

Stronger Cigarette Tax = Healthier Louisiana



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Louisiana Budget Project



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Raising the price of cigarettes through a \$1.25-per-pack tax increase would benefit Louisiana in numerous ways.

When the price of cigarettes goes up, the number of smokers goes down. Higher prices especially discourage teens from taking up the deadly habit. Fewer smokers mean fewer illnesses and deaths, and savings for taxpayers, health-care providers and businesses.

The tax boost also would help Louisiana re-balance its budget by providing an estimated \$230 million per year in new revenue that could be used to pay health-care costs or finance other critical services.

Cigarettes in Louisiana are cheaper than almost anywhere else in the country, largely due to the state's low cigarette tax. At 36 cents per pack, Louisiana

has the nation's third-lowest cigarette tax. It is less than one-fourth of the \$1.54 national average. And while more than three dozen states have raised cigarette taxes in recent years, Louisiana's has stayed the same since 2002.

Raising the cigarette tax by \$1.25 per pack would bring Louisiana in line with the national average and would help encourage 46,000 Louisianans to quit, keep 36,700 children from becoming smokers in the first place, and prevent 23,700 premature deaths from tobacco use.¹ It would reduce long-term health care costs by more than \$1.5 billion.

If Louisiana raised the cigarette tax by \$1.25 per pack

46,000 adults would quit smoking

36,700 children would not become smokers

23,700 fewer premature deaths from smoking

\$230 million in annual revenue to offset smoking-related costs

\$1.57 billion in long-term health-care savings

\$500 million in long-term Medicaid savings

Sources: Campaign for Tobacco-Free Kids; American Cancer Society Cancer Action Network; LBP Louisiana Budget Project

Smoking costs families, businesses and taxpayers

Nearly one in four Louisianans smoke, higher than the national rate of 18 percent.² Smoking kills 7,200 Louisianans every year, accounting for more than one in every six deaths.³ Louisiana has the 11th-highest death rate due to smoking in the nation.⁴

But smoking is not just a health issue. It adds \$1.9 billion every year to the cost of health care in Louisiana. More than 6 percent of all health care spending in Louisiana is due to smoking.⁵ The share is even higher for spending at hospitals and nursing homes, two of the most expensive settings (and particularly reliant on public dollars).⁶

Cigarette smoking is a drain on the state budget. A

2009 Centers for Disease Control study found that 12 percent of all Medicaid costs for adults are due to smoking.⁷ In Louisiana that comes to \$523 million a year, with the cost split between state taxpayers and the federal government.⁸ Another \$88 million in Medicaid funds go to cover the cost of smoking-caused illness among the uninsured.⁹ That's a total of at least \$611 million in Medicaid spending every year because of smoking. And that is a conservative estimate, because it does not fully account for the cost of nursing home care or the effects of tobacco use and secondhand smoke on infants and children. Other estimates put Medicaid-related smoking costs as high as \$800 million or more a year.¹⁰

Finally, the insurance plan for state workers, retirees and their dependents—the Office of Group Benefits—spends up to \$85 million each year on smoking-related health-care costs.¹¹

Combined, that makes for an annual bill of at least \$696 million for taxpayers, about \$400 for every household in Louisiana.

When people quit smoking, taxpayers save money. The per-patient Medicaid costs in Central Louisiana, which has Louisiana’s highest smoking rate, are 40 percent higher than the statewide average.¹² While many things affect Medicaid spending, it is not surprising that there is a

correlation with smoking given that smokers are more likely to have a hospitalization or nursing home stay—two of the largest categories of spending—than non-smokers.¹³

Smoking also costs Louisiana businesses through higher health care costs and lost productivity. Employees who smoke impose significant excess costs on their employers. In addition to higher health care costs, studies suggest that smokers are more likely to miss work than non-smokers. A 2013 study from Ohio State University found that employers have an annual excess cost of \$5,816 for every employee who smokes.¹⁴

