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 September 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 October 11, 2019.

The number of shares outstanding of the registrant's Class B Common Stock as of the latest practicable date was 2,542 at October 11, 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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Operating revenue				
Management fee revenue - policy issuance and renewal services, net	$ 474,427	$ 451,361	$ 1,385,923	$ 1,311,911
Management fee revenue - administrative services, net	14,430	13,521	42,576	39,894
Administrative services reimbursement revenue	142,730	140,172	431,305	432,642
Service agreement revenue	7,155	7,072	20,754	21,297
Total operating revenue	638,742	612,126	1,880,558	1,805,744
Operating expenses				
Cost of operations - policy issuance and renewal services	390,105	375,259	1,160,614	1,103,517
Cost of operations - administrative services	142,730	140,172	431,305	432,642
Total operating expenses	532,835	515,431	1,591,919	1,536,159
Operating income	105,907	96,695	288,639	269,585
Investment income				
Net investment income	8,652	7,659	25,199	21,583
Net realized investment gains (losses)	1,696	0	5,501	(497)
Net impairment losses recognized in earnings	(31)	0	(193)	(646)
Equity in earnings of limited partnerships	3,289	772	2,546	361
Total investment income	13,606	8,431	33,053	20,801
Interest expense, net	111	709	832	1,864
Other income	100	54	195	156
Income before income taxes	119,502	104,471	321,055	288,678
Income tax expense	25,333	24,025	63,821	62,768
Net income	**$ 94,169**	**$ 80,446**	**$ 257,234**	**$ 225,910**
Net income per share				
Class A common stock – basic	$ 2.02	$ 1.73	$ 5.52	$ 4.85
Class A common stock – diluted	**$ 1.80**	**$ 1.54**	**$ 4.92**	**$ 4.32**
Class B common stock – basic	$ 303	$ 259	$ 829	$ 728
Class B common stock – diluted	$ 303	$ 259	$ 828	$ 727
Weighted average shares outstanding – Basic				
Class A common stock	46,189,006	46,188,941	46,188,767	46,188,522
Class B common stock	2,542	2,542	2,542	2,542
Weighted average shares outstanding – Diluted				
Class A common stock	52,325,125	52,317,438	52,317,275	52,313,642
Class B common stock	2,542	2,542	2,542	2,542
Dividends declared per share				
Class A common stock	$ 0.90	$ 0.84	$ 2.70	$ 2.52
Class B common stock	$ 135.00	$ 126.00	$ 405.00	$ 378.00

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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income	$ 94,169	$ 80,446	$ 257,234	$ 225,910
Other comprehensive income (loss), net of tax				
Change in unrealized holding gains (losses) on available-for-sale securities	2,330	(492)	10,387	(6,470)
Amortization of prior service costs and net actuarial loss on pension and other postretirement plans	1,231	0	3,694	0
Total other comprehensive income (loss), net of tax	3,561	(492)	14,081	(6,470)
Comprehensive income	$ 97,730	$ 79,954	$ 271,315	$ 219,440

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)

	September 30, 2019	December 31, 2018
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 344,872	$ 266,417
Available-for-sale securities	32,984	402,339
Receivables from Erie Insurance Exchange and affiliates	497,985	449,873
Prepaid expenses and other current assets	47,712	36,892
Federal income taxes recoverable	6,075	8,162
Accrued investment income	5,267	5,263
Total current assets	934,895	1,168,946
Available-for-sale securities	647,649	346,184
Equity securities	55,052	11,853
Limited partnership investments	32,171	34,821
Fixed assets, net	194,170	130,832
Deferred income taxes, net	15,505	24,101
Other assets	95,138	61,590
Total assets	**$ 1,974,580**	**$ 1,778,327**
Liabilities and shareholders' equity		
Current liabilities:		
Commissions payable	$ 272,932	$ 241,573
Agent bonuses	73,921	103,462
Accounts payable and accrued liabilities	131,453	111,291
Dividends payable	41,913	41,910
Contract liability	36,318	33,854
Deferred executive compensation	10,328	13,107
Current portion of long-term borrowings	1,959	1,870
Total current liabilities	568,824	547,067
Defined benefit pension plans	136,078	116,866
Long-term borrowings	96,346	97,860
Contract liability	18,648	17,873
Deferred executive compensation	13,017	13,075
Other long-term liabilities	22,396	11,914
Total liabilities	855,309	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 $70 per share; 3,070 shares authorized; 2,542 shares issued and outstanding	178	178
Additional paid-in-capital	16,483	16,459
Accumulated other comprehensive loss	(116,203)	(130,284)
Retained earnings	2,362,911	2,231,417
Total contributed capital and retained earnings	2,265,361	2,119,762
Treasury stock, at cost; 22,110,132 shares held	(1,158,620)	(1,157,625)
Deferred compensation	12,530	11,535
Total shareholders' equity	**1,119,271**	**973,672**
Total liabilities and shareholders' equity	**$ 1,974,580**	**$ 1,778,327**

See accompanying notes to Financial Statements.

ERIE INDEMNITY COMPANY
STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
Three and nine months ended September 30, 2019
(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
Net income					94,169			94,169
Other comprehensive income				3,561				3,561
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)			0			0		0
Deferred compensation						(320)	320	0
Balance, September 30, 2019	$ 1,992	$ 178	$ 16,483	$ (116,203)	$ 2,362,911	$ (1,158,620)	$ 12,530	$ 1,119,271

(1) Net purchases of treasury stock in 2019 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 a retired director in 2019.

See accompanying notes to Financial Statements.

ERIE INDEMNITY COMPANY
STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
Three and nine months ended September 30, 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, 2017	$ 1,992	$ 178	$ 16,470	$ (156,059)	$ 2,140,853	$ (1,155,668)	$ 9,578	$ 857,344
Cumulative effect adjustments [(1)]					(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 [(2)]			(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 [(2)]			(2)			0		(2)
Deferred compensation						(276)	276	0
Rabbi trust distribution [(3)]						608	(608)	0
Balance, June 30, 2018	$ 1,992	$ 178	$ 16,459	$ (162,037)	$ 2,169,686	$ (1,156,999)	$ 10,909	$ 880,188
Net income					80,446			80,446
Other comprehensive loss				(492)				(492)
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 [(2)]			0			0		0
Deferred compensation						(311)	311	0
Balance, September 30, 2018	$ 1,992	$ 178	$ 16,459	$ (162,529)	$ 2,211,013	$ (1,157,310)	$ 11,220	$ 921,023

(1) Cumulative effect adjustments are primarily related to the implementation of new revenue recognition guidance effective January 1, 2018.
(2) Net purchases of treasury stock in 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.
(3) Distributions of our Class A shares were made from the rabbi trust to a retired director in 2018.

See accompanying notes to Financial Statements.

