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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from___to___

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)	(IRS Employer Identification No.)
100 Erie Insurance Place, Erie, Pennsylvania	16530
(Address of principal executive offices)	(Zip Code)

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Class A common stock, stated value $0.0292 per share	ERIE	NASDAQ Stock Market, LLC
(Title of each class)	(Trading Symbol)	(Name of each exchange on which registered)

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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant’s Class A Common Stock as of the latest practicable date was 46,189,068 at July 12, 2019.

The number of shares outstanding of the registrant’s Class B Common Stock as of the latest practicable date was 2,542 at July 12, 2019.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ERIE INDEMNITY COMPANY
STATEMENTS OF OPERATIONS (UNAUDITED)
(dollars in thousands, except per share data)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Operating revenue				
Management fee revenue - policy issuance and renewal services, net	$ 480,513	$ 454,572	$ 911,496	$ 860,550
Management fee revenue - administrative services, net	14,195	13,299	28,146	26,373
Administrative services reimbursement revenue	146,095	146,507	288,575	292,470
Service agreement revenue	6,907	7,080	13,599	14,225
Total operating revenue	647,710	621,458	1,241,816	1,193,618
Operating expenses				
Cost of operations - policy issuance and renewal services	405,005	379,628	770,509	728,258
Cost of operations - administrative services	146,095	146,507	288,575	292,470
Total operating expenses	551,100	526,135	1,059,084	1,020,728
Operating income	96,610	95,323	182,732	172,890
Investment income				
Net investment income	8,030	7,104	16,547	13,924
Net realized investment gains (losses)	1,302	(32)	3,805	(497)
Net impairment losses recognized in earnings	(84)	(646)	(162)	(646)
Equity in earnings (losses) of limited partnerships	404	(219)	(743)	(411)
Total investment income	9,652	6,207	19,447	12,370
Interest expense, net	272	602	721	1,155
Other income	48	58	95	102
Income before income taxes	106,038	100,986	201,553	184,207
Income tax expense	18,284	21,280	38,488	38,743
Net income	**$ 87,754**	**$ 79,706**	**$ 163,065**	**$ 145,464**
Net income per share				
Class A common stock – basic	$ 1.88	$ 1.71	$ 3.50	$ 3.12
Class A common stock – diluted	**$ 1.68**	**$ 1.52**	**$ 3.12**	**$ 2.78**
Class B common stock – basic	$ 283	$ 257	$ 525	$ 469
Class B common stock – diluted	$ 283	$ 257	$ 525	$ 468
Weighted average shares outstanding – Basic				
Class A common stock	46,188,994	46,188,705	46,188,668	46,188,309
Class B common stock	2,542	2,542	2,542	2,542
Weighted average shares outstanding – Diluted				
Class A common stock	52,314,700	52,312,849	52,313,371	52,311,741
Class B common stock	2,542	2,542	2,542	2,542
Dividends declared per share				
Class A common stock	$ 0.90	$ 0.84	$ 1.80	$ 1.68
Class B common stock	$ 135.00	$ 126.00	$ 270.00	$ 252.00

See accompanying notes to Financial Statements. See Note 12, "Accumulated Other Comprehensive Income (Loss)", for amounts reclassified out of accumulated other comprehensive income (loss) into the Statements of Operations.

ERIE INDEMNITY COMPANY
STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net income	$ 87,754	$ 79,706	$ 163,065	$ 145,464
Other comprehensive income (loss), net of tax				
Change in unrealized holding gains (losses) on available-for-sale securities	2,579	(551)	8,057	(5,978)
Amortization of prior service costs and net actuarial loss on pension and other postretirement plans	1,231	0	2,463	0
Total other comprehensive income (loss), net of tax	3,810	(551)	10,520	(5,978)
Comprehensive income	$ 91,564	$ 79,155	$ 173,585	$ 139,486

See accompanying notes to Financial Statements. See Note 12, "Accumulated Other Comprehensive Income (Loss)", for amounts reclassified out of accumulated other comprehensive income (loss) into the Statements of Operations.

ERIE INDEMNITY COMPANY
STATEMENTS OF FINANCIAL POSITION
(dollars in thousands, except per share data)

	June 30, 2019	December 31, 2018
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 338,262	$ 266,417
Available-for-sale securities	61,210	402,339
Receivables from Erie Insurance Exchange and affiliates	483,319	449,873
Prepaid expenses and other current assets	42,300	36,892
Federal income taxes recoverable	7,791	8,162
Accrued investment income	4,365	5,263
Total current assets	937,247	1,168,946
Available-for-sale securities	627,898	346,184
Equity securities	12,445	11,853
Limited partnership investments	30,344	34,821
Fixed assets, net	173,055	130,832
Deferred income taxes, net	19,090	24,101
Other assets	89,568	61,590
Total assets	**$ 1,889,647**	**$ 1,778,327**
Liabilities and shareholders' equity		
Current liabilities:		
Commissions payable	$ 267,403	$ 241,573
Agent bonuses	51,357	103,462
Accounts payable and accrued liabilities	124,794	111,291
Dividends payable	41,913	41,910
Contract liability	35,374	33,854
Deferred executive compensation	12,605	13,107
Current portion of long-term borrowings	1,914	1,870
Total current liabilities	535,360	547,067
Defined benefit pension plans	129,674	116,866
Long-term borrowings	96,860	97,860
Contract liability	18,339	17,873
Deferred executive compensation	13,199	13,075
Other long-term liabilities	32,761	11,914
Total liabilities	826,193	804,655
Shareholders' equity		
Class A common stock, stated value $0.0292 per share; 74,996,930 shares authorized; 68,299,200 shares issued; 46,189,068 shares outstanding	1,992	1,992
Class B common stock, convertible at a rate of 2,400 Class A shares for one Class B share, stated value $70 per share; 3,070 shares authorized; 2,542 shares issued and outstanding	178	178
Additional paid-in-capital	16,483	16,459
Accumulated other comprehensive loss	(119,764)	(130,284)
Retained earnings	2,310,655	2,231,417
Total contributed capital and retained earnings	2,209,544	2,119,762
Treasury stock, at cost; 22,110,132 shares held	(1,158,300)	(1,157,625)
Deferred compensation	12,210	11,535
Total shareholders' equity	**1,063,454**	**973,672**
Total liabilities and shareholders' equity	**$ 1,889,647**	**$ 1,778,327**

See accompanying notes to Financial Statements.

ERIE INDEMNITY COMPANY
STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
Three and six months ended June 30, 2019 and 2018
(dollars in thousands, except per share data)

	Class A common stock	Class B common stock	Additional paid-in-capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock	Deferred compensation	Total shareholders' equity
Balance, December 31, 2018	$ 1,992	$ 178	$ 16,459	$ (130,284)	$ 2,231,417	$ (1,157,625)	$ 11,535	$ 973,672
Net income					75,311			75,311
Other comprehensive income				6,710				6,710
Dividends declared:								
Class A $0.90 per share					(41,570)			(41,570)
Class B $135.00 per share					(343)			(343)
Net purchase of treasury stock (1)			24			0		24
Deferred compensation						(1,154)	1,154	0
Balance, March 31, 2019	$ 1,992	$ 178	$ 16,483	$ (123,574)	$ 2,264,815	$ (1,158,779)	$ 12,689	$ 1,013,804
Net income					87,754			87,754
Other comprehensive income				3,810				3,810
Dividends declared:								
Class A $0.90 per share					(41,570)			(41,570)
Class B $135.00 per share					(344)			(344)
Net purchase of treasury stock (1)			0			0		0
Deferred compensation						(443)	443	0
Rabbi trust distribution (2)						922	(922)	0
Balance, June 30, 2019	$ 1,992	$ 178	$ 16,483	$ (119,764)	$ 2,310,655	$ (1,158,300)	$ 12,210	$ 1,063,454

	Class A common stock	Class B common stock	Additional paid-in-capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock	Deferred compensation	Total shareholders' equity
Balance, December 31, 2017	$ 1,992	$ 178	$ 16,470	$ (156,059)	$ 2,140,853	$ (1,155,668)	$ 9,578	$ 857,344
Cumulative effect adjustments (3)					(38,392)			(38,392)
Net income					65,758			65,758
Other comprehensive loss				(5,427)				(5,427)
Dividends declared:								
Class A $0.84 per share					(38,799)			(38,799)
Class B $126.00 per share					(320)			(320)
Net purchase of treasury stock (1)			(9)			0		(9)
Deferred compensation						(1,663)	1,663	0
Balance, March 31, 2018	$ 1,992	$ 178	$ 16,461	$ (161,486)	$ 2,129,100	$ (1,157,331)	$ 11,241	$ 840,155
Net income					79,706			79,706
Other comprehensive loss				(551)				(551)
Dividends declared:								
Class A $0.84 per share					(38,799)			(38,799)
Class B $126.00 per share					(321)			(321)
Net purchase of treasury stock (1)			(2)			0		(2)
Deferred compensation						(276)	276	0
Rabbi trust distribution (2)						608	(608)	0
Balance, June 30, 2018	$ 1,992	$ 178	$ 16,459	$ (162,037)	$ 2,169,686	$ (1,156,999)	$ 10,909	$ 880,188

(1) Net purchases of treasury stock in 2019 and 2018 include the repurchase of our Class A common stock in the open market that were subsequently distributed to satisfy stock based compensation awards. See Note 11, "Capital Stock", for additional information on treasury stock transactions.
(2) Distributions of our Class A shares were made from the rabbi trust to retired directors in 2019 and 2018.
(3) Cumulative effect adjustments are primarily related to the implementation of new revenue recognition guidance effective January 1, 2018.

See accompanying notes to Financial Statements.

ERIE INDEMNITY COMPANY
STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities		
Management fee received	$ 902,958	$ 859,694
Administrative services reimbursements received	296,390	298,056
Service agreement fee received	13,599	14,225
Net investment income received	16,799	17,279
Limited partnership distributions	1,292	3,037
Commissions paid to agents	(434,599)	(413,880)
Agents bonuses paid	(108,540)	(126,594)
Salaries and wages paid	(101,765)	(102,601)
Pension contributions and employee benefits paid	(22,085)	(99,334)
General operating expenses paid	(117,915)	(111,381)
Administrative services expenses paid	(291,136)	(295,635)
Income taxes paid	(39,863)	(208)
Interest paid	(719)	(1,065)
Net cash provided by operating activities	114,416	41,593
Cash flows from investing activities		
Purchase of investments:		
Available-for-sale securities	(615,384)	(114,848)
Equity securities	0	(1,035)
Limited partnerships	(9)	(215)
Other investments	(124)	0
Proceeds from investments:		
Available-for-sale securities sales	430,596	76,387
Available-for-sale securities maturities/calls	261,902	69,674
Equity securities	0	1,157
Limited partnerships	2,450	2,682
Purchase of fixed assets	(34,260)	(18,121)
Distributions on agent loans	(6,947)	(24,440)
Collections on agent loans	3,991	3,106
Net cash provided by (used in) investing activities	42,215	(5,653)
Cash flows from financing activities		
Dividends paid to shareholders	(83,824)	(78,235)
Net (payments) proceeds from long-term borrowings	(962)	24,986
Net cash used in financing activities	(84,786)	(53,249)
Net increase (decrease) in cash and cash equivalents	71,845	(17,309)
Cash and cash equivalents, beginning of period	266,417	215,721
Cash and cash equivalents, end of period	$ 338,262	$ 198,412
Supplemental disclosure of noncash transactions		
Operating lease assets obtained in exchange for new operating lease liabilities	$ 33,136	$ —
Liability incurred to purchase fixed assets	$ 14,980	$ —

See accompanying notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Nature of Operations

Erie Indemnity Company ("Indemnity", "we", "us", "our") is a publicly held Pennsylvania business corporation that has since its incorporation in 1925 served as the attorney-in-fact for the subscribers (policyholders) at the Erie Insurance Exchange ("Exchange"). The Exchange, which also commenced business in 1925, is a Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

Our primary function as attorney-in-fact is to perform policy issuance and renewal services on behalf of the subscribers at the Exchange. We also act as attorney-in-fact on behalf of the Exchange with respect to all claims handling and investment management services, as well as the service provider for all claims handling, life insurance, and investment management services for its insurance subsidiaries, collectively referred to as "administrative services". Acting as attorney-in-fact in these two capacities is done in accordance with a subscriber's agreement (a limited power of attorney) executed individually by each subscriber (policyholder), which appoints us as their common attorney-in-fact to transact certain business on their behalf. Pursuant to the subscriber's agreement for acting as attorney-in-fact in these two capacities, we earn a management fee calculated as a percentage of the direct and affiliated assumed premiums written by the Exchange.

The policy issuance and renewal services we provide to the Exchange are related to the sales, underwriting and issuance of policies. The sales related services we provide include agent compensation and certain sales and advertising support services. Agent compensation includes scheduled commissions to agents based upon premiums written as well as additional commissions and bonuses to agents, which are earned by achieving targeted measures. The underwriting services we provide include underwriting and policy processing. The remaining services we provide include customer service and administrative support. We also provide information technology services that support all the functions listed above. Included in these expenses are allocations of costs for departments that support these policy issuance and renewal functions.

By virtue of its legal structure as a reciprocal insurer, the Exchange does not have any employees or officers. Therefore, it enters into contractual relationships by and through an attorney-in-fact. Indemnity serves as the attorney-in-fact on behalf of the Exchange with respect to its administrative services. The Exchange's insurance subsidiaries also utilize Indemnity for these services in accordance with the service agreements between each of the subsidiaries and Indemnity. Claims handling services include costs incurred in the claims process, including the adjustment, investigation, defense, recording and payment functions. Life insurance management services include costs incurred in the management and processing of life insurance business. Investment management services are related to investment trading activity, accounting and all other functions attributable to the investment of funds. Included in these expenses are allocations of costs for departments that support these administrative functions. The amounts incurred for these services are reimbursed to Indemnity at cost in accordance with the subscriber's agreement and the service agreements. State insurance regulations require that intercompany service agreements and any material amendments be approved in advance by the state insurance department.

Our results of operations are tied to the growth and financial condition of the Exchange. If any events occurred that impaired the Exchange’s ability to grow or sustain its financial condition, including but not limited to reduced financial strength ratings, disruption in the independent agency relationships, significant catastrophe losses, or products not meeting customer demands, the Exchange could find it more difficult to retain its existing business and attract new business. A decline in the business of the Exchange almost certainly would have as a consequence a decline in the total premiums paid and a correspondingly adverse effect on the amount of the management fees we receive. We also have an exposure to a concentration of credit risk related to the unsecured receivables due from the Exchange for its management fee and cost reimbursements. See Note 13, "Concentrations of Credit Risk".

Note 2. Significant Accounting Policies

Basis of presentation
The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. For further information, refer to the financial statements and footnotes included in our Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on February 21, 2019.

Use of estimates
The preparation of financial statements in conformity with GAAP 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.

Recently adopted accounting standards
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *"Leases"*, which requires lessees to recognize assets and liabilities arising from operating leases on the Statements of Financial Position and to disclose certain information about leasing arrangements. We adopted ASC 842 on January 1, 2019 using the optional transition method, which permits entities to apply the new guidance prospectively with certain practical expedients available. We elected the package of practical expedients which among other things allowed us to carry forward the historical lease classifications. We did not elect the hindsight practical expedient in determining the lease term for existing leases.

The adoption of the new standard resulted in the recognition of operating lease assets of $32.7 million and operating lease liabilities of $32.1 million on the Statement of Financial Position at January 1, 2019. The adoption of this standard did not have a material impact on our Statement of Operations and had no impact on our net cash flows.

Recently issued accounting standards
In August 2018, the FASB issued Accounting Standards Update ("ASU") 2018-15, *"Intangibles-Goodwill and Other Internal-Use Software"*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The amendments under ASU 2018-15 may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption and early adoption is permitted. We plan to adopt this guidance on a prospective basis and do not expect a material impact on our financial statements or disclosures.

In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments-Credit Losses"*, which requires financial assets measured at amortized cost to be presented at the net amount expected to be collected through the use of a new forward-looking expected loss model and credit losses relating to available-for-sale debt securities to be recognized through an allowance for credit losses. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption for interim and annual periods beginning after December 15, 2018 is permitted. We have evaluated the impact of this guidance on our financial assets. Our investments are not measured at amortized cost, and therefore do not require the use of a new expected loss model. Our available-for-sale debt securities will continue to be monitored for credit losses which would be limited to the amount by which the fair value is below amortized cost and reflected as an allowance for credit losses rather than a reduction of the carrying value of the asset. Our receivables from Erie Insurance Exchange and affiliates are unlikely to have a significant credit loss exposure given the financial strength of the Exchange as demonstrated by its strong surplus position, industry ratings, and historical experience of no credit losses. We currently do not record an allowance for credit losses related to our agent loans as historical default amounts have been insignificant and the majority of the loans are senior secured. Accordingly, when we establish an allowance related to agent loans upon adoption of this guidance, we do not expect it to be material. Our cash equivalents include money market mutual funds comprised of U.S. government securities, therefore a corresponding allowance, if any, would be expected to be immaterial. As a result of our evaluation, we do not expect a material impact on our financial statements.

Other assets
Other assets include agent loans, operating lease assets and other long-term prepaid assets. Agent loans are carried at unpaid principal balance with interest recorded in investment income as earned. It is our policy to charge the loans that are in default directly to expense. We do not record an allowance for credit losses on these loans, as the majority of the loans are senior secured and historically have had insignificant default amounts.

The determination of whether an arrangement is a lease, and the related lease classification, is made at inception of a contract. Our leases are classified as operating leases. Operating lease assets and liabilities are recorded at inception based on the present value of the future minimum lease payments over the lease term at commencement date. When an implicit rate for the lease is not available, we use our incremental borrowing rate based on the information available at commencement date to determine the present value of future payments. Lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Most of our lease contracts contain lease and non-lease components. Non-lease components are expensed as incurred. Operating lease assets are included in other assets, and the current and noncurrent portions of the operating lease liabilities are included in accounts payable and accrued expenses and other long-term liabilities, respectively, in the Statement of Financial Position.

Note 3. Revenue

The majority of our revenue is derived from the subscriber’s agreement between us and the subscribers (policyholders) at the Exchange. Pursuant to the subscriber’s agreement, we earn a management fee calculated as a percentage, not to exceed 25%, of all direct and affiliated assumed written premiums of the Exchange.