The Annual Public Cost of Smoking in Louisiana

TAXPAYER EXPENSE	STATE	FEDERAL	TOTAL
Medicaid	\$198 million	\$325 million	\$523 million
Charity Care	\$34 million	\$54 million	\$88 million
Office of Group Benefits	\$85 million	-	\$85 million
Total	\$317 million	\$379 million	\$696 million
Per household	\$183	\$219	\$403

Source: LBP Analysis

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Subsidizing the burden of smoking

Only two states—Virginia and Missouri—levy a smaller tax on cigarettes than Louisiana. And while at least 23 states have raised their cigarette tax since the Great Recession, Louisiana’s has been stuck at 36 cents a pack for more than a decade. That makes Louisiana one of only 19 states that haven’t raised the cigarette tax in the last 10 years. Nationally, the average cigarette tax is \$1.54 per pack.¹⁵

States with higher cigarette taxes have lower rates of smoking.¹⁶ Each 10 percent increase in the price of a pack of cigarettes reduces adult smoking rates by 2 percent, teen smoking rates by 6.5 percent and overall consumption by 4 percent.¹⁷ The proposed \$1.25 tax increase amounts to a 29.2 percent increase in price, which would spur 46,000 Louisianans to quit and 36,700 children to never start smoking—significantly improving their health and preventing 27,300 premature deaths.

Louisiana has the 3rd-lowest cigarette tax

STATE	TAX PER PACK	RANK
Alabama	\$0.425	47th
Georgia	\$0.37	48th
Louisiana	\$0.36	49th
Virginia	\$0.30	50th
Missouri	\$0.17	51st
State Average	\$1.54	

Source: LBP Analysis

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Cutting youth smoking rates has a huge long-term impact considering that most smokers start before they turn 18. Every year in Louisiana, around 4,700 children become daily smokers.¹⁸

Texas is moving in the right direction

The tobacco industry's supporters sometimes argue that raising the price of cigarettes will just cause people to cross state lines to buy their deadly products. But the recent experience of neighboring Texas shows that a higher cigarette tax leads to fewer smokers and more revenue to support critical services. In 2007, Texas raised its cigarette tax by \$1 to \$1.41 a pack. The next year pack sales fell 21 percent, four times the national rate. At the same time, cigarette tax revenues went up 192 percent.²⁰

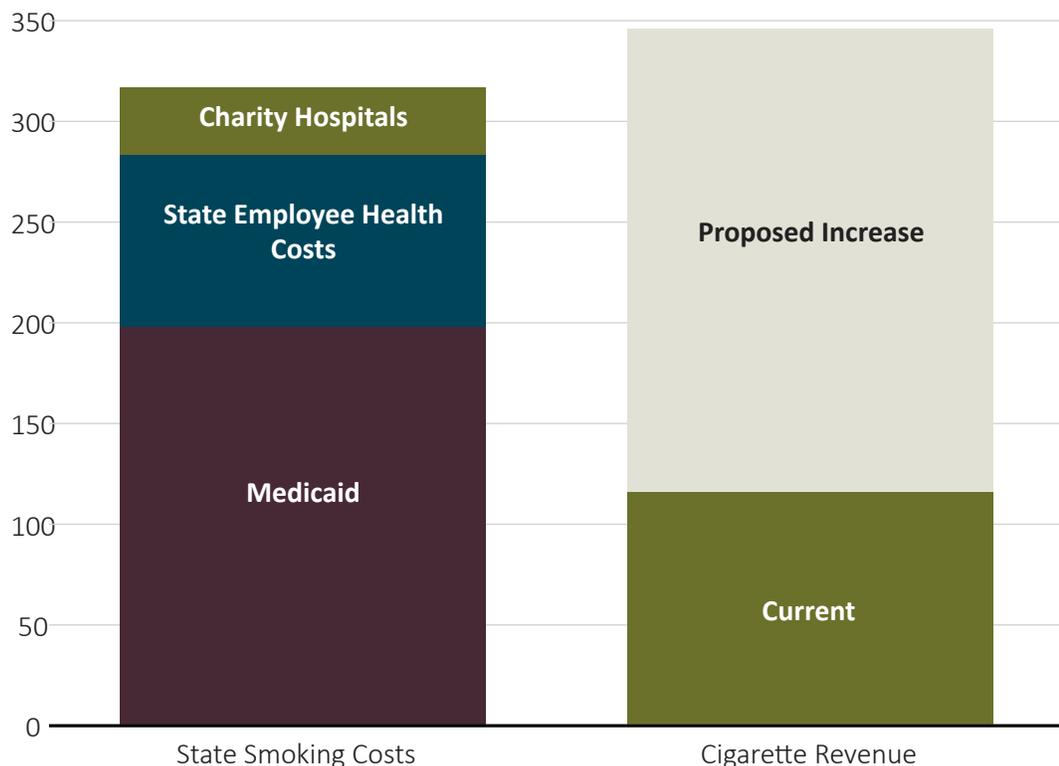
Keeping the price of cigarettes low while forcing taxpayers and businesses to cover some of the cost of smoking-related illness means state policy subsidizes smoking. Most people would

