ERIE INDEMNITY CO
Form 10-Q
November 03, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PERSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

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)	25-0466020 (I.R.S. Employer Identification No.)
100 Erie Insurance Place, Erie, Pennsylvania (Address of principal executive offices)	16530 (Zip Code)

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

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

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 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No __

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

Large Accelerated Filer 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

The number of shares outstanding of the registrant s Class A Common Stock as of the latest practicable date, with no par value and a stated value of $0.0292 per share, was 48,046,314 at October 20, 2011.

The number of shares outstanding of the registrant s Class B Common Stock as of the latest practicable date, with no par value and a stated value of $70 per share, was 2,546 at October 20, 2011.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(dollars in millions, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues				
Premiums earned	$ 1,061	$ 1,005	$ 3,138	$ 2,972
Net investment income	108	110	326	322
Net realized investment (losses) gains	(422)	205	(234)	117
Net impairment losses recognized in earnings	0	0	0	(6)
Equity in earnings of limited partnerships	40	28	150	58
Other income	9	9	26	26
Total revenues	796	1,357	3,406	3,489
Benefits and expenses				
Insurance losses and loss expenses	848	710	2,724	2,208
Policy acquisition and underwriting expenses	253	242	749	699
Total benefits and expenses	1,101	952	3,473	2,907
(Loss) income from operations before income taxes and noncontrolling interest	(305)	405	(67)	582
Provision for income taxes	(125)	130	(54)	176
Net (loss) income	**(180)**	**275**	**(13)**	**406**
Less: Net (loss) income attributable to noncontrolling interest in consolidated entity - Exchange	**(227)**	**221**	**(156)**	**256**
Net income attributable to Indemnity	**$ 47**	**$ 54**	**$ 143**	**$ 150**
Earnings Per Share				
Net income attributable to Indemnity per share				
Class A common stock basic	$ 0.97	$ 1.05	$ 2.90	$ 2.92
Class A common stock diluted	**$ 0.87**	**$ 0.94**	**$ 2.59**	**$ 2.62**
Class B common stock basic and diluted	$146.67	$150.87	$439.39	$421.91
Weighted average shares outstanding attributable to Indemnity Basic				
Class A common stock	48,503,383	50,499,551	49,176,124	50,897,035
Class B common stock	2,546	2,546	2,546	2,546
Weighted average shares outstanding attributable to Indemnity Diluted				
Class A common stock	54,685,021	56,678,321	55,357,762	57,075,805
Class B common stock	2,546	2,546	2,546	2,546

Dividends declared per share				
Class A common stock	$ 0.515	$ 0.48	$ 1.545	$ 1.44
Class B common stock	$ 77.25	$ 72.00	$ 231.75	$216.00

See accompanying notes to Consolidated Financial Statements. See Note 14, Indemnity Supplemental Information, for supplemental statements of operations information.

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(dollars in millions, except per share data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Investments Indemnity		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $507 and $257, respectively)	$ 517	$ 264
Equity securities (cost of $21 and $20, respectively)	22	24
Trading securities, at fair value (cost of $24 and $21, respectively)	26	28
Limited partnerships (cost of $198 and $202, respectively)	223	216
Other invested assets	1	1
Investments Exchange		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $6,877 and $6,863, respectively)	7,331	7,279
Equity securities (cost of $559 and $503, respectively)	591	570
Trading securities, at fair value (cost of $1,938 and $1,773, respectively)	2,085	2,306
Limited partnerships (cost of $1,055 and $1,083, respectively)	1,187	1,108
Other invested assets	19	19
Total investments	**12,002**	**11,815**
Cash and cash equivalents (Exchange portion of $42 and $120, respectively)	76	430
Premiums receivable from policyholders - Exchange	1,035	942
Reinsurance recoverable - Exchange	197	201
Deferred acquisition costs - Exchange	495	467
Other assets (Exchange portion of $349 and $357, respectively)	458	489
Total assets	**$14,263**	**$14,344**
Liabilities and shareholders equity		
Liabilities		
Indemnity liabilities		
Deferred income taxes	$ 6	$ 26
Other liabilities	381	382
Exchange liabilities		
Losses and loss expense reserves	3,686	3,584
Life policy and deposit contract reserves	1,659	1,603
Unearned premiums	2,249	2,082
Deferred income taxes	97	257
Other liabilities	87	76
Total liabilities	**8,165**	**8,010**
Indemnity s shareholders equity		
Class A common stock, stated value $0.0292 per share; authorized 74,996,930 shares; 68,289,600 shares issued; 48,167,547 and 50,054,506 shares outstanding, respectively	2	2
Class B common stock, convertible at a rate of 2,400 Class A shares for one Class B share, stated value $70 per share; 2,546 shares authorized, issued and outstanding, respectively	0	0
Additional paid-in-capital	16	8
Accumulated other comprehensive loss	(64)	(53)
Retained earnings	1,894	1,827
Total contributed capital and retained earnings	1,848	1,784
Treasury stock, at cost, 20,122,053 and 18,235,094 shares, respectively	(1,003)	(872)
Total Indemnity shareholders equity	**845**	**912**
Noncontrolling interest in consolidated entity Exchange	**5,253**	**5,422**
Total equity	**6,098**	**6,334**
Total liabilities, shareholders equity and noncontrolling interest	**$14,263**	**$14,344**

See accompanying notes to Consolidated Financial Statements. See Note 14, Indemnity Supplemental Information, for supplemental consolidating statements of financial position information.