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

	Nine months ended September 30, 2019	2018
Cash flows from operating activities		
Management fee received	$ 1,387,877	$ 1,309,769
Administrative services reimbursements received	420,697	428,071
Service agreement fee received	20,754	21,297
Net investment income received	25,461	26,625
Limited partnership distributions	1,596	6,008
Commissions paid to agents	(669,618)	(639,574)
Agents bonuses paid	(112,262)	(130,657)
Salaries and wages paid	(138,279)	(136,868)
Pension contributions and employee benefits paid	(31,926)	(106,718)
General operating expenses paid	(179,799)	(144,759)
Administrative services expenses paid	(424,919)	(427,852)
Income taxes paid	(60,863)	(29,208)
Interest paid	(853)	(1,820)
Net cash provided by operating activities	237,866	174,314
Cash flows from investing activities		
Purchase of investments:		
Available-for-sale securities	(852,886)	(194,773)
Equity securities	(46,536)	(4,087)
Limited partnerships	(20)	(217)
Other investments	(252)	—
Proceeds from investments:		
Available-for-sale securities sales	655,519	125,913
Available-for-sale securities maturities/calls	282,846	98,922
Equity securities	4,505	4,159
Limited partnerships	3,600	3,046
Purchase of fixed assets	(68,363)	(48,667)
Agent loan distributions	(16,458)	(41,767)
Agent loan repayments	5,804	4,496
Net cash used in investing activities	(32,241)	(52,975)
Cash flows from financing activities		
Dividends paid to shareholders	(125,737)	(117,355)
Net (payments) proceeds from long-term borrowings	(1,433)	24,983
Net cash used in financing activities	(127,170)	(92,372)
Net increase in cash and cash equivalents	78,455	28,967
Cash and cash equivalents, beginning of period	266,417	215,721
Cash and cash equivalents, end of period	$ 344,872	$ 244,688
Supplemental disclosure of noncash transactions		
Operating lease assets obtained in exchange for new operating lease liabilities	$ 33,678	$ —
Liability incurred to purchase fixed assets	$ 8,286	$ —

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 nine months ended September 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 primarily comprised of U.S. government securities. 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 September 30,		Nine months ended September 30,	
(in thousands)	2019	2018	2019	2018
Management fee revenue - policy issuance and renewal services, net	$ 474,427	$ 451,361	$ 1,385,923	$ 1,311,911
Management fee revenue - administrative services, net	14,430	13,521	42,576	39,894
Administrative services reimbursement revenue	142,730	140,172	431,305	432,642
Total administrative services	$ 157,160	$ 153,693	$ 473,881	$ 472,536

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 September 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	$ 93,398	46,189,006	$ 2.02	$ 79,787	46,188,941	$ 1.73
Dilutive effect of stock-based awards	0	35,319	—	0	27,697	—
Assumed conversion of Class B shares	771	6,100,800	—	659	6,100,800	—
Class A – Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$ 94,169	52,325,125	$ 1.80	$ 80,446	52,317,438	$ 1.54
Class B – Basic EPS:						
Income available to Class B stockholders	$ 771	2,542	$ 303	$ 659	2,542	$ 259
Class B – Diluted EPS:						
Income available to Class B stockholders	$ 770	2,542	$ 303	$ 658	2,542	$ 259

	Nine months ended September 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	$ 255,128	46,188,767	$ 5.52	$ 224,060	46,188,522	$ 4.85
Dilutive effect of stock-based awards	0	27,708	—	0	24,320	—
Assumed conversion of Class B shares	2,106	6,100,800	—	1,850	6,100,800	—
Class A – Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$ 257,234	52,317,275	$ 4.92	$ 225,910	52,313,642	$ 4.32
Class B – Basic EPS:						
Income available to Class B stockholders	$ 2,106	2,542	$ 829	$ 1,850	2,542	$ 728
Class B – Diluted EPS:						
Income available to Class B stockholders	$ 2,105	2,542	$ 828	$ 1,849	2,542	$ 727

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 significantly 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 as of:

(in thousands)	September 30, 2019 Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
Corporate debt securities [1]	$ 434,206	$ 3,214	$ 423,934	$ 7,058
Residential mortgage-backed securities[1]	107,235	0	107,235	0
Commercial mortgage-backed securities[1]	63,182	0	58,475	4,707
Collateralized debt obligations	70,818	0	68,518	2,300
Other debt securities	5,192	0	5,192	0
Total available-for-sale securities	680,633	3,214	663,354	14,065
Equity securities - nonredeemable preferred stock:[1]				
Financial services sector	47,753	25,003	22,750	0
Industrial sector	2,842	0	2,842	0
Utilities sector	2,571	521	2,050	0
Energy sector	1,886	0	1,886	0
Total equity securities	55,052	25,524	29,528	0
Total	$ 735,685	$ 28,738	$ 692,882	$ 14,065

(in thousands)	December 31, 2018 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 and invested proceeds in short-term U.S. Treasuries. In 2019, proceeds from selling off the remaining municipal bond portfolio and short-term U.S. Treasuries were reinvested in corporate debt, structured and equity 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 as of:

(in thousands)	September 30, 2019 Total	Level 1	Level 2	Level 3
Available-for-sale securities priced using:				
Pricing services	$ 677,683	$ 3,214	$ 662,854	$ 11,615
Market comparables/broker quotes	2,800	0	500	2,300
Internal modeling	150	0	0	150
Total available-for-sale securities	680,633	3,214	663,354	14,065
Equity securities priced using pricing services	55,052	25,524	29,528	0
Total	$ 735,685	$ 28,738	$ 692,882	$ 14,065

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 September 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 $2.4 million at September 30, 2019 and $12.6 million at December 31, 2018. The weighted average is calculated based on estimated fair value.

(dollars in thousands)	September 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	$ 6,827	Syndicated loan model	Market residual yield (1)	-536 - +1290	+87	Decrease
Commercial mortgage-backed securities	4,707	Relative value pricing model	Credit spread (2)	+35 - +83	+57	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 June 30, 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 September 30, 2019
Available-for-sale securities:								
Corporate debt securities	$ 6,373	$ 16	$ (92)	$ 549	$ (507)	$ 1,850	$ (1,131)	$ 7,058
Commercial mortgage-backed securities	2,551	(6)	2	0	(3)	2,846	(683)	4,707
Collateralized debt obligations	0	0	0	2,300	0	0	0	2,300
Total Level 3 available-for-sale securities	$ 8,924	$ 10	$ (90)	$ 2,849	$ (510)	$ 4,696	$ (1,814)	$ 14,065

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 September 30, 2019
Available-for-sale securities:								
Corporate debt securities	$ 12,577	$ 7	$ 199	$ 1,283	$ (6,779)	$ 9,244	$ (9,473)	$ 7,058
Residential mortgage-backed securities	0	4	15	921	(32)	0	(908)	0
Commercial mortgage-backed securities	0	7	(6)	478	(1,068)	6,103	(807)	4,707
Collateralized debt obligations	0	0	0	2,300	0	0	0	2,300
Total Level 3 available-for-sale securities	$ 12,577	$ 18	$ 208	$ 4,982	$ (7,879)	$ 15,347	$ (11,188)	$ 14,065

Level 3 Assets – 2018 Quarterly Change:

