WILLIAM M.
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Tobacco Institute Employees' Pension Plan

Actuarial Funding Report
Plan Year Beginning January 1, 2000

September 2000

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Tobacco Institute Employees' Pension Plan

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Contents

EXECUTIVE SUMMARY

This section of the report presents highlights and a brief description of key items.

1. Report highlights

	January 1, 1999	January 1, 2000
Assets		
Market value	$ 41,476,040	$ 41,952,115
Actuarial value	$ 33,180,832	$ 37,045,482
Funding Status		
Normal cost including expenses	$ 427,165	$ 33,470
Normal cost as a percent of covered payroll	9.96%	7.13%
Surplus actuarial asset value over liabilities	$ 17,153,236	$ 13,695,484
Funded Ratio		
Accrued benefit basis	301.56%	183.56%
Actuarial cost method	207.02%	158.65%
Funding Alternatives		
Minimum contribution	$ 0	$ 0
Percent of payroll	0.00%	0.00%
Maximum recommended contribution	$ 0	$ 0
Percent of payroll	0.00%	0.00%
Participants		
Actives	57	7
Terminated vesteds	79	135
Retirees and beneficiaries	31	31
Disableds	0	0
Total	167	173
Covered Active Participants' Payroll[a]		
Total	$ 4,290,345	$ 469,500
Average	$ 75,269	$ 67,071

a. Covered payroll is limited by IRC Section 401(a)(17) — $170,000 for 2000.

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EXECUTIVE SUMMARY

Introduction

This Tobacco Institute Employees' Pension Plan report was prepared by William M. Mercer, Incorporated on behalf of the Tobacco Institute to develop the 2000 contribution levels to satisfy ERISA minimum funding requirements. It also shows the plan's funded status at January 1, 2000 and the effect of changes during the year.

Funded status

Several ratios measure plan funding. One frequently used measure is the ratio of the market value of assets to the accrued benefits liability on the valuation date. This liability is calculated using ongoing plan assumptions.

The ratio of the actuarial value of assets to plan funding liabilities is another measure of the plan's ongoing funded status. Liabilities based on the actuarial cost method take into account future pay increases. The funded status determined under these two measures is shown in Table 2.

2. Funded status

	January 1, 1999	January 1, 2000
Accrued benefit basis	301.56%	183.56%
Actuarial cost method basis	207.02%	158.65%

During 1999 a large number of employees terminated and are assumed to elect payment of a lump sum during 2000. Due to the lower interest rate used to calculate the lump sum, the liabilities have increased significantly and the funded states is lower.

Contributions

The Internal Revenue Code permits flexibility in offering a range of plan contributions. Given the actuarial method, assumptions presently used by the Tobacco Institute, and the constraints of the IRS, no minimum contribution is required. Furthermore, no contribution is recommended.

EXECUTIVE SUMMARY

Effect of changes during the year

During 1999, 50 employees terminated as a result of the dissolution of the Tobacco Institute. As a result of the dissolution, the plan was amended to make the following changes:

- The definition of compensation was changed to exclude severance pay,
- Credited service for terminating employees was increased for one month for each month of severance paid, limited to two years
- All employees were granted full vesting,
- For calculating benefit eligibility and early retirement benefits, participants were assumed to be one month older for each month of severance paid,
- Lump sums are offered to terminating participants calculated using actuarial equivalence including a 4% interest rate at date of termination and credited with 8% interest from termination date to payment date,
- Early retirement benefits are reduced by 3% per year early (formerly 6%).

As a result of these terminations the actuarial accrued liability for those terminated participants is the lump sum value of the benefits payable. We assumed that 100% of terminated vested participants will, in fact, elect an immediate lump sum.

The effect of these changes accompanied with the termination of 50 active employees during 1999 increased liabilities substantially. The plan, however, remains in a fully funded position and the actuarial surplus is approximately $13.6 million.

Actuarial Experience

Actuarial experience is reflected in both the normal cost rate as a percent of payroll and in the unfunded actuarial accrued liability. Under the entry age normal funding method, it is anticipated that the normal cost remains constant as a percent of covered payroll. In recent years the normal cost has increased as a percent of covered payroll. This increase is due to a higher average entry age which decreases the period over which benefits are funded.

The unfunded actuarial accrued liability (surplus) reflects changes in both liabilities and assets. The asset impact reflects investment gains from 1999 investment performance. The investment return was 3.51% on a market value basis and 14.77% on an actuarial asset valuation basis, compared to our assumption of 8% per year. This asset gain caused the actuarial surplus to grow. This surplus was offset by the higher liabilities created as a result of the changes stated above.

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FINANCIAL AND ACTUARIAL STATUS

This section develops the plan's current funded status by comparing the actuarial value of assets to liabilities computed under the actuarial cost method used to fund the plan — the entry age normal actuarial cost method. This section also provides 10-year projections of assets and liabilities.

Assets

The market value of plan assets is smoothed to reduce the effect of short-term market fluctuations and is referred to as the actuarial asset value. The composition of the trust fund and the adjustment to get from market value to actuarial value for the current and previous years are shown in Table 3. Exhibits 4 and 5 provide additional information on assets.

