UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-24000

ERIE INDEMNITY COMPANY

(Exact name of registrant as specified in its charter)

Pennsylvania	25-0466020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Erie Insurance Place, Erie, Pennsylvania	16530
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (814) 870-2000

Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, stated value $.0292 per share, listed on the NASDAQ Stock Market, LLC
Class B Common Stock, stated value $70 per share
(Title of class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act
Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).Yes o No ☑

Aggregate market value of voting stock of non-affiliates: There is no active market for the Class B voting stock. The Class B stock is closely held with few shareholders.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 57,705,993 shares of Class A Common Stock and 2,573 shares of Class B Common Stock outstanding on February 16, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2006 (the "Annual Report") are incorporated by reference into Parts I, II and III of this Form 10-K Report.
2. Portions of the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held April 17, 2007 are incorporated by reference into Parts I and III of this Form 10-K Report.

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PART I

Item 1. Business

General

Erie Indemnity Company (Company), a Pennsylvania corporation, operates predominantly as the management services company that provides sales, underwriting and policy issuance services to the policyholders of Erie Insurance Exchange (Exchange). The Exchange is a reciprocal insurance exchange, which is an unincorporated association of individuals, partnerships and corporations that agree to insure one another. Each applicant for insurance to a reciprocal insurance exchange signs a subscriber's agreement that contains an appointment of an attorney-in-fact. We have served as the attorney-in-fact for the policyholders of the Exchange since 1925. We also operate as a property/casualty insurer through our three wholly-owned subsidiaries, Erie Insurance Company, Erie Insurance Property and Casualty Company and Erie Insurance Company of New York. The Exchange and its property/casualty insurance subsidiary, Flagship City Insurance Company, along with our three insurance subsidiaries (collectively, the Property and Casualty Group) write a broad line of personal and commercial lines property and casualty coverages and pool their underwriting results. Our financial position or results of operations are not consolidated with the Exchange's. We also own 21.6% of the common stock of Erie Family Life Insurance Company (EFL), an affiliated life insurance company of which the Exchange owns 78.4%. We, together with our subsidiaries, affiliates and the Exchange operate collectively as the Erie Insurance Group.

Business segments

We operate our business as three reportable segments – management operations, insurance underwriting operations and investment operations. Financial information about these segments is set forth in and referenced to Note 20 of the "Notes to Consolidated Financial Statements" included in the Annual Report. Further discussion of financial results by operating segment is provided in and referenced to "Management's Discussion and Analysis" also included in the 2006 Annual Report.

Description of business

For our services as attorney-in-fact, we charge the Exchange a management fee calculated as a percentage, limited to 25% of the direct written premiums of the Property and Casualty Group. Management fees accounted for approximately 72% of our revenues in 2006 and 2005 and approximately 74% in 2004.

We have an interest in the growth and financial condition of the Exchange as 1) the Exchange is our sole customer and 2) our earnings are largely generated from fees based on the direct written premium of the Exchange and other members of the Property and Casualty Group. The Property and Casualty Group underwrites a broad range of personal and commercial insurance using its independent agency force as its sole distribution channel. The Property and Casualty Group is represented by nearly 1,800 independent agencies comprising almost 8,000 licensed representatives. The Property and Casualty Group operates primarily in the Midwest, mid-Atlantic and southeast regions of the United States (Illinois, Indiana, Maryland, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and Wisconsin and the District of Columbia). (See the table "Premiums written as a percent of total by state" included in and referenced to the Management's Discussion and Analysis in the 2006 Annual Report.) While sales, underwriting and policy issuance services are centralized at our home office, the Property and Casualty Group maintains 23 field offices throughout its operating region to provide claims services and marketing support for the independent agents.

Historically, due to policy renewal and sales patterns, the Property and Casualty Group's direct written premiums are greater in the second and third quarters of the calendar year. While loss and loss adjustment expenses are not entirely predictable, historically such costs have been greater during the third and fourth quarters, influenced by the weather in the geographic regions, including the Midwest, mid-Atlantic and southeast regions in which the Property and Casualty Group operates.

The members of the Property and Casualty Group pool their underwriting results. Under the pooling agreement, the Exchange assumes 94.5% of the pool. Accordingly, the underwriting risk of the Property and Casualty Group's business is largely borne by the Exchange, which had $4.1 billion and $3.4 billion of statutory surplus at December 31, 2006 and 2005, respectively. Through the pool, our property/casualty insurance subsidiaries currently assume 5.5% of the Property and Casualty Group's underwriting results, and, therefore, we also have a direct incentive to manage the insurance underwriting as effectively as possible.

Principal Products

The Property and Casualty Group seeks to insure standard and preferred risks primarily in personal and commercial lines. In 2006, personal lines comprised 70% of direct written premium revenue of the Property and Casualty Group while commercial lines made up the remaining 30%.

The principal products in personal lines are private passenger automobile (48%) and homeowners (20%) while the principal commercial lines consist of multi-peril (11%), workers' compensation (7%) and commercial automobile (8%).

Competition

The personal lines automobile and homeowners businesses are highly competitive. Property and casualty insurers generally compete on the basis of customer service, price, brand recognition, coverages offered, claim handling ability, financial stability and geographic coverage. Vigorous competition is provided by large, well-capitalized national companies, some of which have broad distribution networks of employed or captive agents, and by smaller regional insurers. In addition, because the insurance products of the Property and Casualty Group are marketed exclusively through independent insurance agents, the Property and Casualty Group, faces competition within its appointed agencies based on ease of doing business, product, price and service relationships. The market is competitive with some carriers filing rate decreases while others focus on acquiring business through other means, such as increases in advertising and effective utilization of technology. Some carriers have increased the amount of advertising in an effort to retain profitable business. The Exchange ranked as the 15^{th} largest automobile insurer in the United States based on 2005 direct written premiums and as the 21^{st} largest property/casualty insurer in the United States based on 2005 total lines net premium written according to A.M. Best Company, Inc.

Market competition bears directly on the price charged for insurance products and services subject to regulatory limitations. Growth is driven by a company's ability to provide insurance services at a price that is reasonable and acceptable to the customer. In addition, the marketplace is affected by available capacity of the insurance industry. Industry surplus expands and contracts primarily in conjunction with profit levels generated by the industry. Growth is a product of a company's ability to retain existing customers and to attract new customers, as well as movement in the average premium per policy charged by the Property and Casualty Group.

The Erie Insurance Group has followed several strategies that we believe will result in long-term underwriting performance which exceeds those of the property/casualty industry in general. First, the Erie Insurance Group employs an underwriting philosophy and product mix targeted to produce a Property and Casualty Group underwriting profit on a long-term basis through careful risk selection and rational pricing. The careful selection of risks allows for lower claims frequency and loss severity, thereby enabling insurance to be offered at favorable prices. With the recent introduction of insurance scoring and a new pricing segmentation model into the underwriting and pricing processes, the Property and Casualty Group has continued to refine its risk measurement and price segmentations model. Second, Erie Insurance Group's management focuses on consistently providing superior service to policyholders and agents. Third, the Erie Insurance Group's business model is designed to provide the advantages of localized marketing and claims servicing with the economies of scale from centralized accounting, administrative, underwriting, investment, information management and other support services.

Finally, we carefully select the independent agencies that represent the Property and Casualty Group. The Property and Casualty Group seeks to be the lead insurer with its agents in order to enhance the agency relationship and the likelihood of receiving the most desirable underwriting opportunities from its agents. We have ongoing, direct communications with the agency force. Agents have access to a number of venues we sponsor designed to promote sharing of ideas, concerns and suggestions with the senior management of the Property and Casualty Group with the goal of improving communications and service. We continue to evaluate new ways to support our agents' efforts, from marketing programs to identifying potential customer leads, to grow the business of the Property and Casualty Group. These efforts have resulted in outstanding agency penetration and the ability to sustain long-term agency partnerships. The higher agency penetration and long-term relationships allow for greater efficiency in providing agency support and training.

Employees

We employed almost 4,300 people at December 31, 2006, of which approximately 2,100 provide claims specific services exclusively for the Property and Casualty Group and approximately 140 perform services exclusively for EFL. Both the Exchange and EFL reimburse us at least quarterly for the cost of these services.

Reserves for losses and loss adjustment expenses

The following table illustrates the change over time of the loss and loss adjustment expense reserves established for our property/casualty insurance subsidiaries at the end of the last ten calendar years. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future redundancies or deficiencies based on this data. Our incurred but not reported reserves are developed considering the Property and Casualty Group as a whole. Incurred but not reported reserves are allocated to members of the Property and Casualty Group based on each member's proportionate share of earned premiums. Additional discussion of our reserve methodology can be found in and is referenced to the "Critical Accounting Estimates" section of "Management's Discussion and Analysis" in the 2006 Annual Report.

Property and Casualty Subsidiaries of Erie Indemnity Company
Reserves for Unpaid Losses and Loss Adjustment Expenses

	At December 31,									
(amounts in millions)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross liability for unpaid losses and loss adjustment expense ("LAE")	$ 413.4	$ 426.2	$ 432.9	$ 477.9	$ 557.3	$ 717.0	$ 845.5	$943.0	$1,019.5	$1,073.6
Gross liability re-estimated as of:										
One year later	410.8	431.2	477.0	516.2	622.6	727.2	832.2	927.5	980.3	
Two years later	411.5	448.7	487.2	567.1	635.1	736.3	843.3	935.6		
Three years later	422.5	453.3	518.6	567.2	649.1	755.5	880.2			
Four years later	420.5	471.9	518.5	588.7	669.9	767.8				
Five years later	435.6	472.2	541.1	619.0	713.1					
Six years later	438.3	492.3	568.9	642.1						
Seven years later	456.2	516.4	616.6							
Eight years later	480.1	545.8								
Nine years later	506.7									
Cumulative (deficiency) redundancy	(93.3)	(119.6)	(183.7)	(164.2)	(155.8)	(50.8)	(34.7)	7.4	39.2	
Gross liability for unpaid losses and LAE	$ 413.4	$ 426.2	$ 432.9	$ 477.9	$ 557.3	$ 717.0	$ 845.5	$943.0	$1,019.5	$1,073.6
Reinsurance recoverable on unpaid losses	323.9	334.8	337.9	375.6	438.6	577.9	687.8	765.6	825.9	872.4
Net liability for unpaid losses and LAE	$ 89.5	$ 91.4	$ 95.0	$ 102.3	$ 118.7	$ 139.1	$ 157.7	$177.4	$ 193.6	$ 201.2
Net re-estimated liability as of:										
One year later	$ 88.9	$ 92.5	$ 104.7	$ 109.8	$ 126.6	$ 140.9	$ 162.6	$181.2	$ 183.0	
Two years later	89.1	96.2	106.2	116.0	127.0	144.6	171.9	179.3		
Three years later	91.5	97.2	110.6	116.2	131.9	155.7	173.8			
Four years later	91.0	101.2	110.8	120.9	143.6	157.6				
Five years later	94.3	101.3	115.3	132.5	146.2					
Six years later	94.9	105.6	124.8	135.0						
Seven years later	98.8	110.8	126.7							
Eight years later	103.9	113.2								
Nine years later	106.6									
Cumulative (deficiency) redundancy	($17.1)	($21.8)	($31.7)	($32.7)	($27.5)	($18.5)	($16.1)	($1.9)	$ 8.1	

The development of loss and loss adjustment expenses are presented on a gross basis (gross of ceding transactions in the intercompany pool) and a net basis (the amount remaining as our exposure after ceding amounts through the intercompany pool and our insurance subsidiaries assuming their 5.5% of the pool, as well as transactions under the excess-of-loss reinsurance agreement with the Exchange).

Our 5.5% share of the loss and loss reserves of the Property and Casualty Group are shown in the net presentation and are more representative of the actual development of the property/casualty insurance losses accruing to our subsidiaries. The gross presentation is shown to be consistent with the balance sheet presentation of reinsurance transactions which requires direct and ceded amounts to be presented separate from one another, in accordance with FAS 113, “Accounting and Reporting for Reinsurance of Short Duration and Long Duration Contracts”, i.e. the gross liability for unpaid losses and LAE of $1,073.6 million at December 31, 2006 agrees to the gross balance sheet amount; however, factoring in the reinsurance recoverables of $872.4 million at December 31, 2006 presented in the balance sheet results in the net obligation to us of $201.2 million at December 31, 2006. The development on a gross basis is not necessarily indicative of our property/casualty insurance subsidiaries loss reserve development as the remaining transactions (ceded) are not reflected in the amounts.

Reserves for Unpaid Losses and Loss Adjustment Expenses (Continued)

				At December 31						
(amounts in millions)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cumulative amount of gross liability paid through:										
One year later	$136.9	$145.4	$158.9	$174.4	$194.3	$217.0	$259.1	$271.4	$292.4	
Two years later	211.5	228.2	244.9	270.9	302.1	351.0	410.6	423.1		
Three years later	256.8	274.9	297.6	326.1	372.5	434.7	493.7			
Four years later	280.5	300.9	326.9	361.3	418.9	461.9				
Five years later	295.9	315.8	347.0	384.8	440.9					
Six years later	306.0	325.9	362.9	384.4						
Seven years later	313.1	336.6	387.6							
Eight years later	321.9	352.6								
Nine years later	332.5									
Cumulative amount of net liability paid through:										
One year later	$ 31.3	$ 33.6	$ 38.9	$ 41.2	$ 47.3	$ 50.5	$ 58.5	$ 54.5	$ 58.7	
Two years later	48.3	52.4	59.2	64.9	72.9	80.9	86.7	89.3		
Three years later	59.2	63.9	73.5	78.5	91.0	95.5	108.5			
Four years later	65.5	71.3	80.8	88.3	97.8	107.8				
Five years later	70.0	74.9	86.7	91.7	105.1					
Six years later	72.1	78.4	90.6	96.0						
Seven years later	74.5	81.4	93.7							
Eight years later	76.8	84.1								
Nine years later	79.2									

The Property and Casualty Group discounts workers’ compensation reserves on a nontabular basis only. The workers’ compensation reserves are discounted at a 2.5% interest rate as prescribed by the Insurance Department of the Commonwealth of Pennsylvania. The discount is based upon the Property and Casualty Group’s historical workers’ compensation payout pattern. Our unpaid losses and loss adjustment expenses reserve was reduced by $5.0 million and $4.6 million at December 31, 2006 and 2005, respectively, as a result of this discounting.

A reconciliation of our property/casualty insurance subsidiaries’ claims reserves can be found at Note 12 of the “Notes to Consolidated Financial Statements” contained in the 2006 Annual Report. Additional discussion of reserve activity can be found in and is referenced to the “Financial Condition” section of “Management’s Discussion and Analysis” in the 2006 Annual Report.

Government Regulation

The Property and Casualty Group is subject to supervision and regulation in the states in which it transacts business. The primary purpose of such supervision and regulation is the protection of policyholders. The extent of such regulation varies, but generally derives from state statutes that delegate regulatory, supervisory and administrative authority to state insurance departments. Accordingly, the authority of the state insurance departments includes the establishment of standards of solvency that must be met and maintained by insurers, the licensing to do business of insurers and agents, the nature of the limitations on investments, the approval of premium rates for property/casualty insurance, the provisions that insurers must make for current losses and future liabilities, the deposit of securities for the benefit of policyholders, the approval of policy forms, notice requirements for the cancellation of policies and the approval of certain changes in control. In addition, many states have enacted variations of competitive rate-making laws that allow insurers to set certain premium rates for certain classes of insurance without having to obtain the prior approval of the state insurance department. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies.

The Property and Casualty Group is also required to participate in various involuntary insurance programs for automobile insurance, as well as other property/casualty lines, in states in which such companies operate. These involuntary programs provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage in the voluntary market. These programs include joint underwriting associations, assigned risk plans, fair access to insurance requirements (“FAIR”) plans, reinsurance facilities and windstorm plans. Legislation establishing these programs generally provides for participation in proportion to voluntary writings of related lines of business in that state. The loss ratio on insurance written under involuntary programs has traditionally been greater than the loss ratio on insurance in the voluntary market. Involuntary programs generated underwriting gains of $1.9 million for the Property and Casualty Group in 2006, compared to losses primarily from hurricanes in states supported by these programs of $12.5 million and $26.7 million in 2005 and 2004, respectively. Our share of underwriting gains related to involuntary programs was $.1 million in 2006, and our share of losses was $.7 million in 2005.

Most states have enacted legislation that regulates insurance holding company systems. Each insurance company in the holding company system is required to register with the insurance supervisory authority of its state of domicile and furnish information regarding the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. Pursuant to these laws, the respective insurance departments may examine us and the Property and Casualty Group at any time, require disclosure of material transactions with the insurers and us as an insurance holding company and require prior approval of certain transactions between the Property and Casualty Group and us.

All transactions within the holding company system affecting the insurers we manage are filed with the applicable insurance departments and must be fair and reasonable. Approval of the applicable insurance commissioner is required prior to the consummation of transactions affecting the control of an insurer. In some states, the acquisition of 10% or more of the outstanding common stock of an insurer or its holding company is presumed to be a change in control.

Internet access

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website at www.erieinsurance.com as soon as reasonably practicable after such material is filed electronically with the SEC. Our Code of Conduct is available on our website and in printed form upon request. Also copies of our annual report will be made available, free of charge, upon written request.

Item 1A. Risk Factors

Our business involves various risks and uncertainties, including, but not limited to those discussed in this section, any of which could have a significant or material adverse effect on our business, financial condition, operating results or liquidity. This information should be considered carefully together with the other information contained in this report including the consolidated financial statements and the related notes. If any of the following events described in the risk factors below actually occur, our business, financial condition and results of operations could be adversely affected. The risks described below are not the only ones we face. Additional risks may also have a significant or material adverse effect on our business, financial condition, operating results or liquidity.

Risk factors related to our business and relationships with third parties

If the management fee rate paid by the Exchange is reduced, if there is a significant decrease in the amount of premiums written by the Exchange, or if the costs of providing services to the Exchange are not controlled, revenues and profitability could be materially adversely affected.

We are dependent upon management fees paid by the Exchange, which represent our principal source of revenue. The management fee rate is determined by the Board of Directors and may not exceed 25% of the direct written premiums of the Property and Casualty Group. The Board of Directors sets the management fee rate each December for the following year. However, at their discretion, the rate can be changed at any time. The factors considered by the Board in setting the management fee rate include our financial position in relation to the Exchange and the long-term needs of the Exchange for capital and surplus to support its continued growth and competitiveness. If the Board of Directors determines that the management fee rate should be reduced, our revenues and profitability could be materially adversely affected.

Management fee revenue from the Exchange is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the direct premiums written by the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. Accordingly, any reduction in direct premiums written by the Property and Casualty Group would have a proportional negative effect on our revenues and net income.

Pursuant to the attorney-in-fact agreements with the policyholders of the Exchange, we are appointed to perform certain services, regardless of the cost to us of providing those services. These services relate to the sales, underwriting and issuance of policies on behalf of the Exchange. We would lose money or be less profitable if the cost of providing those services increases significantly.

We are subject to credit risk from the Exchange because the management fees from the Exchange are not paid immediately when earned. Our property/casualty insurance subsidiaries are subject to credit risk from the Exchange because the Exchange assumes a higher insurance risk under an intercompany pooling arrangement than is proportional to its direct business contribution to the pool.

We recognize management fees due from the Exchange as income when the premiums are written because at that time we have performed substantially all of the services we are required to perform, including sales, underwriting and policy issuance activities. However, such fees are not paid to us by the Exchange until the Exchange collects the premiums from policyholders. As a result, we hold receivables for management fees earned and due us.

We also hold receivables from the Exchange for costs we pay on the Exchange’s behalf and for reinsurance under the intercompany pooling arrangement. Our total receivable from the Exchange, including the management fee, reimbursable costs we paid on behalf of the Exchange and total amounts recoverable from the intercompany pool, totaled $1.2 billion or 39.3% of our total assets at December 31, 2006.

Two of our wholly-owned property/casualty insurance subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, are parties to the intercompany pooling arrangement with the Exchange. Under this pooling arrangement, our insurance subsidiaries cede 100% of their property/casualty underwriting business to the Exchange, which retrocedes 5% of the pooled business to Erie Insurance Company and .5% to Erie Insurance Company of New York. In 2006, approximately 83% of the pooled direct property/casualty business was originally generated by the Exchange and its subsidiary, while 94.5% of the pooled business is retroceded to the Exchange under the intercompany pooling arrangement. Accordingly, the Exchange assumes a higher insurance risk than is proportional to the insurance business it contributes to the pool. In 2006, our insurance subsidiaries wrote 17% of the direct premiums, while assuming only 5.5% of the risk. This poses a credit risk to our property/casualty subsidiaries participating in the pool as they retain the responsibility to their direct policyholders if the Exchange is unable to meet its reinsurance obligations.

Our financial condition may suffer because of declines in the value of the securities held in our investment portfolio that constitute a significant portion of our assets.

Our fixed income securities investments, which totaled $837 million at December 31, 2006 and comprised 28% of total assets, are exposed to price risk and to risk from changes in interest rates as well as credit risk related to the issuer. We do not hedge our exposure to interest rate risk as we have the ability to hold fixed income securities to maturity. Our investment strategy achieves a balanced maturity schedule in order to moderate investment income in the event of interest rate declines in a year in which a large amount of securities could be redeemed or mature.

At December 31, 2006, we had investments in marketable securities of approximately $251 million and investments in limited partnerships of approximately $231 million, or 8.2% and 7.6% of total assets, respectively. In addition, we are obligated to invest up to an additional $227 million in limited partnerships, including in partnerships for U.S. and foreign private equity, real estate and fixed income investments. Limited partnerships are generally less liquid than publicly traded securities. All of our marketable security investments are subject to market volatility. Our marketable securities have exposure to price risk and the volatility of the equity markets and general economic conditions.

To the extent that future market volatility negatively impacts our investments, our financial condition will be negatively impacted.

We review the investment portfolio on a continuous basis to evaluate positions that might have incurred other-than-temporary declines in value. The primary factors considered in our review of investment valuation include the extent and duration to which fair value is less than cost, historical operating performance and financial condition of the issuer, short- and long-term prospects of the issuer and its industry, specific events that occurred affecting the issuer and our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. If our policy for determining the recognition of impaired positions were different, our Consolidated Statements of Financial Position and Statements of Operations could be significantly impacted. See also Note 3 of the “Notes to Consolidated Financial Statements” contained in the 2006 Annual Report.

Risk factors relating to the business of the Property and Casualty Group

The Property and Casualty Group faces significant competition from other regional and national insurance companies which may result in lower revenues.

The Property and Casualty Group competes with regional and national property/casualty insurers including direct writers of insurance coverage. Many of these competitors are larger and many have greater financial, technical and operating resources. In addition, there is competition within each insurance agency that represents other carriers as well as the Property and Casualty Group.

As discussed previously, the property/casualty insurance industry is highly competitive on the basis of product, price and service. If competitors offer property/casualty products with more coverage and/or better service, or offer lower rates, the Property and Casualty Group’s ability to grow and renew its business may be adversely impacted.

The internet has also emerged as a growing method of distribution, both from existing competitors using their brand to write business and from new competitors. If the Property and Casualty Group’s method of distribution does not include advancements in technology that meet consumer preferences, its ability to grow and renew its business may be adversely impacted.

If the Erie Insurance Group is unable to keep pace with the rapidly developing technological advancements in the insurance industry or to replace its legacy policy administration systems, the ability of the Property & Casualty Group to compete effectively could be impaired.

Technological development is necessary to reduce our cost and the Property & Casualty Group's operating costs and to facilitate agents' and policyholders' ability to do business with the Property & Casualty Group. If the Erie Insurance Group is unable to keep pace with the advancements being made in technology, its ability to compete with other insurance companies who have advanced technological capabilities will be negatively affected. Further, if the Erie Insurance Group is unable to update or replace its legacy policy administration systems as they become obsolete or as emerging technology renders them competitively inefficient, the Property & Casualty Group's competitive position would be adversely affected.

Premium rates and reserves must be established for members of the Property and Casualty Group from forecasts of the ultimate costs expected to arise from risks underwritten during the policy period. Our underwriting profitability could be adversely affected to the extent such premium rates or reserves are too low.

One of the distinguishing features of the property and casualty insurance industry in general is that its products are priced before its costs are known, as premium rates are generally determined before losses are reported. Accordingly, premium rates must be established from forecasts of the ultimate costs expected to arise from risks underwritten during the policy period and may not prove to be adequate. Further, property and casualty insurers establish reserves for losses and loss adjustment expenses based upon estimates, and it is possible that the ultimate liability will exceed these estimates because of the future development of known losses, the existence of losses that have occurred but are currently unreported and larger than historical settlements on pending and unreported claims. The process of estimating reserves is inherently judgmental and can be influenced by factors that are subject to variation. If pricing or reserves established by a member of the Property and Casualty Group are not sufficient, our underwriting profitability may be adversely impacted.

The financial performance of members of the Property and Casualty Group could be adversely affected by severe weather conditions or other catastrophic losses, including terrorism.

The Property and Casualty Group conducts business in only 11 states and the District of Columbia, primarily in the mid-Atlantic, midwestern and southeastern portions of the United States. A substantial portion of this business is private passenger and commercial automobile, homeowners and workers' compensation insurance in Ohio, Maryland, Virginia and particularly, Pennsylvania. As a result, a single catastrophe occurrence, destructive weather pattern, general economic trend, terrorist attack, regulatory development or other condition disproportionately affecting one or more of the states in which the Property and Casualty Group conducts substantial business could adversely affect the results of operations of members of the Property and Casualty Group.

Common natural catastrophe events include hurricanes, earthquakes, tornadoes, hail storms and severe winter weather. The frequency and severity of these catastrophes is inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposures in the area affected by the event and the severity of the event.

Terrorist attacks could cause losses from insurance claims related to the property/casualty insurance operations, as well as a decrease in our shareholders' equity, net income or revenue. The Terrorism Risk Insurance Act of 2005 requires that some coverage for terrorist loss be offered by primary commercial property insurers and provides Federal assistance for recovery of claims through 2007. While the Property and Casualty Group is exposed to terrorism losses in commercial lines including workers' compensation, these lines are afforded a limited backstop above insurer deductibles for foreign acts of terrorism under this federal program. The Property and Casualty Group has no personal lines terrorist coverage in place. The Property and Casualty Group could incur large net losses if future terrorism attacks occur.

The Property and Casualty Group maintains a property catastrophe reinsurance treaty that was renewed effective January 1, 2007 that provides coverage of 95% of a loss up to $400 million in excess of the Property and Casualty Group's loss retention of $400 million per occurrence. This treaty excludes losses from acts of terrorism. Nevertheless, catastrophe reinsurance may prove inadequate if a major catastrophic loss exceeds the reinsurance limit which could adversely effect our underwriting profitability. We are particularly exposed to an Atlantic hurricane in our homeowners lines of insurance in the states of North Carolina, Virginia, Maryland and Pennsylvania.

The Property and Casualty Group depends on independent insurance agents, which exposes the Property and Casualty Group to risks not applicable to companies with dedicated agents or other forms of distribution.

The Property and Casualty Group markets and sells its insurance products through independent, non-exclusive agencies. These agencies are not obligated to sell only the Property and Casualty Group's insurance products, and generally they also sell competitors' insurance products. As a result, the Property and Casualty Group's business depends in part on the marketing and sales efforts of these agencies. To the extent these agencies' marketing efforts cannot be maintained at their current levels of volume or they bind the Property and Casualty Group to unacceptable insurance risks, fail to comply with established underwriting guidelines or otherwise improperly market the Property and Casualty Group's products, the results of operations and business of the Property and Casualty Group could be adversely affected. To the extent the agencies choose to place significant or all of their business with competing insurance companies, the results of operations and business of the Property and Casualty Group could also be adversely affected.

The business of the Property and Casualty Group may not continue to grow and may be materially adversely affected if the we cannot retain existing, and attract new, independent agencies or if insurance consumers increase use of other insurance delivery systems.

The continued growth of the business of members of the Property and Casualty Group is partially dependent upon our ability to retain existing, and attract new, independent agencies for the Property and Casualty Group. The following factors are among those that may cause the growth and retention in the number of independent agencies of the Property and Casualty Group, and thereby growth in revenue of its members, to be slower than it otherwise would have been:

- There is significant competition to attract independent agencies;
- Our process to select a new independent agency is intensive and typically requires from three to six months;
- We have stringent criteria for new independent agencies and requires adherence by independent agencies to consistent underwriting standards; and
- We may be required to reduce agents' commissions, bonuses and other incentive, thereby reducing our attractiveness to agencies.

The Property and Casualty Group sells insurance solely through its network of independent agencies. The Property and Casualty Group's competitors sell insurance through a variety of delivery methods, including independent agencies, captive agencies, the Internet and direct sales. To the extent that business migrates to a delivery system other than independent agencies because of changing consumer preferences, the business of the Property and Casualty Group will be adversely affected. Independent agents may also choose to place business with other insurers based on their consideration of product features, pricing, compensation to be earned, technological ease of doing business and other factors.

If there were a failure to maintain a commercially acceptable financial strength rating, the Property and Casualty Group's competitive position in the insurance industry would be adversely affected.

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's sales. Higher ratings generally indicate greater financial stability and a stronger ability to meet ongoing obligations to policyholders. Ratings are assigned by rating agencies to insurers based upon factors that they believe are relevant to policyholders. Currently the Property and Casualty Group's pooled A.M. Best rating is an A+ ("superior"). A significant future downgrade in this or other ratings would reduce the competitive position of the Property and Casualty Group making it more difficult to attract profitable business in the highly competitive property/casualty insurance market.

Changes in applicable insurance laws, regulations or changes in the way regulators administer those laws or regulations could adversely change the Property and Casualty Group's operating environment and increase its exposure to loss or put it at a competitive disadvantage.

Property and casualty insurers are subject to extensive supervision in the states in which they do business. This regulatory oversight includes, by way of example, matters relating to licensing and examination, rate setting, market conduct, policy forms, limitations on the nature and amount of certain investments, claims practices, mandated participation in involuntary markets and guaranty funds, reserve adequacy, insurer solvency, transactions between affiliates, the amount of dividends that may be paid and restrictions on underwriting standards. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of shareholders. For instance, members of the Property and Casualty Group are subject to involuntary participation in specified markets in various states in which it operates, and the rate levels the Property and Casualty Group is permitted to charge do not always correspond with the underlying costs associated with the coverage issued. Although the federal government does not directly regulate the insurance industry, federal initiatives, such as federal terrorism backstop legislation, from time to time, also can impact the insurance industry.

Our ability to attract, develop and retain talented employees, managers and executives is critical to our success.

Our success depends on our ability to attract, develop and retain talented employees, including executives and other key management. Our loss of certain key officers and employees or the failure to attract and develop talented new executives and management could have an adverse effect on our business.

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995: Certain forward-looking statements contained herein involve risks and uncertainties. These statements include certain discussions relating to management fee revenue, cost of management operations, underwriting, premium and investment income volume, business strategies, profitability and business relationships and our other business activities during 2006 and beyond. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “project,” “predict,” “potential” and similar expressions. These forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that may cause results to differ materially from those anticipated in those statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict.

Item 1B. Unresolved SEC Comments

None.

Item 2. Properties

The member companies of the Erie Insurance Group (the Company and our subsidiaries, the Exchange and its subsidiary and EFL) share a corporate home office complex in Erie, Pennsylvania, which is comprised of 497,000 square feet. The home office complex is owned by the Exchange. We are charged rent expense for the related square footage we occupy.

We also operate 23 field offices, including the Erie branch office, in 11 states. Eighteen of these offices provide both agency support and claims services and are referred to as Branch Offices, while the remaining five provide only claims services and are considered Claims Offices. We own three field offices. Three other field offices are owned by the Exchange and leased to us. We incurred rent expense for both the home office complex and the field offices leased from the Exchange totaling $9.2 million in 2006.

One field office is owned by EFL and leased to us. The rent expense for the field office leased from EFL was $0.4 million in 2006.

The remaining 16 field offices are leased from various unaffiliated parties. In addition to these field offices, we lease a warehouse facility from an unaffiliated party. During 2003, we entered into a lease for a building in the vicinity of the home office complex. This additional space is used to house certain home office employees. During 2005, we entered into a lease for office space for our corporate financial personnel. Total lease payments to external parties amounted to $3.1 million in 2006. Lease commitments for these properties expire periodically through 2011.

The total operating expense, including rent expense, for all office space we occupied in 2006 was $22.4 million. This amount was reduced by allocations to the Property and Casualty Group of $14.3 million for claims operations. This net amount after allocations is reflected in our cost of management operations.

Item 3. Legal Proceedings

Reference is made to Note 19 contained in the “Notes to Consolidated Financial Statements” in the 2006 Annual Report.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

As of February 16, 2007, there were approximately 988 beneficial shareholders of record of our Class A non-voting common stock and 20 beneficial shareholders of record of our Class B voting common stock.

Reference is made to "Market Price of and Dividends on Common Stock and Related Shareholder Matters" in the 2006 Annual Report, for information regarding our high and low trading prices, dividends and performance graph.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
October 1 – 31, 2006	2,733	$ 50.65	0	
November 1 – 30, 2006	17,479	51.69	17,479	
December 1 – 31, 2006	0		0	
Total	20,212		17,479	$130,000,000

The month of October 2006 includes shares that vested under the stock compensation plan for our outside directors of 2,733. Included in this amount are the vesting of 2,493 of awards previously granted and 240 dividend equivalent shares that vest as they are granted (as dividends are declared by us).

Item 6. Selected Consolidated Financial Data

Reference is made to "Selected Consolidated Financial Data" in the 2006 Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2006 Annual Report.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2006 Annual Report.

Item 8. Financial Statements and Supplementary Data

Reference is made to the "Consolidated Financial Statements" and the "Quarterly Results of Operations" contained in the "Notes to Consolidated Financial Statements" in the 2006 Annual Report.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework*, management concluded that our internal control over financial reporting was effective as of December 31, 2006. Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, any change in our internal control over financial reporting and determined that there has been no change in our internal control over financial reporting during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's annual report on internal control over financial reporting and the attestation report of our registered public accounting firm are included in Exhibit 13 under the headings "Report of Management on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm," respectively, and incorporated herein by reference.

Item 9B. Other Information

There was no additional information in the fourth quarter of 2006 that has not already been filed in a Form 8-K.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information with respect to our directors, audit committee, and audit committee financial experts and Section 16(a) beneficial ownership reporting compliance, is incorporated herein by reference to our definitive Proxy Statement relating to our Annual Meeting of Shareholders to be held on April 17, 2007.

We have adopted a code of conduct that applies to all of our directors, officers (including its chief executive officer, chief financial officer, chief accounting officer and any person performing similar functions) and employees. We previously filed a copy of this Code of Conduct as Exhibit 14 to the Registrant's 2003 Form 10–K Annual Report as filed with the SEC on March 8, 2004. We have also made the Code of Conduct available on our website at http://www.erieinsurance.com.

Jan Van Gorder, Senior Executive Vice President, Secretary and General Counsel, retired effective December 31, 2006. To facilitate a smooth transition, Mr. Van Gorder remains an individual consultant until such time as a successor is selected from a slate of internal and external candidates. Certain information as to our executive officers is as follows:

Name	Age as of 12/31/06	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
President & Chief Executive Officer		
Jeffrey A. Ludrof	47	President and Chief Executive Officer of Erie Indemnity Company, Erie Family Life Insurance Company (EFL), Erie Insurance Company, Flagship City Insurance Company (Flagship), Erie Insurance Company of New York (Erie NY), and Erie Insurance Property and Casualty Company (Erie P&C) since May 8, 2002. Executive Vice President–Insurance Operations of Erie Indemnity Company, Erie Insurance Co., Flagship, Erie P&C, and Erie NY 1999–May 8, 2002.
Executive Vice Presidents		
Philip A. Garcia	50	Executive Vice President and Chief Financial Officer since 1997. Director, the Erie NY, Flagship and Erie P&C.
Michael J. Krahe	53	Executive Vice President–Human Development and Leadership since January 2003; Senior Vice President 1999–December 2002. Director, the Erie NY, Flagship and Erie P&C.
Thomas B. Morgan	43	Executive Vice President–Insurance Operations since January 2003; Senior Vice President October 2000– December 2002; Assistant Vice President and Branch Manager 1997–October 2001; Director, Erie NY, Erie P&C and Flagship.
Senior Vice President		
Douglas F. Ziegler	56	Senior Vice President, Treasurer and Chief Investment Officer since 1993. Director, the Erie NY, Flagship and Erie P&C.

Item 11. Executive Compensation

The information required by this item with respect to executive compensation is incorporated by reference to the "Executive Compensation" section, including the "Compensation Discussion and Analysis" within our definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 17, 2007.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information with respect to security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans, is incorporated by reference to our definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 17, 2007.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Our earnings are largely generated from fees based on the direct written premium of the Exchange in addition to the direct written premium of the other members of the Property and Casualty Group. Also, our property and casualty insurance subsidiaries participate in the underwriting results of the Exchange via the pooling arrangement. As our operations are interrelated with the operations of the Exchange, our results of operations are largely dependent on the success of the Exchange. Reference is made to Note 15 of the "Notes to Consolidated Financial Statements" in the 2006 Annual Report, for a further discussion of the financial results of the Exchange.

Reference is also made to Note 13 of the "Notes to Consolidated Financial Statements" in the 2006 Annual Report, for a complete discussion of related party transactions.

Information with respect to certain relationships with our directors is incorporated by reference to our definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 17, 2007.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to our definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 17, 2007.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial statements, financial statement schedules and exhibits filed:

(1) Consolidated Financial Statements

(2) Financial Statement Schedules

All other schedules have been omitted since they are not required, not applicable or the information is included in the financial statements or notes thereto.

* Refers to the respective page of Erie Indemnity Company's 2006 Annual Report to Shareholders. The "Consolidated Financial Statements" and "Notes to Consolidated Financial Statements and Auditors' Report" thereon on pages 47 to 84 are incorporated by reference. With the exception of the portions of such Annual Report specifically incorporated by reference in this Item and Items 1, 5, 6, 7, 7a, 8 and 13, such Annual Report shall not be deemed filed as part of this Form 10-K Report or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934.

(3) Exhibits: See Exhibit Index on page 24 hereof.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 26, 2007

ERIE INDEMNITY COMPANY
(Registrant)

/s/ Jeffrey A. Ludrof
Jeffrey A. Ludrof, President and CEO (principal executive officer)

/s/ Philip A. Garcia
Philip A. Garcia, Executive Vice President & CFO (principal financial officer)

/s/ Timothy G. NeCastro
Timothy G. NeCastro, Senior Vice President & Controller (principal accounting officer)

Board of Directors

/s/ Kaj Ahlmann
Kaj Ahlmann

/s/ John T. Baily
John T. Baily

/s/ J. Ralph Borneman, Jr.
J. Ralph Borneman, Jr.

/s/ Patricia Garrison-Corbin
Patricia Garrison-Corbin

/s/ John R. Graham
John R. Graham

/s/ Jonathan Hagen
Jonathan Hagen

/s/ Susan Hirt Hagen
Susan Hirt Hagen

/s/ C. Scott Hartz
C. Scott Hartz

/s/ F. William Hirt
F. William Hirt

/s/ Claude C. Lilly, III
Claude C. Lilly, III

/s/ Jeffrey A. Ludrof
Jeffrey A. Ludrof

/s/ Lucian L. Morrison
Lucian L. Morrison

/s/ Thomas W. Palmer
Thomas W. Palmer

/s/ Robert C. Wilburn
Robert C. Wilburn

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SCHEDULE I - SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2006

Type of Investment	Cost or Amortized Cost	Fair Value	Amount at which Shown in the Consolidated Statements of Financial Position
(In Thousands)			
Available-for-sale securities:			
Fixed maturities:			
U.S. treasuries and government agencies	$ 3,765	$ 3,879	$ 3,879
Municipal securities	330,239	331,613	331,613
Foreign government	2,000	2,009	2,009
U.S. corporate debt	357,177	359,735	359,735
Foreign corporate debt	82,929	84,532	84,532
Mortgage-backed securities	14,611	14,721	14,721
Asset-backed securities	18,117	18,090	18,090
Redeemable preferred stock	21,223	22,159	22,159
Equity securities:			
U.S. common stock	71,932	88,303	88,303
Foreign common stock	23,106	28,943	28,943
U.S. nonredeemable preferred stock	123,042	127,855	127,855
Foreign nonredeemable preferred stock	5,130	5,546	5,546
Total fixed maturities and equity securities	$1,053,271	$1,087,385	$ 1,087,385
Real estate mortgage loans	4,726	4,726	4,726
Limited partnerships	200,166	230,946	230,946
Total investments	$1,258,163	$1,323,057	$ 1,323,057

SCHEDULE IV — REINSURANCE

(In Thousands)	Direct	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
December 31, 2006					
Premiums for the year					
Property and Liability Insurance	$661,215	$674,660	$227,110	$213,665	106.3%
December 31, 2005					
Premiums for the year					
Property and Liability Insurance	$704,366	$714,787	$226,245	$215,824	104.8%
December 31, 2004					
Premiums for the year					
Property and Liability Insurance	$699,533	$717,236	$225,905	$208,202	108.5%

SCHEDULE VI — SUPPLEMENTAL INFORMATION CONCERNING PROPERTY/CASUALTY INSURANCE OPERATIONS

(in Thousands)	Deferred Policy Acquisition Costs	Reserve for Unpaid Loss & LAE	Discount, if any deducted from reserves*	Unearned Premiums	Earned Premiums	Net Investment Income
December 31, 2006						
Consolidated P&C Entities	$ 16,197	$1,073,570	$ 4,980	$424,282	$213,665	$ 23,199
Unconsolidated P&C Entities	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0
Total	$ 16,197	$1,073,570	$ 4,980	$424,282	$213,665	$ 23,199
December 31, 2005						
Consolidated P&C Entities	$ 16,436	$1,019,459	$ 4,582	$454,409	$215,824	$ 20,267
Unconsolidated P&C Entities	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0
Total	$ 16,436	$1,019,459	$ 4,582	$454,409	$215,824	$ 20,267
December 31, 2004						
Consolidated P&C Entities	$ 17,112	$ 943,034	$ 4,094	$472,553	$208,202	$ 22,470
Unconsolidated P&C Entities	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0
Total	$ 17,112	$ 943,034	$ 4,094	$472,553	$208,202	$ 22,470

* Workers' compensation case and incurred but not reported (IBNR) loss and loss adjustment reserves were discounted at 2.5% for all years presented.

SCHEDULE VI — SUPPLEMENTAL INFORMATION CONCERNING PROPERTY/CASUALTY INSURANCE OPERATIONS (CONTINUED)

(in Thousands)	Loss and Loss Adjustment Expense Incurred Related To		Amortization of Deferred Policy Acquisition Costs	Net Loss & LAE Paid	Premiums Written
	Current Year	Prior Years			
@ 12/31/06					
Consolidated P&C Entities	$151,979	($12,349)	$ 33,306	$130,556	$209,304
Unconsolidated P&C Entities	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0
Total	$151,979	($12,349)	$ 33,306	$130,556	$209,304
@ 12/31/05					
Consolidated P&C Entities	$146,312	($ 5,926)	$ 34,227	$126,314	$214,149
Unconsolidated P&C Entities	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0
Total	$146,312	($ 5,926)	$ 34,227	$126,314	$214,149
@ 12/31/04					
Consolidated P&C Entities	$153,563	($ 343)	$ 34,341	$133,466	$216,398
Unconsolidated P&C Entities	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0
Total	$153,563	($ 343)	$ 34,341	$133,466	$216,398

EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
3.5@@	Amended and Restated By-laws of Registrant Section 2.07(a) effective September 9, 2003	
3.6@@@	Amended and Restated By-laws of Registrant effective December 18, 2006	
10.67@	Addendum to Aggregate Excess of Loss Reinsurance Contract effective January 1, 2003 between Erie Insurance Exchange, by and through its Attorney-in-Fact, Erie Indemnity Company and Erie Insurance Company and its wholly-owned subsidiary Erie Insurance Company of New York	
10.68*	Addendum to Aggregate Excess of Loss Reinsurance Contract effective January 1, 2004 between Erie Insurance Exchange, by and through its Attorney-in-Fact, Erie Indemnity Company and Erie Insurance Company and its wholly-owned subsidiary Erie Insurance Company of New York	
10.69*	Addendum to Employment Agreement effective December 12, 2003 by and between Erie Indemnity Company and John J. Brinling, Jr.	
10.70*	Addendum to Employment Agreement effective December 12, 2003 by and between Erie Indemnity Company and Thomas B. Morgan	
10.71*	Addendum to Employment Agreement effective December 12, 2003 by and between Erie Indemnity Company and Michael J. Krahe	
10.72*	Addendum to Employment Agreement effective December 12, 2003 by and between Erie Indemnity Company and Jeffrey A. Ludrof	
10.73*	Addendum to Employment Agreement effective December 12, 2003 by and between Erie Indemnity Company and Philip A. Garcia	
10.74*	Addendum to Employment Agreement effective December 12, 2003 by and between Erie Indemnity Company and Jan R. Van Gorder	
10.75*	Addendum to Employment Agreement effective December 12, 2003 by and between Erie Indemnity Company and Douglas F. Ziegler	
10.76*	Insurance bonus agreement effective December 23, 2003 by and between Erie Indemnity Company and Jeffrey A. Ludrof	
10.77*	Insurance bonus agreement effective December 23, 2003 by and between Erie Indemnity Company and Jeffrey A. Ludrof	
10.78*	Insurance bonus agreement effective December 23, 2003 by and between Erie Indemnity Company and John J. Brinling, Jr.	
10.79*	Insurance bonus agreement effective December 23, 2003 by and between Erie Indemnity Company and Jan R. Van Gorder	
10.80*	Insurance bonus agreement effective December 23, 2003 by and between Erie Indemnity Company and Michael J. Krahe	

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
10.81*	Insurance bonus agreement effective December 23, 2003 by and between Erie Indemnity Company and Philip A. Garcia	
10.82*	Insurance bonus agreement effective December 23, 2003 by and between Erie Indemnity Company and Thomas B. Morgan	
10.83**	Annual Incentive Plan effective March 2, 2004	
10.84**	Long-term Incentive Plan effective March 2, 2004	
10.85***	Termination of Aggregate Excess of Loss Reinsurance Contract effective December 31, 2005 between Erie Insurance Exchange, by and through its Attorney-In-Fact, Erie Indemnity Company and Erie Insurance Company and its wholly-owned subsidiary Erie Insurance Company of New York	
10.86	Retirement Plan for Employees of Erie Insurance Group, effective as of December 31, 2005	27
10.87	Employee Savings Plan of Erie Insurance Group, effective as of January 1, 2006	99
10.88	Amended and Restated Quota Share Reinsurance Agreement dated December 29, 2006 between Erie Insurance Exchange and Flagship City Insurance Company	155
10.89	Amended and Restated Quota Share Reinsurance Agreement dated December 29, 2006 between Erie Insurance Exchange and Erie Insurance Property & Casualty Company	159
10.90	Amended and Restated Reinsurance Pooling Agreement between Erie Insurance Exchange, Erie Insurance Company and Erie Insurance Company of New York, effective January 1, 2007	163
13	2006 Annual Report to Shareholders — Reference is made to the Annual Report furnished to the Commission	171
14*	Code of Conduct	
21	Subsidiaries of Registrant	245
23	Consent of Independent Registered Public Accounting Firm	246
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002	247
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002	248
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002	249

@ Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q quarterly report for the quarter ended March 31, 2003 that was filed with the Commission on April 24, 2003.

@@	Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q quarterly report for the quarter ended September 30, 2003 that was filed with the Commission on October 29, 2003.
@@@	Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on December 20, 2006.
*	Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report for the year ended December 31, 2003 that was filed with the Commission on March 8, 2004.
**	Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report for the year ended December 31, 2004 that was filed with the Commission on February 24, 2005.
***	Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report for the year ended December 31, 2005 that was filed with the Commission on February 22, 2006.

Exhibit 10.86

Erie Insurance Group

RETIREMENT PLAN FOR EMPLOYEES

As Amended and Restated Effective December 31, 2005

Erie Insurance Group

RETIREMENT PLAN FOR EMPLOYEES

As Amended and Restated Effective December 31, 2005

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Erie Insurance Group

RETIREMENT PLAN FOR EMPLOYEES

Effective December 31, 1946
As Amended and Restated Effective December 31, 2005

ARTICLE I — INTRODUCTION

The Erie Insurance Group adopted a Retirement Plan, effective December 31, 1946. Such Plan, which has been heretofore amended from time to time by action of the Board of Directors in accordance with the provisions of the Plan, is herein amended and restated.

This amendment and restatement of the Plan shall constitute an amendment, restatement and continuation of the Plan. This amendment and restatement is generally effective December 31, 2005. However, certain provisions of this amendment and restatement are effective as of some other date. The provisions of this amendment and restatement with stated effective dates prior to December 31, 2005 shall be deemed to amend the corresponding provisions, if any, of the Plan as in effect before this amendment and restatement and all amendments thereto as of such dates. Events occurring before the applicable effective date of any provision of this amendment and restatement shall be governed by the applicable provision of the Plan as in effect on the date of the event. The object of the Plan is to provide retirement pensions for eligible employees.

ARTICLE II — DEFINITIONS

For the purposes of this Retirement Plan for Employees, the following words and phrases shall have the following meanings unless a different meaning is clearly required by the context. Any terms herein used in the masculine shall be read and construed in the feminine where they would so apply, and any terms used in the singular shall be read and construed in the plural if again so applicable.

2.1 "Accrued Pension" shall mean a pension amount determined with respect to a Participant in accordance with Section 6.2(a) of the Plan using the date of determination for the date of early retirement.

2.2 "Actuary" shall mean the actuary or firm of actuaries chosen by, but independent of the Company, who is, or in the case of a firm one or more of whose members is, an enrolled actuary under the provisions of Section 3042 of the Employee Retirement Income Security Act of 1974.

2.3 "Administrator" shall mean the Pension Administrator appointed by the Board under the provisions of Article III of the Plan.

2.4 "Affiliate" means any other employer which, together with the Company, is a member of a controlled group of corporations or of a commonly controlled trade or business (as defined in Code Sections 414(b) and (c) and as modified, where appropriate, by Code Section 415(h)) or of an affiliated service group (as defined in Code Section 414(m)) or other organization described in Code Section 414(o). Each such Affiliate shall be treated as an Affiliate only during such period as it is or was an Affiliate as defined above.

2.5 "Anniversary Date" shall mean any December 31 occurring after the Effective Date.

2.6 "Annuity Starting Date" shall mean the first day of the first period for which an amount is received as an annuity (whether by reason of retirement or other termination of employment) or, in the case of a benefit not payable as an annuity, the first day on which all events have occurred which entitle the Participant to such benefit. A Participant whose benefit is suspended under any provision of the Plan shall be deemed to have reached a new Annuity Starting Date until when such benefit again becomes payable. The Annuity Starting Date for a benefit payable under Section 7.10 shall be the applicable date described therein.

2.7 "Beneficiary" shall mean any person who, by reason of a designation made by a Participant, is or will be entitled to receive any amount or benefit hereunder upon the death of such Participant.

2.8 "Board of Directors" or "Board" shall mean the Board of Directors of the Company.

2.9 "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.10 "Company" shall mean Erie Indemnity Company, a corporation organized and existing under the laws of Pennsylvania.

2.11 "Compensation" for any period shall mean the rate of base salary of a Covered Employee from the Employers during the period. For this purpose, "base salary" shall exclude Form W-2 income in the form of overtime compensation, bonuses, commissions, deferred compensation plan payments or severance pay under any severance benefit plan, but shall include Form W-2 income paid as a lump sum in lieu of merit increase and compensation excluded from Form W-2 income because of salary reduction agreements in connection with plans described in Section 125, 132(f)(4) or 401(k) of the Code, or resulting from deferred compensation contracts for the period in question. Effective for each Plan Year beginning on and after December 31, 1989, in no event shall the amount of Compensation taken into account under the Plan exceed the adjusted annual limitation permitted under Section 401(a)(17) of the Code for such Plan Year. Subject to the provisions of Appendix A, such adjusted annual limitation shall be, for each Plan Year beginning on and after December 31, 1989 and prior to December 31, 1994, $200,000 as adjusted for such year in the same manner as under Section 415(d) of the Code and, for each Plan Year beginning on and after December 31, 1994, $150,000 as adjusted for such year as provided under Section 401(a)(17)(B) of the Code. However, with respect to the determination of a retirement pension or Accrued Pension for the 1993 Plan Year, the adjusted annual limitation for the 1993 Plan Year will be assumed to apply to all prior years.

2.12 "Covered Employee" shall mean any Employee of an Employer, excluding:

(a) any such Employee whose employment is governed by the terms of a collective bargaining agreement under which retirement benefits were the subject of good faith bargaining,

(b) any such Employee who has voluntarily waived participation in the Plan, and

(c) any such Employee who is compensated on an hourly basis.

Notwithstanding any provision of the Plan to the contrary, an individual who an Employer determines to be a contract employee, independent contractor, leased employee (including a Leased Employee as defined hereunder), leased owner, leased manager, shared employee or person working under a similar classification shall not become a Covered Employee hereunder, regardless of whether any such individual is ultimately determined to be a common law employee, unless and until the Employer shall otherwise determine.

2.13 "Credited Service" shall mean a Participant's service determined in accordance with Article IV hereof for the purpose of calculating the amount of benefit earned under the Plan.

2.14 "Date of Hire" shall mean the date on which an Employee first commences employment or reemployment and works at least one Hour of Service for an Employer or an Affiliate.

2.15 "Date of Severance" shall mean the earliest to occur of the following dates:

(a) date of retirement,

(b) date of voluntary employment termination,

(c) date of discharge by an Employer unless he is subsequently reemployed and given pay back to the date of discharge,

(d) date of death,

(e) the first anniversary of a date of absence from active employment for any other reason; provided, however, that a later Date of Severance shall apply with respect to a leave of absence which, under Employer policy, provides for a later Date of Severance and, provided further, that the second anniversary of a date of absence from active employment shall be used for an Employee who is absent by reason of a Maternity or Paternity Absence which commenced on or after December 31, 1985, or who is absent by reason of Total and Permanent Disability.

An Employee shall not incur a Date of Severance while he is in the active service of the United States Armed Forces if his reemployment rights are protected by law.

2.16 "Earliest Retirement Age" shall mean the earliest date on which, under the Plan, the Participant could elect to receive retirement benefits in accordance with Section 5.1 or 5.2 hereof.

2.17 "Effective Date" shall mean December 31, 1946.

2.18 "Employee" shall mean any common-law employee of an Employer or an Affiliate; provided, however, that for purposes of Section 2.22; "Employee" shall include any self-employed individual performing services for an Employer or Affiliate who is treated as an employee under Section 401(c)(1) of the Code.

2.19 "Employer(s)" shall mean the Company, Erie Family Life Insurance Company, Erie Insurance Exchange, Erie Insurance Company, EI Holding Corp., EI Service Corp., Erie Insurance Company of New York, Erie Insurance Property & Casualty Company, Flagship City Insurance Company and any other Affiliate which may adopt this Plan.

2.20 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

2.21 "Final Average Earnings" shall mean 1/36th of the Participant's aggregate Compensation during the thirty-six consecutive calendar months as a Covered Employee which produces the greatest aggregate Compensation out of the one hundred twenty calendar month period as a Covered Employee ending on the earlier of the date on which the Participant retires or terminates employment with the Employers or the date on which the Participant is no longer considered a Covered Employee. In the event a Participant does not have thirty-six consecutive calendar months of Compensation as a Covered Employee (i) months in which the Participant is not a Covered Employee and months in which the Participant has no Compensation will be excluded for purposes of determining consecutive months for the thirty-six and one hundred twenty month periods and (ii) with respect to a Participant with fewer than thirty-six total calendar months of Compensation as a Covered Employee, Final Average Earnings will be determined as the average monthly Compensation over the Participant's entire period of employment as a Covered Employee.

2.22 “Highly Compensated” shall mean any Employee who is a more than five percent (5%) owner of an Employer or both earned $80,000 or more in Test Compensation from the Employer in the prior Plan Year (the “lookback year”) and was member of the Top Paid Group for such year; provided, however, that such $80,000 figure shall be adjusted for cost of living at the same time and in the same manner as determined under Code Section 415(d).

2.23 “Hour of Service” shall include the following:

(a) each hour for which an Employee is directly or indirectly paid or entitled to payment from an Employer or an Affiliate as an Employee for the performance of duties during an applicable computation period (these hours must be credited to the Employee in the computation period during which the duties were performed and not when paid, if different); and

(b) each hour for which back pay, irrespective of mitigation of damages, has been awarded or agreed to by an Employer or an Affiliate (these hours must be credited in the computation period or periods to which the award or agreement pertains rather than that in which the payment, award or agreement was made); and

(c) each hour for which an Employee is directly or indirectly paid or entitled to payment from an Employer or an Affiliate for reasons, such as vacation, sickness or disability, other than for the performance of duties (these hours shall be calculated and credited pursuant to Section 2530.200b-2 of the Department of Labor regulations which are incorporated herein by reference).

2.24 “Leased Employee” shall mean any person (other than an Employee of an Employer) who pursuant to an agreement between the Employer and any other person (“leasing organization”) has performed services for the Employer (or for the Employer and related persons determined in accordance with Section 414(n)(6) of the Code) on a substantially full-time basis for a period of at least one year and such services are performed under primary direction or control by the recipient. Except as provided below, any person satisfying the foregoing criteria shall be treated as an Employee. Contributions or benefits provided a Leased Employee by the leasing organization which are attributable to services performed for the Employer shall be treated as provided by the Employer.

Notwithstanding the foregoing, a Leased Employee shall not be considered an Employee of an Employer if: (i) such Leased Employee is covered by a money purchase pension plan providing: (1) a nonintegrated employer contribution rate of at least 10 percent of compensation, (2) immediate participation, and (3) full and immediate vesting; and (ii) Leased Employees do not constitute more than 20 percent of the Employer's non-Highly Compensated workforce.

2.25 "Maternity or Paternity Absence" shall mean an absence from work by an Employee for any period:

(a) by reason of pregnancy of the Employee,

(b) by reason of the birth of a child of the Employee,

(c) by reason of the placement of a child with the Employee in connection with the adoption of such child by such Employee, or

(d) for purposes of caring for such child for a period immediately following such birth or placement.

An absence will not be considered a "Maternity or Paternity Absence" unless the Employee provides the Administrator with such timely information as the Administrator may reasonably require to establish that the absence from work is for one of the four permitted reasons outlined above. Nothing in this Plan shall require an Employer to grant a paid leave of absence to any Employee.

2.26 "Normal Retirement Age" of a Participant shall be age 65.

2.27 "Normal Retirement Date" of a Participant shall be the first day of the month next following the month in which his sixty-fifth birthday occurs.

2.28 "Participant" shall mean any Covered Employee and any former Covered Employee who is entitled to, or who is receiving, a retirement benefit or deferred vested pension under the Plan.

2.29 "Period of Severance" shall mean the period of time between an Employee's Date of Severance and the date as of which he performs his first Hour of Service following reemployment.

2.30 “Plan” or “Pension Plan” shall mean this “Erie Insurance Group Retirement Plan for Employees” as herein set forth with all amendments, modifications, appendices, and supplements hereafter made.

2.31 “Plan Year” shall mean any period of 12 consecutive calendar months next preceding an Anniversary Date of the Plan.

2.32 “Service” shall mean an Employee’s service determined in accordance with Article IV hereof for the purposes of meeting the eligibility requirements for a benefit under the Plan.

2.33 “Social Security Covered Compensation” shall mean, for any Plan Year, the average (without indexing) of the Social Security taxable wage bases in effect for each calendar year during the 35-year period ending with the last day of the calendar year in which the Participant attains (or will attain) Social Security Retirement Age (as such term is defined in Section 10.1(a)(iv) hereof). In determining a Participant’s Social Security Covered Compensation for a Plan Year, the Social Security taxable wage base for the current Plan Year and any subsequent Plan Year shall be assumed to be the same as in effect for the Plan Year for which the determination is being made. A Participant’s Social Security Covered Compensation shall be automatically adjusted for each Plan Year in accordance with these provisions, up to and including the Plan Year in which the Participant attains Social Security Retirement Age.

