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

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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

Commission File Number 0-24000

ERIE INDEMNITY COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☑ No o

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

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

Large Accelerated Filer ☑	Accelerated Filer o	Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

Aggregate market value of voting and non-voting common stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter: $1.3 billion of Class A non-voting common stock as of June 30, 2010. There is no active market for the Class B voting common stock. The Class B common stock is closely held by few shareholders.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 49,751,555 shares of Class A common stock and 2,546 shares of Class B common stock outstanding on February 18, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III of this Form 10-K (Items 10, 11, 12, 13, and 14) are incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2010.

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PART I

Item 1. Business

General

Erie Indemnity Company (“Indemnity”) is a publicly held Pennsylvania business corporation that since 1925 has been the managing attorney-in-fact for the subscribers (policyholders) of the Erie Insurance Exchange (“Exchange”). The Exchange is a subscriber owned Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

Indemnity’s primary function is to perform certain services for the Exchange relating to the sales, underwriting and issuance of policies on behalf of the Exchange. This is done in accordance with a subscriber’s agreement (a limited power of attorney) executed by each subscriber (policyholder), appointing Indemnity as their common attorney-in-fact to transact business on their behalf and to manage the affairs of the Exchange. Pursuant to the subscriber’s agreement and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement.

Through December 31, 2010, Indemnity also operated as a property and casualty insurer through its wholly owned subsidiaries, Erie Insurance Company (“EIC”), Erie Insurance Company of New York (“ENY”) and Erie Insurance Property and Casualty Company (“EPC”). EIC, ENY and EPC, together with the Exchange and its wholly owned subsidiary, Flagship City Insurance Company (“Flagship”), are collectively referred to as the “Property and Casualty Group”. The Property and Casualty Group operates in 11 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia and writes primarily private passenger automobile, homeowners, commercial multi-peril, commercial automobile and workers compensation lines of insurance.

On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned property and casualty subsidiaries to the Exchange. There was no gain or loss resulting from this sale as Indemnity and the Exchange are deemed to be under common control. Under this new structure, all property and casualty insurance operations are owned by the Exchange, and Indemnity will continue to function as the management company. There was no impact on the existing reinsurance pooling agreement between the Exchange and EIC or ENY as a result of the sale, nor was there any impact to the subscribers (policyholders) of the Exchange, to the Exchange’s independent insurance agents, or to Indemnity’s employees.

Erie Family Life Insurance Company (“EFL”) is an affiliated life insurance company that underwrites and sells individual and group life insurance policies and fixed annuities. Indemnity and the Exchange own 21.6% and 78.4% of EFL, respectively. On November 4, 2010, Indemnity entered into a definitive agreement for the sale of its 21.6% ownership interest in EFL to the Exchange, which is scheduled to close by March 31, 2011. Upon the closing date, the Exchange will own 100% of EFL.

Because Indemnity and the Exchange are deemed to be under common control for financial reporting purposes, any gains or losses resulting from the sale of Indemnity’s equity interest in EFL will be recorded as an adjustment directly to Indemnity’s equity balance at March 31, 2011.

“Indemnity shareholder interest” refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. “Noncontrolling interest” refers to the interest in the Erie Insurance Exchange held for the benefit of the subscribers (policyholders).

The consolidated financial statements of Erie Indemnity Company reflect the results of Indemnity and its variable interest entity, the Exchange, which we refer to collectively as “Erie Insurance Group” (“we,” “us,” “our”).

Business segments

We operate our business as four reportable segments — management operations, property and casualty insurance operations, life insurance operations and investment operations. Financial information about these segments is set forth in and referenced to Item 8. “Financial Statements and Supplementary Data — Note 5, Segment Information, of Notes to Consolidated Financial Statements” contained within this report. Further discussion of financial results by operating segment is provided in and referenced to Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained within this report.

Management operations — We generate internal management fee revenue, which accrues to the benefit of the Indemnity shareholder interest, as Indemnity provides services to the Exchange relating to the sales, underwriting and issuance of policies. The Exchange is the sole customer of our management operations. Indemnity charges the Exchange a management fee, determined by our Board of Directors, not to exceed 25% of all premiums written or assumed by the Exchange for its services as attorney-in-fact. Management fee revenue is eliminated upon consolidation.

Property and casualty insurance operations — The Property and Casualty Group generates revenue by insuring standard and preferred risks, with personal lines comprising 73% of the 2010 direct written premiums and commercial lines comprising the remaining 27%. The principal personal lines products based upon 2010 direct written premiums were private passenger automobile (48%) and homeowners (21%). The principal commercial lines products based on 2010 direct written premiums were commercial multi-peril (11%), commercial automobile (7%) and workers compensation (6%).

The members of the Property and Casualty Group pool their underwriting results under an intercompany pooling agreement. Under the pooling agreement, the Exchange retains a 94.5% interest in the net underwriting results of the Property and Casualty Group, while EIC retains a 5.0% interest and ENY retains a 0.5% interest. Prior to December 31, 2010, the underwriting results retained by EIC and ENY accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

Historically, due to policy renewal and sales patterns, the Property and Casualty Group's direct written premiums are greater in the second and third quarters than in the first and fourth quarters of the calendar year. Property and casualty insurance premiums earned accounted for approximately 81% of our total consolidated revenue in 2010, 90% in 2009 and 142% in 2008. The proportion of property and casualty insurance premiums to total consolidated revenues was significantly greater in 2008 due to losses generated from our investment operations as a result of unfavorable market conditions.

The Property and Casualty Group is represented by nearly 2,100 independent agencies comprising almost 9,500 licensed representatives, which is our sole distribution channel. In addition to their principal role as salespersons, the independent agents play a significant role as underwriting and service providers and are fundamental to the Property and Casualty Group's success.

The Property and Casualty Group writes business in Illinois, Indiana, Maryland, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, Wisconsin and the District of Columbia. The states of Pennsylvania, Maryland and Virginia made up 63% of the Property and Casualty Group's 2010 direct written premium.

While sales, underwriting and policy issuance services are centralized at our home office, the Property and Casualty Group maintains 24 field offices throughout its operating region to provide claims services to policyholders and marketing support for the independent agencies that represent us.

The Property and Casualty Group ranked as the 13th largest automobile insurer in the United States based on 2009 direct written premiums and as the 19th largest property and casualty insurer in the United States based on 2009 total lines net premium written according to AM Best.

Life insurance operations — Our life insurance operations generate revenue from the sale of individual and group life insurance policies and fixed annuities. These products are offered through our property and casualty agency force to provide an opportunity to cross-sell both personal and commercial accounts. EFL writes business in 10 states including Illinois, Indiana, Maryland, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and Wisconsin and the District of Columbia. The state of Pennsylvania made up 51% of EFL's 2010 premium and annuity considerations, with Maryland, Virginia and Ohio making up nearly 10% each.

As discussed previously, currently Indemnity and the Exchange own 21.6% and 78.4% of EFL, respectively. Upon the sale of Indemnity's ownership interest in EFL, scheduled to close by March 31, 2011, the Exchange will own 100% of the life insurance operations.

Investment operations — Our investment operations generate revenue from our fixed maturity, equity security and alternative investment portfolios. The portfolios are managed with the objective of maximizing after-tax returns on a risk-adjusted basis. Revenues and losses included in investment operations consist of net investment income, net realized gains and losses, net impairment losses recognized in earnings for our fixed maturity and preferred equity portfolios, and equity in earnings and losses from our alternative investments, which include private equity, real estate, and mezzanine limited partnerships. The volatility inherent in the financial markets has the potential to impact our investment portfolio from time-to-time. Net revenues from our investment operations accounted for approximately 17% of our total consolidated revenue in 2010 and 8% in 2009, where in 2008 net losses from our investment operations negatively impacted our total consolidated revenues by 46% as a result of unfavorable market conditions.

Competition

Property and casualty insurers generally compete on the basis of customer service, price, consumer recognition, coverages offered, claims handling, financial stability and geographic coverage. Vigorous competition, particularly in the personal lines automobile and homeowners lines of business, is provided by large, well-capitalized national companies, some of which have broad distribution networks of employed or captive agents, by smaller regional insurers and by large companies who market and sell personal lines products directly to consumers. In addition, because the insurance products of the Property and Casualty Group are marketed exclusively through independent insurance agents, the Property and Casualty Group faces competition within its appointed agencies based on ease of doing business, product, price and service relationships.

Market competition bears directly on the price charged for insurance products and services subject to regulatory limitations. Growth is driven by a company’s ability to provide insurance services and competitive prices while maintaining target profit margins. Industry capital levels can also significantly affect prices charged for coverage. Growth is a product of a company’s ability to retain existing customers and to attract new customers, as well as movement in the average premium per policy.

The Erie Insurance Group has a strategic focus that we believe will result in long-term underwriting performance. First, we employ an underwriting philosophy and product mix targeted to produce a Property and Casualty Group underwriting profit on a long-term basis through careful risk selection and rational pricing. The careful selection of risks allows for lower claims frequency and loss severity, thereby enabling insurance to be offered at favorable prices. The Property and Casualty Group has continued to refine its risk measurement and price segmentation model used in the underwriting and pricing processes. Second, the Property and Casualty Group focuses on consistently providing superior service to policyholders and agents. Third, the Property and Casualty Group’s business model is designed to provide the advantages of localized marketing and claims servicing with the economies of scale and low cost of operations from centralized accounting, administrative, underwriting, investment, information management and other support services.

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

EFL, our life insurer, is subject to many of the same structural advantages and environmental challenges as the Property and Casualty Group. Term life business accounts for the majority of policies issued by EFL, and this product line is extremely competitive and increasingly transparent due in part to the proliferation of on-line quoting services. Besides price, ease of application and processing improvements represent areas where companies are finding ways to differentiate themselves among independent producers. EFL continues to progress in these areas using state-of-the-art technology and third-party vendors. Historically, sound underwriting and disciplined approaches to pricing and investing have contributed to favorable operating results. While EFL will be challenged to maintain these trends in the face of intensified competition going forward, we continue to shape our strategy and core processes to respond more effectively to the needs of our policyholders and independent agents.

Employees

We employed approximately 4,200 people at December 31, 2010, of which approximately 2,090, or 50%, provide claims specific services exclusively for the Property and Casualty Group and approximately 65, or 2%, perform services exclusively for EFL.

Reserves for losses and loss expenses

The table that follows illustrates the change over time of the loss and loss expense reserves established for the Property and Casualty Group at the end of the last ten calendar years. The Property and Casualty Group's obligation at December 31, 2010 is $3.6 billion. An additional discussion of our property and casualty loss reserve methodology can be found in and is referenced to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" contained within this report.

The Property and Casualty Group discounts only workers compensation reserves. These reserves are discounted on a nontabular basis as prescribed by the Insurance Department of the Commonwealth of Pennsylvania. The interest rate of 2.5% used to discount these reserves is based upon the Property and Casualty Group's historical workers compensation payout pattern. The Property and Casualty Group's unpaid losses and loss expenses reserves were reduced by $127 million and $136 million at December 31, 2010 and 2009, respectively, as a result of this discounting.

An additional discussion of property and casualty loss reserve activity can be found in and is referenced to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition" section contained within this report.

Property and Casualty Group
Reserves for Unpaid Losses and Loss Expenses

	At December 31,									
(in millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross liability for unpaid losses and loss expenses (LAE)	$2,348	$2,940	$3,401	$3,629	$3,779	$3,830	$3,684	$3,586	$3,598	$3,584
Gross liability re-estimated as of:										
One year later	2,677	2,986	3,360	3,592	3,651	3,559	3,487	3,502	3,336	
Two years later	2,731	3,021	3,423	3,583	3,508	3,467	3,409	3,320		
Three years later	2,789	3,117	3,482	3,558	3,464	3,412	3,307			
Four years later	2,895	3,190	3,497	3,516	3,437	3,358				
Five years later	2,979	3,223	3,466	3,494	3,404					
Six years later	3,027	3,173	3,440	3,485						
Seven years later	2,977	3,186	3,430							
Eight years later	2,980	3,189								
Nine years later	2,964									
Cumulative (deficiency) redundancy	$ (616)	$ (249)	$ (29)	$ 144	$ 375	$ 472	$ 377	$ 266	$ 262	N/A
Cumulative amount of gross liability paid through:										
One year later	$ 859	$ 933	$1,055	$1,066	$1,067	$1,019	$1,042	$1,033	$ 955	
Two years later	1,339	1,477	1,638	1,699	1,630	1,621	1,573	1,538		
Three years later	1,658	1,819	2,034	2,056	2,016	1,962	1,889			
Four years later	1,858	2,044	2,245	2,294	2,235	2,147				
Five years later	1,990	2,161	2,394	2,431	2,342					
Six years later	2,061	2,256	2,484	2,509						
Seven years later	2,131	2,316	2,541							
Eight years later	2,172	2,357								
Nine years later	$2,201									

Government Regulation

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

The Property and Casualty Group is also required to participate in various involuntary insurance programs for automobile insurance, as well as other property and casualty lines, in states in which such companies operate. These involuntary programs provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage in the voluntary market. These programs include joint underwriting associations, assigned risk plans, fair access to insurance requirements ("FAIR") plans, reinsurance facilities and windstorm plans. Legislation establishing these programs generally provides for participation in proportion to voluntary writings of related lines of business in that state. The loss ratio on insurance written under involuntary programs has traditionally been greater than the loss ratio on insurance in the voluntary market. Although currently the federal government does not directly regulate the insurance industry, federal programs, such as federal terrorism backstop legislation and the Federal Insurance Office established under the Dodd-Frank Act can also impact the insurance industry.

Our life insurer, EFL, is subject to similar state regulations as the Property and Casualty Group, although specific laws and statutes applicable to life insurance and annuity carriers govern its activities. Valuation laws require statutory reserves to be held at conservative levels, which can have a substantial impact on the amount of free surplus that is available for financing new business and other growth opportunities.

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

All transactions within the holding company system affecting the insurers Indemnity manages are filed with the applicable insurance departments and must be fair and reasonable. Approval of the applicable insurance commissioner is required prior to the consummation of transactions affecting the control of an insurer. In some states, the acquisition of 10% or more of the outstanding common stock of an insurer or its holding company is presumed to be a change in control. The sale of Indemnity's wholly owned property and casualty subsidiaries, EIC, ENY and EPC, and the sale of Indemnity's 21.6% ownership interest in EFL have both been approved by the appropriate regulatory agencies. Approval of the applicable insurance commissioner is also required in order to declare extraordinary dividends. See Item 8, "Financial Statements and Supplementary Data — Note 23, Statutory Information, of Notes to Consolidated Financial Statements" contained within this report.

Website access

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website at www.erieinsurance.com as soon as reasonably practicable after such material is filed electronically with the SEC. Our Code of Conduct is available on our website and in printed form upon request. Our information statement on Form 14(C) is also available free of charge at www.erieinsurance.com. Copies of our annual report on Form 10-K will be made available, free of charge, upon written request as well by contacting Investor Relations, Erie Indemnity Company, 100 Erie Insurance Place, Erie, PA 16530, or calling 1-800-458-0811.

Item 1A. Risk Factors

Our business involves various risks and uncertainties, including, but not limited to those discussed in this section. The events described in the risk factors below, or any additional risk outside of those discussed below, could have a material adverse effect on our business, financial condition, operating results or liquidity if they actually occur. This information should be considered carefully together with the other information contained in this report, including management's discussion and analysis of financial condition and results of operations, the consolidated financial statements and the related notes.

Risk factors related to the Indemnity shareholder interest

If the management fee rate paid by the Exchange is reduced or if there is a significant decrease in the amount of premiums written or assumed by the Exchange, revenues and profitability could be materially adversely affected.

Indemnity is dependent upon management fees paid by the Exchange, which represent its principal source of revenue. Pursuant to the subscriber's agreements with the policyholders at the Exchange, Indemnity may retain up to 25% of all premiums written or assumed by the Exchange. Therefore, management fee revenue from the Exchange is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. Accordingly, any reduction in direct premiums written by the Property and Casualty Group would have a proportional negative effect on Indemnity's revenues and net income. See the "Risk factors relating to the non-controlling interest owned by the Exchange, which includes the Property and Casualty Group and EFL" section, herein, for a discussion of risks impacting direct written premium.

The management fee rate is determined by the Board of Directors and may not exceed 25% of the premiums written or assumed by the Exchange. The Board of Directors sets the management fee rate each December for the following year. At their discretion, the rate can be changed at any time. The factors considered by the Board in setting the management fee rate include Indemnity's financial position in relation to the Exchange and the long-term needs of the Exchange for capital and surplus to support its continued growth and competitiveness. If the Exchange's surplus were significantly reduced, the management fee rate could be reduced and Indemnity's revenues and profitability could be materially adversely affected.

If the costs of providing services to the Exchange are not controlled, Indemnity's revenues and profitability could be materially adversely affected.

Pursuant to the subscriber's agreements with the policyholders at the Exchange, Indemnity is appointed to perform certain services, regardless of the cost of providing those services. These services relate to the sales, underwriting and issuance of policies on behalf of the Exchange. Indemnity incurs significant costs related to commissions, employees, and technology in order to provide these services.

Commissions to independent agents are the largest component of Indemnity's cost of operations. Commissions include scheduled commissions to agents based on premiums written as well as additional commissions and bonuses to agents, which are earned by achieving certain targeted measures. Changes to commission rates or bonus programs may result in increased future costs and lower profitability.

Employees are an essential part of the operating costs related to providing services for the Exchange. As a result, Indemnity's profitability is affected by employee costs, including salary, medical, pension and other benefit costs. Recent regulatory developments and economic factors that are beyond our control indicate that employee healthcare costs will continue to increase. Although Indemnity actively manages these cost increases, there can be no assurance that future cost increases will not occur and reduce its profitability.

Technological development is necessary to reduce Indemnity's costs and the Property and Casualty Group's operating costs and to facilitate agents' and policyholders' ability to do business with the Property and Casualty Group. If we are unable to keep pace with the advancements in technology, our ability to compete with other insurance companies who have advanced technological capabilities will be negatively affected. This could result in additional costs as we invest in new technology and systems.

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

Our future performance is substantially dependent upon our ability to attract, motivate and retain executives and other key management. The loss of the services and leadership of certain key officers and the failure to attract, motivate and develop talented new executives and managers could prevent us from successfully communicating, implementing and executing business strategies, and therefore have a material adverse effect on our financial condition and results of operations.

Our success also depends on our ability to attract, develop and retain a talented employee base. The inability to staff all functions of our business with employees possessing the appropriate technical expertise could have an adverse effect on our business performance. Staffing appropriately skilled employees for the deployment and maintenance of information technology systems, the appropriate handling of claims, and rendering of disciplined underwriting is critical to the success of our business.

If we are unable to keep pace with technological advancements in the insurance industry or are unable to ensure system availability or to secure system information, the ability of the Erie Insurance Group to compete effectively could be impaired.

The Indemnity is responsible for providing the technological resources necessary to support the operations of the Erie Insurance Group. Our business is highly dependent upon the effective operations of our technology and information systems. We rely on these systems to assist in key functions of core business operations including processing claims, applications, and premium payments, providing customer support, performing actuarial and financial analysis, and maintaining key data. We have an established business continuity plan to ensure the continuation of core business operations in the event that normal business operations could not be performed due to a catastrophic event. While we continue to test and assess our business continuity plan to ensure it meets the needs of our core business operations and addresses multiple business interruption events, there is no assurance that core business operations could be performed upon the occurrence of such an event. The failure of our information systems for any reason could result in a material adverse effect on our business, financial condition, or results of operations.

Advancements in technology continue to make it easier to store, share and transport information. A security breach of our computer systems could interrupt or damage our operations or harm our reputation if confidential company or customer information were to be misappropriated from our systems. Cases where sensitive data is exposed or lost may lead to a loss in competitive advantage or lawsuits.

The performance of Indemnity's investment portfolio is subject to a variety of investment risks, which may in turn have a material adverse effect on its results of operations or financial condition.

The Indemnity's investment portfolio is comprised principally of fixed-income maturities and limited partnerships. At December 31, 2010 the Indemnity's investment portfolio consisted of approximately 50% fixed income securities, 40% limited partnerships, and 10% equity securities.

All of Indemnity's marketable securities are subject to market volatility. To the extent that future market volatility negatively impacts Indemnity's investments, its financial condition will be negatively impacted. We review the investment portfolio on a continuous basis to evaluate positions that might have incurred other-than-temporary declines in value. The primary factors considered in our review of investment valuation include the extent and duration to which fair value is less than cost, historical operating performance and financial condition of the issuer, short- and long-term prospects of the issuer and its industry, specific events that occurred affecting the issuer including rating downgrades and, depending on the type of security, our intent to sell or our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. As the process for determining impairments is highly subjective, changes in our assessments may have a material effect on Indemnity's operating results and financial condition. See also Item 7A. "Quantitative and Qualitative Disclosures about Market Risk".

If the fixed-income, equity, or limited partnership portfolios were to suffer a substantial decrease in value, Indemnity's financial position could be materially adversely affected through increased unrealized losses or impairments.

Currently, 75% of the fixed-income portfolio is invested in municipal securities. The performance of the fixed-income portfolio is subject to a number of risks including:

- Interest rate risk — the risk of adverse changes in the value of fixed-income securities as a result of increases in market interest rates.
- Investment credit risk — the risk that the value of certain investments may decrease due to the deterioration in financial condition of, or the liquidity available to, one or more issuers of those securities or, in the case of asset-backed securities, due to the deterioration of the loans or other assets that underlie the securities, which, in each case, also includes the risk of permanent loss.
- Concentration risk — the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries, which could result in a significant decrease in the value of the portfolio in the event of a deterioration of the financial condition, performance, or outlook of those issuers, sectors, or industries.
- Liquidity risk — the risk that Indemnity will not be able to convert investment securities into cash on favorable terms and on a timely basis, or that Indemnity will not be able to sell them at all, when desired. Disruptions in the financial markets, or a lack of buyers for the specific securities that Indemnity is trying to sell, could prevent it from liquidating securities or cause a reduction in prices to levels that are not acceptable to Indemnity.

In addition to the fixed-income securities, a significant portion of Indemnity's portfolio is invested in limited partnerships. At December 31, 2010, the Indemnity had investments in limited partnerships of $216 million, or 16% of total assets. In addition, Indemnity is obligated to invest up to an additional $50 million in limited partnerships, including private equity, real estate and mezzanine partnership investments. Limited partnerships are significantly less liquid and generally involve higher degrees of price risk than publicly traded securities. Limited partnerships, like publicly traded securities, have exposure to market volatility; but unlike fixed-income securities, cash flows and return expectations are less predictable. The primary basis for the valuation of limited partnership interests are financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, Indemnity's financial statements at December 31, 2010, do not reflect market conditions experienced in the fourth quarter of 2010.

Indemnity's equity securities have exposure to price risk, the risk of potential loss in estimated fair value resulting from an adverse change in prices. Indemnity does not hedge its exposure to equity price risk inherent in its equity investments. Equity markets, sectors, industries, and individual securities may also be subject to some of the same risks that affect Indemnity's fixed-income portfolio, as discussed above.

Indemnity is subject to credit risk from the Exchange because the management fees from the Exchange are not paid immediately when premiums are written.

Indemnity recognizes management fees due from the Exchange as income when the premiums are written because at that time Indemnity has performed substantially all of the services it is required to perform, including sales, underwriting and policy issuance activities. However, such fees are not paid to Indemnity by the Exchange until the Exchange collects the premiums from policyholders. As a result, Indemnity holds receivables for management fees since such fees are based on premiums that have been written and assumed. Indemnity also holds receivables from the Exchange for costs it pays on the Exchange's behalf. The receivable from the Exchange totaled $232 million or 18% of our total assets at December 31, 2010.

Deteriorating capital and credit market conditions may significantly affect Indemnity's ability to meet liquidity needs and access capital.

Sufficient liquidity and capital levels are required to pay operating expenses, income taxes, and to provide the necessary resources to fund future growth opportunities, pay dividends, and repurchase stock. Our management estimates the appropriate level of capital necessary based on current and projected results, which include a factor for potential exposures based on these Risk Factors. Failure to accurately estimate Indemnity's capital needs may have a material adverse effect on its financial condition until additional sources of capital can be located. Further, a deteriorating financial condition may create a negative perception of the Indemnity by third parties, including rating agencies, investors, agents, and customers which could impact its ability to access additional capital in the debt or equity markets.

The primary sources of liquidity for Indemnity are management fees and cash flows generated from its investment portfolio. In the event Indemnity's current sources do not satisfy its needs, Indemnity has the ability to access its $100 million bank line of credit, from which there were no borrowings as of December 31, 2010, or sell assets in the investment portfolio. Volatility in the financial markets could impair Indemnity's ability to sell certain of its fixed income securities and to a greater extent its significantly less liquid limited partnership investments, or cause such investments to sell at deep discounts.

In the event these traditional sources of liquidity are not available, Indemnity may have to seek additional financing. Indemnity's access to funds will depend on a number of factors including current market conditions, the availability of credit to the financial services industry, market liquidity, and credit ratings. In deteriorating market conditions, Indemnity may not be able to obtain additional financing on favorable terms, or at all.

Indemnity is subject to claims and legal proceedings, which, if determined unfavorably, could have a material adverse effect on Indemnity's business, results of operations or financial condition.

Indemnity faces a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating its businesses, including the risk of class action lawsuits. Indemnity's pending legal and regulatory actions include proceedings specific to Indemnity and others generally applicable to business practices in the industries in which it operates. In Indemnity's management operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, payment of contingent or other sales commissions, product design, product disclosure, policy issuance and administration, additional premium charges for premiums paid on a periodic basis, charging excessive or impermissible fees on products, recommending unsuitable products to customers, and breaching alleged fiduciary or other duties to customers. Indemnity is also subject to litigation arising out of its general business activities such as its contractual and employment relationships. Plaintiffs in class action and other lawsuits against Indemnity may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. Indemnity is also subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations, from state and federal regulators and authorities.

Risk factors relating to the non-controlling interest owned by the Exchange, which includes the Property and Casualty Group and EFL

Deteriorating general economic conditions may have an adverse effect on the non-controlling interest's operating results and financial condition.

Unfavorable changes in economic conditions, including declining consumer confidence, inflation, high unemployment and recession, among others, may lead the Property and Casualty Group's customers to modify coverage, not renew policies, or even cancel policies, which could adversely affect the premium revenue of the Property and Casualty Group, and consequently Indemnity's management fee. These conditions could also impair the ability of customers to pay premiums when due, and as a result, the Property and Casualty Group's reserves and write-offs could increase.

In addition, downward economic trends also may have an adverse effect on both Indemnity's and the Property and Casualty Group's investment results by negatively impacting the business conditions and impairing credit for the issuers of securities held in their respective investment portfolios. This could reduce fair values of investments and generate significant unrealized losses or impairment charges which may adversely affect their respective financial results.

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

The Property and Casualty Group markets and sells its insurance products through independent, non-exclusive agencies. These agencies are not obligated to sell only the Property and Casualty Group's insurance products, and generally they also sell competitors' insurance products. As a result, the Property and Casualty Group's business depends in large part on the marketing and sales efforts of these agencies. To the extent these agencies' marketing efforts cannot be maintained at their current levels of volume or they bind the Property and Casualty Group to unacceptable insurance risks, fail to comply with established underwriting guidelines or otherwise improperly market the Property and Casualty Group's products, the results of operations and business of the Property and Casualty Group could be adversely affected. Also, to the extent these agencies place business with competing insurers due to compensation arrangements, product differences, price differences, ease of doing business or other reasons, the results of operations of the Property and Casualty Group could be adversely affected. If the Property and Casualty Group is unsuccessful in maintaining and increasing the number of agencies in its independent agent distribution system, the results of operations of the Property and Casualty Group could be adversely affected. To the extent that consumer preferences cause the insurance industry to migrate to a delivery system other than independent agencies, the business of the Property and Casualty Group could be adversely affected. Also, to the extent the agencies choose to place significant portions or all of their business with competing insurance companies, the results of operations and business of the Property and Casualty Group could be adversely affected.

The Property and Casualty Group maintains a brand recognized for superior customer service. Our ability to maintain this reputation is a key factor to the Property and Casualty Group's success.

The Property and Casualty Group consistently ranks high in consumer surveys for customer service. Incidents such as failure to protect sensitive customer data, errors in processing a claim, systems failures, or unfavorable litigation, among others, may result in reputational harm to the Property and Casualty Group's brand and the potential for reduction in business. While we maintain and execute processes to minimize these events, we cannot completely eliminate this risk.

The Property and Casualty Group faces significant competition from other regional and national insurance companies. Failure to keep pace with competitors may result in lower market share and revenues, which may have a material adverse affect on the Property and Casualty Group's financial condition.

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

If we are unable to perform at industry best practice levels in terms of quality, cost containment, and speed-to-market due to inferior operating resources and/or problems with external relationships, the Property and Casualty Group's business performance may suffer. As the business environment changes, if we are unable to adapt timely to emerging industry changes, or if our people do not conform to the changes, the Property and Casualty Group's business could be materially impacted.

The property/casualty insurance industry is highly competitive on the basis of product, price and service. If competitors offer property/casualty products with more coverage and/or better service or offer lower rates, and we are unable to implement product or service improvements quickly enough to keep pace, the Property and Casualty Group's ability to grow and renew its business may be adversely impacted.

The internet continues to grow as a method of product distribution, and as a preferred method of product and price comparison. We compete against established 'direct to consumer' insurers as well as insurers that use a combination of agent and online distribution. We expect the competitors in this channel to grow. Failure to position our distribution technology effectively in light of these trends and changing demographics could inhibit the Property and Casualty Group's ability to grow and maintain its customer base. The Property and Casualty Group's growth could also be adversely impacted by an inability to accommodate prospective customers based on lack of geographic agency presence.

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

Property and casualty insurers are subject to extensive supervision in the states in which they do business. This regulatory oversight includes, by way of example, matters relating to licensing examination, rate setting, market conduct, policy forms, limitations on the nature and amount of certain investments, claims practices, mandated participation in involuntary markets and guaranty funds, reserve adequacy, insurer solvency, transactions between affiliates and restrictions on underwriting standards. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of shareholders. For instance, members of the Property and Casualty Group are subject to involuntary participation in specified markets in various states in which they operate, and the rate levels the Property and Casualty Group is permitted to charge do not always correspond with the underlying costs associated with the coverage issued. Although currently the federal government does not directly regulate the insurance industry, federal programs, such as federal terrorism backstop legislation and the Federal Insurance Office established under the Dodd-Frank Act can also impact the insurance industry. In addition to specific insurance regulation, the Property and Casualty Group must also comply with other regulatory, legal and ethical requirements relating to the general operation of a business.

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

One of the distinguishing features of the property and casualty insurance industry in general is that its products are priced before its costs are known, as premium rates are generally determined before losses are reported. Consequently, in establishing premium rates, we attempt to anticipate the potential impact of inflation, including medical cost inflation, construction and auto repair cost inflation and tort issues. Medical costs are a broad element of inflation that impacts personal and commercial auto, general liability, workers compensation and commercial multi-peril lines of insurance written by the Property and Casualty Group. Accordingly, premium rates must be established from forecasts of the ultimate costs expected to arise from risks underwritten during the policy period. These premium rates may prove to be inadequate if future inflation is significantly higher than the inflation anticipated in the pricing.

Further, property and casualty insurers establish reserves for losses and loss expenses that will not be paid and settled for many years. Numerous factors affect both the current estimates and final settlement value of these losses and loss expenses. It is possible that the ultimate liability for these losses and loss expenses will exceed these reserves because of unanticipated changes in the future development of known losses, the unanticipated emergence of losses that have occurred but are currently unreported and larger than expected settlements on pending and unreported claims. The process of estimating reserves is inherently judgmental and can be influenced by factors that are subject to variation. If pricing or reserves of the Property and Casualty Group are not sufficient, the Property and Casualty Group's underwriting profitability may be adversely impacted.

Not completely knowing costs before products are priced has caused the property and casualty insurance industry to cycle through periods of pricing corrections, resulting in an oscillation of profitability and premium growth. Based on this experience, we expect this cyclicality to continue. The Property and Casualty Group seeks an appropriate balance between profitability and premium growth, but the need to remain competitive prevents it from being completely immune to the cyclical routine. The periods of intense price competition in the cycle could adversely affect the Property and Casualty Group's financial condition, profitability, or cash flows.

Emerging claim and coverage issues in the insurance industry are unpredictable and could cause an adverse effect on the Property and Casualty Group's results of operation or financial condition.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage may emerge. These issues may adversely affect the Property and Casualty Group's business by either extending coverage beyond its underwriting intent or by increasing the number or size of claims. In some instances, these emerging issues may not become apparent for some time after the Property and Casualty Group has issued the affected insurance policies. As a result, the full extent of liability under the Property and Casualty Group's insurance policies may not be known for many years after the policies are issued.

Changes in reserve estimates may adversely affect EFL's operating results.

Reserves for life-contingent contract benefits are computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, persistency and expenses. We periodically review the adequacy of these reserves on an aggregate basis and if future experience differs significantly from assumptions, adjustments to reserves and amortization of deferred policy acquisition costs may be required which could have a material adverse effect on EFL's operating results.

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

The Property and Casualty Group conducts business in 11 states and the District of Columbia, primarily in the Mid-Atlantic, Midwestern and Southeastern portions of the United States. A substantial portion of this business is private passenger and commercial automobile, homeowners and workers compensation insurance in Ohio, North Carolina, Maryland, Virginia and particularly, Pennsylvania. As a result, a single catastrophe occurrence, destructive weather pattern, change in climate condition, general economic trend, terrorist attack, regulatory development or other condition disproportionately affecting one or more of the states in which the Property and Casualty Group conducts substantial business could adversely affect the results of operations of members of the Property and Casualty Group. Common natural catastrophe events include hurricanes, earthquakes, tornadoes, hail storms and severe winter weather. The frequency and severity of these catastrophes is inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposures in the area affected by the event and the severity of the event.

Terrorist attacks could cause losses from insurance claims related to the property/casualty insurance operations, as well as a decrease in our equity, net income or revenue. The federal Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007 requires that some coverage for terrorist loss be offered by primary commercial property insurers and provides federal assistance for recovery of claims through 2014. While the Property and Casualty Group is exposed to terrorism losses in commercial lines and workers compensation, these lines are afforded a limited backstop above insurer deductibles for acts of terrorism under this federal program. The Property and Casualty Group has no personal lines terrorist coverage in place. The Property and Casualty Group could incur large net losses if terrorist attacks occur.

The Property and Casualty Group maintains a property catastrophe reinsurance treaty that was renewed effective January 1, 2011, that provides coverage of 90% of a loss up to $500 million in excess of the Property and Casualty Group's loss retention of $350 million per occurrence. In addition, a second property catastrophe reinsurance treaty was entered into with nonaffiliated reinsurers providing coverage of up to 90% of a loss of $25 million in excess of the first property catastrophe reinsurance treaty's coverage of $850 million. The treaties exclude losses from acts of terrorism. Catastrophe reinsurance may prove inadequate if a major catastrophic loss exceeds the reinsurance limit which could adversely affect the Property and Casualty Group's underwriting profitability and financial position.

The inability to acquire reinsurance coverage at reasonable rates or collect amounts due from reinsurers could have an adverse effect on the Property and Casualty Group.

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. The availability of reinsurance capacity can be impacted by general economic conditions and conditions in the reinsurance market, such as the occurrence of significant reinsured events. The availability and cost of reinsurance could affect the Property and Casualty Group's business volume and profitability.

Although the reinsurer is liable to the Property and Casualty Group to the extent of the ceded reinsurance, the Property and Casualty Group remains liable as the direct insurer on all risks reinsured. Reinsurance contracts do not relieve the Property and Casualty Group from its primary obligations to policyholders. As a result, ceded reinsurance arrangements do not eliminate the Property and Casualty Group's obligation to pay claims. Accordingly, the Property and Casualty Group is subject to credit risk with respect to its ability to recover amounts due from reinsurers. The Property and Casualty Group's inability to collect a material recovery from a reinsurer could have an adverse effect on its underwriting profitability and financial condition.

The performance of the Exchange's investment portfolio is subject to a variety of investment risks, which may in turn have a material adverse effect on its results of operations or financial condition.

The Exchange's investment portfolio is comprised principally of fixed-income maturities, common stocks, and limited partnerships. At December 31, 2010 the Exchange's investment portfolio consisted of approximately 65% fixed income securities, 20% common stocks, 10% limited partnerships, and 5% preferred equity securities.

All of the Exchange's marketable securities are subject to market volatility. To the extent that future market volatility negatively impacts the Exchange's investments, its financial condition will be negatively impacted. We review the investment portfolio on a continuous basis to evaluate positions that might have incurred other-than-temporary declines in value. The primary factors considered in our review of investment valuation include the extent and duration to which fair value is less than cost, historical operating performance and financial condition of the issuer, short- and long-term prospects of the issuer and its industry, specific events that occurred affecting the issuer including rating downgrades and, depending on the type of security, our intent to sell or our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. As the process for determining impairments is highly subjective, changes in our assessments may have a material effect on the Exchange's operating results and financial condition. See also Item 7A. "Quantitative and Qualitative Disclosures about Market Risk".

If the fixed-income, equity, or limited partnership portfolios were to suffer a substantial decrease in value, the Exchange's financial position could be materially adversely affected through increased unrealized losses or impairments. A significant decrease in the Exchange's portfolio could also put it, or its subsidiaries, at risk of failing to satisfy regulatory minimum capital requirements.

Currently, 30% of the Exchange's fixed-income portfolio is invested in financial sector securities and 20% are invested in municipal securities and results may vary depending on the market environment. The performance of the fixed-income portfolio is subject to a number of risks including:

- Interest rate risk — the risk of adverse changes in the value of fixed-income securities as a result of increases in market interest rates.
- Investment credit risk — the risk that the value of certain investments may decrease due to the deterioration in financial condition of, or the liquidity available to, one or more issuers of those securities or, in the case of asset-backed securities, due to the deterioration of the loans or other assets that underlie the securities, which, in each case, also includes the risk of permanent loss.
- Concentration risk — the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries, which could result in a significant decrease in the value of the portfolio in the event of a deterioration of the financial condition, performance, or outlook of those issuers, sectors, or industries.
- Liquidity risk — the risk that the Exchange will not be able to convert investment securities into cash on favorable terms and on a timely basis, or that the Exchange will not be able to sell them at all, when desired. Disruptions in the financial markets, or a lack of buyers for the specific securities that the Exchange is trying to sell, could prevent it from liquidating securities or cause a reduction in prices to levels that are not acceptable to the Exchange.

The Exchange's common and preferred equity securities have exposure to price risk, the risk of potential loss in estimated fair value resulting from an adverse change in prices. The Exchange does not hedge its exposure to equity price risk inherent in its equity investments. Equity markets, sectors, industries, and individual securities may also be subject to some of the same risks that affect the Exchange's fixed-income portfolio, as discussed above.

In addition, a significant portion of the Exchange's portfolio is invested in limited partnerships. At December 31, 2010, the Exchange had investments in limited partnerships of $1.1 billion, or 8% of total assets. In addition, the Exchange is obligated to invest up to an additional $402 million in limited partnerships, including private equity, real estate and mezzanine partnership investments. Limited partnerships are significantly less liquid and generally involve higher degrees of price risk than publicly traded securities. Limited partnerships, like publicly traded securities, have exposure to market volatility; but unlike fixed income securities, cash flows and return expectations are less predictable. The primary basis for the valuation of limited partnership interests are financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, the Exchange's financial statements at December 31, 2010, do not reflect market conditions experienced in the fourth quarter of 2010.

Deteriorating capital and credit market conditions may significantly affect the Exchange's ability to meet liquidity needs and access capital.

Sufficient liquidity and capital levels are required to pay claims, claims-related expenses and income taxes as well as to build the Exchange's investment portfolio, provide for additional protection against possible large, unexpected losses and maintain adequate surplus amounts. Management estimates the appropriate level of capital necessary based on current and projected results, which include a factor for potential exposures based on these Risk Factors. Failure to accurately estimate the Exchange's capital needs may have a material adverse effect on the Exchange's financial condition until additional sources of capital can be located. Further, a deteriorating financial condition may create a negative perception of the Exchange by third parties, including rating agencies, investors, agents, and customers which could impact the Exchange's ability to access additional capital in the debt or equity markets.

The primary sources of liquidity for the Exchange are insurance premiums and cash flow generated from the investment portfolio. In the event the Exchange's current sources do not satisfy its needs, the Exchange has the ability to access its $200 million bank line of credit, from which there were no borrowings as of December 31, 2010. The Exchange may also sell assets in the investment portfolio. Volatility in the financial markets could impair the Exchange's ability to sell certain of its fixed income securities or to a greater extent its significantly less liquid limited partnership investments, or cause such investments to sell at deep discounts.

In the event these traditional sources of liquidity are not available, the Exchange may have to seek additional financing. The Exchange's access to funds will depend on a number of factors including current market conditions, the availability of credit to the financial services industry, market liquidity, and credit ratings. In deteriorating market conditions, the Exchange may not be able to obtain additional financing on favorable terms, or at all.

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

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

The Property and Casualty Group is subject to claims and legal proceedings, which, if determined unfavorably to the Property and Casualty Group, could have a material adverse effect on our business, results of operations or financial condition.

The Property and Casualty Group faces a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating its businesses, including the risk of class action lawsuits. The Property and Casualty Group's pending legal and regulatory actions include proceedings specific to the Property and Casualty Group and others generally applicable to business practices in the industries in which it operates. In the Property and Casualty Group's insurance operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to claims payments and procedures, denial or delay of benefits, charging excessive or impermissible fees on products, and breaching fiduciary or other duties to customers. The Property and Casualty Group is also subject to litigation arising out of its general business activities such as its contractual relationships. Plaintiffs in class action and other lawsuits against the Property and Casualty Group may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. The Property and Casualty Group is also subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations, from state and federal regulators and authorities. See also the litigation risks associated with the Indemnity shareholder interest for additional discussion of litigation risks.

The Exchange is dependent on the Indemnity to perform certain services, including sales, underwriting, and the issuance of policies. Failure to perform these services effectively may have a material adverse effect on the financial condition of the Exchange.

Pursuant to the attorney-in-fact agreements with the policyholders at the Exchange, the Indemnity is responsible for performing key functions for the Exchange including management and operational services and related technology systems. The Exchange has no employees, as the Indemnity employs all personnel related to performing operating functions for the Exchange. In addition, the Board of Directors for the Indemnity has the responsibility for such Exchange-related activities as setting the management fee paid by the Exchange to the Indemnity. As a result, the business and financial condition of the Exchange would be materially adversely affected if the Indemnity was not able to provide the necessary operating and management services required by the Exchange.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The companies comprising the Erie Insurance Group share a corporate home office complex in Erie, Pennsylvania, which comprises approximately 500,000 square feet and is owned by the Exchange.

The Erie Insurance Group also operates 24 field offices in 11 states. Eighteen of these offices provide both agency support and claims services and are referred to as branch offices, while the remaining six provide only claims services and are considered claims offices. Of these field offices, eight are owned by the Erie Insurance Group (Indemnity owns three comprising approximately 40,000 square feet, the Exchange owns four comprising approximately 43,000 square feet, and EFL owns one comprising approximately 22,000 square feet), while the remaining 16 field offices are leased from unaffiliated parties, comprising approximately 104,000 square feet.

Item 3. Legal Proceedings

Reference is made to Item 8. “Financial Statements and Supplementary Data — Note 21, Commitments and Contingencies, of Notes to Consolidated Financial Statements” contained within this report.

Item 4. Removed and Reserved

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PART II

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

Common stock market prices and dividends

Our Class A, non-voting common stock trades on The NASDAQ Stock Market[SM] LLC under the symbol “ERIE.” No established trading market exists for the Class B voting common stock. American Stock Transfer & Trust Company serves as our transfer agent and registrar. As of February 18, 2011, there were approximately 871 beneficial shareholders of record of our Class A non-voting common stock and 11 beneficial shareholders of record of our Class B voting common stock.

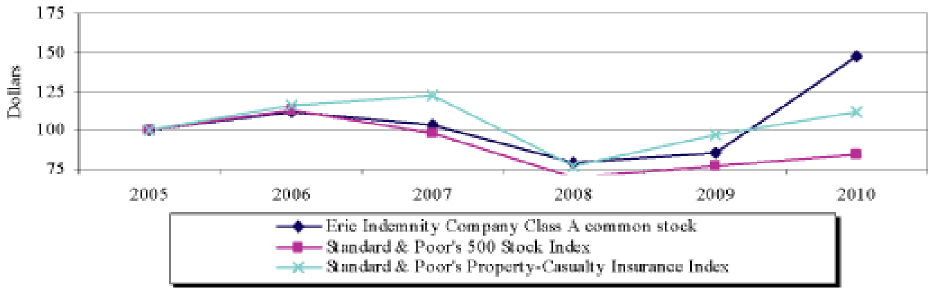
We historically have declared and paid cash dividends on a quarterly basis at the discretion of the Board of Directors. The payment and amount of future dividends on the common stock will be determined by the Board of Directors and will depend on, among other things, our operating results, financial condition, cash requirements and general business conditions at the time such payment is considered.

The common stock high and low sales prices and dividends for each full quarter of the last two years were as follows:

	2010				2009			
	Sales Price		Cash Dividend Declared		Sales Price		Cash Dividend Declared	
Quarter ended	High	Low	Class A	Class B	High	Low	Class A	Class B
March 31	$ 43.13	$ 38.03	$ 0.480	$ 72.00	$ 38.67	$ 28.57	$ 0.45	$ 67.50
June 30	46.89	42.59	0.480	72.00	36.47	32.72	0.45	67.50
September 30	56.20	44.38	0.480	72.00	38.67	35.01	0.45	67.50
December 31	65.47	55.41	0.515	77.25	40.18	35.21	0.48	72.00
Total			$ 1.955	$ 293.25			$ 1.83	$ 274.50

Stock performance

The following graph depicts the cumulative total shareholder return (assuming reinvestment of dividends) for the periods indicated for our Class A common stock compared to the Standard & Poor’s 500 Stock Index and the Standard & Poor’s Property-Casualty Insurance Index:



	2005	2006	2007	2008	2009	2010
Erie Indemnity Company Class A common stock	$ 100*	$ 112	$ 103	$ 79	$ 86	$ 147
Standard & Poor’s 500 Stock Index	100*	113	98	69	78	85
Standard & Poor’s Property-Casualty Insurance Index	110*	116	122	77	97	112

* Assumes $100 invested at the close of trading on the last trading day preceding the first day of the fifth preceding fiscal year in our Class A common stock, Standard & Poor’s 500 Stock Index and Standard & Poor’s Property-Casualty Insurance Index.

Issuer Purchases of Equity Securities

A stock repurchase plan was authorized January 1, 2004 allowing us to repurchase up to $250 million of our outstanding Class A nonvoting common stock through December 31, 2006. Our Board of Directors approved continuations of this stock repurchase program for an additional $250 million in February 2006, $100 million in September 2007, and $100 million in April 2008. Subsequent continuations were approved for amounts that included and were not in addition to any unspent amounts under the current program of $100 million in May 2009, $100 million in April 2010, and $150 million in December 2010 which was authorized with no time limitation. As of December 31, 2010, we have approximately $146 million of repurchase authority remaining under this plan. We may purchase shares, from time-to-time, in the open market or through privately negotiated transactions, depending on prevailing market conditions and alternative uses of our capital and at times and in a manner that we deem appropriate. During 2010, shares repurchased totaled 1.1 million at a total cost of $57 million. Cumulative shares repurchased under this plan since inception totaled 12.9 million at a total cost of $671 million as of December 31, 2010. See Item 8. "Financial Statements and Supplementary Data — Note 19, Capital Stock, of Notes to Consolidated Financial Statements" contained within this report for discussion of additional shares repurchased outside of this plan.

The following table summarizes Indemnity's Class A common stock repurchased each month, based upon trade date, during the quarter ended December 31, 2010:

(dollars in millions, except per share data) *Period*	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan
October 1 — 31, 2010	122,464	$ 56.65	122,464	
November 1 — 30, 2010	11,202	58.77	11,202	
December 1 — 31, 2010	64,700	64.66	64,700	
Total	198,366		198,366	$ 146

Item 6. Selected Consolidated Financial Data

(dollars in millions, except share data)	ERIE INDEMNITY COMPANY Years Ended December 31, 2010	2009	2008	2007	2006
Operating data:					
Premiums earned	$ 3,987	$ 3,869	$ 3,834	$ 3,832	$ 3,943
Net investment income	433	433	438	451	432
Realized gains (losses) on investments	307	286	(1,597)	(5)	188
Equity in earnings (losses) of limited partnerships	128	(369)	(58)	352	235
Other income	35	36	34	31	30
Total revenues	4,890	4,255	2,651	4,661	4,828
Net income (loss)	660	446	(616)	919	852
Less: Net income (loss) attributable to noncontrolling interest in consolidated entity — Exchange	498	338	(685)	706	648
Net Income attributable to Indemnity	162	108	69	213	204
Per share data attributable to Indemnity:					
Net income per Class A share — diluted	$ 2.85	$ 1.89	$ 1.19	$ 3.43	$ 3.13
Book value per share — Class A common and equivalent B shares	16.24	15.74	13.79	17.68	18.17(5)
Dividends declared per Class A share	1.955	1.83	1.77	1.64	1.48
Dividends declared per Class B share	293.25	274.50	265.50	246.00	222.00
Financial position data:					
Total assets	$ 14,344	$ 13,287	$ 12,505	$ 14,104	$ 13,157
Less: Total assets attributable to noncontrolling interest in consolidated entity — Exchange (1)	13,369	11,876	11,101	12,477	11,431
Total assets attributable to Indemnity (1)	975	1,411	1,404	1,627	1,726
Total equity	6,334	5,725(2)	4,759	6,024	5,481
Less: Noncontrolling interest in consolidated entity — Exchange	5,422	4,823(2)	3,967	4,973	4,319
Total equity attributable to Indemnity	912	902(2)	792(3)	1,051	1,162(5)
Treasury stock attributable to Indemnity	872	814	811	709	472
Cumulative number of shares repurchased and held in treasury at December 31, attributable to Indemnity	18,235,094	17,086,127	16,994,707	14,938,663(4)	10,448,471

(1) *The total assets attributable to the Exchange, or noncontrolling interest, and the total assets attributable to the Indemnity shareholder interest are presented with intercompany payables/receivables eliminated.*

(2) *On April 1, 2009, we adopted the accounting guidance related to non-credit other-than-temporary impairments for our debt security portfolio. The net impact of the cumulative effect adjustment on April 1, 2009 increased retained earnings and reduced other comprehensive income by $6 million, net of tax, related to the Indemnity shareholder interest and by $95 million, net of tax, related to the Exchange, or noncontrolling interest, resulting in no effect on shareholder's equity.*

(3) *On January 1, 2008, we adopted the fair value option for our common stock portfolio. The net impact of the cumulative effect adjustment increased retained earnings and reduced other comprehensive income by $11 million, net of tax, related to the Indemnity shareholder interest resulting in no effect on shareholder's equity.*

(4) *Includes 1.9 million shares of our Class A non-voting common stock from the F. William Hirt Estate separate from our stock repurchase program.*

(5) *On December 31, 2006, shareholders' equity decreased by $21 million, net of taxes, related to the Indemnity shareholder interest as a result of initially applying the recognition provisions for employers' accounting for defined benefit pension and other postretirement plans.*

Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations, Recent Events" section contained within this report.)

Item 7. 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 the Erie Insurance Group ("we," "us," "our"). (See Item 8. "Financial Statements and Supplementary Data — Note 2, Significant Accounting Policies, of Notes to Consolidated Financial Statements" contained within this report and the "Recent Accounting Pronouncements" section that follows.) This discussion should be read in conjunction with the audited financial statements and related notes and all other items contained within this Annual Report on Form 10-K, as they contain important information helpful in evaluating our financial condition and operating results.

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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, agency relationships, 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:

Risk factors related to the Indemnity shareholder interest:

- dependence on Indemnity's relationship with the Exchange and the management fee under the agreement with the subscribers at the Exchange;
- costs of providing services to the Exchange under the subscriber's agreement;
- ability to attract and retain talented management and employees;
- ability to maintain the uninterrupted operations of our business, including our information technology systems;
- factors affecting the quality and liquidity of our investment portfolio;
- credit risk from the Exchange;
- ability to meet liquidity needs and access capital; and
- outcome of pending and potential litigations against us.

Risk factors related to the non-controlling interest owned by the Exchange, which includes the Property and Casualty Group and EFL:

- general business and economic conditions;
- dependence on the independent agency system;
- ability to maintain our reputation for superior customer service;
- factors affecting price competition;
- government regulation of the insurance industry, including approval of rate increases and rating factors such as credit and prior experience, and required processes related to underwriting and claims handling;
- the uncertain role of the Federal Government, and the ongoing role of the States, in regulating the property/casualty or life insurance industries;
- premium rates and reserves must be established from forecasts of ultimate costs;
- emerging claims, coverage issues in the industry, and changes in reserve estimates related to the property and casualty business;
- changes in reserve estimates related to the life business;
- severe weather conditions or other catastrophic losses, including terrorism;
- ability to acquire reinsurance coverage and collectability from reinsurers;
- factors affecting the quality and liquidity of our investment portfolio;
- ability to meet liquidity needs and access capital;
- ability to maintain acceptable financial strength rating;
- outcome of pending and potential litigation against us; and
- dependency on service provided by Indemnity.

A forward-looking statement speaks only as of the date on which it is made and reflects Indemnity's analysis only as of that date. Indemnity undertakes 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 PRONOUNCEMENTS

On June 12, 2009, the Financial Accounting Standards Board ("FASB") updated Accounting Standards Codification ("ASC") 810, *Consolidation*, which amended the existing guidance for determining whether an enterprise is the primary beneficiary of a variable interest entity ("VIE"). (See Item 8. "Financial Statements and Supplementary Data — Note 2, Significant Accounting Policies, of Notes to Consolidated Financial Statements" contained within this report.)

As of January 1, 2010, Erie Indemnity Company ("Indemnity") adopted the new accounting principle on a retrospective basis since inception as required under generally accepted accounting principles ("GAAP"). As a result of this new guidance, Indemnity is considered to be the primary beneficiary of its affiliated VIE, the Erie Insurance Exchange ("Exchange"), and therefore have a controlling financial interest in the Exchange. Indemnity is named as, and serves as, the Exchange's attorney-in-fact. Consolidation of the Exchange is required given the significance of the management fee to the Exchange and because Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange's economic performance.

The 2009 and 2008 financial information within this report has been conformed to this consolidated presentation.

RECENT EVENTS

On November 4, 2010, Indemnity entered into a definitive agreement with the Exchange for the sale of all the outstanding capital stock of Indemnity's wholly owned property and casualty insurance subsidiaries, Erie Insurance Company, Erie Insurance Company of New York, and Erie Insurance Property and Casualty Company, to the Exchange for an aggregate purchase price equal to the subsidiaries' GAAP book value as of December 31, 2010.

The sale of Indemnity's wholly owned property and casualty insurance subsidiaries was completed on December 31, 2010, at which time Indemnity received cash consideration from the Exchange of $293 million based upon an estimated purchase price. The GAAP book value of these entities on December 31, 2010 was slightly lower than the estimated purchase price. Also, Indemnity retained a deferred tax asset of $6 million that was not transferable to the Exchange. This deferred tax asset is related to capital losses that will be available to offset future capital gains of Indemnity. Indemnity recorded a liability of $8 million to the Exchange for the deferred tax asset and the difference in the GAAP book value. Net after-tax cash proceeds to Indemnity from the sale of Indemnity's wholly owned property and casualty insurance subsidiaries are estimated to be $285 million. Final settlement of the transaction will occur by March 31, 2011. There was no gain or loss resulting from this sale as Indemnity and the Exchange are deemed to be under common control. In 2010, the wholly owned property and casualty insurance subsidiaries contributed $19 million, or $0.34 per share, to Indemnity's net income, driven by the investment results of these companies.

Also on November 4, 2010, Indemnity entered into a definitive agreement for the sale of its 21.6% ownership interest in Erie Family Life Insurance Company ("EFL") to the Exchange, which is scheduled to close by March 31, 2011, for a per share purchase price equal to 95% of EFL's GAAP book value per share as of March 31, 2011. On the closing date, the Exchange will pay Indemnity approximately $82 million in cash based on an estimated purchase price. Within ninety (90) days following the closing date, the financials of EFL as of March 31, 2011 will be finalized. In the event that 95% of the GAAP book value per share as of that date is higher than the estimated purchase price, the Exchange will pay Indemnity the difference; if it is lower, Indemnity will pay the Exchange the difference. Net after-tax cash proceeds from the sale are estimated to be $55 million to $60 million to Indemnity. In 2010, EFL contributed $7 million, or $0.13 per share, to Indemnity's net income.

Indemnity recorded a deferred tax provision in the fourth quarter of 2010 of $18 million related to its equity interest in EFL. This deferred tax charge was required due to Indemnity's decision to sell its 21.6% ownership interest in EFL rather than receiving its share of EFL's earnings in the form of future dividends, which would have been eligible for an 80% dividend received deduction.

Under the new structure, effective December 31, 2010 all property and casualty insurance operations are owned by the Exchange and effective March 31, 2011, all life insurance operations will be owned by the Exchange. Indemnity will continue to function as the management company. This new structure removes underwriting volatility from Indemnity's operations and allows it to better utilize capital. It also centralizes underwriting risk and its supporting capital within the Exchange, providing greater capital management flexibility to enhance service and product offerings.

There was no impact on the existing reinsurance pooling agreement between the Exchange and Erie Insurance Company or Erie Insurance Company of New York as a result of the sale, nor was there any impact to the subscribers (policyholders) of the Exchange, to the Exchange's independent insurance agents, or to Indemnity's employees.

Because Indemnity and the Exchange are deemed to be under common control for financial reporting purposes, any gains or losses resulting from the sale of Indemnity's equity interest in EFL will be recorded as an adjustment directly to Indemnity's equity balance at March 31, 2011.

For further information relating to the consolidation of Indemnity and the Exchange, see Item 8. "Financial Statements and Supplementary Data — Note 2, Significant Accounting Policies, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Accounting Pronouncements" section. For further information relating to the sale of Indemnity's wholly owned property and casualty subsidiaries and its equity interest in EFL, see Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the "Operating Overview" section that follows.

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OPERATING OVERVIEW

Overview

The Erie Insurance Group represents the consolidated results of Indemnity and the results of its variable interest entity, the Exchange. The Erie Insurance Group operates predominantly as a property and casualty insurer through its regional insurance carriers that write a broad range of personal and commercial lines coverages. Our property and casualty insurance companies include the Exchange, Erie Insurance Company ("EIC"), Erie Insurance Company of New York ("ENY"), Erie Insurance Property and Casualty Company ("EPC") and Flagship City Insurance Company ("Flagship"). These entities operate collectively as the "Property and Casualty Group." The Erie Insurance Group also operates as a life insurer through its affiliate, EFL, which is owned 21.6% by Indemnity and 78.4% by the Exchange, which underwrites and sells individual and group life insurance policies and fixed annuities.

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 and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement.

Indemnity shareholders benefit from their interest in Indemnity's equity and income, but not the equity or income of the Exchange. The Exchange's equity, which is comprised of its retained earnings and accumulated other comprehensive income, is held for the benefit of its subscribers (policyholders) and meets the definition of a noncontrolling interest, which is reflected as such in our consolidated financial statements. Therefore, the consolidation of the Exchange resulted in no change to Indemnity's net income or equity.

"Indemnity shareholder interest" refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. "Noncontrolling interest" refers to the interest in the Erie Insurance Exchange held for the benefit of the subscribers (policyholders).

Indemnity shareholders' interest in income generally comprises:

- a management fee of up to 25% of all property and casualty insurance premiums written or assumed by the Exchange, less the costs associated with the sales, underwriting and issuance of these policies;
- a 5.5% interest in the net underwriting results of the property and casualty insurance operations through December 31, 2010(1);
- a 21.6% equity interest in the net earnings of EFL through March 31, 2011(2);
- net investment income and results on investments that belong to Indemnity(1); and
- other income and expenses, including income taxes, that are the responsibility of Indemnity.

The Exchange's, or the noncontrolling interest, in income generally comprises:

- a 94.5% interest in the net underwriting results of the property and casualty insurance operations through December 31, 2010 (1);
- a 78.4% equity interest in the net earnings of EFL through March 31, 2011(2);
- net investment income and results on investments that belong to the Exchange and its subsidiaries, which include the Exchange and Flagship through December 31, 2010(1) and EFL; and
- other income and expenses, including income taxes, that are the responsibility of the Exchange and its subsidiaries.

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(1) Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

(2) As a result of the pending sale of Indemnity's 21.6% ownership interest in EFL to the Exchange which is scheduled to close by March 31, 2011, all earnings of EFL will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011. (See Item 8."Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

Results of the Erie Insurance Group's operations by interest

The following table represents a breakdown of the composition of the income attributable to Indemnity and the income attributable to the noncontrolling interest (Exchange). For purposes of this discussion, EFL's investments are included in the life insurance operations.