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in millions)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Accumulated other comprehensive loss				
Balance, beginning of period Indemnity	$ (63)	$ (32)	$ (53)	$ (43)
Gross unrealized holding (losses) gains on investments arising during period	(2)	25	1	44
Unrealized gains transferred to noncontrolling interest (Note 1)			(13)	
Reclassification adjustment for gross gains included in net income	0	(2)	(5)	(4)
Unrealized holding (losses) gains on investments	(2)	23	(17)	40
Income tax benefit (expense) related to unrealized (losses) gains	1	(8)	6	(14)
Change in other comprehensive loss, net of tax Indemnity	(1)	15	(11)	26
Balance, end of period Indemnity	$ (64)	$ (17)	$ (64)	$ (17)
Change in other comprehensive loss, net of tax Indemnity	$ (1)	$ 15	$ (11)	$ 26
Change in other comprehensive income, net of tax Exchange	(36)	118	(13)	189
Change in other comprehensive income, net of tax Erie Insurance Group	$ (37)	$133	$ (24)	$215
Comprehensive income				
Net (loss) income Erie Insurance Group	$(180)	$275	$ (13)	$406
Change in other comprehensive income, net of tax Erie Insurance Group	(37)	133	(24)	215
Unrealized gains transferred to noncontrolling interest, net of tax (Note 1)			9	
Total comprehensive (loss) income Erie Insurance Group	(217)	408	(28)	621
Less: Noncontrolling interest in consolidated entity Exchange	(263)	339	(169)	445
Total comprehensive income - Indemnity	$ 46	$ 69	$141	$176

See accompanying notes to Consolidated Financial Statements.

ERIE INDEMNITY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)

	Nine months ended September 30, 2011	2010
Cash flows from operating activities		
Premiums collected	$ 3,213	$ 3,068
Net investment income received	340	325
Limited partnership distributions	93	88
Service agreement fee received	25	26
Commissions and bonuses paid to agents	(450)	(414)
Losses paid	(2,221)	(1,808)
Loss expenses paid	(331)	(321)
Other underwriting and acquisition costs paid	(406)	(394)
Income taxes paid	(38)	(105)
Net cash provided by operating activities	**225**	**465**
Cash flows from investing activities		
Purchase of investments:		
Fixed maturities	(1,482)	(1,415)
Preferred stock	(100)	(146)
Common stock	(1,198)	(787)
Limited partnerships	(108)	(105)
Sales/maturities of investments:		
Fixed maturity sales	525	486
Fixed maturity calls/maturities	722	794
Preferred stock	63	117
Common stock	1,107	740
Sale of and returns on limited partnerships	82	40
Purchase of property and equipment	(5)	(27)
Net (distributions) collections on agent loans	(1)	2
Net cash used in investing activities	**(395)**	**(301)**
Cash flows from financing activities		
Annuity and supplementary contract deposits and interest	74	87
Annuity and supplementary contract surrenders and withdrawals	(60)	(59)
Universal life deposits and interest	24	30
Universal life surrenders	(13)	(26)
Purchase of treasury stock	(132)	(44)
Dividends paid to shareholders	(77)	(74)
Net cash used in financing activities	**(184)**	**(86)**
Net (decrease) increase in cash and cash equivalents	(354)	78
Cash and cash equivalents at beginning of period	430	234
Cash and cash equivalents at end of period	**$ 76**	**$ 312**

See accompanying notes to Consolidated Financial Statements. See Note 14, Indemnity Supplemental Information, for supplemental cash flow information.

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Nature of Operations

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

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

Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange s economic performance by acting as the common attorney-in-fact and decision maker for the subscribers (policyholders) at the Exchange.

Through December 31, 2010, Indemnity also operated as a property and casualty insurer through its wholly owned subsidiaries, Erie Insurance Company (EIC), Erie Insurance Company of New York (ENY) and Erie Insurance Property and Casualty Company (EPC). EIC, ENY and EPC, together with the Exchange and its wholly owned subsidiary, Flagship City Insurance Company (Flagship), are collectively referred to as the Property and Casualty Group . The Property and Casualty Group operates in 11 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia. On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned property and casualty subsidiaries to the Exchange.

Erie Family Life Insurance Company (EFL) is an affiliated life insurance company that underwrites and sells individual and group life insurance policies and fixed annuities. On March 31, 2011, Indemnity sold its 21.6% ownership interest in EFL to the Exchange. There was no gain or loss resulting from this sale as Indemnity is the primary decision maker for the Exchange.

All property and casualty and life insurance operations are now owned by the Exchange, and Indemnity will continue to function solely as the management company.