agree that it makes sense for the government to subsidize education and infrastructure, but not a deadly habit like smoking.

The average retail price of a pack of cigarettes in Louisiana is \$4.46, but each pack sold leads to \$10.68 in higher health care costs and lost productivity, according to the Centers for Disease Control.¹⁹ Only 36 cents per pack goes to the state, but slightly less than half is already dedicated to fund a variety of children's health programs, cancer research, smoking prevention campaigns and the state police. Little goes to cover the public health costs of current smokers.

Employers, meanwhile, get nothing to compensate them for the "hidden tax" of higher costs and lost productivity. And when health care providers like hospitals provide uncompensated medical care to smokers, evidence suggest they make up for it by charging everyone else more—another "hidden tax." Raising the price of cigarettes would reduce these costs for taxpayers and businesses.

A stronger cigarette tax would help cover the cost of smoking borne by state taxpayers



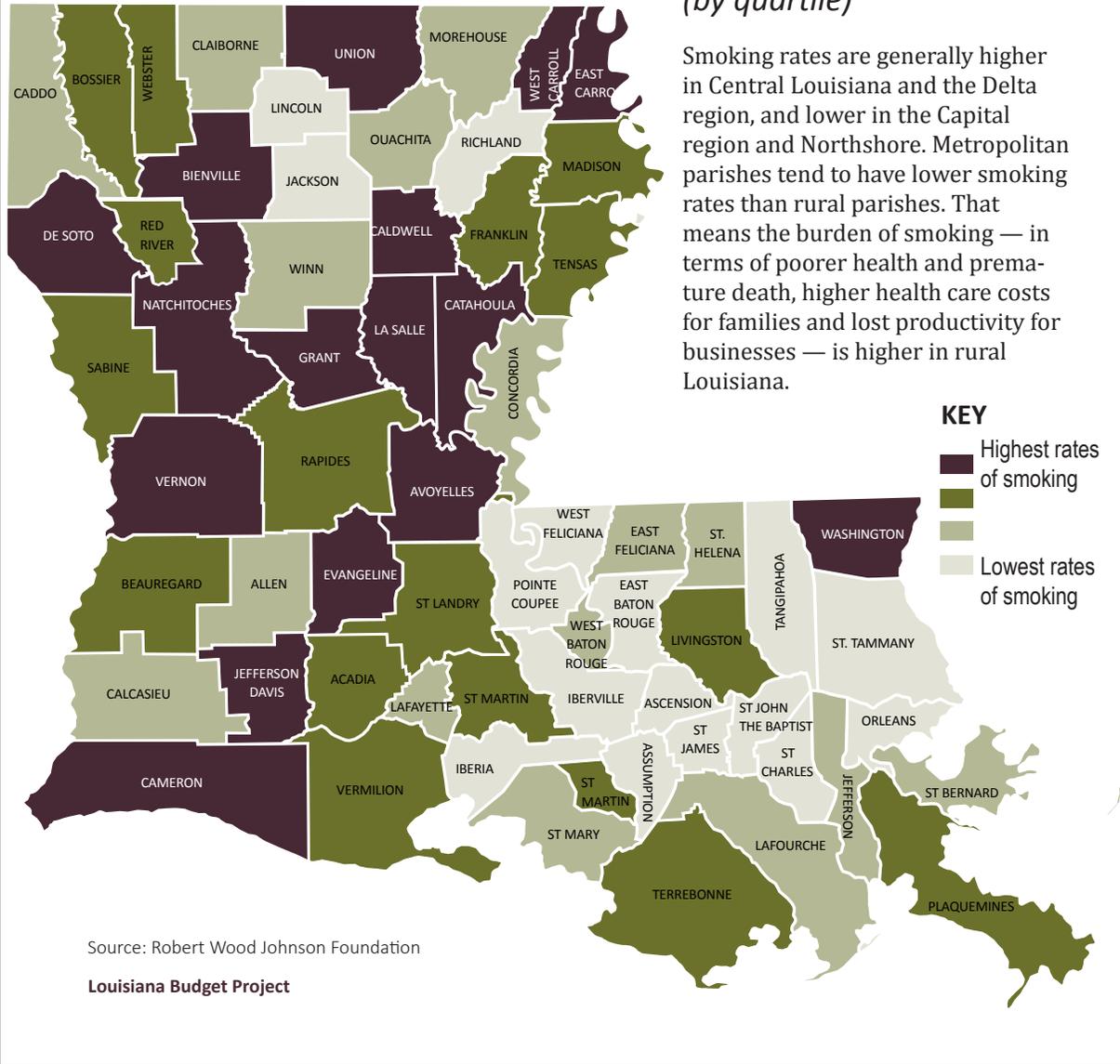
Source: LBP analysis

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Burden of Smoking in Louisiana

Smoking rates by parish (by quartile)

Smoking rates are generally higher in Central Louisiana and the Delta region, and lower in the Capital region and Northshore. Metropolitan parishes tend to have lower smoking rates than rural parishes. That means the burden of smoking — in terms of poorer health and premature death, higher health care costs for families and lost productivity for businesses — is higher in rural Louisiana.



Stronger cigarette tax is a win-win

A fair cigarette tax means fewer smokers and significant savings for businesses and government. Raising the cigarette tax by \$1.25 would result in lifetime savings of \$1.57 billion in health care costs that would have otherwise been paid for by families, businesses, health care providers and state taxpayers. Medicaid