	Indemnity shareholder interest				Noncontrolling interest (Exchange)				Eliminations of related party transactions			Erie Insurance Group		
		Years ended December 31,				Years ended December 31,			Years ended December 31,			Years ended December 31,		
(in millions)	Percent	2010	2009	2008	Percent	2010	2009	2008	2010	2009	2008	2010	2009	2008
Management operations														
Management fee revenue, net	100.0%	$ 1,009	$ 965	$ 950		$ —	$ —	$ —	$ (1,009)	$ (965)	$ (950)	$ —	$ —	$ —
Service agreement revenue	100.0%	34	35	33		—	—	—	—	—	—	34	35	33
Total revenue from management operations		1,043	1,000	983		—	—	—	(1,009)	(965)	(950)	34	35	33
Cost of management operations	100.0%	841	813	810		—	—	—	(841)	(813)	(810)	—	—	—
Income from management operations before taxes		202	187	173		—	—	—	(168)	(152)	(140)	34	35	33
Property and casualty insurance operations														
Net premiums earned	5.5%(2)	216	209	207	94.5%(2)	3,709	3,599	3,564	—	—	—	3,925	3,808	3,771
Losses and loss expenses	5.5%(2)	155	145	137	94.5%(2)	2,660	2,499	2,357	(5)	(5)	(5)	2,810	2,639	2,489
Policy acquisition and other underwriting expenses	5.5%(2)	61	63	57	94.5%(2)	1,052	1,072	978	(174)	(158)	(146)	939	977	889
Income (loss) from property and casualty insurance operations before taxes		0	1	13		(3)	28	229	179	163	151	176	192	393
Life insurance operations(1)														
Total revenue	21.6%(3)	37	27	13	78.4%(3)	135	100	47	(2)	(2)	(2)	170	125	58
Total benefits and expenses	21.6%(3)	26	25	25	78.4%(3)	96	92	89	(2)	(2)	(2)	120	115	112
Income (loss) from life insurance operations before taxes		11	2	(12)		39	8	(42)	—	—	—	50	10	(54)
Investment operations														
Net investment income(2)		37	42	44		312	311	318	(11)	(11)	(11)	338	342	351
Net realized (losses) gains on investments(2)		(1)	10	(43)		301	397	(973)	—	—	—	300	407	(1,016)
Net impairment losses recognized in earnings(2)		(1)	(12)	(70)		(3)	(91)	(418)	—	—	—	(4)	(103)	(488)
Equity in earnings (losses) of limited partnerships		21	(76)	6		106	(283)	(64)	—	—	—	127	(359)	(58)
Goodwill Impairment		—	—	—		(22)	—	—	—	—	—	(22)	—	—
Income (loss) from investment operations before taxes(2)		56	(36)	(63)		694	334	(1,137)	(11)	(11)	(11)	739	287	(1,211)
Income (loss) from operations before income taxes and noncontrolling interest		269	154	111		730	370	(950)	—	—	—	999	524	(839)
Provision for income taxes		107	46	42		232	32	(265)	—	—	—	339	78	(223)
Net income (loss)		$ 162	$ 108	$ 69		$ 498	$ 338	$ (685)	$ —	$ —	$ —	$ 660	$ 446	$ (616)

(1) *Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations in the table above include life insurance related investment results. However, the life insurance investment results are included in the investment operations segment discussion as part of the Exchange's investment results.*

(2) *Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)*

(3) *As a result of the pending sale of Indemnity's 21.6% ownership interest in EFL to the Exchange which is scheduled to close by March 31, 2011, all earnings of EFL will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)*

Net income in 2010 was positively impacted by improved financial markets compared to 2009, which positively impacted our investment and life insurance operations. Our property and casualty insurance operation's direct written premium increased 4.5% in 2010, which also positively impacted management fee revenue. The increase in direct written premium was driven by an increase in policies in force and modest increases in average premium per policy. Property and casualty insurance losses were higher in 2010 compared to 2009, due to higher catastrophe and current year losses, offset somewhat by favorable development on prior accident years. Also in 2010, our noncontrolling interest incurred a charge of $22 million for the impairment of goodwill relating to its purchase of EFL stock in 2006, and the Indemnity shareholder interest incurred a charge of $18 million for a deferred tax expense related to the pending sale of its 21.6% ownership interest of EFL to the Exchange.

Reconciliation of operating income to net income

We believe that investors' understanding of our performance related to the Indemnity shareholder interest is enhanced by the disclosure of the following non-GAAP financial measure. Our method of calculating this measure may differ from those used by other companies and therefore comparability may be limited.

Operating income is net income excluding realized capital gains and losses, impairment losses and related federal income taxes. Our common stock portfolio is measured at fair value. As such, changes in fair value related to common stocks are reported in earnings. These unrealized gains or losses are included in the net realized gains and losses on investments in our Consolidated Statements of Operations that are used to calculate operating income. Equity in earnings or losses of EFL and equity in earnings or losses of limited partnerships are included in the calculation of operating income. Equity in earnings or losses of limited partnerships includes the respective investment's realized capital gains and losses, as well as unrealized gains and losses, but does not include the realized gain or loss when a limited partnership is sold in the secondary market.

We use operating income to evaluate the results of our operations. It reveals trends in our management services, property and casualty insurance underwriting (1) and investment operations that may be obscured by the net effects of realized capital gains and losses including impairment losses. Realized capital gains and losses including impairment losses, may vary significantly between periods and are generally driven by business decisions and economic developments such as capital market conditions, the timing of which is unrelated to our management services and property and casualty insurance underwriting processes (1). We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. We are aware that the price to earnings multiple commonly used by investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered as a substitute for net income prepared in accordance with U.S. GAAP and does not reflect our overall profitability.

The following table reconciles operating income and net income for Indemnity shareholder interest for the years ended December 31(1):

	Indemnity shareholder interest		
(in millions, except per share data)	2010	2009	2008
Operating income attributable to Indemnity	$ 163	$ 109	$ 142
Net realized losses and impairments on investments	(2)	(2)	(113)
Income tax benefit	1	1	40
Realized losses and impairments, net of income taxes	(1)	(1)	(73)
Net income attributable to Indemnity	$ 162	$ 108	$ 69
Per Indemnity Class A common share-diluted:			
Operating income attributable to Indemnity	$ 2.88	$ 1.91	$ 2.46
Net realized losses and impairments on investments	(0.04)	(0.03)	(1.95)
Income tax benefit	0.01	0.01	0.68
Realized losses and impairments, net of income taxes	(0.03)	(0.02)	(1.27)
Net income attributable to Indemnity	$ 2.85	$ 1.89	$ 1.19

(1) *Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)*

Operating Segments

As a result of the changes in our reporting entity at January 1, 2010 (see Item 8. “Financial Statements and Supplementary Data — Note 2, Significant Accounting Policies, of Notes to Consolidated Financial Statements” contained within this report and the previous “Recent Accounting Pronouncements” section), our reportable segments have increased from three to four. Our reportable segments include management operations, property and casualty insurance operations, life insurance operations and investment operations. The segment information that follows includes reclassification of all comparative prior period information.

Management operations

Management operations generate internal management fee revenue, which accrues to the benefit of the Indemnity shareholder interest, as Indemnity provides services relating to the sales, underwriting and issuance of policies on behalf of the Exchange. Management fee revenue is based upon all premiums written or assumed by the Exchange and the management fee rate, which is not to exceed 25%. Our Board of Directors establishes the management fee rate at least annually, generally in December for the following year, and considers factors such as the relative financial strength of Indemnity and the Exchange and projected revenue streams. The management fee rate was set at 25% for 2010, 2009 and 2008. Our Board of Directors set the 2011 rate again at 25%, its maximum level. Management fee revenue is eliminated upon consolidation.

Property and casualty insurance operations

The property and casualty insurance industry is highly cyclical, with periods of rising premium rates and shortages of underwriting capacity followed by periods of substantial price competition and excess capacity. The cyclical nature of the insurance industry has a direct impact on the direct written premiums of the Property and Casualty Group. The Property and Casualty Group’s workers compensation and commercial auto lines of business continue to experience reduced exposures and reduced average premium per policy due to continuing unfavorable economic conditions. Industry property and casualty premium rates in 2010 showed signs of firming for personal lines, where most commercial lines continued to reflect rate reductions as the economy began to show signs of a sluggish recovery.

The property and casualty insurance business is driven by premium growth, the combined ratio and investment returns. The property and casualty operation’s premium growth strategy focuses on growth by expansion of existing operations including a careful agency selection process and increased market penetration in existing operating territories. Expanding the size of our existing agency force of almost 2,100 independent agencies, with nearly 9,500 licensed representatives, will contribute to future growth as new agents build their books of business with the Property and Casualty Group. In 2010 we appointed 125 new agencies made up of 233 licensed representatives.

The property and casualty insurance operations insure standard and preferred risks while adhering to a set of consistent underwriting standards. Nearly 50% of premiums are derived from personal auto, 20% from homeowners and 30% from commercial lines. Pennsylvania, Maryland and Virginia made up 63% of the property and casualty lines insurance business 2010 direct written premium.

The members of the Property and Casualty Group pool their underwriting results under an intercompany pooling agreement. Under the pooling agreement, the Exchange retains a 94.5% interest in the net underwriting results of the Property and Casualty Group, while EIC retains a 5.0% interest and ENY retains a 0.5% interest. Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity’s property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010.

The combined ratio, expressed as a percentage, is the key measure of underwriting profitability traditionally used in the property and casualty insurance industry. It is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) plus the ratio of policy acquisition and other underwriting expenses to premiums earned (expense ratio). When the combined ratio is less than 100%, underwriting results are generally considered profitable; when the combined ratio is greater than 100%, underwriting results are generally considered unprofitable.

Factors affecting loss and loss expenses include the frequency and severity of losses, the nature and severity of catastrophic losses, the quality of risks underwritten and underlying claims and settlement expenses related to medical costs and litigation.

Investments held by the Property and Casualty Group are reported in the investment operations segment, separate from the underwriting business.

Life insurance operations

EFL generates revenues through sales of its individual and group life insurance policies and fixed annuities. These products provide our property and casualty agency force an opportunity to cross-sell both personal and commercial accounts. EFL's profitability depends principally on the ability to develop, price and distribute insurance products, attract and retain deposit funds, generate investment returns and manage expenses. Other drivers include mortality and morbidity experience, persistency experience to enable the recovery of acquisition costs, maintaining interest spreads over the amounts credited to deposit funds and the maintenance of strong ratings from rating agencies.

Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes in the Management's Discussion and Analysis, the life insurance operations include life insurance related investment results. However, for presentation purposes in the segment footnote, the life insurance investment results are included in the investment operations segment discussion as part of the Exchange's investment results.

Investment operations

We generate revenues from our fixed maturity, equity security and alternative investment portfolios to support our underwriting business. The portfolios are managed with the objective of maximizing after-tax returns on a risk-adjusted basis. Management actively evaluates the portfolios for impairments. We record impairment writedowns 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.

Our investment operations reflected the improvement experienced in the financial markets in 2010. During 2010, we impaired $6 million of securities compared to $126 million in 2009. Our alternative investments benefited from the improved financial market conditions in the fourth quarter of 2009 and the first three quarters of 2010. The upturn across all markets had a significant impact on the portfolios of our partnerships. Equity in earnings of limited partnerships was $128 million in 2010 compared to losses of $369 million in 2009. The valuation adjustments in the limited partnerships are based on financial statements received from our general partners, which are generally received on a quarter lag. As a result, the 2010 partnership earnings do not reflect the valuation changes from the fourth quarter of 2010.

General conditions and trends affecting our business

Economic conditions

Although the financial markets have shown signs of improvement recently, overall economic conditions remain uncertain. Unfavorable changes in economic conditions, including declining consumer confidence, inflation, high unemployment and recession, among others, may lead the Property and Casualty Group's customers to modify coverage, not renew policies, or even cancel policies, which could adversely affect the premium revenue of the Property and Casualty Group, and consequently Indemnity's management fee. These conditions could also impair the ability of customers to pay premiums when due, and as a result, the Property and Casualty Group's reserves and write-offs could increase. Our key challenge is to generate profitable revenue growth in a highly competitive market that continues to experience the effects of unfavorable economic conditions.

Market volatility

Our portfolio of fixed income, preferred and common stocks and limited partnerships are subject to market volatility especially in periods of instability in the worldwide financial markets. Depending upon market conditions, which are unpredictable and remain uncertain, considerable fluctuation could exist in our reported total investment income, which could have an adverse impact on our financial condition, results of operations and cash flows.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements include amounts based on estimates and assumptions that have a significant effect on reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and related disclosures. Management considers an accounting estimate to be critical if (1) it requires assumptions to be made that were uncertain at the time the estimate was made, and (2) different estimates that could have been used, or changes in the estimate that are likely to occur from period-to-period, could have a material impact on our consolidated statements of operations or financial position.

The following presents a discussion of those accounting policies surrounding estimates that we believe are the most critical to our reported amounts and require the most subjective and complex judgment. If actual events differ significantly from the underlying assumptions, there could be material adjustments to prior estimates that could potentially adversely affect our results of operations, financial condition and cash flows. The estimates and the estimating methods used are reviewed continually, and any adjustments considered necessary are reflected in current earnings.

Property and casualty insurance loss and loss expense reserves

Property and casualty insurance loss and loss expense reserves are established to provide for the estimated costs of paying claims under insurance policies written by us. These reserves include estimates for both claims that have been reported (case) and those that have been incurred but not reported (IBNR) and include estimates of all future payments associated with processing and settling these claims.

The process of establishing loss reserves is complex and involves a variety of actuarial techniques. The loss reserve estimation process is based largely on the assumption that past development trends are an appropriate indicator of future events. Reserve estimates are based on our assessment of known facts and circumstances, review of historical settlement patterns, estimates of trends in claims frequency and severity, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by 1) internal factors, including changes in claims handling procedures and changes in the quality of risk selection in the underwriting process, and 2) external events, such as economic inflation, and regulatory and legislative changes. Due to the inherent complexity of the assumptions used, final loss settlements may vary significantly from the current estimates, particularly when those settlements may not occur until well into the future.

How reserves are established

Case reserves are established by a claims handler on each individual claim and are adjusted as new information becomes known during the course of handling the claims. IBNR reserves represent the difference between the case reserves for actual reported loss and loss expenses and the estimated ultimate cost of all claims.

Our loss and loss expense reserves include amounts related to short tail and long tail lines of business. Tail refers to the time period between the occurrence of a loss and the final settlement of the claim. The longer the time span between the incidence of a loss and the settlement of the claim, the more the ultimate settlement amount can vary. Most of our loss and loss expense reserves relate to long tail liability lines of business including workers compensation, bodily injury and other liability coverages, such as commercial liability. Short tail lines of business, which represent a smaller percentage of our loss reserves, include personal auto physical damage and personal property.

Our actuaries review all direct reserve estimates on a quarterly basis for both current and prior accident years using the most current claim data. Reserves for massive injury claims, including auto no-fault and workers compensation claims, are reviewed at a more detailed level semi-annually. These massive injury claim reserves are relatively few in number and are very long tail liabilities. In intervening quarters, development on massive injury reserves are monitored to confirm that the estimate of ultimate losses should not change. If an unusual development is observed, a detailed review is conducted to determine whether the reserve estimate should change. Significant changes to the factors discussed above, which are either known or reasonably projected through analysis of internal and external data, are quantified in the reserve estimates each quarter.

The quarterly reserve reviews incorporate a variety of actuarial methods and judgments and involve rigorous analysis. A comprehensive review is performed of the various estimation methods and reserve levels produced by each. The various methods generate different estimates of ultimate losses by product line and product coverage combination. Thus, reserves are comprised of a set of point estimates of the ultimate losses developed from the various methods. These multiple reserve point estimates are reviewed by our reserving actuaries and reserve best estimates are selected. The selected reserve estimates are discussed with management.

Numerous factors are considered in setting reserve levels, including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, the maturity of the accident year, pertinent claims frequency and severity trends observed over recent years, the level of volatility within a particular line of business and the improvement or deterioration of actuarial rate indications in the current period as compared to prior periods. Certain methods are considered more credible for each product/coverage combination depending on the maturity of the accident quarter, the mix of business and the particular internal and external influences impacting the claims experience or the method.

The following is a discussion of the most common methods used:

Paid development — Paid loss development patterns are generated from historical data organized by accident quarter and calendar quarter and applied to current paid losses by accident quarter to generate estimated ultimate losses. Paid development techniques do not use information about case reserves and therefore are not affected by changes in case reserving practices. These techniques are generally most useful for short-tailed lines since a high percentage of ultimate losses are paid in early periods of development.

Incurred development — Incurred loss development patterns (reflecting cumulative paid losses plus current case reserves) are generated from historical data organized by accident quarter and calendar quarter. The patterns are applied to current incurred losses by accident quarter to generated estimated ultimate losses. Incurred methods and/or combinations of the paid and incurred methods are used in developing estimated ultimate losses for short-tail coverages, such as personal auto physical damage and personal property claims, and more mature accident quarters of long-tail coverages, such as personal auto liability claims and commercial liability claims, including workers compensation.

Weather event paid and reported development — The historical patterns utilized in paid and reported development methods for weather events are derived from historical data for the same type of weather event. Initial weather event ultimate loss estimates are reviewed with claims management.

Bornhuetter-Ferguson — Bornhuetter-Ferguson is a method of combining the expected-loss-ratio ultimate losses and the paid-or-incurred development ultimate losses. It places more weight on the paid-or-incurred development ultimate losses as an accident quarter matures. The Bornhuetter-Ferguson method is generally used on the first four to eight accident quarters on long-tail coverages because a low percentage of losses are paid in the early period of development. An expected loss ratio is developed through a review of historical loss ratios by accident quarter, adjusted for changes to earned premium, mix of business and other factors that are expected to impact the loss ratio for the accident quarter being evaluated. A preliminary estimate of ultimate losses is calculated by multiplying this expected loss ratio by earned premium.

Survival ratio — This method measures the ratio of the average loss and loss expense amount paid annually to the total reserve for the product line or product coverage. The survival ratio represents the number of years of payments that the current level of reserves will cover. The reserve is established so that a particular ratio, representing the time to closing of all claims, is achieved. This method is also used as a reasonability check of reserve adequacy.

Individual claim — This method estimates the ultimate losses on a claim-by-claim basis. An annual payment assumption is made for each claimant and then projected into the future based upon a particular assumption of the future inflation rate and life expectancy of the claimant. This method is used for unusual, large claims.

Line of business methods

For each product line and product/coverage combination, certain methods are given more influence than other methods. The discussion below gives a general indication of which methods are preferred for each line of business. As circumstances change, the methods that are given greater weight can change.

Massive injury claims (such as certain auto no-fault and workers compensation claims) — These claims develop over a long period of time and are relatively few in number. We utilize the individual claim method to evaluate each claim's ultimate losses.

Personal auto physical damage and homeowners — These lines are fast-developing and paid and incurred development techniques are used. We rely primarily on incurred development techniques for the most recent accident months.

Personal auto liability (*such as bodily injury and uninsured/underinsured motorist*) — For auto liability, and bodily injury in particular, we review the results of a greater number of techniques than for physical damage. We use the Bornhuetter-Ferguson method for the first four to eight accident quarters and paid and incurred development methods for the older accident periods.

Workers compensation and long tailed liability (such as commercial liability) — We generally rely on the expected loss ratio, Bornhuetter-Ferguson and incurred development techniques. These techniques are generally weighted together, relying more heavily on the Bornhuetter-Ferguson method at early ages of development and more on the incurred development method as an accident year matures.

The methods used for estimating loss expenses are as follows:

Defense and cost containment expenses (D&CC) — D&CC is analyzed using paid development techniques and an analysis of the relationship between D&CC payments and loss payments.

Adjusting and other expenses (A&O) — A&O reserves are projected based on an expected cost per claim year, the anticipated claim closure pattern, and the ratio of paid A&O to paid loss.

Key assumptions for loss reserving

The accuracy of the various methods used to estimate reserves is a function of the degree to which underlying assumptions are satisfied. The most significant key assumptions are:

Development patterns **—** Historical paid and reported amounts contain patterns which indicate how unpaid and unreported amounts will emerge in future periods. Unless reasons or factors are identified that invalidate the extension of historical patterns into the future, these patterns can be used to make projections necessary for estimating IBNR reserves. This is the most significant assumption and it applies to all methods.

Impact of inflation — Property and casualty insurance reserves are established before the extent to which inflation may impact such reserves is known. Consequently, in establishing reserves, we attempt to anticipate the potential impact of inflation, including medical cost inflation, construction and auto repair cost inflation and tort issues. Medical costs are a broad element of inflation that impacts personal and commercial auto, general liability, workers compensation and commercial multi-peril lines of insurance written by the Property and Casualty Group.

Claims with atypical emergence patterns — Characteristics of certain subsets of claims, such as those with high severity, have the potential to distort patterns contained in historical paid loss and reported loss data. When testing indicates this to be the case for a particular subset of claims, our actuaries segregate these claims from the data and analyze them separately. Subsets of claims that fall into this category include certain auto no-fault and workers compensation claims.

Future cost increases and claimant mortality — Future cost increase assumptions are derived from a review of historical cost increases and are assumed to persist into the future. Future medical cost increases and claimant mortality assumptions utilized in the reserve estimates for massive injury claims are obtained from industry studies adjusted for our own experience. Reserve levels are sensitive to these assumptions because they represent projections over 30 to 40 years into the future.

Changes in loss ratio trends — Prior loss ratio assumptions utilized in the Bornhuetter-Ferguson method are derived from projections of historical loss ratios based on actual experience from more mature accident periods adjusted for assumed changes in average premiums, frequency, and severity. These assumptions influence only the most recent accident periods, but the majority of reserves originate with the most recent accident periods. Reserve levels are highly sensitive to these assumptions.

Relationship of loss expense to losses — D&CC-to-loss ratio assumptions utilized in the Bornhuetter-Ferguson method are initially derived from historical relationships. These historical ratios are adjusted according to the impact of changing internal and external factors. The A&O-to-loss ratio assumption is similarly derived from historical relationships and adjusted as required for identified internal or external changes.

Reserve estimate variability

The property and casualty reserves with the greatest potential for variation are the massive injury reserves. The automobile no-fault law in Pennsylvania before 1986 and workers compensation policies provide for unlimited medical benefits. The estimate of ultimate liabilities for these claims is subject to significant judgment due to variations in claimant health, mortality over time and health care cost trends. Workers compensation massive injury claims have been segregated from the total population of workers compensation claims. Ultimate losses are estimated on a claim-by-claim basis. An annual payment assumption is made for each of the claimants who have sustained massive injuries. We are currently reserving for about 300 claimants requiring lifetime medical care, of which about 120 involve massive injuries. The annual payment is projected into the future based upon particular assumptions of the future inflation rate and life expectancy of the claimant. The most significant variable in estimating this liability is medical cost inflation. The life expectancy (mortality rate) assumption underlying the estimate reflects experience to date. Actual experience, different than that assumed, could also have a significant impact on the reserve estimate.

- Our medical inflation rate assumption in setting this reserve for 2010 and 2009 is an 8% annual increase grading down 0.5% per year to an ultimate rate of 5%. Our medical inflation rate assumption in setting this reserve for 2008 was a 9% annual increase grading down 1% after the first year, then grading down 0.5% per year to an ultimate rate of 5%.
- The mortality rate assumption in 2010 and 2009 is based on the disabled pensioner mortality table by gender. In 2008, our mortality rate assumption gave 75% weighting to our own mortality experience and 25% weighting to the male-female combined disabled pensioner mortality table.
- Loss reserves are set at full expected cost, except for workers compensation loss reserves, which are discounted on a nontabular basis using an interest rate of 2.5% and our historical workers compensation payout patterns. In 2009, we changed our workers compensation discounting method to segregate the workers compensation massive injury claims that have longer payout patterns from the non-massive injury workers compensation claims, and continue to use this methodology in 2010.

Auto no-fault (massive injury claims) — The automobile massive injury reserve carried by the Property and Casualty Group totaled $440 million at December 31, 2010, compared to $463 million at December 31, 2009. The decrease in the pre-1986 automobile massive injury reserves in 2010 compared to 2009 was primarily due to settling three claims. A 100-basis point increase in the medical cost inflation assumption would result in an increase in the Property and Casualty Group’s net liability of $77 million.

Workers compensation (massive injury claims) — The workers compensation massive injury reserve carried by the Property and Casualty Group totaled $154 million at December 31, 2010, compared to $144 million at December 31, 2009. The increase in the workers compensation massive injury reserves in 2010 compared to 2009 was primarily due to adding four new claims with higher reserve amounts than four prior claims that were settled in 2010. The discount on these reserves was $77 million at December 31, 2010. A 100-basis point increase in the medical cost inflation assumption would result in an increase in the Property and Casualty Group’s net liability of $48 million and an increase in the discount of $22 million at December 31, 2010.

Workers compensation reserves, excluding massive injury claims, are also subject to discounting. The discount on these reserves was $50 million at December 31, 2010. A 100-basis point increase in the discount rate would decrease these reserves by $16 million. If we assumed a three year average development instead of a five year average development, the Property and Casualty Group’s net liability would decrease by $4 million.

We also perform analyses to evaluate the adequacy of past reserve levels. Using subsequent information, we perform retrospective reserve analyses to test whether previously established estimates for reserves were reasonable. Our 2010 retrospective reserve analysis indicated that direct reserves, including salvage and subrogation recoveries, had an estimated redundancy of approximately $188 million, which was 5.2% of the net loss reserves at December 31, 2009.

In 2009, our analysis indicated direct reserves, including salvage and subrogation recoveries, had an estimated redundancy of $30 million, or 0.8% of reserves at December 31, 2008, and our 2008 analysis indicated an estimated redundancy of $124 million, or 3.4% of reserves at December 31, 2007. See an additional discussion of our reserve development in the “Development of prior year loss reserves” section.

Due to the sale of Indemnity’s property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty loss and loss expense reserves accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. “Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements” contained within this report and the previous “Recent Events” section.)

Life insurance and annuity policy reserves

Reserves for traditional life insurance future policy benefits are computed primarily by the net level premium method. Generally, benefits are payable over an extended period of time and related reserves are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected net premiums. Such reserves are established based on methods and underlying assumptions in accordance with generally accepted accounting principles and applicable actuarial standards. Principal assumptions used in the establishment of policy reserves are mortality, lapses, expenses and investment yields. Mortality assumptions are based on tables typically used in the industry, modified to reflect actual experience and to include a provision for the risk of adverse deviation where appropriate. Lapse, expense and investment yield assumptions are based on actual company experience and may include a provision for the risk of adverse deviation. Assumptions on these policies are locked in at the time of issue and are not subject to change unless a premium deficiency exists. A premium deficiency exists if, based on revised assumptions, the existing contract liabilities together with the present value of future gross premiums are not sufficient to cover the present value of future expected benefits and maintenance costs and to recover unamortized acquisition costs. Historically, our reserves plus expected gross premiums have been demonstrated to be sufficient. There were no premium deficiencies in 2010, 2009 or 2008.

Reserves for income-paying annuity future policy benefits are computed as the present value of future expected benefits. Principal assumptions used in the establishment of policy reserves are mortality and investment yields. Interest rates used to discount future expected benefits are set at the policy level and range from 2.25% to 9.0%. The equivalent aggregate interest rate is 5.65%. If the aggregate interest rate was reduced by 100 basis points, the present value of future expected benefits would increase by $20 million at December 31, 2010, of which Indemnity's share would equate to $4 million.

Reserves for universal life and deferred annuity plans are based on the contract account balance without reduction for surrender charges.

Investment valuation

We make estimates concerning the valuation of all investments. Valuation techniques are used to derive the fair value of the available-for-sale and trading securities we hold. Fair value is the price that would be received to sell an asset in an orderly transaction between willing market participants at the measurement date.

Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

For purposes of determining whether the market is active or inactive, the classification of a financial instrument was based on the following definitions:

- An active market is one in which transactions for the assets being valued occur with sufficient frequency and volume to provide reliable pricing information.
- An inactive (illiquid) market is one in which there are few and infrequent transactions, where the prices are not current, price quotations vary substantially, and/or there is little information publicly available for the asset being valued.

We continually assess whether or not an active market exists for all of our investments and as of each reporting date re-evaluate the classification in the fair value hierarchy. All assets carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical instruments in active markets not subject to adjustments or discounts.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 — Instruments whose significant value drivers are unobservable and reflect management's estimate of fair value based on assumptions used by market participants in an orderly transaction as of the valuation date.

Level 1 primarily consists of publicly traded common stock, nonredeemable preferred stocks and treasury securities and reflects market data obtained from independent sources, such as prices obtained from an exchange or a nationally recognized pricing service for identical instruments in active markets.

Level 2 includes those financial instruments that are valued using industry-standard models that consider various inputs, such as the interest rate and credit spread for the underlying financial instruments. All significant inputs are observable, or derived from observable information in the marketplace, or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include municipal securities, asset backed securities, collateralized-mortgage obligations, foreign and domestic corporate bonds and redeemable preferred stocks and certain nonredeemable preferred stocks.

Level 3 securities are valued based upon unobservable inputs, reflecting our estimates of value based on assumptions used by market participants. Securities are assigned to Level 3 in cases where non-binding broker quotes are significant to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Fair value estimates for securities valued using unobservable inputs require significant judgment due to the illiquid nature of the market for these securities and represent the best estimate of the fair value that would occur in an orderly transaction between willing market participants at the measurement date under current market conditions. Fair value for these securities are generally determined using comparable securities or non-binding broker quotes received from outside broker dealers based on security type and market conditions. Remaining un-priced securities are valued using an estimate of fair value based on indicative market prices that include significant unobservable inputs not based on, nor corroborated by, market information, including the utilization of discounted cash flow analyses which have been risk-adjusted to take into account illiquidity and other market factors. This category primarily consists of certain private preferred stock and bond securities, collateralized debt and loan obligations, and credit linked notes.

As of each reporting period, financial instruments recorded at fair value are classified based on the lowest level of input that is significant to the fair value measurement. The presence of at least one unobservable input would result in classification as a Level 3 instrument. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and considers factors specific to the asset, such as the relative impact on the fair value as a result of including a particular input and market conditions. We did not make any other significant judgments except as described above.

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 on proprietary models and are used when observable inputs are not available 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 on 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. 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 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 and believe that their prices adequately consider market activity in determining fair value.

In cases in which a price from the pricing service is not available, values are determined by obtaining non-binding broker quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based on 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.

Investments are evaluated monthly for other-than-temporary impairment loss. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include:

- the extent and duration for which fair value is less than cost;
- historical operating performance and financial condition of the issuer;
- short- and long-term prospects of the issuer and its industry based on analysts' recommendations;
- specific events that occurred affecting the issuer, including rating downgrades;
- our intent to sell or more likely than not be required to sell (debt securities); and
- our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value (equity securities).

For debt securities in which we do not expect full recovery of amortized cost, the security is deemed to be credit-impaired. Credit-related impairments and impairments on securities we intend to sell or more likely than not will be required to sell are recorded in the Consolidated Statements of Operations. It is our intention to sell all debt securities with credit impairments. For available-for-sale equity securities, a charge is recorded in the Consolidated Statements of Operations for positions that have experienced other-than-temporary impairments due to credit quality or other factors.

The primary basis for the valuation of limited partnership interests is financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners generally result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, these financial statements do not reflect the market conditions experienced in the fourth quarter of 2010. Nearly all of the underlying investments in our limited partnerships are valued using a source other than quoted prices in active markets. Our limited partnership holdings are considered investment companies where the general partners record assets at fair value. Several factors are to be considered in determining whether an entity is an investment company. Among these factors are a large number of investors, low level of individual ownership and passive ownership that indicate the entity is an investment company.

We have three types of limited partnership investments: private equity, mezzanine debt and real estate. Our private equity and mezzanine debt partnerships are diversified among numerous industries and geographies to minimize potential loss exposure. The fair value amounts for our private equity and mezzanine debt partnerships are based on the financial statements prepared by the general partners, who use various methods to estimate fair value including the market approach, income approach and the cost approach. The market approach uses prices and other pertinent information from market-generated transactions involving identical or comparable assets or liabilities. Such valuation techniques often use market multiples derived from a set of comparables. The income approach uses valuation techniques to convert future cash flows or earnings to a single discounted present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is derived from the amount that is currently required to replace the service capacity of an asset. If information becomes available that would impair the cost of investments owned by the partnerships, then the general partner would generally adjust to the net realizable value.

Real estate limited partnerships are recorded by the general partner at fair value based on independent appraisals and/or internal valuations. Real estate projects under development are generally valued at cost and impairment tested by the general partner. We minimize the risk of market decline by avoiding concentration in a particular geographic area and are diversified across residential, commercial, industrial and retail real estate investments.

We perform various procedures in review of the general partners' valuations, and while we rely on the general partners' financial statements as the best available information to record our share of the partnership unrealized gains and losses resulting from valuation changes, we adjust our financial statements for impairments of the partnership investments where appropriate. As there is no ready market for these investments, they have the greatest potential for variability. We survey each of the general partners quarterly about expected significant changes (plus or minus 10% compared to previous quarter) to valuations prior to the release of the fund's quarterly and annual financial statements. Based on that information from the general partner, we consider whether additional disclosure is warranted.

Deferred acquisition costs related to life insurance and investment-type contracts

Deferred acquisition costs (DAC) on life insurance and investment-type contracts are amortized in proportion to gross premiums, gross margins or gross profits, depending on the type of contract. DAC related to traditional life insurance products is amortized in proportion to premium revenues over the premium-paying period of related policies using assumptions consistent with those used in computing policy liability reserves. These assumptions are not revised after policy issuance unless the DAC balance is deemed to be unrecoverable from future expected profits. In any period where the actual policy terminations are higher (lower) than anticipated policy terminations, DAC amortization will be accelerated (decelerated) in that period.

DAC related to universal life products and deferred annuities is amortized over the estimated lives of the contracts in proportion to actual and expected future gross profits, which include investment, mortality and expense margins and surrender charges. Both historical and anticipated investment returns, including realized gains and losses, are considered in determining the amortization of DAC. When the actual gross profits change from previously estimated gross profits, the cumulative DAC amortization is re-estimated and adjusted by a cumulative charge or credit to current operations. When actual gross profits exceed those previously estimated, DAC amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the actual gross profits are below the previously estimated gross profits. DAC is also adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges, net of income taxes, included in EFL's accumulated other comprehensive income, which is presented in the noncontrolling interest owned by policyholders-Exchange in the Consolidated Statements of Financial Position.

The actuarial assumptions used to determine investment, mortality and expense margins and surrender charges are reviewed periodically, are based on best estimates and do not include any provision for the risk of adverse deviation. If actuarial analysis indicates that expectations have changed, the actuarial assumptions are updated and the investment, mortality and expense margins and surrender charges are unlocked. If this unlocking results in a decrease in the present value of future expected gross profits, DAC amortization for the period will increase. If this unlocking results in an increase in the present value of future expected gross profits, DAC amortization for the current period will decrease.

DAC is periodically reviewed for recoverability. For traditional life products, if the benefit reserves plus anticipated future premiums and interest earnings for a line of business are less than the current estimate of future benefits and expenses (including any unamortized DAC), a charge to income is recorded for additional DAC amortization or for increased benefit reserves. For universal life and deferred annuities, if the current present value of future expected gross profits is less than the unamortized DAC, a charge to income is recorded for additional DAC amortization. There were no impairments to DAC in 2010, 2009 or 2008.

Deferred taxes

Deferred tax assets represent the tax benefit of future deductible temporary differences and operating loss and tax credit carry-forwards. Deferred tax assets are measured using the enacted tax rates expected to be in effect when such benefits are realized if there is no change in tax law. We perform an analysis of our deferred tax assets to determine recoverability on a quarterly basis for each legal entity, consistent with how we file our tax returns. Deferred tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In determining the need for a valuation allowance, we consider carry-back capacity, reversal of existing temporary differences, future taxable income and tax planning strategies. The determination of the valuation allowance for our deferred tax assets requires management to make certain judgments and assumptions regarding future operations that are based on our historical experience and our expectations of future performance. Our judgments and assumptions are subject to change given the inherent uncertainty in predicting future performance, which is impacted by such things as financial market conditions, policyholder behavior, competitor pricing, new product introductions, and specific industry and economic conditions.

Indemnity had a net deferred tax liability of $26 million at December 31, 2010, compared to a net deferred tax asset of $41 million at December 31, 2009. There was no valuation allowance recorded on Indemnity at December 31, 2010, compared to $2 million recorded at December 31, 2009. In the fourth quarter of 2010, Indemnity recorded a deferred tax provision of $18 million related to its equity interest in EFL. This deferred tax charge is required due to Indemnity's decision to sell its 21.6% ownership interest in EFL rather than receiving its share of EFL's earnings in the form of future dividends, which would have been eligible for an 80% dividend received deduction. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

The Exchange had a net deferred tax liability of $257 million at December 31, 2010, compared to a net deferred tax asset of $75 million at December 31, 2009. There was no valuation allowance recorded on the Exchange at December 31, 2010, compared to $4 million recorded at December 31, 2009, which was primarily related to impairments on investments where the related deferred tax asset was not expected to be realized.

Retirement benefit plans

Our pension plan for employees is the largest and only funded benefit plan we offer. Our pension and other retirement benefit obligations are developed from actuarial estimates. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. Key factors include assumptions about the discount rates and expected rates of return on plan assets. We review these assumptions annually and modify them considering historical experience, current market conditions, including changes in investment returns and interest rates, and expected future trends.

Accumulated and projected benefit obligations are expressed as the present value of future cash payments. We discount those cash payments using a yield curve developed from corporate bond yield information with maturities that correspond to the payment of benefits. Lower discount rates increase present values and subsequent year pension expense; higher discount rates decrease present values and subsequent year pension expense. The discount rate assumption used to determine the benefit obligation for 2010 was determined based on a yield curve developed from corporate bond yield information. The construction of these yield curves is based on yields of corporate bonds rated Aa quality. Target yields are developed from bonds at various maturity points and a curve is fitted to those targets. Spot rates (zero coupon bond yields) are developed from the yield curve and used to discount benefit payment amounts associated with each future year. The present value of plan benefits is calculated by applying the spot/discount rates to projected benefit cash flows. A single discount rate is then developed to produce the same present value. This represents the suggested discount rate. The cash flows from the yield curve were matched against our projected benefit payments in the pension plan, which have a duration of about 18 years. This yield curve supported the selection of a 5.69% discount rate for the projected benefit obligation at December 31, 2010 and for the 2011 pension expense. The 2010 expense was based on a discount rate assumption of 6.11%. A change of 25 basis points in the discount rate assumption, with other assumptions held constant, would have an estimated $2 million impact on net pension and other retirement benefit costs in 2011.

The discount rate assumption used to determine the benefit obligation for 2009 and 2008 was based on a bond-matching study that compared projected pension plan benefit flows to the cash flows from a comparable portfolio of non-callable bonds rated AA- or higher. These bonds had maturities primarily between zero and 26 years. For years beyond year 27, there were no appropriate bonds maturing. In these instances, the study estimated the appropriate bond by assuming that there would be bonds available with the same characteristics as the available bond maturing in the immediately preceding year. Outlier bonds were excluded from the study.

Unrecognized actuarial gains and losses are being recognized over a 15-year period, which represents the expected remaining service period of the employee group. Unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes in the obligations and from the difference between expected returns and actual returns on plan assets. These unrecognized gains and losses are recorded in the pension plan obligation on the Consolidated Statements of Financial Position and Accumulated Other Comprehensive Income. These amounts are systematically recognized to net periodic pension expense in future periods, with gains decreasing and losses increasing future pension expense.

The expected long-term rate of return for the pension plan represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. The expected long-term rate of return is less susceptible to annual revisions, as there are typically no significant changes in the asset mix. The long-term rate of return is derived from expected future returns for each asset category based on applicable indices and their historical relationships under various market conditions. These expected future returns are then weighted based on our target asset allocation percentages for each asset category. A reasonably possible change of 25 basis points in the expected long-term rate of return assumption, with other assumptions held constant, would have an estimated $1 million impact on net pension benefit cost.

We use a four year averaging method to determine the market-related value of plan assets, which is used to determine the expected return component of pension expense. Under this methodology, asset gains or losses that result from returns that differ from our long-term rate of return assumption are recognized in the market-related value of assets on a level basis over a four year period. The component of the net actuarial loss generated during 2010 that related to the actual investment return being different from that assumed during the prior year was a gain of $16 million. Recognition of this gain will be deferred over a four year period, consistent with the market-related asset value methodology. Once factored into the market-related asset value, these experience gains and losses will be amortized over a period of 15 years, which is the remaining service period of the employee group.

Estimates of fair values of the pension plan assets are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes a money market fund that is a mutual fund for which the fair value is determined using an exchange traded price provided by the pricing service. Our Level 2 category includes commingled pools. Estimates of fair values for securities held by our commingled pools are obtained primarily from 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, issuers spreads, two-sided markets, benchmark securities, bids, offers and reference data. There were no Level 3 investments during 2010.

The actuarial assumptions we used in determining our pension and retirement benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position, results of operations or cash flows.

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RESULTS OF OPERATIONS

The information that follows is presented on a segment basis prior to eliminations.

Management operations

Management fee revenue is earned by Indemnity from services relating to the sales, underwriting and issuance of policies on behalf of the Exchange, and is eliminated upon consolidation.

	Erie Insurance Group Years ended December 31,				
(dollars in millions)	2010	% Change	2009	% Change	2008
Management fee revenue	$ 1,009	4.6%	$ 965	1.6%	$ 950
Service agreement revenue	34	(1.8)	35	7.7	33
Total revenue from management operations	1,043	4.3	1,000	1.8	983
Cost of management operations	841	3.4	813	0.5	810
Income from management operations-Indemnity (1)	$ 202	8.5%	$ 187	8.1%	$ 173
Gross margin	19.4%	0.7pts.	18.7%	1.1pts.	17.6%

(1) Indemnity retains 100% of the income from management operations.

Management fee revenue

Management fee revenue is based upon all premiums written or assumed by the Exchange and the management fee rate, which is determined by our Board of Directors at least annually. Management fee revenue is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling agreement. The following table presents the calculation of management fee revenue.

	Erie Insurance Group Years ended December 31				
(dollars in millions)	2010	% Change	2009	% Change	2008
Property and Casualty Group direct written premiums	$ 4,035	4.5%	$ 3,861	1.6%	$ 3,800
Management fee rate	25%		25%		25%
Management fee revenue, gross (1)	$ 1,009	4.5%	$ 965	1.6%	$ 950

NM = not meaningful

(1) Gross management fee revenue is adjusted by an estimated allowance that Indemnity records for management fees returned on mid-term policy cancellations resulting in management fee revenue, net of allowance. Management fees are returned to the Exchange when policies are cancelled mid-term and unearned premiums are refunded. The change in the allowance for management fees returned on cancelled policies was not significant for the years ended December 31, 2010, 2009 and 2008.

Direct written premiums of the Property and Casualty Group increased 4.5% in 2010, compared to 2009, due to a 3.3% increase in policies in force and modest increases in average premium. The year-over-year average premium per policy for all lines of business increased 1.1% at December 31, 2010, compared to a decrease of 1.9% at December 31, 2009. The policy retention ratio was 90.7% at December 31, 2010, compared to 90.6% at both December 31, 2009 and 2008. See the “Property and casualty insurance operations” segment that follows for a complete discussion of property and casualty direct written premiums.

The management fee rate was set at 25%, the maximum rate, for 2010, 2009 and 2008. The management fee rate for 2011 has again been set at the maximum rate of 25% by our Board of Directors. Changes in the management fee rate can affect the segment’s revenue and net income significantly. See also, the “Transactions/Agreements between Indemnity and Noncontrolling Interest (Exchange), Board oversight” section within this report.

Service agreement revenue

Service agreement revenue includes service charges Indemnity collects from policyholders for providing extended payment terms on policies written by the Property and Casualty Group and late payment and policy reinstatement fees. The service charges are fixed dollar amounts per billed installment. Service agreement revenue totaled $34 million, $35 million and $33 million in 2010, 2009 and 2008, respectively. The decrease in service agreement revenue in 2010 resulted from a slight decline in late payment and policy reinstatement fees and a continued shift in policies to the no-fee, single payment plan. The shift to the single payment plan is driven by a discount in pricing offered for paid-in-full policies as consumers' continue to desire to avoid service charges. The increase in 2009, compared to 2008, was primarily driven by the implementation of late payment and policy reinstatement fees that became effective in March 2008.

Cost of management operations

	Erie Insurance Group Years ended December 31,				
(in millions)	2010	% Change	2009	% Change	2008
Commissions	$ 564	2.1%	$ 552	(0.3)%	$ 554
Non-commission expense	277	6.0	261	2.1	256
Total cost of management operations	$ 841	3.4%	$ 813	0.5%	$ 810

Commissions — Scheduled rate commissions increased $25 million in 2010, compared to 2009, impacted by the 4.5% increase in direct written premiums of the Property and Casualty Group. Offsetting this increase was a decrease in agent bonuses and accelerated commissions of $14 million driven primarily by a reduction in our estimate of the profitability component of the bonus when factoring in the most recent year's underwriting data.

In 2009, scheduled rate commissions increased $10 million, compared to 2008, impacted by the 1.6% increase in direct written premiums of the Property and Casualty Group, which was offset by a $13 million decrease in agent bonuses as our estimate of the profitability component of the bonus decreased when factoring in the most recent year's underwriting data.

Non-commission expense — Non-commission expense increased $16 million in 2010 compared to 2009. Personnel costs, the second largest component in the cost of management operations, increased $12 million primarily as a result of increases in salaries and benefits. All other operating costs increased $9 million, related primarily to our technology initiatives, offset by a $5 million reduction for a favorable ruling related to an outstanding judgment against us.

In 2009, non-commission expense increased $5 million compared to 2008. Personnel costs increased $1 million primarily as a result of higher pension benefit costs due to the change in the discount rate assumption used to calculate the pension expense from 6.62% in 2008 to 6.06% in 2009, offset by a decrease in salaries. All other operating costs increased $7 million primarily related to our technology initiatives. Also, 2008 included $3 million of executive severance costs and other compensation expense not included in 2009.

The Indemnity gross margin of 19.4% in 2010 was positively impacted by a $5 million reduction for a favorable court ruling. Excluding this adjustment, the gross margin would have been 18.9%, compared to 18.7% in 2009. The improved gross margin in 2010, compared to 2009, resulted from revenue growth slightly outpacing expense growth.

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Property and casualty insurance operations

A summary of the results of operations of our property and casualty insurance business is as follows:

	Property and Casualty Group Years ended December 31,				
(dollars in millions)	2010	% Change	2009	% Change	2008
Direct written premium	$ 4,035	4.5%	$ 3,861	1.6%	$ 3,800
Reinsurance — assumed and ceded	(16)	NM	0	NM	(12)
Net written premium	4,019	4.1	3,861	1.9	3,788
Change in unearned premium	94	78.1	53	NM	17
Net premiums earned	3,925	3.1	3,808	1.0	3,771
Losses and loss expenses	2,815	6.4	2,644	6.0	2,494
Policy acquisition and other underwriting expenses	1,113	(1.7)	1,135	9.5	1,035
Total losses and expenses	3,928	4.0	3,779	7.1	3,529
Underwriting income — Erie Insurance Group	$ (3)	NM	$ 29	(87.3)%	$ 242
Underwriting income — Indemnity (1)	$ 0		$ 1		$ 13
Underwriting income — Exchange (1)	$ (3)		$ 28		$ 229
Loss and loss expense ratio	71.7%	2.3pts.	69.4%	3.3pts.	66.1%
Policy acquisition and other underwriting expense ratio	28.4	(1.4)	29.8	2.3	27.5
Combined ratio	100.1%	0.9pts.	99.2%	5.6pts.	93.6%

NM = not meaningful

(1) *Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)*

We measure profit or loss for our property and casualty insurance segment based upon underwriting results, which represents net earned premium less loss and loss expenses and underwriting expense on a pre-tax basis. Loss and combined ratios are key performance indicators that we use to assess business trends and to make comparisons to industry results. Investment results of our underwriting business are included in our investment operations segment.

Direct written premiums

Direct written premiums of the Property and Casualty Group increased 4.5% to $4.0 billion in 2010, compared to nearly $3.9 billion in 2009, driven by an increase in policies in force and modest increases in average premium per policy. Year-over-year policies in force for all lines of business increased by 3.3% in 2010 as the result of increased new policies sold and continuing strong policyholder retention, compared to an increase of 3.5% in 2009. The year-over-year average premium per policy for all lines of business increased 1.1% in 2010, compared to a decrease of 1.9% in 2009. The combined impact of these increases was seen primarily in the personal lines renewal business and commercial lines new business.

Premiums generated from new business increased 5.2% to $456 million in 2010, compared to an increase of 5.0%, or $433 million, in 2009. Underlying the trend in new business premiums was an increase in new business policies in force of 1.3% in 2010, compared to 7.7% in 2009, while the year-over-year average premium per policy on new business increased 3.8% in 2010, compared to a decline of 2.5% in 2009.

Premiums generated from renewal business increased 4.4% to nearly $3.6 billion in 2010, compared to an increase of 1.2%, or $3.4 billion, in 2009. Underlying the trend in renewal business premiums was an increase in renewal business policies in force of 3.6% in 2010, compared to 3.0% in 2009, and an increase in the renewal business year-over-year average premium per policy of 0.8% in 2010, compared to a decline of 1.7% in 2009. The Property and Casualty Group's year-over-year policy retention ratio was 90.7% at December 31, 2010, and 90.6% at both December 31, 2009 and 2008.

The Property and Casualty Group implemented modest rate increases in 2010 and 2009 in order to meet loss cost expectations. These rate increases, however, were offset by the Property and Casualty Group's economically sensitive lines, such as workers compensation and commercial auto, which continue to experience reduced exposures and reduced average premium per policy as a result of continuing unfavorable economic conditions. Our modest rate increases in 2009 were offset by exposure reductions and changes in our mix of business which resulted in a slight decrease to our overall average premium per policy in both the workers compensation and commercial auto lines of business.

The Property and Casualty Group primarily writes only one-year policies. Consequently, rate actions take 12 months to be fully recognized in written premium and 24 months to be recognized fully in earned premiums. Since rate changes are realized at renewal, it takes 12 months to implement a rate change to all policyholders and another 12 months to earn the decreased or increased premiums in full. As a result, certain rate actions approved in 2009 were reflected in 2010, and recent rate actions in 2010 will be reflected in 2011.

Personal lines — Total personal lines premiums written increased 5.7% to nearly $3.0 billion in 2010, compared to nearly $2.8 billion in 2009. Total personal lines policies in force increased 3.2% in 2010 and the total personal lines year-over-year average premium per policy increased 2.4%.

New business premiums written on personal lines increased 2.1% in 2010, compared to 9.1% in 2009. Personal lines new business policies in force decreased 0.1% in 2010, compared to an increase of 8.6% in 2009, while the year-over-year average premium per policy on personal lines new business increased 2.2% in 2010, compared to 0.4% in 2009.

- Private passenger auto new business premiums written increased 1.8% in 2010, compared to 8.2% in 2009. New business policies in force for private passenger auto decreased 0.9% in 2010, compared to an increase of 8.7% in 2009, while the new business year-over-year average premium per policy for private passenger auto increased 2.7% in 2010, compared to a decrease of 0.4% in 2009.

- Homeowners new business premiums written increased 1.9% in 2010, compared to 11.6% in 2009. New business policies in force for homeowners decreased 0.1% in 2010 compared to an increase of 8.8% in 2009. The new business year-over-year average premium per policy for homeowners increased 2.0% in 2010, compared to 2.6% in 2009.

Renewal premiums written on personal lines increased 6.1% in 2010, compared to 3.2% in 2009, driven by a modest increase in average premium per policy and steady policy retention trends. The year-over-year average premium per policy on personal lines renewal business increased 2.4% in 2010, compared to 0.1% in 2009. The personal lines year-over-year policy retention ratio was 91.5% at December 31, 2010 and 2009, and 91.4% in 2008.

- Private passenger auto renewal premiums written increased 5.0% in 2010, compared to 1.6% in 2009. The year-over-year average premium per policy on private passenger auto renewal business increased 2.2% in 2010, compared to a decrease of 0.6% in 2009. The private passenger auto year-over-year policy retention ratio was 91.8% at December 31, 2010, compared to 91.9% at December 31, 2009 and 91.8% at December 31, 2008.

- Homeowners renewal premiums written increased 8.4% in 2010, compared to 6.1% in 2009. The year-over-year average premium per policy on homeowners renewal business increased 4.5% in 2010, compared to 3.0% in 2009. The homeowners year-over-year policyholder retention ratio was 91.2% at December 31, 2010 and 2009, and 91.1% at December 31, 2008.

Commercial lines — Total commercial lines premiums written increased slightly, by 1.4%, to almost $1.1 billion in 2010 compared to 2009. Total commercial lines policies in force increased 4.0%, while the total commercial lines year-over-year average premium per policy decreased 2.5%.

New business premiums written on commercial lines increased 11.6% in 2010, compared to a decrease of 2.5% in 2009. Commercial lines new business policies in force increased 7.8% in 2010, compared to 3.7% in 2009, while the year-over-year average premium per policy on commercial lines new business increased 3.5% in 2010, compared to a decrease of 6.0% in 2009.

Renewal premiums for commercial lines decreased 0.2% in 2010, and 3.8% in 2009. The improvement seen in commercial lines renewal premiums was driven by smaller decreases in average premium per policy and steady policy retention trends. The year-over-year average premium per policy on commercial lines renewal business decreased 3.3% in 2010, compared to 6.1% in 2009, due primarily to the workers compensation and commercial auto lines of business in both years. The workers compensation and commercial auto year-over-year average premium per policy on renewal business decreased 9.2% and 2.9%, respectively, in 2010, compared to decreases of 14.4% and 4.2%, respectively, in 2009. Contributing to the lower average premium per policy in 2010 were shifts in the mix of our book of business and lower exposures driven by reductions in payroll levels for the workers compensation line of business, and shifts in the mix of our book of business and fewer insured vehicles for the commercial auto line of business, but to a lesser extent than in 2009 and 2008. The year-over-year policy retention ratio for commercial lines was 85.3% at December 31, 2010, 84.9% at December 31, 2009, and 85.3% at December 31, 2008.

Future trends—premium revenue — We plan to continue our efforts to grow Property and Casualty Group premiums and improve our competitive position in the marketplace. Expanding the size of our agency force will contribute to future growth as existing and new agents build their book of business with the Property and Casualty Group. In 2010, we appointed 125 new agencies and had a total of 2,084 agencies with 9,489 licensed representatives as of December 31, 2010.

The changes in premium levels attributable to growth in policies in force of the Property and Casualty Group directly affect the profitability of the Property and Casualty Group and have a direct bearing on Indemnity's management fee. Our continued focus on underwriting discipline and the maturing of our pricing segmentation model has contributed to our growth in new policies in force and steady retention ratios. The continued growth of the policy base of the Property and Casualty Group is dependent upon the Property and Casualty Group's ability to retain existing and attract new policyholders. A lack of new policy growth or the inability to retain existing customers could have an adverse effect on the Property and Casualty Group's premium level growth, and Indemnity's management fee.

The changes in premium levels attributable to rate changes of the Property and Casualty Group also directly affect the profitability of the Property and Casualty Group and have a direct bearing on Indemnity's management fee. Pricing actions contemplated or taken by the Property and Casualty Group are subject to various regulatory requirements of the states in which these insurers operate. The pricing actions already implemented, or to be implemented, have an effect on the market competitiveness of the Property and Casualty Group's insurance products. Such pricing actions, and those of competitors, could affect the ability of our agents to retain and attract new business. We expect our pricing actions to result in a net increase in direct written premium in 2011, however, exposure reductions and changes in our mix of business as a result of economic conditions could impact the average premium written by the Property and Casualty Group, as customers may continue to reduce coverages.

Current year losses and loss expenses

The current accident year loss and loss expense ratio, excluding catastrophe losses, was 70.6% in 2010, compared to 68.4% in 2009, and 67.6% in 2008.

The personal lines loss and loss expense ratio related to the current accident year, excluding catastrophe losses, was 70.4% in 2010, compared to 69.1% in 2009, and 66.7% in 2008. Excluding catastrophe losses, the current accident year loss and loss expense ratio for personal auto decreased to 73.4% in 2010 from 74.3% in 2009, while the homeowners loss and loss expense ratio increased to 64.5% from 60.0% for the same periods, respectively. The homeowners line of business experienced an increase in frequency in 2010 compared to 2009.

The commercial lines loss and loss expense ratio related to the current accident year, excluding catastrophe losses, was 71.3% in 2010, compared to 66.9% in 2009, and 70.1% in 2008. Excluding catastrophe losses, the current accident year loss and loss expense ratios for 2010 and 2009, respectively, were 82.9% and 79.0% for the workers compensation line of business, 71.0% and 63.6% for the commercial multi-peril line of business, and 68.7% and 65.0% for the commercial auto line of business. The commercial multi-peril line of business experienced an increase in frequency in 2010 compared to 2009.

Catastrophe losses

Catastrophic events, destructive weather patterns, or changes in climate conditions are an inherent risk of the property and casualty insurance business and can have a material impact on our property and casualty insurance underwriting results. The Property and Casualty Group conducts business primarily in the Mid-Atlantic, Mid-western and Southeastern portions of the United States. A substantial portion of the business is personal and commercial automobile, homeowners and workers compensation insurance in Ohio, Maryland, Virginia and, particularly, Pennsylvania. Common catastrophe events include severe winter storms, hurricanes, earthquakes, tornadoes, wind and hail storms. In addressing these risks, we employ what we believe are reasonable underwriting standards and monitor our exposure by geographic region.

The Property and Casualty Group's definition of catastrophes includes those weather-related or other loss events that we consider significant to our geographic footprint which, individually or in the aggregate, may not reach the level of a national catastrophe as defined by the Property Claim Service (PCS). The Property and Casualty Group maintains property catastrophe reinsurance coverage from nonaffiliated reinsurers to mitigate future potential catastrophe loss exposures and no longer participates in the voluntary assumed reinsurance business, which lowers the variability of the Property and Casualty Group's underwriting results. The property catastrophe reinsurance coverage in 2010 provided coverage of up to 95% of a loss of $500 million in excess of the Property and Casualty Group's loss retention of $400 million per occurrence. This agreement was renewed effective January 1, 2011, that provides coverage of 90% of a loss up to $500 million in excess of the Property and Casualty Group's loss retention of $350 million per occurrence. In addition, a second property catastrophe reinsurance treaty was entered into with nonaffiliated reinsurers providing coverage of up to 90% of a loss of $25 million in excess of the first property catastrophe reinsurance treaty's coverage of $850 million. The treaties exclude losses from acts of terrorism.

While the Property and Casualty Group is exposed to terrorism losses in commercial lines, including workers compensation, these lines are afforded a limited backstop above insurer deductibles for foreign acts of terrorism under the federal Terrorism Risk Insurance Program Reauthorization and Extension Act of 2007 that continues through December 31, 2014. The Property and Casualty Group has no personal lines terrorism coverage in place. Although current models suggest the most likely occurrences would not have a material impact on the Property and Casualty Group, there is a chance that if future terrorism attacks occur, the Property and Casualty Group could incur large losses.

Catastrophe losses, as defined by the Property and Casualty Group, totaled $288 million in 2010, $129 million in 2009, and $127 million in 2008, and amounted to 7.3 points, 3.4 points, and 3.4 points of the respective loss ratios. Catastrophe losses in 2010 were impacted by ice, snow, wind, flooding, hail and tornadoes primarily in the states of Pennsylvania, Maryland and Ohio. In 2009, catastrophe losses were impacted by flooding, hail, tornado and wind storms primarily in Pennsylvania, Ohio and Indiana, where 2008 catastrophe losses resulted primarily from flooding, tornado and wind storms related to Hurricane Ike, primarily in Ohio and Pennsylvania.

Development of prior year loss reserves

The following table provides a breakout of our prior year loss reserve development by type of business:

	Erie Insurance Group		
	Years ended December 31,		
(in millions)	2010	2009	2008
Direct business including salvage and subrogation	$ (188)	$ (30)	$ (124)
Assumed reinsurance business	(51)	(38)	(65)
Ceded reinsurance business	(5)	(25)	3
Total prior year loss development	$ (244)	$ (93)	$ (186)

Negative amounts represent a redundancy (decrease in reserves), while positive amounts represent a deficiency (increase in reserves).

Direct business including salvage and subrogation — The following table presents the overall prior year loss development of direct reserves, including the effects of salvage and subrogation recoveries, for the personal and commercial lines operations by accident year.