3. Market and actuarial value of plan assets

	January 1, 1999	Percent Market Value	January 1, 2000	Percent Market Value
Mutual shares	$ 41,408,213	99.84%	$ 41,891,608	99.86%
Cash and equivalents	96,680	0.23	112,919	0.27
Total investment market value	$ 41,504,893	100.07%	$ 42,004,527	100.12%
Accrued income	0	0.00	0	0.00
Accrued expenses	(28,853)	(0.07)	(52,412)	(0.12)
Contributions receivable	0	0.00	0	0.00
Plan assets at market value	$ 41,476,040	100.00%	$ 41,952,115	100.00%
Deferred recognition of Investment (gains) losses	(8,295,208)	(20.00)	4,906,633	11.70
Plan actuarial value of assets	$ 33,180,832	80.00%[a]	$ 37,045,482	88.30%

a. Actuarial asset value must be not less than 80% or more than 120% of market value.

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FINANCIAL AND ACTUARIAL STATUS

Liabilities

The actuarial cost method used for plan funding is the entry age normal cost method. The actuarial accrued liability is the accumulated value of all past normal costs. The normal cost for each participant is the expected level cost as a percent of payroll needed to provide sufficient assets to pay all promised benefits. Exhibit 9 provides more details.

Funded status

The funded status is determined by calculating the ratio of actuarial value of assets to actuarial accrued liability. The plan's funded status based on the actuarial cost method is in Table 4. Because the actuarial value of assets exceeds the actuarial accrued liability, the plan's funded status exceeds 100%, and the unfunded liability is actually a surplus.

4. Actuarial cost method funded status

	January 1, 1999	January 1, 2000
1. Actuarial accrued liability		
a. Actives	$ 6,628,314	$ 1,143,338
b. Terminated vesteds	2,231,561	14,930,600
c. Retirees and beneficiaries	7,167,721	7,276,060
d. Disableds	0	0
e. Total	$ 16,027,596	$ 23,349,998
2. Actuarial value of assets	$ 33,180,832	$ 37,045,482
3. Unfunded actuarial accrued liability (surplus) *(1e) - (2)*	$(17,153,236)	$(13,695,484)
4. Funded ratio *(2)/(1e)*	207.02%	158.65%

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DEVELOPING CONTRIBUTION ALTERNATIVES

This section defines a range of permissible contributions, based on the plan's funding method and assumptions. However, as a fully funded plan, no contribution is required.

Pension funding

The pension plan's long-term cost is independent of the actuarial funding method or assumptions. The funding methods and assumptions provide an orderly way to recognize a portion of the estimated long-term cost from year to year. This recognized payment always includes a normal cost and will generally include a past service amortization payment. The magnitude of these items vary by funding method and assumptions.

Normal cost

Each year the plan's normal cost is determined for each participant assuming the plan always existed, the actuarial assumptions underlying the cost determination are exactly realized, and the Tobacco Institute always funded the plan. The determined normal cost is the amount as a constant percentage of pay deposited to the fund each year (past and future) so exactly enough assets are accumulated at retirement to provide all promised benefits. An allowance is added for expenses.

Minimum required contribution

Internal Revenue Code (IRC) Section 412 requires maintaining a funding standard account for all defined benefit plans qualified under IRC Section 401(a). The funding standard account represents an accounting of the accumulated minimum required contribution against actual contributions made. It provides the government with a means to monitor compliance with the minimum funding requirements.

Each plan year, the funding standard account is charged with the year's normal cost and amortization charges and is credited with the year's amortization, contributions, and other credits. (Funding standard account background information is in Exhibit 7). Table 7 displays the December 31, 2000 minimum contribution required to prevent a funding deficiency in the funding standard account. Because the credit balance of $604,085 more than offsets the $33,470 normal cost, and because the plan is fully funded, the minimum required contribution is zero.

DEVELOPING CONTRIBUTION ALTERNATIVES

5. Minimum Required contribution

		January 1, 1999	January 1, 2000
1.	Normal cost with expense	$ 427,165	$ 33,470
2.	Net amortization payment	0	0
3.	Credit balance in funding standard account	(559,338)	(604,085)
4.	Interest to plan year end	(10,574)	(45,649)
5.	Full funding credit	(461,338)	(36,148)
6.	Minimum contribution at year end *(1) + (2) + (3) + (4) + (5) not less than zero*	$ 0	$ 0
7.	Minimum contribution as percent of payroll	0.00%	0.00%

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DEVELOPING CONTRIBUTION ALTERNATIVES

6. Minimum contribution amortization bases[a]

	Original			Remaining Amortization	
Description	Date	Years	Amount	Balance	Payments
Charges, January 1, 2000 — Level amount necessary to amortize					
None					
Credits, January 1, 2000 — Level amount necessary to amortize					
None					

a. All bases were considered completely amortized as of December 31, 1999.