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

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

Note 2. Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of Indemnity together with its affiliate companies in which Indemnity holds a majority voting or economic interest.

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. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods have been included. Operating results for the nine month period ended

September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The accompanying consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on February 24, 2011.

Principles of consolidation

We consolidate the Exchange as a variable interest entity for which Indemnity is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation. The required presentation of noncontrolling interests is reflected in the consolidated financial statements. Noncontrolling interests represent the ownership interests of the Exchange, all of which is held by parties other than Indemnity (i.e. the Exchange s subscribers (policyholders)). Noncontrolling interests also include the Exchange subscribers ownership interest in EFL.

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

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

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

Adopted accounting pronouncements

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

Pending accounting pronouncements

In October 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This guidance modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. The amendments in this update specify that the costs are limited to incremental direct costs that result directly from successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. These costs must be directly related to underwriting, policy issuance and processing, medical and inspection and sales force contract selling. The amendments also specify that advertising costs only should be included as deferred acquisition costs if the direct-response advertising criteria are met. ASU 2010-26 is effective for interim and annual reporting periods beginning after December 15, 2011 with either prospective or retrospective adoption permitted. We plan to prospectively adopt this guidance and, after the completion of our analysis, expect the impact of this update on the Company s financial position, cash flows and results of operations to be immaterial, as this guidance has no impact on the Indemnity shareholder interest.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurements*. This guidance changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements and certain other changes to converge with the fair value guidance of the International Accounting Standards Board. The amendments in this update detail the requirements specific to measuring the fair value of an instrument classified in a reporting entity s shareholders equity. The amendments also clarify that a reporting entity should disclose quantitative information about the observable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income*. This guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders equity. The amendments in this update specify an entity has the option to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The disclosures required remain the same. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 is effective for fiscal years beginning after December 15, 2011. We do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

Note 3. Earnings Per Share

Basic earnings per share are calculated under the two-class method, which allocates earnings to each class of stock based on its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. Class A diluted earnings per share are calculated under the if-converted method, which reflects the conversion of Class B shares and the effect of potentially dilutive outstanding employee stock-based awards and awards vested and not yet vested related to the outside directors stock compensation plan. Vested shares related to the outside directors compensation plan were included in the table below for the first time at December 31, 2010. The September 30, 2010 amounts have been updated to include these shares. This had no impact on previously reported diluted earnings per share.

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

(dollars in millions, except per share data)	Indemnity Earnings Per Share Calculation Three months ended September 30, 2011			2010		
	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount
Class A Basic EPS:						
Income available to Class A stockholders	$47	48,503,383	$ 0.97	$54	50,499,551	$ 1.05
Dilutive effect of stock awards	0	71,238		0	68,370	
Assumed conversion of Class B shares	0	6,110,400		0	6,110,400	
Class A Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$47	54,685,021	$ 0.87	$54	56,678,321	$ 0.94

Class B Basic and diluted EPS:						
Income available to Class B stockholders	$ 0	2,546	$146.67	$ 0	2,546	$150.87

(dollars in millions, except per share data)	Indemnity Earnings Per Share Calculation Nine months ended September 30, 2011			2010		
	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount	Allocated net income (numerator)	Weighted shares (denominator)	Per-share amount
Class A Basic EPS:						
Income available to Class A stockholders	$142	49,176,124	$ 2.90	$149	50,897,035	$ 2.92
Dilutive effect of stock awards	0	71,238		0	68,370	
Assumed conversion of Class B shares	1	6,110,400		1	6,110,400	
Class A Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$143	55,357,762	$ 2.59	$150	57,075,805	$ 2.62
Class B Basic and diluted EPS:						
Income available to Class B stockholders	$ 1	2,546	$439.39	$ 1	2,546	$421.91

Included in the diluted earnings per share calculations for the third quarters and first nine months of 2011 and 2010 were 5,486 and 7,959 shares, respectively, of stock-based awards not yet vested and 65,752 and 54,011 shares, respectively, of awards vested related to our outside directors stock compensation plan. Also included in both the third quarter and first nine months of 2010 were 6,400 shares of other stock-based awards not yet vested.

Note 4. Variable Interest Entity

Erie Insurance Exchange

The Exchange is a reciprocal insurance exchange domiciled in Pennsylvania, for which Indemnity serves as attorney-in-fact. Indemnity holds a variable interest in the Exchange due to the absence of decision-making capabilities by the equity owners (subscribers/policyholders) of the Exchange and due to the significance of the management fee the Exchange pays to Indemnity as its decision maker. As a result, Indemnity is deemed to have a controlling financial interest in the Exchange and is considered to be its primary beneficiary.

Consolidation of the Exchange s financial results is required given the significance of the management fee to the Exchange and because Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange s economic performance. The Exchange s anticipated economic performance is the product of its underwriting results combined with its investment results. The fees paid to Indemnity under the subscriber s agreement impact the anticipated economic performance attributable to the Exchange s results. Indemnity earns a management fee from the Exchange for the services it provides as attorney-in-fact. Indemnity s management fee revenues are based on all premiums written or assumed by the Exchange. Indemnity s Board of Directors determines the management fee rate to be paid by the Exchange to Indemnity. This rate cannot exceed 25% of the direct and affiliated assumed written premiums of the Exchange, as defined by the subscriber s agreement signed by each policyholder. Management fee revenues and management fee expenses are eliminated upon consolidation.

