ERIE INDEMNITY CO
Form 10-K
February 26, 2009

Table of Contents

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __X__ 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 __X__

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 __X__ No _____

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

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

rge accelerated filer __X__ Accelerated filer _____ Non-accelerated filer _____ Smaller reporting company ____
(Do not check if a smaller reporting company)

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

Aggregate market value of voting and non-voting common stock held by non-affiliates as of the last business day of the registrant s most recently completed second fiscal quarter: $1.4 billion of Class A non-voting common stock as of June 30, 2008. 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: 51,282,893 shares of Class A common stock and 2,551 shares of Class B common stock outstanding on February 18, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III of this Form 10-K (Items 10, 11, 12, 13, and 14) are incorporated by reference to the information statement on Form 14(C) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2008.

INDEX

PART	ITEM NUMBER AND CAPTION		PAGE
I	Item 1.	Business	3
	Item 1A.	Risk Factors	8
	Item 1B.	Unresolved Staff Comments	13
	Item 2.	Properties	13
	Item 3.	Legal Proceedings	14
	Item 4.	Submission of Matters to a Vote of Security Holders	14
II	Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	15
	Item 6.	Selected Consolidated Financial Data	17
	Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	18
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	48
	Item 8.	Financial Statements and Supplementary Data	51
	Item 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	100
	Item 9A.	Controls and Procedures	100
	Item 9B.	Other Information	100
III	Item 10.	Directors, Executive Officers and Corporate Governance	101
	Item 11.	Executive Compensation	102
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	102
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	102
	Item 14.	Principal Accountant Fees and Services	102
IV	Item 15.	Exhibits and Financial Statement Schedules	103
		Signatures	104

EX-10.101
EX-10.102
EX-10.103
EX-10.104
EX-10.105
EX-10.106
EX-10.107
EX-10.108
EX-21
EX-23
EX-31.1
EX-31.2
EX-32

2

Table of Contents

PART I

Item 1. Business

General

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

Business segments

We operate our business as three reportable segments management operations, insurance underwriting operations and investment operations. Financial information about these segments is set forth in and referenced to Item 8. Financial Statements and Supplementary Data - Note 22 of Notes to Consolidated Financial Statements contained within this report. Further discussion of financial results by operating segment is provided in and referenced to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations contained within this report.

Description of business

For our services as attorney-in-fact, we charge the Exchange a management fee of up to 25% of the direct written premiums of the Property and Casualty Group. Management fees accounted for approximately 84% of our revenue in 2008, and 72% in both 2007 and 2006. This 2008 proportion was greater than the historical percentage as our investment operations generated significant losses as a result of the upheaval of the financial markets in the third and fourth quarters of 2008. (See also Item 7. Management s Discussion and Analysis of Financial Conditions and Results of Operations contained within this report.) Excluding impairment charges, management fee revenues accounted for 79% of our 2008 total revenues.

We have an interest in the growth and financial condition of the Exchange as 1) the Exchange is our sole customer and 2) our earnings are largely generated from management fees based on the direct written premium of the Exchange and other members of the Property and Casualty Group. The Property and Casualty Group operates as a regional insurance carrier that underwrites a broad range of personal and commercial insurance using its non-exclusive independent agency force 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 fundamental to the Property and Casualty Group s success. The Property and Casualty Group is represented by over 2,000 independent agencies comprising over 8,800 licensed representatives. The Property and Casualty Group operates primarily in the Midwest, Mid-Atlantic and Southeast regions of the United States (Illinois, Indiana, Maryland, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and Wisconsin and the District of Columbia). Pennsylvania, Maryland and Virginia made up 65% of the Property and Casualty Group s 2008 direct written premium. Nearly 50% of premiums are derived from personal auto, 20% from homeowners and 30% from small commercial lines. While sales, underwriting and policy issuance services are centralized at our home office, the Property and Casualty Group maintains 23 field offices throughout its operating region to provide claims services to policyholders and marketing support for the independent agents who represent us.

Historically, due to policy renewal and sales patterns, the Property and Casualty Group s direct written premiums are greater in the second and third quarters than in the first and fourth quarters of the calendar year. Consequently, there is seasonality in our management fees and we have higher gross margins in our management operations in those

quarters. While loss and loss adjustment expenses are not entirely predictable, historically such costs have

3

been greater during the third and fourth quarters, influenced by the weather in the geographic regions, including the Midwest, Mid-Atlantic and Southeast regions in which the Property and Casualty Group operates.

The members of the Property and Casualty Group pool their underwriting results. Under the reinsurance pooling arrangement, the Exchange assumes 94.5% of the pool. Accordingly, the underwriting risk of the Property and Casualty Group s business is largely borne by the Exchange, which had $4.0 billion and $4.8 billion of statutory surplus at December 31, 2008 and 2007, respectively. Through the pool, our property/casualty insurance subsidiaries currently assume 5.5% of the Property and Casualty Group s underwriting results, and, therefore, we also have a direct incentive to manage the insurance underwriting operations of the Property and Casualty Group effectively.

Principal products

The Property and Casualty Group seeks to insure standard and preferred risks primarily in personal and commercial lines. In 2008, personal lines comprised 71% of direct written premium revenue of the Property and Casualty Group while commercial lines made up the remaining 29%.

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

Competition

Property and casualty insurers generally compete on the basis of customer service, price, brand recognition, coverages offered, claim handling ability, financial stability and geographic coverage. Vigorous competition, particularly in the personal lines automobile and homeowners lines of business, is provided by large, well-capitalized national companies, some of which have broad distribution networks of employed or captive agents, by smaller regional insurers and by large companies who market and sell personal lines products directly to consumers. In addition, because the insurance products of the Property and Casualty Group are marketed exclusively through independent insurance agents, the Property and Casualty Group faces competition within its appointed agencies based on ease of doing business, product, price and service relationships. The market is competitive with some carriers filing rate decreases while others focus on acquiring business through other means, such as increases in advertising and effective utilization of technology. Some carriers have increased their spending on advertising in an effort to generate increased sales and market penetration. The Property and Casualty Group ranked as the 16th largest automobile insurer in the United States based on 2007 direct written premiums and as the 21st largest property/casualty insurer in the United States based on 2007 total lines net premium written according to AM Best.