	Years ended December 31,		
(in millions)	2010	2009	2008
2009	$ (60)	$ —	$ —
2008	(47)	4	—
2007	(39)	(11)	(59)
2006	(17)	(18)	(33)
2005	(17)	(4)	(1)
2004	0	10	(9)
2003	(9)	(60)	14
2002	15	16	(1)
2001	0	(2)	(2)
2000 and prior	(14)	35	(33)
Total	$ (188)	$ (30)	$ (124)

Negative amounts represent a redundancy (decrease in reserves), while positive amounts represent a deficiency (increase in reserves).

The 2010 favorable development totaled $188 million, improved the combined ratio by 4.8 points and represented 5.2% of the net loss reserves at December 31, 2009. The most significant factors contributing to the 2010 favorable development were:

- Favorable development of $64 million related to the commercial multi-peril line of business and resulted primarily from improvements in severity trends on both property and liability lines, which impacted various recent accident years.
- Favorable development of $60 million related to the personal auto line of business and primarily resulted from better than expected severity trends on automobile bodily injury and uninsured/underinsured motorist bodily injury, which impacted the more recent accident years. An additional $8 million of favorable development stems from the settlement of three pre-1986 automobile massive injury claims.
- Favorable development of $45 million related to the workers compensation line of business and resulted primarily from improvements in severity trends and the settlement of four workers compensation massive injury claims, which impacted the more recent accident years.
- Adverse development of $39 million was experienced in 2010 as a result of reserve strengthening on commercial liability claims that impacted the 2002 accident year. Of this amount, $9 million related to the commercial multi-peril line of business and $30 million related to other commercial lines.

The 2009 favorable development totaled $30 million, improved the combined ratio by 0.8 points and represented 0.8% of the net loss reserves at December 31, 2008. The most significant factors contributing to the 2009 favorable development were:

- Favorable development of $138 million related to the workers compensation line of business. This favorable development was a function of 1) the settlement of several massive injury workers compensation claims of $56 million, 2) changes to mortality assumptions of $14 million and 3) a change in the payout patterns used in the calculation to discount workers compensation reserves of $45 million. The settlement of the massive injury workers compensation claims impacted several accident years. The changes in assumptions and the discount calculation impacted all accident years.
- Adverse development of $77 million related to the personal auto line of business primarily in the pre-1986 automobile massive injury claims. The mortality assumptions used for these claims were changed to a 100% weighting of the disabled pensioner mortality table and gender specific mortality tables were used, resulting in an increase to reserves of $44 million. The remaining adverse development resulted primarily from personal auto bodily injury claims as greater than expected frequency and severity trends were experienced related to accident years 2007 and 2008.
- Adverse development of $67 million related to the commercial multi-peril lines of business impacting various accident years. The majority of the adverse development stems from liability claims on accident years 2007 and 2008 as greater than expected severity trends were experienced. Adverse development on accident years prior to 2007 resulted mainly from the outcome of certain court decisions.

The 2008 favorable development totaled $124 million, improved the combined ratio by 3.3 points and represented 3.4% of the net loss reserves at December 31, 2007. The most significant factors contributing to 2008 favorable development were:

- Favorable development of $78 million related to the personal auto line of business and $18 million related to the commercial auto line of business primarily impacting the 2007, 2006 and 2000 and prior accident years. We experienced improvements in frequency trends and slight improvements in severity trends on automobile bodily injury and uninsured/underinsured motorist bodily injury. We believe this improvement was impacted by the employment of specialty claims units in Pennsylvania to improve claims handling and control severity. We also made revisions to anticipated attendant care costs on automobile massive injury claims related to accident years prior to 1986. Pennsylvania’s auto no-fault law provided for unlimited medical benefits prior to 1986.
- Favorable development of $24 million related to the commercial multi-peril line of business and $17 million related to the homeowners line of business primarily impacting the 2007 accident year. This favorable development was the result of lower than expected frequency trends as improvements in claims handling procedures, changes in growth rates, and shifts in the mix of business caused changes in loss development patterns over the more recent accident years.

Additional information on direct loss reserve development is provided in Item 1. “Business, Reserves for losses and loss expenses.” The variability in reserve development over the ten year period illustrates the uncertainty of the loss reserving process. Conditions and trends that have affected reserve development in the past will not necessarily recur in the future. It is not appropriate to extrapolate future favorable or unfavorable reserve development based upon amounts experienced in prior years.

Assumed reinsurance — The Property and Casualty Group’s favorable development of prior accident year loss reserves on its assumed reinsurance business totaled $51 million in 2010, compared to $38 million in 2009, and $65 million in 2008. The favorable development in 2010 was due to less than anticipated growth in involuntary reinsurance. In 2009 and 2008 the favorable development was due to less than anticipated growth in involuntary reinsurance and, to a lesser extent, reductions in reserve levels related to World Trade Center losses.

Ceded reinsurance — Favorable development of ceded reinsurance reserves totaled $5 million in 2010, compared to favorable development of $25 million in 2009, and adverse development of $3 million in 2008. Ceded reinsurance reserves are primarily related to the pre-1986 automobile massive injury claims. The favorable development in 2010 was primarily the result of a $9 million increase related to the business catastrophe liability line, offset by a $4 million reduction in ceded recoveries related to the pre-1986 automobile massive injury reserves. As mentioned in the 2009 discussion of direct business above, the pre-1986 automobile massive injury reserves increased in 2009 due to assumption changes and frequency trends. These reserve increases drove the corresponding increase in the 2009 receivable from the ceded reinsurer.

Policy acquisition and other underwriting expenses

Our policy acquisition and other underwriting expense ratio decreased 1.4 points in 2010, compared to an increase of 2.3 points in 2009. The management fee rate was 25% in 2010, 2009 and 2008. The year ended December 31, 2009 included a charge of $62 million related to the write-off of assumed involuntary reinsurance premium related to the North Carolina Beach and Coastal Plans deemed uncollectible as a result of state legislation, which contributed 1.6 points to the 2009 policy acquisition and other underwriting expense ratio.

Life insurance operations

EFL is a Pennsylvania-domiciled life insurance company which underwrites and sells individual and group life insurance policies and fixed annuities and operates in 10 states and the District of Columbia.

	Erie Family Life Insurance Company Years ended December 31,				
(in millions)	2010	% Change	2009	% Change	2008
Individual life premiums	$ 61	1.5%	$ 60	(2.8)%	$ 62
Group life and other premiums	3	(3.2)	3	(5.8)	3
Other revenue	1	(3.0)	1	(0.6)	1
Total net policy revenue	65	1.3	64	(2.8)	66
Net investment income	94	1.6	93	6.2	87
Net realized gains (losses) on investments	14	NM	3	NM	(10)
Impairment losses recognized in earnings	(2)	91.6	(23)	72.5	(83)
Equity in earnings (losses) of limited partnerships	1	NM	(10)	NM	0
Total revenues	172	35.0	127	NM	60
Benefits and other changes in policy reserves	90	1.4	89	(4.8)	94
Amortization of deferred policy acquisition costs	17	33.3	13	NM	3
Other operating expenses	15	(2.4)	15	(11.1)	17
Total benefits and expenses	122	4.3	117	2.7	114
Income (loss) before income taxes	50	NM	10	NM	(54)
Income (loss) before taxes — Indemnity (1)	$ 11	NM	$ 2	NM	$ (12)
Income (loss) before taxes — Exchange (1)	$ 39	NM	$ 8	NM	$ (42)

NM = not meaningful

(1) *Indemnity has a 21.6% ownership interest in EFL and the Exchange has a 78.4% ownership interest in EFL. As a result of the pending sale of Indemnity's 21.6% ownership interest in EFL to the Exchange which is scheduled to close by March 31, 201l, all earnings of EFL will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)*

Premiums

Gross policy revenues increased 4.1% to $106 million in 2010, compared to $102 million in 2009, and $100 million in 2008. EFL reinsures a large portion of its traditional products in order to reduce claims volatility. Our reinsurers assume 75% of the risk on new term business. Ceded reinsurance premiums were $42 million in 2010, $39 million in 2009, and $35 million in 2008.

Premiums received on annuity and universal life products totaled $113 million, $181 million, and $170 million in 2010, 2009 and 2008, respectively. Of this amount, annuity and universal life premiums recorded as deposits and therefore not reflected in revenue on the Consolidated Statements of Operations were $97 million, $164 million, and $153 million in 2010, 2009 and 2008, respectively.

Investments

Due to continued improvements in market conditions in 2010, EFL experienced low levels of impairments and an increase in net realized gains on investments compared to 2009. Equity in earnings of limited partnerships also reflected the improvement in market conditions. In 2009, impairments decreased significantly compared to 2008 due to improving market conditions, while equity in losses of limited partnerships reflects the deterioration in market conditions in the fourth quarter of 2008, as limited partnership activity is reported on a one quarter lag. See additional discussion of investments in the "Investment Operations" segment that follows.

Benefits and expenses

Total benefits and expenses were primarily impacted in 2010 by an increase in the amortization of deferred policy acquisition costs due to a significant reduction in impairments and experiencing a greater level of realized gains as a result of the continued improvements in market conditions in 2010, compared to 2009. The amortization of deferred policy acquisition costs in 2008 was impacted by the more significant impairment losses recorded in 2008.

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Investment operations

Prior to and through December 31, 2010, the investment results from EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, the investment results for these companies will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

	Erie Insurance Group Years ended December 31,				
(in millions)	2010	% Change	2009	% Change	2008
Indemnity					
Net investment income	$ 37	(11.9)%	$ 42	(4.6)%	$ 44
Net realized (losses) gains on investments	(1)	NM	10	NM	(43)
Net impairment losses recognized in earnings	(1)	NM	(12)	NM	(70)
Equity in earnings (losses) of limited partnerships	21	NM	(76)	NM	6
Net revenue (loss) from investment operations — Indemnity(1)	$ 56	NM	$ (36)	NM	$ (63)
Exchange					
Net investment income	$ 407	1.2%	$ 402	(0.7)%	$ 405
Net realized gains (losses) on investments	314	NM	402	NM	(983)
Net impairment losses recognized in earnings	(5)	NM	(114)	NM	(501)
Equity in earnings (losses) of limited partnerships	107	NM	(293)	NM	(64)
Goodwill impairment	(22)	NM	—	NM	—
Net revenue (loss) from investment operations — Exchange(1) (2)	$ 801	NM	$ 397	NM	$ (1,143)

NM = not meaningful

(1) *As a result of the sale of Indemnity's property and casualty insurance subsidiaries, EIC, ENY and EPC, to the Exchange on December 31, 2010, future investment revenue and losses generated from these entities will no longer accrue to the benefit of the Indemnity shareholder interest. Investment revenue from these entities totaled $29 million in 2010 and $21 million in 2009, compared to losses of $9 million in 2008. These components of investment income will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, in 2011 and thereafter. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)*

(2) *The Exchange's results include net revenues of EFL operations of $107 million and $63 million in 2010 and 2009, respectively and net losses of $6 million in 2008.*

Net investment income includes primarily interest and dividends on our fixed maturity and equity security portfolio.

Indemnity net investment income decreased 11.9% in 2010 primarily due to lower yields on fixed income and preferred stock holdings. The Exchange net investment income for 2010 increased slightly as lower investment yields were offset by larger invested balances compared to 2009.

Realized gains on investments decreased in both Indemnity and the Exchange compared to 2009 in large part due to realized losses generated on the sale of limited partnership holdings. In 2010 the Indemnity recognized losses of $12 million and the Exchange recognized losses of $46 million on sales of limited partnerships. These partnerships were sold to recapture tax paid on previous period capital gains that were due to expire. The Exchange recorded unrealized gains on its common stock portfolio of $254 million and $464 million in 2010 and 2009, respectively compared to unrealized losses of $416 million in 2008. These securities are classified as trading securities and therefore any change in the fair value is recorded through income. The Exchange recorded realized gains on the sale of common stock of $70 million in 2010 and losses of $60 million and $499 million in 2009 and 2008, respectively.

Impairment losses recognized in earnings decreased $11 and $109 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 in Indemnity and Exchange, respectively. The decrease in impairments totaled $58 million and $387 for the year ended December 31, 2009 compared to the year ended December 31, 2008 for the Indemnity and Exchange, respectively. These decreases are due to improved market conditions.

Indemnity's equity in earnings of limited partnerships totaled $21 million in 2010 compared to losses of $76 million in 2009 and gains of $6 million in 2008. The Exchange's equity in earnings of limited partnerships totaled $107 million in 2010, compared to losses of $293 million and $64 million in 2009 and 2008 respectively. These 2010 gains were primarily a result of improved market conditions across all limited partnership sectors.

Goodwill is reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event has occurred. The goodwill impairment test follows a two step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment.

Prior to December 31, 2010, the Exchange had $22 million of goodwill attributed to its purchase of EFL's stock in 2006. On November 4, 2010, the Exchange entered into an agreement to purchase the Indemnity's remaining 21.6% ownership interest in EFL, which is expected to be completed by March 31, 2011. A valuation of EFL was performed by an external independent third party in preparation for the sale. The valuation resulted in a purchase price determination of 95% of book value. In response to the valuation and sale price, management concluded that the possibility for impairment existed and step two of the goodwill impairment test was completed to determine the impairment amount. Step two of the impairment test compared the value of new business for EFL to the current goodwill balance. The analysis determined that the value of EFL's new business did not support the $22 million goodwill and an impairment entry was made to write down the entire goodwill balance at December 31, 2010. The charge of $22 million decreased the net income attributable to the Exchange.

The breakdown of our net realized (losses) gains on investments is as follows:

	Erie Insurance Group Years ended December 31,		
(in millions)	2010	2009	2008
Indemnity			
Securities sold:			
Fixed maturities	$ 5	$ 1	$ (2)
Preferred stock equity securities	1	1	(5)
Common stock equity securities	5	(3)	(16)
Common stock valuation adjustments	0	11	(22)
Limited partnerships	(12)	0	2
Total net realized (losses) gains — Indemnity (1)	$ (1)	$ 10	$ (43)
Exchange			
Securities sold:			
Fixed maturities	$ 25	$ (15)	$ (40)
Preferred stock equity securities	11	13	(35)
Common stock equity securities	70	(60)	(499)
Common stock valuation adjustments	254	464	(416)
Limited partnerships	(46)	0	7
Total net realized gains (losses) — Exchange (1) (2)	$ 314	$ 402	$ (983)

(1) See Item 8. "Financial Statements and Supplementary Data — Note 7, Investments, of Notes to Consolidated Financial Statements" contained within this report for additional disclosures regarding net realized gains (losses) on investments.

(2) The Exchange net realized gains (losses) include net realized gains from EFL operations of $14 million in 2010 and $3 million in 2009 and net realized losses of $10 million in 2008.

Impairment charges of $1 million on fixed maturities were incurred by the Indemnity in 2010. Exchange impairment charges of $5 million included $4 million on fixed maturities and $1 million on preferred stock in 2010. Impairment charges during 2010 decreased significantly compared to 2009 as the financial markets continue to stabilize.

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

	Erie Insurance Group				
	Years ended December 31,				
(in millions)	2010	% Change	2009	% Change	2008
Indemnity					
Private equity	$ 14	NM	$ (12)	NM	$ 5
Real estate	0	NM	(58)	NM	(4)
Mezzanine debt	7	NM	(6)	NM	5
Total equity in earnings (losses) of limited partnerships — Indemnity	$ 21	NM	$ (76)	NM	$ 6
Exchange					
Private equity	$ 77	NM	$ (34)	19.0%	$ (42)
Real estate	3	NM	(257)	NM	(47)
Mezzanine debt	27	NM	(2)	NM	25
Total equity in earnings (losses) of limited partnerships — Exchange(1)	$ 107	NM	$ (293)	NM	$ (64)

NM = not meaningful

(1) Total equity in earnings (losses) of limited partnerships include earnings from EFL operations of $0.5 million in 2010 and losses of $10 million in 2009 and $0.1 million in 2008.

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

We experienced an increase in earnings as a result of asset value increases recognized in 2010 due to current favorable market conditions. Limited partnership earnings tend to be cyclical based on market conditions, the age of the partnership and the nature of the investments. Generally, limited partnership earnings are recorded by us on a quarter lag from financial statements we receive from our general partners. As a consequence, earnings from limited partnerships reported at December 31, 2010 do not reflect investment valuation changes that may have resulted from the financial markets and the economy in general in the fourth quarter of 2010.

FINANCIAL CONDITION

Investments

Prior to and through December 31, 2010, the investment results from EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, the investment results for these companies will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

Our investment strategy takes a long-term perspective emphasizing investment quality, diversification and superior investment returns. Investments are managed on a total return approach that focuses on current income and capital appreciation. Our investment strategy also provides for liquidity to meet our short- and long-term commitments.

Distribution of investments

	Erie Insurance Group Carrying value at December 31,			
(in millions)	2010	% to total	2009	% to total
Indemnity				
Fixed maturities	$ 264	50%	$ 664	68%
Equity securities:				
Preferred stock	24	4	38	4
Common stock	28	5	42	4
Limited partnerships:				
Real estate	83	16	99	10
Private equity	86	16	85	9
Mezzanine debt	47	9	51	5
Real estate mortgage loans	1	0	1	0
Total investments — Indemnity	$ 533	100%	$ 980	100%
Exchange				
Fixed maturities	$ 7,279	65%	$ 6,517	66%
Equity securities:				
Preferred stock	570	5	472	5
Common stock	2,306	20	1,835	18
Limited partnerships:				
Real estate	339	3	397	4
Private equity	555	5	503	5
Mezzanine debt	214	2	216	2
Policy loans	15	0	15	0
Real estate mortgage loans	4	0	5	0
Total investments — Exchange	$ 11,282	100%	$ 9,960	100%
Total investments — Erie Insurance Group	$ 11,815		$ 10,940	

We continually review the investment portfolio to evaluate positions that might incur other-than-temporary declines in value. For all investment holdings, general economic conditions and/or conditions specifically affecting the underlying issuer or its industry, including downgrades by the major rating agencies, are considered in evaluating impairment in value. 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 management's opinion, declined significantly below cost. In compliance with impairment guidance for 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 credit impairments are recorded in other comprehensive income. Prior to the second quarter of 2009, there was no differentiation between impairments related to credit loss and those related to other factors and declines in fair value of debt securities were deemed other-than-temporary if we did not have the intent and ability to hold a security to recovery. For available-for-sale equity securities, a charge is recorded in the Consolidated Statement of Operations for positions that have experienced other-than-temporary impairments due to credit quality or other factors. (See “Investment Operations” section herein.)

If our policy for determining the recognition of impaired positions was different, our Consolidated Results of Operations could be significantly impacted. Management believes its investment valuation philosophy and accounting practices result in appropriate and timely measurement of value and recognition of impairment.

Fixed maturities

Under our investment strategy, we maintain a fixed maturities portfolio that is of high quality and well diversified within each market sector. This investment strategy also achieves a balanced maturity schedule. The fixed maturities portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk. The municipal bond portfolio accounts for $197 million, or 75%, of the total fixed maturity portfolio for Indemnity and $1.5 billion or 20% of the fixed maturity portfolio for the Exchange at December 31, 2010. The overall credit rating of the municipal portfolio without consideration of the underlying insurance is AA-. Because of the rating downgrades of municipal bond insurers, the underlying insurance does not improve the overall credit rating.

Fixed maturities classified as available-for-sale are carried at fair value with unrealized gains and losses, net of deferred taxes, included in shareholders’ equity. At December 31, 2010, Indemnity’s net unrealized gains on fixed maturities, net of deferred taxes, amounted to $5 million compared to net unrealized gains of $14 million at December 31, 2009. At December 31, 2010, the Exchange had net unrealized gains on fixed maturities of $270 million compared to net unrealized gains of $156 million at December 31, 2009.

The following is a breakdown of the fair value of our fixed maturities portfolio by sector and rating as of December 31, 2010 for Indemnity and Exchange, respectively:

(in millions)	Erie Insurance Group					
Industry Sector	AAA	AA	A	BBB	Non-investment grade	Fair value
Indemnity						
Structured securities(1)	$ 0	$ 0	$ 0	$ 0	$ 4	$ 4
Financial	0	2	10	12	2	26
Government — municipal	63	95	37	2	0	197
Industrial	0	0	2	0	0	2
U.S. treasury	25	0	0	0	0	25
Utilities	0	0	0	10	0	10
Total — Indemnity	$ 88	$ 97	$ 49	$ 24	$ 6	$ 264
Exchange						
Structured securities(1)	$ 327	$ 42	$ 9	$ 23	$ 36	$ 437
Basic materials	0	0	37	157	5	199
Communications	0	0	150	328	21	499
Consumer	0	27	195	415	67	704
Diversified	0	0	22	0	0	22
Energy	17	11	107	331	31	497
Financial	27	317	1,154	637	144	2,279
Funds	0	0	0	5	0	5
Government — municipal	422	795	228	24	2	1,471
Industrial	0	5	93	220	26	344
U.S. treasury	12	0	0	0	0	12
Government sponsored entity	73	0	2	0	0	75
Government — other countries	0	0	15	6	0	21
Technology	0	0	41	72	0	113
Utilities	0	3	88	435	75	601
Total — Exchange	$ 878	$ 1,200	$ 2,141	$ 2,653	$ 407	$ 7,279

(1) Structured securities include asset-backed securities, collateral, lease and debt obligations, commercial mortgage-backed securities and residential mortgage-backed securities.

Equity securities

Our equity securities consist of common stock and nonredeemable preferred stock. Investment characteristics of common stock and nonredeemable preferred stock differ substantially from one another. Our nonredeemable preferred stock portfolio provides a source of current income that is competitive with investment-grade bonds.

The following tables present an analysis of the fair value of our preferred and common stock securities by sector for Indemnity and Exchange, respectively.

	Erie Insurance Group			
	Fair Value at December 31,			
(in millions)	2010		2009	
Industry sector	Preferred stock	Common stock	Preferred stock	Common stock
Indemnity				
Basic materials	$ 0	$ 0	$ 0	$ 2
Communications	1	2	1	2
Consumer	0	14	0	15
Diversified	0	0	0	1
Energy	0	2	0	3
Financial	11	6	27	9
Funds	0	0	0	3
Industrial	2	3	2	6
Technology	3	1	3	1
Utilities	7	0	5	0
Total — Indemnity	$ 24	$ 28	$ 38	$ 42
Exchange				
Basic materials	$ 0	$ 124	$ 0	$ 95
Communications	9	174	8	170
Consumer	5	564	0	457
Diversified	0	12	0	8
Energy	0	185	0	157
Financial	428	292	348	231
Funds	0	309	0	298
Government	0	0	3	0
Industrial	5	324	5	207
Technology	14	295	12	190
Utilities	109	27	96	22
Total — Exchange	$ 570	$ 2,306	$ 472	$ 1,835

Our preferred stock equity securities are classified as available-for-sale and are carried at fair value on the Consolidated Statements of Financial Position with all changes in unrealized gains and losses reflected in other comprehensive income. At December 31, 2010, the unrealized gain on preferred stock classified as available-for-sale securities, net of deferred taxes amounted to $3 million for Indemnity and $44 million for the Exchange, compared to an unrealized gain net of deferred taxes of $2 million for Indemnity and $31 million for the Exchange at December 31, 2009.

The common stock portfolio is classified as a trading portfolio and measured at fair value with all changes in unrealized gains and losses reflected in our Consolidated Statements of Operations.

Limited partnership investments

During 2010, investments in limited partnerships decreased $19 million for Indemnity and $8 million for the Exchange due to the sale of 9 partnerships in the Indemnity and 11 partnerships in the Exchange as part of a tax planning strategy to recapture tax paid on previous period capital gains that were due to expire. The components of limited partnership investments are as follows:

	Erie Insurance Group	
	At December 31,	
(in millions)	2010	2009
Indemnity		
Private equity	$ 86	$ 85
Real estate	83	99
Mezzanine debt	47	51
Total limited partnerships — Indemnity	$ 216	$ 235
Exchange		
Private equity	$ 555	$ 503
Real estate	339	397
Mezzanine debt	214	216
Total limited partnerships — Exchange	$ 1,108	$ 1,116

Liabilities

Property and casualty loss reserves

Loss reserves are established to account for the estimated ultimate costs of loss and loss expenses for claims that have been reported but not yet settled and claims that have been incurred but not reported. While we exercise professional diligence to establish reserves at the end of each period that are fully reflective of the ultimate value of all claims incurred, these reserves are, by their nature, only estimates and cannot be established with absolute certainty.

The factors which may potentially cause the greatest variation between current reserve estimates and the actual future paid amounts are: unforeseen changes in statutory or case law altering the amounts to be paid on existing claim obligations, new medical procedures and/or drugs with costs significantly different from those seen in the past, and claims patterns on current business that differ significantly from historical claims patterns.

Loss and loss expense reserves are presented on our Consolidated Statements of Financial Position on a gross basis. The following tables represent the direct and assumed loss and loss expense reserves by major line of business for Indemnity and Exchange, respectively. The reinsurance recoverable amount represents the related ceded amounts which results in the net liability attributable to Indemnity and Exchange, respectively.

As of December 31, 2010, all property and casualty insurance underwriting related risk resides with the Exchange. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

	Erie Insurance Group	
	At December 31,	
(in millions)	2010	2009
Indemnity		
Gross reserve liability:		
Personal auto	$ 0	$ 221
Automobile massive injury	0	147
Homeowners	0	22
Workers compensation	0	169
Workers compensation massive injury	0	12
Commercial auto	0	56
Commercial multi-peril	0	68
All other lines of business	0	57
Gross reserves	0	752
Reinsurance recoverable	0	1
Net reserve liability — Indemnity	$ 0	$ 751

(in millions)	Erie Insurance Group At December 31, 2010	2009
Exchange		
Gross reserve liability:		
Personal auto	$ 1,105	$ 887
Automobile massive injury	440	316
Homeowners	240	178
Workers compensation	481	342
Workers compensation massive injury	154	132
Commercial auto	286	226
Commercial multi-peril	566	475
All other lines of business	312	290
Gross reserves	3,584	2,846
Reinsurance recoverable	188	199
Net reserve liability — Exchange	$ 3,396	$ 2,647

The reserves that have the greatest potential for variation are the massive injury claim reserves. The Property and Casualty Group is currently reserving for about 300 claimants requiring lifetime medical care, of which about 120 involve massive injuries. The reserve carried by the Property and Casualty Group for the massive injury claimants, which includes automobile and workers compensation massive injury reserves, was $428 million at December 31, 2010, which is net of $166 million of anticipated reinsurance recoverables, compared to $428 million at December 31, 2009, which was net of $179 million of anticipated reinsurance recoverables. The decrease in the pre-1986 automobile massive injury gross reserves at December 31, 2010, compared to December 31, 2009, was primarily due to settling three claims and the payment of $8 million in losses in 2010, while the increase in the workers compensation massive injury reserves at December 31, 2010, compared to December 31, 2009, was primarily due to adding four new claims with higher reserve amounts than four prior claims that were settled in 2010.

The estimation of ultimate liabilities for these claims is subject to significant judgment due to variations in medical cost inflation, claimant health and mortality over time. Actual experience, different than that assumed, could have a significant impact on the reserve estimates. A 100-basis point change in the medical cost inflation assumption would result in a change in the combined automobile and workers compensation massive injury reserves of $102 million. The life expectancy (mortality rate) assumption underlying the estimate reflects experience to date. It is anticipated that these massive injury claims will require payments over the next 30 to 40 years. Massive injury claims payments totaled $21 million, $16 million, and $15 million in 2010, 2009 and 2008, respectively.

Life insurance reserves

EFL's primary commitment is its obligation to pay future policy benefits under the terms of its life insurance and annuity contracts. To meet these future obligations, EFL establishes life insurance reserves based upon the type of policy, the age, gender and risk class of the insured and the number of years the policy has been in force. EFL also establishes annuity and universal life reserves based on the amount of policyholder deposits (less applicable insurance and expense charges) plus interest earned on those deposits. Life insurance and annuity reserves are supported primarily by EFL's long-term, fixed income investments as the underlying policy reserves are generally also of a long-term nature.

Shareholders' equity

Pension plan

The funded status of our postretirement benefit plans is recognized in the statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. At December 31, 2010, shareholders' equity decreased by $4 million, net of tax, of which $3 million represents amortization of the prior service cost and net actuarial loss and $7 million represents the current period actuarial loss. The 2010 actuarial loss was primarily due to the change in the discount rate assumption used to measure the future benefit obligations to 5.69% in 2010 from 6.11% in 2009. Although Indemnity is the sponsor of these postretirement plans and records the funded status of these plans, generally the Exchange and EFL reimburse Indemnity for approximately 57% of the annual benefit expense of these plans. At December 31, 2009, shareholders' equity increased by $24 million, net of tax, of which $2 million represents amortization of the prior service cost and net actuarial loss and $22 million represents the current period actuarial gain. The 2009 actuarial gain was primarily due to greater than expected actual investment returns. Also contributing to the gain were assumption changes made based on actual experience, such as the decrease in the assumed rate of compensation increase.

IMPACT OF INFLATION

Property and casualty insurance premiums are established before losses occur and before loss expenses are incurred, and therefore, before the extent to which inflation may impact such costs is known. Consequently, in establishing premium rates, we attempt to anticipate the potential impact of inflation, including medical cost inflation, construction and auto repair cost inflation and tort issues. Medical costs are a broad element of inflation that impacts personal and commercial auto, general liability, workers compensation and commercial multi-peril lines of insurance written by the Property and Casualty Group.

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 premiums collected and income from investments. The insurance operations provide liquidity in that premiums are collected in advance of paying losses under the policies purchased with those premiums. Cash outflows for the property and casualty business are generally variable since settlement dates for liabilities for unpaid losses and the potential for large losses, whether individual or in the aggregate, cannot be predicted with absolute certainty. Accordingly, after satisfying our operating cash requirements, excess cash flows are used to build our investment portfolio in order to increase future investment income, which then may be used as a source of liquidity if cash from our insurance operations would not be sufficient to meet our obligations. Cash provided from these sources is used primarily to fund losses and policyholder benefits, fund the costs of 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.

Continuing 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 due to current credit market conditions. Further volatility in these markets could impair our ability to sell certain of our 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 other sources even if market volatility persists throughout 2011.

Cash flow activities — Erie Insurance Group

The following table is a summary of our condensed consolidated cash flows for the years ended December 31:

	Erie Insurance Group		
(in millions)	2010	2009	2008
Net cash provided by operating activities	$ 721	$ 889	$ 720
Net cash used in investing activities	(405)	(890)	(425)
Net cash used in financing activities	(120)	(42)	(141)
Net increase (decrease) in cash	$ 196	$ (43)	$ 154

Cash flows provided by operating activities totaled $721 million in 2010, $889 million in 2009, and $720 million in 2008. The decrease in 2010 was primarily driven by the payment of federal income taxes of $69 million, compared to the recovery of federal income taxes of $121 million in 2009. The increase in cash flows from operating activities in 2009, compared to 2008, was primarily driven by the recovery of federal income taxes of $121 million compared to the payment of federal income taxes of $273 million in 2008, somewhat offset by lower distributions from limited partnerships.

At December 31, 2010, we recorded a net deferred tax liability of $283 million, which included capital loss carry-forwards of $16 million. There was no valuation allowance at December 31, 2010. We have the ability to carry-back capital losses of $281 million as a result of gains recognized in prior years. In 2010 capital losses totaled $256 million, which will be carried back to recapture taxes paid in prior years. In the fourth quarter of 2010, we received a tax refund of $91 million relating to the carry-back of 2009 capital losses.

Cash flows used in investing activities totaled $405 million in 2010, compared to $890 million in 2009 and $425 million in 2008. In 2010, we generated more proceeds from limited partnerships and certain fixed maturities while using less cash for the purchase of fixed maturities. At December 31, 2010, we had contractual commitments to invest up to $452 million related to our limited partnership investments to be funded as required by the partnerships' agreements. At December 31, 2010, the total remaining commitment to fund limited partnerships that invest in private equity securities was $198 million, real estate activities was $160 million and mezzanine debt securities was $94 million. In 2009, cash flows used in investing activities increased compared to 2008, as we generated more proceeds from sales of common stocks in 2008 as part of a tax planning strategy.

For a discussion of cash flows used in financing activities, see the following "Cash flow activities — Indemnity," as the primary drivers of financing cash flows related to Indemnity.

Cash flow activities — Indemnity

The following table summarizes Indemnity cash flows for the years ended December 31:

	Indemnity		
(in millions)	2010	2009	2008
Net cash provided by operating activities	$ 193	$ 180	$ 151
Net cash provided by (used in) investing activities	196	(69)	73
Net cash used in financing activities	(155)	(96)	(194)
Net increase in cash	$ 234	$ 15	$ 30

See Item 8. "Financial Statements and Supplementary Data — Note 24, Indemnity Supplemental Information, of Notes to Consolidated Financial Statements" contained within this report for more detail on Indemnity cash flows.

Indemnity's cash flows provided by operating activities increased to $193 million in 2010, compared to $180 million in 2009, and $151 million in 2008. Increased cash from operating activities in 2010, compared to 2009, was primarily due to an increase in management fee revenues received offset by a decrease in reimbursements collected from affiliates. Management fee revenues were higher reflecting the increase in the premiums written or assumed by the Exchange. Cash paid for agent commissions and bonuses decreased to $532 million in 2010, compared to $535 million in 2009, as a result of a decrease in cash paid for agent bonuses. We made a contribution to our pension plan of $13 million in the second quarter of 2010, compared to $14 million made in the third quarter of 2009. Indemnity's policy is generally to contribute an amount equal to the greater of the IRS minimum required contribution or the target normal cost for the year plus interest to the date the contribution is made. Indemnity is generally reimbursed about 57% of the net periodic benefit cost of the pension plan from its affiliates. In 2009, increased cash from operating activities compared to 2008 was primarily due to increased management fee revenues received offset by lower distributions from limited partnerships.

At December 31, 2010, Indemnity recorded a net deferred tax liability of $26 million, which included capital loss carry-forwards of $7 million. There was no valuation allowance at December 31, 2010. Indemnity has the ability to carry back capital losses of $39 million as a result of gains recognized in prior years. In 2010 capital losses totaled $39 million, which will be carried back to recapture taxes paid in prior years. In the fourth quarter of 2010, we received a tax refund of $11 million relating to the carry-back of 2009 capital losses. Indemnity's capital gain and loss strategies take into consideration its ability to offset gains and losses in future periods, carry-back of capital loss opportunities to the three preceding years, and capital loss carry-forward opportunities to apply against future capital gains over the next five years.

Cash flows provided by Indemnity investing activities totaled $196 million in 2010, compared to cash used of $69 million in 2009, and cash provided of $73 million in 2008. In the fourth quarter of 2010, Indemnity received cash consideration from the Exchange of $281 million, net of $12 million cash disposed, as a result of the sale of Indemnity's wholly owned property and casualty insurance subsidiaries, EIC, ENY and EPC, to the Exchange on December 31, 2010, based upon an estimated purchase price. The GAAP book value of these entities on December 31, 2010 was slightly lower than the estimated purchase price. Also, Indemnity retained a deferred tax asset of $6 million that was not transferable to the Exchange. This deferred tax asset is related to capital losses that will be available to offset future capital gains of Indemnity. Indemnity recorded a liability to the Exchange for the difference between the GAAP book value and the deferred tax asset of $8 million. Net after-tax cash proceeds to Indemnity from the sale of Indemnity's wholly owned property and casualty insurance subsidiaries are estimated to be $285 million.

Final settlement of the transaction will occur by March 31, 2011. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

Indemnity's 2010 investing activities also included increased cash used to purchase certain fixed maturities, offset somewhat by increased cash from the sale of other fixed maturities and limited partnerships compared to 2009. Impacting Indemnity future investing activities are limited partnership commitments, which totaled $50 million at December 31, 2010, and will be funded as required by the partnerships' agreements. At December 31, 2010, Indemnity's total remaining commitment to fund limited partnerships that invest in private equity securities was $21 million, real estate activities was $17 million and mezzanine debt securities was $12 million. Indemnity's investing activities in 2009 were impacted by lower investment balances due to the significant share repurchase activity in 2008. Also, in the second quarter of 2009, Indemnity made a capital contribution to EFL in the amount of $12 million to support EFL's life insurance and annuity business and strengthen its surplus.

Cash flows used in Indemnity financing activities totaled $155 million in 2010, $96 million in 2009, and $194 million in 2008. The increase in cash used in financing activities in 2010 was primarily driven by increases in the cash outlay for share repurchases and dividends paid to shareholders. Indemnity repurchased 1.1 million shares of its Class A nonvoting common stock in conjunction with its stock repurchase plan at a total cost of $57 million during 2010. In 2009, shares repurchased under this plan totaled 0.1 million at a total cost of $3 million, compared to 2.1 million shares at a total cost of $102 million in 2008. In December 2010, our Board of Directors approved a continuation of the current stock repurchase program for a total of $150 million. Indemnity has approximately $146 million of repurchase authority remaining under this plan at December 31, 2010.

In 2010, we also repurchased 44,206 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2 million. Of this amount, 39,406 shares were purchased in June for $1.8 million, or $45.92 per share, in conjunction with our long-term incentive plan and 4,800 shares were purchased in July for $0.2 million, or $48.75 per share, for the vesting of stock-based awards for executive management. These shares were delivered to plan participants and executive management, respectively, in July 2010.

Dividends paid to shareholders totaled $98 million, $93 million, and $92 million in 2010, 2009 and 2008, respectively. Indemnity increased both its Class A and Class B shareholder quarterly dividends for 2010. There are no regulatory restrictions on the payment of dividends to Indemnity's shareholders. Dividends have been approved at a 7.3% increase for 2011.

Indemnity's financing activities during 2008 included short-term borrowings of $75 million on its bank line of credit for certain intercompany cash settlement needs. Payments were made on the line of credit of $45 million and $30 million in the third and fourth quarters of 2008, respectively, reducing the outstanding balance to zero at December 31, 2008. This line of credit was extended to December 31, 2011. Also during the first quarter of 2008, Indemnity borrowed $30 million from EIC, its then 100% owned property and casualty insurance subsidiary, to fund certain operating and financing activities. Indemnity repaid the entire balance during the second quarter of 2008. This intercompany borrowing was eliminated upon consolidation and therefore had no impact on the Consolidated Statements of Financial Position or Operations.

Capital Outlook

We regularly prepare forecasts evaluating the current and future cash requirements of Indemnity and the Exchange 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.

Indemnity — Outside of Indemnity's normal operating and investing cash activities, future funding requirements could be met through 1) Indemnity's cash and cash equivalents, which total approximately $310 million at December 31, 2010, 2) a $100 million bank line of credit held by Indemnity, from which there were no borrowings as of December 31, 2010, and 3) liquidation of assets held in Indemnity's investment portfolio, including common stock, preferred stock and investment grade bonds which totaled approximately $310 million at December 31, 2010. Volatility in the financial markets could impair Indemnity's ability to sell certain of its fixed income securities or cause such securities to sell at deep discounts. Additionally, Indemnity has the ability to curtail or modify discretionary cash outlays such as those related to shareholder dividends and share repurchase activities.

Indemnity had no borrowings under its line of credit at December 31, 2010. At December 31, 2010, bonds with fair values of $128 million were pledged as collateral. These securities have no restrictions. The bank requires compliance with certain covenants, which include minimum net worth and leverage ratios. Indemnity was in compliance with its bank covenants at December 31, 2010.

Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. The net cash provided from these entities by operating activities totaled $30 million in 2010, $33 million in 2009, and $29 million in 2008. These operating cash flows will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, in 2011 and thereafter. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

Exchange —Outside of the Exchange's normal operating and investing cash activities, future funding requirements could be met through 1) the Exchange's cash and cash equivalents, which total approximately $120 million at December 31, 2010, 2) a $200 million bank line of credit held by the Exchange, from which there were no borrowings at December 31, 2010, and 3) liquidation of assets held in the Exchange's investment portfolio, including common stock, preferred stock and investment grade bonds which totaled approximately $9.7 billion at December 31, 2010. Volatility in the financial markets could impair the Exchange's ability to sell certain of its fixed income securities or cause such securities to sell at deep discounts.

The Exchange had no borrowings under its line of credit at December 31, 2010. At December 31, 2010, bonds with fair values of $252 million were pledged as collateral. These securities have no restrictions. The bank requires compliance with certain covenants, which include statutory surplus and risk based capital ratios. The Exchange was in compliance with its bank covenants at December 31, 2010.

Indemnity has no rights to the assets, capital, or line of credit of the Exchange and, conversely, the Exchange has no rights to the assets, capital, or line of credit of Indemnity. We believe we have the funding sources available to us to support cash flow requirements in 2011.

Contractual obligations

Cash outflows for the Property and Casualty Group are variable because the fluctuations in settlement dates for claims payments vary and cannot be predicted with absolute certainty. While volatility in claims payments could be significant for the Property and Casualty Group, the cash flow requirements for claims have not historically had a significant effect on our liquidity. Based on a historical 15-year average, about 30% of losses and loss expenses for the Property and Casualty Group included in the reserve are paid out in the subsequent 12-month period and approximately 68% are paid out within a five-year period. Losses that are paid out after that five-year period reflect long-tail lines such as workers compensation and auto bodily injury.

We have certain obligations and commitments to make future payments under various contracts. As of December 31, 2010, the aggregate obligations were as follows:

	Erie Insurance Group Payments due by period				
(in millions)	Total	2011	2012-2013	2014-2015	2016 and thereafter
Fixed obligations:					
Indemnity:					
Limited partnership commitments (1)	$ 50	$ 47	$ 3	$ 0	$ 0
Pension contribution (2)	15	15	0	0	0
Other commitments (3)	38	22	14	2	0
Operating leases—vehicles	16	5	8	3	0
Operating leases—real estate (4)	6	2	3	1	0
Operating leases—computers	3	2	1	0	0
Total fixed contractual obligations — Indemnity	128	93	29	6	0
Noncontrolling interest:					
Limited partnership commitments (1)	402	273	77	52	0
Total fixed contractual obligations — Exchange	402	273	77	52	0
Total fixed contractual obligations — Erie Insurance Group	530	366	106	58	0
Gross property and casualty loss and loss expense reserves — Exchange (5)	3,584	1,075	968	394	1,147
Life gross long-term liabilities (6)	4,025	188	379	406	3,052
Gross contractual obligations — Erie Insurance Group (7)	$ 8,139	$ 1,629	$ 1,453	$ 858	$ 4,199

Gross contractual obligations net of estimated reinsurance recoverables are as follows:

	Payments due by period				
(in millions)	Total	2011	2012-2013	2014-2015	2016 and thereafter
Gross contractual obligations — Erie Insurance Group (7)	$ 8,139	$ 1,629	$ 1,453	$ 858	$ 4,199
Estimated reinsurance recoverables — property and casualty	188	56	51	21	60
Estimated reinsurance recoverables — life (8)	447	21	40	41	345
Net contractual obligations — Erie Insurance Group	$ 7,504	$ 1,552	$ 1,362	$ 796	$ 3,794

(1) *Limited partnership commitments will be funded as required for capital contributions at any time prior to the agreement expiration date. The commitment amounts are presented using the expiration date as the factor by which to age when the amounts are due. At December 31, 2010, Indemnity's total commitment to fund limited partnerships that invest in private equity securities is $21 million, real estate activities $17 million and mezzanine debt of $12 million. At December 31, 2010, the Exchange's total commitment to fund limited partnerships that invest in private equity securities is $177 million, real estate activities $143 million and mezzanine debt of $82 million.*

(2) *The pension contribution for 2011 was estimated in accordance with the Pension Protection Act of 2006. Contributions anticipated in future years are expected to be an amount at least equal to the IRS minimum required contribution in accordance with this Act.*

(3) *Other commitments include various agreements for service, including such things as computer software, telephones and maintenance.*

(4) *Operating leases—real estate are for 16 of our 24 field offices that are operated in the states in which the Property and Casualty Group does business and three operating leases are for warehousing facilities leased from unaffiliated parties.*

(5) *Due to the sale of Indemnity's property and casualty insurance subsidiaries to the Exchange on December 31, 2010, all property and casualty loss and loss expense reserves accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)*

(6) *Contractual obligations on gross long-term liabilities represent estimated benefit payments from insurance policies and annuity contracts including claims currently payable. Actual obligations in any single year will vary based on actual mortality, morbidity, lapse and withdrawal experience. The sum of these obligations exceeds the liability on the Consolidated Statement of Financial Position of $1.6 billion due to expected future premiums and investment income that, along with invested assets backing the liabilities, will be used to fund these obligations.*

(7) *Gross contractual obligations do not include the obligations for our unfunded benefit plans, including the Supplemental Employee Retirement Plan (SERP) for our executive and senior management and the directors' retirement plan. The recorded accumulated benefit obligations for these plans at December 31, 2010, are $5 million. We expect to have sufficient cash flows from operations to meet the future benefit payments as they become due.*

(8) *Reinsurance recoverables on life business includes estimated amounts from reinsurers on long-term liabilities that are subject to the credit worthiness of the reinsurer.*

Off-balance sheet arrangements

Off-balance sheet arrangements include those with unconsolidated entities that may have a material current or future effect on our financial condition or results of operations, including material variable interests in unconsolidated entities that conduct certain activities. We have no material off-balance sheet obligations or guarantees, other than limited partnership investment commitments.

Financial ratings

Our property and casualty insurers are rated by rating agencies that provide insurance consumers with meaningful information on the financial strength of insurance entities. Higher ratings generally indicate financial stability and a strong ability to pay claims. The ratings are generally based upon factors relevant to policyholders and are not directed toward return to investors. The insurance companies are currently rated by AM Best Company as follows:

Erie Insurance Exchange	A+
Erie Insurance Company	A+
Erie Insurance Property and Casualty Company	A+
Erie Insurance Company of New York	A+
Flagship City Insurance Company	A+
Erie Family Life Insurance Company	A

The outlook for all ratings is stable. According to AM Best, a "Superior" rating (A+), the second highest of their financial strength rating categories, is assigned to those companies that, in AM Best's opinion, have achieved superior overall performance when compared to the standards established by AM Best and have a superior ability to meet their obligations to policyholders over the long term. Only 9% of insurance groups are rated A+ or higher, and we are included in that group. By virtue of its affiliation with the Property and Casualty Group, EFL is typically rated one level lower, or an "Excellent" rating (A), than the property and casualty companies by AM Best Company. The insurers of the Property and Casualty Group are also rated by Standard & Poor's, but this rating is based solely on public information. Standard & Poor's rates these insurers AApi, "very strong," and EFL Api, "strong." Financial strength ratings continue to be an important factor in evaluating the competitive position of insurance companies.

Regulatory risk-based capital

The standard set by the National Association of Insurance Commissioners (NAIC) for measuring the solvency of insurance companies, referred to as Risk-Based Capital (RBC), is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that potentially are inadequately capitalized. In addition, the formula defines minimum capital standards that will supplement the current system of low fixed minimum capital and surplus requirements on a state-by-state basis. At December 31, 2010, all property and casualty insurance companies and the life insurance company had RBC levels substantially in excess of levels that would require regulatory action.

Regulatory restrictions on surplus

The members of the Property and Casualty Group and EFL are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid without prior approval of insurance regulatory authorities. The Exchange's property and casualty insurance subsidiaries have a maximum of $29 million available for such dividends in 2011 without prior approval of the Pennsylvania Insurance Commissioner for Pennsylvania-domiciled subsidiaries and the New York Superintendent of Insurance for the New York domiciled subsidiary. No dividends were paid from the property and casualty subsidiaries in 2010, 2009 or 2008.

The maximum dividend EFL could pay its shareholders in 2011 without prior approval is $38 million. No dividends were paid to Indemnity or the Exchange in 2010, 2009 or 2008.

The Exchange is operated for the benefit of its subscribers (policyholders) and any distributions it might declare would only be payable to them. The Exchange did not make any distributions to its subscribers (policyholders) in 2010, 2009 or 2008.

Enterprise risk management

As a large property and casualty insurer with supplemental life insurance operations, we are exposed to many risks. The role of our Enterprise Risk Management (ERM) function is to ensure that all significant risks are clearly identified, understood, proactively managed and consistently monitored to achieve strategic objectives for all stakeholders of the Erie Insurance Group. As an insurance company, we are in the business of taking risks from our policyholders, managing these risks in a cost-effective manner and ensuring long term stability for policyholders as well as shareholders. Since risk is integral to our business, we strive to manage the multitude of risks we face in an optimal manner.

Our risks can be broadly classified into insurance, investment and operational risks. These risks are a function of our business segments as well as the market and regulatory environment within which we operate. Since certain risks can occur simultaneously or be correlated with other risks, an event or a series of events has the potential to impact multiple areas of our business and materially affect our operations, financial position or liquidity. Therefore our ERM program takes a holistic view of risk and ensures implementation of risk responses to mitigate potential impacts across our entire group of companies.

Our ERM process is founded on a governance framework that ensures oversight at multiple levels of our organization including our Board of Directors and risk committees made up of senior management. Accountability to identify, manage and mitigate risk is embedded within all functions and areas of our business. We have defined risk tolerances to monitor and manage significant risks within acceptable levels. In addition to identifying, evaluating, prioritizing, monitoring and mitigating significant risks, our ERM process includes extreme event analyses and scenario testing. Dynamic Financial Analysis (DFA) and catastrophe modeling enable us to quantify risk within our property and casualty insurance operations and investment portfolio. Model output is used to quantify the potential variability of future performance and the sufficiency of capital levels given our defined tolerance for risk. The models provide insight into capital management, allocation of capital by product lines, catastrophe exposure management and reinsurance purchasing decisions. Additionally, ERM tools have been developed and modified to enhance our ability to assess project level risk and to provide senior management with pertinent risk information, enabling them to make better informed decisions.

TRANSACTIONS / AGREEMENTS BETWEEN INDEMNITY AND NONCONTROLLING INTEREST (EXCHANGE)

Board oversight

Our Board of Directors (Board) has a broad oversight responsibility over intercompany relationships within and among the Property and Casualty Group. As a consequence, the Board may be required to make decisions or take actions that may not be solely in the interest of our shareholders such as:

- setting the management fee rate paid by the Exchange to Indemnity;
- ratifying any other significant intercompany activity.

Subscriber's agreement

Indemnity serves as attorney-in-fact for the policyholders at the Exchange, a reciprocal insurance exchange. Each applicant for insurance to a reciprocal insurance exchange signs a subscriber's agreement that contains an appointment of an attorney-in-fact. Through the designation of attorney-in-fact, Indemnity is required to provide sales, underwriting and policy issuance services to the policyholders of the Exchange, as discussed previously. Pursuant to the subscriber's agreement, for these services Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement.

Intercompany agreements

Pooling

Members of the Property and Casualty Group participate in an intercompany reinsurance pooling agreement. Under the pooling agreement, all insurance business of the Property and Casualty Group is pooled in the Exchange. The Erie Insurance Company and Erie Insurance Company of New York share in the underwriting results of the reinsurance pool through retrocession. Since 1995, the Board of Directors has set the allocation of the pooled underwriting results at 5.0% participation for Erie Insurance Company, 0.5% participation for Erie Insurance Company of New York and 94.5% participation for the Exchange.

Prior to and through December 31, 2010, the underwriting results retained by Erie Insurance Company and Erie Insurance Company of New York accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results for these companies accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

Service agreements

Indemnity makes certain payments on behalf of the Erie Insurance Group's related entities. These amounts are reimbursed to Indemnity on a cost basis in accordance with service agreements between Indemnity and the individual entities within the Erie Insurance Group. Cash transfers are settled quarterly.

Leased property

The Exchange leases certain office facilities to Indemnity on a five and six year basis with options to renew. Rents are determined considering returns on invested capital and building operating and overhead costs. Rental costs of shared facilities are allocated based on square footage occupied.

Intercompany cost allocation

The allocation of costs affects the financial condition of the Erie Insurance Group companies. Management must determine that allocations are consistently made in accordance with intercompany management service agreements, the attorney-in-fact agreements with the policyholders of the Exchange and applicable insurance laws and regulations. While allocation of costs under these various agreements requires management judgment and interpretation, such allocations are performed using a consistent methodology, which in management's opinion, adheres to the terms and intentions of the underlying agreements.

Intercompany receivables of Indemnity

(in millions)	2010	Percent of Indemnity total assets	2009	Percent of Indemnity total assets	2008	Percent of Indemnity total assets
Reinsurance recoverable from and ceded unearned premiums to the Exchange	$ 0	0.0%	$ 902	33.8%	$ 887	34.0%
Other receivables from the Exchange and affiliates (management fees, costs and reimbursements)	232	17.7	213	8.0	218	8.3
Note receivable from EFL	25	1.9	25	0.9	25	0.9
Total intercompany receivables	$ 257	19.6%	$ 1,140	42.7%	$ 1,130	43.2%

Indemnity has significant receivables from the Exchange that result in a concentration of credit risk. In 2009 and 2008, these receivables included the liability for losses and unearned premiums ceded to the Exchange under the intercompany pooling agreement and from management services performed by Indemnity for the Exchange. Prior to and through December 31, 2010, all property and casualty insurance underwriting receivables recorded by EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting receivables accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, on and after December 31, 2010. At December 31, 2010 and thereafter, Indemnity's receivables from the Exchange primarily include the management fee due for services performed by Indemnity for the Exchange under the subscriber's agreement. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

Credit risks related to the receivables from the Exchange are evaluated periodically by management. Prior to and through December 31, 2010, reinsurance contracts did not relieve Indemnity from its primary obligations to policyholders if the Exchange were unable to satisfy its obligation, and Indemnity collected its reinsurance recoverable amounts generally within 30 days of actual settlement of losses.

In addition to Indemnity's receivable from the Exchange for management fees and costs Indemnity pays on behalf of the Exchange, Indemnity also pays certain costs for, and is reimbursed by, EFL. Since its inception, Indemnity has collected these amounts due from the Exchange and EFL in a timely manner (normally quarterly). There is interest charged on the outstanding balance due from the Exchange until its quarterly settlement that is based on an independent mutual fund rate.

Surplus notes

The Exchange holds a surplus note for $20 million from EFL that is payable on demand on or after December 31, 2025 with prior approval of the Pennsylvania Insurance Commissioner. EFL paid interest to the Exchange on the surplus note of $1 million in 2010 and 2009. No other interest is charged or received on this intercompany balance due to the timely settlement terms and nature of the note.

Indemnity holds a surplus note for $25 million from EFL that is payable on demand on or after December 31, 2018 with prior approval of the Pennsylvania Insurance Commissioner. EFL paid interest to Indemnity on the surplus note of $2 million in 2010 and 2009. No other interest is charged or received on this intercompany balance due to the timely settlement terms and nature of the note.

Capital contribution

In June 2009, the Exchange made a $43 million capital contribution to EFL and Indemnity made a $12 million capital contribution to EFL to strengthen its surplus. This $55 million in capital contributions increased EFL's investments and total shareholders' equity.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Prior to and through December 31, 2010, the investment results from EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, the investment results for these companies will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Item 8. "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report and the previous "Recent Events" section.)

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, as well as other relevant market rate or price changes. The volatility and liquidity in the markets in which the underlying assets are traded directly influence market risk. The following is a discussion of our primary risk exposures, including interest rate risk, investment credit risk, concentration risk, liquidity risk, equity price risk and how those exposures are currently managed as of December 31, 2010.

Interest rate risk

We invest primarily in fixed maturity investments, which comprised 49.5% of invested assets for Indemnity and 64.5% of invested assets for the Exchange at December 31, 2010. The value of the fixed maturity portfolio is subject to interest rate risk. As market interest rates decrease, the value of the portfolio goes up with the opposite holding true in rising interest rate environments. We do not hedge our exposure to interest rate risk since we have the capacity and intention to hold the fixed maturity positions until maturity. A common measure of the interest sensitivity of fixed maturity assets is modified duration, a calculation that utilizes maturity, coupon rate, yield and call terms to calculate an average age of the expected cash flows. The longer the duration, the more sensitive the asset is to market interest rate fluctuations. Duration is analyzed quarterly to ensure that it remains in the targeted range we established.

A sensitivity analysis is used to measure the potential loss in future earnings, fair values or cash flows of market-sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected period. In our sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible changes in those rates. The following pro forma information is presented assuming a 100-basis point increase in interest rates at December 31 of each year and reflects the estimated effect on the fair value of our fixed maturity investment portfolio. We used the modified duration of our fixed maturity investment portfolio to model the pro forma effect of a change in interest rates at December 31, 2010 and 2009.

Fixed maturities interest-rate sensitivity analysis

	At December 31,	
(dollars in millions)	2010	2009
Indemnity		
Fair value of fixed income portfolio	$ 264	$ 664
Fair value assuming 100-basis point rise in interest rates	$ 255	$ 635
Modified duration — Indemnity	3.93	4.35
Exchange		
Fair value of fixed income portfolio	$ 7,279	$ 6,517
Fair value assuming 100-basis point rise in interest rates	$ 6,954	$ 6,249
Modified duration — Exchange	4.87	4.58

While the fixed income portfolio is sensitive to interest rates, the future principal cash flows that will be received are presented as follows by contractual maturity date. Actual cash flows may differ from those stated as a result of calls, prepayments or defaults.

	December 31, 2010	
(in millions)	Indemnity	Exchange
Fixed maturities:		
2011	$ 64	$ 309
2012	22	553
2013	21	719
2014	18	564
2015	25	681
Thereafter	100	4,030
Total (1)	$ 250	$ 6,856
Fair value	$ 264	$ 7,279

(1) These amounts exclude Indemnity's $25 million surplus note due from EFL and the Exchange's $20 million surplus note due from EFL.

	December 31, 2009	
(in millions)	Indemnity	Exchange
Fixed maturities:		
2010	$ 39	$ 364
2011	34	388
2012	70	626
2013	81	774
2014	64	596
Thereafter	357	3,641
Total (1)	$ 645	$ 6,389
Fair value	$ 664	$ 6,517

(1) These amounts exclude Indemnity's $25 million surplus note due from EFL and the Exchange's $20 million surplus note due from EFL.

Investment credit risk

Our objective is to earn competitive returns by investing in a diversified portfolio of securities. Our portfolios of fixed maturity securities, nonredeemable preferred stock, mortgage loans and, to a lesser extent, short-term investments are subject to credit risk. This risk is defined as the potential loss in fair value resulting from adverse changes in the borrower's ability to repay the debt. We manage this risk by performing upfront underwriting analysis and ongoing reviews of credit quality by position and for the fixed maturity portfolio in total. We do not hedge the credit risk inherent in our fixed maturity investments.

Generally, the fixed maturities in our portfolio are rated by external rating agencies. If not externally rated, we rate them internally on a basis consistent with that used by the rating agencies. We classify all fixed maturities as available-for-sale securities, allowing us to meet our liquidity needs and provide greater flexibility to appropriately respond to changes in market conditions. The following table shows our fixed maturity investments by S&P rating as of December 31, 2010:

(in millions)	Erie Insurance Group Amortized cost	Fair value	Percent of total
Indemnity			
Comparable S&P Rating			
AAA, AA, A	$ 229	$ 234	88.5%
BBB	24	24	9.2
Total investment grade	253	258	97.7
BB	0	2	0.8
B	4	4	1.5
CCC, CC, C	0	0	0.0
Total non-investment grade	4	6	2.3
Total — Indemnity	$ 257	$ 264	100.0%
Exchange			
Comparable S&P Rating			
AAA, AA, A	$ 4,012	$ 4,219	58.0%
BBB	2,485	2,653	36.4
Total investment grade	6,497	6,872	94.4
BB	284	314	4.3
B	70	77	1.1
CCC, CC, C	12	16	0.2
Total non-investment grade	366	407	5.6
Total — Exchange	$ 6,863	$ 7,279	100.0%

Approximately 1% of Indemnity and 6% of the Exchange fixed income portfolio is invested in structured products. This includes mortgage-backed securities (MBS), collateralized debt and loan obligations (CDO and CLO), collateralized mortgage obligations (CMO), asset-backed (ABS) and credit-linked notes. The overall credit rating of the structured product portfolio is AA.

The municipal bond portfolio accounts for $197 million, or 75% of the total fixed maturity portfolio for the Indemnity, and $1.5 billion, or 20% of the total fixed maturity portfolio for the Exchange. The overall credit rating of the municipal portfolio without consideration of the underlying insurance is AA-.

In our limited partnership investment portfolio we are exposed to credit risk, as well as price risk. Price risk is defined as the potential loss in estimated fair value resulting from an adverse change in prices. Our investments are directly affected by the impact of changes in these risk factors on the underlying investments held by our fund managers, which could vary significantly from fund to fund. We manage these risks by performing up front due diligence on our fund managers, ongoing monitoring and through the construction of a diversified portfolio.

Indemnity is also exposed to a concentration of credit risk with the Exchange. See the section, "Transactions / Agreements between Indemnity and Noncontrolling Interest (Exchange), Intercompany receivables of Indemnity" for further discussion of this risk.

