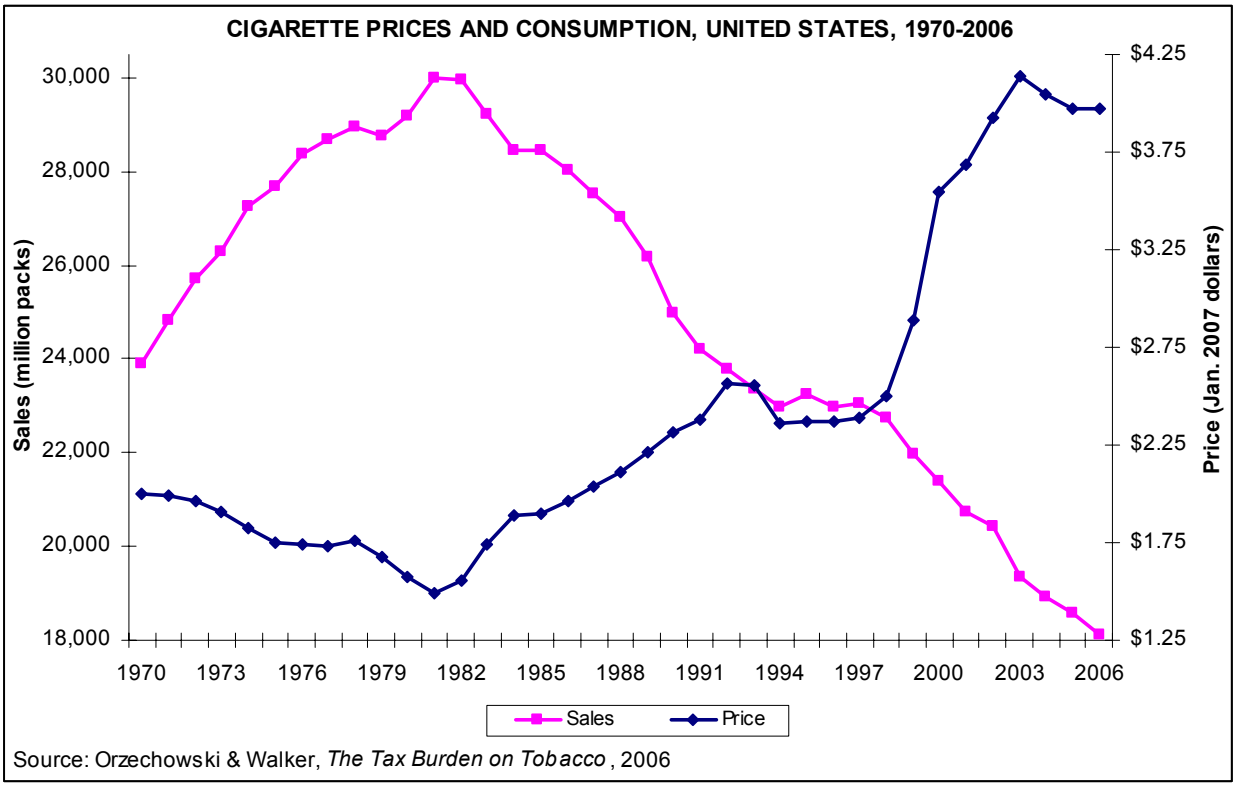
TOBACCO TAX CHOICES FOR WISCONSIN

CONTINUE SUBSIDIZING SMOKING
OR
SAVE LIVES AND SAVE MONEY?



A Special Report By The Campaign for Tobacco-Free Kids

July 2007

The Campaign for Tobacco-Free Kids is an independent, nonprofit organization dedicated to preventing and reducing tobacco use and its harms, especially among youth. The Campaign does not receive or accept any government funding, nor does it receive or accept any funding from the tobacco industry. To save lives and protect public health, the Campaign has been supporting efforts to increase state and local tobacco tax rates throughout the country in order to reduce smoking, save lives, and reduce smoking-caused harms and costs. For more information, see ***www.tobaccofreekids.org****.*

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Introduction & Executive Summary

Smoking is taking a terrible toll on Wisconsin. Each year, 7,300 adults in Wisconsin die from their own smoking, and 8,200 more kids become addicted daily smokers, totaling more than $2.02 billion in smoking-caused health costs. The U.S. Centers for Disease Control and Prevention (CDC) estimates that smoking-caused health costs and productivity losses in Wisconsin total more than $9.53 per pack sold in the state, but the state cigarette tax is only 77 cents per pack.

Raising Wisconsin's tobacco tax rate would quickly reduce tobacco's toll in the state, producing massive public health and economic benefits. Leading scientific studies have shown that for every 10 percent increase in the price of cigarettes, youth smoking drops by approximately 6.5 percent and overall consumption declines by three to five percent. Increasing Wisconsin's cigarette tax by $1.25 per pack would produce enormous benefits to the state and its residents, all while increasing revenue that can be used for important state health care programs and decreasing the burden on Wisconsin's health care system, including:

- Decreasing youth smoking by 20.9%, preventing more than 84,000 current Wisconsin kids from growing up to become addicted adult smokers
- Saving 26,900 Wisconsin kids alive today from a premature smoking-caused death
- Reducing by 11,700 the number of smoking-affected births in Wisconsin over the next five years
- Prompting more than 42,500 current adult smokers to quit for good
- Saving more than 38,100 Wisconsin citizens alive today from dying prematurely from smoking
- Improving worker health and productivity throughout the state
- Cutting total future public, private and household health costs in the state by more than $2.0 billion over the lifetimes of Wisconsinites, including state Medicaid program savings of more than $260 million
- Producing $252.8 million in additional new annual state revenue

Wisconsin's cigarette tax is well below average. Wisconsin's cigarette tax is well below the average of all states. In fact, eight states have cigarette tax rates of $2.00 per pack or higher (including neighboring Michigan). The highest state rate now is New Jersey at $2.575 per pack, with various cities and counties having even higher combined state-local cigarette tax rates, such as $3.00 per pack in New York City and $3.66 per pack in Chicago. [Since 2001, 44 states have raised their cigarette tax rates more than 70 times.] Raising the Wisconsin cigarette tax rate by $1.25 per pack will put Wisconsin back among the states leading the charge against tobacco use and its many harms and costs.

Public support for a large state cigarette tax is strong. There is strong bipartisan support for a $1.25 rate increase among adults in Wisconsin. In a statewide survey from this past spring, 64 percent of voters, including a majority of Democrats, Independents, Republicans, men, women, nonsmokers, and former smokers support a $1.25 cigarette tax increase. Furthermore, 55 percent of voters, with a majority in all parties, would vote for candidates who support a $1.25 cigarette tax increase.

