



## **Economic Opportunity Institute**

### *FACT SHEET*

### *Impacts of Initiative 773*

*August 2001*

*I-773 will raise the current Washington state cigarette tax by \$0.60 and impose a comparable surtax on other tobacco products. The additional tax revenues (\$160 million in fiscal year 2003<sup>1</sup>) will be used to:*

- *expand access to the Basic Health Plan (BHP),*
- *fully fund the state's tobacco prevention and control program, and*
- *provide funding for other programs that effectively improve the health of low-income families in Washington state.<sup>2</sup>*

*The expansion of these services to improve the health of Washington families will result in the following:*

#### *Increased Health Insurance Coverage through the Basic Health Plan*

*The Basic Health Plan (BHP) provides a no-frills package of health care coverage to Washington families with incomes at or below 58% of the state household median income (200% of the Federal Poverty Level).<sup>3</sup> Typically, these are low-income working families whose employers do not provide health insurance. The participants pay a sliding scale premium share for their BHP coverage. Within two years, funding from the new tax will increase enrollment by 50,000 to cover 175,000 people.<sup>4</sup>*

#### *Decreased Smoking and Smoking Initiation Rates*

*The cigarette tax will have significant public health impacts. The higher cost of cigarettes will deter youth and adults from starting to smoke, encourage individuals to quit smoking, and reduce cigarette consumption among continuing smokers.<sup>5</sup> This is particularly true for adolescents, young adults, and low-income people who are more sensitive to price factors.*

*As with most consumer products (including addictive products), the demand for cigarettes is expected to decrease when price is increased. Over the past decade, many states have raised their*

cigarette tax rates. These tax increases significantly reduced cigarette consumption in every one of these states.<sup>6</sup> Economic studies show that a 10% increase in the price of cigarettes will reduce overall smoking among adults by approximately 4%.<sup>7</sup> The U.S. General Accounting Office has estimated that smoking rates among youth will decline by 7-12% for every 10% increase in the price of cigarettes.<sup>8</sup>

Cigarette price increases are most effective in reducing youth smoking rates when integrated into a comprehensive tobacco prevention and control program. Youth smoking rates declined significantly in Oregon, California, and Massachusetts as a result of the combined effect of a tax increase and a strong tobacco control program.<sup>9</sup>

For Washington state, a \$.60 tax increase (or 15% price increase<sup>10</sup>) should result in a 10.1% decline<sup>11</sup> in youth smoking and prevent over 33,300 kids<sup>12</sup> from smoking. The effect of the price increase combined with the implementation of a fully funded tobacco prevention and control program should result in even further health and economic savings.

### *Improved Health Status and Economic Savings*

*Increased rates of health insurance coverage and decreased rates of smoking will save lives, improve health status, and save money in Washington. If I-773 is passed by the voters:*

- 10,600 kids would be saved from premature death from smoking.<sup>13</sup>
- \$630 million in future tobacco-related health care costs would be avoided.<sup>14</sup>
- 50,000 more low-income adults will have health insurance through the BHP. Because the uninsured are without access to the most basic health care, they do not get the care they need or delay care to the point where minor health concerns become major health problems. The uninsured have a 25% higher risk of mortality than the insured.<sup>15</sup> When the uninsured do seek care, they are more likely to receive higher-cost medical care through emergency room visits.<sup>16</sup> On average, a non-urgent emergency room visit costs more than twice as much as an office visit.<sup>17</sup> These increased costs are passed on to the insured or paid by taxpayers.<sup>18</sup>
- Expansions in health insurance coverage will increase access to timely and effective health services that can save and improve the quality of lives and will decrease avoidable hospitalizations and utilization of other more expensive types of care.<sup>19</sup>
- Low-income health programs will improve the health status and lessen the disproportionate burden of disease on Washington's low-income families.

### *Footnotes*

<sup>1</sup>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. Office of Financial Management, Washington Economic and Revenue Forecast, March 2001.

<sup>2</sup>These include chronic disease programs to promote early detection and increase access to treatment.