(in thousands)	Beginning balance at June 30, 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 September 30, 2018
Available-for-sale securities:								
Corporate debt securities	$ 11,120	$ 3	$ 71	$ 1,539	$ (1,416)	$ 2,735	$ (5,782)	$ 8,270
Other debt securities	0	0	0	905	0	0	0	905
Total Level 3 available-for-sale securities	$ 11,120	$ 3	$ 71	$ 2,444	$ (1,416)	$ 2,735	$ (5,782)	$ 9,175

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 September 30, 2018
Available-for-sale securities:								
Corporate debt securities	$ 7,879	$ 4	$ 23	$ 4,586	$ (2,381)	$ 10,517	$ (12,358)	$ 8,270
Collateralized debt obligations	2,200	0	7	0	0	0	(2,207)	0
Other debt securities	0	0	0	905	0	0	0	905
Total Level 3 available-for-sale securities	$ 10,079	$ 4	$ 30	$ 5,491	$ (2,381)	$ 10,517	$ (14,565)	$ 9,175

(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 September 30,		Nine months ended September 30,	
(in thousands)	2019	2018	2019	2018
Available-for-sale securities:				
Corporate debt securities	$ (100)	$ 66	$ 112	$ 38
Commercial mortgage-backed securities	7	—	132	—
Other debt securities	—	0	—	0
Net unrealized (losses) gains on Level 3 securities held at reporting date	$ (93)	$ 66	$ 244	$ 38

Table of Contents

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 as of:

	September 30, 2019		December 31, 2018	
(in thousands)	Carrying value	Fair value	Carrying value	Fair value
Agent loans	$ 68,660	$ 69,194	$ 58,006	$ 54,110
Long-term borrowings	98,568	107,169	99,730	94,057

Note 6. Investments

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

	September 30, 2019			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale securities:				
Corporate debt securities (1)	$ 431,800	$ 4,437	$ 2,031	$ 434,206
Residential mortgage-backed securities(1)	106,401	889	55	107,235
Commercial mortgage-backed securities(1)	61,940	1,263	21	63,182
Collateralized debt obligations	71,087	20	289	70,818
Other debt securities	5,108	92	8	5,192
Total available-for-sale securities	$ 676,336	$ 6,701	$ 2,404	$ 680,633

	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 and invested proceeds in short-term U.S. Treasuries. In 2019, proceeds from selling off the remaining municipal bond portfolio and short-term U.S. Treasuries were reinvested in corporate debt, structured, and equity securities.*

The amortized cost and estimated fair value of available-for-sale securities at September 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.

	September 30, 2019	
(in thousands)	Amortized cost	Estimated fair value
Due in one year or less	$ 32,875	$ 32,842
Due after one year through five years	307,299	308,682
Due after five years through ten years	128,109	129,071
Due after ten years	208,053	210,038
Total available-for-sale securities	$ 676,336	$ 680,633

The following table presents available-for-sale securities based on length of time in a gross unrealized loss position as of:

	September 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	$ 39,871	$ 852	$ 30,518	$ 1,179	$ 70,389	$ 2,031	229
Residential mortgage-backed securities	20,440	55	0	0	20,440	55	7
Commercial mortgage-backed securities	7,325	19	538	2	7,863	21	10
Collateralized debt obligations	39,202	84	25,284	205	64,486	289	47
Other debt securities	1,581	8	0	0	1,581	8	1
Total available-for-sale securities	$ 108,419	$ 1,018	$ 56,340	$ 1,386	$ 164,759	$ 2,404	294
Quality breakdown of available-for-sale securities:							
Investment grade	$ 80,157	$ 176	$ 46,355	$ 255	$ 126,512	$ 431	85
Non-investment grade	28,262	842	9,985	1,131	38,247	1,973	209
Total available-for-sale securities	$ 108,419	$ 1,018	$ 56,340	$ 1,386	$ 164,759	$ 2,404	294

	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 September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Fixed maturities [(1)]	$ 5,449	$ 6,243	$ 17,098	$ 18,616
Equity securities	452	203	734	487
Cash equivalents and other	2,900	1,484	8,025	3,518
Total investment income	8,801	7,930	25,857	22,621
Less: investment expenses	149	271	658	1,038
Investment income, net of expenses	$ 8,652	$ 7,659	$ 25,199	$ 21,583

(1) Includes interest earned on note receivable from Erie Family Life Insurance Company of $0.4 million and $1.3 million for the three and nine months ended September 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 September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Available-for-sale securities:				
Gross realized gains	$ 1,320	$ 525	$ 5,640	$ 1,100
Gross realized losses	(248)	(526)	(1,411)	(1,512)
Net realized gains (losses) on available-for-sale securities	1,072	(1)	4,229	(412)
Equity securities	624	(1)	1,272	(189)
Miscellaneous	0	2	0	104
Net realized investment gains (losses)	$ 1,696	$ 0	$ 5,501	$ (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 September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Equity securities:				
Net gains (losses) recognized during the period	$ 624	$ (1)	$ 1,272	$ (189)
Less: net gains (losses) recognized on securities sold	47	(52)	47	(86)
Net unrealized gains (losses) recognized on securities held at reporting date	$ 577	$ 51	$ 1,225	$ (103)

Other-than-temporary impairments on available-for-sale securities recognized in earnings were $31 thousand for the quarter ended September 30, 2019 and there were no impairment losses for the quarter ended September 30, 2018. For the nine months ended September 30, 2019 and 2018, other-than-temporary impairments on available-for-sale securities recognized in earnings were $0.2 million and $0.6 million, respectively. We have the intent to sell all credit-impaired available-for-sale 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 September 30, 2019 are comprised of partnership financial results for the fourth quarter of 2018 and first two quarters of 2019. Given the lag in reporting, our limited partnership results do not reflect the market conditions of the third 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 of limited partnerships by method of accounting were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2019	2018	2019	2018
Equity in earnings of limited partnerships - equity method	$ 3,289	$ 645	$ 2,546	$ 624
Change in fair value of limited partnerships - fair value option	0	127	0	(263)
Equity in earnings of limited partnerships	$ 3,289	$ 772	$ 2,546	$ 361

The following table summarizes limited partnership investments by sector as of:

(in thousands)	September 30, 2019	December 31, 2018
Private equity	$ 29,938	$ 28,271
Mezzanine debt	900	1,152
Real estate	1,333	2,192
Real estate - fair value option	0	3,206
Total limited partnership investments	$ 32,171	$ 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 as of:

(in thousands)	September 30, 2019	December 31, 2018
Operating lease assets	$ 23,841	$ —
Operating lease liabilities - current	$ 11,366	$ —
Operating lease liabilities - long-term	12,129	—
Total operating lease liabilities	$ 23,495	$ —

We currently have leases for real estate, technology equipment, copiers, and vehicles. Our largest operating lease asset at September 30, 2019 of $13.3 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 nine months ended September 30, 2019 were $3.5 million and $10.7 million, respectively. Of this amount, the Exchange and its subsidiaries reimbursed us $1.5 million and $4.6 million for the three and nine months ended September 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 September 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 September 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 September 30, 2019. Investments with a fair value of $109.8 million were pledged as collateral on the line at September 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 September 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 September 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 $112.0 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 September 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 September 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	$ 512
2020	1,980
2021	2,020
2022	2,110
2023	2,227
Thereafter	89,719

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 59% 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 September 30,		Nine months ended September 30,	
(in thousands)	2019	2018	2019	2018
Service cost for benefits earned	$ 8,463	$ 9,513	$ 25,390	$ 28,539
Interest cost on benefits obligation	9,827	8,845	29,480	26,536
Expected return on plan assets	(11,872)	(12,815)	(35,614)	(38,444)
Prior service cost amortization	349	339	1,046	1,015
Net actuarial loss amortization	1,279	3,202	3,835	9,606
Pension plan cost (1)	$ 8,046	$ 9,084	$ 24,137	$ 27,252

(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 September 30, 2019 and 2018, our effective tax rate was 21.2% and 23.0%, respectively, and for the nine months ended September 30, 2019 and 2018, our effective tax rate was 19.9% and 21.7%, respectively. Impacting our effective tax rate in the nine months ended September 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 1.3% in the nine months ended September 30, 2019.