Increasing state tax rates on other tobacco products would maximize state benefits. A parallel increase to the state's tax rate on smokeless tobacco and other tobacco products – from

25 to 89 percent of wholesale price – would bring Wisconsin another $26.5 million in new revenues each year, with parallel reductions to such tobacco use and related harms and costs.

Additional tobacco control measures will increase the benefits from the tobacco tax increase. The maximum public health benefits and cost savings from state tobacco tax increases can only be realized by Wisconsin also expanding its state tobacco prevention funding. Fully funding the state tobacco prevention program will maximize the public health benefits by more effectively and powerfully preventing and reducing tobacco use and its harms in the state. In fact, 65 percent of Wisconsin voters support the plan to refinance the state's tobacco settlement payments and to use the revenue to fund tobacco prevention programs. Increasing state tobacco tax rates substantially will produce massive public health and economic benefits on its own. But raising tobacco tax rates and increasing tobacco prevention program funding at the same time will do even more.

The following full report details the numerous and long-lasting benefits to Wisconsin from raising the state cigarette tax by $1.25 per pack.

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The Toll of Tobacco in Wisconsin*

Tobacco use is the number one cause of preventable death in the United States, and it takes a significant toll on Wisconsin residents. Approximately one out of every five adults in Wisconsin smokes; and, each year, more than 7,300 more Wisconsin adults die prematurely from smoking. Approximately 428,000 kids are exposed to secondhand smoke in their homes and between 700 and 1,240 people will die from the effects of others' smoking (secondhand smoke and pregnancy smoking) each year. For every person in Wisconsin who dies from smoking, approximately 20 more state residents are suffering from serious smoking-caused disease and disability, or other smoking-caused health problems.

In Wisconsin, 19.9 percent of high school students currently smoke, with more than 28,600 Wisconsin kids under 18 trying their first cigarette each year. More than 8,200 kids who have already tried smoking become new regular, daily smokers each year. Unless these trends change, the CDC projects that more than 128,000 kids alive today in Wisconsin will ultimately die prematurely from smoking.

All smoking-caused health costs in Wisconsin total more than $2.02 billion. The total Medicaid expenditures due to smoking-caused health problems amount to an estimated $480 million annually. Secondhand smoking alone costs the state $92.1 million each year. Because of tobacco's terrible toll, Wisconsin citizens pay a total of $1.3 billion or $604 per household each year in state and federal taxes to cover smoking-caused government costs whether there is a smoker in their home or not. In fact, the CDC estimates that smoking-caused health costs and productivity losses in Wisconsin total more than $9.53 per pack sold in the state. But the state cigarette tax is only 77 cents per pack and other state tobacco tax rates are similarly low.

Increasing Wisconsin's Cigarette Tax Rate Will Produce Significant Public Health and Economic Benefits

Significant tobacco tax increases – particularly for cigarettes – are the fastest way to sharply reduce tobacco use and, more importantly, smoking-caused disease, death, and costs. A $1.25 cigarette tax increase in Wisconsin would produce tremendous public health benefits. These results might seem extraordinary, but other states and localities that have raised their cigarette tax significantly have obtained similar results.

For example, in July 2002, New York City raised its cigarette tax from 8 cents to $1.50 per pack – a $1.42 per pack increase added on top of New York state's rate of $1.50 per pack. In the first year after the increase, adult smoking rates declined by 11 percent.† With a $1.25 cigarette tax increase, Wisconsin will see the exact same kind of results – a significant, sustained increase in new revenue coupled with sharp smoking declines and massive improvements to public health.

Declines in State Smoking and Related Harms. Tobacco tax increases are one of the most effective ways to reduce tobacco use and its related harms, especially among youths, pregnant women, and low-income smokers. Leading scientific studies have shown that for every 10 percent increase in the price of cigarettes, youth smoking drops by approximately 6.5 percent

* For sources and more detail on the toll of tobacco in Wisconsin, see Appendix A.

† See TFK Factsheet, *New Revenues from a $1.42 Per Pack Cigarette Tax Increase − The New York City Experience*, http://www.tobaccofreekids.org/research/factsheets/pdf/0307.pdf.

and overall consumption declines by three to five percent.[1] Even the cigarette companies have repeatedly acknowledged, both publicly and in internal company documents disclosed in tobacco lawsuits, that raising cigarette prices through state tobacco tax increases significantly reduces smoking, especially among kids. For instance, in 1994, Ellen Merlo, Senior Vice President of Corporate Affairs, stated, "When the tax goes up, industry loses volume and profits as many smokers cut back."[2] Actual experiences of states that have raised their tax further support that fact.[*]

A $1.25 per pack increase in Wisconsin would save 38,600 lives, prompt 42,500 current adult smokers in the state to quit, prevent 84,100 kids in the state from becoming addicted adult smokers, and reduce future state smoking-caused health costs by more than $1.87 billion.[†]

Cigarette Tax Increase	Fewer Future Youth Smokers	Adult Smokers Who Quit	Total Future Smoking-Caused Deaths Prevented	Overall Long-Term Health Savings
$1.25	84,100	42,500	38,100	$1.87 billion

The public health benefits and cost reductions from smaller cigarette tax increases are far from secure and much less certain than those obtained from larger rate increases. Faced with relatively small cigarette tax increases, big cigarette companies can fairly easily mute or eliminate any related smoking declines and public health benefits by temporarily reducing their own prices and activating a range of temporary retailer-based discounts and promotions. Recent studies show that cigarette companies have increased the amount of product discounting (such as buy-one-get-one-free promotions) and the level of spending on such promotions after cigarette tax increases or even their own self-imposed price increases.[3] As a result, any public health benefits due to higher prices of cigarettes, including lower levels of initiation by youth and higher quit rates, are limited or nonexistent. In contrast, a larger cigarette tax increase is simply too large for the cigarette companies to handle or offset effectively.

Cigarette Tax Increase	5-Year Heart-Stroke Savings	5-Year Pregnancy Savings	Long-Term Health Care Savings	Long-Term State Medicaid Savings
$1.25	$20.0 million	$19.9 million	$1.8 billion	$264 million

Reductions in State Smoking-Caused Costs. Increasing the cigarette tax is one of the most effective methods to reduce these costs to the state and its taxpayers – and the larger the cigarette tax increase, the greater these broader savings will be.