We allocate a portion of our management fee revenue, currently 25% of the direct and affiliated assumed written premiums of the Exchange, between the two performance obligations we have under the subscriber’s agreement. The first performance obligation is to provide policy issuance and renewal services to the subscribers (policyholders) at the Exchange, and the second is to act as attorney-in-fact on behalf of the Exchange, as well as the service provider for its insurance subsidiaries, with respect to all administrative services. The transaction price, including management fee revenue and administrative service reimbursement revenue, is allocated based on the estimated standalone selling prices developed using industry information and other available information for similar services. We update the transaction price allocation annually based upon the most recent information available. There was no material change to the allocation in 2019.

The first performance obligation is to provide policy issuance and renewal services that result in executed insurance policies between the Exchange or one of its insurance subsidiaries and the subscriber (policyholder). Our customer, the subscriber (policyholder), receives economic benefits when substantially all the policy issuance or renewal services are complete and an insurance policy is issued or renewed by the Exchange or one of its insurance subsidiaries. It is at the time of policy issuance or renewal that the allocated portion of revenue is recognized.

The Exchange, by virtue of its legal structure as a reciprocal insurer, does not have any employees or officers. Therefore, it enters into contractual relationships by and through an attorney-in-fact. Indemnity serves as the attorney-in-fact on behalf of the Exchange with respect to its administrative services in accordance with the subscriber's agreement. The Exchange's insurance subsidiaries also utilize Indemnity for these services in accordance with the service agreements between each of the subsidiaries and Indemnity. Collectively, these services represent a second performance obligation under the subscriber’s agreement and the service agreements. The revenue allocated to this performance obligation is recognized over time as these services are provided. The portion of revenue not yet earned is recorded as a contract liability in the Statements of Financial Position. The administrative services expenses we incur and the related reimbursements we receive are recorded gross in the Statements of Operations.

Indemnity records a receivable from the Exchange for management fee revenue when the premium is written or assumed by the Exchange. Indemnity collects the management fee from the Exchange when the Exchange collects the premiums from the subscribers (policyholders). As the Exchange issues policies with annual terms only, cash collections generally occur within one year.

A constraining estimate exists around the management fee received as consideration related to the potential for management fee to be returned if a policy were to be cancelled mid-term. 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 estimated allowance to reduce the management fee to its estimated net realizable value to account for the potential of mid-term policy cancellations based on historical cancellation rates. This estimated allowance has been allocated between the two performance obligations consistent with the revenue allocation proportions.

The following table disaggregates revenue by our two performance obligations:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Management fee revenue - policy issuance and renewal services, net	$ 480,513	$ 454,572	$ 911,496	$ 860,550
Management fee revenue - administrative services, net	14,195	13,299	28,146	26,373
Administrative services reimbursement revenue	146,095	146,507	288,575	292,470
Total administrative services	$ 160,290	$ 159,806	$ 316,721	$ 318,843

Note 4. Earnings Per Share

Class A and Class B basic earnings per share and Class B diluted earnings per share are calculated under the two-class method. The two-class method allocates earnings to each class of stock based upon its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. See Note 11, "Capital Stock".

Class A diluted earnings per share are calculated under the if-converted method, which reflects the conversion of Class B shares to Class A shares. Diluted earnings per share calculations include the dilutive effect of assumed issuance of stock-based awards under compensation plans that have the option to be paid in stock using the treasury stock method.

A reconciliation of the numerators and denominators used in the basic and diluted per-share computations is presented as follows for each class of common stock:

	Three months ended June 30,					
	2019			2018		
(dollars in thousands, except per share data)	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	$ 87,036	46,188,994	$ 1.88	$ 79,053	46,188,705	$ 1.71
Dilutive effect of stock-based awards	0	24,906	—	0	23,344	—
Assumed conversion of Class B shares	718	6,100,800	—	653	6,100,800	—
Class A – Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$ 87,754	52,314,700	$ 1.68	$ 79,706	52,312,849	$ 1.52
Class B – Basic EPS:						
Income available to Class B stockholders	$ 718	2,542	$ 283	$ 653	2,542	$ 257
Class B – Diluted EPS:						
Income available to Class B stockholders	$ 718	2,542	$ 283	$ 653	2,542	$ 257

	Six months ended June 30,					
	2019			2018		
(dollars in thousands, except per share data)	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	$ 161,730	46,188,668	$ 3.50	$ 144,273	46,188,309	$ 3.12
Dilutive effect of stock-based awards	0	23,903	—	0	22,632	—
Assumed conversion of Class B shares	1,335	6,100,800	—	1,191	6,100,800	—
Class A – Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$ 163,065	52,313,371	$ 3.12	$ 145,464	52,311,741	$ 2.78
Class B – Basic EPS:						
Income available to Class B stockholders	$ 1,335	2,542	$ 525	$ 1,191	2,542	$ 469
Class B – Diluted EPS:						
Income available to Class B stockholders	$ 1,335	2,542	$ 525	$ 1,191	2,542	$ 468

Note 5. Fair Value

Financial instruments carried at fair value
Our available-for-sale debt securities and equity securities are recorded at fair value, which is the price that would be received to sell the asset in an orderly transaction between willing market participants as of the measurement date.

Valuation techniques used to derive the fair value of our available-for-sale debt securities and equity securities are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect our own assumptions regarding fair market value for these securities. Although virtually all of our prices are obtained from third party sources, we also perform an internal pricing review on outliers. The outlier review includes securities with price changes that vary from current market conditions or independent third party price sources. Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 – Unobservable inputs for the asset or liability.

Estimates of fair values for our investment portfolio are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes those securities valued using an exchange traded price provided by the pricing service. The methodologies used by the pricing service that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. Pricing service valuations for Level 3 securities are based upon proprietary models and are used when observable inputs are not available or in illiquid markets.

In limited circumstances we adjust the price received from the pricing service when, in our judgment, a better reflection of fair value is available based upon corroborating information and our knowledge and monitoring of market conditions such as a disparity in price of comparable securities and/or non-binding broker quotes. In other circumstances, certain securities are internally priced because prices are not provided by the pricing service.

We perform continuous reviews of the prices obtained from the pricing service. This includes evaluating the methodology and inputs used by the pricing service to ensure that we determine the proper classification level of the financial instrument. Price variances, including large periodic changes, are investigated and corroborated by market data. We have reviewed the pricing methodologies of our pricing service as well as other observable inputs, such as market data, and transaction volumes and believe that the prices adequately consider market activity in determining fair value.

When a price from the pricing service is not available, values are determined by obtaining broker/dealer quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based upon our best estimate of fair value using corroborating market information. Our evaluation includes the consideration of benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data.

The following tables present our fair value measurements on a recurring basis by asset class and level of input:

	At June 30, 2019			
(in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Treasury [1]	$ 151,094	$ 0	$ 151,094	$ 0
States & political subdivisions [1]	3,360	0	3,360	0
Corporate debt securities [1]	356,656	0	350,283	6,373
Residential mortgage-backed securities	66,186	0	66,186	0
Commercial mortgage-backed securities	46,142	0	43,591	2,551
Collateralized debt obligations	57,345	0	57,345	0
Other debt securities	8,325	0	8,325	0
Total available-for-sale securities	689,108	0	680,184	8,924
Equity securities:				
Nonredeemable preferred stock - financial services sector	12,445	2,003	10,442	0
Total equity securities	12,445	2,003	10,442	0
Total	$ 701,553	$ 2,003	$ 690,626	$ 8,924

	At December 31, 2018			
(in thousands)	Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Treasury [1]	$ 208,412	$ 0	$ 208,412	$ 0
States & political subdivisions [1]	159,023	0	159,023	0
Corporate debt securities	249,947	0	237,370	12,577
Residential mortgage-backed securities	4,609	0	4,609	0
Commercial mortgage-backed securities	46,515	0	46,515	0
Collateralized debt obligations	64,239	0	64,239	0
Other debt securities	15,778	0	15,778	0
Total available-for-sale securities	748,523	0	735,946	12,577
Equity securities:				
Nonredeemable preferred stock - financial services sector	11,853	1,809	10,044	0
Total equity securities	11,853	1,809	10,044	0
Other limited partnership investments [2]	3,206	—	—	—
Total	$ 763,582	$ 1,809	$ 745,990	$ 12,577

(1) *In the fourth quarter of 2018, we began selling off our municipal bonds as part of a portfolio rebalancing. We have currently invested proceeds from these sales primarily in U.S. Treasuries and corporate debt securities.*

(2) *The limited partnership investment measured at fair value represents one real estate fund included on the balance sheet as a limited partnership investment reported under the fair value option using the net asset value (NAV) practical expedient, which is not required to be categorized in the fair value hierarchy. The fair value of this investment is based on our proportionate share of the NAV from the most recent partners' capital statements received from the general partner, which is generally one quarter prior to our balance sheet date. We consider observable market data and perform a review validating the appropriateness of the NAV at each balance sheet date. Liquidation of this fund was completed in January 2019 and a final distribution totaling $3.2 million was received. There were no unfunded commitments related to the investment at December 31, 2018. During the year ended December 31, 2018, no contributions were made and distributions totaling $1.2 million were received from this investment.*

The following table presents our fair value measurements on a recurring basis by pricing source:

(in thousands)	At June 30, 2019 Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
Priced via pricing services	$ 688,958	$ 0	$ 680,184	$ 8,774
Priced via internal modeling	150	0	0	150
Total available-for-sale securities	689,108	0	680,184	8,924
Equity securities priced via pricing services	12,445	2,003	10,442	0
Total	$ 701,553	$ 2,003	$ 690,626	$ 8,924

Quantitative and Qualitative Disclosures about Unobservable Inputs

The following table presents quantitative information about the significant unobservable inputs utilized in the fair value measurements of Level 3 assets. Level 3 securities where cost is the best estimate of fair value totaled $0.2 million at June 30, 2019 and are excluded from the table below. When a non-binding broker quote was the only input available, the security was classified within Level 3. The quantitative detail of the unobservable inputs is neither provided nor reasonably available to us and therefore has not been included in the table below. These investments totaled $0.8 million at June 30, 2019 and $12.6 million at December 31, 2018. The weighted average is calculated based on estimated fair value.

(dollars in thousands)	At June 30, 2019 Fair value	Valuation techniques	Unobservable input	Range (basis points)	Weighted average (basis points)	Impact of increase in input on estimated fair value
Corporate debt securities - bank loans	$ 6,093	Syndicated loan model	Market residual yield (1)	-130 - +730	+54	Decrease
Commercial mortgage-backed securities	1,866	Relative value pricing model	Credit spread (2)	+44 - +52	+48	Decrease

(1) Values for bank loans classified as Level 3 are determined by our pricing vendor based on model yield curves adjusted for observable inputs. The market residual yield represents a net adjustment to the model yield curve for unobservable input factors.

(2) Values for commercial mortgage-backed securities classified as Level 3 include adjustments to the base spread over the appropriate U.S. Treasury yield assuming no prepayments until penalty provisions have expired.

We review the fair value hierarchy classifications each reporting period. Transfers between hierarchy levels may occur due to changes in available market observable inputs.

Level 3 Assets – 2019 Quarterly Change:

(in thousands)	Beginning balance at March 31, 2019	Included in earnings(1)	Included in other comprehensive income	Purchases	Sales	Transfers into Level 3(2)	Transfers out of Level 3(2)	Ending balance at June 30, 2019
Available-for-sale securities:								
Corporate debt securities	$ 11,523	$ (20)	$ 23	$ 0	$ (5,841)	$ 2,581	$ (1,893)	$ 6,373
Residential mortgage-backed securities	915	4	15	0	(26)	0	(908)	0
Commercial mortgage-backed securities	1,182	15	(8)	0	(1,065)	2,551	(124)	2,551
Total Level 3 available-for-sale securities	$ 13,620	$ (1)	$ 30	$ 0	$ (6,932)	$ 5,132	$ (2,925)	$ 8,924

Level 3 Assets – 2019 Year-to-Date Change:

(in thousands)	Beginning balance at December 31, 2018	Included in earnings[(1)]	Included in other comprehensive income	Purchases	Sales	Transfers into Level 3[(2)]	Transfers out of Level 3[(2)]	Ending balance at June 30, 2019
Available-for-sale securities:								
Corporate debt securities	$ 12,577	$ (9)	$ 291	$ 734	$ (6,272)	$ 7,394	$ (8,342)	$ 6,373
Residential mortgage-backed securities	0	4	15	921	(32)	0	(908)	0
Commercial mortgage-backed securities	0	13	(8)	478	(1,065)	3,257	(124)	2,551
Total Level 3 available-for-sale securities	$ 12,577	$ 8	$ 298	$ 2,133	$ (7,369)	$ 10,651	$ (9,374)	$ 8,924

Level 3 Assets – 2018 Quarterly Change:

(in thousands)	Beginning balance at March 31, 2018	Included in earnings[(1)]	Included in other comprehensive income	Purchases	Sales	Transfers into Level 3[(2)]	Transfers out of Level 3[(2)]	Ending balance at June 30, 2018
Available-for-sale securities:								
Corporate debt securities	$ 6,309	$ 10	$ (53)	$ 3,047	$ (472)	$ 5,370	$ (3,091)	$ 11,120
Total Level 3 available-for-sale securities	$ 6,309	$ 10	$ (53)	$ 3,047	$ (472)	$ 5,370	$ (3,091)	$ 11,120

Level 3 Assets – 2018 Year-to-Date Change:

(in thousands)	Beginning balance at December 31, 2017	Included in earnings[(1)]	Included in other comprehensive income	Purchases	Sales	Transfers into Level 3[(2)]	Transfers out of Level 3[(2)]	Ending balance at June 30, 2018
Available-for-sale securities:								
Corporate debt securities	$ 7,879	$ 1	$ (48)	$ 3,047	$ (965)	$ 7,782	$ (6,576)	$ 11,120
Collateralized debt obligations	2,200	0	7	0	0	0	(2,207)	0
Total Level 3 available-for-sale securities	$ 10,079	$ 1	$ (41)	$ 3,047	$ (965)	$ 7,782	$ (8,783)	$ 11,120

(1) *These amounts are reported in the Statements of Operations as net investment income and net realized investment gains (losses) for the each of the periods presented above.*
(2) *Transfers into and/or (out) of Level 3 are primarily attributable to the availability of market observable information and the re-evaluation of the observability of pricing inputs.*

The change in unrealized gains or losses included in other comprehensive income related to Level 3 securities held at the reporting date is as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Available-for-sale securities:				
Corporate debt securities	$ (18)	$ (53)	$ 158	$ (28)
Commercial mortgage-backed securities	29	—	26	—
Net unrealized gains (losses) on Level 3 securities held at reporting date	$ 11	$ (53)	$ 184	$ (28)

Financial instruments disclosed, but not carried at fair value

The following table presents the carrying values and fair value measurements, which are categorized as Level 3 in the fair value hierarchy, of financial instruments disclosed, but not carried at fair value:

	At June 30, 2019		At December 31, 2018	
(in thousands)	Carrying value	Fair value	Carrying value	Fair value
Agent loans	$ 60,962	$ 61,321	$ 58,006	$ 54,110
Long-term borrowings	99,038	100,129	99,730	94,057

Note 6. Investments

Available-for-sale securities

The following tables summarize the cost and fair value of our available-for-sale securities. See also Note 5, "Fair Value" for additional fair value disclosures.

	At June 30, 2019			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale securities:				
U.S. Treasury (1)	$ 150,171	$ 923	$ 0	$ 151,094
States & political subdivisions (1)	3,354	6	0	3,360
Corporate debt securities (1)	356,899	1,706	1,949	356,656
Residential mortgage-backed securities	65,910	297	21	66,186
Commercial mortgage-backed securities	45,527	625	10	46,142
Collateralized debt obligations	57,710	16	381	57,345
Other debt securities	8,209	116	0	8,325
Total available-for-sale securities	$ 687,780	$ 3,689	$ 2,361	$ 689,108

	At December 31, 2018			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale securities:				
U.S. Treasury (1)	$ 208,610	$ 18	$ 216	$ 208,412
States & political subdivisions (1)	157,003	2,020	0	159,023
Corporate debt securities	259,362	139	9,554	249,947
Residential mortgage-backed securities	4,603	38	32	4,609
Commercial mortgage-backed securities	47,022	80	587	46,515
Collateralized debt obligations	65,039	30	830	64,239
Other debt securities	15,756	33	11	15,778
Total available-for-sale securities	$ 757,395	$ 2,358	$ 11,230	$ 748,523

(1) In the fourth quarter of 2018, we began selling off our municipal bonds as part of a portfolio rebalancing. We have currently invested proceeds from these sales primarily in U.S. Treasuries and corporate debt securities.

The amortized cost and estimated fair value of available-for-sale securities at June 30, 2019 are shown below by remaining contractual term to maturity. Mortgage-backed securities are allocated based upon 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.

	At June 30, 2019	
(in thousands)	Amortized cost	Estimated fair value
Due in one year or less	$ 62,962	$ 63,031
Due after one year through five years	358,056	358,508
Due after five years through ten years	127,215	127,364
Due after ten years	139,547	140,205
Total available-for-sale securities	$ 687,780	$ 689,108

Available-for-sale securities in a gross unrealized loss position are as follows. Data is provided by length of time for securities in a gross unrealized loss position.

	At June 30, 2019						
	Less than 12 months		12 months or longer		Total		
(dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Available-for-sale securities:							
Corporate debt securities	104,809	844	58,666	1,105	163,475	1,949	334
Residential mortgage-backed securities	15,710	21	0	0	15,710	21	2
Commercial mortgage-backed securities	6,965	6	547	4	7,512	10	7
Collateralized debt obligations	40,402	165	14,842	216	55,244	381	41
Total available-for-sale securities	$ 167,886	$ 1,036	$ 74,055	$ 1,325	$ 241,941	$ 2,361	384
Quality breakdown of available-for-sale securities:							
Investment grade	$ 136,432	$ 296	$ 59,023	$ 354	$ 195,455	$ 650	111
Non-investment grade	31,454	740	15,032	971	46,486	1,711	273
Total available-for-sale securities	$ 167,886	$ 1,036	$ 74,055	$ 1,325	$ 241,941	$ 2,361	384

	At December 31, 2018						
	Less than 12 months		12 months or longer		Total		
(dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Available-for-sale securities:							
U.S. Treasury	$ 129,474	$ 19	$ 11,656	$ 197	$ 141,130	$ 216	7
Corporate debt securities	157,300	6,866	86,586	2,688	243,886	9,554	635
Residential mortgage-backed securities	777	6	1,618	26	2,395	32	3
Commercial mortgage-backed securities	17,624	175	16,997	412	34,621	587	30
Collateralized debt obligations	55,246	826	1,248	4	56,494	830	39
Other debt securities	8,213	11	0	0	8,213	11	7
Total available-for-sale securities	$ 368,634	$ 7,903	$ 118,105	$ 3,327	$ 486,739	$ 11,230	721
Quality breakdown of available-for-sale securities:							
Investment grade	$ 242,821	$ 1,295	$ 98,118	$ 1,641	$ 340,939	$ 2,936	147
Non-investment grade	125,813	6,608	19,987	1,686	145,800	8,294	574
Total available-for-sale securities	$ 368,634	$ 7,903	$ 118,105	$ 3,327	$ 486,739	$ 11,230	721

The above securities have been evaluated and determined to be temporary impairments for which we expect to recover our entire principal plus interest. The primary components of this analysis include a general review of market conditions and financial performance of the issuer along with the extent and duration at which fair value is less than cost. Any securities that we intend to sell or will more likely than not be required to sell before recovery are included in other-than-temporary impairments, which are recognized in earnings.

