

# The Price of Smoking

## A Case for Increasing Kentucky's Cigarette Tax

### **Reducing Smoking and Smoking-Related Costs: The Case for Increasing Kentucky's Cigarette Tax**

Smoking is the single most preventable cause of premature death. It causes cancer, cardiovascular disease and respiratory illness, the treatment of which contributes to escalating health care costs. The evidence is clear that raising cigarette taxes reduces smoking, saves lives, lowers health care costs and generates much-needed state revenue. With the highest rate of adult smoking and one of the lowest cigarette taxes in America, Kentucky would benefit significantly by increasing the tax on cigarettes.



Kentucky Voices for Health

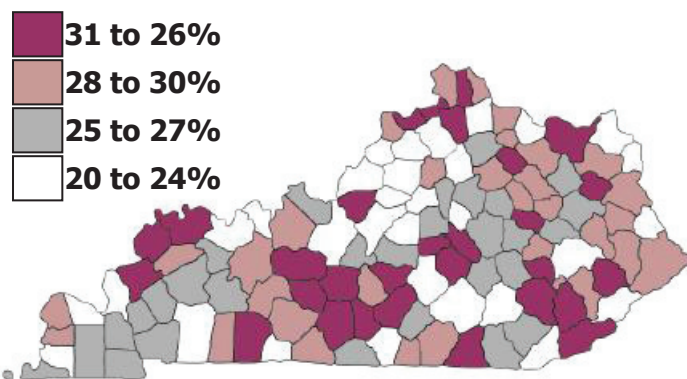
## Smoking in Kentucky—We're Number 1!

A 2007 assessment of Kentuckians' health by the Institute of Medicine at the University of Kentucky confirmed a grim statistic—Kentucky leads the nation in smoking:

- **Kentucky ranks first in the nation in the percent of adults who smoke.** More than 29% of adult Kentuckians smoke (876,000 people) compared to 21% nationally.
- An estimated **25% of high school students (53,000 students) also smoke** compared to 23% nationally.
- **Pregnant women in Kentucky smoke at twice the national rate**—one out of four pregnant women (26%) smoke in Kentucky.
- Almost **half of smokers, 47.7%, have tried to quit.**
- **Over 45% of Kentucky children live in a household where someone smokes**, compared to a national average of 29.5%.

## The High Cost of Smoking—Everyone Pays

### Percent of Adults Smokers in Kentucky by County (National Average is 21%)



Source: The Health Assessment of KY: A County Assessment, KY Institute of Medicine, 2007

Leading the nation in smoking exacts a high price for Kentucky, in both lives and dollars:

- The U. S. Centers for Disease Control and Prevention (CDC) reports that, with an **average of 7,700 smoking-related deaths each year, Kentucky has the country's highest rate of deaths attributable to smoking.**
- The UK study found that more than **half of all smokers will die of a smoking-related illness.**
- UK researchers also report that **23% of all deaths in Kentucky are attributed to smoking.**
- The Kentucky Department of Public Health reports that smoking during pregnancy can cause low birth weight babies, pre-term deliveries, increased risk for miscarriage, SIDS, fetal growth retardation, spontaneous abortions, cleft palates and lips, and childhood cancers.
- The CDC estimates that the **total annual cost of smoking in Kentucky is more than \$3.6 billion** (\$1.5 billion in smoking-related medical costs and \$2.1 billion in lost productivity due to premature deaths from smoking).
- It's not just smokers who pay these costs. The 71% of Kentuckians who do not smoke must also foot the bill:
  - ♦ Taxpayers pay more than \$480 million each year in smoking-related health costs in Kentucky's Medicaid program.

- ♦ Employers and consumers pay higher health care prices and insurance premiums to cover the \$1.5 billion annual cost of treating smokers.
- ♦ Health care providers pay in lost revenues by providing charity care to the uninsured who have smoking-related conditions and are unable to pay medical bills.