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 nine months ended September 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 nine months ended September 30, 2019 and the year ended December 31, 2018. We had approximately $17.8 million of repurchase authority remaining under this program at September 30, 2019.

During the nine months ended September 30, 2019, we purchased 13,399 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2.4 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 5,844 shares for $1.2 million, or $198.17 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, May and August 2019. The remaining 4,309 shares were purchased at a total cost of $0.8 million, or $176.26 per share, to fund the rabbi trust for the incentive compensation deferral plan. The shares were transferred to the rabbi trust in February, March, May and August 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.

Table of Contents

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 September 30, 2019			Three months ended September 30, 2018		
(in thousands)	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
Investment securities:						
AOCI (loss), beginning of period	$ 1,030	$ 216	$ 814	$ (4,157)	$ (873)	$ (3,284)
OCI (loss) before reclassifications	3,991	838	3,153	(624)	(131)	(493)
Realized investment (gains) losses	(1,072)	(225)	(847)	1	0	1
Impairment losses	31	7	24	0	0	0
OCI (loss)	2,950	620	2,330	(623)	(131)	(492)
AOCI (loss), end of period	$ 3,980	$ 836	$ 3,144	$ (4,780)	$ (1,004)	$ (3,776)
Pension and other postretirement plans:						
AOCI (loss), beginning of period	$ (152,632)	$ (32,054)	$ (120,578)	$ (200,954)	$ (42,201)	$ (158,753)
Amortization of prior service costs (1)	349	74	275	0	0	0
Amortization of net actuarial loss (1)	1,210	254	956	0	0	0
OCI	1,559	328	1,231	0	0	0
AOCI (loss), end of period	$ (151,073)	$ (31,726)	$ (119,347)	$ (200,954)	$ (42,201)	$ (158,753)
Total						
AOCI (loss), beginning of period	$ (151,602)	$ (31,838)	$ (119,764)	$ (205,111)	$ (43,074)	$ (162,037)
Investment securities	2,950	620	2,330	(623)	(131)	(492)
Pension and other postretirement plans	1,559	328	1,231	0	0	0
OCI (loss)	4,509	948	3,561	(623)	(131)	(492)
AOCI (loss), end of period	$ (147,093)	$ (30,890)	$ (116,203)	$ (205,734)	$ (43,205)	$ (162,529)

	Nine months ended September 30, 2019			Nine months ended September 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	17,185	3,609	13,576	(9,163)	(1,924)	(7,239)
Realized investment (gains) losses	(4,229)	(888)	(3,341)	412	86	326
Impairment losses	193	41	152	646	136	510
Cumulative effect of adopting ASU 2016-01 (2)	—	—	—	(85)	(18)	(67)
OCI (loss)	13,149	2,762	10,387	(8,190)	(1,720)	(6,470)
AOCI (loss), end of period	$ 3,980	$ 836	$ 3,144	$ (4,780)	$ (1,004)	$ (3,776)
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)	1,046	220	826	0	0	0
Amortization of net actuarial loss (1)	3,630	762	2,868	0	0	0
OCI	4,676	982	3,694	0	0	0
AOCI (loss), end of period	$ (151,073)	$ (31,726)	$ (119,347)	$ (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	13,149	2,762	10,387	(8,190)	(1,720)	(6,470)
Pension and other postretirement plans	4,676	982	3,694	0	0	0
OCI (loss)	17,825	3,744	14,081	(8,190)	(1,720)	(6,470)
AOCI (loss), end of period	$ (147,093)	$ (30,890)	$ (116,203)	$ (205,734)	$ (43,205)	$ (162,529)

(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 $498.0 million and $449.9 million at September 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 $9.8 million related to our limited partnership investments at September 30, 2019. These commitments are split among private equity securities of $4.4 million and mezzanine debt securities of $5.4 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 September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
	(Unaudited)			(Unaudited)		
Operating income	$ 105,907	$ 96,695	9.5 %	$ 288,639	$ 269,585	7.1 %
Total investment income	13,606	8,431	61.4	33,053	20,801	58.9
Interest expense, net	111	709	(84.3)	832	1,864	(55.4)
Other income	100	54	86.1	195	156	25.2
Income before income taxes	119,502	104,471	14.4	321,055	288,678	11.2
Income tax expense	25,333	24,025	5.4	63,821	62,768	1.7
Net income	$ 94,169	$ 80,446	17.1 %	$ 257,234	$ 225,910	13.9 %
Net income per share - diluted	$ 1.80	$ 1.54	17.0 %	$ 4.92	$ 4.32	13.9 %

Operating income increased in both the third quarter and nine months ended September 30, 2019, compared to the same periods in 2018. Management fee revenue for policy issuance and renewal services increased 5.1% and 5.6% in the third quarter and nine months ended September 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 5.2% to $2.0 billion in the third quarter of 2019 and increased 5.6% to $5.7 billion for the nine months ended September 30, 2019, compared to the same periods in 2018.

Cost of operations for policy issuance and renewal services increased 4.0% and 5.2% in the third quarter and nine months ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to higher commissions driven by direct written premium growth and technology investments in both periods, as well as higher personnel costs in the nine months ended September 30, 2019.

Management fee revenue for administrative services increased $0.9 million to $14.4 million in the third quarter of 2019 and increased $2.7 million to $42.6 million for the nine months ended September 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 $142.7 million in the third quarter of 2019 and $431.3 million for the nine months ended September 30, 2019, but had no net impact on operating income in either period.

Total investment income increased $5.2 million in the third quarter of 2019 compared to the same period in 2018, primarily driven by higher equity in earnings of limited partnerships and net realized gains. Total investment income increased $12.3 million for the nine months ended September 30, 2019 compared to the same period in 2018, primarily driven by net realized gains and higher net investment income.

Income tax expense increased $1.3 million in the third quarter and $1.1 million for the nine months ended September 30, 2019 compared to the same periods in 2018. Income tax expense for the nine months ended September 30, 2019 was impacted by an income tax benefit of approximately $4.1 million recorded in the second quarter as a result of settling an uncertain tax position, which reduced our effective tax rate by 1.3%.