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

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

Finally, we carefully select the independent agencies that represent the Property and Casualty Group. The Property and Casualty Group seeks to be the lead insurer with its agents in order to enhance the agency relationship and the likelihood of receiving the most desirable underwriting opportunities from its agents. We have ongoing, direct communications with the agency force. Agents have access to a number of venues we sponsor designed to promote

sharing of ideas, concerns and suggestions with the senior management of the Property and Casualty Group with the goal of improving communications and service. We continue to evaluate new ways to support our agents efforts,

4

Table of Contents

from marketing programs to identifying potential customer leads, to grow the business of the Property and Casualty Group. These efforts have resulted in outstanding agency penetration and the ability to sustain long-term agency partnerships. The higher agency penetration and long-term relationships allow for greater efficiency in providing agency support and training.

Employees

We employed just over 4,200 people at December 31, 2008, of which approximately 2,200, or 52%, provide claims specific services exclusively for the Property and Casualty Group and approximately 65, or 2%, perform services exclusively for EFL. Both the Exchange and EFL reimburse us at least quarterly for the cost of these services.

Reserves for losses and loss adjustment expenses

The table that follows illustrates the change over time of the loss and loss adjustment expense reserves established for our property/casualty insurance subsidiaries at the end of the last ten calendar years. The development of loss and loss adjustment expenses are presented on a gross basis (gross of ceding transactions in the intercompany pool) and a net basis (the amount remaining as our exposure after ceding and assuming amounts through the intercompany pool as well as transactions under the excess-of-loss reinsurance agreement with the Exchange). However, incurred but not reported reserves are developed for the Property and Casualty Group as a whole and then allocated to members of the Property and Casualty Group based on each member s proportionate share of earned premiums. We do not develop IBNR reserves for each of the property/casualty insurance subsidiaries based on their direct and assumed writings. Consequently, the gross liability data contained in this table does not accurately reflect the underlying reserve development of our property/casualty insurance subsidiaries.

Our 5.5% share of the loss and loss adjustment expense reserves of the Property and Casualty Group are shown in the net presentation and are more representative of the actual development of the property/casualty insurance losses accruing to our subsidiaries. The gross presentation is shown to be consistent with the balance sheet presentation of reinsurance transactions which requires direct and ceded amounts to be presented separate from one another, in accordance with FAS 113, Accounting and Reporting for Reinsurance of Short Duration and Long Duration Contracts , thus the gross liability for unpaid losses and loss adjustment expenses of $965.1 million at December 31, 2008 agrees to the gross balance sheet amount. However, factoring in the reinsurance recoverables of $778.3 million at December 31, 2008 presented in the balance sheet the net obligation to us is $186.8 million at December 31, 2008. Additional discussion of our reserve methodology can be found in and is referenced to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates contained within this report.

The Property and Casualty Group discounts only workers compensation reserves. These reserves are discounted on a nontabular basis as prescribed by the Insurance Department of the Commonwealth of Pennsylvania. The interest rate of 2.5% used to discount these reserves is based upon the Property and Casualty Group s historical workers compensation payout pattern. Given the upheaval in the financial markets, the current yield to maturity on United States Treasury debt instruments matched to future cash flows of workers compensation liabilities implied a discount rate less than 2.5% at December 31, 2008. The Insurance Department of Pennsylvania uses the yield on these securities to determine a limit that the discount rate used by insurers should not exceed. The Property and Casualty Group received approval from the Pennsylvania Insurance Commissioner for an exception to the maximum interest rate permitted, given the abnormally low interest rate environment currently being experienced and the long-term period in which workers compensation claim payments will be paid. Our unpaid losses and loss adjustment expenses reserve was reduced by $5.4 million and $5.5 million at December 31, 2008 and 2007, respectively, as a result of this discounting.

A reconciliation of our property/casualty insurance subsidiaries claims reserves can be found in Item 8. Financial Statements and Supplementary Data - Note 14 of Notes to Consolidated Financial Statements contained within this report. Additional discussion of reserve activity can be found in and is referenced to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition section contained within this report.

Table of Contents

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

	At December 31,									
(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Gross liability for unpaid losses and loss adjustment expenses (LAE)	$ 432.9	$ 477.9	$ 557.3	$ 717.0	$ 845.5	$ 943.0	$1,019.5	$1,073.6	$1,026.5	**$965.1**
Gross liability re-estimated as of:										
One year later	477.0	516.2	622.6	727.2	844.5	955.3	1,034.1	992.8	945.8	
Two years later	487.2	567.1	635.1	730.5	886.2	1,004.1	1,006.1	942.9		
Three years later	518.6	567.2	644.3	781.2	958.5	1,014.4	971.5			
Four years later	518.5	562.2	699.4	856.4	983.0	982.8				
Five years later	519.0	619.0	779.2	888.0	952.8					
Six years later	576.4	701.0	816.5	858.9						
Seven years later	658.0	721.5	788.2							
Eight years later	680.3	702.6								
Nine years later	659.7									
Cumulative (deficiency) redundancy	(226.8)	(224.7)	(230.9)	(141.9)	(107.3)	(39.8)	48.0	130.7	80.7	
Gross liability for unpaid losses and LAE	$ 432.9	$ 477.9	$ 557.3	$ 717.0	$ 845.5	$ 943.0	$1,019.5	$1,073.6	$1,026.5	**$965.1**
Reinsurance recoverable on unpaid losses	337.9	375.6	438.6	577.9	687.8	765.6	825.9	872.4	831.7	**778.3**
Net liability for unpaid losses and LAE	$ 95.0	$ 102.3	$ 118.7	$ 139.1	$ 157.7	$ 177.4	$ 193.6	$ 201.2	$ 194.8	**$186.8**
Net re-estimated liability as of:										
One year later	$ 104.7	$ 109.8	$ 126.6	$ 140.9	$ 162.6	$ 181.2	$ 183.0	$ 185.1	$ 181.7	
Two years later	106.2	116.0	127.0	144.6	171.9	179.3	175.5	180.6		
Three years later	110.6	116.2	131.9	155.7	173.8	173.7	173.9			