At 30 cents per pack, **Kentucky's cigarette tax is lower than five of its seven bordering states and ranks 47th in the nation**—only South Carolina, Mississippi and Missouri are lower. Cigarette tax revenues don't even come close to offsetting the high total cost of smoking: **Kentucky's cigarette tax generates \$170 million a year in state revenue, less than 5% of the estimated \$3.6 billion in annual smoking-related costs.**

## Raising the Tobacco Tax Reduces Smoking and Saves Lives

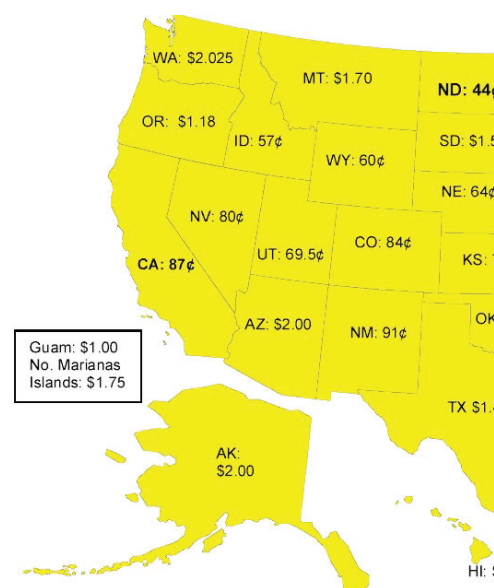
Studies show that significant cigarette tax increases reduce smoking and are especially effective at reducing smoking among children. Research at the University of Chicago shows that every 10% increase in the price of cigarettes reduces youth smoking by about 6.5% and overall cigarette consumption by about 4%. The formula is simple – a higher tax means fewer children start smoking, fewer pregnant women pick up a cigarette, more smokers quit and more lives and medical costs are saved.

The Campaign for Tobacco-Free Kids has estimated the public health and economic benefits of raising Kentucky's cigarette tax.

These estimates clearly show that the **benefits of raising Kentucky's tax closer to the national average (a 70¢ per pack increase) are almost two and a half times greater than those resulting from a lower increase of 30¢:**

- The lives of 18,300 children will be saved (10,500 more than a 30¢ increase);
- Over 9,000 fewer adults will die from smoking (5,400 more than the lower increase); and
- \$1.34 billion will be saved in smoking related health costs (\$770 million more than the lower rate).

## Map of the Current Tobacco Tax: The average state



## The Public Health and Economic Benefits of Increasing Kentucky's Cigarette Excise Tax

Benefit	30¢ Per Pack Increase	70¢ Per Pack Increase
Reduction in Youth Smokers	7.4% (24,500)	17.2% (57,300)
Future Youth Smoking Deaths Avoided	7,800	18,300
Lifetime of Health Savings from Reducing Youth Smoking (Millions)	\$428.8	\$1,002.8
Reduction in Adult Smokers	1.7% (15,500)	4.0% (36,200)
Future Adult Smoking Deaths Avoided	4,100	9,500
Lifetime Health Savings from Reducing Adult Smoking (Millions)	\$147.3	\$343.9
<b>Overall Long-Term Health Savings (Millions)</b>	<b>\$576.0</b>	<b>\$1,346.7</b>

Source: Campaign for Tobacco-Free Kids, Eric Lindbloom, 2008

It is also important to note that the public health and financial benefits from a lower cigarette tax increase (such as 30¢) are much less certain than those resulting from a larger increase. Here's why: Faced with a relatively small tax increase, cigarette companies can reduce or eliminate any resulting decline in smoking (and related public health benefits) with temporary price reductions or retailer discounts. This is what happened the last time Kentucky's tax was changed. In contrast, a larger tax increase (50¢ cents or more) is more difficult for cigarette companies to offset effectively with such practices.