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 September 30,			Nine months ended September 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	$ 1,960,441	$ 1,863,927	5.2 %	$ 5,738,554	$ 5,434,720	5.6 %
Management fee rate	24.2%	24.2%		24.2%	24.2%	
Management fee revenue	474,427	451,070	5.2	1,388,730	1,315,202	5.6
Change in allowance for management fee returned on cancelled policies (1)	0	291	NM	(2,807)	(3,291)	14.7
Management fee revenue - policy issuance and renewal services, net	$ 474,427	$ 451,361	5.1 %	$ 1,385,923	$ 1,311,911	5.6 %
Administrative services						
Direct and affiliated assumed premiums written by the Exchange	$ 1,960,441	$ 1,863,927	5.2 %	$ 5,738,554	$ 5,434,720	5.6 %
Management fee rate	0.8%	0.8%		0.8%	0.8%	
Management fee revenue	15,683	14,912	5.2	45,908	43,478	5.6
Change in contract liability (2)	(1,241)	(1,374)	9.6	(3,293)	(3,539)	6.9
Change in allowance for management fee returned on cancelled policies (1)	(12)	(17)	33.6	(39)	(45)	14.6
Management fee revenue - administrative services, net	14,430	13,521	6.7	42,576	39,894	6.7
Administrative services reimbursement revenue	142,730	140,172	1.8	431,305	432,642	(0.3)
Total revenue from administrative services	$ 157,160	$ 153,693	2.3 %	$ 473,881	$ 472,536	0.3 %

NM = not meaningful

(1) *Management fees are returned to the Exchange when policies are cancelled mid-term and unearned premiums are refunded. We record an estimated allowance for management fees returned on mid-term policy cancellations. 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 5.2% to $2.0 billion in the third quarter of 2019, from $1.9 billion in the third 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 2.2% in the third quarter of 2019 driven by continuing strong policyholder retention, compared to 3.5% in the third quarter of 2018. The year-over-year average premium per policy for all lines of business increased 3.4% at September 30, 2019, compared to 3.2% at September 30, 2018.

Premiums generated from new business decreased 3.7% to $221 million in the third quarter of 2019. While year-over-year average premium per policy on new business increased 6.6% at September 30, 2019, new business polices written decreased 8.9% in the third quarter of 2019. Premiums generated from new business increased 3.6% to $230 million in the third quarter of 2018. While year-over-year average premium per policy on new business increased 5.4% at September 30, 2018, new business polices written decreased 1.9% in the third quarter of 2018. Premiums generated from renewal business increased 6.4% to $1.7 billion in the third quarter of 2019, compared to an increase of 7.7% to $1.6 billion in the third 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 September 30, 2019 and September 30, 2018, respectively, as well as steady policy retention ratios.

Personal lines – Total personal lines premiums written increased 4.4% to $1.4 billion in the third quarter of 2019, from $1.4 billion in the third quarter of 2018, driven by an increase of 2.1% 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 7.2% to $530 million in the third quarter of 2019, from $494 million in the third quarter of 2018, driven by a 2.5% 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 September 30,			Nine months ended September 30,		
(dollars in thousands)	2019	2018	% Change	2019	2018	% Change
	(Unaudited)			(Unaudited)		
Management fee revenue - policy issuance and renewal services, net	$ 474,427	$ 451,361	5.1 %	$ 1,385,923	$ 1,311,911	5.6 %
Service agreement revenue	7,155	7,072	1.2	20,754	21,297	(2.5)
	481,582	458,433	5.0	1,406,677	1,333,208	5.5
Cost of policy issuance and renewal services	390,105	375,259	4.0	1,160,614	1,103,517	5.2
Operating income - policy issuance and renewal services	$ 91,477	$ 83,174	10.0 %	$ 246,063	$ 229,691	7.1 %

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 for the nine months ended 2019 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

	Three months ended September 30,			Nine months ended September 30,		
(dollars in thousands)	2019	2018	% Change	2019	2018	% Change
	(Unaudited)			(Unaudited)		
Commissions:						
Total commissions	$ 266,983	$ 256,770	4.0 %	$ 783,221	$ 752,437	4.1 %
Non-commission expense: (1)						
Underwriting and policy processing	$ 37,497	$ 35,645	5.2 %	$ 115,942	$ 112,052	3.5 %
Information technology	41,891	36,467	14.9	121,885	104,797	16.3
Sales and advertising	12,501	13,226	(5.5)	37,703	40,979	(8.0)
Customer service	8,006	7,041	13.7	24,342	21,822	11.5
Administrative and other	23,227	26,110	(11.0)	77,521	71,430	8.5
Total non-commission expense	123,122	118,489	3.9	377,393	351,080	7.5
Total cost of policy issuance and renewal services	$ 390,105	$ 375,259	4.0 %	$ 1,160,614	$ 1,103,517	5.2 %

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

Commissions – Commissions increased $10.2 million in the third quarter of 2019 and $30.8 million for the nine months ended September 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 5.2% in the third quarter of 2019 and 5.6% for the nine months ended September 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 September 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 $4.6 million in the third quarter of 2019 compared to the third quarter of 2018. Underwriting and policy processing expense increased $1.9 million primarily due to underwriting report costs and other policy acquisition costs. Information technology costs increased $5.4 million primarily due to increased professional fees. Customer service costs increased $1.0 million primarily due to increased personnel costs. Administrative and other expenses decreased $2.9 million primarily driven by a decrease in long-term incentive plan cost due to a decrease in the company stock price in the third quarter of 2019. Personnel costs in all expense categories were impacted by lower estimated costs for incentive plans related to underwriting performance.

Non-commission expense increased $26.3 million for the nine months ended September 30, 2019 compared to the same period in 2018. Underwriting and policy processing expense increased $3.9 million primarily due to underwriting report costs and other policy acquisition costs. Information technology costs increased $17.1 million primarily due to increased professional fees. Administrative and other expenses increased $6.1 million primarily driven by an increase in long-term incentive plan cost due to a higher company stock price during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. Personnel costs in all expense categories were impacted by additional bonuses awarded to all employees of approximately $1.1 million for the nine months ended September 30, 2019 and $4.8 million for the nine months ended September 30, 2018.

Administrative services

(dollars in thousands)	Three months ended September 30, 2019	2018	% Change	Nine months ended September 30, 2019	2018	% Change
	(Unaudited)			(Unaudited)		
Management fee revenue - administrative services, net	$ 14,430	$ 13,521	6.7 %	$ 42,576	$ 39,894	6.7 %
Administrative services reimbursement revenue	142,730	140,172	1.8	431,305	432,642	(0.3)
Total revenue allocated to administrative services	157,160	153,693	2.3	473,881	472,536	0.3
Administrative services expenses						
Claims handling services	124,566	122,205	1.9	376,061	377,854	(0.5)
Investment management services	8,088	7,834	3.3	25,273	24,607	2.7
Life management services	10,076	10,133	(0.6)	29,971	30,181	(0.7)
Operating income - administrative services	$ 14,430	$ 13,521	6.7 %	$ 42,576	$ 39,894	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:

