INSURANCE FOR FARMERS

PROPERTY

LIABILITY

MEDICAL

BY N. G. P. KRAUSZ

CIRCULAR 832
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The assistance of Norman J. Fombelle, former research assistant in agricultural law, is gratefully acknowledged. Review of the manuscript by representatives of four major insurance companies was invaluable in assuring completeness and accuracy.
PROPERTY, LIABILITY, AND MEDICAL INSURANCE FOR FARMERS

By N. G. P. Krausz, Professor of Agricultural Law

FEW FARMERS CAN AFFORD TO BE WITHOUT PROPERTY and liability insurance. Larger operations, more capital investment, and higher court judgments increase the need for protection. In addition, many farmers believe that medical and hospital bills and income lost because of disability should be covered, at least in part, by insurance.

Insurance is like a jigsaw puzzle — all of the pieces must be fitted together to get a complete picture. The proportions of the picture vary with each farmer, depending on the size and type of farm business, the land, cattle, machinery, and other property he owns, his age, and the number of dependents in his family.

This circular will help you to determine your needs for insurance other than life insurance and to decide what types to buy.

The items you should consider covering with insurance include —

1. Your buildings.
2. Your liability for injury to employees.
3. Your liability for injury to outsiders (those not directly connected with your farm operation).
4. Your medical and hospital expenses for injury to yourself and family.
5. Loss of income because of extended sickness or disability.

These items are discussed in detail in this circular.

FIRE INSURANCE

Who Can Insure Property?

A person buying fire insurance must have an insurable interest in the property to be insured. Without an insurable interest, there can be no financial loss if the property is destroyed — there is nothing to lose and nothing to insure.

An insurable interest includes a full or partial ownership and equitable rights in property. For example, a person with full title or a life estate in property has an insurable interest. A person holding a mortgage to property also has an insurable interest.

When property is sold on contract, both the seller and buyer have insurable interests until the contract is completed. In the absence of an agreement to the contrary, the seller may have some liability for loss due to fire until the buyer takes legal title. For this reason, the seller should insure or require the buyer to insure the premises for full protection.
In the case of jointly held property, all of the joint tenants have insurable interests. Each tenant may insure his interest in the property. If you have less than complete ownership of property to be insured, tell your insurance agent. A few policies have a clause that makes the policy unenforceable if the insured has less than sole and unconditional ownership. Your interest in the premises should be clearly shown in the policy.

What Is the Standard Fire Policy?

Illinois law requires that companies writing fire insurance on a statewide basis use the New York 1943 Standard Policy. The provisions of this policy apply regardless of the type of property insured. Most farm mutuals use this policy, but a few companies have made changes and additions.

The standard policy is tailored to fit a farmer's specific needs by the attachment of one or more forms. The general rule is that no policy of fire insurance is complete without attaching at least one form. However, some farm mutuals include the material usually placed in forms in their standard policy.

The standard policy sets out the general rules and the forms set out the specific rules for the property insured. The forms also indicate what is included and what is not included in the coverage.

There are many different forms to aid those seeking insurance protection. The forms most important to farmers are discussed below.

Farm-property fire and extended-coverage form

Basic fire insurance covers indemnity for loss or damage to insured property resulting from fire or lightning.

Extended coverage provides for protection from losses due to windstorm, hail, explosion, riot, riot attending a strike, civil commotion, aircraft, vehicles, and smoke. Coverage on growing crops against loss or damage from fire only may also be included by special endorsement to the policy.

The extended coverage form is available to the farmer upon payment of an additional sum. Extended coverage may be written on dwellings, household contents, barns and outbuildings, farm products, livestock, machinery, and other items of farm personal property. Each item the farmer wishes to insure for extended coverage must be insured for the same amount that he insured for fire or lightning protection, and both coverages must be written in the same policy.

All of this coverage may make you feel that you are buying extras that are not needed. However, the cost is based on the risk involved, and many of the coverages are included at no extra cost.

Farm-property fire and windstorm form

If the farmer does not want protection against all of the perils included under “extended coverage,” he may use the “windstorm” form.
This form provides protection against the perils of windstorm and hail only. Since the additional premium paid for windstorm coverage is the same as the premium paid for extended coverage, it seems foolish not to take extended coverage.

**Farm-personal-property blanket form**

For farmers who have personal property valued at $10,000 or more, the farm-personal-property blanket insurance policy is a good buy. The minimum policy is $10,000. It insures livestock, poultry, farm implements, machinery and vehicles, grain, hay, straw, feed, silage, fodder, and some portable buildings. Several companies allow up to 10 percent of the face value of the policy for loss from fire to standing crops but exclude seed and forage crops and stubble.

The policy covers fire, extended coverage, theft, and vehicle overturn. For theft and overturn, there is usually a $25 or $50 deductible clause. This means that the farmer will stand the loss for the first $50, and the company will assume all losses above $50. Some policies extend protection to flood and collision damage to certain farm machinery, loss of livestock because of drowning, attack by dogs, and other items.

Because of lower rates, the policy contains an 80-percent co-insurance clause. Therefore, the farmer should insure at a figure amounting to at least 80 percent of the maximum value of his farm personal property.

Co-insurance requires some explanation. The insured receives reduced rates in exchange for agreeing to insure the premises at 80 or 90 percent of their value (some policies call for 80 percent, others for 90 percent). If the percentage is less than that stated in the policy, the co-insurance clause takes effect.

Here is how it works. A farmer has a piece of property valued at $20,000, insured as the policy requires at $16,000 (80 percent). Any damage due to fire or other peril covered would be fully compensated by the insurance company up to $16,000. If he had insured for only $12,000 (only 60 percent of the value), the co-insurance clause of the policy would come into play. The insurance company would be liable for $12,000 or three-fourths of every loss. As co-insurer, the insured would stand one-fourth of the loss himself. For a $3,000 loss, the insurance company would pay $2,250, and the insured would absorb a loss of $750.