The pregnancy savings would start immediately, as additional pregnant women are prompted not to smoke because of the cigarette tax increase. Heart attack and stroke savings start out small in the first year, but increase sharply each year until reaching a peak in eight to 10 years, and then maintaining that high rate thereafter. In addition, these immediate savings represent only the tip of the iceberg for Wisconsin, as a range of other smoking-caused health costs, including respiratory disease-related hospital visits and treatments, would decline as well.

The reductions in smoking levels among pregnant women and lower income smokers caused by a cigarette tax increase will translate directly into lower smoking-caused costs to the state Medicaid program. Over the long-term, all of these savings would help to reduce skyrocketing

[*] See TFK Factsheets, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (And the Cigarette Companies Know It)*, http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf, and *Raising State Cigarette Taxes Always Increases State Revenues and Always Reduces Smoking*, http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf.

[†] For a full list of benefits to Wisconsin from a $1.25 cigarette tax increase, see Appendix B. For detailed information and references, regarding how these projections were made, see Appendix D.

Medicaid program costs because Medicaid covers approximately 14.4 percent of the state's total smoking-caused health costs and 50 percent of smoking-caused pregnancy-related health costs in the state.[4]

Besides Medicaid, Wisconsin will also see reductions to the smoking-caused health costs and non-health costs in other state or state-funded programs because of the smoking declines prompted by the cigarette tax increase – and private sector and individual smoking-caused costs will also decline.

State Business Savings. The reductions in smoking levels among Wisconsin workers resulting from the $1.25 cigarette tax increase will also improve worker health and reduce smoking-caused productivity losses in the state caused by workers getting sick and dying from smoking before their normal working lives are completed. The CDC estimates those productivity losses in Wisconsin to total $1.64 billion each year.[5] Added to that are productivity losses from smoking employees taking more sick days, taking cigarette breaks when on the job, and being less productive when actually at work.

A recent study found that smoking employees are absent from work on average 6.16 days per year due to illness, whereas nonsmokers are absent on average 3.86 days per year.[6] Similarly, a study done for the Indiana Health Department determined that the cost of smoking employees to businesses in just a single Indiana county totaled $260.1 million per year from increased absenteeism and lost productivity, higher health insurance premiums, and increased recruitment and training costs from smoking employees' premature retirement and death.[7]

The decreasing smoking rates among workers initiated by a $1.25 cigarette tax increase will lower public and private sector employers' health care costs, while also increasing worker productivity by improving worker health and on-the-job performance, reducing the amount of smoking-caused work absences and work-time cigarette breaks, and having fewer health and productive work lives interrupted or ended prematurely because of smoking-caused illness and disability. Other savings from the smoking declines prompted by the rate increase would also accumulate, such as reduced property loss and damage from fewer smoking-caused fires and lower smoking-caused cleaning and maintenance costs.

A $1.25 increase will greatly reduce smoking-caused costs to the state's businesses and produce far greater improvements to the health and productivity of Wisconsin's workforce. These improvements will not only help existing state businesses, but will also make Wisconsin more attractive to businesses that may consider relocating to the state.

Make Parallel Increases to State Tax Rates on Other Tobacco Products.

While this report focuses on the broad range of substantial benefits Wisconsin would enjoy from raising its cigarette tax by at least $1.25 per pack, the state could protect and expand these benefits by making parallel increases to Wisconsin's tax rate on other tobacco products, such as cigars and smokeless or spit tobacco. Right now, Wisconsin's tax on tobacco products other than cigarettes is only 25 percent of the wholesale price, less than the average of states that tax as a percentage of price (32 percent). Massachusetts, Maine, Alaska, and Minnesota have the highest taxes of 90 percent, 78 percent, 75 percent, and 70 percent of the wholesale price, respectively.

Currently, 12.8 percent of high school boys in Wisconsin use smokeless tobacco products. Increases in the taxes and prices of smokeless tobacco produce the same kinds of reductions to the amounts consumed and the number of people who use smokeless products as cigarette tax and price increases reduce smoking. In addition, if smokeless tobacco taxes and prices are

significantly lower than cigarette prices, kids can use the cheaper smokeless tobacco products as a gateway to a lifetime of tobacco addiction.[*]

Wisconsin's current revenues from its 25 percent tax on other tobacco products total approximately $16.4 million each year. If the state increases its cigarette tax by $1.25 per pack, the parallel tax on smokeless tobacco and other tobacco products would be roughly 89 percent of wholesale price (a 64 percentage point increase), which is still less than the highest rate among states.[†] Such an increase would reduce the number of kids who use smokeless or spit tobacco by approximately 41.6 percent and reduce overall consumption by about 22.4 percent – with corresponding reductions to the death, disease, costs and other harms caused by the use of these other tobacco products.[‡] And, that rate increase would bring the state more than $26.5 million in additional new annual tobacco tax revenues.

Strong Public Support for Tobacco Tax Increases

Polls conducted in numerous, diverse states throughout the country have consistently shown broad public and voter support for cigarette-tax increases. In more than 35 state polls, a strong majority supports an increase in the state's cigarette tax. These polls have found that Democrats, Republicans, men, women, minorities, and both high and low-income groups all strongly support tobacco tax increases – as do significant numbers of smokers.[§] A March 2007 poll of 500 Wisconsin voters conducted for the Campaign for Tobacco-Free Kids found that 64 percent of voters supported a $1.25 cigarette tax increase. And, voters across party lines are more likely to vote for candidates who support a $1.25 cigarette tax increase. Even more, there was strong support for candidates who would dedicate more funds to tobacco prevention.[8]

The Current Tobacco Tax Situation in Wisconsin

Wisconsin is one of only seven states that have not increased its cigarette tax rate since 2001 or before. In fact, since 2001, 44 states have raised their cigarette tax rates more than 70 times. When Wisconsin raised its cigarette tax to 77 cents per pack in 2001, its cigarette tax was well above the average state cigarette tax of 44.6 cents per pack; now Wisconsin's cigarette tax is way below the nationwide state average of $1.07 per pack (and growing) and substantially lower than all its neighbors, at $1.46 per pack.[**]

Wisconsin's Cigarette Tax Rate is Falling Further and Further Behind Other States, and its Citizens are Suffering the Consequences. Compared to states with higher cigarette tax rates, Wisconsin is providing its smokers with larger subsidies, getting fewer cigarette revenues to offset the state's smoking-caused costs, keeping their public and private sector smoking-caused costs and harms higher, and, overall, leaving itself at a considerable public health and competitive disadvantage.