### Impact on Farmers Will Be Minimal

Tobacco is increasingly sold in a global market. The U. S. Department of Agriculture estimates that 69% of the annual sales of U. S. burley are to foreign cigarette manufacturers and that 20% of all American manufactured cigarettes are exported overseas. This means that the vast majority of U. S.-produced tobacco is sold abroad and is not subject to state taxes on cigarettes. It is also important to consider that, even though the per capita rate of smoking is high in the Commonwealth, Kentucky smokers overall represent less than 2% of all smokers in the United States. The bottom line: Because less than a third of the burley produced in the U.S. stays here and Kentuckians consume less than 2% of

U. S. cigarettes, any reduction in smoking caused by increasing the tobacco tax will have little impact on Kentucky tobacco farmers. The Campaign for Tobacco-Free Kids has estimated that totally eliminating cigarette sales in Kentucky would reduce the overall demand for U.S. burley by less than 2%!

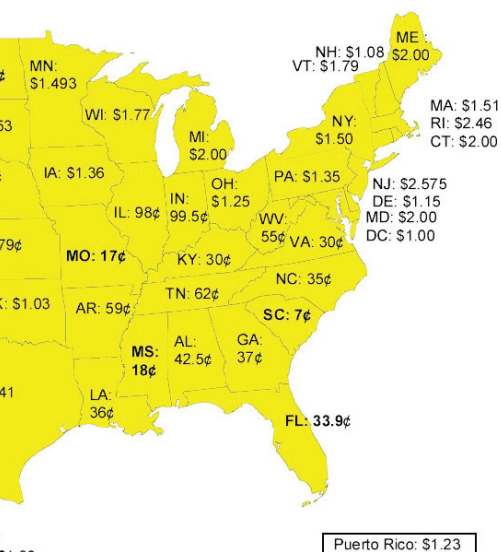
### Tobacco Taxes Increase State Revenue

Increasing tobacco taxes has proven to be a reliable source of revenue for states. A total of 43 states and the District of Columbia have increased cigarette taxes since January 1, 2002—more than doubling the national average cigarette tax from 43 cents to \$1.11 per pack. A 2003 study by RTI International found that **states that have significantly increased their tobacco tax have experienced substantial increases in revenue despite a decline in tobacco consumption.**

### Impact on Low-Income Kentuckians

Critics of increasing the tobacco tax argue that its impact would be greatest on lower-income people, thereby making it regressive. In reality, cigarette tax increases offer one of the best ways to help low-income families with one or more smoking members to reduce or eliminate smoking-related health risks and their related costs. If family members stop smoking because of the higher cost, the result will be less spending on cigarettes and greater savings on health care – both positive financial benefits for a lower-income household.

### The cigarette tax in the U.S. today is \$1.11 per pack



### Public Support for Raising the Cigarette Tax

More than eight in ten Kentucky voters (83%) surveyed in the fall of 2007 were concerned about smoking and tobacco use among young people. **By nearly a two-to-one margin (60% to 33%), Kentucky voters support a 75¢ per pack increase in the cigarette tax.** This support is bipartisan as 63% of Democrats and 58% of Republicans surveyed favor the increase. A majority (62%) say they favor increasing the cigarette tax to help balance the state's budget. A wide array of health groups also support cigarette tax increases, including the American Cancer Society, American Heart Association, American Lung Association and Campaign for Tobacco-Free Kids.

The Campaign for Tobacco-Free Kids estimates that \$243.7 million in additional state revenue would be generated annually if Kentucky's current cigarette tax of 30¢ was closer to the national average (a 70¢ per pack increase).