Four years later	110.8	120.9	143.6	157.6	170.3	172.1				
Five years later	115.3	132.5	146.2	155.1	169.4					
Six years later	124.8	135.0	144.7	153.2						
Seven years later	126.7	132.8	142.6							
Eight years later	125.8	131.2								
Nine years later	123.8									
Cumulative (deficiency) redundancy	$ (28.8)	$ (28.9)	$ (23.9)	$ (14.1)	$ (11.7)	$ 5.3	$ 19.7	$ 20.6	$ 13.1	

	At December 31,									
(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Cumulative amount of gross liability paid through:										
One year later	$158.9	$174.4	$194.3	$217.0	$259.1	$271.4	$271.7	$257.4	$248.0	
Two years later	244.9	270.9	302.1	351.0	410.6	435.0	427.0	404.4		
Three years later	297.6	326.1	372.4	434.8	508.4	530.0	519.1			
Four years later	326.9	361.3	418.9	488.0	561.4	586.1				
Five years later	347.0	384.9	450.6	514.8	593.8					
Six years later	362.9	405.9	466.9	534.9						
Seven years later	379.2	415.8	481.0							
Eight years later	387.2	427.8								
Nine years later	395.2									
Cumulative amount of net liability paid through:										
One year later	$ 38.9	$ 41.2	$ 47.2	$ 51.3	$ 58.0	$ 53.9	$ 51.9	$ 56.0	$ 57.3	
Two years later	59.2	64.8	73.6	81.3	85.3	81.9	82.8	89.2		

Three years later	73.5	79.2	91.2	95.3	100.3	101.5	104.1
Four years later	81.6	88.5	97.4	100.9	111.9	114.6	
Five years later	86.9	89.8	97.9	107.3	120.1		
Six years later	87.5	94.1	101.8	112.5			
Seven years later	90.8	96.4	105.6				
Eight years later	92.4	98.5					
Nine years later	93.9						

Government Regulation

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

The Property and Casualty Group is also required to participate in various involuntary insurance programs for automobile insurance, as well as other property/casualty lines, in states in which such companies operate. These involuntary programs provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage in the voluntary market. These programs include joint underwriting associations, assigned risk plans, fair access to insurance requirements (FAIR) plans, reinsurance facilities and windstorm plans. Legislation establishing these programs generally provides for participation in proportion to voluntary writings of related lines of business in that state. The loss ratio on insurance written under involuntary programs has traditionally been greater than the loss ratio on insurance in the voluntary market. Involuntary programs generated calendar year underwriting gains of $25.3 million for the Property and Casualty Group in 2008, compared to gains of $15.0 million in 2007 and $1.9 million in 2006. The calendar year gains on the involuntary reinsurance programs result from positive development on prior year reserves for this line. Our share of these underwriting gains related to involuntary programs was $1.4 million in 2008, $0.8 million in 2007 and $0.1 million in 2006. The states that the Property and Casualty Group writes business in have experienced little, if any, impact from hurricane activity, resulting in the underwriting gains generated from the involuntary programs.

Most states have enacted legislation that regulates insurance holding company systems such as the Erie Insurance Group. Each insurance company in the holding company system is required to register with the insurance supervisory authority of its state of domicile and furnish information regarding the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. Pursuant to these laws, the respective insurance departments may examine us and the Property and Casualty Group at any time, require disclosure of material transactions with the insurers and us as an insurance holding company and require prior approval of certain transactions between the Property and Casualty Group and us. All transactions within the holding company system affecting the insurers we manage are filed with the applicable insurance departments and must be fair and reasonable. Approval of the applicable insurance commissioner is required prior to the consummation of transactions affecting the control of an insurer. In some states, the acquisition of 10% or more of the outstanding common stock of an insurer or its holding company is presumed to be a change in control. Approval of the applicable insurance commissioner is also required in order to declare extraordinary dividends. See Item 8, Financial Statements and Supplementary Data Note 19 of Notes to Consolidated Financial Statements contained within this report.

Website access

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website at www.erieinsurance.com as soon as reasonably practicable after such material is filed electronically with the SEC. Our Code of Conduct is available on our website and in printed form upon request. Our annual report on Form 10-K and the information statement on Form 14(C) are also available free of charge at www.erieinsurance.com. Copies of our annual report on Form 10-K will be made available, free of charge, upon written request as well.

7

Table of Contents

Item 1A. Risk Factors

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

We began formal enterprise risk management (ERM) activities in 2005 under the leadership of our Chief Executive Officer and executive management. At the end of 2008 we formally appointed our property/casualty Chief Actuary as our enterprise-wide Chief Risk Officer (CRO). There is still no universally accepted ERM standard of practice and, as such, approaches take on different forms throughout the insurance industry. Our formal ERM effort is meant to create an atmosphere of risk-intelligent decision making and, in turn, add greater likelihood to the successful achievement of our corporate objectives. To achieve these goals, our ERM program focuses on the following priorities:

- identifying, assessing and prioritizing potential risk events (using both quantitative and qualitative techniques);
- cataloguing effective risk responses;
- monitoring actual losses and learning from historical risk events;
- educating and encouraging employees at all levels to consider the risks and rewards of the decisions they make;
- managing corporate risks from an enterprise portfolio viewpoint;
- defining risk tolerances, including aligning strategic and operational objectives within those tolerances, and enforcing subsequent decision standards and limits; and
- planning for extreme adverse risk events.

Our ERM policy statement establishes the framework, principles and guidelines for our ERM program so that aggregated risks are acceptable to us or any of our subsidiaries or affiliates, including the Erie Insurance Exchange. Leadership and direction of the program are the responsibility of the CRO, as are the reporting of risk information to executive management and the Board of Directors, advising decision makers from a risk perspective, and improving our overall risk-readiness. Our ERM committee consists of a cross-functional team of representatives from all major business functions as well as a technical team which is responsible for risk quantification and identification on an integrated basis. General day-to-day risk management responsibility lies within our functional divisions, ensuring execution by those most familiar with the related risks. In 2008 we also established a compliance department within our law division and appointed a Chief Compliance Officer specifically charged with monitoring regulatory, legal, and ethical requirements and ensuring that appropriate responses are initiated.

