

Review 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, 2021

OR

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

(State or other jurisdiction of  
incorporation or organization)

100 Erie Insurance Place, Erie, Pennsylvania

(Address of principal executive offices)

25-0466020

(IRS Employer  
Identification No.)

16530

(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

(Title of each class)

ERIE

(Trading Symbol)

NASDAQ Stock Market, LLC

(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

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  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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  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: \$4.9 billion of Class A non-voting common stock as of June 30, 2021. 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:  
46,189,068 shares of Class A common stock and 2,542 shares of Class B common stock outstanding on February 18, 2022.

**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 Schedule 14C to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2021.

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## **PART I**

### **ITEM 1. BUSINESS**

#### **General**

Erie Indemnity Company ("Indemnity", "we", "us", "our") is a publicly held Pennsylvania business corporation that has since its incorporation in 1925 served as the attorney-in-fact for the subscribers (policyholders) at the Erie Insurance Exchange ("Exchange"). The Exchange, which also commenced business in 1925, is a Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance. The Exchange has wholly owned property and casualty subsidiaries including: Erie Insurance Company, Erie Insurance Company of New York, Erie Insurance Property & Casualty Company and Flagship City Insurance Company, and a wholly owned life insurance company, Erie Family Life Insurance Company ("EFL").

Our primary function as attorney-in-fact is to perform policy issuance and renewal services on behalf of the subscribers at the Exchange. We also act as attorney-in-fact on behalf of the Exchange with respect to all claims handling and investment management services, as well as the service provider for all claims handling, life insurance, and investment management services for its insurance subsidiaries, collectively referred to as "administrative services". Acting as attorney-in-fact in these two capacities is done in accordance with a subscriber's agreement (a limited power of attorney) executed individually by each subscriber (policyholder), which appoints us as their common attorney-in-fact to transact certain business on their behalf. Pursuant to the subscriber's agreement for acting as attorney-in-fact in these two capacities, we earn a management fee calculated as a percentage, not to exceed 25%, of the direct and affiliated assumed premiums written by the Exchange. The management fee rate is set at least annually by our Board of Directors. The process of setting the management fee rate includes the evaluation of current year operating results compared to both prior year and industry estimated results for both Indemnity and the Exchange, and consideration of several factors for both entities including: their relative financial strength and capital position; projected revenue, expense and earnings for the subsequent year; future capital needs; as well as competitive position.

#### **Services**

The policy issuance and renewal services we provide to the Exchange are related to the sales, underwriting and issuance of policies. The sales related services we provide include agent compensation and certain sales and advertising support services. Agent compensation includes scheduled commissions to agents based upon premiums written as well as additional commissions and bonuses to agents, which are earned by achieving targeted measures. Agent compensation comprised approximately 66% of our 2021 policy issuance and renewal expenses. The underwriting services we provide include underwriting and policy processing and comprised approximately 10% of our 2021 policy issuance and renewal expenses. The remaining services we provide include customer service and administrative support. We also provide information technology services that support all the functions listed above that comprised approximately 11% of our 2021 policy issuance and renewal expenses. Included in these expenses are allocations of costs for departments that support these policy issuance and renewal functions.

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

#### **Erie Insurance Exchange**

As our primary purpose is to manage the affairs at the Exchange for the benefit of the subscribers (policyholders) through the policy issuance and renewal services and administrative services, the Exchange is our sole customer. Our earnings are largely generated from management fees based on the direct and affiliated assumed premiums written by the Exchange. We have no direct competition in providing these services to the Exchange.

The Exchange generates revenue by insuring preferred and standard risks, with personal lines comprising 70% of the 2021 direct and affiliated assumed written premiums and commercial lines comprising the remaining 30%. The principal personal lines products are private passenger automobile and homeowners. The principal commercial lines products are commercial multi-peril, commercial automobile and workers compensation. Historically, due to policy renewal and sales patterns, the Exchange's direct and affiliated assumed written premiums are greater in the second and third quarters than in the first and fourth quarters of the calendar year.

The Exchange is represented by independent agencies that serve as its 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 an integral part of the Exchange's success.

Our results of operations are tied to the growth and financial condition of the Exchange. If any events occurred that impaired the Exchange's ability to grow or sustain its financial condition, including but not limited to reduced financial strength ratings, disruption in the independent agency relationships, significant catastrophe losses, or products not meeting customer demands, the Exchange could find it more difficult to retain its existing business and attract new business. A decline in the business of the Exchange almost certainly would have as a consequence a decline in the total premiums paid and a correspondingly adverse effect on the amount of the management fees we receive. We also have an exposure to a concentration of credit risk related to the unsecured receivables due from the Exchange for its management fee and cost reimbursements. See Part II, Item 8. "Financial Statements and Supplementary Data - Note 15, Concentrations of Credit Risk, of Notes to Financial Statements" contained within this report. See the risk factors related to our dependency on the growth and financial condition of the Exchange in Item 1A. "Risk Factors" contained within this report.

### **Competition**

Our primary function as attorney-in-fact is to perform policy issuance and renewal services on behalf of the subscribers at the Exchange. We also act as attorney-in-fact on behalf of the Exchange, as well as the service provider for its insurance subsidiaries, with respect to all administrative services. There are a limited number of companies that provide services under a reciprocal insurance exchange structure. We do not directly compete against other such companies, given we are appointed by the subscribers at the Exchange to provide these services.

The direct and affiliated assumed premiums written by the Exchange drive our management fee which is our primary source of revenue. The property and casualty insurance industry is highly competitive. 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. Innovations by competitors or other market participants may also increase the level of competition in the industry. In addition, because the insurance products of the Exchange are marketed exclusively through independent insurance agents, the Exchange faces competition within its appointed agencies based upon 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. Industry capital levels can also significantly affect prices charged for coverage. Growth is driven by a company's ability to provide insurance services and competitive prices while maintaining target profit margins. 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 Exchange'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 support services. The Exchange also carefully selects the independent agencies that represent it and 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.

The Exchange's strategic focus as a reciprocal insurer is to employ a disciplined underwriting philosophy and to leverage its strong surplus position to generate higher risk adjusted investment returns. The goal is to produce acceptable returns, on a long-term basis, through careful risk selection, rational pricing and superior investment returns. This focus allows the Exchange to accomplish its mission of providing as near perfect protection, as near perfect service as is humanly possible at the lowest possible costs.

See the risk factors related to our dependency on the growth and financial condition of the Exchange in Item 1A. "Risk Factors" contained within this report for further discussion on competition in the insurance industry.

**Human Capital Management**

Our success is largely dependent upon our ability to attract, retain, and develop diverse talent while maintaining our service-based culture. We strive to create a value proposition for our employees through trust and collaboration while providing competitive compensation, benefits, and other reward programs. Our low turnover and high tenure are reflective of our culture and the mutual commitment that exists between employees and the company.

Our human capital management strategy, including initiatives to shape our workforce and workplace, is designed to ensure we are well positioned for the future. Areas of focus include talent acquisition, performance management, succession planning, learning and development, and diversity and inclusion. Our investments in human capital include comprehensive total rewards and programs aimed at developing our employees to be successful in their current and future roles. We hold a shared responsibility view of retirement planning whereby the company provides tools and resources that employees are expected to use to achieve their retirement goals. We set ourselves apart by offering both a 401(k) plan and a noncontributory defined benefit pension plan.

We use the following human capital metrics as part of managing our business:

	Years ended December 31,		
	2021	2020	2019
Workforce size			
Full-time <sup>(1)</sup>	5,805	5,849	5,772
Part-time	30	31	41
Temporary <sup>(2)</sup>	41	34	32
Turnover <sup>(3)</sup>	8.0 %	5.3 %	5.6 %
Average tenure <sup>(4)</sup>	12.6	12.5	12.3

*(1) Includes 50% of employees who provide claims and life insurance management services exclusively for the Exchange and its subsidiaries. The Exchange and its subsidiaries reimburse us monthly for the cost of these services.*

*(2) Temporary employees are hired for short-term work and paid directly by us.*

*(3) The percentage of employees who left voluntarily or involuntarily, including retirements. Calculated using the number of employees who exited, divided by the average headcount of the period.*

*(4) The average number of years employees have been employed with the organization. Total number of years divided by average headcount of full-time and part-time employees for the period.*

The tightening labor market during the COVID-19 pandemic has increased competition to attract and retain talent. In 2021, a large portion of the increase in our turnover can be attributed to voluntary turnover, which increased from 3.0% and 2.4% in 2019 and 2020, respectively, to 4.8% in 2021. ERIE continues to monitor its turnover trends to determine the appropriate actions to ensure we are well positioned for the future.

As we recognize the importance of employee engagement on the outcomes we achieve as an organization, we also work with independent external partners to administer confidential surveys to collect feedback on the employee experience. We have partnered with the Great Place to Work® ("GPTW") Institute since 2012. We received the honor of being Great Place to Work-Certified™ in 2020 and 2017, and Great-rated in 2014. Our overall GPTW score has trended upwards over the last three surveys and is favorable compared to the benchmark of the companies ranked on the Great Place to Work® Top 100 Companies List. Since our last full survey in 2020, we have conducted several employee pulse surveys to continue to monitor employee engagement.

## **Government Regulation**

Most states have enacted legislation that regulates insurance holding company systems, defined as two or more affiliated persons, one or more of which is an insurer. Indemnity and the Exchange, and its wholly owned subsidiaries, meet the definition of an insurance holding company system.

Each insurance company in the holding company system is required to register with the insurance supervisory authority of its state of domicile and furnish information regarding the operations of companies within the holding company system that may materially affect the operations, management, or financial condition of the insurers within the system. Pursuant to these laws, the respective insurance departments may examine us and the Exchange and its wholly owned subsidiaries at any time, and may require disclosure and/or prior approval of certain transactions with the insurers and us, as an insurance holding company.

All transactions within a holding company system affecting the member insurers of the holding company system must be fair and reasonable and any charges or fees for services performed must be reasonable. Approval by the applicable insurance commissioner is required prior to the consummation of transactions affecting the members within a holding company system.

## **Website Access**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are available free of charge on our website at [www.erieinsurance.com](http://www.erieinsurance.com) as soon as reasonably practicable after such material is filed electronically with the Securities and Exchange Commission. Additionally, copies of our annual report on Form 10-K are available free of charge, upon written request, by contacting Investor Relations, Erie Indemnity Company, 100 Erie Insurance Place, Erie, PA 16530, or calling (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 risks and uncertainties 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, cash flows, or liquidity if they were to develop into actual events. This information should be considered carefully together with the other information contained in this report and in other reports and materials we file periodically with the Securities and Exchange Commission.

Our risks have been divided into the following categories:

**Risks related to Erie Insurance Exchange** – risks related to our dependence on our relationship with the Exchange associated with management fees, premium growth, and financial condition, as the Exchange is our sole customer and principal source of revenue

**Operating risks** – risks stemming from events or circumstances that directly or indirectly affect our operations, including our operations as attorney-in-fact for the Exchange

**Market, Capital, and Liquidity risks** – risks that may impact the values or results of our investment portfolio, ability to meet financial obligations or covenants, or obtain capital as necessary

Although we have organized risks generally according to these categories in the discussion below, risks may have impacts in more than one category and are included where the impact is most significant.

### **Risks related to Erie Insurance Exchange**

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

We are dependent upon management fees paid by the Exchange, which represent our principal source of revenue. Pursuant to the subscriber's agreement with the subscribers at the Exchange, we may retain up to 25% of all direct and affiliated assumed premiums written by the Exchange. Therefore, management fee revenue from the Exchange is calculated by multiplying the management fee rate by the direct and affiliated assumed premiums written by the Exchange. Accordingly, any reduction in direct and affiliated assumed premiums written by the Exchange and/or the management fee rate would have a negative effect on our revenues and net income.

The management fee rate is determined by our Board of Directors and may not exceed 25% of the direct and affiliated assumed premiums written 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 process of setting the management fee rate includes the evaluation of current year operating results compared to both prior year and industry estimated results for both Indemnity and the Exchange, and consideration of several factors for both entities including: their relative financial strength and capital position; projected revenue, expense and earnings for the subsequent year; future capital needs; as well as competitive position. The evaluation of these factors could result in a reduction to the management fee rate and our revenues and profitability could be materially adversely affected.

*Serving as the attorney-in-fact in the reciprocal insurance exchange structure results in the Exchange being our sole customer. We have an interest in the growth of the Exchange as our earnings are largely generated from management fees based on the direct and affiliated assumed premiums written by the Exchange. If the Exchange's ability to grow or renew policies were adversely impacted, the premium revenue of the Exchange would be adversely affected which would reduce our management fee revenue. The circumstances or events that might impair the Exchange's ability to grow include, but are not limited to, the items discussed below.*

Unfavorable changes in macroeconomic conditions for any reason, including declining consumer confidence, inflation, high unemployment, lower demand for certain services, reduced personal income, and recession, among others, may lead the Exchange's customers to modify coverage, not renew policies, or even cancel policies, which could adversely affect the premium revenue of the Exchange, and consequently our management fee.

The Exchange faces significant competition from other regional and national insurance companies. The property and casualty insurance industry is highly competitive on the basis of product, price and service. If the Exchange's competitors offer property and casualty products with more coverage or offer lower rates, and the Exchange is unable to implement product improvements quickly enough to keep pace, its ability to grow and renew its business may be adversely impacted. In addition, due to the Exchange's premium concentration in the automobile and homeowners insurance markets, it may be more sensitive to trends that could affect auto and home insurance coverages and rates over time, for example changing vehicle usage, usage-based methods of determining premiums, ownership and driving patterns such as ride sharing or remote work, advancements in vehicle or home technology or safety features such as accident and loss prevention technologies, the development of autonomous vehicles, or residential occupancy patterns, among other factors. Innovations by competitors or other market participants may increase the level of competition in the industry. If the Exchange fails to respond to those innovations on a timely basis, its competitive position and results may be materially adversely affected.

The Exchange markets and sells its insurance products through independent, non-exclusive insurance agencies. These agencies are not obligated to sell only the Exchange's insurance products, and generally also sell products of the Exchange's competitors. If agencies do not maintain their current levels of marketing efforts, bind the Exchange to unacceptable risks, or place business with competing insurers, or if the Exchange is unsuccessful in attracting or retaining agencies in its distribution system or maintaining its relationships with those agencies, the Exchange's ability to grow and renew its business may be adversely impacted. More broadly, if independent agents face challenges sustaining their own business operations due to unfavorable economic conditions, it could result in the sale or closure of their businesses, thereby reducing the agency force of the Exchange. Additionally, shifting consumer behaviors toward increased digital interactions may cause the insurance industry as a whole to migrate to a delivery system other than independent agencies.

The Exchange maintains a brand recognized for customer service. The perceived performance, actions, conduct and behaviors of employees, independent insurance agency representatives, and third-party service partners may result in reputational harm to the Exchange's brand. Specific incidents which may cause harm include but are not limited to disputes, long customer wait times, errors in processing a claim, failure to protect sensitive customer data, and negative or inaccurate social media or traditional media communications. Likewise, an inability to match or exceed the service provided by competitors, which is increasingly relying on digital delivery and enhanced distribution technology, may impede the Exchange's ability to maintain and/or grow its customer base. If third-party service providers fail to perform as anticipated, the Exchange may experience operational difficulties, increased costs and reputational damage. If an extreme catastrophic event were to occur in a heavily concentrated geographic area of subscribers/policyholders, an extraordinarily high number of claims could have the potential to strain claims processing and affect the Exchange's ability to satisfy its customers. Also, we, or the Exchange, may fail to meet environmental, social, and governance (ESG) expectations of our customers or other interested parties. Failure to satisfy expectations in these areas may result in negative publicity or other adverse outcomes. Any reputational harm to the Exchange could have the potential to impair its ability to grow and renew its business.

*We have an interest in the financial condition of the Exchange based on serving as the attorney-in-fact in the reciprocal insurance exchange structure and the Exchange being our sole customer. If the Exchange were to fail to maintain acceptable financial strength ratings, its competitive position in the insurance industry would be adversely affected. If a rating downgrade led to customers not renewing or canceling policies, or impacted the Exchange's ability to attract new customers, the premium revenue of the Exchange would be adversely affected which would reduce our management fee revenue. The circumstances or events that might impair the Exchange's financial condition include, but are not limited to, the items discussed below.*

Financial strength ratings are an important factor in establishing the competitive position of insurance companies such as the Exchange. Higher ratings generally indicate greater financial stability and a stronger ability to meet ongoing obligations to policyholders. The Exchange's A.M. Best rating is currently A+ ("Superior"). A.M. Best periodically reviews the Exchange's ratings and changes their rating criteria; therefore, the Exchange's current rating may not be maintained in the future. A significant downgrade in the A.M. Best rating could reduce the competitive position of the Exchange, making it more difficult to attract profitable business in the highly competitive property and casualty insurance market and potentially result in reduced sales of its products and lower premium revenue.

The performance of the Exchange's investment portfolio is subject to a variety of investment risks. The Exchange's investment portfolio is comprised principally of fixed income securities, equity securities and limited partnerships. The fixed income portfolio is subject to a number of risks including, but not limited to, interest rate risk, investment credit risk, sector/concentration risk and liquidity risk. The Exchange's common stock 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. 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. If any investments in the Exchange's investment portfolio 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 or rating agency minimum capital requirements.

Property and casualty insurers are subject to extensive regulatory 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, restrictions on underwriting standards, accounting standards, and transactions between affiliates. Such regulation and supervision are primarily for the benefit and protection of policyholders. Changes in applicable insurance laws, tax statutes, regulations, or changes in the way regulators administer those laws, tax statutes, or regulations could adversely impact the Exchange's business, cash flows, results of operations, financial condition, or operating environment and increase its exposure to loss or put it at a competitive disadvantage, which could result in reduced sales of its products and lower premium revenue.

Property and casualty insurers face a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating their businesses including the risk of class action lawsuits. The Exchange and its subsidiaries have also been named as defendants in a number of pandemic-related lawsuits and, therefore, are subject to the risks and uncertainties of such litigation. Plaintiffs in class action and other lawsuits against the Exchange may seek large or indeterminate amounts of damages, including punitive and treble damages, which may remain unknown for substantial periods of time. The Exchange is also subject to various regulatory inquiries, such as information requests, subpoenas, and books and record examinations from state and federal regulators and authorities.

The uncertainty of risks that emerge upon the occurrence of significant unexpected events, such as pandemics, may cause additional challenges in the process of estimating loss and loss adjustment expense reserves. For example, the behavior of claimants and policyholders may change in unexpected ways, the disruption to the court system may impact the timing and amounts of claims settlements, and the actions taken by governmental bodies, both legislative and regulatory, in reaction to a pandemic or other significant unexpected events, and their related impacts, are hard to predict. Among other things, this may result in changes to the Exchange's estimated level of loss and loss adjustment expense reserves.

As insurance industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. In some instances, these emerging issues may not become apparent for some time after the Exchange has issued the affected insurance policies. As a result, the full extent of liability under the Exchange's insurance policies may not be known for many years after the policies are issued. These issues may adversely affect the Exchange's business by either extending coverage beyond its underwriting intent or by increasing the number or size of claims. If there were legislative action in response to a pandemic or other significant unexpected event that retroactively mandated coverage irrespective of terms, exclusions or other conditions included in policies, such as business interruption, that would otherwise preclude coverage, it could have a material impact on the financial condition, results of operations and cash flows of the Exchange.

The Exchange's insurance operations are exposed to claims arising out of catastrophes. Common natural catastrophic events include hurricanes, earthquakes, tornadoes, hail storms, and severe winter weather. The frequency and severity of these catastrophes is inherently unpredictable. Changing climate conditions have added to the unpredictability, frequency and severity of natural disasters and have created additional uncertainty as to future trends and exposures. A single catastrophic occurrence or aggregation of multiple smaller occurrences within the geographical region of the Exchange or its assumed property reinsurance portfolio could adversely affect the financial condition of the Exchange. Man-made disasters such as terrorist attacks and riots could also cause losses from insurance claims related to the property and casualty insurance operations, which could adversely affect its financial condition.

### **Operating risks**

*If the costs of providing services to the Exchange are not controlled, our profitability could be materially adversely affected.*

Pursuant to the subscriber's agreement, we perform policy issuance and renewal services for the subscribers at the Exchange and we serve as the attorney-in-fact on behalf of the Exchange with respect to its administrative services. The most significant costs we incur in providing policy issuance and renewal services are commissions, employee costs, and technology costs.

Commissions to independent agents are our largest expense. Commissions include scheduled commissions to agents based upon 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. Our agent incentive bonuses include a profitability component. If claims frequency and loss expenses were to decrease significantly as a result of an unexpected event, such as a pandemic, the profitability component of our agent incentive bonuses would improve, and our agent compensation costs would increase. Our second largest expense is employee costs, including salaries, healthcare, pension, and other benefit costs. Regulatory developments, provider relationships, pandemics and demographic and economic factors that are beyond our control indicate that employee healthcare costs could continue to increase which could reduce our profitability. The defined benefit pension plan we offer to our employees is affected by variable factors such as the interest rate used to discount pension liabilities, asset performance and changes in retirement patterns, which are beyond our control and any related future costs increases would reduce our profitability.

Technological development is necessary to facilitate ease of doing business for employees, agents and customers. Our technological developments are focused on simplifying and improving the employee, agent and customer experiences, increasing efficiencies, redesigning products and addressing other potentially disruptive changes in the insurance industry. As we continue to develop technology initiatives in order to remain competitive, our profitability could be negatively impacted as we invest in system development. We may also experience increased technology costs as we re-design hybrid work models for our employees.

*If we are unable to attract, develop, and retain talented executives, key managers, and employees our financial conditions and results of operations could be adversely affected.*

Our success is largely dependent upon our ability to attract and retain talented executives and other key management. Talent is defined as people with the right skills, knowledge, abilities, character, and motivation. The loss of the services and leadership of certain key officers and the failure to plan for turnover or retirement or to attract and develop talented new executives and managers could prevent us from successfully communicating, implementing, and executing business strategies.

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 talent or failure to instill appropriate cultural expectations and behavioral norms within our employees could have an adverse effect on our business performance. Additionally, failure to recognize, evaluate, and respond to changing workforce trends including current labor market conditions and new ways of managing in hybrid work environments, or failure to execute proactive retention and replacement strategies could also have an adverse effect on our business performance. Staffing appropriately talented employees for the handling of claims and servicing of customers, rendering of disciplined underwriting, and effective sales and marketing are critical to the core functions of our business. In addition, talented employees in the actuarial, finance, human resources, information technology, law, and risk management areas are also essential to support our core functions.

*If we are unable to ensure system availability or effectively manage technology initiatives, we may experience adverse financial consequences and/or may be unable to compete effectively.*

Our business is highly dependent upon the effectiveness of our technology and information systems which support key functions of our core business operations including processing applications and premium payments, providing customer support, performing actuarial and financial analysis, and maintaining key data. Additionally, the Exchange relies heavily on technology systems for processing claims. In order to support our business processes and strategic initiatives in a cost and resource efficient manner, we must maintain the effectiveness of existing technology systems and continue to identify and develop new, and enhance existing, technology systems. As we invest in the development of our systems, costs and completion times could exceed original estimates, and/or the project may not deliver the anticipated benefit or perform as expected. If we do not effectively and efficiently manage and upgrade our technology systems, our ability to serve our customers and implement our strategic initiatives could be adversely impacted.

Additionally, we depend on a large amount of data to price policies appropriately, track exposures, perform financial analysis, report to regulatory bodies, and ultimately make business decisions. Should this data be inaccurate or insufficient, risk exposure may be underestimated and/or poor business decisions may be made. This may in turn lead to adverse operational or financial performance and adverse customer or investor confidence.

*If we experience difficulties with technology, data and network security, including as a result of cyber attacks, third-party relationships or cloud-based relationships, our ability to conduct our business could be adversely impacted.*

In the normal course of business, we collect, use, store and where appropriate, disclose data concerning individuals and businesses. We also conduct business using third parties who may provide software, data storage, cloud-based computing and other technology services. We have on occasion experienced, and will continue to experience, cyber threats to our data and systems. Cyber threats can create significant risks such as destruction of systems or data, denial or interruption of service, disruption of transaction execution, loss or exposure of customer data, theft or exposure of our intellectual property, theft of funds or disruption of other important business functions. Our interactions with third parties may expose us to increased risk related to data security, service disruptions or effectiveness of our control system.

In addition, we are subject to numerous federal and state data privacy laws relating to the privacy of the nonpublic personal information of our customers, employees and others. The improper access, disclosure, or misuse or mishandling of information sent to or received from a customer, employee or third party could result in legal liability, regulatory action and reputational damage. Third parties on whom we rely for certain business processing functions are also subject to these risks, and their failure to adhere to these laws and regulations could negatively impact us.

Our Board of Directors oversees our activities with respect to managing cyber risk through its Risk Committee. Management regularly reports on our cybersecurity risk management program including our risk evaluation and the results of independent third-party security assessments, and our efforts to manage cyber related risks.

We employ a company-wide cybersecurity program of technical, administrative, physical and disclosure controls intended to reduce the risk of cyber threats and protect our information, as well as to communicate potential material threats and incidents. Our cybersecurity philosophy and approach align to the National Institute of Standards and Technology Cybersecurity Framework and its core elements to identify, protect, detect, respond and recover from the various forms of cyber threats. Our practices include, but are not limited to, cybersecurity protocols and controls, system monitoring and detection, communication of incidents to appropriate management, third-party risk management, including assessments of emerging threats and vulnerabilities, and ongoing privacy and cybersecurity training for employees and contractors concerning cyber risk. We periodically assess the effectiveness of our cybersecurity efforts including independent validation and verification and security assessments conducted by independent third parties.

The number, complexity and sophistication of cyber threats continue to increase over time. While we maintain cyber liability insurance to mitigate the financial risk around cyber incidents, such insurance may not cover all costs associated with the consequences of information or systems being compromised. Additionally, while we have dedicated resources with security incident response capabilities, our response process may not be adequate, may fail to accurately assess the severity of an incident, may not respond quickly enough or may fail to sufficiently remediate an incident. As a result, we may suffer significant legal, reputational, or financial losses, which could adversely affect our business, cash flows, financial condition or results of operations.

To date, we are not aware of any material cybersecurity breach with respect to our systems or data. Additionally, we are not aware of any cybersecurity breach experienced by anyone with whom we have a third-party relationship that has had a material impact on our systems or data.

*If events occurred causing interruption of our operations, facilities, systems or business functions, it could have a material adverse effect on our operations and financial results.*

We have established business continuity and disaster recovery plans to ensure the continuation of core business operations in the event that normal business operations could not be performed due to catastrophic or other events, including pandemics. While we continue to test and assess our business continuity and disaster recovery plans to validate they meet 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. Employee absence, physical premises damage, systems failures or outages could compromise our ability to perform our business functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. Our operational resiliency is also dependent on third-party personnel, infrastructure and systems on which we rely. Our operations and those of our third parties may become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from catastrophic events, power anomalies or outages, natural disasters, pandemics, supply chain interruptions, network failures, and cyber attacks. Additionally, we are more dependent on internet and telecommunications access and capabilities. Indemnity's workforce is largely concentrated in Erie, Pennsylvania. If a significant event affects the labor force in this area, it could impact the policy acquisition, underwriting, claims and/or support services provided to the policyholders and/or independent agents of the Exchange. Disruptions to our workforce or our operations for any reason could result in a material adverse effect on our business, cash flows, financial condition, or results of operations.

*We are subject to applicable insurance laws, tax statutes, and regulations, as well as claims and legal proceedings, which, if determined unfavorably, could have a material adverse effect on our business, results of operations, or financial condition.*

We face a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses including the risk of class action lawsuits. We are, have been, or may become subject to class actions and individual suits alleging breach of fiduciary or other duties, including our obligations to indemnify directors and officers in connection with certain legal matters. We are also subject to litigation arising out of our general business activities such as contractual and employment relationships and claims regarding the infringement of the intellectual property of others. Plaintiffs in class action and other lawsuits against us may seek large or indeterminate amounts of damages, including punitive and treble damages, which may remain unknown for substantial periods of time. We are also subject to various regulatory inquiries, such as information requests, subpoenas, and books and record examinations from state and federal regulators and authorities. In addition, changes in the way regulators administer applicable laws, tax statutes, or regulations could adversely impact our business, cash flows, results of operations, or financial condition. It is also possible that changes in economic conditions and steps taken by federal, state and local governments in response to a pandemic or other significant events could cause an increase in taxes at the federal, state and local levels, which would adversely impact our results of operations.

### **Market, Capital, and Liquidity risks**

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

At December 31, 2021, our investment portfolio consisted of approximately 83% fixed maturity securities, with the remaining 17% invested in equity securities and other investments.

General economic conditions and other factors beyond our control can adversely affect the value of our investments and the realization of net investment income, or result in realized investment losses. In addition, downward economic trends also may have an adverse effect on our investment results by negatively impacting the business conditions and impairing credit for the issuers of securities held in our respective investment portfolios. This could reduce fair values of investments and generate significant unrealized losses or impairment charges which may adversely affect our financial results.

The performance of the fixed income portfolio is subject to a number of risks including, but not limited to:

- 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 structured 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.
- Sector/Concentration risk - the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries. Events or developments that have a negative impact on any particular industry, group of related industries, or geographic region may have a greater adverse effect on our investment portfolio to the extent that the portfolio is concentrated within those issuers, sectors, or industries.
- Liquidity risk - the risk that we will not be able to convert investment securities into cash on favorable terms and on a timely basis, or that we 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 we are trying to sell, could prevent us from liquidating securities or cause a reduction in prices to levels that are not acceptable to us.
- Reinvestment risk - the possibility that the cash flows produced by an investment will have to be reinvested at a reduced rate of return. Approximately 42% of our fixed maturity portfolio is expected to mature over the next three years.

Our equity securities have exposure to price risk. Equity markets, sectors, industries, and individual securities may also be subject to some of the same risks that affect our fixed income portfolio, as discussed above.

All of our fixed income and equity securities are subject to market volatility. To the extent that future market volatility negatively impacts our investments, our financial condition will be negatively impacted. We review the fixed income portfolio on a continuous basis to evaluate positions that are in an unrealized loss position to determine whether impairments are a result of credit loss or other factors. Inherent in management's evaluation of a security are assumptions and estimates about the operations of the issuer and its future earnings potential. The primary factors considered in our review of investment valuation include the extent 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 our operating results and financial condition. See also Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk".

In July 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates the London Interbank Offered Rate ("LIBOR"), announced that it intends to phase out LIBOR by the end of 2021. After this date, the FCA would no longer require banks to make LIBOR submissions. Following discussions with the FCA and other official sector bodies, the Intercontinental Exchange Benchmark Administration announced in March 2021 the publication of certain USD LIBOR settings will continue through June 30, 2023. The Alternative Reference Rates Committee of the Federal Reserve Board (ARRC), a group of market participants convened to help ensure a successful transition away from LIBOR, has recommended the Secured Overnight Financing Rate (SOFR) as its preferred alternative reference rate and has proposed a transition plan and timeline designed to encourage the adoption of SOFR from LIBOR. Volume in SOFR-linked products has increased significantly during 2021; however, LIBOR continues to be the dominant reference rate in use in the market today.

We have identified our population of contracts that contain a LIBOR reference and have determined that our primary exposure is in fixed income securities within our investment portfolio. Approximately 23% of our investment portfolio includes securities with LIBOR exposure where the stated final maturity date extends beyond June 30, 2023. Many of our LIBOR indexed securities have fallback provisions that provide for an alternative reference rate when LIBOR ceases to exist. For securities without adequate fallback provisions already in place, legislation governing securities under New York law has been enacted to provide a safe harbor for transition to the recommended alternative reference rate. In addition, federal legislation has been introduced to provide the same protection for securities not governed by New York law.

While our preliminary analysis does not indicate that the transition of our investments to alternative reference rates will result in adverse changes to the net investment income, fair market value and return on those investments, we are still in the process of evaluation. We continually monitor the risks associated with the LIBOR transition which include identifying and monitoring our exposure to LIBOR, monitoring the market adoption of alternative reference rates and ensuring operational processes are updated to accommodate alternative rates. Due to uncertainty surrounding alternative rates, we are unable to predict the overall impact of this change at this time.

*Deteriorating capital and credit market conditions or a failure to accurately estimate capital needs may significantly affect our 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, satisfy certain financial covenants, pay dividends on common stock, and repurchase common stock. Management estimates the appropriate level of capital necessary based upon current and projected results, which includes evaluating potential risks. Failure to accurately estimate our capital needs may have a material adverse effect on our financial condition until additional sources of capital can be obtained. Further, a deteriorating financial condition may create a negative perception of us by third parties, including investors, and financial institutions, which could impact our ability to access additional capital in the debt or equity markets.

Our primary sources of liquidity are management fee revenue and cash flows generated from our investment portfolio. In the event our current sources do not satisfy our liquidity needs, we have the ability to access our \$100 million bank revolving line of credit, from which there were no borrowings as of December 31, 2021, or liquidate assets in our investment portfolio. Volatility in the financial markets could limit our ability to sell certain fixed income securities or cause such investments to sell at deep discounts.

In the event these traditional sources of liquidity are not available, we may have to seek additional financing. Our access to funds will depend upon a number of factors including current market conditions, the availability of credit, market liquidity, and the timing of obtaining credit ratings. In deteriorating market conditions, there can be no assurance that we will obtain additional financing, or, if available, that the cost of financing will not substantially increase and affect our overall profitability.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Indemnity and the Exchange share a corporate home office campus in Erie, Pennsylvania, which comprises approximately 996,000 square feet. Additionally, we lease two office buildings and one warehouse facility from third parties. We are charged rent for the related square footage we occupy.

Indemnity and the Exchange also operate 25 field offices in 12 states to perform primarily claims-related activities. The Exchange owns seven field offices, Indemnity owns property, a portion of which houses one field office, and leases the remaining field offices from third parties. Commitments for properties leased from other parties expire periodically through 2027. We expect that most leases will be renewed or replaced upon expiration. Rental costs of shared facilities are allocated based upon usage or square footage occupied.