Net investment income

Investment income, net of expenses, was generated from the following portfolios:

(in thousands)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Fixed maturities [(1)]	$ 5,488	$ 6,263	$ 11,649	$ 12,373
Equity securities	141	142	282	284
Cash equivalents and other	2,660	1,026	5,125	2,034
Total investment income	8,289	7,431	17,056	14,691
Less: investment expenses	259	327	509	767
Investment income, net of expenses	$ 8,030	$ 7,104	$ 16,547	$ 13,924

(1) Includes interest earned on note receivable from Erie Family Life Insurance Company of $0.4 million and $0.8 million for the three and six months ended June 30, 2018, respectively. The note was repaid in full in December 2018.

Realized investment gains (losses)

Realized gains (losses) on investments were as follows:

(in thousands)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Available-for-sale securities:				
Gross realized gains	$ 2,062	$ 235	$ 4,320	$ 575
Gross realized losses	(823)	(301)	(1,163)	(986)
Net realized gains (losses) on available-for-sale securities	1,239	(66)	3,157	(411)
Equity securities	63	(68)	648	(188)
Miscellaneous	0	102	0	102
Net realized investment gains (losses)	$ 1,302	$ (32)	$ 3,805	$ (497)

The portion of net unrealized gains and losses recognized during the reporting period, related to equity securities still held at the reporting date, is calculated as follows:

(in thousands)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Equity securities:				
Net gains (losses) recognized during the period	$ 63	$ (68)	$ 648	$ (188)
Less: net losses recognized on securities sold	0	0	0	(34)
Net unrealized gains (losses) recognized on securities held at reporting date	$ 63	$ (68)	$ 648	$ (154)

Other-than-temporary impairments on available-for-sale securities recognized in earnings were $0.1 million and $0.6 million for the quarters ended June 30, 2019 and 2018, respectively, and $0.2 million and $0.6 million for the six months ended June 30, 2019 and 2018, respectively. We have the intent to sell all credit-impaired available-for-sale debt securities; therefore, the entire amount of the impairment charges were included in earnings and no impairments were recognized in other comprehensive income.

Limited partnerships
The majority of our limited partnership holdings are considered investment companies where the general partners record assets at fair value. These limited partnerships are recorded using the equity method of accounting and are generally reported on a one-quarter lag; therefore, our year-to-date limited partnership results through June 30, 2019 are comprised of partnership financial results for the fourth quarter of 2018 and first quarter of 2019. Given the lag in reporting, our limited partnership results do not reflect the market conditions of the second quarter of 2019. Cash contributions made to and distributions received from the partnerships are recorded in the period in which the transaction occurs. At December 31, 2018 we also owned one real estate limited partnership that did not meet the criteria of an investment company. This partnership prepared audited financial statements on a cost basis. We elected to report this limited partnership under the fair value option, which was based on the NAV from our partner's capital statement reflecting the general partner's estimate of fair value for the fund's underlying assets. Fair value provides consistency in the evaluation and financial reporting for these limited partnerships and limited partnerships accounted for under the equity method. This real estate limited partnership was fully liquidated in January 2019.

Equity in earnings (losses) of limited partnerships by method of accounting were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Equity in earnings (losses) of limited partnerships - equity method	$ 404	$ (216)	$ (743)	$ (21)
Change in fair value of limited partnerships - fair value option	0	(3)	0	(390)
Equity in earnings (losses) of limited partnerships	$ 404	$ (219)	$ (743)	$ (411)

The following table summarizes limited partnership investments by sector:

(in thousands)	At June 30, 2019	At December 31, 2018
Private equity	$ 26,793	$ 28,271
Mezzanine debt	1,053	1,152
Real estate	2,498	2,192
Real estate - fair value option	0	3,206
Total limited partnership investments	$ 30,344	$ 34,821

See also Note 14, "Commitments and Contingencies" for investment commitments related to limited partnerships.

Note 7. Leases

Lease assets and liabilities recorded on our Statement of Financial Position were as follows:

(in thousands)	June 30, 2019
Operating lease assets	$ 26,587
Operating lease liabilities - current	$ 11,736
Operating lease liabilities - long-term	14,539
Total operating lease liabilities	$ 26,275

We currently have leases for real estate, technology equipment, copiers, and vehicles. Our largest operating lease asset at June 30, 2019 of $14.7 million is for office space leased from the Exchange, including the home office. Under this lease, rent is based on rental rates of like property and all operating expenses are the responsibility of the tenant (Indemnity). The lease agreement expires December 31, 2021.

Operating lease costs for the three and six months ended June 30, 2019 were $3.6 million and $7.2 million, respectively. Of this amount, the Exchange and its subsidiaries reimbursed us $1.6 million and $3.1 million for the three and six months ended June 30, 2019, respectively, which represents the allocated share of lease costs supporting administrative services activities.

Note 8. Borrowing Arrangements

Bank line of credit
As of June 30, 2019, we have access to a $100 million bank revolving line of credit with a $25 million letter of credit sublimit that expires on October 30, 2023. As of June 30, 2019, a total of $99.1 million remains available under the facility due to $0.9 million outstanding letters of credit, which reduce the availability for letters of credit to $24.1 million. We had no borrowings outstanding on our line of credit as of June 30, 2019. Investments with a fair value of $109.3 million were pledged as collateral on the line at June 30, 2019. The investments pledged as collateral have no trading restrictions and are reported as cash and cash equivalents and available-for-sale securities in the Statements of Financial Position as of June 30, 2019. The banks require compliance with certain covenants, which include leverage ratios and debt restrictions, for our line of credit. We are in compliance with all covenants at June 30, 2019.

Term loan credit facility
In 2016, we entered into a credit agreement for a $100 million senior secured draw term loan credit facility ("Credit Facility") for the acquisition of real property and construction of an office building that will serve as part of our principal headquarters. On January 1, 2019, the Credit Facility converted to a fully-amortized term loan with monthly payments of principal and interest at a fixed rate of 4.35% over a period of 28 years. Investments with a fair value of $108.6 million were pledged as collateral for the facility and are reported as cash and cash equivalents and available-for-sale securities in the Statements of Financial Position as of June 30, 2019. The bank requires compliance with certain covenants, which include leverage ratios, debt restrictions and minimum net worth, for our Credit Facility. We are in compliance with all covenants at June 30, 2019.

The remaining unpaid balance from the Credit Facility is reported at carrying value on our Statements of Financial Position, net of unamortized loan origination and commitment fees. See Note 5, "Fair Value" for the estimated fair value of these borrowings.

Annual principal payments
The following table sets forth future principal payments:

(in thousands)

Year	Principal payments
2019	$ 946
2020	1,955
2021	2,042
2022	2,132
2023	2,227
Thereafter	89,737

Note 9. Postretirement Benefits

Pension plans

Our pension plans consist of a noncontributory defined benefit pension plan covering substantially all employees and an unfunded supplemental employee retirement plan for certain members of executive and senior management. Although we are the sponsor of these postretirement plans and record the funded status of these plans, the Exchange and its subsidiaries reimburse us for approximately 58% of the annual benefit expense of these plans, which represents pension benefits for employees performing administrative services and their allocated share of costs for employees in departments that support the administrative functions.

The cost of our pension plans are as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Service cost for benefits earned	$ 8,464	$ 9,513	$ 16,927	$ 19,026
Interest cost on benefits obligation	9,826	8,845	19,653	17,691
Expected return on plan assets	(11,871)	(12,814)	(23,742)	(25,629)
Prior service cost amortization	348	338	697	676
Net actuarial loss amortization	1,278	3,202	2,556	6,404
Pension plan cost (1)	$ 8,045	$ 9,084	$ 16,091	$ 18,168

(1) The components of pension plan costs other than the service cost component are included in the line item "Other income" in the Statements of Operations after reimbursements from the Exchange and its subsidiaries.

Note 10. Income Taxes

Income tax expense is provided on an interim basis based upon our estimate of the annual effective income tax rate, adjusted each quarter for discrete items. For the three months ended June 30, 2019 and 2018, our effective tax rate was 17.2% and 21.1%, respectively, and for the six months ended June 30, 2019 and 2018, our effective tax rate was 19.1% and 21.0%, respectively. Impacting our effective tax rate in the three and six months ended June 30, 2019, was the settlement of an uncertain tax position. An income tax benefit of $4.1 million was recorded in June 2019, including $1.0 million of related interest expense, which reduced our effective tax rate by 3.8% and 2.0% in the three and six months ended June 30, 2019, respectively.

Note 11. Capital Stock

Class A and B common stock

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 per Class B share. There were no shares of Class B common stock converted into Class A common stock during the six months ended June 30, 2019 and the year ended December 31, 2018. There is no provision for conversion of Class A shares to Class B shares, and Class B shares surrendered for conversion cannot be reissued.

Stock repurchases

In 2011, our Board of Directors approved a continuation of the current stock repurchase program of $150 million, with no time limitation. There were no shares repurchased under this program during the six months ended June 30, 2019 and the year ended December 31, 2018. We had approximately $17.8 million of repurchase authority remaining under this program at June 30, 2019.

During the six months ended June 30, 2019, we purchased 11,964 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2.0 million. Of this amount, we purchased 3,246 shares for $0.4 million, or $132.35 per share, for stock-based awards in conjunction with our equity compensation plan, for which the shares were delivered to plan participants in January 2019. We purchased 4,465 shares for $0.9 million, or $190.59 per share, to fund the rabbi trust for the outside director deferred stock compensation plan. The shares were transferred to the rabbi trust in February and May 2019. The remaining 4,253 shares were purchased at a total cost of $0.7 million, or $175.64 per share, to fund the rabbi trust for the incentive compensation deferral plan. The shares were transferred to the rabbi trust in February, March and May 2019.

During the year ended December 31, 2018, we purchased 27,120 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $3.2 million. Of this amount, we purchased 5,830 shares for $0.7 million, or $117.39 per share, for stock-based awards in conjunction with our equity compensation plan. We purchased 9,285 shares for $1.1 million, or $122.19 per share, to fund the rabbi trust for the outside director deferred stock compensation plan. The remaining 12,005 shares were purchased at a total cost of $1.4 million, or $119.28 per share, to fund the rabbi trust for the incentive compensation deferral plan. These shares were delivered in 2018.

Note 12. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income ("AOCI") (loss) by component, including amounts reclassified to other comprehensive income ("OCI") (loss) and the related line item in the Statements of Operations where net income is presented, are as follows:

	Three months ended June 30, 2019			Three months ended June 30, 2018		
(in thousands)	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
Investment securities:						
AOCI (loss), beginning of period	$ (2,235)	$ (470)	$ (1,765)	$ (3,460)	$ (727)	$ (2,733)
OCI (loss) before reclassifications	4,420	928	3,492	(1,409)	(296)	(1,113)
Realized investment (gains) losses	(1,239)	(260)	(979)	66	14	52
Impairment losses	84	18	66	646	136	510
OCI (loss)	3,265	686	2,579	(697)	(146)	(551)
AOCI (loss), end of period	$ 1,030	$ 216	$ 814	$ (4,157)	$ (873)	$ (3,284)
Pension and other postretirement plans:						
AOCI (loss), beginning of period	$ (154,190)	$ (32,381)	$ (121,809)	$ (200,954)	$ (42,201)	$ (158,753)
Amortization of prior service costs (1)	348	73	275	0	0	0
Amortization of net actuarial loss (1)	1,210	254	956	0	0	0
OCI	1,558	327	1,231	0	0	0
AOCI (loss), end of period	$ (152,632)	$ (32,054)	$ (120,578)	$ (200,954)	$ (42,201)	$ (158,753)
Total						
AOCI (loss), beginning of period	$ (156,425)	$ (32,851)	$ (123,574)	$ (204,414)	$ (42,928)	$ (161,486)
Investment securities	3,265	686	2,579	(697)	(146)	(551)
Pension and other postretirement plans	1,558	327	1,231	0	0	0
OCI (loss)	4,823	1,013	3,810	(697)	(146)	(551)
AOCI (loss), end of period	$ (151,602)	$ (31,838)	$ (119,764)	$ (205,111)	$ (43,074)	$ (162,037)

	Six months ended June 30, 2019			Six months ended June 30, 2018		
(in thousands)	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
Investment securities:						
AOCI (loss), beginning of period	$ (9,169)	$ (1,926)	$ (7,243)	$ 3,410	$ 716	$ 2,694
OCI (loss) before reclassifications	13,194	2,771	10,423	(8,539)	(1,793)	(6,746)
Realized investment (gains) losses	(3,157)	(663)	(2,494)	411	86	325
Impairment losses	162	34	128	646	136	510
Cumulative effect of adopting ASU 2016-01 (2)	—	—	—	(85)	(18)	(67)
OCI (loss)	10,199	2,142	8,057	(7,567)	(1,589)	(5,978)
AOCI (loss), end of period	$ 1,030	$ 216	$ 814	$ (4,157)	$ (873)	$ (3,284)
Pension and other postretirement plans:						
AOCI (loss), beginning of period	$ (155,749)	$ (32,708)	$ (123,041)	$ (200,954)	$ (42,201)	$ (158,753)
Amortization of prior service costs (1)	697	146	551	0	0	0
Amortization of net actuarial loss (1)	2,420	508	1,912	0	0	0
OCI	3,117	654	2,463	0	0	0
AOCI (loss), end of period	$ (152,632)	$ (32,054)	$ (120,578)	$ (200,954)	$ (42,201)	$ (158,753)
Total						
AOCI (loss), beginning of period	$ (164,918)	$ (34,634)	$ (130,284)	$ (197,544)	$ (41,485)	$ (156,059)
Investment securities	10,199	2,142	8,057	(7,567)	(1,589)	(5,978)
Pension and other postretirement plans	3,117	654	2,463	0	0	0
OCI (loss)	13,316	2,796	10,520	(7,567)	(1,589)	(5,978)
AOCI (loss), end of period	$ (151,602)	$ (31,838)	$ (119,764)	$ (205,111)	$ (43,074)	$ (162,037)

(1) Effective January 1, 2019, amounts reclassified from AOCI related to amortization of prior service costs and net actuarial loss were recorded during interim periods. Prior to 2019, amounts reclassified for these items were recorded on an annual basis. These components are included in the computation of net periodic pension cost. See Note 9, "Postretirement Benefits", for additional information.

(2) ASU 2016-01 required a reclassification of unrealized losses of equity securities from AOCI to retained earnings at January 1, 2018.

Note 13. 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 its affiliates. See also Note 1, "Nature of Operations". Management fee amounts and other reimbursements due from the Exchange and its affiliates were $483.3 million and $449.9 million at June 30, 2019 and December 31, 2018, respectively. Given the financial strength of the Exchange and historical experience of no credit losses, we believe it is unlikely these receivables would have a significant credit loss exposure.

Note 14. Commitments and Contingencies

We have contractual commitments to invest up to $9.9 million related to our limited partnership investments at June 30, 2019. These commitments are split among private equity securities of $4.4 million and mezzanine debt securities of $5.5 million. These commitments will be funded as required by the limited partnership agreements.

We are involved in litigation arising in the ordinary course of conducting business. In accordance with current accounting standards for loss contingencies and based upon information currently known to us, we establish reserves for litigation when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss or range of loss can be reasonably estimated. When no amount within the range of loss is a better estimate than any other amount, we accrue the minimum amount of the estimable loss. To the extent that such litigation against us may have an exposure to a loss in excess of the amount we have accrued, we believe that such excess would not be material to our financial condition, results of operations, or cash flows. Legal fees are expensed as incurred. We believe that our accruals for legal proceedings are appropriate and, individually and in the aggregate, are not expected to be material to our financial condition, results of operations, or cash flows.

We review all litigation on an ongoing basis when making accrual and disclosure decisions. For certain legal proceedings, we cannot reasonably estimate losses or a range of loss, if any, particularly for proceedings that are in their early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including, but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated. If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. In the event that a legal proceeding results in a substantial judgment against, or settlement by, us, there can be no assurance that any resulting liability or financial commitment would not have a material adverse effect on the financial condition, results of operations, or cash flows.

Note 15. Subsequent Events

No items were identified in this period subsequent to the financial statement date that required adjustment or additional disclosure.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of financial condition and results of operations highlights significant factors influencing Erie Indemnity Company ("Indemnity", "we", "us", "our"). This discussion should be read in conjunction with the historical financial statements and the related notes thereto included in Part I, Item 1. "Financial Statements" of this Quarterly Report on Form 10-Q, and with Item 7. "Management’s Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2018, as contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 21, 2019.