An essential part of our ERM infrastructure is a stochastic modeling capability for our property/casualty insurance operations as well as the investment operations for the Property and Casualty Group. The modeling capability has been in use since 2003 and is a significant component in our quantification of insurance and investment risk. Model output is used to assess the variability of risk inherent in our operations and the sufficiency of enterprise capital levels given our defined tolerance for risk. The model further provides additional insights into capital management, strategic asset allocation of our investment portfolios, capital required for product lines sold by the enterprise, catastrophe exposure management and reinsurance purchasing and risk management strategy.

As our ERM program continues to evolve, new techniques are being used at the enterprise and individual project levels to consider key risks not inherently quantifiable. ERM tools continue to be developed and modified to identify and assess risk on a consistent basis, providing management with more information to respond effectively and

efficiently.

Risk factors related to our business and relationships with third parties

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

We are dependent upon management fees paid by the Exchange, which represent our principal source of revenue. Management fee revenue from the Exchange is calculated by multiplying the management fee rate by the direct

premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. Accordingly, any reduction in direct premiums written by the Property and Casualty Group would have a proportional negative effect on our revenues and net income. See the Risk Factors relating to the business of the Property and Casualty Group section, herein, for a discussion of risks impacting direct written premium.

The management fee rate is determined by the Board of Directors and may not exceed 25% of the direct written premiums of the Property and Casualty Group. The Board of Directors sets the management fee rate each December for the following year. At their discretion, the rate can be changed at any time. The factors considered by the Board in setting the management fee rate include our financial position in relation to the Exchange and the long-term needs of the Exchange for capital and surplus to support its continued growth and competitiveness. If the Board of Directors determines that the management fee rate should be reduced, our revenues and profitability could be materially adversely affected. Also, if the Exchange s surplus were significantly reduced due to a severe decline in the value of the Exchange s investments, the management fee rate could be reduced and our revenues and profitability could be materially adversely affected.

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

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

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

Two of our wholly-owned property/casualty insurance subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, are parties to the intercompany pooling arrangement with the Exchange. Under this pooling arrangement, our insurance subsidiaries cede 100% of their property/casualty underwriting business to the Exchange, which retrocedes 5% of the pooled business to Erie Insurance Company and 0.5% to Erie Insurance Company of New York. In 2008, approximately 83% of the pooled direct property/casualty business was originally generated by the Exchange and its subsidiary, while 94.5% of the pooled business is retroceded to the Exchange under the intercompany pooling arrangement. Accordingly, the Exchange assumes a higher insurance risk than is proportional to the insurance business it contributes to the pool. This poses a credit risk to our property/casualty subsidiaries participating in the pool as they retain the responsibility to their direct policyholders if the Exchange is unable to meet its reinsurance obligations.

We hold receivables from the Exchange for costs we pay on the Exchange s behalf and for reinsurance under the intercompany pooling arrangement. Our total receivable from the Exchange, including the management fee, reimbursable costs we paid on behalf of the Exchange and total amounts recoverable from the intercompany reinsurance pool, totaled $1.1 billion or 42.3% of our total assets at December 31, 2008.

Our financial condition may suffer because of declines in the value of the securities held in our investment portfolio that constitute a significant portion of our assets. The continuing volatility in the financial markets and the ongoing economic downturn could have a material adverse effect on our results of operations or financial condition.

Markets in the United States and around the world have been experiencing extreme volatility and disruption since mid-2007. Financial stress has affected the liquidity of the banking system and the financial system as a whole. During the fourth quarter of 2008 the volatility and disruption reached unprecedented levels. Although the U.S. and foreign governments have taken various actions to try to stabilize the financial markets, it is unclear if these actions will be effective. The financial market volatility and the resulting economic impact could continue and it is possible it could be prolonged.

9

Although we continue to monitor market conditions, we cannot predict future market conditions or their impact on our investment portfolio. Depending on market conditions, we could incur additional realized and unrealized losses in future fiscal periods, which could have a material adverse effect on our results of operations, financial condition or liquidity. In addition, the continuing financial market volatility and economic downturn could have a material adverse affect on third parties with which we do business. We cannot predict the impact that this would have on our business or results of operations.

Credit markets are in a particularly fragile state. Worsening economic data in the fourth quarter of 2008 increased market volatility. Extreme aversion to risk led to the lowest Treasury yields in more than fifty years. While our fixed income portfolio is well diversified, continued volatility in the credit markets could adversely affect the values and liquidity of our corporate and municipal bonds and our asset-backed and mortgage-backed securities, which could have a material adverse affect on our financial condition. We do not hedge our exposure to interest rate risk as we have the ability to hold fixed income securities to maturity. Our investment strategy achieves a balanced maturity schedule in order to moderate investment income in the event of interest rate declines in a year in which a large amount of securities could be redeemed or mature. We do not hedge our exposure to credit risk as we control industry and issuer exposure in our diversified portfolio.

At December 31, 2008, we had investments in equity securities of $88.6 million and investments in limited partnerships of $299.2 million, or 3.4% and 11.4% of total assets, respectively. In addition, we are obligated to invest up to an additional $90.8 million in limited partnerships, including private equity, real estate and fixed income partnership investments. Limited partnerships are less liquid and involve higher degrees of price risk than publicly traded securities. Limited partnerships, like publicly traded securities, have exposure to market volatility; but unlike publicly traded securities, cash flows and return expectations are less predictable. The primary basis for the valuation of limited partnership interests are financial statements prepared by the general partner. Because of the timing of the preparation and delivery of these financial statements, the use of the most recently available financial statements provided by the general partners result in a quarter delay in the inclusion of the limited partnership results in our Consolidated Statements of Operations. Due to this delay, these financial statements do not reflect the volatility in market conditions experienced in the fourth quarter 2008. We expect additional deterioration to be reflected in the general partners year end financial statements, which we will receive in 2009, and such declines could be significant.

All of our marketable securities are subject to market volatility. Our marketable securities have exposure to price risk and the volatility of the equity markets and general economic conditions. To the extent that future market volatility negatively impacts our investments, our financial condition will be negatively impacted. We review the investment portfolio on a continuous basis to evaluate positions that might have incurred other-than-temporary declines in value. The primary factors considered in our review of investment valuation include the extent and duration to which fair value is less than cost, historical operating performance and financial condition of the issuer, short- and long-term prospects of the issuer and its industry, specific events that occurred affecting the issuer and our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. If our policy for determining the recognition of impaired positions were different, our Consolidated Statements of Financial Position and Statements of Operations could be significantly impacted. See also Item 7A. Quantitative and Qualitative Disclosures about Market Risk and Item 8. Financial Statements and Supplementary Data - Note 3 of Notes to Consolidated Financial Statements contained within this report.

