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Tobacco Use Cost Analysis

Proponents of increasing tobacco taxes consistently cite very large healthcare cost numbers associated with tobacco use, with the implication or direct assertion that tobacco use imposes significant unfunded incremental costs to our healthcare system. A frequently cited source is *The Price of Smoking*¹ by research professors at Duke University and the University of South Carolina.

This study presents the \$40 per pack figure that is frequently cited by tax proponents as the “cost to society” of tobacco use. However these and other similar studies create a misleading impression that there are huge uncompensated costs to our health system due to tobacco use. This is not the case. Analysis of the study shows that the incremental costs of tobacco use to the Oregon Health Plan (OHP), our State’s Medicaid program, is 2¢ per pack of cigarettes. Oregon currently collects \$1.32 per pack in state excise tax.

The large numbers cited in these types of studies are not actual expenses or financial costs, but represent hypothetical economic values placed on subjective situations, such as quality of life and assumed values based on average mortality estimates. The largest of these hypothetical values relate to the tobacco users themselves and their families. Of the \$40 the researchers refer to as the “cost to society”, the study assigns fully \$38.50 to the tobacco user and his or her family. Whether you agree with this assumed value concept or not, the fact is that Oregon does not collect state tobacco excise taxes for monetary payments to tobacco users and their families.

The remaining \$1.50 is referred to by the researchers as “External Costs”. As can be seen in Table 11.3 on page 255 of the study (Exhibit 1), a number of components are broken out in this analysis; hypothetical costs to employers for sick pay and productivity reductions, and costs to non-tobacco users for life insurance. But Oregon does not collect tobacco excise taxes for payments to private companies or life insurance purchasers.

The research includes a determination noted as “medical care cost not borne by the smoker” on the second line of Table 11.3, and found that this was only 49¢ per pack. However, this number represents the entire healthcare funding system; private insurance, patient co-pays, Medicare, and Medicaid. Oregon does not collect tobacco excise taxes for monetary payments to private corporations, insurance companies or citizens for personal healthcare expenditures.

Medicaid, which includes the Oregon Health Plan, is 17% of total U.S. healthcare spending². Thus 17% of the 49¢ equates to 8¢ per pack of cigarettes to fund the claimed cost of tobacco use to Medicaid. However the Federal Government pays 75% of OHP costs³, about 6¢/pack, funded out of the \$1.01 federal excise tax collected from tobacco users.

¹ Frank A. Sloan, et al, *The Price of Smoking* (Cambridge: MIT Press, 2004), 255.

² U.S. Dept. of Health and Human Services, *Health, United States, 2015* (Wash. D.C.: GPO, 2015) Table 95

³ Janet Bauer, *Oregon Center for Public Policy Report*, January 18, 2017 (Portland: OCPP, 2017), 1.

Therefore only 2¢ per pack remains as extra costs to the OHP to be covered by Oregon tobacco excise taxes of \$1.32 per pack. Tobacco users are significantly subsidizing not only medical expenses of non-tobacco-users, but all of the other programs that receive tobacco tax money.

The current level of tobacco taxes, and certainly any increase in taxes, cannot be justified based on medical system expenses. Clearly we are taxing tobacco users primarily for revenue for other purposes, because tobacco users are a politically weak population that is easy to tax. But the fact that it can be done does not make it fair.

This tax should not be increased on already over-taxed citizens who bear a disproportionate load of state funding needs compared to other citizens.

A handwritten signature in blue ink, appearing to read "WC Girard". The signature is fluid and cursive, with the initials "WC" being prominent and the last name "Girard" written in a more connected script.

William C. Girard, Jr.
CEO, Plaid Pantries, Inc.
Chair, Oregon Neighborhood Store Association

than for women historically, the cost per male smoker is \$29,037. The cost per female smoker is only half this, \$15,985. The national cost of spousal smoking, again for the 24-year-old who smokes, is \$28 billion. The estimates exclude additional medical care attributable to spouse smoking.

The External Cost of Smoking

The external costs are much smaller than either their private or quasi-external counterparts, \$6,201 per 24-year-old smoker, \$3,829 for female and \$8,001 for male smokers at this age, net of federal and state cigarette excise taxes paid by smokers (table 11.3). On a per-pack basis, the external cost is \$2.20 in contrast to \$0.76 in excise taxes paid per pack. Net of taxes, the per-pack external cost of smoking is \$1.44.

This implies that even with a narrow definition of external cost, one that excludes the quasi-external costs, cigarette excise taxes are too

Table 11.3
External Cost of Smoking Caused by a 24-Year-Old Smoker

	Cost per Smoker			National Cost (Millions 2000 Dollars)	Cost per Pack
	Female Smoker	Male Smoker	Mean Cost ⁴		
Work loss (sick leave)	2,658	3,747	3,277	3,911	0.76
Medical care cost not borne by the smoker	2,806	1,501	2,064	2,463	0.49
Social Security outlays ¹	-1,509	-5,264	-3,644	-4,348	-0.84
Income taxes on Social Security taxable earnings ²	126	7,713	4,440	5,299	1.02
Defined benefit private pension outlays	-88	-9,436	-5,404	-6,448	-1.24
Life insurance outlays	2,019	12,013	7,702	9,190	1.78
Productivity losses ³	984	1,024	1,007	1,201	0.24
Total external cost of smoking	6,996	11,299	9,443	11,268	2.20
Federal excise taxes	-1,489	-1,550	-1,523	-1,818	-0.36
State excise taxes	-1,678	-1,748	-1,718	-2,050	-0.40
Net external cost of smoking	3,829	8,001	6,201	7,400	1.44

1. Accounts for the effect of smokers' early death on their spouses' benefit receipt.

2. Assumes an average income tax rate of 20% on the marginal earnings.

3. \$5 billion per year, see chapter 3.

4. Weighted average based on 514,733 female and 678,554 male 24-year-old smokers.