	6,170	Total Liabilities	\$ 7,672
Motor Vehicles	3,980		
Securities	420	NET WORTH	22,818
Total	\$30,490		\$30,490

\*Household goods are not included in the balance sheet.

He hired labor for the farm during peak seasons and in off-seasons used his trucks for dirt and gravel hauling.

His financial position, with total assets of \$30,490 is shown in Table 10.

## ORIGINAL PROPERTY, CASUALTY AND MEDICAL INSURANCE OF FARMER "A"

Table 11 shows the property, casualty and medical expense insurance carried by Farmer "A" at the time of the study. He, his wife, and one child were overinsured for smaller illnesses and accidents but were uninsured for major medical costs. His younger child was uninsured. One truck had no liability coverage. The amount of liability insurance was different for each truck although their liability risks were essentially the same. He spent \$147.20 a year for collision coverage although a total loss of the car or one of the trucks would not be large enough to affect his financial position critically. There was no personal or employers' liability insurance although a large judgment could have undermined his business. Medical payment insurance was carried on the automobile and one truck, but the other two trucks were not covered.

He had no fire insurance or extended coverage on the buildings of which he was a part owner.

**Table 11.—Original Property, Casualty, and Medical Insurance of Farmer "A"**

Type of Insurance	Kind of Coverage	Limits	Annual Premium	
Medical Expense	Three Policies:			
	Basic hospital <sup>1</sup>	\$750 <sup>2</sup>	\$34.10	
	Basic physician <sup>3</sup>	"	45.00	
	Basic hospital and physician <sup>1</sup>	"	67.20	
	Total Medical		\$146.30	
	<sup>1</sup> Covers only husband, wife, and one child.			
	<sup>2</sup> \$7.50 per day for maximum of 100 days.			
	<sup>3</sup> Differs for different illnesses.			
	<sup>4</sup> \$6 per day for maximum of 120 days.			
Motor Vehicle	Liability on automobile	50-100-10	\$35.40	
	Liability on 1 truck	10-20-10	28.40	
	Liability on 1 truck	50-100-20	59.60	
	Comprehensive on automobile	ACV <sup>5</sup>	17.20	
	Comprehensive on 1 truck	ACV	20.80	
	Comprehensive on 1 truck	ACV	26.40 <sup>6</sup>	
	Fire and theft on 1 truck	ACV	16.00 <sup>7</sup>	
	Collision on automobile \$50 deductible		28.80	
	Collision on 1 truck \$10 deductible		40.00	
	Collision on 1 truck \$50 deductible		46.00	
	Collision on 1 truck \$100 deductible		32.40	
	Medical payment, automobile \$1,000		8.00	
	Medical payment, 1 truck \$1,000		8.00	
		Total Motor Vehicle		\$367.00
		<sup>5</sup> Actual cash value.		
	<sup>6</sup> Only fire, theft, and combined additional coverage applies instead of comprehensive during three months when truck is used for hauling dirt and gravel.			
	<sup>7</sup> Semi-commercial rates.			
Comprehensive Farm Liability	None			
Fire	None			
	TOTAL PREMIUM, PROPERTY, CASUALTY, and MEDICAL EXPENSE INSURANCE		\$513.30	

The original insurance program of Farmer "A" left some important risks uncovered and contained some coverages which were inconsistent with the insurance objective of first shifting those risks which, if they materialized, would be serious or disastrous.

### Alternative Plan

Changes were made to improve the over-all protection from property, casualty, and medical risks and, in this case, the improved coverage was accomplished with a smaller premium cost. Savings on these coverages were then applied to improvement of the life insurance program.

## **Medical Expense Insurance**

Farmer "A" originally carried three separate basic medical expense policies which covered his wife, one child, and himself (Table II).

Under the alternative plan, (Table 12) one basic hospital and surgical benefits policy was retained and broadened to cover the second child. The other two policies were dropped, but a new \$500 deductible major medical expense policy was added. The one retained would pay a share of the first costs of hospitalization and related expenses. The major medical policy would pay all medical expenses up to \$5,000 except the first \$500. This more nearly meets the insurance objective of shifting the risk of costs which could be disastrous if they were incurred.