Ineffective business relationships, including partnering and outsourcing, could affect our ability to compete.

The inability to successfully build business relationships through partnering or outsourcing could have a material adverse effect on our business. As we purchase technologies or services from others, we are reliant upon our partners employee skill, performance and ability to fulfill fundamental business functions. This places our business performance at risk. The severity of such risk would be commensurate with the level of aptitude of the external vendors knowledge and/or technology. If the business partner does not act within the intended limits of their authority or does not perform in a manner consistent with our business objectives, this could lead to ineffective operational performance. The potential also exists for an agency or policyholder to experience dissatisfaction with a vendor which may have an adverse effect on our business and/or agency relationships.

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

The Property and Casualty Group faces significant competition from other regional and national insurance companies which may result in lower revenues. Additionally, we face the operational risk of potential loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

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

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

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

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

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

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

We have an established business continuity plan in an effort to ensure the continuation of core business operations in the event that normal business operations could not be performed due to a catastrophic event. While we continue to test and assess our business continuity plan to ensure it meets the needs of our core business operations and addresses multiple business interruption events, there is no assurance that core business operations could be performed upon the occurrence of such an event.

Advancements in technology continue to make it easier to store, share and transport information. A security breach of our computer systems could interrupt or damage our operations or harm our reputation if confidential company or customer information were to be misappropriated from our systems. Cases where sensitive data is exposed or lost may lead to a loss in competitive advantage or lawsuits. We implement standard information security procedures, such as user authentication protocols and intrusion detection systems, to control data access and storage, including that which is available on the internet.

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

One of the distinguishing features of the property and casualty insurance industry in general is that its products are priced before its costs are known, as premium rates are generally determined before losses are reported. Accordingly, premium rates must be established from forecasts of the ultimate costs expected to arise from risks underwritten

during the policy period and may not prove to be adequate. Further, property and casualty insurers

establish reserves for losses and loss adjustment expenses based upon estimates, and it is possible that the ultimate liability will exceed these estimates because of the future development of known losses, the existence of losses that have occurred but are currently unreported and larger than historical settlements on pending and unreported claims. The process of estimating reserves is inherently judgmental and can be influenced by factors that are subject to variation. If pricing or reserves established by a member of the Property and Casualty Group are not sufficient, our underwriting profitability may be adversely impacted.

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

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

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

The Property and Casualty Group maintains a property catastrophe reinsurance treaty that was renewed effective January 1, 2009 that provides coverage of 95% of a loss up to $400 million in excess of the Property and Casualty Group s loss retention of $450 million per occurrence. This treaty excludes losses from acts of terrorism. Nevertheless, catastrophe reinsurance may prove inadequate if a major catastrophic loss exceeds the reinsurance limit which could adversely affect our underwriting profitability.

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

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

To the extent that business migrates to a delivery system other than independent agencies because of changing consumer preferences, the business of the Property and Casualty Group could be adversely affected. Also, to the extent the agencies choose to place significant portions or all of their business with competing insurance companies, the results of operations and business of the Property and Casualty Group could be adversely affected.

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

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

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

Property and casualty insurers are subject to extensive supervision in the states in which they do business. This regulatory oversight includes, by way of example, matters relating to licensing and examination, rate setting, market conduct, policy forms, limitations on the nature and amount of certain investments, claims practices, mandated participation in involuntary markets and guaranty funds, reserve adequacy, insurer solvency, transactions between affiliates and restrictions on underwriting standards. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of shareholders. For instance, members of the Property and Casualty Group are subject to involuntary participation in specified markets in various states in which it operates, and the rate levels the Property and Casualty Group is permitted to charge do not always correspond with the underlying costs associated with the coverage issued. Although the federal government does not directly regulate the insurance industry, federal initiatives, such as federal terrorism backstop legislation, from time-to-time, also can impact the insurance industry. In addition to specific insurance regulation, we must also comply with other regulatory, legal and ethical requirements relating to the general operation of a business. In 2008, we appointed a Chief Compliance Officer to oversee insurance regulations as well as other compliance issues.

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The member companies of the Erie Insurance Group share a corporate home office complex in Erie, Pennsylvania, which is comprised of approximately 500,000 square feet. The home office complex is owned by the Exchange. We are charged rent for the related square footage we occupy.

The Erie Insurance Group also operates 23 field offices in 11 states. Seventeen of these offices provide both agency support and claims services and are referred to as branch offices, while the remaining six provide only claims services and are considered claims offices. Three field offices are owned by the Exchange and leased to us. One

field office operates out of the home office complex. We incurred net rent expense for both the home office complex and the field offices leased from the Exchange totaling $5.6 million in 2008.

We own three field offices. One field office is owned by EFL and leased to us. The net rent expense for the field office leased from EFL was $0.3 million in 2008.

The remaining 15 field offices are leased from various unaffiliated parties. In addition to these field offices, we lease certain other facilities from unaffiliated parties. Net lease payments to external parties amounted to $2.7 million in 2008. Lease commitments for these properties expire periodically through 2013.

The total operating expense, including rent expense, for all office space we occupied in 2008 was $22.6 million. This amount was reduced by reimbursements from affiliates of $14.4 million. This net amount after allocations is reflected in our cost of management operations.