Due to the uncertainty of the COVID-19 pandemic, approximately 90% of our workforce has been working remote since March 2020. We have a dedicated team responsible for the development and implementation of a return to office plan. We began returning some employees to our offices in July 2021, but paused as a result of the national increase in infections. We plan to resume returning employees to our offices in phases when we consider it appropriate.

### **ITEM 3. LEGAL PROCEEDINGS**

Erie Indemnity Company ("Indemnity") was named as a defendant in a complaint filed on August 24, 2021, by alleged subscribers of the Erie Insurance Exchange (the "Exchange") in the Court of Common Pleas Civil Division of Allegheny County, Pennsylvania captioned TROY STEPHENSON, CHRISTINA STEPHENSON, SUSAN RUBEL, and STEVEN BARNETT, individually and on behalf of all others similarly situated (Plaintiffs) v. Erie Indemnity Company (Defendant).

The complaint seeks relief for alleged breaches of fiduciary duty by Indemnity in connection with the setting of the management fee it receives, pursuant to the terms of the Subscribers Agreement executed between Indemnity and all policyholders of the Exchange, as compensation for acting as the attorney-in-fact in the management of the Exchange. The relief sought is for the period beginning two years prior to the date of the filing of the complaint and continuing through 2021.

The complaint seeks (i) a finding that Indemnity has breached its fiduciary duties; (ii) an award of damages in an amount to be determined at trial; and (iii) such other relief, including disgorgement of profits or other injunctive relief, that the Court deems just and proper.

Service of the complaint was effectuated on September 20, 2021. A Notice of Removal to the United States District Court for the Western District of Pennsylvania was filed on October 20, 2021. On November 2, 2021, Plaintiffs filed a Notice of Voluntary Dismissal. As a result, the action was dismissed without prejudice.

On December 6, 2021, another Complaint was filed in the Court of Common Pleas of Allegheny County, Pennsylvania captioned ERIE INSURANCE EXCHANGE, an unincorporated association, by TROY STEPHENSON, CHRISTINA STEPHENSON, and STEVEN BARNETT, trustees ad litem, and alternatively, ERIE INSURANCE EXCHANGE, by TROY STEPHENSON, CHRISTINA STEPHENSON, and STEVEN BARNETT, (Plaintiff), v. ERIE INDEMNITY COMPANY, (Defendant).

This most recent complaint has the same allegation of breach of fiduciary duty by Indemnity in connection with the setting of the management fee it receives, pursuant to the terms of the Subscribers Agreement executed between Indemnity and all policyholders of the Exchange, as compensation for acting as the attorney-in-fact in the management of the Exchange.

This most recent complaint seeks the same relief, specifically, (i) a finding that Indemnity has breached its fiduciary duties; (ii) an award of damages in an amount to be determined at trial; and (iii) such other relief, including disgorgement of profits or other injunctive relief, that the Court deems just and proper.

A Notice of Removal to the United States District Court for the Western District of Pennsylvania was filed on January 27, 2022. Indemnity intends to vigorously defend against all of the allegations and requests for relief in the complaint.

For additional information on contingencies, see Part II, Item 8. "Financial Statements and Supplementary Data - Note 16, Commitment and Contingencies, of Notes to Financial Statements".

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

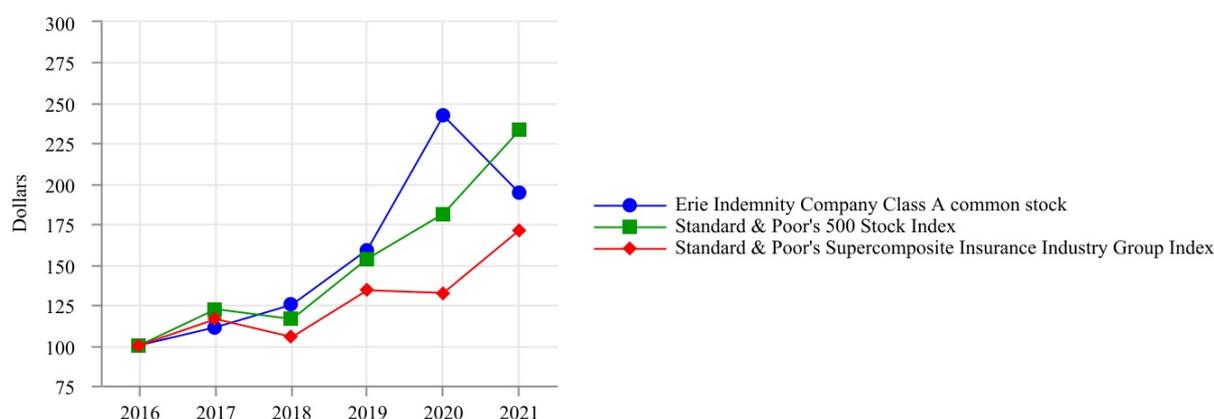
**Common Stock Market Prices and Dividends**

Our Class A, non-voting common stock trades on The NASDAQ Stock Market<sup>SM</sup> LLC under the symbol "ERIE". No established trading market exists for the Class B voting common stock. Broadridge Corporate Issuer Solutions, Inc. serves as our transfer agent and registrar. As of February 18, 2022, there were approximately 542 shareholders of record for the Class A non-voting common stock and 9 shareholders of record for the Class B voting common stock.

Historically, we 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 upon, among other things, our operating results, financial condition, cash requirements, and general business conditions at the time such payment is considered.

**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 Supercomposite Insurance Industry Group Index. The Standard & Poor's Supercomposite Insurance Industry Group Index is made up of 57 constituent members represented by property and casualty insurers, insurance brokers, and life insurers, and is a capitalization weighted index.



	2016	2017	2018	2019	2020	2021
Erie Indemnity Company Class A common stock	\$ 100 <sup>(1)</sup>	\$ 111	\$ 125	\$ 159	\$ 242	\$ 194
Standard & Poor's 500 Stock Index	100 <sup>(1)</sup>	122	116	153	181	233
Standard & Poor's Supercomposite Insurance Industry Group Index	100 <sup>(1)</sup>	116	105	134	132	171

(1) Assumes \$100 invested at the close of trading, including reinvestment of dividends, on the last trading day preceding the first day of the fifth preceding fiscal year, in our Class A common stock, the Standard & Poor's 500 Stock Index, and the Standard & Poor's Supercomposite Insurance Industry Group Index.

### **Issuer Purchases of Equity Securities**

We may purchase shares, from time-to-time, in the open market, through trading plans entered into with one or more brokerage firms pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, or through privately negotiated transactions. The purchase of shares is dependent upon prevailing market conditions and alternate uses of capital, and at times and in a manner that is deemed appropriate.

Our Board of Directors authorized a stock repurchase program effective January 1, 1999, allowing the repurchase of our outstanding Class A nonvoting common stock. Various approvals for continuation of this program have since been authorized, with the most recent occurring in 2011 for \$150 million, which was authorized with no time limitation. There were no repurchases of our Class A common stock under this program during the quarter ending December 31, 2021. We had approximately \$17.8 million of repurchase authority remaining under this program, based upon trade date, at both December 31, 2021 and February 18, 2022.

See Item 8. "Financial Statements and Supplementary Data – Note 12, Capital Stock, of Notes to Financial Statements" contained within this report for discussion of additional shares purchased outside of this program.

### **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

### **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 Erie Indemnity Company ("Indemnity", "we", "us", "our"). 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 these contain important information helpful in evaluating our financial condition and results of operations.

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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, and compliance with contractual and regulatory requirements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Among the risks and

uncertainties, in addition to those set forth in our filings with the Securities and Exchange Commission, that could cause actual results and future events to differ from those set forth or contemplated in the forward-looking statements include the following:

- dependence upon our relationship with the Erie Insurance Exchange ("Exchange") and the management fee under the agreement with the subscribers at the Exchange;
- dependence upon our relationship with the Exchange and the growth of the Exchange, including:
  - general business and economic conditions;
  - factors affecting insurance industry competition;
  - dependence upon the independent agency system; and
  - ability to maintain our reputation for customer service;
- dependence upon our relationship with the Exchange and the financial condition of the Exchange, including:
  - the Exchange's ability to maintain acceptable financial strength ratings;
  - factors affecting the quality and liquidity of the Exchange's investment portfolio;
  - changes in government regulation of the insurance industry;
  - litigation and regulatory actions;
  - emergence of significant unexpected events, including pandemics;
  - emerging claims and coverage issues in the industry; and
  - severe weather conditions or other catastrophic losses, including terrorism;
- costs of providing policy issuance and renewal services to the Exchange under the subscriber's agreement;
- ability to attract and retain talented management and employees;
- ability to ensure system availability and effectively manage technology initiatives;
- difficulties with technology or data security breaches, including cyber attacks;
- ability to maintain uninterrupted business operations;
- outcome of pending and potential litigation;
- factors affecting the quality and liquidity of our investment portfolio; and
- our ability to meet liquidity needs and access capital.

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

## **RECENT ACCOUNTING STANDARDS**

See Item 8. "Financial Statements and Supplementary Data - Note 2, Significant Accounting Policies, of Notes to Financial Statements" contained within this report for a discussion of recently adopted accounting standards and the impact on our financial statements.

## OPERATING OVERVIEW

### Overview

We are a Pennsylvania business corporation that since 1925 has been the managing attorney-in-fact for the subscribers (policyholders) at the Exchange, a reciprocal insurer that writes property and casualty insurance. Our primary function as attorney-in-fact is to perform policy issuance and renewal services on behalf of the subscribers at the Exchange. We also act as attorney-in-fact on behalf of the Exchange, as well as the service provider for its insurance subsidiaries, with respect to all administrative services.

The Exchange is a reciprocal insurance exchange, which is an unincorporated association of individuals, partnerships and corporations that agree to insure one another. Each applicant for insurance to the Exchange signs a subscriber's agreement, which contains an appointment of Indemnity as their attorney-in-fact to transact the business of the Exchange on their behalf.

Pursuant to the subscriber's agreement for acting as attorney-in-fact in these two capacities, we earn a management fee. Management fee revenue is based upon all direct and affiliated assumed premiums written 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. The process of setting the management fee rate includes the evaluation of current year operating results compared to both prior year and industry estimated results for both Indemnity and the Exchange, and consideration of several factors for both entities including: their relative financial strength and capital position; projected revenue, expense and earnings for the subsequent year; future capital needs; as well as competitive position. The management fee rate was set at 25% for 2021, 2020 and 2019. Our Board of Directors set the 2022 management fee rate again at 25%, its maximum level.

Our earnings are primarily driven by the management fee revenue generated for the services we provide to the Exchange. The policy issuance and renewal services we provide to the Exchange are related to the sales, underwriting and issuance of policies. The sales related services we provide include agent compensation and certain sales and advertising support services. Agent compensation includes scheduled commissions to agents based upon premiums written as well as additional commissions and bonuses to agents, which are earned by achieving targeted measures. Agent compensation comprised approximately 66% of our 2021 policy issuance and renewal expenses. The underwriting services we provide include underwriting and policy processing and comprised approximately 10% of our 2021 policy issuance and renewal expenses. The remaining services we provide include customer service and administrative support. We also provide information technology services that support all the functions listed above that comprised approximately 11% of our 2021 policy issuance and renewal expenses. Included in these expenses are allocations of costs for departments that support these policy issuance and renewal functions.

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

Our results of operations are tied to the growth and financial condition of the Exchange as the Exchange is our sole customer, and our earnings are largely generated from management fees based on the direct and affiliated assumed premiums written by the Exchange. The Exchange generates revenue by insuring preferred and standard risks, with personal lines comprising 70% of the 2021 direct and affiliated assumed written premiums and commercial lines comprising the remaining 30%. The principal personal lines products are private passenger automobile and homeowners. The principal commercial lines products are commercial multi-peril, commercial automobile and workers compensation.

We generate investment income from our fixed maturity and equity security portfolios. Our portfolio is managed with the objective of maximizing after-tax returns on a risk-adjusted basis. We actively evaluate the portfolios for securities in an unrealized loss position and record impairment write-downs on investments in instances where we have the intent to sell or it's more likely than not that we would be required to sell the security. Impairments resulting from a credit loss are recognized in earnings with a corresponding allowance on the balance sheet.

### **Coronavirus ("COVID-19") Pandemic**

In March 2020, the outbreak of the coronavirus ("COVID-19") was declared a global pandemic and pandemic conditions have influenced various economic factors, including a more inflationary environment in recent months. As the uncertainty resulting from the COVID-19 pandemic and subsequent resulting conditions continues to evolve, the ultimate impact and duration remain uncertain at this time. The following sections provide a summary of the more relevant financial impacts, risk monitoring activities, and operational considerations for Indemnity and the Exchange.

The impact the COVID-19 pandemic has on the premiums written by the Exchange, our sole customer, affects our management fee revenue. The uncertainty of the ongoing impacts of the COVID-19 pandemic will likely continue until such time as the spread of the virus is contained or reaches endemic status. In response to reduced driving conditions in 2020 resulting from the COVID-19 pandemic, the Exchange implemented \$200 million in personal and commercial auto rate reductions on policies written between July 1, 2020 and June 30, 2021. These rate reductions resulted in a decrease to Exchange's written premium of approximately \$110 million and \$90 million for 2021 and 2020, respectively, and a corresponding decrease in our management fee revenue of approximately \$27.5 million and \$22.5 million in 2021 and 2020, respectively. As driving activity returned to near pre-pandemic levels in 2021, increased claim frequency and severity negatively impacted Exchange's operations and may continue to impact future premium rates. There may also be other market and/or regulatory pressures that could impact the Exchange's operations. While financial markets remained generally strong in 2021, we could experience future losses and/or impairments to the portfolio due to the ongoing pandemic and inflationary pressures. We have provided additional disclosure of these impacted areas throughout our Management's Discussion and Analysis that follows. A broader discussion of the potential future impacts has also been disclosed in Financial Condition and Liquidity and Capital Resources contained within this report, as well as Part I. Item 1A. "Risk Factors" contained within this report.

From March of 2020 through the end of 2021 we had a dedicated internal committee comprised of management from various finance disciplines reviewing our risk positions and emerging trends on an ongoing basis as circumstances were evolving. The committee reviewed risk scenarios and performed stress tests, including the review of cash flow trends, liquidity requirements and other forms of risk quantification. This provided tools for management, as well as our Risk Committee of the Board of Directors, to assess risks and prioritize key issues.

While we were not required to close our physical locations under the state mandated closure of nonessential services, out of concern for the health and safety of our employees, over 90% of our workforce has been working remote since March 2020. We have had no significant interruption to our core business processes or systems to date. We have had no significant changes to our financial close or reporting processes or related internal controls, nor do we anticipate any significant future challenges at this time. We have a dedicated team responsible for the development and implementation of a return to office plan. We began returning some employees to our offices in July 2021, but paused as a result of the national increase in infections. We plan to resume returning employees to our offices in phases when we consider it appropriate.

**Financial Overview**

<i>(dollars in thousands, except per share data)</i>	Years ended December 31,				
	2021	% Change	2020	% Change	2019
Operating income	\$ 318,097	(5.9) %	\$ 338,157	(5.4) %	\$ 357,339
Total investment income	67,332	NM	32,867	(17.8)	39,967
Interest expense, net	4,132	NM	731	(14.7)	856
Other (expense) income	(4,893)	NM	(1,778)	NM	255
Income before income taxes	376,404	2.1	368,515	(7.1)	396,705
Income tax expense	78,544	4.4	75,211	(5.8)	79,884
Net income	\$ 297,860	1.6 %	\$ 293,304	(7.4) %	\$ 316,821
Net income per share - diluted	\$ 5.69	1.6 %	\$ 5.61	(7.4) %	\$ 6.06

NM = not meaningful

Operating income decreased in 2021 compared to 2020 as growth in operating expenses outpaced the growth in operating revenues. Management fee revenue is based upon the management fee rate we charge and the direct and affiliated assumed premiums written by the Exchange. The management fee rate was 25% for 2021, 2020, and 2019. The direct and affiliated assumed premiums written by the Exchange increased 3.3% to \$7.9 billion in 2021 and 1.7% to \$7.6 billion in 2020.

Cost of operations for policy issuance and renewal services increased 5.6% to \$1.7 billion in 2021 primarily due to higher commissions driven by direct and affiliated assumed written premium growth, increased technology costs, increased administrative and other costs, and higher agent incentive compensation from profitable growth. Cost of operations for policy issuance and renewal services increased 3.3% to \$1.6 billion in 2020 primarily due to higher commissions driven by direct and affiliated assumed written premium growth, higher agent incentive compensation driven by lower automobile claims frequency experienced by the Exchange, and higher personnel costs.

Management fee revenue for administrative services decreased 2.0% to \$58.3 million in 2021 compared to an increase of 4.0% to \$59.5 million in 2020. The administrative services reimbursement revenue and corresponding cost of operations increased both total operating revenue and total operating expenses to \$638.5 million in 2021 and \$609.4 million in 2020, but had no net impact on operating income.

Total investment income increased \$34.5 million in 2021 primarily due to an increase in net investment income which was driven by favorable results in our limited partnership portfolio. Total investment income decreased \$7.1 million in 2020 primarily driven by higher impairments and lower net investment income reflecting lower interest rates due to market volatility caused by the COVID-19 pandemic.

**General Conditions and Trends Affecting Our Business**Economic conditions

Unfavorable changes in economic conditions, including declining consumer confidence, inflation, high unemployment, and the threat of recession, among others, may lead the Exchange's customers to modify coverage, not renew policies, or even cancel policies, which could adversely affect the premium revenue of the Exchange, and consequently our management fee. The extent to which economic conditions could impact the Exchange's operations and our management fee was exacerbated with the COVID-19 pandemic. Further, pandemic conditions have created an inflationary environment in recent months. In particular, unanticipated increased inflation costs including medical cost inflation, building material cost inflation, auto repair cost inflation, and tort issues may impact estimated loss reserves and future premium rates. The extent and duration of the impacts to economic conditions remain uncertain as the pandemic and subsequent resulting conditions continue to evolve. If any of these items impacted the financial condition or operations of the Exchange, it could have an impact on our financial results. See Financial Condition, Liquidity and Capital Resources, and Part I, Item 1A. "Risk Factors" contained within this report for a discussion of potential impacts to our operations or those of the Exchange, including pandemics.

Financial market volatility

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

results of operations, and cash flows. Significant volatility was seen in the global financial markets at the onset of the COVID-19 pandemic and pandemic related events or subsequent resulting conditions, including inflation, may create future volatility. The extent of the impact on our invested assets cannot be estimated with a high degree of certainty at this time given the ongoing developments of this pandemic and the related impacts on the financial markets.

## **CRITICAL ACCOUNTING ESTIMATES**

The financial statements include amounts based upon 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. We consider 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 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.

### **Investment Valuation**

#### Fair Value Measurements

We make estimates concerning the fair value of our investments using valuation techniques to derive the fair value of the fixed maturity investments 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. Our investments are categorized into a three-level fair value hierarchy which assigns a Level 1 for highly observable inputs and a Level 3 to unobservable inputs. We continually assess whether or not an active market exists for all of our investments and as of each reporting date we re-evaluate their classification in the fair value hierarchy.

As of each reporting period, financial instruments recorded at fair value are classified based upon the lowest level of input that is significant to the fair value measurement. The presence of at least one unobservable input that has significant impact to the fair value measurement 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. While estimates of the fair values of our investment portfolio are obtained from outside pricing services, we ultimately determine whether the inputs used are observable or unobservable.

As of December 31, 2021, substantially all of the securities measured at fair value in our investment portfolio are classified as Level 2. Level 2 securities 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. At December 31, 2021, our investments classified as Level 3 were not significant.

See Item 8. "Financial Statements and Supplementary Data - Note 5, Fair Value, of Notes to Financial Statements" contained within this report for additional details on the fair value measurement of our investments.

#### Impairments

We regularly monitor our fixed maturity and equity security portfolios for price changes and perform detailed reviews of securities in an unrealized loss position that may indicate that credit-related or other impairments exist.

As of December 31, 2021, we do not have significant unrealized losses and our credit-related or other impairments were not material to our financial condition or results of operations.

See Item 8. "Financial Statements and Supplementary Data - Note 2, Significant Accounting Policies, of Notes to Financial Statements" contained within this report for additional details on impairments of available-for-sale securities.

## Retirement Benefit Plans for Employees

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. Although we are the sponsor of these postretirement plans and record the funded status of these plans, the Exchange and its subsidiaries reimburse us for approximately 58% of the annual benefit expense of these plans, which includes pension benefits for employees performing administrative services and the Exchange's allocated share of costs for employees in departments that support the administrative functions.

Our pension obligation is 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 based upon 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, while higher discount rates decrease present values and subsequent year pension expense. The construction of the yield curve is based upon yields of corporate bonds rated AA or equivalent 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. The cash flows from the yield curve were matched against our projected benefit payments in the pension plan, which have a duration of about 19 years. This yield curve supported the selection of a 3.16% discount rate for the projected benefit obligation at December 31, 2021 and for the 2022 pension expense. The same methodology was used to develop the 2.96% and 3.59% discount rates used to determine the projected benefit obligation for 2020 and 2019, respectively, and the pension expense for 2021 and 2020, respectively. A 25 basis point decrease in the discount rate assumption, with other assumptions held constant, would increase pension cost in the following year by \$6.4 million, of which our share would be approximately \$2.7 million, and would increase the pension benefit obligation by \$59.2 million.

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 and accumulated other comprehensive income (loss). These amounts are systematically recognized to net periodic pension expense in future periods, with gains decreasing and losses increasing future pension expense. If actuarial net gains or losses exceed 5% of the greater of the projected benefit obligation and the market-related value of plan assets, the excess is recognized through the net periodic pension expense equally over the estimated service period of the employee group, which is currently 14 years.

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. To determine the expected long-term rate of return assumption, we utilized models based upon rigorous historical analysis and forward-looking views of the financial markets based upon key factors such as historical returns for the asset class' applicable indices, the correlations of the asset classes under various market conditions and consensus views on future real economic growth and inflation. The expected future return for each asset class is then combined by considering correlations between asset classes and the volatilities of each asset class to produce a reasonable range of asset return results within which our expected long-term rate of return assumption falls. The expected long-term rate of return is less susceptible to annual revisions, as there are typically no significant changes in the asset mix. Based on the current asset allocation and a review of the key factors and expectations of future asset performance, the expected return on asset assumption remained at 5.50% for 2022. A change of 25 basis points in the expected long-term rate of return assumption, with other assumptions held constant, would have an estimated \$2.4 million impact on net pension benefit cost in the following year, of which our share would be approximately \$1.0 million.

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 market-related asset experience during 2021 that related to the actual investment return being different from that assumed during the prior year was a gain of \$36.7 million. Recognition of this gain will be deferred and recognized 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 14 years, which is the remaining service period of the employee group.

We expect our net pension benefit costs to decrease from \$57.1 million in 2021 to \$45.9 million in 2022 primarily resulting from anticipated plan progression and liability gains due to the higher discount rate. Our share of the net pension benefit costs after reimbursements was \$24.0 million in 2021. We expect our share of the net pension benefit costs to be approximately \$19.3 million in 2022.

The actuarial assumptions we used in determining our pension obligation 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. See Item 8. "Financial Statements and Supplementary Data - Note 9, Postretirement Benefits, of Notes to Financial Statements" contained within this report for additional details on the pension plans.

## RESULTS OF OPERATIONS

### Management fee revenue

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

### Management fee rate

The management fee is calculated by multiplying all direct and affiliated assumed premiums written by the Exchange by the management fee rate, which is determined by our Board of Directors at least annually. The management fee rate was set at 25%, the maximum rate, for 2021, 2020 and 2019. Changes in the management fee rate can affect our revenue and net income significantly. The transaction price, including management fee revenue and administrative revenue, includes variable consideration and is allocated based on the estimated standalone selling prices developed using industry information and other available information for similar services. We update the transaction price and the related allocation at least annually based upon the most recent information available or more frequently if there have been significant changes in any components considered in the transaction price. Our current transaction price allocation review resulted in a minor change in the allocation between the two performance obligations in 2021 compared to prior years, which did not have a material impact on our financial statements.

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

<i>(dollars in thousands)</i>	Years ended December 31,				
	2021	% Change	2020	% Change	2019
<b>Policy issuance and renewal services</b>					
Direct and affiliated assumed premiums written by the Exchange	\$ 7,868,311	3.3 %	\$ 7,613,519	1.7 %	\$ 7,486,030
Management fee rate	24.3 %		24.2 %		24.2 %
Management fee revenue	1,912,000	3.8	1,842,472	1.7	1,811,619
Change in estimate for management fee returned on cancelled policies <sup>(1)</sup>	1,166	NM	(678)	41.7	(1,162)
Management fee revenue - policy issuance and renewal services	<u>\$ 1,913,166</u>	3.9 %	<u>\$ 1,841,794</u>	1.7 %	<u>\$ 1,810,457</u>
<b>Administrative services</b>					
Direct and affiliated assumed premiums written by the Exchange	\$ 7,868,311	3.3 %	\$ 7,613,519	1.7 %	\$ 7,486,030
Management fee rate	0.7 %		0.8 %		0.8 %
Management fee revenue	55,078	(9.6)	60,908	1.7	59,888
Change in contract liability <sup>(2)</sup>	3,195	NM	(1,376)	47.8	(2,633)
Change in estimate for management fee returned on cancelled policies <sup>(1)</sup>	13	NM	(69)	(34.6)	(51)
Management fee revenue - administrative services	58,286	(2.0)	59,463	4.0	57,204
Administrative services reimbursement revenue	638,483	4.8	609,435	4.7	582,010
Total revenue from administrative services	<u>\$ 696,769</u>	4.2 %	<u>\$ 668,898</u>	4.6 %	<u>\$ 639,214</u>

NM = not meaningful

(1) A constraining estimate of variable consideration exists related to the potential for management fees to be returned if a policy were to be cancelled mid-term. Management fees are returned to the Exchange when policies are cancelled mid-term and unearned premiums are refunded.

(2) Management fee revenue - administrative services is recognized over time as the services are performed. See Item 8. "Financial Statements - Note 3, Revenue, of Notes to Financial Statements" contained within this report.

Direct and affiliated assumed premiums written by the Exchange

Direct and affiliated assumed premiums include premiums written directly by the Exchange and premiums assumed from its wholly owned property and casualty subsidiaries. Direct and affiliated assumed premiums written by the Exchange increased 3.3% to \$7.9 billion in 2021, from \$7.6 billion in 2020, primarily driven by increased homeowners and commercial multi-peril premiums written. Year-over-year policies in force for all lines of business increased 3.2% in 2021 as the result of continuing strong policyholder retention and an increase in new policies written, compared to 2.1% in 2020. The year-over-year average premium per policy for all lines of business increased 0.1% at December 31, 2021, compared to a decrease of 0.4% at December 31, 2020. The year-over-year average premium per policy at both December 31, 2021 and 2020 was impacted by the rate reductions for personal and commercial auto policies written between July 1, 2020 and June 30, 2021, in response to the lower driving activity and to provide financial relief as a result of the COVID-19 pandemic.

Premiums generated from new business increased 13.2% to \$965 million in 2021. New business policies written increased 9.0% in 2021 and year-over-year average premium per policy on new business increased 3.9% at December 31, 2021. Premiums generated from new business decreased 1.2% to \$852 million in 2020. While new business policies written increased 5.0% in 2020, year-over-year average premium per policy on new business decreased 5.9% at December 31, 2020.

Premiums generated from renewal business increased 2.1% to \$6.9 billion in 2021, compared to 2.1%, or \$6.8 billion, in 2020. Underlying the trend in renewal business premiums was steady policy retention ratios, partially offset by a 0.3% decrease in year-over-year average premium per policy at December 31, 2021, compared to an increase of 0.4% at December 31, 2020.

The Exchange implements rate changes in order to meet loss cost expectations. As the Exchange writes policies with annual terms only, rate actions take 12 months to be fully recognized in written premium and 24 months to be recognized 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 increased or decreased premiums in full. As a result, certain rate changes approved in 2020, including those in response to reduced driving conditions resulting from the COVID-19 pandemic, were reflected in 2021, and a portion of the rate actions in 2021 will be reflected in 2022. The Exchange continuously evaluates pricing and product offerings to meet consumer demands.

*Personal lines* – Total personal lines premiums written increased 2.5% to \$5.5 billion in 2021, from \$5.4 billion in 2020, driven by an increase in total personal lines policies in force of 3.1%. Total personal lines year-over-year average premium per policy decreased 0.6% at December 31, 2021, compared to the prior year, driven by personal auto rate reductions. Total personal lines policies in force increased 2.2% in 2020 and year-over-year average premium per policy decreased 0.8% at December 31, 2020.

*Commercial lines* – Total commercial lines premiums written increased 5.4% to \$2.4 billion in 2021, compared to 2020, driven by a 3.6% increase in total commercial lines policies in force and a 1.7% increase in the total commercial lines year-over-year average premium per policy. Total commercial lines premiums written increased 2.6% in 2020, compared to 2019, driven by a 1.6% increase in total commercial lines policies in force and a 0.9% increase in the total commercial lines year-over-year average premium per policy.

*Future trends-premium revenue* – Through a careful agency selection process, the Exchange plans to continue its effort to expand the size of its agency force to increase market penetration in existing operating territories to contribute to future growth.

Changes in premium levels attributable to the growth in policies in force directly affect the profitability of the Exchange and have a direct bearing on our management fee. Our continued focus on underwriting discipline and the maturing of pricing sophistication models have contributed to the Exchange's steady policy retention ratios. The continued growth of its policy base is dependent upon the Exchange's ability to retain existing and attract new subscribers/policyholders. A lack of new policy growth or the inability to retain existing customers could have an adverse effect on the Exchange's premium level growth, and consequently our management fee.

Changes in premium levels attributable to rate changes also directly affect the profitability of the Exchange and have a direct bearing on our management fee. Pricing actions contemplated or taken by the Exchange are subject to various regulatory requirements of the states in which it operates. The pricing actions already implemented, or to be implemented, have an effect on the market competitiveness of the Exchange's insurance products. Such pricing actions, and those of the Exchange's competitors, could affect the ability of the Exchange's agents to retain and attract new business; additionally, exposure reductions and/or changes in mix of business as a result of economic conditions due to the COVID-19 pandemic or other significant unexpected events could impact the average premium written and affiliated assumed by the Exchange, as customers may reduce coverages. Future premiums could also be impacted by potential regulatory changes resulting from the COVID-19 pandemic. Longer-term, increased driving activity may result in increased future rates due to higher claims and severity. We expect the Exchange's pricing actions to result in a net increase in direct written premium in 2022; however, the extent of the impact to the Exchange's premiums and our management fee cannot be estimated with a high degree of certainty at this time given the ongoing developments related to this pandemic and current inflationary trends. See also Part I, Item 1A. "Risk Factors" contained within this report.

## Policy issuance and renewal services

<i>(dollars in thousands)</i>	Years ended December 31,				
	2021	% Change	2020	% Change	2019
Management fee revenue - policy issuance and renewal services	\$ 1,913,166	3.9 %	\$ 1,841,794	1.7 %	\$ 1,810,457
Service agreement revenue	24,042	(6.8)	25,797	(6.6)	27,627
	<u>1,937,208</u>	3.7	<u>1,867,591</u>	1.6	<u>1,838,084</u>
Cost of policy issuance and renewal services	1,677,397	5.6	1,588,897	3.3	1,537,949
Operating income - policy issuance and renewal services	<u>\$ 259,811</u>	(6.8) %	<u>\$ 278,694</u>	(7.1) %	<u>\$ 300,135</u>

## Policy issuance and renewal services

We allocate a portion of the management fee, which currently equates to 24.3% of the direct and affiliated assumed premiums written by the Exchange, for providing policy issuance and renewal services. The allocation of management fee for these services was 24.2% in both 2020 and 2019. This portion of the management fee is recognized as revenue when the policy is issued or renewed because it is at that time that the services we provide are substantially complete and the executed insurance policy is transferred to the customer. The increase in management fee revenue for policy issuance and renewal services was driven by the increase in the direct and affiliated assumed premiums written by the Exchange discussed previously.

## Service agreement revenue

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

## Cost of policy issuance and renewal services

<i>(dollars in thousands)</i>	Years ended December 31,				
	2021	% Change	2020	% Change	2019
<i>Commissions:</i>					
Total commissions	<u>\$ 1,108,426</u>	5.4 %	<u>\$ 1,051,272</u>	2.6 %	<u>\$ 1,024,654</u>
<i>Non-commission expense:</i>					
Underwriting and policy processing	\$ 165,183	2.8 %	\$ 160,646	3.7 %	\$ 154,934
Information technology	185,096	6.5	173,827	3.7	167,600
Sales and advertising	52,511	(1.3)	53,212	1.6	52,362
Customer service	36,720	6.0	34,638	7.1	32,353
Administrative and other	129,461	12.3	115,302	8.7	106,046
Total non-commission expense	<u>568,971</u>	5.8	<u>537,625</u>	4.7	<u>513,295</u>
Total cost of policy issuance and renewal services	<u>\$ 1,677,397</u>	5.6 %	<u>\$ 1,588,897</u>	3.3 %	<u>\$ 1,537,949</u>

*Commissions* – Commissions increased \$57.2 million in 2021 compared to 2020 resulting from higher direct and affiliated assumed premiums written by the Exchange, primarily in lines of business that pay a higher commission rate. To a lesser extent, there was also an increase in agent incentive compensation in 2021 compared to 2020 related to profitable growth. Commissions increased \$26.6 million in 2020 compared to 2019 resulting from higher direct and affiliated assumed premiums written by the Exchange and higher agent incentive compensation. The Exchange experienced a significant decrease in automobile claims frequency and related loss expense beginning March 2020 that continued through May 2020 driven by the COVID-19 pandemic, which contributed to an increase in the profitability component of the agent incentive bonuses.

*Non-commission expense* – Non-commission expense increased \$31.3 million in 2021 compared to 2020. Underwriting and policy processing costs increased \$4.5 million primarily due to increased personnel costs and underwriting report costs. Information technology costs increased \$11.3 million primarily due to increased hardware and software costs and personnel costs. Administrative and other expenses increased \$14.2 million primarily due to increased professional fees and building and equipment depreciation. Personnel costs in all categories were impacted by higher medical costs compared to the prior year as the COVID-19 pandemic reduced elective procedures in 2020.