2.34 “Test Compensation” shall mean, for any Plan Year, an Employee’s compensation, reported under Sections 6041 and 6051 of the Code on Form W-2, as paid by the Company or other Employer for the calendar year ending with or within such Plan Year, including any amounts contributed pursuant to a salary reduction election on behalf of a Covered Employee to a plan described in Sections 125, 132(f), 402(e)(3), 402(h)(1)(B), 403(b), or 457(b) of the Code for the period in question. Test Compensation in any given year shall not exceed the adjusted annual limitation in effect for such year (as set forth in Section 2.11), provided that such limitation shall not be applied in determining the status of an Employee as a Highly Compensated Employee or Key Employee. To the extent permitted under regulations and other guidance promulgated by the Internal Revenue Service, the Company may elect to determine Test Compensation on a basis other than that provided above.

2.35 “Top Paid Group” means all active Employees who, as of a given year, are in the top twenty percent (20%) of the Company’s work force on the basis of Test Compensation for such year, excluding the following:

(a) employees who have not completed six (6) months of Service by the end of such year;

(b) employees who work less than seventeen and one-half (17-1/2) hours per week for such year;

(c) employees who normally do not work more than six (6) months in a year;

(d) employees under age twenty-one (21) at the end of such year; and

(e) non-resident aliens who received no U.S. – source income for such year.

For purposes of this Section, the Company’s work force shall include individuals employed by an Affiliate.

2.36 “Total and Permanent Disability” shall mean permanent incapacity resulting in the Participant being unable to engage in any gainful employment or occupation by reason of any medically demonstrable physical or mental condition, excluding, however, (a) incapacity contracted, suffered or incurred while the Participant was engaged in or which resulted from having engaged in a felonious enterprise; and (b) incapacity contracted, suffered or incurred in the employment of other than an Employer, including self-employment.

2.37 “Trust Agreement” shall mean the trust agreement between the Company and a Trustee as provided in Section 9.1, together with all amendments, modifications and supplements, thereto.

2.38 “Trustee” shall mean the Trustee or Trustees designated under a Trust Agreement including any successor or successors.

2.39 “Trust Fund” or “Fund” shall mean the retirement plan trust fund established by the Company in accordance with Article IX.

ARTICLE III — ADMINISTRATION OF THE PLAN

3.1 Pension Administrator

The Plan shall be administered by a Pension Administrator (the "Administrator") who shall serve at the pleasure of the Board of Directors. Any individual serving as the Administrator may resign by delivering his written resignation to the Board. In the event of the death, resignation or removal of the Administrator, the Board shall fill the vacancy. In making the appointment, the Board shall not be limited to any particular group, and nothing herein contained shall be construed to prevent any Participant, director, officer, employee or shareholder of the Employers from serving as the Administrator. The Administrator will not be compensated from the Trust Fund for services performed in such capacity, but the Company or Fund will reimburse such individual for expenses reasonably incurred by him in such capacity. If the Board does not appoint any individuals to the Administrator, then the Company shall act as the Administrator.

Appointment by the Board shall be evidenced by a certified copy of the resolution of the Board making such appointment, and copies of such certified resolution shall be delivered to the Trustee and to such other persons as may require such notice.

3.2 Powers

The Administrator will have full power to administer the Plan in all of its details, subject, however, to the requirements of ERISA. This power shall include having the sole and absolute discretion to interpret and apply the provisions of the Plan to determine the rights and status hereunder of any individual, to decide disputes arising under the Plan, and to make any determinations and findings of fact with respect to benefits payable hereunder and the persons entitled thereto as may be required for any purpose under the Plan. Without limiting the generality of the above, the Administrator is granted the following authority which it shall discharge in its sole and absolute discretion in accordance with Plan provisions as interpreted by the Administrator:

(a) To make and enforce such rules and regulations as it deems necessary or proper for the efficient administration of the Plan, including the modification of the claims procedure under Section 3.8 in accordance with any regulations issued under Section 503 of ERISA.

(b) To interpret the Plan.

(c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan, his period of participation and/or service under the Plan, his date of birth, his eligibility to accrue a benefit under the Plan and to receive a distribution from the Plan.

(d) To compute the amount of benefits which will be payable to any Participant or other person in accordance with the provisions of the Plan, and to determine the identity of the person or persons to whom such benefits will be paid.

(e) To authorize the payment of Plan benefits and to direct cessation of benefit payments.

(f) To appoint one or more investment managers to manage the investment and reinvestment of the Fund and to enter into management contracts on behalf of the Company with respect to such appointments. Unless and until the Administrator appoints an investment manager with respect to all or a specific portion of the Fund, the Trustee shall have exclusive authority to manage and control all or such portion of the Fund.

(g) To appoint, employ or engage such other agents, counsel accountants, consultants and actuaries as may be required to assist in administering the Plan.

(h) To establish procedures to determine whether a domestic relations order is a qualified domestic relations order within the meaning of Section 414(p) of the Code, to determine under such procedures whether a domestic relations order is a qualified domestic relations order and whether a putative alternate payee otherwise qualifies for benefits hereunder, to inform the parties to the order as to the effect of the order, and to direct the Trustee to hold in escrow or pay any amounts so directed to be held or paid by the order.

(i) To determine whether the Plan has incurred a partial termination.

(j) To obtain from the Employers, Employees, Participants, spouses and Beneficiaries such information as shall be necessary for the proper administration of the Plan.

(k) To perform all reporting and disclosure requirements imposed upon the Plan by ERISA, the Code or any other lawful authority.

(l) To take such steps as it, in its discretion, considers necessary and/or appropriate to remedy any inequity under the Plan that results from incorrect information received or communicated or as the consequence of administrative error.

(m) To correct any defect, reconcile any inconsistency or supply any omission under the Plan.

(n) To delegate its powers and duties to others in accordance with Section 3.3.

(o) To exercise such other authority and responsibility as is specifically assigned to it under the terms of the Plan and to perform any other acts necessary to the performance of its powers and duties.

The Administrator at its discretion may either request the Company or direct the Fund to pay for any or all services rendered by the Trustee and by persons appointed, employed or engaged under Section 3.2(f) or (g) or under the terms of the Trust Agreement.

The Administrator's interpretations, decisions, computations and determinations under this Section 3.2 which are made in good faith will be final and conclusive upon the Employers, all Participants and all other persons concerned. Any action taken by the Administrator with respect to the rights or benefits of any person under the Plan shall be revocable by the Administrator as to payments or distributions not theretofore made, pursuant to such action, from the Trust Fund; and appropriate adjustments may be made in future payments or distributions to a Participant or Beneficiary to offset any excess payment or underpayment previously made to such Participant or Beneficiary from the Trust Fund. No ruling or decision of the Administrator in any one case shall create a basis for a retroactive adjustment in any other case prior to the date of written filing of each specific claim.

3.3 Delegation of Duties

The Administrator may, from time to time, designate any individual to carry out any of the responsibilities of the Administrator other than the appointment of an investment manager(s). The individual so designated will have full authority or such limited authority as the Administrator may specify, to take such actions as are necessary or appropriate to carry out the responsibilities assigned by the Administrator.

3.4 Administrator as Named Fiduciary

The Administrator will be a "named fiduciary" for purposes of section 402(a)(1) of ERISA with authority to control and manage the operation and administration of the Plan.

3.5 Conclusiveness of Various Documents

The Administrator and the Company and its directors and officers will be entitled to rely upon all tables, valuations, certificates and reports furnished by any actuary, accountant, counsel or other expert appointed, employed or engaged by the Administrator or the Company.

3.6 Actions to be Uniform

Any discretionary actions to be taken under the Plan by the Administrator will be nondiscriminatory and uniform with respect to all persons similarly situated.

3.7 Liability and Indemnification

To the full extent allowed by law, the Administrator shall not incur any liability to any Participant or Beneficiary, or to any other person, by reason of any act or failure to act on the part of the Administrator if such act or omission is not the result of the Administrator's gross negligence, willful misconduct or exercise of bad faith. To the full extent allowed by law, the Company agrees to indemnify the Administrator against all liability and expenses (including reasonable attorney's fees and other reasonable expenses) occasioned by any act or omission to act if such act or omission is not the result of the Administrator's gross negligence, willful misconduct or exercise of bad faith. Neither this Section 3.7 nor any other provision of this Plan shall be applied to invalidate, modify, or limit in any respect any contract, agreement, or arrangement for indemnifying or insuring the Administrator against, or otherwise limiting, such liability or expense, or for settlement of such liability, to the extent such contract, agreement, or arrangement is not precluded by the terms of Section 410 of ERISA.

3.8 Claims Review Procedure

The Administrator shall be responsible for the claims procedure under the Plan. An application for a retirement benefit or other benefit under the Plan shall be considered a claim for purposes of this Section 3.8.

(a) <u>Original Claim</u>. In the event a claim of any Participant, Beneficiary, alternate payee, or other person (hereinafter referred to in this Section as the "Claimant") for a benefit is partially or completely denied, the Administrator shall give, within ninety (90) days after receipt of the claim (or if special circumstances, made known to the Claimant, require an extension of time for processing the claim, within one hundred eighty (180) days after receipt of the claim), written notice of such denial to the Claimant. Such notice shall set forth, in a manner calculated to be understood by the Claimant, the specific reason or reasons for the denial (with reference to pertinent Plan provisions upon which the denial is based); an explanation of additional material or information, if any, necessary for the

Claimant to perfect the claim; a statement of why the material or information is necessary; on and after January 1, 2002, a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA; and an explanation of the Plan's claims review procedure, including the time limits applicable to such procedure.

(b) Review of Denied Claim.

(i) A Claimant whose claim is partially or completely denied shall have the right to request a full and fair review of the denial by a written request delivered to the Administrator within sixty (60) days of receipt of the written notice of claim denial, or within such longer time as the Administrator, under uniform rules, determines. In such review, the Claimant or his duly authorized representative shall have the right to review, upon request and free of charge, all documents, records or other information relevant to the claim and to submit any written comments, documents, or records relating to the claim to the Administrator.

(ii) The Administrator, within sixty (60) days after the request for review, or in special circumstances, such as where the Administrator in its sole discretion holds a hearing, within one hundred twenty (120) days of the request for review, will submit its decision in writing. Such decision shall take into account all comments, documents, records and other information properly submitted by the Claimant, whether or not such information was considered in the original claim determination. The decision on review will be binding on all parties, will be written in a manner calculated to be understood by the Claimant, will contain specific reasons for the decision and specific references to the pertinent Plan provisions upon which the decision is based, will indicate that the Claimant may review, upon request and free of charge, all documents, records or other information relevant to the claim and on and after January 1, 2002, will contain a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA.

(iii) If a Claimant fails to file a claim or request for review in the manner and in accordance with the time limitations specified herein, such claim or request for review shall be waived, and the Claimant shall thereafter be barred from again asserting such claim.

(c) Determination by the Administrator Conclusive. The Administrator's determination of factual matter relating to Participants, Beneficiaries and alternate payees including, without limitation, a Participant's Credited Service, Service and any other factual matters, shall be conclusive. The Administrator and the Company and its respective officers and directors shall be entitled to rely upon all tables, valuations, certificates and reports furnished by an actuary, any accountant for the Plan, the Trustee or any investment managers and upon opinions given by any legal counsel for the Plan insofar as such reliance is consistent with ERISA. The actuary, the Trustee and other service providers may act and rely upon all information reported to them by the Administrator and/or the Company and need not inquire into the accuracy thereof nor shall be charged with any notice to the contrary.

3.9 Waiver of Participation

It is the purpose of this Plan to provide for the accrual of retirement benefits for all Covered Employees. Notwithstanding the foregoing, any Covered Employee may waive participation in this Plan by executing a Waiver of Participation on a form provided by the Administrator for such purpose. Any Waiver of Participation shall be effective for the Plan Year in which it is executed and shall be irrevocable. During any Plan Year for which a Waiver of Participation is in effect, no Service, Credited Service or Compensation shall be recognized under the Plan for the Covered Employee.

ARTICLE IV — SERVICE PROVISIONS

4.1 Service

Service shall be used to determine a Participant's vested rights under the Plan. An Employee shall receive Service for the period of time between his Date of Hire and his Date of Severance, provided that no Service shall be received for the period of continued absence between the first and second anniversary of the date of first absence from work by reason of a Maternity or Paternity Absence. Service shall be counted for full years only. Service shall include any prior periods of Service that are reinstated in accordance with Section 4.3 below. Service shall include any Period of Severance which has continued for less than one year.

Notwithstanding the foregoing, Service (but not Credited Service) shall include periods of absence granted under The Family and Medical Leave Act of 1993, to the extent of the minimum service credit required by said Act.

4.2 Credited Service

Credited Service shall be used to compute the amount of a Participant's benefit and to determine a Participant's eligibility for an early retirement and a disability retirement under the Plan. Credited Service shall be based on Service but shall not include (i) any period of Service in which a Participant is not a Covered Employee, and (ii) any Period of Severance; provided, however, that a Participant's Credited Service shall include that Credited Service accumulated during the period in which the Participant is eligible for a disability retirement pension (as determined under Sections 5.3, 6.3 and 7.2 hereof). Solely for purposes of computing the amount of a Participant's benefit under Section 6.1 and subject to the foregoing provisions of this Section, Credited Service shall include a year of credit for any fraction of a year of Service.

4.3 Loss and Reinstatement of Service

In the event a Participant incurs a Date of Severance prior to his becoming eligible for a retirement benefit or deferred vested pension under the Plan, he shall be deemed to receive a distribution equal to the actuarial equivalent value of the entire vested pension earned through his Date of Severance. In such a case, the Participant shall lose his Service and Credited Service and his Accrued Pension shall be forfeited as of such date of deemed distribution. If such individual is subsequently reemployed as a Covered Employee, the individual, after again completing one year of Service, shall be considered a Plan Participant retroactively as of such date of reemployment and have his forfeited Service, Credited Service and Accrued Pension reinstated if his last Period of Severance is less than the greater of:

(a) five years, or

(b) the Participant's forfeited Service (including any periods of Service previously reinstated under the provisions of this Section 4.3 or its predecessor).

4.4 Transfer To Other Employment

Upon the transfer of a Participant covered by the Plan to other employment with an Employer or Affiliate whereby he ceases to be a Covered Employee hereunder, his Accrued Pension based on his Credited Service and Final Average Earnings as of the transfer date shall be frozen and Credited Service shall cease to accrue for purposes of the Plan. In the event such Participant remains in the employment of an Employer until such time as, except for such transfer, he would have met the age, service and/or other eligibility requirements for any pension under the Plan, such frozen Accrued Pension shall become payable in accordance with the appropriate provisions of the Plan as in effect on the date of transfer.

4.5 Transfer From Other Employment

Upon transfer or retransfer of an individual from other employment with an Employer or Affiliate such that the individual becomes a Covered Employee hereunder, his years of Service as otherwise computed under this Article IV will include the period of his employment with an Employer or Affiliate prior to such transfer or retransfer for the purpose of meeting the vesting requirements under this Plan; provided, however, that only years of Credited Service acquired while employed as a Covered Employee covered under this Plan shall be used to compute the amount of any pension under this Plan.

ARTICLE V — ELIGIBILITY FOR PENSIONS

5.1 Normal Retirement

A Participant whose employment with an Employer and all Affiliates is terminated when or after he attains Normal Retirement Age shall be eligible for a normal retirement pension in the amount as provided in Section 6.1 hereof. A Participant's right to his normal retirement pension shall be nonforfeitable upon the attainment of his Normal Retirement Age provided he is an Employee on such date. A Participant continuing in employment with an Employer after his Normal Retirement Date in a capacity such that he completes 40 or more Hours of Service per month will be provided with a notice incorporating the substance of the notification described in Section 2530.203-3(b)(4) of the Code of Federal Regulations. Such notice shall include a statement that the Participant's pension will be suspended and permanently withheld for months in which he completes 40 or more Hours of Service. Any benefit accrual earned by a Participant for any given Plan Year ending on or after the date on which the Participant attains Normal Retirement Age shall be reduced (but not below zero) by the amount of any actuarial adjustment which may be required in connection with a delay in payment of a Participant's normal retirement benefit or the suspension of benefits otherwise payable after the Participant attains Normal Retirement Age.

5.2 Early Retirement

A Participant with 15 or more years of Credited Service whose employment with an Employer and all Affiliates is terminated when or after he reaches the age of 55 but prior to the attainment of his Normal Retirement Age, shall be eligible for an early retirement pension in the amount as provided in Section 6.2 hereof.

5.3 Disability Retirement

A Participant whose status as a Covered Employee is terminated due to his Total and Permanent Disability after 15 or more years of Credited Service and who is eligible for and receiving disability benefits under the Erie Insurance Group Long Term Disability Plan shall be eligible for a disability retirement pension in an amount as provided in Section 6.3 hereof beginning at his Normal Retirement Date or later disability retirement date providing he remains subject to a Total and Permanent Disability continuously through his Normal Retirement Age or later disability retirement date.

5.4 Vesting

A Participant with 5 years or more of Service and whose employment with an Employer and all Affiliates is terminated at a time when he is ineligible for any retirement pension under the Plan shall be eligible for a deferred vested pension as computed under Section 6.4.

If a Participant is reemployed as a Covered Employee by an Employer after having qualified for a deferred vested pension in accordance with this Section 5.4, such Participant shall retain his right to receive such deferred vested pension and he shall be reinstated with the Service and Credited Service to which he was entitled at the time of his prior termination of employment. Any benefits to which the Participant may be entitled upon his subsequent retirement or termination of employment shall be reduced actuarially, as provided in Section 7.4, to reflect any deferred vested pension benefits paid prior to reemployment.

ARTICLE VI — AMOUNT OF PENSIONS

6.1 Normal Retirement Pension

Subject to the provisions of Articles VII and X, the monthly pension of a Participant who is eligible for a normal retirement pension under the provisions of Section 5.1 (as stated in the form of a life annuity) shall be one-twelfth (1/12) of the result obtained by multiplying the sum of (a) and (b) by (c), where:

(a) equals 1.0% of the Participant's Final Average Earnings not in excess of Social Security Covered Compensation;

(b) equals 1.5% of the Participant's Final Average Earnings in excess of Social Security Covered Compensation; and

(c) equals the Participant's Credited Service not in excess of 30 years.

In no event shall the overall permitted disparity limits of Section 1.401(l)-5 of the Income Tax Regulations be exceeded.

6.2 Early Retirement Pension

Subject to the provisions of Articles VII and X, the monthly early retirement pension of a Participant eligible for an early retirement pension under the provisions of Section 5.2 shall be, at the option of the Participant, either (a) or (b) as set forth below:

(a) A deferred pension, commencing as of the Participant's Normal Retirement Date, equal to the amount of pension, determined under Section 6.1, to which he is entitled based upon his Credited Service and Final Average Earnings as of his date of early retirement and the level of Social Security Covered Compensation in effect on such date.

(b) An immediate pension, commencing as of any month following the month in which such Participant retires early, determined as provided in (a) above, but reduced by 1/4 of 1 percent for each complete calendar month up to 60 such months and by 3/8ths of 1 percent for each complete calendar month in excess of 60 months, by which his early retirement pension commencement date precedes his Normal Retirement Date.

6.3 Disability Retirement Pension

Subject to the provisions of Articles VII and X, a Participant eligible for disability benefits under the provisions of Section 5.3 and under Title II of the Social Security Act shall receive a disability retirement pension beginning as of his Normal Retirement

Date. Such disability retirement pension shall be in an amount determined in accordance with Section 6.1 assuming that:

(a) Service and Credited Service are granted for each calendar year (and part thereof) during which he continues to be subject to a Total and Permanent Disability and to qualify for Social Security disability benefits, and

(b) his Compensation during his last full calendar year before his termination due to disability continues unchanged from the calendar year including his date of disability to the calendar year including his Normal Retirement Age, and

(c) his Social Security Covered Compensation is based on the level in effect at the time he becomes disabled.

6.4 Deferred Pension Upon Termination of Service

Subject to the provisions of Articles VII and X, the monthly pension, commencing as of Normal Retirement Date, of a former Covered Employee whose employment with an Employer and Affiliates has terminated after he has become eligible for a deferred vested pension in accordance with Section 5.4, shall be equal to the pension such Participant would have been entitled to under Section 6.2(a) as of his termination of employment, multiplied by a vesting percentage determined in accordance with the table immediately below:

Years of Service	Vesting Percentage
Less than 5	0%
5 or more	100%

Except as otherwise provided under Section 8.1, any Participant having less than five years of Service at the time of his death or other termination of employment with the Employers or an Affiliate shall have no vested rights under this Plan and neither he nor his spouse or Beneficiary shall be entitled to any benefits under this Plan.

A former Covered Employee who is eligible for a deferred vested pension and who is credited with 15 or more years of Credited Service may elect (by written application) to commence his deferred vested pension in a reduced amount at any time between the ages of 55 and 65, in which case the monthly pension amount as determined above shall be reduced in accordance with the provisions of subsection (b) of Section 6.2 based on the number of months that his Annuity Starting Date precedes his Normal Retirement Date.

6.5 Increase in Pension for Certain Retired Participants

(a) Notwithstanding the foregoing provisions of this Article VI and effective for Plan payments made on or after January 1, 1996, the monthly pension payable to a Qualified Pensioner (or to the Beneficiary of a Qualified Pensioner) shall be increased by the greater of five percent (5%) or twenty dollars ($20.00). For purposes of this subsection (a), a "Qualified Pensioner" means a Participant who retired under the normal retirement, early retirement, or disability retirement provisions of the Plan prior to January 1, 1994.

(b) Notwithstanding the foregoing provisions of this Article VI and effective for Plan payments made on or after January 1, 1999, the monthly pension payable to a Qualified Pensioner (or to the Beneficiary of a Qualified Pensioner) shall be increased by the greater of four percent (4%) or fifteen dollars ($15.00). For purposes of this subsection (b), a "Qualified Pensioner" means a Participant who retired under the normal retirement, early retirement, or disability retirement provisions of the Plan and commenced Plan payment prior to January 1, 1997.

6.6 Offset of Accruals by Plan Distributions

In the event distribution of benefits commence to an employed Participant pursuant to Section 7.10 or for any other reason after the employed Participant has attained his Normal Retirement Age, any increase in the Participant's monthly benefit which accrues in any Plan Year in which such distribution is made shall be reduced (but not below zero) by the Actuarial Equivalent of total Plan benefit distributions made to such Participant by the close of such Plan Year.

6.7 Non-Duplication of Benefits

(a) There shall be no duplication of any retirement benefit or deferred vested pension benefit payable under this Plan, and any pension or retirement benefit payable under any other qualified defined benefit pension, retirement, or similar plan to which an Employer or predecessor Employer of the particular Participant has contributed, based upon the same period of service. Unless such other benefits are clearly intended to be in addition to benefits under this Plan, the Administrator shall make or cause to be made appropriate adjustments in the retirement benefit or deferred vested pension benefit payable under this Plan in respect to any Participant to carry out the provisions of this paragraph.

(b) No benefit shall be payable to any Participant under more than one Section of the Plan for the same period of time. No retirement benefit or deferred vested pension benefit shall be paid to any Participant while he is receiving benefits under a long-term disability benefit contract or plan to which an Employer or Affiliate has contributed.

6.8 Special Provisions Pertaining to Section 401(a)(17) Employees

Unless otherwise provided under the Plan, the Accrued Pension of each Section 401(a)(17) Employee (as hereinafter defined) will be the greater of the Accrued Pension determined for such Employee under (a) or (b) below:

(a) The Employee's Accrued Pension determined with respect to the benefit formula applicable for the Plan Year beginning on or after December 31, 1994, as applied to the Employee's total years of service taken into account under the Plan for the purpose of benefit accruals; or

(b) The sum of: (i) the Employee's Accrued Pension as of the last day of the last Plan Year beginning before December 31, 1994, frozen in accordance with Section 1.401(a)(4)-13 of the Income Tax Regulations, and (ii) the Employee's Accrued Pension determined under the benefit formula applicable for the Plan Years beginning on and after December 31, 1994, as applied to the Employee's years of service credited for Plan Years beginning on and after December 31, 1994, for purposes of benefit accruals.

A "Section 401(a)(17) Employee" means a Covered Employee whose current Accrued Pension as of a date on or after the first day of the first Plan Year beginning on or after December 31, 1994, is based on Compensation for a year beginning on or after December 31, 1994, that exceeded $150,000.

ARTICLE VII — COMMENCEMENT AND DURATION OF PENSIONS

7.1 Normal and Early Retirement Pensions

(a) Any normal or early retirement pension shall be payable to a retired Participant who has applied therefor in accordance with the rules established by the Administrator, commencing as of the later of the Participant's Normal Retirement Date or the first day of the month next following the date as of which the Participant retires. A Participant who is eligible for an early retirement pension may elect payment prior to Normal Retirement Date and receive a reduced pension under the provisions of Section 6.2. A Participant who fails to elect such an early payment will be deemed to have made an election to defer distribution.

(b) Subject to Sections 7.8 and 7.10, a normal or early retirement pension shall be payable monthly for the remaining life of such retired Participant. The last payment to the retired Participant under this form shall be for the month in which the death of such retired Participant occurs. However, if the retired Participant duly accepted the Automatic Surviving Spouse's Pension as set forth in Section 7.5 or elected an optional form of pension in Section 7.7 and is receiving his retirement pension pursuant to such election, then any pension payments to him and his surviving spouse or Beneficiary shall be as set forth in Section 7.5 or 7.7, whichever applicable.

7.2 Disability Retirement Pension

A disability retirement pension shall be payable to a disabled Participant who has applied therefor in accordance with the rules established by the Administrator, commencing as of the Participant's Normal Retirement Date or later disability retirement date (or, if later, commencing as of the first day of the month next following the date as of which application for the disability retirement pension was made), provided the Participant has remained continuously disabled (within the meaning of Section 5.3) up to his Normal Retirement Date or later disability retirement date.

To ascertain whether a Participant retains his eligibility for a disability retirement pension, the Participant may be required by the Administrator to submit to a medical examination at any time prior to his Normal Retirement Age, but not more often than semi-annually. If it is determined by the Administrator that the Participant is no longer disabled (within the meaning of Section 5.3) on the basis of such an examination, or that he has engaged or is engaging in gainful employment (except for purposes of rehabilitation approved by the Administrator), or that prior to his Normal Retirement Age he ceases to be eligible for disability benefits under the Social Security Act, then his eligibility for a disability retirement pension will end and, his Credited Service accumulated to that time shall be reinstated, whether or not the Participant returns to employment as a Covered Employee. Such Participant shall be eligible for a retirement or deferred vested pension, based on such Credited Service, under the provisions of Section 5.1, 5.2, or 5.4.

If a participant who is disabled (within the meaning of Section 5.3) chooses to begin a retirement or deferred vested pension prior to his Normal Retirement Date and prior to a determination by the Administration that he is no longer disabled, the retirement or deferred vested pension shall be based on the Participant's Credited Service as of his termination of employment due to disability.

In the event a Participant who is otherwise eligible for a disability retirement pension refuses to submit to a medical examination as required by the Administrator, all his rights to a disability retirement pension hereunder shall cease until he submits to such examination.

Subject to Section 7.8, a disability pension shall be payable monthly for the remaining life of such retired Participant. The last payment to the retired Participant under this form shall be for the month in which the death of such retired Participant occurs. However, if the Participant duly accepted the Automatic Surviving Spouse's Pension as set forth in Section 7.5 or elected an optional form of pension in Section 7.7 and is receiving his retirement pension pursuant to such election, then any pension payments to him and his surviving spouse or Beneficiary shall be as set forth in Section 7.5 or 7.7, whichever applicable.

7.3 Deferred Vested Pension

A deferred vested pension shall be payable to a Participant who has met the criteria provided in Section 5.4 and who has applied therefore in accordance with rules established by the Administrator, commencing as of the Participant's Normal Retirement Date, or, if the Participant has at least 15 years of Credited Service as of his termination of employment, commencing as of the first day of any month between the age of 55 and his Normal Retirement Date in accordance with an eligible Participant's election to receive a reduced amount under the provisions of Section 6.4. A Participant who fails to elect such an early commencement of benefits will be deemed to have made an election to defer distribution. Subject to Section 7.8, a deferred vested pension shall be payable monthly for the remaining life of the Participant. The last payment to the Participant under this form shall be for the month in which the death of such Participant occurs. However, if the Participant duly elected the Automatic Surviving Spouse's Pension as set forth in Section 7.5 or elected an optional form of pension in Section 7.7 and is receiving his deferred vested pension pursuant to such election, then any pension payments to him and his surviving spouse or Beneficiary shall be as set forth in Section 7.5 or 7.7, whichever applicable.

7.4 Reemployment of a Retired Participant

The pension payable to any Participant receiving retirement benefits or deferred vested pension benefits shall cease and be permanently withheld if and when such Participant is reemployed by an Employer; provided, however, that no pension shall be withheld by the Plan pursuant to this Section 7.4 for any month during which such reemployed Participant has been employed in a classification which is not covered under the Plan or during which such Participant fails to complete 40 or more Hours of Service. In addition, no payment shall be withheld by the Plan pursuant to this Section 7.4 unless the Plan notifies the reemployed Participant by personal delivery or first class mail during the first calendar month in which the Plan withholds payments that his benefits are suspended. Such notification shall contain a description of the specific reasons why benefit payments are being suspended, a general description of the Plan provisions relating to the suspension of payments, a copy of such provisions, and a statement to the effect that applicable Department of Labor regulations may be found in Section 2530.203-3 of the Code of Federal Regulations. In addition, the suspension notification shall inform the reemployed Participant of the Company's procedure for affording a review of the suspension of benefits.

The retirement or deferred vested pension shall resume with the month following subsequent retirement or termination of employment. Any retirement or deferred vested pension payable upon such subsequent retirement or termination shall be determined as provided in Article VI on the basis of the Participant's Credited Service at the time of his previous retirement or termination, plus his Credited Service as a Participant during his period of reemployment; provided, however, that such retirement or deferred vested pension shall be reduced by the actuarial equivalent of the retirement or deferred vested pension benefits, if any, that the Participant received prior to his reemployment.

Notwithstanding the foregoing, in no event shall a Participant's retirement or deferred vested pension payable following his subsequent retirement or termination be less than that retirement or deferred vested pension payable to the Participant prior to his reemployment. In the determination of the Final Average Earnings of a Participant who is reemployed and who again becomes an active Participant, the thirty-six month period to be considered shall be the number of months in such period of reemployment prior to his subsequent date of retirement or termination, plus such number of months immediately prior to his earlier retirement or termination as shall total thirty-six months.

7.5 Automatic Surviving Spouse's Pension

A married Participant who is eligible to commence payments pursuant to the normal, early or disability retirement provisions of the Plan or pursuant to the deferred vested pension provisions of the Plan and whose benefit may not be paid under the provisions of Section 7.8 shall automatically be deemed to have elected, at the commencement dates otherwise specified herein, an immediate monthly pension during his lifetime with the provision that, following his death, a monthly survivor's pension equal to 50 percent of his reduced pension shall be payable to his surviving spouse during the further lifetime of the spouse (the "Automatic Surviving Spouse's Pension"). Such pension shall be actuarially equivalent to an immediate single life annuity. The automatic election provided in this Section 7.5 shall become effective as of the Participant's Annuity Starting Date.

An unmarried Participant who retires pursuant to the normal, early or disability retirement provisions of the Plan or pursuant to the deferred vested pension provisions of the Plan and whose benefit may not be paid under the provisions of Section 7.8 shall automatically be deemed to have elected a monthly pension payable for his lifetime.

A Participant may prevent the automatic election provided in this Section 7.5 at any time within the "applicable election period" (as hereafter defined) by executing a specific written rejection of such an election on a form approved by the Administrator and filing it with the Administrator; provided that such rejection shall not take effect unless the Participant's spouse, if applicable, consents to such rejection in accordance with Section 7.6 of the Plan. Any election to revoke the Automatic Surviving Spouse's Pension and any spouse's consent thereto must specify the particular optional form of benefit elected by the Participant and, if applicable, must state the specific non-spouse Beneficiary or Beneficiaries (including any class of Beneficiaries or any contingent

Beneficiaries) who may be entitled to any benefits upon the Participant's death. Any subsequent change in optional form of benefit or in a non-spouse Beneficiary selected shall be valid only if accompanied by the written and witnessed consent of the Participant's spouse in the manner described in Section 7.6.

During the period beginning no more than 90 days and ending no less than 30 days prior to the Participant's Annuity Starting Date, the Administrator shall furnish to the Participant a written general description of the automatic election provided in this Section 7.5. The general description shall include a written explanation of the Participant's and spouse's rights under the Automatic Surviving Spouse's Pension, including the availability and effect of the election to reject the Automatic Surviving Spouse's Pension. Such description shall also provide information as to the material features of the optional forms of benefit as well as a brief explanation of their relative values as compared to the Automatic Surviving Spouse's Pension. In addition, in the event the Participant's Annuity Starting Date is prior to his attainment of Normal Retirement Age, such description shall inform the Participant of his right to defer receipt of the Plan distribution. A Participant may make and revoke his written rejection of an Automatic Surviving Spouse's Option at any time and any number of times within the "applicable election period". The "applicable election period" shall commence 90 days prior to the Participant's Annuity Starting Date and shall end on the Participant's Annuity Starting Date. Notwithstanding the foregoing, effective on and after January 1, 1997, the written description identified in this paragraph may be provided after the Participant's Annuity Starting Date provided the Participant has at least 30 days following distribution of the written description to reject the Automatic Surviving Spouse's Pension and elect another form of payment permitted under the Plan. Distribution to the Participant may commence after seven days have elapsed from the date the Administrator provides the written description provided that the Participant has received information that clearly indicates his right to at least 30 days to consider the contents of the description, the Participant affirmatively elects distribution and any required spousal consent is satisfied.

A Participant who retires pursuant to the normal, early or disability retirement provisions of the Plan or pursuant to the deferred vested pension provisions of the Plan and who is entitled, under such provisions, to a pension with a lump sum actuarial equivalent value not in excess of $5,000 (or for distributions prior to December 31, 2001 was not in excess of $3,500 at the time of that distribution or any prior distribution) shall receive his pension in accordance with Section 7.8 hereof.

7.6 *Requirement for Spouse Consent*

Any election of a married Participant under Sections 7.5 and 7.7 (other than an election to revoke a rejection of the Automatic Surviving Spouse's Pension under Section 7.5) shall require the consent of the Participant's spouse unless it is established to the satisfaction of the Administrator that the consent required under this Section 7.6 may not be obtained:

(a) because there is no spouse or because the spouse cannot be located,

(b) because the Participant is legally separated from the spouse,

(c) because the Participant has been abandoned by his spouse (within the meaning of local law) and such Participant has a court order to that effect, or

(d) because of such other circumstances as the Secretary of the Treasury may by regulations prescribe.

Any consent by a spouse shall be in writing acknowledging the effect of such election or revocation and witnessed by a notary public or such Plan representatives as may be designated for this purpose by the Administrator. Any spouse's consent (or establishment that the spouse's consent may not be obtained) shall be effective only with respect to such spouse.

7.7 Optional Forms of Pensions

In lieu of a benefit in the form of payment determined in Section 7.5, a Participant may, with the consent of his spouse as described in Section 7.6, elect an actuarially equivalent benefit described below. This election is effective as of a Participant's Annuity Starting Date.

(a) Option A: 10-Year Certain and Life Option — A reduced monthly retirement income is payable to the Participant during his remaining lifetime, and upon his death prior to receiving payment for a period equivalent to 120 months, monthly payments of the same reduced amount will be made to his Beneficiary until the number of monthly payments made to the Beneficiary, when added to the number of monthly payments made to the Participant, is equivalent to 120 monthly payments.

(b) Option B: 15-year Certain and Life Option — A reduced monthly retirement income is payable to the Participant during his remaining lifetime, and upon his death prior to receiving payment for a period equivalent to 180 months, monthly payments of the same reduced amount will be made to his Beneficiary until the number of monthly payments made to the Beneficiary, when added to the number of monthly payments made to the Participant, is equivalent to 180 monthly payments.

(c) Option C: 50% Joint and Survivor Option — a reduced monthly retirement income is payable to the Participant for his remaining lifetime, and upon his death, monthly income of 50% of such reduced monthly income previously paid to the Participant shall be paid to his Beneficiary for as long thereafter as that person shall live.

(c) Option D: 100% Joint and Survivor Option — a reduced monthly retirement income is payable to the Participant for his remaining lifetime, and upon his death, monthly income of 100% of such reduced monthly income previously paid to the Participant shall be paid to his Beneficiary for as long thereafter as that person shall live.

(e) Option E: Joint and Survivor Pop-Up Option — a reduced monthly retirement income is payable to the Participant for his remaining lifetime, and upon his death, monthly income of either 50% or 100% (as elected by the Participant) of such reduced monthly income previously paid to the Participant shall be paid to the Participant's spouse for as long thereafter as such spouse shall live; provided, however, that in the event the spouse of the Participant predeceases the Participant and such spouse's death occurs within 60 months of the Participant's Annuity Starting Date, the provisions of Section 7.12 shall apply. Notwithstanding any provision of the Plan to the contrary (i) the Joint and Survivor Pop-Up Option shall be available only with respect to a Participant who has retired under the normal retirement provisions of Section 5.1 or the early retirement provisions of Section 5.2, and (ii) actuarial equivalence of a benefit payable under the Joint and Survivor Pop-Up Option shall be determined under Section 11.6; provided, however, that in the event an annuity contract is purchased from an insurance company with respect to such benefit, actuarial equivalence shall thereafter be determined by reference to the specific annuity contract which will be purchased by the Plan to provide the monthly retirement income payable under this form of payment.

Election of these options must be made during the applicable election period described in Section 7.5. Except to the extent otherwise provided under Section 8.4, if either the Participant or his Beneficiary dies after the election of an option is made but before the Annuity Starting Date such option will not become effective. If the Beneficiary shall die after commencement of the joint and survivor pension, but before the death of the retired Participant, the Participant shall continue to receive the reduced pension payable in accordance with such option. An option may be cancelled by the Participant prior to the Annuity Starting Date. The effect of such cancellation shall be to reinstate the life annuity specified in Section 7.1, 7.2 or 7.3, whichever applicable, or, if the Participant is married, the Automatic Surviving Spouse's Pension under Section 7.5 (in which case any subsequent option election must satisfy the requirements of Section 7.5). Except to the extent expressly permitted under the Plan, no election regarding an optional form of payment may be made by a Participant following the Participant's Annuity Starting Date. If the Beneficiary designated by a Participant in connection with the election of an optional form of benefit is not the spouse of the Participant, then the election shall be effective only if the minimum distribution incidental benefit requirements of Section 1.401(a)(9)-6 of the Income Tax Regulations are satisfied with respect to such distribution.

7.8 Payment of Small Pension

(a) Notwithstanding any provision of the Plan to the contrary, if the actuarial equivalent present value of any retirement benefit, deferred vested pension or survivor benefit does not exceed $5,000 such benefit shall be paid as soon as practicable in a lump sum equal to such present value. No lump sum payments shall be made if the actuarial equivalent present value of the benefit is in excess of this threshold.

(b) Effective for any distribution to a Participant under this Section 7.8 on and after March 28, 2005, the lump sum payment described above shall be made on the conditions that the Participant is alive as of the applicable Annuity Starting Date and, except as otherwise provided in this subsection (b), that the Participant affirmatively elects payment in cash or as a Direct Rollover (as defined in Section 7.11). No further election or consent shall be required or permitted with respect to such distribution. Effective for any distribution to a Participant under this Section 7.8 on and after February 1, 2006, if the Participant fails to affirmatively elect payment in cash or as a Direct Rollover within the 60-day period following the Administrator's distribution of the Direct Rollover explanation and election, as applicable to a benefit with an actuarial equivalent present value in excess of $1,000, the Administrator shall direct distribution of the lump sum payment in the form of a Direct Rollover to an individual retirement plan or annuity selected by the Administrator. If the actuarial equivalent present value of the retirement benefit or deferred vested pension does not exceed $1,000 as of the applicable Annuity Starting Date and the Participant fails to make a cash/Direct Rollover election within such 60-day period, the Plan shall pay such benefit in the form of an actuarial equivalent cash lump sum as soon as practicable following the expiration of such 60-day period.

(c) The actuarial equivalent present value of a retirement benefit, deferred vested pension or survivor benefit shall be calculated and paid on the basis of the "applicable mortality table", as defined in Section 417(e)(3)(A)(ii)(I) of the Code, and the "applicable interest rate", as defined in Section 417(e)(3)(A)(ii)(II) of the Code, for the second calendar month preceding the month in which the distribution is payable; provided, however, that in the event the Alternative Present Value (as hereinafter defined) of the applicable benefit is a larger amount, such larger amount shall be paid (provided such Alternative Present Value calculation does not exceed $5,000). For purposes of this Section 7.8, the "Alternative Present Value" of a retirement benefit, deferred vested pension or survivor benefit shall be based on the Accrued Pension earned by the Participant at the earlier of his termination of employment, or December 30, 1995, determined by using the UP-1984 mortality table (reflecting a one-year setback for Participants and a two-year setback for Beneficiaries) and a 6% interest rate.

(d) The provisions of this Section 7.8 shall likewise apply to any Participant who terminates his employment with an Employer and all Affiliates prior to his completion of such period of Service as is required for a deferred vested pension under the Plan. In such case the terminated Participant shall be deemed to receive a lump sum distribution of the actuarial equivalent present value of his entire vested pension as of his date of termination of employment. Subject to Section 7.9 hereof, a Participant who receives a distribution (or deemed distribution) under this Section 7.8 shall lose his Credited Service (and Service, in the case of a deemed distribution) under the Plan, shall forfeit his nonvested Accrued Pension and shall no longer be considered a Participant hereunder after such date of distribution (or deemed distribution).

7.9 Repayment of Cashout on Reemployment

Notwithstanding any provision of Section 7.8 to the contrary, in the event a Participant described in Section 7.8 receives a distribution described thereunder and is subsequently reemployed by an Employer as a Covered Employee, such Participant's Credited Service and Accrued Pension earned before his termination of employment shall be reinstated for all purposes of the Plan if the Participant repays to the Plan the full amount of his distribution with interest, compounded annually from the date of distribution to December 30, 1988 at the rate of five percent (5%) per annum and from December 31, 1988 to the date of repayment at the rate determined for each Plan Year within such period under Section 411(c)(2)(C) of the Internal Revenue Code. With respect to a former Participant who has been deemed to receive a distribution of his entire vested pension upon his termination of employment in accordance with the second paragraph of Section 7.8, such individual shall be deemed to have repaid such distribution, with interest, as of his date of rehire and such Participant's Service, Credited Service and Accrued Pension earned before his termination of employment shall be reinstated as of such date. For purposes of the foregoing, the period in which the Participant's repayment or deemed repayment must occur shall end on the earlier of the fifth anniversary of the Participant's reemployment or the date on which the Participant's Period of Severance extends to five consecutive years.

7.10 Delay in Commencement of Pension Payments

(a) In no event shall payment of any pension under the provisions of this Article VII commence as of a date that is later than 60 days after the close of the Plan Year during which a Participant attains his Normal Retirement Date or, if later, terminates his employment with an Employer and Affiliates. A Participant who has terminated employment with an Employer and Affiliates may not elect to defer payment of any retirement or deferred vested benefit beyond the Participant's Normal Retirement Date. No payment to an alternate payee under a qualified domestic relations order may be made before the affected Participant's earliest retirement age under the Code. No payment under the Plan will be increased on account of any delay in payment due to a Participant's or Beneficiary's failure to properly file the required application forms furnished by the Administrator or to otherwise accept such payment.

(b) Notwithstanding any inconsistent provision of the Plan and effective January 1, 2003, all distributions under the Plan shall be made in accordance with Code Section 401(a)(9), including the incidental death benefit requirement of Code Section 401(a)(9)(G), and Treasury Regulations Sections 1.401(a)(9)-1 through 1.401(a)(9)-9. Specifically, distribution of the Participant's interest shall:

(i) be completed no later than the Required Beginning Date; or

(ii) commence not later than the Required Beginning Date with distribution to the Participant made over the life of the Participant or joint lives of the

Participant and a designated beneficiary or a period not longer than the life of the Participant or joint lives of the Participant and a designated beneficiary.

For purposes of this Section 7.10, Required Beginning Date shall mean April 1 of the calendar year following the later of the calendar year in which the Participant attains age $70^1/_2$ or the calendar year in which the Participant terminates employment or retires; provided, however, if the Participant is a five-percent owner (as defined in Code Section 416), the Required Beginning Date shall be April 1 of the calendar year following the calendar year in which the Participant attains age $70^1/_2$, regardless of the date that the five-percent owner terminates employment or retires. In the case of a Participant who terminates employment or retires in a calendar year after the calendar year in which he attains age $70^1/_2$ and who has not commenced payments as of the first day of such later calendar year, the Plan benefit accrued by the Participant shall be actuarially increased, to the extent required by regulations, to take into account the period (commencing on the April 1st of the calendar year following the calendar year in which the Participant attains age $70^1/_2$ and ending on the date payment commences) during which the Participant did not receive any benefits under the Plan; provided, however, that such actuarial increase, to the extent permitted by regulations, shall reduce the benefit accrual otherwise occurring during such period.

(c) In the event that a Participant dies prior to the date that distribution commences:

(i) any portion of the Participant's interest that is not payable to a designated beneficiary shall be distributed not later than the end of the calendar year which includes the fifth anniversary of the date of the Participant's death; and

(ii) any portion of the Participant's interest that is payable to a designated beneficiary shall be distributed in accordance with subsection (i) above or over the life of the designated beneficiary (or over a period not extending beyond the life expectancy of the beneficiary), commencing not later than the end of the calendar year following the calendar year of the Participant's death or, if the beneficiary is the Participant's surviving spouse, commencing not later than the last day of the later of the calendar year in which the Participant would have attained age $70^1/_2$ or the calendar year following the calendar year which includes the date of the Participant's death.

(d) In the event that a Participant dies after distribution of his interest has begun, but prior to distribution of his entire interest, the remaining portion of such interest shall be distributed in a method that is at least a rapid as the method in effect at the date of the Participant's death.

7.11 Direct Rollover of Eligible Rollover Distributions.

Notwithstanding any provision of the Plan to the contrary, a Distributee may elect, subject to provisions adopted by the Administrator which shall be consistent with income tax regulations, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover to such plan. The Administrator shall notify a Distributee of his right to elect a Direct Rollover. Such notice shall be provided to the Distributee not less than 30 days before the vested benefit maintained on behalf of the Distributee is distributed. A Distributee's affirmative election to make or not make a Direct Rollover may be implemented by the Administrator less than 30 days after the Distributee receives such notice of his Direct Rollover rights, but only if the Administrator notifies the Distributee that he has the right to consider the decision of whether or not to elect a Direct Rollover for up to 30 days. For purposes of this Section:

(a) The term "Distributee" shall mean a Covered Employee or former Covered Employee. In addition, such an individual's surviving spouse or such an individual's spouse or former spouse who is an alternate payee within the meaning of Section 414(p)(8) of the Code are Distributees with respect to the interest of the spouse or former spouse.

(b) The term "Eligible Rollover Distribution" shall mean any distribution of all or any portion of the balance to the credit of the Distributee other than: any distribution that is one of a series of substantially equal periodic payments made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and his beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; that portion of a hardship withdrawal that is attributable to elective contributions within the meaning of Section 1.401(k)-1(g) of Income Tax Regulations; and the portion of any distribution that is not includible in gross income (provided, however, that any such portion consisting of after-tax contributions shall not fail to be treated as an Eligible Rollover Distribution if such portion is deposited into an individual retirement account or annuity described in Code Section 408(a) or 408(b), or into a qualified defined contribution plan described in Code Section 401(a) or annuity plan described in Code Section 403(a) that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible).

(c) The term “Eligible Retirement Plan” shall mean an individual retirement account or annuity, as described in Code Sections 408(a) and 408(b), respectively, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code that accepts the Distributee’s Eligible Rollover Distribution. An Eligible Retirement Plan shall also mean an annuity contract described in Code Section 403(b) and an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan.

(d) The term “Direct Rollover” shall mean a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

7.12 Change to Pension Payments in Connection with Qualifying Event.

(a) In the event an Eligible Retiree (as hereinafter defined) experiences a Qualifying Event (as hereinafter defined), the provisions of this Section 7.12 shall apply, provided that the Eligible Retiree furnishes the Administrator with reasonable notice of the Qualifying Event within 120 days of the Qualifying Event and provides such further information applicable hereunder as the Administrator may reasonably require. For purposes of this Section:

(i) “Eligible Retiree” shall mean a Participant who has retired under the normal retirement provisions of Section 5.1 or the early retirement provisions of Section 5.2 and who, as of his Annuity Starting Date, was either:

(A) legally married and commencing receipt of his retirement income in the form of an Automatic Surviving Spouse’s Pension (as defined in Section 7.5), under the 100% Joint and Survivor Option (with his spouse as Beneficiary thereunder) or under the Joint and Survivor Pop-Up Option; or

(B) unmarried and commencing receipt of his retirement income in the normal form of benefit provided under Section 7.1 (a life annuity).

(ii) “Qualifying Event” shall mean an event described in (A), (B) or (C) below:

(A) The spouse of an Eligible Retiree who is receiving retirement income under the Joint and Survivor Pop-Up Option under Section 7.7(e) predeceases the Eligible Retiree and such spouse’s death occurs within 60 months of the Eligible Retiree’s Annuity Starting Date;

(B) The marital status of an Eligible Retiree who is receiving retirement income under any of the forms of payment described in subparagraph (a)(i)(A) of this Section 7.12 changes within 120 months of his Annuity Starting Date due to the Eligible Retiree’s divorce, marital dissolution, or legal separation; or

(C) The marital status of an Eligible Retiree who is described under subparagraph (a)(i)(B) of this Section 7.12 changes and within 120 months of his Annuity Starting Date due to the Eligible Retiree’s marriage.

(iii) “Qualifying Event Election Period” shall mean the 90-day period beginning on the date on which the Eligible Retiree timely notifies the Administrator of a Qualifying Event, as provided in Section 7.12(a) above.

(iv) The determination of an Eligible Retiree’s marital status and the determination of whether a divorce, marital dissolution or legal separation has occurred shall be made on the basis of the laws of the Commonwealth of Pennsylvania unless preempted by federal law.

(b) In the event of the occurrence of a Qualifying Event described in subparagraphs (a)(ii)(A) or (a)(ii)(B) of this Section 7.12, and contingent upon the Eligible Retiree’s timely notification to the Administrator, the retirement income payable to the affected Eligible Retiree shall revert to the normal form of benefit provided under Section 7.1 (a life annuity) as of the first day of the month following the expiration of the Qualifying Event Election Period; provided, however, that:

(i) The amount of such monthly life annuity shall be the actuarial equivalent of the Eligible Retiree's benefit, determined as of the time of calculation hereunder, under the form of payment in effect as of his Annuity Starting Date; provided, however, that such monthly amount shall not exceed the amount of the monthly life annuity which the Eligible Retiree was entitled to as of his Annuity Starting Date; and

(ii) In the case of a Qualifying Event described in subparagraph (a)(ii)(B) of this Section 7.12, the spouse or ex-spouse of the Eligible Retiree, as part of the division of marital property (or other determination which is not subject to modification under state law), expressly waives all interest in the Eligible Retiree's pension under the Plan and such waiver is incorporated into a document which satisfies the formal requirements of a "Qualified Domestic Relations Order" as defined in Section 414(p) of the Code; and

(iii) In the case of a Qualifying Event described in subparagraph (a)(ii)(B) of this Section 7.12, the spouse or ex-spouse of the Eligible Retiree shall secure such proof of insurability as the Administrator may require, in its discretion.

(c) In the case of any Qualifying Event described in subparagraph (a)(ii)(C) of this Section 7.12 and contingent upon the Eligible Retiree's timely notification to the Administrator, the affected Eligible Retiree shall be permitted to elect, within the Qualifying Event Election Period, to receive his future retirement income from the Plan in one of the forms of payment described in paragraphs (c), (d), or (e) of Section 7.7 (a 50% or 100% Joint and Survivor Option or a 50% or 100% Joint and Survivor Pop-Up Option) with his spouse as Beneficiary thereunder; provided, however, that:

(i) Payments under any elected form of payment shall commence as of the first day of the month next following the month in which the Eligible Retiree makes full and complete application to the Administrator in accordance with rules established by the Administrator (such commencement date referred to herein as the "Adjusted Commencement Date"); and

(ii) Payments under any elected form of payment shall be the actuarial equivalent of the Eligible Retiree's benefit, determined as of the time of calculation hereunder, under the form of payment in effect as of his Annuity Starting Date; provided, however, that such monthly amount shall not exceed the amount of the monthly benefit under the elected form of payment which the Eligible Retiree was entitled to as of his Annuity Starting Date; and

(iii) The Eligible Retiree shall secure such proof of insurability of the Eligible Retiree and/or the Eligible Retiree's spouse as the Administrator may require, in its discretion; and

(iv) The provisions of Sections 7.5 and 7.6 hereof shall apply with respect to any Eligible Retiree who is married as of the Adjusted Commencement Date and, for purposes of such Sections and Section 7.7, the Adjusted Commencement Date shall be deemed the Annuity Starting Date for the elected form of payment described in this Section 7.12(c); and

(v) In no event shall more than one election be made under this Section 7.12(c) by an Eligible Retiree with respect to any single Qualifying Event nor shall this Section 7.12 be applicable more than twice with respect to any Eligible Retiree, Section 7.12(c), irrespective of the number of Qualifying Events affecting such Eligible Retiree; and

(vi) A Participant's status as an Eligible Retiree must be independently satisfied with respect to each Qualifying Event (substituting, where applicable, the Adjusted Commencement Date for the Annuity Starting Date under Section 7.12(a)(i)).

ARTICLE VIII — DEATH BENEFITS

8.1 Death Prior to Retirement or Severance

Upon the death of a Participant prior to his Date of Severance, his surviving spouse, if any, shall receive a monthly surviving spouse's benefit under the assumption that the Participant had retired the day prior to his death with an Accrued Pension under the Plan as determined in accordance with the provisions of Section 6.2(a), and under the further assumption that the automatic election of a surviving spouse's benefit pursuant to subsection 7.5 was in effect at the time of death. Such surviving spouse benefit shall commence as of the first day of the month following the Participant's death, shall be unreduced for early commencement and shall be payable for the lifetime of the surviving spouse.

For purposes of Sections 8.1, 8.2 and 8.3, the interest that is payable to the Participant's surviving spouse shall be distributed over a period not in excess of the life expectancy of such surviving spouse and shall commence no later than the December 31 of the calendar year in which the Participant would have attained age 65 (or the December 31 of the calendar year immediately following the calendar year of the Participant's death, if later).

8.2 Death Prior to Commencement of Early or Disability Pensions

Upon the death of a Participant after his Date of Severance, and prior to his Annuity Starting Date and while the Participant is awaiting the commencement of payment of either: (1) an early retirement pension pursuant to Section 6.2(a) above, or (2) a disability pension after attainment of age 55 but prior to the attainment of his Normal Retirement Date, his surviving spouse, if any, shall receive a monthly surviving spouse's benefit under the assumption that the Participant had retired the day prior to his death with an Accrued Pension under the Plan as determined in accordance with the provisions of Section 6.2(a), and under the further assumption that the automatic election of a surviving spouse's benefit pursuant to subsection 7.5 was in effect at the time of death. Such surviving spouse's benefit shall commence as of the first day of the month following the Participant's death unless the surviving spouse elects a later commencement date. Such benefit shall be reduced for early commencement in accordance with the provisions of Section 6.2(b) and shall be payable for the lifetime of the surviving spouse.

Upon the death of a disabled Participant who is awaiting commencement of his pension at his Normal Retirement Date and who is under age 55 at the time of his death, his surviving spouse, if any, shall receive a monthly surviving spouse's benefit determined under the provisions of Section 8.1 assuming he died prior to his Date of Severance.

If a Participant terminates employment when eligible for a disability retirement pension under Section 5.3 and at a time during which he is receiving long term disability benefits under the Erie Insurance Group Long Term Disability Plan, then service to date of death will be included for benefit purposes.

8.3 Death Prior to Commencement of Vested Pensions

If a vested former Participant who has at least one Hour of Service on or after December 31, 1976, and who has been married for at least one year on his date of death, dies on or after August 23, 1984 but prior to his Annuity Starting Date, then his spouse shall be provided with a preretirement survivor annuity determined as follows:

(a) in the case of a Participant who dies after the date on which the Participant attained his Earliest Retirement Age as though such Participant had retired on the day before the Participant's date of death, with an immediate benefit determined under the provisions of Section 6.2(a) and payable under the Automatic Surviving Spouse's Pension in Section 7.5 of the Plan, or

(b) in the case of a Participant who dies on or before the date on which the Participant would have attained his Earliest Retirement Age, as though such Participant had:

  (i) separated from Service on the date of death,

  (ii) survived to his Earliest Retirement Age,

  (iii) retired with an immediate benefit determined under the provisions of Section 6.4 and payable under the Automatic Surviving Spouse's Option in Section 7.5 of the Plan at the Earliest Retirement Age, and

  (iv) died on the day after the day on which such Participant would have attained the Earliest Retirement Age.

Under this Section 8.3, a monthly surviving spouse's benefit shall commence as of the first day of the month following the later of the month of the Participant's death or the month in which the Participant would have attained his Earliest Retirement Age under the Plan unless the surviving spouse elects a later commencement date (which shall not be later than the December 31 of the calendar year in which the deceased Participant would have attained age 65). Such surviving spouse's benefit shall be reduced for early commencement in accordance with Section 6.2(b) and shall be payable thereafter for the remainder of the surviving spouse's lifetime.

8.4 Effect of Valid 100% Joint and Survivor Election

Notwithstanding the foregoing, in the event a Participant described in Section 8.1, 8.2 or 8.3 above has made a valid election of Option D under Section 7.7 and names his spouse as Beneficiary thereunder or a valid election of a 100% Joint and Survivor Pop-Up Option under Section 7.7, the amount of the Pre-Retirement Survivor Annuity shall be equal to the reduced monthly amount which otherwise would have been payable to the Participant as determined through application of the foregoing provisions of this Article VIII.

8.5 Death on or After Annuity Starting Date

Upon the death of a Participant on or after his Annuity Starting Date, payments, if any, to a Beneficiary shall be made in accordance with the form of benefit in effect on the date of the Participant's death. If the Beneficiary of the deceased Participant is entitled to receive the remaining certain period payments from the 10-Year or 15-Year Certain and Life forms of payment, the Administrator shall instruct the Trustee to pay to such Beneficiary the actuarial equivalent value of the monthly payments to which the Beneficiary is entitled in a single sum. Actuarial equivalence for this purpose shall be determined under the assumptions set forth in Section 7.8. If the Beneficiary under such form of payment is the surviving spouse of the deceased Participant, then any amounts payable may be converted to an actuarially equivalent life annuity to such spouse provided the spouse requests payment in such form. Notwithstanding the foregoing, in all events the deceased Participant's remaining interest in the Plan shall be distributed at least as rapidly as under the form of distribution in operation as of the date of the Participant's death.

8.6 Death Benefit for Vested Participants Who Terminated After September 1, 1974 and Prior to August 23, 1984

Any vested former Participant who terminated after September 1, 1974 and prior to August 23, 1984 and whose benefits are not in pay status as of August 23, 1984 is to be provided with the right to elect to receive such benefits reduced and payable in the form of a qualified 50% joint and survivor annuity as defined by ERISA and the Internal Revenue Code as in effect prior to August 23, 1984, including the right to revoke such coverage without spousal consent if such former Participant:

(a) completed at least one Hour of Service under the Plan after September 1, 1974, and

(b) survives to his Annuity Starting Date.

ARTICLE IX — TRUST FUND AND THE TRUSTEE

9.1 Trust Fund

(a) The Company has executed a Trust Agreement with a Trustee under the terms of which a Trust Fund will be established for the purpose of receiving and holding contributions made by the Company as well as interest and other income on investments of such funds, and for the purpose of paying the pensions and other benefits provided by the Plan and paying any expenses incident to the operation of the Plan or Trust Fund as otherwise provided herein. The Trustee is to manage and operate the Trust Fund and to receive, hold, invest and reinvest the funds of the Trust.

(b) The Company may modify the Trust Agreement as provided therein to accomplish the purpose of the Plan. The Administrator may remove any Trustee and may select any successor trustee, subject to approval of the Board. Pensions under the Plan may alternatively be provided through the purchase of annuity contracts issued by an insurance company. In lieu of a Trust Agreement and Trust Fund, the Company may utilize a contract or contracts of insurance for the purpose of receiving and holding contributions made by the Company and for the purpose of paying pensions and other benefits provided by the Plan, and in such event the references hereunder to “Trust Agreement”, “Trustee” and “Trust Fund” shall be deemed to be references to “Insurance Contract”, “Insurance Carrier” and “Insured Fund” respectively.