would account for more than \$500 million of those savings.

A fair tobacco tax could also generate much-needed dollars for the health-care budget, to help ensure that emergency rooms stay open and doctors are paid for their services.

The Campaign for Tobacco-Free Kids and the American Cancer Society Cancer Action Network estimates it would generate more than \$230 million in new revenue per year.

Some of the money generated by a cigarette tax could be used to help people quit smoking, which will lead to even more long-term health savings and fewer deaths.

Strong increase needed for public health

Any hike in the cigarette tax should be strong enough to help encourage smokers to quit and discourage teens from taking up the habit. Increases of less than \$1 a pack risk being absorbed by the tobacco industry or nullified with company coupons so that prices go up slowly over time, which means fewer positive health impacts for Louisiana. While a small increase may initially seem

attractive to legislators who are trying to raise revenue, a minimal increase is a lost opportunity to both improve public health and save significant health care dollars in the long-run. If legislators want to raise revenue, generate budget savings and reduce the number of smoking-related deaths, they should support a \$1.25-per-pack increase.

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Acknowledgements

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About LBP

LBP monitors and reports on public policy and how it affects Louisiana's low- to moderate-income families. We believe that the lives of Louisianans can be improved through profound change in policy, brought about by:

- creating a deeper understanding of the state budget and budget-related issues
- looking at the big picture of how the budget impacts citizens
- encouraging citizens to be vocal about budget issues that are important to them
- providing insight and leadership to drive the policy debate

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