### The Bottom Line Is Clear

Raising Kentucky's cigarette tax closer to the national average will:

- Reduce smoking in Kentucky, currently with the highest rate in the nation, by over 17% for young people and 4% for adults
- Reduce the number of annual smoking-related deaths from the current level of 7,700
- Reduce the \$1.5 billion in smoking-related health costs and \$2.1 billion in lost productivity
- Increase much-needed state revenue by more than \$240 million per year

### Data Sources

Kentucky Cigarette Excise Tax Increases: Estimated New Revenues, Cost Savings, and Other

Benefits and Effects, Campaign for Tobacco-Free Kids, Lindbloom, October 2007

Kentucky State Survey Results, Campaign for Tobacco-Free Kids, 2007

Map of State Cigarette Tax Rates, Campaign for Tobacco-Free Kids, November 2007

Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products, Nicotine & Tobacco Research, Frank Chaloupka, 1999

Raising Tobacco Taxes and Reducing Smoking--Policy Brief, Hahn, University of Kentucky, 2008

State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion, RTI International, May 2003

Sustaining State Programs for Tobacco Control: Data Highlights 2006, Department of Health and Human Services, Centers for Disease Control, 2006

Tax Burden on Tobacco, Orzechowski and Walker, 2006

The Health Assessment of Kentucky: A County Assessment, Kentucky Institute of Medicine, 2007

Tobacco Briefing Room, Economic Research Service, USDA

## State Experiences with Cigarette Tax Increases 2004-2005

State	Effective Date	Tax Increase (Per Pack)	New State Tax Rate (Per Pack)	Revenue Increase (Percent)	New Revenues (Millions)
Alabama	5/04	26¢	42.5¢	132.9%	\$85.3
Alaska	1/05	60¢	\$1.60	19.0%	\$9.2
Colorado	1/05	64¢	84¢	79.2%	\$91.1
Hawaii	7/04	10¢	\$1.40	7.2%	\$5.5
<b>Kentucky</b>	6/05	27¢	30¢	218.3%	<b>\$108.9</b>
Maine	9/05	\$1.00	\$2.00	64.8%	\$59.5
Michigan	7/04	75¢	\$2.00	28.0%	\$238.9
Minnesota	8/05	75¢	\$1.23	143.9%	\$230.7
Montana	1/05	\$1.00	\$1.70	44.4%	\$25.1
New Hampshire	7/05	28¢	80¢	51.9%	\$48.5
New Jersey	7/04	35¢	\$2.40	4.3%	\$32.5
North Carolina	9/05	25¢	30¢	321.5%	\$126.5
Ohio	7/05	70¢	\$1.25	78.8%	\$437.6
Oklahoma	1/05	80¢	\$1.03	83.9%	\$87.9
Pennsylvania	1/04	35¢	\$1.35	7.4%	\$71.2
Rhode Island	7/04	75¢	\$2.46	16.8%	\$18.7
Virginia	9/04	17.5¢	20¢	593.1%	\$95.4
	7/05	10¢	30¢	54.2%	\$60.5
Washington	7/05	60¢	\$2.025	29.0%	\$95.4

Source: Orzechowski & Walker, Tax Burden on Tobacco, 2006

### KENTUCKY VOICES FOR HEALTH

(KVH) is a broad group of experienced advocates working for increased health coverage for the 14% of Kentuckians without health insurance. KVH is building a statewide network of local constituent advocates who will educate fellow constituents, local leaders and legislators to enact public policy improvements in 2008 and beyond.



The Kentucky Voices' leadership team is composed of representatives from AARP Kentucky, Advocacy Action Network, American Cancer Society, American Heart Association, American Lung Association, Catholic Conference of Kentucky, Covering Kentucky Kids and Families, Foundation for a Healthy Kentucky, Health Kentucky, Kentucky Child Now, Kentucky Council of Churches, Kentucky Equal Justice Center, Kentucky Youth Advocates, and the Kentucky Injury Prevention and Research Center. In addition, 31 stakeholder groups are part of KVH.

In addition to assuring that current levels of Medicaid coverage and services are maintained, KY Voices will focus on these public policy initiatives: **1) Increase in tobacco tax to reduce smoking ; 2) Expansion of health coverage in the public sector; 3) Expansion of health coverage in the private sector.**

### For More Information Contact

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