The alternative medical expense insurance, with its broader coverage for major medical expense, cost \$11.51 less than the original plan.

## **Vehicle Insurance**

The alternative coverage on motor vehicles corrects the inconsistency of having only three of the four vehicles covered with liability insurance and of having differing bodily injury insurance on vehicles which were subject to essentially the same risk. Liability coverage of 50-100-20 was provided on all vehicles by the alternative plan (Table 12).

Comprehensive insurance was also provided for all vehicles but the collision insurance was dropped. Since all four vehicles were relatively old, a total loss of any one of them would not be enough to undermine Farmer "A's" financial position. Medical expense insurance on the automobile and the one truck was dropped. Liability suits involving medical expense were covered by the bodily injury insurance on the vehicles.

## **Personal Comprehensive and Employer's Liability**

The alternative plan provided farmers' comprehensive personal liability insurance of \$100,000 and employee's liability of \$50,000 for damage to one person, \$100,000 for one accident involving more than one claimant, and \$5,000 property damage. Medical payment of \$500 is part of this combined plan.

## **Fire and Extended Coverage**

The house in which Farmer "A" lived was jointly owned so only \$2,000 fire and extended coverage was added to cover his share in the

**Table 12.—Alternative Property, Casualty and Medical Plan\***

Type of Insurance	Kind of Coverage	Limits	Annual Premium		
Medical Expense	Basic hospital and surgical	1	\$83.79 <sup>2</sup>		
	\$500 deductible major medical	\$5000	51.00		
	Total Medical				\$134.79
<sup>1</sup> \$7.00 per day for 120 days with \$200 surgical limit.					
<sup>2</sup> Some companies may sell this only as part of a package policy.					
<b>Motor Vehicles</b>					
	Liability on automobile	50-100-20	\$36.60		
	Liability on 1 truck	50-100-20	36.60		
	Liability on 1 truck	50-100-20	59.60 <sup>3</sup>		
	Liability on 1 truck	50-100-20	59.60 <sup>3</sup>		
	Comprehensive on automobile	ACV	17.20		
	Comprehensive on 1 truck	ACV	20.80		
	Comprehensive on 1 truck	ACV	26.40 <sup>4</sup>		
	Comprehensive on 1 truck	ACV	26.40 <sup>4</sup>		
Total motor vehicle					\$283.20
<sup>3</sup> Semi-commercial.					
<sup>4</sup> Only fire, theft, and CAC instead of comprehensive applies during three months when trucks are used for hauling dirt and gravel.					
<b>Comprehensive Farm Liability<sup>5</sup></b>					
	Combined:				
	(1) Personal comprehensive,	100,000	} \$39.10	39.10	
	(2) Employers' liability,	50-100-5			
	(3) Medical payments	500			
<sup>5</sup> Based on 880 acre operation with one set of improvements.					
<b>Fire</b>					
	Fire and extended coverage				
	Farmer "A's" share of house insurance	\$2000	19.00		
	Household goods	1500	12.75		
Total Fire					31.75
TOTAL PREMIUM: PROPERTY, CASUALTY and MEDICAL EXPENSE INSURANCE					\$488.84
Cost of original plan					513.30
NET DECREASE IN PREMIUMS FOR ALTERNATIVE PLAN					\$ 24.46

\*Because the original plan was based on farm mutual insurance, the rates in the alternative plan also are those of a farm mutual insurance company. All are farm rates except for the two semi-commercial trucks.

event of loss. The contents were covered to the extent of \$1,500 in the alternative plan.

This plan which covers previously unprotected risks and more fully assures protection against large losses, costs \$488.84 as compared with \$513.30 for Farmer "A's" original coverage. The saving of \$24.46 in

premiums was earmarked for additional life insurance to make that protection more adequate.