Concentration Risk

While our portfolio is well diversified within each market sector, there is an inherent risk of concentration in a particular industry or sector. We continually monitor our level of exposure to individual issuers as well as or our allocation to each industry and market sector against internally established policies. See the "Financial Condition" section of, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained within this report for details of investment holdings by sector.

Liquidity Risk

Periods of volatility in the financial markets can create conditions where fixed maturity investments, despite being publicly traded, can become illiquid. However, we actively manage the maturity profile of our fixed maturity portfolio such that scheduled repayments of principal occur on a regular basis. Additionally, there is no ready market for our investments in limited partnerships which increases the risk they may not be converted to cash on favorable terms and on a timely basis.

Equity price risk

Our portfolio of equity securities, which is carried on the Consolidated Statements of Financial Position at estimated fair value, has exposure to the risk of potential loss in estimated fair value resulting from an adverse change in prices ("price risk"). We do not hedge our exposure to price risk inherent in our equity investments. Our objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio holdings are diversified across industries and among exchange-traded small- to large-cap stocks. We measure risk by comparing the performance of the marketable equity portfolio to benchmark returns such as the Standard & Poors (S&P) 500 Composite Index. Beta is a measure of a security's systematic (non-diversifiable) risk, which is the percentage change in an individual security's return for a 1% change in the return of the market. The average Beta for our common stock holdings was 0.95 for Indemnity and 1.02 for the Exchange. Based on a hypothetical 20% reduction in the overall value of the stock market, the fair value of the common stock portfolio would decrease by approximately $5 million for Indemnity and $470 million for the Exchange.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Erie Indemnity Company
Erie, Pennsylvania

We have audited Erie Indemnity Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Erie Indemnity Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Erie Indemnity Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Erie Indemnity Company as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 of Erie Indemnity Company and our report dated February 24, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

Cleveland, Ohio
February 24, 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Erie Indemnity Company
Erie, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Erie Indemnity Company as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedules listed in the Index at 15 (a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Erie Indemnity Company at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2010 the Company adopted and retrospectively applied the Financial Accounting Standards Board's amended accounting guidance related to the consolidation of variable interest entities.

As discussed in Note 2 to the consolidated financial statements, in 2009 the Company changed its method of accounting for recognizing other-than-temporary impairment charges for its debt securities in connection with the adoption of the revised Financial Accounting Standards Board's other-than-temporary impairment model.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Erie Indemnity Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

Cleveland, Ohio
February 24, 2011

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2010, 2009 and 2008
(dollars in millions, except share data)

	2010	2009	2008
Revenues			
Premiums earned	$ 3,987	$ 3,869	$ 3,834
Net investment income	433	433	438
Net realized investment gains (losses)	313	412	(1,026)
Net impairment losses recognized in earnings	(6)	(126)	(571)
Equity in earnings (losses) of limited partnerships	128	(369)	(58)
Other income	35	36	34
Total revenues	4,890	4,255	2,651
Benefits and expenses			
Insurance losses and loss expenses	2,900	2,728	2,582
Policy acquisition and underwriting expenses	969	1,003	908
Goodwill impairment	22	—	—
Total benefits and expenses	3,891	3,731	3,490
Income (loss) from operations before income taxes and noncontrolling interests	999	524	(839)
Provision (benefit) for income taxes	339	78	(223)
Net income (loss)	**$ 660**	**$ 446**	**$ (616)**
Less: Net income (loss) attributable to noncontrolling interest in consolidated entity — Exchange	**498**	**338**	**(685)**
Net income attributable to Indemnity	**$ 162**	**$ 108**	**$ 69**
Earnings Per Share			
Net income attributable to Indemnity per share			
Class A common stock — basic	$ 3.18	$ 2.10	$ 1.34
Class A common stock — diluted	**$ 2.85**	**$ 1.89**	**$ 1.19**
Class B common stock — basic and diluted	$ 462.83	$ 312.45	$ 204.20
Weighted average shares outstanding attributable to Indemnity — Basic			
Class A common stock	50,705,607	51,250,606	51,824,649
Class B common stock	2,546	2,549	2,551
Weighted average shares outstanding attributable to Indemnity — Diluted			
Class A common stock	56,884,894	57,428,999	58,003,976
Class B common stock	2,546	2,549	2,551

See accompanying notes to Consolidated Financial Statements.

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
At December 31, 2010 and 2009
(dollars in millions, except per share data)

	2010	2009
Assets		
Investments-Indemnity		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $257 and $642, respectively) (See Note 1)	$ 264	$ 664
Equity securities (cost of $20 and $35, respectively) (See Note 1)	24	38
Trading securities, at fair value (cost of $21 and $36, respectively)	28	42
Limited partnerships (cost of $202 and $281, respectively)	216	235
Other invested assets	1	1
Investments-Exchange		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $6,863 and $6,277, respectively) (See Note 1)	7,279	6,517
Equity securities (cost of $503 and $425, respectively) (See Note 1)	570	472
Trading securities, at fair value (cost of $1,773 and $1,556, respectively)	2,306	1,835
Limited partnerships (cost of $1,083 and $1,392, respectively)	1,108	1,116
Other invested assets	19	20
Total investments	**11,815**	**10,940**
Cash and cash equivalents (Exchange portion of $120 and $158, respectively)	430	234
Premiums receivable from policyholders (Exchange portion of $942 and $715, respectively) (See Note 1)	942	906
Reinsurance recoverable (Exchange portion of $201 and $212, respectively) (See Note 1)	201	215
Deferred income taxes (Exchange portion of $0 and $75, respectively)	0	116
Deferred acquisition costs (Exchange portion of $467 and $416, respectively) (See Note 1)	467	467
Other assets (Exchange portion of $357 and $306, respectively)	489	409
Total assets	**$ 14,344**	**$ 13,287**
Liabilities and shareholders' equity		
Liabilities		
Indemnity liabilities		
Losses and loss expense reserves (See Note 1)	$ —	$ 752
Unearned premiums (See Note 1)	—	325
Deferred income taxes	26	0
Other liabilities	382	387
Exchange liabilities		
Losses and loss expense reserves (See Note 1)	3,584	2,846
Life policy and deposit contract reserves	1,603	1,540
Unearned premiums (See Note 1)	2,082	1,656
Deferred income taxes	257	0
Other liabilities	76	56
Total liabilities	**8,010**	**7,562**
Indemnity's shareholders' equity		
Class A common stock, stated value $0.0292 per share; authorized 74,996,930 shares; issued 68,289,600 shares, 50,054,506 and 51,203,473 shares outstanding, respectively	2	2
Class B common stock, convertible at a rate of 2,400 Class A shares for one Class B share, stated value $70 per share; 2,546 shares authorized, issued and outstanding, respectively	0	0
Additional paid-in-capital	8	8
Accumulated other comprehensive loss	(53)	(43)
Retained earnings, before cumulative effect adjustment	1,827	1,743
Cumulative effect of accounting changes, net of tax	—	6
Retained earnings, after cumulative effect adjustment	1,827	1,749
Total contributed capital and retained earnings	1,784	1,716
Treasury stock, at cost, 18,235,094 and 17,086,127 shares, respectively	(872)	(814)
Total Indemnity shareholders' equity	**912**	**902**
Noncontrolling interest in consolidated entity — Exchange	**5,422**	**4,823**
Total equity	**6,334**	**5,725**
Total liabilities, shareholders' equity and noncontrolling interest	**$ 14,344**	**$ 13,287**

See accompanying notes to Consolidated Financial Statements. See Note 24, "Indemnity Supplemental Information," for supplemental consolidating statements of financial position information.

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2010, 2009 and 2008
(dollars in millions, except per share data)

	2010	2009	2008
Common stock			
Class A	$ 2	$ 2	$ 2
Class B	0	0	0
Total common stock	2	2	2
Additional paid-in capital	8	8	8
Accumulated other comprehensive income			
Balance, beginning of year	(43)	(136)	10
Cumulative effect of change in accounting principle, net of tax (Note 2)	—	(6)	(11)
Unrealized gains (losses), net of tax (Note 20)	9	75	(44)
Reclassification of unrealized gain on sale of P&C affiliated subsidiaries, net of tax	(15)	—	—
Postretirement plans, net of tax (Note 20)	(4)	24	(91)
Balance, end of year	(53)	(43)	(136)
Retained earnings			
Balance, beginning of year	1,749	1,729	1,740
Net income	162	108	69
Dividends declared — Class A ($1.955, $1.83 and $1.77 per share, respectively)	(99)	(94)	(91)
Dividends declared — Class B ($293.25, $274.50 and $265.50 per share, respectively)	0	0	0
Reclassification of unrealized gain on sale of P&C affiliated subsidiaries, net of tax	15	—	—
Cumulative effect of change in accounting principle, net of tax (Note 2)	—	6	11
Balance, end of year	1,827	1,749	1,729
Treasury stock			
Balance, beginning of year	(814)	(811)	(709)
Purchase of treasury stock	(58)	(3)	(102)
Balance, end of year	(872)	(814)	(811)
Total Indemnity shareholders' equity	**912**	**902**	**792**
Noncontrolling interest in consolidated entity — Exchange			
Balance, beginning of year	4,823	3,967	4,918
Comprehensive income (loss)	599	856	(951)
Balance, end of year	**5,422**	**4,823**	**3,967**
Total equity	**$ 6,334**	**$ 5,725**	**$ 4,759**

See accompanying notes to Consolidated Financial Statements.

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2010, 2009 and 2008
(in millions)

	2010	2009	2008
Cash flows from operating activities			
Premiums collected	$ 4,055	$ 3,964	$ 3,843
Net investment income received	445	421	453
Limited partnership distributions	122	81	315
Service agreement fee received	34	35	32
Commissions and bonuses paid to agents	(532)	(535)	(534)
Losses paid	(2,398)	(2,241)	(2,201)
Loss expenses paid	(419)	(405)	(384)
Other underwriting and acquisition costs paid	(517)	(552)	(530)
Interest paid on bank line of credit	0	0	(1)
Income taxes (paid) recovered	(69)	121	(273)
Net cash provided by operating activities	721	889	720
Cash flows from investing activities			
Purchase of investments:			
Fixed maturities	(1,760)	(1,938)	(1,784)
Preferred stock	(179)	(176)	(244)
Common stock	(1,495)	(1,450)	(2,232)
Limited partnerships	(165)	(174)	(396)
Sales/maturities of investments:			
Fixed maturity sales	562	510	790
Fixed maturity calls/maturities	1,009	734	1,002
Preferred stock	135	210	263
Common stock	1,376	1,394	2,151
Net collections (distributions) on policy loans	0	1	(2)
Sale of and returns on limited partnerships	142	15	40
Purchase of property and equipment	(33)	(14)	(9)
Net distributions on agent loans	3	(2)	(4)
Net cash used in investing activities	(405)	(890)	(425)
Cash flows from financing activities			
Annuity and supplementary contract deposits and interest	111	183	191
Annuity and supplementary contract surrenders and withdrawals	(79)	(129)	(147)
Universal life deposits and interest	38	39	21
Universal life surrenders	(35)	(39)	(12)
Purchase of treasury stock	(57)	(3)	(102)
Dividends paid to shareholders	(98)	(93)	(92)
Decrease in collateral from securities lending	0	(285)	(361)
Redemption of securities lending collateral	0	285	361
Proceeds from bank line of credit	0	0	75
Payments on bank line of credit	0	0	(75)
Net cash used in financing activities	(120)	(42)	(141)
Net increase (decrease) in cash and cash equivalents	196	(43)	154
Cash and cash equivalents at beginning of year	234	277	123
Cash and cash equivalents at end of year	$ 430	$ 234	$ 277

See accompanying notes to Consolidated Financial Statements. See Note 22, “Supplementary Data on Cash Flows,” for supplemental cash flow information.

ERIE INDEMNITY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations

Erie Indemnity Company ("Indemnity") is a publicly held Pennsylvania business corporation that since 1925 has been the managing attorney-in-fact for the subscribers (policyholders) at the Erie Insurance Exchange ("Exchange"). The Exchange is a subscriber owned Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

Indemnity's primary function is to perform certain services for the Exchange relating to the sales, underwriting and issuance of policies on behalf of the Exchange. This is done in accordance with a subscriber's agreement (a limited power of attorney) executed by each subscriber (policyholder), appointing Indemnity as their common attorney-in-fact to transact business on their behalf and to manage the affairs of the Exchange. Pursuant to the subscriber's agreement and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement.

Through December 31, 2010, Indemnity also operated as a property and casualty insurer through its wholly owned subsidiaries, Erie Insurance Company ("EIC"), Erie Insurance Company of New York ("ENY") and Erie Insurance Property and Casualty Company ("EPC"). EIC, ENY and EPC, together with the Exchange and its wholly owned subsidiary, Flagship City Insurance Company ("Flagship"), are collectively referred to as the "Property and Casualty Group". The Property and Casualty Group operates in 11 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia and primarily writes private passenger automobile (48%), homeowners (21%), commercial multi-peril (11%), commercial automobile (7%), and workers compensation (6%) lines of insurance based upon 2010 direct written premiums.

On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned property and casualty subsidiaries to the Exchange. There was no gain or loss resulting from this sale as Indemnity and the Exchange are deemed to be under common control. Under this new structure, all property and casualty insurance operations are owned by the Exchange, and Indemnity will continue to function as the management company. There was no impact on the existing reinsurance pooling agreement between the Exchange and EIC or ENY as a result of the sale, nor was there any impact to the subscribers (policyholders) of the Exchange, to the Exchange's independent insurance agents, or to Indemnity's employees.

Erie Family Life Insurance Company ("EFL") is an affiliated life insurance company that underwrites and sells individual and group life insurance policies and fixed annuities. Indemnity and the Exchange own 21.6% and 78.4% of EFL, respectively. On November 4, 2010, Indemnity entered into a definitive agreement for the sale of its 21.6% ownership interest in EFL to the Exchange, which is scheduled to close by March 31, 2011. Upon the closing date, the Exchange will own 100% of EFL.

Because Indemnity and the Exchange are deemed to be under common control for financial reporting purposes, any gains or losses resulting from the sale of Indemnity's equity interest in EFL will be recorded as an adjustment directly to Indemnity's equity balance at March 31, 2011.

"Indemnity shareholder interest" refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. "Noncontrolling interest" refers to the interest in the Erie Insurance Exchange held for the benefit of the subscribers (policyholders).

The consolidated financial statements of Erie Indemnity Company reflect the results of Indemnity and its variable interest entity, the Exchange, which we refer to collectively as "Erie Insurance Group" ("we," "us," "our").

Note 2. Significant Accounting Policies

Retrospective adoption of new accounting principle

On June 12, 2009, the Financial Accounting Standards Board ("FASB") updated Accounting Standards Codification ("ASC") 810, *Consolidation*, which amended the existing guidance for determining whether an enterprise is the primary beneficiary of a variable interest entity ("VIE"). As of January 1, 2010 Erie Indemnity Company adopted the new accounting principle on a retrospective basis since inception. The 2009 and 2008 financial information within this report has been conformed to this consolidated presentation.

This guidance changed the methodology for assessing whether an enterprise is the primary beneficiary of a VIE by requiring a qualitative analysis to determine if an enterprise's variable interest gives it a controlling financial interest. The qualitative analysis looks at the power to direct activities of the VIE that most significantly impact economic performance and the right to receive benefits (or obligation to absorb losses) from the VIE that could be significant.

In accordance with the new accounting guidance, Indemnity is deemed to be the primary beneficiary of the Exchange given the significance of the management fee to the Exchange and Indemnity's power to direct the Exchange's significant activities. Under the previously issued accounting guidance, Indemnity was not deemed the primary beneficiary of the Exchange and its financial position and operating results were not consolidated with Indemnity's. Following adoption of the new accounting guidance, as primary beneficiary of the Exchange, Erie Indemnity Company has consolidated Indemnity and the Exchange's financial position and operating results. Furthermore, upon consolidation of the Exchange, 100% of the ownership of EFL resides within the consolidated entity and consequently EFL's financial results are also consolidated.

There was no cumulative effect to Indemnity's shareholders' equity from consolidation of the Exchange and EFL. The noncontrolling interest in total equity represents the amount of the Exchange's subscribers' (policyholders') equity.

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and include the accounts of Indemnity together with its affiliated companies in which Indemnity holds a majority voting or economic interest. In addition, we consolidate the Exchange as a variable interest entity for which Indemnity is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation. The required presentation of noncontrolling interests is reflected in the consolidated financial statements. Noncontrolling interests represent the ownership interests of the Exchange, all of which is held by parties other than Indemnity (i.e., the Exchange's subscribers (policyholders)). Noncontrolling interests also include the Exchange subscribers' 78.4% ownership interest in EFL.

Presentation of assets and liabilities — While the assets of the Exchange are presented separately in the Consolidated Statements of Financial Position, the Exchange's assets can only be used to satisfy the Exchange's liabilities or for other unrestricted activities. ASC 810, *Consolidation*, does not require separate presentation of the Exchange's assets. However, because the shareholders of Indemnity have no rights to the assets of the Exchange and, conversely, the Exchange has no rights to the assets of Indemnity, we have presented the invested assets of the Exchange separately on the Consolidated Statements of Financial Position along with the remaining consolidated assets reflecting the Exchange's portion parenthetically. Liabilities are required under ASC 810, *Consolidation,* to be presented separately for the Exchange on the Consolidated Statements of Financial Position as the Exchange's creditors do not have recourse to the general credit of Indemnity.

Rights of shareholders of Indemnity and subscribers (policyholders) of the Exchange — The shareholders of Indemnity, through the management fee, have a controlling financial interest in the Exchange, however, they have no other rights to or obligations arising from assets and liabilities of the Exchange. The shareholders of Indemnity own its equity but have no rights or interest in the Exchange's (noncontrolling interest) income or equity. The noncontrolling interest equity represents the Exchange's equity held for the benefit of its subscribers (policyholders), who have no rights or interest in the Indemnity shareholder interest income or equity.

All intercompany assets and liabilities between Indemnity and the Exchange have been eliminated in the Consolidated Statements of Financial Position.

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.

Adopted accounting pronouncements

In 2007, the FASB issued guidance under FASB ASC 325, *Financial Instruments*, that gave us the irrevocable option to report selected financial assets and liabilities at fair value and established presentation and disclosure requirements. We adopted the fair value option for our common stock portfolio. Beginning January 1, 2008, all changes in fair value of our common stock are recognized in earnings as they occur. The net impact of the cumulative effect adjustment for our common stock portfolio on January 1, 2008 increased retained earnings and reduced other comprehensive income by $11 million, net of tax.

On April 1, 2009, we adopted new accounting guidance under FASB ASC 320, *Investments — Debt and Equity Securities*. This guidance amended the other-than-temporary impairment ("OTTI") model for debt securities and requires that credit-related losses and securities in an unrealized loss position that we intend to sell be recognized in earnings, with the remaining decline recognized in other comprehensive income. Additionally, this accounting guidance modified the presentation of OTTI in the statement of operations with the total OTTI presented along with an offset for the amount of OTTI recognized in other comprehensive income. Disclosures include further disaggregation of securities, methodology, inputs related to credit-related loss impairments and a rollforward of credit-related loss impairments. The adoption of this guidance required a cumulative effect adjustment to reclass previously recognized non-credit other-than-temporary impairments from retained earnings to other comprehensive income. The net impact of the cumulative effect adjustment increased retained earnings and decreased other comprehensive income by $6 million, net of tax. Disclosures regarding our impairment methodology are included in this note under the caption Investments. The remaining disclosures regarding credit and non-credit related impairments have been provided in Note 7.

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*. This guidance updated the disclosures on FASB ASC 820, *Fair Value Measurements and Disclosures*. The additional disclosures include the amounts and reasons for significant transfers between the levels in the fair value hierarchy, the expansion of fair market disclosures by each class of assets, disclosure of the policy for recognition of level transfers, and disclosure of the valuation techniques used for all Level 2 and Level 3 assets. These disclosures were effective for periods beginning after December 15, 2009 and have been included in Note 6, "Fair Value." An additional disclosure requirement to present purchases, sales, issuances, and settlements of Level 3 activity on a gross basis becomes effective with periods beginning after December 15, 2010.

Pending accounting pronouncements

In October 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This guidance modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. The amendments in this update specify that the costs are limited to incremental direct costs that result directly from successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. These costs must be directly related to the underwriting, policy issuance and processing, medical and inspection and sales force contract selling. The amendments also specify that advertising costs only should be included as deferred acquisition costs if the direct-response advertising criteria are met. ASU 2010-26 is effective for interim and annual reporting periods beginning after December 15, 2011 with either prospective or retrospective adoption permitted. Although we have not performed a detailed analysis, the adoption method and impact of this update on the Company's financial position, cash flows, or results of operations is expected to be immaterial.

Investments

Available-for-sale securities — Fixed maturity and preferred stock securities are classified as available-for-sale and are reported at fair value. Unrealized holding gains and losses, net of related tax effects, on fixed maturities and preferred stock are charged or credited directly to shareholders' equity as accumulated other comprehensive income (loss).

Realized gains and losses on sales of fixed maturity and preferred stock securities are recognized in income based upon the specific identification method. Interest and dividend income are recognized as earned.

Fixed income and redeemable preferred stock (debt securities) are evaluated monthly for other-than-temporary impairment loss. For debt securities that have experienced a decline in fair value and we intend to sell or for which it is more likely than not we will be required to sell the security before recovery of its amortized cost, an other-than-temporary impairment is deemed to have occurred and is recognized in earnings.

Debt securities that have experienced a decline in fair value and that we do not intend to sell, and that will not be required to sell before recovery, are evaluated to determine if the decline in fair value is other-than-temporary.

Some factors considered in this evaluation include:

- the extent and duration to which fair value is less than cost;
- historical operating performance and financial condition of the issuer;
- short and long-term prospects of the issuer and its industry based on analysts' recommendations;
- specific events that occurred affecting the issuer, including a ratings downgrade;
- near term liquidity position of the issuer; and
- compliance with financial covenants.

If a decline is deemed to be other-than-temporary, an assessment is made to determine the amount of the total impairment related to a credit loss and that related to all other factors. Consideration is given to all available information relevant to the collectability of the security in this determination. If the entire amortized cost basis of the security will not be recovered, a credit loss exists. Currently, we have the intent to sell all of our securities that have been determined to have a credit-related impairment. As a result, the entire amount of the impairment has been recognized in earnings. If we had securities with credit impairments that we did not intend to sell, the non-credit portion of the impairment would have been recorded in other comprehensive income.

Impairment charges on non-redeemable preferred securities and hybrid securities with equity characteristics are included in earnings consistent with the treatment for equity securities.

Trading securities — Our common stock securities are trading securities which are reported at fair value. Unrealized holding gains and losses on these securities are included in net realized gains (losses) in the Consolidated Statement of Operations. Realized gains and losses on sales of common stock are recognized in income based on the specific identification method. Dividend income is recognized as earned.

Limited partnerships — Limited partnerships include U.S. and foreign private equity, real estate and mezzanine debt investments. The private equity limited partnerships invest primarily in small- to medium-sized companies. The general partners for our limited partnerships determine the market value of investments in the partnerships, including any other-than-temporary impairments of these individual investments. The primary basis for the valuation of limited partnership interests are financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, these financial statements do not yet reflect the market conditions experienced in the fourth quarter of 2010.

Nearly all of the underlying investments in our limited partnerships are valued using a source other than quoted prices in active markets. The fair value amounts for our private equity and mezzanine debt partnerships are based on the financial statements of the general partners, who use multiple methods to estimate fair value including the market approach, income approach or the cost approach. The market approach uses prices and other pertinent information from market-generated transactions involving identical or comparable assets or liabilities. Such valuation techniques often use market multiples derived from a set of comparables. The income approach uses valuation techniques to convert future cash flows or earnings to a single discounted present value amount. The measurement is based on the value indicated by current market expectations on those future amounts. The cost approach is derived from the amount that is currently required to replace the service capacity of an asset. If information becomes available that would impair the cost of these partnerships, then the general partner would generally adjust to the net realizable value. For real estate limited partnerships, the general partners record these at fair value based on an independent appraisal or internal estimates of fair value.

We perform various procedures in review of the general partners' valuations. While we generally rely on the general partners' financial statements as the best available information to record our share of the partnership unrealized gains and losses resulting from valuation changes, we adjust our financial statements for impairments at the fund level as necessary. There were no valuation changes in 2010, 2009 or 2008. As there is a limited market for these investments, they have the greatest potential for market price variability.

Unrealized gains and losses for these investments are reflected in equity in earnings (losses) of limited partnerships in our Consolidated Statements of Operations in accordance with the equity method of accounting. Cash contributions made to and distributions received from the partnerships are recorded in the period in which the transaction occurs.

Cash and cash equivalents — Short-term investments, consisting of cash, money market accounts and other short-term, highly liquid investments with a maturity of three months or less at the date of purchase, are considered cash and cash equivalents.

Deferred acquisition costs

Acquisition costs that vary with and relate to the production of insurance and investment-type contracts are deferred. Such costs consist principally of commissions, premium taxes and policy issuance expenses.

Property and casualty insurance — Deferred acquisition costs ("DAC") for property and casualty insurance contracts, which is primarily composed of commissions and certain underwriting expenses, is amortized on a pro rata basis over the applicable policy term. The amount of costs to be deferred would be reduced to the extent future policy premiums and anticipated investment income would not exceed related losses, expenses and policyholder dividends.

There was no reduction in costs deferred in any periods presented. The DAC profitability is analyzed annually to ensure recoverability.

Life insurance — DAC related to traditional life insurance products is amortized in proportion to premium revenues over the premium-paying period of related policies using assumptions about mortality, morbidity, lapse rates, expenses and future yield on related investments established when the policy was issued. Amortization is adjusted each period to reflect policy lapse or termination rates as compared to anticipated experience. DAC related to universal life products and deferred annuities is amortized over the estimated lives of the contracts in proportion to actual and expected future gross profits, investment, mortality and expense margins and surrender charges. Both historical and anticipated investment returns, including realized gains and losses, are considered in determining the amortization of DAC.

Estimated gross profits are adjusted monthly to reflect actual experience to date and/or for the unlocking of underlying key assumptions based on experience studies. DAC is periodically reviewed for recoverability. For traditional life products, if the benefit reserves plus anticipated future premiums and interest earnings for a line of business are less than the current estimate of future benefits and expenses (including any unamortized DAC), a charge to income is recorded for additional DAC amortization or for increased benefit reserves. For universal life and deferred annuities, if the current present value of future expected gross profits is less than the unamortized DAC, a charge to income is recorded for additional DAC amortization.

Deferred taxes

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, using the statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date under the law. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts.

Property and casualty unpaid losses and loss expenses

Unpaid losses and loss expenses include estimates for claims that have been reported and those that have been incurred but not reported, as well as estimates of all expenses associated with processing and settling these claims, less estimates of anticipated salvage and subrogation recoveries. Unpaid loss and loss expense reserves are set at full expected cost, except for workers compensation loss reserves, which have been discounted using an interest rate of 2.5%. Estimating the ultimate cost of future losses and loss expenses is an uncertain and complex process. This estimation process is based on the assumption that past developments are an appropriate indicator of future events, and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. The uncertainties involved with the reserving process include internal factors, such as changes in claims handling procedures, as well as external factors, such as economic trends and changes in the concepts of legal liability and damage awards. Accordingly, final loss settlements may vary from the present estimates, particularly when those payments may not occur until well into the future.

We regularly review the adequacy of our estimated loss and loss expense reserves by line of business. Adjustments to previously established reserves are reflected in the operating results of the period in which the adjustment is determined to be necessary. Such adjustments could possibly be significant, reflecting any variety of new and adverse or favorable trends.

Life insurance reserves

The liability for future benefits of life insurance contracts is the present value of such benefits less the present value of future net premiums. Life insurance and income-paying annuity future policy benefit reserves are computed primarily by the net level premium method with assumptions as to mortality, withdrawal, lapses and investment yields. Traditional life insurance products are subject to loss recognition testing. The adequacy of the related reserves is verified as part of loss recognition testing. Loss recognition is necessary when the sum of the reserve and the present value of projected policy cash flows is less than unamortized DAC.

Deferred annuity future benefit reserves are established at accumulated account values without reduction for surrender charges. These account values are credited with varying interest rates determined at the discretion of EFL subject to certain minimums.

Agent bonus estimates

Agent bonuses are based on an individual agency’s property and casualty underwriting profitability and also include a component for growth in agency property and casualty premiums if the agency’s underwriting profitability targets for our book of business are met. The estimate for agent bonuses, which are based on the performance over 36 months, is modeled on a monthly basis using actual underwriting data by agency for the two prior years combined with the current year-to-date actual data. At December 31 of each year, we use actual data available and record an accrual based on the expected payment amount. These costs are included in the policy acquisition and underwriting expenses in the Consolidated Statements of Operations.

Recognition of premium revenues and losses

Property and casualty insurance — Insurance premiums written are earned over the terms of the policies on a pro-rata basis. Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of policies in force. Losses and loss expenses are recorded as incurred.

Life insurance — Premiums on traditional life insurance products are recognized as revenue when due. Reserves for future policy benefits are established as premiums are earned. Premiums received for annuity and universal life products are reported as deposits and included in liabilities. For universal life products, revenue is recognized as amounts are assessed against the policyholder’s account for mortality coverage and contract expenses. The primary source of revenue on annuity deposits is derived from the interest earned by EFL, which is reflected in net investment income.

Reinsurance

Property and casualty insurance — Property and casualty assumed and ceded reinsurance premiums are earned over the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premium income. Reinsurance contracts do not relieve the Property and Casualty Group from its obligations to policyholders.

Life insurance — Reinsurance premiums, commissions and expense reimbursements on reinsurance ceded on life insurance policies are accounted for on a basis consistent with those used in accounting for the underlying reinsured policies. Expense reimbursements received in connection with new reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs. Amounts recoverable from reinsurers for future policy benefits are estimated in a manner consistent with the assumptions used for the underlying policy benefits. Amounts recoverable for incurred claims, future policy benefits and expense reimbursements are recorded as assets. Reinsurance contracts do not relieve EFL from its obligations to policyholders.

Recognition of management fee revenue

Indemnity earns management fees from the Exchange for providing sales, underwriting and policy issuance services. Pursuant to the subscriber's agreements with the policyholders at the Exchange, Indemnity may retain up to 25% of all premiums written or assumed by the Exchange. Management fee revenue is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. The Property and Casualty Group issues policies with annual terms only. Management fees are recorded as revenue upon policy issuance or renewal, as substantially all of the services required to be performed by us have been satisfied at that time. Certain activities are performed and related costs are incurred by us subsequent to policy issuance in connection with the services provided to the Exchange; however, these activities are inconsequential and perfunctory. Management fee revenue is eliminated upon consolidation.

Recognition of service agreement revenue

Included in service agreement revenue are service charges Indemnity collects from policyholders for providing multiple payment plans on policies written by the Property and Casualty Group. Service charges, which are flat dollar charges for each installment billed beyond the first installment, are recognized as revenue when bills are rendered to the policyholder. Service agreement revenue also includes late payment and policy reinstatement fees. Service agreement revenue is included in other income in the Consolidated Statements of Operations.

Note 3. Earnings Per Share

Basic earnings per share are calculated under the two-class method, which allocates earnings to each class of stock based on its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. See Note 19, "Capital Stock." Class A diluted earnings per share are calculated under the if-converted method which reflects the conversion of Class B shares and the effect of potentially dilutive outstanding employee stock-based awards and awards vested and not yet vested related to the outside directors' stock compensation plan. Vested shares related to the outside directors' compensation plan were included in the table below for the first time in 2010. The 2009 and 2008 amounts have been updated to include these shares. This had no impact on previously reported diluted earnings per share.

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

	Indemnity Earnings Per Share Calculation For the years ended December 31,								
	2010			2009			2008		
(dollars in millions, except per share data)	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount
Class A — Basic EPS:									
Income available to Class A stockholders	$ 161	50,705,607	$ 3.18	$ 107	51,250,606	$ 2.10	$ 68	51,824,649	$ 1.34
Dilutive effect of stock awards	0	68,887	—	0	60,793	—	0	56,927	—
Assumed conversion of Class B shares	1	6,110,400	—	1	6,117,600	—	1	6,122,400	—
Class A — Diluted EPS:									
Income available to Class A stockholders on Class A equivalent shares	$ 162	56,884,894	$ 2.85	$ 108	57,428,999	$ 1.89	$ 69	58,003,976	$ 1.19
Class B — Basic and diluted EPS:									
Income available to Class B stockholders	$ 1	2,546	$462.83	$ 1	2,549	$312.45	$ 1	2,551	$204.20

Note 4. Variable Interest Entity

Exchange

The Exchange is a reciprocal insurance exchange domiciled in Pennsylvania, for which Indemnity serves as attorney-in-fact. Indemnity holds a variable interest in the Exchange because of the absence of decision-making capabilities by the equity owners (subscribers) of the Exchange and because of the significance of the management fee the Exchange pays to Indemnity as the decision maker. The new accounting guidance, which we adopted on January 1, 2010, requires entities to perform a qualitative analysis to determine the primary beneficiary of variable interest entities. As a result of adopting the new guidance, Indemnity is deemed to have a controlling financial interest in the Exchange and is considered the primary beneficiary. The Exchange's results have been consolidated with those of Indemnity. We have retrospectively applied the new accounting guidance and have consolidated the Exchange for all periods presented in this report for comparability purposes. See Note 2, "Significant Accounting Policies."

Consolidation of the Exchange is required given the significance of the management fee to the Exchange and because Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange's economic performance. Indemnity earns management fee revenues from the Exchange for services provided as attorney-in-fact for the Exchange. Indemnity's management fee revenues are based on all premiums written or assumed by the Exchange. Indemnity's Board of Directors determines the management fee rate paid by the Exchange to Indemnity. This rate cannot exceed 25% of the direct and affiliated assumed written premiums of the Exchange, as defined by the subscriber's agreement signed by each policyholder. The management fee revenues and management fee expenses are eliminated in consolidation.

Indemnity has no obligation related to any underwriting and/or investment losses experienced by the Exchange. Indemnity would however be adversely impacted if the Exchange incurred significant underwriting and/or investment losses. If the surplus of the Exchange were to decline significantly from its current level, its financial strength ratings could be reduced and as a consequence the Exchange could find it more difficult to retain its existing business and attract new business. A decline in the business of the Exchange would have an adverse effect on the amount of the management fees Indemnity receives. In addition, a decline in the surplus of the Exchange from its current level may impact the management fee rate received by Indemnity. Indemnity also has an exposure to a concentration of credit risk related to the unsecured receivables due from the Exchange for its management fee.

On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned subsidiaries to the Exchange. Under this new structure, all property and casualty insurance operations are owned by the Exchange, and Indemnity will continue to function as the management company. There was no impact on the existing reinsurance pooling agreement between the Exchange and EIC or ENY as a result of the sale, nor was there any impact to the subscribers (policyholders) of the Exchange, to the Exchange's independent insurance agents, or to Indemnity's employees.

Indemnity has not provided financial or other support to the Exchange for the reporting periods presented. At December 31, 2010, there are no explicit or implicit arrangements that would require Indemnity to provide future financial support to the Exchange. Indemnity is not liable if the Exchange was to be in violation of its debt covenants or was unable to meet its obligation for unfunded commitments to limited partnerships.

Note 5. Segment Information

As a result of the changes in our reporting entity effective January 1, 2010 (see Note 2, "Significant Accounting Policies"), our reportable segments have increased from three to four. Our reportable segments now include management operations, property and casualty insurance operations, life insurance operations and investment operations. The segment information presented below includes reclassification of all comparative prior period segment information. Accounting policies for segments are the same as those described in the summary of significant accounting policies. See Note 2, "Significant Accounting Policies." Assets are not allocated to the segments but rather are reviewed in total for purposes of decision-making. No single customer or agent provides 10% or more of revenues.

Our management operations segment consists of serving as attorney-in-fact for the Exchange. Indemnity operates in this capacity solely for the Exchange. We evaluate profitability of our management operations segment principally on the gross margin from management operations. Indemnity earns management fees from the Exchange for providing sales, underwriting and policy issuance services. Management fee revenue, which is eliminated in consolidation, is calculated as a percentage not to exceed 25% of all the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. The Property and Casualty Group issues policies with annual terms only. Management fees are recorded upon policy issuance or renewal, as substantially all of the services required to be performed by Indemnity have been satisfied at that time. Certain activities are performed and related costs are incurred by us subsequent to policy issuance in connection with the services provided to the Exchange; however, these activities are inconsequential and perfunctory. Although these management fee revenues and expenses are eliminated in consolidation, the amount of the fee directly impacts the allocation of our consolidated net income between noncontrolling interest, which bears the management fee expense and represents the interests of the Exchange subscribers (policyholders), and Indemnity's interest which earns the management fee revenue and represents Indemnity shareholder interest in net income.

Our property and casualty insurance operations segment includes personal and commercial lines. Personal lines consist primarily of personal auto and homeowners and are marketed to individuals. Commercial lines consist primarily of commercial multi-peril, commercial auto and workers compensation and are marketed to small- and medium-sized businesses. Our property and casualty policies are sold by independent agents. Our property and casualty insurance underwriting operations are conducted through the Exchange and its subsidiaries, which includes assumed voluntary reinsurance from nonaffiliated domestic and foreign sources, assumed involuntary and ceded reinsurance business. The Exchange exited the assumed voluntary reinsurance business effective December 31, 2003, and therefore unaffiliated reinsurance includes only run-off activity of the previously assumed voluntary reinsurance business. We evaluate profitability of the property and casualty operations principally based on net underwriting results represented by the combined ratio.

Our life insurance operations segment includes traditional and universal life insurance products and fixed annuities marketed to individuals using the same independent agency force utilized by our property and casualty operations. We evaluate profitability of the life insurance segment principally based on segment net income, including investments, which for segment purposes are reflected in the investment operations segment. At the same time, we recognize that investment-related income is integral to the evaluation of the life insurance segment because of the long duration of life products. In 2010, investment activities on life insurance-related assets generated revenues of $107 million resulting in EFL reporting income before income taxes of $50 million, before intercompany eliminations. In 2009, investment activities on life insurance-related assets generated revenues of $63 million resulting in EFL reporting income before income taxes of $10 million, before intercompany eliminations. In 2008, investment activities on life insurance-related assets generated losses of $6 million resulting in EFL reporting a loss before income taxes of $54 million, before intercompany eliminations. See Note 25, "EFL Supplemental Information."

The investment operations segment performance is evaluated based on appreciation of assets, rate of return and overall return. Investment-related income for the life operations is included in the investment segment results.

The following tables summarize the components of the Consolidated Statements of Operations by reportable business segments:

	Erie Insurance Group For the year ended December 31, 2010					
(in millions)	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$ 3,925	$ 64		$ (2)	$ 3,987
Net investment income				$ 444	(11)	433
Net realized investment gains				313		313
Net impairment losses recognized in earnings				(6)		(6)
Equity in earnings of limited partnerships				128		128
Management fee revenue	$ 1,009				(1,009)	—
Service agreement and other revenue	34		1			35
Total revenues	1,043	3,925	65	879	(1,022)	4,890
Cost of management operations	841				(841)	—
Insurance losses and loss expenses		2,815	90		(5)	2,900
Policy acquisition and underwriting expense		1,113	32		(176)	969
Goodwill impairment				22		22
Total benefits and expenses	841	3,928	122	22	(1,022)	3,891
Income (loss) before income taxes	202	(3)	(57)	857	—	999
Provision (benefit) for income taxes	71	(1)	(20)	289	—	339
Net income (loss)	$ 131	$ (2)	$ (37)	$ 568	$ —	$ 660

(in millions)	Management operations	Property and casualty operations	Life insurance Operations	Investment operations	Eliminations	Consolidated
	Erie Insurance Group For the year ended December 31, 2009					
Premiums earned/life policy revenue		$ 3,808	$ 63		$ (2)	$ 3,869
Net investment income				$ 444	(11)	433
Net realized investment gains				412		412
Net impairment losses recognized in earnings				(126)		(126)
Equity in losses of limited partnerships				(369)		(369)
Management fee revenue	$ 965				(965)	—
Service agreement and other revenue	35		1			36
Total revenues	1,000	3,808	64	361	(978)	4,255
Cost of management operations	813				(813)	—
Insurance losses and loss expenses		2,644	89		(5)	2,728
Policy acquisition and underwriting expense		1,135	28		(160)	1,003
Total benefits and expenses	813	3,779	117	—	(978)	3,731
Income (loss) before income taxes	187	29	(53)	361	—	524
Provision (benefit) for income taxes	60	10	(19)	27	—	78
Net income (loss)	$ 127	$ 19	$ (34)	$ 334	$ —	$ 446

(in millions)	Management operations	Property and casualty operations	Life insurance operations	Investment operations(1)	Eliminations	Consolidated
	Erie Insurance Group For the year ended December 31, 2008					
Premiums earned/life policy revenue		$ 3,771	$ 65		$ (2)	$ 3,834
Net investment income				$ 449	(11)	438
Net realized investment losses				(1,026)		(1,026)
Net impairment losses recognized in earnings				(571)		(571)
Equity in losses of limited partnerships				(58)		(58)
Management fee revenue	$ 950				(950)	—
Service agreement and other revenue	33		1			34
Total revenues (losses)	983	3,771	66	(1,206)	(963)	2,651
Cost of management operations	810				(810)	—
Insurance losses and loss expenses		2,494	93		(5)	2,582
Policy acquisition and underwriting expense		1,035	21		(148)	908
Total benefits and expenses	810	3,529	114	—	(963)	3,490
Income (loss) before income taxes	173	242	(48)	(1,206)	—	(839)
Provision (benefit) for income taxes	56	84	(17)	(346)	—	(223)
Net income (loss)	$ 117	$ 158	$ (31)	$ (860)	$ —	$ (616)

(1) The more significant realized losses, impairment charges and market value adjustments on limited partnership investments were impacted by the significant disruption in the financial markets, primarily in the third and fourth quarters of 2008.

See the "Results of the Erie Insurance Group's operations by interest" table in the Management's Discussion and Analysis for the composition of income attributable to Indemnity and income attributable to the noncontrolling interest (Exchange).

Note 6. Fair Value

Our available-for-sale and trading 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 and trading securities are based on 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 the majority of our prices are obtained from third party sources, we also perform an internal pricing review for securities with low trading volumes in the current market conditions. Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1	Quoted prices for identical instruments in active markets not subject to adjustments or discounts
Level 2	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
Level 3	Instruments whose significant value drivers are unobservable and reflect management's estimate of fair value based on assumptions used by market participants in an orderly transaction as of the valuation date.

The following table represents the fair value measurements on a recurring basis for our consolidated available-for-sale and trading securities by major category and level of input at December 31, 2010:

	Erie Insurance Group			
		Fair value measurements using:		
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
Fixed maturities:				
U.S. treasuries and government agencies	$ 25	$ 25	$ 0	$ 0
Municipal securities	197	0	197	0
U.S. corporate debt — non-financial	12	0	12	0
U.S. corporate debt — financial	26	0	26	0
Structured securities:				
Collateralized debt obligations	4	0	0	4
Total fixed maturities	$ 264	$ 25	$ 235	$ 4
Equity securities:				
U.S. nonredeemable preferred securities:				
Financial	$ 11	$ 5	$ 6	$ 0
Non-financial	12	6	6	0
Foreign nonredeemable preferred securities:				
Non-financial	1	0	1	0
Total equity securities	$ 24	$ 11	$ 13	$ 0
Total available-for-sale securities	$ 288	$ 36	$ 248	$ 4
Trading securities:				
Common stock	$ 28	$ 28	$ 0	$ 0
Total trading securities	$ 28	$ 28	$ 0	$ 0
Total — Indemnity	$ 316	$ 64	$ 248	$ 4

	Erie Insurance Group			
	Fair value measurements using:			
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Exchange				
Available-for-sale securities:				
Fixed maturities:				
U.S. treasuries and government agencies	$ 12	$ 12	$ 0	$ 0
U.S. government sponsored enterprises	75	0	75	0
Foreign government	21	0	21	0
Municipal securities	1,471	0	1,467	4
U.S. corporate debt — non-financial	2,535	6	2,520	9
U.S. corporate debt — financial	1,897	6	1,889	2
Foreign corporate debt — non-financial	449	0	449	0
Foreign corporate debt — financial	382	0	382	0
Structured securities:				
Asset-backed securities — auto loans	38	0	38	0
Asset-backed securities — other	19	0	9	10
Collateralized debt obligations	70	0	40	30
Commercial mortgage-backed	86	0	86	0
Residential mortgage-backed:				
Government sponsored enterprises	205	0	205	0
Non-government sponsored enterprises	19	0	19	0
Total fixed maturities	$ 7,279	$ 24	$ 7,200	$ 55
Equity securities:				
U.S. nonredeemable preferred securities:				
Financial	$ 373	$ 102	$ 264	$ 7
Non-financial	133	48	85	0
Government sponsored enterprises	0	0	0	0
Foreign nonredeemable preferred securities:				
Financial	55	16	39	0
Non-financial	9	0	9	0
Total equity securities	$ 570	$ 166	$ 397	$ 7
Total available-for-sale securities	$ 7,849	$ 190	$ 7,597	$ 62
Trading securities:				
Common stock	$ 2,306	$ 2,294	$ 0	$ 12
Total trading securities	$ 2,306	$ 2,294	$ 0	$ 12
Total — Exchange	$ 10,155	$ 2,484	$ 7,597	$ 74
Total — Erie Insurance Group	$ 10,471	$ 2,548	$ 7,845	$ 78

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Level 3 Assets — Quarterly Change:

	Erie Insurance Group						
(in millions)	Beginning balance at September 30, 2010	Transfer(s) in and (out) (1)	Included in earnings (2)	Included in other comprehensive income	Purchases, sales and adjustments	Transfer(s) in and (out) of Level 3 (3)	Ending balance at December 31, 2010
Indemnity							
Available-for-sale securities:							
Fixed maturities:							
U.S. corporate debt — financial	$ 2	$ (2)	$ 0	$ 0	$ 0	$ 0	$ 0
Collateralized debt obligations	7	(4)	0	0	0	1	4
Total fixed maturities	9	(6)	0	0	0	1	4
Preferred stock:							
U.S. nonredeemable — financial	2	(1)	0	0	(1)	0	0
Total preferred stock	2	(1)	0	0	(1)	0	0
Total Level 3 assets — Indemnity	$ 11	$ (7)	$ 0	$ 0	$ (1)	$ 1	$ 4
Exchange							
Available-for-sale securities:							
Fixed maturities:							
Municipal securities	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4	$ 4
U.S. corporate debt — non-financial	9	0	0	0	0	0	9
U.S. corporate debt — financial	0	2	0	0	0	0	2
Asset-backed securities — other	5	0	0	0	0	5	10
Collateralized debt obligations	42	4	(1)	1	(16)	0	30
Total fixed maturities	56	6	(1)	1	(16)	9	55
Preferred stock:							
U.S. nonredeemable — financial	5	1	0	1	0	0	7
Total preferred stock	5	1	0	1	0	0	7
Trading securities:							
Common stock	11	0	1	0	0	0	12
Total trading securities	11	0	1	0	0	0	12
Total Level 3 assets — Exchange	$ 72	$ 7	$ 0	$ 2	$ (16)	$ 9	$ 74
Total Level 3 assets — Erie Insurance Group	$ 83	$ 0	$ 0	$ 2	$ (17)	$ 10	$ 78

Level 3 Assets — Year-to-Date Change:

	Erie Insurance Group						
(in millions)	Beginning balance at December 31, 2009	Transfer(s) in and (out) (1)	Included in earnings (2)	Included in other comprehensive income	Purchases, sales and adjustments	Transfer(s) in and (out) of Level 3 (3)	Ending balance at December 31, 2010
Indemnity							
Available-for-sale securities:							
Fixed maturities:							
U.S. corporate debt — financial	$ 2	$ (2)	$ 0	$ 0	$ 0	$ 0	$ 0
Collateralized debt obligations	8	(4)	0	0	0	0	4
Total fixed maturities	10	(6)	0	0	0	0	4
Preferred stock:							
U.S. nonredeemable — financial	1	(1)	0	0	0	0	0
Total preferred stock	1	(1)	0	0	0	0	0
Total Level 3 assets — Indemnity	$ 11	$ (7)	$ 0	$ 0	$ 0	$ 0	$ 4
Exchange							
Available-for-sale securities:							
Fixed maturities:							
Municipal securities	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4	$ 4
U.S. corporate debt — non-financial	17	0	0	0	0	(8)	9
U.S. corporate debt — financial	0	2	0	0	0	0	2
Asset-backed securities — other	5	0	0	0	0	5	10
Collateralized debt obligations	49	4	(1)	5	(19)	(8)	30
Total fixed maturities	71	6	(1)	5	(19)	(7)	55
Preferred stock:							
U.S. nonredeemable — financial	4	1	0	2	0	0	7
Total preferred stock	4	1	0	2	0	0	7
Trading securities:							
Common stock	9	0	3	0	0	0	12
Total trading securities	9	0	3	0	0	0	12
Total Level 3 assets — Exchange	$ 84	$ 7	$ 2	$ 7	$ (19)	$ (7)	$ 74
Total Level 3 assets — Erie Insurance Group	$ 95	$ 0	$ 2	$ 7	$ (19)	$ (7)	$ 78

(1) Transfers in and out are attributable to the sale of Indemnity's wholly owned property and casualty insurance subsidiaries Erie Insurance Company, Erie Insurance Company of New York and Erie Insurance Property and Casualty Company, to the Exchange. Level 3 securities previously held by the Indemnity are shown as transfer (out) while transfers to the Exchange are shown as transfer in.

(2) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statement of Operations. There were no unrealized gains or losses included in earnings for the three or twelve months ended December 31, 2010 on Level 3 securities.

(3) Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories. There were no significant transfers in and out of Level 3. Transfers in and out of levels are recognized at the end of the period. There were no significant transfers between Levels 1 and 2 during the twelve months ended December 31, 2010.

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The following table represents the fair value measurements on a recurring basis for our consolidated available-for-sale and trading securities by major category and level of input at December 31, 2009:

	Erie Insurance Group			
	At December 31, 2009			
		Fair value measurements using:		
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
Fixed maturities:				
U.S. treasuries and government agencies	$ 3	$ 3	$ 0	$ 0
U.S. government sponsored enterprises	14	0	14	0
Foreign government	2	0	2	0
Municipal securities	244	0	244	0
U.S. corporate debt — non-financial	181	3	178	0
U.S. corporate debt — financial	138	0	136	2
Foreign corporate debt — non-financial	28	0	28	0
Foreign corporate debt — financial	20	0	20	0
Structured securities:				
Asset-backed securities — auto loans	4	0	4	0
Collateralized debt obligations	8	0	0	8
Commercial mortgage-backed	5	0	5	0
Residential mortgage-backed:				
Government sponsored enterprises	14	0	14	0
Non-government sponsored enterprises	3	0	3	0
Total fixed maturities	$ 664	$ 6	$ 648	$ 10
Equity securities:				
U.S. nonredeemable preferred securities:				
Financial	$ 22	$ 6	$ 15	$ 1
Non-financial	10	3	7	0
Foreign nonredeemable preferred securities:				
Financial	5	0	5	0
Non-financial	1	0	1	0
Total equity securities	$ 38	$ 9	$ 28	$ 1
Total available-for-sale securities	$ 702	$ 15	$ 676	$ 11
Trading securities:				
Common stock	$ 42	$ 42	$ 0	$ 0
Total trading securities	$ 42	$ 42	$ 0	$ 0
Total — Indemnity	$ 744	$ 57	$ 676	$ 11

(in millions)	Erie Insurance Group At December 31, 2009 Fair value measurements using: Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Exchange				
Available-for-sale securities:				
Fixed maturities:				
U.S. treasuries and government agencies	$ 5	$ 5	$ 0	$ 0
U.S. government sponsored enterprises	77	0	77	0
Foreign government	11	0	11	0
Municipal securities	1,441	0	1,441	0
U.S. corporate debt — non-financial	2,193	22	2,154	17
U.S. corporate debt — financial	1,552	4	1,548	0
Foreign corporate debt — non-financial	395	0	395	0
Foreign corporate debt — financial	299	0	299	0
Structured securities:				
Asset-backed securities — auto loans	51	0	51	0
Asset-backed securities — credit cards	5	0	5	0
Asset-backed securities — other	33	0	28	5
Collateralized debt obligations	77	0	28	49
Commercial mortgage-backed	127	0	127	0
Residential mortgage-backed:				
Government sponsored enterprises	198	0	198	0
Non-government sponsored enterprises	53	0	53	0
Total fixed maturities	$ 6,517	$ 31	$ 6,415	$ 71
Equity securities:				
U.S. nonredeemable preferred securities:				
Financial	$ 301	$ 96	$ 201	$ 4
Non-financial	113	47	66	0
Government sponsored enterprises	3	2	1	0
Foreign nonredeemable preferred securities:				
Financial	47	12	35	0
Non-financial	8	0	8	0
Total equity securities	$ 472	$ 157	$ 311	$ 4
Total available-for-sale securities	$ 6,989	$ 188	$ 6,726	$ 75
Trading securities:				
Common stock	$ 1,835	$ 1,826	$ 0	$ 9
Total trading securities	$ 1,835	$ 1,826	$ 0	$ 9
Total — Exchange	$ 8,824	$ 2,014	$ 6,726	$ 84
Total — Erie Insurance Group	$ 9,568	$ 2,071	$ 7,402	$ 95

Level 3 Assets — Quarterly Change:

	Erie Insurance Group					
(in millions)	Beginning balance at September 30, 2009	Included in earnings(1)	Included in other comprehensive income	Purchases, sales and adjustments	Transfers in and (out) of Level 3(2)	Ending balance at December 31, 2009
Indemnity						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt — financial	$ 0	$ 0	$ 0	$ 2	$ 0	$ 2
Collateralized debt obligations	9	0	0	0	(1)	8
Total fixed maturities	9	0	0	2	(1)	10
Preferred stock:						
U.S. nonredeemable — financial	4	0	0	(3)	0	1
Total preferred stock	4	0	0	(3)	0	1
Total Level 3 assets — Indemnity	$ 13	$ 0	$ 0	$ (1)	$ (1)	$ 11
Exchange						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt — non-financial	$ 17	$ 0	$ 0	$ 0	$ 0	$ 17
Foreign corporate debt — non-financial	1	0	0	0	(1)	0
Asset-backed securities — other	5	0	0	0	0	5
Collateralized debt obligations	77	(4)	0	0	(24)	49
Total fixed maturities	100	(4)	0	0	(25)	71
Preferred stock:						
U.S. nonredeemable — financial	9	0	0	0	(5)	4
U.S. nonredeemable — non-financial	5	0	0	(5)	0	0
Total preferred stock	14	0	0	(5)	(5)	4
Trading securities:						
Common stock	1	2	0	6	0	9
Total trading securities	1	2	0	6	0	9
Total Level 3 assets — Exchange	$ 115	$ (2)	$ 0	$ 1	$ (30)	$ 84
Total Level 3 assets — Erie Insurance Group	$ 128	$ (2)	$ 0	$ 0	$ (31)	$ 95

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Level 3 Assets — Year-to-Date Change:

	Erie Insurance Group					
(in millions)	Beginning balance at December 31, 2008	Included in earnings(1)	Included in other comprehensive income	Purchases, sales and adjustments	Transfers in and (out) of Level 3(2)	Ending balance at December 31, 2009
Indemnity						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt — financial	$ 5	$ 0	$ 0	$ (2)	$ (1)	$ 2
Commercial mortgage-backed	2	0	0	0	(2)	0
Collateralized debt obligations	7	(1)	2	1	(1)	8
Total fixed maturities	14	(1)	2	(1)	(4)	10
Preferred stock:						
U.S. nonredeemable — financial	7	0	0	1	(7)	1
U.S. nonredeemable — non-financial	4	0	0	0	(4)	0
Total preferred stock	11	0	0	1	(11)	1
Total Level 3 assets — Indemnity	$ 25	$ (1)	$ 2	$ 0	$ (15)	$ 11
Exchange						
Available-for-sale securities:						
Fixed maturities:						
U.S. corporate debt — financial	$ 36	$ 0	$ 0	$ (16)	$ (20)	$ 0
U.S. corporate debt — non-financial	21	0	0	(2)	(2)	17
Foreign corporate debt — financial	1	0	0	0	(1)	0
Foreign corporate debt — non-financial	2	0	0	0	(2)	0
Asset-backed securities — other	5	0	0	0	0	5
Collateralized debt obligations	36	(7)	10	8	2	49
Commercial mortgage-backed	7	0	0	0	(7)	0
Total fixed maturities	108	(7)	10	(10)	(30)	71
Preferred stock:						
U.S. nonredeemable — financial	24	0	2	0	(22)	4
U.S. nonredeemable — non-financial	22	0	0	(5)	(17)	0
Total preferred stock	46	0	2	(5)	(39)	4
Trading securities:						
Common stock	0	3	0	6	0	9
Total trading securities	0	3	0	6	0	9
Total Level 3 assets — Exchange	$ 154	$ (4)	$ 12	$ (9)	$ (69)	$ 84
Total Level 3 assets — Erie Insurance Group	$ 179	$ (5)	$ 14	$ (9)	$ (84)	$ 95

(1) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statement of Operations. There were no unrealized gains or losses included in earnings for the three or twelve months ended December 31, 2009 on Level 3 securities.

(2) Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories. Transfers in and out of levels are recorded at the end of the period.

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 on proprietary models and are used when observable inputs are not available 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 on corroborating information and our knowledge and monitoring of market conditions. At December 31, 2010, we adjusted some prices received by the pricing service to reflect an alternate fair market value based on observable market data such as a disparity in price of comparable securities and/or non-binding broker quotes.

The following table displays the number and values of these adjustments for the year ended December 31, 2010:

(dollars in millions)	Number of holdings	Value of securities using pricing service	Value of securities used in the financial statements
Exchange	2	$ 0.4	$ 1.2
Total — Erie Insurance Group		$ 0.4	$ 1.2

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 we determine the proper level classification 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 and believe that their prices adequately consider market activity in determining fair value.

In cases in which a price from the pricing service is not available, values are determined by obtaining non-binding broker quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based on 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.

For certain structured securities in an illiquid market, there may be no prices available from a pricing service and no comparable market quotes available. In these situations, we value the security using an internally-developed risk-adjusted discounted cash flow model.

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The following table sets forth the fair value of the consolidated fixed maturity and preferred stock securities by pricing source:

	Erie Insurance Group December 31, 2010			
(in millions)	Total	Level 1	Level 2	Level 3
Indemnity				
Fixed maturity securities:				
Priced via pricing services	$ 260	$ 25	$ 235	$ 0
Priced via market comparables/non-binding broker quote(1)	0	0	0	0
Priced via internal modeling (2)	4	0	0	4
Total fixed maturity securities	264	25	235	4
Preferred stock securities:				
Priced via pricing services	22	11	11	0
Priced via market comparables/non-binding broker quote (1)	2	0	2	0
Priced via internal modeling (2)	0	0	0	0
Total preferred stock securities	24	11	13	0
Common stock securities:				
Priced via pricing services	28	28	0	0
Priced via market comparables/non-binding broker quote (1)	0	0	0	0
Priced via internal modeling (2)	0	0	0	0
Total common stock securities	28	28	0	0
Total available-for-sale/trading securities — Indemnity	$ 316	$ 64	$ 248	$ 4
Exchange				
Fixed maturity securities:				
Priced via pricing services	$ 7,138	$ 24	$ 7,114	$ 0
Priced via market comparables/non-binding broker quote (1)	86	0	86	0
Priced via internal modeling (2)	55	0	0	55
Total fixed maturity securities	7,279	24	7,200	55
Preferred stock securities:				
Priced via pricing services	533	166	367	0
Priced via market comparables/non-binding broker quote (1)	37	0	30	7
Priced via internal modeling (2)	0	0	0	0
Total preferred stock securities	570	166	397	7
Common stock securities:				
Priced via pricing services	2,294	2,294	0	0
Priced via market comparables/non-binding broker quote (1)	0	0	0	0
Priced via internal modeling (2)	12	0	0	12
Total common stock securities	2,306	2,294	0	12
Total available-for-sale/trading securities — Exchange	$ 10,155	$ 2,484	$ 7,597	$ 74
Total available-for-sale/trading securities — Erie Insurance Group	$ 10,471	$ 2,548	$ 7,845	$ 78

(1) *All broker quotes obtained for securities were non-binding. When a non-binding broker quote was the only price available, the security was classified as Level 3.*

(2) *Internal modeling using a discounted cash flow model was performed on 12 fixed maturities representing less than 0.5% of the total available-for-sale portfolio of the Erie Insurance Group.*

We have no assets that were measured at fair value on a nonrecurring basis during the year ended December 31, 2010.