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

On December 31, 2010, Indemnity sold all of the outstanding capital stock of its wholly owned subsidiaries to the Exchange. On March 31, 2011, Indemnity sold its 21.6% ownership interest in EFL to the Exchange. Under this new structure, all property and casualty and life insurance operations are owned by the Exchange, and Indemnity will continue to function solely as the management company. There was no impact on the existing reinsurance pooling agreement between the Exchange and EIC or ENY as a result of the sales, nor was there any impact to the subscribers (policyholders) of the Exchange, to the Exchange s independent insurance agents, or to Indemnity s employees.

Indemnity has not provided financial or other support to the Exchange for the reporting periods presented. At September 30, 2011, there are no explicit or implicit arrangements that would require Indemnity to provide future financial support to the Exchange. Indemnity is not liable if the Exchange was to be in violation of its debt covenants or was unable to meet its obligation for unfunded commitments to limited partnerships.

Note 5. Segment Information

Our reportable segments include management operations, property and casualty insurance operations, life insurance operations and investment operations. Accounting policies for segments are the same as those described in the summary of significant accounting policies. See Item 8. Financial Statements and Supplementary Data, Note 2, Significant Accounting Policies, in our Annual Report on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on February 24, 2011. Assets are not allocated to the segments but rather are reviewed in total for purposes of decision-making. No single customer or agent provides 10% or more of revenues.

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

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

Our life insurance operations segment includes traditional and universal life insurance products and fixed annuities marketed to individuals using the same independent agency force utilized by our property and casualty insurance operations. We evaluate profitability of the life insurance segment principally based on segment net income, including investments, which for segment purposes are reflected in the investment operations segment. At the same time, we recognize that investment-related income is integral to the evaluation of the life insurance segment because of the long duration of life products. For the third quarters of 2011 and 2010, investment activities on life insurance related assets generated revenues of $29 million and $27 million, respectively, resulting in EFL reporting income before income taxes of $13 million and $16 million, respectively, before intercompany eliminations. For the nine months ended September 30, 2011 and 2010, investment activities on life insurance related assets generated revenues of $83 million and $79 million, respectively, resulting in EFL reporting income before taxes of $38 million and $37 million, respectively, before intercompany eliminations.

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

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

(in millions) Erie Insurance Group
For the three months ended September 30, 2011

	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$1,045	$ 16			$1,061
Net investment income				$ 111	$ (3)	108
Net realized investment losses				(422)		(422)
Net impairment losses recognized in earnings				0		0
Equity in earnings of limited partnerships				40		40
Management fee revenue	$280				(280)	
Service agreement and other revenue	8		1			9
Total revenues (losses)	288	1,045	17	(271)	(283)	796
Cost of management operations	226				(226)	
Insurance losses and loss expenses		823	26		(1)	848
Policy acquisition and underwriting expenses		302	7		(56)	253
Total benefits and expenses	226	1,125	33		(283)	1,101
Income (loss) before income taxes	62	(80)	(16)	(271)		(305)
Provision for income taxes	22	(28)	(6)	(113)		(125)
Net income (loss)	$ 40	$ (52)	$(10)	$(158)	$	$ (180)

(in millions) Erie Insurance Group
For the three months ended September 30, 2010

	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$990	$ 16		$ (1)	$1,005
Net investment income				$113	(3)	110
Net realized investment gains				205		205
Net impairment losses recognized in earnings				0		0
Equity in earnings of limited partnerships				28		28

Management fee revenue	$266				(266)	
Service agreement and other revenue	9		0			9
Total revenues	275	990	16	346	(270)	1,357
Cost of management operations	217				(217)	
Insurance losses and loss expenses		690	21		(1)	710
Policy acquisition and underwriting expense		288	6		(52)	242
Total benefits and expenses	217	978	27		(270)	952
Income (loss) before income taxes	58	12	(11)	346		405
Provision for income taxes	22	4	(4)	108		130
Net income (loss)	$ 36	$ 8	$ (7)	$238	$	$ 275

(in millions)	Erie Insurance Group For the nine months ended September 30, 2011					
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$3,089	$ 50		$ (1)	$3,138
Net investment income				$ 334	(8)	326
Net realized investment losses				(234)		(234)
Net impairment losses recognized in earnings				0		0
Equity in earnings of limited partnerships				150		150
Management fee revenue	$816				(816)	
Service agreement and other revenue	25		1			26
Total revenues	841	3,089	51	250	(825)	3,406
Cost of management operations	667				(667)	
Insurance losses and loss expenses		2,653	75		(4)	2,724
Policy acquisition and underwriting expenses		882	21		(154)	749
Total benefits and expenses	667	3,535	96		(825)	3,473
Income (loss) before income taxes	174	(446)	(45)	250		(67)
Provision for income taxes	61	(156)	(16)	57		(54)
Net income (loss)	$113	$ (290)	$(29)	$ 193	$	$ (13)