(dollars in thousands)	Three months ended September 30, 2019	2018	% Change	Nine months ended September 30, 2019	2018	% Change
	(Unaudited)			(Unaudited)		
Net investment income	$ 8,652	$ 7,659	13.0 %	$ 25,199	$ 21,583	16.8 %
Net realized investment gains (losses)	1,696	0	NM	5,501	(497)	NM
Net impairment losses recognized in earnings	(31)	0	NM	(193)	(646)	70.1
Equity in earnings of limited partnerships	3,289	772	NM	2,546	361	NM
Total investment income	$ 13,606	$ 8,431	61.4 %	$ 33,053	$ 20,801	58.9 %

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 $1.0 million in the third quarter of 2019, compared to the third quarter of 2018, primarily due to higher income from cash and cash equivalents reflecting higher rates and balances. Net investment income increased $3.6 million for the nine months ended September 30, 2019, compared to the same period in 2018, primarily due to increased income earned from cash and cash equivalents and 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:

(in thousands)	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	(Unaudited)		(Unaudited)	
Securities sold:				
Fixed maturities	$ 1,072	$ (1)	$ 4,229	$ (412)
Equity securities	(37)	(52)	(37)	(111)
Equity securities change in fair value [(1)]	661	51	1,309	(78)
Miscellaneous	0	2	0	104
Net realized investment gains (losses) [(2)]	$ 1,696	$ 0	$ 5,501	$ (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 investment gains during the third quarter and nine months ended September 30, 2019 were primarily driven by gains from sales of fixed maturity securities and market value adjustments on equity securities. The third quarter of 2018 losses from sales of fixed maturity and equity securities were offset by increases in fair value of equity securities and miscellaneous gains. Net realized investment losses during the nine months ended September 30 2018, while driven by sales activity and equity security market value adjustments, were offset somewhat by miscellaneous gains.

Net impairment losses recognized in earnings
Net impairment losses were $31 thousand in the third quarter of 2019 and there were no impairment losses in the third quarter of 2018. For the nine months ended September 30, 2019 and 2018 net impairment losses were $0.2 million and $0.6 million, respectively. Impairments in all applicable periods included securities in an unrealized loss position where we determined the loss was other-than-temporary based on credit factors. Impairment losses for the nine months ended 2018 also included securities in an unrealized loss position with intent to sell prior to expected recovery of our amortized cost basis.

Equity in earnings of limited partnerships
The components of equity in earnings of limited partnerships are as follows:

(in thousands)	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	(Unaudited)		(Unaudited)	
Private equity	$ 3,273	$ 639	$ 2,265	$ 705
Mezzanine debt	(65)	125	(121)	230
Real estate	81	8	402	(574)
Equity in earnings of limited partnerships	$ 3,289	$ 772	$ 2,546	$ 361

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 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 September 30, 2019 reflect investment valuation changes resulting from the financial markets and the economy in the fourth quarter of 2018 and the first two quarters of 2019.

Limited partnership investments generated gains of $3.3 million and $0.8 million in the third quarters of 2019 and 2018, respectively, and gains of $2.5 million and $0.4 million in the nine months ended September 30, 2019 and 2018, respectively. The private equity and real estate sectors generated higher earnings in the third quarter and nine months ended September 30, 2019, compared to the same periods in 2018.

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 5.6% to
$5.7 billion for the nine months ended September 30, 2019 from $5.4 billion for the nine months ended September 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 $9.1 billion at September 30, 2019, $8.6 billion at December 31, 2018, and $9.1 billion at September 30, 2018. The Exchange and its wholly owned property and casualty subsidiaries' year-over-year policy retention ratio continues to be high at 90.1% at September 30, 2019, 90.1% at December 31, 2018, and 89.9% at September 30, 2018.

FINANCIAL CONDITION

Investments

Our investment portfolio is managed with the objective of maximizing after-tax returns on a risk-adjusted basis. The following table presents the carrying value of our investments as of:

(dollars in thousands)	September 30, 2019	% to total	December 31, 2018	% to total
	(Unaudited)			
Fixed maturities	$ 680,633	81%	$ 748,523	88%
Nonredeemable preferred stock	55,052	7	11,853	1
Limited partnerships:				
Private equity	29,938	4	28,271	3
Mezzanine debt	900	0	1,152	0
Real estate	1,333	0	5,398	1
Other investments [(1)]	69,307	8	58,394	7
Total investments	$ 837,163	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 other-than-temporary 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 corporate debt and structured securities as well as nonredeemable preferred stock equity securities.

Fixed maturities 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 $3.4 million at September 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 as of: [1]

(in thousands)	September 30, 2019 (Unaudited)					
Industry Sector	AAA	AA	A	BBB	Non-investment grade	Fair value
Basic materials	$ 0	$ 0	$ 3,207	$ 3,062	$ 7,456	$ 13,725
Communications	0	5,018	8,407	8,693	20,485	42,603
Consumer	0	3,121	10,321	47,259	31,724	92,425
Diversified	0	0	0	1,055	461	1,516
Energy	0	0	4,577	17,577	9,305	31,459
Financial	0	4,320	60,758	87,481	10,114	162,673
Industrial	0	0	9,269	13,349	14,808	37,426
Structured securities [2]	93,166	138,054	14,056	1,151	0	246,427
Technology	0	3,022	8,229	12,772	7,349	31,372
Utilities	0	0	2,745	12,303	5,959	21,007
Total	$ 93,166	$ 153,535	$ 121,569	$ 204,702	$ 107,661	$ 680,633

(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.

The following table presents an analysis of the fair value of our nonredeemable preferred stock securities by sector as of:

(in thousands)	September 30, 2019	December 31, 2018
	(Unaudited)	
Energy	$ 1,886	$ —
Financial	47,753	11,853
Industrial	2,842	—
Utilities	2,571	—
Total	$ 55,052	$ 11,853

Limited partnerships

Investments in limited partnerships have decreased $2.6 million from December 31, 2018 to September 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 two quarters of 2019.

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 nine months ended September 30:

(in thousands)	2019	2018
	(Unaudited)	
Net cash provided by operating activities	$ 237,866	$ 174,314
Net cash used in investing activities	(32,241)	(52,975)
Net cash used in financing activities	(127,170)	(92,372)
Net increase in cash and cash equivalents	$ 78,455	$ 28,967

Net cash provided by operating activities was $237.9 million in the first nine months of 2019, compared to $174.3 million in the first nine 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 nine 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 59% 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 $18.4 million in the first nine months of 2019, compared to the first nine months of 2018, due to less profitable underwriting results.

Net cash used in investing activities was $32.2 million in the first nine months of 2019, compared to $53.0 million in the first nine months of 2018. In the first nine months of 2019, while more proceeds were generated from investment activity, these were offset by higher purchases of available-for-sale securities and equity securities, as well as increased fixed asset purchases primarily related to the home office expansion. Additionally, our future investing activities will be impacted by our limited partnership commitments, which totaled $9.8 million at September 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 $5.4 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 September 30, 2019, $78.9 million of costs have been paid related to this project.

Net cash used in financing activities totaled $127.2 million in the first nine months of 2019, compared to $92.4 million in the first nine 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 $125.7 million in the first nine months of 2019 and $117.4 million in the first nine 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 $0.5 million will be paid during the remainder of 2019. Financing activities in the first nine 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 nine 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 September 30, 2019, based upon trade date.