In 2020, non-commission expense increased \$24.3 million compared to 2019. Underwriting and policy processing costs increased \$5.7 million primarily due to increased personnel costs and underwriting report costs. Information technology costs increased \$6.2 million primarily due to increased personnel costs and hardware and software costs. Administrative and other expenses increased \$9.3 million primarily driven by increased personnel costs. Increased personnel costs in all categories included higher incentive plan award accruals related to underwriting performance in 2020 compared to targets and higher vacation accruals as employees took less vacation in 2020 as a result of the COVID-19 pandemic.

### **Administrative services**

<i>(dollars in thousands)</i>	Years ended December 31,				
	2021	% Change	2020	% Change	2019
Management fee revenue - administrative services	\$ 58,286	(2.0) %	\$ 59,463	4.0 %	\$ 57,204
Administrative services reimbursement revenue	638,483	4.8	609,435	4.7	582,010
Total revenue allocated to administrative services	696,769	4.2	668,898	4.6	639,214
Administrative services expenses					
Claims handling services	546,962	4.2	525,072	3.7	506,491
Investment management services	38,862	5.5	36,835	9.5	33,640
Life management services	52,659	10.8	47,528	13.5	41,879
Operating income - administrative services	\$ 58,286	(2.0) %	\$ 59,463	4.0 %	\$ 57,204

### **Administrative services**

We allocate a portion of the management fee, which currently equates to 0.7% of the direct and affiliated assumed premiums written by the Exchange, to the administrative services. The allocation of management fee for these services was 0.8% in both 2020 and 2019. This portion of the management fee is recognized as revenue over a four-year period representing the time over which the services are provided. We also report reimbursed costs as revenues, which are recognized monthly as services are provided. The administrative services expenses we incur and the related reimbursements we receive are recorded gross in the Statements of Operations.

### **Cost of administrative services**

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

### Total investment income

A summary of the results of our investment operations is as follows for the years ended December 31:

<i>(dollars in thousands)</i>	2021	% Change	2020	% Change	2019
Net investment income	\$ 62,177	NM	\$ 29,753	(12.6) %	\$ 34,059
Net realized and unrealized investment gains	4,946	(22.6)	6,392	4.7	6,103
Net impairment recoveries (losses) recognized in earnings	209	NM	(3,278)	NM	(195)
Total investment income	<u>\$ 67,332</u>	NM	<u>\$ 32,867</u>	(17.8) %	<u>\$ 39,967</u>

NM = not meaningful

### Net investment income

Net investment income includes interest and dividends on our fixed maturity and equity security portfolios and the results of our limited partnership investments, net of investment expenses. Net investment income increased by \$32.4 million in 2021, compared to 2020, primarily due to equity in earnings of limited partnerships of \$31.7 million in 2021 compared to equity in losses of limited partnerships of \$0.6 million in 2020. Net investment income decreased by \$4.3 million in 2020, compared to 2019, primarily due to decreased income from cash and cash equivalents driven by lower rates and invested balances, somewhat offset by increased preferred stock income resulting from higher invested balances.

### Net realized and unrealized investment gains (losses)

A breakdown of our net realized and unrealized investment gains (losses) is as follows for the years ended December 31:

<i>(in thousands)</i>	2021	2020	2019
Securities sold:			
Available-for-sale securities	\$ 5,131	\$ 1,335	\$ 4,619
Equity securities	(76)	(469)	360
Equity securities change in fair value	(110)	5,525	1,124
Miscellaneous	1	1	0
Net realized and unrealized investment gains	<u>\$ 4,946</u>	<u>\$ 6,392</u>	<u>\$ 6,103</u>

Net realized and unrealized gains of \$4.9 million in 2021 were primarily due to disposals of available-for-sale securities. Net realized and unrealized gains of \$6.4 million in 2020 were primarily due to market value adjustments on equity securities and from the sale of available-for-sale securities, while gains of \$6.1 million in 2019 were primarily due to sales of available-for-sale securities and increases in fair value of equity securities.

### Net impairment recoveries (losses) recognized in earnings

Net impairment recoveries of \$0.2 million in 2021 were primarily a result of the change in the current expected credit loss allowance related to our agent loans. Net impairment losses recognized on available-for-sale securities in 2020 include \$2.3 million of securities in an unrealized loss position where we had intent to sell prior to recovery of our amortized cost basis and \$0.7 million of credit impairment losses. The remaining 2020 impairments include the change in the current expected credit loss allowance related to our agent loans. The COVID-19 pandemic's impact on financial markets contributed to higher impairment losses on our available-for-sale securities during 2020 compared to other years presented. Net impairment losses recognized in 2019 included securities in an unrealized loss position that we intended to sell prior to expected recovery of our amortized cost basis as well as securities in an unrealized loss position where we determined the loss was other-than-temporary based on credit factors.

### Financial Condition of Erie Insurance Exchange

Serving in the capacity of attorney-in-fact for the Exchange, we are dependent on the growth and financial condition of the Exchange, who is our sole customer. The strength of the Exchange and its wholly owned subsidiaries is rated annually by A.M. Best Company through assessing its financial stability and ability to pay claims. The ratings are generally based upon factors relevant to policyholders and are not directed toward return to investors. The Exchange and each of its property and casualty subsidiaries are rated A+ "Superior", the second highest financial strength rating, which is assigned to companies that have achieved superior overall performance when compared to the standards established by A.M. Best and have a superior ability to meet obligations to policyholders over the long term. On July 27, 2021, the outlook for the financial strength rating was affirmed as stable. As of December 31, 2021, only approximately 12% of insurance groups, in which the Exchange is included, are rated A+ or higher.

The financial statements of the Exchange are prepared in accordance with statutory accounting principles prescribed by the Commonwealth of Pennsylvania. Financial statements prepared under statutory accounting principles focus on the solvency of the insurer and generally provide a more conservative approach than under U.S. generally accepted accounting principles. Statutory direct written premiums of the Exchange and its wholly owned property and casualty subsidiaries grew 3.3% to \$7.9 billion in 2021 from \$7.6 billion in 2020. These premiums, along with investment income, are the major sources of cash that support the operations of the Exchange. Policyholders' surplus, determined under statutory accounting principles, was \$11.7 billion and \$10.7 billion at December 31, 2021 and 2020, respectively. The Exchange and its wholly owned property and casualty subsidiaries' year-over-year policy retention ratio continues to be high at 90.1% at December 31, 2021 and 89.9% at December 31, 2020.

We have prepared our financial statements considering the financial strength of the Exchange based on its A.M. Best rating and strong level of surplus. We are monitoring risks related to the COVID-19 pandemic on an ongoing basis and believe that the Exchange falls within established risk tolerances. However, see Part I, Item 1A. "Risk Factors" for possible outcomes that could impact that determination.

## FINANCIAL CONDITION

### Investments

Our investment portfolio is managed with the objective of maximizing after-tax returns on a risk-adjusted basis. The following table presents the carrying value of our investments as of December 31:

<i>(dollars in thousands)</i>	2021	% to total	2020	% to total
Fixed maturities	\$ 946,085	83 %	\$ 928,236	84 %
Equity securities	87,743	8	94,090	9
Agent Loans <sup>(1)</sup>	66,368	6	69,212	6
Other investments	36,846	3	14,325	1
<b>Total investments</b>	<b>\$ 1,137,042</b>	<b>100 %</b>	<b>\$ 1,105,863</b>	<b>100 %</b>

(1) The current portion of agent loans is included with prepaid expenses and other current assets in the Statements of Financial Position.

We continually review our investment portfolio for impairment and determine whether the impairment is a result of credit loss or other factors. We individually analyze all positions with an emphasis on those in a significant unrealized loss position. If we have the intent to sell or it's more likely than not that we would be required to sell the security before recovery of the amortized cost basis, the entire impairment is recognized in earnings. Factors considered in the evaluation of credit loss include the extent to which fair value is less than cost and fundamental factors specific to the issuer such as financial condition, changes in credit ratings, near and long-term business prospects and other factors, as well as the likelihood of recovery of the amortized cost of the security. Impairment resulting from credit loss is recognized in earnings with a corresponding allowance on the balance sheet. We believe our investment valuation philosophy and accounting practices result in appropriate and timely measurement of fair value and recognition of impairment.

### Fixed maturities

Under our investment strategy, we maintain a fixed maturity portfolio that is of high quality and well diversified within each market sector. This investment strategy also achieves a balanced maturity schedule. Our fixed maturity portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk.

Fixed maturities are carried at fair value with unrealized gains and losses, net of deferred taxes, included in shareholders' equity. Net unrealized gains on fixed maturities, net of deferred taxes, totaled \$6.2 million at December 31, 2021, compared to net unrealized gains of \$23.3 million at December 31, 2020.

The following table presents a breakdown of the fair value of our fixed maturity portfolio by industry sector and rating as of December 31, 2021: <sup>(1)</sup>

<i>(in thousands)</i>	AAA	AA	A	BBB	Non- investment grade	Fair value
Basic materials	\$ 0	\$ 0	\$ 3,155	\$ 0	\$ 7,937	\$ 11,092
Communications	0	8,659	8,361	17,283	17,038	51,341
Consumer	0	3,138	17,849	70,598	41,639	133,224
Diversified	0	0	0	0	1,200	1,200
Energy	0	4,116	7,729	20,336	8,501	40,682
Financial	0	1,007	74,082	121,559	17,243	213,891
Industrial	0	0	9,861	16,794	26,914	53,569
Structured securities <sup>(2)</sup>	141,897	180,935	26,945	18,851	0	368,628
Technology	5,150	0	7,727	20,937	13,908	47,722
U.S. Treasury	0	4,292	0	0	0	4,292
Utilities	0	0	3,707	12,912	3,825	20,444
<b>Total</b>	<b>\$ 147,047</b>	<b>\$ 202,147</b>	<b>\$ 159,416</b>	<b>\$ 299,270</b>	<b>\$ 138,205</b>	<b>\$ 946,085</b>

(1) Ratings are supplied by S&P, Moody's, and Fitch. The table is based upon the lowest rating for each security.

(2) Structured securities include residential and commercial mortgage-backed securities, collateralized debt obligations, and asset-backed securities.

### Equity Securities

Equity securities primarily include nonredeemable preferred stocks and are carried at fair value in the Statements of Financial Position with all changes in unrealized gains and losses reflected in the Statements of Operations.

The following table presents an analysis of the fair value of our equity securities by sector as of December 31:

<i>(in thousands)</i>	2021	2020
Communications	\$ 0	\$ 2,699
Consumer	3,314	3,068
Energy	6,448	2,206
Financial services	71,722	76,575
Industrial	0	800
Utilities	6,259	8,742
Total	<u>\$ 87,743</u>	<u>\$ 94,090</u>

### **Shareholders' Equity**

#### Postretirement benefit plans

The funded status of our postretirement benefit plans is recognized in the Statements of Financial Position, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. At December 31, 2021, shareholders' equity amounts related to these postretirement plans increased by \$70.0 million, net of tax, of which \$13.9 million represents amortization of the prior service cost and net actuarial loss and \$56.1 million represents the current period actuarial gain. The 2021 actuarial gain was primarily due to higher than expected returns on plan assets. At December 31, 2020, shareholders' equity amounts related to these postretirement plans increased by \$20.0 million, net of tax, of which \$10.6 million represents amortization of the prior service cost and net actuarial loss and \$9.4 million of current period actuarial gain. The 2020 actuarial gain was driven by higher than expected returns on assets which exceeded losses incurred as a result of the lower discount rate in 2020. Although we are the sponsor of these postretirement plans and record the funded status of these plans, the Exchange and its subsidiaries reimburse us for approximately 58% of the annual benefit expense of these plans, which includes pension benefits for employees performing administrative services and their allocated share of costs for employees in departments that support the administrative functions.

## LIQUIDITY AND CAPITAL RESOURCES

We continue to monitor the sufficiency of our liquidity and capital resources given the potential impact of the COVID-19 pandemic and subsequent resulting conditions, including inflationary costs. While we did not see a significant impact on our sources or uses of cash in 2021, future disruptions in the markets could occur which may affect our liquidity position. If our normal operating and investing cash activities were to become insufficient to meet future funding requirements, we believe we have sufficient access to liquidity through our cash position, liquid marketable securities and our \$100 million line of credit that does not expire until October 2026. See broader discussions of potential risks to our operations in the Operating Overview and Part I, Item 1A. "Risk Factors" contained within this report.

### Sources and Uses of Cash

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations and growth needs. Our liquidity requirements have been met primarily by funds generated from management fee revenue and income from investments. Cash provided from these sources is used primarily to fund the costs of our management operations including commissions, salaries and wages, pension plans, share repurchases, dividends to shareholders, the purchase and development of information technology, and other capital expenditures. We expect that our operating cash needs will be met by funds generated from operations. Cash in excess of our operating needs is primarily invested in investment grade fixed maturities. As part of our liquidity review, we regularly evaluate our capital needs based on current and projected results and consider the potential impacts to our liquidity, borrowing capacity, financial covenants and capital availability.

We have certain obligations and commitments to make future payments under various agreements. Cash requirements within the next twelve months include accounts payable and accrued liabilities, the current portion of long-term borrowings, and other current obligations.

Our long-term cash requirements under various contractual obligations and commitments include:

- *Debt and interest payments* – See Part II, Item 8. "Financial Statements and Supplementary Data - Note 8. Borrowing Arrangements, of Notes to Financial Statements" for details of our obligations and the timing of expected future payments.
- *Pension* – We have a funded noncontributory defined benefit pension plan covering substantially all employees and an unfunded supplemental employee retirement plan ("SERP") for certain members of executive senior management. See Part II, Item 8. "Financial Statements and Supplementary Data – Note 9. Postretirement Benefits, of Notes to Financial Statements" for the funding policy for our defined benefit pension plan and accumulated benefit obligation for our unfunded SERP.
- *Deferred compensation* – We have two deferred compensation plans for our executives, senior vice presidents, and other selected officers and two deferred compensation plans for our outside directors. See Part II, Item 8. "Financial Statements and Supplementary Data – Note 10. Incentive and Deferred Compensation Plans, of Notes to Financial Statements" for additional details of these obligations and estimated future payments.
- *Other commitments* – We have commitments for approximately \$424 million which include agreements for various services, including information technology, support, and maintenance obligations, operating leases for equipment, vehicles, and real estate, and other obligations in the ordinary course of business. We expect to make future cash payments according to the contract terms. These agreements are enforceable and legally binding and specify fixed amounts or minimum quantities to be purchased. Some agreements may contain cancellation provisions, some of which may require us to pay a termination fee. Over half of these commitments are due in the next 12 months. We are reimbursed from the Exchange and its subsidiaries for the portion of these costs related to administrative services.

We believe that our current cash, cash equivalents and marketable securities and cash generated from operations will be sufficient to meet our current and future cash requirements.

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, may be illiquid. 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. We believe we have sufficient liquidity to meet our needs from sources other than the liquidation of securities.

**Cash flow activities**

The following table provides condensed cash flow information for the years ended December 31:

<i>(in thousands)</i>	2021	2020	2019
Net cash provided by operating activities	\$ 402,794	\$ 342,595	\$ 364,527
Net cash used in investing activities	(185,490)	(243,225)	(124,634)
Net cash used in financing activities	(194,842)	(274,869)	(169,571)
Net increase (decrease) in cash	\$ 22,462	\$ (175,499)	\$ 70,322

Net cash provided by operating activities was \$402.8 million in 2021, compared to \$342.6 million in 2020 and \$364.5 million in 2019. Increased cash provided by operating activities in 2021 was primarily due to an increase in management fees received driven by growth in direct and affiliated assumed premiums written by the Exchange of \$94.6 million and an increase in administrative service reimbursements received of \$46.9 million. Partially offsetting the increase in cash provided by operating activities was an increase in cash paid for agent commissions of \$37.4 million due to higher scheduled commission driven by premium growth, an increase in administrative services expenses paid of \$33.8 million and an increase in agent bonuses of \$15.4 million, compared to 2020. Decreased cash provided by operating activities in 2020 was primarily due to an increase in cash paid for agent commissions of \$33.3 million due to higher scheduled commissions driven by premium growth, increased general operating expenses paid of \$17.4 million and increased administrative services expenses paid of \$16.2 million. Offsetting the decrease in cash provided by operating activities was an increase of \$42.5 million in management fee received driven by growth in direct and affiliated assumed premiums written by the Exchange, compared to 2019.

Net cash used in investing activities totaled \$185.5 million in 2021, compared to \$243.2 million in 2020 and \$124.6 million in 2019. In 2021, net cash used in investing activities was primarily driven by fixed asset purchases of \$148.8 million, which included the purchase of the home office from the Exchange. To a lesser extent, purchases of investments exceeded proceeds generated from sales and maturities/calls of investments. In 2020, net cash used in investing activities was primarily driven by purchases of investments exceeding proceeds generated from sales and maturities/calls of investments. In 2019, net cash used in investing activities was primarily driven by fixed asset purchases of \$102.0 million primarily related to the new home office building which was funded primarily by the senior secured draw term loan facility.

Net cash used in financing activities totaled \$194.8 million in 2021, compared to \$274.9 million in 2020 and \$169.6 million in 2019. The decrease in cash used in 2021, compared to 2020, was due to a decrease in dividends paid to shareholders by \$80.1 million, compared to 2020. The increase in cash used in 2020, compared to 2019, was due to an increase in dividends paid to shareholders. In addition to the normal quarterly dividends paid in 2020, the Board also declared a special one-time cash dividend of \$2.00 on each Class A share and \$300 on each Class B share totaling \$93.1 million, which was paid in December 2020.

No shares of our Class A nonvoting common stock were repurchased in 2021, 2020 and 2019 in conjunction with our stock repurchase program. In 2011, our Board of Directors approved a continuation of the current stock repurchase program for a total of \$150 million with no time limitation. This repurchase authority includes, and is not in addition to, any unspent amounts remaining under the prior authorization. We had approximately \$17.8 million of repurchase authority remaining under this program at December 31, 2021, based upon trade date.

We purchase shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program for certain stock-based incentive plans. We purchased 26,667 shares for \$5.3 million in 2021, 31,248 shares for \$5.8 million in 2020 and 15,003 shares for \$2.6 million in 2019 to settle awards for our equity compensation plan and to fund the rabbi trust for the outside director deferred stock compensation plan and the incentive compensation deferral plan. All shares were delivered in the year they were purchased.

**Capital Outlook**

We regularly prepare forecasts evaluating the current and future cash requirements for both normal and extreme risk events, including the current COVID-19 pandemic. Should an extreme risk event result in a cash requirement exceeding normal cash flows, we have the ability to meet our future funding requirements through various alternatives available to us.

Outside of our normal operating and investing cash activities, future funding requirements could be met through: 1) cash and cash equivalents, which total approximately \$183.7 million at December 31, 2021, 2) a \$100 million bank revolving line of credit, and 3) liquidation of unpledged assets held in our investment portfolio, including equity securities and investment grade bonds which totaled approximately \$658.8 million at December 31, 2021. Volatility in the financial markets could impair our

ability to sell certain fixed income securities or cause such securities to sell at deep discounts. Additionally, we have the ability to curtail or modify discretionary cash outlays such as those related to shareholder dividends and share repurchase activities.

As of December 31, 2021, we have access to a \$100 million bank revolving line of credit with a \$25 million letter of credit sublimit that expires on October 29, 2026. As of December 31, 2021, a total of \$99.1 million remains available under the facility due to \$0.9 million outstanding letters of credit, which reduce the availability for letters of credit to \$24.1 million. We had no borrowings outstanding on our line of credit as of December 31, 2021. Investments with a fair value of \$120.9 million were pledged as collateral on the line at December 31, 2021. These securities have no trading restrictions and are reported as available-for-sale securities and cash and cash equivalents in the Statements of Financial Position. The bank requires compliance with certain covenants, which include leverage ratios and debt restrictions. We were in compliance with our bank covenants at December 31, 2021.

### **Enterprise Risk Management**

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. Our ERM program views risk holistically across our entire group of companies. It ensures implementation of risk responses to mitigate potential impacts. See Part I, Item 1A. "Risk Factors" contained in this report for a list of risk factors.

Our ERM process is founded on a governance framework that includes oversight at multiple levels of our organization, including our Board of Directors and executive 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. Given our defined tolerance for risk, risk model output is used to quantify the potential variability of future performance and the sufficiency of capital and liquidity levels.

## TRANSACTIONS/AGREEMENTS WITH RELATED PARTIES

### Board Oversight

Our Board of Directors has a broad oversight responsibility over our intercompany relationships with the Exchange. As a consequence, our Board of Directors 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 us and ratifying any other significant activity.

### Insurance Holding Company System

Most states have enacted legislation that regulates insurance holding company systems, defined as two or more affiliated persons, one or more of which is an insurer. The Exchange has the following wholly owned property and casualty subsidiaries: Erie Insurance Company, Erie Insurance Company of New York, Erie Insurance Property & Casualty Company and Flagship City Insurance Company, and a wholly owned life insurance company, Erie Family Life Insurance Company. Indemnity and the Exchange, and its wholly owned subsidiaries, meet the definition of an insurance holding company system.

All transactions within a holding company system affecting the member insurers of the holding company system must be fair and reasonable and any charges or fees for services performed must be reasonable. Approval by the applicable insurance commissioner is required prior to the consummation of transactions affecting the members within a holding company system.

### Intercompany Agreements

#### Subscriber's and services agreements

We serve as attorney-in-fact for the subscribers 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, we are required to provide policy issuance and renewal services and act as the attorney-in-fact for the Exchange with respect to all administrative services, as discussed previously. Pursuant to the subscriber's agreement, we earn a management fee for these services calculated as a percentage of the direct and affiliated assumed premiums written by the Exchange. By virtue of its legal structure as a reciprocal insurer, the Exchange does not have any employees or officers. Therefore, it enters into contractual relationships by and through the attorney-in-fact. The Exchange's insurance subsidiaries also utilize Indemnity for all administrative services in accordance with the service agreements between each of the subsidiaries and Indemnity. The amounts incurred for all administrative services are reimbursed to Indemnity at cost in accordance with the subscriber's agreement and the service agreements. These reimbursements are settled on a monthly basis. State insurance regulations require that intercompany service agreements and any material amendments be approved in advance by the state insurance department.

#### Shared Facilities

We previously leased the home office from the Exchange. Rent was based on rental rates of like property in Erie, Pennsylvania and all operating expenses including utilities, cleaning, repairs, real estate taxes, property insurance, and leasehold improvements were the responsibility of the tenant (Indemnity). Rental costs of shared facilities under this lease were allocated based upon usage or square footage occupied. On December 31, 2021, we purchased the home office from the Exchange. See Part II, Item 8. "Financial Statements and Supplementary Data - Note 14. Related Party, of Notes to Financial Statements" for additional details.

Effective July 1, 2021, the Exchange and its subsidiaries entered into a contractual agreement with Indemnity to use space in Indemnity-owned properties. The amount charged is based on rates of like property in Erie, Pennsylvania and the usage or square footage occupied. Operating expenses including utilities, cleaning, repairs, real estate taxes, property insurance and leasehold improvements are allocated based upon usage or square footage occupied. The home office was added to this agreement effective January 1, 2022.

### Cost Allocation

The allocation of costs affects our financial condition and that of the Exchange and its wholly owned subsidiaries. Management's role is to determine that allocations are consistently made in accordance with the subscriber's agreement with the subscribers at the Exchange, intercompany service agreements, and applicable insurance laws and regulations. Allocation of costs under these various agreements requires judgment and interpretation, and such allocations are performed using a consistent methodology, which is intended to adhere to the terms and intentions of the underlying agreements.

### Intercompany Receivables

We have significant receivables from the Exchange and its affiliates that result in a concentration of credit risk. Net receivables from the Exchange and other affiliates were \$479.1 million, or 21.4% of total assets, at December 31, 2021 and \$494.6 million, or 23.4% of total assets, at December 31, 2020. These receivables include management fees due for policy issuance and

renewal services performed by us under the subscriber's agreement, and certain costs we incur acting as the attorney-in-fact on behalf of the Exchange as well as the service provider for its insurance subsidiaries with respect to all administrative services, as discussed previously. These receivables from the Exchange and its affiliates are settled monthly. We continually monitor the financial strength of the Exchange.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The significant volatility in the financial markets and uncertainty resulting from the COVID-19 pandemic continues to evolve and the pandemic's ultimate impact and duration remain uncertain. We could experience future losses and/or impairments to the portfolio given the pandemic's impact on market conditions.

##### **Market Risk**

Market risk is the risk of loss arising from adverse changes in interest rates, credit spreads, equity prices, or foreign exchange 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, and equity price risk, and how those exposures are currently managed as of December 31, 2021.

##### **Interest Rate Risk**

We invest primarily in fixed maturity investments, which comprised 83% of our invested assets at December 31, 2021. The value of the fixed maturity portfolio is subject to interest rate risk. As market interest rates decrease, the value of the portfolio increases with the opposite holding true in rising interest rate environments. We do not hedge our exposure to interest rate risk. A common measure of the interest sensitivity of fixed maturity assets is effective duration, a calculation that utilizes maturity, coupon rate, yield, and call terms to calculate an expected change in fair value given a change in interest rates. 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.

A sensitivity analysis is used to measure the potential loss in future earnings, fair values, or cash flows of interest-sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected period. The following pro forma information is presented assuming a 100-basis point parallel increase in interest rates across the yield curve at December 31 of each year and reflects the estimated effect on the fair value of our fixed maturity portfolio.

##### **Fixed maturities interest-rate sensitivity analysis**

*(dollars in thousands)*

	At December 31,	
	2021	2020
Fair value of fixed maturity portfolio	\$ 946,085	\$ 928,236
Fair value assuming 100-basis point rise in interest rates	\$ 921,642	\$ 904,287
Effective duration (as a percentage)	2.6	2.7

While the fixed maturity portfolio is sensitive to interest rates, the future principal cash flows that will be received by contractual maturity date are presented below at December 31, 2021 and 2020. Actual cash flows may differ from those stated as a result of calls, prepayments, or defaults.

#### Contractual repayments of principal by maturity date

*(in thousands)*

	December 31, 2021
Fixed maturities:	
2022	\$ 38,122
2023	89,184
2024	131,577
2025	108,165
2026	71,375
Thereafter	472,350
Total	\$ 910,773
Fair value	\$ 946,085

*(in thousands)*

	December 31, 2020
Fixed maturities:	
2021	\$ 17,403
2022	48,958
2023	107,507
2024	142,707
2025	110,105
Thereafter	452,168
Total	\$ 878,848
Fair value	\$ 928,236

#### **Investment Credit Risk**

Our objective is to earn competitive returns by investing in a diversified portfolio of securities. Our portfolios of fixed maturity securities, equity securities 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 portfolio in total. We do not hedge the credit risk inherent in our fixed maturity and equity securities 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 tables show our fixed maturity investments by rating<sup>(1)</sup>:

	At December 31, 2021		
	Amortized cost	Fair value	Percent of total
<i>(dollars in thousands)</i>			
AAA, AA, A	\$ 506,271	\$ 508,610	54 %
BBB	295,681	299,270	31
Total investment grade	801,952	807,880	85
BB	45,541	46,922	5
B	76,144	76,913	8
CCC, CC, C, and below	14,642	14,370	2
Total non-investment grade	136,327	138,205	15
Total	\$ 938,279	\$ 946,085	100 %

	At December 31, 2020		
	Amortized cost	Fair value	Percent of total
<i>(dollars in thousands)</i>			
AAA, AA, A	\$ 487,752	\$ 502,408	54 %
BBB	283,219	294,917	32
Total investment grade	770,971	797,325	86
BB	47,870	50,399	5
B	63,397	64,611	7
CCC, CC, C, and below	16,552	15,901	2
Total non-investment grade	127,819	130,911	14
Total	\$ 898,790	\$ 928,236	100 %

(1) Ratings are supplied by S&P, Moody's, and Fitch. The table is based upon the lowest rating for each security.

We are also exposed to a concentration of credit risk with the Exchange. See the "Transactions/Agreements with Related Parties, Intercompany Receivables" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained within this report 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 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.

#### Equity Price Risk

Our portfolio of equity securities, which primarily includes nonredeemable preferred stock, is carried on the Statements of Financial Position at estimated fair value. Equity securities are exposed 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.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****INDEX TO FINANCIAL STATEMENTS**

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of Erie Indemnity Company

**Opinion on the Financial Statements**

We have audited the accompanying statements of financial position of Erie Indemnity Company (the Company) as of December 31, 2021 and 2020, the related statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2022 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

## Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Proportional Cost Allocation***

#### *Description of the Matter*

For the year ended December 31, 2021, the Company's administrative services reimbursement revenue totaled \$638.5 million. The Company's primary function, as attorney-in-fact, is to perform certain services on behalf of the subscribers at the Erie Insurance Exchange (Exchange) and its insurance subsidiaries, in accordance with the Subscriber's Agreement and the service agreements with each of the Exchange's insurance subsidiaries. As explained in Note 2 of the financial statements, pursuant to approved service agreements, administrative services, which include costs associated with claims handling services, life insurance related operating activities, investment management, and operating overhead incurred by the Company on behalf of the Exchange and its insurance subsidiaries, are reimbursed to the Company at cost and recorded as administrative services reimbursement revenue. To determine the proportional cost allocation to each entity, the Company determines utilization statistics using numerous variables including, among others, employee count, square footage, vehicle count, and project hours.

Auditing management's proportional cost allocations was complex due to the number of costs that are included in the allocations and the judgment applied in determining the utilization statistics used to determine the proportional allocations to each entity.

#### *How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's proportional cost allocations process. This included, among others, testing management's review controls over the determination of the utilization statistics and ultimate allocation of costs to the Exchange and its insurance subsidiaries.

To test the Company's proportional cost allocations, our procedures included, among others, evaluating that the costs included in the allocations are in accordance with the Subscriber's Agreement and the service agreements with each of the Exchange's insurance subsidiaries. We tested the completeness and accuracy of the costs subjected to allocation through testing of the reconciliation of the costs recorded in the source systems to the costs that are allocated. We evaluated the allocation of costs to the Exchange and its insurance subsidiaries with the costs allocated in prior periods.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2003.

Cleveland, OH  
February 24, 2022

**ERIE INDEMNITY COMPANY**  
**STATEMENTS OF OPERATIONS**  
**Years ended December 31, 2021, 2020 and 2019**  
*(dollars in thousands, except per share data)*

	2021	2020	2019
<b>Operating revenue</b>			
Management fee revenue - policy issuance and renewal services	\$ 1,913,166	\$ 1,841,794	\$ 1,810,457
Management fee revenue - administrative services	58,286	59,463	57,204
Administrative services reimbursement revenue	638,483	609,435	582,010
Service agreement revenue	24,042	25,797	27,627
Total operating revenue	<u>2,633,977</u>	<u>2,536,489</u>	<u>2,477,298</u>
<b>Operating expenses</b>			
Cost of operations - policy issuance and renewal services	1,677,397	1,588,897	1,537,949
Cost of operations - administrative services	638,483	609,435	582,010
Total operating expenses	<u>2,315,880</u>	<u>2,198,332</u>	<u>2,119,959</u>
<b>Operating income</b>	318,097	338,157	357,339
<b>Investment income</b>			
Net investment income	62,177	29,753	34,059
Net realized and unrealized investment gains	4,946	6,392	6,103
Net impairment recoveries (losses) recognized in earnings	209	(3,278)	(195)
<b>Total investment income</b>	<u>67,332</u>	<u>32,867</u>	<u>39,967</u>
Interest expense, net	4,132	731	856
Other (expense) income	(4,893)	(1,778)	255
Income before income taxes	<u>376,404</u>	<u>368,515</u>	<u>396,705</u>
Income tax expense	78,544	75,211	79,884
<b>Net income</b>	<u>\$ 297,860</u>	<u>\$ 293,304</u>	<u>\$ 316,821</u>
<b>Earnings Per Share</b>			
<b>Net income per share</b>			
Class A common stock – basic	\$ 6.40	\$ 6.30	\$ 6.80
<b>Class A common stock – diluted</b>	<u>\$ 5.69</u>	<u>\$ 5.61</u>	<u>\$ 6.06</u>
Class B common stock – basic and diluted	<u>\$ 959</u>	<u>\$ 945</u>	<u>\$ 1,020</u>
<b>Weighted average shares outstanding – Basic</b>			
Class A common stock	46,188,806	46,188,659	46,188,836
Class B common stock	<u>2,542</u>	<u>2,542</u>	<u>2,542</u>
<b>Weighted average shares outstanding – Diluted</b>			
Class A common stock	52,307,302	52,313,360	52,319,860
Class B common stock	<u>2,542</u>	<u>2,542</u>	<u>2,542</u>

See accompanying notes to Financial Statements. See Note 13, "Accumulated Other Comprehensive Income (Loss)", for amounts reclassified out of accumulated other comprehensive income (loss) into the Statements of Operations.

**ERIE INDEMNITY COMPANY**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**Years ended December 31, 2021, 2020 and 2019**  
*(in thousands)*

	2021	2020	2019
<b>Net income</b>	\$ 297,860	\$ 293,304	\$ 316,821
<b>Other comprehensive income, net of tax</b>			
Change in unrealized holding (losses) gains on available-for-sale securities	(17,112)	18,738	11,718
Pension and other postretirement plans	69,967	19,987	1,698
<b>Total other comprehensive income, net of tax</b>	52,855	38,725	13,416
<b>Comprehensive income</b>	<u>\$ 350,715</u>	<u>\$ 332,029</u>	<u>\$ 330,237</u>

See accompanying notes to Financial Statements. See Note 13, "Accumulated Other Comprehensive Income (Loss)", for amounts reclassified out of accumulated other comprehensive income (loss) into the Statements of Operations.