(in millions)	Erie Insurance Group For the nine months ended September 30, 2010					
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$2,926	$ 48		$ (2)	$2,972
Net investment income				$330	(8)	322
Net realized investment gains				117		117
Net impairment losses recognized in earnings				(6)		(6)
Equity in earnings of limited partnerships				58		58
Management fee revenue	$773				(773)	
Service agreement and other revenue	26		0			26
Total revenues	799	2,926	48	499	(783)	3,489
Cost of management operations	626				(626)	
Insurance losses and loss expenses		2,145	67		(4)	2,208
Policy acquisition and underwriting expense		829	23		(153)	699
Total benefits and expenses	626	2,974	90		(783)	2,907
Income (loss) before income taxes	173	(48)	(42)	499		582
Provision for income taxes	61	(17)	(15)	147		176
Net income (loss)	$112	$ (31)	$(27)	$352	$	$ 406

See the Results of the Erie Insurance Group s operations by interest table in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations for the composition of income attributable to Indemnity and income attributable to the noncontrolling interest (Exchange).

Note 6. Fair Value

The 2010 fair value information within this note has been conformed to this current presentation.

Our available-for-sale and trading securities are recorded at fair value, which is the price that would be received to sell the asset in an orderly transaction between willing market participants as of the measurement date. Valuation techniques used to derive the fair value of our available-for-sale and trading securities are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect our own assumptions regarding fair market value for these securities. Although the majority of our prices are obtained from third party sources, we also perform an internal pricing review for securities with low trading volumes in the current market conditions. Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

Level 1: Quoted prices for identical instruments in active markets not subject to adjustments or discounts.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Instruments whose significant value drivers are unobservable and reflect management s estimate of fair value based upon assumptions used by market participants in an orderly transaction as of the valuation date.

The following table represents the fair value measurements on a recurring basis for our consolidated available-for-sale and trading securities by asset class and level of input at September 30, 2011:

		Erie Insurance Group September 30, 2011 Fair value measurements using:		
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
States & political subdivisions	$ 224	$ 0	$ 224	$ 0
Corporate debt securities	260	0	260	0
Other debt securities	9	0	9	0
Commercial mortgage-backed securities (CMBS)	20	0	20	0
Collateralized debt obligations (CDO)	4	0	0	4
Total fixed maturities	517	0	513	4
Nonredeemable preferred stock	22	7	15	0
Total available-for-sale securities	539	7	528	4
Trading securities:				

Common stock	26	26	0	0
Total trading securities	26	26	0	0
Total Indemnity	$ 565	$ 33	$ 528	$ 4
Exchange				
Available-for-sale securities:				
U.S. government & agencies	$ 37	$ 6	$ 31	$ 0
States & political subdivisions	1,417	0	1,413	4
Foreign government securities	21	0	21	0
Corporate debt securities	5,446	15	5,419	12
Other debt securities	68	0	63	5
Residential mortgage-backed securities (RMBS)	203	0	203	0
Commercial mortgage-backed securities (CMBS)	70	0	70	0
Collateralized debt obligations (CDO)	69	0	40	29
Total fixed maturities	7,331	21	7,260	50
Nonredeemable preferred stock	591	181	404	6
Total available-for-sale securities	7,922	202	7,664	56
Trading securities:				
Common stock	2,085	2,072	0	13
Total trading securities	2,085	2,072	0	13
Total Exchange	$10,007	$2,274	$7,664	$69
Total Erie Insurance Group	$10,572	$2,307	$8,192	$73

Level 3 Assets   Quarterly Change:

	Erie Insurance Group						
(in millions)	Beginning balance at June 30, 2011	Included in earnings (1)	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3 (2)	Ending balance at September 30, 2011
Indemnity							
Available-for-sale securities:							
Collateralized debt obligations (CDO)	$ 4	$0	$ 0	$0	$0	$0	$ 4
Total fixed maturities	4	0	0	0	0	0	4
Total available-for-sale securities	4	0	0	0	0	0	4
Trading securities:							
Common stock	0	0	0	0	0	0	0
Total trading securities	0	0	0	0	0	0	0
Total Level 3 assets Indemnity	$ 4	$0	$ 0	$0	$0	$0	$ 4
Exchange							
Available-for-sale securities:							
States & political subdivisions	$ 4	$0	$ 0	$0	$0	$0	$ 4
Corporate debt securities	11	0	0	1	0	0	12
Other debt securities	5	0	0	0	0	0	5
Collateralized debt obligations (CDO)	30	0	(1)	0	0	0	29
Total fixed maturities	50	0	(1)	1	0	0	50
Nonredeemable preferred stock	7	0	(1)	0	0	0	6
Total available-for-sale securities	57	0	(2)	1	0	0	56
Trading securities:							
Common stock	13	0	0	0	0	0	13
Total trading securities	13	0	0	0	0	0	13
Total Level 3 assets Exchange	$70	$0	$(2)	$1	$0	$0	$69
Total Level 3 assets Erie Insurance Group	$74	$0	$(2)	$1	$0	$0	$73

(1)   Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statements of Operations. There were no unrealized gains or losses included in earnings for the three months ended September 30, 2011 on Level 3 securities.