## ORIGINAL LIFE INSURANCE PROGRAM

Farmer "A's" life insurance consisted of \$1,000 of "20-payment whole life" insurance which would be paid up in four years, and two policies of "endowment at age 65" in the amounts of \$4,223 purchased at age 23, and \$5,777 purchased at age 24. These two policies with a combined face value of \$10,000 carried double indemnity and disability waiver of premium provisions. The premium costs were \$21.22 for the 20-payment life and a total of \$258.05 for the two "endowment at age 65" policies. The total coverage, therefore, was \$11,000 at a total annual cost of \$279.27.

In addition, he carried \$1,000 of life insurance on his wife in the form of a 20-payment life policy, costing \$22.99 a year which would be paid up in 8 years. The total life insurance cost for the operator and his wife was \$302.26 (Table 13).

If Farmer "A" should die before age 65, his beneficiaries would receive \$11,000 in life insurance benefits. However, if he should live to age 65 he would have a **paid-up** 20-payment life policy with a face value of \$1,000, plus \$10,000 in cash and any accumulated dividends from his endowment policies, and his wife would have a \$1,000 paid-up policy.

In event of his death, his wife would also be eligible to draw whatever Social Security payments he had earned.

Farmer "A's" financial position and number and age of his dependents suggests a need for emphasis on insurance protection rather than insurance investment.

Against his estimated assets of \$30,490, Farmer "A" had liabilities of \$7,672. If the liabilities were paid from the \$11,000 insurance, there would be only \$3,328 left to pay for last illness and funeral expenses and the accumulated current bills not listed on the balance sheet.

In this connection, the revised hospital and major medical plans suggested, would, of course, take care of some of the direct last illness expenses but not funeral expenses.

The remainder of the operator's estate would be the actual recoverable value of the estimated assets of \$30,490.

Assuming that the assets could be liquidated at estimated value, this might not provide an adequate income long enough to support the

**Table 13.—Original Life Insurance Program of Farmer "A" and His Wife**

<b>Insurance Protection</b>		
Kind of Coverage:	Face Value	Premium
<b>Farmer "A":</b>		
20-payment whole life (4 years left to pay)	\$ 1,000.00	\$ 21.22
#1 Endowment at age 65 (written at age 23)	4,223.00	\$ 96.92
Disability waiver of premium		3.13
Double indemnity		4.73
#2 Endowment at age 65 (written at age 24)	5,777.00	142.58
Disability waiver of premium		4.91
Double indemnity		5.78
	-----	-----
TOTAL FACE VALUE AND PREMIUMS ON FARMER "A"	\$11,000.00	\$279.27
	-----	-----
<b>Farmer's Wife:</b>		
20-payment whole life (8 years left to pay)	1,000.00	22.99
-----		
<b>Situation at Age 65</b>		
	<b>Insurance</b>	<b>Cash</b>
<b>Farmer "A"</b>		
Paid-up 20 payment life policy	\$1,000.00	
Cash from Endowment at 65		\$10,000*
<b>Farmer's Wife:</b>		
Paid-up 20-payment life policy	\$1,000.00	
-----		
*Plus accumulated dividends if left with the company.		

widow and raise and educate two children currently under six years of age.

## ALTERNATIVE LIFE INSURANCE PROGRAM

Table 14 shows one of the various ways by which Farmer "A" could increase his protection and still have comparable cash value at age 65 without increasing his annual premium cost.<sup>3</sup> This modified life insurance program is not presented as an ideal but merely to show the possibility of improving the existing insurance program.<sup>4</sup>

Because of the limitation on total premium cost in this case and because the objective was to provide optimum basic protection, the double indemnity feature was dropped from the endowment policies

<sup>3</sup> Assume that the wife's policy is not changed.

<sup>4</sup> There is a self-imposed restriction in this study to avoid increase in the total annual premiums. This should not be construed to mean that the most desirable improvement in any particular insurance program could necessarily be accomplished without additional costs.

and \$10.51 thereby released to buy additional face value insurance. The reasoning was that it would cost the farmer's dependents just as much to live if he died from natural causes as if he died an accidental death. If the total face value of insurance covering any cause of death is inadequate, the primary objective is to rectify this deficiency.