**ERIE INDEMNITY COMPANY**  
**STATEMENTS OF FINANCIAL POSITION**  
**At December 31, 2021 and 2020**  
*(dollars in thousands, except per share data)*

	2021	2020
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 183,702	\$ 161,240
Available-for-sale securities	38,396	17,697
Equity securities	0	19
Receivables from Erie Insurance Exchange and affiliates, net	479,123	494,637
Prepaid expenses and other current assets	56,206	52,561
Accrued investment income	6,303	6,146
<b>Total current assets</b>	763,730	732,300
Available-for-sale securities, net	907,689	910,539
Equity securities	87,743	94,071
Fixed assets, net	374,802	265,341
Agent loans, net	58,683	62,449
Deferred income taxes, net	145	12,341
Other assets	49,265	40,081
<b>Total assets</b>	\$ 2,242,057	\$ 2,117,122
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Commissions payable	\$ 270,746	\$ 262,338
Agent bonuses	120,437	110,158
Accounts payable and accrued liabilities	138,317	150,706
Dividends payable	51,693	48,200
Contract liability	34,935	36,917
Deferred executive compensation	12,637	17,319
Current portion of long-term borrowings	2,098	2,031
<b>Total current liabilities</b>	630,863	627,669
Defined benefit pension plans	130,383	164,346
Long-term borrowings	91,734	93,833
Contract liability	17,686	18,878
Deferred executive compensation	14,571	14,904
Other long-term liabilities	14,342	9,444
<b>Total liabilities</b>	899,579	929,074
<b>Shareholders' equity</b>		
Class A common stock, stated value \$0.0292 per share; 74,996,930 shares authorized; 68,299,200 shares issued; 46,189,068 shares outstanding	1,992	1,992
Class B common stock, convertible at a rate of 2,400 Class A shares for one Class B share, stated value \$70 per share; 3,070 shares authorized; 2,542 shares issued and outstanding	178	178
Additional paid-in-capital	16,496	16,487
Accumulated other comprehensive loss	(25,288)	(78,143)
Retained earnings	2,495,190	2,393,624
<b>Total contributed capital and retained earnings</b>	2,488,568	2,334,138
Treasury stock, at cost; 22,110,132 shares held	(1,167,828)	(1,163,670)
Deferred compensation	21,738	17,580
<b>Total shareholders' equity</b>	1,342,478	1,188,048
<b>Total liabilities and shareholders' equity</b>	\$ 2,242,057	\$ 2,117,122

See accompanying notes to Financial Statements.

**ERIE INDEMNITY COMPANY**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**Years ended December 31, 2021, 2020 and 2019**  
*(dollars in thousands, except per share data)*

	Class A common stock	Class B common stock	Additional paid-in-capital	Accumulated other comprehensive (loss) income	Retained earnings	Treasury stock	Deferred compensation	Total shareholders' equity
<b>Balance, December 31, 2018</b>	\$ 1,992	\$ 178	\$ 16,459	\$ (130,284)	\$ 2,231,417	\$ (1,157,625)	\$ 11,535	\$ 973,672
Net income					316,821			316,821
Other comprehensive income				13,416				13,416
Dividends declared:								
Class A \$3.665 per share					(169,283)			(169,283)
Class B \$549.75 per share					(1,397)			(1,397)
Net purchase of treasury stock <sup>(1)</sup>			24			0		24
Deferred compensation						(2,208)	2,208	0
Rabbi trust distribution <sup>(2)</sup>						923	(923)	0
<b>Balance, December 31, 2019</b>	\$ 1,992	\$ 178	\$ 16,483	\$ (116,868)	\$ 2,377,558	\$ (1,158,910)	\$ 12,820	\$ 1,133,253
Cumulative effect adjustment <sup>(3)</sup>					(1,075)			(1,075)
Net income					293,304			293,304
Other comprehensive income				38,725				38,725
Dividends declared:								
Class A \$5.93 per share					(273,902)			(273,902)
Class B \$889.50 per share					(2,261)			(2,261)
Net purchase of treasury stock <sup>(1)</sup>			4			0		4
Deferred compensation						(5,465)	5,465	0
Rabbi trust distribution <sup>(2)</sup>						705	(705)	0
<b>Balance, December 31, 2020</b>	\$ 1,992	\$ 178	\$ 16,487	\$ (78,143)	\$ 2,393,624	\$ (1,163,670)	\$ 17,580	\$ 1,188,048
Net income					297,860			297,860
Other comprehensive income				52,855				52,855
Dividends declared:								
Class A \$4.215 per share					(194,687)			(194,687)
Class B \$632.25 per share					(1,607)			(1,607)
Net purchase of treasury stock <sup>(1)</sup>			9			0		9
Deferred compensation						(5,131)	5,131	0
Rabbi trust distribution <sup>(2)</sup>						973	(973)	0
<b>Balance, December 31, 2021</b>	\$ 1,992	\$ 178	\$ 16,496	\$ (25,288)	\$ 2,495,190	\$ (1,167,828)	\$ 21,738	\$ 1,342,478

(1) Net purchases of treasury stock in 2019, 2020 and 2021 includes the repurchase of our Class A common stock in the open market that were subsequently distributed to satisfy stock based compensation awards. See Note 10, "Incentive and Deferred Compensation Plans".

(2) Distributions of our Class A shares were made from the rabbi trust to a retired director and an incentive compensation deferral plan participant in 2019, 2020 and 2021. See Note 10, "Incentive and Deferred Compensation Plans".

(3) The Cumulative effect adjustment in 2020 is related to the implementation of credit loss allowance accounting guidance effective January 1, 2020. See Note 2, "Significant Accounting Policies."

See accompanying notes to Financial Statements.

**ERIE INDEMNITY COMPANY**  
**STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2021, 2020 and 2019**  
*(in thousands)*

	2021	2020	2019
<b>Cash flows from operating activities</b>			
Management fee received	\$ 1,982,092	\$ 1,887,537	\$ 1,845,075
Administrative services reimbursements received	634,300	587,347	588,255
Service agreement revenue received	24,014	25,797	27,627
Net investment income received	45,830	35,740	36,442
Commissions paid to agents	(966,285)	(928,864)	(895,563)
Agents bonuses paid	(123,583)	(108,227)	(115,795)
Salaries and wages paid	(204,279)	(188,070)	(186,460)
Employee benefits paid	(32,836)	(33,098)	(42,728)
General operating expenses paid	(235,294)	(253,545)	(236,128)
Administrative services expenses paid	(632,530)	(598,753)	(582,528)
Income taxes paid	(84,494)	(82,576)	(72,817)
Interest paid	(4,141)	(693)	(853)
<b>Net cash provided by operating activities</b>	<b>402,794</b>	<b>342,595</b>	<b>364,527</b>
<b>Cash flows from investing activities</b>			
Purchase of investments:			
Available-for-sale securities	(380,017)	(396,014)	(956,818)
Equity securities	(58,191)	(79,518)	(66,760)
Other investments	(1,646)	(1,142)	(1,080)
Proceeds from investments:			
Available-for-sale securities sales	150,153	101,718	687,347
Available-for-sale securities maturities/calls	184,820	118,852	303,798
Equity securities	64,118	70,405	16,109
Other investments	1,076	613	3,722
Purchase of fixed assets	(148,800)	(55,528)	(102,039)
Proceeds from disposal of fixed assets	—	15	777
Loans to agents	(6,382)	(10,098)	(17,611)
Collections on agent loans	9,379	7,472	7,921
<b>Net cash used in investing activities</b>	<b>(185,490)</b>	<b>(243,225)</b>	<b>(124,634)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders	(192,801)	(272,902)	(167,651)
Net payments on long-term borrowings	(2,041)	(1,967)	(1,920)
<b>Net cash used in financing activities</b>	<b>(194,842)</b>	<b>(274,869)</b>	<b>(169,571)</b>
Net increase (decrease) in cash and cash equivalents	22,462	(175,499)	70,322
Cash and cash equivalents, beginning of year	161,240	336,739	266,417
<b>Cash and cash equivalents, end of year</b>	<b>\$ 183,702</b>	<b>\$ 161,240</b>	<b>\$ 336,739</b>
<b>Supplemental disclosure of noncash transactions</b>			
Liability incurred to purchase fixed assets	\$ 12,802	\$ 14,214	\$ 6,800
Operating lease assets obtained in exchange for new operating lease liabilities	\$ 3,447	\$ 4,943	\$ 35,483
Transfer of investments from other investments to equity securities	\$ —	\$ 13,041	\$ 3,310

See accompanying notes to Financial Statements. See Note 17, "Supplementary Data on Cash Flows", for additional supplemental cash flow information.

**ERIE INDEMNITY COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Nature of Operations**

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

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

The policy issuance and renewal services we provide to the Exchange are related to the sales, underwriting and issuance of policies. The sales related services we provide include agent compensation and certain sales and advertising support services. Agent compensation includes scheduled commissions to agents based upon premiums written as well as additional commissions and bonuses to agents, which are earned by achieving targeted measures. Agent compensation comprised approximately 66% of our 2021 policy issuance and renewal expenses. The underwriting services we provide include underwriting and policy processing and comprised approximately 10% of our 2021 policy issuance and renewal expenses. The remaining services we provide include customer service and administrative support. We also provide information technology services that support all the functions listed above that comprised approximately 11% of our 2021 policy issuance and renewal expenses. Included in these expenses are allocations of costs for departments that support these policy issuance and renewal functions.

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

Our results of operations are tied to the growth and financial condition of the Exchange. If any events occurred that impaired the Exchange's ability to grow or sustain its financial condition, including but not limited to reduced financial strength ratings, disruption in the independent agency relationships, significant catastrophe losses, or products not meeting customer demands, the Exchange could find it more difficult to retain its existing business and attract new business. A decline in the business of the Exchange almost certainly would have as a consequence a decline in the total premiums paid and a correspondingly adverse effect on the amount of the management fees we receive. We also have an exposure to a concentration of credit risk related to the unsecured receivables due from the Exchange for its management fee and cost reimbursements. See Note 15, "Concentrations of Credit Risk".

Coronavirus ("COVID-19") pandemic

In March 2020, the outbreak of the coronavirus ("COVID-19") was declared a global pandemic and pandemic conditions have created an inflationary environment which may impact estimated loss reserves and future premium rates of the Exchange. The uncertainty resulting from COVID-19 and subsequent resulting conditions continues to evolve and the ultimate impact and duration remain uncertain at this time. We are unable to predict the duration or extent of the business disruption or the financial impact given the ongoing development of the pandemic and its impacts on the economy and financial markets.

## **Note 2. Significant Accounting Policies**

### Basis of presentation

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

### Use of estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Recently adopted accounting standards

We adopted Accounting Standards Update ("ASU") 2016-13, "*Financial Instruments-Credit Losses*" which applies to our receivable from Erie Insurance Exchange and affiliates, agent loans, and investments, on January 1, 2020. The guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected through the use of a new forward-looking current expected credit loss model and credit losses relating to available-for-sale debt securities to be recognized through an allowance for credit losses.

For assets measured at amortized cost for which a current expected credit loss allowance was required, we adopted the guidance using the modified-retrospective approach. At January 1, 2020, we recorded current expected credit loss allowances related to agent loans of \$0.8 million and receivables from Erie Insurance Exchange and affiliates of \$0.6 million. This resulted in the recording of a cumulative effect adjustment, net of taxes, to retained earnings of \$1.1 million. Our available-for-sale investments are not measured at amortized cost, and therefore do not require the use of a current expected credit loss model. Any credit losses, however, are required to be recorded as an allowance for credit losses rather than a reduction of the carrying value of the asset. For available-for-sale securities, we adopted the guidance using the prospective approach and recorded an initial allowance for credit losses of \$0.6 million at March 31, 2020.

Cash and cash equivalents – 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.

### Investments

*Available-for-sale securities* – Fixed maturity debt securities and redeemable preferred stock are classified as available-for-sale and reported at fair value with unrealized investment gains and losses, net of income taxes, recognized in other comprehensive income. Available-for-sale securities with a remaining maturity of 12 months or less and any security that we intend to sell as of the reporting date are classified as current assets.

Available-for-sale securities in an unrealized loss position are evaluated to determine whether the impairment is a result of credit loss or other factors. If we have the intent to sell or it's more likely than not that we would be required to sell the security before recovery of the amortized cost basis, the entire impairment is recognized in earnings. Securities that have experienced a decline in fair value that we do not intend to sell, and that we will not be required to sell before recovery, are evaluated to determine if the decline in fair value is credit related. Impairment resulting from a credit loss is recognized in earnings with a corresponding allowance on the balance sheet. Future recoveries of credit loss result in an adjustment to the allowance and earnings in the period the credit conditions improve. Factors considered in the evaluation of credit loss include the extent to which fair value is less than cost and fundamental factors specific to the issuer such as financial condition, changes in credit ratings, near and long-term business prospects and other factors, as well as the likelihood of recovery of the amortized cost of the security. If the qualitative review indicates credit impairment, the allowance for credit loss is measured as the amount that the security's amortized cost exceeds the present value of cash flows expected to be collected and is limited to the amount that fair value is below amortized cost.

*Equity securities* – Equity securities primarily include non-redeemable preferred stocks and are reported at fair value with changes in fair value recognized in net realized and unrealized investment gains (losses). Securities that we intend to sell as of the reporting date are classified as current assets.

*Realized gains and losses and investment income* – Realized gains and losses on sales of available-for-sale and equity securities are recognized in income based upon the specific identification method and reported in net realized and unrealized investment gains (losses). Interest income is recognized as earned and includes amortization of premium and accretion of discount. Income is recognized based on the constant effective yield method, which includes periodically updated prepayment assumptions obtained from third party data sources on our prepaying securities. The effective yield for prepaying securities is

recalculated on a retrospective basis. Dividend income is recognized at the ex-dividend date. Interest and dividend income and the results of our limited partnership investments are reported as net investment income. We do not record an allowance for credit losses on accrued investment income as any amount deemed uncollectible is reversed from interest income in the period the expected payment defaults.

#### Deferred taxes

Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and the reported amounts in the financial statements, using the statutory tax rates in effect for the year in which the differences are expected to settle or be realized. 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. The need for valuation allowances on deferred tax assets are estimated based upon our assessment of the realizability of such amounts.

#### Fixed assets

Fixed assets are stated at cost less accumulated depreciation and amortization. Fixed assets are primarily comprised of software, which includes internally used capitalized software and development costs, as well as building and building improvements, equipment, furniture and fixtures, and leasehold improvements. Assets in use are depreciated using the straight-line method over the estimated useful life except for leasehold improvements, which are depreciated over the shorter of their economic useful life or the lease term. Software is depreciated over periods ranging from 3-7 years, buildings and building improvements are depreciated over 20-45 years, equipment is depreciated over 3-10 years, and furniture and fixtures are depreciated over 7 years. We review long-lived assets for impairment whenever events or changes indicate that the carrying value may not be recoverable. Under these circumstances, if the fair value were less than the carrying amount of the asset, we would recognize a loss for the difference. We capitalize applicable interest charges incurred during the construction period of significant long-term building projects as part of the historical cost of the asset.

#### Agent loans

Agent loans, the majority of which are senior secured, are carried at unpaid principal balance net of a current expected credit loss allowance with interest recorded in investment income as earned. The allowance is estimated using available loss history and/or external loss rates based on comparable loan losses and considers current conditions and forecasted information. Changes to the allowance are recognized in earnings as adjustments to net impairment losses. The current portion of agent loans is recorded in prepaid expenses and other current assets.

#### Other assets

Other assets primarily include limited partnership investments which are recorded using the equity method of accounting. Other assets also include operating lease assets and other long-term prepaid assets.

#### Agent bonus liability

Our more significant agent bonus plan is based upon an individual agency's property and casualty underwriting profitability and also includes a component for growth in agency property and casualty premiums if the agency's underwriting profitability targets for the book of business are met. The estimated liability for this agent bonus plan is based upon the performance over 36 months, and is modeled on a monthly basis using actual underwriting results for the two prior years and current year-to-date actual results and forecasted results for the remainder of the year. Our second agent bonus plan is based on an agency's one-year underwriting profitability and uses a similar model but considers actual and forecasted results for a calendar year only. At December 31 of each year, we use actual data available and record an accrual based upon the expected payment amount. These costs are included in cost of operations - policy issuance and renewal services.

#### Recognition of management fee revenue

We earn management fees from the Exchange under the subscriber's agreement for services provided. Pursuant to the subscriber's agreement, we may retain up to 25% of all direct and affiliated assumed premiums written by the Exchange. The management fee rate is set at least annually by our Board of Directors. The management fee revenue is calculated by multiplying the management fee rate by the direct and affiliated assumed premiums written by the Exchange and is allocated between the two performance obligations we have under the subscriber's agreement. The first performance obligation is to provide policy issuance and renewal services. The second performance obligation is acting as the attorney-in-fact with respect to the administrative services.

Management fee revenue allocated to the policy issuance and renewal services is recognized at the time of policy issuance or renewal, because it is at the time of policy issuance or renewal when the economic benefit of the service we provide (the substantially completed policy issuance or renewal service) and the control of the promised asset (the executed insurance policy) transfers to the customer.

Management fee revenue allocated to the second performance obligation relates to us acting as the attorney-in-fact on behalf of the Exchange, as well as the service provider for its insurance subsidiaries, with respect to the administrative services and is recognized over a four-year period representing the time over which the economic benefit of the services provided (i.e. management of the administrative services) transfers to the customer.

#### Administrative services

By virtue of its legal structure as a reciprocal insurer, the Exchange does not have any employees or officers. Therefore, it enters into contractual relationships by and through an attorney-in-fact. Indemnity serves as the attorney-in-fact on behalf of the Exchange with respect to its administrative services in accordance with the subscriber's agreement. The Exchange's insurance subsidiaries also utilize Indemnity for these services in accordance with the service agreements between each of the subsidiaries and Indemnity. Claims handling services include costs incurred in the claims process, including the adjustment, investigation, defense, recording and payment functions. Life insurance management services include costs incurred in the management and processing of life insurance business. Investment management services are related to investment trading activity, accounting and all other functions attributable to the investment of funds. Included in these expenses are allocations of costs for departments that support these administrative functions. Common overhead expenses and certain service department costs incurred by us on behalf of the Exchange and its insurance subsidiaries are reimbursed by the proper entity based upon relevant utilization statistics (employee count, square footage, vehicle count, project hours, etc.) specifically measured to accomplish proportional allocations, which we believe are reasonable. The expenses we incur and related reimbursements we receive for administrative services are presented gross in our Statement of Operations. Reimbursements are settled on a monthly basis. The amounts incurred for these services are reimbursed to Indemnity at cost in accordance with the subscriber's agreement and the service agreements. State insurance regulations require that intercompany service agreements and any material amendments be approved in advance by the state insurance department.

#### Recognition of service agreement revenue

Service agreement revenue primarily consists of service charges we collect from policyholders for providing multiple payment plans on policies written by the Exchange and its property and casualty subsidiaries. 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, which are also recognized as revenue when bills are rendered to the policyholder. We also have a service agreement with the Exchange for the use of shared office space. Revenue related to this agreement is recognized at the time the space is used based on relevant utilization statistics.

#### Reclassification

Certain amounts previously reported in the 2020 financial statements have been reclassified for comparative purposes to conform to the current period's presentation. "Federal income taxes recoverable" is now included in "Prepaid expenses and other current assets" in the Statements of Financial Position.

**Note 3. Revenue**

The majority of our revenue is derived from the subscriber's agreement between us and the subscribers (policyholders) at the Exchange. Pursuant to the subscriber's agreement, we earn a management fee calculated as a percentage, not to exceed 25%, of all direct and affiliated assumed written premiums of the Exchange. We allocate a portion of our management fee revenue, currently 25% of the direct and affiliated assumed written premiums of the Exchange, between the two performance obligations we have under the subscriber's agreement. The first performance obligation is to provide policy issuance and renewal services to the subscribers (policyholders) at the Exchange, and the second is to act as attorney-in-fact on behalf of the Exchange, as well as the service provider for its insurance subsidiaries, with respect to all administrative services.

The transaction price, including management fee revenue and administrative service reimbursement revenue, includes variable consideration and is allocated based on the estimated standalone selling prices developed using industry information and other available information for similar services. A constraining estimate of variable consideration exists related to the potential for management fees to be returned if a policy were to be cancelled mid-term. Management fees are returned to the Exchange when policyholders cancel their insurance coverage mid-term and premiums are refunded to them. The constraining estimate is determined using the expected value method, based on both historical and current information. The estimated transaction price, as reduced by the constraint, reflects consideration expected for performance of our services. We update the transaction price and the related allocation at least annually based upon the most recent information available or more frequently if there have been significant changes in any components considered in the transaction price.

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

The Exchange, by virtue of its legal structure as a reciprocal insurer, does not have any employees or officers. Therefore, it enters into contractual relationships by and through an attorney-in-fact. Indemnity serves as the attorney-in-fact on behalf of the Exchange with respect to its administrative services in accordance with the subscriber's agreement. The Exchange's insurance subsidiaries also utilize Indemnity for these services in accordance with the service agreements between each of the subsidiaries and Indemnity. Collectively, these services represent a second performance obligation under the subscriber's agreement and the service agreements. The revenue allocated to this performance obligation is recognized over a four year period representing the time over which these services are provided. The portion of revenue not yet earned is recorded as a contract liability in the Statements of Financial Position. For the years ended December 31, 2021, 2020, and 2019, Indemnity recognized revenue of \$36.9 million, \$35.9 million, and \$33.9 million, respectively, that was included in the contract liability balance at the beginning of the respective periods. The administrative services expenses we incur and the related reimbursements we receive are recorded gross in the Statement of Operations.

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

The following table disaggregates revenue by our two performance obligations for the years ended December 31:

<i>(in thousands)</i>	2021	2020	2019
Management fee revenue - policy issuance and renewal services	\$ 1,913,166	\$ 1,841,794	\$ 1,810,457
Management fee revenue - administrative services	58,286	59,463	57,204
Administrative services reimbursement revenue	638,483	609,435	582,010
Total administrative services	\$ 696,769	\$ 668,898	\$ 639,214

#### Note 4. Earnings Per Share

Class A and Class B basic earnings per share and Class B diluted earnings per share are calculated under the two-class method. The two-class method allocates earnings to each class of stock based upon its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. See Note 12, "Capital Stock".

Class A diluted earnings per share are calculated under the if-converted method, which reflects the conversion of Class B shares to Class A shares. Diluted earnings per share calculations include the dilutive effect of assumed issuance of stock-based awards under compensation plans that have the option to be paid in stock using the treasury stock method. See Note 10, "Incentive and Deferred Compensation Plans".

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

(dollars in thousands, except per share data)

	2021			For the years ended December 31, 2020			2019		
	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
<b>Class A – Basic EPS:</b>									
Income available to Class A stockholders	\$ 295,421	46,188,806	\$ 6.40	\$ 290,902	46,188,659	\$ 6.30	\$ 314,227	46,188,836	\$ 6.80
Dilutive effect of stock-based awards	0	17,696	—	0	23,901	—	0	30,224	—
Assumed conversion of Class B shares	2,439	6,100,800	—	2,402	6,100,800	—	2,594	6,100,800	—
<b>Class A – Diluted EPS:</b>									
Income available to Class A stockholders on Class A equivalent shares	\$ 297,860	52,307,302	\$ 5.69	\$ 293,304	52,313,360	\$ 5.61	\$ 316,821	52,319,860	\$ 6.06
<b>Class B – Basic EPS:</b>									
Income available to Class B stockholders	\$ 2,439	2,542	\$ 959	\$ 2,402	2,542	\$ 945	\$ 2,594	2,542	\$ 1,020
<b>Class B – Diluted EPS:</b>									
Income available to Class B stockholders	\$ 2,438	2,542	\$ 959	\$ 2,401	2,542	\$ 945	\$ 2,593	2,542	\$ 1,020

## **Note 5. Fair Value**

### Financial instruments carried at fair value

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

Valuation techniques used to derive the fair value of our available-for-sale and equity securities are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect our own assumptions regarding fair market value for these securities. Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

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

Although virtually all of our prices are obtained from third party sources, we also perform internal pricing reviews, including evaluating the methodology and inputs used to ensure that we determine the proper classification level of the financial instrument and reviewing securities with price changes that vary significantly from current market conditions or independent price sources. Price variances are investigated and corroborated by market data and transaction volumes. We have reviewed the pricing methodologies of our pricing service as well as other observable inputs and believe that the prices adequately consider market activity in determining fair value.

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

When a price from the pricing service is not available, values are determined by obtaining broker/dealer quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based upon our best estimate of fair value using corroborating market information. As of December 31, 2021, nearly all of our available-for-sale and equity securities were priced using a third party pricing service.

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

<i>(in thousands)</i>	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
Corporate debt securities	\$ 573,165	\$ 0	\$ 567,909	\$ 5,256
Collateralized debt obligations	115,462	0	115,462	0
Commercial mortgage-backed securities	89,324	0	73,596	15,728
Residential mortgage-backed securities	139,922	0	131,108	8,814
Other debt securities	23,920	0	23,920	0
U.S. Treasury	4,292	0	4,292	0
Total available-for-sale securities	946,085	0	916,287	29,798
Equity securities:				
Financial services sector	71,722	1,624	68,015	2,083
Utilities sector	6,259	0	6,259	0
Energy sector	6,448	10	6,438	0
Consumer sector	3,314	0	3,314	0
Total equity securities	87,743	1,634	84,026	2,083
Total	\$ 1,033,828	\$ 1,634	\$ 1,000,313	\$ 31,881

<i>(in thousands)</i>	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
Corporate debt securities	\$ 566,425	\$ 1,281	\$ 559,319	\$ 5,825
Collateralized debt obligations	110,447	0	110,447	0
Commercial mortgage-backed securities	120,201	0	100,739	19,462
Residential mortgage-backed securities	112,179	0	111,242	937
Other debt securities	18,984	0	18,984	0
Total available-for-sale securities	928,236	1,281	900,731	26,224
Equity securities:				
Financial services sector	76,575	24,981	51,594	0
Utilities sector	8,742	3,957	4,785	0
Energy sector	2,206	676	1,530	0
Consumer sector	3,068	576	2,492	0
Communications sector	2,699	2,699	0	0
Industrial sector	800	800	0	0
Total equity securities	94,090	33,689	60,401	0
Total	\$ 1,022,326	\$ 34,970	\$ 961,132	\$ 26,224

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

Level 3 Assets – Year-to-Date Change:

(in thousands)	Beginning balance at December 31, 2020	Included in earnings <sup>(1)</sup>	Included in other comprehensive income	Purchases	Sales	Transfers into Level 3 <sup>(2)</sup>	Transfers out of Level 3 <sup>(2)</sup>	Ending balance at December 31, 2021
Available-for-sale securities:								
Corporate debt securities	\$ 5,825	\$ 34	\$ 68	\$ 5,502	\$ (2,681)	\$ 4,290	\$ (7,782)	\$ 5,256
Collateralized debt obligations	0	0	0	750	0	0	(750)	0
Commercial mortgage-backed securities	19,462	(375)	(782)	3,073	(5,378)	11,933	(12,205)	15,728
Residential mortgage-backed securities	937	(5)	(69)	576	(2,229)	12,692	(3,088)	8,814
Other debt securities	0	0	0	2,588	(832)	0	(1,756)	0
Total available-for-sale securities	26,224	(346)	(783)	12,489	(11,120)	28,915	(25,581)	29,798
Equity securities	0	(5)	0	1,000	0	2,183	(1,095)	2,083
Total Level 3 securities	\$ 26,224	\$ (351)	\$ (783)	\$ 13,489	\$ (11,120)	\$ 31,098	\$ (26,676)	\$ 31,881

Level 3 Assets – Year-to-Date Change:

(in thousands)	Beginning balance at December 31, 2019	Included in earnings <sup>(1)</sup>	Included in other comprehensive income	Purchases	Sales	Transfers into Level 3 <sup>(2)</sup>	Transfers out of Level 3 <sup>(2)</sup>	Ending balance at December 31, 2020
Available-for-sale securities:								
Corporate debt securities	\$ 8,324	\$ (2)	\$ (156)	\$ 7,180	\$ (1,405)	\$ 10,526	\$ (18,642)	\$ 5,825
Collateralized debt obligations	0	0	3	247	0	0	(250)	0
Commercial mortgage-backed securities	3,321	(183)	913	12,281	(2,334)	39,591	(34,127)	19,462
Residential mortgage-backed securities	0	(19)	(48)	287	(1,539)	11,496	(9,240)	937
Total available-for-sale securities	11,645	(204)	712	19,995	(5,278)	61,613	(62,259)	26,224
Equity securities	0	151	0	2,836	0	0	(2,987)	0
Total Level 3 securities	\$ 11,645	\$ (53)	\$ 712	\$ 22,831	\$ (5,278)	\$ 61,613	\$ (65,246)	\$ 26,224

(1) These amounts are reported as net investment income and net realized and unrealized investment gains (losses) for each of the periods presented above.

(2) Transfers into and/or (out) of Level 3 are primarily attributable to the availability of market observable information and the re-evaluation of the observability of pricing inputs.

Financial instruments not carried at fair value

The following table presents the carrying values and fair values of financial instruments categorized as Level 3 in the fair value hierarchy that are recorded at carrying value as of:

(in thousands)	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Agent loans <sup>(1)</sup>	\$ 66,368	\$ 68,957	\$ 69,212	\$ 73,854
Long-term borrowings <sup>(2)</sup>	94,070	103,981	96,113	113,054

(1) The discount rate used to calculate fair value at December 31, 2021 is reflective of a decrease in the BB+ financial yield curve.

(2) The discount rate used to calculate fair value at December 31, 2021 is reflective of an increase in U.S. Treasury bond yields.

**Note 6. Investments**
**Available-for-sale securities**

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

<i>(in thousands)</i>	December 31, 2021			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 565,997	\$ 9,663	\$ 2,495	\$ 573,165
Collateralized debt obligations	115,344	456	338	115,462
Commercial mortgage-backed securities	88,636	1,465	777	89,324
Residential mortgage-backed securities	140,217	1,007	1,302	139,922
Other debt securities	23,859	197	136	23,920
U.S. Treasury	4,226	73	7	4,292
Total available-for-sale securities, net	<u>\$ 938,279</u>	<u>\$ 12,861</u>	<u>\$ 5,055</u>	<u>\$ 946,085</u>

<i>(in thousands)</i>	December 31, 2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities	\$ 546,096	\$ 21,843	\$ 1,514	\$ 566,425
Collateralized debt obligations	110,121	657	331	110,447
Commercial mortgage-backed securities	115,346	5,090	235	120,201
Residential mortgage-backed securities	108,840	3,373	34	112,179
Other debt securities	18,387	606	9	18,984
Total available-for-sale securities, net	<u>\$ 898,790</u>	<u>\$ 31,569</u>	<u>\$ 2,123</u>	<u>\$ 928,236</u>

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2021, are shown below by remaining contractual term to maturity. 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.

<i>(in thousands)</i>	December 31, 2021	
	Amortized cost	Estimated fair value
Due in one year or less	\$ 38,061	\$ 38,396
Due after one year through five years	409,379	414,588
Due after five years through ten years	195,937	197,733
Due after ten years	294,902	295,368
Total available-for-sale securities	<u>\$ 938,279</u>	<u>\$ 946,085</u>

The below securities have been evaluated and determined to be temporary declines in fair value for which we expect to recover our entire principal plus interest. The following tables present available-for-sale securities based on length of time in a gross unrealized loss position as of:

	December 31, 2021						No. of holdings
	Less than 12 months		12 months or longer		Total		
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	
<i>(dollars in thousands)</i>							
Corporate debt securities	\$ 179,281	\$ 1,912	\$ 12,494	\$ 583	\$ 191,775	\$ 2,495	441
Collateralized debt obligations	64,270	278	9,370	60	73,640	338	104
Commercial mortgage-backed securities	28,001	595	917	182	28,918	777	61
Residential mortgage-backed securities	89,460	1,278	441	24	89,901	1,302	98
Other debt securities	14,576	136	0	0	14,576	136	24
U.S. Treasury	388	7	0	0	388	7	1
Total available-for-sale securities	<u>\$ 375,976</u>	<u>\$ 4,206</u>	<u>\$ 23,222</u>	<u>\$ 849</u>	<u>\$ 399,198</u>	<u>\$ 5,055</u>	<u>729</u>
Quality breakdown of available-for-sale securities:							
Investment grade	\$ 330,697	\$ 3,801	\$ 17,112	\$ 434	\$ 347,809	\$ 4,235	366
Non-investment grade	45,279	405	6,110	415	51,389	820	363
Total available-for-sale securities	<u>\$ 375,976</u>	<u>\$ 4,206</u>	<u>\$ 23,222</u>	<u>\$ 849</u>	<u>\$ 399,198</u>	<u>\$ 5,055</u>	<u>729</u>

	December 31, 2020						No. of holdings
	Less than 12 months		12 months or longer		Total		
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	
<i>(dollars in thousands)</i>							
Corporate debt securities	\$ 39,693	\$ 644	\$ 7,952	\$ 870	\$ 47,645	\$ 1,514	257
Collateralized debt obligations	50,036	232	10,899	99	60,935	331	65
Commercial mortgage-backed securities	16,582	235	0	0	16,582	235	31
Residential mortgage-backed securities	8,163	34	0	0	8,163	34	13
Other debt securities	1,019	9	0	0	1,019	9	4
Total available-for-sale securities	<u>\$ 115,493</u>	<u>\$ 1,154</u>	<u>\$ 18,851</u>	<u>\$ 969</u>	<u>\$ 134,344</u>	<u>\$ 2,123</u>	<u>370</u>
Quality breakdown of available-for-sale securities:							
Investment grade	\$ 86,807	\$ 561	\$ 10,899	\$ 99	\$ 97,706	\$ 660	119
Non-investment grade	28,686	593	7,952	870	36,638	1,463	251
Total available-for-sale securities	<u>\$ 115,493</u>	<u>\$ 1,154</u>	<u>\$ 18,851</u>	<u>\$ 969</u>	<u>\$ 134,344</u>	<u>\$ 2,123</u>	<u>370</u>

#### Credit loss allowance on investments

The current expected credit loss allowance on agent loans was \$1.0 million and \$1.1 million as of December 31, 2021 and 2020, respectively. The current expected credit loss on available-for-sale securities was less than \$0.1 million and \$0.2 million as of December 31, 2021 and 2020, respectively.