In the past three years, three of the four states around Wisconsin have raised their cigarette taxes. Many localities have also established their own cigarette tax rates – ranging from just a

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[*] See TFK Factsheet, *Benefits From Increasing Smokeless Tobacco Tax Rates*, http://tobaccofreekids.org/research/factsheets/pdf/0180.pdf and the references cited therein.

[†] See TFK Factsheet, *State Excise Tax Rates for Non-Cigarette Tobacco Products*, http://tobaccofreekids.org/research/factsheets/pdf/0169.pdf.

[‡] See TFK Factsheet, *Benefits From Increasing Smokeless Tobacco Tax Rates*, http://tobaccofreekids.org/research/factsheets/pdf/0180.pdf and the references cited therein.

[§] See TFK Factsheet, *Voters Across the Country Support Significant Increases in State Cigarette Taxes*, http://www.tobaccofreekids.org/research/factsheets/pdf/0167.pdf.

[**] For a list of state cigarette tax rates and rankings, see TFK Factsheet, *State Cigarette Excise Tax Rates and Rankings*, http://www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf.

few pennies to $1.324 per pack in addition to the state's cigarette tax – to obtain some of the economic and public health benefits that the state has missed.[*]

By increasing its cigarette tax rate, Wisconsin could enjoy the benefits that many other higher tax states are enjoying: lower smoking rates, fewer smoking-caused deaths, fewer smoking-caused harms, and lower smoking-caused costs.

Maximize State Health Benefits & Cost Savings By Investing in Tobacco Control

Recent data from the Tax Burden on Tobacco shows that cigarette consumption in Wisconsin is on the rise. Between 2004 and 2006, cigarette consumption, as shown by sales of tax-paid cigarette packs, increased by 3.5 percent, from 385 million packs sold to 398 million packs sold. This represents a troubling reversal from earlier years when consumption was on the decline. Between 2001 and 2003, cigarette consumption declined by more than seven percent, from 419 million packs sold to 388 million packs sold. Wisconsin is one of the few states in the nation to have an increase in cigarette sales.

This reversal of progress follows deep cuts to funding for the Wisconsin Tobacco Prevention and Control Program. Wisconsin's tobacco control program funding was cut in half, from $21 million in FY2001 to $10 million in FY2004.

Wisconsin still falls short of even the minimum amount recommended by the CDC for state tobacco prevention spending: $31.2 million per year. In fiscal year 2007, Wisconsin invested only $10 million in tobacco prevention.

From each one-percentage point decline in adult smoking rates, Wisconsin saves $402.8 million in reduced future health costs, and from each one-percentage point decline in youth smoking rates, the state saves $225.8 million in future health costs. While it is not possible to make accurate projections of all the shorter-term savings, reducing smoking rates by one percentage point per year for five years would produce $26.3 million in health care savings due to fewer smoking-affected births and fewer smoking-caused heart attacks and strokes. All of those savings are in addition to the lives and health that reduced smoking rates will save.[†]

Wisconsin can fund and sustain a comprehensive tobacco prevention program with money from the state tobacco settlement refinancing. More funding would enable the state tobacco prevention program to work much more effectively to prevent and reduce tobacco use and its harms in the state, perfectly complementing the substantial public health benefits from the cigarette tax increase. For instance, more funding would enable the state to offer nicotine replacement therapy to help smokers quit and to bring community health programs to all counties within the state, two services Wisconsin currently does not have. In fact, there is evidence that coupling state tobacco tax increases with increased state funding for tobacco prevention efforts is an especially effective strategy for quickly and permanently reducing state tobacco-caused harms and costs. Tobacco-tax increases can produce enormous public health benefits; but they are not enough, alone, to get the job done.[‡]

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[*] See TFK Factsheets, *Top Combined State-Local Cigarette Tax Rates (State plus County plus City)*, http://www.tobaccofreekids.org/research/factsheets/pdf/0267.pdf, and *Local Government Cigarette Tax Rates*, http://www.tobaccofreekids.org/research/factsheets/pdf/0304.pdf.

[†] For more detail on the benefits of a one-percentage point decline in smoking in Wisconsin, see Appendix C. See TFK Factsheets, *Comprehensive Statewide Programs Reduce Tobacco Use*, http://www.tobaccofreekids.org/research/factsheets/pdf/0045.pdf, and *Tax Increases Are Not Enough - States Must Also Invest in Tobacco Prevention Programs*, http://www.tobaccofreekids.org/research/factsheets/pdf/0221.pdf.

[‡] See TFK Factsheet, *Tax Increases Are Not Enough - States Must Also Invest in Tobacco Prevention Programs*, http://tobaccofreekids.org/research/factsheets/pdf/0221.pdf.

According to a recent study, if Wisconsin increased their program funding to CDC-recommended minimum amounts, the state would:

- prevent more than 44,000 kids from becoming smokers,
- save more than 14,000 kids from premature, smoking-caused deaths,
- save almost $710 million in long-term, smoking-related health care costs
- significantly reduce adult smoking rates, producing substantial additional benefits and savings

Despite budget cuts, Wisconsin's Tobacco Prevention and Control Program continues to do excellent work to help smokers quit throughout the state, prevent kids from smoking, and address disparities in tobacco use. The increase in cigarette consumption likely would have been even greater without its efforts. However, budget cuts have forced Wisconsin's tobacco control program to eliminate and reduce many of its activities. While the mission of the program to implement a comprehensive program based on best practice recommendations has not changed, the practical reality of available funding is that this goal can not be met. For example, funding cuts resulted in the elimination of 40 community coalitions and as a result, more than 20 counties have no local tobacco prevention or control programs. Funding cuts have also resulted in 10,000 fewer smokers served through the Quit Line and limited or no availability of cessation medications. The results of the funding cuts are as predicted – the slowing, and perhaps even reversal, of progress. Wisconsin's experience is similar to what has happened in other states that have cut funding for tobacco prevention.

The state could further magnify its public health and budgetary benefits by investing in the state Medicaid program or expanding the services it provides (e.g., to cover smoking cessation services and to otherwise increase health care access). Such investments of new state funds would not only improve public health in the state but would also increase the amount of money Wisconsin would receive from the federal government through its Medicaid program reimbursements to the state. Because of the matching program, for every dollar Wisconsin spends on Medicaid, it gets 57.5 cents back from the federal government. So, by spending only $42.5 million of the additional new cigarette tax revenues from a $1.25 increase for the Medicaid program, it will actually be providing $100 million worth of additional Medicaid coverage and benefits.[9]

Conclusion

Wisconsin is at a competitive disadvantage compared to many other states because its higher levels of smoking directly translate into more smoking-caused death, disease and disability, and higher public and private sector smoking-caused expenditures and costs.