Note 7. Investments

The following tables summarize the cost and fair value of our available-for-sale securities at December 31, 2010 and 2009:

(in millions) Available-for-sale securities	Erie Insurance Group December 31, 2010 Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Fixed maturities:				
U.S. treasuries and government agencies	$ 25	$ 0	$ 0	$ 25
U.S. government sponsored enterprises	0	0	0	0
Municipal securities	193	6	2	197
U.S. corporate debt — non-financial	12	0	0	12
U.S. corporate debt — financial	24	2	0	26
Structured securities:				
Collateralized debt obligations	3	1	0	4
Total fixed maturities	$ 257	$ 9	$ 2	$ 264
Equity securities:				
U.S. nonredeemable preferred securities:				
Financial	$ 8	$ 3	$ 0	$ 11
Non-financial	11	1	0	12
Foreign nonredeemable preferred securities:				
Non-financial	1	0	0	1
Total equity securities	$ 20	$ 4	$ 0	$ 24
Total available-for-sale securities — Indemnity	$ 277	$ 13	$ 2	$ 288
Exchange				
Fixed maturities:				
U.S. treasuries and government agencies	$ 11	$ 1	$ 0	$ 12
U.S. government sponsored enterprises	74	1	0	75
Foreign government	20	1	0	21
Municipal securities	1,437	43	9	1,471
U.S. corporate debt — non-financial	2,354	186	5	2,535
U.S. corporate debt — financial	1,767	137	7	1,897
Foreign corporate debt — non-financial	415	34	0	449
Foreign corporate debt — financial	364	20	2	382
Structured securities:				
Asset-backed securities — auto loans	36	2	0	38
Asset-backed securities — other	18	1	0	19
Collateralized debt obligations	69	6	5	70
Commercial mortgage-backed	82	5	1	86
Residential mortgage-backed:				
Government sponsored enterprises	196	9	0	205
Non-government sponsored enterprises	20	0	1	19
Total fixed maturities	$ 6,863	$ 446	$ 30	$ 7,279
Equity securities:				
U.S. nonredeemable preferred securities:				
Financial	$ 317	$ 58	$ 2	$ 373
Non-financial	126	9	2	133
Government sponsored enterprises	0	0	0	0
Foreign nonredeemable preferred securities:				
Financial	52	6	3	55
Non-financial	8	1	0	9
Total equity securities	$ 503	$ 74	$ 7	$ 570
Total available-for-sale securities — Exchange	$ 7,366	$ 520	$ 37	$ 7,849
Total available-for-sale securities — Erie Insurance Group	$ 7,643	$ 533	$ 39	$ 8,137

(in millions) Available-for-sale securities	Erie Insurance Group At December 31, 2009 Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Fixed maturities:				
U.S. treasuries and government agencies	$ 3	$ 0	$ 0	$ 3
U.S. government sponsored enterprises	14	0	0	14
Foreign government	2	0	0	2
Municipal securities	235	9	0	244
U.S. corporate debt — non-financial	172	10	1	181
U.S. corporate debt — financial	135	7	4	138
Foreign corporate debt — non-financial	26	2	0	28
Foreign corporate debt — financial	19	2	1	20
Structured securities:				
Asset-backed securities — auto loans	4	0	0	4
Collateralized debt obligations	10	0	2	8
Commercial mortgage-backed	5	0	0	5
Residential mortgage-backed:				
Government sponsored enterprises	14	0	0	14
Non-government sponsored enterprises	3	0	0	3
Total fixed maturities	$ 642	$ 30	$ 8	$ 664
Equity securities:				
U.S. nonredeemable preferred securities:				
Financial	$ 20	$ 3	$ 1	$ 22
Non-financial	9	1	0	10
Government sponsored enterprises	0	0	0	0
Foreign nonredeemable preferred securities:				
Financial	5	0	0	5
Non-financial	1	0	0	1
Total equity securities	$ 35	$ 4	$ 1	$ 38
Total available-for-sale securities — Indemnity	$ 677	$ 34	$ 9	$ 702
Exchange				
Fixed maturities:				
U.S. treasuries and government agencies	$ 5	$ 0	$ 0	$ 5
U.S. government sponsored enterprises	76	1	0	77
Foreign government	10	1	0	11
Municipal securities	1,389	55	3	1,441
U.S. corporate debt — non-financial	2,078	125	10	2,193
U.S. corporate debt — financial	1,498	82	28	1,552
Foreign corporate debt — non-financial	375	22	2	395
Foreign corporate debt — financial	292	11	4	299
Structured securities:				
Asset-backed securities — auto loans	48	3	0	51
Asset-backed securities — credit cards	5	0	0	5
Asset-backed securities — other	35	0	2	33
Collateralized debt obligations	88	5	16	77
Commercial mortgage-backed	127	5	5	127
Residential mortgage-backed:				
Government sponsored enterprises	192	6	0	198
Non-government sponsored enterprises	59	0	6	53
Total fixed maturities	$ 6,277	$ 316	$ 76	$ 6,517
Equity securities:				
U.S. nonredeemable preferred securities:				
Financial	$ 259	$ 53	$ 11	$ 301
Non-financial	111	4	2	113
Government sponsored enterprises	1	2	0	3
Foreign nonredeemable preferred securities:				
Financial	46	4	3	47
Non-financial	8	0	0	8
Total equity securities	$ 425	$ 63	$ 16	$ 472
Total available-for-sale securities — Exchange	$ 6,702	$ 379	$ 92	$ 6,989
Total available-for-sale securities — Erie Insurance Group	$ 7,379	$ 413	$ 101	$ 7,691

The amortized cost and estimated fair value of fixed maturities at December 31, 2010, are shown below by remaining contractual term to maturity. Mortgage-backed securities are allocated based on their stated maturity dates. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Erie Insurance Group	
(in millions)	Amortized cost	Estimated fair value
Indemnity		
Due in one year or less	$ 64	$ 66
Due after one year through five years	88	92
Due after five years through ten years	59	61
Due after ten years	46	45
Total fixed maturities — Indemnity	$ 257	$ 264
Exchange		
Due in one year or less	$ 318	$ 335
Due after one year through five years	2,492	2,646
Due after five years through ten years	2,724	2,920
Due after ten years	1,329	1,378
Total fixed maturities — Exchange	$ 6,863	$ 7,279
Total fixed maturities — Erie Insurance Group	$ 7,120	$ 7,543

Fixed maturities and equity securities in a gross unrealized loss position at December 31, 2010 are as follows for Indemnity. Data is provided by length of time securities were in a gross unrealized loss position.

December 31, 2010

	Erie Insurance Group						
	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Indemnity							
Fixed maturities:							
U.S. government sponsored enterprises	$ 25	$ 0	$ 0	$ 0	$ 25	$ 0	1
Municipal securities	39	2	1	0	40	2	20
U.S. corporate debt — non-financial	11	0	0	0	11	0	1
U.S. corporate debt — financial	20	0	0	0	20	0	2
Total fixed maturities — Indemnity	$ 95	$ 2	$ 1	$ 0	$ 96	$ 2	24
Equity securities:							
U.S. nonredeemable preferred securities:							
Non-financial	$ 3	$ 0	$ 0	$ 0	$ 3	$ 0	1
Total equity securities — Indemnity	$ 3	$ 0	$ 0	$ 0	$ 3	$ 0	1

Quality breakdown of fixed maturities at December 31, 2010

	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair Value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Indemnity							
Investment grade	$ 95	$ 2	$ 1	$ 0	$ 96	$ 2	24
Non-investment grade	0	0	0	0	0	0	0
Total fixed maturities — Indemnity	$ 95	$ 2	$ 1	$ 0	$ 96	$ 2	24

Fixed maturities and equity securities in a gross unrealized loss position at December 31, 2010 are as follows for the Exchange. Data is provided by length of time securities were in a gross unrealized loss position.

December 31, 2010

	Erie Insurance Group						
	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Exchange							
Fixed maturities:							
U.S. treasuries and government agencies	$ 2	$ 0	$ 0	$ 0	$ 2	$ 0	1
U.S. government sponsored enterprises	20	0	0	0	20	0	2
Foreign government	10	0	0	0	10	0	1
Municipal securities	299	8	5	1	304	9	59
U.S. corporate debt — non-financial	217	4	36	1	253	5	43
U.S. corporate debt — financial	141	2	85	5	226	7	47
Foreign corporate debt — non-financial	8	0	16	0	24	0	5
Foreign corporate debt — financial	32	2	7	0	39	2	6
Structured securities:							
Collateralized debt obligations	1	0	33	5	34	5	6
Commercial mortgage-backed	0	0	12	1	12	1	2
Residential mortgage-backed:							
Government sponsored enterprises	6	0	0	0	6	0	2
Non-government sponsored enterprises	0	0	7	1	7	1	2
Total fixed maturities — Exchange	$ 736	$ 16	$ 201	$ 14	$ 937	$ 30	176
Equity securities:							
U.S. nonredeemable preferred securities:							
Financial	$ 25	$ 0	$ 24	$ 2	$ 49	$ 2	6
Non-financial	14	1	20	1	34	2	4
Foreign nonredeemable preferred securities:							
Financial	6	1	15	2	21	3	5
Total equity securities — Exchange	$ 45	$ 2	$ 59	$ 5	$ 104	$ 7	15

Quality breakdown of fixed maturities at December 31, 2010

	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Exchange							
Investment grade	$ 703	$ 16	$ 155	$ 11	$ 858	$ 27	154
Non-investment grade	33	0	46	3	79	3	22
Total fixed maturities — Exchange	$ 736	$ 16	$ 201	$ 14	$ 937	$ 30	176

The above securities for Indemnity and the Exchange 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 are a general review of market conditions and financial performance of the issuer along with the extent and duration of which fair value is less than cost. Any debt 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 with the impairment charges recognized in earnings.

Fixed maturities and equity securities in a gross unrealized loss position at December 31, 2009 are as follows for Indemnity. Data is provided by length of time securities were in a gross unrealized loss position.

December 31, 2009

	Erie Insurance Group						
	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair Value	Unrealized losses	No. of holdings
Indemnity							
Fixed maturities:							
U.S. government sponsored enterprises	$ 8	$ 0	$ 0	$ 0	$ 8	$ 0	2
Municipal securities	18	0	5	0	23	0	12
U.S. corporate debt — non-financial	19	0	8	1	27	1	16
U.S. corporate debt — financial	16	1	40	3	56	4	42
Foreign corporate debt — non-financial	0	0	4	0	4	0	3
Foreign corporate debt — financial	2	0	3	1	5	1	4
Structured securities:							
Collateralized debt obligations	0	0	3	2	3	2	6
Commercial mortgage-backed	0	0	1	0	1	0	1
Residential mortgage-backed:							
Government sponsored enterprises	6	0	0	0	6	0	2
Non-government sponsored enterprises	0	0	3	0	3	0	2
Total fixed maturities — Indemnity	$ 69	$ 1	$ 67	$ 7	$ 136	$ 8	90
Equity securities:							
U.S. nonredeemable preferred securities:							
Financial	$ 5	$ 0	$ 5	$ 1	$ 10	$ 1	8
Non-financial	3	0	4	0	7	0	3
Foreign nonredeemable preferred securities:							
Financial	0	0	1	0	1	0	1
Total equity securities — Indemnity	$ 8	$ 0	$ 10	$ 1	$ 18	$ 1	12

Quality breakdown of fixed maturities at December 31, 2009

	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Indemnity							
Investment grade	$ 69	$ 1	$ 49	$ 4	$ 118	$ 5	71
Non-investment grade	0	0	18	3	18	3	19
Total fixed maturities — Indemnity	$ 69	$ 1	$ 67	$ 7	$ 136	$ 8	90

Fixed maturities and equity securities in a gross unrealized loss position at December 31, 2009 are as follows for the Exchange. Data is provided by length of time securities were in a gross unrealized loss position.

December 31, 2009

	Erie Insurance Group						
	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Exchange							
Fixed maturities:							
U.S. government sponsored enterprises	$ 50	$ 0	$ 0	$ 0	$ 50	$ 0	6
Municipal securities	105	2	26	1	131	3	24
U.S. corporate debt — non-financial	128	3	129	7	257	10	56
U.S. corporate debt — financial	159	2	318	26	477	28	98
Foreign corporate debt — non-financial	12	0	36	2	48	2	9
Foreign corporate debt — financial	17	0	68	4	85	4	17
Structured securities:							
Asset backed — credit cards	0	0	5	0	5	0	1
Asset backed — other	0	0	18	2	18	2	3
Collateralized debt obligations	8	1	28	15	36	16	15
Commercial mortgage-backed	1	0	34	5	35	5	6
Residential mortgage-backed:							
Government sponsored enterprises	28	0	0	0	28	0	4
Non-government sponsored enterprises	0	0	45	6	45	6	9
Total fixed maturities — Exchange	$ 508	$ 8	$ 707	$ 68	$ 1,215	$ 76	248
Equity securities:							
U.S. nonredeemable preferred securities:							
Financial	$ 36	$ 2	$ 72	$ 9	$ 108	$ 11	20
Non-financial	14	0	43	2	57	2	10
Foreign nonredeemable preferred securities:							
Financial	0	0	18	3	18	3	4
Total equity securities — Exchange	$ 50	$ 2	$ 133	$ 14	$ 183	$ 16	34

Quality breakdown of fixed maturities at December 31, 2009

	Less than 12 months		12 months or longer		Total		
(dollars in millions)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Exchange							
Investment grade	$ 494	$ 8	$ 522	$ 50	$ 1,016	$ 58	191
Non-investment grade	14	0	185	18	199	18	57
Total fixed maturities — Exchange	$ 508	$ 8	$ 707	$ 68	$ 1,215	$ 76	248

Investment income, net of expenses, was generated from the following portfolios as follows for the years ended December 31:

(in millions)	Erie Insurance Group 2010	2009	2008
Indemnity			
Fixed maturities	$ 33	$ 36	$ 36
Equity securities	4	5	9
Cash equivalents and other	1	1	2
Total investment income	38	42	47
Less: investment expenses	1	0	3
Investment income, net of expenses — Indemnity	$ 37	$ 42	44
Exchange			
Fixed maturities	$ 350	$ 343	$ 319
Equity securities	72	68	88
Cash equivalents and other	2	4	13
Total investment income	424	415	420
Less: investment expenses	28	24	26
Investment income, net of expenses — Exchange	$ 396	$ 391	$ 394
Total consolidated investment income, net of expenses — Erie Insurance Group	$ 433	$ 433	$ 438

Dividend income is recognized as earned and recorded to net investment income.

In 2010, Indemnity sold its interest in nine limited partnerships and the Exchange sold its interest in eleven limited partnerships, which generated net realized losses. There were no sales of limited partnerships in 2009. In 2008, Indemnity and the Exchange sold their interest in ten limited partnerships, which generated net realized gains. Realized gains (losses) on Indemnity's investments were as follows:

(in millions)	Erie Insurance Group Years ended December 31, 2010	2009	2008
Indemnity			
Available-for-sale securities:			
Fixed maturities			
Gross realized gains	$ 6	$ 5	$ 3
Gross realized losses	(1)	(4)	(5)
Net realized gains (losses)	5	1	(2)
Equity securities			
Gross realized gains	1	8	8
Gross realized losses	0	(7)	(13)
Net realized gains (losses)	1	1	(5)
Trading securities:			
Common stock			
Gross realized gains	6	2	12
Gross realized losses	(1)	(5)	(28)
Valuation adjustments	0	11	(22)
Net realized gains (losses)	5	8	(38)
Limited partnerships:			
Gross realized gains	0	0	4
Gross realized losses	(12)	0	(2)
Net realized (losses) gains	(12)	0	2
Net realized (losses) gains on investments — Indemnity	$ (1)	$ 10	$ (43)

Realized gains (losses) on the Exchange's investments were as follows:

(in millions)	Years ended December 31, 2010	2009	2008
Exchange			
Available-for-sale securities:			
Fixed maturities			
Gross realized gains	$ 49	$ 22	$ 13
Gross realized losses	(24)	(37)	(53)
Net realized gains (losses)	25	(15)	(40)
Equity securities			
Gross realized gains	14	39	33
Gross realized losses	(3)	(26)	(68)
Net realized gains (losses)	11	13	(35)
Trading securities:			
Common stock			
Gross realized gains	205	143	155
Gross realized losses	(135)	(203)	(654)
Valuation adjustments	254	464	(416)
Net realized gains (losses)	324	404	(915)
Limited partnerships:			
Gross realized gains	0	0	15
Gross realized losses	(46)	0	(8)
Net realized (losses) gains	(46)	0	7
Net realized gains (losses) on investments — Exchange	$ 314	$ 402	$ (983)
Net realized gains (losses) on investments — Erie Insurance Group	$ 313	$ 412	$ (1,026)

The components of other-than-temporary impairments on investments are included below.

(in millions)	Erie Insurance Group Years ended December 31 2010	2009	2008
Indemnity			
Fixed maturities	$ (1)	$ (7)	$ (36)
Equity securities	0	(5)	(34)
Total	(1)	(12)	(70)
Portion recognized in other comprehensive income	0	0	0
Net impairment losses recognized in earnings — Indemnity	$ (1)	$ (12)	$ (70)
Exchange			
Fixed maturities	$ (4)	$ (54)	$ (306)
Equity securities	(1)	(60)	(195)
Total	(5)	(114)	(501)
Portion recognized in other comprehensive income	0	0	0
Net impairment losses recognized in earnings — Exchange	$ (5)	$ (114)	$ (501)
Net impairment losses recognized in earnings — Erie Insurance Group	$ (6)	$ (126)	$ (571)

In considering if fixed maturity securities were credit-impaired some of the factors considered 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 fixed maturity securities, therefore the entire amount of the impairment charges were included in earnings and no non-credit impairments were recognized in other comprehensive income. Prior to the second quarter of 2009 when new impairment guidance was issued for debt securities, the impairment policy for fixed maturities was consistent with that of equity securities. See also Note 2, "Significant Accounting Policies."

Limited partnerships

Our limited partnership investments are recorded using the equity method of accounting. As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2010 are comprised of general partnership financial results for the fourth quarter of 2009 and the first, second, and third quarters of 2010. Given the lag in reporting, our limited partnership results do not reflect the market conditions of the fourth quarter of 2010. Cash contributions made to and distributions received from the partnerships are recorded in the period in which the transaction occurs.

We have provided summarized financial information in the following table for the years ended December 31, 2010 and 2009. Amounts provided in the table are presented using the latest available financial statements received from the partnerships. Limited partnership financial information has been presented based on the investment percentage in the partnerships for the Erie Insurance Group consistent with how management evaluates the investments.

As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2010 include the general partnership results for the fourth quarter of 2009 and the first three quarters of 2010.

(dollars in millions)	As of and for the year ended December 31, 2010			
Investment percentage in partnership for Erie Insurance Group	Number of partnerships	Asset recorded	Income (loss) recognized due to valuation adjustments by the partnerships	Income (loss) recorded
Indemnity				
Private equity:				
Less than 10%	26	$ 78	$ 4	$ 7
Greater than or equal to 10% but less than 50%	3	8	3	0
Greater than 50%	0	0	0	0
Total private equity	29	86	7	7
Mezzanine debt:				
Less than 10%	11	30	4	3
Greater than or equal to 10% but less than 50%	3	15	2	(2)
Greater than 50%	1	2	0	0
Total mezzanine debt	15	47	6	1
Real estate:				
Less than 10%	12	59	30	(31)
Greater than or equal to 10% but less than 50%	4	14	10	(10)
Greater than 50%	4	10	4	(3)
Total real estate	20	83	44	(44)
Total limited partnerships — Indemnity	64	$ 216	$ 57	$ (36)
Exchange				
Private equity:				
Less than 10%	41	$ 517	$ 28	$ 40
Greater than or equal to 10% but less than 50%	3	38	10	0
Greater than 50%	0	0	0	(1)
Total private equity	44	555	38	39
Mezzanine debt:				
Less than 10%	14	142	12	13
Greater than or equal to 10% but less than 50%	3	41	2	(2)
Greater than 50%	3	31	0	2
Total mezzanine debt	20	214	14	13
Real estate:				
Less than 10%	25	250	(11)	10
Greater than or equal to 10% but less than 50%	6	52	7	(7)
Greater than 50%	4	37	15	(11)
Total real estate	35	339	11	(8)
Total limited partnerships — Exchange	99	$ 1,108	$ 63	$ 44
Total limited partnerships — Erie Insurance Group		$ 1,324	$ 120	$ 8

Per the limited partner financial statements, total partnership assets were $58 billion and total partnership liabilities were $10 billion at December 31, 2010 (as recorded in the September 30, 2010 limited partnership financial statements). For the twelve month period comparable to that presented in the preceding table (fourth quarter of 2009 and first three quarters of 2010), total partnership valuation adjustment gains were $4 billion and total partnership net income was $3 billion.

As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2009 include the general partnership financial results for the fourth quarter of 2008 and the first three quarters of 2009.

(dollars in millions)	As of and for the year ended December 31, 2009			
Investment percentage in partnership for Erie Insurance Group	Number of partnerships	Asset recorded	(Loss) income recognized due to valuation adjustments by the partnerships	(Loss) income recorded
Indemnity				
Private equity:				
Less than 10%	26	$ 76	$ (11)	$ (1)
Greater than or equal to 10% but less than 50%	3	6	0	0
Greater than 50%	1	3	0	0
Total private equity	30	85	(11)	(1)
Mezzanine debt:				
Less than 10%	12	30	(4)	(1)
Greater than or equal to 10% but less than 50%	3	18	(2)	2
Greater than 50%	1	3	(1)	0
Total mezzanine debt	16	51	(7)	1
Real estate:				
Less than 10%	19	65	(31)	1
Greater than or equal to 10% but less than 50%	5	17	(6)	1
Greater than 50%	4	17	(21)	(2)
Total real estate	28	99	(58)	0
Total limited partnerships — Indemnity	74	$ 235	$ (76)	$ 0
Exchange				
Private equity:				
Less than 10%	41	$ 466	$ (46)	$ 14
Greater than or equal to 10% but less than 50%	3	31	1	(1)
Greater than 50%	1	6	(1)	(1)
Total private equity	45	503	(46)	12
Mezzanine debt:				
Less than 10%	14	138	(11)	4
Greater than or equal to 10% but less than 50%	4	48	(4)	9
Greater than 50%	3	30	(2)	2
Total mezzanine debt	21	216	(17)	15
Real estate:				
Less than 10%	32	302	(164)	(8)
Greater than or equal to 10% but less than 50%	7	61	(40)	(1)
Greater than 50%	4	34	(48)	4
Total real estate	43	397	(252)	(5)
Total limited partnerships — Exchange	109	$ 1,116	$ (315)	$ 22
Total limited partnerships — Erie Insurance Group		$ 1,351	$ (391)	$ 22

Per the limited partner financial statements, total partnership assets were $53 billion and total partnership liabilities were $11 billion at December 31, 2009 (as recorded in the September 30, 2009 limited partnership financial statements). For the twelve month period comparable to that presented in the preceding table (fourth quarter of 2008 and first three quarters of 2009), total partnership valuation adjustment losses were $8 billion and total partnership net losses were $1 billion.

See also Note 21, "Commitments and Contingencies," for investment commitments related to limited partnerships.

Securities lending program

We previously participated in a program whereby marketable securities from our investment portfolio were lent to independent brokers or dealers based on, among other things, their creditworthiness, in exchange for collateral initially equal to 102% of the value of the securities on loan and are thereafter maintained at a minimum of 100% of the fair value of the securities loaned. The program was terminated in 2009.

Note 8. Goodwill Impairment

Goodwill is reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event has occurred. The goodwill impairment test follows a two step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment.

Prior to December 31, 2010, the Exchange had $22 million of goodwill attributed to its purchase of EFL's stock in 2006. On November 4, 2010, the Exchange entered into an agreement to purchase the Indemnity's remaining 21.6% ownership interest in EFL, which is expected to be completed by March 31, 2011. A valuation of EFL was performed by an external independent third party in preparation for the sale. The valuation resulted in a purchase price determination of 95% of book value. In response to the valuation and sale price, management concluded that the possibility for impairment existed and step two of the goodwill impairment test was completed to determine the impairment amount. Step two of the impairment test compared the value of new business for EFL to the current goodwill balance. The analysis determined that the value of EFL's new business did not support the $22 million goodwill and an impairment entry was made to write down the entire goodwill balance at December 31, 2010. The charge of $22 million decreased the net income attributable to the Exchange.

Note 9. Capitalized Software Development Costs

We capitalize computer software costs developed or obtained for internal use in accordance with ASC 350-40, *Intangibles — Goodwill and Other, Internal-Use Software*. Capitalized costs include internal and external labor and overhead, all of which are attributable to Indemnity. Capitalization ceases and amortization begins no later than the point at which a computer software project is complete and ready for its intended use. Capitalized software costs are amortized over a seven year period. There were no capitalized software costs for the year ended December 31, 2008.

The following table outlines the total capitalized software development costs subject to amortization and amortization expense for the years ended December 31:

(in millions)	2010	2009
Capitalized software development costs subject to amortization:		
Balance January 1,	$ 0	$ 0
Capitalized software projects put into use during the year	16	0
Accumulated amortization	(1)	0
Balance December 31, net of amortization	$ 15	$ 0
Amortization expense	$ 1	$ 0

The following table outlines the total capitalized software development costs not yet subject to amortization for the years ended December 31:

(in millions)	2010	2009
Capitalized software development costs in process:		
Balance January 1,	$ 10	$ 0
Capitalized software project costs	22	10
Capitalized software projects put into use	(16)	0
Balance December 31,	$ 16	$ 10

The following table outlines the estimated future amortization expense related to capitalized software development costs as of December 31, 2010.

(in millions) Year ending December 31,	Amortization expense
2011	$4
2012	4
2013	4
2014	4
2015	4

We anticipate incurring additional costs related to our software development initiatives. These costs are unknown at this time and therefore not considered in the table above.

Note 10. Bank Line of Credit

As of December 31, 2010, Indemnity has available a $100 million line of credit with a bank that expires on December 31, 2011. There were no borrowings outstanding on the line of credit as of December 31, 2010. Bonds with a fair value of $128 million are pledged as collateral on the line at December 31, 2010.

As of December 31, 2010, the Exchange has available a $200 million revolving line of credit that expires on September 30, 2012. There were no borrowings outstanding on the line of credit as of December 31, 2010. Bonds with a fair value of $252 million are pledged as collateral on the line at December 31, 2010.

Securities pledged as collateral on both lines have no restrictions and are reported as available-for-sale fixed maturities in the Consolidated Statements of Financial Position as of December 31, 2010. The banks require compliance with certain covenants, which include statutory surplus and risk based capital ratios for Exchange's line of credit and minimum net worth and leverage ratios for Indemnity's line of credit. We are in compliance with all covenants at December 31, 2010.

Note 11. Income Taxes

The provision (benefit) for income taxes consists of the following for the years ended December 31:

	Erie Insurance Group		
(in millions)	2010	2009	2008
Indemnity			
Current income taxes	$ 37	$ 56	$ 63
Deferred income taxes	67	(7)	(23)
Total provision for income taxes — Indemnity	104	49	40
Exchange			
Current income taxes	(43)	7	(40)
Deferred income taxes	278	22	(223)
Total provision (benefit) for income taxes — Exchange	235	29	(263)
Total provision (benefit) for income taxes — Erie Insurance Group	$ 339	$ 78	$ (223)

The deferred income tax expense in 2010 was primarily driven by the sale of previously impaired investments and unrealized gains on common stock and limited partnerships. In addition, the deferred tax liability recorded for Indemnity's investment in Erie Family Life Insurance Company increased by $18 million in 2010 as a result of a change in the tax rate used to calculate the liability. This deferred tax charge was required due to Indemnity's decision to sell its 21.6% ownership interest in EFL rather than receiving its share of EFL's earnings in the form of future dividends, which would have been eligible for an 80% dividend received deduction. The deferred income tax benefit in 2008 was primarily driven by impairments and unrealized losses on common stock. The more significant impairment losses in 2008 related to bonds and preferred stocks in the financial services industry.

A reconciliation of the provision (benefit) for income taxes with amounts determined by applying the statutory federal income tax rates to pre-tax income is as follows for the years ended December 31:

	Erie Insurance Group		
(in millions)	2010	2009	2008
Indemnity			
Income tax at statutory rates	$ 93	$ 53	$ 43
Tax-exempt interest	(3)	(3)	(3)
Dividends received deduction	(1)	(1)	(2)
Deferred tax valuation allowance	(2)	0	1
Erie Family Life earnings (1)	15	0	0
Other, net	2	0	1
Provision for income taxes — Indemnity	104	49	40
Exchange			
Income tax at statutory rates	259	130	(337)
Tax-exempt interest	(16)	(17)	(17)
Dividends received deduction	(11)	(11)	(14)
Deferred tax valuation allowance	(4)	(71)	110
Goodwill Impairments	8	0	0
Other, net	(1)	(2)	(5)
Provision (benefit) for income taxes — Exchange	235	29	(263)
Provision (benefit) for income taxes — Erie Insurance Group	$ 339	$ 78	$ (223)

(1) Indemnity's tax rate on its share of EFL earnings was adjusted from 7% to 35% due to Indemnity's decision to sell its 21.6% ownership interest in EFL to the Exchange, which is scheduled to close by March 31, 2011, rather than receiving its share of EFL's earnings in the form of future dividends, which would have been eligible for an 80% dividend received deduction.

Temporary differences and carry-forwards, which give rise to consolidated deferred tax assets and liabilities, are as follows:

	Erie Insurance Group	
(in millions)	2010	2009
Indemnity		
Deferred tax assets:		
Loss reserve discount	$ 0	$ 5
Unearned premiums	0	7
Net allowance for service fees and premium cancellations	3	3
Other employee benefits	8	6
Pension and other postretirement benefits	21	19
Write-downs of impaired securities	2	10
Capital loss carryover	7	4
Limited partnerships	0	18
Other	1	3
Total deferred tax assets	42	75
Deferred tax liabilities:		
Deferred policy acquisition costs	0	6
Unrealized gains on investments	7	12
Equity interest in EFL	22	4
Limited partnerships	20	0
Depreciation	7	1
Prepaid expenses	5	4
Capitalized internally developed software	5	3
Other	2	2
Total deferred tax liabilities	68	32
Valuation allowance	0	(2)
Net deferred income tax (liability) asset — Indemnity	**$ (26)**	**$ 41**

(in millions)	Erie Insurance Group (continued) 2010	2009
Exchange		
Deferred tax assets:		
Loss reserve discount	$ 83	$ 80
Liability for future life and annuity policy benefits	13	12
Unearned premiums	156	140
Limited partnerships	0	102
Write-downs of impaired securities	42	114
Wash sales	8	11
Capital loss carryover	9	10
Other	8	4
Total deferred tax assets	319	473
Deferred tax liabilities:		
Deferred policy acquisition costs	153	148
Unrealized gains on investments	356	232
Limited partnerships	49	0
Net allowance for service fees and premium cancellations	3	3
Other	15	11
Total deferred tax liabilities	576	394
Valuation allowance	0	(4)
Net deferred income tax (liability) asset — Exchange	**$ (257)**	**$ 75**
Net deferred income tax (liability) asset — Erie Insurance Group	**$ (283)**	**$ 116**

Indemnity had deferred tax asset valuation allowances of $0 and $2 million recorded at December 31, 2010 and December 31, 2009, respectively, related to impairments on investments where it is more likely than not that the related deferred tax asset will not be realized.

The Exchange had deferred tax asset valuation allowances of $0 and $4 million recorded at December 31, 2010 and December 31, 2009, respectively, related to impairments on investments where it is more likely than not that the related deferred tax asset will not be realized.

In 2010, Indemnity generated taxable losses of $42 million and the Exchange generated taxable losses of $192 million on the sale of limited partnerships. These partnerships were sold to recapture tax paid on prior period capital gains that were due to expire. The unrealized losses on these partnerships were previously recorded as a deferred tax asset. Indemnity and the Exchange are expected to recapture $15 million and $67 million in tax on these transactions in 2011, respectively.

We have one uncertain income tax position for which a current liability was recorded. As a related temporary tax difference was also recognized, there was no impact on our operations or financial position. We recognize interest related to our remaining uncertain tax position in income tax expense. Accrued estimated interest on our unrecognized tax benefit was $0.2 million and $0.3 million at December 31, 2010 and 2009, respectively. The IRS has examined tax filings through 2007 and is currently examining our federal income tax returns for 2008 and 2009. We do not currently estimate that our unrecognized tax benefits will change significantly in the next 12 months.

Indemnity is the attorney-in-fact for the subscribers (policyholders) at the Exchange, a reciprocal insurance exchange. In that capacity, Indemnity provides all services and facilities necessary to conduct the Exchange's insurance business. Indemnity and the Exchange together constitute one insurance business. Indemnity remits premium taxes for the Exchange in states where they conduct insurance business and on that basis Indemnity is not subject to state corporate income or franchise taxes in these states.

Note 12. Deferred Policy Acquisition Costs

The following table summarizes the components of the Property and Casualty Group's and EFL's deferred policy acquisition costs asset for the years ended December 31:

	Erie Insurance Group	
(in millions)	2010	2009
Property and Casualty Group		
Deferred policy acquisition costs asset at beginning of year	$ 313	$ 301
Capitalized deferred policy acquisition costs	649	623
Amortized deferred policy acquisition costs	(635)	(611)
Deferred policy acquisition costs asset at end of year — Property and Casualty Group	$ 327	$ 313
Erie Family Life Insurance Company		
Deferred policy acquisition costs asset at beginning of year	$ 154	$ 201
Capitalized deferred policy acquisition costs	17	19
Amortized deferred policy acquisition costs	(16)	(13)
Amortized shadow deferred policy acquisition costs	(15)	(53)
Deferred policy acquisition costs asset at end of year — EFL	$ 140	$ 154
Deferred policy acquisition costs asset — Erie Insurance Group	$ 467	$ 467

Note 13. Property and Casualty Unpaid Losses and Loss Expenses

The following table provides a reconciliation of property and casualty beginning and ending loss and loss expense liability balances for the years ended December 31:

	Property and Casualty Group		
(in millions)	2010	2009	2008
Total gross unpaid losses and loss expenses at January 1,	$ 3,598	$ 3,586	$ 3,684
Less reinsurance recoverable	200	187	190
Net liability at January 1,	3,398	3,399	3,494
Incurred losses and loss expenses related to:			
Current accident year	3,053	2,732	2,675
Prior accident years	(244)	(93)	(186)
Total incurred losses and loss expenses	2,809	2,639	2,489
Paid losses and loss expenses related to:			
Current accident year	1,855	1,608	1,546
Prior accident years	956	1,032	1,038
Total paid losses and loss expenses	2,811	2,640	2,584
Total net liability at December 31,	**3,396**	**3,398**	**3,399**
Plus reinsurance recoverables	188	200	187
Total gross unpaid losses and loss expenses at December 31,	**$ 3,584**	**$ 3,598**	**$ 3,586**

Loss reserves are set at full expected cost, except for workers compensation loss reserves which have been discounted using an interest rate of 2.5% for all periods presented. This discounting reduced unpaid losses and loss expenses by $127 million and $136 million at December 31, 2010 and 2009, respectively. The reserves for losses and loss expenses are reported net of receivables for salvage and subrogation of $141 million and $133 million at December 31, 2010 and 2009, respectively.

Favorable development in 2010 on prior accident year direct loss reserves is primarily the result of improvements in severity trends in our commercial multi-peril, personal auto and workers compensation lines of business combined with the settlement of several large claims. The favorable development in 2009 was primarily due to changes in our mortality rate and medical cost assumptions in our workers compensation line of business and the change in the workers compensation discount discussed above. This favorable development in 2009 was offset by adverse development in our personal auto line of business as a result of the use of gender specific tables in our mortality rate assumption and the outcome of some court decisions related to our commercial multi-peril line of business. Driving the favorable development in 2008 was improved frequency and severity trends in our personal auto, commercial auto, commercial multi-peril and homeowners lines of business.

As discussed in Note 16, “Reinsurance,” the members of the Property and Casualty Group participate in an intercompany reinsurance pooling arrangement, under which the Exchange retains 94.5% of the property and casualty insurance business and EIC retains 5.0% and ENY retains 0.5%. The following table reconciles the loss and loss expense reserve balances on the Consolidated Statements of Financial Position, which is exclusive of intercompany transactions, to the ultimate liability of the Exchange and Indemnity when factoring in intercompany pooling transactions and reinsurance recoverables.

(in millions)	Erie Insurance Group			
At December 31, 2010:	Gross liability at December 31, 2010	Intercompany pooling eliminations	Reinsurance recoverables	Net liability at December 31, 2010
Indemnity losses and loss expense reserves(1)	$ 0	$ 0	$ 0	$ 0
Exchange losses and loss expense reserves	3,584	0	(188)	3,396
Losses and loss expense reserves	$ 3,584	$ —	$ (188)	$ 3,396

(in millions)	Erie Insurance Group			
At December 31, 2009:	Gross liability at December 31, 2009	Intercompany pooling eliminations	Reinsurance recoverables	Net liability at December 31, 2009
Indemnity losses and loss expense reserves(1)	$ 752	$ (554)	$ (11)	$ 187
Exchange losses and loss expense reserves	2,846	554	(189)	3,211
Losses and loss expense reserves	$ 3,598	$ —	$ (200)	$ 3,398

(1) Prior to December 31, 2010, all property and casualty insurance underwriting liabilities recorded by EIC, ENY and EPC were the responsibility of the Indemnity shareholder interest. Due to the sale of Indemnity’s property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting liabilities are the responsibility of the subscribers (policyholders) of the Exchange, or noncontrolling interest, (See Note 1,“Nature of Operations”.)

Note 14. Life Policy and Deposit Contract Reserves

(in millions)	2010	2009	2008
Deferred annuities	$ 1,117	$ 1,076	$ 1,017
Ordinary/traditional life	254	229	207
Universal life	214	211	209
Other	18	24	16
Life policy and deposit contract reserves	$ 1,603	$ 1,540	$ 1,449

The reinsurance credit related to these reserves was $95 million, $82 million and $70 million at December 31, 2010, 2009 and 2008, respectively, and is presented in other assets in the Consolidated Statements of Financial Position.

Note 15. Unearned Premiums

Unearned premiums are reflected net of intercompany eliminations on the Consolidated Statements of Financial Position. Unearned premiums after the intercompany pooling transactions are presented below.

(in millions)	Erie Insurance Group		
At December 31, 2010:	Balance at December 31, 2010	Intercompany pooling transactions	Net unearned premiums at December 31, 2010
Indemnity unearned premiums (1)	$ 0	$ 0	$ 0
Exchange unearned premiums	2,082	0	2,082
Unearned premiums	$ 2,082	$ 0	$ 2,082

	Erie Insurance Group		
At December 31, 2009:	Balance at December 31, 2009	Intercompany pooling transactions	Net unearned premiums at December 31, 2009
Indemnity unearned premiums (1)	$ 325	$ (216)	$ 109
Exchange unearned premiums	1,656	216	1,872
Unearned premiums	$ 1,981	$ —	$ 1,981

(1) *Prior to December 31, 2010, all property and casualty insurance underwriting liabilities recorded by EIC, ENY and EPC were the responsibility of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting liabilities are the responsibility of the subscribers (policyholders) of the Exchange, or noncontrolling interest. (See Note 1, "Nature of Operations".)*

Note 16. Reinsurance

Members of the Property and Casualty Group participate in an intercompany reinsurance pooling agreement. Under the pooling agreement, all insurance business of the Property and Casualty Group is pooled in the Exchange. EIC and ENY share in the underwriting results of the reinsurance pool through retrocession. Since 1995, the Board of Directors has set the allocation of the pooled underwriting results at 5.0% participation for EIC, 0.5% participation for ENY and 94.5% participation for the Exchange. Intercompany accounts are settled by payment within 30 days after the end of each quarterly accounting period. The purpose of the pooling agreement is to spread the risks of the members of the Property and Casualty Group collectively across the different lines of business they underwrite and geographic regions in which each operates. This agreement may be terminated by any party as of the end of any calendar year by providing not less than 90 days advance written notice. On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned subsidiaries to the Exchange. Under this new structure, all property and casualty insurance operations will be owned by the Exchange, and Indemnity will continue to function as the management company. There was no impact on the existing reinsurance pooling agreement between the Exchange and EIC or ENY as a result of the sale.

Reinsurance contracts do not relieve the Property and Casualty Group or EFL from their primary obligations to policyholders. A contingent liability exists with respect to reinsurance recoverables in the event reinsurers are unable to meet their obligations under the reinsurance agreements.

The Property and Casualty Group maintains a property catastrophe treaty with nonaffiliated reinsurers to mitigate future potential catastrophe loss exposure. During 2010, this reinsurance treaty provided coverage of up to 95% of a loss of $500 million in excess of the Property and Casualty Group's loss retention of $400 million per occurrence. This treaty was renewed for 2011, providing coverage of up to 90% of a loss of $500 million in excess of the Property and Casualty Group's loss retention of $350 million per occurrence. In addition, a second property catastrophe reinsurance treaty was entered into with nonaffiliated reinsurers providing coverage of up to 90% of a loss of $25 million in excess of the first property catastrophe reinsurance treaty's coverage of $850 million. There have been no losses subject to this treaty.

EFL maintains several reinsurance treaties with nonaffiliated life reinsurance companies in order to reduce claims volatility. EFL had direct life insurance in force totaling $40 billion and $39 billion at December 31, 2010 and 2009, respectively. Of the amount, EFL ceded $22 billion and $21 billion of life insurance in force at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the largest amount of in-force life insurance ceded to one reinsurer totaled $11 billion and $10 billion, respectively.

The following tables summarize the direct insurance and reinsurance for the property and casualty and life insurance activities, respectively, for the years ended December 31.

(in millions)	Erie Insurance Group		
Property and casualty insurance	2010	2009	2008
Premiums written:			
Direct	$ 4,035	$ 3,861	$ 3,800
Assumed	19	30	37
Ceded	(35)	(30)	(49)
Premiums written, net	$ 4,019	3,861	$ 3,788
Premiums earned:			
Direct	$ 3,939	$ 3,806	$ 3,784
Assumed	20	42	35
Ceded	(34)	(40)	(48)
Premiums earned, net	3,925	3,808	3,771
Insurance losses and loss expenses:			
Direct	2,834	2,655	2,507
Assumed	(15)	12	(11)
Ceded	(9)	(28)	(7)
Insurance losses and loss expenses, net	$ 2,810	$ 2,639	$ 2,489

(in millions)	Erie Insurance Group		
Life insurance	2010	2009	2008
Premiums earned:			
Direct	$ 104	$ 100	$ 98
Ceded	(42)	(39)	(35)
Premiums earned, net	62	61	63
Insurance losses and loss expenses:			
Direct	102	114	106
Ceded	(12)	(25)	(13)
Insurance losses and loss expenses, net	$ 90	$ 89	$ 93

(in millions)	Erie Insurance Group		
Total	2010	2009	2008
Premiums earned:			
Property and casualty	$ 3,925	$ 3,808	$ 3,771
Life	62	61	63
Premiums earned, net	3,987	3,869	3,834
Insurance losses and loss expenses:			
Property and casualty	2,810	2,639	2,489
Life	90	89	93
Insurance losses and loss expenses, net	$ 2,900	$ 2,728	$ 2,582

Note 17. Postretirement Benefits

Pension and retiree health benefit plans

Our pension plans consist of a noncontributory defined benefit pension plan covering substantially all employees and an unfunded supplemental employee retirement plan (“SERP”) for certain members of executive and senior management of the Erie Insurance Group. The pension plans provide benefits to covered individuals satisfying certain age and service requirements. The defined benefit pension plan and SERP provide benefits through a final average earnings formula and a percent of average monthly compensation formula, respectively.

We previously provided retiree health benefits in the form of medical and pharmacy health plans for eligible retired employees and eligible dependents. In 2006, the retiree health benefit plan was curtailed by an amendment that restricted eligibility to those who attained age 60 and 15 years of service on or before July 1, 2010.

The liabilities for the plans described in this note are presented in total for all employees of the Erie Insurance Group. The gross liability for postretirement benefits is presented in the Consolidated Statements of Financial Position within other liabilities. Approximately 57% of postretirement benefit expenses are reimbursed to Indemnity from the Exchange and EFL.

Our affiliated entities are charged an allocated portion of net periodic benefit costs under the benefit plans. For our funded pension plan, amounts are settled in cash throughout the year for related entities' share of net periodic benefit costs. For our unfunded plans, we pay the obligations when due. Amounts are settled in cash between affiliates when there is a payout under the unfunded plans.

Assumptions used to determine benefit obligations at the periods ended December 31:

	2010	2009	2008
Employee pension plan:			
Discount rate	5.69%	6.11%	6.06%
Expected return on plan assets	8.00	8.25	8.25
Rate of compensation increase (1)	4.15	4.15	4.25
SERP:			
Discount rate (2)	5.69/5.19	6.11/5.00	6.06/5.00
Rate of compensation increase	6.00	6.00	6.00

Assumptions used to determine net periodic benefit cost:

	2010	2009	2008
Employee pension plan:			
Discount rate	6.11%	6.06%	6.62%
Expected return on plan assets	8.00	8.25	8.25
Rate of compensation increase (1)	4.15	4.15	4.25
SERP:			
Discount rate (2)	6.11/5.00	6.06/5.00	6.62/5.00
Rate of compensation increase	6.00	6.00	6.00

(1) Rate of compensation increase is age-graded. An equivalent single compensation increase rate of 4.15% in 2010 and 2009 and 4.25% in 2008 would produce similar results.

(2) Pre-retirement/post-retirement

The two economic assumptions that have the most impact on the postretirement benefit expense are the discount rate and the long-term rate of return on plan assets. The discount rate assumption used to determine the benefit obligation was 5.69% for 2010 and was based on a yield curve developed from corporate bond yield information. The construction of these yield curves is based on yields of corporate bonds rated Aa quality. Target yields are developed from bonds at various maturity points and a curve is fitted to those targets. Spot rates (zero coupon bond yields) are developed from the yield curve and used to discount benefit payment amounts associated with each future year. The present value of plan benefits is calculated by applying the spot/discount rates to projected benefit cash flows. A single discount rate is then developed to produce the same present value. This represents the suggested discount rate. The discount rate assumption used to determine the benefit obligation for 2009 and 2008 was based on a bond-matching study that compared projected pension plan benefit flows to the cash flows from a comparable portfolio of fixed maturity instruments rated AA- or better with duration similar to plan liabilities. The approach used to determine the long-term rate of return assumption derived expected future returns for each asset category based on applicable indices and their historical relationships under various market conditions. These expected future returns were then weighted based on our target asset allocation percentages for each asset category.

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Pension benefit plans

The following tables set forth change in benefit obligation, changes in plan assets and funded status of the pension plans as well as the net periodic benefit cost.

Pension benefits for the years ended December 31,

(in millions)	2010	2009	2008
Change in benefit obligation			
Benefit obligation at beginning of period	$ 344	$ 326	$ 276
Service cost	15	15	13
Interest cost	21	19	18
Amendments	1	3	0
Actuarial loss (gain)	25	(12)	34
Benefits paid	(6)	(4)	(4)
Impact due to settlement	0	(3)(1)	(11)(1)
Impact due to termination benefits	0	0	0(1)
Benefit obligation at end of period	$ 400	$ 344	$ 326
Change in plan assets			
Fair value of plan assets at beginning of period	$ 279	$ 218	$ 288
Actual return (loss) on plan assets	41	51	(82)
Employer contributions	13	14	15
Benefits paid	(5)	(4)	(3)
Fair value of plan assets at end of period	$ 328	$ 279	$ 218
Funded status at end of period	$ (72)	$ (65)	$ (108)
Accumulated benefit obligation, December 31	$ 297	$ 252	$ 238
Amounts recognized in accumulated other comprehensive income, before tax			
Net actuarial loss	$ 110	$ 104	$ 145
Prior service cost	5	5	3
Net amount recognized	$ 115	$ 109	$ 148
Amounts recognized in Consolidated Statements of Financial Position			
Accrued benefit liability	(72)	(65)	(108)
Accumulated other comprehensive income, net of tax	75	71	96
Net amount recognized	$ 3	$ 6	$ (12)
Components of net periodic benefit cost			
Service cost	$ 15	$ 15	$ 12
Interest cost	21	19	18
Expected return on plan assets (2)	(25)	(24)	(24)
Amortization of prior service cost	1	0	0
Recognized net actuarial loss	3	3	0
Settlement gain	0	(1)(1)	0(1)
Termination charge	0	0	1(1)
Net periodic benefit expense before allocation to affiliates	$ 15	$ 12	$ 7

(1) In December 2007, employment agreements for certain members of executive management were signed which incorporated a payment in full of accrued SERP benefits as of December 2008 in a lump sum payment, after which time no additional SERP benefits would accrue. This resulted in the curtailment in 2007 and the subsequent settlement gains in 2008 and 2009. The 2008 termination charge relates to two of these members of executive management whose SERP payouts were to occur, and did occur, in 2009.

(2) The market-related value of plan assets is used to determine the expected return component of pension benefit cost. We use a four year averaging method to determine the market-related value, under which asset gains or losses that result from returns that differ from our long-term rate of return assumption are recognized in the market-related value of assets on a level basis over a four year period. Once factored into the market-related asset value, these experience losses will be amortized over a period of 15 years, which is the average remaining service period of the employee group in the plan.

The 2010 net actuarial loss was primarily due to the change in the discount rate assumption used to measure the future benefit obligations to 5.69% in 2010 from 6.11% in 2009. The cumulative net actuarial loss was offset in 2009 by an actuarial gain resulting from actual investment returns that were greater than expected. Also contributing to this gain were assumption changes made based on actual experience, such as the decrease in the assumed rate of compensation increase. The 2008 actuarial loss was primarily due to a significant difference in the plan's actual investment returns in 2008 from the expected returns assumed and the decrease in the discount rate assumption used to estimate the future benefit obligations to 6.06% in 2008 from 6.62% in 2007. The component of the $145 million actuarial loss produced in 2008 that related to the difference between actual and expected investment returns was $106 million. Recognition of this loss is being deferred over the subsequent four year period.

Amounts recognized in other comprehensive income for the years ended December 31 for pension plans were as follows:

(in millions)	Pension plans 2010	Pension plans 2009
Amortization of net actuarial loss	$ (4)	$ (3)
Amortization of prior service cost	0	0
Net actuarial loss (gain) arising during the year	9	(38)
Amendments	1(1)	3(2)
Impact due to settlement/termination	0	1(3)
Total recognized in other comprehensive income	$ 6	$ (37)

(1) *The charges recognized as amendments were the result of factoring in the prior service cost for four new plan participants in 2010.*

(2) *The charges recognized as amendments were the result of factoring in the prior service cost for six new plan participants in 2009.*

(3) *Settlement charges relate to SERP payouts for certain executives.*

The estimated net actuarial loss and prior service cost for the pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2011 are $6 million and $1 million, respectively.

The following table sets forth amounts of benefits expected to be paid over the next 10 years from the Company's pension and other postretirement plans as of December 31,

(in millions)	**Expected future cash flows**
Year ending December 31,	
2011	$ 7
2012	8
2013	10
2014	11
2015	13
2016-2020	98

The following table provides information for the defined benefit pension plans with an accumulated benefit obligation in excess of plan assets as of December 31,

(in millions)	2010	2009
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 10	$ 8
Accumulated benefit obligation	5	4

Our current policy is generally to contribute an amount equal to the greater of the IRS minimum required contribution or the target normal cost for the year plus interest to the date the contribution is made. For 2011, the expected contribution amount is $15 million.

The employee pension plan utilizes a return seeking and a liability asset matching allocation strategy. It is based on the understanding that 1) equity investments are expected to outperform debt investments over the long-term, 2) the potential volatility of short-term returns from equities is acceptable in exchange for the larger expected long-term returns and 3) a portfolio structured across investment styles and markets (both domestic and foreign) reduces volatility. As a result, the employee pension plan's investment portfolio utilizes a broadly diversified asset allocation across domestic and foreign equity and debt markets. The investment portfolio is composed of commingled pools that are dedicated exclusively to the management of employee benefit plan assets.

Our target asset allocation percentage was 60% equity securities and 40% fixed income securities for both 2010 and 2009 and 65% equity securities and 35% fixed income securities for 2008.

The target asset allocation for the portfolio is:

	Target asset allocation
Return seeking assets:	
US equity index	17%
US large capitalization core equity	16
International risk-controlled equity	15
US small capitalization core equity	8
International small capitalization risk-controlled equity	2
Emerging markets equity	2
	60%
Liability matching assets:	
Long duration fixed income	16
Broad market fixed income	15
Long duration corporate fixed income	8
Money market	1
	40%
	100%

The actual asset allocation for the portfolio is:

	2010	2009
Pension plan asset allocations (employee pension plan)		
Equity securities	59.9%	61.0%
Debt securities:		
Due in one year	1.0	0.4
Due beyond one year	39.1	38.6
Total debt securities	40.1	39.0
Total plan assets	100.0%	100.0%

The following tables represent the fair value measurements for the pension plan assets by major category and level of input:

	At December 31, 2010			
		Fair value measurements using:		
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Institutional money market fund	$ 3	$ 3	$ 0	$ 0
Return seeking assets:				
US equity index(1)	55	0	55	0
US large capitalization core equity(2)	51	0	51	0
International risk-controlled equity(3)	50	0	50	0
US small capitalization core equity(4)	26	0	26	0
International small capitalization risk-controlled equity(5)	8	0	8	0
Emerging markets equity(6)	7	0	7	0
Liability matching assets:				
Long duration fixed income(7)	51	0	51	0
Broad market fixed income(8)	49	0	49	0
Long duration corporate fixed income(9)	28	0	28	0
Total	$ 328	$ 3	$ 325	$ 0

(in millions)	At December 31, 2009 Fair value measurements using: Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Institutional money market fund	$ 2	$ 2	$ 0	$ 0
Return seeking assets:				
US equity index(1)	48	0	48	0
US large capitalization core equity(2)	45	0	45	0
International risk-controlled equity(3)	43	0	43	0
US small capitalization core equity(4)	21	0	21	0
International small capitalization risk-controlled equity(5)	6	0	6	0
Emerging markets equity(6)	7	0	7	0
Liability matching assets:				
Long duration fixed income(7)	42	0	42	0
Broad market fixed income(8)	42	0	42	0
Long duration corporate fixed income(9)	23	0	23	0
Total	$ 279	$ 2	$ 277	$ 0

(1) *This category comprises equity index funds not actively managed that track the S&P 500.*

(2) *This category includes equity securities that seek to achieve excess returns relative to the S&P 500 while maintaining portfolio risk characteristics similar to the index.*

(3) *This category seeks long-term capital growth with an emphasis on controlling return volatility relative to an international market index.*

(4) *This category includes equity securities that seek to achieve excess returns relative to the Russell 2000 Index while maintaining portfolio risk characteristics similar to the index.*

(5) *This category seeks to provide excess returns relative to an international small cap index, while maintaining regional weights similar to the index.*

(6) *This category seeks long-term capital growth in securities of companies that have their principal business activities in countries in the Morgan Stanley Capital International Emerging Markets Free Index.*

(7) *This category seeks to generate returns that exceed the Barclays Capital Long Government/Credit Index through investment-grade fixed income securities.*

(8) *This category seeks to generate returns that exceed the Barclays Capital US Aggregate Bond Index through investment-grade fixed income securities.*

(9) *This category seeks to generate returns that exceed the Barclays Capital US Long Corporate Bond A or Better Index investing in US Corporate Bonds with an emphasis on long duration bonds rated A or better.*

Estimates of fair values of the pension plan assets are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes a money market fund that is a mutual fund for which the fair value is determined using an exchange traded price provided by the pricing service. Our Level 2 category includes commingled pools. Estimates of fair values for securities held by our commingled pools are obtained primarily from 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, issuers spreads, two-sided markets, benchmark securities, bids, offers and reference data. There were no Level 3 investments during 2010.

Retiree health benefit plan

The retiree health benefit plan was terminated in 2006. We continue to provide retiree health benefits only to employees who met certain age and service requirements on or before July 1, 2010. The accumulated benefit obligation and net periodic benefit cost of this plan were not material to our consolidated financial statements. At December 31, 2010 and 2009, the accumulated benefit obligation associated with these benefits was $7 million and $8 million, respectively. This plan is funded only as claims are incurred. Periodic benefit costs for the Erie Insurance Group were $0.3 million in 2010 and 2009.

Employee savings plan

All full-time and regular part-time employees are eligible to participate in a traditional qualified 401(k) or a Roth 401(k) savings plan. We match 100% of the participant contributions up to 3% of compensation and 50% of participant contributions over 3% and up to 5% of compensation. Matching contributions paid to the plan were $9 million in 2010 and $8 million in both 2009 and 2008. Employees are permitted to invest the employer-matching contributions in our Class A common stock and may sell the shares at any time without restriction. The plan acquires shares in the open market necessary to meet the obligations of the plan. Plan participants held 0.2 million of our Class A shares at December 31, 2010 and 2009. Liabilities for the 401(k) plan are presented in the Consolidated Statements of Financial Position with other liabilities.

Note 18. Incentive Plans and Deferred Compensation

We have separate annual and long-term incentive plans for our executive and senior vice presidents. We also make available deferred compensation plans for executive and senior management and outside directors.

Annual incentive plan

The annual incentive plan is a bonus plan that annually pays cash bonuses to our executive and senior vice presidents.

The incentives under the annual incentive plan are based on the achievement of certain predetermined performance targets. These targets are established by the Executive Compensation and Development Committee of the Board and can include various financial measures. Incentives for the 2010 plan were based on measures specific to each member of executive and senior management, primarily on statutory reported combined ratio, direct written premium of the Property and Casualty Group and Indemnity net operating income, as defined in the plan. Incentives for the 2009 plan were based on measures specific to each member of executive and senior management, primarily on statutory reported combined ratio, policies in force of the Property and Casualty Group, direct written premium of the Property and Casualty Group and Indemnity net operating income, as defined in the plan.

The cost of the plan is charged to operations as the compensation is earned over the performance period of one year. The after-tax compensation cost charged to operations for the annual incentive plan bonus for the Erie Insurance Group was $2.9 million, $2.2 million, and $2.5 million for 2010, 2009 and 2008 respectively.

Long-term incentive plan

The long-term incentive plan (“LTIP”) is a performance based incentive plan designed to reward executive and senior vice presidents who can have a significant impact on our long-term performance.

Pre-2004 LTIP — Prior to 2004, restricted stock awards were determined based on the achievement of predetermined financial performance goals for actual growth in our retained earnings. The 2003-2005 performance period was the final open award period under the pre-2004 LTIP. At December 31, 2008, all shares awarded for the 2003-2005 performance period were vested. The average grant price for the 2003-2005 performance period was $52.65. The plan award of $0.5 million was paid in January 2009.

2004 LTIP — Beginning in 2004, the LTIP award is based on the level of achievement of objective measures of performance over a three-year period as compared to a peer group of property and casualty companies that write predominately personal lines insurance. The 2009 and 2008 awards were based on the reported combined ratio, growth in direct written premiums and total return on invested assets as defined by the Erie Insurance Group. These internal measures are compared to the same performance measures of a peer group of companies. Because the award is based on a comparison to results of a peer group over a three-year period, the award accrual is based on estimates of results for the remaining performance period. This estimate is subject to variability if our results or the results of the peer group are substantially different than the results we project.

Beginning with the 2009-2011 performance period awards can be granted as either restricted performance shares and/or performance units. Restricted performance shares represent the right to receive shares of common stock. Performance units represent the right to receive a cash payment. Previously only restricted performance shares were awarded and were granted at the beginning of a performance period. The Compensation Committee now determines the form of the award to grant at the beginning of each performance period. Both the restricted performance shares and performance units are considered vested at the end of a performance period. The 2009-2011 performance period awards were granted as performance units.

The maximum number of shares which may be earned under the plan by any single participant during any one performance period is limited to 250,000 shares. The aggregate number of Class A common stock that may be issued pursuant to awards granted under the LTIP is 1.0 million shares. With respect to an award of performance units, the maximum dollar amount which may be earned under the plan by any single participant during any one performance period is $3 million. A liability is recorded and compensation expense is recognized ratably over the performance period.

At December 31, 2009, the awards for the 2007-2009 performance period were fully vested in accordance with the 2004 LTIP plan. The average grant price for the 2007-2009 performance period was $44.48. The plan award of $2 million was paid in July 2010.

Earned amounts are allocated to related entities and settled in cash once the payout is made. The after-tax compensation cost charged to operations for these restricted stock awards for the Erie Insurance Group was $4.3 million for 2010 and $2.4 million for both 2009 and 2008.

Deferred compensation plans

The deferred compensation plans are arrangements for our executive and senior vice presidents whereby the participants can elect to defer receipt of a portion of their compensation until a later date. Supplemental employee contributions to the deferred compensation plan are deferrals that cannot be credited to our tax-qualified 401(k) plan because they exceed the annual contribution or compensation limits of that plan. However, these contributions are credited with a company-matching contribution using the same formula as in our 401(k) plan. The deferred compensation plan for directors allows them to defer receipt of a portion of their director and meeting fees until a later date. Employees or directors participating in the respective plans select hypothetical investment funds for their deferrals and are credited with the hypothetical returns generated.