#### Net investment income

Investment income (loss), net of expenses, was generated from the following portfolios for the years ended December 31:

<i>(in thousands)</i>	2021	2020	2019
Available-for-sale securities	\$ 23,795	\$ 22,631	\$ 22,496
Equity securities	4,321	4,147	1,418
Limited partnerships <sup>(1)</sup>	31,701	(602)	660
Cash equivalents and other	3,609	5,038	10,546
Total investment income	<u>63,426</u>	<u>31,214</u>	<u>35,120</u>
Less: investment expenses	1,249	1,461	1,061
Investment income, net of expenses	<u>\$ 62,177</u>	<u>\$ 29,753</u>	<u>\$ 34,059</u>

(1) Equity in earnings (losses) of limited partnerships includes both realized gains (losses) and unrealized valuation changes. Our limited partnership investments are included in the line item "Other assets" in the Statements of Financial Position. We have made no new significant limited partnership commitments since 2006, and the balance of limited partnership investments is expected to decline over time as additional distributions are received.

Realized and unrealized investment gains (losses)

Realized and unrealized gains (losses) on investments were as follows for the years ended December 31:

<i>(in thousands)</i>	2021	2020	2019
Available-for-sale securities:			
Gross realized gains	\$ 6,884	\$ 3,920	\$ 6,258
Gross realized losses	(1,753)	(2,585)	(1,639)
Net realized gains on available-for-sale securities	5,131	1,335	4,619
Equity securities	(186)	5,056	1,484
Miscellaneous	1	1	0
Net realized and unrealized investment gains	<u>\$ 4,946</u>	<u>\$ 6,392</u>	<u>\$ 6,103</u>

The portion of net unrealized gains and losses recognized during the reporting period related to equity securities held at the reporting date is calculated as follows for the years ended December 31:

<i>(in thousands)</i>	2021	2020	2019
Equity securities:			
Net (losses) gains recognized during the period	\$ (186)	\$ 5,056	\$ 1,484
Less: net (losses) gains recognized on securities sold	(76)	(469)	360
Net unrealized (losses) gains recognized on securities held at reporting date	<u>\$ (110)</u>	<u>\$ 5,525</u>	<u>\$ 1,124</u>

Net impairment recoveries (losses) recognized in earnings

Upon adoption of ASU 2016-13 on January 1, 2020, impairments on available-for-sale securities that are deemed to be credit related are recognized in earnings with a corresponding available-for-sale security allowance. All unrealized losses related to factors other than credit are recorded in other comprehensive income. Prior to January 1, 2020, we had the intent to sell all credit-impaired available-for-sale securities; therefore, the entire amount of the impairment charges was included in earnings and no impairments were recognized in other comprehensive income. See also Note 2, "Significant Accounting Policies".

Impairments on available-for-sale securities and agent loans were as follows for the years ended December 31:

<i>(in thousands)</i>	2021	2020	2019
Available-for-sale securities:			
Intent to sell	\$ (10)	\$ (2,274)	\$ (195)
Credit recovered (impaired)	67	(707)	—
Total available-for-sale securities	57	(2,981)	(195)
Agent loans - expected credit recoveries (losses)	152	(297)	—
Net impairment recoveries (losses) recognized in earnings	<u>\$ 209</u>	<u>\$ (3,278)</u>	<u>\$ (195)</u>

**Note 7. Fixed Assets**

The following table summarizes our fixed assets by category as of December 31:

<i>(in thousands)</i>	2021	2020
Software	\$ 259,586	\$ 196,139
Land, buildings, and building improvements	211,624	121,332
Equipment	42,295	37,426
Furniture and fixtures	21,694	20,998
Leasehold improvements	1,342	1,313
Projects in progress	34,569	47,277
Total fixed assets, gross	571,110	424,485
Less: Accumulated depreciation and amortization	(196,308)	(159,144)
Fixed assets, net	\$ 374,802	\$ 265,341

Software increased primarily due to internally developed software projects completed and placed in production related to providing commercial lines new product processing capabilities as well as mainframe and billing software.

On December 31, 2021, we purchased the home office properties from the Exchange at the current appraised value of \$97.5 million in order to align the ownership interest of these facilities with the functions being performed at the home office campus which are mainly Indemnity's management operations. See Note 14, "Related Party". In 2020, the construction of a new office building serving as part of our principal headquarters was completed. The building was financed using a senior secured draw term loan credit facility. See Note 8, "Borrowing Arrangements". Interest capitalized during construction was \$3.5 million and \$3.4 million, for the years ended December 31, 2020 and 2019, respectively.

Projects in progress include certain computer software and software developments costs for internal use that are not yet subject to amortization.

Depreciation and amortization of fixed assets totaled \$37.2 million, \$21.2 million and \$16.8 million for the years ended December 31, 2021, 2020 and 2019, respectively, and is included in cost of operations - policy issuance and renewal services.

**Note 8. Borrowing Arrangements**Bank Line of Credit

As of December 31, 2021, we have access to a \$100 million bank revolving line of credit with a \$25 million letter of credit sublimit that expires on October 29, 2026. As of December 31, 2021, a total of \$99.1 million remains available under the facility due to \$0.9 million outstanding letters of credit, which reduces the availability for letters of credit to \$24.1 million. We had no borrowings outstanding on our line of credit as of December 31, 2021. Investments with a fair value of \$120.9 million were pledged as collateral on the line at December 31, 2021. The investments pledged as collateral have no trading restrictions and are reported as available-for-sale securities and cash and cash equivalents on our Statements of Financial Position as of December 31, 2021. The bank requires compliance with certain covenants, which include leverage ratios and debt restrictions, for our line of credit. We are in compliance with all covenants at December 31, 2021.

Term Loan Credit Facility

In 2016, we entered into a credit agreement for a \$100 million senior secured draw term loan credit facility ("Credit Facility") for the acquisition of real property and construction of an office building that now serves as part of our principal headquarters. On January 1, 2019, the Credit Facility converted to a fully-amortized term loan with monthly payments of principal and interest at a fixed rate of 4.35% over a period of 28 years. Investments with a fair value of \$120.3 million were pledged as collateral for the facility and are reported as available-for-sale securities and cash and cash equivalents on our Statements of Financial Position as of December 31, 2021. The bank requires compliance with certain covenants, which include leverage ratios, debt restrictions and minimum net worth, for our Credit Facility. We are in compliance with all covenants at December 31, 2021.

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

Annual principal payments

The following table sets forth future principal and interest payments:

<i>(in thousands)</i>				
Year	Principal payments	Interest payments	Total	
2022	\$ 2,098	\$ 4,085	\$ 6,183	
2023	2,226	3,957	6,183	
2024	2,302	3,881	6,183	
2025	2,448	3,735	6,183	
2026	2,556	3,627	6,183	
Thereafter	82,440	41,108	123,548	

## Note 9. Postretirement Benefits

### Pension plans

Our pension plans consist of a noncontributory defined benefit pension plan covering substantially all employees and an unfunded supplemental employee retirement plan ("SERP") for certain members of executive and senior management. The pension plans provide benefits to covered individuals satisfying certain age and service requirements. The defined benefit pension plan and SERP each provide benefits through a final average earnings formula.

Although we are the sponsor of these postretirement plans and record the funded status of these plans, the Exchange and its subsidiaries reimburse us for approximately 58% of the annual benefit expense of these plans, which represents pension benefits for employees performing administrative services and their allocated share of costs for employees in departments that support the administrative functions. For our funded pension plan, amounts are settled in cash for the portion of pension costs allocated to the Exchange and its subsidiaries. For our unfunded plans, we pay the obligations when due and amounts are settled in cash between entities when there is a payout.

### Cost of pension plans

Pension plan cost includes the following components:

(in thousands)

	2021	2020	2019
Service cost for benefits earned	\$ 53,041	\$ 43,492	\$ 33,854
Interest cost on benefit obligation	36,824	37,578	39,306
Expected return on plan assets	(50,275)	(49,411)	(47,484)
Prior service cost amortization	1,428	1,343	1,394
Net actuarial loss amortization	16,106	12,125	5,113
Pension plan cost <sup>(1)</sup>	<u>\$ 57,124</u>	<u>\$ 45,127</u>	<u>\$ 32,183</u>

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

### Actuarial assumptions

The following table describes the assumptions at December 31 used to measure the year-end obligations and the net periodic benefit costs for the subsequent year:

	2021	2020	2019	2018
Employee pension plan:				
Discount rate	3.16 %	2.96 %	3.59 %	4.47 %
Expected return on assets	5.50	6.00	6.00	6.75
Compensation increases <sup>(1)</sup>	3.21	3.21	3.21	3.32
SERP:				
Discount rate – pre-retirement/post-retirement <sup>(2)</sup>	3.11	2.86	3.59/3.09	4.47/3.97
Rate of compensation increase	5.00	5.00	5.00	5.00

(1) The rate of compensation increase for the employee plan is age-graded. An equivalent single compensation increase rate of 3.21% in 2021, 2020 and 2019 would produce similar results.

(2) In 2020, the SERP discount rate methodology was revised to utilize SERP specific cash outflows independent of the employee pension plan discount rate, eliminating a difference between pre-retirement and post-retirement rates.

The economic assumptions that have the most impact on the postretirement benefits 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 for all periods presented was based upon a yield curve developed from corporate bond yield information.

The pension plan's expected long-term rate of return 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. To determine the expected long-term rate of return assumption, we utilized models based upon historical analysis and forward-looking views of the financial markets based upon key factors such as historical returns for the asset class' applicable indices, the correlations of the asset classes under various market conditions and consensus views on future real economic growth and inflation. The expected future return for each asset

class is then combined by considering correlations between asset classes and the volatilities of each asset class to produce a reasonable range of asset return results within which our expected long-term rate of return assumption falls.

#### Funding policy/funded status

In 2018, we made accelerated pension contributions totaling \$80 million. Following our 2018 contributions, we would not expect to make a subsequent contribution until the sum of the target normal costs for plan years beginning on and after December 31, 2017 exceeds \$80 million, or earlier if a contribution is necessary to fund the plan to 100%. At that time, our funding policy will again generally be to contribute an amount equal to the greater of the target normal cost for the plan year, or the amount necessary to fund the plan to 100%. Additional contributions may be necessary or desirable due to future plan changes, our particular business or investment strategy, or pending law changes. The following table sets forth the funded status of the pension plans and the amounts recognized in the Statements of Financial Position at December 31:

(in thousands)

	2021	2020
<b>Funded status at end of year</b>	<u>\$ (132,411)</u>	<u>\$ (165,098)</u>
Pension liabilities – due within one year <sup>(1)</sup>	\$ (2,028)	\$ (752)
Pension liabilities – due after one year	<u>(130,383)</u>	<u>(164,346)</u>
Net amount recognized	<u>\$ (132,411)</u>	<u>\$ (165,098)</u>

(1) The current portion of pension liabilities is included in accounts payable and accrued liabilities.

#### Benefit obligations

Benefit obligations are described in the following tables. Accumulated and projected benefit obligations represent the obligations of a pension plan for past service as of the measurement date. The accumulated benefit obligation is the present value of pension benefits earned as of the measurement date based on employee service and compensation prior to that date. It differs from the projected benefit obligation in that the accumulated benefit obligation includes no assumptions to reflect expected future compensation. The following table sets forth a reconciliation of beginning and ending balances of the projected benefit obligation, as well as the accumulated benefit obligation at December 31:

(in thousands)

	2021	2020
<b>Projected benefit obligation, beginning of year</b>	\$ 1,246,159	\$ 1,054,467
Service cost for benefits earned	53,041	43,492
Interest cost on benefit obligation	36,824	37,578
Plan amendments	4,059	—
Actuarial (gain) loss	(38,400)	134,470
Benefits paid	<u>(29,029)</u>	<u>(23,848)</u>
<b>Projected benefit obligation, end of year</b>	<u>\$ 1,272,654</u>	<u>\$ 1,246,159</u>
<b>Accumulated benefit obligation, end of year</b>	<u>\$ 1,037,820</u>	<u>\$ 1,006,884</u>

Projected benefit obligations increased \$26.5 million at December 31, 2021 compared to December 31, 2020 due primarily to anticipated plan progression partially offset by actuarial gains resulting from the higher discount rate used to measure the future benefit obligations. The discount rate increased to 3.16% in 2021 from 2.96% in 2020. The plan amendments during 2021 are due to the addition of four new participants to the SERP since December 31, 2020.

Both the defined benefit plan and the SERP had projected benefit obligations in excess of plan assets at December 31:

	Projected Benefit Obligation in Excess of Plan Assets	
	2021	2020
(in thousands)		
Projected benefit obligation	\$ 1,272,654	\$ 1,246,159
Plan assets	1,140,243	1,081,061

The SERP had accumulated benefit obligations in excess of plan assets at December 31:

	Accumulated Benefit Obligation in Excess of Plan Assets	
	2021	2020
(in thousands)		
Accumulated benefit obligation	\$ 29,190	\$ 26,462
Plan assets	—	—

Pension assets

The following table sets forth a reconciliation of beginning and ending balances of the fair value of plan assets at December 31:

	2021	2020
(in thousands)		
<b>Fair value of plan assets, beginning of year</b>	\$ 1,081,061	\$ 907,625
Actual gain on plan assets	86,966	195,713
Employer contributions	1,245	1,571
Benefits paid	(29,029)	(23,848)
<b>Fair value of plan assets, end of year</b>	<u>\$ 1,140,243</u>	<u>\$ 1,081,061</u>

Accumulated other comprehensive loss

Net actuarial loss and prior service cost included in accumulated other comprehensive loss that were not yet recognized as components of net benefit costs were as follows:

	2021	2020
(in thousands)		
Net actuarial loss	\$ 27,524	\$ 118,721
Prior service cost	12,201	9,570
Net amount not yet recognized	<u>\$ 39,725</u>	<u>\$ 128,291</u>

Other comprehensive income

Amounts recognized in other comprehensive income for pension plans were as follows:

	2021	2020
(in thousands)		
Net actuarial gain arising during the year	\$ (75,091)	\$ (11,832)
Amortization of net actuarial loss	(16,106)	(12,125)
Amortization of prior service cost	(1,428)	(1,343)
Amendments <sup>(1)</sup>	4,059	—
Total recognized in other comprehensive income	<u>\$ (88,566)</u>	<u>\$ (25,300)</u>

(1) In 2021, there were four new SERP participants.

Asset allocation

The employee pension plan utilizes a return seeking and a liability asset matching allocation strategy. It is based upon 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 and a separate account that are dedicated exclusively to the management of employee benefit plan assets.

The target and actual asset allocations for the portfolio are as follows for the years ended December 31:

Asset allocation:	Target asset allocation	Target asset allocation	Actual asset allocation	Actual asset allocation
	2021	2020	2021	2020
Equity securities:				
U.S. equity securities	27 % <sup>(1)</sup>	27 %	27 %	28 %
Non-U.S. equity securities	18 <sup>(2)</sup>	18	18	18
Total equity securities	45	45	45	46
Debt securities	54 <sup>(3)</sup>	54	54	53
Other	1 <sup>(4)</sup>	1	1	1
Total	100 %	100 %	100 %	100 %

(1) U.S. equity securities – 21% seek to achieve excess returns relative to the Russell 2000 Index. The remaining 79% of the allocation to U.S. equity securities are comprised of equity index funds that track the S&P 500.

(2) Non-U.S. equity securities – 11% are allocated to international small cap investments, while another 20% are allocated to international emerging market investments. The remaining 69% of the Non-U.S. equity securities are allocated to investments seeking to achieve excess returns relative to an international market index.

(3) Debt securities – 34% are allocated to long U.S. Treasury Strips, 66% are allocated to U.S. corporate bonds with an emphasis on long duration bonds rated A or better.

(4) Institutional money market fund.

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

		December 31, 2021			
		Fair value measurements of plan assets using:			
<i>(in thousands)</i>	Total	Level 1	Level 2	Level 3	
Equity securities:					
U.S. equity securities	\$ 305,440	\$ 0	\$ 305,440	\$ 0	
Non-U.S. equity securities	200,949	139,688	61,261	0	
Total equity securities	506,389	139,688	366,701	0	
Debt securities	620,337	0	620,337	0	
Other	13,517	13,517	0	0	
Total	<u>\$ 1,140,243</u>	<u>\$ 153,205</u>	<u>\$ 987,038</u>	<u>\$ 0</u>	

		December 31, 2020			
		Fair value measurements of plan assets using:			
<i>(in thousands)</i>	Total	Level 1	Level 2	Level 3	
Equity securities:					
U.S. equity securities	\$ 296,624	\$ 0	\$ 296,624	\$ 0	
Non-U.S. equity securities	196,971	134,841	62,130	0	
Total equity securities	493,595	134,841	358,754	0	
Debt securities	574,910	0	574,910	0	
Other	12,556	12,556	0	0	
Total	<u>\$ 1,081,061</u>	<u>\$ 147,397</u>	<u>\$ 933,664</u>	<u>\$ 0</u>	

Estimates of fair values of the pension plan assets are obtained primarily from the trustee and custodian of our pension plan. Our Level 1 category includes a money market mutual fund and a separate account for which the fair value is determined using an exchange traded price provided by the trustee and custodian. Our Level 2 category includes commingled pools. Estimates of fair values for securities held by our commingled pools are obtained primarily from the trustee and custodian. Trustee and custodian valuation methodologies for Level 2 securities 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.

#### Estimated future benefit payments

The following table sets forth amounts of benefits expected to be paid over the next 10 years from our pension plans as of:

<i>(in thousands)</i>		
Year ending December 31,	Expected future benefit payments	
2022	\$ 29,730	
2023	33,975	
2024	36,025	
2025	39,813	
2026	42,218	
2027 - 2031	265,680	

### Employee savings plan

All full-time and regular part-time employees are eligible to participate in a qualified 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 \$16.1 million in 2021, \$15.8 million in 2020, and \$14.9 million in 2019. The Exchange and its subsidiaries reimbursed us for approximately 59% of the matching contributions. Employees are permitted to invest the employer-matching contributions in our Class A common stock. Employees, other than executive and senior officers, may sell the shares at any time without restriction, provided they are in compliance with applicable insider trading laws; sales by executive and senior officers are subject to additional pre-clearance restrictions imposed by our insider trading policies. The plan acquires shares in the open market necessary to meet the obligations of the plan. Plan participants held 0.2 million shares of our Class A common stock at December 31, 2021 and 2020.

### **Note 10. Incentive and Deferred Compensation Plans**

We have two incentive plans and two deferred compensation plans for our executives, senior vice presidents and other selected officers, and two deferred compensation plans for our outside directors.

#### Annual incentive plan

Our annual incentive plan ("AIP") is a bonus plan that pays cash to our executives, senior vice presidents and other selected officers annually. Participants can elect to defer up to 100% of the award under either the deferred compensation plan or the incentive compensation deferral plan. If the funding qualifier is met, plan participants are eligible to receive the incentive based upon attainment of corporate and individual performance measures, which can include various financial measures. The measures are established at the beginning of each year by the Executive Compensation and Development Committee of our Board of Directors ("ECDC"), with ultimate approval by the full Board of Directors. The corporate performance measures included the growth in direct written premium and statutory combined ratio of the Exchange and its property and casualty subsidiaries for all periods presented.

#### Long-term incentive plan

Our long-term incentive plan ("LTIP") is a performance based incentive plan designed to reward executives, senior vice presidents and other selected officers who can have a significant impact on our long-term performance and to further align the interests of such employees with those of our shareholders. The LTIP permits grants of performance shares or units, or phantom shares to be satisfied with shares of our Class A common stock or cash payment as determined by the ECDC. Participants can elect to defer up to 100% of the award under the incentive compensation deferral plan. The ECDC determines the form of the award to be granted at the beginning of each performance period, which is generally a three-year period. The number of shares of the Company's common stock authorized for grant under the LTIP is 1.5 million shares, with no one person able to receive more than 250,000 shares or the equivalent of \$5 million during any one performance period. We repurchase our Class A common stock on the open market to settle stock awards under the plan. We do not issue new shares of common stock to settle stock awards. LTIP awards are considered vested at the end of each applicable performance period.

The LTIP provides the recipient the right to earn performance shares or units, or phantom stock based on the level of achievement of performance goals as defined by us. Performance measures and a peer group of property and casualty companies to be used for comparison are determined by the ECDC. The performance measures for all periods presented were the reported growth in direct written premium and statutory combined ratio of the Exchange and its property and casualty subsidiaries and return on invested assets over a three-year performance period as compared to the results of the peer group over the same period. Because the award is based upon a comparison to results of a peer group over a three-year period, the award accrual is based upon estimates of probable 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.

The fair value of LTIP awards is measured at each reporting date at the current share price of our Class A common stock. A liability is recorded and compensation expense is recognized ratably over the performance period.

At December 31, 2021, the plan awards for the 2019-2021 performance period, which will be granted as a cash award were fully vested. Distributions will be made in 2022 once peer group financial information becomes available. The estimated plan award based upon the peer group information as of September 30, 2021 is \$5.4 million. At December 31, 2020, the fully vested cash awards for the 2018-2020 performance period that were not deferred totaled \$10.9 million and were paid to participants in June 2021. At December 31, 2019, the fully vested cash awards for the 2017-2019 performance period that were not deferred totaled \$7.4 million and were paid to participants in June 2020. At December 31, 2018, the awards paid in cash for the 2016-2018 performance period were fully vested and resulted in a \$8.2 million payment to plan participants in June 2019. The ECDC has determined that the plan awards for the 2020-2022 and 2021-2023 performance periods will be paid in cash.

The Exchange and its subsidiaries reimburse us for compensation costs of employees performing administrative services. Earned compensation costs are allocated to these entities and reimbursed to us in cash once the payout is made. The total compensation cost charged to operations related to these LTIP awards, net of forfeitures, was \$3.0 million in 2021, \$12.0 million in 2020, and \$7.3 million in 2019. The related tax benefits recognized in income were \$0.6 million in 2021, \$2.5 million in 2020, and \$1.5 million in 2019. The Exchange and its subsidiaries reimburse us for approximately 46% of the annual compensation cost of these plans. At December 31, 2021, there was \$3.8 million of total unrecognized compensation cost for non-vested LTIP awards related to open performance periods. Unrecognized compensation is expected to be recognized over a period of two years.

#### Deferred compensation plan

Our deferred compensation plan allows executives, senior vice presidents and other selected officers to elect to defer receipt of a portion of their compensation and AIP cash awards until a later date. Employer 401(k) matching contributions that are in excess of the annual contribution or compensation limits are also credited to the participant accounts for those who elected to defer receipt of some portion of their base salary. Participants select hypothetical investment funds for their deferrals which are credited with the hypothetical returns generated.

#### Incentive compensation deferral plan

We have an unfunded, non-qualified incentive compensation deferral plan for participants of the AIP and LTIP. Participants can elect to defer up to 100% of their annual AIP award and/or up to 100% of their LTIP award for each performance period. Deferred awards will be credited to a deferred stock account as credits denominated in Class A shares of the Company stock until retirement or other separation from service from the Company. Participants are 100% vested at date of deferral. The shares are held in a rabbi trust, which was established to hold the shares earned under both the incentive compensation deferral plan and the deferred stock compensation plan for outside directors. The rabbi trust is classified and accounted for as equity in a manner consistent with the accounting for treasury stock. Dividends received on the shares in the rabbi trust are used to purchase additional shares. Vested share credits will be paid to participants from the rabbi trust upon separation from service in approximate equal annual installments of Class A shares for a period of three years. In 2021, the rabbi trust purchased 2,570 shares of our common stock in the open market at an average price of \$232.81 for \$0.6 million to satisfy the liability for the 2020 AIP awards and 17,881 shares at an average price of \$191.25 for \$3.4 million to satisfy the liability for the 2018-2020 LTIP performance period awards deferred under the incentive compensation deferral plan. In 2020, the rabbi trust purchased 3,934 shares of our common stock in the open market at an average price of \$155.92 for \$0.6 million to satisfy the liability for the 2019 AIP awards and 18,126 shares at an average share price of \$185.31 for \$3.4 million to satisfy the liability for the 2017-2019 LTIP performance period awards deferred under the incentive compensation deferral plan. In 2019, the rabbi trust purchased 4,387 shares of our common stock in the open market at an average price of \$176.34 for \$0.8 million to satisfy the liability for the 2018 AIP awards deferred under the incentive compensation deferral plan.

#### Deferred compensation plans for outside directors

We have a deferred compensation plan for our outside directors that allows participants to defer receipt of a portion of their annual compensation until a later date. Participants select hypothetical investment funds for their deferrals which are credited with the hypothetical returns generated.

We also have a deferred stock compensation plan for our outside directors to further align the interests of directors with those of our shareholders that provides for a portion of the directors' annual compensation 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 credited to each director's account which vest immediately. We do not issue new shares of common stock to directors. Our practice is to repurchase shares of our Class A common stock in the open market to satisfy these awards, which are held in the rabbi trust.

The rabbi trust purchased 5,238 shares of our common stock on the open market at an average price of \$212.41 for \$1.1 million in 2021, 7,401 shares at an average price of \$201.78 for \$1.5 million in 2020, and 7,370 shares at an average price of \$194.62 for \$1.4 million in 2019 to satisfy the liability of the stock compensation plan for outside directors. The shares are distributed to the outside director from the rabbi trust upon ending board service. The total compensation charged to operations related to these awards totaled \$0.8 million, \$0.9 million and \$1.1 million in 2021, 2020 and 2019, respectively.

The following table sets forth a reconciliation of beginning and ending balances of our deferred executive compensation liability as of December 31:

(in thousands)

	2021	2020	2019
<b>Deferred executive compensation, beginning of the year</b>	<b>\$ 32,223</b>	<b>\$ 24,616</b>	<b>\$ 26,182</b>
Annual incentive plan awards	6,768	5,619	2,745
Long-term incentive plan awards	3,471	12,381	7,267
Employer match and hypothetical earnings on deferred compensation	3,043	2,962	2,700
Total plan awards and earnings	13,282	20,962	12,712
Total plan awards paid	(16,647)	(10,121)	(12,852)
Compensation deferred	4,765	4,668	1,579
Distributions from the deferred compensation plans	(811)	(2,081)	(797)
Forfeitures <sup>(1)</sup>	(473)	(356)	—
Funding of rabbi trust for deferred stock compensation plan for outside directors	(1,113)	(1,493)	(1,434)
Funding of rabbi trust for incentive compensation deferral plan	(4,018)	(3,972)	(774)
<b>Deferred executive compensation, end of the year</b>	<b>\$ 27,208</b>	<b>\$ 32,223</b>	<b>\$ 24,616</b>

(1) Forfeitures are the result of plan participants who separated from service with the Company and are recognized in the year they occur.

#### Equity compensation plan

We also have an equity compensation plan ("ECP") which is designed to reward key employees, as determined by the ECDC or the chief executive officer, who can have a significant impact on our long-term performance and to further align the interests of such employees with those of our shareholders. The ECP permits grants of restricted shares, restricted share units and other share based awards, to be satisfied with shares of our Class A common stock or cash. The ECDC determines the form of the award to be granted at the beginning of each performance period. The number of shares of the Company's Class A common stock authorized for grant under the ECP is 100,000 shares, with no one person able to receive more than 5,000 shares in a calendar year. We do not issue new shares of common stock to satisfy plan awards. Share awards are settled through the repurchase of our Class A common stock on the open market. Restricted share awards may be entitled to receive dividends payable during the performance period, or, if subject to performance goals, to receive dividend equivalents payable upon vesting. Dividend equivalents may provide for the crediting of interest or hypothetical reinvestment experience payable after expiration of the performance period. Vesting conditions are determined at the time the award is granted and may include continuation of employment for a specific period, satisfaction of performance goals and the defined performance period, and the satisfaction of any other terms and conditions as determined to be appropriate. The ECP expires December 31, 2022, unless earlier amended or terminated by our Board of Directors. To address the impending expiration of the ECP, on February 17, 2022, our Board of Directors approved an Amendment and Restatement of the ECP (the "Amended and Restated ECP") that would extend the expiration date of the plan to December 31, 2031, unless further amended or earlier terminated by the Board. The terms of the Amended and Restated ECP are substantially similar to the current ECP and are subject to the approval of shareholders at our 2022 Annual Meeting.

To date, all awards have been satisfied with shares of our Class A common stock. In 2021, we purchased 978 Class A shares with an average share price of \$242.01 and a market value of \$0.2 million to satisfy the liability for the 2018 plan year. In 2020, we purchased 1,787 Class A shares with an average share price of \$165.82 and a market value of \$0.3 million to satisfy the liability for the 2017 plan year. In 2019, we purchased 3,246 shares with an average share price of \$132.35 and a market value of \$0.4 million to satisfy the liability for the 2016 plan year. The total compensation charged to operations related to these ECP awards was \$0.2 million in 2021, \$0.7 million in 2020, and \$0.5 million in 2019. The Exchange and its subsidiaries reimburse us for earned compensation costs of employees performing administrative services, which can fluctuate each year based on the plan participants. The Exchange and its subsidiaries reimbursed us for approximately 33%, 59%, and 49% of the awards paid in 2021, 2020, and 2019 respectively. Unearned compensation expense of \$0.2 million is expected to be recognized over a period of three years.

**Note 11. Income Taxes**

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

(in thousands)

	2021		2020		2019
Current income tax expense	\$ 80,398	\$	80,373	\$	76,535
Deferred income tax (benefit) expense	(1,854)		(5,162)		3,349
Income tax expense	<u>\$ 78,544</u>	\$	<u>75,211</u>	\$	<u>79,884</u>

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

(in thousands)

	2021		2020		2019
Income tax at statutory rate	\$ 79,045	\$	77,388	\$	83,308
Tax-exempt interest	—		—		(123)
Decrease in unrecognized tax benefits	—		—		(3,088)
Other, net	(501)		(2,177)		(213)
Income tax expense	<u>\$ 78,544</u>	\$	<u>75,211</u>	\$	<u>79,884</u>

Temporary differences and carry-forwards, which give rise to deferred tax assets and liabilities, are as follows as of December 31:

(in thousands)

	2021		2020
Deferred tax assets:			
Pension and other postretirement benefits	\$ 21,545	\$	29,065
Other employee benefits	15,273		14,544
Deferred revenue	3,963		3,872
Allowance for management fee returned on cancelled policies	3,330		3,515
Unrealized losses on investments	—		1,083
Other	3,484		2,692
Total deferred tax assets	<u>47,595</u>		<u>54,771</u>
Deferred tax liabilities:			
Depreciation	35,204		29,978
Unrealized gains on investments	8,713		7,540
Prepaid expenses	2,458		3,800
Other	1,075		1,112
Total deferred tax liabilities	<u>47,450</u>		<u>42,430</u>
Net deferred tax asset	<u>\$ 145</u>	\$	<u>12,341</u>

If we determine that any of our deferred tax assets will not result in future tax benefits, a valuation allowance must be established for the portion of the assets that are not expected to be realized. We had no valuation allowance recorded at December 31, 2021 or 2020.

A reconciliation of unrecognized tax benefits for the years ended December 31 is as follows:

(in thousands)

	2021	2020	2019
<b>Balance at the beginning of the year</b>	\$ 0	\$ 0	\$ 3,088
Additions for prior year tax positions	—	—	4,631
Reductions for prior year tax positions	—	—	(7,719)
<b>Balance at the end of the year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The uncertain tax position including \$3.1 million of tax expense and \$0.9 million of interest expense recorded in a prior year was settled during 2019. This settlement reduced our effective tax rate by 1.0% in 2019. The amounts recorded in a prior year resulted from the difference in measuring the tax liability at the previous tax rate and the current enacted tax rate.

Tax years ending December 31, 2020, 2019 and 2018 remain open to IRS examination. We are not currently under IRS audit, nor have we been notified of an upcoming IRS audit.

We are the attorney-in-fact for the subscribers (policyholders) at the Exchange, a reciprocal insurance exchange. In that capacity, we provide all services and facilities necessary to conduct the Exchange's insurance business. Indemnity and the Exchange together constitute a single insurance business. Consequently, we are not subject to state corporate income or franchise taxes in states where the Exchange conducts its business and the states collect premium tax in lieu of corporate income or franchise tax, as a result of the Exchange's remittance of premium taxes in those states.

## **Note 12. Capital Stock**

### Class A and B common stock

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 per Class B share. There were no shares of Class B common stock converted into Class A common stock in 2021, 2020 or 2019.

### Stock repurchases

Our Board of Directors authorized a stock repurchase program effective January 1, 1999 allowing the repurchase of our outstanding Class A nonvoting common stock. In 2011, our Board of Directors approved a continuation of the current stock repurchase program for a total of \$150 million, with no time limitation. Treasury shares are recorded in the Statements of Financial Position at total cost based upon trade date. There were no shares repurchased under this program during 2021, 2020 or 2019. We had approximately \$17.8 million of repurchase authority remaining under this program at December 31, 2021, based upon trade date.

We made stock repurchases in 2021, 2020, and 2019 outside of our publicly announced share repurchase program related to stock-based awards. See Note 10, "Incentive and Deferred Compensation Plans" for additional information.