Non-participating rates were used in the program simply because they provided an immediate definitive net cost. The net rate on participating policies would not definitely be known until after dividends had been declared. After dividends, the net rate on participating policies may be as low as, or lower than, the rate on non-participating policies.

### The Situation at Age 65

At age 65 under the original program Farmer "A" would have a \$1,000 paid-up policy on himself, and \$10,000 cash from the policies ending at age 65 plus any accumulated dividends which he might have left with the company as an investment.

Under the revised life insurance program, Farmer "A" would have the \$1,000 paid-up insurance policy, plus cash value of the other insurance in the following amounts:

Cash value of \$4,223 ordinary life at \$593 per thousand of face value <sup>5</sup> -----	\$ 2,504.24
Cash value of \$5,777 ordinary life at \$589 per thousand of face value <sup>5</sup> -----	\$ 3,402.65
Cash value of \$9,881.79 ordinary life at \$540 per thousand of face value <sup>5</sup> -----	\$ 5,336.17
Total cash value	<u>\$11,243.06</u>

If at age 65, Farmer "A" did not want to continue paying premiums or to surrender the policies for cash he could take a reduced amount of paid-up permanent insurance in the amount that his policy reserves will buy or he may take extended term insurance for the full face value to protect him for as many years as the reserves will pay for.

In addition, of course, if he decided to continue paying his premiums, he could retain the full protection unchanged for life or until he elected one of the other three alternatives.

### Improvements of Alternative Program

Major improvements over the original insurance program of Farmer "A" include major medical coverage up to \$5,000 added to the basic hospital policy and the elimination of duplicating basic policies.



**Table 14.—Alternative Life Insurance Program for Farmer "A"**

Step 1. Assuming that Farmer "A" is still insurable, have the company which issued the "Endowment at 65" policies reform these to ordinary life as of the date of issue. Retain the disability waiver of premium but drop the double indemnity. This will release \$10.51 (\$4.73 + \$5.78) for additional basic protection. The change in the two policies will also provide a credit refund of approximately \$170 on one policy and \$210 on the other for a total refund of \$380.			
The "Endowment at 65" written at age 23 is reformed to ordinary life non-participating, with waiver of premium at \$12.48 per thousand	Face Value	Annual Premium	Change in Premium
	\$4,223.00	\$ 52.70	\$—47.35
The "Endowment at 65" written at age 24 is reformed to ordinary life, non-participating, with waiver of premium at \$12.92 per thousand	\$5,777.00	\$ 74.64	\$—72.85
This will leave a reduction of premiums of -----			\$120.20
Step 2. From the refund from the reformed policies prepay the premiums for the remaining 4 years to pay up the 20-payment life policy. With discount for prepayment this will require \$80 and will provide paid up insurance in the amount of <sup>1</sup> -----			
		\$1,000.00	
Step 3. Use premium money available as follows to buy additional ordinary life insurance:			
(a) From premiums previously paid for double indemnity	\$ 10.51		
(b) From the difference in cost of endowment at age 65 and ordinary life	\$120.20		
(c) From premiums previously allocated to 20-payment life	\$ 21.22		
(d) From premiums saved on re-organized property and casualty insurance	\$ 24.46		
	-----		
Total available for new Insurance		\$176.39	
\$176.39 could buy non-participating ordinary life at present age 33 with waiver of premium of \$17.85 per thousand in the amount of -----		\$ 9,881.79	\$176.39
		-----	-----
Total Face Value and premiums of Alternative Plan		\$20,881.79	\$303.73
Increase in Coverage on Operator Compared with Original Plan		\$ 9,881.79	

<sup>1</sup> The remaining \$300 of refund could be used to buy additional paid-up insurance but in this case the amount was set aside in bonds to provide an emergency fund to assist in meeting needs such as illness not fully covered by insurance.