Maximum recommended contribution

Due to the full funding limit and the credit balance, the Institute does not have to contribute to the plan. The Tax Reform Act now permits the Institute to contribute to the plan without penalty even when the full funding limit is zero because of its tax -exempt status. The Institute may continue not contributing to the fund until the surplus has been eliminated. Assuming no future gains, losses, or plan amendments, this may take as much as 20 years.

The maximum recommended contribution for the plan year is the normal cost for the year, plus the amount necessary to amortize the net unfunded actuarial accrued liability on January 1, 2000 over 10 years. Table 7 shows the maximum recommended contribution is also zero.

7. Maximum recommended contribution

	January 1, 1999	January 1, 2000
1. Normal cost with expense	$ 427,165	$ 33,470
2. Net amortization payment[a]	(2,366,980)	(1,889,844)
3. Interest to plan year end	(155,185)	(148,510)
4. Pension contributions *(1) + (2) + (3) not less than zero*	$ 0	$ 0
5. Pension contribution as percent of payroll	0.00%	0.00%

a. See Exhibit 8.

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EXHIBITS

Exhibit 1	—	Plan participation
Exhibit 2	—	Age/service distribution of active participants with average salary
Exhibit 3	—	Plan provisions summary
Exhibit 4	—	Plan assets reconciliation
Exhibit 5	—	Actuarial value of plan assets
Exhibit 6	—	Reconciliation of unfunded actuarial accrued liability
Exhibit 7	—	Funding standard account
Exhibit 8	—	Full funding limitation
Exhibit 9	—	Actuarial method and assumptions
Exhibit 10	—	Plan accounting information (SFAS 35)

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EXHIBIT 1 — PLAN PARTICIPATION

	Actives	Terminated Vesteds	Retirees and Beneficiaries	Disableds	Total
Participants January 1, 1999	57	79	31	0	167
New Participants	0	0	0	0	0
Return to active	0	0	0	0	0
Deaths	0	0	0	0	0
Nonvested terminations	0	0	0	0	0
Vested terminations	-50	50	0	0	0
Lump sum payment	0	0	0	0	0
New beneficiaries	0	0	0	0	0
Retirements	0	0	0	0	0
Disabilities	0	0	0	0	0
Data correction*	0	6	0	0	6
Participants January 1, 2000	7	135	31	0	173

* Six people, who were previously not fully vested, became fully vested as a result of the partial plan termination. Four of these were nonvested prior to the January 29, 1999 amendment. The remaining two had received lump sums previously. As a result of the amendment, they became fully vested and were due additional benefits.

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EXHIBIT 2 — AGE/SERVICE DISTRIBUTION OF ACTIVE PARTICIPANTS WITH AVERAGE SALARY

Years of Benefit Accrual Service at 01/01/00

Age at 1/1/00	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Over	Total
<25	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0	0
35-39	1	0	0	0	0	0	0	0	0	1
40-44	0	0	1	0	0	0	0	0	0	1
45-49	0	0	0	0	0	0	0	0	0	0
50-54	0	0	1	0	0	1	1	0	0	3
55-59	0	0	0	0	0	1	1	0	0	2
60-64	0	0	0	0	0	0	0	0	0	0
65-69	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0
Total	1	0	2	0	0	2	2	0	0	7

a. Average salary is now shown for age/service cells with fewer than 20 participants.

b. Average age 49.96 years
Average vesting service 20.47 years

c. Payroll is limited by IRC Section 401(a)(17) — $170,000 for 2000.

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EXHIBIT 3 — PLAN PROVISIONS

Effective date

January 1, 1962, restated January 1, 1994. The most recent plan amendment was January 29, 1999.

Participation

Each employee is eligible to participate in the plan at employment date.

Employee contributions

No employee contributions are required.

Employer contributions

The employer pays the full plan cost.

Credited service

Credited service is years and months of continuous service and reinstated service.

Continuous service

Continuous service is the uninterrupted period of service as an employee, beginning with the participant's most recent hire date. A participant will receive one year continuous service for each employment year (12-month period measured from hire date and each anniversary thereof) he works 1,000 hours or more. For partial employment years, the participant is credited with a fractional year of continuous service, rounded to the next higher month, provided the hours credited in such partial employment year, converted to an annual basis, is at least 1,000.

Break in service

A break in service occurs in an employment year when a participant fails to work or receive credit for more than 500 employment hours. An approved leave of absence of one year or less shall not be deemed a break in service. Special rules apply for maternity leave.

EXHIBIT 3 — PLAN PROVISIONS

Reinstated service

A former employee who terminates his employment after January 1, 1985 and again becomes a participant and thereafter is credited with 1,000 hours or more in an employment year, will be credited with all h is previous credited service, provided that:

- The participant had at least two years vesting service at employment termination, or
- The years of breaks in service between his termination date and the date he becomes a participant again is less than his years of previous vesting service, or
- The years of breaks in service between his termination date and the date he becomes a participant again is less than five.

Vesting service

Vesting service is the employment years during an employee's credited service period in which the employee works 1,000 or more hours.