The blanket-coverage form has a number of advantages over other forms. It is less expensive for the same dollar amount of protection. The items insured do not have to be specifically detailed. Almost all items of farm personal property are automatically insured. Losses under the blanket policy are compensated for at their actual cash value.

Under other forms, if a $2,000 combine insured for $1,000 is destroyed, the most the farmer can recover is $1,000. Under the blanket
form, the farmer recovers $2,000 for total destruction, provided he complies with the co-insurance requirement. The same is true for loss of livestock. Recovery is the actual cash value of the animal.

There is another important advantage. Under other forms, if you trade or buy machinery or your cattle increase in number, additions to the policy must be made to include the new items. Under the blanket policy, they are automatically covered.

It should be pointed out, however, that under the blanket policy all required items of farm personal property must be insured or the co-insurance clause will come into effect. This usually means that you will be insuring more items than if each item were insured individually. Therefore, the total dollar volume of insurance carried under the blanket policy may be greater. Because of the co-insurance clause, you may also insure at a higher percent of total value of the property. These two factors could result in a higher insurance bill.

If you insure a large part of your personal property or would like to begin doing so, take a close look at the blanket form of coverage. It may not cost any more, it provides broader protection, and may give more coverage for less money.

**Special livestock-coverage form**

This form protects the farmer against loss of cattle, swine, and sheep. The coverage includes fire, extended coverage, and theft. It places maximum recovery for each animal at its market value (which cannot exceed the insurance on that class of animals divided by the number of animals in that class) or a dollar figure such as $500, whichever is smaller. New animals acquired may be included by endorsement.

An endorsement, which is merely another "form," is normally added at the same time that the policy is issued. Sometimes it is called a "rider." The farmer estimates how much his animals will increase in value each month. This estimated value is then added automatically to his policy limits each month.

Endorsements can be used to include items or risks that are excluded in the policy. For example, the blanket form does not include growing crops. They may be included by using an endorsement and paying an additional premium.

Use as few forms as possible to provide the coverage desired. Each additional form usually adds to the cost.

**What Is the Special Farm-Rating Plan for Superior Real Property?**

Insurable risks are divided into two categories — average and superior. Recently, insurance companies devised a plan to risk-rate farm buildings and structures — those of "superior character and excellent repair" may qualify for special reduced rates.
For a building to be in an excellent state of repair, nothing inside or outside the building from the roof to the basement must need repair. The farm itself must be a profitable enterprise. Obsolete buildings and buildings not fully utilized for their primary purpose are ineligible.

The buildings must pass a careful inspection. A diagram must be prepared showing the location of all of the buildings on the farm and the distance in feet between each building. This diagram, along with photographs of the building being considered, must be submitted to the Policy Writing Office and the Illinois Bureau of Inspection.

If the building qualifies, then "credits" are given for certain features of the building. These credits reduce the cost of the premium. An example of a credit is a mortared masonry or concrete foundation under all exterior walls. Credit is also given if the building is in an accredited fire district. When all of the buildings qualify, the savings may amount to 30 percent of the normal insurance cost.

**What Should You Know About Policy Clauses?**

When a farmer has a loss, he is bound by every clause in his insurance policy. As a general rule, any representations made by the agent are not binding on the insurance company unless they appear in the policy. The more important clauses are discussed below.

**Assignment clauses**

To safeguard against having to accept risks not of their own choosing, most insurance companies contain a provision in their policies prohibiting the assignment of a policy without written consent of the company. (An assignment is the transfer of the rights under the policy to a third person.)

Assignment of an insurance policy often occurs when the property is sold. This assignment is valid when it is approved in writing by the insurance company. The company usually issues an endorsement of approval to be attached to the policy.

**Clauses dealing with a mortgage**

When property is mortgaged, the mortgagee (the person who lends the money) wants his loan protected by having his interest in the real property insured.

One way to protect the mortgagee is to use an endorsement called a *loss payable clause*. This clause states that any loss is payable to the mortgagee as his interest might appear. The mortgagee's right to recover for losses depends upon the rights of the mortgagor. The mortgagee may not be able to recover if the mortgagor has, through some act, invalidated the policy.

To avoid this shortcoming, a special *mortgagee clause* can be attached by endorsement to the insurance policy. This clause states that
no act or neglect by the mortgagor shall invalidate the mortgagee's interest in the property. It has the effect of guaranteeing the mortgagee the right to payment for loss or damage.

**Clause on other fire insurance carried**

Most forms contain an *other insurance* clause that suspends or voids insurance on property covered by other policies of insurance at the same time. However, permission to carry other insurance may be obtained by special endorsement issued by the company.

Without such an endorsement, the insurance under the policy is void, or at least suspended, regardless of whether the insured can collect under the other policy or policies. If all policies have this clause, the farmer may not be able to recover from any of them. For example, a farmer insures his barn with two different companies, each policy containing an *other insurance* clause. If a loss occurs, the farmer may suffer the loss himself. He cannot legally collect from either company, although some companies will pay if the building was not overinsured and the loss was not of incendiary origin.

**Pro rata clause**

If more than one policy is carried on the same property and endorsements on all policies allow insurance by other companies, a *pro rata clause* comes into effect. This clause states that "The company shall not be liable for a greater proportion of any loss than the amount hereby insured bears to the whole insurance covering the property for a particular risk. . . ."

For example, the property is insured for $30,000. Company A issues a $15,000 policy, Company B, a $10,000 policy, and Company C, a $5,000 policy. The proper endorsements allowing other insurance policies are obtained. There is a $12,000 fire loss. By the terms of the *pro rata clause*, Company A's proportionate share would be 15/30, or $6,000; Company B's, 10/30, or $4,000; and Company C's, 5/30, or $2,000.

Suppose, however, that the insurance with Company A was void for some reason, and the share of the loss from Company A could not be collected. Company B would still contribute only 10/30, or $4,000, and Company C, 5/30, or $2,000, leaving the farmer with a $6,000 loss that he would have to assume himself.