Protection against legal liabilities, other than those arising from motor vehicle operation was added. Liability was extended to all motor vehicles in consistent amounts and comprehensive insurance was ex-

tended to cover all vehicles. Collision insurance, for a risk which would not be disastrous, was dropped.

Fire and extended coverage was added on the house and household goods.

Life insurance coverage was increased from \$11,000 to \$20,881.79

Although this demonstrates that Farmer "A's" total insurance coverage could be improved without additional annual cost, it does not imply that he would proceed in this particular manner nor does it assume that he would not change the amount paid in premiums. Preferably, he would determine his total insurance needs and then, with competent insurance programming advice, determine how, along with Social Security, he could best meet these needs with the amount of premium money which he could make available.

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<sup>5</sup> These policies were purchased at ages 23, 24, and 33, respectively.

## SUMMARY

Payne County farmers in a representative sample were interviewed to determine their insurance programs. A case study was made of a "typical" insurance program to determine if the premium dollar might be spent more efficiently.

In general, there was little evidence of careful insurance programming. Some risks were overinsured, some under-insured, and other significant risks were not covered at all.

Only 38 percent of the farm operators were carrying life insurance and the average coverage per insured operator was only \$6,908. Generally, the amount of life insurance carried was more closely related to net worth of the farmer than to the potential risk faced.

Most of the life coverage was in the form of term insurance or ordinary life which indicates that farmers were more interested in protection than insurance investment. However, considering the amount of coverage in relation to risks involved, farmers were not adequately protected in many cases.

Only a small percentage of farmers carried any disability income insurance but almost half carried some type of medical expense insurance.

The majority of persons had some fire insurance on their property but there seemed to be little or no relationship between the amount of coverage and replacement costs. More than half of the farmers had added wind and hail coverage to their fire policies.

Less than 8 percent of the persons carried any protection against financial liability suits except those arising from operation of trucks or cars.

By and large, most of the farm operators carried inadequate insurance on their motor vehicles. Even though a large percentage of the farmers carried automobile liability insurance, the amounts carried were in many cases inadequate.

Within the case study, significant improvements were made in the overall insurance program.

## DEFINITION OF TERMS

### I. PERSONAL INSURANCE

**Cash Surrender value** is the amount of equity which a policy owner can collect by surrendering the policy to the insurance company before it matures. The amount of cash surrender value is directly related to the amount of "savings" included in the premium.

**Endowment insurance** is essentially a savings plan which also furnishes insurance protection. The savings element in the premium is large enough so that at the end of a specified period the cash value of the policy will equal the face value. If the insured dies prior to the end of the endowment period, the face value is paid to the beneficiaries, but if the insured is living on the endowment date, the face value is paid to the owner of the policy.

**Extended term insurance** is insurance which may be requested in lieu of cash surrender value or paid up insurance if premium payments are discontinued. It continues the face value protection for that period of years for which the insured's equity in the policy will pay a single payment premium.

**Family income policy** is a combination of **decreasing term** and permanent life insurance. If the insured dies within the term, the policy will pay a stipulated monthly income to the beneficiary for the remainder of the term and will then pay the face value of the policy. Thus, if the term element were for 20 years and the insured died at the end of the tenth year, the monthly benefits would be paid for the remaining 10 years. At the expiration of the full term, the face value of the permanent insurance would be paid.

**Family maintenance policy** is a combination of **straight term** and permanent insurance. If the insured dies before the expiration of the term, specified monthly payments are paid to the beneficiary for the full period. If the term element is for 20 years and death occurs at the end of the tenth year for example, the monthly payments would be paid for the full 20 years at the end of which time the face value would be paid.

**Hospitalization or medical expense insurance** pays for all or part of the cost of hospital services and, commonly, nursing, surgery, and miscellaneous medical expenses incurred because of bodily injury or illness.

**Limited payment life insurance** provides protection for the whole life of the insured but premiums are paid only for a specified number of years or until the prior death of the insured. Because of the prepayment element in the premiums, they are higher than for ordinary or straight life insurance.