In the first nine months of 2019, we purchased 13,399 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2.4 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 5,844 shares for $1.2 million, or $198.17 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, May and August 2019. The remaining 4,309 shares were purchased at a total cost of $0.8 million, or $176.26 per share, to fund the rabbi trust for the incentive compensation deferral plan. The shares were transferred to the rabbi trust in February, March, May and August 2019.

In the first nine months of 2018, we purchased 24,692 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2.9 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 6,938 shares for $0.8 million, or $119.52 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, May and August 2018. The remaining 11,924 shares were purchased at a total cost of $1.4 million, or $119.20 per share, to fund the rabbi trust for the incentive compensation deferral plan. The shares were transferred to the rabbi trust in March, May and August 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 $344.9 million at September 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 $406.2 million at September 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 September 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 September 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 September 30, 2019. Investments with a fair value of $109.8 million were pledged as collateral on the line at September 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 September 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 September 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 nine months ended September 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 nine months ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

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 and on July 30, 2019. 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 September 30, 2019. We had approximately $17.8 million of repurchase authority remaining under this program at September 30, 2019.

During the quarter ending September 30, 2019, we purchased 1,435 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $0.3 million, or $222.73 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 August 2019.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
10.1*	Sixth Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated September 3, 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*	Inline 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*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* 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: October 24, 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

SIXTH AMENDMENT TO
ERIE INSURANCE GROUP
RETIREMENT PLAN FOR EMPLOYEES

(As Amended and Restated effective December 31, 2014)

WHEREAS, Erie Indemnity Company (the "Company") maintains the Erie Insurance Group Retirement Plan for Employees (the "Plan") under an amendment and restatement effective December 31, 2014;

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

WHEREAS, the Company wishes to amend the Plan to provide certain participants with deferred retirement and vested pension benefits an ability to receive Plan benefits in the form of a lump sum during a prescribed period in 2019.

NOW, THEREFORE, effective as of September 1, 2019, the Company hereby amends the Plan as follows:

1. A new paragraph shall be added to Section 7.4 of the Plan and such new paragraph shall read as follows:

   Except as provided under Section 7.9, if a former Participant is reemployed by an Employer as a Covered Employee after having received payment of his retirement benefit or deferred vested pension under the Plan in the form of a lump sum:

   (a) Such former Participant shall re-enter the Plan effective as of his date of reemployment as a Covered Employee, and his Service and Credited Service (for purposes of determining eligibility for early and disability retirement benefits only) earned during his prior period of Plan participation shall be reinstated on such date;

   (b) The Credited Service earned during such former Participant's prior period of Plan participation, and which had been reflected in the lump sum paid to the former Participant, shall not be recognized for purposes of computing the amount of any benefit under the Plan;

   (c) The Compensation earned during such former Participant's prior period of Plan participation, and which had been reflected in the lump sum paid to the former Participant, shall not be recognized for purposes of computing the amount of any benefit under the Plan; and

   (d) Such former Participant may not repay to the Plan all or any portion of the lump sum previously paid from the Plan to the former Participant.

2. Section 7.8(a) of the Plan is amended and restated in its entirety to read as follows:

(a) Notwithstanding any provision of the Plan to the contrary, if the actuarial equivalent present value of any retirement benefit, deferred vested pension or survivor benefit does not exceed $5,000 such benefit shall be paid as soon as practicable in a lump sum equal to such present value. Except as otherwise provided in Section 7.13, no lump sum payments shall be made if the actuarial equivalent present value of the benefit is in excess of this threshold.

3. Article VII of the Plan is amended by adding a new section to the end thereof to read as follows:

7.13 2019 Lump Sum Payment Option Window. During the limited period defined herein, a Qualifying Participant (as defined below) may elect to receive his retirement benefit or deferred vested pension under the conditions set forth in this Section 7.13.

(a) Definitions. For purposes of this Section 7.13, the terms set forth below shall have the meanings set forth below.

(i) The term "Lump Sum Payment Option Window" shall mean the special election period during which a Qualifying Participant may elect to receive payment or commence to receive payment of his retirement benefit or deferred vested pension, even if such Qualifying Participant has not satisfied the eligibility conditions that would otherwise be required to commence payment of his retirement benefit or deferred vested pension (determined without regard to this Section 7.13). The Lump Sum Payment Option Window shall begin on September 17, 2019 and shall end on October 22, 2019.

(ii) The term "Qualifying Participant" shall mean a Participant who satisfies each of the following:

(A) has terminated employment with the Company and all Affiliates, for any reason other than death, on or before the Window Determination Date, and who has not re-entered employment as an employee of the Company or an Affiliate;

(B) has not experienced an Annuity Starting Date or an actual or otherwise required beginning date under Section 7.10(b) of the Plan prior to the Window Election Commencement Date;

(C) whose lump sum payment determined under the provisions of Section 7.8 is greater than $5,000;

(D) whose retirement benefit or deferred vested pension can reasonably be determined based on data available to the Administrator; and

(E) can be located by the Administrator after a diligent search.

(F) Notwithstanding the foregoing, the term “Qualifying Participant” shall exclude:

(1) any Participant who is not eligible for a retirement benefit or deferred vested pension benefit under the Plan;

(2) any Participant for whom the Administrator has been provided with documentation evidencing that such Participant’s retirement benefit or deferred vested pension is subject to a qualified domestic relations order as defined in Section 414(p) of the Code or to a pending domestic relations order, temporary restraining order, or other lien (including the order of a court or other state authority assigning any portion of the Participant’s benefit to an alternate payee for which the Plan has not received a domestic relations order) at any time before the Window Election Commencement Date;

(3) any alternate payee under a qualified domestic relations order;

(4) any surviving Spouse or other designated Beneficiary who is eligible for a survivor benefit or a death benefit pursuant to any section of the Plan; and

(5) any Participant whose participation in the Lump Sum Payment Option Window would administratively be impracticable, as the Administrator may advise the Company.

(iii)The term “Special Benefit Election” shall mean the written election made by a Qualifying Participant, in accordance with such rules and procedures as the Administrator may apply to the Lump Sum Payment Option Window, to receive or commence to receive his retirement benefit or deferred vested pension pursuant to the Lump Sum Payment Option Window. For a Special Benefit Election to be valid, the Special Benefit Election for any married Participant must satisfy the requirements for spousal consent, if otherwise applicable under Section 7.6, the completed Special Benefit Election form must be signed and dated on or before October 22, 2019 and such election form must be received by the Administrator or its delegate within an administratively feasible time period, as determined by the Administrator.

(iv) The term “Window Determination Date” shall mean December 31, 2018.

(b) Window Election Commencement Date. Notwithstanding any provision of the Plan to the contrary, any Qualifying Participant who makes a valid Special Benefit Election (as determined by the Administrator) shall receive distribution of his retirement benefit or deferred vested pension in the form of a lump sum or annuity (calculated as set forth below) effective as of December 1, 2019 (the “Window Election Commencement Date”), although the actual payment may be delayed to later in December, 2019 for administrative purposes.