The Board may, from time-to-time, designate another person to carry out any of its responsibilities under the Section 9.1. The person so designated will have full authority, or such limited authority as the Board may specify, to take such actions as are necessary or appropriate to carry out the duties delegated by the Board.

(c) The Administrator may select an independent investment manager to invest any portion of the Trust Fund in each of the various funds. Such investment manager shall be either registered as an investment manager under the Investment Adviser’s Act of 1940, a bank, a mutual fund, or an insurance company, and as required by the Administrator, shall acknowledge in writing that he is a fiduciary with respect to the Plan.

(d) The Administrator shall perform such duties relating to the operation of the Trust Fund as the Board delegates to it and shall perform the duties specified in this Section 9.1.

The Administrator shall have the following responsibilities:

(i) to appoint and remove Trustees, subject to approval of the Board;

(ii) to appoint investment managers;

(iii) to select investment funds or other investments under the Plan;

(iv) to allocate the duties and procedures for the Trustee and investment managers;

(v) to establish an investment philosophy and goals for each of the investment managers;

(vi) to monitor the Trustee with respect to servicing the Trust Fund in a fiduciary capacity; and

(vii) to monitor the investment managers including, without limitation, their investment philosophies, goals, and rates of return.

The Administrator may, from time-to-time, designate another person to carry out any of the Administrator’s responsibilities under this Section 9.1. The person so designated will have full authority, or such limited authority as the Administrator may specify, to take such actions as are necessary or appropriate to carry out the duties delegated by the Administrator.

9.2 Irrevocability

The Trust Fund shall be used to pay pensions and other benefits as provided in the Plan and, as provided in Section 9.6, those reasonable expenses, taxes and fees incurred in the administration of the Plan and Trust Fund which are not paid directly by the Company. No part of the principal or income of the fund shall be used for or diverted to purposes other than those provided in the Plan and no part of the Trust Fund shall revert to the Company for the benefit of the Company, except as permitted under Sections 9.3, 11.4 and 12.2 hereof.

9.3 Contributions by the Company

The Company will pay to the Trustee, subject to all the other provisions of the Plan, such amounts as its Board determines, authorizes and directs; provided that as a minimum contribution, the Company intends to pay to the Trustee such amounts as may be necessary to meet the minimum funding standards established under the Employee Retirement Income Security Act of 1974. The Company also intends to pay all expenses incident to the operation of the Plan that are not paid directly from the Trust Fund. Any forfeitures arising from the severance of employment or death of a

Participant, or for any other reason, shall be used to reduce the contributions of the Company under the Plan and shall not be applied to increase the pensions or benefits any Participant would otherwise receive under the Plan at any time prior to the termination of the Plan.

Payments made to meet the minimum funding standards established under ERISA shall, to the maximum extent permitted by valid provisions of ERISA, be in complete discharge of the financial obligation of the Company under this Plan. The pension benefits of the Plan shall, subject to valid provisions of ERISA, be only such as can be provided by the assets of the Trust and there shall be no further liability or obligation on any Employer to make any further contributions to the Trust for any reason. Except as prescribed by valid provisions of ERISA, the Company does not guarantee continuity of payment of any benefits under the Plan. The Company does not, in any event, guarantee that its contributions or the Trust Fund will be sufficient to provide the benefits hereunder. All rights of Participants and Beneficiaries, and of any person claiming under any Participant or Beneficiary, shall be enforceable only against the Trust Fund, except as ERISA may otherwise provide.

Notwithstanding any provisions of the Plan to the contrary, each contribution made by the Company shall be conditioned upon the deductibility of the contribution under Section 404 of the Code. If the deduction of all or part of the contribution is disallowed, the contribution shall, to the extent disallowed, be repaid to the Company within one year after the date of disallowance. A contribution also may be repaid to the Company, within one year after the date made, to the extent it exceeded the full funding limitation or otherwise was made in error because of a mistake in fact. Amounts returned under this Section 9.3 shall recognize any net losses attributable to the returned contribution but shall not include any net earnings thereon.

9.4 Contributions By Participants

No Participant shall be required or allowed to make any contribution to the Trust Fund established under the Plan.

9.5 Benefits Payable Only From Trust Fund

Payment of benefits under the Plan to Participants and Beneficiaries will be made only by the Trustee from the funds or securities held by the Trust and/or the annuity contract or contracts held by the Trust. Except as may be provided by law, no liability for the payment of benefits to Participants or their Beneficiaries hereunder shall be imposed upon the Company, any Employer or the officers or shareholders of the Company or any Employer, and there shall be no liability or obligation on the part of the Company or any Employer, to make any further contributions in the event of termination of the Plan.

9.6 Plan Expenses

All reasonable expenses, taxes and fees of the Plan, the Administrator and the Trustee incurred in the administration of the Plan and Trust Fund shall be paid from the Trust Fund; provided, however, that the obligation of the Trust Fund to pay such expenses, taxes and fees shall cease to exist to the extent that the same are paid, at the discretion of the Company, by the Employers.

ARTICLE X — BENEFIT LIMITATIONS

10.1 Maximum Limitation Under Section 415(b) of the Code

Any provisions of the Plan to the contrary notwithstanding but subject to the provisions of Appendix A, benefits payable under the Plan shall be subject to the following limitations:

(a) Maximum Annual Benefit:

(i) Subject to the exception below, the Annual Benefit (as hereinafter defined) payable under this Plan for any limitation year beginning on or after January 1, 1995 shall not exceed the lesser of the Dollar Maximum of $120,000 or the Percentage Maximum of 100% of the Participant's average compensation for the period of three consecutive years during which the Participant had the greatest aggregate compensation from an Employer. Compensation, in determining a Participant's Percentage Maximum, shall include the total of all amounts paid to a Participant by an Employer during the limitation year which are defined as wages within the meaning of Section 3401(a) of the Code and, for years beginning on and after January 1, 1998, shall include amounts contributed pursuant to a salary reduction election on behalf of the Participant to a plan described in Sections 125, 402(e)(3), 402(h)(1)(B), 403(b) or 457(b) of the Code and, for periods on and after January 1, 2001, to a plan described in Section 132(f)(4) of the Code. Effective each January 1, the Dollar Maximum described above shall be automatically adjusted to the new dollar limitation for that calendar year as determined by the Secretary of the Treasury pursuant to Section 415(d) of the Code.

(ii) For purposes of this Section, "Annual Benefit" means the benefit payable in the form of a straight-life annuity or a qualified joint and survivor pension, with no ancillary benefit, on an annualized basis. If a benefit is payable in any other form, the Annual Benefit limitation shall be applied by adjusting it to the equivalent of a straight-life annuity. The actuarially equivalent straight-life annuity is equal to the greater of (i) the annuity benefit computed using the Plan's interest rate and mortality tables for adjusting forms of payment or (ii) the annuity benefit computed using an interest rate of 5% and the "applicable mortality table" under Code Section 417(e). In determining the actuarially equivalent straight-life annuity for a benefit form subject to Code Section 417(e)(3), the actuarial assumptions used shall be the “applicable interest rate” and the “applicable mortality table” under Code Section 417(e). For these purposes, the lookback month shall be the second month preceding the Plan Year that includes the Annuity Starting Date. Notwithstanding the foregoing, for Plan Years beginning in 2004 and 2005, when determining the actuarially equivalent straight-life annuity for a benefit form subject to Code Section 417(e)(3), the interest rate shall be the greater of 5.5% or the “applicable interest rate”; provided, however, that in the case of any Participant or Beneficiary receiving a distribution after December 31, 2003 and before January 1, 2005, the amount payable under any form of benefit subject to Code Section 417(e)(3) and subject to any adjustment under Code Section 415(b)(2)(B) shall not, solely be reason to the change to Code Section 415(b)(2)(E)(ii) by the Pension Funding Equity Act of 2004, be less than the amount that would have been so payable had such amount been determined using the “applicable interest rate” as in effect on December 31, 2003.

(iii) For purposes of the maximum limitation of this Article, all qualified defined benefit plans (whether or not terminated) maintained by an Employer or any Affiliate shall be treated as a single plan. For purposes of applying the limitations of Section 415 of the Internal Revenue Code, the terms “Employer” and “Affiliate” shall be construed in light of Sections 414(b) and (c) of the Code, as modified by Code Section 415(h).

(iv) If the Annual Benefit begins before a Participant’s Social Security Retirement Age (as hereinafter defined), the Dollar Maximum (but not the Percentage Maximum) shall be actuarially reduced so that it is the actuarial equivalent of an Annual Benefit beginning at the Participant’s Social Security Retirement Age:

(A) If a Participant’s Social Security Retirement Age is 65, the Dollar Maximum for benefits commencing on or after age 62 is determined by reducing the Dollar Maximum by 5/9 of one percent for each month by which benefits commence before the month in which the Participant attains age 65.

(B) If a Participant's Social Security Retirement Age is greater than 65, the Dollar Maximum for benefits commencing on or after age 62 is determined by reducing the Dollar Maximum by 5/9 of one percent for each of the first 36 months and 5/12 of one percent for each of the additional months (up to 24 months) by which benefits commence before the month of the Participant's Social Security Retirement Age.

For purposes of this Section, the term "Social Security Retirement Age" shall mean the age used as the retirement age of a Participant under Section 216(l) of the Social Security Act, except that such Section shall be applied without regard to the age increase factor and as if the early retirement age under Section 216(l)(2) of such Act were 62.

(v) If the Annual Benefit begins before age 62, the Dollar Maximum (but not the Percentage Maximum) shall be reduced so that it is the actuarial equivalent of the Dollar Maximum beginning at age sixty-two (62). For purposes hereof, the age adjusted Dollar Maximum beginning prior to age 62 shall be determined as the lesser of (i) the actuarial equivalent annual benefit computed using the Plan's interest rate and mortality table for early retirement benefits or (ii) the actuarial equivalent annual benefit computed using an interest rate of 5% and the "applicable mortality table" under Section 417(e) of the Code.

(vi) If the Annual Benefit begins after a Participant's Social Security Retirement Age, the Dollar Maximum (but not the Percentage Maximum) shall be increased so that it is the actuarial equivalent of an Annual Pension beginning at such age. For purposes hereof, the annual benefit beginning after Social Security Retirement Age shall be determined as the lesser of (i) the actuarial equivalent annual benefit computed using the Plan's interest rate and mortality table for the late retirement benefits or (ii) the actuarial equivalent annual benefit computed using an interest rate of 5% and the "applicable mortality table" under Section 417(e) of the Code.

(vii) For purposes of adjusting the Annual Benefit under paragraphs (i), (ii), (iv), (v) and/or (vi), no adjustments shall be taken into account before the year for which such adjustment first takes effect.

(viii) The foregoing Section 415(b)(2)(E) actuarial assumptions shall apply to all benefits under the Plan (including benefits accrued before and after the RPA '94 effective date which shall be the first limitation year beginning on or after January 1, 1995).

(b) Adjustment for Plan Participation

If a Participant retires with less than 10 years of Plan participation, the Dollar Maximum (but not the Percentage Maximum) shall be reduced by multiplying such dollar limitation by a fraction, the numerator of which is the Participant's years of participation in the Plan and the denominator of which is 10.

(c) Adjustment for Years of Service

If a Participant has less than 10 years of Service, the maximum Annual Benefit payable to the Participant shall be reduced by multiplying such maximum Annual Benefit by a fraction, the numerator of which is the Participant's years of Service or part thereof, and the denominator of which is 10.

(d) Exception Benefits

(i) Subject to the limitations of paragraph (a), this Plan may pay an Annual Benefit to any retired Participant which shall exceed 100% of such Participant's average compensation, provided that the Annual Pension shall not be in excess of $10,000 for the current Plan Year and for all prior Plan Years, and provided that the Participant shall not be or have been at any time considered as an active participant in any defined contribution plan maintained by an Employer or an Affiliate.

(ii) In no event shall the adjustments for participation or Service (pursuant to subsections (b) and (c), respectively) reduce the limitation provided in paragraphs (a)(i) or (d)(i) hereof, whichever is applicable, to an amount less than one-tenth (1/10) of the applicable limitation as determined without regard to such adjustments.

(iii) To the extent provided by the Secretary of the Treasury or his delegate, the adjustment for Plan participation described in subsection (b) herein shall be applied separately with respect to each change in the benefit structure of the Plan.

ARTICLE XI — MISCELLANEOUS PROVISIONS

11.1 Plan Non-Contractual

No Participant or Beneficiary shall have any right or interest under the Plan unless and until he becomes entitled thereto as provided in the Plan. The adoption and maintenance of the Plan shall not be deemed to constitute a contract between an Employer and any Employee. Inclusion in the Plan will not affect an Employer's right to discharge or otherwise discipline Employees and membership in the Plan will not give any Employee the right to be retained in the service of an Employer nor any right or claim to a pension or other benefit unless such right is specifically granted under the terms of the Plan.

11.2 Non-Alienation of Retirement Rights or Benefits

(a) Except as provided in Section 11.2(b) or 11.2(c), no benefit payable under the Plan shall be subject in any manner to anticipation, sale, transfer, assignment, pledge, encumbrance, security interest or charge, and any action by way of anticipating, alienating, selling, transferring, assigning, pledging, encumbering, charging or granting a security interest in the same shall be void and of no effect; nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit.

(b) Section 11.2(a) shall not apply to the creation, assignment, or recognition of a right to any benefit payable pursuant to a qualified domestic relations order as defined in Section 414(p) of the Code. The Administrator shall establish reasonable procedures to determine the status of domestic relations orders and to administer distributions under such orders which are deemed to be qualified domestic relations orders. Such procedures shall be in writing shall comply with the provisions of Section 414(p) of the Code and shall be incorporated into this plan document. To the extent that, because of a qualified domestic relations order, more than one individual is to be treated as a surviving spouse, the total amount payable from the Plan as a result of the death of a Participant shall not exceed the amount that would be payable from the Plan if there were only one surviving spouse.

(c) Notwithstanding the provisions of Section 11.2(a), the Plan may offset any portion of the Accrued Pension of a Participant or the Participant's Beneficiary against a claim of the Plan arising:

(i) as a result of the Participant's or Beneficiary's conviction of a crime involving the Plan; or

(ii) with regard to the Participant's or Beneficiary's violation of ERISA's fiduciary provisions upon:

(A) the entry of any civil judgment, consent order, or decree against the Participant or Beneficiary; or

(B) the execution of any settlement agreement between the Participant or Beneficiary and the Department of Labor or Pension Benefit Guaranty Corporation.

11.3 Payment of Pension to Others

In the event that the Administrator shall find that any Participant or Beneficiary to whom a pension is payable, is unable to care for his affairs because of illness, accident or incapacity, any payment due (unless prior claim therefor shall have been made by a duly qualified guardian or other legal representative) may, in the discretion of the Administrator, be paid to the spouse, parent, child, brother or sister of such Participant or Beneficiary or to any other person deemed by the Administrator to be maintaining or responsible for the maintenance of such Participant or Beneficiary. Any such payment shall be a payment for the account of the Participant or Beneficiary and shall be a complete discharge of any liability of the Plan and any Employer therefor.

11.4 Prohibition Against Reversion

Except as provided in Section 9.2 hereof, in no event shall any funds held in the Trust Fund revert to the Company or be diverted to purposes other than the exclusive benefit of Participants or their Beneficiaries prior to the satisfaction of all liabilities under the Plan; provided, however, that in the event the Plan is terminated, if, after all plan liabilities are satisfied, there remains a balance in the Fund as a result of actuarial error, such balance shall be returned to the Company.

11.5 Merger, Transfer of Assets or Liabilities

The Company may merge or consolidate the Plan with, transfer assets and liabilities of the Plan to, or receive a transfer of assets and liabilities from, any other plan without the consent of any other Employer or other person, if such transfer is effected in accordance with applicable law and if such other plan meets the requirements of Code Sections 401(a) and 501(a), permits such transfer or the receipt of such transfer and, with respect to liabilities to be transferred from this Plan to such other plan, satisfies the requirements of Code Sections 411(d)(6) and 417. This Plan may not be merged or consolidated with any other plan, nor may any assets or liabilities of this Plan be transferred to any other plan, unless the terms of the merger, consolidation or transfer are such that each Participant in the Plan would, if the Plan were terminated immediately after such merger, consolidation or transfer, receive a pension having a value equal to or greater than the pension he would have been entitled to receive if this Plan had terminated immediately prior to the merger, consolidation or transfer.

11.6 Actuarial Equivalence

Any determination of actuarial equivalence required by the provisions of this Plan, when not otherwise specified in the Plan, shall be made on the basis of the mortality table referenced in IRS Revenue Ruling 2001-62, or its successor, with an annual interest rate of 6%.

11.7 Change of Vesting Schedule

If the Plan's vesting schedule is amended or if the Plan is deemed amended by an automatic change to or from a Top-Heavy Plan vesting schedule (Section 13.3), each Participant with at least three years of Service with an Employer may elect, within a reasonable period after the adoption of the amendment or change, to have his nonforfeitable pension computed under the Plan without regard to such amendment or change.

The period during which the election may be made shall commence at the date the amendment is adopted or deemed to be made and shall end on the latest of:

(a) 60 days after the amendment is adopted;

(b) 60 days after the amendment becomes effective; or

(c) 60 days after the Participant is issued written notice of the amendment by the Administrator.

Notwithstanding the foregoing provisions of this Section 11.7, the vested interest of any Participant on the date such amendment is effective shall not be less than his vested interest under the Plan as in effect immediately prior to the effective date of such change.

11.8 Controlled Group

For purposes only of determining eligibility to participate in the Plan and eligibility for any pension (but not the amount thereof) under the Plan, all employment with an Employer or an Affiliate shall be deemed to be employment with an Employer in computing Hours of Service and Service.

11.9 Severability

If any provision of this Plan is held to be invalid or unenforceable, such determination shall not affect the other provisions of this Plan. In such event, this Plan shall be construed and enforced as if such provision had not been included herein.

11.10 Employer Records

The records of a Participant's Employer shall be presumed to be conclusive of the facts concerning his employment or non-employment, Service, Credited Service and Compensation unless shown beyond a reasonable doubt to be incorrect.

11.11 Application of Plan Provisions

This Plan shall be binding on all Participants and their spouses and Beneficiaries and upon heirs, executors, administrators, successors, and assigns of all persons having an interest herein. The provisions of the Plan in no event shall be considered as giving any such person any legal or equitable right against the Company, an Employer or an Affiliate, any of its officers, employees, directors, or shareholders, or against the Trustee, except such rights as are specifically provided for in the Plan or hereafter created in accordance with the terms of the Plan.

11.12 Missing Participants.

If a Participant who has left employment with the Company and Affiliates has failed to file an application for benefits within 120 days after attainment of his Normal Retirement Date, the Administrator shall treat the Participant's retirement benefit or vested Accrued Pension as forfeited; provided, however, that such Accrued Pension shall be reinstated retroactive to the commencement date set forth below upon the subsequent filing of a completed application with the Administrator and shall commence within ninety (90) days after such application is filed. For purposes of this Section 11.12, the commencement date shall be the later of:

(a) Normal Retirement Date; and

(b) the date on which the Participant terminated employment with the Employer and Affiliates.

No payment under the Plan will be increased on account of any delay in payment due to a Participant's or Beneficiary's failure to properly file the required application forms furnished by the Administrator or to otherwise accept such payments.

11.13 IRC 414(u) Compliance Provision

Notwithstanding any provision of the Plan to the contrary and effective as of December 12, 1994, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Section 414(u) of the Code.

11.14 Economic Growth and Tax Relief Reconciliation Act of 2001

Notwithstanding any provisions of the Plan to the contrary, the provisions related to the Economic Growth and Tax Relief Reconciliation Act of 2001 shall apply as provided in Appendix A.

ARTICLE XII — AMENDMENT AND TERMINATION

12.1 Amendment and Termination of the Plan

The Company hopes and expects to continue the Plan, but expressly reserves the right at any time and from time to time, without the consent of Participants,

(a) to reduce or discontinue payments to the Plan;

(b) to terminate the Plan;

(c) to amend the Plan, retroactively or otherwise, in such manner as it may deem necessary or advisable in order to qualify the Plan and any trust established in conjunction therewith under the provisions of Sections 401(a) and 501(a) of the Code, or any similar Code provisions from time to time in effect;

(d) to amend the Plan in any other respect, provided, however, that no such amendment shall forfeit or diminish the interest of any Participant in the Trust Fund to the extent that such interest has become vested in such Participant, except as may be permitted under the Code or ERISA.

Any such amendment to or termination of this Plan shall be evidenced by an instrument executed on behalf of the Company by the President. Such instrument shall recite at which time the amendments contained therein shall become effective.

Promptly after an amendment of this Plan shall have become effective, the Company shall cause a copy of such amendment to be filed with the Administrator and with the Trustee, and the Administrator shall take such steps as it may deem appropriate to reasonably communicate the amendment to Participants.

12.2 Administration of the Plan in Case of Termination

Upon termination of the Plan, as determined by the Pension Benefit Guaranty Corporation, the assets of the Trust Fund shall be liquidated and distributed in accordance with Section 4044 of ERISA and applicable regulations issued thereunder. In the event of the termination of the Plan or a partial termination of the Plan, the rights of all affected Participants to Accrued Pensions determined as of the date of such termination or partial termination, to the extent funded, or as further adjusted by the Pension Benefit Guaranty Corporation as of such date, shall be nonforfeitable. Notwithstanding the foregoing, upon Plan termination, the benefit of any Highly Compensated Employee shall be limited to a benefit that is nondiscriminatory under Section 401(a)(4) of the Code.

Upon termination of the Plan, after the satisfaction of all liabilities of the Plan to its Participants, Beneficiaries and surviving spouses, the Company shall receive any remaining amount resulting from any variations between actual requirements and actuarially expected requirements.

12.3 Internal Revenue Service Limitations

(a) Except in such cases where the circumstances described in subsection (b) apply, the annual payments under the Plan to any one (1) of the twenty-five (25) highest paid Highly Compensated Employees (and Highly Compensated former Employees), ranked by Test Compensation, shall not exceed the sum of:

(i) those payments that would be made on behalf of such Employee under a single life annuity that is the Actuarial Equivalent of the sum of the Employee's Accrued Pension and the Employee's Other Benefits (as defined in subsection (c) below) under the Plan; and

(ii) those payments the Employee is entitled to receive under a social security supplement.

(b) The provisions of subsection (a) above shall not apply if:

(i) after payment of all such benefits to an Employee described in subsection (a), the value of Plan assets equals or exceeds 110% of the value of current liabilities (as defined in Code Section 412(l)(7) under the Plan;

(ii) the value of all such benefits to an Employee described in subsection (a) above is less than one percent of the value of current liabilities under the Plan prior to the payment of all such benefits to such Employee; or

(iii) the value of all such benefits to an Employee described in subsection (a) does not exceed $5,000 or such other amount as may be prescribed under Section 411(a)(11)(A) of the Code as the maximum amount that may be paid out without the Participant's consent.

(c) For purposes of this Section 12.3, "Other Benefits" shall include any loan in excess of the amounts set forth in Code Section 72(p)(2)(A), any periodic income, any withdrawal values payable to a living Employee and any death benefits not provided for by insurance on the Employee's life. "Other Benefits" for this purpose shall not include any social security supplements.

ARTICLE XIII — TOP-HEAVY PROVISIONS

13.1 General

Notwithstanding any provision of this Plan to the contrary but subject to the provisions of Appendix A, the provisions of this Article XIII shall apply with respect to any Plan Year provided the Plan is a Top-Heavy Plan (as defined in Section 13.2(c) below) for such Plan Year.

13.2 Definitions Relating to Top-Heavy Provisions

For purposes of this Article XIII:

(a) "Key Employee" means any Employee or former Employee (and the beneficiaries of such an Employee or former Employee) who, during the current Plan Year or any of the four preceding Plan Years, is:

(i) an officer of an Employer having annual Test Compensation greater than 50 percent of the amount in effect under Section 415(b)(1)(A) of the Code for any such Plan Year; for purposes of this definition, no more than the lesser of (1) 50 Employees or (2) the greater of three Employees or 10% of the Employees shall be treated as officers;

(ii) an owner (or considered an owner under Section 318 of the Code) of one of the ten largest interests in an Employer if such individual's annual Test Compensation exceeds the dollar limitation under Section 415(c)(1)(A) of the Code;

(iii) a five percent (5%) owner (or considered an owner under Section 318 of the Code) who owns more than five percent (5%) of the outstanding stock of an Employer or who owns Employer stock possessing more than five percent (5%) of the total combined voting power of all stock of an Employer;

(iv) a one percent (1%) owner (or considered an owner under Section 318 of the Code) who has annual Test Compensation from an Employer of $150,000 or more, and who owns more than one percent (1%) of the outstanding stock of an Employer or who owns Employer stock possessing more than one percent (1%) of the total combined voting power of all stock of an Employer.

(b) "Determination Date" means, with respect to any Plan Year, the last day of the immediately preceding Plan Year.

(c) “Top-Heavy Plan” means a plan where, as of the Determination Date, the present value of the cumulative accrued benefits (including any part of any accrued benefit distributed in the five-year period ending on the Determination Date) under the Plan for Key Employees exceeds sixty percent (60%) of the present value of the cumulative accrued benefits (including any part of any accrued benefit distributed in the five-year period ending on the Determination Date) under the Plan for all Employees.

(i) If this Plan is in a Required Aggregation Group, each Plan of an Employer required to be in such group will be a Top-Heavy Plan if such group is a Top-Heavy Group.

(ii) If this Plan is in a Permissive Aggregation Group which is not a Top-Heavy Group, no Plan of an Employer in such group will be a Top-Heavy Plan.

(d) “Required Aggregation Group” means:

(i) each plan of an Employer in which a Key Employee is a participant, and

(ii) each other plan of an Employer which enables a plan in which a Key Employee is a participant to meet the requirements of Internal Revenue Code Sections 401(a)(4) or 410. A terminated plan must be aggregated with other plans of an Employer if it was maintained within the five-year period ending on the Determination Date for the Plan Year in question and it would, but for the fact it terminated, be part of a required aggregation group for such Plan Year.

(e) “Permissive Aggregation Group” means any plan of an Employer which is not part of the Required Aggregation Group, but is treated as if it were at the option of the Company, provided such group continues to meet the requirements of Internal Revenue Code Sections 401(a)(4) and 410.

(f) “Top-Heavy Group” means any Required or Permissive Aggregation Group, if as of the Determination Date, the sum of the present value of cumulative accrued benefits for Key Employees under all defined benefit plans included in such Group and the aggregate of the accounts of Key Employees under all defined contribution plans included in such Group exceeds sixty percent (60%) of the similar sum determined for all Employees.

(g) “Present Value of Accrued Benefits” shall be determined as of the most recent valuation date within a twelve-month period ending on the Determination Date, but for the purposes of determining whether this Plan is a Top-Heavy Plan, shall not include:

(i) any rollover contribution initiated by the Employee.

(ii) any accrued benefit or account attributable to an Employee who is not a Key Employee, but who was a Key Employee in any prior Plan Year. To the extent that a Key Employee is deemed to be a Key Employee if he meets the definition of Key Employee within any of the four (4) preceding Plan Years, this provision shall apply following the end of such period of time.

(iii) Any accrued benefit or account attributable to any individual who has not performed any services for an Employer at any time during the five-year period ending on the Determination Date.

Solely for purposes of determining if the Plan is a Top Heavy Plan as described above, the Present Value of Accrued Benefits shall be determined by using the single accrual method which is used for all plans of the Company and of any Affiliate. If no such single method exists, benefits shall be determined as if they accrued not more rapidly than the lowest accrued rate permitted under Section 411(b)(1)(C) of the Code.

(h) “Valuation Date” means December 31.

(i) “Non-Key Employee” means any Employee who is not a Key Employee.

13.3 Top-Heavy Plan Vesting Requirements

(a) For any Plan Year in which the Plan is a Top-Heavy Plan, the following vesting schedule will apply to benefits derived from Employer contributions. The nonforfeitable interest in a Participant’s accrued benefit will be determined as follows:

Years of Service	Nonforfeitable Percentage of Accrued Benefit
0 but less than 2	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 or more	100%

This Section 13.3 does not apply to any Participant who does not have an Hour of Service after the Plan becomes a Top-Heavy Plan.

(b) If the vesting schedule under the Plan shifts in or out of the above schedule due to determination of whether or not the Plan is a Top-Heavy Plan, such shift shall be an amendment to the vesting schedule and Section 11.7 shall apply.

13.4 Top-Heavy Plan Minimum Benefit Requirements

(a) For any Plan Year in which the Plan is determined to be a Top-Heavy Plan, each Non-Key Employee Participant who has completed a year of service will accrue a minimum annual benefit (derived from Employer contributions and expressed as a life annuity beginning at Normal Retirement Age and determined without regard to any Social Security contribution or benefit).

(b) Such accrual of a minimum annual benefit will be the lesser of:

(i) Two percent (2%) of the Participant's highest average compensation for the five consecutive years during which the Participant had the greatest compensation from the Employer multiplied by the years of service as defined in (c) below, or

(ii) Twenty percent (20%) times the Participant's highest average compensation for the five consecutive years during which the Participant had the greatest compensation from an Employer.

(c) (i) For the purpose of the accrual of minimum annual benefit, year of service shall mean a year of Credited Service as defined in Article IV, but will exclude years when the Plan was not a Top-Heavy Plan for any Plan Year ending during such year of Credited Service, as well as years of Credited Service in a Plan Year beginning before December 31, 1984. Notwithstanding the above, each Non-Key Employee Participant who has completed 1,000 Hours of Service in a year in which the Plan is a Top-Heavy Plan shall be entitled to the minimum annual benefit regardless of the level of such Non-Key Employee's compensation.

(ii) The compensation required to be taken into account for purposes of this Section 13.4 is the compensation described in Section 10.1(a)(i) of the Plan; provided, however, that compensation shall not exceed the adjusted annual limitation in effect for the given year (as set forth in Section 2.11) and compensation in years which end in a Plan Year beginning before December 31, 1984 and compensation in years after the close of the last Plan Year in which the Plan is a Top-Heavy Plan shall be disregarded.

(d) Notwithstanding any other provision of the Plan, an Employee shall be a Participant for the purposes of this Section 13.4, and a Participant shall be entitled to an accrual under this Section 13.4, even if he would not otherwise be entitled to receive an accrual or would have received a lesser accrual for the year because the Non-Key Employee Participant is not employed on a specified date.

(e) If the annual retirement pension payable under the Plan to a Participant who has accrued a minimum annual benefit under this Article XIII commences at a date other than at Normal Retirement Age, such Participant shall receive at least an amount that is the actuarial equivalent of the minimum annual benefit commencing at Normal Retirement Age as provided under this Section 13.4 using a five percent (5%) interest rate assumption for such determination. If the annual retirement pension payable to a Participant who has accrued a minimum annual benefit under this Article XIII is in a form other than a single life annuity, such Participant shall receive an amount that is not less than the minimum annual benefit as otherwise provided in this Section 13.4 adjusted to be the actuarial equivalent of a single life annuity commencing at the same age using the provisions of Section 11.6 of the Plan for such determination.

(f) In the case of Employees covered under both this Plan and any other plan maintained by an Employer, this Plan will provide the top heavy minimum benefit which shall be offset by the benefit, if any, provided under such other plans.

13.5 Limited Application of this Article.

The sole purpose of this Article is to comply with Section 416 of the Code and the terms of this Article shall be interpreted, applied, and if and to the extent necessary, shall be deemed modified so as to satisfy solely the minimum requirements of Section 416 of the Code and the regulations promulgated with respect thereto.

ARTICLE XIV — JURISDICTION

14.1 Jurisdiction

The provisions of the Plan shall be construed in accordance with ERISA, the Code, and, where not superseded by ERISA, the laws of the Commonwealth of Pennsylvania.

Executed at Erie, Pennsylvania, this 19th day of December, 2006.

ERIE INDEMNITY COMPANY

By: /s/ Jeffrey A. Ludrof
President & CEO

APPENDIX A

This Appendix A to the Plan is adopted to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). The provisions contained in this Appendix A are intended to serve as good faith compliance with the requirements of EGTRRA and are to be construed in accordance with EGTRRA and guidance issued thereunder. Except as otherwise provided, the provisions of this Appendix A shall be effective as of the first day of the first Plan Year beginning after December 31, 2001 and shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Appendix A.

1. Limitations on Contributions

(a) Effective for limitation years ending after December 31, 2001, benefit increases resulting from the increase in the limitations of Code Section 415(b) will be provided to all employees participating in the Plan who have one Hour of Service on or after the first day of the first limitation year ending after December 31, 2001.

(b) The "Defined Benefit Dollar Limitation" is $160,000 as adjusted effective January 1 of each year under Code Section 415(d), in such manner, as the Secretary shall prescribe, and payable in the form of a straight life annuity. A limitation as adjusted under Code Section 415(d) will apply to limitation years ending with or within the calendar year for which the adjustment applies.

The maximum permissible benefit is the lesser of the Defined Benefit Dollar Limitation or the defined benefit compensation limit as set forth in Code Section 415(b) (both adjusted where required, as provided in (i) and, if applicable, in (ii) or (iii) below).

(i) If the Participant has fewer than 10 years of participation in the Plan, the Defined Benefit Dollar Limitation shall be multiplied by a fraction, the numerator of which is the number of years (or part thereof) of participation in the Plan and the denominator of which is 10. In the case of a Participant who has fewer than 10 years of service with the employer, the defined benefit compensation limitation shall be multiplied by a fraction the numerator of which is the number of years (or part thereof) of service with the employer and the denominator of which is 10.

(ii) If the benefit of a Participant begins prior to age 62, the Defined Benefit Dollar Limitation applicable to the Participant at such earlier age is an annual benefit payable in the form of a straight life annuity beginning at the earlier age that is the actuarial equivalent of the Defined Benefit Dollar Limitation applicable to the Participant at age 62 (adjusted under (i) above, if required). The Defined Benefit Dollar Limitation applicable at an age prior to age 62 is determined as the lesser of the actuarial equivalent (at such age) of the Defined Benefit Dollar Limitation computed using the interest rate and mortality table (or other tabular factor) specified in the Plan or the actuarial equivalent (at such age) of the Defined Benefit Dollar Limitation computed using a 5 percent interest rate and the applicable mortality table as defined in the Plan. Any decrease in the Defined Benefit Dollar Limitation determined in accordance with this paragraph (b) shall not reflect a mortality decrement if benefits are not forfeited upon the death of the Participant. If any benefits are forfeited upon death, the full mortality decrement is taken into account.

(iii) If the benefit of a Participant begins after the Participant attains age 65, the Defined Benefit Dollar Limitation applicable to the Participant at the later age is the annual benefit payable in the form of a straight life annuity beginning at the later age that is actuarially equivalent to the Defined Benefit Dollar Limitation applicable to the Participant at age 65 (adjusted under (i) above, if required). The actuarial equivalent of the Defined Benefit Dollar Limitation applicable at an age after age 65 is determined as the lesser of the actuarial equivalent (at such age) of the Defined Benefit Dollar Limitation computed using the interest rate and mortality table (or other tabular factor) specified in the Plan and the actuarial equivalent (at such age) of the Defined Benefit Dollar Limitation computed using a 5 percent interest rate assumption and the applicable mortality table as defined in the Plan. For these purposes, mortality between age 65 and the age at which benefits commence shall be ignored.

(c) For purposes of applying the defined benefit compensation limit, a multiemployer plan shall not be combined or aggregated with the Plan.

2. Increase in Compensation Limit

The annual compensation of each participant taken into account in determining benefit accruals in any Plan Year beginning after December 31, 2001 shall not exceed $200,000 (as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B) and such cost-of-living adjustments in effect for a calendar year shall apply to the annual compensation for the determination period that begins with or within such calendar year). Annual compensation means compensation during the Plan Year or such other consecutive 12-month period over which compensation is otherwise determined under the Plan (the determination period).

For purposes of determining benefit accruals in any given Plan Year beginning after December 31, 2001, the annual compensation limitation for any determination period after December 31, 1993 and before December 31, 2001, shall be $200,000.

3. Modification of Top-Heavy Rules

This Section 3 of Appendix A amends Article XIII of the Plan and applies for purposes of determining whether the Plan is a top-heavy plan, under Code Section 416(g) for Plan Years beginning after December 31, 2001, and satisfies the minimum benefits requirements of Code Section 416(c) for such years.

(a) Key employee means any employee or former employee (including any deceased employee) who at any time during the Plan Year that includes the determination date was an officer of the employer having annual compensation greater than $130,000 (as adjusted under Code Section 416(i)(1) for Plan Years beginning after December 31, 2002), a 5-percent owner of the employer, or a 1-percent owner of the employer having annual compensation of more than $150,000. For this purpose, annual compensation means compensation within the meaning of Code Section 415(c)(3). The determination of who is a key employee will be made in accordance with Code Section 416(i)(1) and the applicable regulations and other guidance of general applicability issued thereunder.

(b) The present values of accrued benefits and the amounts of account balances of an employee as of the determination date shall be increased by the distributions made with respect to the employee under the Plan and any plan aggregated with the plan under Code Section 416(g)(2) during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Code Section 416(g)(2)(A)(i). In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting “5-year period” for “1-year period”. However, the accrued benefits and accounts of any individual who has not performed services for the employer during the 1-year period ending on the determination date shall not be taken into account.

(c) For purposes of satisfying the minimum benefit requirements of the Plan and Code Section 416(c)(1), in determining years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a Plan Year when the plan does not benefit (within the meaning of Code Section 410(b)) a key employee or former key employee.

Exhibit 10.87

ERIE INSURANCE GROUP

EMPLOYEE SAVINGS PLAN

As Amended and Restated
Effective as of January 1, 2006

INTRODUCTION

The Erie Indemnity Company (the "Company") adopted the Erie Insurance Group Employee Savings Plan (the "Plan") effective January 1, 1989. The Company has subsequently amended the Plan from time to time and was last amended and restated the Plan effective as of January 1, 2001.

This amendment and restatement of the Plan shall constitute an amendment, restatement and continuation of the Plan. This amendment and restatement is generally effective as of January 1, 2006. However, certain provisions of this amendment and restatement are effective as of some other date. The provisions of this amendment and restatement with stated effective dates prior to January 1, 2006, shall be deemed to amend the corresponding provisions, if any, of the Plan as in effect before this amendment and restatement and all amendments thereto as of such dates. Events occurring before the applicable effective date of any provision of this amendment and restatement shall be governed by the applicable provision of the Plan as in effect on the date of the event.

The purpose of the Plan is to provide a pre-tax long term savings vehicle for eligible employees and to provide participants with an opportunity to contribute toward additional retirement security according to the provisions of Sections 401(a), 401(k) and 402A of the Internal Revenue Code of 1986, as amended.

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ARTICLE ONE

DEFINITIONS

As used in this Plan, the following terms shall have the following meanings unless a different meaning is clearly required by the context. Any terms herein used in the masculine shall be read and construed in the feminine where they would so apply, and any terms used in the singular shall be read and construed in the plural if again so applicable.

1.1 "Administrator" or "Plan Administrator" means the Administrator appointed by the Board in accordance with the provisions of Article Nine.

1.2 "Affiliate" means any other employer which, together with the Company, is a member of a controlled group of corporations or of a commonly controlled trade or business (as defined in Code Sections 414(b) and (c) and as modified, where appropriate, by Code Section 415(h)) or of an affiliated service group (as defined in Code Section 414(m)) or other organization described in Code Section 414(o). Each such Affiliate shall be treated as an Affiliate only during such period as it is or was an Affiliate as defined above.

1.3 "Board" means the Board of Directors of the Company.

1.4 "Catch-Up Contribution" means, with respect to a given Participant, the total amount of the Participant's Tax Deferred Catch-Up Contributions and the Participant's Roth Catch-Up Contributions.

1.5 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.6 "Company" means Erie Indemnity Company, a corporation organized and existing under the laws of Pennsylvania.

1.7 "Compensation" for any period means the rate of base salary or the wages paid by an Employer to an Employee during the period. For this purpose, the "rate of base salary or the wages paid" shall exclude Form W-2 income in the form of overtime compensation, bonuses, commissions, deferred compensation plan payments or severance pay under any severance benefit plan, but shall include Form W-2 income paid as a lump sum in lieu of merit increase and compensation excluded from Form W-2 income because of salary reduction agreements in connection with plans described in Sections 125, 132(f)(4) or 401(k) of the Code or resulting from deferred compensation contracts for the Plan Year in question. The Plan shall not take into consideration a Participant's Compensation to the extent it exceeds the adjusted annual limitation permitted under Section 401(a)(17) of the Code for such Plan Year. However, for the sole purpose of computing Plan contributions that are based on an Employee's percentage of Compensation election, such adjusted annual limitation may be ignored provided the Employee does not receive a higher allocation of any type of contribution than the Employee could have received under the Plan had the adjusted annual limitation been considered. For purposes hereof, such adjusted annual limitation shall be, for each Plan Year beginning on and after January 1, 1989 and prior to January 1, 1994, $200,000 as adjusted for such year in the same manner as under Section 415(d) of

the Code, for each Plan Year beginning on and after January 1, 1994 and prior to January 1, 2002, $150,000 as adjusted for such year as provided under Section 401(a)(17)(B) of the Code and, for each Plan Year beginning on and after January 1, 2002, $200,000 as adjusted for such year as provided under Section 401(a)(17)(B) of the Code

1.8 "Covered Employee" means any Employee of an Employer, excluding any such Employee whose employment is governed by the terms of a collective bargaining agreement under which retirement benefits were the subject of good faith bargaining.

Notwithstanding any provision of the Plan to the contrary, any individual who an Employer determines to be a contract employee, independent contractor, leased employee (including a Leased Employee as defined hereunder), leased owner, leased manager, shared employee or person working under a similar classification shall not become a Covered Employee hereunder, regardless of whether any such individual is ultimately determined to be a common law employee, unless and until the Employer shall otherwise determine. An Employee shall be considered a Covered Employee only during such period in which the individual satisfies the requirements defined above.

1.9 "Effective Date" means January 1, 1989.

1.10 "Elective Deferral" means, with respect to a given Participant, the total amount of the Participant's Tax Deferred Contributions and the Participant's Roth Elective Deferrals.

1.11 "Employee" means any common-law employee of an Employer or an Affiliate; provided, however, that for purposes of Section 1.16 "Employee" shall include any self-employed individual performing services for an Employer or Affiliate who is treated as an employee under Section 401(c)(1) of the Code.

1.12 "Employer(s)" means the Company, Erie Family Life Insurance Company, Erie Insurance Exchange, Erie Insurance Company, EI Holding Corp., EI Service Corp., Erie Insurance Company of New York, Erie Insurance Property & Casualty Company, Flagship City Insurance Company and any other Affiliate which may adopt this Plan.

1.13 "Erie Indemnity Stock" means the Class A common stock of the Company which is a qualifying employer security within the meaning of Section 407(d)(5) of ERISA.

1.14 "Erie Indemnity Stock Fund" means the investment fund described in Section 5.4.

1.15 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.16 "Highly Compensated" means any Employee who is a more than five percent (5%) owner of an Employer or both earned $80,000 or more in Test Compensation from the Employer in the lookback year and was member of the Top Paid Group for such year; provided, however, that such $80,000 figure shall be adjusted for cost of living at the same time and in the same manner as determined under Code Section 415(d).

1.17 "Hour of Service" shall include the following:

(a) Each hour for which an Employee is directly or indirectly paid or entitled to payment from an Employer or an Affiliate as an Employee for the performance of duties during an applicable computation period (these hours must be credited to the Employee in the computation period during which the duties were performed and not when paid, if different); and

(b) Each hour for which back pay, irrespective of mitigation of damages, has been awarded or agreed to by an Employer or an Affiliate (these hours must be credited in the computation period or periods to which the award or agreement pertains rather than that in which the payment, award or agreement was made); and

(c) Each hour for which an Employee is directly or indirectly paid or entitled to payment from an Employer or an Affiliate for reasons, such as vacation, sickness or disability, other than for the performance of duties (these hours shall be calculated and credited pursuant to Section 2530.200b-2 of the Department of Labor regulations which are incorporated herein by reference).

1.18 "Interactive Electronic Communication" means a communication between a Participant or beneficiary and the person or entity designated by the Administrator to perform recordkeeping and other administrative services on behalf of the Plan pursuant to a system maintained by such person or entity and communicated to each Participant and beneficiary whereby each such individual may make elections and exercise options as described herein with respect to all or a portion of his Total Account through the use of such system and a personal identification number. If a Participant or beneficiary (i) consents to participate in Interactive Electronic Communication procedures adopted by the Administrator and (ii) acknowledges that actions taken by him through the use of his personal identification number pursuant to the Interactive Electronic Communication procedure constitute his signature for purposes of initiating transactions such as investment option changes, and increases, decreases, and suspensions of Elective Deferrals, the Participant or beneficiary, as the case may be, will be deemed to have given his written consent and authorization to any such action resulting from the use of the Interactive Electronic Communication system by the Participant or beneficiary.

1.19 "Leased Employee" means any person (other than an Employee of an Employer) who pursuant to an agreement between the Employer and any other person ("leasing organization") has performed services for the Employer (or for the Employer and related persons determined in accordance with Section 414(n)(6) of the Code) on a substantially full-time basis for a period of at least one year and such services are performed under primary direction or control by the recipient. Except as provided below, any person satisfying the foregoing criteria shall be treated as an Employee. Contributions or benefits provided a Leased Employee by the leasing organization which are attributable to services performed for the Employer shall be treated as provided by the Employer.

Notwithstanding the foregoing, a Leased Employee shall not be considered an Employee of an Employer if: (i) such Leased Employee is covered by a money purchase pension plan providing: (1) a nonintegrated employer contribution rate of at least 10 percent of compensation, (2) immediate participation, and (3) full and immediate vesting; and (ii)

Leased Employees do not constitute more than 20 percent of the Employer's non-Highly Compensated workforce.

1.20 "Normal Retirement Date" means the first day of the month next following the month in which the Participant attains age 65 (his "Normal Retirement Age").

1.21 "Notice" means, unless otherwise specifically provided herein, (i) written Notice on an appropriate form provided by the Administrator that is, in the discretion of the Administrator, properly completed and executed by the party giving such Notice and which is delivered by hand or by mail to the Administrator or to such party designated by the terms of the Plan or by the Administrator to receive the Notice, or (ii) Notice by Interactive Electronic Communication to the person or entity designated by the Administrator to perform recordkeeping and other administrative services on behalf of the Plan. The form of Notice satisfactory in any given circumstance under the Plan shall be determined by the Administrator, in its discretion, and shall be applied uniformly to all Participants and beneficiaries. Notice to any party as provided herein shall be deemed to be given when it is actually received (either physically or by Interactive Electronic Communication, as the case may be) by the party to whom such Notice is given.

1.22 "Participant" means any Covered Employee who participates in the Plan as provided in Section 3.1 (an "active" Participant) or Section 4.1, and further, shall include any current or former Covered Employee who has suspended his Elective Deferrals or has terminated or retired if such individual has a vested Total Account balance maintained on his behalf under the Plan.

1.23 "Plan" means this Erie Insurance Group Employee Savings Plan as herein set forth with all amendments, modifications and supplements hereafter made.

1.24 "Plan Year" means the calendar year.

1.25 "Qualified Domestic Relations Order" or "QDRO" means any judgment, decree or order (including approval of a property settlement agreement) which is made pursuant to a State Domestic Relations Law (including a community property law) and which:

(a) relates to provision of child support, alimony payments, or marital property rights of a spouse, former spouse, child or other dependent of a Participant;

(b) recognizes or creates an alternate payee's right to, or assigns to an alternate payee the right to receive all or a portion of the benefits payable with respect to a Participant under this Plan; and

(c) clearly specifies:

(i) name and last known address of the Participant and of each alternate payee;

(ii) the amount, percentage, or manner in which such could be determined, of the Participant's benefits to be paid to such alternate payee by the Plan;

(iii) the number of payments or time periods the QDRO covers; and

(iv) each plan to which the QDRO applies.

A QDRO cannot require the Plan to provide a type or form of benefit, or any option not otherwise provided by the Plan, nor can it require the Plan to provide increased benefits. A QDRO cannot require payment to an alternate payee by virtue of a previous QDRO.

A written procedure will be established to determine the qualified status of domestic relations orders and to administer distributions thereunder.

1.26 "Rollover Contribution" means the Rollover Contribution or Roth Rollover Contribution made by a Covered Employee pursuant to Section 4.1.

1.27 "Roth Catch-Up Contribution" means, effective with respect to pay periods ending on or after January 1, 2007, or such later date as the Administrator shall determine, that portion of the Employer contribution made pursuant to Section 3.3 that is, at the election of the Participant, includible in the Participant's gross income at the time the contribution is made.

1.28 "Roth Elective Deferral" means, effective with respect to pay periods ending on or after January 1, 2007, or such later date as the Administrator shall determine, the Employer contribution made pursuant to a Participant's election under Section 3.1(a) to contribute a stated percentage, from one percent (1%) to one hundred percent (100%) of his future Compensation in lieu of receiving such amount directly in cash and to have such amount contributed to a Designated Roth Account maintained on his behalf under the Plan. A Roth Elective Deferral shall be includible in the Participant's gross income at the time of deferral and shall be irrevocably designated as a Roth Elective Deferral by the Participant in his election.

1.29 "Roth Rollover Contribution" means that portion of a Covered Employee's Rollover Contribution that is attributable to a designated Roth account under an eligible retirement plan.

1.30 "Safe Harbor Matching Contribution" means the Employer contribution made pursuant to Section 3.4.

1.31 "Spousal Consent" means a written consent given by a Participant's legally-recognized spouse to a Participant's designation of a specified beneficiary or beneficiaries (including the designation of any class of beneficiaries or any contingent beneficiaries) under Section 11.6(a). Any Spousal Consent shall be effective only with respect to such spouse. Such consent shall be duly witnessed by a Plan representative or a notary public and shall acknowledge the effect on the spouse of the Participant's election. The Participant may revoke, without limitation, any such designation without the need for Spousal Consent. Any new designation will require a new Spousal Consent. The requirement for Spousal Consent may be waived by the Administrator if it is established that there is no spouse, the spouse cannot be located, the Participant has a court order

evidencing a legal separation from or abandonment by the spouse, or for such other circumstances as shall be prescribed by applicable law.

1.32 "Tax Deferred Catch-Up Contribution" means that portion of the Employer contribution made pursuant to Section 3.3 that is, at the election of the Participant, not includible in the Participant's gross income at the time the contribution is made.

1.33 "Tax Deferred Contribution" means the Employer contribution made pursuant to a Participant's election under Section 3.1(a) to reduce his future taxable Compensation by a stated percentage, from one percent (1%) to one hundred percent (100%), in lieu of receiving such amount directly in cash and to have such amount contributed to a Tax Deferred Account maintained on his behalf under the Plan. A Tax Deferred Contribution shall not be includable in the Participant's gross income at the time of deferral.

1.34 "Test Compensation" means, for any Plan Year, an Employee's compensation, reported under Sections 6041 and 6051 of the Code on Form W-2, as paid by an Employer or an Affiliate for the calendar year ending with or within such Plan Year, including any amounts contributed pursuant to a salary reduction election on behalf of a Covered Employee to a plan described in Sections 125, 132(f)(4), 402(e)(3), 402(h)(1)(B), 403(b), or 457(b) of the Code for the period in question. Test Compensation in any given year shall not exceed the adjusted annual limitation in effect for such year (as set forth in Section 1.7), provided that such limitation shall not be applied in determining the status of an Employee as a Highly Compensated Employee. To the extent permitted under regulations and other guidance promulgated by the Internal Revenue Service, the Company may elect to determine Test Compensation on a basis other than that provided above.

1.35 "Top Paid Group" means all active Employees who, as of a given year, are in the top twenty percent (20%) of the Company's work force on the basis of Test Compensation for such year, excluding the following:

(a) Employees who have not completed six months of service by the end of such year;

(b) Employees who work less than 17-1/2 hours per week for such year;

(c) Employees who normally do not work more than six months in a year;

(d) Employees under age 21 at the end of such year; and

(e) non-resident aliens who received no U.S.-source income for such year.

For purposes of this Section, the Company's work force shall include individuals employed by an Affiliate.

1.36 "Total Account" means the total amounts held under the Plan for a Participant, consisting of the following accounts:

(a) "Designated Roth Account" the portion of the Participant's Total Account consisting of Roth Elective Deferrals plus (minus) any investment earnings(losses) on such contributions and less any distributions or withdrawals made from this account in accordance with Articles Six and Seven, respectively.

(b) "Employer Account" the portion of the Participant's Total Account consisting of employer matching contributions made under the Plan with respect to Plan Years beginning before January 1, 2001, plus (minus) any investment earnings (losses) on such contributions and less any distributions or withdrawals made from this account in accordance with Articles Six and Seven, respectively.

(c) "Rollover Account" the portion of the Participant's Total Account consisting of Rollover Contributions other than that portion of any Rollover Contribution that is attributable to a Roth Rollover Contribution plus (minus) any investment earnings (losses) on such contributions and less any distributions or withdrawals made from this account in accordance with Articles Six and Seven, respectively.

(d) "Roth Catch-Up Account" the portion of the Participant's Total Account consisting of Roth Catch-Up Contributions plus (minus) any investment earnings (losses) on such contributions and less any distributions or withdrawals made from this account in accordance with Article Six and Seven, respectively.

(e) "Roth Rollover Account" the portion of the Participant's Total Account consisting of Roth Rollover Contributions plus (minus) any investment earnings (losses) on such contributions and less any distributions or withdrawals made from this account in accordance with Article Six and Seven, respectively.

(f) "Safe Harbor Matching Account" the portion of the Participant's Total Account consisting of Safe Harbor Matching Contributions, plus (minus) any investment earnings (losses) on such contributions and less any distributions made from this account in accordance with Article Six.

(g) "Tax Deferred Account" the portion of the Participant's Total Account consisting of Tax Deferred Contributions plus (minus) any investment earnings (losses) on such contributions and less any distributions or withdrawals made from this account in accordance with Articles Six and Seven, respectively.

(h) "Tax Deferred Catch-Up Account" the portion of the Participant's Total Account consisting of Tax Deferred Catch-Up Contributions plus (minus) any investment earnings (losses) on such contributions and less any distributions or withdrawals made from this account in accordance with Article Six and Seven, respectively.

1.37 "Trust Agreement" means the Trust Agreement between the Company and a Trustee as provided in Section 8.1, together with all amendments, modifications and supplements hereafter made.

1.38 "Trust Fund" means the fund established under the terms of the Trust Agreement with the Trustee for the purpose of holding and investing the assets of the Plan. The Trust Fund shall consist of such investment funds or vehicles as the Administrator may, in its discretion, designate from time to time and may include such investments as may be selected by a Participant or beneficiary under a self-directed "open option" arrangement authorized by the Administrator.

Nothing herein shall prohibit the Trust Fund from holding reasonable amounts in cash or cash equivalents in any fund or vehicle offered under the Plan. The portion of the Trust Fund to be invested in the various funds or vehicles shall be determined by Participant investment elections made pursuant to Article Five. The Administrator may, in its discretion, offer additional investment funds or vehicles to all Participants and may cease to offer any investment fund or vehicle at such time as it deems appropriate.

Except as otherwise indicated, the Trust Fund shall be deemed to include that portion of a Total Account which a Participant or beneficiary elects to invest in a group annuity contract provided by the Erie Family Life Insurance Company.

1.39 "Trustee" means the Trustee or Trustees acting as such under a Trust Agreement, including any successor or successors.

1.40 "Valuation Date" means the close of business as of each business day.

1.41 "Year of Eligibility Service" means an "Eligibility Computation Period" in which an Employee completes at least 1,000 Hours of Service.

The "Eligibility Computation Period" with respect to an Employee shall mean the 12 consecutive month period that begins on the first day on which the Employee is credited with an Hour of Service in the employment of an Employer or Affiliate ("Employment Commencement Date") and ends on the first anniversary thereof, and each Plan Year thereafter beginning with the Plan Year that includes the first anniversary of the Employee's Employment Commencement Date. In the event an Employee completes 1,000 Hours of Service during the Eligibility Computation Period that begins on his Employment Commencement Date and completes 1,000 Hours of Service during the Eligibility Computation Period that begins on the January 1 that next follows his Employment Commencement Date, such Employee shall be credited with two Years of Eligibility Service.

ARTICLE TWO

PARTICIPATION

2.1 Participation

(a) Any Employee shall be eligible to participate in the Plan on the first day of a pay period, provided he is a Covered Employee and is actively employed by an Employer on such date and, provided further, that he makes proper application for participation within a reasonable time prior to the start of such pay period by furnishing Notice in accordance with procedures established by the Administrator and communicated to Covered Employees.

(b) Notwithstanding the foregoing, any Covered Employee who is compensated on an hourly basis and who is classified by an Employer as other than a regular hourly employee shall be eligible to participate in the Plan on the January 1 or July 1 coincident with or next following such Employee's completion of each of the following requirements, provided he remains a Covered Employee as of such January 1 or July 1:

(i) His attainment of age 21 years; and

(ii) His completion of one Year of Eligibility Service.

If the Employee is not a Covered Employee on the date he otherwise would have become eligible to participate in the Plan, such Employee shall automatically become eligible to participate in the Plan upon his return to employment as a Covered Employee.

2.2 Rehired Employees

An Employee who had been an "active" Participant in the Plan, who terminates his employment and is subsequently re-employed may become eligible to participate in the Plan under Section 3.1 on the first day of any pay period following re-employment, provided he is a Covered Employee and is actively employed by an Employer on such date and, provided further, that he makes proper application for participation within a reasonable time prior to the start of such pay period by furnishing Notice in accordance with procedures established by the Administrator and communicated to Covered Employees.

2.3 Employment Transfers

(a) Upon the transfer of a Covered Employee to other employment with an Employer or Affiliate whereby he ceases to be a Covered Employee hereunder, such individual's ability to have Elective Deferrals made to the Plan on his behalf (and to receive Safe Harbor Matching Contributions) with respect to Compensation earned on and after this date of transfer shall cease and such Participant shall be considered an "inactive" Participant under the Plan.

(b) Upon the transfer of an individual from other employment with an Employer or Affiliate such that the individual becomes a Covered Employee hereunder, such individual shall be eligible to participate in the Plan as provided in Section 2.1 hereof.

ARTICLE THREE

EMPLOYER CONTRIBUTIONS

3.1 Elective Deferrals

(a) Each Covered Employee who is eligible to participate in the Plan and who has elected to become a Participant (in accordance with Article Two) may, at the time of making application to become a Participant, elect to make Elective Deferrals in a fixed, whole percentage, from one percent (1%) to one hundred percent (100%) of that Compensation otherwise payable in future pay periods. Such election shall be made in accordance with procedures adopted by the Administrator and communicated to Participants. In all events, a Participant will be permitted to (i) begin making Elective Deferrals, (ii) change an existing election to made Elective Deferrals, and (iii) cease making Elective Deferrals at least once each Plan Year.

Subject to the limitations set forth in Sections 3.2 and 11.11, Elective Deferrals shall be made pursuant to the Participant's election and shall be designated as either Tax Deferred Contributions or Roth Elective Deferrals in accordance with such election; providing however, that the Administrator, in its discretion may authorize at any time a suspension or reduction of Elective Deferrals, or any part thereof, with respect to any Participant. Elective Deferrals shall be withheld by the Participant's Employer each pay period by regular payroll deduction in accordance with the Employer's payroll withholding procedures and shall be credited to the Participant's Tax Deferred Account or Designated Roth Account as of the date the contributions are received by the Trustee or otherwise deposited in the Trust Fund. Such contributions shall be deposited in the Trust Fund as soon as such amounts can reasonably be segregated from the Employer's general assets.

(b) Elective Deferrals constitute Employer contributions under the Plan and are intended to qualify as elective contributions under Section 401(k) of the Code. Elective Deferrals may be made only with respect to an amount which the Participant could otherwise elect to receive in cash and which is not currently available to the Participant as of the date an election specified in this Section 3.1 is made. In the event a Participant has no Compensation for any payroll period, no Elective Deferral may be made for such period.