**Apportionment clause**

The *apportionment clause* is similar in effect to the *pro rata clause*. It is more detailed and is usually found in extended-coverage endorsements. The clause is divided into two parts.

The first part states that "This company shall not be liable for a greater proportion of any loss from any peril or perils insured hereunder than the amount of insurance under the policy bears to the whole amount of *fire insurance* covering this property."
To illustrate, let's assume that the property is insured with Company A, fire and extended coverage, $9,000; and Company B, fire and extended coverage, $3,000. There is an $8,000 loss resulting from a severe windstorm. Company A pays 9/12, or $6,000, and Company B pays 3/12, or $2,000. The farmer is fully compensated for his losses.

Now let's take the same situation except that Company B's insurance covers fire only. The farmer still collects only $6,000 from Company A and nothing from Company B. He suffers a $2,000 loss from the windstorm because Company A is liable for "no greater proportion of the loss than the amount of its policy bears to the total amount of fire insurance."

The second part of the apportionment clause states that "The company shall not be liable for a greater proportion of any loss than the amount hereby insured bears to all insurance covering the loss. . . ." This statement covers only those situations where a separate policy of windstorm insurance is carried.

For example, the property is insured with Company A, fire and extended coverage, $2,000; Company B, windstorm only, $8,000. There is a $5,000 windstorm loss. Company A pays 2/10, or $1,000, and Company B pays 8/10, or $4,000. Each company bears its proportion of the loss.

Assume that in addition to the two policies carried in the above example a fire-only policy was carried. Company A might find it could pay less on the loss by applying part one of the apportionment clause rather than part two. By being able to rely on either part one or part two, an insurance company has a double chance of reducing the amount of money it will have to pay the farmer for his loss.

Even though insurance losses cannot be collected from one insurance company, another company insuring the same property will not pay more than its proportionate share of the loss. To avoid the apportionment clause, the coverage of all policies on the same property should be the same.

Work and materials clause

Standard policy provisions suspend insurance coverage if something on the premises increases the hazard involved. The suspension of protection continues as long as the hazard is present. The work and materials clause, usually found in fire policies, counteracts these provisions. This clause permits the premises to be used for the purpose for which they are described in the policy. For example, keeping welding equipment in the farm workshop, which increases the hazard, will not invalidate the policy because the risk involved is common to a workshop.

Liberalization clause

The liberalization clause automatically extends to old policies the benefits of any broadening of the insurance coverage included in new policies at no extra charge.
For example, A insures his barn for $5,000 against the perils of fire and lightning. The cost is $50. After he takes out his policy, the company broadens the coverage to include explosion. Now A is protected against fire, lightning, and explosion, still for $50. The liberalization clause gives automatic protection against explosion.

**Conditions suspending, restricting, or voiding insurance**

Certain conditions are listed in policies which, if they are found to exist, may temporarily suspend or even permanently void the policy. Such conditions may be unusual hazards, such as a 100-gallon gas tank in a workshop, or leaving the property vacant for an extended period.

Usually the policy is merely suspended until the prohibited act is stopped or the hazard removed from the premises. However, a few companies void their policies entirely, and will not reinstate a policy even when the violation is corrected.

You should learn what these prohibited acts are and whether your policy would be voided or temporarily suspended by the occurrence of such acts. Your insurance agent should secure the necessary endorsement before you commit any prohibited act.

**What Is the Cost of Fire Insurance?**

The inevitable question asked about fire insurance is “What does it cost?” In Illinois the state is divided into three rating zones. Zone 1 includes the northern 71 counties except Cook County, and zones 2 and 3 contain the remaining 30 counties. Cook County is considered separately. Rates vary among the three zones, being slightly higher in zones 2 and 3. A rate is the cost of the insurance per $100 of coverage.

For purposes of illustration, a typical farm in zone 1 has been

<table>
<thead>
<tr>
<th>Table 1. — Fire Coverage Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property</td>
</tr>
<tr>
<td>Farm dwelling</td>
</tr>
<tr>
<td>Garage</td>
</tr>
<tr>
<td>Two-story barn</td>
</tr>
<tr>
<td>Corn crib</td>
</tr>
<tr>
<td>Machine shed</td>
</tr>
<tr>
<td>General-purpose shed</td>
</tr>
<tr>
<td>Farm machinery</td>
</tr>
<tr>
<td>Hay</td>
</tr>
<tr>
<td>Grain</td>
</tr>
<tr>
<td>Cattle (40 head)</td>
</tr>
<tr>
<td>Hogs (10 head)</td>
</tr>
<tr>
<td>Sheep (10 head)</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

*a Local mutual companies may have lower rates than those shown. However, additional charges can be made under assessable policies if losses are substantial.*
chosen to show the rates and cost of the insurance for the various items to be covered by fire insurance. All buildings have approved roofs. Table 1 shows the rates and costs for fire-insurance coverage only. All of the insurance companies quoted the same rates for fire coverage.

Table 2 shows the rates and costs for fire and extended coverage. The same property is used as for Table 1.

Table 3 shows the difference in cost between items of personal property insured individually for fire and extended coverage and the same items insured under a farm personal-property blanket policy. All of the personal-property items listed in Tables 1 and 2 are included.