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

Level 3 Assets   Year-to-Date Change:

	Erie Insurance Group						
(in millions)	Beginning balance at December 31, 2010	Included in earnings (1)	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3 (2)	Ending balance at September 30, 2011
Indemnity							
Available-for-sale securities:							
Collateralized debt obligations (CDO)	$ 4	$0	$ 0	$0	$ 0	$0	$ 4
Total fixed maturities	4	0	0	0	0	0	4
Total available-for-sale securities	4	0	0	0	0	0	4
Trading securities:							
Common stock	0	0	0	0	0	0	0
Total trading securities	0	0	0	0	0	0	0
Total Level 3 assets Indemnity	$ 4	$0	$ 0	$0	$ 0	$0	$ 4
Exchange							
Available-for-sale securities:							
States & political subdivisions	$ 4	$0	$ 0	$0	$ 0	$0	$ 4
Corporate debt securities	11	0	0	1	0	0	12
Other debt securities	10	0	0	0	(5)	0	5
Collateralized debt obligations (CDO)	30	1	(1)	0	(1)	0	29
Total fixed maturities	55	1	(1)	1	(6)	0	50
Nonredeemable preferred stock	7	0	(1)	0	0	0	6
Total available-for-sale securities	62	1	(2)	1	(6)	0	56
Trading securities:							
Common stock	12	1	0	0	0	0	13
Total trading securities	12	1	0	0	0	0	13
Total Level 3 assets Exchange	$74	$2	$(2)	$1	$(6)	$0	$69
Total Level 3 assets Erie Insurance Group	$78	$2	$(2)	$1	$(6)	$0	$73

(1)   Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statements of Operations. There was $1 million in unrealized gains included in earnings for the nine months ended September 30, 2011 on Level 3 securities.

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

There were no significant transfers between Levels 1 and 2 for the nine months ended September 30, 2011.

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

		Erie Insurance Group December 31, 2010 Fair value measurements using:		
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
U.S. government & agencies	$ 25	$ 25	$ 0	$ 0
States & political subdivisions	197	0	197	0
Corporate debt securities	38	0	38	0
Collateralized debt obligations (CDO)	4	0	0	4
Total fixed maturities	264	25	235	4
Nonredeemable preferred stock	24	11	13	0
Total available-for-sale securities	288	36	248	4
Trading securities:				
Common stock	28	28	0	0
Total trading securities	28	28	0	0
Total Indemnity	$ 316	$ 64	$ 248	$ 4
Exchange				
Available-for-sale securities:				
U.S. government & agencies	$ 87	$ 12	$ 75	$ 0
States & political subdivisions	1,471	0	1,467	4
Foreign government securities	21	0	21	0
Corporate debt securities	5,263	12	5,240	11
Other debt securities	57	0	47	10
Residential mortgage-backed securities (RMBS)	224	0	224	0
Commercial mortgage-backed securities (CMBS)	86	0	86	0
Collateralized debt obligations (CDO)	70	0	40	30
Total fixed maturities	7,279	24	7,200	55
Nonredeemable preferred stock	570	166	397	7
Total available-for-sale securities	7,849	190	7,597	62
Trading securities:				
Common stock	2,306	2,294	0	12
Total trading securities	2,306	2,294	0	12
Total Exchange	$10,155	$2,484	$7,597	$74
Total Erie Insurance Group	$10,471	$2,548	$7,845	$78

Level 3 Assets   Quarterly Change:

	Erie Insurance Group					
(in millions)	Beginning balance at June 30, 2010	Included in earnings (1)	Included in other comprehensive income	Purchases, sales and adjustments	Transfers in and (out) of Level 3 (2)	Ending balance at September 30, 2010
Indemnity						
Available-for-sale securities:						
Corporate debt securities	$ 2	$0	$0	$ 0	$ 0	$ 2
Collateralized debt obligations (CDO)	8	0	0	0	(1)	7
Total fixed maturities	10	0	0	0	(1)	9
Nonredeemable preferred stock	1	0	0	1	0	2
Total available-for-sale securities	11	0	0	1	(1)	11
Trading securities:						
Common stock	0	0	0	0	0	0
Total trading securities	0	0	0	0	0	0
Total Level 3 assets Indemnity	$11	$0	$0	$ 1	$ (1)	$11
Exchange						
Available-for-sale securities:						
Corporate debt securities	$ 9	$0	$0	$ 0	$ 0	$ 9
Other debt securities	5	0	0	0	0	5
Collateralized debt obligations (CDO)	53	0	0	(1)	(10)	42
Total fixed maturities	67	0	0	(1)	(10)	56
Nonredeemable preferred stock	4	0	0	1	0	5
Total available-for-sale securities	71	0	0	0	(10)	61
Trading securities:						
Common stock	10	1	0	0	0	11
Total trading securities	10	1	0	0	0	11
Total Level 3 assets Exchange	$81	$1	$0	$ 0	$(10)	$72
Total Level 3 assets Erie Insurance Group	$92	$1	$0	$ 1	$(11)	$83

(1) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statements of Operations. There was $1 million in unrealized gains included in earnings for the nine months ended September 30, 2010 on Level 3 securities.