3.2 Dollar Limitation on Elective Deferrals

(a) Any provision of this Plan to the contrary notwithstanding, no Employer shall be permitted, during any calendar year, to make with respect to such calendar year, Elective Deferrals on behalf of a Participant under the Plan (when combined with the Participant's elective deferrals under any other plans, contracts, or arrangements) that will exceed the limitation in affect for such year under Section 402(g)(1) of the Code, as adjusted in accordance with Section 402(g)(4) of the Code. Make-up contributions on account of qualified military service under

Section 414(u) of the Code shall not be recognized as elective deferrals for purposes of this section.

(b) In the event any amount of Elective Deferrals for a calendar year exceeds the limitation applicable under this Section 3.2 for such calendar year, such excess amount (hereafter described for purposes of this Section, as “Excess Deferrals”), as adjusted for any income or loss allocable thereto in accordance with regulations, shall to the extent possible be distributed to such Participant, as provided in subparagraphs (i), (ii), (iii) and (iv) below:

(i) At a date not later than the March 1st of the calendar year immediately following the calendar year to which such Excess Deferrals are attributable, any Participant to whom this Section 3.2 applies may notify, in writing, the Administrator by submitting a form as may be provided by the Administrator which shall specify the amount of the Participant’s Excess Deferrals for the given calendar year and shall contain a certified statement by the Participant indicating that if such amount is not distributed, such Excess Deferrals will exceed the limit imposed on the Participant by Section 402(g) of the Code for the year in which the Elective Deferrals occurred.

Notwithstanding the foregoing and solely for the purpose of facilitating a distribution of Excess Deferrals as required by regulation, in the event a Participant has Excess Deferrals in a given year calculated by taking into account his Elective Deferrals hereunder and his elective deferrals under any other plan, contract, or arrangement maintained by an Employer or Affiliate, the Participant will be deemed to have notified the Administrator in the manner provided in this subparagraph.

(ii) At a date not later than the April 15 of the calendar year immediately following the calendar year to which such Excess Deferrals are attributable, the Plan may distribute to the Participant the amount of the Excess Deferrals allocated to the Plan as adjusted for any income or loss allocable to such excess. Any Excess Deferrals distributed pursuant to this subparagraph that have not previously been included in income are to be included in the gross income of the Participant for the year to which such Excess Deferrals relate. Any income that is allocable to Excess Deferrals (as determined in accordance with rules promulgated by the Secretary of the Treasury or his delegate) that is distributed pursuant to this subparagraph is to be included in the gross income of the Participant for the year in which such amount is distributed. In making a distribution as permitted under this Section, the Administrator shall first allocate the Excess Deferral to any Roth Elective Deferrals for such year and shall allocate the Excess Deferral to Tax Deferred Contributions only to the extent the Excess Deferral exceeds such Roth Elective Deferrals. The Administrator shall designate the distribution as that consisting of Excess Deferrals within the meaning of Section 402(g)(1) of the Code. Any distribution of less than the entire amount of Excess Deferrals plus income or loss attributable to such deferral contributions shall be treated as a pro rata distribution of such excess deferral contributions and income/loss. No corrective distribution under this Section shall be recognized for purposes of determining whether the minimum distribution requirements of Section 401(a)(9) of the Code are satisfied with respect to any Participant.

(iii) Any distribution in accordance with this Section 3.2 shall be made without regard to any notice or consent otherwise required under Sections 411(a)(11) or 417 of the Code.

3.3 Catch-Up Contributions

(a) A Participant who is a Covered Employee and who is age 50 or older at any time during a given Plan Year shall be eligible to elect to make a Tax Deferred Catch-Up Contribution for such Plan Year or, for Plan Years beginning on and after January 1, 2007, a Roth Catch-Up Contribution for such Plan Year. Such election shall be made, and may be changed prospectively, in accordance with procedures adopted by the Administrator and communicated to Covered Employees.

(b) A Catch-Up Contribution is an Employer contribution that is actually made on behalf of a Participant described in Section 3.3(a) whose Elective Deferrals for the give Plan Year are otherwise limited as provided in Section 3.2. and that is in an amount that does not exceed the dollar limit under Section 414(v)(2)(B)(i) of the Code, as adjusted in accordance with Section 414(v)(2)(C) of the Code. A Catch-Up Contribution is not taken into account for purposes of the limitations provided in Sections 3.2 and 11.11 of the Plan and the Plan shall not be treated as failing the requirements identified in Section 414(v)(3) of the Code, as applicable, by reason of such Catch-Up Contributions.

3.4 Safe Harbor Matching Contributions

(a) The Employer shall contribute an amount to the Trust Fund equal to the sum of those amounts individually determined with respect to each Participant, as follows:

(i) One hundred percent (100%) of the Elective Deferrals made with respect to the Participant during such pay period which do not exceed three percent (3%) of the Participant’s Compensation during such pay period; and

(ii) Fifty percent (50%) of the Elective Deferrals made with respect to the Participant during such pay period which exceed three percent (3%), but do not exceed five percent (5%), of the Participant’s Compensation during such pay period.

Such contributions shall be designated as Safe Harbor Matching Contributions and shall be 100% vested and nonforfeitable when made. The Employer shall make Safe Harbor Matching Contributions as soon as practicable following the end of the pay period to which they relate and such contributions shall be credited to Participants’ Safe Harbor Matching Accounts as of the date they are received by the Trustee or otherwise deposited in the Trust Fund. Notwithstanding the foregoing provisions, Catch-Up Contributions shall be treated as Elective Deferrals under this Section 3.4 solely to the extent a Participant's Elective Deferrals (exclusive of Catch-Up Contributions) for a given Plan Year do not equal or exceed five percent (5%) of the Participant's Compensation during the Plan Year and provided that any such inclusion of Catch-Up Contributions in Elective Deferrals will not cause the amount of Elective Deferrals that are recognized for purposes of the Safe Harbor Matching Contribution formula to exceed five percent (5%) of the Participant's Compensation during the Plan Year. The Safe Harbor Matching Contribution made on behalf of each Participant shall be adjusted as of the last day of a Plan Year to ensure that the actual Safe Harbor Matching Contribution made equals the appropriate percentages set forth in this Section 3.4(a), as determined on the Plan Year basis.

(b) Effective with respect to each Plan Year in which the provisions of Section 3.4 are applicable, the Administrator shall provide Notice during the "Safe Harbor Notice Period" (as hereinafter defined) to each Covered Employee who is eligible to participate in the Plan during such Plan Year. Such Notice shall describe the following:

(i) The formula used to determine the Safe Harbor Matching Contribution to be made on behalf of such Employee for such Plan Year;

(ii) Any requirements that such Employee must satisfy to become entitled to receive such contributions;

(iii) The type and amount of Compensation that may be deferred under the Plan as Elective Deferrals and Catch-Up Contributions;

(iv) The procedures for making or changing an election to make Elective Deferrals and Catch-Up Contributions, including the periods available for making or changing such elections;

(v) The withdrawal and vesting provisions applicable to contributions under the Plan; and

(vi) A means by which Covered Employees may easily obtain additional information about the Plan.

For purposes hereof, the "Safe Harbor Notice Period" shall mean a period beginning 90 days before the first day of the applicable Plan Year and ending 30 days before the first day of the applicable Plan Year; provided, however, with respect to a Covered Employee who becomes eligible to participate in the Plan during a given Plan Year in which the provisions of Section 3.4 are applicable, the "Safe Harbor Notice Period" shall begin 90 days before the day such Employee may first participate in the Plan and shall end on the day such Employee may first participate in the Plan.

(c) The Employer elects to treat the Plan as automatically satisfying the nondiscrimination in amount of employer contribution requirements of Section 401(a)(4) of the Code. Notwithstanding any provision of this Section 3.4 to the contrary, the Employer reserves the right to suspend future Safe Harbor Matching Contributions at any time provided that the procedures for implementing such suspension are consistent with Section 1.401(k)-3(g) of the Income Tax Regulations.

3.5 Source of Employer Contributions

(a) The Employer shall make all contributions to the Plan without regard to current or accumulated net profits. Notwithstanding the foregoing, for purposes of Sections 401(a)(27) and 401(k) of the Code, the Plan shall continue to be considered a profit sharing plan. Effective January 1, 2007, this Plan is also intended to be a qualified Roth contribution program under Section 402A of the Code. All Employer contributions shall be made in cash and shall be conditioned on the deductibility of the contribution.

(b) Any provision of the Plan to the contrary notwithstanding, the total Employer contribution made with respect to any Plan Year, when added to any other contributions made by the Employer to a plan qualified under Section 401(a) of the Code, shall not exceed such amount which is deductible for such Plan Year pursuant to Sections 404(a)(3) or 404(a)(7) of the Code. In any event, all contributions for a Plan Year shall be paid within the regular or extended time for filing the Employer's federal income tax return for the fiscal year which includes the Plan Year end.

3.6 Investment of Employer Contributions

The Employer contributions made on behalf of a Participant shall be invested by the Trustee in accordance with the Participant's election under Sections 5.3(a) and 5.4(a).

3.7 Recovery of Contributions

Except as provided in this Section 3.7, the assets of the Plan shall never inure to the benefit of an Employer or Affiliate and shall be held for the exclusive purpose of providing benefits under the Plan and defraying reasonable expenses of the Plan. However, no provision of this Plan shall:

(a) Prohibit the return of a contribution to an Employer or a Participant within one year after payment if such contribution was made by a mistake of fact;

(b) Prohibit the return of a contribution that is determined to be nondeductible (to the extent disallowed as a deduction);

provided, however, in the case of the return of a contribution which was made as a result of a mistake of fact, the amount which shall be returned is the excess of the amount contributed over the amount which would have been contributed had the mistake of fact not occurred. Further, in the case of the return of a contribution that is determined to be nondeductible, and in the case of a contribution made as the result of a mistake of fact, earnings attributable to the excess contribution may not be returned, but losses attributable thereto must reduce the amount to be returned. Further, in both such cases, if the withdrawal of the amount attributable to the mistaken or nondeductible contribution would cause the balance of the account of any Participant to be reduced to less than the balance which would have been in the account had the mistaken or nondeductible amount not been contributed, then the amount to be returned to the Employer will be limited so as to avoid such reduction.

3.8 Other Provisions Relating to Employer Contributions

(a) Except as otherwise provided in accordance with procedures adopted by the Administrator and communicated to applicable Participants, a Participant may as of any time:

(i) suspend the Elective Deferrals and/or Catch-Up Contributions being made on his behalf; or

(ii) increase or decrease the rate of Elective Deferrals and/or Catch-Up Contributions made on his behalf or have such contributions resumed after a period of suspension;

(iii) change the allocation of the Elective Deferrals made on his behalf from Tax Deferred Contributions to Roth Elective Deferrals, or vice versa; or

(iv) change the allocation of the Catch-Up Contributions made on his behalf from Tax Deferred Catch-Up Contributions to Roth Catch-Up Contributions, or vice versa.

Such suspension or change in rate or allocation shall be effective as of the first day of the pay period next following the date the Participant delivers Notice of the same to the Administrator, provided such Notice is delivered to the Administrator in such time as to allow the Administrator a reasonable period within which to act on the election contained therein.

During any period of suspension, regardless of the length of its duration, the Participant’s Account shall be maintained in accordance with the procedure set forth in Article Five.

(b) In the event Safe Harbor Matching Contributions have been made with respect to Elective Deferrals that are subsequently determined to fail to meet the annual dollar limitation specified in Section 3.2(a) (and if such Excess Deferrals are distributed pursuant to Section 3.2(b)), such Safe Harbor Matching Contributions (and any income or loss attributable thereto determined in accordance with regulations) shall be forfeited and applied to reduce future Safe Harbor Matching Contributions.

ARTICLE FOUR

ROLLOVER CONTRIBUTIONS

4.1 Rollover Contributions

(a) Under such rules and procedures as the Administrator may establish, any Covered Employee may make a cash Rollover Contribution to this Plan of all or a portion of the amount received by the Covered Employee in the form of an eligible rollover distribution from an eligible retirement plan (as such terms are defined in Section 6.4); provided, however, that the Plan shall not accept (i) a rollover of after-tax employee contributions; (ii) a rollover from an individual retirement account or annuity that is other than a conduit IRA, as determined by the Administrator, or (iii) a rollover from such other source, and/or under such circumstances, as the Administrator, in its discretion, shall determine to be ineligible. Effective January 1, 2007, that portion of a Rollover Contribution that is attributable to a designated Roth account under an eligible retirement plan shall be accepted provided it meets the other requirements of this section and is made as a direct rollover to a Roth Rollover Account hereunder. Such Roth Rollover Contribution shall be subject to separate accounting, including accounting for the amount of such contribution not includable in income. Any portion of a Rollover Contribution that is not a Roth Rollover Contribution and that is accepted by the Administrator shall be allocated to a Rollover Account established on behalf of the Covered Employee. No Rollover Contribution may be made to the Plan unless the Covered Employee had demonstrated to the Administrator’s satisfaction that the contribution satisfied the conditions for tax-free rollover treatment under the applicable provisions of the Code.

(b) In the event the Administrator has reasonably concluded that an amount may be accepted by the Plan as a Rollover Contribution under Section 4.1(a) but later determines that all or a portion of such amount fails to satisfy the provisions of Section 4.1(a), the Administrator shall cause such ineligible amount and related investment earnings to be distributed to the Covered Employee (or, if applicable, beneficiary) as soon as administratively feasible.

4.2 Vesting of Rollover Contributions

Amounts contributed under Section 4.1 hereof shall at all times be 100% vested.

ARTICLE FIVE

PARTICIPANT ACCOUNTS AND VALUATION OF FUNDS

5.1 Establishment of Participant Accounts

(a) There shall be established and maintained for each Participant a Total Account. A Total Account may consist of the following accounts:

(i) a Tax Deferred Account;

(ii) a Safe Harbor Matching Account;

(iii) an Employer Account;

(iv) a Rollover Account;

(v) a Tax Deferred Catch-Up Account;

(vi) for periods on and after January 1, 2007, a Designated Roth Account;

(vii) for periods on and after January 1, 2007, a Roth Catch-Up Account; and

(viii) for periods on and after January 1, 2007, a Roth Rollover Account.

(b) Within each of the accounts listed in Section 5.1(a) that are applicable to a given Participant, separate records shall be kept of the portion, if any, of each account invested in each investment fund or vehicle then offered under the Plan. The Administrator may adopt rules, consistent with income tax regulations, that designate certain accounts as constituting a separate contract for purposes of Section 72 of the Code.

5.2 Procedure as of Each Valuation Date

As of each Valuation Date, each Participant’s balance in his various accounts shall be adjusted in accordance with the valuation procedure adopted by the Administrator.

5.3 Investment Elections

(a) When a Covered Employee submits his application to become a Participant, he shall give Notice regarding the investment of contributions to be made on his behalf under the Plan. Such Notice shall be provided to the Administrator or its designee within such time and in accordance with such means as are designated by the Administrator and communicated to Participants and Covered Employees. Subject to such procedural rules as may be established by the Administrator from time-to-time, such Notice shall specify, in 1% increments from 0% to 100%, the percentage of each applicable contribution source which is to be invested in each investment option then made available.

A Participant may change the investment elections made under this Section 5.3(a) at any time by giving Notice to the Administrator or its designee within such time and in accordance with such means as are designated by the Administrator and communicated to Participants and Covered Employees. Such Notice of change shall be subject to the procedural specifications set forth above (and, if applicable, subject to the limitations set forth in Section 5.4) and, except as may otherwise be provided in the Trust Agreement, shall be effective with respect to contributions received by the Trustee (or otherwise deposited into the Trust Fund) as of the Valuation Date on which the Notice is received or as of the next following Valuation Date, in accordance with procedures established by the Administrator, and communicated to Participants and Covered Employees.

A Covered Employee making a Rollover Contribution shall give Notice regarding the investment of such contribution. Such Notice shall be delivered on or prior to the date the Rollover Contribution is effective and shall specify, in 1% increments from 0% to 100%, the percentage of the Rollover Contribution to be invested in each investment option which is then made available for the investment of Rollover Contributions.

(b) Each Participant and beneficiary shall have the opportunity to change the manner in which the Total Account maintained on his behalf under the Plan is invested. Such opportunity shall be exercised by giving Notice to the Administrator or its designee within such time and in accordance with such means as are designated by the Administrator and communicated to Participants, Covered Employees and affected beneficiaries. Subject to such procedural rules as may be established by the Administrator from time-to-time, such Notice shall specify, in a whole dollar amount or in 1% increments from 0% to 100%, the dollar amount, or percentage, of the Total Account maintained on behalf of the Participant or beneficiary which is to be invested in each investment option then made available. Except as may otherwise be set forth in the Trust Agreement, such Notice shall be effective as of the Valuation Date on which the Notice is received by the Trustee or as of the next following Valuation Date, in accordance with procedures established by the Administrator and communicated to Participants, Covered Employees and affected beneficiaries. Notwithstanding any provision of this paragraph (b) to the contrary, (i) the election under this Section 5.3(b) shall be subject to any contractual limitations imposed on the direct transfer of assets between given investment funds or such other reasonable limitation on exchanges as may be agreed to between the Administrator and the person or entity designated by the Administrator to perform administrative services on behalf of the Plan (ii) the election under this Section 5.3(b) shall be subject to any regulatory restrictions on transfers, as determined by the Administrator, in its discretion, (iii) in no event shall any portion of the Total Account maintained on behalf of a Participant or beneficiary in the Erie Family Life Group Annuity Fund be transferred to any other investment fund and (iv) in no event shall any portion of the Total Account maintained on behalf of a Participant be transferred to the Erie Indemnity Stock Fund.

(c) Any investment elections or changes in elections under this Section 5.3 may be limited or delayed by the Administrator or Trustee, if, in the judgment of such party, giving immediate effect to such elections would adversely affect the Total Account balances of a significant number of Participants.

(d) In the event a Participant's, Covered Employee's or beneficiary's investment election under the Plan is incomplete, the Participant, Covered Employee or beneficiary will be deemed to have chosen to invest in such default fund as is set forth in the Trust Agreement or as otherwise determined by the Administrator.

(e) Any investment election or deemed investment election under the Plan shall remain in effect until changed by an election under this Section.

(f) Each Participant, Covered Employee and beneficiary is solely responsible for the selection of his investment option. The Trustee, the Administrator, the Employer, and the directors, officers, supervisors and other employees of the Employer are not empowered to advise a Participant, Covered Employee or beneficiary as to the manner in which any portion of his Total Account shall be invested. The fact that an investment option is available under the Plan shall not be construed as a recommendation for investment in that investment option.

5.4 Erie Indemnity Stock Fund

The provisions of this Section shall become applicable to the extent to which Participants' and beneficiaries' Employer Accounts and/or Safe Harbor Matching Accounts under the Plan are invested in the Erie Indemnity Stock Fund.

(a) The Administrator shall make available under the Plan an investment fund which shall consist exclusively of Erie Indemnity Stock; provided, however, that in the discretion of the Trustee, within guidelines set by the Administrator, a portion of such fund may be held in short-term interest-bearing investments or cash pending purchase of Erie Indemnity Stock and to provide sufficient liquidity for exchanges out of the fund, withdrawals and loans. Such investment fund shall be referred to as the "Erie Indemnity Stock Fund". Except as otherwise provided in this Section 5.4, a Participant shall be permitted to invest all or a portion of the Safe Harbor Matching Contributions, made on his behalf in the Erie Indemnity Stock Fund in accordance with the provisions of Section 5.3. A Participant shall not be permitted to invest any portion of the Elective Deferrals or Catch-Up Contributions made on his behalf in the Erie Indemnity Stock Fund nor shall any Participant or Covered Employee be permitted to invest any portion of a Rollover Contribution in the Erie Indemnity Stock Fund. No Participant, Covered Employee or beneficiary may transfer any portion of the Total Account maintained on his behalf to the Erie Indemnity Stock Fund. For purposes of implementing Participant investment elections under Section 5.3, or a Participant's or beneficiary's distribution election under Section 6.3, the Trustee may, in its discretion, purchase or sell Erie Indemnity Stock on the open market or by privately-negotiated transaction; provided however, that any such purchase or sale shall be made only in exchange for fair market value as determined by the Trustee and, provided further that, no commission shall be charged to or paid by the Plan with respect to any purchase or sale of Erie Indemnity Stock between the Plan and a party in interest (as defined in Section 3(14) of ERISA). Any distributions, dividends or other income received by the Trustee with respect to the Erie Indemnity Stock Fund shall be reinvested by the Trustee in the Erie Indemnity Stock Fund.

(b) The restrictions contained in this paragraph (b) shall apply to that portion of the Employer Accounts and/or Safe Harbor Matching Accounts maintained on behalf of Participants or beneficiaries which are invested in the Erie Indemnity Stock Fund and, if and to the extent necessary, any election made by a Participant or beneficiary under the Plan shall be deemed modified to be consistent with this paragraph (b).

Notwithstanding the provisions of Section 5.4 and Articles Seven and Fourteen:

(i) No Participant or beneficiary shall, on the basis of material nonpublic information with respect to the Company or its affiliates, make an election permitted by that Section or those Articles if (1) such election would result in an exchange into or out of, loans from, withdrawals from, or an increase or decrease in the amount of contributions to the Erie Indemnity Stock Fund, and (2) the transaction resulting from such election is prohibited by Rule 10b-5.

(ii) No officer shall make an election permitted by that Section or those Articles if such election would result in a transaction involving the Erie Indemnity Stock Fund which is not an exempt transaction pursuant to Rule 16b-3.

For purposes of this paragraph (b), the terms “Rule 10b-5” and Rule 16b-3” shall mean the rules, as amended, having those designations promulgated by the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, and the terms “affiliate” and “officer” shall have the meanings set forth in Rule 12b-2 and Rule 16a-1(f), respectively, both as so promulgated and amended.

5.5 Temporary Suspension of Certain Administrative Activities

In the event of a change in the investment options available under the Plan, a change in vendors providing services to the Plan, or a change in the Plan’s administrative procedures, the Administrator may establish procedures for temporarily suspending certain activities under the plan, as the Administrator may determine are necessary or appropriate, in its discretion. Such temporary suspension shall be conditioned upon any notification to Participants required by law. The activities that may be suspended include, but are not limited, changes in Elective Deferrals Rollover Contributions, investment elections or transfers, distributions, in-service withdrawals and loans.

ARTICLE SIX

VESTING & DISTRIBUTIONS

6.1 Vesting

A Participant shall be fully vested in all contributions made and investment earnings credited under the provisions of the Plan.

6.2 Distributions Upon Retirement or Other Termination of Employment

(a) Subject to the provisions of paragraph (b) below, upon the termination of a Participant's employment with the Company and Affiliates for any reason, the Participant (or, if the Participant is deceased, his beneficiary) shall be paid the entire vested Total Account maintained on behalf of the Participant as provided in subparagraph (i), (ii) or (iii) below:

(i) If the vested Total Account exceeds $3,500 as of the determination date chosen by the Administrator or its designee, the Participant (or beneficiary) may elect, in such manner as provided by the Administrator or its designee, to either take or commence an immediate distribution of such vested Total Account in a form permitted under Section 6.3 or to defer receipt of the same until a later date, but not beyond the end of the calendar year in which the Participant attains age 70-1/2 and not beyond such other required commencement date under Section 401(a)(9) of the Code. The failure of any terminated Participant (or terminated Participant's beneficiary) to make an election with respect to a vested Total Account in excess of the $3,500 threshold shall be deemed an election by the Participant (or beneficiary) to defer receipt of such vested Total Account. A Participant or beneficiary who elects (or is deemed to have elected) to defer receipt of the vested Total Account may request a distribution of the vested Total Account in a form permitted under Section 6.3 at a subsequent date permitted under Section 401(a)(9) of the Code. Pending distribution of his Total Account, such Participant or beneficiary shall be permitted to change the manner in which such Total Account is invested in accordance with Section 5.3(b).

(ii) If the vested Total Account does not exceed $3,500 as of the determination date chosen by the Administrator or its designee and such determination date precedes January 1, 2007, such vested Total Account shall be paid in a lump sum to the Participant or beneficiary. Such payment shall be made as soon as practicable following the Participant's (or beneficiary's) election to take payment in cash or as a direct rollover and shall be made in accordance with such election. If a Participant fails to make an affirmative election to receive cash or make a direct rollover within 60 days of being apprised of his distribution options, distribution of the lump sum shall be made as a direct rollover to an individual retirement account selected by the Administrator unless the vested Total Account as of the determination date is $1,000 or less, in which case distribution of the lump sum shall be made to the Participant in cash. If a beneficiary fails to make an affirmative election to receive cash or, if eligible, make a direct rollover within 60 days of being apprised of his distribution options, distribution of the lump sum shall be made to the beneficiary in cash.

(iii) If the vested Total Account does not exceed $3,500 as of the determination date chosen by the Administrator or its designee and such determination date is on or after January 1, 2007, such vested Total Account shall be paid in a lump sum to the Participant (or beneficiary) on the conditions that the Participant (or beneficiary) is alive as of the applicable payment date and, except as otherwise provided in this subparagraph (iii), that the Participant (or beneficiary) affirmatively elects payment in cash or as a direct rollover. If the vested Total Account maintained on behalf of the Participant (or beneficiary) does not exceed $1,000 as of the applicable determination date and the Participant (or beneficiary) fails to make an affirmative election to receive cash or make a direct rollover within 60 days of being apprised of his distribution options, the Plan shall pay such vested Total Account to the Participant (or Beneficiary) as a lump sum in cash.

(iv) For purposes of this Section 6.2(a), the value of a vested Total Account shall be determined with regard to that portion, if any, that is attributable to a Rollover Contribution (and earnings allocated thereon).

(b) The Administrator or its designee shall notify a Participant or beneficiary of his election right under Section 6.2(a) and, in the case of a Participant who may defer payment of the vested portion of his Total Account in accordance with Section 6.2(a), of his right to defer payment. Such notification shall be provided to the Participant or beneficiary not less than 30 days and not more than 90 days before payment is made; provided however, that a Participant or beneficiary may affirmatively elect to be paid the vested Total Account being maintained on his behalf within 30 days after the Participant or beneficiary received the notice described in this Section 6.2(b).

(c) A Participant who returns to employment with the Employer on a full or part-time basis prior to distribution of his vested Total Account under paragraph (a) shall be deemed to have cancelled his distribution election as of his date of reemployment.

(d) All payments made pursuant to this Article Six shall be based on the Participant’s vested Total Account balance on the Valuation Date as of which payment is made. Payment shall be made from the accounts comprising the Participant’s (or beneficiary’s) Total Account and from the investment funds in which such Total Account is invested in such order of priority as the Administrator, pursuant to a uniform and nondiscriminatory policy, shall direct.

6.3 Payment of Amounts Distributed

(a) Distributions to a Participant or beneficiary may be paid in the form of:

(i) a lump sum;

(ii) monthly, quarterly or annual installments that will provide a fixed amount per pay period; or

(iii) monthly, quarterly or annual installments that will provide substantially equal payments over a fixed period that is not in excess of the lesser of fifteen (15) years or the recipient's life expectancy, as determined by the Administrator as of the date the payments begin.

A Participant or beneficiary who has elected payment in an installment form under Section 6.3(a)(ii) or (iii) may elect, at some future date, to have the balance of the vested Total Account maintained on his behalf paid in the form of a lump sum. Except as provided in the preceding sentence, a Participant or beneficiary may not change his elected form of distribution following the date Plan payments begin. A Participant who returns to employment with the Employer on a full or part-time basis following commencement of an installment form of distribution shall be deemed to have cancelled his distribution election as of his date of reemployment. In no event may distributions from the Plan be made in the form of an annuity.

(b) A distributee who is receiving payment in the form of a lump sum shall elect to have that portion of his Employer Account and Safe Harbor Matching Account which is invested in the Erie Indemnity Stock Fund paid either (i) in whole units of Erie Indemnity Stock (with fractional units being distributed in cash) or (ii) in cash. The election of a Participant or beneficiary under this Section 6.3(b) shall be made in connection with the Participant's or beneficiary's lumps sum election under Section 6.2. In the event distribution is made in the form of installments or is made in the form of a lump sum, but such lump sum is paid in the absence of a Participant's or beneficiary's distribution election, that portion of an Employer Account and Safe Harbor Matching Account which is invested in the Erie Indemnity Stock Fund at the time of distribution shall be paid in cash.

(c) Notwithstanding any inconsistent provision of the Plan and effective January 1, 2003, all distributions under the Plan shall be made in accordance with Code Section 401(a)(9), including the incidental death benefit requirement of Code Section 401(a)(9)(G), and Treasury Regulations Sections 1.401(a)(9)-1 through 1.401(a)(9)-9. Specifically, distribution of the Participant's interest shall:

(i) be completed no later than the required beginning date; or

(ii) commence not later than the required beginning date with distribution to the Participant made over the life of the Participant or joint lives of the Participant and a designated beneficiary or a period not longer than the life of the Participant or joint lives of the Participant and a designated beneficiary.

For purposes of this Section 6.3. "required beginning date" shall mean April 1 of the calendar year following the later of the calendar year in which the Participant attains age $70^1/_2$ or the calendar year in which the Participant terminates employment or retires; provided, however, if the Participant is a five-percent owner (as defined in Code Section 416), the required beginning date shall be April

1 of the calendar year following the calendar year in which the Participant attains age $70^1/_2$, regardless of the date that the five-percent owner terminates employment or retires.

Notwithstanding the foregoing, unless the Participant elects otherwise, distribution of benefits under Section 6.2 will begin no later than the 60^{th} day after the latest of the close of the Plan Year in which:

(i) the Participant attains age 65;

(ii) occurs the fifth anniversary of the Plan Year in which the Participant commenced participant in the Plan; or

(iii) the Participant terminated employment with the Company and Affiliates.

(d) In the event that a Participant dies prior to the date that distribution commences:

(i) any portion of the Participant's interest that is not payable to a designated beneficiary shall be distributed not later than the end of the calendar year which includes the fifth anniversary of the date of the Participant's death; and

(ii) any portion of the Participant's interest that is payable to a designated beneficiary shall be distributed in accordance with subsection (i) above or over the life of the designated beneficiary (or over a period not extending beyond the life expectancy of the beneficiary), commencing not later than the end of the calendar year following the calendar year of the Participant's death or, if the beneficiary is the Participant's surviving spouse, commencing not later than the last day of the later of the calendar year in which the Participant would have attained age $70^1/_2$, or the calendar year following the calendar year which includes the date of the Participant's death.

(e) In the event a Participant dies after distribution of his interest has begun, but prior to distribution of his entire interest, the remaining portion of such interest shall be distributed, at the election of the Participant's beneficiary, in a lump sum or in a method that is at least as rapid as the method being used at the date of the Participant's death.

6.4 Direct Rollovers

(a) A distributee may elect, subject to provisions adopted by the Administrator which shall be consistent with income tax regulations, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover. The Administrator shall notify a distributee of his right to elect a direct rollover; such notice shall be furnished to the distributee between 30 days and 90 days prior to the date as of which the distributee is to receive a distribution from the Plan, provided that the distributee may affirmatively elect a distribution or direct rollover to occur within 30 days after the furnishing of such notice.

(b) Definitions.

(i) Eligible Rollover Distribution: An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of 10 years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); and that portion of a hardship withdrawal that is attributable to Elective Deferrals. A portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions or Roth Elective Deferrals which are not includible in gross income.

(ii) Eligible Retirement Plan: An eligible retirement plan is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), an annuity contract described in Code Section 403(b), an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or a political subdivision of a state and which agrees to separately account for amounts transferred, or a qualified trust described in Code Section 401(a), that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution: (A) that includes after-tax employee contributions, an eligible retirement plan is an individual retirement account or annuity described in Code Section 408(a) or (b), or a qualified defined contribution plan described in Code Sections 401(a) or 403(a) that agrees to separately account for such eligible rollover distributions, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, (B) that includes a Designated Roth Account, an eligible retirement plan is an individual retirement plan described in Code Section 408A or a qualified defined contribution plan described in Code Section 401(a) that agrees to separately account for such eligible rollover distribution, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is part not so includible.

(iii) Distributee: A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in

Code Section 414(p), are distributees with regard to the interest of the spouse or former spouse.

(iv) Direct Rollover: A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee.

ARTICLE SEVEN

WITHDRAWALS

7.1 Withdrawals Generally

A Participant actively employed with the Company or an Affiliate and a Participant on a disability leave of absence (collectively herein referred to in this Article as an “Eligible Applicant”) may make written application to the Administrator for withdrawal of a portion of his account balance without terminating his employment, but only in such amounts and under such conditions as specified in this Article Seven. All such applications for a withdrawal made by an Eligible Applicant shall be approved or denied by the Administrator in accordance with a uniform, non-discriminatory policy and such action by the Administrator shall be final.

7.2 Hardship Withdrawal

Upon proper written application of an Eligible Applicant in such form as the Administrator may specify, the Administrator may permit the Eligible Applicant to withdraw in cash the portion of the balance of his Total Account representing his Rollover Account (if applicable), his Roth Rollover Account (if applicable), his Employer Account and his Elective Deferrals and Catch-Up Contributions without earnings thereon, provided that the reason for such withdrawal is to enable the Eligible Applicant to meet unusual or special situations in his financial affairs resulting in immediate and heavy financial needs of the Eligible Applicant and, provided further, that the Administrator must be satisfied that any withdrawal hereunder is not in excess of the amount necessary to meet the immediate and heavy financial need and is not available from other resources of the Eligible Applicant. The amount available for withdrawal shall be based on the balances of the applicable accounts (and the Elective Deferrals made) on the Valuation Date as of which payment is made. Amounts required to meet the following items are deemed to be for immediate and heavy financial needs:

(a) payments necessary to prevent the eviction of the Eligible Applicant from, or foreclosure of the mortgage on, his principal residence;

(b) expenses for medical care described in Code Section 213(d) incurred by the Eligible Applicant, his spouse, his children, or his dependents as defined in Code Section 152, or necessary for these persons to obtain medical care described in Section 213(d) of the Code;

(c) costs directly related to the purchase of an Eligible Applicant’s principal residence;

(d) payment of tuition, related educational fees and room and board expenses, for the next 12 months of post-secondary education for the Eligible Applicant, his spouse, his children, or his dependents (as defined in Code Section 152 and, for taxable years beginning on or after January 1, 2005, without regard to Code Sections 152(b)(1), (b)(2), and (d)(1)(B)); or

(e) payments for burial or funeral expenses for the Eligible Applicant's deceased parent, his spouse, his children, or his dependents as defined in Code Section 152, without regard to Code Section 152(d)(1)(B) of the Code; or

(f) expenses for the repair of damage to the Eligible Applicant's principal residence that would qualify for a casualty deduction under Code Section 165 (determined without regard to whether the loss exceeds 10% of adjusted gross income).

7.3 Safe Harbor Distribution

A distribution shall be deemed necessary to satisfy an immediate and heavy financial need of an Eligible Applicant if all of the following requirements are satisfied:

(a) the distribution is not in excess of the amount of the immediate and heavy financial need of the Eligible Applicant including any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from such distribution;

(b) the Eligible Applicant has obtained all other forms of distribution and nontaxable loans currently available from all plans maintained by an Employer; and

(c) the Eligible Applicant shall be suspended from making Elective Deferrals to the Plan until the first day of the pay period occurring six full months from the effective date of the withdrawal.

7.4 Hardship Withdrawal Priority

(a) A withdrawal pursuant to this Article Seven shall be made from the Total Account maintained on behalf of an Eligible Applicant in the order of priority set forth in this Section 7.4. That portion of a Eligible Applicant's Total Account which is of a lower priority shall be withdrawn only after those portions of the Total Account which are of higher priority have been completely withdrawn:

(i) Designated Roth Account (excluding earnings);

(ii) Roth Catch-Up Account (excluding earnings);

(iii) Roth Rollover Account;

(iv) Rollover Account;

(v) Employer Account;

(vi) Tax-Deferred Catch-Up Account (excluding earnings); and

(vii) Tax-Deferred Account (excluding earnings).

In no event shall a hardship withdrawal be taken from the Safe Harbor Matching Account maintained on behalf of an Eligible Applicant.

(b) Subsequent to the determination under paragraph (a), withdrawals shall be made out of those investment options in which the applicable account is invested according to the withdrawal hierarchy designated by the Administrator and communicated to Participants.

7.5 Modifications to Hardship Withdrawal Standards

The Company shall have full discretionary authority to modify the provisions of Sections 7.2, 7.3 and 7.4 provided that any modifications shall be evidenced by a writing approved by the Plan Administrator, shall be consistently applied to all pending and future applications as of the date of the modification and shall not operate so as to reduce or eliminate any benefit protected under Section 411(d)(6) of the Code that has accrued as of the date of modifications.

ARTICLE EIGHT

THE TRUST FUND

8.1 Trust Agreement

The Company has entered into a Trust Agreement for the purpose of holding assets of the Trust Fund other than assets attributable to amounts invested in a group annuity contract provided by the Erie Family Life Insurance Company. The Trust Agreement provides, among other things, that all funds received by the Trustee thereunder shall be held, administered, invested and distributed by the Trustee, and that no part of the corpus or income of the Trust Fund held by the Trustee shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants or their beneficiaries. The Administrator, subject to approval of the Board, may remove such Trustee or any successor Trustee, and any Trustee or any successor Trustee may resign. Upon removal or resignation of a Trustee, the Administrator shall appoint a successor Trustee, which appointment shall be subject to approval of the Board.

The Administrator shall have authority to direct that there shall be more than one Trustee under the Trust Agreement and to determine the portion of the assets under the Trust Agreement to be held by each such Trustee. Such action shall be subject to approval of the Board. If such action is taken, the Administrator shall designate the additional Trustee or Trustees, and each Trustee shall hold and invest and keep records with respect to the portion of such assets held by it.

The Board may, from time-to-time, designate another person to carry out any of its responsibilities under this Section 8.1. The person so designated will have full authority, or such limited authority as the Board may specify, to take such actions as are necessary or appropriate to carry out the duties delegated by the Board.

8.2 Appointment of Independent Accountants

The Company may select a firm of independent public accountants to examine and report on the financial position and the results of the operations of the Trust Fund created under the Plan, at such times as it deems proper and/or necessary.

8.3 Appointment of Investment Manager

The Administrator may select an independent investment manager to invest the portion of the Trust Fund in each of the various funds. Such investment manager shall be either registered as an investment manager under the Investment Adviser’s Act of 1940, a bank, a mutual fund or an insurance company, and as required by the Administrator, shall acknowledge in writing that he is a fiduciary with respect to the Plan.

8.4 Role of Administrator in Operation of the Trust Fund

The Administrator shall perform such duties relating to the operation of the Trust Fund as the Board delegates to it and shall perform the duties specified in this Section 8.4.

The Administrator shall have the following responsibilities:

(a) to appoint and remove Trustees, subject to approval of the Board;

(b) to appoint investment and fund managers;

(c) to allocate the duties and procedures for the Trustee and investment fund managers;

(d) to select investment funds or other investments to offer under the Plan;

(e) to establish an investment philosophy and goals for each of the investment and fund managers;

(f) to monitor the Trustee with respect to servicing the Trust Fund in a fiduciary capacity; and

(g) to monitor the investment and fund managers including, without limitation, their investment philosophies, goals, and rates of return.

The Administrator may, from time-to-time, designate another person to carry out any of the Administrator's responsibilities under this Section 8.4. The person so designated will have full authority, or such limited authority as the Administrator may specify, to take such actions as are necessary or appropriate to carry out the duties delegated by the Administrator

8.5 Voting of Erie Indemnity Stock

(a) Each Participant or beneficiary who has an Employer Account or Safe Harbor Matching Account maintained under the Plan on his behalf with an investment in the Erie Indemnity Stock Fund shall have the powers and responsibilities set forth in this Section 8.5.

(b) Prior to each meeting of the Class A shareholders of the Company during which a vote of Class A shares is to be taken, the Company shall cause to be sent to each person described in Section 8.5(a), a copy of the proxy solicitation material for such meeting, together with a form requesting confidential voting instructions for the voting of Erie Indemnity Stock held in the Erie Indemnity Stock Fund in proportion to the number of shares or units of the Erie Indemnity Stock Fund held by such a person's Employer Account. Upon receipt of such a person's instructions, the Trustee shall then vote in person, or by proxy, such Erie Indemnity Stock as so instructed.

(c) Instructions received from the persons described in Section 8.5(a) by the Trustee regarding the voting of Erie Indemnity Stock held in the Erie Indemnity Stock Fund shall be held in strictest confidence and shall not be divulged to any other person, including directors, officers or employees of the Company, or any Affiliate, except as otherwise required by law.

(d) Except as otherwise set forth in the Trust Agreement, the Trustee shall vote Erie Indemnity Stock which represents those shares or units of the Erie Indemnity Stock Fund for which the Trustee does not receive affirmative direction from Participants and beneficiaries in the same proportion as the Trustee votes those shares of Erie Indemnity Stock held in the Erie Indemnity Stock Fund for which it has received voting instructions.

ARTICLE NINE

ADMINISTRATION OF THE PLAN

9.1 The Administrator

The Plan shall be administered by a Plan Administrator who shall serve at the pleasure of the Board. The Board has appointed the Company's Senior Vice President, Treasurer and Chief Investment Officer to serve as Administrator. The Administrator may resign by delivering his written resignation to the Board. In the event of the death, resignation or removal of the Administrator, the Board shall fill the vacancy. In making the appointment, the Board shall not be limited to any particular person or group, and nothing herein contained shall be construed to prevent any Participant, director, officer, employee or shareholder of the Employers from serving as the Administrator. The Administrator will not be compensated from the Trust Fund for services performed in such capacity, but the Company will reimburse such individual for expenses reasonably incurred by him in such capacity. The Administrator shall be the "named fiduciary" for purposes of ERISA; provided, however, that Participants and beneficiaries with Employer Accounts under the Plan shall be considered "named fiduciaries" solely to the extent of those fiduciary duties and responsibilities which are directly related to the exercise of voting rights with respect to Plan interests invested in the Erie Indemnity Stock Fund (and not to other aspects of Plan operation and/or administration).

Appointment by the Board shall be evidenced by a certified copy of the resolution of the Board making such appointment, and copies of such certified resolution shall be delivered to the Trustee and to such other persons as may require such notice.

9.2 Powers of Administrator

The Administrator will have full power to administer the Plan in all of its details, subject, however, to the requirements of ERISA. This power shall include having the sole and absolute discretion to interpret and apply the provisions of the Plan, to determine the rights and status hereunder of any individual, to decide disputes arising under the Plan, and to make any determinations and findings of fact with respect to benefits payable hereunder and the persons entitled thereto as may be required for any purpose under the Plan. Without limiting the generality of the above, the Administrator is hereby granted the following authority which it shall discharge in its sole and absolute discretion in accordance with Plan provisions as interpreted by the Administrator:

(a) To make and enforce such rules and regulations as it deems necessary or proper for the efficient administration of the Plan, including the modification of the claims procedure under Article Ten in accordance with any regulations issued under Section 503 of ERISA.

(b) To interpret the Plan.

(c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan, his period of participation and/or service under the Plan, his date of birth, the value of the Total Account, or any part thereof, maintained on behalf of the person and the rights of any person to receive a distribution from the Plan and the amount of such distribution.

(d) To determine the character and amount of Tax Deferred Contributions, Roth Elective Deferrals, Tax Deferred Catch-Up Contributions, Roth Catch-Up Contributions and Safe Harbor Matching Contributions to be made on behalf of any Participant in accordance with the provisions of the Plan.

(e) To identify the proper payee of any portion of a Total Account, to authorize the payment of Plan benefits and to direct cessation of benefit payments.

(f) To appoint, employ or engage such other agents, counsel, accountants, consultants and actuaries as may be required to assist in administering the Plan.

(g) To establish procedures to determine whether a domestic relations order is a qualified domestic relations order within the meaning of Section 414(p) of the Code, to determine under such procedures whether a domestic relations order is a qualified domestic relations order and whether a putative alternate payee otherwise qualifies for benefits hereunder, to inform the parties to the order as to the effect of the order, and to direct the Trustee to hold in escrow or pay any amounts so directed to be held or paid by the order.

(h) To obtain from the Employers, Employees, Participants, spouses and beneficiaries such information as shall be necessary for the proper administration of the Plan.

(i) To perform all reporting and disclosure requirements imposed upon the Plan by ERISA, the Code or any other lawful authority.

(j) To ensure that procedures are established which are sufficient to safeguard the confidentiality of information relating to the purchase, holding, and sale of Erie Indemnity Stock held in the Erie Indemnity Stock Fund and the exercise of shareholder rights with respect to Erie Indemnity Stock held in the Erie Indemnity Stock Fund and to ensure such procedures are being followed.

(k) To appoint and remove an independent fiduciary for the purpose of carrying-out activities relating to any situations which the Administrator determines involves an unreasonable potential for undue Employer influence with regard to the direct or indirect exercise of shareholder rights with respect to Erie Indemnity Stock holdings in the Erie Indemnity Stock Fund.

(l) To take such steps as it, in its discretion, considers necessary and/or appropriate to remedy an inequity under the Plan that results from incorrect information received or communicated or as the consequence of administrative error.

(m) To correct any defect, reconcile any inconsistency or supply any omission under the Plan.

(n) To delegate its powers and duties to others in accordance with Section 9.3.

(o) To exercise such other authority and responsibility as is specifically assigned to it under the terms of the Plan and to perform any other acts necessary to the performance of its powers and duties.

(p) To determine if and when Participants and beneficiaries must be notified of any temporary suspension, limitation or restriction of their ability to execute various transactions under the Plan (including any notice required by Section 101(i) of ERISA) and to determine the content and method of distribution of any such notification.

The Administrator at its discretion may either request the Company or direct the Fund to pay for any or all services rendered by the Trustee, any investment manager, and by persons appointed, employed or engaged under Section 9.2(f) or under the terms of the Trust Agreement.

The Administrator's interpretations, decisions, computations and determinations under this Section 9.2 which are made in good faith will be final and conclusive upon the Employers, all Participants and all other persons concerned. Any action taken by the Administrator with respect to the rights or benefits of any person under the Plan shall be revocable by the Administrator as to payments or distributions not theretofore made, pursuant to such action, from the Trust Fund; and appropriate adjustments may be made in future payments or distributions to a Participant or beneficiary to offset any excess payment or underpayment previously made to such Participant or beneficiary from the Trust Fund. No ruling or decision of the Administrator in any one case shall create a basis for a retroactive adjustment in any other case prior to the date of a written filing of each specific claim.

9.3 Delegation of Duties

The Administrator may, from time to time, designate any person to carry out any of the responsibilities of the Administrator. The person so designated will have full authority, or such limited authority as the Administrator may specify, to take such actions as are necessary or appropriate to carry out the duties delegated by the Administrator.

9.4 Conclusiveness of Various Documents

The Administrator and the Company and its directors and officers will be entitled to rely upon all tables, valuations, certificates and reports furnished by any actuary, accountant, counsel or other expert appointed, employed or engaged by the Administrator or the Company.

9.5 Actions to be Uniform

Any discretionary actions to be taken under the Plan by the Administrator will be nondiscriminatory and uniform with respect to all persons similarly situated.

9.6 Liability and Indemnification

To the full extent allowed by law, the Administrator shall not incur any liability to any Participant or beneficiary, or to any other person, by reason of any act or failure to act on the part of the Administrator if such act or omission is not the result of the Administrator's gross negligence, willful misconduct or exercise of bad faith. To the full extent allowed by law, the Company agrees to indemnify the Administrator against all liability and expenses (including reasonable attorney's fees and other reasonable expenses) occasioned by any act or omission to act if such act or omission is not the result of the Administrator's gross negligence, willful misconduct or exercise of bad faith. Neither this Section 9.6 nor any other provision of this Plan shall be applied to invalidate, modify, or limit in any respect any contract, agreement, or arrangement for indemnifying or insuring the Administrator against, or otherwise limiting, such liability or expense, or for settlement of such liability, to the extent such contract, agreement, or arrangement is not precluded by the terms of Section 410 of ERISA.

ARTICLE TEN

CLAIMS PROCEDURE

10.1 Claims Review Procedure

The Administrator shall be responsible for the claims procedure under the Plan. An application for a distribution, withdrawal or loan under the Plan shall be considered a claim for purposes of this Article Ten.

10.2 Original Claim

In the event a claim of any Participant, beneficiary, alternate payee, or other person (hereinafter referred to in this Section as the "Claimant") for a benefit is partially or completely denied, the Administrator shall give, within ninety (90) days after receipt of the claim (or if special circumstances, made known to the Claimant, require an extension of time for processing the claim, within one hundred eighty (180) days after receipt of the claim), written notice of such denial to the Claimant. Such notice shall set forth, in a manner calculated to be understood by the Claimant, the specific reason or reasons for the denial (with reference to pertinent Plan provisions upon which the denial is based); an explanation of additional material or information, if any, necessary for the Claimant to perfect the claim; a statement of why the material or information is necessary; a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA; and an explanation of the Plan's claims review procedure, including the time limits applicable to such procedure

10.3 Review of Denied Claim

(a) A Claimant whose claim is partially or completely denied shall have the right to request a full and fair review of the denial by a written request delivered to the Administrator within sixty (60) days of receipt of the written notice of claim denial, or within such longer time as the Administrator, under uniform rules, determines. In such review, the Claimant or his duly authorized representative shall have the right to review, upon request and free of charge, all documents, records or other information relevant to the claim and to submit any written comments, documents, or records relating to the claim to the Administrator.

(b) The Administrator, within sixty (60) days after the request for review, or in special circumstances, such as where the Administrator in its sole discretion holds a hearing, within one hundred twenty (120) days of the request for review, will submit its decision in writing. Such decision shall take into account all comments, documents, records and other information properly submitted by the Claimant, whether or not such information was considered in the original claim determination. The decision on review will be binding on all parties, will be written in a manner calculated to be understood by the Claimant, will contain specific reasons for the decision and specific references to the pertinent Plan provisions upon which the decision is based, will indicate that the Claimant may review, upon request and free of charge, all documents, records or other information relevant to the claim and will contain a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA.

(c) If a Claimant fails to file a claim or request for review in the manner and in accordance with the time limitations specified herein, such claim or request for review shall be waived, and the Claimant shall thereafter be barred from again asserting such claim.

10.4 Determination by the Administrator Conclusive

The Administrator's determination of factual matters relating to Participants, beneficiaries and alternate payees shall be conclusive. The Administrator and the Company and its respective officers and directors shall be entitled to rely upon all tables, valuations, certificates and reports furnished by any accountant for the Plan, the Trustee or any investment managers and upon opinions given by any legal counsel for the Plan insofar as such reliance is consistent with ERISA. The Trustee and other service providers may act and rely upon all information reported to them by the Administrator and/or the Company and need not inquire into the accuracy thereof nor shall be charged with any notice to the contrary.

ARTICLE ELEVEN

MISCELLANEOUS

11.1 Non-Alienation of Benefits

(a) Except as provided in Section 11.1(b) or 11.1(c), no benefit payable under the Plan shall be subject in any manner to anticipation, sale, transfer, assignment, pledge, encumbrance, security interest or charge, and any action by way of anticipating, alienating, selling, transferring, assigning, pledging, encumbering, charging or granting a security interest in the same shall be void and of no effect; nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit.

(b) Section 11.1(a) shall not apply to the creation, assignment, or recognition of a right to any benefit payable pursuant to a Qualified Domestic Relations Order. The Administrator shall establish reasonable procedures to determine the status of domestic relations orders and to administer distributions under such orders which are deemed to be Qualified Domestic Relations Orders. Such procedures shall be in writing and shall comply with the provisions of Section 414(p) of the Code. To the extent that, because of a Qualified Domestic Relations Order, more than one individual is to be treated as a surviving spouse, the total amount payable from the Plan as a result of the death of a Participant shall not exceed the amount that would be payable from the Plan if there were only one surviving spouse.

(c) Notwithstanding the provisions of Section 11.1(a), the Plan may offset any portion of the Total Account maintained on behalf of a Participant or beneficiary against a claim of the Plan arising:

(i) as a result of the Participant’s or beneficiary’s conviction of a crime involving the Plan; or

(ii) with regard to the Participant’s or beneficiary’s violation of ERISA’s fiduciary provisions upon:

(A) the entry of any civil judgment, consent order, or decree against the Participant or beneficiary; or

(B) the execution of any settlement agreement between the Participant and the Department of Labor or Pension Benefit Guaranty Corporation.

The provisions of this Section 11.1(c) shall apply only to orders, judgments, decrees and settlements issued or entered into which expressly provide for such offset.

11.2 Risk to Participants and Source of Payments

Each Participant assumes all risk in connection with any decrease in the value of any investment fund in the Trust Fund, and the Trust Fund shall be the sole source of any payments to be made to Participants or their beneficiaries under the Plan.

11.3 Expenses

Subject to any restriction applicable under Section 5.4(a), brokerage fees, transfer taxes and other expenses incurred by the Trustee in connection with the purchase or sale of securities may be added to the cost of such securities or deducted from the proceeds thereof, as the case may be. Earnings credited to accounts invested in mutual funds shall be net of direct fund management expenses. Fees and other expenses associated with a self-directed “open option” arrangement shall be assessed directly against the Total Account maintained on behalf of the Participant or beneficiary participating in such arrangement.

All other costs and expenses incurred in administering the Plan shall be paid by the Company or an Employer, unless the Administrator authorizes the payment of such expenses from the Trust Fund.

11.4 Rights of Participants

No Participant or beneficiary shall have any right or interest under the Plan unless and until he becomes entitled thereto as provided in the Plan. The adoption and maintenance of the Plan shall not be deemed to constitute a contract between an Employer and any Employee or Participant. Inclusion in the Plan will not affect an Employer’s right to discharge or otherwise discipline Employees and membership in the Plan will not give any Employee the right to be retained in the service of an Employer nor any right or claim to a benefit unless such right is specifically granted under the terms of the Plan.

The Plan shall be binding on all Participants and their spouses and beneficiaries and upon heirs, executors, administrators, successors, and assigns of all persons having an interest herein. The provisions of the Plan in no event shall be considered as giving any such person any legal or equitable right against the Company, an Employer or an Affiliate, any of its officers, employees, directors, or shareholders, or against the Trustee, except such rights as are specifically provided for in the Plan or hereafter created in accordance with the terms of the Plan.

11.5 Statement of Accounts

As soon as practicable after the last day of March, June, September and December, or such other time or times as the Administrator shall designate, the Administrator shall cause to be sent to each current or former Participant a written statement of his account.

11.6 Designation of Beneficiary

(a) Each Participant shall file with the Administrator, on such form as may be provided by the Administrator, a written designation of a beneficiary or beneficiaries who shall receive payment of the Participant's interest under the Plan in the event of his death. If the Participant is married, the Participant's beneficiary must be his spouse (in accordance with Code Section 401(a)(11)(B)(iii)) unless Spousal Consent requirements are satisfied. In the event the Participant shall die and there is no properly designated beneficiary then living, the interest of the Participant under the Plan shall be paid in a lump sum to his surviving spouse, or, if there is no surviving spouse, to his estate or other successor, all as the Administrator may determine.

(b) A beneficiary entitled to a payment of all or a portion of a Participant's Total Account due to the death of the Participant may disclaim his interest therein subject to the following requirements. To be eligible to disclaim, a beneficiary must be a natural person, must not have received a distribution of all or any portion of said Total Account at the time such disclaimer is executed and delivered, and must have attained at least age twenty-one (21) years as of the date of the Participant's death. Any disclaimer must be in writing and must be executed personally by the beneficiary before a notary public. A disclaimer shall state that the beneficiary's entire interest is disclaimed or shall specify what portion thereof is disclaimed. To be effective, an original executed copy of the disclaimer must be both executed and actually delivered to the Administrator after the date of the Participant's death but not later than one hundred eighty (180) days after the date of the Participant's death. A disclaimer shall be irrevocable when delivered to the Administrator. A disclaimer shall be considered to be delivered to the Administrator only when actually received by the Administrator. The Administrator shall be the sole judge of the content, interpretation and validity of a purported disclaimer. Upon the filing of a valid disclaimer, the beneficiary shall be considered not to have survived the Participant as to the interest disclaimed. A disclaimer by a beneficiary shall not be considered to be a transfer of an interest or an assignment or alienation of benefits in violation of Section 11.1 hereof. No other form of attempted disclaimer shall be recognized by the Administrator.

11.7 Payment to Incompetents

If any person entitled to receive any benefits hereunder is a minor, or is in the judgment of the Administrator, legally, physically, or mentally incapable of personally receiving and receipting for any distribution, the Administrator may instruct the Trustee to make distribution to such other person, persons or institutions who, in the judgment of the Administrator, are then maintaining or have custody of such distributee. As a condition to the issuance of such instruction for the distribution to such other person or institution, the Administrator may require such person or institution to exhibit or to secure an order, decree or judgment of a court of competent jurisdiction with respect to the incapacity of the person who would otherwise be entitled to receive the benefits.

11.8 Authority to Determine Payee

The determination of the Administrator as to the identity of the proper payee of any benefit under the Plan and the amount of such benefit properly payable shall be conclusive, and payment in accordance with such determination shall constitute a complete discharge of all obligations on account of such benefit.

11.9 Severability

If any provision of this Plan is held to be invalid or unenforceable, such determination shall not affect the other provisions of this Plan. In such event, this Plan shall be construed and enforced as if such provision had not been included herein.

11.10 Employer Records

The records of a Participant's Employer shall be presumed to be conclusive of the facts concerning his employment or non-employment, periods of service and Compensation unless shown beyond a reasonable doubt to be incorrect.

11.11 Limitation on Contributions

(a) In no event shall the total annual additions on behalf of a Participant under this Plan and under any other defined contribution plan or plans maintained by the Employer with respect to any limitation year exceed the lesser of $40,000 (or such dollar figure, as increased in accordance with Section 415(d) of the Code for years up to and including the given limitation year) or 100% of the Test Compensation, paid to the Participant by an Employer within such limitation year. All amounts contributed to any defined contribution plan maintained by an Employer or an Affiliate (taking into account Section 415(h) of the Code) other than any rollover contribution and any salary reduction contribution to a simplified employee pension shall be aggregated with contributions made by an Employer under this Plan in computing any Employee's total annual additions limitation. For purposes hereof, the limitation year shall be the calendar year.

For purposes of this section, "total annual additions" for any limitation year shall mean the sum of the following:

(i) Employer contributions under this Plan and under any other defined contribution plan maintained by an Employer or Affiliate;

(ii) Reallocated forfeitures under any defined contribution plan maintained by an Employer or Affiliate;

(iii) After-tax contributions under any other defined contribution plan maintained by an Employer or Affiliate; and

(iv) Amounts allocated to an individual medical account, as defined in Section 415(1)(2) of the Code, as part of a pension or annuity plan and amounts derived from contributions paid or accrued which are attributable to post-retirement medical benefits described in Section 419A(d) of the Code, under a welfare benefit fund (as defined in Section 419(e) of the Code) maintained by an Employer or Affiliate.

Catch-Up Contributions under Section 3.3, make-up contributions on account of qualified military service under Section 414(u) of the Code and loan repayments under Section 14.2 shall not be recognized as annual additions for purposes of this section.

(b) In the event that a Participant's total annual additions for any limitation year exceed the limitations of Section 11.11(a) because of a reasonable error in estimating the Participant's Compensation, a reasonable error in determining the amount of Elective Deferrals that a Participant may make within the limitations of paragraph (a) above or due to such other facts and circumstances as the Commissioner of Internal Revenue finds justifiable, his total annual additions shall be reduced in the following order until such limitations are met:

(i) any after-tax employee contributions made in the limitation year by the Participant under any other plan maintained by an Employer or Affiliate shall be returned to the Participant in accordance with the provisions of such plan to the extent necessary to meet the above limitations;

(ii) If further corrective adjustment is necessary, Elective Deferrals made on the Participant's behalf in the limitation year that are in excess of five percent (5%) of the Participant's Compensation shall be distributed to the Participant beginning with Tax Deferred Contributions, if applicable;

(iii) If further corrective adjustment is necessary, the Elective Deferrals made on the Participant's behalf in the limitation year that are not in excess of five percent (5%) of the Participant's Compensation and the Safe Harbor Matching Contributions made on the Participant's behalf in the limitation year shall be reduced proportionately to the extent necessary to meet the above limitations.

Elective Deferrals so reduced shall be distributed to the Participant. Safe Harbor Matching Contributions so reduced shall be held unallocated in a suspense account and shall be applied to reduce the Safe Harbor Matching Contribution with respect to all Participants for the subsequent limitation year. Any distribution under this paragraph which includes Elective Deferrals shall also include gains on such Elective Deferrals.