If this property were insured at 80 percent of value under the blanket policy, the farmer would collect for all of his loss in most cases. Under the regular, itemized form of fire and extended-coverage

### Table 2. — Fire and Extended Coverage

<table>
<thead>
<tr>
<th>Property</th>
<th>Insured value</th>
<th>Rate per $100</th>
<th>Premium cost per year</th>
<th>Rate per $100</th>
<th>Premium cost per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm dwelling</td>
<td>$15,000</td>
<td>$.76</td>
<td>$114.00</td>
<td>$.70</td>
<td>$93.00</td>
</tr>
<tr>
<td>Garage</td>
<td>400</td>
<td>1.16</td>
<td>4.64</td>
<td>.96</td>
<td>3.84</td>
</tr>
<tr>
<td>Two-story barn</td>
<td>11,500</td>
<td>1.16</td>
<td>133.40</td>
<td>.96</td>
<td>105.80</td>
</tr>
<tr>
<td>Corn crib</td>
<td>2,750</td>
<td>1.16</td>
<td>31.90</td>
<td>.96</td>
<td>25.30</td>
</tr>
<tr>
<td>Machine shed</td>
<td>3,700</td>
<td>1.16</td>
<td>42.92</td>
<td>.96</td>
<td>35.32</td>
</tr>
<tr>
<td>General-purpose shed</td>
<td>1,200</td>
<td>1.16</td>
<td>13.92</td>
<td>.96</td>
<td>11.52</td>
</tr>
<tr>
<td>Farm machinery</td>
<td>10,000</td>
<td>.70</td>
<td>70.00</td>
<td>.64</td>
<td>64.00</td>
</tr>
<tr>
<td>Hay</td>
<td>500</td>
<td>.70</td>
<td>3.50</td>
<td>.64</td>
<td>3.20</td>
</tr>
<tr>
<td>Grain</td>
<td>3,000</td>
<td>.70</td>
<td>21.00</td>
<td>.64</td>
<td>19.20</td>
</tr>
<tr>
<td>Cattle (40 head)</td>
<td>8,000</td>
<td>.70</td>
<td>56.00</td>
<td>.64</td>
<td>51.20</td>
</tr>
<tr>
<td>Hogs (10 head)</td>
<td>750</td>
<td>.70</td>
<td>5.25</td>
<td>.64</td>
<td>4.80</td>
</tr>
<tr>
<td>Sheep (10 head)</td>
<td>200</td>
<td>.70</td>
<td>1.40</td>
<td>.64</td>
<td>1.28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$57,000</strong></td>
<td><strong>$497.93</strong></td>
<td><strong>$418.66</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Rates are 10 to 20 cents lower if insured takes the $50 deductible on wind and hail damage to buildings.

### Table 3. — Difference in Cost Between Personal Property Insured Individually for Fire and Extended Coverage and Insured Under a Blanket Policy

<table>
<thead>
<tr>
<th>Insured value</th>
<th>Highest quotation</th>
<th>Lowest quotation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate per $100</td>
<td>Premium cost per year</td>
</tr>
<tr>
<td>$22,450</td>
<td>.70</td>
<td>$157.15</td>
</tr>
<tr>
<td><em>Farm personal-property blanket form</em> (all items insured at 100 percent of value)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$22,450</td>
<td>.50</td>
<td>112.25a</td>
</tr>
<tr>
<td><em>Farm personal-property blanket form</em> (all items insured at 80 percent of value)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$17,960</td>
<td>.50</td>
<td>89.80</td>
</tr>
</tbody>
</table>

*a This policy insures against a greater number of risks than the policies with lower premiums.
protection, the farmer would need to have everything insured at 100 percent to be fully compensated for a total loss of any one item.

The rates on the barn under the Special Farm-Rating Plan for Superior Property are shown below. The barn has lightning rods, a concrete foundation under all exterior walls, and approved electrical wiring, and is entirely enclosed with no sheds or additions.

<table>
<thead>
<tr>
<th>Fire coverage for barn</th>
<th>Extended coverage for barn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insured value</td>
<td>Rate per</td>
</tr>
<tr>
<td>$11,500</td>
<td>$100 per year</td>
</tr>
<tr>
<td>$11,500</td>
<td>$ .38</td>
</tr>
</tbody>
</table>

A comparison of the above figures with the figures quoted for the barn in Tables 1 and 2 shows savings up to $18.40 for fire coverage only and $41.40 for fire and extended coverage.

Credits are given on most fire policies for approved rural fire protection. Credits are also given for approved roofs and lightning rods, and for a central heating system in the farm home. By improving the quality of your farm buildings, you can make large savings on your insurance bill.

**Recommendations on Fire Insurance**

Once the farmer has decided what property to insure, he should find the best policy for his needs. If considerable personal property is to be included, it is advisable to use the farm-blanket policy.

To avoid *pro rata* and *apportionment clauses*, you should not insure the same item with more than one company unless one company will not assume all of the liability. In such cases, the necessary endorsements should be obtained.

If there is a mortgage on the property, the mortgagor should take out a single policy to protect his interest and the interest of the mortgagee. A *mortgagee clause* will take care of both parties.

The farmer should be careful about changes in ownership interests in his property, since such changes may void his policy. Before making any change in interest, he should notify the insurance company so that the policy can be altered to maintain continuous insurance.

It is wise to buy a policy for a three- or five-year period. A three-year cash policy is 2.7 times the cost of a one-year policy, and a five-year policy is 4.4 times the cost of a one-year policy. A five-year installment premium-payment policy is 4.52 times the cost of the one-year premium. When the farm-blanket personal policy is used, the farmer must make certain that if the value of his personal property increases substantially over the three- or five-year period, the policy dollar limits are increased.
Extended coverage costs no more than windstorm coverage. If you want to be protected against windstorm losses, you may as well carry extended coverage.

It is not always best to carry all of your insurance with one company. Company A may offer less costly fire and extended coverage protection for your buildings than Company B, and Company B may offer lower-cost protection for personal property than Company A.

**LIABILITY INSURANCE**

In Biblical days, people had a simple formula to compensate for injuries—"an eye for an eye." Today, through a more complicated but less painful process, juries arrive at money judgments to compensate for injuries to others.

To avoid having to pay possible judgments, many people shift this risk to an insurance company. There is almost no limit to the hazards for which a liability policy may be obtained.

Each policy has a provision that the company will defend and pay all sums the insured becomes legally obligated to pay if the injury or damage is covered by the policy. The policy refers to a legal obligation, not a moral obligation. A legal obligation is one resulting from a court judgment, or one for which the company believes the insured would be liable. A moral obligation is one for which an individual is not legally responsible but that he feels he should pay.

