

STATE FARM INSURANCE COMPANIESONE STATE FARM PLAZA
BLOOMINGTON, ILLINOIS 61710-0001EDWARD B. RUST, JR.
PRESIDENT

May 10, 1996

Let's hope the day doesn't come when you have to publicly discuss a large increase in your annual income. We've always considered agent income and employee pay confidential for reasons that involve personal privacy, personal security and proprietary concerns.

Nevertheless, many of you have received information that reports a large 1994 change in my salary along with salary data for other members of senior management. Because what you may have received conveys a misleading impression, I feel compelled to provide some perspective.

My salary and the salaries of the rest of our top executive group are administered by the compensation committee of the State Farm Mutual Board of Directors. That committee is comprised of three outside directors. One of them, Dr. Curtis Tarr, chairs the group. He's the retired dean of Cornell University's Graduate School of Management.

Several times in the early '90s, members of the compensation committee talked with me about their concern that the salaries of top State Farm executives were increasingly lagging behind industry averages. While the data was clear, at the time I expressed a lack of comfort with making significant changes.

In 1994, Dr. Tarr reported the committee felt very strongly that top executive salaries had fallen even further behind industry norms. This hit home when I was approached to run a much smaller company at five times my pay. The committee was correct. We were risking the loss of key executives. By not acting on salaries earlier, we had compounded the problem. Action was needed and taken at the end of 1994.

Determining executive pay that attracts and keeps top leadership for our organization, while reconciling it with our more moderate expense philosophy, is a balancing act. The compensation committee tries to achieve that balance.

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY, STATE FARM LIFE INSURANCE COMPANY, STATE FARM
FIRE AND CASUALTY COMPANY, STATE FARM GENERAL INSURANCE COMPANY, STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY,
HOME OFFICE: BLOOMINGTON, ILLINOIS, STATE FARM COUNTY MUTUAL INSURANCE COMPANY OF TEXAS, HOME OFFICE: DALLAS, TEXAS

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Using my salary as an example provides perspective:

• Last year my total compensation was \$1.2 million, still 38 percent below the median for the CEOs of 50 large insurance companies just surveyed by Forbes magazine.

• Although not all the figures are in for 1995, it appears my compensation was one of the two lowest CEO salaries in the Fortune 50. As you know, based on revenues, State Farm is 12th on that list. The New York Times reports the average total compensation for CEOs of the largest 100 companies in the United States was \$3.6 million in 1994.

• My salary, and the salary of other State Farm executives, is our total compensation. There are no bonuses, no stock options, no country club memberships or other perks you often read or hear about. And there is no automatic, limited cost-of-living increase as received by other employees.

My compensation was increased by 4.2 percent at year-end 1995. The resulting 1995 compensation of \$1.25 million is still markedly below industry averages for CEOs. I'm not uncomfortable with that fact. What I am uncomfortable with is any perception that management compensation is out of line, particularly if that perception is driven by inaccurate or incomplete information.

My job is challenging, very demanding and rewarding. I work hard with the goal of making sure our company leads the industry in the next century. I believe I earn my pay. There you have it.

Sincerely,



Edward E. Rust, Jr.

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