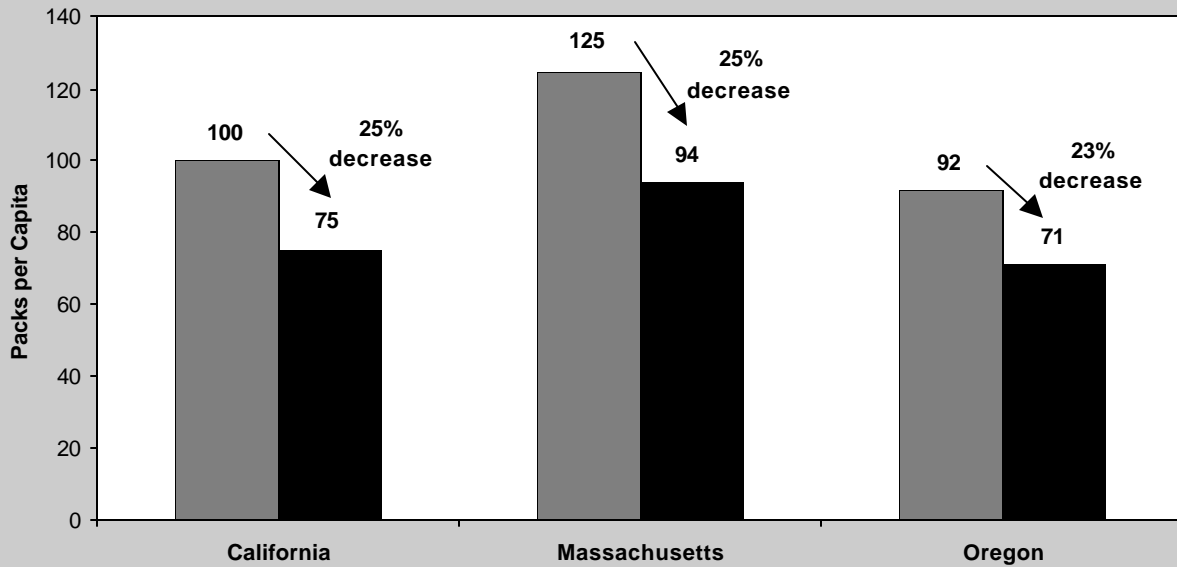
<sup>3</sup>Median monthly pre-tax income for a 4-person family is \$5088. 200% of the Federal Poverty Level is 58% of the median income. U.S. Census Bureau, 1999. 2001 Health and Human Services Poverty guidelines, Federal Register, 66(33): February 2001. p.10695-10697 (<http://aspe.os.dhhs.gov/poverty/01poverty.htm>)

<sup>4</sup>As worded in the text of I-773, "The health care authority may enroll up to fifty thousand additional persons in the basic health plan during the biennium beginning July 1, 2003, above the base level of one hundred twenty-five thousand enrollees."

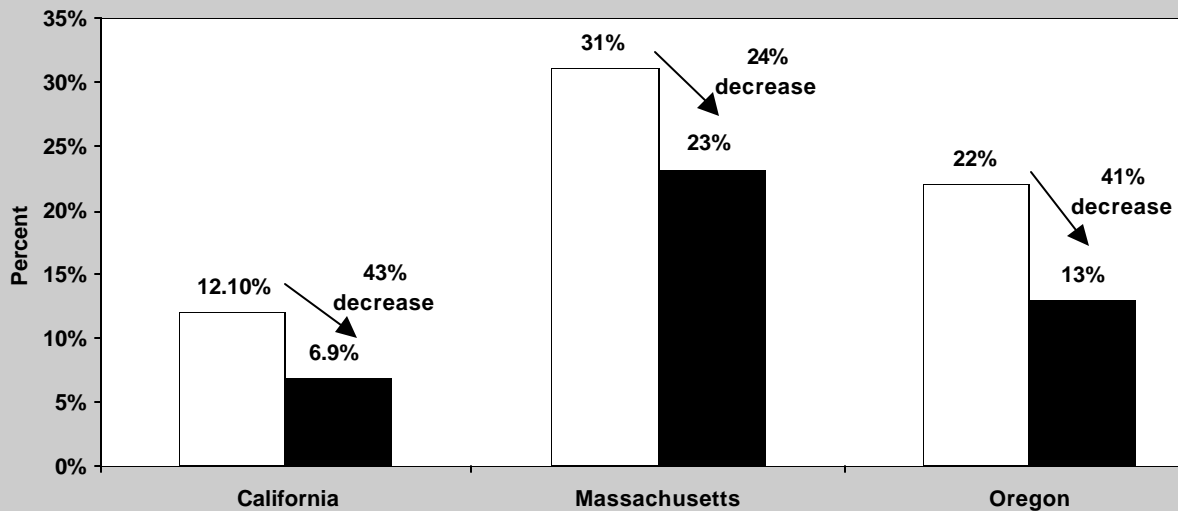
<sup>5</sup>U.S. Department of Health and Human Services. "Reducing Tobacco Use: A Report of the Surgeon General." Atlanta, Georgia, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health. 2000 p.355

## The Experiences of Three States

Effect of Tobacco Tax and Tobacco Control Program on Consumption<sup>20</sup>



Effect of Tobacco Tax and Tobacco Control Program on Youth Smoking<sup>21</sup>



Note: Although all three states found significant declines in tobacco consumption, the amount of tax increase and the content and magnitude of tobacco program differed between the states. California: Proposition 99, passed in 1988, raised cigarette taxes \$0.25/pack; 20% of revenues were used to fund a tobacco program (started in spring 1990). Massachusetts: Referendum Question 1, passed in 1992, raised cigarette taxes \$0.25/pack; part of new tax revenue funded a tobacco program (started in 1993). Oregon: Measure 44, passed in 1997, raised the cigarette tax \$0.30/pack and used 10% of the revenue to fund a comprehensive tobacco program. Per capita rates in packs/yr were based on the resident population aged greater than or equal to 18 years in each state.