Projected credited service

Projected credited service is the credited service a participant has if he works for the employer to his normal retirement date.

Annual compensation

Annual compensation is the total annual W-2 compensation received from the employer plus tax deferred savings plan contributions.

Final average earnings

Final average earnings is the average of the annual compensation received during the 60 consecutive calendar months during the last 120 calendar months before terminating employment or normal retirement date, if earlier, that produce the highest average.

High-five average compensation

Average of annual W-2 compensation for the five calendar years after 1988 that produces the highest average.

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EXHIBIT 3 — PLAN PROVISIONS

Covered compensation

Covered compensation for employees terminating in 2000 is in Table 9.

9. 2000 covered compensation table

Birth	Covered Compensation
1922	14,520
1923	15,708
1924	16,968
1925	18,312
1926	19,728
1927	21,192
1928	22,716
1929	24,312
1930	25,920
1931	27,576
1932	29,304
1933	31,128
1934	33,060
1935	35,100
1936	37,092
1937	39,072
1938	42,984
1939	44,940
1940	46,896
1941	48,816
1942	50,688
1943	52,488
1944	54,252
1945	55,992
1946	57,708
1947	59,376
1948	60,900
1949	62,340
1950	63,660
1951	64,920
1952	66,072
1953	67,164
1954	68,220
1955	70,116
1956	71,004
1957	71,820

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9. 2000 covered compensation table

Birth	Covered Compensation
1958	72,528
1959	73,176
1960	73,764
1961	74,304
1962	74,748
1963	75,180
1964	75,564
1965	75,864
1966	76,092
1967 and later	76,092

Normal retirement

The normal retirement date is the participant's 65th birthday. The normal retirement benefit begins the first of the month coinciding with or next following the normal retirement date. The annual normal retirement benefit (payable monthly for life) is equal to:

- 52% of final average earnings up to covered compensation, prorated for less than 20 years credited service

plus

- 65% of final average earnings exceeding covered compensation, prorated for less than 20 years credited service
- *But not less than* 2.5% of final average earnings up to covered compensation for each year of credited service up to a maximum 25% after 10 years of credited service.

Minimum benefit

The minimum benefit is 2.0% of final average earnings for each year of vesting service after 1983 up to a maximum of 10 years.

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EXHIBIT 3 — PLAN PROVISIONS

Late retirement

A late retirement benefit is payable to each participant in service past his normal retirement date. The late retirement benefit begins the first of the month coinciding with or following the actual termination date and is payable monthly for participant's life. The late retirement benefit is the greater of the actuarial equivalent of the benefit the participant is entitled to on his normal retirement date or the benefit determined by the normal retirement benefit formula based on final average earnings and credited service at the termination date.

Vested termination

A participant who has not reached his normal retirement date but terminates employment after completion of two or more years vesting service receives a deferred vested retirement benefit.

The annual deferred vested retirement benefit (payable monthly for life) is determined by the normal retirement benefit formula based on final average earnings at the termination date and projected credited service. This benefit is then multiplied by the ratio of credited service to projected credited service, and further multiplied by the vesting percentage from Table 10.

10. Years vesting service and percentage

Years Vesting Service	Vesting Percentage
Less than 2	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 but less than 6	80%
6 or more	100%

The deferred vested retirement benefit begins on the participant's normal retirement date.

If a participant completes 10 years vesting service he may elect a reduced benefit beginning the first of any month coinciding with or next following his 55th birthday. The reduction for early benefits is 1/180 for each of the first 60 months and 1/360 for each of the next 60 months the benefit start date precedes the normal retirement date.

Participants whose employment is terminated before completing two years service cannot receive a plan benefit unless they are eligible for some amount accumulated under the previous plan.

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EXHIBIT 3 — PLAN PROVISIONS

Early retirement

A participant age 55 with 10 years vesting service may retire early and have benefits begin on the first of the month coinciding with or following his early retirement date. The annual early retirement benefit (payable monthly for life) is the deferred vested retirement benefit reduced .25% for each month early.

A temporary supplemental benefit is payable monthly from early retirement date until age 65 or death if earlier. The amount is 1% of final average earnings not in excess of covered compensation, multiplied by the ratio of credited service to projected credited service.

Disability retirement

A participant who terminates employment as a result of disability after age 40 with 10 or more years vesting service is entitled to a disability benefit payable at his normal retirement date provided the employee qualifies and remains qualified for Social Security disability payments. The annual disability benefit (payable monthly for life) is determined according to the normal retirement benefit formula, based on final average earnings at the disability date and projected credited service to the normal retirement date. A disabled participant may begin receiving a reduced benefit as early as age 55 based on service projected to his actual retirement date. The reduction is the same as for the early retirement benefit.

Death benefit

- **Preretirement** The surviving spouse of a participant who dies after completing two years vesting service (before his normal retirement date) is entitled to a monthly benefit. The benefit begins on the later of:

  - The earliest date the participant could have retired had he survived
  - The first day of the month following the participant's death

  and ceases upon the spouse's death.