INDEX

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:
Statements contained herein that are not historical fact are forward-looking statements and, as such, are subject to risks and uncertainties that could cause actual events and results to differ, perhaps materially, from those discussed herein. Forward-looking statements relate to future trends, events or results and include, without limitation, statements and assumptions on which such statements are based that are related to our plans, strategies, objectives, expectations, intentions, and adequacy of resources. Examples of forward-looking statements are discussions relating to premium and investment income, expenses, operating results, and compliance with contractual and regulatory requirements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Among the risks and uncertainties, in addition to those set forth in our filings with the Securities and Exchange Commission, that could cause actual results and future events to differ from those set forth or contemplated in the forward-looking statements include the following:

- dependence upon our relationship with the Exchange and the management fee under the agreement with the subscribers at the Exchange;
- dependence upon our relationship with the Exchange and the growth of the Exchange, including:
  - general business and economic conditions;
  - factors affecting insurance industry competition;
  - dependence upon the independent agency system; and
  - ability to maintain our reputation for customer service;
- dependence upon our relationship with the Exchange and the financial condition of the Exchange, including:
  - the Exchange's ability to maintain acceptable financial strength ratings;
  - factors affecting the quality and liquidity of the Exchange's investment portfolio;
  - changes in government regulation of the insurance industry;
  - emerging claims and coverage issues in the industry; and
  - severe weather conditions or other catastrophic losses, including terrorism;
- costs of providing policy issuance and renewal services to the Exchange under the subscriber's agreement;
- credit risk from the Exchange;
- ability to attract and retain talented management and employees;
- ability to ensure system availability and effectively manage technology initiatives;
- difficulties with technology or data security breaches, including cyber attacks;
- ability to maintain uninterrupted business operations;
- factors affecting the quality and liquidity of our investment portfolio;

- our ability to meet liquidity needs and access capital; and
- outcome of pending and potential litigation.

A forward-looking statement speaks only as of the date on which it is made and reflects our analysis only as of that date. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changes in assumptions, or otherwise.

RECENT ACCOUNTING STANDARDS

See Part I, Item 1. "Financial Statements - Note 2, Significant Accounting Policies, of Notes to Financial Statements" contained within this report for a discussion of recently adopted as well as other recently issued accounting standards and the impact on our financial statements if known.

OPERATING OVERVIEW

Overview

We serve as the attorney-in-fact for the subscribers (policyholders) at the Exchange, a reciprocal insurer that writes property and casualty insurance. Our primary function as attorney-in-fact is to perform policy issuance and renewal services on behalf of the subscribers at the Exchange. We also act as attorney-in-fact on behalf of the Exchange, as well as the service provider for its insurance subsidiaries, with respect to all administrative services.

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 the Exchange signs a subscriber's agreement, which contains an appointment of Indemnity as their attorney-in-fact to transact the business of the Exchange on their behalf. Pursuant to the subscriber's agreement for acting as attorney-in-fact in these two capacities, we earn a management fee calculated as a percentage of the direct and affiliated assumed premiums written by the Exchange.

Our earnings are primarily driven by the management fee revenue generated for the services we provide to the Exchange. The policy issuance and renewal services we provide to the Exchange are related to the sales, underwriting and issuance of policies. The sales related services we provide include agent compensation and certain sales and advertising support services. Agent compensation includes scheduled commissions to agents based upon premiums written as well as additional commissions and bonuses to agents, which are earned by achieving targeted measures. Agent compensation generally comprises approximately two-thirds of our policy issuance and renewal expenses. The underwriting services we provide include underwriting and policy processing. The remaining services we provide include customer service and administrative support. We also provide information technology services that support all the functions listed above. Included in these expenses are allocations of costs for departments that support these policy issuance and renewal functions.

By virtue of its legal structure as a reciprocal insurer, the Exchange does not have any employees or officers. Therefore, it enters into contractual relationships by and through an attorney-in-fact. Indemnity serves as the attorney-in-fact on behalf of the Exchange with respect to its administrative services. The Exchange's insurance subsidiaries also utilize Indemnity for these services in accordance with the service agreements between each of the subsidiaries and Indemnity. Claims handling services include costs incurred in the claims process, including the adjustment, investigation, defense, recording and payment functions. Life insurance management services include costs incurred in the management and processing of life insurance business. Investment management services are related to investment trading activity, accounting and all other functions attributable to the investment of funds. Included in these expenses are allocations of costs for departments that support these administrative functions. The amounts incurred for these services are reimbursed to Indemnity at cost in accordance with the subscriber's agreement and the service agreements. State insurance regulations require that intercompany service agreements and any material amendments be approved in advance by the state insurance department.

Our results of operations are tied to the growth and financial condition of the Exchange as the Exchange is our sole customer, and our earnings are largely generated from management fees based on the direct and affiliated assumed premiums written by the Exchange. The Exchange generates revenue by insuring preferred and standard risks, with personal lines comprising 71% of the 2018 direct and affiliated assumed written premiums and commercial lines comprising the remaining 29%. The principal personal lines products are private passenger automobile and homeowners. The principal commercial lines products are commercial multi-peril, commercial automobile and workers compensation.

Financial Overview

(dollars in thousands, except per share data)	Three months ended June 30, 2019	Three months ended June 30, 2018	% Change	Six months ended June 30, 2019	Six months ended June 30, 2018	% Change
	(Unaudited)			(Unaudited)		
Operating income	$ 96,610	$ 95,323	1.3 %	$ 182,732	$ 172,890	5.7 %
Total investment income	9,652	6,207	55.5	19,447	12,370	57.2
Interest expense, net	272	602	(54.9)	721	1,155	(37.6)
Other income	48	58	(17.9)	95	102	(7.1)
Income before income taxes	106,038	100,986	5.0	201,553	184,207	9.4
Income tax expense	18,284	21,280	(14.1)	38,488	38,743	(0.7)
Net income	$ 87,754	$ 79,706	10.1 %	$ 163,065	$ 145,464	12.1 %
Net income per share - diluted	$ 1.68	$ 1.52	10.1 %	$ 3.12	$ 2.78	12.1 %

Operating income increased in both the second quarter and six months ended June 30, 2019, compared to the same periods in 2018. Management fee revenue for policy issuance and renewal services increased 5.7% and 5.9% in the second quarter and six months ended June 30, 2019, respectively. Management fee revenue is based upon the management fee rate we charge, and the direct and affiliated assumed premiums written by the Exchange. The management fee rate was 25% for both 2019 and 2018. The direct and affiliated assumed premiums written by the Exchange increased 5.6% to $2.0 billion in the second quarter of 2019 and increased 5.8% to $3.8 billion for the six months ended June 30, 2019, compared to the same periods in 2018.

Cost of operations for policy issuance and renewal services increased 6.7% and 5.8% in the second quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018, primarily due to higher commissions driven by direct written premium growth, personnel costs and technology investments.

Management fee revenue for administrative services increased $0.9 million to $14.2 million in the second quarter of 2019 and increased $1.8 million to $28.1 million for the six months ended June 30, 2019, compared to the same periods in 2018. The administrative services reimbursement revenue and corresponding cost of operations increased both total operating revenue and total operating expenses by $146.1 million in the second quarter of 2019 and $288.6 million for the six months ended June 30, 2019, but had no net impact on operating income in either period.

Total investment income increased $3.4 million and $7.1 million in the second quarter and six months ended June 30, 2019, respectively, compared to the same periods in 2018. The increase in both periods was primarily driven by net realized gains on investments and higher net investment income.

Income tax expense in the second quarter and six months ended June 30, 2019 was impacted by an income tax benefit of approximately $4.1 million as a result of settling an uncertain tax position, which reduced our effective tax rate by 3.8% and 2.0% in the second quarter and six months ended June 30, 2019, respectively.

General Conditions and Trends Affecting Our Business

Economic conditions

Unfavorable changes in economic conditions, including declining consumer confidence, inflation, high unemployment, and the threat of recession, among others, may lead the Exchange's customers to modify coverage, not renew policies, or even cancel policies, which could adversely affect the premium revenue of the Exchange, and consequently our management fee. Further, unanticipated increased inflation costs including medical cost inflation, construction and auto repair cost inflation, and tort issues may impact the estimated loss reserves and future premium rates. If any of these items impacted the financial condition or continuing operations of the Exchange, it could have an impact on our financial results.

Financial market volatility

Our portfolio of fixed maturity, equity security, and limited partnership investments is subject to market volatility especially in periods of instability in the worldwide financial markets. Over time, net investment income could also be impacted by volatility and by the general level of interest rates, which impact reinvested cash flow from the portfolio and business operations. Depending upon market conditions, which are unpredictable and remain uncertain, considerable fluctuation could exist in the fair value of our investment portfolio and reported total investment income, which could have an adverse impact on our financial condition, results of operations, and cash flows.

RESULTS OF OPERATIONS

Management fee revenue

We have two performance obligations in the subscriber's agreement, providing policy issuance and renewal services and acting as attorney-in-fact for the Exchange, as well as the service provider for its insurance subsidiaries, with respect to all administrative services. We earn management fees for acting as the attorney-in-fact for the subscribers at the Exchange in these two capacities, and allocate our revenues between our performance obligations.

The management fee is calculated by multiplying all direct and affiliated assumed premiums written by the Exchange by the management fee rate, which is determined by our Board of Directors at least annually. The management fee rate was set at 25%, the maximum rate, for both 2019 and 2018. Changes in the management fee rate can affect our revenue and net income significantly. The transaction price, including management fee revenue and administrative service reimbursement revenue, is allocated based on the estimated standalone selling prices developed using industry information and other available information for similar services. We update the transaction price allocation annually based upon the most recent information available. There was no material change to the allocation in 2019.

The following table presents the allocation and disaggregation of revenue for our two performance obligations:

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2019	2018	% Change	2019	2018	% Change
	(Unaudited)			(Unaudited)		
Policy issuance and renewal services						
Direct and affiliated assumed premiums written by the Exchange	$ 1,993,593	$ 1,887,999	5.6 %	$ 3,778,113	$ 3,570,793	5.8 %
Management fee rate	24.2%	24.2%		24.2%	24.2%	
Management fee revenue	482,449	456,896	5.6	914,303	864,132	5.8
Change in allowance for management fee returned on cancelled policies (1)	(1,936)	(2,324)	16.7	(2,807)	(3,582)	21.6
Management fee revenue - policy issuance and renewal services, net	$ 480,513	$ 454,572	5.7 %	$ 911,496	$ 860,550	5.9 %
Administrative services						
Direct and affiliated assumed premiums written by the Exchange	$ 1,993,593	$ 1,887,999	5.6 %	$ 3,778,113	$ 3,570,793	5.8 %
Management fee rate	0.8%	0.8%		0.8%	0.8%	
Management fee revenue	15,949	15,104	5.6	30,225	28,566	5.8
Change in contract liability (2)	(1,742)	(1,791)	2.8	(2,052)	(2,165)	5.2
Change in allowance for management fee returned on cancelled policies (1)	(12)	(14)	12.4	(27)	(28)	3.5
Management fee revenue - administrative services, net	14,195	13,299	6.7	28,146	26,373	6.7
Administrative services reimbursement revenue	146,095	146,507	(0.3)	288,575	292,470	(1.3)
Total revenue from administrative services	$ 160,290	$ 159,806	0.3 %	$ 316,721	$ 318,843	(0.7) %

(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. This estimated allowance has been allocated between the two performance obligations consistent with the revenue allocation proportion.*

(2) *Management fee revenue - administrative services is recognized over time as the services are performed. See Part I, Item 1. "Financial Statements - Note 3, Revenue, of Notes to Financial Statements" contained within this report.*

Direct and affiliated assumed premiums written by the Exchange

Direct and affiliated assumed premiums include premiums written directly by the Exchange and premiums assumed from its wholly owned property and casualty subsidiaries. Direct and affiliated assumed premiums written by the Exchange increased 5.6% to $2.0 billion in the second quarter of 2019, from $1.9 billion in the second quarter of 2018, driven by increases in both policies in force and average premium per policy. Year-over-year policies in force for all lines of business increased 2.7% in the second quarter of 2019 driven by continuing strong policyholder retention, compared to 3.5% in the second quarter of 2018. The year-over-year average premium per policy for all lines of business increased 3.4% at June 30, 2019, compared to 2.8% at June 30, 2018. Premiums generated from new business decreased 1.1% to $233 million in the second quarter of 2019. While year-over-year average premium per policy on new business increased 6.4% at June 30, 2019, new business polices written decreased 7.4% in the second quarter of 2019. Premiums generated from new business increased 7.0% to $236 million in the second quarter of 2018. Underlying this trend in new business premium was a 0.1% increase in new business policies written in the second quarter of 2018 and a year-over-year average premium per policy on new business increase of 5.3% at June 30, 2018. Premiums generated from renewal business increased 6.6% to $1.8 billion in the second quarter of 2019, compared to an increase of 6.4% to $1.7 billion in the second quarter of 2018. Underlying the trend in renewal business premiums was an increase in year-over-year average premium per policy of 2.9% at June 30, 2019 and steady policy retention ratios. Year-over-year average premium per policy increased 2.5% at June 30, 2018.

Personal lines – Total personal lines premiums written increased 5.6% to $1.4 billion in the second quarter of 2019, from $1.3 billion in the second quarter of 2018, driven by an increase of 2.7% in total personal lines policies in force and an increase of 3.1% in the total personal lines year-over-year average premium per policy.

Commercial lines – Total commercial lines premiums written increased 5.6% to $580 million in the second quarter of 2019, from $549 million in the second quarter of 2018, driven by a 2.6% increase in total commercial lines policies in force and a 4.0% increase in the total commercial lines year-over-year average premium per policy.

Future trends-premium revenue – The Exchange plans to continue its efforts to grow premiums and improve its competitive position in the marketplace. Expanding the size of its agency force through a careful agency selection process and increased market penetration in our existing operating territories is expected to contribute to future growth as existing and new agents build their books of business.

Changes in premium levels attributable to the growth in policies in force and rate changes directly affect the profitability of the Exchange and have a direct bearing on our management fee. Our continued focus on underwriting discipline and the maturing of pricing sophistication models has contributed to the Exchange's steady policy retention ratios and increased average premium per policy.

Policy issuance and renewal services

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2019	2018	% Change	2019	2018	% Change
	(Unaudited)			(Unaudited)		
Management fee revenue - policy issuance and renewal services, net	$ 480,513	$ 454,572	5.7 %	$ 911,496	$ 860,550	5.9 %
Service agreement revenue	6,907	7,080	(2.4)	13,599	14,225	(4.4)
	487,420	461,652	5.6	925,095	874,775	5.8
Cost of policy issuance and renewal services	405,005	379,628	6.7	770,509	728,258	5.8
Operating income - policy issuance and renewal services	$ 82,415	$ 82,024	0.5 %	$ 154,586	$ 146,517	5.5 %

Policy issuance and renewal services

We allocate a portion of the management fee, which currently equates to 24.2% of the direct and affiliated assumed premiums written by the Exchange, for providing policy issuance and renewal services. This portion of the management fee is recognized as revenue when the policy is issued or renewed because it is at that time that the services we provide are substantially complete and the executed insurance policy is transferred to the customer. The increase in management fee revenue for policy issuance and renewal services was driven by the increase in the direct and affiliated assumed premiums written by the Exchange discussed previously.

Service agreement revenue

Service agreement revenue includes service charges we collect from subscribers/policyholders for providing extended payment terms on policies written and assumed by the Exchange, and late payment and policy reinstatement fees. The service charges are fixed dollar amounts per billed installment. The decrease in service agreement revenue reflects the continued shift to payment plans that do not incur service charges or offer a premium discount for certain payment methods.

Cost of policy issuance and renewal services

(dollars in thousands)	Three months ended June 30, 2019	2018	% Change	Six months ended June 30, 2019	2018	% Change
	(Unaudited)			(Unaudited)		
Commissions:						
Total commissions	$ 273,256	$ 261,573	4.5 %	$ 516,238	$ 495,667	4.2 %
Non-commission expense: (1)						
Underwriting and policy processing	$ 39,760	$ 37,813	5.2 %	$ 78,445	$ 76,407	2.7 %
Information technology	40,564	34,381	18.0	79,994	68,330	17.1
Sales and advertising	12,392	12,981	(4.5)	25,202	27,753	(9.2)
Customer service	8,020	6,536	22.7	16,336	14,781	10.5
Administrative and other	31,013	26,344	17.7	54,294	45,320	19.8
Total non-commission expense	131,749	118,055	11.6	254,271	232,591	9.3
Total cost of policy issuance and renewal services	$ 405,005	$ 379,628	6.7 %	$ 770,509	$ 728,258	5.8 %

(1) 2018 amounts have been reclassified between categories to conform to the current period presentation.

Commissions – Commissions increased $11.7 million in the second quarter of 2019 and $20.6 million for the six months ended June 30, 2019, compared to the same respective periods in 2018. The increases were primarily driven by the growth in direct and affiliated assumed premiums written by the Exchange of 5.6% in the second quarter of 2019 and 5.8% for the six months ended June 30, 2019, partially offset by lower agent incentive costs related to less profitable growth, compared to the same periods in 2018. The estimated agent incentive payouts at June 30, 2019 are based on actual underwriting results for the two prior years and current year-to-date actual results and forecasted results for the remainder of 2019. Therefore, fluctuations in the current quarter underwriting results can impact the estimated incentive payout on a quarter-to-quarter basis.

Non-commission expense – Non-commission expense increased $13.7 million in the second quarter of 2019 compared to the second quarter of 2018. Information technology costs increased $6.2 million primarily due to increased professional fees. Customer service costs increased $1.5 million primarily due to increased personnel costs. Administrative and other expenses increased $4.7 million primarily driven by an increase in long-term incentive plan cost due to a higher company stock price during the second quarter of 2019 compared to the second quarter of 2018. Personnel costs in all expense categories for the second quarter of 2019 were impacted by additional bonuses awarded to all employees of approximately $1.1 million.

Non-commission expense increased $21.7 million for the six months ended June 30, 2019 compared to the same period in 2018. Information technology costs increased $11.7 million primarily due to increased professional fees. Administrative and other expenses increased $9.0 million primarily driven by an increase in long-term incentive plan cost due to a higher company stock price during the six months ended June 30, 2019 compared to the six months ended June 30, 2018. Personnel costs in all expense categories were impacted by additional bonuses awarded to all employees of approximately $1.1 million for the six months ended June 30, 2019 and $4.8 million for the six months ended June 30, 2018.

Administrative services

(dollars in thousands)	Three months ended June 30, 2019	2018	% Change	Six months ended June 30, 2019	2018	% Change
	(Unaudited)			(Unaudited)		
Management fee revenue - administrative services, net	$ 14,195	$ 13,299	6.7 %	$ 28,146	$ 26,373	6.7 %
Administrative services reimbursement revenue	146,095	146,507	(0.3)	288,575	292,470	(1.3)
Total revenue allocated to administrative services	160,290	159,806	0.3	316,721	318,843	(0.7)
Administrative services expenses						
Claims handling services	127,296	127,544	(0.2)	251,495	255,649	(1.6)
Investment management services	8,402	8,485	(1.0)	17,185	16,773	2.5
Life management services	10,397	10,478	(0.8)	19,895	20,048	(0.8)
Operating income - administrative services	$ 14,195	$ 13,299	6.7 %	$ 28,146	$ 26,373	6.7 %

Administrative services
We allocate a portion of the management fee, which currently equates to 0.8% of the direct and affiliated assumed premiums written by the Exchange, to the administrative services. This portion of the management fee is recognized as revenue over a four-year period representing the time over which the services are provided. We also report reimbursed costs as revenues, which are recognized monthly as services are provided. The administrative services expenses we incur and the related reimbursements we receive are recorded gross in the Statements of Operations.