**Note 13. Accumulated Other Comprehensive Income (Loss)**

Changes in accumulated other comprehensive income ("AOCI") (loss) by component, including amounts reclassified to other comprehensive income ("OCI") (loss) and the related line item in the Statements of Operations where net income is presented, are as follows for the year ended December 31:

(in thousands)	2021			2020			2019		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
<b>Investment securities:</b>									
AOCI (loss), beginning of year	\$ 29,384	\$ 6,171	\$ 23,213	\$ 5,664	\$ 1,189	\$ 4,475	\$ (9,169)	\$ (1,926)	\$ (7,243)
OCI (loss) before reclassifications	(16,474)	(3,460)	(13,014)	22,074	4,636	17,438	19,257	4,044	15,213
Realized investment gains	(5,131)	(1,078)	(4,053)	(1,335)	(280)	(1,055)	(4,619)	(970)	(3,649)
Impairment (recoveries) losses	(57)	(12)	(45)	2,981	626	2,355	195	41	154
OCI (loss)	(21,662)	(4,550)	(17,112)	23,720	4,982	18,738	14,833	3,115	11,718
AOCI, end of year	\$ 7,722	\$ 1,621	\$ 6,101	\$ 29,384	\$ 6,171	\$ 23,213	\$ 5,664	\$ 1,189	\$ 4,475
<b>Pension and other postretirement plans:</b>									
AOCI (loss), beginning of year	\$ (128,300)	\$ (26,944)	\$ (101,356)	\$ (153,600)	\$ (32,257)	\$ (121,343)	\$ (155,749)	\$ (32,708)	\$ (123,041)
OCI (loss) before reclassifications	71,032	14,917	56,115	11,832	2,485	9,347	(4,085)	(858)	(3,227)
Amortization of prior service costs <sup>(1)</sup>	1,428	300	1,128	1,343	282	1,061	1,394	293	1,101
Amortization of net actuarial loss	16,106	3,382	12,724	12,125	2,546	9,579	4,840	1,016	3,824
OCI	88,566	18,599	69,967	25,300	5,313	19,987	2,149	451	1,698
AOCI (loss), end of year	\$ (39,734)	\$ (8,345)	\$ (31,389)	\$ (128,300)	\$ (26,944)	\$ (101,356)	\$ (153,600)	\$ (32,257)	\$ (121,343)
<b>Total</b>									
AOCI (loss), beginning of year	\$ (98,916)	\$ (20,773)	\$ (78,143)	\$ (147,936)	\$ (31,068)	\$ (116,868)	\$ (164,918)	\$ (34,634)	\$ (130,284)
Investment securities	(21,662)	(4,550)	(17,112)	23,720	4,982	18,738	14,833	3,115	11,718
Pension and other postretirement plans	88,566	18,599	69,967	25,300	5,313	19,987	2,149	451	1,698
OCI	66,904	14,049	52,855	49,020	10,295	38,725	16,982	3,566	13,416
AOCI (loss), end of year	\$ (32,012)	\$ (6,724)	\$ (25,288)	\$ (98,916)	\$ (20,773)	\$ (78,143)	\$ (147,936)	\$ (31,068)	\$ (116,868)

(1) These components of AOCI (loss) are included in the computation of net periodic pension cost. See Note 9, "Postretirement Benefits", for additional information.

## **Note 14. Related Party**

### Management fee

A management fee is charged to the Exchange for services we provide under the subscriber's agreement with subscribers at the Exchange. The fee is a percentage of direct and affiliated assumed premiums written by the Exchange. This percentage rate is determined at least annually by our Board of Directors but cannot exceed 25%. The management fee rate charged the Exchange was 25% in 2021, 2020 and 2019. The Board of Directors elected to maintain the fee at 25% beginning January 1, 2022.

There is no provision in the subscriber's agreement for termination of our appointment as attorney-in-fact by the subscribers at the Exchange and the appointment is not affected by a policyholder's disability or incapacity.

### Insurance holding company system

Most states have enacted legislation that regulates insurance holding company systems, defined as two or more affiliated persons, one or more of which is an insurer. The Exchange has the following wholly owned property and casualty subsidiaries: Erie Insurance Company, Erie Insurance Company of New York, Erie Insurance Property & Casualty Company and Flagship City Insurance Company, and a wholly owned life insurance company, Erie Family Life Insurance Company. Indemnity and the Exchange, and its wholly owned subsidiaries, meet the definition of an insurance holding company system.

All transactions within a holding company system affecting the member insurers of the holding company system must be fair and reasonable and any charges or fees for services performed must be reasonable. Approval by the applicable insurance commissioner is required prior to the consummation of transactions affecting the members within a holding company system.

### Shared facilities

We leased the home office from the Exchange until December 31, 2021, at which time we purchased the home office properties from the Exchange to align the ownership interest of these facilities with the functions being performed at the home office campus which are mainly Indemnity's management operations. See Note 7, "Fixed Assets" for additional information. Lease expense totaled \$6.1 million in 2021, 2020 and 2019, respectively. Operating expenses, including utilities, cleaning, repairs, real estate taxes, property insurance, and leasehold improvements totaled \$15.7 million in both 2021 and 2020, respectively, and \$16.7 million in 2019. The Exchange and its subsidiaries reimbursed us for rent costs and related operating expenses of shared facilities used to perform administrative services, which are allocated based upon usage or square footage occupied. Reimbursements related to the use of this space totaled \$4.8 million, \$4.6 million, and \$4.2 million in 2021, 2020, and 2019, respectively.

Effective July 1, 2021, the Exchange and its subsidiaries entered into a service agreement with Indemnity to use space in Indemnity-owned properties. The amount charged is based on rental rates of like property in Erie, Pennsylvania and the usage or square footage occupied. In 2021, income earned from the Exchange and its subsidiaries for the use of space totaled \$0.2 million. Operating expenses including utilities, cleaning, repairs, real estate taxes, property insurance, and leasehold improvements are allocated based upon usage or square footage occupied. The home office was added to this agreement effective January 1, 2022.

## **Note 15. Concentrations of Credit Risk**

Financial instruments could potentially expose us to concentrations of credit risk, including our unsecured receivables from the Exchange. A large majority of our revenue and receivables are from the Exchange and its affiliates. See also Note 1, "Nature of Operations". Net management fee amounts and other reimbursements due from the Exchange and its affiliates were \$479.1 million and \$494.6 million at December 31, 2021 and 2020, respectively. Upon adoption of ASU 2016-13, we recorded an allowance for current expected credit losses of \$0.6 million related to the receivables from the Exchange and affiliates. See also Note 2, "Significant Accounting Policies". The current expected credit loss allowance was \$0.5 million and \$0.6 million at December 31, 2021 and 2020, respectively.

## **Note 16. Commitments and Contingencies**

In 2020, we entered into an agreement with a bank for the establishment of a loan participation program for agent loans. The maximum amount of loans to be funded through this program is \$100 million. We have committed to fund a minimum of 30% of each loan executed through this program. As of December 31, 2021, the total loans executed under this agreement totaled \$25.8 million, of which our portion of the loans is \$9.6 million. Additionally, we have agreed to guarantee a portion of the funding provided by the other participants in the program in the event of default. As of December 31, 2021, our maximum potential amount of future payments on the guaranteed portion is \$2.9 million. All loan payments under the participation program are current as of December 31, 2021.

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

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

**Note 17. Supplementary Data on Cash Flows**

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

<i>(in thousands)</i>	2021	2020	2019
<b>Cash flows from operating activities:</b>			
Net income	\$ 297,860	\$ 293,304	\$ 316,821
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	37,210	21,195	16,813
Deferred income tax (benefit) expense	(1,854)	(5,162)	3,349
Lease amortization expense	11,887	13,108	13,959
Realized (gains) and impairment (recoveries) losses on investments	(2,307)	(3,114)	(5,908)
(Gain) loss on disposal of fixed assets	(13)	(15)	75
Net investment (income) loss	(25,944)	5,878	543
(Decrease) increase in deferred compensation	(5,006)	7,611	(1,541)
Decrease (increase) in receivables from affiliates	15,514	(26,548)	(19,505)
Increase in accrued investment income	(157)	(713)	(170)
Decrease in prepaid pension	52,755	41,227	28,798
Decrease (increase) in prepaid expenses and other assets	12,161	(4,771)	(1,707)
Decrease in accounts payable and accrued expenses	(4,823)	(14,307)	(3,627)
Increase (decrease) in commissions payable	8,408	(625)	21,390
Increase (decrease) in accrued agent bonuses	10,279	14,105	(7,409)
(Decrease) increase in contract liability	(3,176)	1,422	2,646
Net cash provided by operating activities	\$ 402,794	\$ 342,595	\$ 364,527

**Note 18. Subsequent Events**

No items were identified in this period subsequent to the financial statement date that required adjustment or additional 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, 2021. Based upon 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 defined in Rules 13a-15(f) under the Exchange Act. 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 upon the framework in the *Internal Control-Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon our evaluation under the framework in the *Internal Control-Integrated Framework* issued in 2013, management has concluded that Erie Indemnity Company's internal control over financial reporting was effective as of December 31, 2021.

/s/ Timothy G. NeCastro

Timothy G. NeCastro  
President and  
Chief Executive Officer  
February 24, 2022

/s/ Gregory J. Gutting

Gregory J. Gutting  
Executive Vice President  
and Chief Financial Officer  
February 24, 2022

/s/ Julie M. Pelkowski

Julie M. Pelkowski  
Senior Vice President  
and Controller  
February 24, 2022

Our independent auditor, Ernst & Young LLP, a registered public accounting firm, has issued an attestation report on our internal control over financial reporting. This report appears on the following page.

**ITEM 9B. OTHER INFORMATION**

There was no additional information in the fourth quarter of 2021 that has not already been filed in a Form 8-K.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Erie Indemnity Company

### Opinion on Internal Control over Financial Reporting

We have audited Erie Indemnity Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Erie Indemnity Company (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the statements of financial position of the Company as of December 31, 2021 and 2020, and the related statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2021 and the related notes of the Company and our report dated February 24, 2022 expressed an unqualified opinion thereon.

### Basis for Opinion

The 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

### Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Cleveland, OH  
February 24, 2022

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information with respect to our outside directors, audit committee and audit committee financial experts and Section 16(a) beneficial ownership reporting compliance, is incorporated herein by reference to the information statement on Schedule 14C to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2021.

We have adopted a Code of Conduct that applies to all of our outside directors, officers and employees. We have previously filed a copy of the Code of Conduct as [Exhibit 14.3](#) to the Registrant's Form 10-K filed with the Securities and Exchange Commission on February 25, 2016. In addition to this, we have adopted a Code of Ethics for Senior Financial Officers that also applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and any other person performing similar functions. We have previously filed a copy of the Code of Ethics for Senior Financial Officers as [Exhibit 14.4](#) to the Registrant's Form 8-K filed with the Securities and Exchange Commission on June 1, 2016. Our Code of Conduct and Code of Ethics for Senior Financial Officers are also available on our website at [www.erieinsurance.com](http://www.erieinsurance.com).

**Executive Officers of the Registrant**

Name	Age as of 12/31/2021	Principal Occupation and Positions for Past Five Years
<u>President &amp; Chief Executive Officer:</u>		
Timothy G. NeCastro	61	President and Chief Executive Officer since January 2017; Chief Executive Officer, August 2016 through December 2016; President and Chief Executive Officer Designate, June 2016 through July 2016; Senior Vice President, West Region, February 2010 through June 2016; Director, Erie Family Life Insurance Company ("EFL"), Erie Insurance Company ("EIC"), Flagship City Insurance Company ("Flagship"), Erie Insurance Company of New York ("ENY") and Erie Insurance Property & Casualty Company ("EPC").
<u>Executive Vice Presidents:</u>		
Lorianne Feltz	52	Executive Vice President, Claims & Customer Service since November 2016; Senior Vice President, Customer Service, January 2011 through October 2016.
Gregory J. Gutting	58	Executive Vice President and Chief Financial Officer since August 2016; Interim Executive Vice President and Chief Financial Officer, October 2015 through July 2016; Senior Vice President and Controller, March 2009 through September 2015; Director, EFL, EIC, Flagship, ENY and EPC.
Robert C. Ingram, III *	63	Executive Vice President and Chief Information Officer since August 2012; Director, EFL, EIC, Flagship, ENY and EPC.
Douglas E. Smith	47	Executive Vice President, Sales & Products since November 2016; Senior Vice President, Personal Lines, November 2008 through October 2016.

\* Retired effective December 31, 2021

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item with respect to executive compensation is incorporated by reference to the information statement on Schedule 14C to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2021.

**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 Schedule 14C to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2021.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information with respect to certain relationships with our outside directors is incorporated by reference to the information statement on Schedule 14C to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2021.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference to the information statement on Schedule 14C to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2021.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this report:

1. Financial Statements

Included in Part II, 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 Financial Statements
- Statements of Operations for the three years ended December 31, 2021, 2020 and 2019
- Statements of Comprehensive Income for the three years ended December 31, 2021, 2020 and 2019
- Statements of Financial Position as of December 31, 2021 and 2020
- Statements of Shareholders' Equity for the three years ended December 31, 2021, 2020 and 2019
- Statements of Cash Flows for the three years ended December 31, 2021, 2020 and 2019
- Notes to Financial Statements

2. Financial Statement Schedules

All schedules are not required, not applicable, or the information is included in the financial statements or notes thereto.

3. Exhibit Index

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### **ITEM 16. FORM 10-K SUMMARY**

None.

**EXHIBIT INDEX**

(Pursuant to Item 601 of Regulation S-K)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.8	<a href="#"><u>Amended and Restated Articles of Incorporation of Registrant dated April 19, 2011. 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 2, 2011.</u></a>
3.10	<a href="#"><u>Erie Indemnity Company Amended and Restated Bylaws dated April 30, 2019. 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 3, 2019.</u></a>
4.1	<a href="#"><u>Erie Indemnity Company Description of Capital Stock. 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, 2021.</u></a>
10.12	<a href="#"><u>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.</u></a>
10.104	<a href="#"><u>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 that was filed with the Commission on February 26, 2009.</u></a>
10.145	<a href="#"><u>Erie Indemnity Company Equity Compensation Plan (incorporated by reference to Appendix A to the Registrant's Information Statement for the 2013 Annual Meeting of Shareholders filed with the Commission on March 18, 2013).</u></a>
10.153	<a href="#"><u>Erie Indemnity Company Long-Term Incentive Plan (As Amended and Restated Effective as of January 1, 2014). Such exhibit is incorporated by reference to Appendix B to the Registrant's Information Statement for the 2014 Annual Meeting of Shareholders filed with the Commission on March 14, 2014.</u></a>
10.154	<a href="#"><u>First Amendment to Erie Indemnity Company Equity Compensation Plan effective January 1, 2014, dated March 10, 2014. 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 1, 2014.</u></a>
10.156	<a href="#"><u>Form of Indemnification Agreement by and between Erie Indemnity Company and each Director and Executive Officer of Erie Indemnity Company. 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 26, 2009.</u></a>
10.157	<a href="#"><u>First Amendment to Erie Indemnity Company Long-Term Incentive Plan (As Amended and Restated Effective as of January 1, 2014), dated March 25, 2015. 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 April 30, 2015.</u></a>
10.158	<a href="#"><u>Erie Indemnity Company Deferred Compensation Plan for Outside Directors (As Amended and Restated as of July 29, 2015), dated October 20, 2015. 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, 2016.</u></a>
10.159	<a href="#"><u>Erie Indemnity Company Deferred Stock Plan for Outside Directors (As of July 29, 2015), dated October 20, 2015. 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, 2016.</u></a>
10.162	<a href="#"><u>Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated December 18, 2015. 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, 2016.</u></a>
10.163	<a href="#"><u>Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective as of January 1, 2015), dated December 18, 2015. 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, 2016.</u></a>
10.166	<a href="#"><u>First Amendment to Erie Indemnity Company Deferred Stock Plan for Outside Directors (As Amended and Restated as of July 29, 2015), dated March 31, 2016. 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 April 28, 2016.</u></a>
10.169	<a href="#"><u>First Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated September 12, 2016. 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 27, 2016.</u></a>

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.170	<a href="#"><u>Second Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated September 12, 2016. 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 27, 2016.</u></a>
10.171	<a href="#"><u>First Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective as of January 1, 2015), dated September 12, 2016. 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 27, 2016.</u></a>
10.173	<a href="#"><u>Second Amendment to Erie Indemnity Company Long-Term Incentive Plan (As Amended and Restated Effective as of January 1, 2014), dated August 1, 2016. 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 27, 2016.</u></a>
10.174	<a href="#"><u>Credit Agreement by and among Erie Indemnity Company and PNC Bank, National Association, dated as of November 7, 2016. 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 14, 2016.</u></a>
10.175	<a href="#"><u>Pledge Agreement made by Erie Indemnity Company in favor of PNC Bank, National Association, dated as of November 7, 2016. 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 14, 2016.</u></a>
10.177	<a href="#"><u>Erie Indemnity Company Incentive Compensation Deferral Plan (Effective January 1, 2017), dated December 7, 2016. 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 23, 2017.</u></a>
10.178	<a href="#"><u>Third Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated December 22, 2016. 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 23, 2017.</u></a>
10.183	<a href="#"><u>Second Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2015), dated October 17, 2017. 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 26, 2017.</u></a>
10.185	<a href="#"><u>Third Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2015), dated December 20, 2017. 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 22, 2018.</u></a>
10.186	<a href="#"><u>Fourth Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated December 20, 2017. 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 22, 2018.</u></a>
10.187	<a href="#"><u>First Amendment to Credit Agreement by and between Erie Indemnity Company and PNC Bank, National Association, dated as of December 13, 2016. 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 January 24, 2018.</u></a>
10.188	<a href="#"><u>Second Amendment to Credit Agreement by and between Erie Indemnity Company and PNC Bank, National Association, dated as of January 22, 2018. 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 January 24, 2018.</u></a>
10.190	<a href="#"><u>Fourth Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2015), dated May 2, 2018. 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 July 26, 2018.</u></a>
10.193	<a href="#"><u>Third Amendment to Credit Agreement by and between Erie Indemnity Company and PNC Bank, National Association, dated as of November 13, 2018. 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 14, 2018.</u></a>
10.194	<a href="#"><u>Fifth Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated December 20, 2018. 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 21, 2019.</u></a>
10.195	<a href="#"><u>Fifth Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2015), dated March 29, 2019. 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 2, 2019.</u></a>
10.196	<a href="#"><u>First Amendment to Erie Indemnity Company Incentive Compensation Deferral Plan (Effective January 1, 2017), dated July 1, 2019. 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 July 25, 2019.</u></a>

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.197	<a href="#"><u>Appendix B to Deferred Compensation Plan of Erie Indemnity Company (As Amended and Restated Effective as of January 1, 2019). 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 July 25, 2019.</u></a>
10.198	<a href="#"><u>Sixth Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated September 3, 2019. 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 24, 2019.</u></a>
10.199	<a href="#"><u>Seventh Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated December 23, 2019. 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 27, 2020.</u></a>
10.200	<a href="#"><u>Eighth Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated December 23, 2019. 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 27, 2020.</u></a>
10.201	<a href="#"><u>Ninth Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated December 23, 2019. 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 27, 2020.</u></a>
10.202	<a href="#"><u>Sixth Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2015), dated December 23, 2019. 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 27, 2020.</u></a>
10.203	<a href="#"><u>Seventh Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2015), dated December 23, 2019. 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 27, 2020.</u></a>
10.204	<a href="#"><u>Erie Indemnity Company Annual Incentive Plan effective January 1, 2020. 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 27, 2020.</u></a>
10.205	<a href="#"><u>Erie Indemnity Company Long-Term Incentive Plan (Effective as of January 1, 2020). Such exhibit is incorporated by reference to Appendix A to the Registrant's Information Statement for the 2020 Annual Meeting of Shareholders filed with the Commission on March 20, 2020.</u></a>
10.206	<a href="#"><u>Tenth Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated December 23, 2020. 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, 2021.</u></a>
10.207	<a href="#"><u>Second Amendment to Erie Indemnity Company Incentive Compensation Deferral Plan (Effective as of January 1, 2017), dated December 24, 2020. 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, 2021.</u></a>
10.208	<a href="#"><u>Second Amendment to Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (Amended and Restated as of January 1, 2009), dated December 24, 2020. 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, 2021.</u></a>
10.209	<a href="#"><u>Second Amendment to Appendix B to Deferred Compensation Plan of Erie Indemnity Company (As Amended and Restated Effective as of January 1, 2009), dated December 24, 2020. 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, 2021.</u></a>
10.210	<a href="#"><u>Eleventh Amendment to Erie Insurance Group Retirement Plan for Employees (As Amended and Restated Effective December 31, 2014), dated July 7, 2021. 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 28, 2021.</u></a>
10.211	<a href="#"><u>Eighth Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2015), dated July 15, 2021. 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 28, 2021.</u></a>
10.212	<a href="#"><u>Agreement of Lease between Erie Insurance Exchange and Erie Indemnity Company for the Erie Insurance Home Office Campus, dated July 1, 2021. 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 28, 2021.</u></a>
10.213	<a href="#"><u>Credit Agreement among PNC Bank, National Association, as Administrative Agent; the Lenders named therein; and Erie Indemnity Company, dated October 29, 2021. 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, 2021.</u></a>

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.214	<a href="#">Pledge Agreement made by Erie Indemnity Company in favor of PNC Bank, National Association, as administrative agent, for itself and certain other Lenders, dated October 29, 2021. 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, 2021.</a>
10.215	<a href="#">Retirement Agreement between Erie Indemnity Company and Robert C. Ingram, III dated December 30, 2021. 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 January 6, 2022.</a>
10.216*	<a href="#">Ninth Amendment to Erie Insurance Group Employee Savings Plan (As Amended and Restated Effective January 1, 2015), dated October 21, 2021.</a>
10.217*	<a href="#">First Amendment to Erie Indemnity Company Deferred Compensation Plan for Outside Directors (As of July 29, 2015), dated December 21, 2021.</a>
10.218*	<a href="#">Post-2021 Deferred Compensation Plan of the Erie Indemnity Company, effective January 1, 2022, dated December 9, 2021.</a>
10.219*	<a href="#">Second Amendment to Erie Indemnity Company Deferred Stock Plan for Outside Directors (As of July 29, 2015), dated December 21, 2021.</a>
10.220*	<a href="#">Third Amendment to Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (Amended and Restated as of January 1, 2009), dated December 21, 2021.</a>
10.221*	<a href="#">Fourth Amendment to Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (Amended and Restated as of January 1, 2009), dated December 21, 2021.</a>
10.222*	<a href="#">Third Amendment to Erie Indemnity Company Incentive Compensation Deferral Plan (Effective as of January 1, 2017), dated December 21, 2021.</a>
10.223*	<a href="#">Third Amendment to Deferred Compensation Plan of Erie Indemnity Company (As Amended and Restated as of January 1, 2009), dated December 21, 2021.</a>
10.224*	<a href="#">Appointment of Administrator to Deferred Compensation Plan of Erie Indemnity Company, Erie Indemnity Company Incentive Compensation Deferral Plan, and Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees, dated December 21, 2021.</a>
10.225*	<a href="#">Fourth Amendment to Credit Agreement by and between Erie Indemnity Company and PNC Bank, National Association, dated as of December 28, 2021.</a>
10.226*	<a href="#">Amendment to Agreement of Lease between Erie Insurance Exchange and Erie Indemnity Company for the Erie Insurance Home Office Campus, (As of July 1, 2021), Dated January 1, 2022.</a>
14.3	<a href="#">Code of Conduct. 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, 2016.</a>
14.4	<a href="#">Code of Ethics for Senior Financial Officers. 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 1, 2016.</a>
23*	<a href="#">Consent of Independent Registered Public Accounting Firm.</a>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32*	<a href="#">Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.

<u>Exhibit</u> <u>Number</u>	<u>Description of Exhibit</u>
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Filed herewith.



NINTH AMENDMENT TO  
 ERIE INSURANCE GROUP EMPLOYEE SAVINGS PLAN  
 (As Amended and Restated Effective January 1, 2015)

WHEREAS, Erie Indemnity Company (the “Company”) maintains the Erie Insurance Group Employee Savings Plan (the “Plan”) under an amendment and restatement effective as of January 1, 2015;

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

WHEREAS, the Company desires to amend the Plan to clarify provisions relating to periodic installment payments from the Plan.

NOW, THEREFORE, effective as of March 9, 2021, Section 6.3(a) of the Plan is deleted in its entirety and the following shall be inserted in lieu thereof:

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;
  - (iii) monthly, quarterly or annual installments that will provide a fixed percentage of the Total Account maintained on behalf of the recipient per pay period;
  - (iv) 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; or
  - (v) monthly, quarterly or annual installments that will provide payments of a variable amount over the recipient’s life expectancy, as determined in accordance with tables promulgated by the Internal Revenue Service.

A Participant or Beneficiary who has elected payment in an installment form under Section 6.3(a)(ii) through (v) 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.

\* \* \* \* \*

**IN WITNESS WHEREOF**, the Company has caused this Amendment to be executed this 21 day of October, 2021.

ERIE INDEMNITY COMPANY

ATTEST:

/s/ Gregory J. Gutting

By: /s/ Brian W. Bolash

Title: SVP, SECRETARY & GENERAL COUNSEL

**FIRST AMENDMENT TO  
ERIE INDEMNITY COMPANY  
DEFERRED COMPENSATION PLAN  
FOR OUTSIDE DIRECTORS**

Effective as of July 29, 2015

WHEREAS, Erie Indemnity Company (the “Company”) maintains the Erie Indemnity Company Deferred Compensation Plan For Outside Directors (the “Plan”); and

WHEREAS, Article Four of the Basic Plan Document of the Plan provides that the Board of Directors of the Company (the “Board”) may amend or terminate the Plan; and

WHEREAS, the Company desires to amend Article Four of the Basic Plan Document of the Plan to provide that the Executive Compensation and Development Committee of the Board may amend or terminate the Plan; and

WHEREAS, the Company’s Board of Directors approved the aforementioned amendment at its meeting on October 26, 2021 and reflected in the minutes thereto.

NOW, THEREFORE, the Company hereby amends Article Four of the Plan to replace the reference to “Board” with a reference to “Committee”, effective as of October 26, 2021.

IN WITNESS WHEREOF, the Company has caused this Third Amendment to be executed this 21st day of December 2021.

ERIE INDEMNITY COMPANY

ATTEST:

/s/ Brian W. Bolash

By: /s/ Gregory J. Gutting

Title: Executive Vice President & CFO

**POST-2021  
DEFERRED COMPENSATION PLAN OF THE  
ERIE INDEMNITY COMPANY**

Effective January 1, 2022

**POST-2021  
DEFERRED COMPENSATION PLAN OF THE  
ERIE INDEMNITY COMPANY**

**Effective January 1, 2022**

ARTICLE ONE

INTRODUCTION

This Post-2021 Deferred Compensation Plan of the Erie Indemnity Company (the "Plan") is an unfunded, non-qualified, deferred compensation arrangement created for a select group of management and highly compensated employees of Erie Indemnity Company (the "Company") and its affiliates. It is intended that the Plan will aid in retaining and attracting qualified executives by providing such executives with a vehicle for deferring certain compensation until retirement or other separation from service from the Company and for restoring on behalf of participating executives, certain contributions that would have been made under the tax-qualified 401(k) plan maintained by the Company, but for limitations applicable to such 401(k) plan.

The Plan is effective January 1, 2022.

ARTICLE TWO

DEFINITIONS

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

- 2.1. "Administrator" shall mean the person or committee, appointed by the Chief Executive Officer of the Company, who shall be responsible for the administrative functions assigned to it under the Plan.
- 2.2. "Affiliate" shall mean a corporation or partnership in which more than 50% of the equity is owned directly or indirectly by the Company.
- 2.3. "Amendment Election" shall mean the Amendment Election described in Section 5.6. An Amendment Election may be in paper and/or in such electronic means as designated by the Administrator or its delegate.
- 2.4. "Beneficiary" shall mean the individual(s), trust(s) or other entity(ies) permitted by the Administrator and selected by a Participant to receive payment of amounts credited under the Plan in the event of the Participant's death, as evidenced by the most recent, properly completed and executed, Beneficiary designation which the Participant has delivered to the Administrator or its delegate prior to the Participant's death. Any such Beneficiary designation shall apply in the event of the Participant's death before commencement of payments and to any payments to a Beneficiary after the Participant's death. Subject to Section 3.4(c), a Participant may change his Beneficiary at any time by delivering a new designation of Beneficiary to the Administrator in such manner as may be satisfactory to the Administrator. A new designation of Beneficiary shall be effective upon receipt by the Administrator of the completed and executed designation. As of

such effective date, the new designation shall divest any Beneficiary named in a prior designation in that interest indicated in the prior designation. Any marriage or divorce finalized after the date of a Beneficiary designation shall not serve to revoke any prior designation. If no effective Beneficiary designation is in effect on the death of the Participant, or if all designated Beneficiaries have predeceased the Participant, any payments to be made under the Plan on account of the Participant's death shall be paid to the estate of the Participant.

A Beneficiary of a deceased Participant may designate, in accordance with the foregoing procedures, a subsequent Beneficiary to receive payment of amounts remaining under the Plan in the event of the initial Beneficiary's death. If no effective Beneficiary designation is in effect on the death of the Beneficiary, or if all designated Beneficiaries have predeceased such Beneficiary, any payments to be made under the Plan on account of the Beneficiary's death shall be paid to the estate of the Beneficiary.

2.5. "Board" shall mean the Board of Directors of the Erie Indemnity Company.

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

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

2.8. "Company" shall mean the Erie Indemnity Company, a Pennsylvania business corporation.

2.9. "Compensation" shall mean for any period, the rate of base salary or the wages paid by the Company or an Affiliate to an Employee during the period. For this purpose, the "rate of base salary or the wages paid" shall exclude Form W-2 income in the form of overtime compensation, bonuses, commissions, deferred compensation plan payments or severance pay under any severance benefit plan and any other form of special or extraordinary compensation, but shall include Form W-2 income paid as a lump sum in lieu of merit increase and compensation excluded from Form W-2 income because of salary reduction agreements in connection with plans described in Sections 125, 132(f)(4) or 401(k) of the Code or resulting from deferred compensation contracts for the year in question.

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

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

2.12. "Election" shall mean the Participation election described in Section 3.2 and/or Section 3.3. An Election may be in paper and/or in such electronic means as designated by the Administrator or its delegate.

2.13. "Employee" shall mean a person engaged in performing services for the Company, or an Affiliate, as an exempt or non-exempt full-time employee, as defined by the Company's Corporate Personnel Manual, as in existence at the time of determination, and not as an independent contractor.

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

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

2.16. "Plan" shall mean the Post-2021 Deferred Compensation Plan of the Erie Indemnity Company as set forth in the provisions of this Plan document, and including any amendments, appendices and exhibits to this Plan document.

2.17. "Qualified Plan" shall mean the Erie Insurance Group Employee Savings Plan, a tax qualified plan under Section 401(a) of the Code, as said plan is amended from time to time.

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

- a) A Separation from Service shall not be considered to have occurred if the individual's employment relationship is treated by the Company or any Controlled Group Member as continuing while the individual is on military leave, sick leave, or other bona fide leave of absence (other than a leave of absence described in paragraph (b) below) if such period of leave does not exceed six months or, if longer, so long as the individual's right to reemployment is provided by statute or by contract. If the period of leave exceeds six months and such reemployment rights are not provided, the employment relationship is deemed to cease on the first date immediately following such six-month period.
- b) A Separation from Service shall also not be considered to have occurred if the individual's employment relationship is treated by the Company or any Controlled Group Member as continuing while the individual is on a leave of absence due to any medically determinable physical or mental impairment that can be expected to result in death or to last for a continuous period of not less than six months, where such impairment causes the individual to be unable to perform the duties of his position or any substantially similar position, provided that, for purposes of the Plan, the employment relationship shall be considered to continue no longer than 29 months or, if longer, so long as the individual's right to reemployment is provided by statute or by contract. If the period of leave exceeds 29 months and such reemployment rights are not provided, the employment relationship is deemed to cease on the first date immediately following such 29-month period.
- c) A Separation from Service shall also not be considered to have occurred, regardless of the level of services anticipated or provided by the individual as an employee or in the capacity other than an employee, if the individual continues to provide services to the Company or any Controlled Group Member at a rate that is fifty percent (50%) or more of the level of services rendered, on average, during the immediately preceding 36-month period (or the full period of such services, if less than 36 months).
- d) Otherwise, a Separation from Service is presumed to have occurred if the facts and circumstances indicate that (A) the Company or any Controlled Group Member and the individual reasonably anticipated that no further services would be performed after a

certain date or that the level of bona fide services the individual would perform after such date would permanently decrease to 20% or less of the average level of bona fide services over the immediately preceding 36-month period (or the full period of such services, if less than 36 months) or (B) the level of bona fide services the individual performs after a given date decreases to a level equal to 20% or less of the average level of bona fide services performed by the individual over the immediately preceding 36-month period (or the full period of such services, if less than 36 months).

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

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

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

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

2.23. "Vested" shall mean, as of any given date, the portion of the Deferred Compensation Account maintained on behalf of a Participant which is then 100% vested and nonforfeitable. All Deferred Compensation Accounts maintained under the Plan shall be 100% vested and nonforfeitable at all times.

## ARTICLE THREE

### PARTICIPATION

#### 3.1. ELIGIBILITY

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

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

#### 3.2. PARTICIPATION UNDER BONUS DEFERRAL PROVISIONS

An Employee who is eligible under the provisions of Section 3.1 to participate under the bonus deferral provisions of Section 4.2 may elect to participate under such deferral provisions by delivering a properly completed and executed Election to the Administrator or its delegate. This Election shall specify:

- a) The percentage of any bonus to be deferred as provided in Section 4.2 for the calendar year to which the Election applies;
- b) The Participant's investment designation in accordance with Section 4.6;
- c) The method by which the amounts deferred for the calendar year to which the election applies (included Hypothetical Earnings/Losses on such deferrals) are to be paid in accordance with a method of payment permitted under Section 5.1(c); and
- d) The Beneficiary to whom payment of all amounts credited to the Participant's Deferred Compensation Account under the Plan will be made in the event of the Participant's death (unless this Beneficiary has already been designated pursuant to Section 3.3 or otherwise).

The election under paragraph (a) above shall be irrevocable with respect to the calendar year to which it applies, except as provided in Section 4.1(c) or 4.1(d). The election under paragraph (b) above may be changed as provided in Section 4.6 and shall be subject to the provisions of Section 3.4. The election under paragraph (c) above shall be irrevocable except as provided in Section 5.6 and shall be subject to the provisions of Section 3.4. The election under paragraph (d) above may be made and may be changed as provided in Article Two and Section 5.6, subject to the provisions of Section 3.4.

#### 3.3. PARTICIPATION UNDER SUPPLEMENTAL 401(k) PROVISIONS

An Employee who is eligible under the provisions of Section 3.1 to participate under the deferral provisions of Section 4.3 may elect to participate under such deferral provisions by delivering a properly completed and executed Election to the Administrator or its delegate. This Election shall specify:

- a) The percentage of his future Compensation to be deferred as provided in Section 4.3 for the calendar year to which the Election applies;
- b) The Participant's investment designation in accordance with Section 4.6;
- c) The method by which amounts attributable to the following credits (including Hypothetical Earnings/Losses on such credits) are to be paid in accordance with a method of payment permitted under Section 5.1(c):
  - (i) Amounts the Participant defers for the calendar year to which the Election applies and which are attributable to the Participant's Supplemental Employee Contributions;
  - (ii) Amounts which are attributable to the Supplemental Company Contributions made on the Participant's behalf for the calendar year to which the Election applies; and
- d) The Beneficiary to whom payment of all amounts credited to the Participant's Deferred Compensation Account under the Plan will be made in the event of the Participant's death (unless this Beneficiary has already been designated pursuant to Section 3.2 or otherwise).