The Administrator may change the order of the reductions listed above in any manner which, in the judgment of the Administrator, is in the Participant's best interest.

(c) The sole purpose of this Section is to comply with Section 415(c) of the Code and the terms of this Section shall be interpreted, applied, and if and to the extent necessary, shall be deemed modified so as to satisfy solely the minimum requirements of Section 415(c) of the Code and the regulations promulgated with respect thereto.

11.12 IRC 414(u) Compliance Provision

Notwithstanding any provision of the Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Section 414(u) of the Code.

ARTICLE TWELVE

AMENDMENT, TERMINATION OR MERGER OF THE PLAN

12.1 Right to Amend

The Company reserves the right at any time or times to modify or amend the Plan by resolution of the Board setting forth such modification or amendment; provided, however, that no such modification or amendment shall be made which would:

(a) increase the duties or liabilities of the Trustee without its written consent; or

(b) impermissibly divest a Participant of any portion of his Total Account hereunder that has accrued to him prior to the effective date of such amendment; or

(c) cause or permit any portion of the Trust Fund to be converted to or become the property of the Company; or

(d) cause any portion of the Trust Fund to be used for purposes other than the exclusive benefit of the Participants or their beneficiaries;

unless such modification or amendment is necessary or appropriate to enable the Plan or Trust Fund to qualify under Section 401 of the Code, as amended from time to time, or to retain for the Plan or Trust Fund such qualified status.

12.2 Right to Terminate

(a) Although it is the expectation of the Company that it will continue the Plan as a permanent retirement program for the benefit of the Employees eligible hereunder, the Company reserves the right at any time, by action of its Board, at its sole discretion, to terminate the Plan in whole or in part. There shall be no liability or obligation on the part of an Employer to make any further contributions to the Trust Fund in the event of the termination of the Plan.

(b) Notwithstanding anything to the contrary contained herein, Trustee’s fees and other expenses incident to the operation and management of the Plan incurred after the termination of the Plan may, at the discretion of the Company, be paid from assets of the Trust Fund that are not part of any Participant’s Total Account.

(c) In the event of the termination of the Plan in whole or in part or in the event of the complete discontinuance of Employer contributions under the Plan, each affected Participant’s interest in the Trust Fund shall become 100% vested and shall be nonforfeitable.

12.3 Merger, Transfer of Assets or Liabilities

The Company may merge or consolidate the Plan with, transfer assets and liabilities of the Plan to, or receive a transfer of assets and liabilities from, any other plan without the consent of any other Employer or other person, if such transfer is effected in accordance with applicable law and if such other plan meets the requirements of Code Sections 401(a) and 501(a), permits such transfer or the receipt of such transfer and, with respect to liabilities to be transferred from this Plan to such other plan, satisfies the requirements of Code Sections 411(d)(6). This Plan may not be merged or consolidated with any other plan, nor may any assets or liabilities of this Plan be transferred to any other plan, unless the terms of the merger, consolidation or transfer are such that each Participant in the Plan would, if the Plan were terminated immediately after such merger, consolidation or transfer, receive a benefit equal to or greater than the benefit he would have been entitled to receive if this Plan had terminated immediately prior to the merger, consolidation or transfer.

ARTICLE THIRTEEN

TOP HEAVY PROVISIONS

13.1 Top Heavy Provisions Inapplicable

The Plan is a cash or deferred arrangement described in Section 416(g)(4)(H) of the Code and, as a result, is deemed to not be a top heavy plan.

ARTICLE FOURTEEN

LOANS

14.1 Availability of Loans

Subject to the provisions of this Article Fourteen, Participants actively employed with the Company or an Affiliate (herein referred to in this Article as “Eligible Applicants”) may apply for a loan from the Plan. All such applications for a loan made by an Eligible Applicant shall be approved or denied by the Administrator in accordance with a uniform, non-discriminatory policy and such action by the Administrator shall be final. All loans approved shall be effective as of the “loan effective date” (as hereinafter defined) provided the loan application was submitted to the Administrator within a reasonable time (as determined by the Administrator) prior to the loan effective date. All loans shall be made only in consideration of adequate security. For purposes hereof the term “loan effective date” shall mean the date, mutually agreed upon by the Participant and the Administrator, on which the loan shall be considered effective.

The Administrator may establish rules governing the granting of loans, provided (i) that such rules are not inconsistent with the provisions of this Article Fourteen, (ii) that any such rules adopted by the Administrator shall be described in the documents supporting the loan transaction and (iii) that loans are made available to all Eligible Applicants on a reasonably equivalent basis and are not made available to Eligible Applicants who are Highly Compensated in an amount greater than the amount made available to other Eligible Applicants.

14.2 Terms and Conditions of Participant Loans

(a) Amount of Loan. At the time the loan is made, the principal amount of the loan, when added to all other outstanding loans of the Participant from the Plan and any other qualified plan of an Employer and Affiliates, shall not exceed the lesser of:

(i) $50,000, as reduced by the excess, if any, of the Eligible Applicant’s highest outstanding loan balance from the Plan during the one-year period ending on the day before the date such new loan is secured over the outstanding balance of loans from the Plan on the date such loan is made; or

(ii) one-half of the current value of the Total Account maintained on behalf of the Eligible Applicant under the Plan.

The current value of a Total Account shall be determined as of the Valuation Date on which the Eligible Applicant initiates the loan process by providing Notice to the Administrator or its designee. No loan shall be made in an amount less than $1,000. Any loan amount shall be made in accordance with Section 14.3.

(b) Application for Loan. The Eligible Applicant must give the Administrator adequate written notice, as determined by the Administrator, of the requested amount and desired time for receiving a loan. In addition, if an Eligible Applicant is married at the time of application, the Administrator shall require Spousal Consent prior to approving the loan application.

(c) Length of Loan. The Eligible Applicant and the Administrator shall arrange for the repayment of a Plan loan. The period of repayment shall not exceed five years from the date the loan is made. All repayment schedules (whether by payroll withholding or otherwise) shall commence as of the next administratively feasible pay period following the disbursement of the loan and shall provide for substantially level amortization of principal and interest. An Eligible Applicant on a leave of absence shall be permitted to extend the term of the loan by the length of the absence; provided, however, that except with respect to a leave of absence on account of qualifying military service, the term of the loan, as extended, shall not exceed five years from the date the loan is made. An Eligible Applicant who terminates employment with the Company and Affiliates must make principal and interest payments in the amount and on such dates as otherwise due. In the event such payments are not made the maturity of the loan shall be accelerated and the outstanding principal amount of the loan, together with all accrued interest, shall be deemed immediately due and distributable at such date or dates as the Administrator deems reasonable and as may be specified by applicable law and regulation. Except as otherwise permitted in Income Tax Regulations, in no event shall the date of deemed distribution extend beyond the end of the calendar quarter next following the calendar quarter in which the payment was not made.

(d) Prepayment. The Eligible Applicant shall be permitted to repay the loan in total as of any date prior to maturity without penalty.

(e) Note. The loan shall be evidenced by a promissory note executed by the Eligible Applicant and delivered to the Administrator. The Eligible Applicant will agree to execute any other documents (e.g., payroll withholding forms) that may be necessary or appropriate to effect the loan.

(f) Interest. All loans shall be considered investments of the Trust and interest shall be charged on the loan at the rate set by the Administrator as of the loan effective date. Such rate, applicable to loans effective in a given calendar quarter, shall be the prime lending rate as reported in the Wall Street Journal on the last business day of the previous calendar quarter, plus 100 basis points, provided that such interest rate may be limited in accordance with law during a period of qualifying military service.

(g) Security. Subject to the extent required under regulations promulgated by the Secretary of Labor or his delegate, a Plan loan shall be secured by an assignment of the Eligible Applicant’s right, title and interest in that portion of his Total Account under the Plan as shall adequately secure the loan, provided such security shall not exceed one-half of the current value of the Eligible Applicant’s vested Total Account. The Administrator may also require such additional collateral as may be deemed necessary to adequately secure repayment of the loan.

(h) Default. The Administrator shall take reasonable steps to secure repayment of any loan granted hereunder in accordance with its terms; however, when the

Administrator declares a loan to an Eligible Applicant to be in default, the outstanding balance of the loan, together with unpaid, accrued interest, shall be deemed a lien against the Total Account maintained on behalf of the Eligible Applicant. The Administrator shall take such reasonable steps as it shall deem necessary or appropriate to eliminate the default before causing an offset distribution to be made with respect to the Eligible Applicant for the purpose of fully amortizing the loan outstanding; however, should the loan remain in default after these administrative procedures are taken, the Administrator will consider the entire amount of the loan outstanding (including all accrued interest to date) as a distribution as of the first date, on or following the administrative procedures, on which the Eligible Applicant has a distributable event and will process the Total Account of the Eligible Applicant accordingly.

(j) Other Terms and Conditions. The Administrator shall fix such other terms and conditions of the loan as it deems necessary to comply with legal requirements, to maintain the qualification of the Plan and Trust Fund under Code Section 401(a), to exempt the loan transaction from the prohibited transaction rules of under Code Section 4975, or to prevent the treatment of the loan for tax purposes as a distribution to the Eligible Participant. The Administrator may fix other terms and conditions of the loan, not inconsistent with the provisions of this Article Fourteen.

(k) No Prohibited Transactions. No loan shall be made unless such loan is exempt from the tax imposed on prohibited transactions by Code Section 4975 or would be exempt from such tax (if the Eligible Participant were a disqualified person as defined in Section 4975(e)(2) of the Code) by reason of Code Section 4975(d)(1).

14.3 Loan Accounts

A loan made by the Plan to a Eligible Applicant in accordance with Sections 14.1 and 14.2 shall be from the Total Account maintained on behalf of such Eligible Applicant and from the investment funds in which such Total Account is invested in such order of priority as the Administrator, pursuant to a uniform and nondiscriminatory policy, shall direct. Payments of principal and interest on loans shall be paid over to the Trustee as soon as possible after each payroll deduction or other repayment and shall be credited to the Total Account of the Eligible Applicant as of the date the repayments are received by the Trustee. Loan repayments will be credited in such manner as determined by the Administrator to those accounts and those investment options which were accessed in connection with the granting of the loan to the Eligible Applicant. The Administrator shall have the authority to establish other reasonable rules, not inconsistent with the provisions of the Plan, governing the establishment and maintenance of loan accounts.

Executed at Erie, Pennsylvania, this 19th day of December, 2006.

ERIE INDEMNITY COMPANY

By: /s/ Jeffrey A. Ludrof
Title: President & CEO

Exhibit 10.88

AMENDED AND RESTATED
QUOTA SHARE REINSURANCE AGREEMENT

This AMENDED AND RESTATED QUOTA SHARE REINSURANCE AGREEMENT, Made and entered into by and between the ERIE INSURANCE EXCHANGE, a Pennsylvania reciprocal interinsurance exchange (hereinafter referred to as the "Reinsurer"), and the FLAGSHIP CITY INSURANCE COMPANY, a Pennsylvania stock insurance company (hereinafter referred to as the "Company");

WITNESSETH:

THAT WHEREAS, the Reinsurer desires to reinsure the Company to the extent and on the terms and conditions and subject to the exceptions, exclusions and limitations hereinafter set forth; and

WHEREAS, the Company desires to be reinsured by the Reinsurer to the extent and on the terms and conditions and subject to the exceptions, exclusions and limitations hereinafter set forth; and

WHEREAS, the parties entered into this Quota Share Reinsurance Agreement as of November 1, 1992 and now wish to amend and restate that agreement to alter the provisions governing termination and runoff.

NOW, THEREFORE, For and in consideration of the mutual covenants and promises contained herein and intending to be legally bound hereby the parties agree as follows:

ARTICLE I: COVER

(a) The Company shall cede to the Reinsurer and the Reinsurer shall accept from the Company a 100% quota share participation of the Company's gross insurance liability on all risks insured under policies becoming effective on and after November 1, 1992, covering all lines of business written by the Company.

(b) The term "Policies" means the Company's binders, policies and contracts providing insurance and reinsurance.

ARTICLE II: TERRITORY

This Agreement applies to all risks as covered by the Policies wherever located.

ARTICLE III: REINSURANCE PREMIUM

(a) The Company shall pay to the Reinsurer on each amount ceded hereunder 100% of its gross premiums written and gross additional premiums written, if any, for the period covered, and the Reinsurer shall refund to the Company 100% of each gross return premium.

(b) The Reinsurer shall pay to the Company an amount equal to the net bad debt write-offs incurred in the collection of the Company's premiums due.

ARTICLE IV: COMMISSION

(a) The Reinsurer shall make a monthly ceded commission allowance to the Company on the gross premiums ceded under this Agreement in an amount equal to the general expenses, service provider's fee, taxes, licenses and fees incurred applicable to underwriting and administration, excluding investment expenses and Federal Income Taxes.

(b) Any estimated charges included in the monthly ceded commission allowance shall be adjusted at the end of each calendar year when the actual amounts have been determined.

(c) On all gross return premiums the Company shall refund to the Reinsurer the commissions allowed thereon.

ARTICLE V: LOSSES, LOSS ADJUSTMENT EXPENSES AND SALVAGES

(a) The Company shall settle all loss claims under its Policies and the Reinsurer shall pay to the Company 100% of all such loss claims paid by the Company.

(b) The Reinsurer shall bear 100% of all expenses incurred by the Company in the investigation, adjustment and litigation of all claims under its Policies. Such expenses will include those of salaried adjusters and claims related administrative expenses.

(c) The Reinsurer shall benefit prorata in all salvages, discounts and other recoveries.

ARTICLE VI: REPORTS AND REMITTANCES

(a) The Company shall render a monthly account to the Reinsurer summarizing the premiums ceded, return premiums, commissions on net premiums, losses and loss adjustment expenses paid, and salvages and other recoveries. The balance due either party shall be remitted by the other party at the time the accounts are rendered.

(b) The Company shall furnish the Reinsurer a report of premiums in force, unearned premium reserves and outstanding loss reserves as of the end of each calendar quarter.

ARTICLE VII: RESERVES

The Reinsurer shall maintain necessary and appropriate reserves with respect to unearned premiums and claims hereunder for the benefit of the Company.

ARTICLE VIII: INSOLVENCY CLAUSE

(a) The reinsurance provided under this Agreement shall be payable by the Reinsurer directly to the Company or to its liquidator, receiver or statutory successor on the basis of the liability of the Company under the contract or contracts reinsured without diminution because of the insolvency of the Company.

(b) In the event of the Company’s insolvency, the liquidator or receiver or statutory successor of the Company shall give written notice to the Reinsurer of each claim against the Company on a policy or bond reinsured within a reasonable time after such claim is filed in the insolvency proceeding; and during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated any defenses which it may deem available to the Company, its liquidator or receiver or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the Company as part of the expense of liquidation to the extent of such proportionate share of the benefit as shall accrue to the Company solely as a result of any such defense undertaken by the Reinsurer.

(c) In the event of the Company’s insolvency, the reinsurance shall be payable as described above in this Article, except: (1) where the contract specifically provides another payee of such reinsurance in the event of the Company’s insolvency; or (2) where the Reinsurer with the consent of the direct insured or insureds has assumed such policy obligations of the Company as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of the Company to such payees; or (3) where the contract expressly provides that each party shall have the right to offset any balances, whether on account of premiums or losses, due from the other party under the contract, against any balances payable to the other party under the contract.

ARTICLE IX: COMMENCEMENT AND TERMINATION

(a) This Agreement originally took effect as of November 1, 1992. It is amended and restated as of 12:01 a.m. January 1, 2007.

(b) This Agreement shall continue in force until modified or terminated. Either party may terminate this Agreement at any time by giving not less than 90 days' notice in writing to the other party. In determining whether the requisite number of days' notice has been given in any case, the effective date of termination shall be counted, but the date of delivery of the written notice shall not.

(c) Upon termination of this Agreement, reinsurance hereunder on Policies in force on the effective date of termination or expiration shall remain in full force and effect until expiration, cancellation or next premium anniversary of such Policies, whichever occurs first, but in no event beyond 12 months plus odd time (not to exceed 18 months in all) following the effective date of termination or expiration.

(d) Notwithstanding the termination of this Agreement as hereinabove provided, the provisions of this Agreement shall continue to apply to all unfinished business hereunder to the end that all obligations and liabilities incurred by each party hereunder prior to such termination shall be fully performed and discharged.

IN WITNESS WHEREOF the parties hereto have caused this Amended and Restated Agreement to be adopted and executed this 29th day of December, 2006.

ERIE INSURANCE EXCHANGE
by Erie Indemnity Company
Attorney-in-Fact

By: /s/ Jeffrey A. Ludrof
Jeffrey A. Ludrof
President & CEO

FLAGSHIP CITY INSURANCE COMPANY

By: /s/ Jan R. Van Gorder
Jan R. Van Gorder
Senior Executive Vice President,
Secretary & General Counsel

Exhibit 10.89

**AMENDED AND RESTATED
QUOTA SHARE REINSURANCE AGREEMENT**

THIS AMENDED AND RESTATED QUOTA SHARE REINSURANCE AGREEMENT, Made and entered into by and between the ERIE INSURANCE EXCHANGE, a Pennsylvania reciprocal interinsurance exchange (hereinafter referred to as the “Reinsurer”), and the ERIE INSURANCE PROPERTY & CASUALTY COMPANY, a Pennsylvania stock insurance company (hereinafter referred to as the “Company”);

WITNESSETH:

THAT WHEREAS, the Reinsurer desires to reinsure the Company to the extent and on the terms and conditions and subject to the exceptions, exclusions and limitations hereinafter set forth; and

WHEREAS, the Company desires to be reinsured by the Reinsurer to the extent and on the terms and conditions and subject to the exceptions, exclusions and limitations hereinafter set forth; and

WHEREAS, the parties entered into this Quota Share Reinsurance Agreement as of June 1, 1993 and now wish to amend and restate that agreement to alter the provisions governing termination and runoff.

NOW, THEREFORE, for and in consideration of the mutual covenants and promises contained herein and intending to be legally bound hereby the parties agree as follows:

ARTICLE I: COVER

(a) The Company shall cede to the Reinsurer and the Reinsurer shall accept from the Company a 100% quota share participation of the Company’s gross insurance liability on all risks insured under policies becoming effective on and after June 1, 1993, covering all lines of business written by the Company.

(b) The term “Policies” means the Company’s binders, policies and contracts providing insurance and reinsurance.

ARTICLE II: TERRITORY

This Agreement applies to all risks as covered by the Policies wherever located.

ARTICLE III: REINSURANCE PREMIUM

(a) The Company shall pay to the Reinsurer on each amount ceded hereunder 100% of its gross premiums written and gross additional premiums written, if any, for the period covered, and the Reinsurer shall refund to the Company 100% of each gross return premium.

(b) The Reinsurer shall pay to the Company an amount equal to the net bad debt write-offs incurred in the collection of the Company's premiums due.

ARTICLE IV: COMMISSION

(a) The Reinsurer shall make a monthly ceded commission allowance to the Company on the gross premiums ceded under this Agreement in an amount equal to the general expenses, service provider's fee, taxes, licenses and fees incurred applicable to underwriting and administration, excluding investment expenses and Federal Income Taxes.

(b) Any estimated charges included in the monthly ceded commission allowance shall be adjusted at the end of each calendar year when the actual amounts have been determined.

(c) On all gross return premiums the Company shall refund to the Reinsurer the commissions allowed thereon.

ARTICLE V: LOSSES, LOSS ADJUSTMENT EXPENSES AND SALVAGES

(a) The Company shall settle all loss claims under its Policies and the Reinsurer shall pay to the Company 100% of all such loss claims paid by the Company.

(b) The Reinsurer shall bear 100% of all expenses incurred by the Company in the investigation, adjustment and litigation of all claims under its Policies. Such expenses will include those of salaried adjusters and claims related administrative expenses.

(c) The Reinsurer shall benefit prorata in all salvages, discounts and other recoveries.

ARTICLE VI: REPORTS AND REMITTANCES

(a) The Company shall render a monthly account to the Reinsurer summarizing the premiums ceded, return premiums, commissions on net premiums, losses and loss adjustment expenses paid, and salvages and other recoveries. The balance due either party shall be remitted by the other party at the time the accounts are rendered.

(b) The Company shall furnish the Reinsurer a report of premiums in force, unearned premium reserves and outstanding loss reserves as of the end of each calendar quarter.

ARTICLE VII: RESERVES

The Reinsurer shall maintain necessary and appropriate reserves with respect to unearned premiums and claims hereunder for the benefit of the Company.

ARTICLE VIII: INSOLVENCY CLAUSE

(a) The reinsurance provided under this Agreement shall be payable by the Reinsurer directly to the Company or to its liquidator, receiver or statutory successor on the basis of the liability of the Company under the contract or contracts reinsured without diminution because of the insolvency of the Company.

(b) In the event of the Company's insolvency, the liquidator or receiver or statutory successor of the Company shall give written notice to the Reinsurer of each claim against the Company on a policy or bond reinsured within a reasonable time after such claim is filed in the insolvency proceeding; and during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated any defenses which it may deem available to the Company, its liquidator or receiver or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the Company as part of the expense of liquidation to the extent of such proportionate share of the benefit as shall accrue to the Company solely as a result of any such defense undertaken by the Reinsurer.

(c) In the event of the Company's insolvency, the reinsurance shall be payable as described above in this Article, except: (1) where the contract specifically provides another payee of such reinsurance in the event of the Company's insolvency; or (2) where the Reinsurer with the consent of the direct insured or insureds has assumed such policy obligations of the Company as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of the Company to such payees; or (3) where the contract expressly provides that each party shall have the right to offset any balances, whether on account of premiums or losses, due from the other party under the contract, against any balances payable to the other party under the contract.

ARTICLE IX: COMMENCEMENT AND TERMINATION

(a) This Agreement originally took effect as of June 1, 1993. It is amended and restated as of 12:01 a.m. January 1, 2007.

(b) This Agreement shall continue in force until modified or terminated. Either party may terminate this Agreement at any time by giving not less than 90 days' notice in writing to the other party. In determining whether the requisite number of days' notice has been given in any case, the effective date of termination shall be counted, but the date of delivery of the written notice shall not.

(c) Upon termination of this Agreement, reinsurance hereunder on Policies in force on the effective date of termination or expiration shall remain in full force and effect until expiration, cancellation or next premium anniversary of such Policies, whichever occurs first, but in no event beyond 12 months plus odd time (not to exceed 18 months in all) following the effective date of termination or expiration.

(d) Notwithstanding the termination of this Agreement as hereinabove provided, the provisions of this Agreement shall continue to apply to all unfinished business hereunder to the end that all obligations and liabilities incurred by each party hereunder prior to such termination shall be fully performed and discharged.

IN WITNESS WHEREOF the parties hereto have caused this Amended and Restated Agreement to be adopted and executed this 29th day of December, 2006.

ERIE INSURANCE EXCHANGE
by Erie Indemnity Company
Attorney-in-Fact

By: /s/ Jeffrey A. Ludrof
Jeffrey A. Ludrof
President & CEO

ERIE INSURANCE PROPERTY &
CASUALTY COMPANY

By: /s/ Jan R. Van Gorder
Jan R. Van Gorder
Senior Executive Vice President,
Secretary & General Counsel

Exhibit 10.90

AMENDED AND RESTATED
REINSURANCE POOLING AGREEMENT

This Agreement is effective as of 12:01 a.m. on the 1st day of January, 1995, among the Erie Insurance Exchange, a Pennsylvania reciprocal interinsurance exchange (hereinafter referred to as the “Exchange”), the Erie Insurance Company, a Pennsylvania stock insurance company (hereinafter referred to as the “Company”), and Erie Insurance Company of New York, a New York stock insurance company (hereinafter referred to as “ERIE-New York”). This Agreement supersedes the Reinsurance Pooling Agreement between the Exchange and the Company, which was in effect from January 1, 1992 until the effective date of this Agreement. It is amended and restated as of 12:01 a.m. January 1, 2007.

ARTICLE I — PREAMBLE

The purpose of this Agreement is to pool, or share proportionately among the parties, the results of property and casualty insurance underwriting operations through reinsurance; to reduce administrative and executive expenses; and to produce for each party a broader distribution of risk by line of insurance. The Exchange, the Company, and ERIE-New York are affiliated and are under the same executive management. This Agreement is made to recognize that each company is a member of the same holding company system and a member of the Erie Insurance Group (hereinafter referred to as “The ERIE Group”), subject to group decisions and strategies designed primarily to promote the stability and success of The ERIE Group and that each company will accordingly share proportionately in the combined property and casualty insurance underwriting operations of The ERIE Group.

ARTICLE II — AGREEMENT

In consideration of the agreements and mutual promises contained herein, the parties hereto make the following Agreement effective as of 12:01 a.m., Eastern Standard Time, January 1, 1995. Such Agreement shall remain in effect until cancelled as provided in Article XI.

ARTICLE III — DEFINITIONS

For the purposes of this Agreement, the following terms shall have the meanings indicated below:

(a) “Net Policy Liabilities” shall mean the gross direct liabilities with respect to insurance policies and reinsurance assumed less reinsurance ceded to reinsurers other than the parties to this Agreement.

(b) “Respective Percentage Share” shall mean the participation percentage set forth next to the name of each company in Exhibit A, attached hereto and made a part hereof.

(c) “Underwriting Expenses” shall mean all expenses incurred individually or collectively by the Exchange, Company, and ERIE-New York in the acquisition of insurance and reinsurance business, the issuance of insurance policies and contracts, and the rendering of services under the contracts, including premium taxes, licenses and fees, and such other underwriting expenses relating to insurance operations as may be mutually agreeable to the parties excluding federal and foreign income taxes, investment expenses and any other expenses not related to underwriting operations.

(d) “Dividends” to policyholders shall be treated as Underwriting Expenses.

(e) “Net”, as used herein shall mean net after giving effect to ceded reinsurance transactions with other insurers or reinsurers, if any, which inure to the benefit of the parties to this Agreement.

(f) “Insurance Policies” shall include all insurance or reinsurance agreements, contracts, policies, certificates, binders, endorsements, or agreements of insurance or reinsurance issued or renewed by the Exchange, Company, or ERIE-New York for which they may become obligated.

(g) “Loss Adjustment Expense” shall include both allocated loss adjustment expense and unallocated loss adjustment expense.

(h) “Accounting Period” shall mean calendar quarter (i.e. March 31, June 30, September 30, and December 31 of each year).

ARTICLE IV — LIABILITIES — BUSINESS CEDED

The Company and ERIE-New York each individually agrees to cede and transfer to the Exchange and the Exchange agrees to assume and reinsure:

(a) 100% of all Net Policy Liabilities under all Insurance Policies of the Company and ERIE-New York respectively, outstanding and in force at 12:01 a.m., Eastern Standard Time, January 1, 1995.

(b) 100% of the Net Policy Liabilities, automatically from inception, under all Insurance Policies issued or assumed by the Company and ERIE-New York respectively, with effective dates on and after January 1, 1995, during the continuation of this Agreement.

(c) 100% of the Net liability of the Company and ERIE-New York respectively, for unpaid losses (including both reported and unreported losses), unpaid loss adjustment expenses, underwriting expenses due and unpaid prior to January 1, 1995, and unpaid dividends to policyholders.

ARTICLE V — PREMIUMS AND RESERVES — BUSINESS CEDED

The Company and ERIE-New York each individually agrees to pay to the Exchange the following:

(a) 100% of the unearned premium reserves of the Company and ERIE-New York respectively, carried for the Net Policy Liabilities assumed and reinsured by the Exchange under Article IV(a) hereof as shown on the records of the Company and ERIE-New York respectively, as of 12:01 a.m., Eastern Standard Time, January 1, 1995.

(b) 100% of the premiums received by the Company and ERIE-New York respectively, for business ceded and transferred to the Exchange under Article IV(b) hereof less the costs of any reinsurance placed with reinsurers other than the Exchange.

(c) 100% of the reserves carried by the Company and ERIE-New York respectively, for losses (including both reported and unreported losses), loss adjustment expense, underwriting expenses (including dividends to policyholders) as shown on the records of the Company and ERIE-New York respectively, as of 12:01 a.m., Eastern Standard Time, January 1, 1995.

ARTICLE VI — LIABILITIES RETROCEDED

Following the assumption and reinsurance of the liabilities of the Company and ERIE-New York respectively, as set forth in Article IV hereof, the Exchange shall retrocede and transfer to the Company and ERIE-New York each company's individual Respective Percentage Share of the following:

(a) 100% of all Net Policy Liabilities under all Insurance Policies of the Exchange outstanding and in force at 12:01 a.m., Eastern Standard Time, January 1, 1995.

(b) 100% of the Net Policy Liabilities, automatically from inception, under all Insurance Policies issued or assumed by the Exchange with effective dates on and after January 1, 1995, during the continuation of this Agreement.

(c) 100% of the Net Policy Liability of the Exchange for unpaid losses (including both reported and unreported losses), unpaid loss adjustment expenses, underwriting expenses due and unpaid prior to January 1, 1995, and unpaid dividends to policyholders.

ARTICLE VII — PREMIUMS AND RESERVES — BUSINESS RETROCEDED

Following the payment of the premiums and reserves of the Company and ERIE-New York respectively, as set forth in Article V hereof, the Exchange shall retrocede and transfer to the Company and ERIE-New York each company's individual Respective Percentage Share of the following:

(a) 100% of the Exchange's unearned premium reserves carried for its Net Policy Liabilities under all Insurance Policies of the Exchange outstanding and in force as of 12:01 a.m., Eastern Standard Time, January 1, 1995.

(b) The Exchange's premiums received by the Exchange for its own account and all premiums received by the Exchange pursuant to Article V(b) hereof for business assumed from the Company and ERIE-New York respectively, under Article IV(b) hereof, less all Underwriting Expenses incurred by the Exchange in relation to such business and less all reinsurance placed with insurers or reinsurers other than the parties to this Agreement by the Exchange for its own account or for the joint account of the Exchange, Company and ERIE-New York.

(d) 100% of the reserves carried by the Exchange for losses (including both reported and unreported losses), loss adjustment expense, underwriting expenses (including dividends to policyholders) as shown on the records of the Exchange as of 12:01 a.m., Eastern Standard Time, January 1, 1995.

ARTICLE VIII — AGENTS' BALANCES/OUTSTANDING ACCOUNTS

The Company and ERIE-New York hereby agree to sell, transfer, assign and the Exchange hereby agrees to purchase all rights, title and interest of the Company and ERIE-New York in their agents' balances, uncollected premiums and all other accounts relating to underwriting operations, including underwriting pools and associations as they exist at 12:01 a.m., Eastern Standard Time, January 1, 1995, at statutory book value. The Exchange hereby agrees to sell, transfer and assign and the Company and ERIE-New York hereby agree to purchase their Respective Percentage Shares of the total agents' balances, uncollected premiums and all other accounts relating to underwriting operations at statutory book value immediately after and including the transfers effected by the first sentence of this paragraph.

Underwriting assets and related liabilities of the Exchange, the Company, and ERIE-New York arising after 12:01 a.m., Eastern Standard Time, January 1, 1995, shall be pro-rated according to the Respective Percentage Share of the companies.

Notwithstanding anything to the contrary herein contained, the Company and ERIE-New York hereby agree for purposes of statutory financial statements, to assume their Respective Percentage Share of any amounts disallowed the Exchange on account of reinsurance effected with so-called unauthorized reinsurers and any amounts disallowed the Exchange for non-admitted agents' balances and uncollected premiums.

ARTICLE IX — OBLIGATIONS

The Exchange agrees to act on behalf of the Company and ERIE-New York to fulfill all the respective obligations of the Company and ERIE-New York under the Insurance Policies reinsured hereby and to adjust and pay all claims thereunder and to pay all Underwriting Expenses (including dividends to policyholders) on behalf of the Company and ERIE-New York, and the Company and ERIE-New York hereby agree to the Exchange acting on their behalf with respect to such matters. The adjustment of claims and claim payments for policies written by ERIE-New York will be made in accordance with guidelines established by the Board of Directors of ERIE-New York. It is the purpose and intent of this Agreement that all reinsurance hereunder shall be subject in all respects to the same rates, terms, conditions, interpretations, waivers, the exact proportion of premiums paid without deduction for brokerage, and to the same modifications, alterations and cancellations as the respective insurances of the companies to which such reinsurance relates, the true intent of this Agreement being that the reinsurer shall in every case to which this Agreement applies and in the Respective Percentage Share set forth herein follow the fortunes of the reinsured. This Agreement is solely between and for the benefit of the parties hereto and the acceptance of reinsurance hereunder shall not create any right or legal relation whatsoever between the primary insured and any party to this Agreement other than the company issuing the original insurance contract to such insured.

ARTICLE X — ACCOUNTS AND SETTLEMENTS

The Exchange, the Company, and ERIE-New York shall keep sufficient records for the express purpose of recording therein the amounts and other particulars of the reinsurance ceded and assumed between the parties hereto. Each party to this Agreement shall have the right to examine, at the offices of the other parties at all reasonable times, all books and records of the other parties relating to any business which is the subject of this Agreement. This right shall survive termination of this Agreement and shall continue so long as any party has any rights or obligations under this Agreement.

Copies of all Insurance Policies thereto which come within the scope of this Agreement shall be available to all companies which are parties to this Agreement. Each company which is a party hereto will make its financial data available to every company for the purpose of recording those inter-company transactions necessitated by this Agreement and shall provide such financial information in sufficient detail and in mutually acceptable form to prepare monthly financial and quarterly and annual filings with all applicable insurance departments and other regulatory authorities.

The Exchange shall render to the Company and to ERIE-New York at such periods as are mutually agreed upon (but not less frequently than quarterly), a statement showing net premiums received, Underwriting Expenses (including dividends paid to policyholders), net losses and loss adjustment expenses paid during the accounting period. Reasonable approximations may be substituted when necessary, for interim accounting, but there shall be an annual adjustment to the exact amounts. The companies shall settle accounts between them by payment of such amounts as may be owing within 30 days after the end of the accounting period.

Each quarter the Exchange shall render to the Company and to ERIE-New York a report of all accruals required to adjust cash transactions to the accounting basis required for accounting in accordance with generally accepted practices for preparation of the NAIC form of annual statement, and to adjust the expense allowance to the accrual basis.

To the extent that transfers of non-cash assets may be required to effectuate the settlements herein provided, such transfers shall be made at fair market values as of the date such transfers are made.

ARTICLE XI — TERMINATION

This Agreement may be terminated by mutual agreement stating the terms and conditions therefore or by any party giving to the other parties not less than 90 days advance written notice stating when, as of the end of any calendar year such termination shall be effective. Upon termination of this Agreement each party shall remain responsible and liable for its Respective Percentage Share of Net Policy Liabilities ceded and transferred and assumed and reinsured prior to the termination date. Liability for accidents or occurrences after the termination date of this Agreement under Insurance Policies written or renewed after the termination of this Agreement shall cease to be included within Net Policy Liabilities. Such new or renewed Insurance Policies, and their related assets and reserves, shall be restored to the party that issued or renewed them, through a process of regular settlement transactions following termination of this Agreement.

ARTICLE XII — INSOLVENCY CLAUSE

Each party hereby agrees that in the event of the insolvency of any party, this Agreement shall be so construed that the reinsurance due hereunder shall be payable directly to the insolvent party or its liquidator, receiver, or statutory successor by the reinsurer on the basis of the liability of the insolvent party under the contract or contracts reinsured without diminution because of the insolvency. It is further agreed that the liquidator, the receiver, or the statutory successor of the insolvent party shall give written notice to the reinsurer of the pendency of a claim against the insolvent party on the policy reinsured within a reasonable time after such claim is filed in the solvency proceedings; that during the pendency of such claim the reinsurer may investigate such claim and interpose at their own expense in the proceeding where such claim is to be adjudicated any defense or defenses which they may deem available to the insolvent party or its liquidator, receiver, or statutory successor; that the expenses thus incurred by the reinsurer shall be chargeable subject to court approval against the insolvent party as part of the expense of liquidation to the extent of the proportionate benefit which may accrue to the insolvent party solely as a result of the defense undertaken by the reinsurer.

It is further agreed and understood that as to all reinsurance made, ceded, renewed or otherwise becoming effective hereunder, the reinsurance shall be payable by the reinsurer directly to the insolvent party or to its liquidator, receiver or statutory successor.

ARTICLE XIII — ARBITRATION

As a condition precedent to any right of action hereunder, in the event of any difference of opinion hereafter arising with respect to this Agreement, it is hereby mutually agreed that such dispute or difference of opinion shall be submitted to arbitration before a panel of three arbitrators, all of whom shall be active or retired disinterested officers of property and casualty insurance companies, reinsurance companies or underwriters at Lloyd's, London. One arbitrator shall be chosen by each party to the dispute, and the third, an umpire, to be chosen by the other two arbitrators before they enter upon arbitration. In the event of any party refusing or neglecting to appoint an arbitrator within 90 days after the other party requests it to do so, or if the arbitrators fail to appoint an umpire within 60 days after they have accepted their appointments, such arbitrator or umpire, as the case may be, shall, upon the application of any party, be appointed by The American Arbitration Association and the arbitrators and the umpire shall thereupon proceed. The arbitrators shall consider this Agreement as an honorable engagement rather than merely as a legal obligation and they are relieved of all judicial formalities and may abstain from following the strict rules of law. The decision of the majority of the arbitrators shall be final and binding on all parties. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear the other expenses of the umpire and of the arbitration. Any such arbitration shall take place in Erie, Pennsylvania, or such other place as may be mutually agreed.

ARTICLE XIV — ERRORS AND OMISSIONS

The parties to this Agreement will use due diligence in promptly and accurately reporting all transactions under this Agreement. It is agreed, however, that any errors or omissions occurring through clerical error, accident or oversight, of any party to this Agreement shall not invalidate any of the provisions of this Agreement; and the party making such error agrees to correct it immediately upon discovery.

ARTICLE XV — AMENDMENTS

This Agreement may be altered or amended in any respect at any time and from time to time by mutual consent of the parties either by an endorsement or addendum executed by the parties hereto or by correspondence signed by a responsible officer of each party, and such endorsement or addendum or correspondence shall be binding on the parties and be deemed to be an integral part of this Agreement.

ARTICLE XVI — OTHER PROVISIONS

1. This Agreement shall not apply to the investment operations, liabilities for Federal and foreign income tax, or other operations unrelated to the insurance underwriting of the parties hereto.

2. In the event that the Company is not licensed in New York and/or the Exchange is not an accredited reinsurer in New York, the Exchange agrees to post a letter of credit collateralizing the business ceded to it by ERIE-New York.

IN WITNESS WHEREOF, the parties hereto have affixed their signatures.

ERIE INSURANCE EXCHANGE
by Erie Indemnity Company
Attorney-in-Fact

By: /s/ Jeffrey A. Ludrof
Jeffrey A. Ludrof
President and Chief Executive Officer

ERIE INSURANCE COMPANY

By: /s/ J.R.Van Gorder
J. R. Van Gorder
Senior Executive Vice President, Secretary and General Counsel

ERIE-NEW YORK

By: /s/ Philip A. Garcia
Philip A. Garcia
Executive Vice President and Chief Financial Officer

ERIE INSURANCE GROUP

REINSURANCE POOLING AGREEMENT

EFFECTIVE January 1, 1995

AMENDED AND RESTATED January 1, 2007

EXHIBIT A

Participating Insurer	Respective Percentage Share
Erie Insurance Exchange	94.5%
Erie Insurance Company	5.0%
ERIE-New York	0.5%

Exhibit 13

Selected Consolidated Financial Data

	2006	2005	2004	2003	2002
	Years ended December 31 (amounts in thousands, except per share data)				
Operating data					
Total operating revenue	**$1,133,982**	$1,124,950	$1,123,144	$1,048,788	$ 920,723
Total operating expenses	**934,204**	900,731	884,916	820,478	705,871
Total investment income—unaffiliated	**99,021**	115,237	88,119	66,743	40,549
Provision for income taxes	**99,055**	111,733	105,140	102,237	84,886
Equity in earnings of Erie Family Life Insurance, net of tax	**4,281**	3,381	5,206	6,909	1,611
Net income	**$ 204,025**	$ 231,104	$ 226,413	$ 199,725	$ 172,126
Per share data					
Net income per share-diluted	**$ 3.13**	$ 3.34	$ 3.21	$ 2.81	$ 2.41
Book value per share—Class A common and equivalent B shares (2)	**18.17**	18.81	18.14	16.40	13.91
Dividends declared per Class A share	**1.480**	1.335	0.970	0.785	0.700
Dividends declared per Class B share	**222.00**	200.25	145.50	117.75	105.00
Financial position data					
Investments (1)	**$1,380,219**	$1,452,431	$1,371,442	$1,241,236	$1,047,304
Recoverables from the Exchange and affiliates	**1,220,058**	1,175,152	1,142,591	1,022,569	842,498
Total assets	**3,039,361**	3,101,261	2,982,804	2,756,329	2,359,545
Shareholders' equity (2)	**1,161,848**	1,278,602	1,266,881	1,164,170	987,372
Cumulative number of shares repurchased at December 31	**10,448**	6,438	4,548	3,403	3,403

(1) Includes investment in Erie Family Life Insurance.

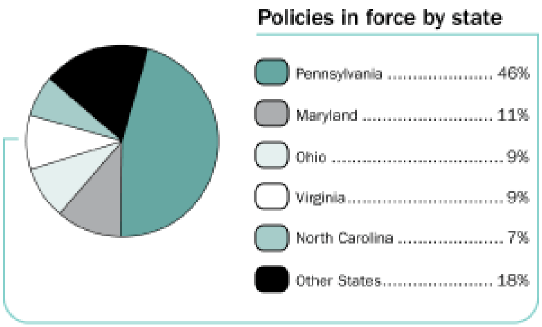
(2) Shareholders' equity decreased by $21.1 million, net of taxes, at December 31, 2006, as a result of initially applying the recognition provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". Book value per share decreased $0.33 as result.

Management's Discussion and Analysis of Financial Condition and Results of Operations

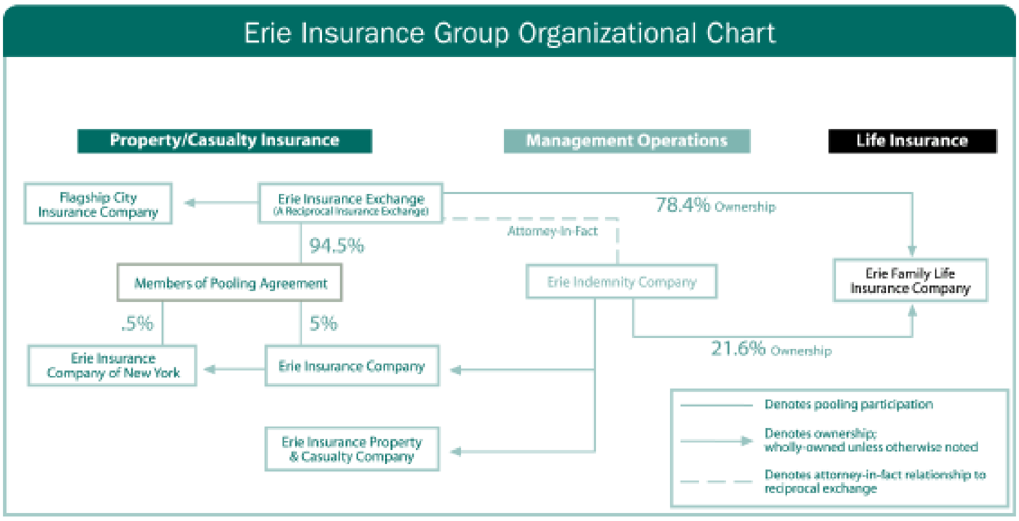
The following discussion and analysis should be read in conjunction with the audited financial statements and related notes, as they contain important information helpful in evaluating our operating results and financial condition. The discussions below focus heavily on our three primary segments: management operations, insurance underwriting operations and investment operations. The segment basis financial results presented throughout Management's Discussion & Analysis herein are those which management uses internally to monitor and evaluate results and are a supplemental presentation of our Consolidated Statements of Operations.

Overview

We operate predominantly as a provider of management services to the Erie Insurance Exchange (Exchange). We are the attorney-in-fact for the Exchange, and by agreement with its subscribers, we are required to perform certain services relating to the sales, underwriting and issuance of property/casualty insurance policies on behalf of the Exchange. We also operate as a property/casualty insurer through our subsidiaries. The Exchange and its property/casualty subsidiary and our three insurance subsidiaries operate collectively as the Property and Casualty Group.



The Property and Casualty Group currently underwrites insurance in 11 states and the District of Columbia. Pennsylvania, Maryland and Ohio made up 66% of direct written premiums during 2006. The Property and Casualty Group markets and sells its insurance products through independent, non-exclusive agencies. In addition to their principal role as salespersons, the independent agents play a significant role as underwriters and service providers and are major contributors to the Property and Casualty Group's success.



We own 21.6% of the common stock of Erie Family Life Insurance (EFL), an affiliated life insurance company, of which the Exchange owns 78.4%. We, together with the Property and Casualty Group and EFL, collectively operate as the Erie Insurance Group.

For a complete discussion of all intercompany agreements, see the Transactions and Agreements with Related Parties section herein.

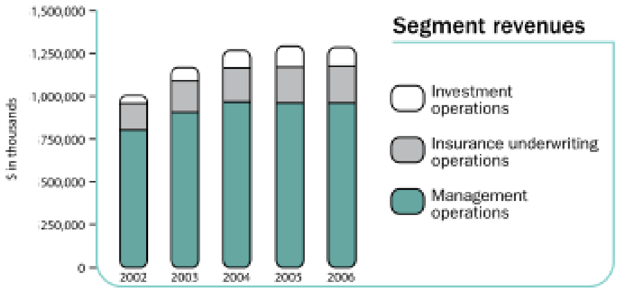
Economic and industrywide factors

Although we are primarily a management company, our earnings are driven largely by the management fee revenue we collect from the Exchange that is based on the direct written premiums of the Property and Casualty Group. The property/casualty insurance industry is highly cyclical, with periods of rising premium rates and shortages of underwriting capacity ("hard market") followed by periods of substantial price competition and excess capacity ("soft market"). The insurance industry experienced softening market conditions in 2006 where significant price competition resulted in limited policy and premium growth. Despite limited growth in premiums, the insurance industry saw record earnings in 2006 resulting from low catastrophes and relatively disciplined underwriting. Strong earnings contributed to the continued strengthening of industry surplus to a record high in 2006 as well. The Property and Casualty Group implemented significant rate reductions and other pricing actions in personal lines related to our implementation of insurance scoring in pricing in 2005 and 2006. These pricing actions, combined with the slow growth in policies in force, resulted in a decline in direct written premiums for the Property and Casualty Group in 2006.

The superior industry underwriting results and capitalization, combined with slowing premium growth in 2006, have historically set the stage for increased price competition and acceleration of the softening of the pricing cycle. Insurers may seek to deploy their capital in an attempt to build market share by cutting prices and loosening underwriting standards. Typically, the effects of these strategies are felt first in commercial lines of insurance and later in personal lines. A period of declining premiums is especially challenging for us, as our revenues from management fees are dependent on the growth in written premium, especially if the management fee rate is at its maximum 25%, which it is for 2007.

Personal lines—Industrywide personal lines premiums are expected to experience pricing pressure in 2007 as the pricing cycle softens further. It is anticipated that industry personal lines underwriting results will continue to perform well despite the pressure on pricing. Even with slight rate declines, combined ratios are only expected to deteriorate modestly given the industry's trend of improving frequency and severity. Driving this expectation for the industry are modest decreases in auto premiums partly offset by growth in homeowners premium. Growth in homeowners premium is expected to be driven largely by rising replacement cost values even though rates might be flat to slightly down. Personal lines make up approximately 70% of the Property and Casualty Group's business, with private passenger auto comprising about 69% of the personal lines business. The Property and Casualty Group's adjusted statutory combined ratios for private passenger auto and homeowners in 2006 were 92.2% and 85.7%, respectively. The Property and Casualty Group's rate reductions planned for 2007 are primarily in private passenger auto and homeowners.

Commercial lines—Commercial lines premiums, which make up about 30% of the Property and Casualty Group's business, are expected to decrease slightly for the industry in 2007. The effect on industry combined ratios will vary depending on a company's type and size of commercial coverages. Combined ratios are expected to deteriorate in workers compensation and commercial liability lines due to pricing pressures. The Property and Casualty Group's adjusted statutory combined ratio on all commercial business was 88.5%, while workers compensation was 93.8% and commercial multi-peril was 89.2%. In 2006, our workers compensation frequency continued to drop and, in most of the states in which we do business, severity trends moderated. The Property and Casualty Group's commercial lines with the most significant rate reductions planned for 2007 are commercial multi-peril and workers compensation.



Revenue generation

We have three primary sources of revenue. First, approximately 72% of our revenues are generated by providing management services to the Exchange. The management fee is calculated as a percentage, not to exceed 25%, of the direct written premiums of the Property and Casualty Group. The Board of Directors establishes the rate at least annually and considers such factors as relative financial strength of the Exchange and Company and projected revenue streams. Our Board set the 2007 rate at 25%, its maximum level.

Second, we generate revenues from our property/casualty insurance subsidiaries, which consist of our share of the pooled underwriting results of the Property and Casualty Group. All members of the Property and Casualty Group pool their underwriting results. Under the pooling agreement, the Exchange assumes 94.5% of the Property and Casualty Group's direct written premium. Through the pool, our subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, currently assume 5.5% of the Property and Casualty Group's direct written premium, providing a direct incentive for us to manage the insurance underwriting discipline as effectively as possible.

Finally, we generate revenues from our investment portfolio, which provided nearly $60 million in pretax investment income during 2006. The portfolio is managed with a view towards maximizing after-tax yields and limiting interest rate and credit risk. In addition, our portfolio of limited partnership investments generated over $41 million in earnings before tax.

Our results have allowed us to consistently generate high levels of cash flow from operations, which was $270.4 million in 2006. The capital requirements of our management operations are minimal, and our net cash flows from operations have been used to pay shareholder dividends and to repurchase shares of our stock under our repurchase program.

Opportunities, challenges and risks

Our key challenges in 2007 are profitable revenue growth in a time of heightened price competition as well as containing the growth of expenses in our management operations. In 2006, we increased penetration in our current territories through the appointment of 139 new agencies. During 2007, we plan to continue this momentum by appointing another 200 agencies. In 2006, additional discounts and interactions were introduced into the pricing plan for auto and home. The Property and Casualty Group continues to evaluate potential new personal lines product extensions and enhancements.

We plan to control the growth in the cost of management operations by controlling salary and wage costs and other discretionary spending in 2007. However, we intend to make targeted investments in technology to enhance customer service, ease of doing business with agents and customers, and improve our productivity. Our planned technology investment is driving our projected cost of management operations increase for 2007 of 9%, excluding commissions to agents.

In April 2006, after extensive reevaluation, we decided to cease development of the Web-based property/casualty policy processing and administration system (ERIE*Connection*®). The costs associated with the development and maintenance of this system were covered by a separate Cost-Sharing Agreement for Information Technology Development between member companies of the Erie Insurance Group. Upon termination of system development in the second quarter of 2006 and decommission activities in the second half of 2006, there will be no additional charges under this Agreement. Technology development costs will follow intercompany cost allocation practices under the subscribers' agreements until such time, if ever, that our Board of Directors considers and approves an alternative cost-sharing arrangement. See also Note 13 to the Consolidated Financial Statements for a discussion of expense allocations.

Financial overview

(in thousands, except per share data)	2006	% change 2006 over 2005	2005	% change 2005 over 2004	2004
		Years ended December 31,			
Income from management operations	**$186,408**	**(10.9)%**	$209,269	(13.7)%	$242,592
Underwriting income (loss)	**13,370**	**(10.6)**	14,950	NM	(4,364)
Net revenue from investment operations	**103,625**	**(12.8)**	118,873	26.8	93,717
Income before income taxes	**303,403**	**(11.6)**	343,092	3.4	331,945
Provision for income taxes	**99,378**	**(11.3)**	111,988	6.1	105,532
Net income	**$204,025**	**(11.7)%**	$231,104	2.1%	$226,413
Net income per share—diluted	**$ 3.13**	**(6.3)%**	$ 3.34	4.0%	$ 3.21

NM = not meaningful

Key points

- *Decline in net income per share-diluted in 2006 impacted by lower income from management operations and reduced investment earnings.*
- *Gross margins from management operations decreased to 19.2% in 2006 from 21.8% in 2005 and 25.1% in 2004.*
- *The management fee rate was 24.75% for 2006 and 23.75% for 2005.*
- *GAAP combined ratio of 93.7 in 2006 was up slightly from 93.1 in 2005.*
- *Investment income was impacted by common stock repurchases in 2006.*

Management operations

- Management fee revenue increased 0.3% in 2006 compared to a 0.5% decrease in 2005. The two determining factors of management fee revenue are: 1) the management fee rate we charge, and 2) the direct written premiums of the Property and Casualty Group. The management fee rate increased to 24.75% for 2006 from 23.75% for 2005, while the direct written premiums of the Property and Casualty Group were $3.8 billion for 2006, down from $4.0 billion for 2005.
- In 2006, the direct written premiums of the Property and Casualty Group decreased 3.9% compared to a 1.0% decline in 2005. New policy direct written premiums of the Property and Casualty Group decreased 0.3% in 2006, compared to 7.5% in 2005. The recent improvements in underwriting profitability afforded the Property and Casualty Group the ability to implement rate reductions in 2005 and 2006 to allow for more attractive prices to potential new policyholders and improve retention of existing policyholders. The 2006 impact of rate changes resulted in a net decrease in written premiums of the Property and Casualty Group of $119.5 million. Further rate reductions are planned for 2007, which will continue to lower the average premium per policy and slow the premium growth of the Property and Casualty Group.
- The cost of management operations increased 4.5%, or $34.1 million, to $785.7 million in 2006, compared to $751.6 million in 2005. The increase in cost of management operations in 2006 was the result of:
  - *Commissions*—Total commission costs increased 2.7%, or $14.6 million, to $554.0 million in 2006, compared to $539.4 million in 2005. Agent bonuses increased $23.7 million, as the bonus structure is predominantly based on underwriting profitability, which improved dramatically over the measurement period used for the bonus. Meanwhile, normal scheduled commissions decreased 2.6%, primarily due to the 3.9% decrease in direct written premiums of the Property and Casualty Group. This premium decrease was concentrated in the personal lines of business, which have lower

commission rates than commercial lines of business. Promotional incentive programs that began in 2005 and additional agent incentives offered in 2006 aimed at stimulating premium growth also contributed $3.4 million in additional costs in 2006.

- *Total costs other than commissions*—All other operating costs increased 9.2% to $231.6 million in 2006, mainly as a result of increased personnel and underwriting costs. Personnel costs increased due to higher average pay rates and increased staffing levels resulting from information technology personnel utilized by us. Underwriting cost increases of 14.0% resulted from modest growth in application activity as well as an increased number of workers compensation policy audits.

Insurance underwriting operations

Contributing to the positive insurance underwriting operating result of a 93.7 GAAP combined ratio were the following:

- moderating pricing offset by improving frequency and severity trends resulted in favorable accident year combined ratios in 2004, 2005 and 2006;
- 1.9 points, or $4.0 million of favorable development on prior accident year loss reserves in 2006;
- below normalized level of catastrophe losses of 4.0 points in 2006;
- lower level of charges related to the reversals of recoveries under the intercompany aggregate excess-of-loss reinsurance agreement between our property/casualty insurance subsidiaries and the Exchange in 2006.

Investment operations

- Net investment income decreased 9.2% in 2006 compared to 2005, as invested assets declined in 2006 to fund stock repurchases of $217.4 million. Share repurchases of $99 million in 2005 were funded with operating cash flows.
- Equity in earnings of limited partnerships increased 9.7% in 2006 as a result of favorable earnings from real estate limited partnerships and market value appreciation from private equity and mezzanine debt investments in limited partnerships.

The topics addressed in this overview are discussed in more detail in the sections that follow.

Critical accounting estimates

We make estimates and assumptions that have a significant effect on reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and related disclosures. The following presents a discussion of those accounting policies that we believe are the most critical to our reported amounts and require the most subjective and complex judgment. If actual events differ significantly from the underlying assumptions and estimates used, there could be material adjustments to prior estimates that could potentially adversely affect our results of operations, financial condition and cash flows. The estimates and the estimating methods used are reviewed continually, and any adjustments considered necessary are reflected in current earnings.

Investment valuation

We make estimates concerning the valuation of all investments. We value fixed maturities and equity securities based on published market prices, except in rare cases where quoted market prices are not available.

The primary basis for the valuation of limited partnership interests are financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners typically result in not less than a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. The general partners use various methods to estimate fair value of unlisted debt and equity investments, property and other investments for which there is no published market. These valuation techniques may vary broadly depending on the asset class of the partnership. Due to the nature of the investments, general partners must make assumptions about the underlying companies or assets as to future performance, financial condition, liquidity, availability of capital, market conditions and other factors to determine the estimated fair value. The valuation procedures can include techniques such as cash flow multiples, discounted cash flows or the pricing used to value the entity or similar entities in recent financing transactions. The general partners' estimate and assumption of fair value of non-marketable securities may differ significantly from the values that could have been derived had a ready market existed. These values are not necessarily indicative of the value that would be received in a current sale and valuation differences could be significant. Upon receipt of the quarterly and annual financial statements, we perform an in-depth analysis of the valuations provided by the general partners. We survey each of the general partners about expected significant changes (plus or minus 10% compared to previous quarter) to valuations prior to the release of the fund's quarterly and annual financial statements. In the event of an expected significant change, the general partner will notify us and we will evaluate the potential change.

Investments are evaluated monthly for other-than-temporary impairment loss. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include:

- the extent and duration for which fair value is less than cost;
- historical operating performance and financial condition of the issuer;
- short- and long-term prospects of the issuer and its industry based on analysts' recommendations;
- specific events that occurred affecting the issuer, including rating downgrades; and
- our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value.

An investment deemed other than temporarily impaired is written down to its estimated net realizable value. Impairment charges are included as a realized loss in the Consolidated Statements of Operations.

Property/casualty insurance liabilities

Reserves for property/casualty insurance unpaid losses and loss adjustment expenses reflect our best estimate of future amounts needed to pay losses and related expenses with respect to insured events. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported. They also include estimates of all future payments associated with processing and settling these claims. Reported losses represent cumulative loss and loss adjustment expenses paid plus case reserves for outstanding reported claims. Case reserves are established by a claims handler on each individual claim and are adjusted as new information becomes known during the course of handling the claims. Incurred but not reported reserves represent the difference between the actual reported loss and loss adjustment expenses and the estimated ultimate cost of all claims. The process of estimating the liability for property/casualty unpaid loss and loss adjustment expense reserves is complex and involves a variety of actuarial techniques. This estimation process is based largely on the assumption that past development trends are an appropriate indicator of future events. Reserve estimates are based on our assessment of known facts and circumstances, review of historical settlement patterns, estimates of trends in claims frequency and severity, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by 1) internal factors, including changes in claims handling procedures and changes in the quality of risk selection in the underwriting process, and 2) external events, such as economic inflation, regulatory and legislative changes. Due to the inherent complexity of the assumptions used, final loss settlements may vary significantly from the current estimates, particularly when those settlements may not occur until well into the future.

Our actuaries review reserve estimates for both current and prior accident years using the most current claim data, on a quarterly basis, for all direct reserves except the reserves for the pre-1986 automobile catastrophic injury liability that are reviewed semi-annually. These catastrophic injury reserves are reviewed semi-annually because of the relatively low number of cases and the long-term nature of these claims. For reserves that are reviewed semi-annually, our actuaries monitor the emergence of paid and reported losses in the intervening quarters to either confirm that the estimate of ultimate losses should not change, or if necessary, perform a reserve review to determine whether the reserve estimate should change. Significant changes to the factors discussed above, which are either known or reasonably projected through analysis of internal and external data, are quantified in the reserve estimates each quarter.

The quarterly reserve reviews incorporate a variety of actuarial methods and judgments and involve rigorous analysis. Multiple estimation methods are employed for each product line and product coverage combination analyzed at each evaluation date. Most estimation methods assume that past patterns discernible in the historical data will be repeated in the future, absent a significant change in pertinent variables. The various methods generate different estimates of ultimate losses by product line and product coverage combination for which there is no statistical probability associated. Thus, there are no reserve ranges, but rather point estimates of the ultimate losses developed from the various methods.