Policy coverage may be obtained for personal-injury claims, property-damage claims, and medical payments. Many policies exclude employees of the insured unless an endorsement is added to include them. If suit is commenced against the insured, the company will pay the court costs of defending the suit, all costs arising out of investigation, and all legal fees, in addition to a judgment up to the limit of the policy.

If the insured has other liability insurance, the company will be liable for amounts up to its pro rata share of the loss. Thus, if the insured has two $5,000 policies and a $1,000 loss occurs, each company will pay $500 of the loss, or $500. If, for some reason, the policy of one company is not valid or collectable, the other company will pay the full $1,000 loss.

**Farmers’ Comprehensive Personal Liability Policy**

The most popular liability policy is called “farmers’ comprehensive liability policy.” It provides payment for personal injuries and property damage to third persons to whom the farmer is legally liable. It also provides for medical payments to injured persons regardless of legal liability. The importance of this policy justifies detailed discussion.
Definitions

The policy defines "insured" as the farmer and residents of his household, such as his wife, dependent relatives of the farmer or his wife, and any other person under the age of 21 in the care of the farmer or his wife.

The "premises" are defined as all farms or residences maintained by the farmer or his wife, family cemetery plots, and places where the farmer is temporarily residing if they are not owned by him. Some policies also include vacant land, other than farmland, that the farmer is renting to others.

A "farm employee" is defined as one whose duties are related to the ownership, maintenance, or use of the farm premises or equipment. Presumably, to be an employee, a man would have to be under a contract of hire with the farmer insured and receive wages in exchange for his services. It appears that a member of the family could qualify as an employee if he is paid wages.

Additional coverage

For an additional payment, most companies will include an endorsement that pays the farmer for his losses for cattle injured or killed on the highway. A few companies will add this coverage without additional charge.

An endorsement may be obtained to cover all partners in a farm business. Some policies protect the partners only when liability arises out of the farm business, while others extend coverage under the policy to liability for acts outside of the farm business.

A landlord who does not actively participate in the farm business can obtain a policy of his own at a very modest rate.

Exceptions

Business pursuits. The policies do not cover liabilities arising out of a business other than farming. Small roadside stands to sell the farmer's products are not usually mentioned as a separate business. But whether a stand is or is not a separate business may be a very close question.

A large fruit orchard selling thousands of bushels of fruit on the farm is obviously a separate business. On the other hand, there is no separate business when the farmer's wife sells a few quarts of strawberries or a few dozen eggs.

In doubtful cases, ask the agent to find out from the insurance company whether the activity is a separate business or merely a farm pursuit covered by the policy. If it is a separate business, it should be covered by an endorsement.

Property not named in the policy. Protection is extended only to property described in the policy. If someone is injured in a dwelling owned by the farmer but not mentioned in the policy, the farmer is not
protected. Coverage does extend to property acquired after the policy is taken out. To continue coverage for the next policy term, all new property must be reported. An additional premium is usually assessed.

**Automobiles.** Injuries to others off the farm involving the farmer's autos or trucks are not covered by the policy. The farmer gets this coverage through automobile and truck insurance. However, injuries from farm tractors, trailers, and farm implements are covered. Injuries from trucks operating with mounted farm equipment are also covered by at least one company.

**Water craft and swimming pools.** Protection does not extend to water craft over 26 feet in length or over 25 horsepower (some policies say 50 horsepower). Some policies also exclude sailing vessels regardless of size. If the farmer has a boat under the exclusion limits, he will be covered for any liability arising from the ownership or use of the boat.

Some companies now require a listing of all bodies of water on the farm over a certain depth, such as 30 inches. Other companies require that all swimming and wading pools be listed. Usually a charge is made to cover the additional risk.

**Intentional injuries.** There is no coverage for intentional injuries caused by or at the direction of the farmer. If he punches a salesman in the nose or has his employee do it, he is not protected. The farmer is protected, however, for intentional injuries caused by his employees in the course of their employment and committed of their own accord.

**Injuries to employees.** Although most policies still exclude coverage for injured employees, there is a trend toward including this coverage. At least one company requires employer's liability coverage with its comprehensive liability policy. If employer liability is not included, coverage may be obtained by endorsement. The endorsement will not provide benefits if the state workman's compensation law applies to your operation. One company surveyed will pay expenses up to $250 if you are sued for workman's compensation and it is not found to be applicable.

**Medical coverage.** Companies generally exclude relatives and other persons under the age of 21 (or in some policies, 18) who are living on the farm. Some companies also exclude persons exchanging labor between farms. Several companies require coverage for farm employees.

**Custom work by the farmer.** Most policies omit coverage for accidents resulting from custom work unless there is an endorsement to the policy permitting such work. One company extends coverage up to 20 days per year of custom work before any additional premium is charged.

**Contractual liability.** In general, comprehensive liability policies do not cover liability assumed by contract. Some policies contain an
exception when the farmer who is a tenant agrees in the lease to assume any of the landlord's liability resulting from the farm operation.

**Dusting and spraying operations.** Almost all policies exclude coverage for liability arising out of dusting and spraying operations from an airplane. One company excludes damage to property resulting from the use of herbicides. Herbicides include most of the commonly used weed sprays. One company has no dusting exclusion, and the spraying exclusion applies only to ester-based herbicides.

**Property owned by insured.** No policy surveyed extends property-damage coverage to the property owned, rented, operated, used by or in the care, custody, or control of the farmer or his employees. Neither does coverage extend to products or goods with which the insured is connected.

**Comment on the farmers' comprehensive personal liability policy**

This policy has extremely broad coverage. The farmer is protected from legal liability resulting from occurrences involving his farm machinery on and off the premises, for all injuries caused by his employees, and for any damage or injury caused by his livestock. The policy protects against claims made by guests, salesmen, deliverymen, and trespassers who are injured on the premises. The farmer and his family are covered if they injure someone while hunting, fishing, camping, or engaging in any other sport, recreation, or vacation activity. The farmer is protected against suit for injuries to independent contractors or their employees while they are working on the farm premises; however, medical coverage does not apply in some policies.