The awards, payments, deferrals and liabilities under the deferred compensation, annual and long-term incentive plans for officers and directors were as follows for the years ended December 31:

	Erie Insurance Group		
(in millions)	2010	2009	2008
Plan awards, employer match and hypothetical earnings			
Long-term incentive plan awards	$ 7	$ 4	$ 4
Annual incentive plan awards	4	3	4
Deferred compensation plan, employer match and hypothetical earnings (losses)	2	1	(4)
Total plan awards and earnings	13	8	4
Total plan awards paid	6	8	11
Compensation deferred under the plans	1	1	1
Distributions from the deferred compensation plans	(1)	(1)	(2)
Gross incentive plan and deferred compensation liabilities	$ 22	$ 15	$ 15

Stock compensation plan for outside directors

We have a stock compensation plan for our outside directors to further align the interests of directors with shareholders by providing for a portion of annual compensation for the directors' services in shares of our Class A common stock. Each director vests in the grant 25% every three months over the course of a year. Dividends paid by us are reinvested into each director's account with additional shares of our Class A common stock. In 2010, the annual charge related to this plan totaled $2 million. In 2009, the annual charge related to this plan totaled $0.4 million. In 2008, compensation expense for this plan was offset by market value adjustments to the directors' accounts resulting in a net credit of $0.2 million.

Note 19. Capital Stock

Class A and B shares

We have two classes of common stock, Class A which has a dividend preference, and Class B which has voting power and a conversion right. Each share of Class A common stock outstanding at the time of the declaration of any dividend upon shares of Class B common stock shall be entitled to a dividend payable at the same time, at the same record date, and in an amount at least equal to 2/3 of 1.0% of any dividend declared on each share of Class B common stock. We may declare and pay a dividend in respect to Class A common stock without any requirement that any dividend be declared and paid in respect to Class B common stock. Sole shareholder voting power is vested in Class B common stock except insofar as any applicable law shall permit Class A common shareholders to vote as a class in regards to any changes in the rights, preferences and privileges attaching to Class A 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 for each Class B share. In 2009, five shares of Class B common stock were converted into 12,000 shares of Class A common stock. There were no conversions of Class B shares to Class A shares in 2010 or 2008. 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 repurchase plan

A stock repurchase program was authorized for our outstanding Class A nonvoting common stock beginning January 1, 2004. Treasury shares are recorded in the Consolidated Statements of Financial Position at total cost based upon trade date. Shares repurchased under this plan totaled 1.1 million during 2010 at a total cost of $57 million and 0.1 million shares during 2009 at a total cost of $3 million. Cumulative shares repurchased under this plan since inception totaled 12.9 million at a total cost of $671 million as of December 31, 2010. In December 2010, our Board of Directors approved a continuation of the current stock repurchase program for a total of $150 million, with no time limitation. We have approximately $146 million of repurchase authority remaining under this plan at December 31, 2010.

In 2010, we also repurchased 44,206 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $2 million. Of this amount, 39,406 shares were purchased in June for $1.8 million, or $45.92 per share, in conjunction with our long-term incentive plan and 4,800 shares were purchased in July for $0.2 million, or $48.75 per share, for the vesting of stock-based awards for executive management. These shares were delivered to plan participants and executive management, respectively, in July 2010.

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Note 20. Comprehensive Income

The components of changes to comprehensive (loss) income follow for the periods ended December 31:

(in millions)	Erie Insurance Group 2010	2009	2008
Indemnity			
Cumulative effect of accounting changes, net of tax	$ —	$ (6)	$ (11)
Unrealized (loss) gain on securities:			
Gross unrealized holding gains (losses) on investments arising during period	18	105	(145)
Unrealized gains transferred to the noncontrolling interest (1)	(23)	—	—
Reclassification adjustment for gross (gains) losses included in net income	(5)	10	77
Unrealized holding (losses) gains on investments	(10)	115	(68)
Income tax benefit (expense) related to unrealized (losses) gains	4	(40)	24
Net unrealized holding (losses) gains on investments arising during year	(6)	75	(44)
Postretirement plans:			
Amortization of prior service cost	0	0	0
Amortization of actuarial loss	4	3	0
Net actuarial (loss) gain during year	(9)	38	(139)
Losses due to plan changes during year	(1)	(3)	0
Curtailment/settlement loss arising during year	0	(1)	0
Postretirement benefits, gross	(6)	37	(139)
Income tax benefit (expense) related to postretirement benefits	2	(13)	48
Postretirement plans, net	(4)	24	(91)
Change in other comprehensive (loss) income , net of tax — Indemnity	(10)	93	(146)
Change in other comprehensive income (loss), net of tax — Exchange	101	423	(266)
Change in other comprehensive income (loss), net of tax — Erie Insurance Group	$ 91	$ 516	$ (412)

(1) This represents unrealized gains moved from Indemnity shareholder interest to the noncontrolling interest as a result of the December 31, 2010 sale of the P&C subsidiaries.

The components of accumulated other comprehensive (loss) income, net of tax for the periods ended December 31, are as follows:

(in millions)	Erie Insurance Group 2010	2009	2008
Indemnity			
Accumulated net appreciation (depreciation) of investments	$ 22	$ 28	$ (40)
Accumulated net losses associated with post-retirement benefits	(75)	(71)	(96)
Accumulated other comprehensive loss — Indemnity	(53)	(43)	(136)
Exchange			
Accumulated other comprehensive income (loss) — Exchange	$ 277	$ 176	$ (247)

The components of comprehensive income (loss), net of tax for the periods ended December 31, are as follows:

(in millions)	Erie Insurance Group 2010	2009	2008
Net income (loss) — Erie Insurance Group	$ 660	$ 446	$ (616)
Change in other comprehensive income (loss), net of tax — Erie Insurance Group	91	516	(412)
Less: Cumulative effect of accounting changes, net of tax	—	(101)	(11)
Less: Unrealized gains transferred to the noncontrolling interest, net of tax (1)	(15)	—	—
Total comprehensive income (loss) — Erie Insurance Group	766	1,063	(1,017)
Less: Noncontrolling interest in consolidated entity — Exchange	599	856	(951)
Total comprehensive income (loss) — Indemnity	$ 167	$ 207	$ (66)

(1) This represents unrealized gains moved from Indemnity shareholder interest to the noncontrolling interest as a result of the December 31, 2010 sale of the P&C subsidiaries.

Note 21. Commitments and Contingencies

Indemnity has contractual commitments to invest up to $50 million related to its limited partnership investments at December 31, 2010. These commitments are split between private equity securities of $21 million, real estate activities of $17 million and mezzanine debt securities of $12 million. These commitments will be funded as required by the partnership agreements.

The Exchange, including EFL, has contractual commitments to invest up to $402 million related to its limited partnership investments at December 31, 2010. These commitments are split between private equity securities of $177 million, real estate activities of $143 million and mezzanine debt securities of $82 million. These commitments will be funded as required by the partnership agreements.

We are involved in litigation arising in the ordinary course of business. In our opinion, the effects, if any, of such litigation are not expected to be material to our consolidated financial condition, operations or cash flows.

Note 22. Supplementary Data on Cash Flows

A reconciliation of net income to net cash provided by operating activities as presented in the Consolidated Statements of Cash Flows is as follows for the years ended December 31:

Indirect method of cash flows

	Erie Insurance Group		
(in millions)	2010	2009	2008
Cash flows from operating activities:			
Net income (loss)	$ 660	$ 446	$ (616)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	12	9	7
Amortization of deferred policy acquisition costs	652	624	602
Impairment of goodwill	22	—	—
Deferred income tax expense (benefit)	342	15	(246)
Realized (gains) losses and impairments on investments	(307)	(285)	1,597
Equity in (earnings) losses of limited partnerships	(128)	369	58
Net amortization of bond premium (discount)	9	(12)	6
Increase (decrease) in deferred compensation	7	0	(10)
Limited partnership distributions	122	81	315
(Increase) decrease in receivables, reinsurance recoverables and reserve credits	(158)	209	(222)
Increase in prepaid expenses	10	(9)	0
Increase in deferred policy acquisition costs	(667)	(642)	(626)
Increase (decrease) in accounts payable and accrued expenses	25	(4)	(13)
Decrease in accrued agent bonuses	(6)	(12)	(17)
(Decrease) increase in loss reserves	(11)	12	(155)
Increase in future life policy benefits and claims reserves	21	37	19
Increase in unearned premiums	116	51	21
Net cash provided by operating activities	$ 721	$ 889	$ 720

Note 23. Statutory Information

Accounting principles used to prepare statutory financial statements differ from those used to prepare financial statements under U.S. GAAP. Prescribed statutory accounting practices ("SAP") include state laws, regulations, and general administration rules, as well as a variety of publications from the National Association of Insurance Commissioners ("NAIC"). The statutory financial statements of the Exchange and its subsidiaries, EIC, EPC, Flagship and EFL, are prepared in accordance with accounting practices prescribed and permitted by the Pennsylvania Insurance Department. ENY prepares its statutory financial statements in accordance with accounting practices prescribed by the New York Insurance Department.

Financial statements prepared under statutory accounting principles focus on the solvency of the insurer and generally provide a more conservative approach than under GAAP. Differences between SAP and GAAP include the valuation of investments, deferred policy acquisition cost assets, the actuarial assumptions used in life reserves, deferred tax assets, and unearned subscriber fees.

Statutory net income and capital and surplus as determined in accordance with SAP prescribed or permitted by insurance regulatory authorities are as follows:

	SAP Net Income (Loss) Years ended December 31,			Capital and Surplus At December 31,	
(in millions)	2010	2009	2008	2010	2009
Erie Insurance Company	$ 21	$ 16	$ (10)	$ 251	$ 232
Erie Insurance Company of New York	2	2	1	20	22
Erie Insurance Property & Casualty Company	0	0	0	10	10
Erie Insurance Exchange	531	(56)	(363)	5,070	4,518
Flagship City Insurance Company	0	0	0	11	10
Erie Family Life Insurance Company	38	3	(66)	208	174

The minimum statutory capital and surplus requirements under Pennsylvania and New York law for Exchange's stock property and casualty subsidiaries amounts to $12 million. The Exchange's subsidiaries' total statutory capital and surplus significantly exceed these minimum requirements, totaling $292 million at December 31, 2010. The risk-based capital levels of all members of the Property and Casualty Group and EFL significantly exceed the minimum requirements. Cash and securities with a carrying value of $14 million were deposited by the property and casualty and life entities with regulatory authorities under statutory requirements at December 31, 2010.

As prescribed by the Insurance Department of the Commonwealth of Pennsylvania, the Exchange records unearned subscriber fees (fees to attorney-in-fact) as deductions from unearned premium reserve and charges current operations on a pro-rata basis over the periods covered by the policies. The Pennsylvania-domiciled members of the Property and Casualty Group discount workers compensation loss reserves on a non-tabular basis as prescribed by the Insurance Department of the Commonwealth of Pennsylvania. The Exchange's NAIC prepared statutory surplus, excluding the impact of the Pennsylvania prescribed practices, would have been $4.6 billion at December 31, 2010. EIC's NAIC prepared statutory surplus, excluding the impact of the Pennsylvania prescribed practices, would have been $244 million at December 31, 2010. EPC and Flagship record the discounting of workers compensation loss reserves on a direct basis; however, after application of the intercompany pooling arrangement, there is no impact on their financial statements.

The amount of dividends EIC, EPC and Flagship, Exchange's Pennsylvania-domiciled property and casualty subsidiaries, can pay without the prior approval of the Pennsylvania Insurance Commissioner is limited to not more than the greater of: (a) 10% of its statutory surplus as reported on its last annual statement, or (b) the net income as reported on its last annual statement. The amount of dividends that the EIC's New York-domiciled property and casualty subsidiary, ENY, can pay without the prior approval of the New York Superintendent of Insurance is limited to the lesser of: (a) 10% of its statutory surplus as reported on its last annual statement, or (b) 100% of its adjusted net investment income during such period. In 2011, the maximum dividend payout that the Exchange could receive from its property and casualty insurance subsidiaries would be $29 million. No dividends were paid by these property and casualty insurance subsidiaries in 2010, 2009 or 2008.

The amount of dividends EFL, a Pennsylvania-domiciled life insurer, can pay to its shareholders without the prior approval of the Pennsylvania Insurance Commissioner is limited by statute to the greater of: (a) 10% of its statutory surplus as shown on its last annual statement on file with the commissioner, or (b) the net income as reported on its last annual statement, but shall not include pro-rata distribution of any class of the insurer's own securities. Accordingly, the maximum dividend payout that the Exchange and Indemnity could receive in 2011 without prior Pennsylvania Commissioner approval is $30 million and $8 million, respectively. There were no dividends paid to either the Exchange or Indemnity in 2010, 2009 or 2008.

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Note 24. Indemnity Supplemental Information

December 31, 2010 *(in millions)*	Indemnity shareholder interest	Exchange noncontrolling interest	Reclassifications and eliminations	Erie Insurance Group
	Consolidating Statement of Financial Position			
Assets				
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	$ 264	$ 7,279	$ —	$ 7,543
Equity securities	24	570	—	594
Trading securities, at fair value	28	2,306	—	2,334
Limited partnerships	216	1,108	—	1,324
Other invested assets	1	19	—	20
Total investments	533	11,282	—	11,815
Cash and cash equivalents	310	120	—	430
Premiums receivable from policyholders(1)	—	942	—	942
Reinsurance recoverable(1)	—	201	—	201
Deferred acquisition costs(1)	—	467	—	467
Other assets	132	357	—	489
Receivables from Exchange and other affiliates(1)	232	—	(232)	—
Note receivable from EFL	25	—	(25)	—
Equity in EFL	80	—	(80)	—
Total assets	$ 1,312	$ 13,369	$ (337)	$ 14,344
Liabilities				
Losses and loss expense reserves(1)	$ —	$ 3,584	$ —	$ 3,584
Life policy and deposit contract reserves	—	1,603	—	1,603
Unearned premiums(1)	—	2,082	—	2,082
Deferred income taxes	26	257	—	283
Other liabilities	374	341	(257)	458
Total liabilities	400	7,867	(257)	8,010
Shareholders' equity and noncontrolling interest				
Total Indemnity shareholders' equity	912	—	—	912
Noncontrolling interest for the benefit of policyholders — Exchange	—	5,502	(80)	5,422
Total equity	912	5,502	(80)	6,334
Total liabilities, shareholders' equity and noncontrolling interest	$ 1,312	$ 13,369	$ (337)	$ 14,344

(1) Prior to December 31, 2010, the underwriting assets and liabilities retained by EIC and ENY were the responsibility of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting assets and liabilities are the responsibility of the subscribers (policyholders) of the Exchange, or noncontrolling interest. (See Note 1, "Nature of Operations".)

December 31, 2009 *(in millions)*	Consolidating Statement of Financial Position Indemnity shareholder interest	Exchange noncontrolling interest	Reclassifications and eliminations	Erie Insurance Group
Assets				
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	$ 664	$ 6,517	$ —	$ 7,181
Equity securities	38	472	—	510
Trading securities, at fair value	42	1,835	—	1,877
Limited partnerships	235	1,116	—	1,351
Other invested assets	1	20	—	21
Total investments	980	9,960	—	10,940
Cash and cash equivalents	76	158	—	234
Premiums receivable from policyholders(1)	237	872	(203)	906
Reinsurance recoverable(1)	2	213	—	215
Deferred income taxes	41	75	—	116
Deferred acquisition costs(1)	17	450	—	467
Other assets	102	308	(1)	409
Reinsurance recoverables and receivables from Exchange and other affiliates(1)	1,115	—	(1,115)	—
Note receivable from EFL	25	—	(25)	—
Equity in EFL	72	—	(72)	—
Total assets	$ 2,667	$ 12,036	$ (1,416)	$ 13,287
Liabilities				
Losses and loss expense reserves(1)	$ 965	$ 3,424	$ (791)	$ 3,598
Life policy and deposit contract reserves	—	1,540	—	1,540
Unearned premiums(1)	434	1,872	(325)	1,981
Other liabilities	366	305	(228)	443
Total liabilities	1,765	7,141	(1,344)	7,562
Shareholders' equity and noncontrolling interest				
Total Indemnity shareholders' equity	902	—	—	902
Noncontrolling interest for the benefit of policyholders — Exchange	—	4,895	(72)	4,823
Total equity	902	4,895	(72)	5,725
Total liabilities, shareholders' equity and noncontrolling interest	$ 2,667	$ 12,036	$ (1,416)	$ 13,287

(1) Indemnity's insurance related accounts in this table include its wholly owned property and casualty insurance subsidiaries' direct business in addition to their share of the pooling transactions, which represents 5.5% of the total Property and Casualty Group business. The Consolidated Statements of Financial Position include direct business only as the 5.5% of activity assumed in accordance with the intercompany pooling arrangement has been eliminated in the consolidated presentation.

Receivables from Exchange and EFL and concentrations of credit risk

Financial instruments could potentially expose Indemnity to concentrations of credit risk, including unsecured receivables from the Exchange. A majority of Indemnity's revenue and receivables are from the Exchange and affiliates. See also Note 4, "Variable Interest Entity."

Management fee and expense allocation amounts due from the Exchange were $229 million and $210 million at December 31, 2010 and 2009, respectively. The receivable from EFL for expense allocations totaled $3 million at December 31, 2010 and 2009.

Indemnity is due $25 million from EFL in the form of a surplus note that was issued in 2003. The note may be repaid only out of unassigned surplus of EFL. Both principal and interest payments are subject to prior approval by the Pennsylvania Insurance Commissioner. The note bears an annual interest rate of 6.7% and will be payable on demand on or after December 31, 2018, with interest scheduled to be paid semi-annually. EFL paid annual interest to Indemnity of $2 million in both 2010 and 2009.

(in millions)	Percent	Indemnity shareholder interest Years ended December 31, 2010	2009	2008
Management operations				
Management fee revenue, net	100.0%	$ 1,009	$ 965	$ 950
Service agreement revenue	100.0%	34	35	33
Total revenue from management operations		1,043	1,000	983
Cost of management operations	100.0%	841	813	810
Income from management operations before taxes		202	187	173
Property and casualty insurance operations				
Net premiums earned	5.5%(2)	216	209	207
Losses and loss expenses	5.5%(2)	155	145	137
Policy acquisition and other underwriting expenses	5.5%(2)	61	63	57
Income from property and casualty insurance operations before taxes		0	1	13
Life insurance operations (1)				
Total revenue	21.6%(3)	37	27	13
Total benefits and expenses	21.6%(3)	26	25	25
Income (loss) from life insurance operations before taxes		11	2	(12)
Investment operations				
Net investment income (2)		37	42	44
Net realized (losses) gains on investments (2)		(1)	10	(43)
Net impairment losses recognized in earnings (2)		(1)	(12)	(70)
Equity in earnings (losses) of limited partnerships		21	(76)	6
Income (loss) from investment operations before taxes (2)		56	(36)	(63)
Income from operations before income taxes and noncontrolling interest		269	154	111
Provision for income taxes		107	46	42
Net income		$ 162	$ 108	$ 69

(1) *Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations in the table above include life insurance related investment results. However, the life insurance investment results are included in the investment operations segment discussion in Note 5, "Segment Information".*

(2) *Prior to and through December 31, 2010, the underwriting results retained by EIC and ENY and the investment results of EIC, ENY and EPC accrued to the benefit of the Indemnity shareholder interest. Due to the sale of Indemnity's property and casualty subsidiaries to the Exchange on December 31, 2010, all property and casualty underwriting results and all investment results for these companies accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after December 31, 2010. (See Note 1, "Nature of Operations".)*

(3) *As a result of the pending sale of Indemnity's 21.6% ownership interest in EFL to the Exchange which is scheduled to close by March 31, 2011, all earnings of EFL will accrue to the benefit of the subscribers (policyholders) of the Exchange, or noncontrolling interest, after March 31, 2011. (See Note 1, "Nature of Operations".)*

Expense allocations

All claims handling services for the Exchange are performed by Indemnity employees who are entirely dedicated to claims related activities. All costs associated with these employees are reimbursed to Indemnity from Exchange revenues in accordance with the subscriber's agreement. Likewise, Indemnity is reimbursed by EFL from its revenues for all costs associated with employees who perform life insurance operating activities for EFL in accordance with its service agreement with Indemnity. Cash settlements for payments on the account of the Exchange totaled $293 million, $282 million and $267 million in 2010, 2009 and 2008, respectively, and $27 million, $32 million and $36 million in 2010, 2009 and 2008, respectively, for EFL. Cash transfers are settled quarterly.

Common overhead expenses included in the expenses paid by Indemnity are allocated based on appropriate utilization statistics (employee count, square footage, vehicle count, project hours, etc.) specifically measured to accomplish proportional allocations. Executive compensation is allocated based on each executive's primary responsibilities (management services, property and casualty claims operations, EFL operations and investment operations). We believe the methods used to allocate common overhead expenses among the affiliated entities are reasonable.

Office leases

Indemnity leases certain office space on a five and six year basis from the Exchange including the home office and three field office facilities. Rent expenses under these leases totaled $6 million in 2010, 2009 and 2008. Indemnity also has a lease commitment with EFL for a branch office until 2018. Annual rentals paid to EFL under this lease totaled $0.4 million in 2010 and $0.3 million in 2009 and 2008.

Direct method of cash flows

Indemnity's components of direct cash flows as included in the Consolidated Statements of Cash Flows are as follows for the years ended December 31:

	Indemnity		
(in millions)	2010	2009	2008
Management fee received	$ 947	$ 912	$ 898
Service agreement fee received	34	35	32
Premiums collected	220	214	208
Net investment income received	45	45	52
Limited partnership distributions	21	13	29
(Decrease) increase in reimbursements collected from affiliates	(15)	3	(8)
Commissions and bonuses paid to agents	(532)	(535)	(534)
Salaries and wages paid	(106)	(110)	(111)
Pension contribution and employee benefits paid	(33)	(32)	(48)
Losses paid	(132)	(123)	(121)
Loss expenses paid	(23)	(22)	(21)
Other underwriting and acquisition costs paid	(53)	(54)	(52)
General operating expenses paid	(119)	(104)	(104)
Interest paid on bank line of credit	0	0	(1)
Income taxes paid	(61)	(62)	(68)
Net cash provided by operating activities	193	180	151
Net cash provided (used in) by investing activities	196	(69)	73
Net cash used in financing activities	(155)	(96)	(194)
Net increase in cash	234	15	30
Cash and cash equivalents at beginning of year	76	61	31
Cash and cash equivalents at end of year	$ 310	$ 76	$ 61

Note 25. EFL Supplemental Information

EFL is a Pennsylvania-domiciled life insurance company operating in 10 states and the District of Columbia. Indemnity owns 21.6% of EFL's common shares outstanding and accounted for its ownership interest using the equity method of accounting. On November 4, 2010 Indemnity entered into a definitive agreement for the sale of its 21.6% ownership interest in EFL to the Exchange, which is scheduled to close by March 31, 2011. Upon the closing date, the Exchange will own 100% of the life insurance operations. Indemnity's share of EFL's undistributed earnings included in retained earnings as of December 31, 2010 and 2009, totaled $63 million and $55 million, respectively.

The following table presents condensed financial information for EFL on a U.S. GAAP basis for the years ended December 31:

(in millions)	2010	2009	2008
Policy and other revenues	$ 65	$ 64	$ 66
Net investment income (expense)	107	63	(6)
Benefits and expenses	122	117	114
Income (loss) before income taxes	50	10	(54)
Income tax expense (benefit)	14	(16)	14
Net income (loss)	36	26	(68)
Comprehensive income (loss)	60	142	(138)

In 2010 net income was positively impacted by improving market conditions and a reduction in impairment charges which led to an increase in investment income of $44 million. Impairment charges totaled $2 million in 2010 compared to $23 million and $83 million in 2009 and 2008, respectively. Net realized gains on investments totaled $14 million and $3 million in 2010 and 2009, respectively compared to losses of $10 million recorded in 2008.

Net income in 2009 was positively impacted by a reduction in the deferred tax valuation allowance of $19 million. A deferred tax valuation allowance of $33 million was recorded in the Statements of Operations for 2008 related to the more significant impairment charges and contributed to the net loss reported in 2008.

In 2008 a deferred tax valuation allowance of $7 million was recorded in accumulated other comprehensive income for unrealized losses on securities where the related deferred tax asset was not expected to be realized. This amount was reduced in both 2009 and 2010 driven by unrealized gains during the year. The deferred tax valuation allowance was $0 at December 31, 2010.

In 2009 comprehensive income was positively impacted by the $27 million cumulative effect of implementing new other-than-temporary impairment guidance in the second quarter. Additionally, EFL experienced unrealized gains, after tax of $90 million in 2009 which contributed to the increase in comprehensive income and investments. The comprehensive loss for 2008 included unrealized losses after tax of $70 million resulting from the 2008 market conditions.

	As of December 31,	
(in millions, except per share data)	2010	2009
Investments	$ 1,777	$ 1,639
Total assets	2,077	1,941
Liabilities	1,685	1,609
Accumulated other comprehensive income	42	18
Cumulative effect adjustment	—	27
Total shareholders’ equity	393	333
Book value per share	$ 41.54	$ 35.19

In June 2009, Indemnity made a $12 million capital contribution to EFL and the Exchange made a $43 million capital contribution to EFL to strengthen its surplus. The $55 million in capital contributions increased EFL’s investments and total shareholders’ equity.

During the second quarter of 2009, a required cumulative effect adjustment reclassified previously recognized non-credit other-than-temporary impairments of $27 million out of retained earnings. Deferred taxes of $9 million related to this cumulative effect adjustment were offset by a reduction in the valuation allowance in the same amount related to previously recognized impairments.

Total shareholders’ equity increased $60 million at December 31, 2010 compared to December 31, 2009. The main factors driving this increase were $24 million in unrealized gains, net of tax and net income of $36 million.

Note 26. Quarterly Results of Operations (unaudited)

(in millions, except per share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Year ended
2010					
Revenues	$ 1,216	$ 916	$ 1,357	$ 1,401	$ 4,890
Benefits and expenses	988	967	952	984	3,891
Income (loss) from operations before income taxes and noncontrolling interest	228	(51)	405	417	999
Net income (loss)	162	(31)	275	254	660
Less: Net income (loss) attributable to noncontrolling interest in consolidated entity — Exchange	115	(80)	221	242	498
Net income attributable to Indemnity	$ 47	$ 49	$ 54	$ 12	$ 162
Earnings per share(1)					
Net income attributable to Indemnity per share					
Class A common stock — basic	$ 0.92	$ 0.96	$ 1.05	$ 0.25	$ 3.18
Class A common stock — diluted	**$ 0.82**	**$ 0.86**	**$ 0.94**	**$ 0.22**	**$ 2.85**
Class B common stock — basic and diluted	$ 132.83	$ 138.21	$ 150.87	$ 40.93	$ 462.83

	First quarter	Second quarter	Third quarter	Fourth quarter	Year ended
2009					
Revenues	$ 695	$ 1,149	$ 1,286	$ 1,125	$ 4,255
Benefits and expenses	1,035	891	930	875	3,731
(Loss) income from operations before income taxes and noncontrolling interest	(340)	258	356	250	524
Net (loss) income	(251)	271	252	174	446
Less: Net (loss) income attributable to noncontrolling interest in consolidated entity — Exchange	(262)	238	212	150	338
Net income attributable to Indemnity	$ 11	$ 33	$ 40	$ 24	$ 108
Earnings per share(1)					
Net income attributable to Indemnity per share					
Class A common stock — basic	$ 0.22	$ 0.63	$ 0.77	$ 0.48	$ 2.10
Class A common stock — diluted	**$ 0.19**	**$ 0.57**	**$ 0.69**	**$ 0.43**	**$ 1.89**
Class B common stock — basic and diluted	$ 34.78	$ 93.19	$ 112.06	$ 72.49	$ 312.45

(1) The cumulative sum of quarterly basic and diluted net income per share amounts may not equal total basic and diluted net income per share for the year due to differences in weighted average shares and equivalent shares outstanding for each of the periods presented.

Note 27. Subsequent Events

We have evaluated for recognized and nonrecognized subsequent events through the date of financial statement issuance. No items were identified in this period subsequent to the financial statement date that required adjustment or disclosure.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosures.

As required by the Securities and Exchange Commission Rule 13a-15(e), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect our internal controls over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of Erie Indemnity Company, as such term is defined in the Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Erie Indemnity Company's internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control-Integrated Framework*, management has concluded that Erie Indemnity Company's internal control over financial reporting was effective as of December 31, 2010.

/s/ Terrence W. Cavanaugh	/s/ Marcia A. Dall	/s/ Gregory J. Gutting
Terrence W. Cavanaugh President and Chief Executive Officer February 24, 2011	Marcia A. Dall Executive Vice President and Chief Financial Officer February 24, 2011	Gregory J. Gutting Senior Vice President and Controller February 24, 2011

Our independent auditors have issued an attestation report on management's assessment of our internal control over financial reporting. This report appears on page 69.

Item 9B. Other Information

There was no additional information in the fourth quarter of 2010 that has not already been filed in a Form 8-K.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information with respect to our directors, audit committee, and audit committee financial experts and Section 16(a) beneficial ownership reporting compliance, is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2010.

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

Executive Officers of the Registrant

Name	Age as of 12/31/10	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
President & Chief Executive Officer:		
Terrence W. Cavanaugh	57	President and Chief Executive Officer of Erie Indemnity Company since July 29, 2008; Senior Vice President, Chubb & Son/Federal Insurance, for more than five years prior thereto; Chief Operating Officer, Chubb Surety, for more than five years prior thereto; Director, Erie Indemnity Company, EFL, EIC, Flagship, ENY and EPC.
Executive Vice Presidents:		
Marcia A. Dall	47	Executive Vice President and Chief Financial Officer since March 30, 2009; Chief Financial Officer — Healthcare, Cigna Corporation, January 2008 through March 2009; Chief Financial Officer — International & U.S. Mortgage Insurance, Genworth Financial, September 2006 through January 2008; Chief Financial Officer — International & U.S. Mortgage Insurance, GE Mortgage Insurance, for more than five years prior thereto; Director, EFL, EIC, Flagship, ENY and EPC.
James J. Tanous	63	Executive Vice President, Secretary and General Counsel since April 30, 2007; Partner and Chairman of Jaeckle Fleischmann & Mugel, LLP (law firm headquartered in Buffalo, NY) for more than five years prior thereto; Director, EFL, EIC, Flagship, ENY and EPC.
Michael S. Zavasky	58	Executive Vice President—Insurance Operations since March 7, 2008; Senior Vice President—Strategy Management, January 2006 through March 2008; Senior Vice President—Commercial Lines Underwriting, June 2001 through January 2006; Director, EFL, EIC, Flagship, ENY and EPC.
George D. Dufala	39	Executive Vice President — Services since September 1, 2010; Senior Vice President, Erie Family Life Insurance Company, October 2008 through August 2010; Senior Vice President, Customer Service, January 2005 through September 2008.

Name	Age as of 12/31/10	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
Executive Vice Presidents (continued):		
John F. Kearns	51	Executive Vice President — Sales & Marketing since September 1, 2010; Senior Vice President, Commercial Lines Division, February 2007 through August 2010; Sabbatical, February 2005 through January 2007; President — Financial & Professional Services, St. Paul Travelers, November 2000 through January 2005.
Senior Vice President:		
Douglas F. Ziegler	60	Senior Vice President, Treasurer and Chief Investment Officer since 1993; Director, EFL, EIC, Flagship, ENY, and EPC.

Item 11. Executive Compensation

The information required by this item with respect to executive compensation is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2010.

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

The information with respect to security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans, is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2010.

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

Information with respect to certain relationships with our directors is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2010.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2010.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements

   Included in Item 8 "Financial Statements and Supplementary Data" contained in this report.

   Erie Indemnity Company:

   - Report of Independent Registered Public Accounting Firm on the Effectiveness of Internal Control over Financial Reporting
   - Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements
   - Consolidated Statements of Operations for the three years ended December 31, 2010, 2009 and 2008
   - Consolidated Statements of Financial Position as of December 31, 2010 and 2009
   - Consolidated Statements of Shareholders' Equity for the three years ended December 31, 2010, 2009 and 2008
   - Consolidated Statements of Cash Flows for the three years ended December 31, 2010, 2009 and 2008
   - Notes to Consolidated Financial Statements

2. Financial Statement Schedules

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

SIGNATURES

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

February 24, 2011

ERIE INDEMNITY COMPANY
(Registrant)

/s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh, President and CEO
(Principal Executive Officer)

/s/ Marcia A. Dall
Marcia A. Dall, Executive Vice President & CFO
(Principal Financial Officer)

/s/ Gregory J. Gutting
Gregory J. Gutting, Senior Vice President & Controller
(Principal Accounting Officer)

Board of Directors

/s/ J. Ralph Borneman, Jr. J. Ralph Borneman, Jr.	/s/ Lucian L. Morrison Lucian L. Morrison
/s/ Terrence W. Cavanaugh Terrence W. Cavanaugh	/s/ Thomas W. Palmer Thomas W. Palmer
/s/ Jonathan Hirt Hagen Jonathan Hirt Hagen	/s/ Martin P. Sheffield Martin P. Sheffield
/s/ Susan Hirt Hagen Susan Hirt Hagen	/s/ Richard L. Stover Richard L. Stover
/s/ Thomas B. Hagen Thomas B. Hagen	/s/ Elizabeth A. Vorsheck Elizabeth A. Vorsheck
/s/ C. Scott Hartz C. Scott Hartz	/s/ Robert C. Wilburn Robert C. Wilburn
/s/ Claude C. Lilly, III Claude C. Lilly, III	

SCHEDULE I
SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES
(See Item 8, "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report.)

	Erie Insurance Group December 31, 2010		
(in millions)	Amortized cost	Estimated fair value	Amount at which shown in the balance sheet
Indemnity			
Fixed maturities:			
U.S. treasuries and government agencies	$ 25	$ 25	$ 25
U.S. government sponsored enterprises	0	0	0
Municipal securities	193	197	197
U.S. corporate debt — non-financial	12	12	12
U.S. corporate debt — financial	24	26	26
Structured securities:			
Collateralized debt obligations	3	4	4
Total fixed maturities-Indemnity	$ 257	$ 264	$ 264
Equity securities:			
U.S. nonredeemable preferred securities:			
Financial	$ 8	$ 11	$ 11
Non-financial	11	12	12
Foreign nonredeemable preferred securities:			
Non-financial	1	1	1
Total equity securities — Indemnity	$ 20	$ 24	$ 24
Trading securities	$ 21	$ 28	$ 28
Limited partnerships	$ 202	$ 216	$ 216
Real estate mortgage loans	$ 1	$ 1	$ 1
Total Investments — Indemnity	$ 501	$ 533	$ 533
Exchange			
Fixed maturities:			
U.S. treasuries and government agencies	$ 11	$ 12	$ 12
U.S. government sponsored enterprises	74	75	75
Foreign government	20	21	21
Municipal securities	1,437	1,471	1,471
U.S. corporate debt — non-financial	2,354	2,535	2,535
U.S. corporate debt — financial	1,767	1,897	1,897
Foreign corporate debt — non-financial	415	449	449
Foreign corporate debt — financial	364	382	382
Structured securities:			
Asset-backed securities — auto loans	36	38	38
Asset-backed securities — other	18	19	19
Collateralized debt obligations	69	70	70
Commercial mortgage-backed	82	86	86
Residential mortgage-backed:			
Government sponsored enterprises	196	205	205
Non-government sponsored enterprises	20	19	19
Total fixed maturities — Exchange	$ 6,863	$ 7,279	$ 7,279
Equity securities:			
U.S. nonredeemable preferred securities:			
Financial	$ 317	$ 373	$ 373
Non-financial	126	133	133
Government sponsored enterprises	0	0	0
Foreign nonredeemable preferred securities:			
Financial	52	55	55
Non-financial	8	9	9
Total equity securities — Exchange	$ 503	$ 570	$ 570
Trading securities	$ 1,773	$ 2,306	$ 2,306
Limited partnerships	$ 1,083	$ 1,108	$ 1,108
Life policy loans	$ 14	$ 14	$ 14
Real estate mortgage loans	$ 5	$ 5	$ 5
Total Investments — Exchange	$ 10,241	$ 11,282	$ 11,282
Total Investments — Erie Insurance Group	$ 10,742	$ 11,815	$ 11,815

SCHEDULE III
SUPPLEMENTARY INSURANCE INFORMATION

(See Item 8, "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report.)

(in millions)	Deferred policy acquisition costs	Reserves for losses, loss expenses, life policy deposit contracts	Unearned premiums	Premiums earned	Net investment income*	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses*	Net premiums written (excluding life)
December 31, 2010:									
Property and casualty insurance operations	$327	$3,584	$2,082	$3,925	$325	$2,810	$635	$303	$4,019
Life insurance operations	140	1,603	0	62	96	90	16	15	0
Management operations	0	0	0	0	12	0	0	0	0
Total	$467	$5,187	$2,082	$3,987	$433	$2,900	$651	$318	$4,019
December 31, 2009:									
Property and casualty insurance operations	$313	$3,598	$1,981	$3,808	$326	$2,639	$611	$364	$3,861
Life insurance operations	154	1,540	0	61	93	89	13	15	0
Management operations	0	0	0	0	14	0	0	0	0
Total	$467	$5,138	$1,981	$3,869	$433	$2,728	$624	$379	$3,861
December 31, 2008:									
Property and casualty insurance operations	$301	$3,586	$1,936	$3,771	$332	$2,489	$599	$289	$3,788
Life insurance operations	201	1,449	0	63	87	93	3	17	0
Management operations	0	0	0	0	19	0	0	0	0
Total	$502	$5,035	$1,936	$3,834	$438	$2,582	$602	$306	$3,788

* *Net investment income and other operating expenses are charged directly to the respective entities, therefore an allocation basis is not required.*

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SCHEDULE IV
REINSURANCE

(in millions)	Gross amount (direct)	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
December 31, 2010:					
Life insurance in force	$ 40,431	$ 22,303	$ 0	$ 18,128	0.0%
Premiums for the year:					
Life insurance	$ 104	$ 42	$ 0	$ 62	0.0%
Property and liability insurance	3,939	34	20	3,925	0.5%
Total premiums	$ 4,043	$ 76	$ 20	$ 3,987	0.5%
December 31, 2009:					
Life insurance in force	$ 38,961	$ 20,858	$ 0	$ 18,103	0.0%
Premiums for the year:					
Life insurance	$ 100	$ 39	$ 0	$ 61	0.0%
Property and liability insurance	3,806	40	42	3,808	1.1%
Total premiums	$ 3,906	$ 79	$ 42	$ 3,869	1.1%
December 31, 2008:					
Life insurance in force	$ 37,697	$ 19,404	$ 0	$ 18,293	0.0%
Premiums for the year:					
Life insurance	$ 98	$ 35	$ 0	$ 63	0.0%
Property and liability insurance	3,784	48	35	3,771	0.9%
Total premiums	$ 3,882	$ 83	$ 35	$ 3,834	0.9%

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SCHEDULE VI

SUPPLEMENTAL INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

(See Item 8, "Financial Statements and Supplementary Data — Note 1, Nature of Operations, of Notes to Consolidated Financial Statements" contained within this report.)

(in millions)	Deferred policy acquisition costs	Reserve for unpaid losses and loss expenses	Discount, if any, deducted from reserves*	Unearned premiums	Earned premiums	Net investment income
December 31, 2010:						
Consolidated P&C Entities	$ 327	$ 3,584	$ 127	$ 2,082	$ 3,925	$ 325
Unconsolidated P&C Entities	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0
Total	$ 327	$ 3,584	$ 127	$ 2,082	$ 3,925	$ 325
December 31, 2009:						
Consolidated P&C Entities	$ 313	$ 3,598	$ 136	$ 1,981	$ 3,808	$ 326
Unconsolidated P&C Entities	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0
Total	$ 313	$ 3,598	$ 136	$ 1,981	$ 3,808	$ 326
December 31, 2008:						
Consolidated P&C Entities	$ 301	$ 3,586	$ 98	$ 1,936	$ 3,771	$ 332
Unconsolidated P&C Entities	0	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0	0
Total	$ 301	$ 3,586	$ 98	$ 1,936	$ 3,771	$ 332

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

(in millions)	Losses and loss expenses incurred related to (1) Current year	(2) Prior years	Amortization of deferred policy acquisition costs	Net losses and loss expenses paid	Net premiums written
December 31, 2010:					
Consolidated P&C Entities	$ 3,053	$ (244)	$ 635	$ 2,811	$ 4,019
Unconsolidated P&C Entities	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0
Total	$ 3,053	$ (244)	$ 635	$ 2,811	$ 4,019
December 31, 2009:					
Consolidated P&C Entities	$ 2,732	$ (93)	$ 611	$ 2,640	$ 3,861
Unconsolidated P&C Entities	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0
Total	$ 2,732	$ (93)	$ 611	$ 2,640	$ 3,861
December 31, 2008:					
Consolidated P&C Entities	$ 2,675	$ (186)	$ 599	$ 2,584	$ 3,788
Unconsolidated P&C Entities	0	0	0	0	0
Proportionate share of registrant & subsidiaries	0	0	0	0	0
Total	$ 2,675	$ (186)	$ 599	$ 2,584	$ 3,788

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EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
3.1	Articles of Incorporation of Registrant. Such exhibit is incorporated by reference to the like numbered exhibit in the Registrant's Form 10 Registration Statement Number 0-24000 filed with the Commission on May 2, 1994.	
3.1A	Amendment to the Articles of Incorporation of Registrant effective May 2, 1996. Such exhibit is incorporated by reference to the like numbered exhibit in the Registrant's Form 10-Q that was filed with the Commission on July 29, 2010.	
3.1B	Amendment to the Articles of Incorporation of Registrant effective May 4, 2001. Such exhibit is incorporated by reference to the like numbered exhibit in the Registrant's Form 10-Q that was filed with the Commission on July 29, 2010.	
3.1C	Amendment to the Articles of Incorporation of Registrant effective May 10, 2007. Such exhibit is incorporated by reference to the like numbered exhibit in the Registrant's Form 10-Q that was filed with the Commission on July 29, 2010.	
3.7	Erie Indemnity Company Amended and Restated Bylaws effective May 5, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on May 11, 2009.	
10.12	Form of Subscriber's Agreement whereby policyholders of Erie Insurance Exchange appoint Registrant as their Attorney-in-Fact. Such exhibit is incorporated by reference to the like titled but renumbered exhibit in the Registrant's Form 10-Q that was filed with the Securities and Exchange Commission on November 6, 2002.	
10.97	Severance Agreement dated February 28, 2008, by and between Erie Indemnity Company and Thomas B. Morgan. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on March 3, 2008.	
10.98	Separation Agreement between Erie Indemnity Company and Michael J. Krahe dated June 25, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on June 26, 2008.	
10.99	Executive Retention Agreement between Erie Indemnity Company and Philip A. Garcia dated June 25, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on June 26, 2008.	
10.100	Employment Agreement dated July 14, 2008, between Erie Indemnity Company and Terrence W. Cavanaugh. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on July 18, 2008.	

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
10.101	Amendment of Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2005) dated December 29, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.	
10.102	Amendment of Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2006) dated December 29, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.	
10.103	Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (Amended and Restated as of January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.	
10.104	Deferred Compensation Plan of Erie Indemnity Company (As Amended and Restated as of January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.	
10.105	Erie Indemnity Company Deferred Compensation Plan for Outside Directors (As Amended and Restated as of January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.	
10.106	Erie Indemnity Company Long-Term Incentive Plan (Restated Effective January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.	
10.107	Erie Indemnity Company Annual Incentive Plan (As Amended and Restated Effective January 1, 2009). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.	
10.108	Form of Indemnification Agreement that Registrant has entered into on November 14, 2008 with Terrence W. Cavanaugh (Director and Officer); J. Ralph Borneman, Jr., Patricia Garrison-Corbin, Jonathan Hirt Hagen, Susan Hirt Hagen, Thomas B. Hagen, C. Scott Hartz, Claude C. Lilly, III, Lucian L. Morrison, Thomas W. Palmer, Elizabeth A. Vorsheck, Robert C. Wilburn (Directors); James J. Tanous, Michael S. Zavasky and George R. Lucore (Officers). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report that was filed with the Commission on February 26, 2009.	

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
10.109	Loan Agreement between Erie Indemnity Company and PNC Bank, National Association dated January 30, 2008, Amendment to Loan Documents dated February 27, 2008, Reimbursement Agreement for Standby Letter(s) of Credit dated February 27, 2008, Sixth Amendment to Loan Documents dated December 29, 2008, Eighth Amendment to Loan Documents dated April 21, 2009, and Ninth Amendment to Loan Documents dated June 29, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on August 5, 2009.	
10.110	Committed Line of Credit Note between Erie Indemnity Company and PNC Bank, National Association dated January 30, 2008, and Third Amended and Restated Committed Line of Credit Note dated December 29, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on August 5, 2009.	
10.111	Notification and Control Agreement between Erie Indemnity Company and PNC Bank, National Association dated January 30, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on August 5, 2009.	
10.112	Pledge Agreement between Erie Indemnity Company and PNC Bank, National Association dated January 30, 2008. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on August 5, 2009.	
10.113	$200,000,000.00 Revolving Credit Facility Credit Agreement between Erie Insurance Exchange acting by and through Erie Indemnity Company, its Attorney-in-Fact, and PNC Bank, National Association, JPMorgan Chase Bank, N.A., Bank of America, N.A., and PNC Capital Markets LLC dated September 30, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.	
10.114	Form of Revolving Credit Note that Erie Insurance Exchange has entered into by and through the Registrant, as its Attorney-in-Fact, on September 30, 2009 with Bank of America, N.A. ($35 million), The Bank of New York Mellon ($25 million), JPMorgan Chase Bank, N.A. ($35 million), PNC Bank, National Association ($55 million), U.S. Bank National Association ($25 million), and Wells Fargo Bank, National Association ($25 million). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.	
10.115	Swing Note between Erie Insurance Exchange acting by and through Erie Indemnity Company, its Attorney-in-Fact, and PNC Bank, National Association dated September 30, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.	

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Exhibit Number	Description of Exhibit	Sequentially Numbered Page
10.116	Notification and Control Agreement between Erie Indemnity Company as Attorney-in-Fact for Erie Insurance Exchange and The Bank of New York Mellon and PNC Bank, National Association dated September 30, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.	
10.117	Pledge Agreement between Erie Indemnity Company as Attorney-in-Fact for Erie Insurance Exchange and PNC Bank, National Association dated September 30, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on October 29, 2009.	
10.118	Tenth Amendment to Loan Documents between Erie Indemnity Company and PNC Bank, National Association dated December 10, 2009. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on December 10, 2009.	
10.119	Indemnification Agreement that Registrant has entered into on February 23, 2010 with Marcia A. Dall (Executive Vice President & CFO). Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K that was filed with the Commission on February 25, 2010.	
10.120	First Amendment to Erie Indemnity Company Annual Incentive Plan (As Amended and Restated Effective January 1, 2009) effective January 1, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on May 6, 2010.	
10.121	Second Amendment to Erie Indemnity Company Annual Incentive Plan (As Amended and Restated Effective January 1, 2009) effective January 1, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-Q that was filed with the Commission on November 4, 2010.	
10.122	Stock Purchase Agreement between Erie Indemnity Company and Erie Insurance Exchange Relating to the Capital Stock of Erie Insurance Company, Erie Insurance Company of New York and Erie Property and Casualty Company dated November 4, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on November 4, 2010.	
10.123	Stock Purchase Agreement between Erie Indemnity Company and Erie Insurance Exchange Relating to the Capital Stock of Erie Family Life Insurance Company dated November 4, 2010. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on November 4, 2010.	
10.124*	Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2009) dated December 23, 2010.	
10.125*	Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective as of January 1, 2010) dated December 23, 2010.	

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
10.126*	Agreement dated January 13, 2010, by and between Erie Indemnity Company and George R. Lucore.	
10.127*	Eleventh Amendment to Loan Documents between Erie Indemnity Company and PNC Bank, National Association dated July 20, 2010.	
10.128*	Amendment to Loan Documents between Erie Indemnity Company and PNC Bank, National Association dated December 22, 2010.	
10.129*	Lease Agreement between Erie Insurance Exchange and Erie Indemnity Company dated January 1, 2011.	
14	Code of Conduct. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 10-K annual report for the year ended December 31, 2003 that was filed with the Commission on March 8, 2004.	
23*	Consent of Independent Registered Public Accounting Firm	
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*	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002	
99.1	Audited consolidated financial statements and accompanying footnote disclosures of Erie Indemnity Company for the fiscal years ended December 31, 2009 and 2008 conformed to reflect the amended guidance in ASC 810 Consolidation, which became effective January 1, 2010. Also included is the independent auditors' report dual dated as of February 25, 2010 and May 6, 2010. Management's Discussion and Analysis of Results of Operation for the fiscal year ended December 31, 2009 conformed to reflect these changes and the Controls and Procedures item. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on May 6, 2010.	
99.2	Consent of Ernst &Young LLP. Such exhibit is incorporated by reference to the like titled exhibit in the Registrant's Form 8-K that was filed with the Commission on May 6, 2010.	
101.INS*	XBRL Instance Document	
101.SCH*	XBRL Taxonomy Extension Schema Document	
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document	
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	

* filed herewith

Exhibit 10.124

Erie Insurance Group

RETIREMENT PLAN FOR EMPLOYEES

As Amended and Restated Effective December 31, 2009

Erie Insurance Group

RETIREMENT PLAN FOR EMPLOYEES

As Amended and Restated Effective December 31, 2009

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Erie Insurance Group

RETIREMENT PLAN FOR EMPLOYEES

Effective December 31, 1946
As Amended and Restated Effective December 31, 2009

ARTICLE I — INTRODUCTION

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

This amendment and restatement of the Plan shall constitute an amendment, restatement and continuation of the Plan. This amendment and restatement is generally effective December 31, 2009. However, certain provisions of this amendment and restatement are effective as of some other date. The provisions of this amendment and restatement with stated effective dates prior to December 31, 2009 shall be deemed to amend the corresponding provisions, if any, of the Plan as in effect before this amendment and restatement and all amendments thereto as of such dates. Events occurring before the applicable effective date of any provision of this amendment and restatement shall be governed by the applicable provision of the Plan as in effect on the date of the event. The object of the Plan is to provide retirement pensions for eligible employees.

ARTICLE II — DEFINITIONS

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

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

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

2.3 "Administrator" shall mean the administrative committee described in Article III of the Plan.

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

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

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

2.7 "Beneficiary" shall mean any person who, by reason of a designation made by a Participant under Plan procedures or by operation of the Plan, is or will be entitled to receive any amount or benefit hereunder upon the death of the Participant. Any attempt to designate a person as Beneficiary hereunder by means other than that permitted under the Plan shall be void and have no effect.

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

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

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

2.11 "Compensation" for any period shall mean the rate of base salary of a Covered Employee from the Employers during the period. For this purpose, "base salary" shall exclude Form W-2 income in the form of overtime compensation, bonuses, commissions, deferred compensation plan payments or severance pay under any severance benefit plan, but shall include Form W-2 income paid as a lump sum in lieu of merit increase and compensation excluded from Form W-2 income because of salary reduction agreements in connection with plans described in Section 125, 132(f)(4) or 401(k) of the Code, or resulting from deferred compensation contracts for the period in question. Compensation shall exclude any differential wage payments made on behalf of a Covered Employee who is on military leave. Effective for each Plan Year beginning on and after December 31, 1989, in no event shall the amount of Compensation taken into account under the Plan exceed the adjusted annual limitation permitted under Section 401(a)(17) of the Code for such Plan Year. Such adjusted annual limitation shall be, for each Plan Year beginning on and after December 31, 2001, $200,000 (as adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code). For purposes of determining benefit accruals in any given Plan Year beginning after December 31, 2001, the annual compensation limitation for any determination period after December 31, 1993 and before December 31, 2001, shall be $200,000.

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

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

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

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

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

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

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

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

(a) date of retirement,

(b) date of voluntary employment termination,

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

(d) date of death,

(e) the first anniversary of a date of absence from active employment for any other reason; provided, however, that a later Date of Severance shall apply with respect to a leave of absence which, under Employer policy, provides for a later

Date of Severance and, provided further, that the second anniversary of a date of absence from active employment shall be used for an Employee who is absent by reason of a Maternity or Paternity Absence which commenced on or after December 31, 1985, or who is absent by reason of Total and Permanent Disability.

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

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

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

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

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

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

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

2.22 "Highly Compensated" shall mean any Employee who is a more than five percent (5%) owner of an Employer or earned $110,000 or more in Test Compensation from the Employer in the calendar year that begins in the twelve month period that precedes the current Plan Year (the "lookback year"); provided, however, that such $110,000 figure shall be adjusted for cost of living at the same time and in the same manner as determined under Code Section 415(d).

2.23 "Hour of Service" shall include the following:

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

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

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

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

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

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

(a) by reason of pregnancy of the Employee,

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

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

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

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

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

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

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

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

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

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

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

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

2.34 “Spouse” shall mean, with respect to any Participant, an individual who is the Participant’s spouse as defined under 1 U.S.C. Section 7 or other applicable Federal law.

2.35 “Test Compensation” shall mean, for any Plan Year, an Employee’s compensation, reported under Sections 6041 and 6051 of the Code on Form W-2, as paid by the Company or other Employer for the calendar year ending with or within such Plan Year, including any amounts contributed pursuant to a salary reduction election on behalf of a Covered Employee to a plan described in Sections 125, 132(f), 402(e)(3), 402(h)(1)(B), 403(b), or 457(b) of the Code for the period in question. Effective January 1, 2009, Test Compensation shall include any differential wage payments, as defined in Section 3401(h) of the Code, that are paid by an Employer during a period of qualified military service as defined in Section 414(u) of the Code. Test Compensation in any given year shall not exceed the adjusted annual limitation in effect for such year (as set forth in Section 2.11), provided that such limitation shall not be applied in determining the status of an Employee as a Highly Compensated Employee or Key Employee. To the extent permitted under regulations and other guidance promulgated by the Internal Revenue Service, the Company may elect to determine Test Compensation on a basis other than that provided above.

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

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

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

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

ARTICLE III — ADMINISTRATION OF THE PLAN

3.1 Pension Administrator

The Plan shall be administered by a committee that shall act as Plan Administrator. The initial members of the administrative committee have been appointed by the Board, effective January 1, 2008; provided, however, that such initial members, and any subsequent members of the administrative committee, shall serve at the pleasure of the Executive Council of the Company. Any individual who is a member of the administrative committee may resign by delivering his written resignation to the Executive Council of the Company. In the event of the death, resignation or removal of a member of the administrative committee, such Executive Council shall fill the vacancy. In making the appointment, the Executive Council shall not be limited to any particular person or group, and nothing herein contained shall be construed to prevent any Participant, director, officer, employee or shareholder of the Employers from service as a member of the administrative committee. Members of the administrative committee will not be compensated from the Trust Fund for services performed in such capacity, but the Company will reimburse such individuals for expenses reasonably and necessarily incurred by them in such capacity.

Initial appointment by the Board is evidenced by a resolution of the Board. Appointment by the Executive Council of the Company shall be evidenced in a writing executed on behalf of the Executive Council. Copies of such writings shall be delivered to the Trustee and to such other persons as may require notice of such appointments.

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

3.2 Powers

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

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

(b) To interpret the Plan.

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

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

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

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

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

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

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

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

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

(l) To take such steps as it, in its discretion, considers necessary and/or appropriate to remedy any inequity under the Plan that results from incorrect information received or communicated or as the consequence of administrative error including, but not limited to, recouping benefit overpayments.

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

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

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

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

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

3.3 Delegation of Duties

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

3.4 Administrator as Named Fiduciary

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

3.5 Conclusiveness of Various Documents

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

3.6 Actions to be Uniform

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

3.7 Liability and Indemnification

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

3.8 Claims Review Procedure

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

(a) Original Claim. In the event a claim of any Participant, Beneficiary, alternate payee, or other person (hereinafter referred to in this Section as the "Claimant") for a benefit is partially or completely denied, the Administrator shall give, within ninety (90) days after receipt of the claim (or if special circumstances, made known to the Claimant, require an extension of time for processing the claim, within one hundred eighty (180) days after receipt of the claim), written notice of such denial to the Claimant. Such notice shall set forth, in a manner calculated to be understood by the Claimant, the specific reason or reasons for the denial (with reference to pertinent Plan provisions upon which the denial is based); an explanation of additional material or information, if any, necessary for the Claimant to perfect the claim; a statement of why the material or information is necessary; on and after January 1, 2002, a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA; and an explanation of the Plan's claims review procedure, including the time limits applicable to such procedure.

(b) Review of Denied Claim.

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

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

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

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

3.9 Exhaustion of Administrative Remedies.

The exhaustion of the claims review procedure is mandatory for resolving every claim and dispute arising under the Plan. As to such claims and disputes:

(a) No claimant shall be permitted to commence any civil action to recover Plan benefits or to enforce or clarify rights under the Plan under Section 502 or Section 510 of ERISA or under any other provision of law, whether or not statutory, until the claims review procedure set forth herein has been exhausted in its entirety; and

(b) In any such civil action all explicit and all implicit determinations by the Administrator (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law.

3.10 Deadline to File Civil Action.

No civil action to recover Plan benefits or to enforce or clarify rights under the Plan under Section 502 or Section 510 of ERISA or under any other provision of law, whether or not statutory, may be brought by any claimant on any matter pertaining to the Plan unless the civil action is commenced in the proper forum before the earlier of:

(a) Thirty months after the claimant knew or reasonably should have known of the principal facts on which the claim is based; or

(b) Eighteen months after the claimant has exhausted the claims review procedure.

3.11 Waiver of Participation

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

ARTICLE IV — SERVICE PROVISIONS

4.1 Service

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

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

4.2 Credited Service

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

4.3 Loss and Reinstatement of Service

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

(a) five years, or

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

4.4 Transfer To Other Employment

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

4.5 Transfer From Other Employment

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

ARTICLE V — ELIGIBILITY FOR PENSIONS

5.1 Normal Retirement

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

5.2 Early Retirement

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

5.3 Disability Retirement

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

5.4 Vesting

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

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

ARTICLE VI — AMOUNT OF PENSIONS

6.1 Normal Retirement Pension

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

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

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

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

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

6.2 Early Retirement Pension

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

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

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

6.3 Disability Retirement Pension

Subject to the provisions of Articles VII and X, a Participant eligible for disability benefits under the provisions of Section 5.3 shall receive a disability retirement pension beginning as of his Normal Retirement Date. Such disability retirement pension shall be in an amount determined in accordance with Section 6.1 assuming that:

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

(b) his Compensation continues unchanged from the calendar year including his date of disability to the calendar year including his Normal Retirement Age, and

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

6.4 Deferred Pension Upon Termination of Service

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

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

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

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

6.5 Increase in Pension for Certain Retired Participants

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

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

6.6 Offset of Accruals by Plan Distributions

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

6.7 Non-Duplication of Benefits

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

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

ARTICLE VII — COMMENCEMENT AND DURATION OF PENSIONS

7.1 Normal and Early Retirement Pensions

(a) Any normal or early retirement pension shall be payable to a retired Participant who has applied therefor in accordance with the rules established by the Administrator, commencing as of the later of the Participant's Normal Retirement Date or the first day of the month next following the date as of which the Participant makes proper application to commence retirement payments. A Participant who is eligible for an early retirement pension may elect payment prior to Normal Retirement Date and receive a reduced pension under the provisions of Section 6.2. Subject to Sections 7.10(b) and 11.12, a Participant who fails to elect such payment as provided in this Section 7.1 will be deemed to have made an election to defer distribution.

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

7.2 Disability Retirement Pension

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

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

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

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

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

7.3 Deferred Vested Pension

A deferred vested pension shall be payable to a Participant who has met the criteria provided in Section 5.4 and who has applied therefore in accordance with rules established by the Administrator, commencing as of the later of the Participant's Normal Retirement Date, or the first day of the month next following the date as of which the Participant makes proper application to commence payment. A Participant who has at least 15 years of Credited Service as of his termination of employment may elect to commence payment as of the first day of any month between the age of 55 and his Normal Retirement Date in accordance with an eligible Participant's election to receive a reduced amount under the provisions of Section 6.4. Subject to Sections 7.10(b) and 11.12, a Participant who fails to elect payment as provided in this Section 7.3 will be deemed to have made an election to defer distribution. Subject to Section 7.8, a deferred vested pension shall be payable monthly for the remaining life of the Participant. The last payment to the Participant under this form shall be for the month in which the death of such Participant occurs. However, if the Participant duly elected the Automatic Surviving Spouse's Pension as set forth in Section 7.5 or elected an optional form of pension in Section 7.7 and is receiving his deferred vested pension pursuant to such election, then any pension payments to him and his surviving Spouse or Beneficiary shall be as set forth in Section 7.5 or 7.7, whichever applicable.