Each estimation method has its own set of assumption variables and its own unique set of advantages and disadvantages. No single estimation method has proven to be universally superior for all product lines and product line combinations. The relative strengths and weaknesses of particular estimation methods can also change over time. Thus, the choice of particular estimation methods may change from one evaluation period to the next. We determine the best estimate of reserves through selecting the methods and specific assumptions appropriate for each line of business based on the current circumstances affecting that product line and product coverage combination. These selections incorporate input, as judged by the actuaries to be appropriate, from claims personnel, pricing actuaries and operating management on reported loss cost trends and other factors that could affect the reserve estimates. The methods that are given more influence vary by product coverage combination based primarily on the maturity of the accident quarter, the mix of business and the particular internal and external influences impacting the claims experience or the method.

The following is a discussion of the most common methods used.

Paid development—Paid loss development patterns are generated from historical data organized by accident quarter and calendar quarter and applied to current paid losses by accident quarter to generate estimated ultimate losses. Paid development techniques do not use information about case reserves and therefore are not affected by changes in case reserving practices. These techniques are generally less useful for the more recent accident quarters of long-tailed lines since a low percentage of ultimate losses are paid in early periods of development.

Reported development—Reported loss (including cumulative paid losses and case reserves) development patterns are generated from historical data organized by accident quarter and calendar quarter, and applied to current reported losses by accident quarter to generate estimated ultimate losses. Compared to the paid development technique, the reported development technique has the advantage that a higher percentage of ultimate losses are reflected in reported losses than in cumulative paid losses. Accordingly, the reported development technique is estimating only the unreported losses rather than the total unpaid losses. Estimates from this technique are affected by changes in case reserving practices.

Combinations of the paid and reported methods are used in developing estimated ultimate losses for short-tail coverages, such as private passenger auto property and homeowners claims, and more mature accident quarters of long-tail coverages, such as private passenger auto liability claims and commercial liability claims, including workers compensation.

Bornhuetter-Ferguson—This method combines a reported development technique with an expected loss ratio technique. An expected loss ratio is developed through a review of historical loss ratios by accident quarter, as well as expected changes to earned premium, mix of business and other factors that are expected to impact the loss ratio for the accident quarter being evaluated. A preliminary estimate of ultimate losses is calculated by multiplying this expected loss ratio by earned premium. Bornhuetter-Ferguson is a method of combining the expected loss ratio ultimate losses and the reported development ultimate losses which places more weight on the reported development ultimate losses as an accident quarter matures. The Bornhuetter-Ferguson method is generally used on the first four to eight accident quarters on long-tail coverages because a low percentage of losses are paid in the early period of development.

Defense and cost-containment expenses are estimated using either the paid development method or the Bornhuetter-Ferguson method, depending on the maturity of the development period of the related loss.

The reserve review process involves a comprehensive review by our actuaries of the various estimation methods and reserve levels produced by each. These multiple reserve point estimates are reviewed by management and our reserving actuaries, and reserve best estimates are selected. Numerous factors are considered in setting reserve levels, including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, the maturity of the accident year, pertinent claims frequency and severity trends observed over recent years, the level of volatility within a particular line of business and the improvement or deterioration of actuarial indications in the current period as compared to prior periods.

We also perform analyses to evaluate the adequacy of past reserve levels. Using subsequent information, we perform retrospective reserve analyses to test whether previously established estimates for reserves were reasonable. Our 2006 retrospective analysis indicated the Property and Casualty Group's December 31, 2005 reserves had an estimated redundancy of $137 million, which was about 3.6% of total reserves. We do not consider this level of estimated redundancy unreasonable given the ongoing development of our claims reserves.

The Property and Casualty Group's coverage that has the greatest potential for variation is the pre-1986 automobile catastrophic injury liability reserve. Automobile no-fault law in Pennsylvania before 1986 provided for unlimited medical benefits. The estimate of ultimate liabilities for these claims is subject to significant judgment due to variations in claimant health, mortality over time and health care cost trends. Because the coverage related to these claims is unique and the number of claims is less than 100, the previously discussed methods are not used; rather ultimate losses are estimated on a claim-by-claim basis. An annual payment assumption is made for each of these claimants who sustained catastrophic injuries and then projected into the future based upon a particular assumption of the future inflation rate and life expectancy of the claimant. At December 31, 2006, the reserve carried by the Property and Casualty Group for these pre-1986 automobile catastrophic injury liabilities, which is our best estimate of this liability at this time, was $285.0 million, which is net of $155.7 million of anticipated reinsurance recoverables. Our property/casualty subsidiaries share of the net automobile catastrophic injury liability reserve is $15.7 million at December 31, 2006. The most significant variable in estimating this liability is medical cost inflation. Data from the Bureau of Labor Statistics suggest that the annual growth in industry medical claim costs has varied by between 2% to 5% since 1996. Our medical inflation rate assumption in setting this reserve for 2006 is for a 10% annual increase grading down 1% per year to an ultimate rate of 5%. This data shows that medical inflation has been highly variable over the past decade. Each 100-basis point change in the medical cost inflation assumption would result in a change in net liability for us of $2.9 million.

We have historically minimized our use of ceded reinsurance. The only significant ceded reinsurance recoverable amounts arise from pre-1986 automobile catastrophic injury claims, as noted above, and from workers compensation claims before 1994 that had unlimited medical benefits coverage. Ceded recoveries are not significant to our results.

Retirement benefit plans

Our pension plan for employees is the largest and only funded benefit plan we offer. Our retiree health benefit plan, which provided medical and pharmacy coverage for eligible retired employees and eligible dependents, was terminated during 2006 and coverage will be phased out through 2010. Our pension and other retirement benefit obligations are developed from actuarial estimates in accordance with Financial Accounting Standard (FAS) 87, “Employers' Accounting for Pensions,” and FAS 106, “Employers' Accounting for Postretirement Benefits Other than Pensions.” We use a consulting actuarial firm to develop these estimates. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. Key factors include assumptions about the discount rates and expected rates of return on plan assets. With the assistance of the consulting actuarial firm, we review these assumptions annually and modify them considering historical experience, current market conditions, including changes in investment returns and interest rates, and expected future trends.

Accumulated and projected benefit obligations are expressed as the present value of future cash payments. We discount those cash payments using the prevailing market rate of a portfolio of high-quality fixed-income debt instruments with maturities that correspond to the payment of benefits. Lower discount rates increase present values and subsequent year pension expense; higher discount rates decrease present values and subsequent year pension expense. In determining the discount rate, we engaged our consulting actuarial firm to complete a bond-matching study. The study developed a portfolio of non-callable bonds rated AA– or better. For some years, there were no bonds maturing. In these instances, the study estimated the appropriate bond by assuming that there would be bonds available with the same characteristics as the available bond maturing in the immediately following year. The cash flows from the bonds were matched against our projected benefit payments in the pension plan, which have a duration of about 20 years. This bond-matching study supported the selection of a 6.25% discount rate for the 2007 pension expense. The 2006 expense was based on a discount rate assumption of 5.75%. A change of 25 basis points in the discount rate assumption, with other assumptions held constant, would have an estimated $1.8 million impact on net pension and other retirement benefit costs in 2007, before consideration of expense allocation to affiliates.

Unrecognized actuarial gains and losses are being recognized over a 16-year period, which represents the expected remaining service life of the employee group. Unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes in the obligations and from the difference between expected returns and actual returns on plan assets. These unrecognized losses are recorded in the pension plan obligation on the Statements of Financial Position and accumulated other comprehensive income in 2006 in accordance with FAS 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” These amounts will be systematically recognized as an increase to future net periodic pension expense in accordance with FAS 87 in future periods.

The expected long-term rate of return for the pension plan represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. The expected long-term rate of return is less susceptible to annual revisions, as there are typically not significant changes in the asset mix. The long-term rate of return is based on historical long-term returns for asset classes included in the pension plan’s target allocation. A reasonably possible change of 25 basis points in the expected long-term rate of return assumption, with other assumptions held constant, would have an estimated $0.6 million impact on net pension benefit cost before consideration of reimbursement from affiliates.

The actuarial assumptions used by us in determining our pension and retirement benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations. Further information on our retirement benefit plans is provided in Note 8.

New accounting standards

See Note 2 to the Consolidated Financial Statements for a discussion of recently-issued accounting pronouncements.

Results of operations

Management operations

	Years ended December 31,				
(in thousands)	**2006**	**% change 2006 over 2005**	2005	% change 2005 over 2004	2004
Management fee revenue	**$942,845**	**0.3%**	$940,274	(0.5)%	$945,066
Service agreement revenue	**29,246**	**42.2**	20,568	(5.9)	21,855
Total revenue from management operations	**972,091**	**1.2**	960,842	(0.6)	966,921
Cost of management operations	**785,683**	**4.5**	751,573	3.8	724,329
Income from management operations	**$186,408**	**(10.9)%**	$209,269	(13.7)%	$242,592
Gross margin	**19.2%**		21.8%		25.1%

Key points

- *The management fee rate was 24.75% in 2006 compared to 23.75% in 2005.*
- *Direct written premiums of the Property and Casualty Group decreased 3.9% in 2006.*
  - *Policies in force increased 1.0% to 3,798,297 in 2006 from 3,759,599 in 2005.*
  - *Year-over-year average premium per policy was $1,001 in 2006 from $1,052 in 2005, a decrease of 4.8%.*
  - *Premium rate changes resulted in a $119.5 million decrease in 2006 written premiums.*
- *Service charges assessed to policyholders increased in 2006 from $3 to $5 per installment, driving a 42.2% increase in service agreement revenue.*
- *Costs other than commissions increased 9.2% and commission costs increased 2.7% in 2006.*
  - *Agent bonuses increased $23.7 million in 2006, while scheduled commission costs decreased $11.9 million.*
  - *Personnel costs increased 9.4% in 2006, which included higher levels of organization-wide information technology personnel utilized by us.*

Management fee revenue

The following table presents the direct written premium of the Property and Casualty Group, shown by major line of business, and the calculation of the management fee revenue of the Company.

	Years ended December 31,				
(in thousands)	**2006**	**% change 2006 over 2005**	2005	% change 2005 over 2004	2004
Private passenger auto	**$1,812,177**	**(5.8)%**	$1,923,992	(3.2)%	$1,986,787
Homeowner	**725,161**	**(1.5)**	735,873	—	735,894
Commercial multi-peril	**440,564**	**(1.0)**	445,165	1.7	437,542
Workers compensation	**322,737**	**(7.6)**	349,240	1.8	343,007
Commercial auto	**321,992**	**(2.5)**	330,172	0.9	327,202
All other lines of business	**180,783**	**4.8**	172,500	3.4	166,898
Property and Casualty Group direct written premiums	**$3,803,414**	**(3.9)%**	$3,956,942	(1.0)%	$3,997,330
Effective management fee rate	**24.75%**		23.75%		23.74%
Management fee revenue, gross	**$ 941,345**	**0.2%**	$ 939,774	(1.0)%	$ 949,166
Change in allowance for management fee returned on cancelled policies(1)	**1,500**	**NM**	500	NM	(4,100)
Management fee revenue, net of allowance	**$ 942,845**	**0.3%**	$ 940,274	(0.5)%	$ 945,066

NM = not meaningful

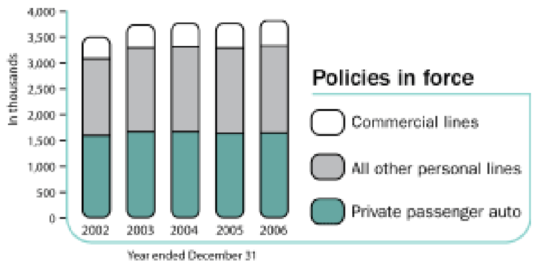
(1) Management fees are returned to the Exchange when policies are cancelled mid-term and unearned premiums are refunded. We record an estimated allowance for management fees returned on mid-term policy cancellations.

Management fee rate—Management fee revenue is based upon the management fee rate determined by our Board of Directors and the direct written premiums of the Property and Casualty Group. Changes in the management fee rate can affect our revenue and net income significantly. The higher management fee rate of 24.75% in 2006 resulted in an increase of $38.0 million in management fee revenue, or $0.38 per share-diluted. Our Board of Directors set the management fee rate at 25.0% (the maximum rate) beginning January 1, 2007.

Estimated allowance—Management fees are returned to the Exchange when policyholders cancel their insurance coverage mid-term and unearned premiums are refunded to them. We maintain an allowance for management fees returned on mid-term policy cancellations that recognizes the management fee anticipated to be returned to the Exchange based on historical mid-term cancellation experience. Management fee revenues were increased by $1.5 million and $0.5 million in 2006 and 2005, respectively, compared to being reduced by $4.1 million in 2004 due to changes in the allowance.

Mid-term policy cancellations continued to decline in 2006 evidenced by the improvement in the retention ratio to 89.5% at December 31, 2006, compared to 88.6% at December 31, 2005. The trend of lower mid-term policy cancellations began in 2005 with improvement in the December 31, 2005 policy retention ratio of 88.6% from 88.4% at December 31, 2004. The 2004 allowance adjustment, which reduced management fees by $4.1 million, reflected higher mid-term policy cancellations, which was anticipated with the introduction of segmented pricing in the private passenger auto and homeowners lines of business. The retention ratio of 88.4% at December 31, 2004, had decreased from 90.2% at December 31, 2003. Our cash flows are unaffected by the recording of this allowance.

Direct written premiums of the Property and Casualty Group—The 3.9% decline in direct written premiums of the Property and Casualty Group was principally rate-driven. Growth in policies in force had slowed significantly in 2004 when our initiatives were focused on underwriting profitability. In 2005, our new segmented pricing model was implemented for personal lines. As the segmented pricing model was refined in 2005 and 2006, policies in force stabilized during the latter portion of 2005 and began to grow in 2006.



Improvements in underwriting results in 2004 and 2005 afforded the Property and Casualty Group the ability to implement rate reductions in 2005 and 2006 to be more price-competitive for potential new policyholders and improve retention of existing policyholders. Rate reductions taken in 2005 continue to be earned in 2006. The Property and Casualty Group took more significant rate reductions in 2006 in certain lines of business, particularly those under competitive pressure, such as private passenger auto. The Property and Casualty Group's 1.0% decrease in direct written premiums in 2005 compared to 2004 resulted from rate reductions and shifts in the mix of business to lower priced auto and home business. The Property and Casualty Group writes only one-year policies. Consequently, rate actions take 12 months to be fully recognized in written premium and 24 months to be recognized fully in earned premiums. Since rate changes are realized at renewal, it takes 12 months to implement a rate change to all policyholders and another 12 months to earn the decreased or increased premiums in full. As a result, certain rate increases approved in 2005 were reflected in written premium in 2006 and some rate actions in 2006 will be reflected in 2007. The effect on 2006 premiums written of all rate actions resulted in a net decrease in written premiums of $119.5 million. The effect on 2005 premiums written from rate actions resulted in a net decrease of $9.9 million in direct written premiums. Rate increases accounted for $298.3 million in additional written premium for the Property and Casualty Group in 2004. We continuously evaluate pricing actions and estimate that those approved, filed and contemplated for filing during 2007 could reduce direct written premiums by $83.8 million in 2007.

Premiums written by state as a percent of total:

	2006	2005	2004
Pennsylvania	**45.3%**	45.9%	46.3%
Maryland	**12.7**	12.6	12.4
Virginia	**9.0**	8.7	8.3
Ohio	**8.1**	8.2	8.6
North Carolina	**6.4**	6.0	5.8
West Virginia	**4.8**	4.8	4.8
Indiana	**3.9**	4.1	4.3
New York	**3.9**	3.9	3.8
Illinois	**2.4**	2.4	2.5
Tennessee	**1.9**	2.0	1.9
Wisconsin	**1.1**	1.0	0.9
District of Columbia	**0.5**	0.4	0.4
Total direct premiums written	**100.0%**	100.0%	100.0%

Direct written premiums of the Property and Casualty Group

	Years ended December 31,				
(in thousands)	**2006**	**% change 2006 over 2005**	2005	% change 2005 over 2004	2004
Private passenger auto	**$1,808,087**	**(5.7)%**	$1,917,727	(3.1)%	$1,978,691
All other personal lines	**834,785**	**(0.9)**	842,307	0.2	840,880
Commercial lines	**1,160,542**	**(3.0)**	1,196,908	1.6	1,177,759
Total direct written premiums	**$3,803,414**	**(3.9)%**	$3,956,942	(1.0)%	$3,997,330

The Property and Casualty Group's total policies in force increased 1.0% in 2006 to 3,798,297, while the year-over-year average premium per policy for all lines of business decreased 4.8% to $1,001 in 2006 from $1,052 in 2005.

The Property and Casualty Group's premium generated from new business decreased slightly, 0.3%, to $368.0 million in 2006 from $369.1 million in 2005, which was 7.5% lower than the $399.0 million produced in 2004. The year-over-year average premium per policy on new business decreased 3.8% to $841 in 2006 from $874 in 2005, which was 2.2% higher than the average $855 in 2004. New policies in force increased 3.6% to 437,625 in 2006 from 422,284 in 2005, which decreased 9.5% from 466,505 in 2004.

Premium generated from renewal business decreased 4.3% to $3.4 billion in 2006, from $3.6 billion in 2005 and 2004. The year-over-year average premium per policy on renewal business decreased 4.9% to $1,022 in 2006 from $1,075 in 2005, while renewal policies in force increased 0.7% to 3,360,672 in 2006 from 3,337,315 in 2005. Policy retention ratios increased to a 12-month moving average of 89.5% in 2006, up slightly from 88.6% in 2005 and 88.4% in 2004.

Personal lines—Personal lines new business premiums written increased 0.4% to $247.1 million in 2006 from $246.2 million in 2005 and $281.0 million in 2004. The year-over-year average premium per policy on personal lines new business decreased 3.5% to $684 in 2006 from $709 in 2005, which was 0.7% lower than the 2004 average of $714. Personal lines new business policies in force were 361,147 in 2006, up 4.1% from 347,087 in 2005, which was 11.8% lower than 393,341 in 2004. Total personal lines policies in force increased 1.0% in 2006 to 3,313,344.

In 2005, the Property and Casualty Group introduced the pricing segmentation model for personal lines, which included insurance scoring, and segments policyholders into different rate classes based on the associated risks. Segmenting policyholders into rate classes helps insurers provide a better matching of prices and related risks. The short-term impact of segmented pricing is higher policy retention among policyholders realizing either base rate decreases or greater discounts, which reduces the average premium, and lower policy retention among policyholders whose rates rise under the new rate plan. The long-term impact should result in a more desirable pool of risks contributing to improvements in claims severity. Introducing new variables into the pricing plan should result in improvements in underwriting results. In the long run, the plan results in better risk selection, lower loss costs and the ability to offer lower prices to consumers and attract the most favorable risks. The rating plan with multiple pricing tiers was implemented in most states on new private passenger auto and homeowners business in March 2005 and on private passenger auto and homeowners renewal business in April 2005. In 2006, the Property and Casualty Group introduced further refinements in the personal lines pricing plan for auto and home, including number of cars and drivers in a household, discounts for policyholders who buy life insurance and for those who pay premiums up front.

The Property and Casualty Group’s private passenger auto new business policies in force increased 6.9% to 146,594 at December 31, 2006. Despite the increase in private passenger auto new business policies in force, new business premiums written remained consistent with 2005 levels. New business private passenger auto premiums totaled $150.3 million in 2006 compared to $149.1 million in 2005. The Property and Casualty Group’s rate reductions implemented in 2005 and 2006 had the most significant dollar impact in the private passenger auto line of business in the state of Pennsylvania. These 2005 rate reductions were on certain coverages for new private passenger auto policyholders with no claims or violations, as well as other discounts and pricing variable interactions. The new private passenger auto premium decrease is also affected by shifts in the mix of personal lines business to lower premium price tiers. To stimulate growth, we implemented a new incentive program effective July 1, 2006, in which eligible agents will receive a $50 bonus on each new private passenger auto policy. This program runs through December 31, 2007. The homeowners line of business new business premium increased to $78.8 million in 2006 from $78.7 million in 2005. While homeowners new business policies in force increased 1.3% to 166,971 at December 31, 2006, the impact of rate reductions in this line has kept the premiums essentially flat for the year.

Renewal premiums written decreased 4.3% on personal lines policies during 2006 and decreased 0.3% in 2005. The overall decrease also reflects the impact of the rate reductions and change in the mix by tier of personal lines business written by the Property and Casualty Group. An improvement was seen in the renewal business with the year-over-year policy retention ratio for personal lines of 90.1% in 2006, compared to 89.1% and 88.8% in 2005 and 2004, respectively. The year-over-year policy retention ratio for private passenger auto was 90.8% in 2006 and 90.0% in 2005 and 2004.

Growth in industry private passenger auto premiums for 2007 is expected to be modest as a result of competitive pricing and, generally, a lack of price-shopping by consumers. For the industry, homeowners rate of premium growth has slowed by nearly 50% since 2002, which in turn may slow homeowners exposure growth. The Property and Casualty Group’s most significant rate reductions effective in 2005 that are continuing to be earned in 2006 are in homeowners in the states of Pennsylvania and Virginia and private passenger auto in Pennsylvania and Ohio. Rate actions approved for 2007 were primarily private passenger auto in Pennsylvania and for homeowners in the state of Maryland.

Commercial lines—Commercial lines new business premiums written decreased 1.5% to $120.4 million in 2006 from $122.3 million in 2005, which had increased 4.0% from $117.5 million in 2004. The year-over-year average premium per policy on commercial lines new business decreased 3.2% to $1,575 in 2006, from $1,626 in 2005, which was 1.2% higher than the average of $1,607 in 2004. Commercial lines new business policies in force were 76,478 at December 31, 2006, up 1.7% from 75,197 at December 31, 2005, which was up 2.8% from 73,164 at December 31, 2004. Total commercial lines policies in force increased 1.3% in 2006 to 484,953.

While new policies in force have increased, the average premium per policy on commercial lines has declined, reflecting rate decreases and changes in the size and risk characteristics of policyholders to more preferred risks, driving the overall decrease in commercial lines new business premiums written. A more refined process of evaluating certain commercial accounts using predictive modeling, which was first implemented in 2005, is being used to gain a better alignment between rate and risk level which should continue to improve commercial lines policy growth and profitability.

Renewal premiums written decreased 3.2% on commercial lines policies during 2006, while renewal premiums written had increased 1.4% during 2005. The overall decrease is reflective of the impact of rate reductions and changes in the mix of business. The year-over-year average policy retention ratio for commercial lines was 85.4%, 85.2% and 85.1% in 2006, 2005 and 2004, respectively.

Industry commercial rate levels weakened in 2005 and 2006 with further price pressure expected in 2007. The Property and Casualty Group's most significant rate reductions, effective in 2005 that are continuing to be earned in 2006, are in commercial multi-peril and workers compensation in the state of Pennsylvania and commercial auto in the state of Virginia. Rate actions approved for 2007 are primarily for commercial multi-peril in the states of Ohio and New York and workers compensation in Maryland.

Future trends—premium revenue—We are continuing our efforts to grow premiums and improve our competitive position in the marketplace. We appointed 139 new agencies in 2006 compared to 65 new agency appointments in 2005. We expect this trend of increasing appointments to continue with a goal of appointing 200 new agencies in 2007. Expanding the size of the agency force will contribute to future growth as new agents build up their book of business with the Property and Casualty Group. We are continuing to evaluate the interactions used in our pricing segmentation model for personal lines and potential new personal lines product extensions and enhancements that could be offered.

Service agreement revenue

Service agreement revenue includes service charges we collect from policyholders for providing extended payment terms on policies written by the Property and Casualty Group. The service charges are fixed dollar amounts per billed installment. Such service charge revenue amounted to $29.2 million in 2006, $20.5 million in 2005 and $21.1 million in 2004. Contributing to the 42.2% increase in service agreement revenue in 2006 was an increase in the service charge assessed to policyholders from $3 to $5 per installment, effective for policies renewing on or after January 1, 2006, that are paid in installments. Shifts in the billing plans selected by policyholders from those where a fee is assessed to those where a fee is not assessed have offset some of the increase in the per-installment charge. The shift to the no-fee, single payment plan is being driven by a newly introduced pricing discount for new private passenger auto policyholders as well as consumers' desire to not incur our service charges.

Cost of management operations

	Years ended December 31,				
(in thousands)	**2006**	**% change 2006 over 2005**	2005	% change 2005 over 2004	2004
Commissions	**$554,041**	**2.7%**	$539,438	1.7%	$530,427
Personnel costs	**136,384**	**9.4**	124,689	10.0	113,337
Survey and underwriting costs	**25,040**	**14.0**	21,964	26.8	17,328
Sales and policy issuance costs	**22,945**	**3.8**	22,096	1.8	21,709
All other operating costs	**47,273**	**9.0**	43,386	4.5	41,528
All other non-commission expense	**231,642**	**9.2**	212,135	9.4	193,902
Total cost of management operations	**$785,683**	**4.5%**	$751,573	3.8%	$724,329

Key points

- *Normal commissions decreased during 2006 due to lower Property and Casualty Group premium volume, but were offset by higher agent bonus awards driving the 2.7% increase in 2006.*
- *Included in the 9.4% increase in personnel costs were higher salaries and wages due to higher average pay rates and increases in staffing levels in 2006 compared to 2005, as a result of higher information technology personnel costs utilized by us.*
- *The increase in survey and underwriting costs stemmed from a modest increase in application activity and increased number of workers compensation policy audits that resulted in more underwriting costs in 2006 compared to 2005.*

Commissions—Commissions to independent agents, which are the largest component of the cost of management operations, include scheduled commissions earned by independent agents on premiums written, accelerated commissions and agent bonuses and are outlined in the following table:

	Years ended December 31,				
(in thousands)	**2006**	**% change 2006 over 2005**	2005	% change 2005 over 2004	2004
Scheduled rate commissions	**$451,531**	**(2.6)%**	$463,473	(3.4)%	$479,898
Accelerated rate commissions	**1,598**	**(35.8)**	2,490	(59.8)	6,191
Agent bonuses	**94,754**	**33.3**	71,083	54.0	46,163
Promotional incentives	**2,434**	**35.8**	1,792	NM	175
$50 personal auto bonus	**2,724**	**NM**	—	—	—
Commission impact of change in allowance for mid-term policy cancellations	**1,000**	**NM**	600	NM	(2,000)
Total commissions	**$554,041**	**2.7%**	$539,438	1.7%	$530,427

NM = not meaningful

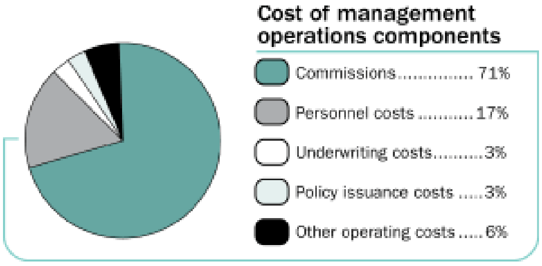
Scheduled and accelerated rate commissions—Scheduled rate commissions decreased 2.6%, or $11.9 million in 2006, impacted by a 3.9% decrease in the direct written premiums of the Property and Casualty Group in 2006. This decrease was concentrated in the personal lines of business (comprising approximately 70% of the Property and Casualty Group business based on direct written premium), which have lower commission rates than commercial lines of business. The decrease in scheduled rate commissions of only 2.6%, when compared to the reduction in direct written premiums of 3.9%, is reflective of this mix of premium dollars.

Commercial commission rate reductions that were effective for premiums collected after December 31, 2004, resulted in a $20.5 million reduction in scheduled rate commissions in 2005. Commissions accrued at the end of 2004 were reduced by $5.2 million related to commissions to be paid in 2005 on uncollected 2004 policy premium.

Accelerated rate commissions are offered under specific circumstances to certain newly-recruited agents for their initial three years. In 2004, new agency appointments were slowed in conjunction with efforts to control exposure growth. With fewer new agent appointments and the expiration of existing accelerated commission contracts, accelerated commission costs have been decreasing. In 2005, new agency appointments resumed with 65 new agencies appointed. There were 139 new agency appointments in 2006. Accelerated commissions are expected to increase in the future, as new agent appointments increased in 2006 and are expected to continue to increase in 2007.

Agent bonuses—Agent bonuses are based predominantly on an individual agency's property/casualty underwriting profitability over a three-year period. There is also a growth component to the bonus, paid only if the agency is profitable. The estimate for the bonus is modeled on a monthly basis using the two prior years actual underwriting data by agency combined with the current year-to-date actual data. The 33.3%, or $23.7 million, increase in agent bonuses in 2006 reflects the impact of underwriting profitability of the Property and Casualty Group in 2006, as well as the improvements in underwriting profitability in 2005 and 2004, a record underwriting profitability for us in those three years. The agent bonus award was estimated at $92.9 million for 2006. Of this estimate, $89.6 million represents the profitability component and $3.3 million represents the growth component of the award.

$50 personal auto bonus—In 2006, a new incentive program was implemented that pays a $50 bonus to agents for each qualifying new private passenger auto policy issued. The cost of this program in 2006 was $2.7 million and is estimated to be $7.3 million for 2007. This program runs through December 31, 2007.



Other costs of management operations—Personnel-related costs, the second largest component in cost of management operations, increased 9.4%, or $11.7 million, in 2006. Salaries and wages increased 9.7%, or $9.2 million. Contributing to the higher salaries was a 5.1% increase in average pay rate and a 3.1% increase in staffing levels that include increased absorption of information technology personnel no longer deployed to the ERIE*Connection*® program. These personnel are being utilized on Company projects rather than projects of affiliated entities. The compensation expense for the executive incentive plans decreased $0.2 million due to a reduction in the estimates for the incentive plan payouts attributable to lower-than-targeted Property and Casualty Group premium production.

Employee benefit costs for 2006, which are included in personnel costs, increased $1.8 million, or 7.7%. Employee benefit costs include a curtailment of costs that was recognized in conjunction with the second quarter 2006 termination of the retiree health benefit plan. The retiree health benefit expenses decreased $1.8 million in 2006 primarily as a result of the curtailment of costs and the re-measured retiree health benefit obligation. Offsetting this decrease were increases to pension benefit costs of $1.6 million resulting from the change in discount rate assumption used to calculate the pension expense to 5.75% in 2006 from 6.00% in 2005. The assumed discount rate selected to calculate 2007 pension expense is 6.25%. Health plan benefit costs grew $0.5 million primarily due to increased severities within the plan.

Survey and underwriting costs increased a total of $3.1 million in 2006. The 3.6% increase in submitted applications for potential policyholders and increased number of workers compensation policy audits contributed to higher underwriting costs. Contributing to the increase in 2005 was the cost of obtaining insurance scores of $4.0 million on new and renewal personal lines business. We began using insurance scoring in the latter half of 2004 on renewal personal lines business only and had incurred $0.4 million in 2004 for insurance scores.

Future trends—cost of management operations—The competitive position of the Property and Casualty Group is based on many factors, including price considerations, service levels, ease of doing business, product features and billing arrangements, among others. Pricing of Property and Casualty Group policies is directly affected by the cost structure of the Property and Casualty Group and the underlying costs of sales, underwriting and policy issuance activities we perform for the Property and Casualty Group. In 2006, we have worked to better align our growth in costs to our growth in premium over the long-term. Our goal for 2006 was to hold growth in non-commission costs to 9% or less. Actual growth in non-commission costs for 2006 was 9.2%. Our goal for 2007 is to hold growth in non-commission costs again to 9% or less, which incorporates a significant investment in information technology.

Insurance underwriting operations

(in thousands)	2006	% change 2006 over 2005	2005	% change 2005 over 2004	2004
	Years ended December 31,				
Premiums earned	**$213,665**	**(1.0)%**	$215,824	3.7%	$208,202
Losses and loss adjustment expenses incurred	**139,630**	**(0.5)**	140,385	(8.4)	153,220
Policy acquisition and other underwriting expenses	**60,665**	**0.3**	60,489	1.9	59,346
Total losses and expenses	**200,295**	**(0.3)**	200,874	(5.5)	212,566
Underwriting income (loss)	**$ 13,370**	**(10.6)%**	$ 14,950	NM	$ (4,364)

NM = not meaningful

Key points

- *Moderating pricing offset by improving frequency and severity trends resulted in favorable accident year combined ratios in 2004, 2005 and 2006.*
- *An increased level of catastrophe losses contributed 4.0 points to the 2006 combined ratio compared to 0.5 points in 2005 and 1.9 points in 2004.*
  - *the Property and Casualty Group was not impacted by significant catastrophes in 2006 and was unaffected by any of the major hurricanes of 2005, including Hurricanes Katrina, Rita and Wilma;*
- *Favorable development of prior accident year losses, excluding salvage and subrogation, improved the GAAP combined ratio by 1.9 points in 2006.*

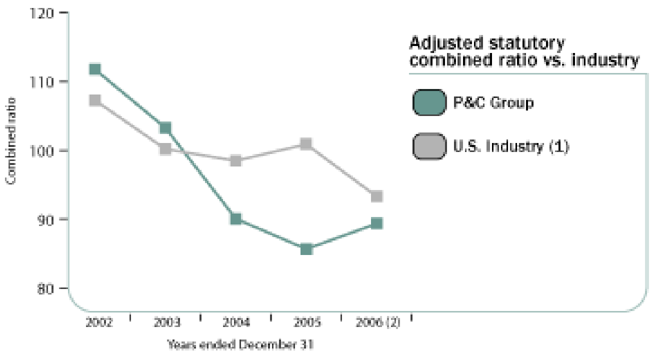
Profitability measures

	2006	2005	2004
	Years ended December 31,		
Erie Indemnity Company GAAP Loss and LAE ratio	**65.4**	65.0	73.6
Erie Indemnity Company GAAP combined ratio(1)	**93.7**	93.1	102.1(3)
P&C Group statutory combined ratio	**93.5**	90.5	95.6
P&C Group adjusted statutory combined ratio(2)	**89.4**	85.7	90.1
Direct business:			
Personal lines adjusted statutory combined ratio	**90.6**	88.6	88.9
Commercial lines adjusted statutory combined ratio	**88.5**	83.1	92.3
Prior accident year reserve development— (redundancy) deficiency	**(1.9)**	1.2	(0.4)
Salvage and subrogation recoveries collected	**(1.6)**	(1.5)	(1.5)
Total loss ratio points from prior accident years	**(3.5)**	(0.3)	(1.9)

(1) The GAAP combined ratio, expressed as a percentage, is the ratio of losses, loss adjustment, acquisition and other underwriting expenses incurred to earned premiums. Our GAAP combined ratios are different than the results of the Property and Casualty Group due to certain GAAP adjustments and the effects of the excess-of-loss reinsurance agreement between our property/casualty insurance subsidiaries and the Exchange. The excess-of-loss reinsurance agreement was terminated December 31, 2005. See the Catastrophe Losses section following that describes impacts from this agreement.

(2) The adjusted statutory combined ratio removes the profit margin on the management fee we earn from the Property and Casualty Group.

(3) For 2004, the less favorable GAAP combined ratio, as compared to the statutory combined ratio, was driven by $7.7 million of charges recorded by our property/casualty insurance subsidiaries under the intercompany excess-of-loss reinsurance agreement, resulting in a variance of 3.7 GAAP combined ratio points. A significant portion of these charges represented the reversal of recoveries for the 2003 accident year originally recorded for losses incurred from Hurricane Isabel.



(1) Source for U.S. Industry data: A.M. Best Company
(2) 2006 U.S. Industry combined ratio is estimated per A.M. Best Company

Development of direct loss reserves

Our 5.5% share of the Property and Casualty Group's positive development of prior accident year losses, after removing the effects of salvage and subrogation recoveries, was $4.0 million in 2006 and improved the combined ratio by 1.9 points. Of the $4.0 million, $2.2 million related to the personal auto line of business. The Property and Casualty Group released reserves in 2006 on prior accident quarters for automobile bodily injury and uninsured/underinsured motorist bodily injury, predominantly from 2004 and 2005 accident quarters. The quarterly evaluations in 2006 showed that the expected loss ratios used in the Bornhuetter-Ferguson method at year-end 2005 did not recognize the full extent of claim frequency decline that occurred in 2004 and 2005. Reserves were also released in the amount of $1.4 million related to the homeowners line for an acceleration in severity trend noted in 2005 that did not continue in 2006.

Some current trends the Property and Casualty Group experienced in 2006 included the following: In 2006, we saw property damage and collision frequencies improving at a rate faster than the industry, and severity trends began to moderate on these coverages. Bodily injury severity has progressively risen during 2006, while frequency has dropped to be more in line with the industry. Overall, loss costs for private passenger auto have remained relatively flat, with the exception of bodily injury. Homeowners frequencies were decreasing at the start of the year, but are no longer decreasing, and loss costs have shown signs of increasing. Frequency is beginning to flatten on our commercial multi-peril, workers compensation and commercial auto lines and severity increases slowed in 2006.

Our share of the Property and Casualty Group's adverse development after removing the effects of salvage and subrogation recoveries was $2.6 million in 2005, which includes the effects of our share of the adverse development in the automobile catastrophe liability reserve. We did experience positive development in 2005 in the commercial multi-peril and private passenger auto uninsured motorists line of business. The positive development in 2004 was experienced primarily in the homeowners and commercial multi-peril lines of business. Generally we experienced improving loss development trends, which were reflected in the new estimate of prior year reserves. Contributing to the improving loss development on prior accident year losses was the implementation of new claims tools, such as new property loss estimation software, which has helped in controlling property claims severity.

Catastrophe losses

Catastrophes are an inherent risk of the property/casualty insurance business and can have a material impact on our insurance underwriting results. In addressing this risk, we employ what we believe are reasonable underwriting standards and monitor our exposure by geographic region. The Property and Casualty Group maintains property catastrophe reinsurance coverage from unaffiliated insurers. Our property/casualty insurance subsidiaries previously had an all-lines excess-of-loss reinsurance agreement with the Exchange that was purchased to mitigate the effect of catastrophe losses on our financial position. The excess-of-loss agreement was not renewed for the 2006 accident year due to the proposed pricing for the coverage as well as the loss profile of the Property and Casualty Group. The Property and Casualty Group maintains sufficient property catastrophe coverage from unaffiliated reinsurers and no longer participates in the assumed reinsurance business, which lowers the variability of the underwriting results of the Property and Casualty Group.

During 2006, 2005 and 2004, our share of catastrophe losses, as defined by the Property and Casualty Group, amounted to $8.5 million, $1.2 million and $4.0 million, respectively, or 4.0 points, 0.5 points and 1.9 points, respectively, of the loss ratio. The Property and Casualty Group's normalized catastrophe level is about 5 loss ratio points per accident year. Storm-related losses resumed to more normalized levels in

2006, with wind and hailstorms concentrated primarily in Indiana and Ohio driving a majority of these catastrophe losses. Catastrophe losses were well below normal levels in 2005. There was no impact on the Property and Casualty Group's underwriting results from Hurricanes Katrina, Rita or Wilma during 2005. The 2004 catastrophe losses were largely driven by Hurricane Ivan, which affected the states of North Carolina, Virginia, West Virginia and Pennsylvania.

The charges and recoveries under the excess-of-loss reinsurance agreement are recorded to our loss and loss adjustment expenses on the Consolidated Statements of Operations. Included in the 2006 net changes to recoveries under the excess-of-loss agreement of $1.0 million are charges for unexpired accident years of $0.1 million, plus charges of $0.9 million related to the commutation of the 2001 accident year.

In accordance with the reinsurance agreement, commutation of an accident year occurs five years after the accident year expires. The unpaid loss recoverable related to the 2001 accident year, or $7.7 million, was settled with the Exchange in December 2006. The present value of the estimated losses from the 2001 accident year, or $6.8 million, was commuted to the Exchange and resulted in a charge to us of $0.9 million. Cash settlements of the present value of these losses are expected to occur in the first quarter of 2007.

Included in the 2005 net changes to recoveries under the excess-of-loss reinsurance agreement of $2.2 million are charges for unexpired accident years of $1.5 million, plus charges of $0.7 million related to the commutations of the 1999 and 2000 accident years. The unpaid loss recoverable related to the 1999 and 2000 accident year totaled $5.4 million. The present value of these estimated losses amounted to $4.7 million, and were settled in cash with the Exchange in 2005 and 2006.

We did not renew the excess-of-loss reinsurance agreement with the Exchange for the 2006 accident year. As a result, no premiums were paid to the Exchange in 2006. If the coverage had been in effect for the 2006 accident year we would not have realized any recoveries under this reinsurance agreement. We have the option of purchasing the coverage for future accident year periods. While the excess-of-loss reinsurance agreement was not renewed for 2006, the unexpired accident years of 2002 through 2005 will be settled and losses will be commuted as the 60-month periods expire.

Investment operations

	Years ended December 31,				
(in thousands)	**2006**	**% change 2006 over 2005**	2005	% change 2005 over 2004	2004
Net investment income	**$ 55,920**	**(9.2)%**	$ 61,555	0.9%	$ 60,988
Net realized gains on investments	**1,335**	**(91.5)**	15,620	(15.5)	18,476
Equity in earnings of limited partnerships	**41,766**	**9.7**	38,062	NM	8,655
Equity in earnings of EFL	**4,604**	**26.6**	3,636	(35.0)	5,598
Net revenue from investment operations	**$ 103,625**	**(12.8)%**	$ 118,873	26.8%	$ 93,717

NM = not meaningful

Key points

- *Net investment income decreased 9.2% due to decreased assets held during 2006 in support of our share repurchase plans. Funds used to repurchase treasury shares amounted to $217.4 million in 2006, compared to $99.0 million in 2005.*
- *Net realized gains on sales of common stock, before consideration of impairment charges, decreased $5.5 million to $6.7 million in 2006. Impairment charges taken on common stocks increased $3.4 million to $4.1 million in 2006.*
- *Limited partnership earnings have been strong in 2006 given the current favorable financial market conditions. In 2005, earnings of limited partnerships reflect a correction in accounting for the market value adjustment that increased earnings by $10.1 million in that year.*

- *EFL's decrease in net income in 2005 compared to 2004 resulted from a decrease in realized capital gains of more than $9 million and a charge of $2.5 million relating to the implementation of a new reserve valuation system.*

Included in net investment income are primarily interest and dividends on our fixed maturity and equity security portfolios. The decline in net investment income in 2006 is primarily due to continued repurchases of our common stock under our stock repurchase program, which had increased activity in 2006 compared to 2005, thus limiting the funds available for investment operations. Investments were liquidated in the current year to help fund stock repurchases. The stock repurchase program runs through 2009.

Net realized gains on investments generally pertain to gains and losses on bonds, preferred stocks and common stocks. Impairment losses are also a component of net realized gains. In 2005, we were continuing to sell common stock securities in conjunction with completing the transition to the use of external equity managers. In 2006, impairment charges totaled $6.4 million compared to charges of $4.4 million in 2005.

The performance of our fixed maturities and equity securities, compared to selected market indices, is presented below.

Pre-tax annualized returns

	Two years ended December 31, 2006
Fixed maturities—corporate	**3.95%**
Fixed maturities—municipal(1)	**3.25**
Preferred stock(1)	**5.13**
Common stock(2)	**11.43**
Other indices:	
Lehman Brothers—U.S. Aggregate	**3.38**
S&P500 Composite Index	**10.24%**

(1) Interest and dividends of municipal bonds and certain preferred stocks are tax exempt. The percentages in the table are actual yields, but do not incorporate the additional benefit received resulting from the tax advantage.

(2) Return is net of fees to external managers.

The components of equity in earnings of limited partnerships are as follows:

	Years ended December 31,				
(in thousands)	**2006**	**% change 2006 over 2005**	2005	% change 2005 over 2004	2004(1)
Private equity	**$18,665**	**(18.9)%**	$23,027	NM	$ 2,324
Real estate	**17,634**	**71.2**	10,302	NM	4,350
Mezzanine debt	**5,467**	**15.5**	4,733	NM	1,981
Total equity in earnings of limited partnerships	**$41,766**	**9.7%**	$38,062	NM	$ 8,655

NM = not meaningful

(1) Does not include valuation adjustments

Limited partnership earnings pertain to investments in U.S. and foreign private equity, real estate and mezzanine debt partnerships. Valuation adjustments are recorded to reflect the fair value of limited partnerships. These adjustments are recorded as a component of equity in earnings of limited partnerships in the Consolidated Statements of Operations in 2006 and 2005. The limited partnership market value adjustment was recorded as a component of shareholders' equity in 2004 and totaled $7.2 million.

Private equity and mezzanine debt limited partnerships generated earnings, excluding valuation adjustments, of $15.3 million, $20.3 million and $4.3 million in 2006, 2005 and 2004, respectively. Real estate limited partnerships included earnings of $10.6 million, $7.7 million and $4.4 million in 2006, 2005 and 2004, respectively. Impairment charges on limited partnerships were $1.2 million in 2004. Limited partnerships have experienced favorable earnings due to strong market and economic conditions in 2006. Limited partnership earnings tend to be cyclical based on market conditions, the age of the partnership and the nature of the investments.

Financial condition

Investments

Our investment strategy takes a long-term perspective emphasizing investment quality, diversification and superior investment returns. Investments are managed on a total return approach that focuses on current income and capital appreciation. Our investment strategy also provides for liquidity to meet our short- and long-term commitments. At December 31, 2006 and 2005, our investment portfolio of investment-grade bonds, common stock, investment-grade preferred stock and cash and cash equivalents represents 36.2% and 40.3%, respectively, of total assets. These investments provide the liquidity we require to meet the demands on our funds.

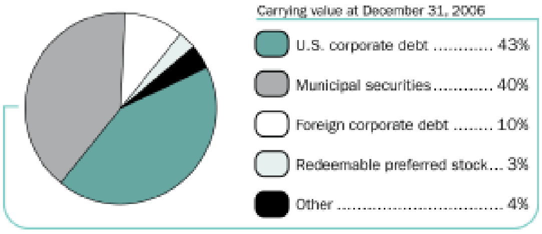
Distribution of investments

	Carrying value at December 31,			
(in thousands)	**2006**	**%**	2005	%
Fixed maturities	**$ 836,738**	**63%**	$ 972,210	70%
Equity securities:				
Preferred stock	**133,401**	**10**	170,774	12
Common stock	**117,246**	**9**	95,560	6
Limited partnerships:				
Real estate	**108,712**	**8**	60,969	4
Private equity	**82,463**	**6**	64,437	5
Mezzanine debt	**39,771**	**3**	27,753	2
Real estate mortgage loans	**4,726**	**1**	4,885	1
Total investments	**$1,323,057**	**100%**	$1,396,588	100%

We continually review the investment portfolio to evaluate positions that might incur other-than-temporary declines in value. For all investment holdings, general economic conditions and/or conditions specifically affecting the underlying issuer or its industry, including downgrades by the major rating agencies, are considered in evaluating impairment in value. Other factors considered in our review of investment valuation are the length of time the market value is below cost and the amount the market value is below cost.

There is a presumption of impairment for common equity securities when the decline is, in our opinion, significant and of an extended duration. We consider market conditions, industry characteristics and the fundamental operating results of the issuer to determine if sufficient objective evidence exists to refute the presumption of impairment. When the presumption of impairment is confirmed, we will recognize an impairment charge to operations. Common stock impairments are included in realized losses in the Consolidated Statements of Operations.

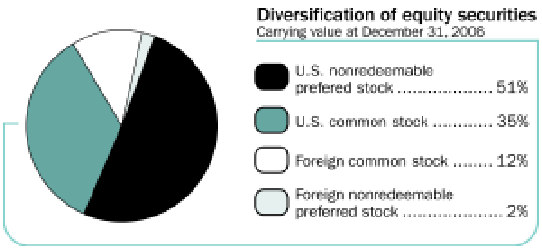
For fixed maturity and preferred stock investments, we individually analyze all positions with emphasis on those that have, in our opinion, declined significantly below cost. We consider market conditions, industry characteristics and the fundamental operating results of the issuer to determine if the decline is due to changes in interest rates, changes relating to a decline in credit quality, or other issues affecting the investment. A charge is recorded in the Consolidated Statements of Operations for positions that have experienced other-than-temporary impairments due to credit quality or other factors, or for which it is not our intent to hold the position until recovery has occurred.



Fixed maturities

Under our investment strategy, we maintain a fixed maturities portfolio that is of high quality and well diversified within each market sector. This investment strategy also achieves a balanced maturity schedule in order to moderate investment income in the event of interest rate declines in a year in which a large amount of securities could be redeemed or mature. The fixed maturities portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk.

Fixed maturities classified as available-for-sale are carried at market value with unrealized gains and losses, net of deferred taxes, included in shareholders' equity. At December 31, 2006, the net unrealized gain on fixed maturities, net of deferred taxes, amounted to $4.3 million, compared to $6.4 million at December 31, 2005.



Equity securities

Our equity securities consist of common stock and nonredeemable preferred stock. Investment characteristics of common stock and nonredeemable preferred stock differ substantially from one another. Our nonredeemable preferred stock portfolio provides a source of highly predictable current income that is competitive with investment-grade bonds. Nonredeemable preferred stocks generally provide fixed or floating rates of dividends that, while not guaranteed, resemble fixed income securities and must be paid before common stock dividends. Common stock provides capital appreciation potential within the portfolio. Common stock investments inherently provide no assurance of producing income because dividends are not guaranteed.

Our equity securities are carried on the Consolidated Statements of Financial Position at market value. At December 31, 2006, the unrealized gain on equity securities, net of deferred taxes, amounted to $17.8 million, compared to $11.0 million at December 31, 2005.

Limited partnership investments

During 2006, investments in limited partnerships increased $77.8 million to $230.9 million driven by market value appreciation and capital additions. Mezzanine debt and real estate limited partnerships, which comprise 64.3% of the total limited partnerships, produce a more predictable earnings stream while private equity limited partnerships, which comprise 35.7% of the total limited partnerships, tend to provide a less predictable earnings stream but the potential for greater long-term returns.

Shareholders' equity

Shareholders' equity decreased by $21.1 million, net of tax, at December 31, 2006, as a result of initially applying the recognition provisions of Financial Accounting Standard No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This statement requires that we recognize the funded status of our postretirement benefit plans in the statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax.

Liabilities

Property/casualty loss reserves

Loss reserves are established to account for the estimated ultimate costs of loss and loss adjustment expenses for claims that have been reported but not yet settled and claims that have been incurred but not reported.

Loss and loss adjustment expense reserves are presented on our Statements of Financial Position on a gross of reinsurance basis for EIC, EINY and EIPC. Our property/casualty insurance subsidiaries wrote about 17% of the direct property/casualty premiums of the Property and Casualty Group in 2006. Under the terms of the Property and Casualty Group's quota share and intercompany pooling arrangement, a significant portion of these reserve liabilities are recoverable. Recoverable amounts are reflected as an asset on our Statements of Financial Position. The direct and assumed loss and loss adjustment expense reserves by major line of business and the related amount primarily recoverable from the intercompany pooling and excess-of-loss reinsurance agreements are presented below:

	As of December 31,	
(in thousands)	**2006**	2005
Gross reserve liability		
Personal lines:		
Private passenger auto	**$ 373,108**	$ 413,118
Catastrophic injury	**196,306**	123,875
Homeowners	**27,224**	23,995
Other personal	**11,416**	6,978
Commercial lines:		
Workers compensation	**221,078**	231,858
Commercial auto	**87,202**	83,688
Commercial multi-peril	**73,542**	65,891
Catastrophic injury	**550**	468
Other commercial	**37,119**	15,894
Reinsurance	**46,025**	53,694
Gross reserves	**1,073,570**	1,019,459
Reinsurance recoverables(1)	**874,485**	829,714
Net reserve liability	**$ 199,085**	$ 189,745

(1) Includes $872.4 million in 2006 and $827.1 million in 2005 due from the Exchange.

As discussed previously, losses and loss adjustment expense reserves are developed using multiple estimation methods that generate point estimates. The estimate recorded is a function of detailed analysis of historical trends and actuarial and management expectations of future events and trends. The product coverage that has the greatest potential for variation is the pre-1986 automobile catastrophic injury liability reserve. The automobile no-fault law in Pennsylvania at that time provided for unlimited medical benefits. The estimation of ultimate liabilities for these claims is subject to significant judgment due to variations in claimant health and mortality over time. Because the coverage related to these claims is unique, ultimate losses are estimated on a claim-by-claim basis. An annual payment assumption is made for each claimant and then projected into the future based upon a particular assumption of the future inflation rate and life expectancy of the claimant. There are currently about 300 claimants requiring lifetime medical care, of which less than 100 involve catastrophic injuries. The reserve carried by the Property and Casualty Group for the catastrophic injury claimaints, which is our best estimate of this liability at this time, was $285.0 million at December 31, 2006, which is net of $155.7 million of anticipated reinsurance recoverables, compared to a liability of $262.8 million at December 31, 2005, which was net of $127.1 million of anticipated reinsurance recoverables. Our property/casualty subsidiaries' share of the net automobile catastrophic injury liability reserve is $15.7 million at December 31, 2006.

It is anticipated that these automobile no-fault claims will require payments over approximately the next 40 years. The impact of medical cost inflation in future years is a significant variable in estimating this liability over 40 years. We changed our medical inflation rate assumption for these reserves in 2006 from a flat 5% medical inflation assumption to a 10% annual increase in 2007 grading down 1% per year to an ultimate rate of 5%. A 100-basis point change in the medical cost inflation assumption would result in a change in net liability for us of $2.9 million. The claimants' future life expectancy is another significant variable. The life expectancy assumption underlying the estimate reflects experience to date. Actual experience, different than that assumed, could have a significant impact on the reserve estimate. Our share of the automobile catastrophic injury claim payments made was $0.9 million, $0.6 million and $0.4 million during 2006, 2005 and 2004, respectively.

At December 2006, the Property and Casualty Group had estimated reserves related to the assumed loss and loss adjustment expense for the September 11, 2001, event of $34.7 million. The most critical factor in the estimation of these losses, which is currently being litigated, is whether the destruction of the World Trade Center Towers will be considered a single event or two separate events. We believe the current reserves should be sufficient to absorb the potential development that may occur should the destruction of the World Trade Center Towers be considered two separate events.

Impact of inflation

Property/casualty insurance premiums are established before losses and loss adjustment expenses, and therefore, before the extent to which inflation may impact such expenses are known. Consequently, in establishing premium rates, we attempt to anticipate the potential impact of inflation.

Quantitative and qualitative disclosures about market risk

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, as well as other relevant market rate or price changes. The volatility and liquidity in the markets in which the underlying assets are traded directly influence market risk. The following is a discussion of our primary risk exposures, including interest rate risk, equity price risk and credit risk, and how those exposures are currently managed as of December 31, 2006.

Interest rate risk

We invest primarily in fixed maturity investments, which comprised 63% and 70% of invested assets at December 31, 2006 and 2005, respectively. The value of the fixed maturity portfolio is subject to interest rate risk. As market interest rates decrease, the value of the portfolio goes up with the opposite holding true in rising interest rate environments. We do not hedge our exposure to interest rate risk since we have the capacity and intention to hold the fixed maturity positions until maturity. A common measure of the interest sensitivity of fixed maturity assets is modified duration, a calculation that utilizes maturity, coupon rate, yield and call terms to calculate an average age of the expected cash flows. The longer the duration, the more sensitive the asset is to market interest rate fluctuations. Convexity measures the rate of change of duration with respect to changes in interest rates. These factors are analyzed monthly to ensure that both the duration and convexity remain in the targeted ranges we established.

A sensitivity analysis is used to measure the potential loss in future earnings, fair values or cash flows of market-sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected period. In our sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible changes in those rates. The following pro forma information is presented assuming a 100-basis point increase in interest rates at December 31 of each year and reflects the estimated effect on the fair value of our fixed maturity investment portfolio. We used the modified duration of our fixed maturity investment portfolio to model the pro forma effect of a change in interest rates at December 31, 2006 and 2005.

Fixed maturities interest-rate sensitivity analysis

100-basis point rise in interest rates (in thousands)	As of December 31, 2006	2005
Fair value of fixed income portfolio	**$836,738**	$972,210
Fair value assuming 100-basis point change	**807,841**	936,885

While the fixed income portfolio is sensitive to interest rates, the future principal cash flows that will be received are presented below by contractual maturity date. Actual cash flows may differ from those stated as a result of calls, prepayments or defaults. The $25 million surplus note due from EFL is included in the principal cash flows and is due in 2018.

(in thousands)	**December 31, 2006**
Fixed maturities, including note from EFL:	
2007	**$ 46,628**
2008	**77,160**
2009	**79,955**
2010	**71,670**
2011	**67,772**
Thereafter	**502,477**
Total	**$845,662**
Market value	**$861,738**

	December 31, 2005
Fixed maturities, including note from EFL:	
2006	$ 83,351
2007	61,664
2008	96,083
2009	96,015
2010	81,885
Thereafter	554,173
Total	$973,171
Market value	$997,210

Equity price risk

Our portfolio of marketable equity securities, which is carried on the Consolidated Statements of Financial Position at estimated fair value, has exposure to price risk, the risk of potential loss in estimated fair value resulting from an adverse change in prices. We do not hedge our exposure to equity price risk inherent in our equity investments. Our objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio holdings are diversified across industries and among exchange-traded small- to large-cap stocks. We measure risk by comparing the performance of the marketable equity portfolio to benchmark returns such as the S&P 500 Composite Index. Beta is a measure of a security’s systematic (non-diversifiable) risk, which is the percentage change in an individual security’s return for a 1% change in the return of the market. The average Beta for our common stock holdings was 1.03. Based on a hypothetical 20% reduction in the overall value of the stock market, the fair value of the common stock portfolio would decrease by approximately $24.2 million.

Our portfolio of limited partnership investments has exposure to market risks, primarily relating to the financial performance of the various entities in which they invested. The limited partnership portfolio comprises 17.5% of total invested assets at December 31, 2006. We achieve diversification within the limited partnership portfolio by investing in 101 partnerships that have 1,839 distinct investments. We review, at least quarterly, the limited partnership investments by sector, geography and vintage year. These limited partnership investments are diversified to avoid concentration in a particular industry or geographic area.

Credit risk

Our objective is to earn competitive returns by investing in a diversified portfolio of securities. Our portfolios of fixed maturity securities, nonredeemable preferred stock, mortgage loans and, to a lesser extent, short-term investments are subject to credit risk. This risk is defined as the potential loss in market value resulting from adverse changes in the borrower's ability to repay the debt. We manage this risk by performing upfront underwriting analysis and ongoing reviews of credit quality by position and for the fixed maturity portfolio in total. We do not hedge the credit risk inherent in our fixed maturity investments.

Generally, the fixed maturities in our portfolio are rated by external rating agencies. If not externally rated, we rate them internally on a basis consistent with that used by the rating agencies. We classify all fixed maturities as available-for-sale securities, allowing us to meet our liquidity needs and provide greater flexibility to appropriately respond to changes in market conditions. The following table shows our fixed maturity investments by Standard & Poor's Corporation rating as of December 31, 2006:

(in thousands) Comparable S&P Rating	Amortized cost	Fair value	Percent of fair value to total
AAA, AA, A	$519,828	$522,121	62.4%
BBB	281,132	283,762	33.9
Total investment grade	$800,960	$805,883	96.3%
BB	20,924	21,044	2.5
B	5,601	6,934	0.8
CCC, CC, C	2,576	2,877	0.4
Total non-investment grade	$ 29,101	$ 30,855	3.7%
Total	$830,061	$836,738	100.0%

We are also exposed to a concentration of credit risk with the Exchange. See the section, "Transactions and Agreements with Related Parties," for further discussion of this risk.

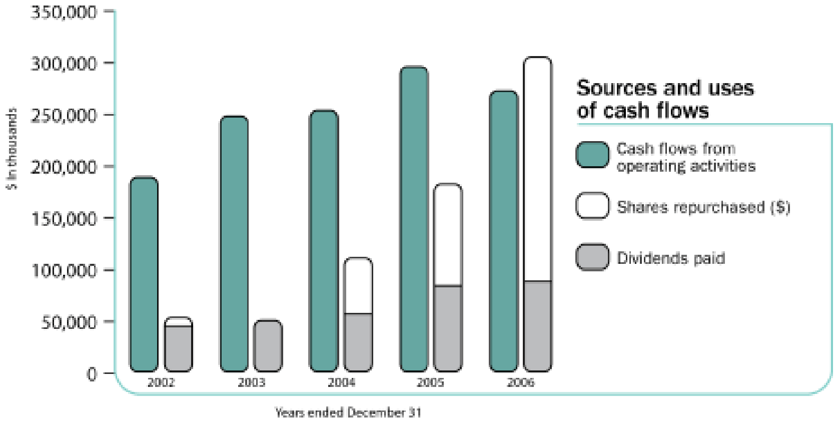
Liquidity and capital resources

Liquidity

Liquidity is a measure of an entity's ability to secure enough cash to meet its contractual obligations and operating needs. Our major source of funds from operations are the net cash flow generated from management operations, the net cash flow from Erie Insurance Company's and Erie Insurance Company of New York's 5.5% participation in the underwriting results of the reinsurance pool with the Exchange, and investment income from affiliated and nonaffiliated investments.