Item 3. Legal Proceedings

In December 2008, the Company, Erie Insurance Company of New York and Erie Insurance Company (the settling companies) reached a settlement with the U.S. Department of Justice in connection with an administrative action filed in 2002 with the U.S. Department of Housing and Urban Development and a related civil complaint filed in December 2008 in the United States District Court for the Western District of New York. The complaint alleged that the settling companies operated their businesses in New York state in a manner that resulted in differences in market share for certain types of homeowners and renters insurance policies sold in neighborhoods with lower percentages of African American populations and those with higher percentages African Americans. This settlement is in the form of a Consent Decree in which the settling companies agreed to a number of provisions, including: appointment of a full-time Director of Diversity and Community Outreach whose primary responsibilities include overseeing training, outreach and monitoring of the settling companies marketing and sales activities in target Census blocks in New York State; payment of $50,000 to Syracuse Habitat for Humanity for the purpose of improving the quality and availability of housing in Onondaga County; payment of $225,000 to the Fair Housing Council of Central New York; training of the settling companies New York State agents regarding the sale and marketing of the settling companies products and services; expansion of the settling companies sales and marketing efforts in target census blocks in upstate New York; and amendment of homeowners and renters insurance marketing materials used in New York to include an Equal Housing Opportunity logo, slogan or statement. While the Consent Decree acknowledges that there were no factual findings with regard to the allegations against the settling companies, they decided to enter into the settlement to avoid costly and protracted litigation. There is also no finding or admission that either the settling companies or their independent insurance agents violated the Federal Fair Housing Act or otherwise engaged in any unlawful discrimination.

Reference is made to Item 8. Financial Statements and Supplementary Data - Note 21 of Notes to Consolidated Financial Statements contained within this report.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

Table of Contents

PART II

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

Common stock market prices and dividends

Our Class A, non-voting common stock trades on The NASDAQ Stock Market[SM] LLC under the symbol ERIE. No established trading market exists for the Class B voting common stock. American Stock Transfer & Trust Company serves as our transfer agent and registrar. As of February 18, 2009, there were approximately 902 beneficial shareholders of record of our Class A non-voting common stock and 12 beneficial shareholders of record of our Class B voting common stock.

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

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

	2008				2007			
	Sales Price		**Cash Dividend Declared**		Sales Price		Cash Dividend Declared	
Quarter ended	**High**	**Low**	**Class A**	**Class B**	High	Low	Class A	Class B
March 31	**$52.39**	**$48.13**	**$0.440**	**$ 66.00**	$58.24	$51.75	$0.400	$ 60.00
June 30	**56.04**	**46.15**	**0.440**	**66.00**	56.62	52.01	0.400	60.00
September 30	**49.00**	**40.61**	**0.440**	**66.00**	62.29	50.70	0.400	60.00
December 31	**43.66**	**31.52**	**0.450**	**67.50**	61.41	50.52	0.440	66.00
Total			**$1.770**	**$265.50**			$1.640	$246.00

Stock performance

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

	2003	2004	2005	2006	2007	**2008**
Erie Indemnity Company Class A common stock	$100*	$126	$130	$146	$134	**$102**
Standard & Poor s 500 Stock Index	100*	111	116	135	142	**90**
Standard & Poor s Property-Casualty Insurance Index	100*	110	127	143	125	**88**

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

Table of Contents

Issuer Purchases of Equity Securities

A stock repurchase plan was authorized January 1, 2004 allowing us to repurchase up to $250 million of our outstanding Class A common stock through December 31, 2006. Our Board of Directors approved continuations of this stock repurchase program for an additional $250 million in February 2006, an additional $100 million in September 2007, and an additional $100 million in April 2008 which authorizes repurchases through June 30, 2009. We may purchase the shares, from time-to-time, in the open market or through privately negotiated transactions, depending on prevailing market conditions and alternative uses of our capital. Shares repurchased during 2008 totaled 2.1 million at a total cost of $102.0 million. Cumulative shares repurchased under this plan since inception were 11.7 million at a total cost of $610.1 million. See Item 8. Financial Statements and Supplementary Data Note 13 of Notes to Consolidated Financial Statements contained within this report for discussion of additional shares repurchased outside of this plan from the F. William Hirt Estate in 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
October 1 31, 2008	**0**	**$ 0.00**	**0**	
November 1 30, 2008	**0**	**0.00**	**0**	
December 1 31, 2008	**93,620**	**35.88**	**93,620**	
Total	**93,620**		**93,620**	**$89,900,000**

16

Table of Contents

Item 6. Selected Consolidated Financial Data

	ERIE INDEMNITY COMPANY				
	Years Ended December 31,				
(in thousands, except per share data)	**2008**	2007	2006	2005	2004
Operating data:					
Total operating revenue	**$1,137,231**	$1,132,291	$1,133,982	$1,124,950	$1,123,144
Total operating expenses	**951,397**	930,454	934,204	900,731	884,916
Total investment (loss) income-unaffiliated	**(63,128)**	107,331	99,021	115,237	88,119
Provision for income taxes	**39,865**	99,137	99,055	111,733	105,140
Equity in (losses) earnings of Erie Family Life Insurance, net of tax	**(13,603)**	2,914	4,281	3,381	5,206
Net income	**$ 69,238**	$ 212,945	$ 204,025	$ 231,104	$ 226,413
Per share data:					
Net income per share-diluted	**$ 1.19**	$ 3.43	$ 3.13	$ 3.34	$ 3.21
Book value per share-Class A common and equivalent B shares	**13.79**	17.68	18.17 [4]	18.81	18.14
Dividends declared per Class A share	**1.770**	1.640	1.480	1.335	0.970
Dividends declared per Class B share	**265.50**	246.00	222.00	200.25	145.50
Financial position data:					
Investments[1]	**$ 981,675**	$1,277,781	$1,380,219	$1,452,431	$1,371,442
Receivables due from the Exchange and affiliates	**1,130,610**	1,177,830	1,238,852	1,193,503	1,157,384
Total assets	**2,613,386**	2,878,623	3,039,361	3,101,261	2,982,804
Shareholders equity	**791,875** [2]	1,051,279	1,161,848 [4]	1,278,602	1,266,881
Treasury stock	**810,961**	708,943	472,230	254,877	155,911
Cumulative number of shares repurchased at December 31,	**16,995**	14,939 [3]	10,448	6,438	4,548

(1) Includes investment in Erie Family Life Insurance.

(2) At January 1, 2008, we adopted the recognition provisions of Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, for our common stock portfolio. The net impact of the cumulative effect adjustment on January 1, 2008 increased retained earnings and reduced other comprehensive income by $11.2 million, net of tax, resulting in no effect on shareholders equity.

(3) Includes 1.9 million shares of our Class A nonvoting common stock from the F. William Hirt Estate separate from our stock repurchase program.

(4) At December 31, 2006, shareholders equity decreased by $21.1 million, net of taxes, as a result of initially applying the recognition provisions of Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.