- <sup>6</sup>Orzechowski and Walker. "The Tax Burden on Tobacco: Historical Compilation 1999." Arlington, Virginia, 2000, cited on (<http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf>)
- <sup>7</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. 200, p.36.
- <sup>8</sup>General Accounting Office. "Teenage Smoking: Higher Excise Tax Should Significantly Reduce the Number of Smokers." Washington, DC, 1989, cited in Washington State Department of Health, "Tobacco and Health in Washington State," April 1999 (<http://www.doh.wa.gov/Tobacco/Report/report5.htm>)
- <sup>9</sup>The amount of tax increase and the content and magnitude of tobacco program differed between the states. Elements of a comprehensive program include public education, community and school-based programs, cessation programs, establishment and enforcement of strict smoke-free area laws, and restriction of youth access to tobacco products. Chaloupka, FJ, Grossman, M. National Bureau of Economic Research Working Paper, No. 5740. September 1996, cited on (<http://tobaccofreekids.org/research/factsheets/pdf/0045.pdf>)
- <sup>10</sup>Based on an average price per pack of 20 cigarettes of \$4.10.
- <sup>11</sup>Tauras, J., et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpacTeen, April 24, 2001 and other price studies at [www.uic.edu/orgs/impacteen](http://www.uic.edu/orgs/impacteen). Chaloupka, F., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," Nicotine and Tobacco Research, 1999 and other price studies at <http://tigger.uic.edu/~fjc>, as cited on <http://tobaccofreekids.org/research/factsheets/pdf/0148.pdf>
- <sup>12</sup>U.S. Centers for Disease Control and Prevention (CDC), "State-Specific Prevalence of Current Cigarette Smoking Among Adults and the Proportion of Adults Who Work in Smoke-Free Environment—United States, 1999," Morbidity and Mortality Weekly Report (MMWR) 49(43): 978-982, November 3, 2000; CDC, "Projected Smoking-Related Deaths Among Youth—United States," MMWR 45(44): 971-974, November 8, 1996; CDC, "Youth Risk Behavior Surveillance—United States, 1999," MMWR 49(SS-5), June 9, 2000; CDC, State Tobacco Control Highlights, as cited on <http://tobaccofreekids.org/research/factsheets/pdf/0148.pdf>
- <sup>13</sup>*Ibid.*
- <sup>14</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* 104(6):1312-1320, December 1999; Lightwood, J. & S. Glantz, "Short-Term Economic and Health Benefits of Smoking Cessation- Myocardial Infarction and Stroke," *Circulation* 96(4): 1089-1096, August 19, 1997, as cited on <http://tobaccofreekids.org/research/factsheets/pdf/0148.pdf>
- <sup>15</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 1999, (<http://www.acponline.org/uninsured/lack-contents.htm>)
- <sup>16</sup>Health Care Quality Commission. "Quality First: Better Health Care for All Americans." Final Report of the President's Advisory Commission on Consumer Protection and Quality in the Health Care Industry. March 1998, cited on <http://www.acponline.org/uninsured/lack-contents.htm>
- <sup>17</sup>A study of community hospitals found \$124 was the average charge for a non-urgent emergency room visit compared with \$53 for an office visit. William, R.M., "The Costs of Visits to Emergency Departments", *New England Journal of Medicine*, 1996, 334: 642-6, as cited on <http://www.acponline.org/uninsured/lack-contents.htm>
- <sup>18</sup>Copeland C. "Characteristics of the Nonelderly with Selected Sources of Health Insurance and Lengths of Uninsured Spells", EBRI Issue Brief, 1998, Issue 198, cited on <http://www.acponline.org/uninsured/lack-contents.htm>
- <sup>19</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 1999, (<http://www.acponline.org/uninsured/lack-contents.htm>)
- <sup>20</sup>CA/MA: Centers for Disease Control and Prevention, "Cigarette Smoking Before and After an Excise Tax Increase and an Antismoking Campaign-Massachusetts, 1990-1996," *MMWR Weekly*, 45(44): 9.966-970, November 8, 1996. OR: Oregon Health Division, Department of Human Services, "Tobacco Education and Prevention in Oregon," Program Report 2000.
- <sup>21</sup>CA: 30 Day Smoking Prevalence in 1995 and 1996 Among Youth Age 12-17, CA Youth Tobacco Survey. "California Tobacco Control Update," California Department of Health Services/Tobacco Control Section, August 2000. MA: Current smoking among students grades 7-12, 1996 and 1999, Executive Office of Health and Human Services, Department of Public Health, "Adolescent Tobacco Use in Massachusetts: Trends Among Public School Students, 1996-1999," June 2000. OR: Current Smoking Among 8th Graders 1996 and 2000, 1996 data: Department of Human Services Health Division Survey, 2000 data:DHS Office of Alcohol and Drug Abuse Programs Student Drug Use Surve. Oregon Health Division, Department of Human Services, "Tobacco Education and Prevention in Oregon," Program Report 2000.