Cost of administrative services
By virtue of its legal structure as a reciprocal insurer, the Exchange does not have any employees or officers. Therefore, it enters into contractual relationships by and through an attorney-in-fact. Indemnity serves as the attorney-in-fact on behalf of the Exchange with respect to its administrative services in accordance with the subscriber's agreement. The Exchange's insurance subsidiaries also utilize Indemnity for these services in accordance with the service agreements between each of the subsidiaries and Indemnity. The amounts incurred for these services are reimbursed to Indemnity at cost in accordance with the subscriber's agreement and the service agreements. We record these reimbursements due from the Exchange and its insurance subsidiaries as a receivable.

Total investment income
A summary of the results of our investment operations is as follows:

	Three months ended June 30,			Six months ended June 30,		
(dollars in thousands)	2019	2018	% Change	2019	2018	% Change
	(Unaudited)			(Unaudited)		
Net investment income	$ 8,030	$ 7,104	13.0 %	$ 16,547	$ 13,924	18.8 %
Net realized investment gains (losses)	1,302	(32)	NM	3,805	(497)	NM
Net impairment losses recognized in earnings	(84)	(646)	87.1	(162)	(646)	75.0
Equity in earnings (losses) of limited partnerships	404	(219)	NM	(743)	(411)	(80.8)
Total investment income	$ 9,652	$ 6,207	55.5 %	$ 19,447	$ 12,370	57.2 %

NM = not meaningful

Net investment income
Net investment income primarily includes interest and dividends on our fixed maturity and equity security portfolios, net of investment expenses. Net investment income increased $0.9 million in the second quarter of 2019 and increased $2.6 million for the six months ended June 30, 2019, compared to the same periods in 2018. The results from both periods were primarily due to increased income generated from cash and cash equivalents and earned on agent loans, both resulting from higher balances and rates. Those earnings were somewhat offset by decreased income on fixed maturities driven by lower average invested balances.

Net realized investment gains (losses)
A breakdown of our net realized investment gains (losses) is as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Securities sold:	(Unaudited)		(Unaudited)	
Fixed maturities	$ 1,239	$ (66)	$ 3,157	$ (411)
Equity securities	0	0	0	(59)
Equity securities change in fair value [(1)]	63	(68)	648	(129)
Miscellaneous	0	102	0	102
Net realized investment gains (losses) [(2)]	$ 1,302	$ (32)	$ 3,805	$ (497)

(1) *The fair value of our equity portfolio is based upon exchange traded prices provided by a nationally recognized pricing service.*
(2) *See Part I, Item 1. "Financial Statements - Note 6, Investments, of Notes to Financial Statements" contained within this report for additional disclosures regarding net realized investment gains (losses).*

Net realized gains during the second quarter and six months ended June 2019 were primarily driven by gains from sales of fixed maturity securities. Net realized losses during the second quarter and six months ended June 2018, while driven by sales activity and market value adjustments, were offset somewhat by miscellaneous gains.

Net impairment losses recognized in earnings

Net impairment losses were $0.1 million and $0.6 million in the second quarters of 2019 and 2018, respectively, and $0.2 million and $0.6 million for the six months ended June 30, 2019 and 2018, respectively. Impairments in all periods included securities in an unrealized loss position where we determined the loss was other-than-temporary based on credit factors. The 2018 periods also included securities in an unrealized loss position with intent to sell prior to expected recovery of our amortized cost basis.

Equity in earnings (losses) of limited partnerships

The components of equity in earnings (losses) of limited partnerships are as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Private equity	$ 187	$ (270)	$ (1,008)	66
Mezzanine debt	(51)	27	(56)	105
Real estate	268	24	321	(582)
Equity in earnings (losses) of limited partnerships	$ 404	$ (219)	$ (743)	(411)

Limited partnership earnings pertain to investments in U.S. and foreign private equity, mezzanine debt, and real estate partnerships. Valuation adjustments are recorded to reflect the changes in fair value of the underlying investments held by the limited partnerships. These adjustments are recorded as a component of equity in earnings (losses) of limited partnerships in the Statements of Operations.

Limited partnership earnings tend to be cyclical based upon market conditions, the age of the partnership, and the nature of the investments. Generally, limited partnership earnings are recorded on a quarter lag from financial statements we receive from our general partners. As a consequence, earnings from limited partnerships reported at June 30, 2019 reflect investment valuation changes resulting from the financial markets and the economy in the fourth quarter of 2018 and the first quarter of 2019.

Limited partnership investments generated gains of $0.4 million and losses of $0.2 million in the second quarters of 2019 and 2018, respectively, and losses of $0.7 million and $0.4 million in the six months ended June 30, 2019 and 2018, respectively. The real estate and private equity sectors generated higher earnings in the second quarter of 2019 compared to the second quarter of 2018. Losses generated for the six months ended June 2019 were primarily in the private equity sector, partially offset by earnings from real estate investments while losses for the six months ended June 2018 were primarily in the real estate sector.

Financial condition of Erie Insurance Exchange

Serving in the capacity of attorney-in-fact for the Exchange, we are dependent on the growth and financial condition of the Exchange, who is our sole customer. The strength of the Exchange and its wholly owned subsidiaries is rated annually by A.M. Best Company. Higher ratings of insurance companies 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 Exchange and each of its property and casualty subsidiaries are rated A+ "Superior". On June 24, 2019, the outlook for the financial strength rating was affirmed as stable. According to A.M. Best, this second highest financial strength rating category 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 obligations to policyholders over the long term. As of December 31, 2018, only approximately 12% of insurance groups are rated A+ or higher, and the Exchange is included in that group.

The financial statements of the Exchange are prepared in accordance with statutory accounting principles prescribed by the Commonwealth of Pennsylvania. Financial statements prepared under statutory accounting principles focus on the solvency of the insurer and generally provide a more conservative approach than under U.S. generally accepted accounting principles. Statutory direct written premiums of the Exchange and its wholly owned property and casualty subsidiaries grew 5.8% to
$3.8 billion for the six months ended June 30, 2019 from $3.6 billion for the six months ended June 30, 2018. These premiums, along with investment income, are the major sources of cash that support the operations of the Exchange. Policyholders' surplus determined under statutory accounting principles was $9.0 billion at June 30, 2019, $8.6 billion at December 31, 2018, and $8.8 billion at June 30, 2018. The Exchange and its wholly owned property and casualty subsidiaries' year-over-year policy retention ratio continues to be high at 90.2% at June 30, 2019, 90.1% at December 31, 2018, and 89.8% at June 30, 2018.

FINANCIAL CONDITION

Investments

Our investment portfolio is managed with the objective of maximizing after-tax returns on a risk-adjusted basis.

Distribution of investments

(dollars in thousands)	Carrying value at June 30, 2019	% to total	Carrying value at December 31, 2018	% to total
	(Unaudited)			
Fixed maturities	$ 689,108	87%	$ 748,523	88%
Equity securities:				
Preferred stock	12,445	2	11,853	1
Limited partnerships:				
Private equity	26,793	3	28,271	3
Mezzanine debt	1,053	0	1,152	0
Real estate	2,498	0	5,398	1
Other investments [1]	61,478	8	58,394	7
Total investments	$ 793,375	100%	$ 853,591	100%

(1) Other investments primarily include agent loans. Agent loans are included with other assets in the Statements of Financial Position.

We continually review our investment portfolio to evaluate positions that might incur other-than-temporary declines in value. We record impairment write-downs on investments in instances where the fair value of the investment is substantially below cost, and we conclude that the decline in fair value is other-than-temporary, which includes consideration for intent to sell. 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. In addition to specific factors, other factors considered in our review of investment valuation are the length of time the fair value is below cost and the amount the fair value is below cost.

We individually analyze all positions with emphasis on those that have, in our opinion, declined significantly below cost. In compliance with current impairment guidance for available-for-sale debt securities, we perform further analysis to determine if a credit-related impairment has occurred. Some of the factors considered in determining whether a debt security is credit impaired include potential for the default of interest and/or principal, level of subordination, collateral of the issue, compliance with financial covenants, credit ratings and industry conditions. We have the intent to sell all credit-impaired debt securities; therefore, the entire amount of the impairment charges are included in earnings and no impairments are recorded in other comprehensive income. We believe our investment valuation philosophy and accounting practices result in appropriate and timely measurement of fair value and recognition of impairment.

Fixed maturities

Under our investment strategy, we maintain a fixed maturity portfolio that is of high quality and well diversified within each market sector. This investment strategy also achieves a balanced maturity schedule. Our fixed maturity portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk. As part of a rebalancing of our portfolio, we began selling off our municipal bond portfolio in the fourth quarter of 2018. The proceeds were reinvested in U.S. Treasury and corporate debt securities.

Fixed maturities classified as available-for-sale are carried at fair value with unrealized gains and losses, net of deferred taxes, included in shareholders' equity. Net unrealized gains on fixed maturities, net of deferred taxes, amounted to $1.0 million at June 30, 2019, compared to net unrealized losses of $7.0 million at December 31, 2018.

The following table presents a breakdown of the fair value of our fixed maturity portfolio by sector and rating: [1]

(in thousands)	At June 30, 2019 (Unaudited)					
Industry Sector	AAA	AA	A	BBB	Non-investment grade	Fair value
Basic materials	$ 0	$ 0	$ 0	$ 3,042	$ 7,790	$ 10,832
Communications	0	4,995	0	8,650	16,629	30,274
Consumer	0	3,096	10,264	44,387	28,815	86,562
Diversified	0	0	0	1,048	463	1,511
Energy	0	0	5,126	8,215	9,814	23,155
Financial	0	4,087	52,454	64,853	7,692	129,086
Government-municipal	359	3,001	0	0	0	3,360
Industrial	0	0	998	13,284	15,590	29,872
Structured securities [2]	75,864	92,057	8,806	1,271	0	177,998
Technology	0	2,996	6,163	12,673	7,379	29,211
U.S. Treasury	0	151,094	0	0	0	151,094
Utilities	0	0	2,740	11,155	2,258	16,153
Total	$ 76,223	$ 261,326	$ 86,551	$ 168,578	$ 96,430	$ 689,108

(1) Ratings are supplied by S&P, Moody's, and Fitch. The table is based upon the lowest rating for each security.
(2) Structured securities include residential mortgage-backed securities, commercial mortgage-backed securities, collateralized debt obligations, and asset-backed securities.

Equity Securities

Equity securities consist of nonredeemable preferred stock and are carried at fair value in the Statements of Financial Position with all changes in unrealized gains and losses reflected in the Statements of Operations. All nonredeemable preferred stock was invested in the financial sector at both June 30, 2019 and December 31, 2018.

Limited partnerships

Investments in limited partnerships have decreased from December 31, 2018 to June 30, 2019. Changes in partnership values are a function of contributions and distributions, adjusted for market value changes in the underlying investments. The decrease in limited partnership investments was primarily due to net distributions received from the partnerships. We have made no new limited partnership commitments since 2006, and the balance of limited partnership investments is expected to continue to decrease over time as additional distributions are received. The results from our limited partnerships are based upon financial statements received from our general partners, which are generally received on a quarter lag. As a result, the market values and earnings recorded during 2019 reflect the partnership activity experienced in the fourth quarter of 2018 and the first quarter of 2019.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations and growth needs. Our liquidity requirements have been met primarily by funds generated from management fee revenue and income from investments. Cash provided from these sources is used primarily to fund the costs of our management operations including commissions, salaries and wages, pension plans, share repurchases, dividends to shareholders, and the purchase and development of information technology. We expect that our operating cash needs will be met by funds generated from operations.

Volatility in the financial markets presents challenges to us as we do occasionally access our investment portfolio as a source of cash. Some of our fixed income investments, despite being publicly traded, are illiquid. Volatility in these markets could impair our ability to sell certain fixed income securities or cause such securities to sell at deep discounts. Additionally, our limited partnership investments are significantly less liquid. We believe we have sufficient liquidity to meet our needs from sources other than the liquidation of securities.

Cash flow activities

The following table provides condensed cash flow information for the six months ended June 30:

(in thousands)	2019	2018
	(Unaudited)	
Net cash provided by operating activities	$ 114,416	$ 41,593
Net cash provided by (used in) investing activities	42,215	(5,653)
Net cash used in financing activities	(84,786)	(53,249)
Net increase (decrease) in cash and cash equivalents	$ 71,845	$ (17,309)

Net cash provided by operating activities was $114.4 million in the first six months of 2019, compared to $41.6 million in the first six months of 2018. This change was primarily due to the fact that we had no pension contribution coupled with lower bonuses paid to agents in the first six months of 2019. In 2018, our Board approved an $80 million accelerated pension contribution, of which $40 million was contributed in January 2018 and $40 million in April 2018. We are reimbursed approximately 58% of the net periodic benefit cost of the pension plans from the Exchange and its subsidiaries, which includes pension benefits for employees performing administrative services and their allocated share of costs for employees in departments that support the administrative functions. Cash paid for agent bonuses decreased $18.1 million in the first six months of 2019, compared to the first six months of 2018, due to less profitable underwriting results.

Net cash provided by investing activities was $42.2 million in the first six months of 2019, compared to cash used of $5.7 million in the first six months of 2018. In the first six months of 2019, more proceeds were generated from investment activity. The higher proceeds were somewhat offset by higher purchases of available-for-sale securities and fixed asset purchases due to construction in progress related to the home office expansion. Also impacting our future investing activities are limited partnership commitments, which totaled $9.9 million at June 30, 2019, and will be funded as required by the partnerships' agreements. Of this amount, the total remaining commitment to fund limited partnerships that invest in private equity securities was $4.4 million and mezzanine debt securities was $5.5 million. Additionally, we have committed to incur future costs related to the construction of the building that will serve as part of our principal headquarters, which is expected to cost $100 million and is being funded by the senior secured draw term loan credit facility of the same amount. As of June 30, 2019, $71.6 million of costs have been paid related to this project.

Net cash used in financing activities totaled $84.8 million in the first six months of 2019, compared to $53.2 million in the first six months of 2018. The increase in cash used was due to dividends paid to shareholders and principal payments on the senior secured draw term loan credit facility, which commenced January 1, 2019. Dividends paid to shareholders totaled $83.8 million in the first six months of 2019 and $78.2 million in the first six months of 2018. We increased both our Class A and Class B shareholder regular quarterly dividends by 7.1% for 2019, compared to 2018. There are no regulatory restrictions on the payment of dividends to our shareholders. Future financing activities will include the principal payments due annually over the term of the senior secured draw term loan credit facility, of which $0.9 million will be paid during the remainder of 2019. Financing activities in the first six months of 2018 were impacted by the final $25 million draw on the senior secured draw term loan credit facility.

There were no repurchases of our Class A nonvoting common stock in the first six months of 2019 and 2018 in conjunction with our stock repurchase program. In 2011, our Board of Directors approved a continuation of the current stock repurchase program of $150 million with no time limitation. This repurchase authority includes, and is not in addition to, any unspent amounts remaining under the prior authorization. We had approximately $17.8 million of repurchase authority remaining under this program at June 30, 2019, based upon trade date.

In the first six months of 2019, we purchased 11,964 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2.0 million. Of this amount, we purchased 3,246 shares for $0.4 million, or $132.35 per share, for stock-based awards in conjunction with our equity compensation plan, for which the shares were delivered to plan participants in January 2019. We purchased 4,465 shares for $0.9 million, or $190.59 per share, to fund the rabbi trust for the outside director deferred stock compensation plan. The shares were transferred to the rabbi trust in February and May 2019. The remaining 4,253 shares were purchased at a total cost of $0.7 million, or $175.64 per share, to fund the rabbi trust for the incentive compensation deferral plan. The shares were transferred to the rabbi trust in February, March and May 2019.

In the first six months of 2018, we purchased 22,247 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2.6 million. Of this amount, we purchased 5,830 shares for $0.7 million, or $117.39 per share, for stock-based awards in conjunction with our equity compensation plan, for which the shares were delivered to plan participants in January and May 2018. We purchased 4,576 shares for $0.5 million, or $115.69 per share, to fund the rabbi trust for the outside director deferred stock compensation plan. The shares were transferred to the rabbi trust in March and May 2018. The remaining 11,841 shares were purchased at a total cost of $1.4 million, or $119.14 per share, to fund the rabbi trust for the incentive compensation deferral plan. The shares were transferred to the rabbi trust in March and May 2018.

Capital Outlook

We regularly prepare forecasts evaluating the current and future cash requirements for both normal and extreme risk events. Should an extreme risk event result in a cash requirement exceeding normal cash flows, we have the ability to meet our future funding requirements through various alternatives available to us.

Outside of our normal operating and investing cash activities, future funding requirements could be met through: 1) cash and cash equivalents, which total approximately $338.3 million at June 30, 2019, 2) a $100 million bank revolving line of credit, and 3) liquidation of unpledged assets held in our investment portfolio, including preferred stock and investment grade bonds, which totaled approximately $387.3 million at June 30, 2019. Volatility in the financial markets could impair our ability to sell certain fixed income securities or cause such securities to sell at deep discounts. Additionally, we have the ability to curtail or modify discretionary cash outlays such as those related to shareholder dividends and share repurchase activities.

As of June 30, 2019, we have access to a $100 million bank revolving line of credit with a $25 million letter of credit sublimit that expires on October 30, 2023. As of June 30, 2019, a total of $99.1 million remains available under the facility due to
$0.9 million outstanding letters of credit, which reduce the availability for letters of credit to $24.1 million. We had no borrowings outstanding on our line of credit as of June 30, 2019. Investments with a fair value of $109.3 million were pledged as collateral on the line at June 30, 2019. The investments pledged as collateral have no trading restrictions and are reported as cash and cash equivalents and available-for-sale securities in the Statements of Financial Position. The banks require compliance with certain covenants, which include leverage ratios and debt restrictions. We were in compliance with our bank covenants at June 30, 2019.