One of the best ways to reduce smoking-caused harms and costs in Wisconsin is to raise the state's tobacco taxes, which will immediately reduce existing smoking rates and prevent new youths from becoming addicted smokers, just two of the many related public health benefits.

The people, businesses, and taxpayers of Wisconsin deserve no less. Raising tobacco taxes saves lives and saves money.

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APPENDIX A

THE TOLL OF TOBACCO IN WISCONSIN

Tobacco Use in Wisconsin

- High school students who smoke: 19.9% [Girls: 18.5% Boys: 21.1%]
- High school males who use smokeless tobacco: 12.8%
- Kids (under 18) who try cigarettes for the first time each year: 28,600
- Additional Kids (under 18) who become new regular, daily smokers each year: 8,200
- Packs of cigarettes bought or smoked by kids in Wisconsin each year: 12.8 million
- Kids exposed to second hand smoke at home: 428,000
- Adults in Wisconsin who smoke: 20.8% [Men: 23.3% Women: 18.4% Pregnant Females: 14.9%]

Nationwide, youth smoking has declined significantly since the mid-1990s, but that decline appears to have slowed or even reversed. The 2005 Youth Risk Behavior Survey found that the percentage of high school students reporting that they have smoked cigarettes in the past month increased to 23 percent in 2005 from 21.9 percent in 2003. Adult smoking has been decreasing gradually over the last several decades, and 20.9 percent of U.S. adults (about 45 million) currently smoke.

Deaths in Wisconsin From Smoking

- Adults who die each year in Wisconsin from their own smoking: 7,300
- Annual deaths in state from others' smoking (secondhand smoke & pregnancy smoking): 700 to 1,240
- Wisconsin kids who have lost at least one parent to a smoking-caused death: 4,100
- Kids alive in state today who will ultimately die from smoking: 128,000 (given current smoking levels)

Smoking, alone, kills more people each year than alcohol, AIDS, car crashes, illegal drugs, murders, and suicides combined. For every person in Wisconsin who dies from smoking approximately 20 more state residents are suffering from serious smoking-caused disease and disability, or other tobacco-caused health problems.

Tobacco-Related Monetary Costs in Wisconsin

- Annual health care expenditures in the State directly caused by tobacco use: $2.02 billion
- Annual health care expenditures in Wisconsin from secondhand smoke exposure: $92.1 million
  - State Medicaid program's total health expenditures caused by tobacco use: $480.0 million
- Citizens' state/federal taxes to cover smoking-caused government costs: $1.3 billion ($604/household)
- Smoking-caused productivity losses in Wisconsin: $1.64 billion
- Smoking-caused health costs and productivity losses per pack sold in Wisconsin: $9.53

The productivity loss amount, above, is from smoking-death-shortened work lives, alone. Additional work productivity losses totaling in the tens of billions nationwide come from smoking-caused work absences, on-the-job performance declines, and disability during otherwise productive work lives. Other non-health costs caused by tobacco use include direct residential and commercial property losses from smoking-caused fires (about $400 million nationwide); and the costs of extra cleaning and maintenance made necessary by tobacco smoke and tobacco-related litter (about $4+ billion per year for commercial establishments alone).

Tobacco Industry Advertising and Other Product Promotion

- Annual tobacco industry marketing expenditures nationwide: $13.4 billion ($36+ million per day)
- Estimated portion spent in Wisconsin each year: $276.1 million

Published research studies have found that kids are three times more sensitive to tobacco advertising than adults and are more likely to be influenced to smoke by cigarette marketing than by peer pressure, and that one-third of underage experimentation with smoking is attributable to tobacco company marketing.

Wisconsin Government Policies Affecting The Toll of Tobacco in Wisconsin

- Annual State tobacco prevention spending from tobacco settlement and tax revenues: $10.0 million [National rank: 26th (with 1 the best), based on percent of CDC recommended minimum]
- State cigarette tax per pack: $0.77 [National rank: 33rd (average state tax is $1.07 per pack)]

Sources

Youth smoking. 2006 Youth Tobacco Survey. 2005 Youth Risk Behavioral Surveillance (YRBS) found that 22.8% of high school students smoked, but the YTS and YRBS cannot be compared to show trends because of different methodologies. Current smoking = smoked in past month. The 2003 National Youth Risk Behavior Survey, using a different methodology than the YTS, found that 21.9% of U.S. high school kids smoke and 11% of high school males use spit tobacco. ***Male Youth smokeless.*** 2006 YTS. A 2005 YRBS found that 14.4% of high school males used spit tobacco. Female smokeless use is much lower. ***New youth smokers.*** Estimate based on U.S. Dept of Health & Human Services (HHS), "*Summary Findings from the 2005 Nat'l Survey on Drug Use and Health*," http://www.oas.samhsa.gov/nsduh/2k5nsduh/tabs/Sect4peTabs10to11.pdf, with the state share of the national number allocated through the formula in US Centers for Disease Control & Prevention (CDC), "Projected Smoking-Related Deaths Among Youth—United States," *Morbidity & Mortality Weekly Report (MMWR)* 45(44):971-74, November 8, 1996 [based on state young adult smoking rates, as updated in CDC*, Sustaining State Programs for Tobacco Control, Data Highlights, 2006*]. ***Smokefree workplaces.*** Shopland, D, et al., "State-Specific Trends in Smoke-Free Workplace Policy Coverage: The Current Population Survey Tobacco Use Supplement, 1993 to 1999," *Journal of Occupational & Environmental Medicine* 43(8):680-86, August 2001. ***Kids exposed to secondhand smoke.*** CDC, "State-Specific Prevalence of Cigarette Smoking Among Adults & Children's and Adolescents' Exposure to Environmental Tobacco Smoke – United States, 1996," *MMWR* 46(44):1038-43, November 7, 1997. ***Packs consumed by kids***. Estimated from Wisconsin's youth population & smoking rates; and see DiFranza, J & Librett, J, "State and Federal Revenues from Tobacco Consumed by Minors," *American Journal of Public Health (AJPH)* 89(7):1106-08, July 1999 & Cummings, et al., "The Illegal Sale of Cigarettes to US Minors: Estimates by State," *AJPH* 84(2):300-302, February 1994. ***Adult smoking.*** State: 2005 BRFSS, *Behavioral Risk Factor Surveillance System*. National: 2005 National Health Interview Survey (NHIS), http://www.cdc.gov/mmwr/PDF/wk/mm5542.pdf ***Pregnant Females.*** CDC, "*Smoking During Pregnancy – United States, 1990-2002," MMWR* 53(39):911-15, October 8, 2004, http://www.cdc.gov/mmwr/PDF/wk/mm5339.pdf.