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

Level 3 Assets Year-to-Date Change:

	Erie Insurance Group					
(in millions)	Beginning balance at December 31, 2009	Included in earnings (1)	Included in other comprehensive income	Purchases, sales and adjustments	Transfers in and (out) of Level 3 (2)	Ending balance at September 30, 2010
Indemnity						
Available-for-sale securities:						
Corporate debt securities	$ 2	$0	$0	$0	$ 0	$ 2
Collateralized debt obligations (CDO)	8	0	0	0	(1)	7
Total fixed maturities	10	0	0	0	(1)	9
Nonredeemable preferred stock	1	0	0	1	0	2
Total available-for-sale securities	11	0	0	1	(1)	11
Trading securities:						
Common stock	0	0	0	0	0	0
Total trading securities	0	0	0	0	0	0
Total Level 3 assets Indemnity	$11	$0	$0	$1	$ (1)	$11
Exchange						
Available-for-sale securities:						
Corporate debt securities	$17	$0	$0	$0	$ (8)	$ 9
Other debt securities	5	0	0	0	0	5
Collateralized debt obligations (CDO)	49	2	4	0	(13)	42
Total fixed maturities	71	2	4	0	(21)	56
Nonredeemable preferred stock	4	0	1	0	0	5
Total available-for-sale securities	75	2	5	0	(21)	61
Trading securities:						
Common stock	9	2	0	0	0	11
Total trading securities	9	2	0	0	0	11
Total Level 3 assets Exchange	$84	$4	$5	$0	$(21)	$72
Total Level 3 assets Erie Insurance Group	$95	$4	$5	$1	$(22)	$83

(1) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statements of Operations. There was $2 million in unrealized gains included in earnings for the nine months ended September 30, 2010 on Level 3 securities.

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

There were no significant transfers between Levels 1 and 2 for the nine months ended September 30, 2010.

Estimates of fair values for our investment portfolio are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes those securities valued using an exchange traded price provided by the pricing service. The methodologies used by the pricing service that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Pricing service valuations for Level 3 securities are based on proprietary models and are used when observable inputs are not available or in illiquid markets. In limited circumstances we adjust the price received from the pricing service when, in our judgment, a better reflection of fair value is available based on corroborating information and our knowledge and monitoring of market conditions. At September 30, 2011, we adjusted some prices received by the pricing service to reflect an alternate fair market value based on observable market data such as a disparity in price of comparable securities and/or non-binding broker quotes.

The following table displays the number and values of these adjustments at September 30, 2011:

	Erie Insurance Group		
(dollars in millions)	Number of holdings	Value of securities using pricing service	Value of securities used in the financial statements
Exchange	7	$26.8	$26.1
Total Erie Insurance Group	7	$26.8	$26.1

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

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

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

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

(in millions)	Erie Insurance Group September 30, 2011			
	Total	Level 1	Level 2	Level 3
Indemnity				
Fixed maturity securities:				
Priced via pricing services	$ 512	$ 0	$ 512	$ 0
Priced via market comparables/non-binding broker quote (1)	1	0	1	0
Priced via internal modeling (2)	4	0	0	4
Total fixed maturity securities	517	0	513	4
Preferred stock securities:				
Priced via pricing services	20	7	13	0
Priced via market comparables/non-binding broker quote (1)	2	0	2	0
Priced via internal modeling (2)	0	0	0	0
Total preferred stock securities	22	7	15	0
Common stock securities:				
Priced via pricing services	26	26	0	0
Priced via market comparables/non-binding broker quote (1)	0	0	0	0
Priced via internal modeling (2)	0	0	0	0
Total common stock securities	26	26	0	0
Total available-for-sale and trading securities Indemnity	$ 565	$ 33	$ 528	$ 4
Exchange				
Fixed maturity securities:				
Priced via pricing services	$ 7,192	$ 21	$7,171	$ 0
Priced via market comparables/non-binding broker quote (1)	89	0	89	0
Priced via internal modeling (2)	50	0	0	50
Total fixed maturity securities	7,331	21	7,260	50
Preferred stock securities:				
Priced via pricing services	560	181	373	6
Priced via market comparables/non-binding broker quote (1)	31	0	31	0
Priced via internal modeling (2)	0	0	0	0
Total preferred stock securities	591	181	404	6
Common stock securities:				
Priced via pricing services	2,072	2,072	0	0
Priced via market comparables/non-binding broker quote (1)	0	0	0	0
Priced via internal modeling (2)	13	0	0	13
Total common stock securities	2,085	2,072	0	13
Total available-for-sale and trading securities Exchange	$10,007	$2,274	$7,664	$69
Total available-for-sale and trading securities Erie Insurance Group	$10,572	$2,307	$8,192	$73

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

(2) Internal modeling using a discounted cash flow model was performed on 11 fixed maturities and 3 common equity securities representing 0.6% of the total portfolio of the Erie Insurance Group.