Off-Balance Sheet Arrangements and Contractual Obligations

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. We have no material off-balance sheet obligations. As of June 30, 2019, there were no material changes to our future contractual obligations as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2018 other than a $36.1 million contract for software, services and maintenance that was executed in June 2019 that will be paid over the contract term of three years. This contract will be included in "Other commitments" in the Contractual Obligations table.

CRITICAL ACCOUNTING ESTIMATES

We make estimates and assumptions that have a significant effect on the amounts and disclosures reported in the financial statements. The most significant estimates relate to investment valuation and retirement benefit plans for employees. While management believes its estimates are appropriate, the ultimate amounts may differ from estimates provided. Our most critical accounting estimates are described in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2018 of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 21, 2019. See Part I, Item 1. "Financial Statements - Note 5, Fair Value, of Notes to Financial Statements" contained within this report for additional information on our valuation of investments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is primarily related to fluctuations in prices and interest rates. Quantitative and qualitative disclosures about market risk resulting from changes in prices, interest rates, and other risk exposures for the year ended December 31, 2018 are included in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk", of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 21, 2019.

Although the components of the investment portfolio have changed, there have been no material changes to our reported market risks during the six months ended June 30, 2019. For a recent discussion of conditions surrounding our investment portfolio, see the "Operating Overview", "Results of Operations", and "Financial Condition" discussions contained in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained within this report.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation, with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Our management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, any change in our internal control over financial reporting and determined there has been no change in our internal control over financial reporting during the six months ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

State Court Lawsuit Against Erie Indemnity Company
Erie Indemnity Company ("Indemnity") was named as a defendant in a complaint filed on August 1, 2012 by alleged subscribers of the Erie Insurance Exchange (the "Exchange") in the Court of Common Pleas Civil Division of Fayette County, Pennsylvania captioned Erie Insurance Exchange, an unincorporated association, by Joseph S. Sullivan and Anita Sullivan, Patricia R. Beltz, and Jenna L. DeBord, trustees ad litem v. Erie Indemnity Co. (the "Sullivan" lawsuit).

As subsequently amended, the complaint alleges that, beginning on September 1, 1997, Indemnity retained "Service Charges" (installment fees) and "Added Service Charges" (late fees and policy reinstatement charges) on policies written by Exchange and its insurance subsidiaries, which allegedly should have been paid to Exchange, in the amount of approximately $308 million. In addition to their claim for monetary relief on behalf of Exchange, Plaintiffs seek an accounting of all so-called intercompany transactions between Indemnity and Exchange from 1996 to date. Plaintiffs allege that Indemnity breached its contractual, fiduciary, and equitable duties by retaining Service Charges and Added Service Charges that should have been retained by Exchange. Plaintiffs bring these same claims under three separate derivative-type theories. First, Plaintiffs purport to bring suit as members of Exchange on behalf of Exchange. Second, Plaintiffs purport to bring suit as trustees ad litem on behalf of Exchange. Third, Plaintiffs purport to bring suit on behalf of Exchange pursuant to Rule 1506 of the Pennsylvania Rules of Civil Procedure, which allows shareholders to bring suit derivatively on behalf of a corporation or similar entity.

Indemnity filed a motion in the state court in November 2012 seeking dismissal of the lawsuit. On December 19, 2013, the court granted Indemnity's motion in part, holding that the Pennsylvania Insurance Holding Company Act "provides the [Pennsylvania Insurance] Department with special competence to address the subject matter of plaintiff's claims" and referring "all issues" in the Sullivan lawsuit to the Pennsylvania Insurance Department (the "Department") for "its views and any determination." The court stayed all further proceedings and reserved decision on all other grounds for dismissal raised by Indemnity. Plaintiffs sought reconsideration of the court's order, and on January 13, 2014, the court entered a revised order affirming its prior order and clarifying that the Department "shall decide any and all issues within its jurisdiction." On January 30, 2014, Plaintiffs asked the court to certify its order to permit an immediate appeal to the Superior Court of Pennsylvania and to stay any proceedings in the Department pending completion of any appeal. On February 18, 2014, the court issued an order denying Plaintiffs' motion. On March 20, 2014, Plaintiffs filed a petition for review with the Superior Court, which was denied by the Superior Court on May 5, 2014.

The Sullivan matter was assigned to an Administrative Judge within the Department for determination. The parties agreed that an evidentiary hearing was not required, entered into a stipulated record, and submitted briefing to the Department. Oral argument was held before the Administrative Judge on January 6, 2015. On April 29, 2015, the Department issued a declaratory opinion and order: (1) finding that the transactions between Exchange and Indemnity in which Indemnity retained or received revenue from installment and other service charges from Exchange subscribers complied with applicable insurance laws and regulations and that Indemnity properly retained charges paid by Exchange policyholders for certain installment premium payment plans, dishonored payments, policy cancellations, and policy reinstatements; and (2) returning jurisdiction over the matter to the Fayette County Court of Common Pleas.

On May 26, 2015, Plaintiffs appealed the Department's decision to the Pennsylvania Commonwealth Court. Oral argument was held before the Commonwealth Court en banc on December 9, 2015. On January 27, 2016, the Commonwealth Court issued an opinion vacating the Department's ruling and directing the Department to return the case to the Court of Common Pleas, essentially holding that the primary jurisdiction referral of the trial court was improper at this time because the allegations of the complaint do not implicate the special competency of the Department.

On February 26, 2016, Indemnity filed a petition for allowance of appeal to the Pennsylvania Supreme Court seeking further review of the Commonwealth Court opinion. On March 14, 2016, Plaintiffs filed an answer opposing Indemnity's petition for allowance of appeal; and, on March 28, 2016, Indemnity sought permission to file a reply brief in further support of its petition for allowance of appeal. On August 10, 2016, the Pennsylvania Supreme Court denied Indemnity's petition for allowance of appeal; and the Sullivan lawsuit returned to the Court of Common Pleas of Fayette County.

On September 12, 2016, Plaintiffs filed a motion to stay the Sullivan lawsuit pending the outcome of the Federal Court Lawsuit they filed against Indemnity and former and current Directors of Indemnity on July 8, 2016. (See below.) Indemnity filed an opposition to Plaintiff's motion to stay on September 19, 2016; and filed amended preliminary objections seeking dismissal of the Sullivan lawsuit on September 20, 2016. The motion to stay and the amended preliminary objections remain pending. On June 27, 2018, Plaintiffs filed a motion for a status conference in the Sullivan lawsuit.

On July 30, 2018, the Court held a status conference and thereafter lifted the stay of proceedings. On September 28, 2018, Indemnity filed a Motion to Enforce the Federal Judgment in the Beltz II lawsuit, seeking dismissal of the Sullivan lawsuit with prejudice. On October 26, 2018, Plaintiffs filed an opposition to that Motion; and Indemnity filed a reply in further support on November 5, 2018. Oral argument was held on Indemnity's Motion to Enforce the Federal Judgment on November 20, 2018. The Motion to Enforce the Federal Judgment remains pending.

Indemnity believes that it continues to have meritorious legal and factual defenses to the Sullivan lawsuit and intends to vigorously defend against all allegations and requests for relief.

Federal Court Lawsuit Against Erie Indemnity Company and Directors

On February 6, 2013, a lawsuit was filed in the United States District Court for the Western District of Pennsylvania, captioned Erie Insurance Exchange, an unincorporated association, by members Patricia R. Beltz, Joseph S. Sullivan and Anita Sullivan, and Patricia R. Beltz, on behalf of herself and others similarly situate v. Richard L. Stover; J. Ralph Borneman, Jr.; Terrence W. Cavanaugh; Jonathan Hirt Hagen; Susan Hirt Hagen; Thomas B. Hagen; C. Scott Hartz; Claude C. Lilly, III; Lucian L. Morrison; Thomas W. Palmer; Martin P. Sheffield; Elizabeth H. Vorsheck; and Robert C. Wilburn (the "Beltz" lawsuit), by alleged policyholders of Exchange who are also the plaintiffs in the Sullivan lawsuit. The individuals named as defendants in the Beltz lawsuit were the then-current Directors of Indemnity.

As subsequently amended, the Beltz lawsuit asserts many of the same allegations and claims for monetary relief as in the Sullivan lawsuit. Plaintiffs purport to sue on behalf of all policyholders of Exchange, or, alternatively, on behalf of Exchange itself. Indemnity filed a motion to intervene as a Party Defendant in the Beltz lawsuit in July 2013, and the Directors filed a motion to dismiss the lawsuit in August 2013. On February 10, 2014, the court entered an order granting Indemnity's motion to intervene and permitting Indemnity to join the Directors' motion to dismiss; granting in part the Directors' motion to dismiss; referring the matter to the Department to decide any and all issues within its jurisdiction; denying all other relief sought in the Directors' motion as moot; and dismissing the case without prejudice. To avoid duplicative proceedings and expedite the Department's review, the Parties stipulated that only the Sullivan action would proceed before the Department and any final and non-appealable determinations made by the Department in the Sullivan action will be applied to the Beltz action.

On March 7, 2014, Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit. Indemnity filed a motion to dismiss the appeal on March 26, 2014. On November 17, 2014, the Third Circuit deferred ruling on Indemnity's motion to dismiss the appeal and instructed the parties to address that motion, as well as the merits of Plaintiffs' appeal, in the parties' briefing. Briefing was completed on April 2, 2015. In light of the Department's April 29, 2015 decision in Sullivan, the Parties then jointly requested that the Beltz appeal be voluntarily dismissed as moot on June 5, 2015. The Third Circuit did not rule on the Parties' request for dismissal and instead held oral argument as scheduled on June 8, 2015. On July 16, 2015, the Third Circuit issued an opinion and judgment dismissing the appeal. The Third Circuit found that it lacked appellate jurisdiction over the appeal, because the District Court's February 10, 2014 order referring the matter to the Department was not a final, appealable order.

On July 8, 2016, the Beltz plaintiffs filed a new action labeled as a "Verified Derivative And Class Action Complaint" in the United States District Court for the Western District of Pennsylvania. The action is captioned Patricia R. Beltz, Joseph S. Sullivan, and Anita Sullivan, individually and on behalf of all others similarly situated, and derivatively on behalf of Nominal Defendant Erie Insurance Exchange v. Erie Indemnity Company; Kaj Ahlmann; John T. Baily; Samuel P. Black, III; J. Ralph Borneman, Jr.; Terrence W. Cavanaugh; Wilson C. Cooney; LuAnn Datesh; Patricia A. Goldman; Jonathan Hirt Hagen; Thomas B. Hagen; C. Scott Hartz; Samuel P. Katz; Gwendolyn King; Claude C. Lilly, III; Martin J. Lippert; George R. Lucore; Jeffrey A. Ludrof; Edmund J. Mehl; Henry N. Nassau; Thomas W. Palmer; Martin P. Sheffield; Seth E. Schofield; Richard L. Stover; Jan R. Van Gorder; Elizabeth A. Hirt Vorsheck; Harry H. Weil; and Robert C. Wilburn (the "Beltz II" lawsuit). The individual defendants are all present or former Directors of Indemnity (the "Directors").

The allegations of the Beltz II lawsuit arise from the same fundamental, underlying claims as the Sullivan and prior Beltz litigation, i.e., that Indemnity improperly retained Service Charges and Added Service Charges. The Beltz II lawsuit alleges that the retention of the Service Charges and Added Service Charges was improper because, for among other reasons, that retention constituted a breach of the Subscriber's Agreement and an Implied Covenant of Good Faith and Fair Dealing by Indemnity, breaches of fiduciary duty by Indemnity and the other defendants, conversion by Indemnity, and unjust enrichment by defendants Jonathan Hirt Hagen, Thomas B. Hagen, and Elizabeth A. Hirt Vorsheck, at the expense of Exchange. The Beltz II lawsuit requests, among other things, that a judgment be entered against the Defendants certifying the action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure; declaring Plaintiffs as representatives of the Class and Plaintiffs' counsel as counsel for the Class; declaring the conduct alleged as unlawful, including, but not limited to, Defendants' retention of the Service Charges and Added Service Charges; enjoining Defendants from continuing to retain the Service Charges and Added Service Charges; and awarding compensatory and punitive damages and interest.

On September 23, 2016, Indemnity filed a motion to dismiss the Beltz II lawsuit. On September 30, 2016, the Directors filed their own motions to dismiss the Beltz II lawsuit. On July 17, 2017, the Court granted Indemnity's and the Directors' motions to dismiss the Beltz II lawsuit, dismissing the case in its entirety. The Court ruled that "the Subscriber's Agreement does not govern the separate and additional charges at issue in the Complaint" and, therefore, dismissed the breach of contract claim against Indemnity for failure to state a claim. The Court also ruled that the remaining claims, including the claims for breach of fiduciary duty against Indemnity and the Directors, are barred by the applicable statutes of limitation or fail to state legally cognizable claims. On August 14, 2017, Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit.

On May 10, 2018, the United States Court of Appeals for the Third Circuit affirmed the District Court's dismissal of the Beltz II lawsuit. On May 24, 2018, Plaintiffs filed a petition seeking rehearing of their appeal before the Third Circuit. The Third Circuit denied that petition on June 14, 2018.

Federal Court Lawsuit Against Erie Indemnity Company and Directors

On December 28, 2017 a lawsuit was filed in the United States District Court for the Western District of Pennsylvania captioned Lynda Ritz, individually and on behalf of all others similarly situated and derivatively on behalf of Nominal Defendant Erie Insurance Exchange v. Erie Indemnity Company, J. Ralph Borneman, Jr., Terrence W. Cavanaugh, Eugene C. Connell, LuAnn Datesh, Jonathan Hirt Hagen, Thomas B. Hagen, C. Scott Hartz, Brian A. Hudson, Sr., Claude C. Lilly, III, George R. Lucore, Thomas W. Palmer, Martin P. Sheffield, Richard L. Stover, Elizabeth A. Hirt Vorsheck, and Robert C. Wilburn, and Erie Insurance Exchange (Nominal Defendant) (the "Ritz" lawsuit). The individual named as Plaintiff is alleged to be a policyholder (subscriber) of the Erie Insurance Exchange (the "Exchange"). With the exception of Terrence W. Cavanaugh and Robert C. Wilburn, the individuals named as Defendants comprise the current Board of Directors of Indemnity. Messrs. Cavanaugh and Wilburn are former Directors of Indemnity (the "Directors").

The Complaint alleges that since at least 2007, Erie Indemnity Company has taken "unwarranted and excessive" management fees as compensation for its services under the Subscriber's Agreement. Count I of the Complaint purports to allege a claim for breach of alleged fiduciary duties against Indemnity and the Directors on behalf of Plaintiff and a putative class of subscribers. Count II purports to allege a claim for breach of alleged fiduciary duties against Indemnity and the Directors on behalf of Exchange. Count III purports to allege a claim for breach of contract and an alleged implied covenant of good faith and fair dealing against Indemnity on behalf of Plaintiff and a putative class. Count IV purports to allege a claim of unjust enrichment against several Directors.

The Complaint seeks compensatory and punitive damages and requests the Court to enjoin Indemnity from continuing to retain excessive management fees; and order such other relief as may be appropriate.

On March 5, 2018, Indemnity filed a motion to dismiss the Ritz lawsuit. The Directors also filed their own motions to dismiss the Ritz lawsuit on March 5, 2018. Plaintiff filed her responses to both motions on April 26, 2018; and Indemnity and the Directors filed their replies in support of their motions on May 25, 2018. On February 4, 2019, the Court granted Indemnity's and the Directors' motions to dismiss the Ritz suit in its entirety, with prejudice, on the basis that all of the alleged claims in the Ritz suit are barred and precluded as a matter of law by the judgment entered in favor of Indemnity and the Directors in the Beltz II suit.

On March 4, 2019, Plaintiff filed a Motion for Reconsideration of the Court's ruling dismissing the suit with prejudice. On April 5, 2019, Indemnity and the Directors filed their opposition to the Motion for Reconsideration. The Motion for Reconsideration was denied on May 13, 2019. Plaintiff declined to appeal the dismissal of the Ritz lawsuit.

For additional information on contingencies, see Part I, Item 1. "Financial Statements - Note 14, Commitments and Contingencies, of Notes to Financial Statements".

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 as filed with the Securities and Exchange Commission on February 21, 2019.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

In 2011, our Board of Directors approved a continuation of the current stock repurchase program, authorizing repurchases for a total of $150 million with no time limitation. This repurchase authority included, and was not in addition to, any unspent amounts remaining under the prior authorization. There were no repurchases of our Class A common stock under this program during the quarter ending June 30, 2019. We had approximately $17.8 million of repurchase authority remaining under this program at June 30, 2019.

During the quarter ending June 30, 2019, we purchased 2,239 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $0.4 million, or $198.01 per share, to fund the rabbi trust for the outside director deferred stock compensation plan and the incentive compensation deferral plan. The shares were transferred to the rabbi trust in May 2019.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
10.1*	First Amendment to Erie Indemnity Company Incentive Compensation Deferral Plan (Effective January 1, 2017), dated July 1, 2019.
10.2*	Appendix B to Deferred Compensation Plan of Erie Indemnity Company (As Amended and Restated Effective as of January 1, 2019).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

SIGNATURES

Pursuant to the requirements 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.

Erie Indemnity Company

(Registrant)

Date: July 25, 2019

By: /s/ Timothy G. NeCastro

Timothy G. NeCastro, President & CEO

By: /s/ Gregory J. Gutting

Gregory J. Gutting, Executive Vice President & CFO

Exhibit 10.1

FIRST AMENDMENT TO

ERIE INDEMNITY COMPANY
INCENTIVE COMPENSATION DEFERRAL PLAN

Effective January 1, 2017

WHEREAS, Erie Indemnity Company (the "Company") maintains the Erie Indemnity Company Incentive Compensation Deferral Plan (the "Plan");

WHEREAS, the Plan provides that the Company may amend the Plan; and

WHEREAS, the Company desires to amend the Plan to eliminate the requirement to cancel a Plan participant's deferral elections with respect to annual incentive plan awards and/or long term incentive plan awards upon the participant making a hardship withdrawal under the tax-qualified Erie Insurance Group Employee Savings Plan.

NOW, THEREFORE, the Company hereby amends in its entirety, Section 4.1(d) of the Plan as follows, effective as of January 1, 2019:

d) If a Participant makes a withdrawal due to an unforeseeable emergency under the terms of the Deferred Compensation Plan of Erie Indemnity Company (or any successor plan) all deferral elections made by the Participant under this Section 4.1 with respect to an AIP and/or LTIP award shall be cancelled. Such Participant shall not be permitted to make any further deferral under the Plan until the Participant satisfies the procedures set forth in paragraph (b) above.

