



## FACT SHEET

### How Does I-773 Affect Washington Businesses?

#### What Will I-773 Do?

I-773 will lead to an additional \$0.60 tax per pack of 20 cigarettes, generating \$160 million in fiscal year 2003, \$159 million in fiscal year 2004, and more than \$155 million in every fiscal year thereafter.<sup>1</sup> These revenues will fund 50,000 additional slots in the Basic Health Plan, fully fund the state's tobacco control and prevention program, and finance programs that reduce disease among low-income families.

Through decreases in smoking and increases in access to health care, I-773 will save Washington an additional \$630 million in future long-term, tobacco-related health expenditures.<sup>2</sup>

#### What Effect will I-773 Have on Smoking?

The increased cost of cigarettes will lead to substantial reductions in cigarette smoking by deterring smoking initiation, prompting smoking cessation, and reducing the average cigarette consumption among continuing smokers.<sup>3</sup> This will be particularly true for youth who are more sensitive to price factors. Over the past decade, many states have raised their cigarette tax rates. These tax increases significantly reduced cigarette consumption in every single one of these states.<sup>4</sup>

#### What Benefits Will I-773 Create for Businesses?

Aside from the obvious benefit of reducing youth smoking, a tobacco tax will translate into better employee health, and financial savings for businesses. Less smoking means a healthier workforce. A healthier workforce means higher productivity and longevity among employees.

- Employees who smoke are 50% more likely to call in sick to work than non-smokers, incurring higher temporary replacement and sick leave costs, as well as productivity losses.<sup>5</sup>
- Smokers also tend to have higher turnover rates, die younger, and retire sooner,<sup>6</sup> all of which lead to higher recruitment and retraining expenses.
- Smokers lose work time to smoke breaks.<sup>7</sup> An employee who spends 30 minutes a day on cigarette breaks loses 6% of the entire work year.
- Workplaces that still allow smoking face lower employee morale, higher risks of fire and property damage, higher cleaning and maintenance costs, and increased costs for accidental injury and related workers compensation.<sup>8</sup> For these employers, reduced smoking translates into reduced costs.

Expansion of the BHP through a tobacco tax means that thousands more working families will have access to health care. With profit margins diminishing in the face of the economic downturn, many companies, especially smaller businesses with low-wage workers, claim they cannot afford to provide private health care. The BHP will be a viable alternative for many of these workers, deepening the pool of healthy, insured workers for Washington businesses.

I-773 will give 50,000 more Washington residents access to preventative care through the BHP. Because the uninsured often cannot access preventative care, or because they must delay care for minor problems, they are four times more likely to make expensive emergency room visits for care.<sup>9</sup> On average, a non-urgent emergency room visit costs more than twice as much as a physician office visit.<sup>10</sup> Washington hospitals provided \$102 million in charity care in 1997.<sup>11</sup> These increased costs are passed on in the form of higher premiums for the insured, and higher taxes for all taxpayers.<sup>12</sup>

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<sup>1</sup> Office of Financial Management (OFM), Washington Economic and Revenue Forecast, March 2001. Based on OFM estimates of taxable sales of cigarettes and other tobacco products. Estimates have been adjusted to address the elasticity of demand from decreases in consumption and increases in tax-avoidance purchases. The elasticity of demand is assumed to be (-)0.55.

<sup>2</sup> Hodgson, T., "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* 70(1), 1992; Nusselder, W. et al., "Smoking and the Compression of Morbidity," *Epidemiology and Community Health*, 2000; Lightwood, J. et al., "Short-Term Health and Economic Benefits of Smoking Cessation: Low Birth Weight," *Pediatrics*, December 1999, 104(6): 1312-20; Lightwood, J. & S. Glantz, "Short-Term Economic and Health Benefits of Smoking Cessation - Myocardial Infarction and Stroke," *Circulation*, August 19, 1997, 96(4): 1089-96, as cited at <http://tobaccofreekids.org/research/factsheets/pdf/0148.pdf>.

<sup>3</sup> U.S. Department of Health and Human Services, "Reducing Tobacco Use: A Report of the Surgeon General," Atlanta, Georgia, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2000: 35.

<sup>4</sup> Orzechowski and Walker, "The Tax Burden on Tobacco: Historical Compilation 1999," Arlington, Virginia, 2000, cited at: <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

<sup>5</sup> Halpern, M., et al., "Impact of Smoking Status on Workplace Absenteeism and Productivity," *Tobacco Control*, 2001, 10: 233-38, as cited at [http://news.bbc.co.uk/1/hi/english/health/newsid\\_1524000/1524684.stm](http://news.bbc.co.uk/1/hi/english/health/newsid_1524000/1524684.stm).

<sup>6</sup> U.S. Department of the Treasury, "The Economic Costs of Smoking in the U.S. and the Benefits of Comprehensive Tobacco Legislation, 1998: 7. Available online at: <http://www.treas.gov/press/releases/docs/tobacco.pdf>.

<sup>7</sup> Halpern et al.

<sup>8</sup> Centers for Disease Control and Prevention, "Making Your Workplace Smoke Free – A Decision-Maker's Guide," March 26, 2001. Available online at: [http://www.cdc.gov/tobacco/research\\_data/environmental/etsguide.htm](http://www.cdc.gov/tobacco/research_data/environmental/etsguide.htm).

<sup>9</sup> American College of Physicians-American Society of Internal Medicine, "No Health Insurance? It's Enough to Make You Sick: Scientific Research Linking the Lack of Health Coverage to Poor Health," November 30, 1999: 8. Available online at: <http://www.acponline.org/uninsured/index/html>.

<sup>10</sup> William, R., "The Costs of Visits to Emergency Departments," *New England Journal of Medicine*, 1996, 334:642-46, as cited at: <http://www.acponline.org/uninsured/lack-contents.htm>.

<sup>11</sup> Washington State Department of Health, "Charity Care in Washington Hospitals," July 1999.

<sup>12</sup> Copeland, C., "Characteristics of the Nonelderly with Selected Sources of Health Insurance and Lengths of Uninsured Spells," EBRI Issue Brief #198, 1998, cited at: <http://www.acponline.org/uninsured/lack-contents.htm>.