Table of Contents

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 our Company. This discussion should be read in conjunction with the audited financial statements and related notes and all other items contained within this Annual Report on Form 10-K, as they contain important information helpful in evaluating our financial condition and operating results.

Certain statements contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are not in the present or past tense and can generally be identified by the use of words such as anticipate, believe, estimate, expect, intend, likely, plan, project, seek, should, target, will, and other expressions that indicate futu events. Forward-looking statements 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 such statements are discussions relating to management fee revenue, cost of management operations, underwriting, premium and investment income volumes, and agency appointments. Such 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 that could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements are the following: factors affecting the property/casualty and life insurance industries generally, including price competition, legislative and regulatory developments, government regulation of the insurance industry including approval of rate increases, the size, frequency and severity of claims, natural disasters, exposure to environmental claims, fluctuations in interest rates, inflation and general business conditions; the geographic concentration of our business as a result of being a regional company; the accuracy of our pricing and loss reserving methodologies; changes in driving habits; our ability to maintain our business operations including our information technology system; our dependence on the independent agency system; the quality and liquidity of our investment portfolio; our dependence on our relationship with Erie Insurance Exchange; and the other risks and uncertainties discussed or indicated in all documents filed by the Company with the Securities and Exchange Commission, including those described in Part I, Item 1A. Risk Factors and elsewhere in this report. A forward-looking statement speaks only as of the date on which it is made and reflects the Company s analysis only as of that date. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changes in assumptions, or otherwise.

OVERVIEW

The discussions below focus heavily on our three segments: management operations, insurance underwriting operations and investment operations. The segment basis financial results presented throughout Management s Discussion and Analysis herein are those which management uses internally to monitor and evaluate results and are a supplemental presentation of our Consolidated Statements of Operations.

Economic and industry-wide factors

Because we are a management company, our earnings are driven largely by the management fee revenue we collect from the Exchange that is based on the direct written premiums of the Property and Casualty Group. The property/casualty insurance industry is highly cyclical, with periods of rising premium rates and shortages of underwriting capacity (hard market) followed by periods of substantial price competition and excess capacity (soft market). The property/casualty insurance industry has been well capitalized in recent years, however, the turmoil in the securities markets, the volatile economic environment, and the return of severe tropical storm losses have all taken a toll on 2008 industry results. Conning Research & Consulting estimates the industry combined ratio to be 106.3 in 2008, which is a deterioration from the actual industry combined ratio of 95.6 in 2007. While favorable loss reserve development benefited industry underwriting results, continued price softening, high catastrophe losses and significant underwriting losses contributed to the 2008 deterioration. These market conditions for insurers may be a precursor to increases in pricing on property and casualty policies. Conning Research & Consulting is predicting that slower economic growth in 2009 will contribute to slow exposure growth. While premium rates appear to be hardening, the effect of the softening economy, in terms of auto and home sales, could lead to weakness in the growth of top line premium.

The cyclical nature of the insurance industry has a direct impact on our income from management operations, as our management fee revenues are based on the direct written premiums of the Property and Casualty Group and the

Table of Contents

management fee rate we charge. Periods of flattening premiums, generally result in lower margins from management operations. Our management fee revenue reflected minimal growth of 0.3% in 2008, as direct written premiums of the Property and Casualty Group increased only 0.4% compared to 2007. The Property and Casualty Group implemented price reductions of approximately $30 million in 2008, however we believe our pricing will stabilize in 2009 and anticipate approximately $36 million in direct written premium increases from rating actions taken in 2009. These increases could be offset by the effects on our business from the softening economy.

The upheaval in the financial markets in the third and fourth quarters of 2008 had a negative impact on our investment operations. What began in the second half of 2007 as a subprime mortgage crisis has grown to a global crisis in the financial markets. We record impairment writedowns on investments in instances where the fair value of the investment is substantially below cost, and we conclude that the decline in fair value is other-than-temporary. Impairment charges were also affected by our proactive tax strategies which precluded us from asserting our intent to hold these investments to recovery. During 2008, we impaired $69.5 million of securities primarily for investments in the banking and finance industries. Included in the total impairment charge were $36.0 million in charges on fixed maturities and $33.5 million in charges on preferred stock. The Exchange also recognized substantial impairment charges in 2008 of $663.1 million with $204.2 million in bonds, $213.9 million in preferred stock and $245.0 million in common stock. Many of these securities are performing in line with anticipated or contractual cash flows.

The valuation of our entire investment portfolio was significantly affected by the 2008 upheaval in the financial markets. Net unrealized losses on fixed maturities at December 31, 2008 were $34.2 million compared with $0.9 million in net unrealized gains at December 31, 2007, with unrealized losses in the financial sector being the primary driver. There were also $4.7 million in net unrealized losses in equity securities at December 31, 2008 compared with $3.0 million at December 31, 2007. Our trading securities portfolio was similarly affected, with a net unrealized loss of $4.5 million at December 31, 2008 compared to a $17.2 million gain at December 31, 2007.

Our alternative investments were also impacted by the 2008 market declines. Equity in earnings of limited partnerships decreased $54.0 million in 2008 over 2007. The valuation adjustments in the limited partnerships are based on information received from our general partners, which is generally received on a quarter lag. As a result, the 2008 partnership earnings do not reflect the valuation changes that were impacted by the upheaval in the financial markets in the fourth quarter of 2008.

Revenue generation

We have three primary sources of revenue. Our most significant source of revenue is generated by providing management services to the Exchange. The management fee is calculated as a percentage, not to exceed 25%, of the direct written premiums of the Property and Casualty Group. The Board of Directors establishes the rate at least annually and considers such factors as relative financial strength of the Exchange and Company and projected revenue streams. Our Board set the 2009 rate at 25%, its maximum level.

Second, we generate revenues from our property/casualty insurance subsidiaries, which consist of our share of the pooled underwriting results of the Property and Casualty Group. All members of the Property and Casualty Group pool their underwriting results. Under the pooling agreement, the Exchange assumes 94.5% of the Property and Casualty Group s net written premium. Through the pool, our subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, currently assume 5.5% of the Property and Casualty Group s net written premium, providing a direct incentive for us to manage the insurance underwriting discipline as effectively as possible.