**Ordinary life insurance.** As used here, ordinary life (sometimes called **straight life**), is insurance for which premiums are paid during the whole lifetime of the insured (or to age one hundred under the Commissioner's Standard Ordinary Mortality Table). The policy has a cash surrender value and, therefore, contains an element of savings but the emphasis is on protection.

**Paid-up life insurance continues** in force even though no further premiums are due. Specifically, if a policy holder discontinues payment of premiums, he may apply the cash values in the policy as a single premium to extend the insurance for the duration of the contract in whatever reduced amount the cash value will pay for. This contrasts with extended term which, under the same circumstances, would extend the full face value for whatever period of years the cash value would pay.

**Term insurance** provides temporary protection for a specified period of time. It pays off only if the insured dies within the specified period. This is a pure protection plan with no emphasis on investment.

## II. PROPERTY INSURANCE

**Additional extended coverage** is a further extension of extended fire insurance to include reimbursement for loss for water damage, rupture of steam or hot water heating systems, vandalism, glass breakage, fall of trees, collapse of building, ice, snow, freezing, and damage by certain motor vehicles.

**Extended coverage** is an addition to fire insurance to cover the additional hazards of damage from windstorm, hail, explosion (except steam boilers), smoke, riot, civil commotion, falling aircraft, and motor vehicles.

**Fire insurance** provides for compensation for loss from a hostile fire.

## III. CASUALTY INSURANCE

**Casualty insurance** covers loss or liability arising from accident or

mishap but excludes certain kinds of loss which are considered to fall within the category of other forms of insurance.

**Comprehensive personal liability insurance** binds the insurance company to protect the insured against all legal liability claims, up to the amount of the policy, arising from bodily injury or property damage for which the insured would be legally liable unless the type of occurrence is specifically excluded. In addition the company agrees to provide legal counsel and assume the cost of defending the insured against claims.

**Employer's liability insurance** provides coverage to protect the employer against liability claims resulting from accidents to employees. In the regular comprehensive personal liability policy, business pursuits are excluded but a modified form, the Farmers' Personal Liability Policy, extends protection to the farmer against claims incurred in his own business as a farmer.

#### IV. AUTOMOBILE INSURANCE

**Bodily injury and property damage liability insurance**, sometimes known as public liability insurance, provides protection (up to the limits specified in the policy) against legal liability claims arising from bodily injury, sickness, or disease resulting to others from the operation of the insured's motor vehicle or arising from damage to the property of another resulting from such use. Bodily injury claims by employees are not covered.

**Collision insurance** protects the insured against loss, up to the actual cash value of the insured vehicle, resulting in damage to his own vehicle by accident.

**Comprehensive automobile coverage.** Under the Standard Policy, the insurance company agrees to pay up to actual cash value for damage to the insured vehicle other than that resulting from its actual operation and including fire, theft, windstorm, earthquake, explosion, flood, riot, falling objects, staining, spotting, vandalism, malicious mischief, rain, sleet, snow, sandstorm, and submersion in water.

**Medical payments (automobile).** Within the limits of the policy, the insurer agrees to pay for reasonable medical, surgical, dental, hospital, nursing, and funeral expenses incurred within one year by the insured and members of his family because of motor vehicle accident. For persons not members of the insured's family, the coverage applies if they are riding in, entering, or descending from the insured vehicle.

## **Oklahoma's Wealth in Agriculture**

Agriculture is Oklahoma's number one industry. It has more capital invested and employs more people than any other industry in the state. Farms and ranches alone represent a capital investment of four billion dollars—three billion in land and buildings, one-half billion in machinery, and one-half billion in livestock.

Farm income currently amounts to more than \$700,000,000 annually. The value added by manufacture of farm products adds another \$130,000,000 annually.

Some 175,000 Oklahomans manage and operate its nearly 100,000 farms and ranches. Another 14,000 workers are required to keep farmers supplied with production items. Approximately 300,000 full-time employees are engaged by the firms that market and process Oklahoma farm products.