The surviving spouse is entitled to a monthly benefit equal to 50% of the benefit the participant would receive if he retired on the later of:

- The day preceding his death, or
- The earliest he could have retired and had elected a joint and 50% survivor option in spouse's favor.

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EXHIBIT 3 — PLAN PROVISIONS

- **Postretirement** The monthly benefit payable to the retired employee ceases with the benefit payable on the first day of the month in which death occurs, unless the employee elected an optional form of benefit.

A married participant is deemed to have elected a joint and 50% survivor option in his spouse's favor unless an election to the contrary is made before retirement.

Normal form of retirement benefit

The normal retirement, late retirement, early retirement, deferred vested retirement, and disability retirement benefits shall be payable during the retired participant's lifetime.

If the participant is married when benefits begin and then dies, 50% of the participant's benefit continues to the surviving spouse.

Optional forms of benefit

An employee may elect one of the following options in lieu of the normal benefit:

- A single lump sum payment for benefits commencing after January 29, 1999
- 66 2/3% or 100% joint-and-survivor options (where a reduced benefit is payable to the employee, 66 2/3% or 100% is continued during the lifetime of the employee's designated beneficiary after the employee's death);
- A reduced monthly benefit payable for life but with a guarantee of 60, 120, or 180 monthly payments.

Prior plan participants

Participants in the plan effective before January 1, 1973, may receive the benefit amount they were eligible for under that plan, based on their accumulated account values at December 31, 1972, plus interest thereafter at 5% per year up through January 1, 1988, and 120% of the federal midterm rate for years from January 1, 1988 to the present. For example, if an employee terminates for reasons other than death or disability with 12 years of service, he can receive 50% of his previous accumulation in lieu of this plan's vested benefit. Also, that value is paid at the participant's death, if he completed 3 years service, in lieu of the current plan's death benefit.

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EXHIBIT 3 — PLAN PROVISIONS

Changes in plan provisions

During 1999, the plan was amended to include the following:

- The definition of compensation was changed to exclude severance pay
- Credited service for terminating employees was increased for one month for each month of severance paid, limited to two years
- All employees were granted full vesting,
- For calculation of benefit eligibility and early retirement benefits for terminating employees, participants are assumed to be one month older for each month of severance paid,
- Lump sums are offered to terminating employees calculated using actuarial equivalence including 4% interest rate at termination and credited with 8% interest from termination date to payment date,
- Early retirement benefits are reduced by 3% per year early retirement (formerly 6%).

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EXHIBIT 4 — PLAN ASSETS RECONCILIATION

January 1, 1999 market value fund balance		$ 41,476,040
Less accrued income		0
Total cash and securities at market value as of January 1, 1999		$ 41,476,040
Income		
Employer contributions	$ 0	
Net interest and dividends	3,188,890	
Net realized and unrealized gain (loss)	(1,753,030)	
Other	3,896	
Total income		$ 1,439,756
Expenses		
Lump sum payments	$ 0	
Periodic benefit payments	800,168	
Administrative and miscellaneous fees	163,513	
Total expenses		963,681
Net income over expenses		$ 476,075
Total cash and securities at market value as of January 1, 2000		$ 41,952,115
Plus accrued income		0
January 1, 2000 market value fund balance		$ 41,952,115
Approximate market value yield		3.51%

a. Return of benefit payments.

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EXHIBIT 5 — ACTUARIAL VALUE OF PLAN ASSETS

ERISA requires the plan's actuarial value of assets to be determined by using an asset valuation method that takes into account the market value of assets and complies with IRS regulations. These regulations place the following constraints on an asset valuation method:

- The method must not produce a result consistently above or consistently below the market value of assets
- The result is no less than 80% and no greater than 120% of the market value of assets. This corridor covers cyclical variations as well as unusual fluctuations from one valuation date to another.

Under the plan's asset valuation method, the actuarial value of assets is determined by adjusting last year's value by:

- Adding receipts other than realized and unrealized appreciation or depreciation
- Deducting disbursements
- Taking 25% of the difference between the current year's preliminary actuarial value and the market value.

If the resulting actuarial value of assets is less than 80% or greater than 120% of the market value of assets, an adjustment is made to maintain the actuarial value of assets at the appropriate corridor limit.

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EXHIBIT 5 — ACTUARIAL VALUE OF PLAN ASSETS

1.	January 1, 1999 actuarial value of assets	$	33,180,832
2.	Receipts other than realized and unrealized appreciation (depreciation)	$	3,896
3.	Interest and dividends	$	3,188,890
4.	Disbursements	$	963,681
5.	January 1, 2000 preliminary actuarial value of assets *(1) + (2) + (3) - (4)*	$	35,409,937
6.	January 1, 2000 total market value of assets	$	41,952,115
7.	Difference between market value and preliminary actuarial value *(6) - (5)*	$	6,542,178
8.	25% of (7)	$	1,635,545
9.	January 1, 2000 actuarial value of assets before corridor limits *(5) + (8)*	$	37,045,482
10.	Corridor limits:		
	80% of market value	$	33,561,692
	120% of market value	$	50,342,538
11.	January 1, 2000 actuarial value of assets	$	37,045,482
12.	Approximate yield		14.77%