We generate sufficient net positive cash flow from our operations to fund our commitments and make capital investments. We maintain a high degree of liquidity in our investment portfolio in the form of readily marketable fixed maturities, equity securities and short-term investments. Net cash flows provided by operating activities for the years ended December 31, 2006, 2005 and 2004, were $270.4 million, $293.3 million and $251.5 million, respectively.

With respect to the management fee, funds are received from the Exchange generally on a premiums-collected basis. We have a receivable from the Exchange and affiliates related to the management fee receivable from premiums written, but not yet collected, as well as the management fee receivable on premiums collected in the current month. We pay nearly all general and administrative expenses on behalf of the Exchange and other affiliated companies. The Exchange reimburses us for these expenses on a paid basis quarterly.



Management fee and other cash settlements due at December 31 from the Exchange were $205.5 million and $194.8 million in 2006 and 2005, respectively. A receivable from EFL for cash settlements totaled $3.0 million at December 31, 2006, compared to $3.9 million at December 31, 2005. The receivable due from the Exchange for reinsurance recoverable from unpaid loss and loss adjustment expenses and unearned premium balances ceded to the intercompany reinsurance pool rose 3.7% to $986.5 million from $951.4 million at December 31, 2006 and 2005, respectively. This increase is the result of corresponding increases in direct loss reserves, loss adjustment expense reserves of our property/casualty insurance subsidiaries that are ceded to the Exchange under the intercompany pooling agreement. The amounts due us from the Exchange represented 22.0% of the Exchange's total liabilities at December 31, 2006, and 20.2% at December 31, 2005.

Cash flows provided by operating activities declined in 2006 primarily due to higher agent bonuses paid and reduced management fee revenues received. Agent bonuses paid during 2006 increased $27.9 million compared to 2005, reflecting improved underwriting profitability of the Property and Casualty Group. Agent bonuses expected to be paid in 2007 that relate to the period ended in 2006 is $90.2 million. An additional bonus commission was implemented in 2006 that pays an additional $50 to agents for each qualifying new private passenger auto policy. The cost of this program in 2006 was $2.7 million and is estimated to be $7.3 million for 2007. Salaries and wages paid during the year increased $10.6 million due to increases in average pay rates and staffing levels. Management fee revenues, as well as premiums collected, were lower in 2006 compared to 2005 primarily due to the significant rate reductions the Property and Casualty Group implemented in 2005 and 2006. Pension funding and employee benefits paid increased as there was an $8.1 million contribution made to the employee pension plan in 2006. In 2005, the maximum contribution that could be made to the plan under the IRS code was zero and therefore we could make no contribution to the plan. Beginning in 2007, our policy will be to contribute at least the minimum required contribution that is in accordance with the Pension Protection Act of 2006. As our financial condition allows, we may consider additional contributions in any given year. For 2007, the expected contribution amount is $14.2 million which does exceed the minimum required amount. Generally affiliated entities reimburse us about 50% of the net periodic benefit cost of the pension plan.

Cash flows provided by investing activities were $61.6 million in 2006 compared to cash used of $145.8 million in 2005 and $144.6 million in 2004. Proceeds from the sales, calls and maturities of fixed maturity positions totaled $359.5 million, $348.0 million and $263.4 million in 2006, 2005 and 2004, respectively. Proceeds from the sales of equity securities totaled $146.1 million, $95.7 million and $124.0 million in 2006, 2005 and 2004, respectively. During 2006, we continued to use our capital to repurchase shares of our common stock under our stock repurchase program. Shares repurchased totaled 4.0 million in 2006 at a total cost of $217.4 million, compared to 1.9 million shares repurchased in 2005 at a total cost of $99.0 million. During the second quarter of 2006, repurchases of 1.8 million shares of our Class A nonvoting common stock from the Black Interest Limited Partnership were made totaling $106.0 million. Certain investments, largely fixed maturities and preferred stock, were liquidated in 2006 to fund the additional repurchases made in 2006. The original stock repurchase program, which authorized the repurchase of up to $250 million of our Class A common stock from January 1, 2004, through December 31, 2006, received approval for a continuation from our Board of Directors in February 2006. The continuation approved the repurchase of an additional $250 million of our Class A common stock through December 2009. Approximately $130 million of outstanding repurchase authority remains under the program at December 31, 2006. We are opportunistic buyers of our stock and may or may not repurchase shares in 2007, depending on market conditions for our stock.

The increase in cash used in financing activities was largely the result of the share repurchase activity discussed above. Dividends paid to shareholders totaled $86.1 million, $81.9 million and $55.1 million in 2006, 2005 and 2004, respectively. Our capital management activities resulted in us increasing both our Class A and Class B shareholder quarterly dividends for 2005 by 51%. This change in dividends increased our 2005 payout by almost $27 million compared to the prior dividend level. This action was approved by our Board of Directors in December 2004 considering, among other factors, our strong financial results, capital levels and return on capital targets. Based on the share market price at the time of the decision, the new dividend provided a yield of about 2.8%. There are no regulatory restrictions on the payment of dividends to our shareholders, although there are state law restrictions on the payment of dividends from our subsidiaries to us. Dividends were increased by 10.8% in 2006 and have been approved at an 11.1% increase for 2007.

Contractual obligations

Cash outflows are variable because the fluctuations in settlement dates for claims payments vary and cannot be predicted with absolute certainty. While volatility in claims payments could be significant for the Property and Casualty Group, the effect of this volatility on our performance is mitigated by the intercompany reinsurance pooling arrangement. The cash flow requirements for claims have not historically had a significant effect on our liquidity. Based on a historical 15-year average, about 50% of losses and loss adjustment expenses included in the reserve are paid out in the subsequent 12-month period and approximately 89% is paid out within a five-year period. Losses that are paid out after that five-year period are comprised of such long-tail lines as workers compensation and auto bodily injury. Such payments are reduced by recoveries under the intercompany reinsurance pooling agreement.

We have certain obligations and commitments to make future payments under various contracts. As of December 31, 2006, the aggregate obligations were:

	Payments due by period				
(in thousands)	Total	2007	2008-2009	2010-2011	2012 and Thereafter
Fixed obligations:					
Limited partnership commitments(1)	$ 226,669	$ 51,783	$ 71,263	$ 92,590	$ 11,033
Pension contribution(2)	14,200	14,200	0	0	0
Other commitments(3)	31,514	15,692	11,635	4,187	0
Operating leases—vehicles	16,682	4,976	8,690	3,016	0
Operating leases—real estate(4)	6,916	2,871	3,196	849	0
Operating leases—computers	3,775	2,896	879	0	0
Financing arrangements	1,278	557	419	302	0
Fixed contractual obligations	301,034	92,975	96,082	100,944	11,033
Gross loss and loss expense reserves	1,073,570	536,785	315,630	105,210	115,945
Gross contractual obligations(5)	$1,374,604	$629,760	$411,712	$206,154	$126,978

Gross contractual obligations net of estimated reinsurance recoverables and reimbursements from affiliates are as follows:

	Payments due by period				
(in thousands)	Total	2007	2008-2009	2010-2011	2012 and Thereafter
Gross contractual obligations	$1,374,604	$629,760	$411,712	$206,154	$126,978
Estimated reinsurance recoverables	874,485	437,243	257,099	85,700	94,443
Estimated reimbursements from affiliates	42,901	18,768	18,049	6,084	0
Net contractual obligations	$ 457,218	$173,749	$136,564	$114,370	$ 32,535

(1) Limited partnership commitments will be funded as required for capital contributions at any time prior to the agreement expiration date. The commitment amounts are presented using the expiration date as the factor by which to age when the amounts are due. At December 31, 2006, the total commitment to fund limited partnerships that invest in private equity securities is $92.0 million, real estate activities $89.9 million and mezzanine debt of $44.8 million. We expect to have sufficient cash flows from operations and from positive cash flows generated from existing limited partnership investments to meet these partnership commitments.

(2) The pension contribution for 2007 was estimated in accordance with the Pension Protection Act of 2006. Contributions anticipated in future years are expected to be an amount at least equal to the IRS minimum required contribution in accordance with this Act.

(3) Other commitments include various agreements for service, including such things as computer software, telephones, and maintenance.

(4) Operating leases—real estate are for 17 of our 23 field offices that are operated in the states in which the Property and Casualty Group does business and three operating leases are for warehousing facilities and remote office locations. One of the branch locations is leased from EFL.

(5) Gross contractual obligations do not include the obligations for our unfunded benefit plans, including the Supplemental Employee Retirement Plan (SERP) for our executive and senior management and the directors' retirement plan. The recorded accumulated benefit obligations for these plans at December 31, 2006, are $12.2 million. We expect to have sufficient cash flows from operations to meet the future benefit payments as they become due. See also Footnote 8 in the notes to the Consolidated Financial Statements.

Off-balance sheet arrangements

Off-balance sheet arrangements include those with unconsolidated entities that may have a material current or future effect on our financial condition or results of operations, including material variable interests in unconsolidated entities that conduct certain activities. There are no off-balance sheet obligations related to our variable interest in the Exchange. Any liabilities between us and the Exchange are recorded in our Consolidated Statements of Financial Position. We have no other material off-balance sheet obligations or guarantees.

Financial ratings

Our property/casualty insurers are rated by rating agencies that provide insurance consumers with meaningful information on the financial strength of insurance entities. Higher ratings generally indicate financial stability and a strong ability to pay claims. The ratings are generally based upon factors relevant to policyholders and are not directed toward return to investors. The insurers of the Erie Insurance Group are currently rated by A.M. Best Company as follows:

Erie Insurance Exchange	A+
Erie Insurance Company	A+
Erie Insurance Property and Casualty Company	A+
Erie Insurance Company of New York	A+
Flagship City Insurance	A+
Erie Family Life Insurance	A

According to A.M. Best, a Superior rating (A+) is assigned to those companies that, in A.M. Best's opinion, have achieved superior overall performance when compared to the standards established by A.M. Best and have a superior ability to meet their obligations to policyholders over the long term. The A (Excellent) rating of EFL continues to affirm its strong financial position, indicating that EFL has an excellent ability to meet its ongoing obligations to policyholders. By virtue of its affiliation with the Property and Casualty Group, EFL is typically rated one financial strength rating lower than the property/casualty companies by

A.M. Best Company. The insurers of the Erie Insurance Group are also rated by Standard & Poor's, but this rating is based solely on public information. Standard & Poor's rates these insurers Api, "strong." Financial strength ratings continue to be an important factor in evaluating the competitive position of insurance companies.

Regulatory risk-based capital

The standard set by the National Association of Insurance Commissioners (NAIC) for measuring the solvency of insurance companies, referred to as Risk-Based Capital (RBC), is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that potentially are inadequately capitalized. In addition, the formula defines minimum capital standards that will supplement the current system of low fixed minimum capital and surplus requirements on a state-by-state basis. At December 31, 2006, the companies comprising the Property and Casualty Group all had RBC levels substantially in excess of levels that would require regulatory action.

Transactions and agreements with related parties

Board oversight

Our Board of Directors (Board) has broad oversight responsibility over intercompany relationships within Erie Insurance Group. As a consequence, the Board must make decisions or take actions that are not solely in the interest of our shareholders, but balance these interests in separate fiduciary duties such as:

- setting the management fee rate paid by the Exchange to us;
- determining the participation percentages of the intercompany pooling agreement;
- approving the annual shareholders' dividend; and
- ratifying any other significant intercompany activity, such as new cost-sharing agreements.

If the Board determines that the Exchange's surplus requires strengthening, it could decide to reduce the management fee rate, change our property/casualty insurance subsidiaries' intercompany pooling participation percentages or reduce the shareholder dividends level in any given year. The Board could also decide, under such circumstances, that we should provide capital to the Exchange, although there is no legal obligation to do so. The Board, however, recognizes that the long-term financial strength of the Exchange enures to our benefit.

Intercompany agreements

Pooling—Members of the Property and Casualty Group participate in an intercompany reinsurance pooling agreement. Under the pooling agreement, all insurance business of the Property and Casualty Group is pooled in the Exchange. The Erie Insurance Company and Erie Insurance Company of New York share in the underwriting results of the reinsurance pool through retrocession. Since 1995, the Board of Directors has set the allocation of the pooled underwriting results at 5.0% participation for Erie Insurance Company, 0.5% participation for Erie Insurance Company of New York and 94.5% participation for the Exchange.

Excess-of-loss reinsurance—From 1997 through December 2005, our property/casualty insurance subsidiaries had in effect an all-lines aggregate excess-of-loss reinsurance agreement with the Exchange which was excluded from the intercompany pooling agreement. The excess-of-loss reinsurance agreement limited the amount of sustained ultimate net losses in any applicable accident year for the Erie Insurance Company and Erie Insurance Company of New York. Our management set the terms for this excess-of-loss reinsurance agreement, obtaining third party quotes in setting the premium, determining the loss level at which the excess agreement becomes effective and the portion of ultimate net loss to be retained by each of the companies. The Property and Casualty Group did not renew this coverage for the 2006 accident year.

Technology development—In connection with our eCommerce program incepted in 2002, a Cost-Sharing Agreement for Information Technology Development (Agreement) was in place between us and the Property and Casualty Group. The Agreement described how member companies of the Erie Insurance Group were to share certain costs incurred for the development and maintenance of a Web-based property/casualty policy processing and administration system (ERIE*Connection*®). Costs incurred since inception under this Agreement were $248.5 million, of which almost $7 million were incurred in 2006. During the first half of 2006, $5.4 million was incurred prior to ceasing development of ERIE*Connection*. During the second half of 2006, $1.6 million was incurred under the Agreement for costs of decommissioning the ERIE*Connection*® system and transferring policies over to our legacy systems. No further system development costs are expected to be accounted for under this Agreement. See also “Factors that may affect future results” herein.

Leased property—The Exchange leases certain office facilities to us on a year-to-year basis. Rents are determined considering returns on invested capital and building operating and overhead costs. Rental costs of shared facilities are allocated based on square footage occupied.

Intercompany cost allocation

Our management makes judgments affecting the financial condition of the Erie Insurance Group companies, including the allocation of shared costs between the companies. Management must determine that allocations are consistently made in accordance with intercompany management service agreements, the attorney-in-fact agreements with the policyholders of the Exchange and applicable insurance laws and regulations. While allocation of costs under these various agreements requires management judgment and interpretation, such allocations are performed using a consistent methodology, which in management’s opinion, adheres to the terms and intentions of the underlying agreements.

Intercompany receivables

(in thousands)	**2006**	**Percent of total assets**	2005	Percent of total assets
Reinsurance recoverable from and ceded unearned premiums to the Exchange	**$ 986,536**	**32.4%**	$ 951,438	30.7%
Other receivables from the Exchange and affiliates (management fees, costs & reimbursements)	**208,522**	**6.9**	198,714	6.4
Note receivable from EFL	**25,000**	**0.8**	25,000	0.8
Total intercompany receivables	**$1,220,058**	**40.1%**	$1,175,152	37.9%

We have significant receivables from the Exchange that result in a concentration of credit risk. These receivables include unpaid losses and unearned premiums ceded to the Exchange under the intercompany pooling agreement and from management services performed by us for the Exchange. The policyholder surplus of the Exchange at December 31, 2006, on a statutory accounting basis totaled $4.1 billion. Credit risks related to the receivables from the Exchange are evaluated periodically by our management. Reinsurance contracts do not relieve us from our primary obligations to policyholders if the Exchange were unable to satisfy its obligation. We collect our reinsurance recoverable amount generally within 30 days of actual settlement of losses.

We also have a receivable from the Exchange for management fees and costs we pay on behalf of the Exchange. We also pay certain costs for, and are reimbursed by, EFL. Since our inception, we have collected these amounts due from the Exchange and EFL in a timely manner (normally quarterly). There is interest charged on the outstanding balance due from the Exchange until its quarterly settlement that is based on an independent mutual fund rate.

We have a surplus note for $25 million with EFL that is payable on demand on or after December 31, 2018. A second surplus note for $15 million was repaid to us by EFL on December 30, 2005. EFL paid interest to us on the surplus notes totaling $1.7 million in 2006 and $2.7 million in 2005. No other interest is charged or received on these intercompany balances due to the timely settlement terms and nature of the items.

Factors that may affect future results

Financial condition of the Exchange

We have a direct interest in the financial condition of the Exchange because management fee revenues are based on the direct written premiums of the Exchange and the other members of the Property and Casualty Group. Additionally, we participate in the underwriting results of the Exchange through the pooling arrangement in which our insurance subsidiaries have 5.5% participation. A concentration of credit risk exists related to the unsecured receivables due from the Exchange for certain fees, costs and reimbursements.

To the extent that the Exchange incurs underwriting losses or investment losses resulting from declines in the value of its marketable securities, the Exchange's policyholders' surplus would be adversely affected. If the surplus of the Exchange were to decline significantly from its current level, the Property and Casualty Group could find it more difficult to retain its existing business and attract new business. A decline in the business of the Property and Casualty Group would have an adverse effect on the amount of the management fees we receive and the underwriting results of the Property and Casualty Group. In addition, a significant decline in the surplus of the Exchange from its current level would make it more likely that the management fee rate would be reduced.

Insurance premium rate actions

The changes in premiums written attributable to rate changes of the Property and Casualty Group directly affect underwriting profitability of the Property and Casualty Group, the Exchange and us. In 2006, the industry trend for insurers was growing price competition. Rate reductions have been implemented and additional reductions are being sought by the Property and Casualty Group in 2007 to recognize improved underwriting results and to be more price competitive. Pricing actions contemplated or taken by the Property and Casualty Group are subject to various regulatory requirements of the states in which these insurers operate. The pricing actions already implemented, or to be implemented through 2007, will also have an effect on the market competitiveness of the Property and Casualty Group's insurance products. Such pricing actions, and those of competitors, could affect the ability of our agents to sell and/or renew business. Management estimates that pricing actions approved, contemplated for filing and awaiting approval through 2006, could reduce premiums for the Property and Casualty Group by $83.8 million in 2007.

The Property and Casualty Group continues refining its pricing segmentation model for private passenger auto and homeowners lines of business. The rating plan includes significantly more pricing segments than the former plan, providing us greater flexibility in pricing for policyholders with varying degrees of risk. Insurance scoring is among the most significant risk factors incorporated into the rating plan. Refining pricing segmentation should enable us to provide more competitive rates to policyholders with varying risk characteristics, as risks can be more accurately priced over time.

The continued introduction of new pricing variables could impact retention of existing policyholders and could affect the Property and Casualty Group's ability to attract new policyholders.

Policy growth

Premium levels attributable to growth in policies in force of the Property and Casualty Group directly affect the profitability of our management operations. Our recent focus, first on underwriting discipline and then on the implementation of the new rate classification plan through the pricing segmentation model, resulted in a reduction in new policy sales and policy retention ratios as expected in 2005. In 2006, as the pricing segmentation model is more mature, our growth in new policies in force has accelerated and retention ratios have improved. The continued growth of the policy base of the Property and Casualty Group is dependent upon its ability to retain existing and attract new policyholders. A lack of new policy growth or the inability to retain existing customers could have an adverse effect on the growth of premium levels for the Property and Casualty Group, and, consequently, lower management fees for us.

Catastrophe losses

The Property and Casualty Group conducts business in 11 states and the District of Columbia, primarily in the mid-Atlantic, mid-western and southeastern portions of the United States. A substantial portion of the business is private passenger and commercial automobile, homeowners and workers compensation insurance in Ohio, Maryland, Virginia and, particularly, Pennsylvania. As a result, a single catastrophe occurrence or destructive weather pattern could materially adversely affect the results of operations and surplus position of the members of the Property and Casualty Group. Common catastrophe events include severe winter storms, hurricanes, earthquakes, tornadoes, wind and hail storms. In its homeowners line of insurance, the Property and Casualty Group is particularly exposed to an Atlantic hurricane, which might strike the states of North Carolina, Maryland, Virginia and Pennsylvania. The Property and Casualty Group maintains a property catastrophe reinsurance treaty with nonaffiliated reinsurers to mitigate the future potential catastrophe loss exposure. The property catastrophe reinsurance coverage in 2006 provided coverage of up to 95% of a loss of $400 million in excess of the Property and Casualty Group's loss retention of $300 million per occurrence. This agreement was renewed for 2007 under the same terms of coverage while the Property and Casualty Group's loss retention increased to $400 million per occurrence.

While the Property and Casualty Group is exposed to terrorism losses in commercial lines including workers compensation, these lines are afforded a limited backstop above insurer deductibles for foreign acts of terrorism under the federal Terrorism Risk Insurance Act of 2002. The Property and Casualty Group has no personal lines terrorism coverage in place. Although current models suggest the most likely occurrences would not have a material impact on the Property and Casualty Group, there is a chance that if future terrorism attacks occur, the Property and Casualty Group could incur large losses.

Incurred But Not Reported (IBNR) losses

The Property and Casualty Group is exposed to new claims on previously closed files and to larger than historical settlements on pending and unreported claims. We are exposed to increased losses by virtue of our 5.5% participation in the intercompany reinsurance pooling agreement with the Exchange. We exercise professional diligence to establish reserves at the end of each period that are fully reflective of the ultimate value of all claims incurred. However, these reserves are, by their nature, only estimates and cannot be established with absolute certainty.

The product coverage that has the greatest potential for variation is the pre-1986 automobile catastrophic injury liability reserve, as automobile no-fault law in Pennsylvania at that time provided for unlimited medical benefits. The estimation of ultimate liabilities for these claims is subject to significant judgment due to variations in claimant health and mortality over time. Actual experience, different than that assumed, could have a significant impact on the reserve estimates.

Information technology development

During 2006, following an extensive evaluation, we announced our decision to cease development of ERIE*Connection*®, the Web-based policy processing and administration system under development since 2002. All policies previously issued in that system were converted back to our legacy policy processing system. We have established a broad program of initiatives in 2007 to enhance the functionality of our legacy processing and agency interface systems aimed at improving the ease of doing business, enhancing agent and employee productivity and access to information. We have also initiated a program to evaluate policy administration alternatives and potentially acquire or begin development of such systems in 2007. Several information technology initiatives are currently underway and others are in the planning or preliminary development stages. While we had a separate Cost-Sharing Agreement for information technology costs between us and the Property and Casualty Group during the development of ERIE*Connection*®, the Cost-Sharing Agreement does not encompass these current initiatives. Thus, the cost of these information technology developments will be borne by us in 2007 in accordance with existing intercompany cost allocation practices. No further system development costs are expected to be accounted for under this Cost-Sharing Agreement.

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995: Certain forward-looking statements contained herein involve risks and uncertainties. These statements include certain discussions relating to management fee revenue, cost of management operations, underwriting, premium and investment income volume, business strategies, profitability and business relationships and our other business activities during 2006 and beyond. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “project,” “predict,” “potential” and similar expressions. These forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that may cause results to differ materially from those anticipated in those statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict.

Report of Management on Internal Control
Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of Erie Indemnity Company, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of Erie Indemnity Company's internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework, management has concluded that Erie Indemnity Company's internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of Erie Indemnity Company's internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Jeffrey A. Ludrof	Philip A. Garcia	Timothy G. NeCastro
President and	Executive Vice President and	Senior Vice President and
Chief Executive Officer	Chief Financial Officer	Controller
February 22, 2007	February 22, 2007	February 22, 2007

Report of Independent Registered Public Accounting Firm on
Effectiveness of Internal Control Over Financial Reporting

To the Board of Directors and Shareholders
Erie Indemnity Company
Erie, Pennsylvania

We have audited management's assessment, included in the accompanying Report of Management on Internal Control Over Financial Reporting, that Erie Indemnity Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Erie Indemnity Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Erie Indemnity Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Erie Indemnity Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Erie Indemnity Company as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, of Erie Indemnity Company and our report dated February 22, 2007, expressed an unqualified opinion thereon.

Ernst & Young LLP

Cleveland, Ohio
February 22, 2007

Report of Independent Registered Public Accounting Firm
on the Consolidated Financial Statements

To the Board of Directors and Shareholders
Erie Indemnity Company
Erie, Pennsylvania

We have audited the accompanying Consolidated Statements of Financial Position of Erie Indemnity Company as of December 31, 2006 and 2005, and the related Consolidated Statements of Operations, Shareholders' Equity and Cash Flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Erie Indemnity Company at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2 and 8 to the consolidated financial statements, in 2006 the Company changed its method of accounting for post retirement benefit plans in accordance with the adoption of Statement of Financial Accounting Standards No. 158.

We also have audited, in accordance with the Standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Erie Indemnity Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control —Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2007, expressed an unqualified opinion thereon.

Ernst & Young LLP

Cleveland, Ohio
February 22, 2007

Consolidated Statements of Operations

(dollars in thousands, except per share data)	Years ended December 31 2006	2005	2004
Operating revenue			
Management fee revenue, net	**$ 891,071**	$ 888,558	$ 893,087
Premiums earned	**213,665**	215,824	208,202
Service agreement revenue	**29,246**	20,568	21,855
Total operating revenue	**1,133,982**	1,124,950	1,123,144
Operating expenses			
Cost of management operations	**742,526**	710,237	684,491
Losses and loss adjustment expenses incurred	**139,630**	140,386	153,220
Policy acquisition and other underwriting expenses	**52,048**	50,108	47,205
Total operating expenses	**934,204**	900,731	884,916
Investment income—unaffiliated			
Investment income, net of expenses	**55,920**	61,555	60,988
Net realized gains on investments	**1,335**	15,620	18,476
Equity in earnings of limited partnerships	**41,766**	38,062	8,655
Total investment income—unaffiliated	**99,021**	115,237	88,119
Income before income taxes and equity in earnings of Erie Family Life Insurance	**298,799**	339,456	326,347
Provision for income taxes	**(99,055)**	(111,733)	(105,140)
Equity in earnings of Erie Family Life Insurance, net of tax	**4,281**	3,381	5,206
Net income	**$ 204,025**	**$ 231,104**	**$ 226,413**
Net income per share—basic			
Class A common stock	**$ 3.45**	$ 3.69	$ 3.54
Class B common stock	**$ 524.87**	$ 558.34	$ 539.88
Net income per share—diluted			
Class A common stock	**$ 3.13**	**$ 3.34**	**$ 3.21**
Class B common stock	**$ 524.87**	$ 558.34	$ 539.88
Weighted average shares outstanding			
Basic:			
Class A common stock	**58,827,987**	62,392,860	63,508,873
Class B common stock	**2,661**	2,843	2,877
Diluted:			
Class A common stock	**65,256,608**	69,293,649	70,492,292
Class B common stock	**2,661**	2,843	2,877

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Financial Position

(dollars in thousands, except per share data)	As of December 31 2006	2005
Assets		
Investments		
Fixed maturities at fair value (amortized cost of $830,061 and $962,320, respectively)	**$ 836,738**	$ 972,210
Equity securities at fair value (cost of $223,210 and $249,440, respectively)	**250,647**	266,334
Limited partnerships (cost of $200,166 and $141,405, respectively)	**230,946**	153,159
Real estate mortgage loans	**4,726**	4,885
Total investments	**1,323,057**	1,396,588
Cash and cash equivalents	**60,241**	31,666
Accrued investment income	**11,374**	13,131
Premiums receivable from policyholders	**247,187**	267,632
Federal income taxes recoverable	**9,092**	15,170
Reinsurance recoverable from Erie Insurance Exchange on unpaid losses	**872,388**	827,126
Ceded unearned premiums to Erie Insurance Exchange	**114,148**	124,312
Note receivable from Erie Family Life Insurance	**25,000**	25,000
Other receivables from Erie Insurance Exchange and affiliates	**208,522**	198,714
Reinsurance recoverable from non-affiliates	**2,097**	2,588
Deferred policy acquisition costs	**16,197**	16,436
Equity in Erie Family Life Insurance	**57,162**	55,843
Securities lending collateral	**22,784**	30,831
Pension plan asset	**7,108**	38,720
Other assets	**63,004**	57,504
Total assets	**$3,039,361**	$3,101,261
Liabilities and shareholders' equity		
Liabilities		
Unpaid losses and loss adjustment expenses	**$1,073,570**	$1,019,459
Unearned premiums	**424,282**	454,409
Commissions payable and accrued	**126,077**	130,259
Agent bonuses	**90,556**	70,200
Securities lending collateral	**22,784**	30,831
Accounts payable and accrued expenses	**41,723**	34,885
Deferred executive compensation	**29,713**	24,447
Deferred income taxes	**8,343**	6,538
Dividends payable	**23,265**	22,172
Employee benefit obligations	**37,200**	29,459
Total liabilities	**1,877,513**	1,822,659
Shareholders' equity		
Capital stock:		
Class A common, stated value $.0292 per share; authorized 74,996,930 shares; 68,224,800 and 67,600,800 shares issued, respectively; 57,776,329 and 61,162,682 shares outstanding, respectively	**1,990**	1,972
Class B common, convertible at a rate of 2,400 Class A shares for one Class B share; stated value $70 per share; 2,573 and 2,833 shares authorized, issued and outstanding, respectively	**180**	198
Additional paid-in capital	**7,830**	7,830
Accumulated other comprehensive income	**5,422**	21,681
Retained earnings	**1,618,656**	1,501,798
Total contributed capital and retained earnings	**1,634,078**	1,533,479
Treasury stock, at cost, 10,448,471 and 6,438,118 shares, respectively	**(472,230)**	(254,877)
Total shareholders' equity	**1,161,848**	1,278,602
Total liabilities and shareholders' equity	**$3,039,361**	$3,101,261

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(dollars in thousands)	Years ended December 31 2006	2005	2004
Cash flows from operating activities			
Management fee received	**$ 883,072**	$ 891,965	$ 882,893
Service agreement fee received	**28,246**	20,334	21,789
Premiums collected	**211,976**	214,592	189,904
Settlement of commutation received from Exchange	**1,710**	3,031	0
Net investment income received	**62,616**	66,274	64,268
Limited partnership distributions	**62,240**	62,684	31,248
Dividends received from Erie Family Life Insurance	**899**	1,799	1,799
Salaries and wages paid	**(100,000)**	(89,401)	(80,436)
Pension funding and employee benefits paid	**(32,194)**	(10,184)	(21,250)
Commissions paid to agents	**(463,115)**	(471,492)	(480,685)
Agents bonuses paid	**(74,753)**	(46,883)	(24,163)
General operating expenses paid	**(86,169)**	(90,111)	(83,365)
Losses and loss adjustment expenses paid	**(130,556)**	(126,314)	(133,466)
Other underwriting and acquisition costs paid	**(9,264)**	(8,269)	(8,908)
Income taxes paid	**(84,267)**	(124,749)	(108,127)
Net cash provided by operating activities	**270,441**	293,276	251,501
Cash flows from investing activities			
Purchase of investments:			
Fixed maturities	**(225,867)**	(371,709)	(365,253)
Equity securities	**(116,872)**	(157,640)	(133,038)
Limited partnerships	**(107,879)**	(75,279)	(41,352)
Sales/maturities of investments:			
Fixed maturity sales	**243,711**	232,617	140,745
Fixed maturity calls/maturities	**115,782**	115,422	122,661
Equity securities	**146,129**	95,676	124,008
Return on limited partnerships	**12,874**	15,198	8,313
Purchase of property and equipment	**(4,938)**	(2,003)	(2,689)
Net (distributions) collections on agent loans	**(1,364)**	1,942	2,023
Net cash provided by (used in) investing activities	**61,576**	(145,776)	(144,582)
Cash flows from financing activities			
Purchase of treasury stock	**(217,353)**	(98,966)	(54,051)
Dividends paid to shareholders	**(86,089)**	(81,929)	(55,120)
Payment of note from Erie Family Life Insurance	**0**	15,000	0
(Decrease) increase in collateral from securities lending	**(8,046)**	30,831	(34,879)
Redemption of securities lending collateral	**8,046**	(30,831)	34,879
Net cash used in financing activities	**(303,442)**	(165,895)	(109,171)
Net increase (decrease) in cash and cash equivalents	**28,575**	(18,395)	(2,252)
Cash and cash equivalents at beginning of year	**31,666**	50,061	52,313
Cash and cash equivalents at end of year	**$ 60,241**	$ 31,666	$ 50,061

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

(dollars in thousands, except per share data)

	Total shareholders' equity	Comprehensive income	Retained earnings	Accumulated other comprehensive income	Class A common stock	Class B common stock	Additional paid-in capital	Treasury stock
Balance, January 1, 2004	$1,164,170		$1,189,628	$ 66,402	$ 1,969	$ 201	$ 7,830	$(101,860)
Comprehensive income:								
Net income	226,413	$ 226,413	226,413					
Unrealized holding loss arising during period, net of tax	(7,793)	(7,793)		(7,793)				
Minimum pension liability adjustment, net of tax	2	2		2				
Comprehensive income		$ 218,622						
Purchase of treasury stock	(54,051)							(54,051)
Conversion of Class B shares to Class A shares	—				1	(1)		
Dividends declared:								
Class A $.97 per share	(61,442)		(61,442)					
Class B $145.50 per share	(418)		(418)					
Balance, December 31, 2004	$1,266,881		$1,354,181	$ 58,611	$ 1,970	$ 200	$ 7,830	$(155,911)
Comprehensive income:								
Net income	231,104	$ 231,104	231,104					
Unrealized holding loss arising during period, net of tax	(36,933)	(36,933)		(36,933)				
Minimum pension liability adjustment, net of tax	3	3		3				
Comprehensive income		$ 194,174						
Purchase of treasury stock	(98,966)							(98,966)
Conversion of Class B shares to Class A shares	—				2	(2)		
Dividends declared:								
Class A $1.335 per share	(82,918)		(82,918)					
Class B $200.25 per share	(569)		(569)					
Balance, December 31, 2005	$1,278,602		$1,501,798	$ 21,681	$ 1,972	$ 198	$ 7,830	$(254,877)
Comprehensive income:								
Net income	**204,025**	**$ 204,025**	**204,025**					
Unrealized holding gain arising during period, net of tax	**4,804**	**4,804**		**4,804**				
Comprehensive income		**$ 208,829**						
Adjustment to initially recognize funded status of employee benefit obligations, net of tax under FAS 158	**(21,063)**			**(21,063)**				
Purchase of treasury stock	**(217,353)**							**(217,353)**
Conversion of Class B shares to Class A shares	—				**18**	**(18)**		
Dividends declared:								
Class A $1.48 per share	**(86,581)**		**(86,581)**					
Class B $222.00 per share	**(586)**		**(586)**					
Balance, December 31,	**$1,161,848**		**$1,618,656**	**$ 5,422**	**$ 1,990**	**$ 180**	**$ 7,830**	**$(472,230)**

2006

See accompanying notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1.

Nature of business

We are the attorney-in-fact for the subscribers of Erie Insurance Exchange (Exchange), a reciprocal insurance exchange. We perform certain services for the Exchange relating to the sales, underwriting and issuance of policies on behalf of the Exchange and earn a management fee for these services. The Exchange is a Pennsylvania-domiciled property/casualty insurer rated A+ (Superior) by A. M. Best. The Exchange is the 21st largest property/casualty insurer in the United States based on 2005 net premiums written for all lines of business. The Exchange and its wholly-owned subsidiary, Flagship City Insurance Company (Flagship) and our wholly-owned subsidiaries, Erie Insurance Company (EIC), Erie Insurance Company of New York (EINY) and the Erie Insurance Property and Casualty Company (EIPC), comprise the Property and Casualty Group. The Property and Casualty Group is a regional insurance group operating in 11 midwestern, mid-Atlantic, and southeastern states and the District of Columbia. The Property and Casualty Group primarily writes personal auto insurance, which comprises 47.5% of its direct premiums. Members of the Property and Casualty Group are subject to statutory regulations and are required to file reports in accordance with statutory accounting principles with the regulatory authorities. We also own 21.6% of the common stock of the Erie Family Life Insurance Company (EFL), an affiliated life insurance company. We, together with the Property and Casualty Group and EFL, operate collectively as the Erie Insurance Group (Group).

Note 2.

Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R).” This statement requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2006, we adopted the recognition and disclosure provisions of FAS 158, for which the effect has been included in the accompanying consolidated financial statements. The FAS 158 provisions requiring a year-end measurement date for postretirement benefit plans did not affect us since we already use a measurement date of December 31 for our pension plan. See Note 8 for further discussion of the effect of adopting FAS 158 on our consolidated financial statements.

In September 2006, the FASB issued FAS 157, “Fair Value Measurements,” which provides guidance for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. The standard applies whenever other standards require, or permit, assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We will have additional disclosure requirements in accordance with the new guidance, but FAS 157 will not have a material impact on our financial position, results of operations or cash flows.

In June 2006, the FASB issued FAS Interpretation (FIN) 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109.” FIN 48 prescribes a measurement and a financial statement recognition of an income tax position taken or expected to be taken in a tax return. This interpretation details how companies should recognize, measure, present and disclose uncertain income tax positions that have been or expect to be taken. As such, financial statements will reflect expected future income tax consequences of uncertain tax positions, presuming the taxing authority has full knowledge of all relevant information. FIN 48 is effective for fiscal years beginning after December 31, 2006. This interpretation will not have a significant impact on our financial position, results of operations or cash flows.

Note 3.

Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities. See also Note 17.

Principles of consolidation

The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The 21.6% equity ownership of EFL is accounted for under the equity method of accounting.

Reclassifications

Certain amounts reported in prior years have been reclassified to conform to the current year's financial statement presentation.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Available-for-sale securities—Fixed maturities and equity securities are classified as available for sale and include those securities that management intends to hold for indefinite periods, but which may be sold in response to changes in interest rates, tax planning considerations or other aspects of asset/liability management.

Fixed maturities, consisting of bonds, notes and redeemable preferred stock, are reported at fair value. Fair values of fixed income investments are based on prices quoted in the most active market for each security or dealer quote. If quoted market prices or dealer quotes are not available, fair value is estimated based on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment. Premiums and discounts on mortgage-backed securities are amortized using the constant effective yield method adjusted for anticipated prepayments and the estimated economic life of the securities. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations. Adjustments related to changes in prepayment assumptions are included as part of investment income.

Equity securities, which include common and nonredeemable preferred stocks, are classified as available for sale and carried at fair value based on quoted market prices.

Unrealized holding gains and losses, net of related tax effects, on available-for-sale securities are charged or credited directly to shareholders' equity as accumulated other comprehensive income.

Limited partnerships—Limited partnerships include U.S. and foreign private equity, real estate and mezzanine debt investments. The private equity limited partnerships invest primarily in small- to medium-sized companies. Limited partnerships are recorded using the equity method, which is our share of the reported value of the partnership.

Realized gains and losses—Realized gains and losses on sales of investments are recognized in income based upon the specific identification method. Interest and dividend income are recognized as earned. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to lowest yield which is included in investment income.

Other-than-temporary impairments—All investments are evaluated monthly for other-than-temporary impairment loss. Some factors considered in evaluating whether or not a decline in fair value is other than temporary include:

- the extent and duration to which fair value is less than cost;
- historical operating performance and financial condition of the issuer;
- short- and long-term prospects of the issuer and its industry based on analysts' recommendations;
- specific events that occurred affecting the issuer, including a ratings downgrade; and
- our ability and intent to hold the investment for a period of time sufficient to allow for a recovery in value.

An investment that is deemed impaired is written down to its estimated net realizable value. Impairment charges are included as realized losses in the Consolidated Statements of Operations.

Insurance liabilities

The liability for losses and loss adjustment expenses includes estimates for both claims that have been reported and those that have been incurred but not reported, and estimates of all expenses associated with processing and settling these claims. Estimating the ultimate cost of future losses and loss adjustment expenses is an uncertain and complex process. This estimation process is based significantly on the assumption that past developments are an appropriate indicator of future events, and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. The uncertainties involved with the reserving process include internal factors, such as changes in claims handling procedures, as well as external factors, such as economic trends and changes in the concepts of legal liability and damage awards. Accordingly, final loss settlements may vary from the present estimates, particularly when those payments may not occur until well into the future.

We regularly review the adequacy of our estimated loss and loss adjustment expense reserves by line of business. Adjustments to previously established reserves are reflected in the operating results of the period in which the adjustment is determined to be necessary. Such adjustments could possibly be significant, reflecting any variety of new and adverse or favorable trends.

Loss reserves are set at full expected cost, except for workers compensation loss reserves, which have been discounted using an interest rate of 2.5%. Unpaid losses and loss adjustment expenses in the Consolidated Statements of Financial Position were reduced by $5.0 million and $4.6 million at December 31, 2006 and 2005, respectively, due to discounting. The reserves for losses and loss adjustment expenses are reported net of receivables for salvage and subrogation of $6.8 million and $6.7 million at December 31, 2006 and 2005, respectively.

Recognition of management fee revenue

We earn management fees from the Exchange for providing sales, underwriting and policy issuance services. The management fee revenue is calculated as a percentage of the direct written premium of the Property and Casualty Group. The Exchange issues policies with annual terms only. Management fees are recorded as revenue upon policy issuance or renewal, as substantially all of the services required to be performed by us have been satisfied at that time. Certain activities are performed and related costs are incurred by us subsequent to policy issuance in connection with the services provided to the Exchange; however, these activities are inconsequential and perfunctory.

Although we are not required to do so under the subscriber's agreement with the Exchange, we return the management fee charged the Exchange when mid-term policy cancellations occur for the unearned premium on the policy. We estimate mid-term policy cancellations and record a related allowance which is adjusted quarterly. The effect of recording changes in this estimated allowance increased our management fee revenue by $1.5 million for the year ended December 31, 2006. Management fee revenue was increased by $.5 million for the year ended December 31, 2005, and reduced by $4.1 million for the year ended December 31, 2004, due to changes in the allowance.

Recognition of premium revenues and losses

Insurance premiums written are earned over the terms of the policies on a pro-rata basis. Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of policies in force. Losses and loss adjustment expenses are recorded as incurred. Premiums earned and losses and loss adjustment expenses incurred are reflected net of amounts ceded to the Exchange on the Consolidated Statements of Operations. See also Note 16.

Recognition of service agreement revenue

Included in service agreement revenue are service charges we collect from policyholders for providing multiple payment plans on policies written by the Property and Casualty Group. Service charges, which are flat dollar charges for each installment billed beyond the first installment, are recognized as revenue when bills are rendered to the policyholder.

Agent bonus estimates

Agent bonuses are based on an individual agency's property/casualty underwriting profitability and also include a component for growth in agency property/casualty premiums if the agencies are profitable. The estimate for agent bonuses, which are based on the performance over 36 months, is modeled on a monthly basis using actual underwriting data by agency for the two prior years combined with the current year-to-date actual data and projected underwriting data for the remainder of the current year. At December 31 of each year, we use actual data available and record an accrual based on the expected payment amount. These costs are included in the cost of management operations in the Consolidated Statements of Operations.

Income taxes

Provisions for income taxes include deferred taxes resulting from changes in cumulative temporary differences between the tax basis and financial statement basis of assets and liabilities. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Note 4.

Earnings per share

Basic earnings per share are calculated under the two-class method, which allocates earnings to each class of stock based on its dividend rights. See Note 11. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. The computation of Class A diluted earnings per share reflects the potentially dilutive effect of outstanding employee stock-based awards under the long-term incentive plan and awards not yet vested related to the outside directors' stock compensation plan. See Note 9.

A reconciliation of the numerators and denominators used in the basic and diluted per-share computations is presented below for each class of common stock.

(dollars in thousands, except per share data)	For the years ended December 31 **2006**			2005			2004		
	Allocated Net Income (Numerator)	**Weighted Shares (Denominator)**	**Per-Share Amount**	Allocated Net Income (Numerator)	Weighted Shares (Denominator)	Per-Share Amount	Allocated Net Income (Numerator)	Weighted Shares (Denominator)	Per-Share Amount
Class A— Basic EPS:									
Income available to Class A stockholders	**$202,635**	**58,827,987**	**$ 3.45**	$229,517	62,392,860	$ 3.69	$224,861	63,508,873	$ 3.54
Dilutive effect of stock awards	**0**	**42,221**	**—**	0	77,589	—	0	78,619	—
Assumed conversion of Class B shares	**1,390**	**6,386,400**	**—**	1,587	6,823,200	—	1,552	6,904,800	—
Class A— Diluted EPS Income available to Class A stockholders on Class A equivalent shares	**$204,025**	**65,256,608**	**$ 3.13**	$231,104	69,293,649	$ 3.34	$226,413	70,492,292	$ 3.21
Class B— Basic and diluted EPS:									
Income available to Class B stockholders	**$ 1,390**	**2,661**	**$524.87**	$ 1,587	2,843	$558.34	$ 1,552	2,877	$539.88

Note 5.

Investments

The following tables summarize the cost and market value of available-for-sale securities at December 31, 2006 and 2005:

(in thousands)	December 31, 2006 Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Fixed maturities				
U.S. treasuries and government agencies	**$ 3,765**	**$ 159**	**$ 45**	**$ 3,879**
Municipal securities	**330,239**	**2,935**	**1,561**	**331,613**
Foreign government	**2,000**	**9**	**0**	**2,009**
U.S. corporate debt	**357,177**	**5,754**	**3,196**	**359,735**
Foreign corporate debt	**82,929**	**2,166**	**563**	**84,532**
Mortgage-backed securities	**14,611**	**405**	**295**	**14,721**
Asset-backed securities	**18,117**	**37**	**64**	**18,090**
Total bonds	**808,838**	**11,465**	**5,724**	**814,579**
Redeemable preferred stock	**21,223**	**1,036**	**100**	**22,159**
Total fixed maturities	**$830,061**	**$12,501**	**$ 5,824**	**$836,738**
Equity securities				
U.S. common stock	**$ 71,932**	**$17,156**	**$ 785**	**$ 88,303**
Foreign common stock	**23,106**	**5,897**	**60**	**28,943**
U.S. nonredeemable preferred stock	**123,042**	**5,378**	**565**	**127,855**
Foreign nonredeemable preferred stock	**5,130**	**416**	**0**	**5,546**
Total equity securities	**$223,210**	**$28,847**	**$ 1,410**	**$250,647**

(in thousands)	December 31, 2005 Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Fixed maturities				
U.S. treasuries and government agencies	$ 9,583	$ 204	$ 52	$ 9,735
Municipal securities	340,587	3,199	2,234	341,552
Foreign government	7,981	202	38	8,145
U.S. corporate debt	420,709	8,966	4,347	425,328
Foreign corporate debt	98,464	3,570	778	101,256
Mortgage-backed securities	32,251	788	413	32,626
Asset-backed securities	22,117	43	443	21,717
Total bonds	931,692	16,972	8,305	940,359
Redeemable preferred stock	30,628	1,340	117	31,851
Total fixed maturities	$962,320	$18,312	$ 8,422	$972,210
Equity securities				
U.S. common stock	$ 65,809	$10,356	$ 1,885	$ 74,280
Foreign common stock	18,950	2,712	381	21,280
U.S. nonredeemable preferred stock	153,450	6,240	1,140	158,551
Foreign nonredeemable preferred stock	11,231	1,033	41	12,223
Total equity securities	$249,440	$20,341	$ 3,447	$266,334

The amortized cost and estimated fair value of fixed maturities at December 31, 2006, are shown below by remaining contractual term to maturity. Mortgage-backed securities are allocated based on their stated maturity dates. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Amortized cost	Estimated fair value
Due in one year or less	$ 46,650	$ 46,539
Due after one year through five years	296,722	296,718
Due after five years through ten years	327,823	331,857
Due after ten years	158,866	161,624
Total fixed maturities	$830,061	$836,738

Fixed maturities and equity securities in a gross unrealized loss position are as follows. Data is provided by length of time securities were in a gross unrealized loss position:

	Less than 12 months		12 months or longer		Total		
(in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
December 31, 2006							
Fixed maturities							
U.S. treasuries and government agencies	$ 1,085	$ 28	$ 787	$ 17	$ 1,872	$ 45	5
Municipal securities	82,131	452	71,914	1,109	154,045	1,561	73
U.S. corporate debt	62,088	458	128,732	2,738	190,820	3,196	116
Foreign corporate debt	14,738	89	18,132	474	32,870	563	18
Mortgage-backed securities	1,312	2	6,092	293	7,404	295	12
Asset-backed securities	2,526	24	4,960	40	7,486	64	4
Total bonds	163,880	1,053	230,617	4,671	394,497	5,724	228
Redeemable preferred stock	0	0	5,035	100	5,035	100	1
Total fixed maturities	$163,880	$ 1,053	$235,652	$ 4,771	$399,532	$ 5,824	229
Equity securities							
Common stock	$ 11,934	$ 845	$ 0	$ 0	$ 11,934	$ 845	46
Nonredeemable preferred stock	13,109	295	6,277	270	19,386	565	10
Total equity securities	$ 25,043	$ 1,140	$ 6,277	$ 270	$ 31,320	$ 1,410	56

Quality breakdown of fixed maturities

	Less than 12 months		12 months or longer		Total		
(in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Investment grade	$163,880	$ 1,053	$227,361	$ 4,463	$391,241	$ 5,516	223
Non-investment grade	0	0	8,291	308	8,291	308	6
Total fixed maturities	$163,880	$ 1,053	$235,652	$ 4,771	$399,532	$ 5,824	229

Higher interest rates are the primary reason for unrealized losses for the investment grade fixed maturity investments. We have the ability and intent to hold these securities until recovery of their fair value supported by our positive cash flows from operations.

(in thousands)	Less than 12 months Fair value	Unrealized losses	12 months or longer Fair value	Unrealized losses	Total Fair value	Unrealized losses	No. of holdings
December 31, 2005							
Fixed maturities							
U.S. treasuries and government agencies	$ 5,615	$ 40	$ 257	$ 12	$ 5,872	$ 52	7
Municipal securities	197,118	1,899	11,319	335	208,437	2,234	92
U.S. corporate debt	126,618	1,986	71,462	2,361	198,080	4,347	113
Foreign corporate debt	21,103	398	13,973	418	35,076	816	17
Mortgage-backed securities	6,889	92	12,194	321	19,083	413	15
Asset-backed securities	2,903	97	12,420	346	15,323	443	7
Total bonds	360,246	4,512	121,625	3,793	481,871	8,305	251
Redeemable preferred stock	5,018	117	0	0	5,018	117	1
Total fixed maturities	$365,264	$ 4,629	$121,625	$ 3,793	$486,889	$ 8,422	252
Equity securities							
Common stock	$ 20,858	$ 2,095	$ 2,280	$ 171	$ 23,138	$ 2,266	84
Nonredeemable preferred stock	35,567	764	8,022	417	43,589	1,181	19
Total equity securities	$ 56,425	$ 2,859	$ 10,302	$ 588	$ 66,727	$ 3,447	103

Quality breakdown of fixed maturities

(in thousands)	Less than 12 months Fair value	Unrealized losses	12 months or longer Fair value	Unrealized losses	Total Fair value	Unrealized losses	No. of holdings
Investment grade	$357,652	$ 4,272	$121,625	$ 3,793	$479,277	$ 8,065	246
Non-investment grade	7,612	357	0	0	7,612	357	6
Total fixed maturities	$365,264	$ 4,629	$121,625	$ 3,793	$486,889	$ 8,422	252

Investment income net of expenses was generated from the following portfolios for the years ended December 31 as follows:

(in thousands)	**2006**	2005	2004
Fixed maturities	**$ 44,438**	$50,222	$49,601
Equity securities	**11,222**	10,847	10,440
Cash equivalents and other	**2,389**	2,113	2,003
Total investment income	**58,049**	63,182	62,044
Less: investment expenses	**2,129**	1,627	1,056
Investment income, net of expenses	**$ 55,920**	$61,555	$60,988

Following are the components of net realized gains on investments as reported in the Consolidated Statements of Operations. The 2006 fixed maturity impairment charges related to bonds in the consumer products industry. The 2006 equity securities that were impaired were primarily in the technology, media and financial sectors.

(in thousands)	Years ended December 31 2006	2005	2004
Fixed maturities			
Gross realized gains	**$ 4,320**	$ 7,231	$ 6,855
Gross realized losses	**(3,289)**	(3,234)	(524)
Impairment charges	**(2,051)**	(2,863)	0
Net realized (losses) gains	**(1,020)**	1,134	6,331
Equity securities			
Gross realized gains	**13,634**	19,517	14,175
Gross realized losses	**(6,888)**	(3,465)	(2,030)
Impairment charges	**(4,391)**	(1,566)	0
Net realized gains	**2,355**	14,486	12,145
Net realized gains on investments	**$ 1,335**	$15,620	$18,476

Change in difference between fair value and cost of investments:

(in thousands)	Years ended December 31 2006	2005	2004
Fixed maturities	**$ (3,213)**	$(25,342)	$ (9,480)
Equity securities	**10,551**	(9,940)	(10,231)
	7,338	(35,282)	(19,711)
Deferred taxes on unrealized gains (losses) of fixed maturities and equity securities	**(2,568)**	12,349	6,899
Change in net unrealized gains (losses)	**$ 4,770**	$(22,933)	$(12,812)

Our limited partnerships are classified into three primary categories based upon the unique investment characteristic of each: real estate, private equity and mezzanine debt. At the end of 2006 our equity in earnings from these partnerships as reported on the Consolidated Statements of Operations totaled 14% of our pre-tax income. While we do not exert significant influence over any of these partnerships, it is because we account for them under the equity method of accounting that we are providing summarized financial information in the following table for the year ended December 31, 2006. Amounts provided in the “recorded by partnerships” section of the table are presented using the latest available financial statements received from the partnerships.

		Recorded by Erie Indemnity Company as of December 31, 2006			Recorded by Partnerships		
(in thousands)	Number of partnerships	Asset recorded	Valuation adjustment recorded	Net income (loss) recorded	Total assets	Valuation adjustments	Net income (loss)
Private equity:							
Less than 10%	38	$ 71,338	$ 8,386	$ 9,237	$17,976,053	$1,655,077	$1,976,202
Greater than or equal to 10% but less than 50%	6	8,453	(149)	1,240	351,278	26,755	7,844
Greater than or equal to 50%	1	2,795	0	(49)	5,992	0	(150)
Total private equity	45	82,586	8,237	10,428	18,333,323	1,681,832	1,983,896
Mezzanine debt:							
Less than 10%	13	26,250	169	3,988	3,239,894	49,383	132,642
Greater than or equal to 10% but less than 50%	3	7,799	505	357	336,363	17,496	14,074
Greater than or equal to 50%	1	5,722	(76)	524	41,958	(357)	2,615
Total mezzanine debt	17	39,771	598	4,869	3,618,215	66,522	149,331
Real estate:							
Less than 10%	22	67,840	5,882	9,284	16,832,702	299,053	281,569
Greater than or equal to 10% but less than 50%	10	36,590	1,127	1,377	1,053,175	(4,299)	19,244
Greater than or equal to 50%	7	4,281	0	(36)	244,242	0	1,032
Total real estate	39	108,711	7,009	10,625	18,130,119	294,754	301,845
Total limited partnerships	101	$231,068	$ 15,844	$ 25,922	$40,081,657	$2,043,108	$2,435,072

Earnings of limited partnerships in 2005 reflect a correction in accounting during the second quarter for the market value adjustment that increased earnings by $14.2 million, or $.13 per share. We had previously reflected unrealized gains and losses on limited partnerships in shareholders’ equity in accumulated other comprehensive income. While there was an earnings impact related to this adjustment, there was no impact on our shareholders’ equity.

Included in the 2004 private equity partnership net earnings are impairment charges of $1.2 million. See also Note 19 for investment commitments related to partnerships.

We participate in a program whereby marketable securities from our investment portfolio are lent to independent brokers or dealers based on, among other things, their creditworthiness, in exchange for collateral initially equal to 102% of the value of the securities on loan and is thereafter maintained at a minimum of 100% of the market value of the securities loaned. The market value of the securities on loan to each borrower is monitored daily by the third-party custodian and the borrower is required to deliver additional collateral if the market value of the collateral falls below 100% of the market value of the securities on loan.

We had loaned securities included as part of our invested assets with a market value of $22.1 million and $30.0 million at December 31, 2006 and 2005, respectively. We have incurred no losses on the securities lending program since the program's inception.

Cash equivalents are principally comprised of investments in bank money market funds and approximate fair value.

Note 6.

Comprehensive income

The components of changes to comprehensive income follow for the years ended December 31:

(in thousands)	**2006**	2005	2004
Gross unrealized holding gains (losses) arising during year	**$ 8,723**	$(41,199)	$ 6,487
Reclassification adjustment for gross gains included in net income	**(1,335)**	(15,620)	(18,476)
Unrealized holding gains (losses) excluding realized gains, gross	**7,388**	(56,819)	(11,989)
Income tax (expense) benefit related to unrealized gains (losses)	**(2,584)**	19,886	4,196
Unrealized holding gains (losses) arising during year, net	**4,804**	(36,933)	(7,793)
Minimum pension liability adjustment net of tax	**0**	3	2
Change in other comprehensive income, net of tax	**$ 4,804**	$(36,930)	$ (7,791)

The components of accumulated other comprehensive income, net of tax, as of December 31 are as follows:

(in thousands)	**2006**	2005
Accumulated net appreciation of investments	**$ 26,485**	$21,720
Adjustment for initial application of FAS 158	**(21,063)**	0
Accumulated minimum pension liability adjustment	**0**	(39)
Accumulated other comprehensive income	**$ 5,422**	$21,681

Note 7.

Equity in Erie Family Life Insurance

EFL is a Pennsylvania-domiciled life insurance company operating in 10 states and the District of Columbia. We own 21.6% of EFL's common shares outstanding accounted for using the equity method of accounting. As of May 31, 2006, 78.4% of EFL is owned by the Exchange. Prior to this date, the Exchange owned 53.5% of EFL and the remaining 24.9% was held by public shareholders. Our share of EFL's undistributed earnings included in retained earnings as of December 31, 2006 and 2005, totaled $55.9 million and $51.6 million, respectively.

The following represents condensed financial information for EFL on a U.S. GAAP basis:

	Years ended December 31		
(in thousands)	**2006**	2005	2004
Revenues	**$155,989**	$148,876	$149,833
Benefits and expenses	**121,531**	124,561	104,541
Income before income taxes	**34,458**	24,315	45,292
Net income	**21,555**	16,539	29,632
Comprehensive income (loss)	**10,367**	(7,242)	24,281
Dividends paid to shareholders	**4,158**	8,316	8,222

(in thousands)	As of December 31 **2006**	2005
Investments	**$1,488,846**	$1,498,099
Total assets	**1,737,353**	1,776,360
Liabilities	**1,473,094**	1,520,390
Accumulated other comprehensive income	**4,283**	15,471
Total shareholders' equity	**264,259**	255,970

Our share of EFL's unrealized appreciation of investments, net of tax, reflected in EFL's shareholders' equity, is $0.9 million and $3.3 million at December 31, 2006 and 2005, respectively. Dividends paid to us totaled $0.9 million for the year ended December 31, 2006, and $1.8 million for each of the years ended December 31, 2005 and 2004. EFL's Board of Directors voted to cease paying dividends effective with the second quarter of 2006 as all shares are now owned by affiliated entities. However, the Board of Directors could decide to declare shareholder dividends in the future. See also Note 15 regarding the tender offer transaction made by the Erie Insurance Exchange for EFL's shares during the second quarter of 2006.

NOTE 8.

Postretirement benefits

Pension and retiree health benefit plans

The liabilities for the plans described in this note are presented in total for all employees of the Group. The gross liability for the pension and retiree health benefit plans is presented in the Consolidated Statements of Financial Position as employee benefit obligations. A portion of annual expenses related to the pension and retiree health benefit plans are allocated to related entities within the Group.

Our pension plans consist of: 1) a noncontributory defined benefit pension plan covering substantially all employees, 2) an unfunded supplemental employee retirement plan (SERP) for executive and senior management and 3) an unfunded pension plan (discontinued in 1997) for certain outside directors. The pension plans provide benefits to covered individuals satisfying certain age and service requirements. The defined benefit pension plan and SERP provide benefits through a final average earnings formula and a percent of average monthly compensation formula, respectively. The benefit provided under the pension plan for outside directors equals the annual retainer fee at the date of retirement.