Finally, we generate revenues from our fixed maturity, equity and alternative investment portfolios. The portfolios are managed with a view toward maximizing after-tax yields and limiting credit risk, and we actively evaluate our portfolios for impairments. Due to the global liquidity crises surrounding the credit markets and more broadly the financial services industry in 2008, we recognized $69.5 million of impairment charges as a result of continued declines in fair value and credit deterioration on certain of our bonds and preferred stocks predominately in the banking and finance industry sectors. The majority of the impairments relate to securities that are artificially depressed due to current market conditions, but continue to meet interest and dividend obligations. We also had net losses on common stocks of $38.6 million and reduced valuation adjustments recorded by our real estate limited partnerships as a result of the general slow-down and recent economic downturn in the real estate markets. We have consistently generated high levels of cash flows from operations, which amounted to $150.8 million in 2008. Our net cash flows

from operations have been used to pay shareholder dividends and to repurchase shares of our stock under our repurchase program.

Table of Contents

Opportunities, challenges and risks

In order to grow our management fee revenue, our key challenges in 2009 will be to continue to generate profitable property/casualty revenue growth while containing the growth of expenses in our management operations. Expense management is further challenged by our need to enhance technology and improve ease of doing business for our agents and policyholders.

We continued to pursue opportunities in our current territories through the appointment of 156 new agencies in 2008. During 2009, we plan to continue this momentum by appointing another 127 agencies. We continued to develop the personal lines pricing plan, by introducing additional variables that further segment risks and allow us to be price competitive for the best risks. The Property and Casualty Group continues to evaluate potential new product offerings and product extensions to meet consumer demands.

We plan to continue to control the growth in the cost of management operations by controlling salary and wage costs and other discretionary spending in 2009. However, we also intend to continue making targeted investments in technology to enhance customer service, ease of doing business with our agents and customers, and to improve our productivity. In 2009, we expect to incur additional expenses on our various technology initiatives aimed at improving our competitiveness. See Future trends - costs of management operations section for further details.

Financial overview

	Years ended December 31,				
(in thousands, except per share data)	**2008**	**% Change 2008 over 2007**	2007	% Change 2007 over 2006	2006
Income from management operations	**$172,525**	**(2.6)%**	$177,174	(5.0)%	$186,408
Underwriting income	**13,309**	**(46.0)**	24,663	84.5	13,370
Net (loss) revenue from investment operations	**(77,755)**	**NM**	110,464	6.6	103,625
Income before income taxes	**108,079**	**(65.4)**	312,301	2.9	303,403
Provision for income taxes	**38,841**	**(60.9)**	99,356	0.0	99,378
Net income	**$ 69,238**	**(67.5)**	$212,945	4.4	$204,025
Net income per share diluted	**$ 1.19**	**(65.2)%**	$ 3.43	9.6%	$ 3.13

NM = not meaningful

Key points

- Decrease in net income per share-diluted in 2008 was driven by net realized losses on investments as a result of the upheaval in the financial markets, particularly in the third and fourth quarters of 2008. In the year, we recognized $69.5 million of impairment charges on fixed maturities and preferred stock, $38.6 million of net realized losses on common stock and a drop in our equity in earnings of limited partnerships of $54.0 million.
- Gross margins from management operations decreased slightly to 17.6% in 2008 from 18.1% in 2007.
- GAAP combined ratios of the insurance underwriting operations increased to 93.6 in 2008 from 88.1 in 2007 driven by slightly higher catastrophe losses and less favorable development of prior accident year loss reserves when compared to 2007 results.

Management operations

Management fee revenue increased 0.3% and 0.4% in 2008 and 2007, respectively. The two determining factors of management fee revenue are: 1) the management fee rate we charge, and 2) the direct written premiums of the Property and Casualty Group. The management fee rate was 25% for both 2008 and 2007. Direct written premiums of the Property and Casualty Group were largely unchanged at $3.8 billion for 2008 and 2007.

In 2008, the direct written premiums of the Property and Casualty Group increased 0.4% compared to a 0.5% decline in 2007. New policy direct written premiums of the Property and Casualty Group increased 2.9% in 2008 compared to 9.0% in 2007, while renewal premiums increased 0.1% in 2008 compared to a decline of 1.5% in 2007. New business policies in force increased 3.1% in 2008 compared to 6.4% in 2007, and renewal business policies in force increased 2.9% in 2008 compared to 1.9% in 2007. Despite the growth in policies in force, rate reductions of $30.3 million led to minimal growth in 2008, and rate reductions of $85.9 million contributed to the decline in 2007.

Table of Contents

The cost of management operations increased 1.2%, or $10.0 million, to $809.5 million in 2008, primarily due to the increase in non-commission expenses:

- *Commissions* Total commission costs decreased 0.6%, or $3.4 million, to $554.0 million in 2008 driven by a decrease in agent bonuses as a result of a reduction in the profitability component of the award. Offsetting this reduction were increases in normal scheduled rate commissions, a private passenger auto bonus and other promotional incentives classified as commissions.

- *Total costs other than commissions* All other non-commission expense increased 5.5%, to $255.6 million in 2008, driven by personnel, sales and policy issuance costs and other operating costs. Personnel costs increased primarily due to higher average pay rates and higher staffing levels coupled with increases in executive severance costs and management incentive plan expense. Sales and policy issuance costs rose due to increased agent advertising program expense. Other operating costs increased due to various corporate technology initiatives that resulted in additional contract labor fees and software costs.

Insurance underwriting operations

Contributing to underwriting income of $13.3 million and a 93.6 GAAP combined ratio in 2008, compared to underwriting income of $24.7 million and an 88.1 GAAP combined ratio in 2007, were the following factors:

- catastrophe losses totaling 3.4 points, or $7.0 million, in 2008 due to remnants of Hurricane Ike in Ohio, Pennsylvania and Indiana, compared to 1.7 points, or $3.6 million, in 2007; and

- favorable development on prior accident year loss reserves of 3.2 points, or $6.7 million, in 2008, compared to 5.3 points, or $11.0 million, of favorable development in 2007; and

- increase in the underlying non-catastrophe accident year combined ratio as a result of slightly declining average premiums and increased loss costs.

Investment operations

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