IN WITNESS WHEREOF, the Company has caused this Plan Amendment to be executed this 1st day of July, 2019.

ERIE INDEMNITY COMPANY

ATTEST:

/s/ Amy L. Chapman

By: /s/ Gregory J. Gutting

Title: EVP & Chief Financial Officer

Exhibit 10.2

APPENDIX B

DEFERRED COMPENSATION PLAN
OF ERIE INDEMNITY COMPANY

Accounts Not Earned and Vested On or Before December 31, 2004
(As Amended and Restated Effective as of January 1, 2019)

ARTICLE ONE

INTRODUCTION

This Appendix B incorporates the provisions of the Plan as it relates to Deferred Compensation Accounts other than such accounts that were earned and vested on or before December 31, 2004, without material modifications to the terms of the Plan after October 3, 2004. The provisions of this Appendix B shall apply in determining the rights and features of such accounts and is generally effective as of January 1, 2009.

ARTICLE TWO

DEFINITIONS

When the following words or phrases are used in this Appendix B with initial capital letters, they shall have the following meanings:

2.1 "Administrator" is a term that is defined in Article Two of the Basic Plan Document.

2.2 "Affiliate" is a term that is defined in Article Two of the Basic Plan Document.

2.3 "Amendment Form" shall mean the Amendment Form described in Section 5.7. An Amendment Form may be in paper and/or electronic form, as designated by the Administrator.

2.4 "Beneficiary" is a term that is defined in Article Two of the Basic Plan Document.

2.5 "Board" is a term that is defined in Article Two of the Basic Plan Document.

2.6 "Code" is a term that is defined in Article Two of the Basic Plan Document.

2.7 "Committee" shall mean the Executive Compensation and Development Committee of the Board, or its successor, as designated by the Board.

2.8 "Compensation" shall mean for any period, the rate of base salary or the wages paid by the Company or an Affiliate 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 year in question.

2.9 "Company" is a term that is defined in Article Two of the Basic Plan Document.

2.10 "Controlled Group Member" shall mean any organization which, together with the Company, is a member of a controlled group of corporations under Sections 414(b), 414(c), and 1563(a) of the Code, applying an 80% test for purposes of Section 1563(a).

2.11 "Deferred Compensation Account" shall mean the bookkeeping account described in Section 4.4.

2.12 "Election Form" shall mean the Participation Election Form described in Section 3.2 and/or Section 3.3. An Election Form may be in paper and/or electronic form, as designated by the Administrator.

2.13 "Employee" is a term that is defined in Article Two of the Basic Plan Document.

2.14 "Hypothetical Interest" shall mean the gains and losses credited to a Participant's Deferred Compensation Account in accordance with Section 4.5.

2.15 "Participant" shall mean each Employee who participated in the Plan in accordance with the terms and conditions of this Appendix B. Participant shall also include a former Employee who had become a Participant as an Employee and on whose behalf the Administrator is maintaining a Deferred Compensation Account pursuant to the terms of this Appendix B.

2.16 "Plan" is a term that is defined in Article Two of the Basic Plan Document.

2.17 "Qualified Plan" is a term that is defined in Article Two of the Basic Plan Document.

2.18 "Separation from Service" shall mean an Employee's complete cessation of all services as an Employee for the Company and all Controlled Group Members or as otherwise set forth below:

a) A Separation from Service shall not be considered to have occurred if the individual's employment relationship is treated by the Company or any Controlled Group Member as continuing while the individual is on military leave, sick leave, or other bona fide leave of absence if such period of leave does not exceed six months or, if longer, so long as the individual's right to reemployment is provided by statute or by contract. If the period of leave exceeds six months and such reemployment rights are not provided, the employment relationship is deemed to cease on the first date immediately following such six-month period.

b) A Separation from Service shall also not be considered to have occurred if the individual's employment relationship is treated by the Company or any Controlled

Group Member as continuing while the individual is on a leave of absence due to any medically determinable physical or mental impairment that can be expected to result in death or to last for a continuous period of not less than six months, where such impairment causes the individual to be unable to perform the duties of his position or any substantially similar position, provided that, for purposes of the Plan, the employment relationship shall be considered to continue no longer than 29 months or, if longer, so long as the individual's right to reemployment is provided by statute or by contract. If the period of leave exceeds 29 months and such reemployment rights are not provided, the employment relationship is deemed to cease on the first date immediately following such 29-month period.

c) A Separation from Service shall also not be considered to have occurred, regardless of the level of services anticipated or provided by the individual as an employee or in the capacity other than an employee, if the individual continues to provide services to the Company or any Controlled Group Member at a rate that is fifty percent (50%) or more of the level of services rendered, on average, during the immediately preceding 36-month period (or the full period of such services, if less than 36 months) and the remuneration for such services is fifty percent (50%) or more of the average remuneration earned during the 36-month period (or the full period of such services, if less than 36 months).

d) Otherwise, a Separation from Service is presumed to have occurred if the facts and circumstances indicate that (A) the Company or any Controlled Group Member and the individual reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the individual would perform after such date would permanently decrease to 20% or less of the average level of bona fide services over the immediately preceding 36-month period (or the full period of such services, if less than 36 months) or (B) the level of bona fide services the individual performs after a given date decreases to a level equal to 20% or less of the average level of bona fide services performed by the individual over the immediately preceding 36-month period (or the full period of such services, if less than 36 months).

2.19 "Specified Employee" shall mean, for any period during which the Company remains publicly traded, an individual who is included in the group of employees who are determined to be "key employees" under Section 416(i)(1)(A)(i), (ii), or (iii) of the Code (as applied in accordance with regulations thereunder and disregarding Section 416(i)(5) of the Code), identified in the manner and under the procedures specified in a writing adopted by the Committee.

2.20 "Supplemental Company Contribution" shall mean, the contribution credit described in Section 4.3(b) and determined in reference to a formula set forth in the Qualified Plan. Except as otherwise specified by the Board, any change in the employer matching contribution formula under the Qualified Plan shall automatically be considered a change to the Plan, effective as of the effective date of change under the Qualified Plan, and the Plan shall thereafter be administered in accordance with such change.

2.21 "Supplemental Employee Contribution" shall mean the contribution credit described in Section 4.3(a).

2.22 "Valuation Date" shall mean the close of business as of each business day.

2.23 "Vested" is a term that is defined in Article Two of the Basic Plan Document.

ARTICLE THREE

PARTICIPATION

3.1 ELIGIBILITY

The individuals who are eligible to participate in the Plan are those Employees selected by the Committee. The Committee shall make its selection of eligible Employees before January 1 of the year next beginning or at such other times as it shall decide for the purpose of determining the eligibility of new Employees hired by the Company or its Affiliates or Employees newly promoted into a classification eligible for participation in the Plan.

The Committee, in its sole discretion, shall determine to what extent an Employee is eligible to participate under the provisions of Article Four. Except as otherwise provided by the Committee, an Employee who has been selected by the Committee as eligible to participate under Section 4.2 and/or Section 4.3 of the Plan shall continue such eligibility from year to year of his employment with the Company or Affiliate, regardless of whether the Employee elects to participate or not; provided, however, that the Committee, in its discretion, may terminate all or part of an Employee's eligibility for any given year. To participate in the Plan for any given year, an Employee must be classified within a select group of management and highly compensated employees for such year.

3.2 PARTICIPATION UNDER DEFERRED COMPENSATION PROVISIONS

An Employee who is eligible under the provisions of Section 3.1 to participate under the deferral provisions of Section 4.2 may elect to participate, alter the extent of his participation, or suspend or terminate his participation under such deferral provisions by delivering a properly completed and executed Election Form to the Administrator. This Election Form shall specify:

a) The percentage of any bonus to be deferred as provided in Section 4.2 for the calendar year to which the election applies;

b) The Participant's investment designation in accordance with Section 4.6;

c) The method by which the amounts deferred for the calendar year to which the election applies (included Hypothetical Interest on such deferrals) are to be paid in accordance with a method of payment permitted under Section 5.2(a);

d) The time as of which payment of the amounts deferred for the calendar year to which the election applies (included Hypothetical Interest on such deferrals) is to occur (in the event of a lump sum distribution) or commence (in the event of a form of distribution other than a lump sum) in accordance with a time of payment permitted under Section 5.2(b); and

e) The Beneficiary to whom payment of all amounts credited to the Participant's Deferred Compensation Account under this Appendix B will be made in the event of the Participant's death (unless this Beneficiary has already been designated pursuant to Section 3.3 or otherwise).

The election under paragraph (a) above shall be irrevocable with respect to the calendar year to which it applies, except as provided in Sections 4.1(c) or 4.1(d). The election under paragraph (b) above may be changed as provided in Section 4.6 and shall be subject to the provisions of Section 3.4. The elections under paragraphs (c) and (d) above shall be irrevocable except as provided in Section 5.7 and shall be subject to the provisions of Section 3.4. The election under paragraph (e) above may be made and may be changed as provided in Article Two of the Basic Plan Document, subject to the provisions of Section 3.4.

3.3 <u>PARTICIPATION UNDER SUPPLEMENTAL 401(k) PROVISIONS</u>

An Employee who is eligible under the provisions of Section 3.1 to participate under the deferral provisions of Section 4.3 may elect to participate, alter the extent of his participation, or suspend or terminate his participation under such deferral provisions by delivering a properly completed and executed Election Form to the Administrator. This Election Form shall specify:

a) The percentage of his future Compensation to be deferred as provided in Section 4.3 for the calendar year to which the election applies;

b) The Participant's investment designation in accordance with Section 4.6;

c) The method by which amounts the Participant defers for the calendar year to which the election applies and which are attributable to the Participant's Supplemental Employee Contributions (included Hypothetical Interest on such deferrals) are to be paid in accordance with a method of payment permitted under Section 5.2(a);

d) The time as of which payment of the amounts the Participant defers for the calendar year to which the election applies and which are attributable to the Participant's Supplemental Employee Contributions (included Hypothetical Interest on such deferrals) is to occur (in the event of a lump sum distribution) or commence (in the event of a form of distribution other than a lump sum) in accordance with a time of payment permitted under Section 5.2(b);

e) The method by which amounts represented by those credits to the Participant's Deferred Compensation Account which are attributable to the Supplemental Company Contributions made on the Participant's behalf (including Hypothetical

Interest on such amounts) are to be paid in accordance with a method of payment permitted under Section 5.2(a);

f) The time as of which payment of the amounts represented by those credits to the Participant's Deferred Compensation Account which are attributable to the Supplemental Company Contributions made on the Participant's behalf (including Hypothetical Interest on such amounts) is to occur (in the event of a lump sum distribution) or commence (in the event of a form of distribution other than a lump sum) in accordance with a time of payment permitted under Section 5.2(b); and

g) The Beneficiary to whom payment of all amounts credited to the Participant's Deferred Compensation Account under this Appendix B will be made in the event of the Participant's death (unless this Beneficiary has already been designated pursuant to Section 3.2 or otherwise).

The election under paragraph (a) above shall be irrevocable with respect to the calendar year to which it applies, except as provided in Sections 4.1(c) or 4.1(d). The election under paragraph (b) above may be changed as provided in Section 4.6 and shall be subject to the provisions of Section 3.4. The elections under paragraphs (c), (d), (e) and (f) above shall be irrevocable except as provided in Section 5.7 and, with respect to elections under paragraphs (c) and (d), shall be subject to the provisions of Section 3.4. The election under paragraph (g) above may be made and may be changed as provided in Article Two of the Basic Plan Document, subject to the provisions of Section 3.4.

3.4 <u>COORDINATION OF ELECTIONS</u>

Notwithstanding any provision of the Plan to the contrary, an Employee is eligible to participate under the provisions of Sections 4.2 and 4.3 and who elected to participate under both Sections shall be required to coordinate and combine certain elections (stated below) into a single election that is applicable both to a bonus deferred under Section 4.2 and Compensation deferred under Section 4.3. The elections that shall be coordinated into a single election under this Section 3.4 are:

a) A Participant's investment designation described in Sections 3.2(b) and 3.3(b);

b) A Participant's method of payment election described in Sections 3.2(c) and 3.3(c);

c) A Participant's time of payment election described in Sections 3.2(d) and 3.3(d); and

d) A Participant's Beneficiary designation described in Sections 3.2(e) and 3.3(g).

The effective date of this Section 3.4 with respect to any Participant shall be the effective date of the Participant's initial deferral under Section 4.2 or his initial deferral under Section 4.3, whichever is later.

3.5 <u>EFFECTIVE DATE FOR PARTICIPATION</u>

a) Except as provided under paragraph (b) below, the effective date for participation in the Plan by an Employee who is eligible to participate under Section 3.1 shall be the first day of the calendar year that immediately follows the calendar year in which the Administrator receives the Employee's properly completed and executed Election Form. For any given year, the effective date for the deferral of any Participant bonus under Section 4.2 shall be the date such bonus would otherwise be payable to the Participant and the effective date for the deferral of a Participant's Compensation under Section 4.3 shall be the last day of the first pay period that ends in the calendar year that immediately follows the calendar year in which the Administrator receives the Employee's properly completed and executed Election Form.

b) The effective date for participation in the Plan by a newly hired Employee or a newly promoted Employee who is eligible to participate under Section 3.1 shall be the date that the Employee begins active employment with the Company or an Affiliate or the date on which the Employee's promotion is effective, provided the Administrator has received the Employee's Election Form prior to such date. Notwithstanding the preceding sentence, a newly hired Employee or newly promoted Employee who is eligible to participate under Section 3.1 may elect to participate under the provisions of Section 3.2 and/or Section 3.3 by delivering a properly completed and executed Election Form to the Administrator within 30 days of the Employee's date of hire or, if applicable, effective date of promotion. In the event such an Employee completes such action, the Employee's elections under Section 3.2 and/or Section 3.3 shall apply only with respect to that portion of a bonus and/or that Compensation that is attributable to the Employee's services performed after the Election Form has been delivered to the Administrator and the effective date for participation of such Employee shall be the date as of which the Administrator determines such Election Form to be effective.

3.6 CESSATION OF ELIGIBILITY

If during a calendar year a Participant has a Separation from Service, deferrals under the provisions of Sections 4.2 and/or 4.3 shall cease as of the date of such Separation from Service or such earlier date on which the Participant no longer receives Compensation. If during a calendar year a Participant ceases to satisfy the criteria that qualified him for Plan participation, as determined by the Committee, (including, for this purpose, the requirement that a Participant be classified within a select group of management and highly compensated employees), the Participant's deferrals under the provisions of Sections 4.2 and/or 4.3 shall continue for the remainder of such calendar year and shall thereafter cease until such time as the Committee determines the individual again satisfies the criteria for Plan participation. Such individual shall remain a Participant, however, until the amounts represented by the Vested Deferred Compensation Account maintained on his behalf under the Plan are distributed.

ARTICLE FOUR

COMPENSATION DEFERRED

4.1 DEFERRED COMPENSATION ELECTION

a) Initial Deferral Election. An Employee who is eligible to participate in the Plan under the provisions of Section 3.1 may elect to defer an annual bonus and/or Compensation for a given calendar year by delivering a properly completed and executed Election Form to the Administrator as provided in Sections 3.2, 3.3, or 3.5. Except as provided in Section 3.5(b), a properly completed and executed Election Form shall be considered to be delivered on a timely basis if it is provided to the Administrator by the last day of the last full pay period ending in the calendar year which immediately precedes the calendar year for which the deferral election is effective and the annual bonus and/or Compensation is to be earned. Except as provided in paragraphs (c) or (d) below, any such deferral election shall be irrevocable as of the last day of the last full pay period ending in the calendar year that immediately precedes the calendar year to which the election applies. Such deferral election shall automatically terminate as to any annual bonus or Compensation attributable to services after such calendar year.

b) Subsequent Deferral Elections. With respect to any calendar years beginning after the year an Employee first becomes eligible to participate under Section 3.1, the Employee may elect to defer an annual bonus and/or Compensation attributable to services performed in such year by delivering a properly completed and executed Election Form to the Administrator by the last day of the last full pay period ending in the calendar year which immediately precedes the calendar year for which the deferral election is to be effective and the annual bonus and/or Compensation is to be earned. Except as provided in paragraphs (c) or (d) below, any such deferral election shall be irrevocable as of the last day of the last full pay period ending in the calendar year that immediately precedes the calendar year to which the election applies. Such deferral election shall automatically terminate as to any annual bonus or Compensation attributable to services after such calendar year.

c) If a Participant makes a withdrawal due to an unforeseeable emergency under Section 5.6 all remaining deferrals of annual bonus and/or Compensation under the Plan for the calendar year in which such a withdrawal is made shall be cancelled. Such Participant shall not be permitted to make any further deferral of annual bonus or Compensation until the Participant satisfies the procedures set forth in paragraph (b) above.

d) Participant deferrals of annual bonus and/or Compensation under the Plan shall be cancelled in such other events or conditions as the Commissioner of Internal Revenue may prescribe in generally applicable guidance published in the Internal Revenue Bulletin which the Administrator, in its discretion, chooses to apply under the Plan; provided, however, that a Participant shall have no direct or indirect election to the application of such events or conditions to his individual circumstances.

4.2 AMOUNT OF BONUS DEFERRAL

Subject to Section 3.5(b), an Employee who is eligible to participate under the provisions of this Section 4.2 may elect to defer receipt of up to 100% of any annual bonus to be payable by the Company or an Affiliate. Compensation deferred under this Section 4.2 is credited to the Participant's Deferred Compensation Account as of the date such compensation would otherwise be payable to the Participant.

4.3 AMOUNT OF SUPPLEMENTAL 401(k) CONTRIBUTIONS

a) An Employee who is eligible to participate under the provisions of this Section 4.3 may elect to defer receipt of up to 100% of his Compensation attributable to services performed after the election is delivered to the Administrator. Deferrals under this paragraph (a) shall be designated as Supplemental Employee Contributions and shall be made within such times and in accordance with such means as are designated by the Administrator. The election under this paragraph (a) shall be independent of and unaffected by any deferral election under the Qualified Plan.

b) In the event that (i) the allocation of employer matching contributions under the Qualified Plan on behalf of a Participant is limited for any given Plan Year due to the limitation on elective contributions made on such Participant's behalf under the Qualified Plan under Section 402(g) of the Code, and (ii) the Participant is making Supplemental Employee Contributions for the given year at or above such level required by the Administrator for the given year, the amount by which such employer matching contributions are limited, as determined by the Administrator in its discretion, shall be credited under the Plan as restored matching contributions and shall be designated as Supplemental Company Contributions.

c) Compensation deferred under paragraph (a) above shall be credited to the Participant's Deferred Compensation Account as of the date such Compensation would otherwise be payable to the Participant. Compensation deferred under paragraph (b) above shall be credited to Participant's Deferred Compensation Account as of the date such compensation would otherwise have been treated as a contribution allocation under the Qualified Plan.