The election under paragraph (a) above shall be irrevocable with respect to the calendar year to which it applies, except as provided in Section 4.1(c) or 4.1(d). The election under paragraph (b) above may be changed as provided in Section 4.6 and shall be subject to the provisions of Section 3.4. The election under paragraph (c) shall be irrevocable except as provided in Section 5.6 and shall be subject to the provisions of Section 3.4. The election under paragraph (d) above may be made and may be changed as provided in Article Two and Section 5.6, subject to the provisions of Section 3.4.

#### 3.4. COORDINATION OF ELECTIONS

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

- a) A Participant's investment designation described in Sections 3.2(b) and 3.3(b);
- b) A Participant's method of payment election described in Sections 3.2(c) and 3.3(c);
- c) A Participant's Beneficiary designation described in Sections 3.2(d) and 3.3(d).

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

### 3.5. EFFECTIVE DATE FOR PARTICIPATION

- a) Except as provided under paragraph (b) below, the effective date for participation in the Plan by an Employee who is eligible to participate under Section 3.1 shall be the first day of the calendar year that immediately follows the calendar year in which the Administrator or its delegate receives the Employee's properly completed and executed Election. For any given year, the effective date for the deferral of any Participant bonus under Section 4.2 shall be the date such bonus would otherwise be payable to the Participant and the effective date for the deferral of a Participant's Compensation under Section 4.3 shall be the last day of the first pay period that ends in the calendar year that immediately follows the calendar year in which the Administrator or its delegate receives the Employee's properly completed and executed Election.
- b) The effective date for participation in the Plan by a newly hired Employee or a newly promoted Employee who is eligible to participate under Section 3.1 shall be the date that the Employee begins active employment with the Company or an Affiliate or the date on which the Employee's promotion is effective, provided the Administrator or its delegate has received the Employee's Election prior to such date. Notwithstanding the preceding sentence, a newly hired Employee or newly promoted Employee who is eligible to participate under Section 3.1 may elect to participate under the provisions of Sections 3.2 and/or 3.3 by delivering a properly completed and executed Election to the Administrator or its delegate within 30 days of the Employee's date of hire or, if applicable, effective date of promotion. In the event such an Employee completes such action, the Employee's Elections under Sections 3.2 Section 3.3 shall apply only with respect to that portion of a bonus and/or that Compensation that is attributable to the Employee's services performed after the Election has been delivered to the Administrator and the effective date for participation of such Employee shall be the date as of which the Administrator determines such Election to be effective.

### 3.6. CESSATION OF ELIGIBILITY

If during a calendar year a Participant ceases to satisfy the criteria that qualified him for Plan participation, as determined by the Committee, (including, for this purpose, the requirement that a Participant be classified within a select group of management or highly compensated employees), the Participant's deferrals under the provisions of Sections 4.2 and/or 4.3 shall continue for the remainder of such calendar year and shall thereafter cease until such time as the Committee determines the individual again satisfies the criteria for Plan participation. Such individual shall remain a Participant, however, until the amounts represented by the Vested Deferred Compensation Account maintained on his behalf under the Plan are distributed.

## ARTICLE FOUR

### COMPENSATION DEFERRED

#### 4.1. DEFERRED COMPENSATION ELECTION

- a) Initial Deferral Election. An Employee who is eligible to participate in the Plan under the provisions of Section 3.1 may elect to defer an annual bonus and/or Compensation for a given calendar year by delivering a properly completed and executed Election to the Administrator or its delegate as provided in Sections 3.2, 3.3, or 3.5. Except as provided in Section 3.5(b), a properly completed and executed Election shall be considered to be

delivered on a timely basis if it is provided to the Administrator or its delegate by the last day of the last full pay period ending in the calendar year which immediately precedes the calendar year for which the deferral election is effective and the annual bonus and/or Compensation is to be earned and except as provided in paragraphs (c) or (d) below, any such deferral election shall be irrevocable as of the last day of the last full pay period ending in the calendar year that immediately precedes the calendar year to which the election applies. Such deferral election shall automatically terminate as to any annual bonus or Compensation attributable to services after such calendar year.

- b) Subsequent Deferral Elections. With respect to any calendar years beginning after the year an Employee first becomes eligible to participate under Section 3.1, the Employee may elect to defer an annual bonus and/or Compensation attributable to services performed in such year by delivering a properly completed and executed Election to the Administrator or its delegate by the last day of the last full pay period ending in the calendar year which immediately precedes the calendar year for which the deferral election is to be effective and the annual bonus and/or Compensation is to be earned. Except as provided in paragraphs (c) or (d) below, any such deferral election shall be irrevocable as of the last day of the last full pay period ending in the calendar year that immediately precedes the calendar year to which the election applies. Such deferral election shall automatically terminate as to any annual bonus or Compensation attributable to services after such calendar year.
- c) If a Participant makes a withdrawal due to an unforeseeable emergency under Section 5.6 all remaining deferrals of annual bonus and/or Compensation under the Plan for the calendar year in which such a withdrawal is made shall be cancelled. Such Participant shall not be permitted to make any further deferral of Compensation until the Participant satisfies the procedures set forth in paragraph (b) above.
- d) Participant deferrals of annual bonus and/or Compensation under the Plan shall be cancelled in such events or conditions as the Commissioner of Internal Revenue may prescribe in generally applicable guidance published in the Internal Revenue Bulletin which the Administrator, in its discretion, chooses to apply under the Plan; provided, however, that a Participant shall have no direct or indirect election to the application of such events or conditions to his individual circumstances.

#### 4.2. AMOUNT OF BONUS DEFERRAL

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

#### 4.3. AMOUNT OF SUPPLEMENTAL 401.(k) CONTRIBUTIONS

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

designated by the Administrator. The election under this paragraph (a) shall be independent of and unaffected by any deferral election under the Qualified Plan.

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

#### 4.4. DEFERRED COMPENSATION ACCOUNT

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

#### 4.5. HYPOTHETICAL EARNINGS/LOSSES

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

#### 4.6. PARTICIPANT INVESTMENT DESIGNATION

- a) A Participant (and any eligible Employee first electing to participate in the Plan) may designate, within such time and in accordance with such means as are designated by the

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

- b) In accepting participation in the Plan, a Participant agrees on behalf of himself and his Beneficiary to assume all risk in connection with any decrease in value of the hypothetical investment funds in reference to which Hypothetical Earnings/Losses are credited to the Participant's Deferred Compensation Account. In like manner, in accepting an interest in a deceased Participant's Deferred Compensation Account under the Plan, a Beneficiary agrees on behalf of himself and any subsequent Beneficiary to assume all risk in connection with any decrease in value of the hypothetical investment funds in reference to which Hypothetical Earnings/Losses are credited to the Deferred Compensation Account being maintained on behalf of the Beneficiary. The Company, the Affiliates and the Administrator shall not be liable to any Participant or Beneficiary for the under-performance of any hypothetical investment fund offered under the Plan.
- c) The Administrator may, in its discretion, offer additional hypothetical investment funds to Participants and Beneficiaries and may cease to offer any such fund at such time as it deems appropriate. In the event the Administrator decides to discontinue offering a hypothetical investment fund under the Plan, those Participants or Beneficiaries on whose behalf Hypothetical Earnings/Losses are then being credited on the basis of the discontinued hypothetical investment fund may be required, at the discretion of the Administrator, to have affected amounts consolidated with (or "mapped" to) a replacement hypothetical investment fund selected by the Administrator or may be required to designate, from such selection of hypothetical funds as may be offered by the Administrator, a hypothetical fund or funds as a replacement for the hypothetical investment fund being discontinued. Any such designation by a Participant or Beneficiary shall be made in accordance with paragraph (a) above. Hypothetical Earnings/Losses credited on behalf of any Participant or Beneficiary who is affected by the discontinuation of a hypothetical investment fund but who fails to make any replacement designation offered in this paragraph (c) shall mirror, to the extent of the Participant's or Beneficiary's interest in such discontinued fund, such hypothetical investment fund or funds as the Administrator may choose in its discretion. Any changes under this paragraph (c) shall take effect as of such times and under such rules as shall be established by the Administrator.
- d) Notwithstanding any provision of the Plan to the contrary, the eligibility of a Participant or Beneficiary to make any designation under this Section 4.6 shall not be construed as to

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

## ARTICLE FIVE

### PAYMENT OF DEFERRED COMPENSATION

#### 5.1. PAYMENTS TO PARTICIPANTS

- a) Except as otherwise provided in this Article Five, payment of the amounts represented by all or a portion of a Participant's Vested Deferred Compensation Account shall be made at the time provided under paragraph (b) and according to a method permitted under paragraph (c) elected by the Participant in his Election or, if applicable, in the most recent, properly completed and effective Amendment Election which the Participant has delivered to the Administrator or its delegate prior to the Participant's Separation from Service. Except as otherwise provided in this Article Five, if a Participant has not delivered to the Administrator or its delegate a properly completed and effective Election or, if for any reason the Administrator determines that any Election or Amendment Election is materially deficient, payment of the amounts represented by that portion of the Vested Deferred Compensation Account for which the Election or Amendment Election is undelivered or materially deficient shall be made in the form of approximately equal annual installments for a period of five (5) years. For all purposes of the Plan and effective until such time as the Participant delivers to the Administrator or its delegate a properly completed and effective Election or Amendment Election that includes a method of payment election, such default method of payment shall be treated as the Participant's elected method of payment with respect to any given portion of a Deferred Compensation Account to which the default applies.
- b) The first installment payment shall be made in January of the second calendar year following the calendar year in which occurs the Participant's Separation from Service, and subsequent installment payments shall be made in January of the next four or nine, as applicable, succeeding calendar years, depending on the Participant's elected method of payment. Installment payments shall be treated as a single payment under Section 409A of the Code and all payments shall be made in cash.
- c) A Participant may elect any one of the following methods of payment with respect to the Participant's bonus deferral in accordance with Section 4.2 and Compensation deferral (including Supplemental Company Contributions) under Section 4.3. In accordance with the coordination of elections under Section 3.4, such elected method of payment shall

apply to all such amounts deferred for the calendar year to which the election applies (including Hypothetical Earnings/Losses on such deferrals):

- (i) Payment in approximately equal annual installments for a period of five (5) years; or
- (ii) Payment in approximately equal annual installments for a period of ten (10) years.

A Participant's method of payment election will apply to all credits made on his behalf under the Plan following the effective date of such election and until the Participant changes such method of payment election as otherwise provided herein.

- d) Except as otherwise provided in this Article Five, no distribution to a Participant shall commence before or after the distribution dates provided in paragraph (b). For purposes of this Section 5.1, if the Company makes an installment payment within the permitted distribution period (as defined below) for a given installment payment under paragraph (c) and the actual date of such payment is not within the direct or indirect control of the Participant, such installment payment shall be treated as having been made on the payment date provided in paragraph (b). The "permitted distribution period" for this purpose shall begin on the thirtieth day before the payment date under paragraph (b) and shall end on the last day of the calendar year that includes the payment date under paragraph (b).
- e) In the event the Participant dies before receiving the entire distribution to which he is entitled under the Plan, the provisions of Section 5.7 shall apply.

## 5.2. ACCELERATION OF PAYMENTS

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

- a) The Participant needs to avoid a violation of an applicable federal, state, local, or foreign ethics law or conflicts of interest law.
- b) The Participant incurs state, local, or foreign tax obligations arising from participation in the Plan that apply to a Plan interest before such interest is otherwise payable from the Plan.
- c) The Participant incurs federal employment tax obligations under Sections 3101, 3121(a), or 3121(v)(2) of the Code with respect to a Vested Deferred Compensation Account and any federal, state, local, or foreign tax obligations arising from such employment tax obligations.
- d) The Plan is terminated and liquidated in accordance with generally applicable guidance prescribed by the Commissioner of Internal Revenue and published in the Internal Revenue Bulletin.
- e) Such other events or conditions as the Commissioner of Internal Revenue may prescribe in generally applicable guidance published in the Internal Revenue Bulletin which the Administrator, in its discretion, chooses to apply under the Plan; provided, however, that a Participant shall have no direct or indirect election as to the application of such events or conditions to his individual circumstances.

Any payment under this Section 5.2 shall be contingent upon the Administrator's decision that a Participant has satisfied all material elements of an applicable event or condition and that the Participant produces evidence to that effect that is satisfactory to the Administrator. If any payment under this Section 5.2 is made and such payment is less than an amount that represents the entire Vested Deferred Compensation Account maintained on the Participant's behalf, the amount of such payment shall offset any future payment from the Plan to the Participant or any Beneficiary or other person who claims through the Participant.

### 5.3. DELAY OF PAYMENTS

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

- a) The Administrator reasonably anticipates that making scheduled Plan payments will violate federal securities laws or other applicable law; provided that the scheduled payments are then made at the earliest date at which the Administrator reasonably contemplates that making the scheduled payments will not cause such a violation.
- b) Such other events or conditions as the Commissioner of Internal Revenue may prescribe in generally applicable guidance published in the Internal Revenue Bulletin which the Administrator, in its discretion, chooses to apply under the Plan; provided, however, that a Participant shall have no direct or indirect election as to the application of such events or conditions to his individual circumstances.

### 5.4. DELAY OF PAYMENTS TO SPECIFIED EMPLOYEES

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

### 5.5. EMERGENCY CIRCUMSTANCES

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

For purposes of this Section 5.5, a "severe financial hardship" shall mean a financial hardship resulting from (i) an illness or accident of the Participant, the Participant's spouse, beneficiary or dependent, (ii) the Participant's loss of property due to casualty, or (iii) any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant; provided, however, that such financial hardship is not or may not be relieved through

reimbursement or compensation from insurance or otherwise, by cessation of deferrals of Compensation in future years, or by liquidation of the Participant's assets to the extent such liquidation would not cause severe financial hardship.

#### 5.6. AMENDMENT TO PAYMENT METHOD OR BENEFICIARY ELECTION

- a) In accordance with procedures adopted by the Administrator, in its discretion, a Participant who is an Employee and who has not incurred a Separation from Service may elect a change in his elected method of payment to a method of payment permitted under Section 5.1(c) (or to the default method of payment under Section 5.1(a)) by submitting a properly completed and executed Amendment Election to the Administrator which indicates the desired method of payment; provided that:
  - (i) Such election shall not be effective until 12 months after it is submitted to the Administrator;
  - (ii) Such election shall require that the commencement of payment with respect to which the election is made shall be delayed for a period of not less than five years from the date payment would have commenced absent the elected change; and
  - (iii) A Participant may elect a maximum of one change in his elected method of payment under this Section 5.6 with respect to that portion of the Deferred Compensation Account that is the subject of the Amendment Election.
- b) A Participant may at any time elect to change his Beneficiary in accordance with Article Two, subject to the provisions of Section 3.4.

#### 5.7. PAYMENT UPON DEATH OF PARTICIPANT

- a) In the event of a Participant's death before payment commences under this Article Five, the amount represented by the Participant's Vested Deferred Compensation Account shall be paid by the Company to the Participant's Beneficiary in the same form and at the same time as payments were to be made to the Participant under the Participant's Election or Amended Election. The first installment payment shall be made in January of the second calendar year following the calendar year in which occurs the Participant's Separation from Service, and subsequent installment payments shall be made in January of the next four or nine, as applicable, succeeding calendar years, depending on the Participant's elected method of payment. All payments shall be made in cash. Following the death of a Participant, the Participant's Beneficiary may make investment designations as provided under Section 4.6, subject to such rules and limitations as the Administrator may adopt, in its discretion.
- b) In the event of a Participant's death after payment commences under this Article Five, the amount represented by the remaining balance of the Participant's Vested Deferred Compensation Account shall be paid by the Company to the Participant's Beneficiary in the same form and at the same time as payments were being made to the Participant under Section 5.1. All payments shall be made in cash. Following the death of a Participant, the Participant's Beneficiary may make investment designations as provided under Section 4.6, subject to such rules and limitations as the Administrator may adopt, in its discretion.
- c) The provisions of Sections 5.2 and 5.3 shall apply with respect to a Vested Deferred Compensation Account being maintained on behalf of a Beneficiary, substituting "Beneficiary" for "Participant", as appropriate.

Except as provided in Sections 5.2 or 5.3, no payment to a Beneficiary under this Section 5.7 shall be made before or after such identified payment date. For purposes of this Section 5.7, if the Company makes an installment payment within the permitted distribution period (as defined below) for a given installment payment and the actual date of such payment is not within the direct or indirect control of the Beneficiary, such installment payment shall be treated as having been made on the payment date provided in this Section 5.7. The "permitted distribution period" for this purpose shall begin on the thirtieth day before the payment date under paragraphs (a) or (b) and shall end on the last day of the calendar year that includes the payment date under paragraphs (a) or (b).

#### 5.8. REHIRED PARTICIPANT

If a Participant incurs a Separation from Service and payment of the amounts represented by the Participant's Vested Deferred Compensation Account have begun under this Article Five, such installment payments shall not be suspended if the Participant is subsequently reemployed by the Company or an Affiliate. A reemployed Participant or reemployed former Participant may again participate in the Plan in accordance with Article Three and, in the event such individual is eligible to participate immediately upon reemployment or within the calendar year of reemployment, the provisions of Treas. Reg. Section 1.409A-2(a)(7)(ii) shall apply for purposes of determining such individual's earliest date of participation under Section 3.5.

### ARTICLE SIX ADMINISTRATION

#### 6.1. GENERAL ADMINISTRATION

The Administrator shall be charged with the administration of the Plan. The Administrator shall have all such powers as may be necessary to discharge its duties relative to the administration of the Plan, including by way of illustration and not limitation, discretionary authority to interpret and construe the Plan, to determine and decide all questions of fact, and all disputes arising under the Plan including, but not limited to, the eligibility of any Employee to participate hereunder, the validity of any election or designation as may be necessary or appropriate hereunder and the right of any Participant or Beneficiary to receive payment of all or any portion of amounts represented by a Deferred Compensation Account, maintained hereunder. The Administrator shall have all power necessary to adopt, alter and repeal such administrative rules, regulations and practices governing the operation of the Plan as it, in its sole discretion, may from time to time deem advisable and shall have the power to make equitable adjustments to remedy any mistakes or errors made in the administration of the Plan. The Administrator shall not be liable to any person for any action taken or omitted in connection with the interpretation and administration of the Plan unless attributable to willful misconduct. The Administrator, the Company and its respective officers and directors shall be entitled to conclusively rely upon all tables, valuations, certificates, opinions, and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the Plan, insofar as such reliance is consistent with the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and other applicable law. The service providers to the Plan 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. Any individual serving as Administrator shall not participate in any action or determination regarding solely his own benefits payable hereunder. Decisions of the Administrator made in good faith shall be final, conclusive and binding upon all parties. Until modified by the Administrator, the claims and review procedures set forth in Section 6.2 shall be the exclusive procedures for the disposition of claims for benefits arising under the Plan.

## 6.2. CLAIMS PROCEDURE

The Administrator shall be responsible for the claims procedure under the Plan.

- a) Original Claim. In the event a claim of any Participant, Beneficiary, 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.
- 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 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 is Conclusive. The Administrator's determination of factual matter relating to Participants, Beneficiaries and other persons including,

without limitation, a Participant's compensation, the amount of any contribution credit and any other factual matters, shall be conclusive.

### 6.3. 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.

### 6.4. 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) Six months after the claimant has exhausted the claims review procedure.

### 6.5. FICA AND OTHER TAXES

For each year in which credits are made under the Plan for or on behalf of a Participant who is employed in such year, the Company or Affiliate employing the Participant shall withhold from that portion of the Participant's compensation that is not being deferred, in a manner determined by the Administrator, the Participant's share of FICA and other employment taxes. If the Administrator determines it to be necessary or appropriate, the Administrator may reduce any deferral of a Participant under the Plan in order to comply with this Section 6.5.

The Company, in its discretion, may provide procedures for withholding any federal, state and/or local income tax that may become payable as a result of a Participant or Beneficiary having an interest in the Plan.

## ARTICLE SEVEN AMENDMENT AND TERMINATION

The Company expects to continue the Plan indefinitely, but reserves the right to amend or terminate the Plan at any time, if, in its sole judgment, such amendment or termination is necessary or desirable. Any such amendment or termination shall be made pursuant to a resolution of the Committee and shall be effective as of the date specified in such resolution. Without consent of the

Participant, no amendment or termination of the Plan shall reduce the balance of a Participant's Deferred Compensation Account at the time of amendment or termination. Except as may otherwise be provided by the Company, in the event of a termination of the Plan, the Company (or any transferee, or successor entity of the Company) shall be obligated to pay amounts represented by Vested Deferred Compensation Account balances to Participants and Beneficiaries at such time or times and in such forms as provided under the terms of the Plan. Nothing herein shall limit the Company's reserved right to terminate and liquidate the Plan in accordance with generally applicable guidance prescribed by the Commissioner of Internal Revenue and published in the Internal Revenue Bulletin.

## ARTICLE EIGHT

### GENERAL PROVISIONS

#### 8.1. NO EFFECT ON EMPLOYMENT RIGHTS

Nothing contained herein shall be construed as creating any contract of employment between the Company or any Affiliate and any Participant nor shall any provision hereof confer upon any Participant the right to be retained in the service of the Company or any Affiliate nor limit the right of the Company or any Affiliate to discharge or otherwise deal with Participants without regard to the existence of the Plan.

#### 8.2. GENERAL CONTRACTUAL OBLIGATION

It is the intent of this Plan, and each Participant understands, that no trust has been created for his or her benefit in connection with this Plan and that eligibility and participation in this Plan does not grant any Participant or Beneficiary any interest in any asset of the Company or any Affiliate. The Company's obligation to pay to the Participant or Beneficiary the amounts credited hereunder is a general contract obligation and shall be satisfied solely from the general assets of the Company. Nothing contained in the Plan shall constitute a guaranty by the Company, any Affiliate, or any other entity or person that the assets of the Company will be sufficient to pay amounts determined in accordance with the Plan. The obligation of the Company under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay amounts in the future. In each case in which amounts represented by the balances credited to a Participant's Vested Deferred Compensation Account have been distributed to the Participant, Beneficiary, or other person entitled to receipt thereof and which purports to cover in full the benefits hereunder, such Participant, Beneficiary or other person shall have no further right or interest in the other assets of the Company on account of participation in the Plan. Notwithstanding a Participant's entitlement to Vested amounts under the terms of the Plan, the status of the Participant, or any person claiming by or through the Participant, is that of an unsecured general creditor to the extent of his entire interest under the Plan as herein described.

#### 8.3. BINDING ON COMPANY, PARTICIPANTS AND THEIR SUCCESSORS

The Plan shall be binding upon and inure to the benefit of the Company and Affiliates, their successors and assigns and Participants and their heirs, executors, administrators and legal representatives. In the event of the merger or consolidation of the Company with or into any other corporation, or in the event substantially all of the assets of the Company shall be transferred to another corporation, the successor corporation resulting from the merger or consolidation, or the transferee of such assets, as the case may be, shall, as a condition to the consummation of the merger,

consolidation or transfer, assume the obligations of the Company hereunder and shall be substituted for the Company hereunder.

#### 8.4. SPENDTHRIFT PROVISIONS

The interest of a Participant or Beneficiary under the Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, either voluntarily or involuntarily, prior to the Participant's or Beneficiary's actual receipt of amounts represented by the balances credited under the Plan on his behalf; any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any such interest prior to such receipt shall be void. Amounts credited hereunder and not paid to a Participant or Beneficiary shall not be subject to garnishment, attachment or other legal or equitable process nor shall they be an asset in bankruptcy. Notwithstanding the preceding sentence, no amount shall be payable from this Plan to a Participant, or any person claiming by or through a Participant, unless and until any and all amounts representing debts or other obligations owed to the Company or any Affiliate by the Participant have been fully paid and satisfied; provided, however, that any such offset, as applicable to a person's Plan interest, shall not exceed such offset as is permitted under Section 409A of the Code. Neither the Company nor any Affiliate shall be liable in any manner for or subject to the debts, contracts, liabilities, torts or engagements of any person who has a Deferred Compensation Account maintained on his behalf under the Plan.

#### 8.5. NO SPOUSAL RIGHTS

Except as required by law or specifically provided by the Plan, no spouse or surviving spouse of a Participant and no person designated to be a Beneficiary shall have any rights or interest in the accounts accumulated under the Plan including, but not limited to, the right to be the sole Beneficiary or to consent to the Participant's designation of Beneficiary.

#### 8.6. DISCLOSURE

Each Participant, upon his written request, shall receive a copy of the Plan and the Administrator will make available for inspection by any Participant a copy of any written rules and regulations used by the Administrator in administering the Plan.

#### 8.7. INCAPACITY OF RECIPIENT

In the event a Participant or Beneficiary is declared incompetent and a guardian, conservator or other person legally charged with the care of his person or of his estate is appointed, any Vested Deferred Compensation Account under the Plan to which such Participant, or Beneficiary is entitled shall be paid to such guardian, conservator or other person legally charged with the care of his person or his estate. Except as provided in the preceding sentence, when the Administrator, in its sole discretion, determines that a Participant or Beneficiary is unable to manage his financial affairs, the Administrator may direct the Company to make distribution(s) from the Vested Deferred Compensation Account maintained on behalf of such Participant or Beneficiary to any one or more of the spouse, lineal ascendants or descendants or other closest living relatives of such Participant or Beneficiary who demonstrates to the satisfaction of the Administrator the propriety of making such distribution(s). Any payment so made shall not exceed such amount as is permitted under Section 409A of the Code and shall be in complete discharge of any liability of the Company and Administrator under the Plan for such payment. The Administrator shall not be required to see to the application of any such distribution made as provided above.

#### 8.8 INFORMATION FURNISHED BY PARTICIPANTS AND BENEFICIARIES

Neither the Company nor the Administrator shall be liable or responsible for any error in the computation of a Participant's or Beneficiary's interest under the Plan resulting from any misstatement of fact made by the Participant or Beneficiary, directly or indirectly, to the Company or to the Administrator and used by it in determining the Participant's or Beneficiary's Plan interest. Neither the Company nor the Administrator shall be obligated or required to increase the Plan interest of any such Participant or Beneficiary which, on discovery of the misstatement, is found to be understated as a result of such misstatement. However, the Plan interest of any Participant or Beneficiary which is overstated by reason of any such misstatement shall be reduced to the amount appropriate in view of accurate facts.

#### 8.9. OVERPAYMENTS

If a payment or a series of payments made from the Plan is found to be greater than the payment(s) to which a Participant or Beneficiary is entitled due to factual errors, mathematical errors or otherwise, the Administrator may, in its discretion and to the extent consistent with Section 409A of the Code, suspend or reduce future payments to such Participant or Beneficiary or exercise such legal or equitable remedies as it deems appropriate to correct the overpayment.

#### 8.10. UNCLAIMED BENEFIT

In the event that any amount determined to be payable to a Participant or Beneficiary hereunder remains unclaimed by such Participant or Beneficiary for a period of four years after the whereabouts or existence of such person was last known to the Administrator, the Administrator may direct that all rights of such person to such amounts be terminated absolutely; provided, however, that if such Participant or Beneficiary subsequently appears and files a claim for payment in accordance with Article Six and such claim is fully or partially successful, the liability under the Plan for an amount equal to the successful claim shall be reinstated.

#### 8.11. ELECTIONS. APPLICATIONS. NOTICES

Every designation, direction, election, revocation or notice authorized or required under the Plan which is to be delivered to the Company or the Administrator shall be deemed delivered to the Company or the Administrator as the case may be: (a) on the date it is personally delivered to the Administrator (either physically at the Company's executive offices at 100 Erie Insurance Place, Erie, Pennsylvania 16530 or at such other location designated by the Administrator or through interactive electronic communication) or (b) three business days after it is sent by registered or certified mail, postage prepaid, addressed to the Administrator at the offices indicated above. Every such item which is to be delivered to a person or entity designated by the Administrator to perform recordkeeping and other administrative services on behalf of the Plan shall be deemed delivered to such person or entity when it is actually received (either physically or through interactive electronic communication) by such person or entity. Every designation, direction, election, revocation or notice authorized or required which is to be delivered to a Participant or Beneficiary shall be deemed delivered to a Participant or Beneficiary: (a) on the date it is personally delivered to such individual (either physically or through interactive electronic communication), or (b) three business days after it is sent by registered or certified mail, postage prepaid, addressed to such individual at the last address shown for him on the Company's records. Any notice required under the Plan may be waived by the person entitled thereto.

#### 8.12. COUNTERPARTS

This Plan may be executed in any number of counterparts, each of which shall be considered as an original, and no other counterparts need be produced.

#### 8.13. SEVERABILITY

In the event any provision of this Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan. This Plan shall be construed and enforced as if such illegal or invalid provision had never been contained herein.

#### 8.14. GOVERNING LAW

The Plan is established under and will be construed according to the laws of the Commonwealth of Pennsylvania to the extent that such laws are not preempted by the ERISA, and regulations promulgated thereunder.

The Plan is intended to comply with the provisions of Section 409A of the Code. As a result, the Administrator shall interpret and construe the terms of this Plan document so as to be consistent with Section 409A of the Code. Notwithstanding the foregoing, the Company makes no representation that the Plan complies with Section 409A of the Code, and in no event will the Company, any Controlled Group Member or the Administrator be liable for any tax, penalties or interest imposed on a Participant or Beneficiary as a result of a violation of Section 409A of the Code.

#### 8.15. HEADINGS

The headings of Sections of this Plan are for convenience of reference only and shall have no substantive effect on the provisions of this Plan.

#### 8.16. CONSTRUCTION

The masculine gender, where appearing in this Plan, shall be deemed to also include the feminine gender. The singular shall also include the plural, where appropriate. Any words or phrases used herein with initial capital letters that are not otherwise defined in this Plan document shall have the meanings assigned to them in the Qualified Plan, as in effect as of the date the relevant determination is being made under the Plan, unless a different meaning is required by the context. Such incorporation of Qualified Plan words and phrases shall not apply with respect to any term or provision that is expressly addressed in the Plan.

\*\*\*\*\*

Executed at Erie, Pennsylvania this 9th day of December, 2021, effective January 1, 2022.

ERIE INDEMNITY COMPANY

By: /s/ Brian W. Bolash  
Title: SVP, SECRETARY &  
GENERAL COUNSEL

ATTEST:

/s/ James G.  
Nealon

**SECOND AMENDMENT TO  
ERIE INDEMNITY COMPANY  
DEFERRED STOCK PLAN  
FOR OUTSIDE DIRECTORS**

Effective as of July 29, 2015

WHEREAS, Erie Indemnity Company (the “Company”) maintains the Erie Indemnity Company Deferred Stock Plan For Outside Directors (the “Plan”); and

WHEREAS, Article Four of the Basic Plan Document of the Plan provides that the Board of Directors of the Company (the “Board”) may amend or terminate the Plan; and

WHEREAS, the Company desires to amend Article Four of the Basic Plan Document of the Plan to provide that the Executive Compensation and Development Committee of the Board may amend or terminate the Plan; and

WHEREAS, the Company’s Board of Directors approved the aforementioned amendment at its meeting on October 26, 2021 and reflected in the minutes thereto.

NOW, THEREFORE, the Company hereby amends Article Four of the Plan to replace the reference to “Board” with a reference to “Committee”, effective as of October 26, 2021.

IN WITNESS WHEREOF, the Company has caused this Third Amendment to be executed this 21st day of December 2021.

ERIE INDEMNITY COMPANY

ATTEST:

/s/ Brian W.

Bolash

By: /s/ Gregory J. Gutting

Title: Executive Vice President & CFO

## THIRD AMENDMENT TO

SUPPLEMENTAL RETIREMENT PLAN FOR CERTAIN MEMBERS OF THE  
ERIE INSURANCE GROUP RETIREMENT PLAN FOR EMPLOYEES

(Amended and Restated as of January 1, 2009)

WHEREAS, Erie Indemnity Company (the “Company”) maintains the Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (the “Plan”); and

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

WHEREAS, the Company wishes to amend the Plan to provide for a new form of payment applicable to Plan benefits accruing on and after January 1, 2022.

NOW, THEREFORE, the Company hereby amends the Plan as follows, effective January 1, 2022:

1. Paragraph (d) of Section 1.2 of the Plan is deleted in its entirety and the following is inserted in lieu thereof:

- (d) “Beneficiary” shall mean the individual(s), trust(s) or other entity(ies) permitted by the Administrator and selected by a Participant to receive payment of amounts credited under the Plan in the event of the Participant’s death, as evidenced by the most recent, properly completed and executed, Beneficiary designation which the Participant has delivered to the Administrator prior to the Participant’s death. Any such Beneficiary designation shall apply in the event of the Participant’s death before commencement of payments and to any payments to a Beneficiary after the Participant’s death. A Participant may change his Beneficiary at any time by delivering a new designation of Beneficiary to the Administrator in such manner as may be satisfactory to the Administrator. A new designation of Beneficiary shall be effective upon receipt by the Administrator of the completed and executed designation. As of such effective date, the new designation shall divest any Beneficiary named in a prior designation in that interest indicated in the prior designation. Any marriage or divorce finalized after the date of a Beneficiary designation shall not serve to revoke the prior designation. If no effective Beneficiary designation is in effect on the death of the Participant, or if all designated Beneficiaries have predeceased the Participant, any payments to be made under the Plan on account of the Participant’s death shall be paid to the estate of the Participant.

A Beneficiary of a Participant who has died may designate, in accordance with the foregoing procedures, a Beneficiary to receive payment of amounts remaining under the Plan.

2. Paragraph (u) of Section 1.2 of the Plan is deleted in its entirety and the following is inserted in lieu thereof:

- (u) “Supplemental Plan Benefit” shall mean, to the extent applicable to any given Participant, the Restoration Benefit or the Supplemental Retirement Income Benefit and, as applicable to any given Participant, shall include the Participant’s Pre-2022 Supplemental Plan Benefit and Post-2021 Supplemental Plan Benefit.