7.4 Reemployment of a Retired Participant

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

The retirement or deferred vested pension shall resume with the month following subsequent retirement or termination of employment. Any retirement or deferred vested pension payable upon such subsequent retirement or termination shall be determined as provided in Article VI on the basis of the Participant's Credited Service, Final Average

Earnings and Social Security Covered Compensationat the time of his subsequent retirement or termination; provided, however, that such retirement or deferred vested pension shall be reduced by the actuarial equivalent of the retirement or deferred vested pension benefits, if any, that the Participant received prior to the suspension of payment as provided hereunder. Notwithstanding the foregoing, in no event shall a Participant's retirement or deferred vested pension payable following his subsequent retirement or termination be less than that retirement or deferred vested pension payable to the Participant prior to his reemployment. In the determination of the Final Average Earnings of a Participant who is reemployed and who again becomes an active Participant, the thirty-six month period to be considered shall be the number of months in such period of reemployment prior to his subsequent date of retirement or termination, plus such number of months immediately prior to his earlier retirement or termination as shall total thirty-six months.

7.5 Automatic Surviving Spouse's Pension

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

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

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

During the period beginning no more than 180 days and ending no less than 30 days prior to the Participant's Annuity Starting Date, the Administrator shall furnish to the Participant a written general description of the automatic election provided in this Section 7.5. The general description shall include a written explanation of the Participant's and Spouse's rights under the Automatic Surviving Spouse's Pension, including the availability and effect of the election to reject the Automatic Surviving Spouse's Pension. Such description shall also provide information as to the material features of the optional forms of benefit as well as a brief explanation of their relative values as compared to the Automatic Surviving Spouse's Pension. In addition, in the event the Participant's Annuity Starting Date is prior to his attainment of Normal Retirement Age, such description shall inform the Participant of his right to defer commencement of the Plan distribution (including, for Plan Years beginning after December 31, 2006, a description of the consequences of failing to defer commencement). A Participant may make and revoke his written rejection of an Automatic Surviving Spouse's Option at any time and any number of times within the "applicable election period". The "applicable election period" shall commence 180 days prior to the Participant's Annuity Starting Date and shall end on the Participant's Annuity Starting Date. Distribution to the Participant may commence after seven days have elapsed from the date the Administrator provides the written description provided that the Participant has received information that clearly indicates his right to at least 30 days to consider the contents of the description, the Participant affirmatively elects distribution and any required spousal consent is satisfied.

A Participant who retires pursuant to the normal, early or disability retirement provisions of the Plan or pursuant to the deferred vested pension provisions of the Plan and who is entitled, under such provisions, to a pension with a lump sum actuarial equivalent value not in excess of $5,000 shall receive his pension in accordance with Section 7.8 hereof.

7.6 Requirement for Spouse Consent

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

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

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

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

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

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

7.7 Optional Forms of Pensions

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

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

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

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

(d) Option D: 75% Joint and Survivor Option — effective for Plan Years beginning after December 31, 2007, a reduced monthly retirement income is payable to the Participant for his remaining lifetime, and upon his death, monthly income of 75% of such reduced monthly income previously paid to the Participant shall be paid to his Beneficiary for as long thereafter as that person shall live.

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

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

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

7.8 Payment of Small Pension

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

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

(c) The actuarial equivalent present value of a retirement benefit, deferred vested pension or survivor benefit shall be calculated and paid on the basis of the "applicable mortality table", as defined in Section 417(e)(3)(B) of the Code, and the "applicable interest rate", as defined in Section 417(e)(3)(C) of the Code, for the second calendar month preceding the month in which the distribution is payable (and, for Plan Years beginning before December 31, 2012, reflecting the phase-in applicable under Section 417(e)(3)(D) of the Code); provided, however, that in the event the Alternative Present Value (as hereinafter defined) of the applicable benefit is a larger amount, such larger amount shall be paid (provided such Alternative Present Value calculation does not exceed $5,000). For purposes of this Section 7.8, the "Alternative Present Value" of a retirement benefit, deferred vested pension or survivor benefit shall be based on the Accrued Pension earned by the Participant at the earlier of his termination of employment, or December 30, 1995, determined by using the UP-1984 mortality table (reflecting a one-year setback for Participants and a two-year setback for Beneficiaries) and a 6% interest rate.

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

7.9 Repayment of Cashout on Reemployment

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

7.10 Delay in Commencement of Pension Payments

(a) Unless the Participant otherwise elects, payment of any pension under the provisions of this Article VII shall commence as of a date that is no later than 60 days after the later of the close of the Plan Year during which a Participant: (i) attains his Normal Retirement Age or, (ii) terminates his employment with an Employer and Affiliates. A Participant who has terminated employment with an Employer and Affiliates may not affirmatively elect to defer payment of any retirement or deferred vested benefit beyond the Participant's Normal Retirement Date. Notwithstanding the foregoing and subject to Sections 7.10(b) and 11.12, the failure of a Participant, surviving Spouse or Beneficiary to properly complete and file the required application materials shall be deemed to be an election to defer commencement of payment. No payment under the Plan will be increased on account of any delay in payment due to a Participant's or Beneficiary's failure to properly file the required application forms or to otherwise accept such payment. No payment to an alternate payee under a qualified domestic relations order may be made before the affected Participant's earliest retirement age under the Code.

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

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

(ii) commence not later than the Required Beginning Date with distribution to the Participant made over the life of the Participant or joint lives of the Participant and a designated Beneficiary or a period not longer than the life of the Participant or joint lives of the Participant and a designated Beneficiary.

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

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

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

(ii) any portion of the Participant's interest that is payable to a designated Beneficiary shall be distributed in accordance with subsection (i) above or over the life of the designated Beneficiary (or over a period not extending beyond the life expectancy of the Beneficiary), commencing not later than the end of the calendar year following the calendar year of the Participant's death or, if the Beneficiary is the Participant's surviving Spouse, commencing not later than the last day of the later of the calendar year in which the Participant would have attained age $70\frac{1}{2}$ or the calendar year following the calendar year which includes the date of the Participant's death.

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

7.11 Direct Rollover of Eligible Rollover Distributions.

Notwithstanding any provision of the Plan to the contrary, a Distributee may elect, subject to provisions adopted by the Administrator which shall be consistent with income tax regulations, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover to such plan. The Administrator shall notify a Distributee of his right to elect a Direct Rollover. Such notice shall be provided to the Distributee between 30 days and 180 days prior to the Distributee's Annuity Starting Date. A Distributee's affirmative election to make or not make a Direct Rollover may be implemented by the Administrator less than 30 days after the Distributee receives such notice of his Direct Rollover rights, but only if the Administrator notifies the Distributee that he has the right to consider the decision of whether or not to elect a Direct Rollover for up to 30 days. For purposes of this Section:

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

With respect to distributions made on or after December 31, 2009, a Distributee shall also include an Employee's or former Employee's Beneficiary who is not the Employee's or former Employee's Spouse.

(b) The term "Eligible Rollover Distribution" shall mean any distribution of all or any portion of the balance to the credit of the Distributee other than: (i) any distribution that is one of a series of substantially equal periodic payments made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and his Beneficiary, or for a specified period of ten years or more; (ii) any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and, (iii) any portion of a hardship withdrawal. In addition, a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, respectively, or (for distributions on and after January 1, 2008) to a Roth IRA described in Section 408A of the Code, to a qualified trust defined in Section 401(a) of the Code, or to an annuity contract described in Section 403(b) of the Code provided such account, annuity, IRA, trust or annuity contract agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

An Eligible Rollover Distribution with respect to a Distributee who is not the Employee's or former Employee's Spouse must be made by a direct trustee-to-trustee transfer.

(c) The term "Eligible Retirement Plan" shall mean an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity described in Section 403(a) of the Code, an annuity described in Section 403(b) of the Code, an eligible plan under Section 457(b) of the Code which is maintained by a state or a political subdivision of a state and which agrees to separately account for amounts transferred, a qualified trust described in Section 401(a) of the Code, and for periods on and after January 1, 2008, a Roth IRA under Section 408A of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution: (i) that includes after-tax employee contributions, an Eligible Retirement Plan is an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or a qualified defined contribution plan or annuity described in Section 401(a) or 403(a) of the Code that agrees to separately account for such Eligible Rollover Distributions, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, (ii) that includes a Designated Roth Account, an Eligible Retirement Plan is an individual retirement plan described in Section 408A of the Code or a qualified defined contribution plan described in Section 401(a) of the Code that agrees to separately account for such Eligible Rollover Distribution, including separately accounting for the portion of such distribution which is includible in gross income and the potion of such distribution which is not so includible, and (iii) that is made on behalf of a Distributee who is not the Employee's or former Employee's Spouse, an Eligible Retirement Plan shall mean an individual retirement account described in Section 408(a) of the Code or an individual retirement annuity described in Section 408(b) of the Code established for the purpose of receiving a distribution on behalf of a Beneficiary, which will be treated as an inherited IRA pursuant to Section 402(c)(11) of the Code.

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

7.12 <u>Change to Pension Payments in Connection with Qualifying Event.</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VIII — DEATH BENEFITS

8.1 Death Prior to Retirement or Severance

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

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

8.2 Death Prior to Commencement of Early or Disability Pensions

Upon the death of a Participant after his Date of Severance, and prior to his Annuity Starting Date and while the Participant is awaiting the commencement of payment of either: (1) an early retirement pension pursuant to Section 6.2(a) above, or (2) a disability pension after attainment of age 55 but prior to the attainment of his Normal Retirement Date, his surviving Spouse, if any, shall receive a monthly surviving Spouse's benefit under the assumption that the Participant had retired the day prior to his death with an Accrued Pension under the Plan as determined in accordance with the provisions of Section 6.2(a), and under the further assumption that the automatic election of a surviving Spouse's benefit pursuant to subsection 7.5 was in effect at the time of death. Following proper application, such surviving Spouse's benefit shall commence as of the first day of the month following the Participant's death unless the surviving Spouse elects a later commencement date. Subject to Sections 7.10(c) and 11.12, a surviving Spouse who fails to make proper application for payment will be deemed to have made an election to defer distribution. Such surviving Spouse's benefit shall be reduced for early commencement in accordance with the provisions of Section 6.2(b) and shall be payable for the lifetime of the surviving Spouse.

Upon the death of a disabled Participant who is awaiting commencement of his pension at his Normal Retirement Date and who has not incurred his Date of Severance at the time of his death, his surviving Spouse, if any, shall receive a monthly surviving Spouse's benefit determined under the provisions of Section 8.1.

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

8.3 Death Prior to Commencement of Vested Pensions

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

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

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

   (i) separated from Service on his Date of Severance,

   (ii) survived to his Earliest Retirement Age,

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

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

Following proper application, a monthly surviving Spouse's benefit shall commence under this Section 8.3 as of the first day of the month following the later of the month of the Participant's death or the month in which the Participant would have attained his Earliest Retirement Age under the Plan unless the surviving Spouse elects a later commencement date (which shall not be later than the Participant's Normal Retirement Date. Subject to Section 7.10(a) and 11.12, a surviving Spouse who fails to make proper application for payment will be deemed to have made an election to defer distribution. Such surviving Spouse's benefit shall be reduced for early commencement in accordance with Section 6.2(b) and shall be payable thereafter for the remainder of the surviving Spouse's lifetime.

8.4 <u>Effect of Valid Joint and Survivor Election</u>

Notwithstanding the foregoing, in the event a Participant described in Section 8.1, 8.2 or 8.3 above has made a valid election of either Option D or Option E under Section 7.7 and names his Spouse as Beneficiary thereunder, or a valid election of a 100% Joint and Survivor Pop-Up Option under Section 7.7, the amount of the surviving Spouse's benefit under Section 8.1, 8.2 or 8.3 shall be based on the survivor percentage applicable to the Participant's elected option.

8.5 <u>Death on or After Annuity Starting Date</u>

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

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

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

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

(b) survives to his Annuity Starting Date.

ARTICLE IX — TRUST FUND AND THE TRUSTEE

9.1 Trust Fund

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

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

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

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

The Administrator shall have the following responsibilities:

(i) to appoint and remove Trustees;

(ii) to appoint investment managers;

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

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

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

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

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

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

9.2 Irrevocability

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

9.3 Contributions by the Company

The Company will pay to the Trustee, subject to all the other provisions of the Plan, such amounts as its Board determines, authorizes and directs; provided that as a minimum contribution, the Company intends to pay to the Trustee such amounts as may be necessary to meet the minimum funding standards established under the Employee Retirement Income Security Act of 1974. The Company also intends to pay all expenses incident to the operation of the Plan that are not paid directly from the Trust Fund. Any forfeitures arising from the severance of employment or death of a Participant, or for any other reason, shall be used to reduce the contributions of the Company under the Plan and shall not be applied to increase the pensions or benefits any Participant would otherwise receive under the Plan at any time prior to the termination of the Plan.

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

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

9.4 <u>Contributions By Participants</u>

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

9.5 <u>Benefits Payable Only From Trust Fund</u>

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

9.6 Plan Expenses

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

ARTICLE X — BENEFIT LIMITATIONS

10.1 Maximum Limitation Under Section 415(b) of the Code (Effective January 1, 2008) This Section 10.1 is intended to comply with Section 415(b) of the Code, the terms of which are incorporated herein by reference and this Section shall be so construed. Any provisions of the Plan to the contrary notwithstanding, benefits accrued and benefits payable under the Plan shall be subject to the following limitations, effective for limitation years on or after July 1, 2007:

(a) In no event shall the annual benefit accrued, distributed or otherwise payable to any Participant exceed the Section 415 limit described in subsection (b). To the extent necessary to comply with Section 411(b) of the Code, if the benefit the Participant would otherwise accrue in a limitation year would produce an annual benefit in excess of the Section 415 limit described in subsection (b), the benefit will be limited (or the rate of accrual reduced) to a benefit that does not exceed such limit.

(b) The Section 415 limit is the lesser of (i) and (ii) below:

(i) The dollar limitation set forth in Section 415(b)(1)(A) of the Code, or

(ii) 100% of the Participant's average annual Test Compenstion for the three consecutive calendar years (or, if his period of employment is less than three years, for his entire period of employment) as a Participant during which he received the greatest aggregate Test Compensation.

(c) In no event shall the limitations in subsection (b) be less than $10,000 if the Participant has not at any time participated in a defined contribution plan maintained by the Employer.

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

(e) The dollar limitation described in paragraph (b)(i) above shall be increased by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code. Such adjustment factor shall be applied to Participants and to such items as the Secretary of the Treasury shall prescribe.

(f) If the benefit payable to a Participant commences prior to age 62, the dollar limitation specified under paragraph (b)(i) above as adjusted by subsection (e) shall be the lesser of: (A) the dollar limitation specified under paragraph (b)(i) above as adjusted by subsection (e) multiplied by the ratio of the annual amount of the straight life annuity commencing at his Annuity Starting Date, over the annual amount of the straight life annuity commencing at age 62 (both determined without regard to the limitations of Section 415 of the Code), or (B) such limit, after the application of an actuarially equivalent reduction from age 62 to his age as of his Annuity Starting Date, using a 5% interest rate assumption and the applicable mortality table under Section 417(e)(3)(B) of the Code. No adjustment shall be made to reflect the probability of a Participant's death after the Annuity Starting Date and before age 62.

(g) If the benefit payable to a Participant commences after age 65, the dollar limitation specified under paragraph (b)(i) above as adjusted by subsection (e) shall be the lesser of : (A) the dollar limitation specified under paragraph (b)(i) above as adjusted by subsection (e) multiplied by the ratio of the annual amount of the immediately commencing straight life annuity payable to the Participant (ignoring accruals after age 65) using the actuarial adjustments in Section 11.6 over the annual amount of the straight life annuity that would have been payable at age 65, or (B) the dollar limitation specified under paragraph (b)(i) above as adjusted by subsection (e) actuarially increased using a 5% interest rate assumption and the applicable mortality table under Section 417(e)(3)(B) of the Code. The probability of the Participant dying after age 65 and before the age at which the payment of benefits would commence shall not be taken into account in increasing the dollar limitation under this subsection (g).

(h) The annual benefit is a retirement benefit under the Plan which is payable annually in the form of a single life annuity.

(i) If the benefit payable to a Participant is not in the normal form of payment nor in the form of a qualified joint and survivor annuity, and it is not payable in a form to which Section 417(e)(3) of the Code applies, then the maximum annual amount determined under subsection (b) above shall be adjusted such that it is the greater of:

(A) the actuarially equivalent straight life annuity commencing at the same Annuity Starting Date as the form of benefit payable to the Participant using the Plan's factors for determining actuarial equivalence, and

(B) the actuarially equivalent straight life annuity commencing at the same Annuity Starting Date as the form of benefit payable to the Participant using an interest rate of 5% and the applicable mortality table under Section 417(e)(3)(B) of the Code.

(ii) If the benefit is payable in a form to which Code Section 417(e)(3) applies, the actuarially equivalent straight life annuity benefit shall be the greatest of:

(A) the annual amount of the straight life annuity commencing at the Annuity Starting Date that has the same actuarial present value as the particular form of benefit payable, computed using the Plan's factors for determining actuarial equivalence;

(B) the annual amount of the straight life annuity commencing at the Annuity Starting Date that has the same actuarial present value as the particular form of benefit payable, computed using a 5.5% interest assumption and the applicable mortality table under Section 417(e)(3)(B) of the Code; or

(C) the annual amount of the straight life annuity commencing at the Annuity Starting Date that has the same actuarial present value as the particular form of benefit payable, computed using the applicable interest rate under Section 417(e)(3)(C) of the Code and the applicable mortality table specified in Revenue Ruling 2001-62, divided by 1.05.

(iii) Notwithstanding the foregoing, for a benefit that has an Annuity Starting Date in 2004 or 2005, the actuarially equivalent straight life annuity benefit shall be the greater of:

(A) the annual amount of the straight life annuity commencing at the Annuity Starting Date that has the same actuarial present value as the particular form of benefit payable, computed using the Plan's actuarial equivalence factors; or

(B) the annual amount of the straight life annuity commencing at the Annuity Starting Date that has the same actuarial present value as the particular form of benefit payable, computed using a 5.5% interest assumption and the applicable mortality table for the distribution under Treasury Regulation Section 1.417(e)-1(d)(2). Benefits with an Annuity Starting Date in 2004 shall be calculated in accordance with the requirements of Notice 2004-78, the terms of which are hereby incorporated by reference.

(i) If the Participant has completed less than 10 years of Plan participation, the dollar limitation determined under paragraph (b)(i) above shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant’s number of years of Plan participation (or parts thereof) and the denominator of which is 10.

(j) If the Participant has completed less than 10 years of Credited Service, the maximum amount determined under paragraph (b)(ii) and subsection (c) (without regard to paragraph (b)(i) above) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant’s number of years of Credited Service (or parts thereof) and the denominator of which is 10.

(k) In no event shall the provisions of subsection (i) or subsection (j) above reduce the limitations in subsection (b) to an amount less than one tenth of such limitations, determined without regard to the provisions of subsection (i) and (j).

(l) For purposes of applying the benefit limitations set forth herein, the “limitation year” shall be the calendar year.

ARTICLE XI — MISCELLANEOUS PROVISIONS

11.1 Plan Non-Contractual

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

11.2 Non-Alienation of Retirement Rights or Benefits

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

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

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

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

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

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

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

11.3 Payment of Pension to Others

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

11.4 Prohibition Against Reversion

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

11.5 Merger, Transfer of Assets or Liabilities

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

11.6 Actuarial Equivalence

Any determination of actuarial equivalence required by the provisions of this Plan, when not otherwise specified in the Plan, shall be made on the basis of the mortality table referenced in IRS Revenue Ruling 2001-62, (GAR '94) with an annual interest rate of 6%.

11.7 Change of Vesting Schedule

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

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

(a) 60 days after the amendment is adopted;

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

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

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

11.8 Controlled Group

For purposes only of determining eligibility to participate in the Plan and eligibility for any pension (but not the amount thereof) under the Plan, all employment with an

Employer or an Affiliate shall be deemed to be employment with an Employer in computing Hours of Service and Service.

11.9 Severability

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

11.10 Employer Records

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

11.11 Application of Plan Provisions

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

11.12 Missing Participants and Beneficiaries.

Notwithstanding Section 7.10, if a Participant who has left employment with the Company and Affiliates (or a surviving Spouse or Beneficiary who is eligible for a death benefit or survivor benefit) has failed to file an application for benefits within 120 days after attainment of the Participant's Normal Retirement Date, the Administrator shall treat the Participant's retirement benefit and vested Accrued Pension (or the surviving Spouse's or Beneficiary's death benefit or survivor benefit) as forfeited; provided, however, that such retirement benefit, Accrued Pension, death benefit or survivor benefit shall be reinstated retroactive to the commencement date set forth below upon the subsequent filing of a completed application with the Administrator and shall commence within ninety (90) days after such application is filed. For purposes of this Section 11.12, the commencement date shall be the later of:

(a) the Participant's Normal Retirement Date; and

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

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

11.13 IRC 414(u) Compliance Provision

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

(a) As provided by Section 414(u) of the Code, "qualified military service" means service in the uniformed services (as defined in Chapter 54 of Title 38, United Stated Code) by an individual if the individual is qualified under such chapter to reemployment rights with the Company or an Affiliate following such military service.

(b) "USERRA" means the Uniformed Services Employment and Reemployment Rights Act of 1994 as amended.

(c) If an individual returns to employment with the Company or an Affiliate following a period of qualified military service under circumstances such that the individual has reemployment rights under USERRA, and the individual reports for said reemployment within the time frame required by USERRA, the following provisions shall apply:

(i) The qualified military service shall be recognized as Credited Service and Service to the same extent as it would have been if the individual had remained continuously employed with the Company or an Affiliate rather than leaving active employment to go into qualified military service.

(ii) Compensation shall be determined by the Company consistent with the requirements of USERRA, and shall reflect the Company's best estimate of the earnings the individual would have received but for the qualified military service.

(d) If a Participant fails to return to employment with the Company or an Affiliate on account of the Participant's death in qualified military service on or after January 1, 2007, the surviving Spouse of such Participant shall be eligible to receive any death benefit provided under the Plan as if the Participant had returned to employment as a Covered Employee immediately prior to his death and then terminated employment on account of his death.

(e) If a Participant fails to return to employment with the Company or an Affiliate on account of either the Participant's incurring a disability in qualified military service or the Participant's death in qualified military service, the Participant (or the surviving Spouse of the Participant, in the event of the Participant's death) shall be eligible for a benefit under the Plan determined by using the Credited Service the Participant would have had hereunder had the Participant returned to employment as a Covered Employee immediately prior to his date of disability or death and then terminated employment on the date of his disability or death.

(f) The foregoing provisions are intended to provide the benefits required by USERRA and the Heroes Earnings Assistance and Relief Tax Act of 2008, and are not intended to provide any other benefits. This section shall be construed consistently with said intent.

ARTICLE XII — AMENDMENT AND TERMINATION

12.1 Amendment and Termination of the Plan

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

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

(b) to terminate the Plan;

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

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

Any such amendment to or termination of this Plan shall be evidenced by a written instrument adopted by the Board; provided, however, that the Administrator may adopt such amendments as shall fall within the limited amendment authority contained in the Administrator's charter. Any such written instrument shall recite at which time the amendments contained therein shall become effective.

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

12.2 Administration of the Plan in Case of Termination

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

Compensated Employee shall be limited to a benefit that is nondiscriminatory under Section 401(a)(4) of the Code.

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

12.3 Internal Revenue Service Limitations

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

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

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

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

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

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

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

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

ARTICLE XIII — TOP-HEAVY PROVISIONS

13.1 General

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

13.2 Definitions Relating to Top-Heavy Provisions

For purposes of this Article XIII:

(a) "Key Employee" means any Employee (including any deceased Employee) who at any time during the Plan Year that includes the determination date was an officer of the Employer having annual Test Compensation greater than $130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a five percent (5%) owner of the Employer, or a one percent (1%) owner of the Employer having annual Test Compensation of more than $150,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002). The determination of who is a key employee will be made in accordance with Section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

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

(c) "Top-Heavy Plan" means a plan where, as of the Determination Date, the present value of the cumulative accrued benefits (including any part of any accrued benefit distributed in the five-year period ending on the Determination Date) under the Plan for Key Employees exceeds sixty percent (60%) of the present value of the cumulative accrued benefits (including any part of any accrued benefit distributed in the five-year period ending on the Determination Date) under the Plan for all Employees. The present values of accrued benefits and the amounts of account balances of an Employee as of the Determination Date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under Section 416(g)(2) of the Code during the one-year period ending on the Determination Date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than severance from employment, death or disability, this provisions shall be applied by substituting “five-year period” for “one-year period”. However, the accrued benefits of any individual who has not performed services for the Employer or any Affiliate during the one-year period ending on the Determination Date shall not be taken into account.

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

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

(d) “Required Aggregation Group” means:

(i) each plan of an Employer in which a Key Employee is a participant (regardless of whether the plan has terminated), and

(ii) each other plan of an Employer which enables a plan in which a Key Employee is a participant to meet the requirements of Internal Revenue Code Sections 401(a)(4) or 410.

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

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

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

(i) Any rollover contribution initiated by the Employee.

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

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

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

(h) "Valuation Date" means December 31.

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

13.3 Top-Heavy Plan Vesting Requirements

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

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

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

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

13.4 Top-Heavy Plan Minimum Benefit Requirements

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

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

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

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

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

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

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

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

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

13.5 Limited Application of this Article.

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

ARTICLE XIV — JURISDICTION

14.1 Jurisdiction

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

Executed at Erie, Pennsylvania, this 23 day of December , 2010.

ERIE INDEMNITY COMPANY

By: /s/ Terrence W. Cavanaugh

Title: President & CEO

Exhibit 10.125

ERIE INSURANCE GROUP

EMPLOYEE SAVINGS PLAN

As Amended and Restated
Effective as of January 1, 2010

INTRODUCTION

The Erie Indemnity Company (the “Company”) adopted the Erie Insurance Group Employee Savings Plan (the “Plan”) effective January 1, 1989. The Company has subsequently amended the Plan from time to time and last amended and restated the Plan effective as of January 1, 2006.

This amendment and restatement of the Plan shall constitute an amendment, restatement and continuation of the Plan. This amendment and restatement is generally effective as of January 1, 2010. However, certain provisions of this amendment and restatement are effective as of some other date. The provisions of this amendment and restatement with stated effective dates prior to January 1, 2010, shall be deemed to amend the corresponding provisions, if any, of the Plan as in effect before this amendment and restatement and all amendments thereto as of such dates. Events occurring before the applicable effective date of any provision of this amendment and restatement shall be governed by the applicable provision of the Plan as in effect on the date of the event.

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

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ARTICLE ONE

DEFINITIONS

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

1.1 "Administrator" or "Plan Administrator" means the administrative committee described in Article Nine.

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

1.3 "Beneficiary" means any person who, by reason of a designation made by a Participant under Plan procedures or by operation of the Plan, is or will be entitled to receive any amount or benefit hereunder upon the death of such Participant. Any attempt to designate a person as Beneficiary hereunder by means other than that permitted under the Plan shall be void and have no effect.

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

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

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

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

1.8 "Compensation" for any period means the rate of base salary or the wages paid by an Employer to an Employee during the period. For this purpose, the "rate of base salary or the wages paid" shall exclude Form W-2 income in the form of overtime compensation, bonuses, commissions, deferred compensation plan payments or severance pay under any severance benefit plan, but shall include Form W-2 income paid as a lump sum in lieu of merit increase and compensation excluded from Form W-2 income because of salary reduction agreements in connection with plans described in Sections 125, 132(f)(4) or 401(k) of the Code or resulting from deferred compensation contracts for the Plan Year in question. Compensation shall exclude any differential wage payments made on behalf of a Covered Employee who is on military leave. Effective for each Plan Year beginning on and after December 31, 1989, in no event shall the amount of Compensation taken into account under the Plan exceed the adjusted annual limitation permitted under Section 401(a)(17) of the Code for such Plan Year. Such adjusted annual limitation shall be, for each Plan Year beginning on and after December 31, 2001, $200,000 (as adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. However, for the sole purpose of computing Plan contributions that are based on an Employee's percentage of Compensation election, such adjusted annual limitation may be ignored; provided, the Employee does not receive a higher allocation of any type of contribution than the Employee could have received under the Plan had the adjusted annual limitation been considered.

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

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

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

1.11 "Eligible Applicant" means a Participant who is actively employed with the Company or an Affiliate; provided, however, that for purposes of Sections 7.1 through 7.6, an Eligible Applicant shall also include a Participant who is on a disability leave of absence.

1.12 "Employee" means any common-law employee of an Employer or an Affiliate; provided, however, that for purposes of Section 1.17 "Employee" shall include any self-employed individual performing services for an Employer or Affiliate who is treated as an employee under Section 401(c)(1) of the Code.

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

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

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

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

1.17 "Highly Compensated" means any Employee who is a more than five percent (5%) owner of an Employer or earned $110,000 or more in Test Compensation from the Employer in the lookback year; provided, however, that such $110,000 figure shall be adjusted for cost of living at the same time and in the same manner as determined under Code Section 415(d).

1.18 "Hour of Service" shall include the following:

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

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

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

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

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

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

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

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

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

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

1.25 "Plan Year" means the calendar year.

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

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

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

(c) clearly specifies:

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

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

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

(iv) each plan to which the QDRO applies.

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

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

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

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

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

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

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

1.32 "Spousal Consent" means a written consent given by a Participant's Spouse to a Participant's designation of a specified Beneficiary or Beneficiaries (including the designation of any class of Beneficiaries or any contingent Beneficiaries) under Section 11.6(a). Any Spousal Consent shall be effective only with respect to such Spouse. Such consent shall be duly witnessed by a Plan representative or a notary public and shall acknowledge the effect on the Spouse of the Participant's election. The Participant may revoke, without limitation, any such designation without the need for Spousal Consent. Any new designation will require a new Spousal Consent. The requirement for Spousal Consent may be waived by the Administrator if it is established that there is no Spouse, the Spouse cannot be located, the Participant has a court order evidencing a legal separation from or abandonment by the Spouse, or for such other circumstances as shall be prescribed by applicable law.

1.33 “Spouse” means, with respect to any Participant, an individual who is the Participant’s spouse as defined under 1 U.S.C. Section 7 or other applicable federal law.

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

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

1.36 “Test Compensation” means, for any Plan Year, an Employee’s compensation, reported under Sections 6041 and 6051 of the Code on Form W-2, as paid by an Employer or an Affiliate for the calendar year ending with or within such Plan Year, including any amounts contributed pursuant to a salary reduction election on behalf of a Covered Employee to a plan described in Sections 125, 132(f)(4), 402(e)(3), 402(h)(1)(B), 403(b), or 457(b) of the Code for the period in question. Effective January 1, 2009, Test Compensation shall include any differential wage payments, as defined in Section 3401(h) of the Code, that are paid by an Employer during a period of qualified military service as defined in Section 414(u) of the Code. Test Compensation in any given year shall not exceed the adjusted annual limitation in effect for such year (as set forth in Section 1.8), provided that such limitation shall not be applied in determining the status of an Employee as a Highly Compensated Employee. To the extent permitted under regulations and other guidance promulgated by the Internal Revenue Service, the Company may elect to determine Test Compensation on a basis other than that provided above.

1.37 “Total Account” means the total amounts held under the Plan for a Participant, consisting of the following accounts:

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

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

(c) “Rollover Account” the portion of the Participant’s Total Account consisting of Rollover Contributions other than that portion of any Rollover Contribution that is attributable to a

Roth Rollover Contribution plus (minus) any investment earnings (losses) on such contributions and less any distributions or withdrawals made from this account in accordance with Articles Six and Seven, respectively.

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

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

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

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

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

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

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

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

For period prior to June 1, 2009 or such later date as the Administrator, in its discretion, shall provide, and except as otherwise indicated, the Trust Fund shall be deemed to include that portion of a Total Account which a Participant and Beneficiary elects to invest in a group annuity contract provided by the Erie Family Life Insurance Company.

1.40 “Trustee” means the Trustee or Trustees acting as such under the Trust Agreement, including any successor or successors.

1.41 “Valuation Date” means the close of business as of each business day.

1.42 “Year of Eligibility Service” means an “Eligibility Computation Period” in which an Employee completes at least 1,000 Hours of Service.

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

ARTICLE TWO

PARTICIPATION

2.1 Participation

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

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

(i) His attainment of age 21 years; and

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

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

2.2 Rehired Employees

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

2.3 Employment Transfers

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

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

ARTICLE THREE

EMPLOYER CONTRIBUTIONS

3.1 Elective Deferrals

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

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

(b) Elective Deferrals constitute Employer contributions under the Plan and are intended to qualify as elective contributions under Sections 401(k) and 402A of the Code. Elective Deferrals may be made only with respect to an amount which the Participant could otherwise elect to receive in cash and which is not currently available to the Participant as of the date an election specified in this Section 3.1 is made. In the event a Participant has no Compensation for any payroll period, no Elective Deferral may be made for such period.

3.2 Dollar Limitation on Elective Deferrals

(a) Any provision of this Plan to the contrary notwithstanding, no Employer shall be permitted, during any calendar year, to make, with respect to such calendar year, Elective Deferrals on behalf of a Participant under the Plan (when combined with the Participant's elective deferrals under any other plans, contracts, or arrangements) that will exceed the limitation in affect for such year under Section 402(g)(1) of the Code, as adjusted in accordance with Section 402(g)(4) of the Code. Make-up contributions on account of qualified military service under Section 414(u) of the Code shall not be recognized as elective deferrals for purposes of this section.

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

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

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

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

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

3.3 Catch-Up Contributions

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

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

3.4 Safe Harbor Matching Contributions

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

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

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

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

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

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

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

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

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

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

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

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

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

3.5 Source of Employer Contributions

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

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

3.6 Investment of Employer Contributions

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

3.7 Recovery of Contributions

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

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

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

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

3.8 Other Provisions Relating to Employer Contributions

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

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

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

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

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

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

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

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

ARTICLE FOUR

ROLLOVER CONTRIBUTIONS

4.1 Rollover Contributions

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

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

4.2 Vesting of Rollover Contributions

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

ARTICLE FIVE

PARTICIPANT ACCOUNTS AND VALUATION OF FUNDS

5.1 Establishment of Participant Accounts

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

(i) a Tax Deferred Account;

(ii) a Safe Harbor Matching Account;

(iii) an Employer Account;

(iv) a Rollover Account;

(v) a Tax Deferred Catch-Up Account;

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

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

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

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

5.2 Valuation Date Adjustments

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

5.3 Investment Elections

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

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

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

(b) Each Participant and Beneficiary shall have the opportunity to change the manner in which the Total Account maintained on his behalf under the Plan is invested. Such opportunity shall be exercised by giving Notice to the Administrator or its designee within such time and in accordance with such means as are designated by the Administrator and communicated to Participants, Covered Employees and affected Beneficiaries. Subject to such procedural rules as may be established by the Administrator from time-to-time, such Notice shall specify, in a whole dollar amount or in 1% increments from 0% to 100%, the dollar amount, or percentage, of the Total Account maintained on behalf of the Participant or Beneficiary which is to be invested in each investment option then made available. Except as may otherwise be set forth in the Trust Agreement, such Notice shall be effective as of the Valuation Date on which the Notice is received by the Trustee or as of the next following Valuation Date, in accordance with procedures established by the Administrator and communicated to Participants, Covered Employees and affected Beneficiaries. Notwithstanding any provision of this paragraph (b) to the contrary, (i) the election under this Section 5.3(b) shall be subject to any contractual limitations imposed on the direct transfer of assets between given investment funds or such other reasonable limitation on exchanges as may be agreed to between the Administrator and the person or entity designated by the Administrator to perform administrative services on behalf of the Plan (ii) the election under this Section 5.3(b) shall be subject to any regulatory restrictions on transfers, as determined by the Administrator, in its discretion, (iii) prior to March 1, 2009 or such later date as the Administrator, in its discretion shall provide, in no event shall any portion of the Total Account maintained on behalf of a Participant or Beneficiary in the Erie Family Life Group Annuity Fund be transferred to any other investment fund and (iv) in no event shall any portion of the Total Account maintained on behalf of a Participant be transferred to the Erie Indemnity Stock Fund.

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

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

(e) Any investment election or deemed investment election under the Plan shall remain in effect until changed by an election under this Section. Notwithstanding any provision of this Article Five to the contrary, the Administrator, in its discretion, may offer such investment options to Participants and Beneficiaries as it deems appropriate and may cease to offer any such options as it deems appropriate. In the event the Administrator decides to discontinue offering an investment option under the Plan, those Participants on whose behalf Total Accounts are being maintained that are invested in the discontinued investment option may be required, at the discretion of the Administrator, to have affected amounts consolidated with (or "mapped" to) a replacement investment option selected by the Administrator or may be provided an opportunity to designate, from such selection of investment options as may be offered by the Administrator, an investment option or options as a replacement for the investment option being discontinued. Any such designation by a Participant shall be made in accordance with paragraph (b) above. If a Participant who is affected by the discontinuation of an investment option fails to make any replacement designation offered in this paragraph (e), the Participant's interest in such discontinued fund, shall be consolidated with (or "mapped" to) such replacement investment option selected by the Administrator, in its discretion. Any changes under this paragraph (e) shall take effect as of such times and under such rules as shall be established by the Administrator.

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

5.4 Erie Indemnity Stock Fund

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

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

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

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

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

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

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

(c) Notwithstanding anything in this Article Five to the contrary, Participants and Beneficiaries shall have the right, and be notified of such right, to diversify the portions of their Total Account which are invested in the Erie Indemnity Stock Fund, as required under Section 401(a)(35) of the Code and Section 101(m) of ERISA. Any limitations established by the Administrator related to contributions and/or transfers into or out of the Erie Indemnity Stock Fund shall comply with the divestiture requirements of Section 401(a)(35) of the Code and related guidance.

5.5 Temporary Suspension of Certain Administrative Activities

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

ARTICLE SIX

VESTING & DISTRIBUTIONS

6.1 Vesting

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

6.2 Distributions Upon Retirement or Other Termination of Employment

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

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

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

options, distribution of the lump sum shall be made to the Beneficiary in cash.

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

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

(b) The Administrator or its designee shall notify a Participant or Beneficiary of his election right under Section 6.2(a) and, in the case of a Participant who may defer payment of the vested portion of his Total Account in accordance with Section 6.2(a), of his right to defer payment and, for Plan Years beginning after December 31, 2006, a description of the consequences of a failure to defer payment. Such notification shall be provided to the Participant or Beneficiary not less than 30 days and not more than 180 days before payment is made; provided, however, that a Participant or Beneficiary may affirmatively elect to be paid the vested Total Account being maintained on his behalf within 30 days after the Participant or Beneficiary received the notice described in this Section 6.2(b).

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

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

6.3 Payment of Amounts Distributed

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

(i) a lump sum;

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

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

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

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

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

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

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

For purposes of this Section 6.3, "required beginning date" shall mean April 1 of the calendar year following the later of the calendar year in which the Participant attains age 70$^{1}/_{2}$ or the calendar year in which the Participant terminates employment or retires; provided, however, if the Participant is a five-percent owner (as defined in Code Section 416), the required beginning date shall be April 1 of the calendar year following the calendar year in which the Participant attains age 70$^{1}/_{2}$, regardless of the date that the five-percent owner terminates employment or retires.

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

(i) the Participant attains age 65;

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

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

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

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

(ii) any portion of the Participant's interest that is payable to a designated Beneficiary shall be distributed in accordance with subparagraph (i) above or over the life of the designated Beneficiary (or over a period not extending beyond the life expectancy of the Beneficiary), commencing not later than the end of the calendar year following the calendar year of the Participant's death or, if the Beneficiary is the Participant's surviving Spouse, commencing not later than the last day of the later of the calendar year in which the Participant would have attained age 70$^{1}/_{2}$, or the calendar year following the calendar year which includes the date of the Participant's death.

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

(f) Notwithstanding Sections 6.3(c), (d) or (e) of the Plan, a Participant or Beneficiary who would have been required to receive required minimum distributions for 2009 but for the enactment of Section 401(a)(9)(H) of the Code ("2009 RMDs"), and who would have satisfied that requirement by receiving distributions that are (i) equal to the 2009 RMDs or (ii) one or more payments in a series of substantially equal distributions (that include the 2009 RMDs) made at least annually and expected to last for the life (or life expectancy) of the Participant, the joint lives (or life expectancy) of the Participant and the Participant's Beneficiary, or for a period of at least 10 years ("Extended 2009 RMDs"), will receive those distributions for 2009 unless the Participant or Beneficiary chooses not to receive such distributions. Participants and Beneficiaries described in the preceding sentence will be given the opportunity to elect to stop receiving the distributions described in the preceding sentence.

For purposes of Section 6.4 of the Plan, 2009 RMDs and Extended 2009 RMDs will also be treated as eligible rollover distributions in 2009.

6.4 Direct Rollovers

(a) A distributee may elect, subject to provisions adopted by the Administrator which shall be consistent with income tax regulations, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover. The Administrator shall notify a distributee of his right to elect a direct rollover; such notice shall be furnished to the distributee between 30 days and 180 days prior to the date as of which the distributee is to receive a distribution from the Plan, provided that the distributee may affirmatively elect a distribution or direct rollover to occur within 30 days after the furnishing of such notice.

(b) Definitions.

(i) Eligible Rollover Distribution: An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee other than (A) any distribution that is one of a series of substantially equal periodic payments made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and his designated Beneficiary, or for a specified period of ten (10) years or more; (B) any distribution to the extent such distribution is required under Code Section 401(a)(9); and (C) any portion of a hardship withdrawal. In addition, a portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Code Sections 408(a) or (b), respectively, or (for distributions on and after January 1, 2008) to a Roth IRA described in Section 408A of the Code, to a qualified trust defined in Section 401(a) of the Code, or to an annuity contract described in Section 403(b) of the Code provided such account, annuity, IRA, trust or annuity contract agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

An eligible rollover distribution with respect to a distributee who is not the Employee's or former Employee's Spouse must be made by a direct trustee-to-trustee transfer.

(ii) Eligible Retirement Plan: An eligible retirement plan is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity described in Code Section 403(a), an annuity contract described in Code Section 403(b), an eligible plan under Code Section 457(b) which is maintained by a state or a political subdivision of a state, and which agrees to separately account for amounts transferred, a qualified trust described in Code Section 401(a), and for periods on and after January 1, 2008, a Roth IRA under Code Section 408A, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution: (A) that includes after-tax employee contributions, an eligible retirement plan is an individual retirement account or annuity described in Code Section 408(a) or (b), or a qualified defined contribution plan described in Code Sections 401(a) or 403(a) that agrees to separately account for such eligible rollover distributions, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, (B) that includes a Designated Roth Account, an eligible retirement plan is an individual retirement plan described in Code Section 408A or a qualified defined contribution plan described in Code Section 401(a) that agrees to separately account for such eligible rollover distribution, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is part not so includible, and (C) that is made on behalf of a distributee that is not the Employee's or former Employee's Spouse, an eligible retirement plan shall mean an individual retirement account described in Code Section 408(a) or an individual retirement annuity described in Code Section 408(b) established for the purpose of receiving a distribution on behalf of a Beneficiary, which will be treated as an inherited IRA pursuant to Code Section 402(c)(11).

(iii) Distributee: A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are distributees with regard to the interest of the Spouse or former Spouse. With respect to distributions made on or after July 1, 2007, a distributee shall also include an Employee's Beneficiary who is not the Employee's Spouse.

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

ARTICLE SEVEN

WITHDRAWALS AND LOANS

7.1 Withdrawals Generally

An Eligible Applicant may make written application to the Administrator for withdrawal of a portion of his account balance without terminating his employment, but only in such amounts and under such conditions as specified in this Article Seven. All such applications for a withdrawal made by an Eligible Applicant shall be approved or denied by the Administrator in accordance with a uniform, non-discriminatory policy and such action by the Administrator shall be final.

7.2 Hardship Withdrawal

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

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

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

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

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

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

Code Section 152(d)(1)(B) of the Code; or

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

7.3 Safe Harbor Distribution

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

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

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

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

7.4 Hardship Withdrawal Priority

(a) A hardship withdrawal pursuant to Section 7.2 shall be made from the Total Account maintained on behalf of an Eligible Applicant in the order of priority set forth in this Section 7.4. That portion of a Eligible Applicant's Total Account which is of a lower priority shall be withdrawn only after those portions of the Total Account which are of higher priority have been completely withdrawn:

(i) Designated Roth Account (excluding earnings);

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

(iii) Roth Rollover Account;

(iv) Rollover Account;

(v) Employer Account;

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

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

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

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

7.5 Modifications to Hardship Withdrawal Standards

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

7.6 In-Service Withdrawals for Reasons Other than Hardship

Upon proper written application of an Eligible Applicant in such form as the Administrator may specify, the Administrator shall permit the Eligible Applicant to withdraw all or a portion of the Total Account maintained on his behalf as provided in this Section 7.6.

(a) Subject to the provisions of paragraphs (c) through (f) below, an Eligible Applicant on whose behalf a Rollover Account is maintained may elect to withdraw all or a portion of such account without regard to whether the Eligible Applicant has attained a given age or completed a given period of service with the Company or other Employer.

(b) Subject to the provisions of paragraph (c) through (f) below, an Eligible Applicant who has attained age 59-1/2 may elect to withdraw all or a portion of the Total Account maintained on his behalf.

(c) A withdrawal under this Section 7.6 shall be effective as of the date set forth in the Eligible Applicant's application for withdrawal, as approved by the Plan Administrator. The Administrator shall endeavor to cause the payment of the withdrawal to be made on, or as soon as practicable following, such effective date.

(i) The amount available for withdrawal will be based on the balance(s) of the Eligible Applicant's applicable accounts or sub-accounts on the Valuation Date as of which the payment of the withdrawal is made.

(ii) Withdrawals shall be made from the applicable accounts and sub-accounts maintained under the Plan on behalf of the Eligible Applicant in such order as the Administrator, pursuant to a uniform and nondiscriminatory policy, shall direct and communicate to Eligible Applicants.

(iii) Withdrawals shall be made from the investment funds maintained under the Plan in such order as the Administrator, pursuant to a uniform and nondiscriminatory policy, shall direct and communicate to Eligible Applicants.

(iv) Withdrawals may be paid in the form of a cash payment and/or as a direct rollover at the election of the Eligible Applicant. However, to the extent all or a portion of the applicable account(s) of an Eligible Applicant subject to the withdrawal election are invested in the Erie Indemnity Stock Fund, the Eligible Applicant may elect to receive the withdrawal either (A) in whole units of Erie Indemnity Stock (with fractional units distributed in cash) or (B) in cash.

(v) The minimum amount of withdrawal under this Section 7.6 shall be the lesser of (A) $500 and (B) the balance(s) of the applicable account(s) of the Eligible Applicant from which a withdrawal is requested under paragraphs (a) and/or (b) above.

(d) Notice shall be provided to an Eligible Applicant in connection with any withdrawal and such Notice shall be consistent with rules promulgated by the Secretary of the Treasury or his delegate.

(e) The Administrator, in its discretion, may provide that a reasonable administrative fee be charged to an Eligible Applicant who elects a withdrawal under this Section 7.6. Any such administrative fee shall be pursuant to a uniform and nondiscriminatory policy that is communicated to Eligible Applicants.

(f) The Company shall have full discretionary authority to modify the provisions of this Section 7.6 provided that any modification shall be evidenced by a writing approved by the Administrator, shall be consistently applied to all pending and future applications as of the date of the modification and shall not operate so as to reduce or eliminate any benefit protected under Section 411(d)(6) of the Code that has accrued as of the date of such modification.

7.7 Availability of Loans

Subject to the provisions of Sections 7.7, 7.8 and 7.9, an Eligible Applicant may apply for a loan from the Plan. Any such application shall be approved or denied by the Administrator in accordance with a uniform, non-discriminatory policy and such action by the Administrator shall be final. All loans approved shall be effective as of the “loan effective date” (as hereinafter defined) provided the loan application was submitted to the Administrator within a reasonable time (as determined by the Administrator) prior to the loan effective date. All loans shall be made only in consideration of adequate security. For purposes hereof the term “loan effective date” shall mean the date, mutually agreed upon by the Participant and the Administrator, on which the loan shall be considered effective.

The Administrator may establish rules governing the granting of loans, provided (i) that such rules are not inconsistent with the provisions of Sections 7.7, 7.8 and 7.9, (ii) that any such rules adopted by the Administrator shall be described in the documents supporting the loan transaction and (iii) that loans are made available to all Eligible Applicants on a reasonably equivalent basis and are not made available to Eligible Applicants who are Highly Compensated in an amount greater than the amount made available to other Eligible Applicants.

7.8 Terms and Conditions of Participant Loans

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

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

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

The current value of a Total Account shall be determined as of the Valuation Date on which the Eligible Applicant initiates the loan process by providing Notice to the Administrator or its designee. No loan shall be made in an amount less than $1,000. Any loan amount shall be made in accordance with Section 7.9.

(b) Application for Loan. The Eligible Applicant must give the Administrator adequate written notice, as determined by the Administrator, of the requested amount and desired time for receiving a loan.

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

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

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

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

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

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

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

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

7.9 Loan Accounts

A loan made by the Plan to a Eligible Applicant in accordance with Sections 7.7 and 7.8 shall be from the Total Account maintained on behalf of such Eligible Applicant and from the investment funds in which such Total Account is invested in such order of priority as the Administrator, pursuant to a uniform and nondiscriminatory policy, shall direct. Payments of principal and interest on loans shall be paid over to the Trustee as soon as possible after each payroll deduction or other repayment and shall be credited to the Total Account of the Eligible Applicant as of the date the repayments are received by the Trustee. An Eligible Applicant’s loan repayments will be credited to such individual’s Total Account in such manner as determined by the Administrator and communicated to Eligible Applicants. The Administrator shall have the authority to establish other reasonable rules, not inconsistent with the provisions of the Plan, governing the establishment and maintenance of loan accounts.

ARTICLE EIGHT

THE TRUST FUND

8.1 Trust Agreement

The Company has entered into a Trust Agreement for the purpose of holding assets of the Trust Fund. The Trust Agreement provides, among other things, that all funds received by the Trustee thereunder shall be held, administered, invested and distributed by the Trustee, and that no part of the corpus or income of the Trust Fund held by the Trustee shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants or their Beneficiaries. The Administrator may remove such Trustee or any successor Trustee, and any Trustee or any successor Trustee may resign. Upon removal or resignation of a Trustee, the Administrator shall appoint a successor Trustee.

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

8.2 Appointment of Independent Accountants

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

8.3 Appointment of Investment Manager

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

8.4 Role of Administrator in Operation of the Trust Fund

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

The Administrator shall have the following responsibilities:

(a) to appoint and remove Trustees;

(b) to appoint investment and fund managers;

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

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

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

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

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

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

8.5 Voting of Erie Indemnity Stock

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

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

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

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

ARTICLE NINE

ADMINISTRATION OF THE PLAN

9.1 The Administrator

The Plan shall be administered by a committee that shall act as Plan Administrator. The initial members of the administrative committee have been appointed by the Board. However, such initial members, and any subsequent members of the administrative committee shall serve at the pleasure of the Executive Council of the Company. Any individual who is a member of the administrative committee may resign by delivering his written resignation to the Executive Council of the Company. In the event of the death, resignation or removal of a member of the administrative committee, such Executive Council shall fill the vacancy. In making the appointment, the Executive Council shall not be limited to any particular person or group, and nothing herein contained shall be construed to prevent any Participant, director, officer, employee or shareholder of the Employers from serving as a member of the administrative committee. Members of the administrative committee will not be compensated from the Trust Fund for services performed in such capacity, but the Company will reimburse such individual for expenses reasonably incurred by them in such capacity. The Administrator shall be the “named fiduciary” for purposes of ERISA; provided, however, that Participants and Beneficiaries with Employer Accounts under the Plan shall be considered “named fiduciaries” solely to the extent of those fiduciary duties and responsibilities which are directly related to the exercise of voting rights with respect to Plan interests invested in the Erie Indemnity Stock Fund (and not to other aspects of Plan operation and/or administration).

Appointment by the Executive Council of the Company shall be evidenced in writing executed on behalf of the Executive Council. Copies of such writings shall be delivered to the Trustee and to such other persons as may require such notice.

9.2 Powers of Administrator

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

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

(b) To interpret the Plan.

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

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

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

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

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

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

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

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

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

(l) To take such steps as it, in its discretion, considers necessary and/or appropriate to remedy an inequity under the Plan that results from incorrect information received or communicated or as the consequence of administrative error including, but not limited to, recouping benefit overpayments.

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

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

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

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

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

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

9.3 Delegation of Duties

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

9.4 Conclusiveness of Various Documents

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

9.5 Actions to be Uniform

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

9.6 Liability and Indemnification

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

ARTICLE TEN

CLAIMS PROCEDURE

10.1 Claims Review Procedure

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

10.2 Original Claim

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

10.3 Review of Denied Claim

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

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

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

10.4 Determination by the Administrator Conclusive

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

10.5 Exhaustion of Administrative Remedies.

The exhaustion of the claims review procedure is mandatory for resolving every claim and dispute arising under the Plan. As to such claims and disputes:

(a) No claimant shall be permitted to commence any civil action to recover Plan benefits or to enforce or clarify rights under the Plan under Section 502 or Section 510 of ERISA or under any other provision of law, whether or not statutory, until the claims review procedure set forth herein has been exhausted in its entirety; and

(b) In any such civil action all explicit and all implicit determinations by the Administrator (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law.

10.6 Deadline to File Civil Action.

No civil action to recover Plan benefits or to enforce or clarify rights under the Plan under Section 502 or Section 510 of ERISA or under any other provision of law, whether or not statutory, may be brought by any claimant on any matter pertaining to the Plan unless the civil action is commenced in the proper forum before the earlier of:

(a) Thirty months after the claimant knew or reasonably should have known of the principal facts on which the claim is based; or

(b) Eighteen months after the claimant has exhausted the claims review procedure.

ARTICLE ELEVEN

MISCELLANEOUS

11.1 Non-Alienation of Benefits

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

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

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

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

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

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

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

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

11.2 Risk to Participants and Source of Payments

Each Participant assumes all risk in connection with any decrease in the value of any investment fund in the Trust Fund, and the Trust Fund shall be the sole source of any payments to be made to Participants or their Beneficiaries as a result of any right specifically granted under the terms of the Plan.

11.3 Expenses

Subject to any restriction applicable under Section 5.4(a), brokerage fees, transfer taxes and other expenses incurred by the Trustee in connection with the purchase or sale of securities may be added to the cost of such securities or deducted from the proceeds thereof, as the case may be. Earnings credited to accounts invested in mutual funds shall be net of direct fund management expenses. Pursuant to a uniform and nondiscriminatory policy adopted by the Administrator in its discretion and communicated to eligible Participants and Beneficiaries, fees and other expenses associated with specific voluntary Plan transactions may be assessed directly against the Total Account maintained on behalf of the Participant or Beneficiary participating in such transaction.

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

11.4 Rights of Participants

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

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

11.5 Statement of Accounts

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

11.6 Designation of Beneficiary

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

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

11.7 Payment to Incompetents

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

11.8 Authority to Determine Payee

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

11.9 Severability

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

11.10 Employer Records

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

11.11 Limitation on Contributions

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

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

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

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

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

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

Catch-Up Contributions under Section 3.3, make-up contributions on account of qualified military service under Section 414(u) of the Code and loan repayments under Section 7.8 shall not be recognized as annual additions for purposes of this section.

(b) In the event that a Participant's total annual additions for any limitation year exceed the limitations of Section 11.11(a) because of a reasonable error in estimating the Participant's Compensation, a reasonable error in determining the amount of Elective Deferrals that a Participant may make within the limitations of paragraph (a) above or due to such other facts and circumstances as the Commissioner of Internal Revenue finds justifiable, the excess amount shall be eliminated and/or the error corrected in a manner prescribed under the IRS Employee Plans Compliance Resolution System.

(c) Notwithstanding anything herein to the contrary, in no event shall Test Compensation, for purposes of this Section 11.11, include severance pay. However, the following types of remuneration, if includible for purposes of Test Compensation as described in paragraph (a) above, shall be taken into account only if paid by the later of the date that is 2-1/2 months after the date of severance from employment with an Employer or the end of the limitation year that includes the date of severance from employment with the Employer, if the amounts would have been included in compensation had they been paid before the severance from employment date:

(i) The payment for services rendered during the Participant's regular working hours, or for services outside of the Participant's regular working hours such as overtime or shift differential, commissions, bonuses or other similar payments that would have been paid had the Participant not incurred a severance from employment.

(ii) Payments of unused accrued bona fide sick, vacation or other leave provided the Participant would have been able to use the leave if employment had continued, or payments from a nonqualified unfunded deferred compensation plan, provided the payment would have been paid had the Participant not incurred a severance from employment and such payment would have been includible in gross income had such payment been made.

(iii) If the Employer continues to provide remuneration to a Participant due to the Participant's disability or to a Participant who is not performing services because of qualified military service, as defined in Code Section 414(u), in an amount that is not in excess of that which would have been payable to the Participant as compensation had the Participant not entered qualified military service, such amounts will be included in Test Compensation for purposes of this Section.

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

11.12 IRC 414(u) Compliance Provision

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

(a) As provided by Section 414(u) of the Code, "qualified military service" means service in the uniformed services (as defined in Chapter 43 of Title 38, United States Code) by an individual if he is qualified under such chapter to reemployment rights with the Company or an Affiliate following such military service.

(b) "USERRA" means the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended.

(c) If an individual returns to employment with the Company or an Affiliate following a period of qualified military service under circumstances such that he has reemployment rights under USERRA, and the individual reports for said reemployment within the time frame required by USERRA, the following provisions apply:

(i) The Employee may elect to have "make up" Elective Deferrals made on his behalf following his period of qualified military service to the extent he could have made Elective Deferrals had he remained a Covered Employee under the Plan during his qualified military service. To the extent such "make up" Elective Deferrals are made by the Employee within such period as provided by law, such contributions shall be matched under this Plan according to the same conditions and at the same rate as the Elective Deferrals would have been matched had they actually been made during the period of qualified military service.

(ii) The period of qualified military service shall be recognized for purposes of determining Years of Eligibility Service under the Plan to the same extent it would have been had the Employee remained continuously employed with the Company or an Affiliate rather than leaving active employment to go into qualified military service.

(iii) Compensation and Test Compensation shall be determined for the individual during the period of qualified military service. The amount of Compensation and Test Compensation shall be determined by the Company consistent with the requirements of the USERRA, and shall reflect the Company's best estimate of the earnings the individual would have received but for the qualified military service.

(iv) Notwithstanding the foregoing, investment earnings or losses applicable to any contributions hereunder shall be credited only with respect to periods following the actual deposit of such contributions.

(d) The Plan shall comply with the provisions of the Heroes Earnings Assistance and Relief Tax Act of 2008 (the “HEART Act”), which amended certain provisions of USERRA.

(i) If a Participant dies while performing qualified military service and such death occurs on or after January 1, 2007, the Participant’s Beneficiary shall receive the same benefits under the Plan as if the Participant had returned to employment as a Covered Employee immediately prior to his death and then terminated employment on account of his death.

(ii) A Participant performing qualified military service on or after March 1, 2009 for a period of at least 30 days and who has not incurred a severance from employment may elect to withdraw in cash all or a portion of his Tax Deferred Account. Such a Participant shall be suspended from making Elective Deferrals to the Plan until the first day of the pay period occurring six full months after the effective date of the withdrawal.

(iii) Effective March 1, 2011, a Participant who is called to qualified military service for a period in excess of 179 days, or for an indefinite period, and who has not incurred a severance from employment, may elect to withdraw in cash all or a portion of his Tax Deferred Account.

(iv) A withdrawal under this Section 11.12(d) must be effective during a Participant’s period of qualified military service and before the Participant has otherwise incurred a severance from employment with the Employer and Affiliates.

(v) The provisions of Sections 7.6(c) through 7.6(f) shall apply to the withdrawals under this Section 11.12(d), substituting “Participant” for “Eligible Applicant” thereunder.

(e) The foregoing provisions are intended to provide the benefits required by USERRA and the HEART Act, and are not intended to provide any other benefits. This Section shall be construed consistent with said intent.

ARTICLE TWELVE

AMENDMENT, TERMINATION OR MERGER OF THE PLAN

12.1 Right to Amend

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

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

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

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

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

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

Any such modification or amendment to this Plan shall be evidenced by a written instrument adopted by the Board; provided, however, that the Administrator may adopt such amendments as shall fall within the limited amendment authority contained in the Administrator's charter. Any such written instrument shall recite at which time the amendments contained therein shall become effective.

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

12.2 Right to Terminate

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

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

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

12.3 Merger, Transfer of Assets or Liabilities

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

ARTICLE THIRTEEN

TOP HEAVY PROVISIONS

13.1 Top Heavy Provisions Inapplicable

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

Executed at Erie, Pennsylvania, this 23 day of December, 2010.