Because of the extensive coverage provided by the comprehensive liability policy, it seems desirable for farmers to have this protection.

**Owner's, Landlord's, and Tenant's Policy**

Not all farms are eligible for the farmers' comprehensive liability policy. Farms whose principal purpose is to supply commodities for manufacturing or processing by the insured for sale to others, farms whose principal business is raising and using horses for racing purposes, and incorporated farms, unless financially controlled by an insured who is otherwise eligible, are ineligible for the policy. When the farmers' comprehensive policy cannot be obtained, the farmer can purchase an owner's, landlord's, and tenant's policy.

This policy provides protection from accidents arising out of the ownership, maintenance, or use of premises. It includes coverage for accidents on the premises as well as those off the premises that are normal to the conduct of the business of the insured. This coverage includes acts of the insured's employees for which the insured is liable. Coverage under this policy may include structural alterations, new construction and demolition on the premises, and products liability.
Products liability arises out of the use of products distributed, manufactured, or sold by the insured. For example, a farmer may sell food products to a customer who contracts food poisoning as a result of eating the food.

The policy does not contain employer's liability coverage, but this coverage may be obtained by endorsement upon payment of an additional premium.

**What Is the Cost of Liability Insurance?**

To show cost, a hypothetical Illinois farm is used. The farm has 240 acres, with 160 acres of grain, 40 acres of hay, and 40 acres of pasture. There are 20 head of dairy cattle, 30 beef cattle, 10 sheep, and 20 hogs on the farm. The farmer, his wife, their three minor children, and two employees conduct the farming operation. Each employee earns a salary of $3,600 per year, including the value of rent and of farm products used for personal consumption.

Table 4 indicates the cost of coverage offered by several companies. Companies A, B, C, D, and E have a flat $100,000 coverage for personal injuries and property damage. Company F also has a limit of $100,000 per accident, but has additional limitations of $50,000 per person for personal injuries and $10,000 for property damage. All companies limited medical payment to $1,000 per person, and Company E has a maximum accident limit of $5,000. These rates were in effect in 1960. The reader should remember that rates, as well as the coverage offered, are subject to change.

**Table 4. — Costs of Liability Insurance From Six Companies**

<table>
<thead>
<tr>
<th>Third-party liability</th>
<th>Medical payments ($1,000 per person)</th>
<th>Custom farming</th>
<th>Employer's liabilitya</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>$18.00</td>
<td>5.00</td>
<td>22.50</td>
<td>$196.56</td>
</tr>
<tr>
<td>Company B</td>
<td>18.00</td>
<td>5.00</td>
<td>25.50</td>
<td>211.00</td>
</tr>
<tr>
<td>Company C</td>
<td>18.00</td>
<td>5.00</td>
<td>27.00</td>
<td>193.90</td>
</tr>
<tr>
<td>Company D</td>
<td>18.00</td>
<td>5.00</td>
<td>23.40</td>
<td>196.56</td>
</tr>
<tr>
<td>Company E</td>
<td>18.00</td>
<td>5.00</td>
<td>17.20</td>
<td>41.00</td>
</tr>
<tr>
<td>Company F</td>
<td>13.46c</td>
<td>10.89</td>
<td>5.00b</td>
<td>29.35</td>
</tr>
</tbody>
</table>

a Employer's liability rates are based on $100 of earned salary.

b Figures for Company E are estimates of cost, and do not represent the exact cost of the coverage.

c This figure includes the cost of employer's liability coverage and $250 moral-obligation coverage that is automatically included.

d This company allows up to 20 days per year custom farming without extra charge for a custom-farming endorsement. The other companies base their charges on dollar receipts.

**WORKMAN'S COMPENSATION**

Every state has enacted workman's compensation laws for the benefit and protection of employees. In Illinois, farmers and farm employees are excluded from the coverage of the act, although the farmer may elect to bring himself within the law.
Workman's compensation relieves the employer of the danger of large judgments resulting from injuries to his employees.

Under workman's compensation, the employee does not have to prove negligence on the part of the employer or lack of contributory negligence on his part. He is paid for injuries arising out of and in the course of his employment that are the result of an accident. Only employees are eligible to recover for injuries.

If the farmer elects to be covered by the act, he may show his election either by complying with the requirements of the Industrial Commission or by purchasing a workman's compensation insurance policy. After electing to be covered by workman's compensation, the farmer may decide it is not suitable for his needs. He may withdraw from the act by properly notifying the Commission 60 days prior to January 1 of the next succeeding year, or by allowing the policy of insurance to lapse. When the employer has elected to be covered, the employee may decline coverage by notifying the Commission of his intention within 30 days from the day he is hired. If, after the 30 days have expired, the employee decides he does not wish to be covered, he may withdraw by giving the Commission notice 10 days prior to January 1 of the next year.

The employer must post a notice on his premises to inform the employees of their rights under the statute. If an injury occurs, the question of compensation may be settled by agreement of the parties. If the parties cannot agree, then the issue must be determined by the Commission. When the parties agree on a lump-sum payment, the Commission must approve the agreement.

Notice of the injury must be given to the employer within 45 days of the injury (15 days for hernia) or the employer is relieved of liability.

The act has extensive provisions providing for payment to certain designated beneficiaries in the case of fatal accidents. In case of a nonfatal accident, the provisions are equally detailed. Unless the employee selects his own doctor and hospital, the employer must pay for all surgical, medical, and hospital costs necessary to cure the effects of the accidental injury. The employer must also pay for any artificial body members the employee may need. The act further provides for weekly minimum and maximum benefits that must be paid the injured employee in case of temporary total disability. The act covers every conceivable type of injury, with a maximum number of weeks for which disability payments may be made.