(c) Lump Sum Payment Determination. For any Qualifying Participant who makes a valid Special Benefit Election and elects to receive payment of his retirement benefit or deferred vested pension in the form of a lump sum, the lump sum payment shall be determined as follows:

(i) Participants Otherwise Eligible for Immediate Commencement. With respect to a Qualifying Participant who is eligible for immediate commencement of payment as of the Window Election Commencement Date under the provisions of the Plan other than this Section 7.13, the lump sum payment shall be the greater of the actuarial equivalent present values of the following amounts, each determined by using the applicable interest rate promulgated by the Secretary of the Treasury under Section 417(e)(3)(C) of the Code for November 2018 and the mortality assumptions prescribed by the Secretary of the Treasury pursuant to Section 417(e)(3)(B) of the Code:

(A) the Qualifying Participant’s retirement benefit or deferred vested pension under the Plan, payable in the form of a single life annuity as of his Normal Retirement Date; and

(B) the Qualifying Participant’s retirement benefit or deferred vested pension under the Plan, payable in the form of a single life annuity as of the Window Election Commencement Date.

Notwithstanding the foregoing provisions, the lump sum payment with respect to a Qualifying Participant who has attained Normal Retirement Date shall be the actuarial equivalent present value determined under subparagraph (c)(i)(A) above, increased by an amount equal to the product of the Qualifying Participant’s monthly normal retirement benefit and the number of months, if any, between the Qualifying Participant's Normal Retirement Date and the Window Election Commencement Date.

(ii) Participants Not Otherwise Eligible for Immediate Commencement. With respect to a Qualifying Participant who is not eligible for immediate commencement of payment as of the Window Election Commencement Date under the provisions of the Plan other than this Section 7.13, the lump sum payment shall be the actuarial equivalent present value of the Qualifying Participant's retirement benefit or deferred vested pension under the Plan, payable in the form of a single life annuity as of his Normal Retirement Date, determined by using the applicable interest rate promulgated by the Secretary of the Treasury under Section 417(e)(3)(C) of the Code for November 2018 and the mortality assumptions prescribed by the Secretary of the Treasury pursuant to Section 417(e)(3)(B) of the Code.

Any lump sum payment pursuant to this Section 7.13 shall fully settle the Plan's liability with respect to a Qualifying Participant and no further benefit of any type shall be payable to, or on behalf of, such Qualifying Participant hereunder, except to the extent the Qualifying Participant is a surviving Spouse or Beneficiary with respect to a benefit earned by another Participant under the terms of the Plan (or as provided in Section 7.4 in the event that the Qualifying Participant is rehired after receiving payment and resumes participation in the Plan).

(d) Immediate Annuity Payment. For any Qualifying Participant who makes a valid Special Benefit Election and elects to receive payment of his retirement benefit or deferred vested pension in a form other than a lump sum payment, the Qualifying Participant shall be entitled to elect payment in an immediately commencing annuity in the following optional forms and determined in accordance with the following provisions:

(i) Participants Otherwise Eligible for Immediate Commencement. With respect to a Qualifying Participant who is eligible for immediate commencement of payment as of the Window Election Commencement Date under the provisions of the Plan other than this Section 7.13, such Qualifying Participant's retirement benefit or deferred vested pension shall be payable in one of the following optional annuity forms as the Qualifying Participant may elect, and the following early reduction factors and actuarial factors shall apply in the determination of such payment:

(A) Forms. The optional forms from which the Qualifying Participant may elect payment of his immediately commencing annuity shall be all of the annuity payment forms that would otherwise have been available to such Qualifying

Participant under the Plan had he made a valid election to commence payment of his retirement benefit or deferred vested pension as of the Window Election Commencement Date (determined without regard to this Section 7.13).

(B) Early Reduction and Actuarial Factors. To the extent otherwise applicable under the Plan, actuarial factors for determining the reduction of the Qualifying Participant's pension due to early commencement, and for determining actuarial equivalent benefits between available forms of annuity, shall be the factors that would have applied if the Qualifying Participant had made a valid election to commence payment of his retirement benefit or deferred vested pension under the Plan, with a benefit commencement date of the Window Election Commencement Date, and had elected the same form of immediately commencing annuity elected by the Qualifying Participant in his Special Benefit Election (all determined without regard to this Section 7.13).

(ii) Participants Not Otherwise Eligible for Immediate Commencement. With respect to a Qualifying Participant who is not eligible for immediate commencement of payment as of the Window Election Commencement Date under the provisions of the Plan other than this Section 7.13, such Qualifying Participant's retirement benefit or deferred vested pension shall be payable in one of the following optional annuity forms as the Qualifying Participant may elect, and the following early reduction factors and actuarial factors shall apply in the determination of such payment:

(A) Forms. The optional forms from which the Qualifying Participant may elect payment of his immediately commencing annuity shall be the Automatic Surviving Spouse's Pension described in Section 7.5 of the Plan, the 75% Joint and Survivor Option described in Section 7.7 with his Spouse as Beneficiary (provided, for both such options, the Qualifying Participant is married to a Spouse as of the Window Election Commencement Date) and the single life annuity described in Section 7.3 of the Plan.

(B) Early Reduction and Actuarial Factors. Actuarial factors for determining the reduction to be applied to the Qualifying Participant's retirement benefit or deferred vested pension at Normal Retirement Date to reflect early commencement, and for determining actuarial equivalent benefits between available forms of annuity, shall be based on the applicable interest rate promulgated by the Secretary of the Treasury under Section 417(e)(3)(C) of the Code for November 2018 and the mortality assumptions prescribed by the Secretary of the Treasury pursuant to Section 417(e)(3)(B) of the Code.

(e) Form and Validity of Elections. All Special Benefit Elections must be made in writing on a form and in a manner provided by the Administrator, and mailed to the Administrator or its designee, as set forth on such form, on or before October 22, 2019. The Administrator shall have the authority to determine the validity and sufficiency of any Special Benefit Election made during the Lump Sum Payment Option Window. Notwithstanding the foregoing, any Special Benefit Election made by a Qualifying Participant on or before October 22, 2019, as set forth herein, may be revoked by the Qualifying Participant on or before November 30, 2019, in the form and manner provided by the Administrator.

(f) Death After Valid Election and Before Commencement. Subject to the provisions of Article VIII, in the event a Qualifying Participant who has made a valid Special Benefit Election dies before the Window Election Commencement Date, the Qualifying Participant's surviving Spouse, or in the absence of a surviving Spouse the Qualifying Participant's estate, shall be paid the lump sum for which such Qualifying Participant was otherwise eligible under this Section 7.13. Such payment shall be made as soon as administratively practicable following the Window Election Commencement Date.

(g) Administration. The Administrator shall have the authority to make and enforce all such rules and procedures as it deems necessary or proper for the administration of the Lump Sum Payment Option Window.

* * * * * * *

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed this 3rd day of September, 2019.

ERIE INDEMNITY COMPANY

ATTEST:

/s/ Amy Chapman

By: /s/ Gregory J. Gutting

Title: EVP & Chief Financial Officer

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: October 24, 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: October 24, 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 September 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

October 24, 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.