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EXHIBIT 6 — RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

1.	January 1, 1999 unfunded actuarial accrued liability (surplus)	$ (17,153,236)
2.	Interest on the unfunded actuarial accrued liability	$ (1,372,259)
3.	Normal cost plus expenses with interest to December 31, 1999	$ 461,338
4.	Contributions with interest to December 31, 1999	$ 0
5.	Effect of contributions on unfunded actuarial accrued liability *(3) + (4)*	$ 461,338
6.	Subtotal *(1) + (2) + (5)*	$ (18,064,157)
7.	Actuarial (gain) or loss[a]	$ 4,368,673
8.	January 1, 2000 unfunded actuarial accrued liability (surplus) *(6) + (7)*	$ (13,695,484)

a. Includes changes due to plan amendments and assumption changes.

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EXHIBIT 6 — RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

1.	Charges to funding standard account		
a.	Previous year funding deficiency, if any	$ 0	
b.	Employer's normal cost plus expenses	427,165	
c.	Amortization charges (January 1, 1999 outstanding balance: $0)[a]	0	
d.	Interest on (a), (b), and (c)	34,173	
e.	Total charges		$ 461,338
2.	Credits to funding standard account		
a.	Previous year credit balance, if any	$ 559,338	
b.	Employer contributions	0	
c.	Amortization credits (January 1, 1999 outstanding balance: $0)[a]	0	
d.	Interest on (a), (b) and (c)	44,747	
e.	Full funding limitation credit	461,338	
f.	Total credits		1,064,423
3.	Credit balance *(2f) - (1e)*		$ 604,085

a. See Minimum amortization charges and credits on next page.

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EXHIBIT 6 — RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

Minimum amortization charges and credits[a]

	Original			Remaining Charges/	
Description	**Date**	**Years**	**Amount**	**Balance**	**Payments**
Charges, January 1, 1999 — Level amount necessary to amortize					
None					
Credits, January 1, 1999 — Level amount necessary to amortize					
None					

b. All bases were considered completely amortized as of December 31, 1998.

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EXHIBIT 8 — FULL FUNDING LIMITATION

In general, an employer's minimum required contribution for any plan year may not exceed the IRC-defined full funding limitation. As a tax-exempt employer, these provisions don't specifically limit the Institute from contributing in excess of the full funding limitation. This full funding limitation states no contribution may be made causing a plan's assets to exceed the lesser of its actuarial accrued liability and 155% of its current liability. Specifically, this full funding limitation is the excess, if any, of the lesser of (1) and (2) over (3) below, but not less than (4).

(1) The sum of the actuarial accrued liability and the normal cost, less expected benefit payments, adjusted for interest at the valuation rate to the plan year end.

(2) 155% of the current liability at the plan year-end, determined using a permissible interest rate. A permissible interest rate is a rate falling within the 90% to 105% range of a weighted-average interest rate on 30-year Treasury securities during the 4-year period ending on the last day of the preceding plan year and is consistent with the interest rate an insurance company uses to determine the annuities' purchase price to satisfy the plan's liabilities. The permissible interest rate range for the 2000 plan year is 5.41% to 6.31%. We used 6.31% to determine the January 1, 2000 current liability. The current liability at the plan year end is determined by adjusting the current liability at the beginning of the year for the value of benefits expected to accrue during the year, anticipated benefit payments, and interest at the permissible rate.

(3) The lesser of the plan's market value and actuarial value of assets, adjusted for anticipated benefit payments and expenses, and interest at the valuation rate to the plan year-end. In determining the full funding limitation for the minimum required contribution, plan assets are adjusted for the credit balance in the funding standard account.

(4) For plan years after 1994, the full funding limitation cannot be less than the full funding limitation override which is the excess, if any, of 90% of the RPA '984 current liability at plan year-end over the market value of plan assets projected to plan year-end.

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EXHIBIT 8 — FULL FUNDING LIMITATION

The Full funding limitation shown below constrains the minimum required and maximum recommended contribution for the 2000 plan year; however, as a tax-exempt organization, it does not restrict the contribution level the Institute could make.

1. Actuarial accrued liability		
a. Actuarial accrued liability at beginning of year	$	23,349,998
b. Normal cost		31,876
c. Expected benefit payments		845,848
d. Interest to plan year end at the valuation rate *8.00% of [(a) + (b) - (13/24)(c)]*		1,833,897
e. Actuarial accrued liability at year end *(a) + (b) - (c) + (d)*	$	24,369,923
2. 155 of current liability		
a. Current liability at beginning of year	$	23,245,127
b. Liability for benefits expected to accrue during year		65,908
c. Expected benefit payments		845,848
d. Interest to plan year end at the permissible rate *6.31% of [(a) + (b) - (13/24)(c)]*		1,442,016
e. Current liability at year end *(a) + (b) - (c) + (d)*	$	23,907,203
f. 155% of current liability at year end 155% of (e)	$	37,056,165