The following example shows how workman's compensation applies. A works on the farm of B and receives $3,600 per year. He has a wife and three minor children. A injures his arm in a corn picker and amputation is necessary. Medical, drug, and hospital bills total $1,660.
The artificial limb costs an additional $275. The workman's compensation law requires that the full amount of this expense be paid for A, plus payments to A of $50 per week for 235 to 290 weeks, depending on the length of total disability.

The amount of the payment per week is computed on the basis of salary and number of dependents. The period over which payments are made depends on the seriousness of the injury and length of time when the employee is totally unable to work. If A had no dependents, the amount of payment per week would be $45. If he had lost only a thumb, he would, with three dependents, be paid $50 per week from 70 to 134 weeks.

It is the employer's duty to pay for the insurance premiums, and it is illegal to make the employee pay any part of these premiums.

Workman's compensation applies automatically to hazardous occupations such as sawing logs and warehousing. When a farmer engages in a separate business of this kind, he comes under the compensation law whether he wants to or not.

**The Occupational Disease Law**

Illinois has a law closely related to the Workman's Compensation Act called the Occupational Disease Act. This act covers diseases to employees arising out of and in the course of their employment. The details of the act are similar to those of workman's compensation. Coverage under the act is mandatory in all cases where workman's compensation coverage is mandatory. When workman's compensation coverage is optional, a person may still elect to be covered by the occupational disease law. A farmer may elect to be covered by the workman's compensation act rather than the occupational disease act, or vice versa.

**Workman's Compensation Insurance**

Companies writing workman's compensation policies agree to pay, when due, all compensation and other benefits required of an employer under the workman's compensation law. In other words, payments are made according to the schedules and rules set out in the state law.

The insurance policy defines workman's compensation as including both the workman's compensation and the occupational disease laws. Since coverage under the occupational disease law is optional, the farmer should notify the Industrial Commission of his desire to be covered. If workman's compensation does not apply, the company agrees to protect the farmer against lawsuits by injured employees. This policy gives the farmer almost complete protection against injuries or diseases of his employees for which the farmer may be liable.
Workman’s Compensation Versus Liability Insurance

An employee’s chances of recovery from his employer in a common law action for negligence are greatly decreased by the numerous defenses the employer may set up against him. Workman’s compensation guarantees compensation to an employee for injuries arising out of his employment.

Workman’s compensation also has an advantage for the employer. He is assured of complete protection by the policy. With employer’s liability insurance, there is always the danger that the judgment might exceed the limits of the policy.

Workman’s compensation has some drawbacks as well. Because of the greater frequency of recovery under workman’s compensation, it is more expensive than employer’s liability coverage. The farmer must submit reports, and operational changes may require amendments to the policy. For these reasons, farmers frequently “shy away from” workman’s compensation.

What Is the Cost of Workman’s Compensation Insurance?

To illustrate the cost of workman’s compensation coverage, the same hypothetical farm used in the liability-insurance section will be used here: a 240-acre farm with 160 acres of grain, 40 acres of hay, and 40 acres of pasture; two employees and a farm family of five; 20 head of dairy cattle, 30 beef cattle, 10 sheep, and 20 hogs.

Liability coverage under the workman’s compensation policy will be a $100,000 maximum, so that the cost of workman’s compensation may be accurately compared with the cost of employer’s liability coverage. Companies A, B, C, D, E, and F are the same in Table 5 as in Table 4, the cost table for liability insurance.

Table 5. — Cost of Workman’s Compensation and Employer’s Liability Insurance From Six Companies

<table>
<thead>
<tr>
<th></th>
<th>Workman’s compensation</th>
<th>Employer’s liability</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>$273.44</td>
<td>$196.56</td>
<td>$76.88</td>
</tr>
<tr>
<td>Company B</td>
<td>373.00</td>
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<td>162.00</td>
</tr>
<tr>
<td>Company C</td>
<td>283.44</td>
<td>193.90</td>
<td>89.54</td>
</tr>
<tr>
<td>Company D</td>
<td>273.44</td>
<td>196.56</td>
<td>76.88</td>
</tr>
<tr>
<td>Company E</td>
<td>283.44</td>
<td>80.20</td>
<td>203.24</td>
</tr>
<tr>
<td>Company F</td>
<td></td>
<td>19.00</td>
<td></td>
</tr>
</tbody>
</table>

HEALTH AND SICKNESS INSURANCE

A serious illness or accident may place the farmer in debt for years and leave him and his family without means of support. These dangers may be guarded against by purchasing health and sickness insurance. Insurance companies offer a wide variety of policies from which to choose. Some of these policies are discussed on the following pages.
Accidental Death, Dismemberment, and Disability Policy

The death and dismemberment provisions provide for a lump-sum payment to the insured or to a beneficiary. The amount payable for the death benefit is called the principal sum, and the amount payable for a dismemberment is called the capital sum. Policies contain a schedule of payments for particular dismemberments. For example, loss of both hands, or both feet, or the sight of both eyes will result in payment of the capital sum, while loss of one hand, or one foot, or the sight of one eye will result in payment of one-half the capital sum.

Disability provisions provide for regular payments to the insured, although there may be a waiting period of two weeks to a month before payments begin. Payments then continue during the period of disability, provided that they do not exceed the maximum period of payments set out in the policy. Although payments are made on the basis of total disability, some policies provide for lower payments in case of a partial disability.

Certain terms and phrases substantially affect the coverage of the policy. Some policies apply to injuries resulting from "accidental means," and others to "accidental bodily injuries." If a policy reads "accidental means," the injury must be a result of accidental causes. For example, if the insured strains his back muscles while unloading fertilizer from a truck, he would not receive benefits because the injury resulted from something that he intended to do. However, if he drops a bag of fertilizer on his leg and breaks it, he will receive benefits because the injury was accidentally caused (he never intended to drop the fertilizer).