4.4 DEFERRED COMPENSATION ACCOUNT

A Deferred Compensation Account shall be established for each Employee who properly completes, executes and delivers an Election Form under Section 3.2 and/or Section 3.3. Any bonus a Participant defers for calendar years beginning on and after January 1, 2005 under Section 4.2 and/or any Supplemental Employee Contributions and Supplemental Company Contributions credited on the Participant's behalf for calendar years beginning on and after January 1, 2005 under Section 4.3, as well as Hypothetical Interest earned on all such deferred compensation, shall be credited to this Deferred Compensation Account. A Participant's Deferred Compensation Account shall be kept only for bookkeeping and accounting purposes and no Company funds shall be transferred or designated to this account. A Participant's interest in the Deferred Compensation Account maintained on his behalf shall be Vested at all times.

4.5 HYPOTHETICAL INTEREST

The Deferred Compensation Account maintained on behalf of a Participant under this Appendix B shall be credited with Hypothetical Interest. The Hypothetical Interest shall be credited as of each Valuation Date on the amount credited to the Participant's Deferred Compensation Account on such Valuation Date in accordance with the valuation procedure adopted by the Administrator. The Hypothetical Interest credited to each Deferred Compensation Account is determined by the Administrator and computed in reference to the appreciation or depreciation experienced since the immediately preceding Valuation Date by the hypothetical investment funds which the Administrator may offer to Participants under Section 4.6. For any given period, Hypothetical Interest may be a positive or a negative figure. The crediting of Hypothetical Interest shall occur so long as there is a balance in the Participant's Deferred Compensation Account regardless of whether the Participant has incurred a Separation from Service. The Administrator may prescribe any reasonable method or procedure for the accounting of Hypothetical Interest.

4.6 PARTICIPANT INVESTMENT DESIGNATION

a) A Participant (and any eligible Employee first electing to participate in the Plan) may designate, within such time and in accordance with such means as are designated by the Administrator, that portion of his future deferred compensation under Sections 4.2 and 4.3, and separately, that portion of any existing Deferred Compensation Account maintained on his behalf which shall be credited with Hypothetical Interest in reference to each of the hypothetical investment funds that may be offered by the Administrator, in the discretion of the Administrator. Such designations may specify, in 1% increments, the percentages to be credited in reference to each of the hypothetical investment funds offered. Such designations may remain in effect until the Participant submits a new designation within such times and in accordance with such means as are designated by the Administrator. New designations shall be effective as of a given date specified by the Administrator. In the event a Participant fails to make an effective designation under this paragraph (a), the Administrator, acting in its discretion, shall make such designation on behalf of the Participant.

b) In accepting participation in the Plan, a Participant agrees on behalf of himself and his Beneficiary to assume all risk in connection with any decrease in value of the hypothetical investment funds in reference to which Hypothetical Interest is credited to the Participant's Deferred Compensation Account. The Company, the Affiliates and the Administrator shall not be liable to any Participant or Beneficiary for the under-performance of any hypothetical investment fund offered under the Plan.

c) The Administrator may, in its discretion, offer additional hypothetical investment funds to Participants and may cease to offer any such fund at such time as it deems appropriate. In the event the Administrator decides to discontinue offering a hypothetical investment fund under the Plan, those Participants on whose behalf Hypothetical Interest is then being credited on the basis of the discontinued hypothetical investment fund may be required, at the discretion of the Administrator, to have affected amounts consolidated with (or "mapped" to) a replacement hypothetical investment fund selected by the Administrator or may be required to designate, from such selection of hypothetical funds as may be offered by the

Administrator, a hypothetical fund or funds as a replacement for the hypothetical investment fund being discontinued. Any such designation by a Participant shall be made in accordance with paragraph (a) above. Hypothetical Interest credited on behalf of any Participant who is affected by the discontinuation of a hypothetical investment fund but who fails to make any replacement designation offered in this paragraph (c) shall mirror, to the extent of the Participant's interest in such discontinued fund, such hypothetical investment fund or funds as the Administrator may choose in its discretion. Any changes under this paragraph (c) shall take effect as of such times and under such rules as shall be established by the Administrator.

d) Notwithstanding any provision of the Plan to the contrary, the eligibility of a Participant to make any designation under this Section 4.6 shall not be construed as to provide any Participant or other person with a beneficial ownership interest in any assets of the Company or an Affiliate. Title to and beneficial ownership of any assets which the Company or any Affiliate may earmark to pay the contingent deferred compensation hereunder shall at all times remain in the Company or Affiliate. The Participant, his Beneficiary and any heirs, successors or assigns shall not have any legal or equitable right, interest or control over or any property interest whatsoever in any specific assets of the Company or any Affiliate or related entity on account of having an interest under the Plan. Any and all of the Company's assets, and any life insurance policies, annuity contracts or the proceeds therefrom which may be acquired by the Company shall be, and remain, the general unpledged, unrestricted assets of the Company. In no event shall the Company or any Affiliate be required to purchase any specific shares or interest in any investment fund.

4.7 STATEMENTS

Statements will be sent to each Participant as to the balance of his Deferred Compensation Account at least once each calendar year.

ARTICLE FIVE

PAYMENT OF DEFERRED COMPENSATION

5.1. PAYMENT

Except as otherwise provided in this Article Five, payment of the amounts represented by all or a portion of a Participant's Vested Deferred Compensation Account shall be made according to the method and at the time(s) permitted under Section 5.2 and elected by the Participant in his Election Form(s) or, if applicable, in the most recent, properly completed and effective Amendment Form(s) which the Participant has delivered to the Administrator prior to the Participant's Separation from Service. If a Participant has not delivered to the Administrator a properly completed and effective Election Form or, if for any reason the Administrator determines that any Election Form(s) or Amendment Form(s) is materially deficient, payment of the amounts represented by that portion of the Vested Deferred Compensation Account for which the election is undelivered or materially deficient shall be made in a lump sum during the month next following the month of the Participant's Separation from Service except as otherwise provided in this Article Five. For all purposes of the Plan and effective until such time as the Participant delivers to the Administrator a properly completed and effective Election Form or Amendment Form that includes a method and time of payment election, such default method and time of payment shall be treated as the Participant's elected method and time of payment with respect to any given portion of a Deferred Compensation Account to which the default applies.

5.2. METHODS AND TIMES OF PAYMENT

a) A Participant may elect any one of the following methods of payment with respect to each separate deferral election made in regard to any amounts attributable to the Participant's bonus deferral in accordance with Section 4.2 and/or the Participant's deferral of Supplemental Employee Contributions under Section 4.3(a). In accordance with the coordination of elections under Section 3.4, such elected method of payment shall apply to all such amounts deferred for the calendar year to which the election applies (including Hypothetical Interest on such deferrals):

(i) A lump sum distribution;

(ii) Payment in approximately equal annual installments for a period not to exceed 10 years; or

(iii) Payment in approximately equal monthly installments for a period not to exceed 10 years.

A Participant may separately elect any of the above methods of payment for amounts represented by those credits to the Participant's Vested Deferred Contribution Account which are attributable to the Supplemental Company Contributions made on the Participant's behalf (including Hypothetical Interest on such credits).

Payments of the distributable amount represented by all or a portion of the balance in the Participant's Vested Deferred Compensation Account shall be made in cash.

b) A Participant may elect, with respect to each separate deferral election made in regard to any amounts attributable to the Participant's bonus deferral in accordance with Section 4.2 and/or the Participant's deferral of Supplemental Employee Contributions under Section 4.3(a), to have such amounts distributed to him (or, in the case of an installment distribution, commence to be distributed to him) as of the month next following the month of the Participant's Separation from Service, as of a given future month and year, or as of the earlier of these, as such Participant has elected in accordance with Section 3.2(d) and/or Section 3.3(d); provided, however, that any given future month/year for payment must be at least five years from the effective date of such deferral. In accordance with the coordination of elections under Section 3.4, such elected time of payment shall apply to all such amounts deferred for the calendar year to which the election applies (including Hypothetical Interest on such deferrals).

With respect to amounts represented by those credits to a Participant's Vested Deferred Compensation Account which are attributable to the Supplemental Company Contributions made on the Participant's behalf (including Hypothetical Interest on such credits), the Participant may separately elect to have such amounts distributed to him (or, in the case of an installment distribution, commence to be distributed to him) as of the month next following the month of the Participant's Separation from Service or as of any given month and year, provided such given month and year follows the Participant's Separation from Service, as such Participant has elected in accordance with Section 3.3(f).

Except as provided in this Article Five, no distribution shall commence before or after the elected distribution date(s) provided in this paragraph (b). For purposes of this Section 5.2, if the Company makes a distribution within the permitted distribution period (as defined below) and the actual date of such distribution is not within the direct or indirect control of the Participant, such distribution shall be treated as having been made on such elected distribution date. The "permitted distribution period" for this purpose shall begin on the thirtieth day before the Participant's elected distribution date and shall end on the later of (i) the last day of the calendar year that includes the Participant's elected distribution date, and (ii) the fifteenth day of the third month following the Participant's elected distribution date.

c) In the event the Participant dies before receiving the entire distribution to which he is entitled under the Plan, the provisions of Section 5.8 shall apply.

5.3. ACCELERATION OF PAYMENTS

Notwithstanding the provisions of Sections 5.1 and 5.2 and any Participant election thereunder, the Company may pay a Participant the amounts represented by all or a portion of the balances credited to a Participant's Vested Deferred Compensation Account in a lump sum as of the first Valuation Date that is administratively reasonable following the occurrence of any of the events or conditions identified below. Such lump sum payment shall be equal to the amount, as determined by the Administrator, as is reasonably estimated to be required to satisfy the purpose of the accelerated payment. The events or conditions to which this Section 5.3 applies are:

a) The Participant needs to avoid a violation of an applicable federal, state, local, or foreign ethics law or conflicts of interest law.

b) The Participant incurs state, local, or foreign tax obligations arising from participation in the Plan that apply to a Plan interest before such interest is otherwise payable from the Plan.

c) The Participant incurs federal employment tax obligations under Sections 3101, 3121(a), or 3121(v)(2) of the Code with respect to a Vested Deferred Compensation Account and any federal, state, local, or foreign tax obligations arising from such employment tax obligations.

d) The Plan is terminated and liquidated in accordance with generally applicable guidance prescribed by the Commissioner of Internal Revenue and published in the Internal Revenue Bulletin.

e) Such other events or conditions as the Commissioner of Internal Revenue may prescribe in generally applicable guidance published in the Internal Revenue Bulletin which the Administrator, in its discretion, chooses to apply under the Plan; provided, however, that a Participant shall have no direct or indirect election as to the application of such events or conditions to his individual circumstances.

Any payment under this Section 5.3 shall be contingent upon the Administrator's decision that a Participant has satisfied all material elements of an applicable event or condition and that the Participant produces evidence to that effect that is satisfactory to the Administrator. If any payment under this Section 5.3 is made and such payment is less than an amount that represents the entire Vested Deferred Compensation Account maintained on the Participant's behalf, the amount of such payment shall offset any future payment from the Plan to the Participant or any Beneficiary or other person who claims through the Participant.

5.4. DELAY OF PAYMENTS

Notwithstanding the provisions of Sections 5.1 and 5.2 and any Participant election thereunder, the Company may delay the payment of amounts represented by all or a portion of the balances credited to a Participant's Vested Deferred Compensation Account in connection with any of the events or conditions identified below; provided, however that, with respect to any given event or condition, the Administrator shall treat Plan payments to all similarly-situated Participants in a reasonably consistent manner:

a) The Administrator reasonably anticipates that if Plan payments were to be made as scheduled, the Company's deduction with respect to such payments would not be permitted under Section 162(m) of the Code; provided such scheduled payments are then made during the Participant's first taxable year in which the Administrator reasonably anticipates that the Company's deduction will not be barred by application of Section 162(m) of the Code.

b) The Administrator reasonably anticipates that making scheduled Plan payments will violate federal securities laws or other applicable law; provided that the scheduled payments are then made at the earliest date at which the Administrator reasonably contemplates that making the scheduled payments will not cause such a violation.

c) Such other events or conditions as the Commissioner of Internal Revenue may prescribe in generally applicable guidance published in the Internal Revenue Bulletin which the Administrator, in its discretion, chooses to apply under the Plan; provided, however, that a Participant shall have no direct or indirect election as to the application of such events or conditions to his individual circumstances.

5.5. DELAY OF PAYMENTS TO SPECIFIED EMPLOYEES

Notwithstanding the foregoing provision of this Article Five, if a payment is being made to a Participant on account of such Participant's Separation from Service and such Participant is a Specified Employee as of the date of such Separation from Service, such payment shall not be made (or commence, in the case of an installment distribution) until the first Valuation Date that is administratively reasonable following the date that is six months after the Participant's Separation from Service.

5.6. EMERGENCY CIRCUMSTANCES

Notwithstanding any other provision of this Plan, if the Administrator determines, after consideration of a Participant's application, that the Participant has incurred a severe financial hardship (as defined below) the Administrator may in its sole and absolute discretion direct that all or a portion of the Participant's Vested Deferred Compensation Account balance be paid to him. The payment shall be made in the manner and at the times specified by the Administrator for payment; provided, however, such payment shall not be in excess of that amount which is, in the discretion of the Administrator, reasonably necessary to satisfy the financial hardship.

For purposes of this Section 5.6, a "severe financial hardship" shall mean a financial hardship resulting from (i) an illness or accident of the Participant, the Participant's spouse, beneficiary or dependent, (ii) the Participant's loss of property due to casualty, or (iii) any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant; provided, however, that such financial hardship is not or may not be relieved through reimbursement or compensation from insurance or otherwise, by cessation of deferrals of Compensation in future years, or by liquidation of the Participant's assets to the extent such liquidation would not cause severe financial hardship.

5.7. AMENDMENT TO PAYMENT ELECTION

a) A Participant who is an Employee who has not incurred a Separation from Service may elect to defer the date at which payment of an amount otherwise payable under the Plan will occur (or commence) and may elect a change in his elected method of payment (or the default form of payment under Section 5.1) by submitting a properly completed and executed Amendment Form to the Administrator which indicates the period of additional deferral and/or the desired method of payment; provided that:

(i) Such election shall not be effective until 12 months after it is submitted to the Administrator.

(ii) Such election shall require that the payment with respect to which the election is made shall be delayed for a period of not less than five years from the date payment would have been made (or commence) absent the elected change.

(iii) If the election pertains to a delay in the payment of a Vested Deferred Compensation Account from a specific year and month that the Participant previously elected in his Election Form or a subsequent Amendment Form (or to which the Participant has defaulted under Section 5.1) such election cannot be made less than 12 months before the date the payment was otherwise scheduled to be made (or commence).

For purposes of this Article Five, installment payments shall be treated as a single payment.

b) A Participant may at any time elect to change his Beneficiary in accordance with Article Two of the Basic Plan document, subject to the provisions of Section 3.4.

5.8. PAYMENT UPON DEATH OF PARTICIPANT

a) In the event of a Participant's death before payment is made (or commences) under this Article Five, the amount represented by the Participant's Vested Deferred Compensation Account shall be paid by the Company to the Participant's Beneficiary in the form of a lump sum during the month next following the month of the Participant's death. Except as provided in Sections 5.3 or 5.4, no payment to a Beneficiary under this paragraph (a) shall be made before or after such identified payment date; provided, however, that if the Company makes a payment within the permitted payment period (as defined below) and the actual date of payment is not within the direct or indirect control of the Beneficiary, such payment shall be treated as having been made on such identified payment date. The "permitted payment period" for this purpose shall begin on the first day of the month next following the month of the Participant's death and shall end on the later of (i) the last day of the calendar year that includes the identified payment date, and (ii) the fifteenth day of the third month following the identified payment date.

b) In the event of a Participant's death after payment commences under this Article Five, the amount represented by the remaining balance of the Participant's Vested Deferred Compensation Account shall be paid by the Company to the Participant's Beneficiary in the form of a lump sum during the month next following the month of the Participant's death. Except as provided in Sections 5.3 or 5.4, no payment to a Beneficiary under this paragraph (b) shall be made before or after such identified payment date; provided, however, that if the Company makes a payment within the permitted payment period identified in paragraph (a) above and the actual date of payment is not within the direct or indirect control of the Beneficiary, such payment shall be treated as having been made on such identified payment date.

5.9 REHIRED PARTICIPANT

If a Participant incurs a Separation from Service and payment of the amounts represented by the Participant's Vested Deferred Compensation Account have begun under a method providing for installment payments, such installment payments shall not be suspended if the Participant is subsequently reemployed by the Company or an Affiliate.

ARTICLE SIX

CONSTRUCTION

This Appendix B is intended to memorialize the provisions of the Plan as it pertains to amounts other than grandfathered amounts within the meaning of guidance promulgated by the Internal Revenue Service pursuant to Section 409A of the Code. As a result, the Administrator shall interpret and construe the terms of this Appendix B so as to be consistent with such Internal Revenue Service guidance. References or cross references to an identified Article, Section or specific part thereof, shall refer to such Article, Section (or part) of this Appendix B, unless otherwise qualified by the context.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Timothy G. NeCastro, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Erie Indemnity Company;

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 Rules 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 the 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: July 25, 2019

/s/ Timothy G. NeCastro
Timothy G. NeCastro
President & CEO

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory J. Gutting, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Erie Indemnity Company;

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 Rules 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 the 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: July 25, 2019

/s/ Gregory J. Gutting
Gregory J. Gutting
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, Timothy G. NeCastro, Chief Executive Officer of the Erie Indemnity Company (the "Company"), and Gregory J. Gutting, 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2019 (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/ Timothy G. NeCastro

Timothy G. NeCastro
President & CEO

/s/ Gregory J. Gutting

Gregory J. Gutting
Executive Vice President & CFO

July 25, 2019

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 the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.