We also previously provided retiree health benefits in the form of medical and pharmacy health plans for eligible retired employees and eligible dependents. Effective May 1, 2006, the retiree health benefit plan was curtailed by an amendment that restricts eligibility to those who attain age 60 and 15 years of service on or before July 1, 2010. As a result, a one-time curtailment benefit was recognized during 2006.

Our affiliated entities are charged an allocated portion of net periodic benefit costs under the benefit plans. We pay the obligations when due for those benefit plans that are unfunded. Cash settlements of amounts due from affiliated entities are not made until there is a payout under one of these plans. For our funded pension plan, amounts are settled in cash throughout the year for related entities' share of net periodic benefit costs. Amounts due from affiliates for obligations under unfunded plans are included in other assets until such time as payments are made to participants in the plan.

On December 31, 2006, we adopted the recognition and disclosure provisions of FAS 158. FAS 158 requires us to recognize the funded status (the difference between the fair value of plan assets and the projected benefit obligation) of our postretirement plans in the December 31, 2006 Consolidated Statements of Financial Position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs, which were previously netted against the plans' funded status in our Consolidated Statements of Financial Position pursuant to the provisions of FAS 87, "Employers' Accounting for Pensions." Future actuarial gains and losses that are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. These amounts will be subsequently adjusted as they are recognized pursuant to the recognition and amortization provisions of FAS 87.

The adoption of FAS 158 had no effect on our Consolidated Statements of Operations for the year ended December 31, 2006, or for any prior period presented. The incremental effects of adopting the provisions of FAS 158 on our Consolidated Statement of Financial Position at December 31, 2006, are presented in the following table.

	At December 31, 2006		
(in thousands)	Prior to adopting FAS 158	Effect of adopting FAS 158	**As reported at December 31, 2006**
Pension plan asset	$ 31,508	$(24,400)	**$ 7,108**
Total assets	3,063,761	(24,400)	**3,039,361**
Accrued benefit liability—SERP	(19,521)	(7,382)	**(26,903)**
Accrued benefit liability—retiree health	(9,730)	(567)	**(10,297)**
Total accrued benefit liability	(29,251)	(7,949)	**(37,200)**
Net deferred tax liability	(19,684)	11,341	**(8,343)**
Total liabilities	(1,880,906)	3,393	**(1,877,513)**
Accumulated other comprehensive income	(26,485)	21,063	**(5,422)**
Total shareholders' equity	$(1,182,855)	$ 21,007	**$ (1,161,848)**

Included in accumulated other comprehensive income for pension and retiree health benefits at December 31, 2006, are unrecognized actuarial losses of $29.8 million, or $19.4 million net of tax, and unrecognized prior service costs of $2.6 million, or $1.7 million net of tax, have not yet been recognized in net periodic benefit cost. The actuarial losses and prior service costs included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2007, are $1.5 million, or $1.0 million net of tax, and $0.3 million, or $0.2 million net of tax, respectively.

Pension benefit plans

The following tables set forth change in benefit obligation, plan assets and funded status of the pension plans as well as the net periodic benefit cost.

Pension benefits for the years ended December 31 (in thousands)	**2006**	2005	2004
Change in benefit obligation			
Benefit obligation at beginning of period	**$ 284,977**	$ 241,641	$ 212,713
Service cost	**16,359**	14,564	13,236
Interest cost	**16,388**	14,576	12,949
Amendments	**0**	221	296
Actuarial (gain) loss	**(39,775)**	15,603	3,512
Benefits paid	**(3,905)**	(1,628)	(1,065)
Benefit obligation at end of period	**$ 274,044**	$ 284,977	$ 241,641
Change in plan assets			
Fair value of plan assets at beginning of period	**$ 220,509**	$ 203,071	$ 181,714
Actual return on plan assets	**27,871**	18,996	14,673
Employer contributions	**8,105**	—	7,679
Benefits paid	**(2,236)**	(1,558)	(995)
Fair value of plan assets at end of period	**$ 254,249**	$ 220,509	$ 203,071
Accumulated benefit obligation, December 31	**$ 185,284**	$ 181,334	$ 150,406
Amounts recognized in accumulated other comprehensive income, before tax			
Net actuarial loss	**$ 28,830**	—	—
Prior service cost	**3,007**	—	—
Net amount recognized	**$ 31,837**	—	—
Assumptions used to determine benefit obligations at period end			
Employee pension plan:			
Discount rate	**6.25%**	5.75%	6.00%
Expected return on plan assets	**8.25**	8.25	8.25
Rate of compensation increase	**4.25***	4.75*	5.00
SERP:			
Discount rate	**6.25**	5.75	6.00
Rate of compensation increase	**6.00–7.25**	6.00–7.25	6.00–7.25
Reconciliation of funded status			
Funded status	**$ 7,108**	$ (64,468)	$ (38,570)
Unrecognized net actuarial loss	**0**	82,699	72,305
Unrecognized prior service cost	**0**	3,463	3,942
Net amount recognized	**$ 7,108**	$ 21,694	$ 37,677
Amounts recognized in Consolidated Statements of Financial Position			
Pension plan asset (defined benefit plan)	**$ 7,108**	$ 38,720	$ 50,860
Accrued benefit liability	**(26,903)**	(17,226)	(13,807)
Intangible asset (SERP)	**0**	140	560
Accumulated other comprehensive income, net of tax	**20,696**	60	64
Net amount recognized	**$ 901**	$ 21,694	$ 37,677
Components of net periodic benefit cost			
Service cost	**$ 16,359**	$ 14,564	$ 13,236
Interest cost	**16,388**	14,576	12,949
Expected return on plan assets	**(18,514)**	(17,382)	(16,996)
Amortization of prior service cost	**455**	700	901
Recognized net actuarial loss	**4,737**	3,595	3,205
Net periodic benefit expense before allocation to affiliates	**$ 19,425**	$ 16,053	$ 13,295
Assumptions used to determine net periodic benefit cost			
Employee pension plan:			
Discount rate	**5.75%**	6.00%	6.00%
Expected return on plan assets	**8.25**	8.25	8.25
Rate of compensation increase	**4.25***	4.75*	5.00
SERP:			
Discount rate	**5.75**	6.00	6.00
Rate of compensation increase	**6.00–7.25**	6.00–7.25	6.00–7.25

* Rate of compensation increase is age-graded. An equivalent single compensation increase rate of 4.25% in 2006 and 4.75% in 2005 would produce similar results.

The discount rate used to determine net periodic pension benefit cost for 2007 will be 6.25% compared to 5.75% used for 2006. We determined the rate based on a bond-matching study that compared projected pension plan benefit flows to the cash flows from a comparable portfolio of fixed maturity instruments rated AA- or better with a duration similar to plan liabilities. The employee pension plan's expected long-term rate of return on assets is based on historical long-term returns for the asset classes included in the employee pension plan's target asset allocation. Our consulting actuarial firm completed an experience study in 2005 which supported the use of an age-graded scale for the rate of compensation increase, which correlates a participant's age to their compensation increase.

The 2006 actuarial gain was primarily due to a change in the discount rate assumption used to estimate the future benefit obligation from 5.75% in 2005 to 6.25% in 2006 and actual return on plan assets significantly exceeding estimates. The 2005 actuarial loss was principally due to a change in the discount rate assumption used to estimate the benefit obligation from 6.00% in 2004 to 5.75% in 2005.

Pension benefits for the years ended December 31 (in thousands)	**2006**	2005	2004
Expected future cashflows			
1st year following the disclosure date	**$ 7,951***	$ 2,425	$ 1,771
2nd year following the disclosure date	**3,973**	3,164	2,341
3rd year following the disclosure date	**4,893**	4,087	3,117
4th year following the disclosure date	**6,035**	5,039	4,249
5th year following the disclosure date	**7,161**	6,216	5,172
Years 6 through 10 following disclosure date	**59,942**	53,062	46,834
Pension plan asset allocations (employee pension plan)			
Equity securities	**64.1%**	62.5%	58.9%
Debt securities	**35.9%**	36.7%	40.5%
Due in one year	**34.6%**	35.9%	34.3%
Due beyond one year	**1.3%**	0.8%	6.2%
Other	**0.0%**	0.8%	0.6%
Total	**100.0%**	100.0%	100.0%
Information for pension plans with an accumulated benefit obligation in excess of plan assets			
Projected benefit obligation	**$ 26,903**	$ 30,365	$ 26,471
Accumulated benefit obligation	**12,181**	17,226	13,807

* The increase is the result of SERP payments expected to be paid in 2007 for members of executive management who retired in 2006.

Our policy, beginning in 2007, is to fund the employee pension plan for an amount at least equal to the IRS minimum required contribution in accordance with the Pension Protection Act of 2006. As our financial condition allows, we will consider additional contributions to the plan in any given year. For 2007, the expected contribution amount is $14.2 million, which exceeds the minimum required contribution.

The Plan assets previously included shares of our Class A common stock and shares of EFL common stock, both of which were sold during 2006. At December 31, 2005, plan assets included 60,000 shares of our Class A common stock with a market value of $3.2 million (1.5% of total plan assets) and 69,750 shares of EFL common stock with a market value of $1.9 million (0.9% of total plan assets). Dividends paid on our Class A common stock were less than $0.1 million in each of the years 2006, 2005 and 2004. Dividends paid on EFL common stock were also less than $0.1 million in each of the years 2006, 2005 and 2004.

The employee pension plan's investment strategy is based on an understanding that 1) equity investments are expected to outperform debt investments over the long-term, 2) the potential volatility of short-term returns from equities is acceptable in exchange for the larger expected long-term returns and 3) a portfolio structured across investment styles and markets (both domestic and foreign) reduces volatility. As a result, the employee pension plan's asset allocation will include a broadly diversified allocation among equity, debt and other investments. The policy asset allocation targets allow for assets to be invested between 40% to 65% in equity securities, 35% to 60% in debt securities and 0% to 5% in other investments.

Retiree health benefit plan

Retiree health benefits for the years ended December 31 (in thousands)	2006	2005	2004
Change in benefit obligation:			
Benefit obligation at beginning of period	**$ 20,035**	$ 12,628	$ 11,367
Service cost	**516**	1,259	968
Interest cost	**753**	968	708
Amendments	**(369)**	(290)	(730)
Actuarial (gain) loss	**(690)**	6,108	566
Benefits paid	**(965)**	(638)	(251)
Impact due to curtailment	**(8,983)**	0	0
Benefit obligation at end of period	**$ 10,297**	$ 20,035	$ 12,628
Amounts recognized in accumulated other comprehensive income, before tax			
Net actuarial loss	**$ 956**	—	—
Prior service credit	**(389)**	—	—
Net amount recognized	**$ 567**	—	—
Assumptions used to determine benefit obligations at period end			
Discount rate	**5.75–6.00%***	5.75%	6.00%
Health care cost trend rate assumed for next year	**10.00**	10.00	9.00
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	**5.00**	5.00	5.00
Year that rate reaches the ultimate trend rate	**2012**	2011	2009
Reconciliation of funded status			
Funded status	**$ (10,297)**	$ (20,035)	$ (12,628)
Unrecognized net actuarial loss	**0**	9,055	3,273
Unrecognized prior service cost	**0**	(1,253)	(1,071)
Net amount recognized as accrued benefit liability	**$ (10,297)**	$ (12,233)	$ (10,426)
Amounts recognized in Statements of Financial Position			
Accrued benefit liability	**$ 10,297**	$ 12,233	$ 10,426
Components of net periodic benefit cost			
Service cost	**$ 516**	$ 1,259	$ 968
Interest cost	**753**	968	708
Amortization of prior service cost	**(45)**	(108)	(53)
Recognized net actuarial loss	**129**	326	154
Net periodic benefit expense	**$ 1,353**	$ 2,445	$ 1,777
Assumptions used to determine net periodic benefit cost for periods			
Discount rate	**5.75%**	6.00%	6.00%

* In the second quarter of 2006, we terminated our retiree health benefit plan resulting in the re-measurement of the current year net periodic benefit cost using a July 1 service date. Qualifying employees will be gradually phased out of the plan through 2010. Employees who have not met the qualifying criteria by July 1, 2010, will not be eligible for any benefit. As required when a significant plan change occurs,the discount rate assumption was re-evaluated which resulted in an increase from 5.75% to 6.00% at the re-measurement date to reflect current market rates. As a result of the curtailment, a one-time benefit of $2.9 million was realized, the net benefit of which was $1.4 million to us, after allocation to affiliates.

The annual reduction to our expense, as a result of our 2006 plan curtailment in 2007 and thereafter, is expected to be approximately $1.2 million net of allocation to affiliates, or $0.01 per share-diluted, until eligibility for the benefit fully terminates in 2010.

The retiree health benefit plan's 2006 actuarial gain was driven by changes in the discount rate assumption. The 2005 actuarial loss in the retiree health benefit plan was principally due to changes in the mortality and discount rate assumptions, offset by actual plan experience that was better than the experience used to estimate 2005 expenses.

The December 31, 2006, accumulated retiree health benefit obligation was based on a 10.0% increase for 2007 over the cost of covered health care benefits during 2006. A 100-basis point change in assumed health care cost trend rates would have the following effects:

(in thousands)	**2006**	2005	2004
Effect of 100-basis point increase on:			
Period end retiree health benefit obligation	**$ 167**	$ 387	$ 281
Total of service and interest cost components	**525**	2,970	1,782
Effect of 100-basis point decrease on:			
Period end retiree health benefit obligation	**$ (142)**	$ (322)	$ (235)
Total of service and interest cost components	**(500)**	(2,520)	(1,521)

Retiree health benefits for the years ended December 31

(in thousands)	**2006**	2005	2004
Expected future cashflows			
Expected benefit payments:			
1st year following the disclosure date	**$ 760**	$ 410	$ 331
2nd year following the disclosure date	**1,096**	482	380
3rd year following the disclosure date	**1,561**	542	416
4th year following the disclosure date	**1,825**	759	455
5th year following the disclosure date	**2,024**	1,001	596
Years 6 through 10 following disclosure date	**5,595***	7,662	4,954

* The expected benefit payments as of December 31, 2006, reflect the change in coverage to include five years of benefits regardless of a participant's age on the date of retirement. The 2005 benefit payments were based on fewer years of coverage per participant, as the benefit was calculated from the age of retirement to 65, which could have been less than five years.

Employee savings plan

We have a qualified 401(k) savings plan for our employees. Eligible participants are permitted to make contributions to the plan up to the Internal Revenue Service limit. We match 100% of the participant contributions up to 3% of compensation and 50% of participant contributions over 3% and up to 5% of compensation. All full-time and regular part-time employees are eligible to participate in the plan. Matching contributions to the plan were $8.4 million, $7.7 million and $7.2 million in 2006, 2005 and 2004, respectively, before reimbursements from affiliates. Matching contributions after reimbursements from affiliates were $3.7 million, $3.2 million and $2.9 million in 2006, 2005 and 2004, respectively. Employees are permitted to invest the employer-matching contributions in our Class A common stock. The plan acquires shares in the open market necessary to meet the obligations of the plan. Plan participants held 0.1 million of our Class A shares at December 31, 2006, 2005 and 2004. Effective January 1, 2007, all full-time and regular part-time employees are eligible to participate in a Roth 401(k) in lieu of the traditional 401(k). The employer-matching provisions are the same as our current 401(k) plan described above. Liabilities for the 401(k) plan are presented in the Consolidated Statements of Financial Position as accounts payable and accrued expenses.

Note 9.

Incentive plans and deferred compensation

We have separate annual and long-term incentive plans for our executive and senior management and regional vice presidents. We also make available several deferred compensation plans for executive and senior management and certain outside directors.

Annual incentive plan

The annual incentive plan is a bonus plan that annually pays cash bonuses to our executive, senior and regional vice presidents.

Beginning in 2004, the incentives under the annual incentive plan are based on the achievement of certain predetermined performance targets. These targets are established by the Executive Compensation and Development Committee of the Board and can include various financial measures. The 2006 incentives were based on measures specific to each member of executive and senior management, primarily on adjusted operating ratio as defined in the plan and growth in direct written premiums of the Property and Casualty Group. The 2005 incentives were based on the adjusted operating ratio and the growth in direct written premiums of the Property and Casualty Group. The 2004 incentives were based primarily on the adjusted operating ratio of the Property and Casualty Group compared to a peer group of property/casualty companies that wrote predominately personal lines insurance and were rated A++ by A.M. Best.

The cost of the plan is charged to operations as the compensation is earned over the performance period of one year. Earned amounts are allocated to related entities and settled in cash once the payout is made. The amount charged to expense for the annual incentive plan bonus before allocation to affiliates was $2.7 million, $4.1 million and $4.4 million for 2006, 2005 and 2004, respectively. After allocation to affiliates, our expense was $1.8 million, $2.8 million and $2.9 million for 2006, 2005 and 2004, respectively.

Long-term incentive plan

The long-term incentive plan (LTIP) is a restricted stock award plan designed to reward executive, senior and regional vice presidents who can have a significant impact on our performance with long-term compensation that is settled in Company stock.

Pre-2004 Plan—Prior to 2004, awards were determined based on the achievement of predetermined financial performance goals for actual growth in our retained earnings.

Post-2004 Plan—Beginning in 2004, the LTIP award is based on the level of achievement of objective measures of performance over a three-year period as compared to a peer group of property/casualty companies that write predominately personal lines insurance. The 2006 and 2005 awards were based on the adjusted combined ratio and the growth in direct written premiums and total return on invested assets of the adjusted property/casualty operations of the Erie Insurance Group compared to a peer group of companies. Because the award is based on a comparison to results of a peer group over a three-year period, the award accrual is based on estimates of results for the remaining performance period. This estimate is subject to variability if our results or the results of the peer group are substantially different than the results we project.

We cannot issue new stock or stock from treasury to settle the compensation award obligations under the LTIP, but instead must purchase our stock on the open market. The restricted stock awards are granted at the beginning of a three-year performance period. The maximum number of shares which may be earned under the plan by any single participant during any one calendar year is limited to .25 million shares. The aggregate number of Class A common stock that may be issued pursuant to awards granted under the LTIP is 1.0 million shares. A liability is recorded and compensation expense is recognized ratably over the performance period. Stock awards are considered vested at the end of the performance period.

At December 31, 2006, 2005 and 2004, the unvested outstanding restricted shares under the pre-2004 LTIP plan totaled 37,716 shares, 73,471 shares and 75,399 shares, respectively. Average grant prices were $52.65 and $46.83 at December 31, 2005 and 2004, respectively. The change in market value of stock from the date of award under the LTIP and the balance sheet date is charged or credited to operations. At December 31, 2006, the awards for the 2004–2006 performance period were fully vested in accordance with the post-2004 LTIP plan. The awards for this performance period will be calculated upon receipt of final financial information for the peer group. The estimated award based on the peer group information as of September 30, 2006, is 156,706 shares. The grant price will be the average of the high and low stock price on the date the award is to be paid. The stock price as of January 31, 2007, was $55.27.

Earned amounts are allocated to related entities and settled in cash once the payout is made. The after-tax compensation cost charged to operations for these restricted stock awards was $5.8 million, $3.9 million and $2.1 million for the years ending December 31, 2006, 2005 and 2004, respectively, after allocation to affiliates.

The following table shows the number of shares awarded and not yet vested at December 31, 2006. There were no forfeitures in any of the performance periods presented.

Pre-2004 long-term incentive plan	Weighted average grant price	Number of shares
2002-2004 performance period		
Awarded	$51.15	40,517
Shares vested		27,873
Shares not yet vested		12,644
2003-2005 performance period		
Awarded	$52.55	39,870
Shares vested		14,798
Shares not yet vested		25,072
Restricted shares not yet vested at December 31, 2006		37,716

Deferred compensation plans

The deferred compensation plans are arrangements for our executive, and senior and regional vice presidents whereby the participants can elect to defer receipt of a portion of their compensation until a later date. Those participating in the plans select hypothetical investment funds for their deferrals and are credited with the hypothetical returns generated. Supplemental employee contributions to the deferred compensation plan are deferrals that cannot be credited to our tax-qualified 401(k) plan because they exceed the annual contribution or compensation limits of that plan. Supplemental employee contributions in the deferred compensation plan are credited with a company-matching contribution using the same formula as in our 401(k) plan. The deferred compensation plan for directors allows them to defer receipt of a portion of their director and meeting fees until a later date. Directors participating in the plan select hypothetical investment funds for their deferrals and are credited with the hypothetical returns generated.

The awards, payments, deferrals and liabilities under the deferred compensation, annual and long-term incentive plans for officers and directors were as follows for the years ended December 31. The gross liabilities are presented separately in the Consolidated Statements of Financial Position, while allocations to affiliates are included in other assets until such time as payments are made to participants under the plan.

(in thousands)	2006	2005	2004
Plan awards, employer match and hypothetical earnings			
Long-term incentive plan awards	**$ 7,220**	$ 5,814	$ 3,039
Annual incentive plan awards	**2,747**	4,145	4,394
Deferred compensation plan, employer match and hypothetical earnings	**1,872**	1,188	1,718
Total plan awards and earnings	**$ 11,839**	$ 11,147	$ 9,151
Total plan awards paid	**$ 6,263**	$ 6,088	$ 3,108
Compensation deferred under the plans	**$ 445**	$ 496	$ 551
Distributions from the deferred compensation plans	**$ (755)**	$ (177)	$ (458)
Gross incentive plan and deferred compensation liabilities	**$ 29,713**	$ 24,447	$ 19,069
Allocation to affiliates	**5,408**	3,958	3,091
Net incentive plan and deferred compensation liabilities	**$ 24,305**	$ 20,489	$ 15,978

Stock compensation plan for outside directors

We have a stock compensation plan for our outside directors. The purpose of this plan is to further align the interests of directors with shareholders by providing for a portion of annual compensation for the directors' services in shares of our Class A common stock. Each director vests in the grant 25% every three months over the course of a year. Dividends paid by us are reinvested into each director's account with additional shares of our Class A common stock. The annual charge related to this plan, net of allocation to affiliates, totaled $0.6 million for 2006 and $0.4 million for 2005 and 2004.

Note 10.

Income taxes

The provision for income taxes consists of the following for the years ended December 31:

(in thousands)	2006	2005	2004
Federal income taxes:			
Currently due	**$ 90,021**	$ 112,655	$ 104,274
Deferred	**9,034**	(922)	866
Total	**$ 99,055**	$ 111,733	$ 105,140

The increase in deferred income tax expense is largely due to an increase in the recognized unrealized gains related to limited partnerships.

A reconciliation of the provision for income taxes with amounts determined by applying the statutory federal income tax rates to pretax income is as follows for the years ended December 31:

(in thousands)	2006	2005	2004
Income tax at statutory rates	**$ 104,580**	$ 118,810	$ 114,222
Tax-exempt interest	**(4,739)**	(4,013)	(2,726)
Dividends received deduction	**(2,614)**	(2,727)	(2,636)
Other	**1,828**	(337)	(3,720)
Provision for income taxes	**$ 99,055**	$ 111,733	$ 105,140

Temporary differences and carryforwards, which give rise to deferred tax assets and liabilities, are as follows for the years ended December 31:

(in thousands)	2006	2005
Deferred tax assets		
Loss reserve discount	**$ 5,572**	$ 5,630
Unearned premiums	**7,193**	7,490
Net allowance for service fees and premium cancellations	**2,701**	2,923
Other employee benefits	**9,975**	8,277
Pension and other benefits	**512**	0
Write-downs of impaired securities	**2,709**	1,393
Limited partnerships	**0**	477
Other	**2,183**	1,659
Total deferred tax assets	**$ 30,845**	$ 27,849
Deferred tax liabilities		
Deferred policy acquisition costs	**$ 5,669**	$ 5,752
Unrealized gains on investments	**13,599**	9,354
Pension and other benefits	**0**	10,164
Equity interest in EFL	**3,910**	3,619
Limited partnerships	**9,110**	0
Depreciation	**2,639**	2,241
Other	**4,261**	3,257
Total deferred tax liabilities	**$ 39,188**	$ 34,387
Net deferred income tax liability	**$ 8,343**	$ 6,538

The change in pension and other benefits to a deferred tax asset position in 2006 compared to a deferred tax liability position in 2005 was primarily due to an $11.3 million adjustment related to the adoption of FAS 158.

At December 31, 2006, we have a $6.1 million recoverable recorded related to the Internal Revenue Service (IRS) audit for the years 2002 and 2001. The most significant adjustment resulting from the IRS audit was an additional deduction related to the pension plan that had a favorable impact to us.

We, as a corporate attorney-in-fact for a reciprocal insurer, are not subject to state corporate taxes, as the Property and Casualty Group pays gross premium taxes in lieu of those taxes.

Note 11.

Capital stock

Class A and B shares

Holders of Class B shares may, at their option, convert their shares into Class A shares at the rate of 2,400 Class A shares for each Class B share. In 2006, 260 Class B shares were converted to 624,000 Class A shares as part of a $106.0 million repurchase of 1.8 million shares from the Black Interest Limited Partnership. During 2005, a total of 25 Class B shares were converted to 60,000 Class A shares. There is no provision for conversion of Class A shares to Class B shares and Class B shares surrendered for conversion cannot be reissued. Each share of Class A common stock outstanding at the time of the declaration of any dividend upon shares of Class B common stock shall be entitled to a dividend payable at the same time, at the same record date, and in an amount at least equal to 2/3 of 1.0% of any dividend declared on each share of Class B common stock. We may declare and pay a dividend in respect to Class A common stock without any requirement that any dividend be declared and paid in respect to Class B common stock. Sole voting power is vested in Class B common stock except insofar as any applicable law shall permit Class A common stock to vote as a class in regards to any changes in the rights, preferences and privileges attaching to Class A common stock.

Stock repurchase plan

A stock repurchase program was authorized, allowing us to repurchase up to $250 million of our outstanding Class A common stock from January 1, 2004, through December 31, 2006. In February 2006, the Board of Directors approved a continuation of the current stock repurchase program allowing an additional $250 million of our Class A common stock to be repurchased through December 31, 2009. Treasury shares are recorded in the Consolidated Statements of Financial Position at cost. Shares repurchased during 2006 totaled 4.0 million at a total cost of $217.4 million. Cumulative shares repurchased under this plan through 2006 totaled 7.0 million at a total cost of $370.4 million.

Note 12.

Unpaid losses and loss adjustment expenses

The following table provides a reconciliation of beginning and ending loss and loss adjustment expense liability balances for our wholly-owned property/casualty insurance subsidiaries for the years ended December 31:

(in thousands)	**2006**	2005	2004
Total unpaid losses and loss adjustment expenses at January 1, gross	**$1,019,459**	$ 943,034	$845,536
Less reinsurance recoverables	**827,917**	765,563	687,819
Net balance at January 1	**191,542**	177,471	157,717
Incurred related to:			
Current accident year	**151,979**	146,312	153,563
Prior accident years	**(12,349)**	(5,926)	(343)
Total incurred	**139,630**	140,386	153,220
Paid related to:			
Current accident year	**78,509**	72,352	75,371
Prior accident years	**52,047**	53,962	58,095
Total paid	**130,556**	126,314	133,466
Net balance at December 31	**200,616**	191,542	177,471
Plus reinsurance recoverables	**872,954**	827,917	765,563
Total unpaid losses and loss adjustment expenses at December 31, gross	**$1,073,570**	$1,019,459	$943,034

In 2006, the Property and Casualty Group released reserves for automobile bodily injury and uninsured/underinsured motorist bodily injury, predominantly from 2004 and 2005 accident years as the full extent of the frequency decline realized in those periods was not anticipated in the original estimate.

The 2005 net incurred losses and loss adjustment expenses related to prior accident years were the result of positive development of personal auto and commercial multi-peril attributable to an improvement in actual claims severity compared to historical trends.

Note 13.

Related party transactions

Management fee

A management fee is charged to the Exchange for services we provide under subscriber's agreements with policyholders of the Exchange. The fee is a percentage of direct written premium of the Property and Casualty Group. This percentage rate is adjusted periodically by our Board of Directors but cannot exceed 25%. The management fee rate charged the Exchange was 24.75% in 2006 and 23.75% in 2005. In 2004, the management fee rate was 23.5% in the first half of 2004 and 24% during the second half of 2004. The Board of Directors elected to set the fee at 25% beginning January 1, 2007.

There is no provision for termination of our appointment as attorney-in-fact and the appointment is not affected by a policyholder's disability or incapacity.

Intercompany reinsurance pooling agreement

EIC, EIPC, Flagship and EINY have intercompany reinsurance agreements with the Exchange, whereby these companies cede all of their direct property/casualty insurance to the Exchange. EIC and EINY then assume 5% and 0.5%, respectively, of the total of the Exchange's insurance business (including the business assumed from EIC and EINY) under an intercompany pooling agreement. This arrangement is approved by the Board of Directors. Intercompany accounts are settled by payment within 30 days after the end of each quarterly accounting period. The purpose of the pooling agreement is to spread the risks of the members of the Property and Casualty Group collectively across the different lines of business they underwrite and geographic regions in which each operates. This agreement may be terminated by any party as of the end of any calendar year by providing not less than 90 days advance written notice.

Aggregate excess-of-loss reinsurance agreement

Through 2005, EIC and EINY had in effect an all-lines aggregate excess-of-loss reinsurance agreement with the Exchange that limited EIC's and EINY's retained share of ultimate net losses in any applicable accident year. The contract permitted loss recoverables only when claims were paid and any unpaid loss recoverables be commuted 60 months after an annual period expired. This reinsurance treaty was excluded from the intercompany pooling agreement. The annual premium paid to the Exchange for the agreement totaled $3.3 million and $3.6 million in 2005 and 2004, respectively. The excess-of-loss reinsurance agreement was not renewed for the 2006 accident year due to the proposed pricing for the coverage as well as the loss profile of the Property and Casualty Group.

Included in 2006 are net charges under the agreement of $0.9 million related to the commutation of the 2001 accident year. This accident year was triggered under the agreement partly due to assumed reinsurance losses incurred by the Property and Casualty Group related to the World Trade Center events. Cash settlement is anticipated in the first quarter of 2007. Effective December 31, 2003 the Property and Casualty Group exited the assumed voluntary reinsurance business.

Cash payment for the 1999 accident year was made to the Exchange in 2005, and for the 2000 accident year, payment occurred in 2006. The table below summarizes activity under the excess-of-loss reinsurance agreement. There are four years remaining under the agreement, 2002 through 2005, none of which have been triggered through December 31, 2006.

(in thousands)	**2006 Commutation Accident year 2001**	2005 Commutations Accident year 2000	Accident year 1999
Loss recoverables recorded at date of commutation	**$ 7,713**	$ 2,038	$ 3,419
Commutation of loss recoverables at present value	**(6,782)**	(1,710)	(3,031)
Net charge related to commutation	**$ 931**	$ 328	$ 388

Information technology development

In April 2006, following an extensive evaluation, we decided to cease development of ERIE*Connection*®, the Web-based policy processing and administration system under development since 2002. A Cost Sharing Agreement for Information Technology Development (Agreement) pertaining to costs incurred related to ERIE*Connection* existed between us and the Property and Casualty Group. The Agreement described how member companies of the Erie Insurance Group shared the costs incurred for the supporting infrastructure, development and maintenance of ERIE*Connection*® .

Our property/casualty insurance subsidiaries recorded a pre-tax charge of $2.0 million, or $0.02 per share—diluted, in the first quarter of 2006 to write off the intangible assets that had been established for the right to use that system. The charge is included in the policy acquisition and other underwriting expenses on the Consolidated Statements of Operations.

Expense allocations

The claims handling services of the Exchange are performed by personnel who are entirely dedicated to and paid for by the Exchange from its own policyholder revenues. The Exchange's claims function and its management and administration are exclusively the responsibility of the Exchange and not a part of the service we provide under the subscriber's agreement. Likewise, personnel who perform activities within the life insurance operations of EFL are paid for by EFL from its own policyholder revenues. However, we are the legal entity that employs personnel on behalf of the Exchange and EFL and we function as a common paymaster for all employees. Common overhead expenses included in the expenses paid by us are allocated based on appropriate utilization statistics (employee count, square footage, vehicle count, project hours, etc.) specifically measured to accomplish proportional allocations. Executive compensation is allocated based on each executive's primary responsibilities (management services, property/casualty claims operations, EFL operations and investment operations). We believe the methods used to allocate common overhead expenses among the affiliated entities are reasonable.

See also Note 8 for a discussion of intercompany expense allocations under the postretirement benefit plans.

Payments on behalf of related entities

We make certain payments for the account of the Group's related entities. Cash transfers are settled quarterly. The amounts of these cash settlements made for the account of related entities were as follows for the years ended December 31:

(in thousands)	**2006**	2005	2004
Erie Insurance Exchange	**$254,528**	$265,359	$237,842
Erie Family Life Insurance	**34,941**	35,556	28,925
Total cash settlements	**$289,469**	$300,915	$266,767

Office leases

We occupy certain office facilities owned by the Exchange and EFL. We lease office space on a year-to-year basis from the Exchange. Rent expenses under these leases totaled $9.2 million, $8.5 million and $9.3 million in 2006, 2005 and 2004, respectively. We have a lease commitment until 2008 with EFL for a branch office. Rentals paid to EFL under this lease totaled $0.4 million in 2006 and $0.3 million in 2005 and 2004, respectively.

Notes receivable from EFL

We are due $25 million from EFL in the form of a surplus note that was issued in 2003. The note may be repaid only out of unassigned surplus of EFL. Both principal and interest payments are subject to prior approval by the Pennsylvania Insurance Commissioner. The note bears an annual interest rate of 6.70% and will be payable on demand on or after December 31, 2018, with interest scheduled to be paid semi-annually. EFL paid interest to us of $1.7 million in 2006, 2005 and 2004.

On December 30, 2005, EFL repaid its $15 million surplus note that was payable to us on December 31, 2005. Prior approval was received from the Pennsylvania Insurance Commissioner authorizing repayment of the surplus note. Interest paid to us by EFL was $1.0 million in 2005 and 2004 for this note.

Note 14.

Receivables from Erie Insurance Exchange and concentrations of credit risk

Financial instruments could potentially expose us to concentrations of credit risk, including unsecured receivables from the Exchange. A large majority of our revenue and receivables are from the Exchange and affiliates. See also Note 15.

We have a receivable due from the Exchange for reinsurance recoverable from unpaid losses and loss adjustment expenses and unearned premium balances ceded under the intercompany pooling arrangement totaling $986.5 million and $951.4 million at December 31, 2006 and 2005, respectively. Management fee and expense allocation amounts due from the Exchange were $205.5 million and $194.8 million at December 31, 2006 and 2005, respectively. The receivable from EFL for expense allocations totaled $3.0 million at December 31, 2006, compared to $3.9 million at December 31, 2005.

Premiums due from policyholders of our wholly-owned property/casualty insurance subsidiaries equaled $247.2 million and $267.6 million at December 31, 2006 and 2005 respectively. A significant amount of these receivables are ceded to the Exchange as part of the intercompany pooling agreement. See also Note 16.

Note 15.

Variable interest entity

We hold a variable interest in the Exchange because of the absence of decision-making capabilities by the equity owners (subscribers) of the Exchange; however, we do not qualify as the primary beneficiary under Financial Accounting Standards Interpretation 46(R), “Consolidation of Variable Interest Entities.”

The Exchange is a reciprocal insurer domiciled in the Commonwealth of Pennsylvania that underwrites a broad line of personal and commercial business, including private passenger auto, homeowners and commercial multi-peril insurance. Annual direct written premiums of the Exchange totaled $3.5 billion in 2006 and $3.6 billion in 2005 and 2004, respectively. Policyholders’ surplus was $4.1 billion, $3.4 billion and $2.8 billion at December 31, 2006, 2005 and 2004, respectively.

We have a significant interest in the financial condition of the Exchange:

- Our management fee revenues made up 72% of 2006 total revenues. These management fee revenues are based on the direct written premiums of the Exchange and the other members of the Property and Casualty Group.
- We participate in the underwriting results of the Exchange through the pooling arrangement in which our insurance subsidiaries have a 5.5% participation.
- A concentration of credit risk exists related to the unsecured receivables due from the Exchange for our management fee, costs and reimbursements.
- If the surplus of the Exchange were to decline significantly from its current level, the Property and Casualty Group could find it more difficult to retain its existing business and attract new business. A decline in the business of the Property and Casualty Group would have an adverse effect on the amount of the management fees we receive and the underwriting results of the Property and Casualty Group in which we have a 5.5% participation. In addition, a decline in the surplus of the Exchange from its current level would make it more likely that the management fee rate received by us would be reduced.

The financial statements of the Exchange are prepared in accordance with statutory accounting principles (SAP) prescribed by the Commonwealth of Pennsylvania. The Exchange is not required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Financial statements prepared under statutory accounting principles focus on the solvency of the insurer and generally provide a more conservative approach than under GAAP. Differences between SAP and GAAP include the valuation of investments, deferred policy acquisition cost assets, deferred tax assets, assets for estimated salvage and subrogation recoveries and unearned subscriber fees.

The condensed financial data set forth below represents the Exchange's share of underwriting results after accounting for intercompany pool transactions.

Erie Insurance Exchange
Condensed statutory statements of operations

(in thousands)	Years ended December 31 2006	2005	2004
Premiums earned	**$3,675,705**	$3,762,260	$3,672,486
Losses, LAE and underwriting expenses*	**3,421,997**	3,405,799	3,544,156
Net underwriting gain	**253,708**	356,461	128,330
Total investment income	**480,771**	809,464	445,293
Federal income tax expense	**229,709**	379,563	180,824
Net income	**$ 504,770**	$ 786,362	$ 392,799

* includes management fees and service fees paid or accrued to the Company

Erie Insurance Exchange
Condensed statutory statements of financial position

(in thousands)	As of December 31 2006	2005
Fixed maturities	**$4,376,322**	$4,534,116
Equity securities	**2,855,044**	2,384,839
Alternative investments	**1,120,674**	619,749
Other invested assets	**142,615**	378,915
Total invested assets	**8,494,655**	7,917,615
Other assets	**1,021,489**	1,152,648
Total assets	**$9,516,144**	$9,070,263
Loss and LAE reserves	**$3,562,682**	$3,549,128
Unearned premium reserves	**1,430,683**	1,509,636
Accrued liabilities	**435,683**	629,749
Total liabilities	**5,429,048**	5,688,513
Total policyholders' surplus	**4,087,096**	3,381,750
Total liabilities and policyholders' surplus	**$9,516,144**	$9,070,263

Erie Insurance Exchange
Condensed statutory statements of cash flows

(in thousands)	Years ended December 31 2006	2005	2004
Cash flows from operating activities			
Premiums collected net of reinsurance	**$ 3,632,146**	$ 3,754,392	$ 3,748,540
Losses and LAE paid	**(2,024,404)**	(1,929,867)	(1,993,342)
Management fee and expenses paid	**(1,326,212)**	(1,336,369)	(1,325,798)
Federal income taxes and other expenses recovered (paid)	**183,831**	(127,746)	(50,037)
Net cash provided by operating activities	**465,361**	360,410	379,363
Net cash used in investing activities	**(430,126)**	(431,872)	(764,866)
Net cash (used in) provided by financing activities	**(248,611)**	244,689	(101,535)
Net (decrease) increase in cash and cash equivalents	**(213,376)**	173,227	(487,038)
Cash and cash equivalents at beginning of year	**299,160**	125,933	612,971
Cash and cash equivalents—end of year	**$ 85,784**	$ 299,160	$ 125,933

During the second quarter of 2006, the Exchange completed its tender offer and following short-form merger for all of the publicly held outstanding common stock of EFL excluding the shares owned by us. The Exchange acquired all publicly held EFL common stock at $32.00 per share, increasing its ownership percentage from 53.5% to 78.4% of the outstanding common stock of EFL. The aggregate consideration paid by the Exchange for the outstanding EFL shares was $75.2 million and is included as part of the net cash used in investing activities above. Our 21.6% stake in EFL was unaffected by this transaction.

Note 16.

Reinsurance

Reinsurance contracts do not relieve the Property and Casualty Group from its primary obligations to policyholders. A contingent liability exists with respect to reinsurance recoverables in the event reinsurers are unable to meet their obligations under the reinsurance agreements.

The Property and Casualty Group maintains an umbrella excess-of-loss reinsurance treaty with nonaffiliated reinsurers covering commercial and personal catastrophe liability risks. In 2006, this treaty provided coverage of 90% of a specified loss amount in excess of the loss retention of $1 million per occurrence. The specified maximum loss amount for the commercial and personal catastrophe liability was $9 million and $4 million, respectively. This treaty was renewed, effective January 1, 2007. The specified maximum loss amounts remained the same for commercial and personal catastrophe liabilities.

The Property and Casualty Group maintains a property catastrophe treaty with nonaffiliated reinsurers to mitigate future potential catastrophe loss exposure. During 2006, this reinsurance treaty provided coverage of up to 95% of a loss of $400 million in excess of the Property and Casualty Group's loss retention of $300 million per occurrence. This agreement was renewed for 2007 to provide coverage of up to 95% of a loss of $400 million in excess of the Property and Casualty Group's loss retention of $400 million per occurrence. There have been no losses subject to these treaties.

The following tables summarize insurance and reinsurance activities of our property/casualty insurance subsidiaries. See also Note 13 for a discussion of the intercompany reinsurance pooling agreement with the Exchange.

	Years ended December 31		
(in thousands)	**2006**	2005	2004
Premiums earned			
Direct	**$ 661,215**	$ 704,366	$ 699,533
Assumed from nonaffiliates and intercompany pool	**227,110**	226,245	225,905
Ceded to Erie Insurance Exchange	**(674,660)**	(714,787)	(717,236)
Assumed from Erie Insurance Exchange	**$ 213,665**	$ 215,824	$ 208,202
Losses and loss adjustment expenses incurred			
Direct	**$ 495,739**	$ 499,262	$ 510,260
Assumed from nonaffiliates and intercompany pool	**147,203**	152,535	169,870
Ceded to Erie Insurance Exchange	**(503,312)**	(511,411)	(526,910)
Assumed from Erie Insurance Exchange	**$ 139,630**	$ 140,386	$ 153,220

Note 17.

Statutory information

Accounting principles used to prepare statutory financial statements differ from those used to prepare financial statements under U.S. GAAP. The statutory financial statements of EIPC and EIC are prepared in accordance with accounting practices prescribed and permitted by the Pennsylvania Insurance Department. EINY prepares its statutory financial statements in accordance with accounting practices prescribed and permitted by the New York Insurance Department. Prescribed SAP include state laws, regulations and general administration rules, as well as a variety of publications from the NAIC.

Combined shareholders' equity, including amounts reported by our property/casualty insurance subsidiaries on the statutory basis, was $1.2 billion and $1.3 billion at December 31, 2006 and 2005, respectively. Combined net income, including amounts reported by our property/casualty insurance subsidiaries on a statutory basis, was $205.8 million, $233.4 million and $228.6 million for 2006, 2005 and 2004, respectively.

The minimum statutory capital and surplus requirements under Pennsylvania and New York law for our stock property/casualty subsidiaries amounts to $10.0 million. Our subsidiaries' total statutory capital and surplus significantly exceed these minimum requirements, totaling $211.6 million at December 31, 2006. Our subsidiaries' risk-based capital levels significantly exceed the minimum requirements.

Cash and securities with carrying values of $5.7 million and $3.6 million were deposited by our property/casualty insurance subsidiaries with regulatory authorities under statutory requirements as of December 31, 2006 and 2005, respectively.

The amount of dividends our Pennsylvania-domiciled property/casualty subsidiaries, EIC and EIPC, can pay without the prior approval of the Pennsylvania Insurance Commissioner is limited by Pennsylvania regulation to not more than the greater of: (a) 10% of its statutory surplus as reported on its last annual statement, or (b) the net income as reported on its last annual statement. The amount of dividends that the Erie Insurance Company's New York-domiciled property/casualty subsidiary, EINY, can pay without the prior approval of the New York Superintendent of Insurance is limited to the lesser of: (a) 10% of its statutory surplus as reported on its last annual statement, or (b) 100% of its adjusted net investment income during such period. In 2007, the maximum dividend we could receive from our property/casualty insurance subsidiaries would be $24.2 million. No dividends were paid to us by our property/casualty insurance subsidiaries in 2006, 2005 or 2004.

The amount of dividends EFL, a Pennsylvania-domiciled life insurer, can pay to its shareholders without the prior approval of the Pennsylvania Insurance Commissioner is limited by statute to the greater of: (a) 10% of its statutory surplus as regards policyholders as shown on its last annual statement on file with the commissioner, or (b) the net income as reported for the period covered by such annual statement, but shall not include pro-rata distribution of any class of the insurer's own securities. Accordingly, our share of the maximum dividend payout which may be made in 2007 without prior Pennsylvania Insurance Commissioner approval is $5.1 million. Dividends paid to us were $.9 million in 2006.

Note 18.

Supplementary data on cash flows

A reconciliation of net income to net cash provided by operating activities as presented in the Consolidated Statements of Cash Flows is as follows:

	Years ended December 31		
(in thousands)	**2006**	2005	2004
Cash flows from operating activities			
Net income	**$204,025**	$231,104	$ 226,413
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**36,051**	36,855	37,317
Deferred income tax expense (benefit)	**9,033**	(922)	866
Realized gain on investments	**(1,335)**	(15,620)	(18,476)
Equity in earnings of limited partnerships	**(41,766)**	(38,062)	(8,655)
Net amortization of bond premium	**2,645**	2,742	1,664
Undistributed earnings of Erie Family Life Insurance	**(4,154)**	(1,837)	(3,800)
Deferred compensation	**5,252**	4,631	2,987
Limited partnership distributions	**62,240**	62,684	31,248
Increase in receivables and reinsurance recoverable from the Exchange	**(16,135)**	(39,062)	(129,726)
Increase in prepaid expenses and other assets	**(31,420)**	(37,201)	(38,984)
Increase in accounts payable and accrued expenses	**22,020**	29,683	30,203
Increase in loss reserves	**54,112**	76,425	97,498
(Decrease) increase in unearned premiums	**(30,127)**	(18,144)	22,946
Net cash provided by operating activities	**$270,441**	$293,276	$ 251,501

Note 19.

Commitments

We have contractual commitments to invest up to $226.7 million related to our limited partnership investments at December 31, 2006. These commitments will be funded as required by the partnerships' agreements which principally expire in 2012. At December 31, 2006, the total remaining commitment to fund limited partnerships that invest in private equity securities is $92.0 million, real estate activities is $89.9 million and mezzanine debt securities is $44.8 million. We expect to have sufficient cash flows from operations and positive inflows (distributions) from existing limited partnership investments to meet these commitments.

We are involved in litigation arising in the ordinary course of business. In our opinion, the effects, if any, of such litigation are not expected to be material to our consolidated financial condition, cash flows or operations.

Note 20.

Segment information

We operate our business as three reportable segments—management operations, insurance underwriting operations and investment operations. Accounting policies for segments are the same as those described in the summary of significant accounting policies, with the exception of the management fee revenues received from the property/casualty insurance subsidiaries. These revenues are not eliminated in the segment detail below, as we base our decisions on the segment presentation. See also Note 3. Assets are not allocated to the segments but rather are reviewed in total for purposes of decision-making. No single customer or agent provides 10% or more of revenues for the Property and Casualty Group.

Our principal operations consist of serving as attorney-in-fact for the Exchange, which constitutes our management operations. We operate in this capacity solely for the Exchange. Our insurance underwriting operations arise through direct business of our property/casualty insurance subsidiaries and by virtue of the pooling agreement between our subsidiaries and the Exchange, which includes assumed reinsurance from nonaffiliated domestic and foreign sources. The Exchange exited the assumed reinsurance business effective December 31, 2003, and therefore unaffiliated reinsurance includes only run-off activity of the assumed reinsurance business. Insurance provided in the insurance underwriting operations consists of personal and commercial lines and is sold by independent agents. Personal lines consist primarily of private passenger auto and are marketed to individuals, and commercial lines are marketed to small- and medium-sized businesses. The performance of the personal lines and commercial lines is evaluated by our management based upon the underwriting results as determined under SAP for the total pooled business of the Property and Casualty Group.

We evaluate profitability of our management operations segment principally on the gross margin from management operations, while profitability of the insurance underwriting operations segment is evaluated principally based on the combined ratio. Investment operations performance is evaluated based on appreciation of assets, rate of return and overall return.

Summarized financial information for these operations is presented below.

(in thousands)	Years ended December 31 2006	2005	2004
Management operations			
Operating revenue			
Management fee revenue	**$942,845**	$940,274	$945,066
Service agreement revenue	**29,246**	20,568	21,855
Total operating revenue	**972,091**	960,842	966,921
Cost of management operations	**785,683**	751,573	724,329
Income before income taxes	**$186,408**	$209,269	$242,592
Net income from management operations	**$124,612**	$140,388	$164,436
Insurance underwriting operations			
Operating revenue			
Premiums earned:			
Personal lines	**$148,480**	$153,859	$148,935
Commercial lines	**64,858**	65,605	62,647
Reinsurance—nonaffiliates	**327**	(378)	250
Reinsurance—affiliates*	**0**	(3,262)	(3,630)
Total premiums earned	**213,665**	215,824	208,202
Operating expenses			
Losses and expenses:			
Personal lines	**141,965**	144,953	143,458
Commercial lines	**58,258**	56,732	59,726
Reinsurance—nonaffiliates	**(955)**	(3,037)	1,642
Reinsurance—affiliates	**1,027**	2,226	7,740
Total losses and expenses	**200,295**	200,874	212,566
Income (loss) before income taxes	**$ 13,370**	$ 14,950	$ (4,364)
Net income (loss) from insurance underwriting operations	**$ 8,938**	$ 10,029	$ (2,958)
Investment operations			
Investment income, net of expenses	**$ 55,920**	$ 61,555	$ 60,988
Net realized gains on investments	**1,335**	15,620	18,476
Equity in earnings of limited partnerships	**41,766**	38,062	8,655
Income before income taxes and before equity in earnings of EFL	**$ 99,021**	$115,237	$ 88,119
Net income from investment operations	**$ 66,194**	$ 77,306	$ 59,729
Equity in earnings of EFL, net of tax	**$ 4,281**	$ 3,381	$ 5,206

* The excess-of-loss reinsurance agreement was not renewed for the 2006 accident year. As a result, there were no premiums paid by Erie Insurance Company or Erie Insurance Company of New York to the Exchange. See also Note 13.

Reconciliation of reportable segment revenues and operating expenses to the Consolidated Statements of Operations

(in thousands)	Years ended December 31 2006	2005	2004
Segment revenues	**$1,185,756**	$1,176,666	$1,175,123
Elimination of intersegment management fee revenues	**(51,774)**	(51,716)	(51,979)
Total operating revenue	**$1,133,982**	$1,124,950	$1,123,144
Segment operating expenses	**$ 985,978**	$ 952,447	$ 936,895
Elimination of intersegment management fee expenses	**(51,774)**	(51,716)	(51,979)
Total operating expenses	**$ 934,204**	$ 900,731	$ 884,916

The intersegment revenues and expenses that are eliminated in the Consolidated Statements of Operations relate to our property/casualty insurance subsidiaries 5.5% share of the management fees paid to us.

Note 21.

Quarterly results of operations (unaudited)

(in thousands, except per share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Year ended
2006					
Operating revenue	**$ 281,720**	**$ 297,564**	**$ 291,815**	**$ 262,883**	**$1,133,982**
Operating expenses	**(227,708)**	**(240,653)**	**(234,434)**	**(231,409)**	**(934,204)**
Investment income— unaffiliated	**19,926**	**28,029**	**22,191**	**28,875**	**99,021**
Income before income taxes and equity in earnings of EFL	**$ 73,938**	**$ 84,940**	**$ 79,572**	**$ 60,349**	**$ 298,799**
Net income	**$ 49,466**	**$ 56,255**	**$ 52,785**	**$ 45,519**	**$ 204,025**
Net income per share:*					
Class A—basic	**$ .81**	**$ .95**	**$ .91**	**$ .78**	**$ 3.45**
Class B—basic and diluted	**121.08**	**144.90**	**139.39**	**119.65**	**524.87**
Class A—diluted	**.73**	**.86**	**.82**	**.71**	**3.13**
Comprehensive income	**42,873**	**45,041**	**71,839**	**49,076**	**208,829**
2005					
Operating revenue	$ 276,171	$ 299,915	$ 287,551	$ 261,313	$1,124,950
Operating expenses	(212,461)	(233,373)	(233,688)	(221,209)	(900,731)
Investment income— unaffiliated	22,076	45,775	24,552	22,834	115,237
Income before income taxes and equity in earnings of EFL	$ 85,786	$ 112,317	$ 78,415	$ 62,938	$ 339,456
Net income	$ 57,771	$ 76,168	$ 53,005	$ 44,160	$ 231,104
Net income per share:*					
Class A—basic	$ .91	$ 1.21	$ .84	$ .71	$ 3.69
Class B—basic and diluted	138.84	183.89	128.01	107.45	558.34
Class A—diluted	.83	1.10	.76	.64	3.34
Comprehensive income	37,455	73,969	42,250	40,500	194,174

* The cumulative sum of quarterly basic and diluted net income per share amounts may not equal total basic and diluted net income per share for the year due to differences in weighted average shares and equivalent shares outstanding for each of the periods presented.

2006

Fourth quarter income tax provision was impacted by (1) favorable IRS audit adjustments for tax years 2001 and 2002 and (2) a downward adjustment to the effective tax rate booked through the first three quarters of 2006 to better reflect the actual annual rate of 32.8%.

2005

Includes a $14.2 million second quarter correction to record unrealized gains and losses on limited partnerships to equity in earnings or losses of limited partnerships in the Consolidated Statements of Operations. This correction increased net income per share-diluted by $.13, of which $.09 per share-diluted related to 2004 and prior years.

Market Price of, and Dividends on, Common Stock and Related Shareholder Matters

Common stock prices

Our Class A, non-voting common stock trades on The NASDAQ Stock Market[SM] LLC under the symbol "ERIE." The following table sets forth the range of closing high and low trading prices by quarter as reported by The NASDAQ Stock Market LLC:

Class A trading price

Year Ended December 31, 2006	High	Low
First quarter	**$ 53.71**	**$ 51.38**
Second quarter	**52.79**	**50.13**
Third quarter	**52.90**	**48.58**
Fourth quarter	**58.19**	**49.69**
Year Ended December 31, 2005		
First quarter	$ 51.33	$ 54.39
Second quarter	50.15	54.83
Third quarter	52.14	54.66
Fourth quarter	51.79	53.34

No established trading market exists for the Class B voting common stock.

Our 401(k) plan for employees permits participants to invest a portion of our contributions to the plan in shares of Erie Indemnity Class A common stock. The plan's trustee is authorized to buy Erie Indemnity Company Class A common stock on behalf of 401(k) plan participants. Plan participants held 129,997 and 126,451 Company Class A shares at December 31, 2006 and 2005, respectively.

A stock repurchase plan was authorized allowing us to repurchase up to $250 million of our outstanding Class A common stock from January 1, 2004, through December 31, 2006. On February 21, 2006, our Board of Directors reauthorized a $250 million stock repurchase program. The reauthorized stock repurchase program is effective once the available funds from the current repurchase program are expended, and continues through December 31, 2009. We may purchase the shares, from time to time, in the open market or through privately negotiated transactions, depending on prevailing market conditions and alternative uses of our capital. Shares repurchased during 2006 totaled 4,010,353 at a total cost of $217.4 million. Cumulative shares repurchased under this plan since inception was 7,045,577 at a total cost of $370.4 million.

(continued on next page)

Common stock dividends

We historically have declared and paid cash dividends on a quarterly basis at the discretion of the Board of Directors. The payment and amount of future dividends on the common stock will be determined by the Board of Directors and will depend on, among other things, our earnings, financial condition and cash requirements at the time such payment is considered, and on our ability to receive dividends from our subsidiaries, the amount of which is subject to regulatory limitations. Dividends declared for each class of stock during 2006 and 2005 are as follows:

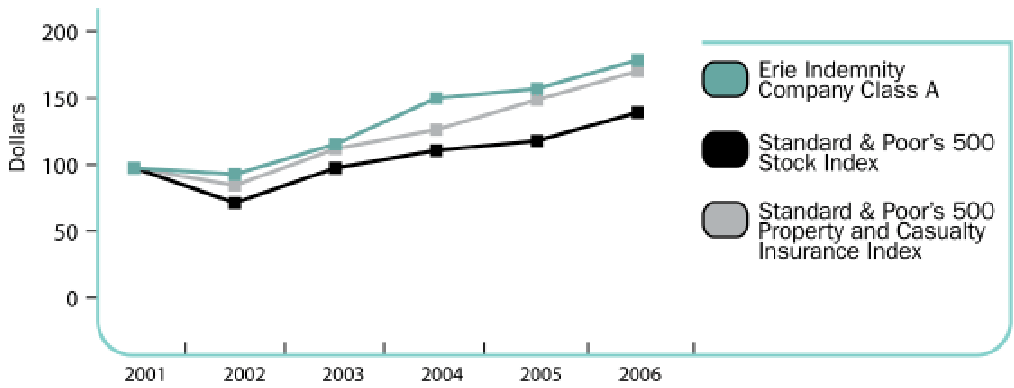
Dividends declared:

Year Ended December 31, 2006	Class A share	Class B share
First quarter	**$ .360**	**$ 54.00**
Second quarter	**.360**	**54.00**
Third quarter	**.360**	**54.00**
Fourth quarter	**.400**	**60.00**
Total	**$ 1.480**	**$ 222.00**
Year Ended December 31, 2005		
First quarter	$ .325	$ 48.75
Second quarter	.325	48.75
Third quarter	.325	48.75
Fourth quarter	.360	54.00
Total	$ 1.335	$ 200.25

American Stock Transfer & Trust Company serves as our transfer agent and registrar.

Stock performance

The following graph depicts the cumulative total shareholder return for the periods indicated for our Class A Common Stock compared to the Standard & Poor's 500 Stock Index and the Standard & Poor's 500 Property and Casualty Insurance Index:



	2001	2002	2003	2004	2005	**2006**
Erie Indemnity Company Class A common stock	$ 100*	$ 96	$ 115	$ 144	$ 150	**$ 168**
Standard & Poor's 500 Stock Index	100*	78	100	111	117	**135**
Standard & Poor's 500 Property and Casualty Insurance Index	100*	89	112	124	143	**161**

* Assumes $100 invested at the close of trading on the last trading day preceding the first day of the fifth preceding fiscal year in our Class A common stock, Standard & Poor's 500 Stock Index and Standard & Poor's 500 Property and Casualty Insurance Index. Cumulative total shareholder return assumes the reinvestment of dividends.

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

Registrant owns 100% of the outstanding stock of the following companies:

Name	State of Formation
Erie Insurance Property & Casualty Company	Pennsylvania
Erie Insurance Company	Pennsylvania
EI Holding Corp.	Delaware
EI Service Corp.	Pennsylvania
Erie Insurance Company of New York	New York

Wholly owned by Erie Insurance Company

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Erie Indemnity Company of our report dated February 22, 2007, with respect to the consolidated financial statements of Erie Indemnity Company, Erie Indemnity Company management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Erie Indemnity Company, included in the 2006 Annual Report to Shareholders of Erie Indemnity Company.

Our audits also included the financial statement schedules of Erie Indemnity Company listed in Item 15(a). These schedules are the responsibility of Erie Indemnity Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the consolidated financial statement schedules referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 22, 2007

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey A. Ludrof, certify that:

1. I have reviewed this annual report on Form 10-K of Erie Indemnity Company for the year ended December 31, 2006;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2007

/s/ Jeffrey A. Ludrof
Jeffrey A. Ludrof, President & CEO

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Philip A. Garcia, certify that:

1. I have reviewed this annual report on Form 10-K of Erie Indemnity Company for the year ended December 31, 2006;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2007

/s/ Philip A. Garcia
Philip A. Garcia, Executive Vice President & CFO

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

We, Jeffrey A. Ludrof, Chief Executive Officer of the Erie Indemnity Company (Company), and Philip A. Garcia, Chief Financial Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that:

(1) The Annual Report on Form 10-K of the Company for the annual period December 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey A. Ludrof
Jeffrey A. Ludrof
President & Chief Executive Officer

/s/ Philip A. Garcia
Philip A. Garcia
Executive VP & Chief Financial Officer

February 26, 2007

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Erie Indemnity Company and will be retained by Erie Indemnity Company and furnished to the Securities and Exchange Commission or its staff upon request.