Adult deaths. CDC's STATE System (average annual deaths from 1997-2001), http://apps.nccd.cdc.gov/StateSystem/systemIndex.aspx. See also, CDC*, Sustaining State Programs for Tobacco Control, Data Highlights, 2006;* CDC, "Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Economic Costs -- United States 1995-1999," *MMWR* 51(14):300-303, April 11, 2002, http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5114a2.htm. See also, U.S. General Accounting Office (GAO), "CDC's April 2002 Report on Smoking: Estimates of Selected Health Consequences of Cigarette Smoking Were Reasonable," letter to U.S. Rep. Richard Burr, July 16, 2003, http://www.gao.gov/new.items/d03942r.pdf. ***Lost Parents.*** Leistikow, B, et al., "Estimates of Smoking-Attributable Deaths at Ages 15-54, Motherless or Fatherless Youths, and Resulting Social Security Costs in the United States in 1994," *Preventive Medicine* 30(5):353-360, May 2000, and state-specific data from author. ***Projected youth smoking deaths.*** CDC, *State Highlights 2006;* CDC, "Projected Smoking-Related Deaths Among Youth -- United States," *MMWR* 45(44):971-974, November 8, 1996, http://www.cdc.gov/mmwr/preview/mmwrhtml/00044348.htm. ***Secondhand smoke deaths.*** CDC, *MMWR*, April 11, 2002. Nat'l Cancer Inst, *Health Effects of Exposure to Environmental Tobacco Smoke: The Report of the California Environmental Protection Agency*, Smoking & Tobacco Control Monograph No. 10, 1999, http://cancercontrol.cancer.gov/tcrb/monographs/10 [CA report at http://www.oehha.org/air/environmental_tobacco]. See also, California EPA, *Proposed Identification of Environmental Tobacco Smoke as a Toxic Air Contaminant*, June 24, 2005, http://repositories.cdlib.org/tc/surveys/CALEPA2005C/

Health and productivity costs caused by tobacco use. CDC, *Data Highlights 2006* [and underlying CDC data/estimates]. CDC's STATE System average annual smoking attributable productivity losses from 1997-2001(1999 estimates updated to 2004 dollars); GAO, http://www.gao.gov/new.items/d03942r.pdf, July 16, 2003. State Medicaid program expenditures are before any federal reimbursement. ***SHS Costs.*** Behan, DF et al., *Economic Effects of Environmental Tobacco Smoke*, Society of Actuaries, March 31, 2005, http://www.soa.org/ccm/cms-service/stream/asset/?asset_id=10943111&g11n [nationwide costs allocated to state based on its share of all U.S. smokers]. ***State-federal tobacco tax burden***. Equals Wisconsin residents' federal & state tax payments necessary to cover all state government tobacco-caused costs plus the residents' pro-rata share, based on state populations, of all federal tobacco-caused costs. See above and Zhang, X, et al., "Cost of Smoking to the Medicare Program, 1993," *Health Care Financing Review* 20(4):1-19, Summer 1999; Office of Management & Budget, *Budget for the United States Government - Fiscal Year 2000*, Table S-8, 1999; Leistikow, B, et al., "Estimates of Smoking-Attributable Deaths at Ages 15-54, Motherless or Fatherless Youths, and Resulting Social Security Costs in the United States in 1994," *Preventive Medicine* 30(5):353-360, May 2000 – with other state government tobacco costs taken to be 3% of all state smoking-caused health costs, as in CDC, "Medical Care Expenditures Attributable to Smoking -- United States, 1993," *MMWR* 43(26):1-4, July 8, 1994, http://www.cdc.gov/mmwr/preview/mmwrhtml/00031803.htm. CDC's *Data Highlights 2006* provides cost estimates that have been adjusted for inflation and put in 2004 dollars. To make the other cost data similarly current and more comparable, they have also been adjusted for inflation and put in 2004 dollars, using the same CDC methodology. ***Other tobacco-related costs.*** U.S. Treasury Department, *Economic Costs of Smoking in the U.S. & the Benefits of Comprehensive Tobacco Legislation*, 1998; Chaloupka, FJ & Warner, KE, "The Economics of Smoking," in Culyer, A & Newhouse, J (eds), *Handbook of Health Economics*, 2000; CDC, *MMWR* 46(44):1048-1050, November 7, 1997, http://www.cdc.gov/mmwr/preview/mmwrhtml/00049800.htm; CDC, *Making Your Workplace Smokefree: A Decision Maker's Guide,* 1996; Mudarri, D, U.S. Environmental Protection Agency, *Costs & Benefits of Smoking Restrictions: An Assessment of the Smoke-Free Environment Act of 1993 (HR 3434)*, submitted to Subcommittee on Health & the Environment, Committee on Energy & Commerce, U.S. House of Representatives, April 1994; Brigham, P & McGuire, A, "Progress Toward a Fire-Safe Cigarette," *Journal of Public Health Policy* 16(4):433-439, 1995; Hall, JR Jr., National Fire Protection Association, *The Smoking-Material Fire Problem*, November 2004. U.S. Fire Administration/National Fire Data Center, Federal Emergency Management Agency (FEMA), *Residential Smoking Fires & Casualties*, Topical Fire Research Series 5(5), June 2005, http://www.usfa.fema.gov/downloads/pdf/tfrs/v5i5.pdf.