3. Two new paragraphs shall be added to Section 1.2 of the Plan and such new paragraphs shall read as follows:

- (x) “Post-2021 Supplemental Plan Benefit” shall mean the Supplemental Plan Benefit, if any, earned by a Participant under Section 4 on and after January 1, 2022.

- (y) “Pre-2022 Supplemental Plan Benefit” shall mean the Supplemental Plan Benefit, if any, earned by a Participant under Section 4 as of the earlier of December 31, 2021 and the date the Participant incurred a Separation from Service.

4. Section 5 of the Plan is deleted in its entirety and the following is inserted in lieu thereof:

**SECTION 5 - COMMENCEMENT AND FORM OF  
SUPPLEMENTAL PLAN BENEFITS TO PARTICIPANT**

5.1 Except as specifically provided herein or in an individual agreement between the Company and a Participant, payment of any Pre-2022 Supplemental Plan Benefit to a Participant shall be determined under Section 5.2 and payment of any Post-2021 Supplemental Plan Benefit to a Participant shall be determined under Section 5.3.

5.2 Payment of any Pre-2022 Supplemental Plan Benefit to a Participant hereunder shall:

(a) Commence as of the later of:

- (i) The first day of the first month that follows the date that is six months after the Participant’s Separation from Service; and
- (ii) The first day of the month next following the Participant’s attainment of the Earliest Retirement Date; and

(b) Be made in the form of a cash lump sum in the amount determined as follows:

(i) With respect to a Participant to whom a Supplemental Plan Benefit is payable in accordance with Section 5.2(a)(i), the lump sum distribution shall be equal to the sum of (A) and (B) where:

(A) Equals the lump sum Actuarial Equivalent of the Participant’s Pre-2022 Supplemental Plan Benefit, determined as the greater of the annuity payable as of the first day of the month that next follows the Participant’s Separation from Service or the annuity payable as of the Participant’s Normal Retirement Date; and

(B) Interest on the amount determined under clause (A) above, calculated from the first day of the month that follows the Participant’s Separation from Service through the date described in Section 5.2(a)(i), based on the interest rate applicable for lump sum determinations as of the date the Participant incurred a Separation from Service.

(ii) With respect to a Participant to whom a Supplemental Plan Benefit is payable in accordance with Section 5.2(a)(ii), the lump sum distribution shall be the lump sum Actuarial Equivalent of the Participant’s Pre-2022 Supplemental Plan Benefit, determined at the time of payment as the greater of the annuity payable as of the Participant’s Earliest Retirement Date or the annuity payable as of the Participant’s Normal Retirement Date. No interest adjustment shall be made to such lump sum amount.

5.3 Payment of any Post-2021 Supplemental Plan Benefit to a Participant hereunder shall commence as of the applicable date provided in paragraph (a) below and shall be paid as provided in paragraph (b) below:

- (a) The Post-2021 Supplemental Plan Benefit payable to a Participant shall commence:
  - (i) In the January of the second calendar year following the calendar year in which the Participant's Separation from Service occurs, for a Participant who had attained the Earliest Retirement Date before incurring a Separation from Service; and
  - (ii) On the Participant's Normal Retirement Date, for a Participant who had not attained the Earliest Retirement Date before incurring a Separation from Service.
- (b) The Post-2021 Supplemental Plan Benefit shall be paid in the form of ten (10) annual installments. Annual installments shall be equal to the Actuarial Equivalent of the Participant's Post-2021 Supplemental Plan Benefit, determined as of the applicable commencement date under paragraph (a) above, and payments shall continue on each anniversary thereof until ten (10) installment payments have been made. For purposes of this Section 5.3(b), installment payments shall be treated as a single form of payment.

5.4 Except as otherwise provided in this Section 5, no payment of a Supplemental Plan Benefit to a Participant shall commence before or after the applicable commencement dates provided in Sections 5.2(a) and 5.3(a). For purposes of this Section 5.4, if the Company makes a lump sum payment or an installment payment within the permitted distribution period (as defined below) for such payment and the actual date of such payment is not within the direct or indirect control of the Participant, such payment shall be treated as having been made on the payment date provided in Section 5.2(a) or Section 5.3(a), as applicable. The "permitted distribution period" for this purpose shall begin on the thirtieth day before the applicable commencement date provided in Section 5.2(a) or Section 5.3(a) and shall end on the last day of the calendar year that includes the applicable commencement date provided in Section 5.2(a) or Section 5.3(a).

5.5 Notwithstanding the provisions of Sections 5.1 through 5.4 but subject to the terms of an individual agreement between the Company and a Participant, the Company shall pay a Participant all or any portion of the Supplemental Plan Benefit accrued on the Participant's behalf in a lump sum as soon as is administratively reasonable following the occurrence of any of the events or conditions identified below. Such lump sum payment shall be equal to the amount, as determined by the Administrator, as is reasonably estimated to be required to satisfy the purpose of the accelerated payment. The events or conditions to which this Section 5.5 applies are:

- (a) The Participant needs to avoid a violation of an applicable federal, state, local, or foreign ethics law or conflicts of interest law.
- (b) The Participant incurs state, local, or foreign tax obligations arising from participation in the Plan that apply to a Plan interest before such interest is otherwise payable from the Plan.
- (c) The Participant incurs federal employment tax obligations under Sections 3101, 3121(a), or 3121(v)(2) of the Code with respect to a Supplemental Plan Benefit and any federal, state, local, or foreign tax obligations arising from such employment tax obligations.
- (d) The Plan is terminated and liquidated in accordance with generally applicable guidance prescribed by the Commissioner of Internal Revenue and published in the Internal Revenue Bulletin.

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

Any payment under this Section 5.5 shall be contingent upon the Administrator's decision that a Participant has satisfied all material elements of an applicable event or condition and that the Participant produces evidence to that effect that is satisfactory to the Administrator. If any payment under this Section 5.5 is made and such payment is less than the entire Supplemental Plan Benefit accrued on the Participant's behalf, the Actuarial Equivalent of such payment shall offset any future payment of the Supplemental Plan Benefit to the Participant or any surviving spouse, Beneficiary or other person.

- 5.6 Notwithstanding the provisions of Sections 5.1 through 5.4 but subject to the terms of an individual agreement between the Company and a Participant, the Company may delay the payment of all or any portion of the Supplemental Plan Benefit accrued on the Participant's behalf in connection with any of the events or conditions identified below; provided, however that, with respect to any given event or condition, the Administrator shall treat Plan payments to all similarly-situated Participants in a reasonably consistent manner:
  - (a) The Administrator reasonably anticipates that making scheduled Plan payments will violate federal securities laws or other applicable law; provided that the scheduled payments are then made at the earliest date at which the Administrator reasonably contemplates that making the scheduled payments will not cause such a violation.
  - (b) Such other events or conditions as the Commissioner of Internal Revenue may prescribe in generally applicable guidance published in the Internal Revenue Bulletin which the Administrator, in its discretion, chooses to apply under the Plan; provided, however, that a Participant shall have no direct or indirect election as to the application of such events or conditions to his individual circumstances.
- 5.7 If a Participant incurs a Separation from Service and payment of the Participant's Supplemental Plan Benefit has commenced under this Section 5, payments shall not be cancelled or suspended if the Participant is subsequently reemployed by the Company or an Affiliate.

- 5. Section 6 of the Plan is deleted in its entirety and the following is inserted in lieu thereof:

**SECTION 6 - COMMENCEMENT AND FORM OF  
SUPPLEMENTAL PLAN BENEFITS TO SURVIVING SPOUSE  
OR BENEFICIARY**

- 6.1 Except as specifically provided herein or in an individual agreement between the Company and a Participant:
  - (a) Any Pre-2022 Supplemental Plan Benefit payable as a result of the Participant's death, either prior to or following commencement of such benefit hereunder, shall be paid to the Participant's surviving spouse or Beneficiary as soon as

administratively practicable following the Participant's death in the form of a cash lump sum equal to the lump sum Actuarial Equivalent of the surviving spouse's benefit that would be payable under the Qualified Plan if such survivor benefit was derived from the Pre-2022 Supplemental Plan Benefit;

- (b) Any Post-2021 Supplemental Plan Benefit payable as a result of the Participant's death prior to commencement of a benefit hereunder shall be paid to the Participant's surviving spouse or Beneficiary in the form of ten (10) annual installments commencing as of the date provided in Section 5.3(a). The amount of such installment payments shall be determined under Section 5.3(b); provided, however, that such installment payments shall be the Actuarial Equivalent of the surviving spouse's benefit that would be payable under the Qualified Plan if such survivor benefit was derived from the Post-2021 Supplemental Plan Benefit; and
- (c) Any Post-2021 Supplemental Plan Benefit payable as a result of the Participant's death following commencement of such benefit hereunder shall be paid to the Participant's surviving spouse or Beneficiary as a continuation of the annual installments that were being made to the Participant.

## 6.2 Notwithstanding the foregoing:

- (a) Payment of a Supplemental Plan Benefit to a surviving spouse or Beneficiary as a result of a Participant's death prior to commencement of a benefit hereunder shall not be made before the first day a spouse could commence payment of a surviving spouse's benefit under the Qualified Plan;
- (b) Except as provided in Section 6.2(c) or an individual agreement between an Employer and a Participant, payment of a Supplemental Plan Benefit to a surviving spouse or Beneficiary shall be subject to the same eligibility conditions and reductions for early commencement as are applied to corresponding benefits under the Qualified Plan. Without limiting the generality of the above, a Supplemental Plan Benefit shall be payable upon the death of a Participant who incurs a Separation from Service before his Earliest Retirement Date and dies before the Supplemental Plan Benefit accrued on his behalf is otherwise paid only if the Participant has satisfied all requirements of either Section 3.2 or Section 3.3 and is survived by a spouse who herself survives until the date a surviving spouse's benefit would otherwise be payable under the Qualified Plan;
- (c) Notwithstanding the foregoing provisions of this Section 6 but subject to the terms of an individual agreement between the Company and a Participant, a death benefit shall be payable from the Plan with respect to a Participant who incurs a Separation from Service on or after his Earliest Retirement Date and dies before the Supplemental Plan Benefit accrued on his behalf is otherwise paid. Such death benefit shall be paid to the Participant's surviving spouse or Beneficiary. The amount of the death benefit and the form in which it is paid shall be equal to the amount that would have been paid to the Participant on the date the death benefit is paid had the Participant survived to receive payment on such date, applying the principles of Sections 5.2 and 5.3; and
- (d) The provisions of Sections 5.4, 5.5 and 5.6 shall apply with respect to Supplemental Plan Benefits payable to a surviving spouse of Beneficiary, substituting "surviving spouse" or "Beneficiary" for "Participant", as appropriate.

**IN WITNESS WHEREOF**, the Company has caused this Third Amendment to be executed this 21st day of December, 2021.

ERIE INDEMNITY COMPANY

ATTEST:

/s/ Brian W.  
Bolash

By: /s/ Gregory J. Gutting  
Title: Executive Vice President &  
CFO

**FOURTH AMENDMENT TO  
SUPPLEMENTAL RETIREMENT PLAN FOR CERTAIN MEMBERS OF THE  
ERIE INSURANCE GROUP RETIREMENT PLAN FOR EMPLOYEES**

(Amended and Restated as of January 1, 2009)

WHEREAS, Erie Indemnity Company (the “Company”) maintains Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (the “Plan”); and

WHEREAS, Section 7 of the Plan provides that the Board of Directors of the Company (the “Board”) may amend or terminate the Plan; and

WHEREAS, the Company desires to amend Section 7 of the Plan to provide that the Executive Compensation and Development Committee of the Board may amend or terminate the Plan; and

WHEREAS, the Company’s Board of Directors approved the aforementioned amendment at its meeting on October 26, 2021 and reflected in the minutes thereto.

NOW, THEREFORE, the Company hereby amends Section 7 of the Plan to replace the reference to “Board” with a reference to “Committee”, effective as of October 26, 2021.

IN WITNESS WHEREOF, the Company has caused this Fourth Amendment to be executed this 21st day of December 2021.

ERIE INDEMNITY  
COMPANY

ATTEST:

/s/ Brian W.  
Bolash

By: /s/ Gregory J. Gutting  
Title: Executive Vice  
President & CFO

**THIRD AMENDMENT TO  
ERIE INDEMNITY COMPANY  
INCENTIVE COMPENSATION DEFERRAL PLAN**

Effective as of January 1, 2017

WHEREAS, Erie Indemnity Company (the “Company”) maintains the Erie Indemnity Company Incentive Compensation Deferral Plan (the “Plan”); and

WHEREAS, Article Seven of the Plan provides that the Board of Directors of the Company (the “Board”) may amend or terminate the Plan; and

WHEREAS, the Company desires to amend Article Seven of the Plan to provide that the Executive Compensation and Development Committee of the Board may amend or terminate the Plan; and

WHEREAS, the Company’s Board of Directors approved the aforementioned amendment at its meeting on October 26, 2021 and reflected in the minutes thereto.

NOW, THEREFORE, the Company hereby amends Article Seven of the Plan to replace the reference to “Board” with a reference to “Committee”, effective as of October 26, 2021.

IN WITNESS WHEREOF, the Company has caused this Third Amendment to be executed this 21st day of December 2021.

ERIE INDEMNITY COMPANY

ATTEST:

/s/ Brian W.  
Bolash

By: /s/ Gregory J. Gutting  
Title: Executive Vice President  
& CFO

**THIRD AMENDMENT TO  
DEFERRED COMPENSATION PLAN  
OF ERIE INDEMNITY COMPANY**

**(As Amended and Restated Effective as of January 1, 2009)**

WHEREAS, Erie Indemnity Company (the “Company”) maintains the Deferred Compensation Plan of Erie Indemnity Company (the “Plan”); and

WHEREAS, Article Four of the Basic Plan Document of the Plan provides that the Board of Directors of the Company (the “Board”) may amend or terminate the Plan; and

WHEREAS, the Company desires to amend Article Four of the Basic Plan Document of the Plan to provide that the Executive Compensation and Development Committee of the Board may amend or terminate the Plan; and

WHEREAS, the Company’s Board of Directors approved the aforementioned amendment at its meeting on October 26, 2021 and reflected in the minutes thereto.

NOW, THEREFORE, the Company hereby amends the Plan as follows, effective as of October 26, 2021:

1. Sections 2.6 through 2.12 of the Basic Plan Document are hereby renumbered sequentially as Sections 2.7 through 2.13.

2. A new Section 2.6 is added to the Basic Plan Document, which provides as follows:

“2.6 “Committee” shall mean the Executive Compensation and Development Committee of the Board or its successor, as designated by the Board.”

3. Article Four of the Basic Plan Document is hereby amended to replace the reference to “Board” with a reference to “Committee”.

4. Section 2.7 of Appendix A is hereby amended and restated in its entirety to provide as follows:

“2.7 “Committee” is a term that is defined in Article Two of the Basic Plan Document.”

5. Section 2.7 of Appendix B is hereby amended and restated in its entirety to provide as follows:

“2.7 “Committee” is a term that is defined in Article Two of the Basic Plan Document.”

IN WITNESS WHEREOF, the Company has caused this Third Amendment to be executed this 21st day of December 2021.

ERIE INDEMNITY  
COMPANY

ATTEST:

/s/ Brian W.  
Bolash

By: /s/ Gregory J.  
Gutting  
Title: Executive Vice  
President & CFO

**APPOINTMENT OF ADMINISTRATOR****DEFERRED COMPENSATION PLAN  
OF ERIE INDEMNITY COMPANY****ERIE INDEMNITY COMPANY  
INCENTIVE COMPENSATION DEFERRAL PLAN****SUPPLEMENTAL RETIREMENT PLAN FOR CERTAIN MEMBERS OF THE  
ERIE INSURANCE GROUP RETIREMENT PLAN FOR EMPLOYEES**

In accordance with the authority provided to me under Article 2.1 of the Deferred Compensation Plan of Erie Indemnity Company; Article 2.1 of the Erie Indemnity Company Incentive Compensation Deferral Plan; and Section 1.2 (b) of the Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (collectively the “Plans”), I hereby appoint the Erie Indemnity Company Employee Benefits Administration Committee (“EBAC”) as the Administrator for the Plans. EBAC shall be responsible for the administrative functions assigned to it under the Plans. This appointment shall remain in effect until such time as a new appointment is made pursuant to the Plans.

Executed at Erie, Pennsylvania this 21st day of December 2021, effective as of October 26, 2021.

**ERIE INDEMNITY  
COMPANY**

By /s/ Timothy G.  
NeCastro

Timothy G. NeCastro  
Chief Executive Officer

Attest /s/ Brian W.  
Bolash

Brian W. Bolash  
Secretary

**FOURTH AMENDMENT TO CREDIT AGREEMENT**

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT (this "**Amendment**") is dated as of this 28th day of December, 2021, by and among by and among ERIE INDEMNITY COMPANY, a Pennsylvania corporation (the "**Borrower**") and PNC BANK, NATIONAL ASSOCIATION, (the "**Lender**").

**W I T N E S S E T H:**

WHEREAS, the Borrower and the Lender entered into that certain CREDIT AGREEMENT, dated November 7, 2016 as amended by that certain (i) First Amendment to Credit Agreement, dated as of December 13, 2016, by and between the Borrower and the Lender (ii) Second Amendment to Credit Agreement, dated as of January 22, 2018, by and between the Borrower and the Lender, and (iii) Third Amendment to Credit Agreement, dated November 13, 2018, by and between the Borrower and the Lender (as amended through the date hereof and as may be further amended, modified, supplemented, extended, renewed or restated from time to time, the "**Credit Agreement**"); and

WHEREAS, the Borrower desires to amend certain provisions of the Credit Agreement, and the Lender agrees to permit such amendments pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. All capitalized terms used, but not defined herein, shall have the same meanings given to such term in the Credit Agreement.
2. Section 1.1 of the Credit Agreement is hereby amended by adding the following definition in the appropriate alphabetical order:

"USD-BSBY" shall mean, the Bloomberg Short-Term Bank Yield Index rate administered by Bloomberg and published by Bloomberg (or such other commercially available source providing such quotations as may be designated by the Lender from time to time).

3. Section 7.1.10 of the Credit Agreement is hereby deleted in its entirety and in its stead is inserted the following:

The Borrower shall maintain at all times Collateral Value of not less than one hundred three percent (103%) of outstanding principal amount of the Term Loan; provided that, if at any time (A) the Debt Service Coverage Ratio of the Borrower and its Subsidiaries is less than 1.00 to 1.00 and (B) the Cash Ratio of the Borrower and its Subsidiaries is less than 2.50 to 1.00 (each such event referred to herein as a "**Collateral Value Increase Event**"), then the Borrower shall be required to maintain Collateral Value of not less than one hundred fifteen percent (115%) of the outstanding principal amount of the Term Loan; provided further that, if at any time the Collateral Value is less than the amount required above (the amount of such shortage, the "**Collateral Shortfall**"), an Event of Default shall occur unless within three (3) Business Days of the date the Collateral Shortfall occurred no Collateral Shortfall exists as a result of (i) a change in the Collateral Value due to

market fluctuations, and/or (ii) a deposit of additional securities comprising Eligible Collateral into the Collateral Account.

4. Schedule 4.3.3 "Cost of Prepayment" of the Credit Agreement is hereby deleted in its entirety and in its stead shall be inserted the amended and restated Schedule 4.3.3 attached hereto as Annex 1 and made a part hereof.

This Amendment shall be effective on the date hereof, subject to the satisfaction of the following conditions precedent:

(a) the execution and delivery to the Lender of this Amendment by the Borrower and the Lender;

(b) the truth and accuracy of the representations and warranties contained in Section 6 hereof; and

(c) immediately after giving effect to this Amendment, no Event of Default shall have occurred and be continuing or arise as a direct result of the effectiveness of this Amendment.

5. The Borrower represents and warrants to the Lender that:

(a) all representations and warranties made by it under the Loan Documents are true, correct and complete in all respects (in the case of any representation or warranty containing a materiality modification) or in all material respects (in the case of any representation or warranty not containing a materiality modification), on and as of even date herewith or, in the case of a representation or warranty stated to be made as of an earlier date, such earlier date;

(b) the Borrower has the full power to enter into, execute, deliver and carry out this Amendment and all such actions have been duly authorized by all necessary proceedings on its part;

(c) neither the execution and delivery of this Amendment by the Borrower nor the consummation of the transactions herein contemplated or compliance with the terms and provisions hereof by it will conflict with, constitute a default under or result in any breach of the terms and conditions of its certificate or articles of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company agreement or other organizational documents or any material Law or any material agreement or instrument or order, writ, judgment, injunction or decree to which it is a party or by which it is bound or to which it is subject, or result in the creation or enforcement of any Lien, charge or encumbrance whatsoever upon any property (now or hereafter acquired) of the Borrower;

(d) this Amendment has been duly and validly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except to the extent that enforceability of this Amendment may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting the enforceability of creditors' rights generally or limiting the right of specific performance and general concepts of equity; and

(e) on and as of the date hereof, no Event of Default exists immediately prior to or after giving effect to the amendments contemplated hereby.

6. On the day and year first written above, the Borrower hereby reaffirms (i) its grant of a security interest and lien on all of the Collateral in favor of the Lender, subject to no other Liens (other than Permitted Liens) and (ii) its Obligations under the Credit Agreement, as amended by this Amendment, and the other Loan Documents to which it is a party.

7. From and after the date hereof, each reference to the Credit Agreement that is made in the Credit Agreement or any other Loan Document shall hereafter be construed as a reference to the Credit Agreement as amended hereby. This Amendment shall be considered a Loan Document.

8. The agreements contained in this Amendment are limited to the specific agreements made herein. Except as amended hereby, all of the terms and conditions of the Credit Agreement and the other Loan Documents shall remain in full force and effect. This Amendment amends the Credit Agreement and is not a novation thereof.

9. To induce the Lender to enter into this Amendment, the Borrower hereby releases, acquits and forever discharges the Lender, and all officers, directors, agents, employees, successors and assigns of the Lender, from any and all liabilities, claims, demands, actions or causes of action of any kind or nature (if there be any), whether absolute or contingent, disputed or undisputed, at law or in equity, or known or unknown, that the Borrower now has or ever had against the Lender arising under or in connection with the Credit Agreement or any of the other Loan Documents or otherwise, in each case arising prior to the date of this Amendment. The Borrower represents and warrants to the Lender that the Borrower has not transferred or assigned to any person any such claim that the Borrower ever had or claimed to have against the Lender.

10. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts each of which, when so executed, shall be deemed to be an original, but all such counterparts shall constitute but one and the same instrument.

11. The illegality or unenforceability of any provision of this Amendment or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Amendment or any instrument or agreement required hereunder.

12. This Amendment shall be governed by, and shall be construed and enforced in accordance with, the Laws of the Commonwealth of Pennsylvania without regard to the principles of the conflicts of law thereof. Each of the parties hereto irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction and venue of the courts of the Commonwealth of Pennsylvania sitting in Allegheny County, Pennsylvania and the United States District Court for the Western District of Pennsylvania with respect to any suit arising out of or relating to this Amendment.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, by their officers thereunto duly authorized, have executed this Amendment on the day and year first above written.

**BORROWER:**

ERIE INDEMNITY COMPANY, a Pennsylvania corporation

By: /s/ Robert W. McNutt (SEAL)

Name: Robert W. McNutt

Title: Vice President and Corporate Treasurer

**LENDER:**

PNC BANK, NATIONAL ASSOCIATION, as the Lender

By: /s/ James E. Stevenson (SEAL)

Name: James E. Stevenson

Title: Regional President

**SCHEDULE 4.3.3**  
**Amended as of December 28, 2021**

**COST OF PREPAYMENT**

Type of Transaction: Interest Rate Swap  
Notional Amount: USD 100,000,000.00 and then adjusting in accordance with Section 2.5 of the Credit Agreement.  
Trade Date: November 2, 2016  
Effective Date: November 2, 2016  
Termination Date: December 1, 2046, Fixed Rate Payer subject to No Adjustment.  
December 1, 2046, Floating Rate Payer subject to adjustment in accordance with the Modified Following Business Day Convention.

**Fixed Amounts:**

Fixed Rate Payer: COUNTERPARTY  
Fixed Rate Calculation Periods:

The initial Calculation Period will be from and including the Effective Date to but excluding December 1, 2016. Thereafter, from and including the first (1st) day of each month to but excluding the first (1st) day of the following month. With the final Calculation Period being from and including November 1, 2046, to but excluding the Termination Date. Each calculation period subject to No Adjustment.

Fixed Rate Payer Payment Dates:

The initial payment will commence on December 1, 2016, and thereafter on the first (1st) day of each month, and ending on the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention.

Fixed Rate: 4.35%

Fixed Rate Day Count Fraction:

30/360

Business Days:

New York

**Floating Amounts:**

Floating Rate Payer: PNC Bank, National Association

Floating Rate Calculation Periods:

The initial Calculation Period will be from and including the Effective Date to but excluding December 1, 2016. Thereafter, from and including the first (1st) day of each month to but excluding the first (1st) day of the following month. With the final Calculation Period being from and including November 1, 2046, to but excluding the Termination Date. Each calculation period subject to adjustment in accordance with the Modified Following Business Day Convention.

Floating Rate Payer Payment Dates:

The initial payment will commence on December 1, 2016, and thereafter on the first (1st) day of each month, and ending on the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention.

Reset Dates:

The first day of each Floating Rate Calculation Period, with Period End Dates subject to adjustment in accordance with the Modified Following Business Day Convention.

Floating Rate Option:

USD-BSBY; *provided, however*, that references to (i) "U.S. Government Securities Business Days" that appear under the definition of USD-BSBY shall be replaced with "New York Business Days"; and (ii) "U.S. Government Securities Business Day" that appear under the definition of USD-BSBY shall be replaced with "New York Business Day".

A per annum rate equal to the sum of (i) the Floating Rate Option plus (ii) the Spread.

Floating Rate:

Designated Maturity:

One (1) Month

Spread:

1.35%

Floating Rate Day Count Fraction:

Actual/360

Business Days:

New York

Compounding:

Inapplicable



## AMENDMENT TO LEASE AGREEMENT

This AMENDMENT TO LEASE AGREEMENT ("**Amendment**"), dated as January 1, 2022 (for purposes of this Amendment, the "**Effective Date**"), is entered into between ERIE INSURANCE EXCHANGE ("Tenant"), 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; and ERIE INDEMNITY COMPANY ("Landlord"), a Pennsylvania business corporation, with its principal offices and place of business also at 100 Erie Insurance Place, Erie, PA 16530 collectively referred to herein as the "**Parties**").

**WHEREAS**, Landlord and Tenant entered into that certain Home Office Agreement of Lease dated July 1, 2021 relating to certain premises located in Erie Pennsylvania (collectively, the "**Lease**");

**WHEREAS**, Landlord and Tenant have agreed to amend the Lease, upon the terms and conditions hereinafter described; and

**WHEREAS**, all capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Lease.

**NOW, THEREFORE**, for good and valuable consideration paid by Tenant to Landlord and the mutual covenants, terms, and conditions set forth herein, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby amend the Lease on the terms hereof as of the Effective Date as follows:

1. Appendix A and Appendix B to the Lease shall be replaced in their entirety with the appendices attached to this Amendment.
2. No Default. Landlord and Tenant hereby affirm that as of the Effective Date, no breach, default or other act, error, or omission which, with the giving of notice or passage of time or both, would constitute a breach or default by either party has occurred and is continuing under the Lease.
3. Affirmation of Lease Terms. Except as modified by this Amendment, Landlord and Tenant hereby ratify the Lease and agree that the Lease shall remain unchanged and shall continue in full force and effect. In the event there is any conflict between the terms of the Lease and the terms set forth in this Amendment, the terms specifically set out in this Amendment shall control. From and after the Effective Date, any and all references to "the Lease" or "this Lease" in the Lease shall mean the Lease as modified by this Amendment.
4. Miscellaneous.
  - (a) Entire Agreement. This Amendment contains the entire understanding between the Parties with respect to the matters being amended as contained herein.
  - (b) Amendment and Modification. This Amendment may not be changed or modified orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, or modification is sought.
  - (c) Further Assurances. Each of the Parties shall deliver to the other any further instruments or documents which may be reasonably required to establish to the satisfaction of the other party that it has agreed to be bound by and become liable under the terms and conditions of the Lease and this Amendment.

*[Continues with signatures on next page.]*

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date set forth above.

**TENANT:**

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

By /s/ Gregory J. Gutting

Gregory J. Gutting  
Executive Vice President and Chief  
Financial Officer

**LANDLORD:**

ERIE INDEMNITY COMPANY, a Pennsylvania business corporation, with its principal offices and place of business at 100 Erie Insurance Place, Erie, PA 16530

By /s/ Brian W. Bolash

Brian W. Bolash  
Senior Vice President, Secretary and  
General Counsel

## Appendix A

### Buildings

<u>NAME</u>	<u>LOCATION</u>	<u>SIZE ABOVE/BELOW GROUND</u> <u>RENT ABOVE/BELOW GROUND</u>	<u>BASE YEAR</u>
Sixth Street Tower	125 East 6th Street Erie, PA 16501	283,112 / 35,563 \$10.75 / \$4.20	07/01/2021- 6/30/2022
Westport	4950 West 23rd Street Erie, PA 16505	77,260 / n/a \$8.50/ n/a	07/01/2021- 6/30/2022
H.O Hirt Building	100 Erie Insurance Place Erie, PA 16530	93,044/28,217 \$8.95/\$4.20	01/01/2022- 6/30/2022
F.W. Hirt-Perry Square Building	100 Erie Insurance Place Erie, PA 16530	164,201/40,432 \$8.95/\$4.20	01/01/2022- 6/30/2022
Petersen Center	100 Erie Insurance Place Erie, PA 16530	30,719/ n/a \$8.95/ n/a	01/01/2022- 6/30/2022
Holland Street Building	100 Erie Insurance Place Erie, PA 16530	66,099/27,364 \$8.95/\$4.20	01/01/2022- 6/30/2022
Lafayette Place	400 French Street Erie, PA 16507	17,053/5,530 \$8.95/\$4.20	01/01/2022- 6/30/2022
Gideon Ball House	135 East 6th Street Erie, PA 16501	8,742/ n/a \$8.95/ n/a	01/01/2022- 6/30/2022
Armory	360 East 6th Street Erie, PA 16507	21,722/15,349 \$8.95/\$4.20	01/01/2022- 6/30/2022
C.F Adams/Heritage Center	101 East 6th Street Erie, PA 16501	6,036/4,325 \$8.95/\$4.20	01/01/2022- 6/30/2022
O'Donnell House	410 French Street Erie, PA 16507	763/763 \$8.95//\$4.20	01/01/2022- 6/30/2022
Firehouse	414 French Street Erie, PA 16507	8,832/3,030 \$8.95/\$4.20	01/01/2022- 6/30/2022
French Street Ramp/ Mail Facility	100 Erie Insurance Place Erie, PA 16530	11,760/37,646 \$8.95/\$4.20	01/01/2022- 6/30/2022

**Appendix B**

**Parking**

**PARKING GARAGES**

<b><u>SITE</u></b>	<b><u>ADDRESS</u></b>	<b><u>PARKING SPACES</u></b>	<b><u>COST</u></b>	<b><u>BASE YEAR</u></b>
Holland Street	210 East 6th Street Erie, PA 16507	740	\$756.72/space	01/01/2022- 06/30/2022
French Street	0 East 5th Street Erie, PA 16507	428	\$756.72/space	01/01/2022- 06/30/2022
8th Street	124 East 8th Street Erie, PA 16507	1,000	\$756.72/space	01/01/2022- 06/30/2022

**PARKING LOTS – Included in Rent**

<b><u>SITE</u></b>	<b><u>ADDRESS</u></b>
Westport	4950 West 23rd Street, Erie, PA 16505
Surface Parking Lots	Erie County, PA Parcel Index Numbers 14- 010-002.0-100.00 and -101.00, 14-010-008.0-211.00, -212.00, 213.00, - 214.00, -215.00, - 216.00, -217.00, - 219.00, -230.00, -231.00, -232.00, -233.00, -234.00, and -235.00

### Exhibit 23

#### CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-218739) pertaining to the Erie Indemnity Company Incentive Compensation Deferral Plan,
- (2) Registration Statement (Form S-8 No. 333-188244) pertaining to the Erie Indemnity Company Equity Compensation Plan,
- (3) Registration Statement (Form S-8 No. 333-148705) pertaining to the Erie Indemnity Company 2004 Long-Term Incentive Plan, Erie Indemnity Company 1997 Long-Term Incentive Plan, and Erie Indemnity Company Deferred Compensation Plan for Outside Directors,
- (4) Registration Statement (Form S-8 No. 333-82062) pertaining to the Erie Indemnity Company Long-Term Incentive Plan,
- (5) Registration Statement (Form S-8 No. 333-53318) pertaining to the Erie Indemnity Company Long-Term Incentive Plan

of our reports dated February 24, 2022, with respect to the financial statements 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) of Erie Indemnity Company for the year ended December 31, 2021.

/s/ Ernst & Young LLP

Cleveland, OH  
February 24, 2022

**Exhibit 31.1**

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

I, Timothy G. NeCastro, certify that:

1. I have reviewed this annual report on Form 10-K of Erie Indemnity Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's 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, 2022

/s/ Timothy G. NeCastro

Timothy G. NeCastro

President & CEO

**Exhibit 31.2**

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

I, Gregory J. Gutting, certify that:

1. I have reviewed this annual report on Form 10-K of Erie Indemnity Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's 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, 2022

/s/ Gregory J. Gutting  
Gregory J. Gutting  
Executive Vice President & CFO

**Exhibit 32**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

We, Timothy G. NeCastro, Chief Executive Officer of the Erie Indemnity Company (the "Company"), and Gregory J. Gutting, Chief Financial Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that:

- (1) The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Timothy G. NeCastro

Timothy G. NeCastro  
President & CEO

/s/ Gregory J. Gutting

Gregory J. Gutting  
Executive Vice President & CFO

February 24, 2022

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.