"Accidental bodily injury" is the more liberal clause. It provides for payments if the injury was unexpected and the result — rather than the cause — was unintended. Thus, payments would be made in both of the above situations.

The definition of disability is important. Some policies define total disability as "that which prevents the insured from performing every duty pertaining to his occupation." More restrictive policies define total disability as "that which prevents the insured from engaging in any occupation for wages or profits."

Under some policies, the insured does not receive benefits unless the disability begins a certain number of days after the injury. More liberal policies do not have this requirement.

Most policies require that the insured be wholly and continuously disabled. If the insured is disabled by an accident, payments will be made during the period of disability. But if he should recover and then become disabled again as a result of the same accident, no further payments would be made for the recurrent disability.

All policies have exclusions for which no payment is made. Common examples are suicide, injuries resulting from wars while the insured is in the service, inhalation of gas, and death or disabilities resulting from any disease.
Injury and Illness Policy

Injury and illness insurance provides three types of coverage—hospital, surgical, and medical. One, two, or all three coverages may be included in a single policy.

Hospital insurance includes room and board in the hospital, ambulance service, cost of operating room and delivery room, drugs, dressings, maternity benefits, private nurses, emergency treatment, anaesthetists' charges, incubator care, laboratory fees, and X-ray pictures. Each policy has limits on the amount the company will pay for these items, and not all policies contain all of the benefits named.

Policies usually contain a daily-dollar limit on the room-and-board provisions, and a limit on the number of days for which benefits will be paid.

Surgical insurance means just what the name implies: the insurance covers the expense of operations. Policies contain a lengthy schedule of the amount of money payable for each type of operation. Benefits for maternity and for broken bones and dislocation are usually included. Some policies extend benefits for surgery performed in the home or doctor's office in addition to those for hospital surgery.

Medical benefits provide for payment of the cost of the doctor's daily visits to the hospital when no surgery is involved. The policy may provide for limited coverage for visits to the patient's home or doctor's office. Usually this coverage applies only after a certain number of visits have been made.

Policies generally contain daily-dollar limits on the coverage, with a maximum number of days or a total dollar limit for any one illness or injury.

Medical Catastrophe Coverage

This policy is designed to cover catastrophic illness or injuries that could wipe out the insured financially. Coverage is subject to what is called a "deductible" amount. Before payments under the policy begin, the insured must have incurred illness or injury expenses above a set amount. This amount may be $250, $500, $750, or $1,000. The maximum policy coverage is usually $5,000, $7,500, or $10,000. Under a $5,000 policy with $500 deductible, the insurance company would pay all expenses over $500, but not more than $5,000. Some policies agree to pay only a certain percentage of the costs in excess of the deductible amount. Seventy-five percent is a figure commonly used.

Specified-Disease Expense Policy

The fear of financial loss as a result of contracting certain diseases has prompted insurance companies to provide a specified-disease expense policy.

These policies cover poliomyelitis, spinal meningitis, diphtheria, scarlet fever, smallpox, leukemia, encephalitis, tetanus, rabies, tula-
remia, cancer, heart disease, and others. Payment is made for medical care (including surgeons and specialists), nursing care, hospital care, braces and crutches, ambulance service, transportation by air or train from the place where the disease first arose to a place where proper treatment can be given (one trip only), and the cost of an iron lung or other such equipment. Each disease has a total monetary limit. The limits range from $1,000 to $10,000.

Most policies can be purchased on an individual or family basis. When they are purchased on a family basis, the policy includes the farmer, his wife, and unmarried children under a certain age (usually 18 or 19) residing at home. Since death, dismemberment, and disability policies are designed primarily for the operator, they are not well adapted to family use.

The coverages available in the accident and sickness field can provide an endless number of combinations when they are put together to make different policies. The combinations are so numerous and the policies so diversified even within the same company that it is impractical to give cost figures. Since competition in this area of insurance is keen, the farmer who chooses a reputable company will usually get what he pays for. If coverage is broad, emphasis will be placed on the coverage rather than on the increased cost. If the coverage is more restricted, emphasis will be placed on the low cost of the policy.

When purchasing a policy, you should check the exceptions. Whether the policy is renewable at your option or at the option of the insurance company is of great importance. If the policy is renewable at the option of the insurance company, the insurance company may refuse to renew the policy when you need it most.

Although this discussion is primarily concerned with use by the farmer, the same principles apply to his employees. An employer may wish to use medical insurance as a fringe benefit to induce valuable employees to remain on the farm.

**KINDS OF INSURANCE CARRIERS**

When choosing an insurance carrier, you should consider the financial soundness of the company, the service given, whether claims are settled promptly and fairly, the cost of the same coverage from the various companies available, and finally, whether the company can offer the type of policy you want.

The two principal carriers of insurance are the stock company and the mutual company.

**Stock Companies**

The stock company is a corporation organized under and governed by state law with the objective of providing protection for its customers and making profits for its stockholders. Insurance is provided at a guaranteed cost, and no other assessments are made. The stock company usually does its business through local agents.
Mutual Companies

Mutuals are corporations owned by the policyholders, and their objective is to give insurance to the policyholder at cost.

Mutual policies are of two kinds—assessable and nonassessable. Under an assessable policy, the company may require the policyholder to pay an additional sum of money when funds are insufficient to cover the losses and expenses. Most assessments are limited to one additional premium, but assessments can be larger—for example, when a small company is hit by large claims because of a catastrophe.

Nonassessable policies usually require a higher premium, since unexpected losses supposedly cannot be made up by special assessment. Some farm mutuals do not charge an advance premium, but levy assessments at stated intervals according to current disbursements.

If the mutual’s return from premiums for a given period exceeds its losses and expenses for that period, part or all of the excess may be returned to the policyholders as a policy dividend.

Mutuals sell their insurance directly to policyholders and through agents. There is a strong argument that when the policy is sold directly, the policyholder does not receive the needed services he would receive from an agent. Most stock companies sell through agents. This point should be considered carefully.