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APPENDIX B

BENEFITS FROM A $1.25 CIGARETTE TAX INCREASE IN WISCONSIN

Current State Cigarette Tax: 77 Cents Per Pack (33rd among all states)

Smoking-caused costs in state per taxed pack sold: $9.53
Average retail price per pack: $4.17 (state share from excise and sales taxes: $0.97)

Annual health care expenditures in the Wisconsin directly caused by tobacco use: $2.02 billion
Total state Medicaid program smoking costs each year: $480.0 million
Annual state cigarette tax revenue: $301.5 million (2006)

Projected Benefits From Increasing the State Cigarette Tax By 125 Cents Per Pack

- **New state cigarette tax revenues each year: $252.8 million**
- **Pack sales decline in state: -121.4 million**
- **Percent decrease in youth smoking: 20.9%**
- **Increase in total number of kids alive today who will not become smokers: 84,100**
- **Number of current adult smokers in the state who would quit: 42,500**
- **Number of smoking-affected births avoided over next five years: 11,700**
- **Number of current adult smokers saved from smoking-caused death: 11,200**
- **Number of kids alive today saved from later premature smoking-caused death: 26,900**
- **5-Year healthcare savings from fewer smoking-affected pregnancies & births: $19.9 million**
- **5-year healthcare savings from fewer smoking-caused heart attacks & strokes: $20.0 million**
- **Long-term healthcare savings in state from adult & youth smoking declines: $1,875.5 million**

These projections are based on research findings that a 10% cigarette price increase reduces youth smoking rates by 6.5%, adult rates by 2%, and total consumption by 4% (but adjusted down to account for tax evasion effects), and assume that the state tax will keep up with inflation. Nevertheless, the tax increase will both reduce smoking levels and increase state revenues because the higher tax per pack brings in more new revenue than is lost from the drop in the number of packs sold. These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and tax revenues) from new tax avoidance efforts after the tax increase by continuing continuing in-state smokers, and from fewer sales to smokers from other states or to informal or small-scale smugglers. Projected new revenue amounts are for net new revenues above the actual cigarette tax revenues received by the state in the year preceding the tax increase. Without any tax increase, it is likely that the revenues would decline by a small amount. Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over lifetimes of persons who stop smoking or never start because of tax increase. These projections assume that the state will follow standard practice and apply the cigarette tax increase to all previously tax-stamped or otherwise tax-paid cigarettes held in inventory by wholesalers or retailers on the effective date of the increase. Failing to tax such cigarettes held in inventory would open the door to massive pre-increase stockpiling by retailers and wholesalers to evade the increase, drastically reducing the amount of new state revenues. All cost and savings amounts are in 2004 dollars.

For more information, see the Campaign Factsheets – including *Raising State Tobacco Taxes Always Reduces Tobacco Use (& Always Increases State Revenues)* – at http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18.

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Projections will be updated and improved as updated underlying data becomes available and when new data and research findings prompt refinements to the projection models and formulas.

APPENDIX C

BENEFITS & SAVINGS FROM EACH ONE PERCENTAGE POINT DECLINE IN WISCONSIN SMOKING RATES

The following estimates show the benefits and savings that are obtained in Wisconsin for each one percentage point decline in adult and youth smoking rates in the state (e.g., from new state investments in tobacco prevention or increased statetobacco tax rates). These estimates can also be switched around to show what harms and costs Wisconsin would suffer from each one percentage point increase to its smoking rates or from each one percentage point reduction the State fails to obtain (e.g., because it fails to sustain adequate state tobacco prevention funding or lets its tobacco tax rates erode over time).

Fewer Smokers

Fewer current adult smokers: 42,400

Fewer current pregnant smokers: 700

Fewer current high school smokers: 3,200

Wisconsin kids alive today who will not become addicted adult smokers: 12,900

Public Health Benefits

Today's adults saved from dying prematurely from smoking: 11,200

Today's high school smokers saved from dying prematurely from smoking: 1,000

Wisconsin kids alive today who will not die prematurely from smoking: 4,100

	First Year	Over 5 Years
Fewer smoking-affected births:	**700**	**3,510**
Fewer smoking-caused heart attacks:	**22**	**284**
Fewer smoking-caused strokes:	**13**	**153**

[The number of heart attacks and strokes prevented each year by a one-time decline in adult smoking rates of one percentage point starts out small but grows sharply until it peaks and stabilizes after about ten years.]

Monetary Benefits (Reduced Public, Private, and Individual Smoking-Caused Costs)

	First Year	Over 5 Years
Savings from smoking-affected birth reductions	**$1.2 million**	**$6.0 million**
Savings from heart attack & stroke reductions	**$1.5 million**	**$20.3 million**

[Annual savings from fewer smoking-caused heart attacks and strokes grows substantially each year as more and more are prevented by the initial one percentage point smoking decline. Savings from prevented smoking-caused cancer are even larger, but do not begin to accrue until several years after the initial smoking decline.]

Reduction to future health costs from adult smoking declines: **$402.8 million**

Reduction to future health costs from youth smoking declines: **$225.8 million**

[These savings accrue over the lifetimes of the adults who quit and the youth who do not become adult smokers. Roughly 14.4% of smoking-caused healthcare expenditures in Wisconsin are paid by its Medicaid program.]

At the same time that they reduce public and private smoking-caused costs, state smoking declines also increase public and private sector worker productivity and strengthen the state's economy.

For sources and more detail, see the TFK factsheet *Comprehensive State Tobacco-Control Programs Save Money,* http://tobaccofreekids.org/research/factsheets/pdf/0168.pdf. And see http://tobaccofreekids.org/research/factsheets or http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=6 for additional related information.

APPENDIX D

EXPLANATIONS AND SOURCES FOR TFK'S PROJECTIONS OF NEW REVENUES & BENEFITS FROM STATE CIGARETTE TAX INCREASES

The Campaign for Tobacco-Free Kids (TFK) projections of increased state revenues and other benefits from raising state cigarette tax rates reflect the basic fact that cigarette tax increases both boost state cigarette tax revenues and reduce smoking because the increased tax per pack brings in more new revenue than is lost from the declines in pack sales caused by consumption declines or increased smoker tax avoidance prompted by the price increase.

These projections are based, in part, on research findings that a 10% cigarette price increase, if maintained against inflation, reduces youth smoking rates by 6.5% or more, adult rates by 2%, and total consumption by 4%. [See, e.g., Chaloupka, FJ, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 2000, and other price studies at http://tigger.uic.edu/~fjc; 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 http://www.impacteen.org.] But these elasticity findings are adjusted downward to be conservative and to account for some smokers avoiding the price increases through a range of tax evasion strategies. Despite such tax evasion, cigarette tax increases reduce smoking rates, which, in turn, reduces smoking caused disease, death, and economic costs. Parallel increases to state excise taxes on other tobacco products would similarly provide additional new state excise tax and sale tax revenue – while also reducing the use of these products in the state, and reducing related harms and healthcare costs.