ERIE INDEMNITY COMPANY

By: /s/ Terrence W. Cavanaugh
Title: President & CEO

Exhibit 10.126

Agreement dated January 13, 2010, by and between Erie Indemnity Company and George R. Lucore.

AGREEMENT

This **AGREEMENT** (the "Agreement"), dated as of the 13th day of January 2010, is by and between **ERIE INDEMNITY COMPANY,** a Pennsylvania corporation with its principal place of business at 100 Erie Insurance Place, Erie, Pennsylvania 16530 (together with its subsidiaries and affiliated companies, referred to hereinafter as the "Company"), and **GEORGE R. LUCORE** of 928 Lord Road, Fairview, PA 16415 (the "Employee").

RECITALS:

WHEREAS, the Employee is employed as Executive Vice President — Field Operations of the Company; and

WHEREAS, the Company and the Employee desire to memorialize in this Agreement the Employee's retirement and related termination of his employment with the Company, and to completely resolve all matters arising out of his employment and termination of that employment.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein, and intending to be legally bound hereby, the Employee and the Company agree as follows:

1. **Effective Date; Payments Conditioned on General Releases.**

(a) Except for Section 2 below, which shall be effective upon signing of this Agreement by the Employee, all of the other terms of this Agreement shall not become effective or enforceable until the seven (7) calendar day revocation period referred to in Section 6(d) below has expired without the Employee revoking this Agreement as set forth in Section 6(d).

(b) Furthermore, the consideration described in Sections 4(b), (c) and (d) below shall not be owing and payable to the Employee unless and until: (i) this Agreement has become effective as provided in Section 1(a) above, and (ii) the Employee's employment is not terminated before the end of the Transition Period (as defined in Section 2(c) below), and (iii) within twenty-one (21) calendar days after the termination of the Employee's employment including termination by resignation or retirement, the Employee: (A) executes a second waiver and release in the form attached to this Agreement as Exhibit A, except that the second waiver and release shall be effective as of the date of termination of the Employee's employment including termination by resignation or retirement, and (B) the second seven (7) calendar day revocation period for the second waiver and release expires without the Employee revoking the second waiver and release as set forth in Section 6(e) below.

2. **<u>Resignation as Officer; Retirement; and Termination of Employment.</u>**

(a) The Employee hereby resigns from his position as Executive Vice President — Field Operations of Erie Indemnity Company and each of its subsidiaries and affiliated companies, effective as of 11:59 p.m. Erie time on March 31, 2010, and the Company hereby accepts that resignation.

(b)The Employee hereby resigns as an employee of the Company, effective as of 11:59 p.m. Erie time on March 31, 2010, and the Company hereby accepts that resignation. Following his resignation, the Employee, for all purposes, shall be deemed a retired employee. Upon his retirement, the Employee hereby also resigns as a member of all Boards of Directors of any of the Company's subsidiaries and affiliated companies and from any and all positions he currently holds with any third parties as the Company's representative or at the Company's request.

(c) During the period from the date of this Agreement, through March 31, 2010 (the "Transition Period"), the Employee will remain an employee of the Company with the same officer title, job description and responsibilities, and compensation and benefits which he currently has. The Company shall terminate the Employee's employment during this Transition Period only for "good cause", with or without notice.

(d) For purposes of Section 2(c) above, the term "good cause" shall have the following meaning: (i) the Employee's deliberate and intentional breach of any material provision of this Agreement, which breach the Employee shall have failed to cure within fifteen (15) calendar days after the Employee's receipt of written notice from the Company specifying the nature of the Employee's breach, (ii) the Employee's deliberate and intentional engagement in gross misconduct that is materially and demonstrably inimical to the best interests of the Company, or (iii) the Employee's conviction of, or plea of guilty or *nolo contendere* to, a felony or any crime involving moral turpitude, fraud, deceit, or financial impropriety.

3. **<u>Ongoing Cooperation.</u>**

(a) During the period from April 1, 2010 through December 31, 2010, the Employee agrees to use his best efforts to assist, advise and cooperate with the Company, if the Company so requests, with respect to the transition of Employee's duties and responsibilities to others within the Company, and on issues that arose or were in any way developing during his employment with the Company, subject to Employee's availability given his employment, if any, and personal obligations at that time. The level of services the Employee will perform under this Section 3 shall be no more than 20 percent of the average level of services he performed before his retirement, and the Company anticipates a level of services significantly below that 20 percent limit.

(b) During the period referred to in Section 3(a) above, the Employee shall furnish such assistance, advice or cooperation to the Company as the Company shall reasonably request and as is within the Employee's reasonable capability. Such assistance, advice and cooperation may include, but shall not be limited to, (i) consulting with the Company regarding its relations with its independent insurance agents, (ii) attending meetings with such agents, and (iii) preparing for, or the conduct of, any litigation, investigation or proceeding involving matters or events which occurred during the Employee's employment by the Company as to which the Employee's knowledge or testimony may be important to the Company. In connection with the preparation for, or the conduct of, such litigation, investigation or proceeding as described in the preceding sentence, the Employee shall promptly provide the Company with any records or other materials in his possession that the Company shall request in connection with the defense or prosecution of such litigation, investigation or proceeding.

(c) The Employee shall not receive any compensation for any assistance, advice or cooperation requested by the Company under this Section 3; however, the Company shall pay or reimburse the Employee for his travel expenses reasonably incurred in the course of providing such assistance, advice or cooperation. The Company shall make such payment or reimbursement within thirty (30) days of receipt of reasonable substantiating documentation from the Employee.

4. **Consideration.**

(a) In consideration of the execution and performance of this Agreement by the Employee, and subject to the remaining provisions of this Section 4, the Company shall continue to pay the Employee his current bi-weekly salary and continue to provide existing health and related benefits from the date of this Agreement through the date of his retirement.

(b) Assuming Employee is in compliance with the terms of this Agreement up through October 31, 2010, he will be entitled to a special retirement payment of $400,000 from the Company, which is an amount to which Employee is not entitled as an employee of the Company or otherwise. Such payment will be paid on November 12, 2010.

(c) In the event of the Employee's death before payment of the special retirement payment described in Section 4(b) above, the Company shall pay that amount to the beneficiary or beneficiaries of the Employee as designated by the Employee, and the Company's obligations under Section 4(b) shall cease; provided, however, that if the Employee has not designated a beneficiary, or if no such designated beneficiary survives the Employee, the Company shall pay that amount to the executor or administrator of the Employee's estate. Such payment shall be made within ninety (90) calendar days after the Employee's death upon a date determined by the Company.

(d) Assuming Employee is and remains in compliance with the terms of this Agreement, the Company shall continue or cause to be continued the coverage of the Employee (and the Employee's previously covered dependents, if any) under the Company's Health Protection and Prescription Plan ("Health Plan"), upon substantially the same terms and conditions (including the required employee contribution, if any) as apply to comparably situated active employees, for the period from the effective date of his retirement through his 65th birthday (the "Covered Period"). If the Employee and his previously covered dependents, if any, are not eligible for continued coverage under the Health Plan, they shall be covered during the Covered Period under an individual health insurance policy, or, if applicable, to reimbursement by the Company for their medical and prescription drug expenses, as more fully described below.

The Company's obligation with respect to all such coverages, including any coverages that are not provided under an insured plan, is conditioned on the Employee's duly electing, and then paying the cost of, COBRA coverage throughout the available COBRA continuation coverage period. The Company shall reimburse the Employee for the cost of COBRA coverage, to the extent it exceeds the required contribution at that time of a comparably situated active employee. The Company shall pay such reimbursement within ninety (90) days after its receipt of documentation of payment by the Employee, but in no event later than the end of the calendar year following the year in which the expense was incurred.

If, after the end of the available COBRA continuation period, the continuation of any coverage identified above is not reasonably available pursuant to the applicable insurance policy or plan:

(A) The parties will cooperate and use their best efforts to obtain an individual policy that provides the Employee (and his previously covered dependents, if any) substantially equivalent coverage, and the Company will pay the premiums on any such individual policy for the Covered Period, to the extent in excess of the required employee contribution paid at that time by comparably situated active employees.

(B) If an individual policy cannot be obtained despite the parties' cooperative best efforts, the Company shall reimburse the Employee for any medical expense he and his previously covered dependents, if any, incur during the remainder of the Covered Period, provided that such expense would have been reimbursed by the Health Plan, and provided the Employee has paid to the Company an amount equal to the required employee contribution paid at that time by comparably situated active employees for such period. The Company shall pay such reimbursement within ninety (90) days after its receipt of reasonable documentation of the expense, but in no event later than the end of the calendar year following the year in which the expense was incurred.

(e) All payments under this Section 4 shall be subject to applicable deductions. For the purposes of this Agreement, "applicable deductions" shall include, but shall not be limited to, any federal, state, or local taxes determined by the Company to be required to be withheld from amounts paid to the Employee pursuant to this Agreement or otherwise due from the Company and any other amounts that the Company may be legally required to deduct from his earnings or that Employee authorizes to be deducted.

(f) Except as provided in this Agreement, the Employee agrees that he is not entitled to any other compensation including, but not limited to, salary or bonuses, perquisites, or benefits of any kind or description from the Company, or from or under any employee benefit plan or fringe benefit plan sponsored by the Company, other than as described in this Section 4 and other than payment of his:

(i) vested accrued unpaid vacation time as of the date of his retirement;

(ii) unused sick time as of the date of his retirement for which he will be paid 20% of his daily salary rate for each full unused sick day, up to a maximum payment of $20,000;

(iii) vested accrued benefits, if any, under the Erie Insurance Group Retirement Plan for Employees;

(iv) vested accrued benefits, if any, under the Erie Insurance Group Employee Savings Plan;

(v) vested accrued benefits, if any, under the Erie Insurance Group Deferred Compensation Plan;

(vi) vested accrued benefits, if any, under the 2009 Annual Incentive Plan (“AIP”);

(vii) vested accrued benefits, if any, under the 2010 AIP;

(viii) vested accrued benefits, if any, under the Long-Term Incentive Plan (“LTIP”) for each of the three-year performance periods 2007-2009, 2008-2010, 2009-2011 and 2010-2012; and

(ix) vested accrued benefits, if any, under the Supplemental Employee Retirement Plan (“SERP”).

Any payments under any of the plans or practices listed in clauses (i) through (ix) above, including but not limited to the AIP, the LTIP and the SERP, shall be in accordance with the terms of such plan or practice, including the payment of any benefits on a pro rata basis, and the Company’s decisions with respect thereto shall be final and binding on Employee.

(g) The consideration paid by the Company to the Employee pursuant to this Agreement shall be in compromise, settlement and full satisfaction of any and all Claims, as defined in Section 5 below, that the Employee has, or may have, against the Company or other Releasees, as defined in Section 5 of this Agreement, arising out of the Employee’s employment with the Company or its affiliates, the termination of such employment, and any and all matters of any nature related to the Employee’s employment with the Company and the termination of that employment.

5. **Waiver and General Release.**

(a) The Employee, for himself, his heirs, successors and assigns, and in consideration of the payments to be made by the Company pursuant to Section 4 (b) and (d) above, does hereby forever discharge and release the Company, and its corporate parents, subsidiaries, affiliated companies, companies with common management, ownership or control, successors, assigns, insurers and reinsurers, attorneys, and insurance agents, and all of their officers, directors, shareholders, employees, agents and representatives, in their official and individual capacities (collectively referred to as "Releasees"), from any and all claims, demands, causes of action, damages, charges, complaints, grievances, expenses, compensation and remedies which the Employee now has or may in the future have on account of, or arising out of, any matter or thing which has happened, developed or occurred before the date of this Agreement (collectively "Claims") including, but not limited to, all Claims arising from the Employee's employment with the Company or any of its affiliated companies, the termination of such employment, any and all relationships or dealings between the Employee and the Company or any of the other Releasees, the termination of any such relationships and dealings, and any and all other Claims the Employee may have against the Company or any of the other Releasees. The Employee hereby waives any and all such Claims including, but not limited to, all charges or complaints that were or could have been filed with any court, tribunal or governmental agency, and any and all Claims not previously alleged including, but not limited to, any Claims under the following: (i) Title VII of the Civil Rights Act of 1964, as amended; (ii) the Equal Pay Act of 1963; (iii) the Age Discrimination in Employment Act (ADEA), as amended; (iv) except as otherwise provided in Section 4(f) above, the Federal Employee Retirement Income Security Act of 1974 (ERISA), as amended; (v) the Americans With Disabilities Act (ADA), as amended; (vi) Section 806 of the Sarbanes-Oxley Act of 2002, as amended; (vii) any other federal statutes, rules, regulations, executive orders or guidelines of any description; (viii) any and all state statutes, rules, regulations, executive orders or guidelines of any description under Pennsylvania law, or the law of any other state, including, but not limited to, the Pennsylvania Human Relations Act, as amended; the Pennsylvania Equal Pay Law; the Pennsylvania Wage Payment and Collection Law; (ix) any and all local laws, rules, regulations, executive orders or guidelines of any description including, but not limited to, the Erie County Human Relations Ordinance; and (x) any rule or principle of equity or common law including, but not limited to, any Claim of defamation, conversion, interference with a contract or business relationship, any other intentional or unintentional tort, any Claim of loss of consortium, any Claim of harassment or retaliation, any claim for breach of contract or implied contract, any claim for breach of covenant of good faith and fair dealing, and any whistle-blower Claim. This release, discharge and waiver shall be hereinafter referred to as the "Release."

(b) The Employee specifically understands and agrees that the termination of his employment does not violate or disregard any oral or written promise or agreement of any nature whatsoever, express or implied. If any contract or agreement exists concerning the employment of the Employee by the Company or the terms and conditions of such employment or the termination of such employment, whether oral or written, express or implied, that contract or agreement is hereby terminated and is null and void.

(c) The Employee agrees that this Release may be enforced in federal, state or local court and before any federal, state or local administrative agency or body.

(d) Nothing in the Release is intended to release any of the Employee's vested retirement benefits.

6. **Additional Terms.**

(a) The Employee represents that he has not filed or caused to be filed, and agrees that he will not file or cause to be filed, any lawsuit of any kind in any federal, state or local court arising out of, or relating to, his employment with the Company, the terms and conditions of that employment, or the termination of his employment.

(b) The Employee agrees that he has not sustained any disabling personal injury and/or occupational disease which has resulted in a loss of wage earning capacity during his employment with the Company and that he has no personal injury and/or occupational disease which has been contributed to, or aggravated or accelerated in a significant manner by his employment with the Company.

(c) The Employee represents and warrants that the Company has encouraged and advised the Employee in writing, prior to signing this Agreement, to consult with an attorney of his choosing concerning all of the terms of this Agreement.

(d) This Agreement may be revoked by the Employee within seven (7) calendar days after the date this Agreement is signed by the Employee, by giving written notice of revocation to James J. Tanous, Executive Vice President, Secretary and General Counsel of the Company at 100 Erie Insurance Place, Erie, Pennsylvania 16530, through either hand-delivery or via Certified or Registered U.S. Mail, postage prepaid, return receipt requested.

(e) The second waiver and release referenced in Section 1(b)(iii) above may be revoked by the Employee within seven (7) calendar days after that second waiver and release is signed by the Employee giving written notice of revocation to James J. Tanous, Executive Vice President, Secretary and General Counsel of the Company at 100 Erie Insurance Place, Erie, Pennsylvania 16530, through either hand-delivery or via Certified or Registered U.S. Mail, postage prepaid, return receipt requested.

(f) The Employee represents and warrants that the Company has given him a reasonable period of time of at least twenty-one (21) calendar days to consider all the terms of this Agreement and for the purpose of consulting with an attorney, if the Employee so chooses. A copy of this Agreement was first given to the Employee on December 22, 2009. If this Agreement has been executed by the Employee prior to the end of the twenty-one (21) calendar day period, the Employee represents that he has freely and willingly elected to do so.

(g) This Agreement provides the Employee sums and benefits to which he is not entitled as an employee of the Company or otherwise.

(h) Nothing contained in this Agreement is intended to be an admission of any fault, wrongdoing, or liability on the part of the Company, and nothing contained in this Agreement may be deemed, construed, or treated in any respect as such an admission. The Company specifically denies any fault, wrongdoing or liability toward the Employee. This Agreement was reached by the parties for reasons deemed good and sufficient by the Company and the Employee.

7. **Non-Disparagement.**

(a) The Employee agrees that he shall refrain from demeaning, criticizing or deriding the Company, his employment experience with the Company, the products and services of the Company and/or the Company's shareholders, directors, officers, managers, insurance agents and employees.

(b) The Company agrees that its officers shall refrain from demeaning, criticizing or deriding the Employee in any way related to his employment with the Company; provided, however, that the provisions of this Section 7(b) shall not in any way prohibit the officers of the Company from internally discussing work-related performance issues related to the Employee that have been, or may be, discovered during the normal business operations of the Company.

8. **Confidentiality of Information and Non-Disclosure.**

(a) The Employee agrees that he will not, directly or indirectly, without the express written approval of the Company, unless directed by applicable legal authority (including any court of competent jurisdiction, governmental agency having supervisory authority over the business of the Company or its subsidiaries, or any legislative or administrative body having supervisory authority over the business of the Company or its subsidiaries) having jurisdiction over the Employee, disclose to or use, or knowingly permit to be so disclosed or used, for the benefit of himself, any person, corporation or other entity other than the Company (i) any proprietary or non-public information concerning any of the Company's policies, practices and procedures; financial matters; customer and insurance agent relationships; competitive status; supplier matters; internal organizational matters; current or future plans; or other business affairs of or relating to the Company, its subsidiaries or affiliated or related parties or any of its insurance agents; (ii) any non-public personal information concerning any of the Company's employees, or any of its insurance agents or customers; (iii) any proprietary management, operational, trade, technical or other secrets or any other proprietary information or other data of the Company, its subsidiaries or affiliated or related parties or any of its insurance agents; or (iv) any other information related to the Company, its subsidiaries or affiliated or related parties or any of its insurance agents, or any other information which the Employee should reasonably believe will be damaging to the Company, its subsidiaries or affiliated or related parties or any of its insurance agents, which has not been published and is not generally known outside of the Company. The Employee acknowledges that all of the foregoing constitutes confidential and proprietary information which is the exclusive property of the Company.

(b) The Employee acknowledges and agrees that any breach of this Section 8 will result in immediate and irreparable harm to the Company and that the Company cannot be reasonably or adequately compensated by damages in an action at law. In the event of a breach by the Employee of the provisions of this Section 8, the Company shall be entitled, to the extent permitted by law, immediately to cease to pay or provide the Employee or the Employee's beneficiaries any compensation or benefit being, or to be, paid or provided to the Employee pursuant to this Agreement and also to obtain immediate injunctive relief restraining the Employee from conduct in breach of the covenants contained in this Section 8. Nothing herein shall be construed as prohibiting the Company from pursuing any other available remedies for such breach, including the recovery of damages from the Employee.

9. **Breach of Agreement.** The Employee agrees that if he violates any of the terms of this Agreement, the Company may pursue whatever rights it has under this Agreement, whether in law or in equity, without affecting the validity and enforceability of the Release contained in Section 5 above.

10. **Company Property, Records, Files and Equipment.** The Employee at the request of the Company will return to the Company all Company property, records, files, and any other Company owned equipment in his possession.

11. **Confidentiality of Agreement.** The Employee and the Company each agrees to keep confidential the terms of this Agreement, and their performance hereunder, and not disclose this information henceforth to anyone other than the United States Securities and Exchange Commission; the United States Internal Revenue Service; state or local tax authorities; the Employee's family; and their respective attorneys, accountants and tax advisors, who also shall be bound by this confidentiality obligation. The foregoing shall not prohibit or restrict such disclosure as is required by law or may be necessary for the prosecution of claims relating to the performance or enforcement of this Agreement. Each party agrees to provide the other party with as much notice as possible that it has been requested or compelled to make disclosures, and shall use their (or their counsel's) best efforts to ensure that if any disclosure occurs, it is done in a manner designed to maintain the confidentiality of this Agreement to the fullest extent possible.

12. **Governing Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Pennsylvania applicable to contracts executed in and to be performed in Pennsylvania without regard to its conflicts of laws provisions. The Company and the Employee each hereby irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the courts of the Commonwealth of Pennsylvania located in the County of Erie, Pennsylvania, and to the United States District Court

for the Western District of Pennsylvania located in Erie County for any litigation arising out of, or relating to, this Agreement or the transactions contemplated hereby. Any legal action relating to this Agreement shall be brought in the courts of the Commonwealth of Pennsylvania located in the County of Erie, Pennsylvania and/or in the United States District Court for the Western District of Pennsylvania located in Erie County, and the parties irrevocably and unconditionally waive and will not plead or claim in any such court that venue is improper or that such litigation has been brought in an inconvenient forum.

13. **Waiver.** The waiver by the Company or the Employee of any breach by the other party hereto of any provision of this Agreement shall not operate, or be construed as, a waiver of any other or subsequent breach by a party hereto.

14. **Assignment.** This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company, and the Company shall be obligated to require any successor to expressly acknowledge and assume its obligations hereunder. This Agreement shall also be binding on and inure to the benefit of the Employee and his legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. The Employee may not delegate any of his duties, responsibilities, obligations or positions to any other person, and any such purported delegation by the Employee shall be void and of no force and effect.

15. **Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid under applicable law, such provision shall be invalid only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

16. **Notices.** Any notices required or permitted to be given under this Agreement, other than written notice of revocation that is governed by Section 6(d) above, shall be sufficient if in writing, and if hand-delivered or sent by First Class, Certified or Registered U.S. Mail, postage prepaid, return receipt requested, as follows: in the case of the Employee, to his principal residence address at 928 Lord Road, Fairview, PA 16415 (or such other address the Employee notifies the Company of in writing), and in the case of the Company, to James J. Tanous, Executive Vice President, Secretary and General Counsel, 100 Erie Insurance Place, Erie, PA 16530.

17. **Entire Agreement.** This Agreement constitutes the entire agreement of the Company and the Employee relating to the subject matter hereof and supersedes any obligations of the Company under any previous agreements or arrangements, except as otherwise provided in this Agreement. The provisions of this Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of any amendment, modification, repeal, waiver, extension or discharge is

sought. This Agreement may be executed in one or more counterparts (including by facsimile signature), all of which shall be considered one and the same instrument, and shall be fully executed when all of the counterparts have been signed by, and delivered to, each party.

18. **Headings.** The descriptive headings used herein are used for convenience of reference only and shall not constitute a part of this Agreement.

THE EMPLOYEE HEREBY EXPRESSLY WARRANTS AND REPRESENTS THAT, BEFORE ENTERING INTO THIS AGREEMENT, HE HAS BEEN GIVEN A REASONABLE PERIOD OF TIME WITHIN WHICH TO CONSIDER ALL OF THE PROVISIONS CONTAINED IN THIS AGREEMENT, THAT HE HAS FULLY READ, INFORMED HIMSELF OF AND UNDERSTANDS ALL THE TERMS, CONTENTS, CONDITIONS AND EFFECTS OF ALL PROVISIONS OF THIS AGREEMENT, AND THAT HE CONSIDERS ALL SUCH PROVISIONS TO BE SATISFACTORY.

THE EMPLOYEE EXPRESSLY WARRANTS AND REPRESENTS THAT NO PROMISE OR REPRESENTATION OF ANY KIND HAS BEEN MADE BY THE COMPANY, EXCEPT THOSE EXPRESSLY STATED IN THIS AGREEMENT.

THE EMPLOYEE FURTHER EXPRESSLY WARRANTS AND REPRESENTS THAT HE ENTERS INTO THIS AGREEMENT, KNOWINGLY AND VOLUNTARILY, AND AFTER AN OPPORTUNITY TO REVIEW ALL OF THE TERMS, CONTENTS, CONDITIONS AND EFFECTS OF ALL PROVISIONS OF THE AGREEMENT WITH AN ATTORNEY OF HIS CHOOSING.

IN WITNESS WHEREOF, George R. Lucore and Erie Indemnity Company, by its duly authorized representative, have signed this Agreement as of the date set forth above.

WITNESS:		**GEORGE R. LUCORE**
/s/ Jodi L. Cole		/s/ George R. Lucore
ATTEST:		**ERIE INDEMNITY COMPANY**
/s/ Brian W. Bolash	By:	/s/ James J. Tanous
Brian W. Bolash **Assistant Secretary**		**James J. Tanous** **Executive Vice President,** **Secretary and General Counsel**

EXHIBIT A

Employee's Second Waiver and General Release

Effective as of the date hereof, GEORGE R. LUCORE ("Employee"), for himself, his heirs, successors and assigns, and in consideration of the payments to be made by Erie Indemnity Company (the "Company") pursuant to Section 4(b) and (d) of the Agreement between the Company and Employee dated as of January 13, 2010 (the "Agreement"), does hereby forever discharge and release the Company, and its corporate parents, subsidiaries, affiliated companies, companies with common management, ownership or control, successors, assigns, insurers and reinsurers, attorneys, and insurance agents, and all of their officers, directors, shareholders, employees, agents and representatives, in their official and individual capacities (collectively referred to as "Releasees"), from any and all claims, demands, causes of action, damages, charges, complaints, grievances, expenses, compensation and remedies which the Employee now has or may in the future have on account of, or arising out of, any matter or thing which has happened, developed or occurred before the date hereof and prior to Employee's retirement (collectively "Claims") including, but not limited to, all Claims arising from the Employee's employment with the Company or any of its affiliated companies, the termination of such employment, any and all relationships or dealings between the Employee and the Company or any of the other Releasees, the termination of any such relationships and dealings, and any and all other Claims the Employee may have against the Company or any of the other Releasees. The Employee hereby waives any and all such Claims including, but not limited to, all charges or complaints that were or could have been filed with any court, tribunal or governmental agency, and any and all Claims not previously alleged including, but not limited to, any Claims under the following: (i) Title VII of the Civil Rights Act of 1964, as amended; (ii) the Equal Pay Act of 1963; (iii) the Age Discrimination in Employment Act (ADEA), as amended; (iv) except as otherwise provided in Section 4(f) of the Agreement, the Federal Employee Retirement Income Security Act of 1974 (ERISA), as amended; (v) the Americans With Disabilities Act (ADA), as amended; (vi) Section 806 of the Sarbanes-Oxley Act of 2002, as amended; (vii) any other federal statutes, rules, regulations, executive orders or guidelines of any description; (viii) any and all state statutes, rules, regulations, executive orders or guidelines of any description under Pennsylvania law, or the law of any other state, including, but not limited to, the Pennsylvania Human Relations Act, as amended; the Pennsylvania Equal Pay Law; the Pennsylvania Wage Payment and Collection Law; (ix) any and all local laws, rules, regulations, executive orders or guidelines of any description including, but not limited to, the Erie County Human Relations Ordinance; and (x) any rule or principle of equity or common law including, but not limited to, any Claim of defamation, conversion, interference with a contract or business relationship, any other intentional or unintentional tort, any Claim of loss of consortium, any Claim of harassment or retaliation, any claim for breach of contract or implied contract, any claim for breach of covenant of good faith and fair dealing, and any whistle-blower Claim. This release, discharge and waiver shall be hereinafter referred to as the "Release."

The Employee specifically understands and agrees that the termination of his employment does not violate or disregard any oral or written promise or agreement of any nature whatsoever, express or implied. If any contract or agreement exists concerning the employment of the Employee by the Company or the terms and conditions of such employment or the termination of such employment, whether oral or written, express or implied, that contract or agreement is hereby terminated and is null and void.

The Employee agrees that this Release may be enforced in federal, state or local court and before any federal, state or local administrative agency or body.

Nothing in this Release is intended to release any of the Employee's vested retirement benefits.

The Employee represents and warrants that the Company has encouraged and advised the Employee, prior to signing this Release, to consult with an attorney of the Employee's choosing concerning all of the terms of this Release.

This Release may be revoked by the Employee within seven (7) days after the date this Release is signed by the Employee, by giving written notice of revocation to the General Counsel of the Company. This Release shall not become effective or enforceable until the revocation period has expired, and the consideration provided in Section 4(b) and (d) of the Agreement shall not be made until after the revocation period has expired with no revocation.

The Employee represents and warrants that the Company has given the Employee a reasonable period of time, of at least twenty-one (21) days, for the Employee to consider all the terms of this Release and for the purpose of consulting with an attorney if the Employee so chooses. If this Release has been executed by the Employee prior to the end of the twenty-one (21) day period, the Employee represents that he has freely and willingly elected to do so.

This Release provides the Employee sums and benefits to which he is not otherwise entitled as an employee of the Company.

In Witness Whereof, the Employee has signed this Release as of the 5 day of October 2010.

EMPLOYEE

/s/ George R. Lucore
George R. Lucore

Witnessed: /s/ William D. Gheres

Exhibit 10.127

Eleventh Amendment to Loan Documents between Erie Indemnity Company and PNC Bank, National Association dated July 20, 2010.

THIS ELEVENTH AMENDMENT TO LOAN DOCUMENTS (this **"Amendment"**) is made as of July 20, 2010, by and between **ERIE INDEMNITY COMPANY** (the **"Borrower"**), and **PNC BANK, NATIONAL ASSOCIATION** (the **"Bank"**).

BACKGROUND

A. The Borrower has executed and delivered to the Bank (or a predecessor which is now known by the Bank's name as set forth above), one or more promissory notes, letter agreements, loan agreements, security agreements, mortgages, pledge agreements, collateral assignments, and other agreements, instruments, certificates and documents, some or all of which are more fully described on attached Exhibit A, which is made a part of this Amendment (collectively as amended from time to time, the **"Loan Documents"**) which evidence or secure some or all of the Borrower's obligations to the Bank for one or more loans or other extensions of credit (the **"Obligations"**).

B. The Borrower and the Bank desire to amend the Loan Documents as provided for in this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain of the Loan Documents are amended as set forth in Exhibit A. Any and all references to any Loan Document in any other Loan Document shall be deemed to refer to such Loan Document as amended by this Amendment. This Amendment is deemed incorporated into each of the Loan Documents. Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the Loan Documents. To the extent that any term or provision of this Amendment is or may be inconsistent with any term or provision in any Loan Document, the terms and provisions of this Amendment shall control.

2. The Borrower hereby certifies that: (a) all of its representations and warranties in the Loan Documents, as amended by this Amendment, are, except as may otherwise be stated in this Amendment; (i) true and correct as of the date of this Amendment, (ii) ratified and confirmed without condition as if made anew, and (iii) incorporated into this Amendment by reference, (b) no Event of Default or event which, with the passage of time or the giving of notice or both, would constitute an Event of Default, exists under any Loan Document which will not be cured by the execution and effectiveness of this Amendment, (c) no consent, approval, order or authorization of, or registration or filing with, any third party is required in connection with the execution, delivery and carrying out of this Amendment or, if required, has been obtained, and (d) this Amendment has been duly authorized, executed and delivered so that it constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms. The Borrower confirms that the Obligations remain outstanding without defense, set off, counterclaim, discount or charge of any kind as of the date of this Amendment.

3. The Borrower hereby confirms that any collateral for the Obligations, including liens, security interests, mortgages, and pledges granted by the Borrower or third parties (if applicable), shall continue unimpaired and in full force and effect, and shall cover and secure all of the Borrower's existing and future Obligations to the Bank, as modified by this Amendment.

4. As a condition precedent to the effectiveness of this Amendment, the Borrower shall comply with the terms and conditions (if any) specified in Exhibit A.

5. To induce the Bank to enter into this Amendment, the Borrower waives and releases and forever discharges the Bank and its officers, directors, attorneys, agents, and employees from any liability, damage, claim, loss or expense of any kind that it may have against the Bank or any of them arising out of or relating to the Obligations. The Borrower further agrees to indemnify and hold the Bank and its officers, directors, attorneys, agents and employees harmless from any loss, damage, judgment, liability or expense (including attorneys' fees) suffered by or rendered against the Bank or any of them on account of any claims arising out of or relating to the Obligations. The Borrower further states that it has carefully read the foregoing release and indemnity, knows the contents thereof and grants the same as its own free act and deed.

6. This Amendment may be signed in any number of counterpart copies and by the parties to this Amendment on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Amendment by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

7. This Amendment will be binding upon and inure to the benefit of the Borrower and the Bank and their respective heirs, executors, administrators, successors and assigns.

8. This Amendment has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank's office indicated in the Loan Documents is located. This Amendment will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State where the Bank's office indicated in the Loan Documents is located, excluding its conflict of laws rules.

9. Except as amended hereby, the terms and provisions of the Loan Documents remain unchanged, are and shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms, and are hereby ratified and confirmed. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Loan Document, a waiver of any default or Event of Default under any Loan Document, or a waiver or release of any of the Bank's rights and remedies (all of which are hereby reserved). **The Borrower expressly ratifies and confirms the waiver of jury trial provisions contained in the Loan Documents.**

WITNESS the due execution of this Amendment as a document under seal as of the date first written above.

WITNESS / ATTEST:

By: /s/ Robert W. McNutt
Print Name: Robert W. McNutt
Title: Assistant Treasurer
(Include title only if an officer of entity signing to the right)

ERIE INDEMNITY COMPANY

By: /s/ Douglas F. Ziegler (SEAL)
Print Name: Douglas F. Ziegler
Title: Sr. VP, Treasurer & Chief Investment Officer

PNC BANK, NATIONAL ASSOCIATION

By: /s/ James F. Stevenson
James F. Stevenson
Senior Vice President

EXHIBIT A TO
ELEVENTH AMENDMENT TO LOAN DOCUMENTS
DATED AS OF JULY 20, 2010

A. The “Loan Documents” that are the subject of this Amendment include the following (as any of the foregoing have previously been amended, modified or otherwise supplemented):

1. Loan Agreement, dated January 30, 2008, between the Borrower and the Bank (the **“Loan Agreement”**); and

2. All other documents, instruments, agreements, and certificates executed and delivered in connection with the Loan Documents listed in this Section A.

B. The Loan Agreement is amended as follows:

1. Section (1) as set forth in the Continuation of Addendum to the Agreement is hereby amended and restated in its entirety to read as follows:

   “(1) Beginning with the fiscal quarter ending September 30, 2010, the Borrower will maintain at all times a minimum consolidated net worth of $600,000,000.00, to be measured quarterly.”

C. Conditions to Effectiveness of Amendment: The Bank’s willingness to agree to the amendments set forth in this Amendment is subject to the prior satisfaction of the following conditions:

1. Execution by all parties and delivery to the Bank of this Amendment.

2. Payment by the Borrower to the Bank of an amendment fee in the amount of $5,000.00, on or before the date of this Amendment.

Exhibit 10.128

Amendment to Loan Documents between Erie Indemnity Company and PNC Bank, National Association dated December 22, 2010.

Amendment to Loan Documents

PNC

THIS AMENDMENT TO LOAN DOCUMENTS (this **"Amendment"**) is made as of December 22, 2010, by and between **ERIE INDEMNITY COMPANY,** a Pennsylvania corporation (the **"Borrower"**), and **PNC BANK, NATIONAL ASSOCIATION** (the **"Bank"**).

BACKGROUND

A. The Borrower has executed and delivered to the Bank one or more promissory notes, letter agreements, security agreements, mortgages, pledge agreements, collateral assignments, and other agreements, instruments, certificates and documents, some or all of which are more fully described on attached Exhibit A, which is made a part of this Amendment (collectively as amended from time to time, the **"Loan Documents"**), which evidence or secure some or all of the Borrowers' obligations to the Bank for one or more loans or other extensions of credit (the **"Obligations"**).

B. The Borrowers and the Bank desire to amend the Loan Documents as provided for in this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain of the Loan Documents are amended as set forth in Exhibit A. Any and all references to any Loan Document in any other Loan Document shall be deemed to refer to such Loan Document as amended by this Amendment. This Amendment is deemed incorporated into each of the Loan Documents. Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the Loan Documents. To the extent that any term or provision of this Amendment is or may be inconsistent with any term or provision in any Loan Document, the terms and provisions of this Amendment shall control.

2. The Borrower hereby certifies that: (a) all of its representations and warranties in the Loan Documents, as amended by this Amendment, are, except as may otherwise be stated in this Amendment: (i) true and correct as of the date of this Amendment, (ii) ratified and confirmed without condition as if made anew, and (iii) incorporated into this Amendment by reference, (b) no Event of Default or event which, with the passage of time or the giving of notice or both, would constitute an Event of Default, exists under any Loan Document which will not be cured by the execution and effectiveness of this Amendment, (c) no consent, approval, order or authorization of, or registration or filing with, any third party is required in connection with the execution, delivery and carrying out of this Amendment or, if required, has been obtained, and (d) this Amendment has been duly authorized, executed and delivered so that it constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms. The Borrower confirms that the Obligations remain outstanding without defense, set off, counterclaim, discount or charge of any kind as of the date of this Amendment.

3. The Borrower hereby confirms that any collateral for the Obligations including liens, security interests, mortgages, and pledges granted by the Borrower or third parties (if applicable), shall continue unimpaired and in full force and effect, and shall cover and secure all of the Borrower's existing and future Obligations to the Bank, as modified by this Amendment.

4. As a condition precedent to the effectiveness of this Amendment, the Borrower shall comply with the terms and conditions (if any) specified in Exhibit A.

5. To induce the Bank to enter into this Amendment, the Borrower waives and releases and forever discharges the Bank and its officers, directors, attorneys, agents, and employees from any liability, damage, claim, loss or expense of any kind that it may have against the Bank or any of them arising out of or relating to the Obligations. The Borrower further agrees to indemnify and hold the Bank and its officers, directors, attorneys, agents and employees harmless from any loss, damage, judgment, liability or expense (including attorneys' fees) suffered by or rendered against the Bank or any of them on account of any claims arising out of or relating to the Obligations. The Borrower further states that it has carefully read the foregoing release and indemnity, knows the contents thereof and grants the same as its own free act and deed.

6. This Amendment may be signed in any number of counterpart copies and by the parties to this Amendment on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Amendment by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

7. This Amendment will be binding upon and inure to the benefit of the Borrower and the Bank and their respective heirs, executors, administrators, successors and assigns.

8. This Amendment has been delivered to and accepted by the Bank and will be deemed to be made in Commonwealth of Pennsylvania. This Amendment will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the Commonwealth of Pennsylvania, excluding its conflict of laws rules.

9. Except as amended hereby, the terms and provisions of the Loan Documents remain unchanged, are and shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms, and are hereby ratified and confirmed. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Loan Document, a waiver of any default or Event of Default under any Loan Document, or a waiver or release of any of the Bank's rights and remedies (all of which are hereby reserved). **The Borrower expressly ratifies and confirms the confession of judgment (if applicable) and waiver of jury trial provisions contained in the Loan Documents.**

[INTENTIONALLY LEFT BLANK]

WITNESS the due execution of this Amendment as a document under seal as of the date first written above.

WITNESS:

By: /s/ Robert W. McNutt
Vice President Assistant Treasurer

Erie Indemnity Company

By: /s/ Douglas F. Ziegler (SEAL)
Name: Douglas F. Ziegler
Title: SVP, Treasurer and Chief Investment Officer

PNC Bank, National Association

By: /s/ James F. Stevenson
Name: James F. Stevenson
Title: Senior Vice President

EXHIBIT A TO
AMENDMENT TO LOAN DOCUMENTS
DATED DECEMBER 22, 2010

A. The "Loan Documents" that are the subject of this Amendment include the following (as any of the foregoing have previously been amended, modified or otherwise supplemented):

1. Loan Agreement, dated as of January 30, 2008, by and between the Borrower and the Bank ("Loan Agreement"); and

2. All other documents, instruments, agreements, and certificates executed and delivered in connection with the Loan Documents listed in this Section A.

B. The Loan Agreement is amended as follows:

1. Section 3.6 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted as follows:

3.6 <u>Title to Assets</u>. The Borrower has good and marketable title to the assets reflected on the most recent Financial Statements, free and clear of all liens and encumbrances, except for (i) current taxes and assessments not yet due and payable, (ii) assets disposed of by the Borrower in the ordinary course of business since the date of the most recent Financial Statements, (iii) those liens or encumbrances in excess of Twenty Five Million and 00/100 Dollars ($25,000,000.00) per instance, if any, specified on the Addendum, (iv) those certain equity interests sold by the Borrower pursuant to the Property & Casualty Asset Sale (as hereinafter defined), and (v) those certain equity interests sold by the Borrower pursuant to the Life Insurance Asset Sale (as hereinafter defined).

2. Section 5.5 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted as follows:

5.5 <u>Merger or Transfer of Assets</u>. Liquidate or dissolve, or merge or consolidate with or into any person, firm, corporation or other entity, or sell, lease, transfer or otherwise dispose of all or any substantial part of its property, assets, operations or business, whether now owned or hereinafter acquired; except for (i) the sale of the equity interests in Erie Insurance Company, a Pennsylvania corporation, and Erie Insurance Property & Casualty Company, a Pennsylvania corporation, on or before December 31, 2010, to Erie Insurance Exchange, a reciprocal or inter-insurance exchange domiciled in the Commonwealth of Pennsylvania ("Exchange"), whereby Exchange will purchase such equity interests for cash consideration equal to the adjusted book value of such entities (collectively, the "Property & Casualty Asset Sale"), and (ii) the sale of the equity interest in Erie Family Life Insurance Company, a Pennsylvania corporation, on or before March 31, 2011 to Exchange, whereby Exchange will purchase such equity interest for cash consideration equal to ninety-five percent (95%) of the adjusted book value of such entity (collectively, the "Life Insurance Asset Sale") (the Property & Casualty Asset Sale and the Life Insurance Asset Sale are collectively, the "Asset Sales").

3. Section 5.6 of the Loan Agreement is hereby deleted in its entirety and in its stead is inserted as follows:

   5.6 Change in Business, Management or Ownership. Make or permit any change in its form of organization or the nature of its business as carried on as of the date hereof other than the change in the nature of its business due to the sale of the business units sold in connection with the Property & Casualty Asset Sale and/or the Life Insurance Asset Sale.

4. Section (1) to the Continuation of Addendum to the Loan Agreement is hereby deleted in its entirety and in its stead is inserted as follows:

   (1) Beginning with the fiscal quarter ending September 30, 2010, the Borrower will maintain at all times a minimum consolidated net worth of Six Hundred Million and 00/100 Dollars ($600,000,000.00), to be measured quarterly as of such date and as of each fiscal quarter ending thereafter; provided, however that (i) on and after the completion of the Property & Casualty Asset Sale, the Borrower will maintain at all times a minimum consolidated net worth of not less than Three Hundred Million and 00/100 Dollars ($300,000,000.00) as of the fiscal quarter ending December 31, 2010 and each succeeding fiscal quarter end thereafter, and (ii) on and after the completion of the Asset Sales, the Borrower will maintain at all times a minimum consolidated net worth of not less than Two Hundred Million and 00/100 Dollars ($200,000,000.00) as of the fiscal quarter ending March 31, 2011, and each succeeding fiscal quarter end thereafter.

5. All references in the Loan Documents to the "Loan Agreement" shall be deemed to mean, the Loan Agreement, dated as of January 30, 2008, by and between the Borrower and the Bank, as amended prior to December 22, 2010, and as further amended by this Amendment to Loan Documents dated December 22, 2010, by and between the Borrower and the Bank.

C. Conditions to Effectiveness of Amendment: The Bank's willingness to agree to the amendments set forth in this Amendment are subject to the prior satisfaction of the following conditions:

1. Execution by all parties and delivery to the Bank of this Amendment, and those documents identified on the Preliminary Closing Checklist, attached hereto as Schedule A, and made part hereof.
2. Payment by the Borrower to the Bank of an amendment fee in the amount of Five Thousand and 00/100 Dollars ($5,000.00), and the fees and expenses of the Bank's outside counsel in connection with this Amendment.

Exhibit 10.129

Home Office
144 East 6th Street
Erie, PA 16507

LEASE AGREEMENT

THIS LEASE is made and entered into this 1st day of January, 2011, between ERIE INSURANCE EXCHANGE, a reciprocal insurance exchange organized under the laws of Pennsylvania with principal offices and place of business at 100 Erie Insurance Place, Erie, PA 16530, acting by and through its attorney-in-fact, ERIE INDEMNITY COMPANY, (“Landlord”),

AND

ERIE INDEMNITY COMPANY, a Pennsylvania business corporation, with its principal offices and place of business at 100 Erie Insurance Place, Erie, PA 16530 (“Tenant”).

PARAGRAPH 1. LEASED PREMISES DESCRIPTION AND TERM

Description

1.01. In consideration of the rents, terms, provisions and covenants of this Agreement, Landlord hereby leases, lets and demises to Tenant approximately 558,928 square feet of rentable office space, located in that building known as Home Office (“Building”), said Building and underlying realty situated at 144 East 6th Street, Erie, PA 16507 (“Property”). More specifically, such 558,928 rentable square feet includes those areas highlighted in yellow on attached Lease Agreement Exhibit A 1 which is made a part hereof and incorporated herein. The highlighted area of Exhibit A 1 evidences the present approximate area of the Building hereinafter referred to as “Leased Premises” or “Premises.” Tenant shall also be entitled to the use of parking ramps and surface parking surrounding and attached to said “Building”.

Term of Lease

1.02 The term of this Lease shall commence on January 1, 2011 (“Effective Date”) and shall terminate on the 31st day of December, 2016, (“Original Term”).

Option to Renew

1.03. Tenant has the right to extend this Lease beyond the Original Term provided in Paragraph 1.02 on the following terms and conditions:

(a) Should Tenant fully perform all of the terms and conditions of this Lease, Tenant may extend the term of this Lease for a period of five (5) years, (“First Option”), to commence on January 1, 2017 and expire on December 31, 2021. However, if Tenant is in default in the performance of any of the terms or provisions of this Lease at the expiration date of the Original Term, the First Option shall be null and void. Unless expressly set forth herein to the contrary, all terms, covenants, and provisions of the Original Term shall apply to the First Option.

(b) Tenant may exercise the First Option by (i) giving Landlord notice of its intention to do so not later than 90 days prior to the expiration of the Original Term.

Holdover

1.04. If Tenant holds over and continues in possession of the Leased Premises after expiration of the term of this Lease or any extension of that term, Tenant will be deemed to be occupying the Leased Premises on the basis of a month-to-month tenancy, subject to all of the terms and conditions of this Lease.

PARAGRAPH 2. RENT

Fixed Minimum Rent

2.01. Commencing on the Effective Date and continuing through the termination of the Original Term, Tenant agrees to pay monthly as fixed minimum rent during the term of this Lease the sum of $863,921.00 per month. Such sum includes the estimated operational cost as defined in section 2.03. Payment shall be made in advance on the first day of each month and rent for any fractional month at the beginning or end of the Lease shall be prorated on a per diem basis. Tenant shall pay, as additional rent, all other sums due and payable under this Lease on the date set forth herein by which such payments are to be made. On an annual basis, Landlords accounting shall recalculate the Fixed Minimum Rent based on the average Treasury Bill rate or discount rate. Landlords accounting shall perform this 4 months in advance of the end of the calendar year for determining the Fixed Minimum Rent for the following year. The Fixed Minimum Rent for 2011 is $7.33 per square foot.

Operating Expenses

2.02 Tenant shall also pay as additional rent Tenant's pro rata share of the operating expenses of the Landlord for the building and/or project of which the leased premises are a part. Each year, the Landlord will notify the Tenant of the anticipated operating expenses for the coming year. Notice shall include the cost per square foot and the total monthly operating expense for such. Tenant shall pay such monthly operating expense alone with their monthly rent. The operating expenses for 2011 is $11.22 per square foot. Within four (4) months of the close of each calendar year, Landlord shall provide Tenant an accounting showing in reasonable detail all computations of additional rent due under this section for said calendar year. In the event the accounting shows that the total of the monthly payments made by Tenant exceed the amount of additional rent due from Tenant under this section, the accounting shall be accompanied by refund. In the event the accounting shows that the total of the monthly payments made by Tenant is less then the amount of additional rent due from Tenant under this section, the accounting shall be accompanied by an invoice for the additional rent.

Definition of Operating Expenses

2.03 The term "Operating Expenses" includes all expenses incurred by Landlord with respect to the maintenance and operation of the building of which leased premises are a part, including, but not limited to, the following: maintenance, repair and replacement costs; electricity, fuel, water, sewer, gas, and other utility charges; security, window washing and janitorial services; trash and snow removal; landscaping and pest control, management fees, wages and benefits payable to employees of Tenant whose duties are directly connected with the operation and maintenance of the building; all services, supplies, repairs, replacements or other expenses for maintaining and operating the building including parking and common areas; cost, including interest, amortized over its useful life, of any capital improvement made to the building by Landlord after the date of this Lease which is required under any governmental law or regulation over its useful life, of installation of any devise or other equipment which improves the operating efficiency of any system within the leased premises and thereby reduces operating expenses; all other expenses which would generally be regarded as operating and maintenance expenses which would reasonably be amortized over a period not to exceed five (5) years; all real property taxes and installments of special assessments; and all insurance premiums Landlord is required to pay or deems necessary to pay, including public liability insurance, with respect to the building. The term "Operating Expenses" does not include the following: repairs, restoration or other work occasioned by fire, wind, the elements or other casualty; income and income paid to any employee of Landlord above the grade of property manager; any depreciation allowance or expense; or operating expenses which are the responsibility of Tenant.

PARAGRAPH 3. USE OF PREMISES

Use of Premises

3.01. Tenant will use and manage the Leased Premises solely as a business office pursuing activities which are both lawful and in compliance with all relevant zoning and other municipal ordinances.

PARAGRAPH 4. MAINTENANCE AND SURRENDER

Maintenance and Surrender by Tenant

4.02. At the termination of this Lease, Tenant shall deliver the Leased Premises in as good a condition and state of repair as at the time Landlord delivered possession to Tenant, except for reasonable wear and tear and damage by fire, flood, or other casualty. If Tenant commits waste, Landlord shall have the right, but not the obligation, to cause repairs or corrections to be made, and any reasonable costs incurred for such repairs or corrections for which Tenant is responsible under this Paragraph shall be payable by Tenant to Landlord as additional rent on the next rent installment date.

PARAGRAPH 5. ALTERATIONS, ADDITIONS, IMPROVEMENTS, AND FIXTURES

Consent of Landlord

5.01. Tenant shall not make any alterations, additions, or improvements to the Leased Premises without the prior written consent of Landlord, such consent not to be unreasonably withheld.

Property of Landlord

5.02. All alterations, additions, or improvements made by Tenant shall become the property of Landlord at the termination of this Lease. However, if Tenant so elects at such termination, Tenant shall promptly remove all alterations, additions, and improvements, and any other property placed in or on the Premises by Tenant, and Tenant shall repair any damage caused by such removal.

Trade Fixtures

5.03. Tenant has the right at all times to erect or install furniture and fixtures, provided that Tenant complies with all applicable governmental laws, ordinances, and regulations. Tenant shall remove such furniture and fixtures at the termination of this Lease. Prior to the termination of this Lease, Tenant must repair any damage caused by removal of any such furniture or fixtures.

Landlord's Right to Make Tenant's Alterations, Additions, or Improvements

5.04. Maintenance and/or construction employees of Landlord, or Landlord's contractors, shall make all alterations, additions, or improvements to the Leased Premises which have received the prior written consent of Landlord if Landlord's bid for such work is equal to or less than any other reasonable arms-length bid which Tenant has obtained from any other contractor. If Landlord's bid is not accepted by Tenant because it is not the lowest responsible bid, Tenant will see that its contractor makes all such alterations, additions, or improvements in a first-class and workmanlike manner which shall be in compliance with all relevant building and safety codes and all other local, state, and federal building requirements applicable to such alterations, additions, or improvements.

Landlord Renovations

5.05 Landlord will, at its expense, install new carpeting and base, and one coat of paint on existing walls.

PARAGRAPH 6. DAMAGE OR DESTRUCTION

Total Destruction

6.01. If the Leased Premises are totally destroyed by fire, flood, or other casualty not the fault of Tenant or any person in or about the Leased Premises with the express or implied consent of Tenant, or if the Premises should be so damaged by such a cause that rebuilding or repairs cannot be completed within 90 working days, this Lease shall terminate, and rent shall be abated for the unexpired portion of this Lease, effective as of the date of written notification as provided in Paragraph 8.01.

Partial Destruction

6.02. If the Leased Premises are damaged by fire, flood, or other casualty not the fault of Tenant or any person in or about the Leased Premises with the express or implied consent of Tenant, but not to such an extent that rebuilding or repairs cannot reasonably be completed within 45 working days from the date of the commencement of the rebuilding or repairs, this Lease shall not be terminated except as provided in Subparagraphs (a) and (b).

(a) If the partial destruction of the Leased Premises occurs prior to the final six months of the Lease term, Landlord shall, at its sole cost and risk, proceed immediately to rebuild or repair the damaged buildings and improvements to substantially the condition in which they existed prior to such damage. If the Leased Premises are untenantable in whole or in part following such damage, the rent payable during the period in which they are untenantable shall be adjusted equitably. In the event that Landlord should fail to complete such rebuilding or repairs within 45 working days from the date of the commencement of the rebuilding or repairs, Tenant may terminate this Lease by written notification to Landlord. On such notification, all rights and obligations under this Lease shall cease.

(b) If partial destruction of the Leased Premises occurs in the final six months of any leased term, Landlord need not rebuild or repair the Premises. If Landlord elects not to rebuild or repair the Premises and the Leased Premises are untenantable in whole or in part following such damage, Tenant may elect to terminate the Lease or to continue the Lease with the rent for the remainder of the Lease period adjusted equitably.

PARAGRAPH 7. CONDEMNATION

Total Condemnation

7.01. If the whole of the Leased Premises shall be taken by any public or quasi-public authority under the power of eminent domain, condemnation, or expropriation or in the event of a conveyance in lieu thereof, then this Lease shall terminate on the date when Tenant is required to yield possession. Rent shall abate and Tenant shall have no claim against Landlord or the condemning authority for the value of the unexpired term of this Lease.

Partial Condemnation

7.02. If any part of the Leased Premises shall be so taken or conveyed and if such partial taking or conveyance shall render the Leased Premises unsuitable for the business of the Tenant, then the term of this Lease shall cease and terminate as of the date on which possession of the Leased Premises is required to be surrendered to the condemning authority. Tenant shall have no claim against Landlord or the condemning authority for the value of any unexpired portion of this Lease. In the event such partial taking or conveyance is not extensive enough to render the Premises unsuitable for the business of Tenant, this Lease shall continue in full force and effect except that the rent shall be adjusted equitably during the unexpired portion of the Lease.

Landlord's Damages

7.03. In the event of any condemnation or taking, whether whole or partial, the Tenant shall not be entitled to any part of the award. Tenant hereby expressly waives any right or claim to any part of such amount and assigns to Landlord any such right or claim to which Tenant might become entitled.

Tenant's Damages

7.04. Although all damages in the event of any condemnation are to belong to the Landlord, Tenant shall have the right, to the extent that it shall not diminish the Landlord's award, to claim and recover from the condemning authority, such compensation as may be separately awarded or recoverable by Tenant under the Eminent Domain Code in Tenant's own right for or on account of, and limited solely to, any cost to which Tenant might be put in removing Tenant's merchandise, furniture, fixtures, leasehold improvements, and equipment.

PARAGRAPH 8. INDEMNITY AND PERSONAL INJURY/PROPERTY INSURANCE

Indemnity

8.01. Tenant agrees to indemnify and hold Landlord harmless against any and all claims, demands, damages, costs, and expenses, including all attorneys' fees and associated costs, arising from the conduct or management of Tenant's business on the Leased Premises, Tenant's use of the Leased Premises, Tenant's presence in the Building or on the Property, or from any breach on the part of Tenant of any conditions of this Lease, or from any act or negligence of Tenant, its officers, agents, contractors, employees, sublessees, or invitees in or about the Leased Premises, Building, or Property. In case of any action or proceeding brought against Landlord by reason of any such claim, Tenant, on notice from Landlord, agrees to defend the action or proceeding.

Personal Injury and Property Insurance

8.02 Landlord shall at all times during the term of this Lease maintain a policy or policies of insurance insuring the Building against all risk of direct physical loss; provided, Landlord shall not be obligated in anyway or manner to insure any personal property (including, but not limited to, any furniture, fixtures, and equipment, machinery, goods or supplies) of Tenant or which Tenant may have upon or within the Leased Premises or any fixtures installed by or paid for by Tenant upon or within the Leased Premises or any additional improvements which Tenant may construct on the Leased Premises.

Tenant shall, at its expense, during the term hereof, maintain public liability and property damage insurance policies with respect to the Leased Premises. Such policies shall have limits of at least $1,000,000.00 for injury or death to any one person and $3,000,000.00 for any one accident, and $1,000,000.00 with respect to damage to property.

PARAGRAPH 9. MISCELLANEOUS

Mortgages

9.01. Tenant accepts this Lease subject to any deeds of trust, security interests, or mortgages that might now or later constitute a lien on the Property, Building or on improvements to the Property, Building, or the Leased Premises. Tenant must, on demand, execute any instruments, releases, or other documents that are required by any mortgagee for the purpose of subjecting and subordinating this Lease to the lien of any such deed of trust, security interest, or mortgage constituting a lien on the Building or improvements in the Building or the Leased Premises, Landlord has the right to waive the applicability of this Paragraph so that this Lease will not be subject and subordinate to any such deed of trust, security interest, or mortgage.

Americans With Disabilities Act

9.02. Landlord agrees that at the commencement of this Lease, the Premises will comply with the requirements of that certain federal statute known as the Americans With Disabilities Act (42 U.S.C. §12101 et seq.) and the regulations promulgated in connection therewith, as the same shall be amended from time to time, hereinafter, collectively, the "ADA," as and when such compliance is required pursuant to the terms of the ADA. Tenant agrees that any alterations, additions, or improvements which Tenant may make in the Premises during the term or any renewal or extension of this Lease (the "Additional Improvements"), shall be so made in accordance with the terms of this Lease and the ADA, to the extent the ADA is applicable to the Premises as of the date or dates such alterations, additions, or improvements are in the Premises. In addition, Tenant agrees to make any necessary alterations, additions, or improvements to remain in compliance with the ADA during the term and any renewal or extension of this Lease as and when such compliance is required pursuant to the terms of the ADA.

Pennsylvania Law to Apply

9.03. This Lease shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania. All obligations of the parties created by this agreement are performable in Erie County, Pennsylvania.

Legal Construction

9.04. In the event any one or more of the provisions contained in this agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of the agreement, and this agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been included in the agreement.

Amendment

9.05. No amendment, modification, or alteration of the terms of this Lease shall be binding unless in writing, dated subsequent to the date of this Lease, and duly executed by the Landlord and Tenant.

Tenant and Related References

9.06. All references herein to Tenant shall include Tenant's officers, employees, agents, and invitees.

Intending to be legally bound hereby, the undersigned Landlord and Tenant execute this Lease on the day and year set forth above.

Landlord: Erie Insurance Exchange
By its Attorney-in-Fact, Erie
Indemnity Company

By: /s/ Chip Dufala
Chip Dufala, Executive Vice President
Erie Indemnity Company, as Attorney-in-Fact

Tenant: Erie Indemnity Company

By: /s/ Cheryl Ferrie
Cheryl Ferrie, Senior Vice President

LEASE
BETWEEN
ERIE INSURANCE EXCHANGE
acting by and through its attorney-
in-fact, ERIE INDEMNITY COMPANY

AND

ERIE INDEMNITY COMPANY

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Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-148705) pertaining to the Erie Indemnity Company 2004 Long-Term Incentive Plan, the Erie Indemnity Company 1997 Long-Term Incentive Plan, as amended, and the Erie Indemnity Company Deferred Compensation Plan for Outside Directors, as amended of our reports dated February 24, 2011, with respect to the consolidated financial statements and schedules of Erie Indemnity Company, and the effectiveness of internal control over financial reporting of Erie Indemnity Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2010.

/s/ Ernst & Young, LLP

Cleveland, Ohio
February 24, 2011

Exhibit 31.1

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

I, Terrence W. Cavanaugh, certify that:

1. I have reviewed this annual report on Form 10-K of Erie Indemnity Company for the year ended December 31, 2010;
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 fourth 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: February 24, 2011

/s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh
President & CEO

Exhibit 31.2

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

I, Marcia A. Dall, certify that:

1. I have reviewed this annual report on Form 10-K of Erie Indemnity Company for the year ended December 31, 2010;
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 fourth 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: February 24, 2011

/s/ Marcia A. Dall
Marcia A. Dall
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, Terrence W. Cavanaugh, Chief Executive Officer of the Erie Indemnity Company (Company), and Marcia A. Dall, Chief Financial Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that:

(1) The Annual Report on Form 10-K of the Company for the annual period December 31, 2010 (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/ Terrence W. Cavanaugh
Terrence W. Cavanaugh
President & CEO

/s/ Marcia A. Dall
Marcia A. Dall
Executive Vice President & CFO

February 24, 2011

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Erie Indemnity Company and will be retained by Erie Indemnity Company and furnished to the Securities and Exchange Commission or its staff upon request.