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EXHIBIT 8 — FULL FUNDING LIMITATION

3. Adjusted plan assets		
a. Market value of assets	$	41,952,115
b. Actuarial value of assets		37,045,482
c. Lesser of (a) and (b)		37,045,482
d. Credit balance in funding standard account		604,085
e. Adjusted assets at beginning of plan year *(c) - (d)*		36,441,397
f. Expected benefit payments		845,848
g. Expected expense payments		1,594
h. Interest to plan year end at the valuation rate *8.00% of [(e) - (13/24)(f) - (g)*		2,878,531
i. Adjusted assets at year end *(e) - (f) - (g) + (h)*	$	38,472,486
4. Full funding limitation override		
a. RPA '94 current liability at beginning of year	$	23,245,127
b. Liability for benefits expected to accrue during year		65,908
c. Expected benefit payments		845,848
d. Interest to plan year end at the permissible rate 6.31% of [(a) + (b) - (13/24)(c)]		1,442,016
e. RPA '94 current liability projected to year end *(a) + (b) - (c) + (d)*	$	23,907,203
f. 90% of *(e)*	$	21,516,483
g. Actuarial value of assets	$	37,045,482
h. Expected benefit payments		845,848
i. Expected expense payments		1,594
j. Interest to plan year end at the valuation rate *8.00% of [(g) - (13/24)(h) - (i)]*		2,926,858
k. Adjusted assets at year end *(g) - (h) - (i) + (j)*	$	39,123,304
l. Full funding limitation override *(f) - (k), but not less than zero*	$	0
5. Full funding limitation lesser of (1e) and (2f) minus (3i), but not less than (4l)	$	0

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EXHIBIT 9 — ACTUARIAL METHOD AND ASSUMPTIONS

This report assumes the plan will exist as an ongoing entity. All numbers presented are based on this ongoing plan concept with costs and liabilities developed under the entry age normal cost method.

Entry age normal actuarial cost method

Each year the plan's normal cost is determined for each participant based on the assumption the plan always existed, the actuarial assumptions underlying the cost determination are exactly realized, and the Tobacco Institute always funded the plan. The normal cost thus determined is the constant percentage of pay to be deposited to the fund each year (past and future) so exactly enough assets are accumulated at retirement to provide for all promised benefits. An allowance is added for expenses.

Each year the actuarial accrued liability is determined as the sum of all normal costs accumulated as if the assumed normal cost was contributed in the past and the actuarial assumptions are exactly realized. The unfunded actuarial accrued liability is determined by subtracting the fund's current assets from the actuarial liability. A negative unfunded accrued liability is a surplus.

Beginning with the January 1, 1988 valuation, yearly experience gains and losses are the difference between the expected unfunded actuarial accrued liability and the actual unfunded actuarial accrued liability (as determined in the preceding paragraphs), both calculated at the valuation date.

The actuarial accrued liability for inactive participants is the actuarial present value of the benefits expected to be paid; no normal cost is determined for these participants.

Asset valuation method

In determining the preliminary actuarial value of assets, the preceding year's actuarial value of assets is increased by contributions, interest, and dividends and reduced by benefit payments and expenses. This preliminary value of assets is then compared to the market value of trust assets and 25% of the difference produces the final actuarial value of assets. If the resulting actuarial value of assets is outside a corridor of 80% to 120% of the market value, an adjustment is made to maintain the actuarial value at the appropriate corridor limit.

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EXHIBIT 9 — ACTUARIAL METHOD AND ASSUMPTIONS

Economic assumptions

- **Investment return** Investment return is 8% per year. For the full funding limitation, a 6.31% interest rate was used for current liability. The current liability calculated in accordance with the Retirement Protection Act of 1994 (RPA '94) also assumes a 6.31% interest rate.
- **Salary increases** 6 1/2% per year.
- **Social Security increases** Covered compensation determining cost estimates is based on the 2000 taxable wage base of $76,200, assumed to increase 3 1/2% per year.
- **Compensation limitation** The maximum limitation on compensation for 2000 is $170,000 and is assumed to increase by 3 1/2% per year in $10,000 increments.
- **Expenses** Administrative expenses are 5% of the normal cost.

EXHIBIT 9 — ACTUARIAL METHOD AND ASSUMPTIONS

Demographic assumptions

Plan benefits are based on the employee's service at retirement or other termination of service. Additional benefits are payable if the employee becomes disabled. Continuing benefit payments are contingent on the employee's survival and possibly their spouse. Assumptions are made about the causes and timing of separation from service and subsequent survival.