We have no assets that were measured at fair value on a nonrecurring basis during the nine months ended September 30, 2011.

Note 7. Investments

The 2010 investment information within this note has been conformed to this current presentation.

The following tables summarize the cost and fair value of our available-for-sale securities at September 30, 2011 and December 31, 2010:

		Erie Insurance Group September 30, 2011		
(in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Available-for-sale securities:				
States & political subdivisions	$ 213	$ 11	$ 0	$ 224
Corporate debt securities	261	1	2	260
Other debt securities	9	0	0	9
Commercial mortgage-backed securities (CMBS)	20	0	0	20
Collateralized debt obligations (CDO)	4	0	0	4
Total fixed maturities	507	12	2	517
Nonredeemable preferred stock	21	1	0	22
Total available-for-sale securities Indemnity	$ 528	$ 13	$ 2	$ 539
Exchange				
Available-for-sale securities:				
U.S. government & agencies	$ 35	$ 2	$ 0	$ 37
States & political subdivisions	1,336	82	1	1,417
Foreign government securities	20	1	0	21
Corporate debt securities	5,094	385	33	5,446
Other debt securities	66	2	0	68
Residential mortgage-backed securities (RMBS)	191	12	0	203
Commercial mortgage-backed securities (CMBS)	66	4	0	70
Collateralized debt obligations (CDO)	69	5	5	69
Total fixed maturities	6,877	493	39	7,331
Nonredeemable preferred stock	559	46	14	591
Total available-for-sale securities Exchange	$7,436	$539	$53	$7,922
Total available-for-sale securities Erie Insurance Group	$7,964	$552	$55	$8,461

		Erie Insurance Group December 31, 2010		
(in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Available-for-sale securities:				
U.S. government & agencies	$ 25	$ 0	$ 0	$ 25
States & political subdivisions	193	6	2	197
Corporate debt securities	36	2	0	38
Collateralized debt obligations (CDO)	3	1	0	4
Total fixed maturities	257	9	2	264
Nonredeemable preferred stock	20	4	0	24
Total available-for-sale securities Indemnity	$ 277	$ 13	$ 2	$ 288
Exchange				
Available-for-sale securities:				
U.S. government & agencies	$ 85	$ 2	$ 0	$ 87
States & political subdivisions	1,437	43	9	1,471
Foreign government securities	20	1	0	21

Corporate debt securities	4,900	377	14	5,263
Other debt securities	54	3	0	57
Residential mortgage-backed securities (RMBS)	216	9	1	224
Commercial mortgage-backed securities (CMBS)	82	5	1	86
Collateralized debt obligations (CDO)	69	6	5	70
Total fixed maturities	6,863	446	30	7,279
Nonredeemable preferred stock	503	74	7	570
Total available-for-sale securities Exchange	$7,366	$520	$37	$7,849
Total available-for-sale securities Erie Insurance Group	$7,643	$533	$39	$8,137

The amortized cost and estimated fair value of fixed maturities at September 30, 2011 are shown below by remaining contractual term to maturity. Mortgage-backed securities are allocated based upon their stated maturity dates. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Erie Insurance Group	
(in millions)	Amortized cost	Estimated fair value
Indemnity		
Due in one year or less	$ 152	$ 152
Due after one year through five years	219	222
Due after five years through ten years	48	51
Due after ten years	88	92
Total fixed maturities Indemnity	$ 507	$ 517
Exchange		
Due in one year or less	449	457
Due after one year through five years	2,451	2,576
Due after five years through ten years	2,722	2,949
Due after ten years	1,255	1,349
Total fixed maturities Exchange	$6,877	$7,331
Total fixed maturities Erie Insurance Group	$7,384	$7,848

Fixed maturities and equity securities in a gross unrealized loss position at September 30, 2011 are as follows. Data is provided by length of time securities were in a gross unrealized loss position.

[redacted]

Available-for-sale securities:							
States & political subdivisions	$ 0	$ 0	$ 2	$ 0	$ 2	$ 0	1
Corporate debt securities	195	2	0	0	195	2	34
Other debt securities	9	0	0	0	9	0	2
Commercial mortgage-backed securities (CMBS)	20	0	0	0	20	0	4
Total fixed maturities Indemnity	224	2	2	0	226	2	41
Nonredeemable preferred stock	6	0	3	0	9	0	4
Total available-for-sale securities Indemnity	$230	$ 2	$ 5	$ 0	$ 235	$ 2	45
Quality breakdown of fixed maturities:							
Investment grade	$224	$ 2	$ 2	$ 0	$ 226	$ 2	41
Non-investment grade	0	0	0	0	0	0	0
Total fixed maturities Indemnity	$224	$ 2	$ 2	$ 0	$ 226	$ 2	41
Exchange							