These projections are fiscally conservative because they include generous adjustments for lost state pack sales (and reduced state revenue gains) caused by new tax avoidance efforts by continuing in-state smokers and, where applicable, fewer in-state cigarette sales to supply smokers from other states, informal smugglers, criminal smuggling organizations, or multistate internet sellers. [See, e.g., Farrelly, M, et al., "Cigarette Smuggling Revisited," U.S. Centers for Disease Control & Prevention (CDC), in press, and Farelly, M, et al., *State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion*, RTI International, 2003, http://www.rti.org/pubs/8742_Excise_Taxes_FR_5-03.pdf.] To account for possible additional declines in state cigarette sales and revenues from other factors – such as state tobacco prevention investments, other public and private tobacco prevention efforts, federal cigarette tax changes, cigarette company or other increases to cigarette prices, etc. – these projections also assume a background year-to-year decline in consumption of 1.5%. To be even more conservative, the projected amounts have also been rounded down.*

Despite all of these conservative adjustments, the projections still show that non-trivial state cigarette tax increases will both significantly reduce smoking levels and substantially increase state revenues. The increased tax per pack will still bring in more new state revenue than is lost from the decrease in the number of packs sold caused by the tax increase from either consumption declines, tax avoidance, or smuggling. And that is exactly what has happened in every state that has significantly increased its cigarette tax rates. [See, e.g., TFK Factsheet, *Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking),* http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf.]

In those states that apply their sales tax percentage to the total retail price of a pack of cigarettes (including the state cigarette tax amount), a cigarette tax increase will raise state sales tax revenues per pack, which will offset sales tax revenue losses from fewer packs being sold. In addition, smokers who quit or cut back will likely spend the money they previously spent on cigarettes largely on other goods on which sales tax is collected, which further increases state sales tax revenues.

These projections assume that the tax increase is fully passed on in higher prices, and keeps up with inflation over time. The starting price per pack (before the proposed cigarette tax increase) used in these projections includes all federal and statewide excise and sales taxes but not any purely local taxes (except that NY City's $1.50 per pack tax is factored into the overall NY State price per pack), and is based on data from *The Tax Burden on Tobacco*, 2004, reports of state cigarette tax increases, and USDA Economic Research Service, Tobacco Briefing Room, http://www.ers.usda.gov/briefing/tobacco. These projections assume that the state or district will follow standard practice and apply the cigarette tax increase to all previously tax-stamped or otherwise tax-paid cigarettes held in inventory by wholesalers or retailers on the effective date of the increase.

* Cigarette company price cuts and other factors could also work to increase cigarette consumption and/or sales in the state, which would increase state cigarette tax revenues beyond the projected amounts.

Failing to tax such cigarettes held in inventory would open the door to massive pre-increase stockpiling by retailers and wholesalers to evade the increase, drastically reducing the amount of new state revenues.

The projections for youths stopped from becoming smokers and avoided premature youth and adult deaths are calculated by applying the above findings regarding the effects of tax and price increases to the number of current adult smokers in each state and to estimates from CDC of the number of kids alive today in each state who will become adult smokers and the number projected to die from smoking. [CDC, *Sustaining State Programs for Tobacco Control: Data Highlights 2006,* http://www.cdc.gov/tobacco/data_statistics/state_data/data_highlights/2006/index.htm. For an explanation of how CDC makes these youth projections, see CDC, "Projected Smoking-Related Deaths Among Youth – United States," *MMWR* 45(44):971-974, November 11, 1996, http://www.cdc.gov/mmwr/preview/mmwrhtml/00044348.htm, which also contains data on relative death risks of smokers, nonsmokers, former smokers, etc.]

Because of research and data limitations, it is not yet possible to estimate health savings in each year following a cigarette tax increase, or even provide reasonable estimates of the total health care savings over the first five or ten years. Although smoking-caused healthcare cost savings from a cigarette tax increase will be relatively small in the first year after an increase, they grow quickly. The listed 5-Year savings from fewer smoking-caused heart attacks and strokes and from fewer smoking-affected pregnancies and related birth complications show just some of the many substantial savings from the smoking reductions prompted by a tax increase that begin to accrue immediately.

The projected health care savings from reducing the number of future youth and current adult smokers accrue over the lifetimes of kids alive in the state today who quit or don't start because of tax increase and over the lifetimes of those current adult smokers who quit because of the tax increase. Smokers' lifetime healthcare costs average at least $16,000 higher than nonsmokers (in 2002 dollars), despite shorter life spans; but the savings per each adult quitter are less than that because adult smokers have already been significantly harmed by their smoking and have already incurred or locked-in extra, smoking-caused health costs. [Hodgson, TA, "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* 70(1), 1992. See, also, Nusselder, W, et al., "Smoking and the Compression of Morbidity," E*pidemiology & Community Health*, 2000; Warner, K, et al., "Medical Costs of Smoking in the United States: Estimates, Their Validity, and Their Implications," *Tobacco Control* 8(3): 290-300, http://tc.bmjjournals.com/content/vol8/issue3/index.shtml, Autumn 1999. CDC, "Projected Smoking-Related Deaths Among Youth – United States," *MMWR* 45(44):971-974, November 8, 1996, http://www.cdc.gov/mmwr/preview/mmwrhtml/00044348.htm. See also, "Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Economic Costs – United States 1995-1999," *MMWR* 51(14):300-303, April 11, 2002, www.cdc.gov/mmwr/preview/mmwrhtml/mm5114a2.htm.]

5-Year Heart & Stroke Savings projections show the estimated reductions in smoking-caused healthcare expenditures within first five years after the tax increase from reduced smoking-caused heart attacks and strokes, based on Lightwood & Glantz, "Short-Term Economic and Health Benefits of Smoking Cessation – Myocardial Infarction and Stroke," *Circulation* 96(4), August 19, 1997. These savings will increase steadily in subsequent years. The projected 5-Year Smoking Births Savings accrue from declines in smoking among pregnant women and corresponding reductions in smoking-caused birth complications and related first-year health costs. [Miller, D, et al., "Birth and First-Year Costs for Mothers and Infants Attributable to Maternal Smoking," *Nicotine & Tobacco Research* 3:25-35, 2001; and state pregnancy-smoking and births data.]

All projected savings have been adjusted to 2002 dollars using the same methodology the U.S. Centers for Disease Control and Prevention has used to update its data on state smoking-caused costs. The projected savings amounts would be larger if put in 2004 dollars, but using the CDC methodology to put them in 2002 dollars makes the projections more conservative and reliable and makes them comparable to the CDC's estimates of smoking-caused state costs. [See CDC, *Sustaining State Programs for Tobacco Control: Data Highlights 2006*, http://www.cdc.gov/tobacco/data_statistics/state_data/data_highlights/2006/index.htm.] These projections do not include a range of additional short and long-term savings from other declines in smoking-caused health problems and other smoking-caused costs. [See, e.g., U.S. Department of the Treasury, *The Economic Costs of Smoking in the U.S. and the Benefits of Comprehensive Tobacco Legislation*, 1998.]

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