11. Annual retirement rates

Age	Probability of Retirement
55	.03
56	.03
57	.03
58	.03
59	.04
60	.05
61	.06
62	.25
63	.15
64	.20
65	1.00

12. Probability of withdrawal

	Number of Completed Years of Service					
Age	0	1	2	3	4	5 or More
20	.350000	.250000	.200000	.150000	.100000	.052704
25	.250000	.170000	.140000	.120000	.092000	.052704
30	.200000	.110000	.085000	.069000	.058000	.048312
35	.150000	.080000	.066000	.056000	.049000	.044736
40	.100000	.063000	.054000	.046000	.043000	.038412
45	.050000	.048000	.044000	.036000	.032000	.032149
50	.050000	.041000	.034000	.026000	.018000	.015245
55	.050000	.031000	.022000	.013000	.008000	.003344
60	.050000	.030000	.020000	.080000	.000000	.000000

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EXHIBIT 9 — ACTUARIAL METHOD AND ASSUMPTIONS

Mortality: 1983 Group Annuity Mortality Table. Sample rates are as follows:

13. 1983 Group annuity Mortality Table sample rates

Age	Probability of Disability Males	Females
20	.000377	.000189
25	.000464	.000253
30	.000607	.000342
35	.000860	.000476
40	.001238	.000665
45	.002183	.001010
50	.003909	.001647
55	.006131	.002541
60	.009151	.004241

Disabled Mortality: 1983 Group Annuity Mortality Table set forward 10 years.

14. Disability rates

Age	Probability of Disability Males	Females
20	.000240	.000320
25	.000240	.000400
30	.000320	.000480
35	.000400	.000640
40	.001560	.000800
45	.000800	.001200
50	.001440	.002080
55	.002880	.003920
60	.007200	.009680

Marital characteristics: Wives are assumed to be four years younger than their husbands. 80% of participants are assumed to be married.

Financial and census data

The Tobacco Institute submitted the auditor's draft financial data and census data as of January 1, 2000 which appears to be consistent with the data used for the previous valuation.

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EXHIBIT 9 — ACTUARIAL METHOD AND ASSUMPTIONS

Benefits not included in the liabilities

To the best of our knowledge, liabilities include all benefits.

Events and trends which have not been taken into account

To the best of our knowledge, all events and trends have been taken into account.

Changes in actuarial cost method or assumptions since the previous valuation

We assume that 100% terminated vested employees will take a lump sum. The January 1, 2000 lump sum value of benefits was assumed to be the actuarial accrued liability for terminated vested employees.

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EXHIBIT 10 — PLAN ACCOUNTING INFORMATION (SFAS 35)

The Statement of Financial Accounting Standards No. 35 specifies disclosures required for the pension plan financial statements.

The Tobacco Institute's funding policy

The Tobacco Institute's funding policy is to contribute for each plan year the normal cost plus amounts required to amortize the actuarial surplus over 15 years, and any future gains and losses or changes in plan provisions or assumptions over five years from the time they are incurred. The normal cost is adjusted for interest. The result will be no less than the minimum required contribution and no more than the maximum recommended contribution for the plan year.

16. January 1, 2000 actuarial present value of accumulated plan benefits

	Number of Persons	Vested Benefits	Total Benefits
Participants currently receiving payments	31	$ 7,276,060	$ 7,276,060
Terminated vested participants	79	14,930,600	14,930,600
Active participants	7	608,196	648,639
Total accrued benefits	167	$22,814,856	$ 22,855,299
Market value of assets			$ 41,952,115

17. Changes in accumulated plan benefits

January 1, 1999 accumulated plan benefits actuarial present value		$ 13,753,670
Increase (decrease) during the year attributable to:		
Benefits accumulated, plan amendments, assumption changes and actuarial gain/loss	$ 8,833,510	
Interest due to decrease in the discount period	1,068,287	
Benefits paid	(800,168)	
Net increase (decrease)		$ 9,101,629
January 1, 2000 accumulated plan benefits actuarial present value		$ 22,855,299

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EXHIBIT 10 — PLAN ACCOUNTING INFORMATION (SFAS 35)

The significant actuarial assumptions determining the accumulated plan benefits actuarial present value

The significant actuarial assumptions used in the current valuation are shown in Exhibit 10.

Effect on the actuarial present value of all accumulated plan benefits of changes curing the plan year in plan provisions, actuarial methods, and actuarial assumptions

The changes to plan provisions during the year are detailed in Exhibit 3. The changes to actuarial methods and assumptions during the year are detailed in Exhibit 9.

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CERTIFICATION

We have prepared an actuarial valuation of the Tobacco Institute Employees' Pension Plan as of January 1, 2000 for the plan year ending December 31, 2000. The results of the valuation are set forth in this report, which reflects the provisions of the Plan as amended and effective January 29,1999.

The valuation is based on employee and financial data which were provided by the Institute and trustee, respectively, and which are summarized in this report.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current federal statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions are reasonable and represent our best estimate of the anticipated experience under the Plan. This report fully and fairly discloses the actuarial position of the Plan on an ongoing basis.

There have been changes in plan provisions since the last valuation of the Plan as of January 1, 1999. A description of those changes and the financial effect is incorporated in this report.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate

Scott Jarboe, ASA, EA — Date: 9/20/00
Enrolled Actuary No. 99-5783

Kenneth A. Kent, FSA, FCA — Date: 9/20/2000
Enrolled Actuary No. 99-3776

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