



Tobacco Settlement Bonus Payments: A Second Chance to Keep the Promise and Fund Tobacco Prevention

The 1998 state tobacco settlement – and the billions of dollars in revenue it provides each year – presented the states with an unprecedented opportunity to attack the enormous public health problem posed by tobacco use in the United States. Many state officials at the time of the settlement promised to use a significant portion of the proceeds to reduce tobacco use, which is the nation’s leading preventable cause of death and takes a devastating toll in health, lives and money.

Unfortunately, too many states have squandered this opportunity and failed to use their settlement funds – and additional billions of dollars they collect annually in tobacco taxes – to fund tobacco prevention and cessation programs at even the minimum levels that have been long recommended by the U.S. Centers for Disease Control and Prevention (CDC). In Fiscal Year 2008, only three states – Maine, Delaware and Colorado – funded tobacco prevention programs at CDC-recommended levels. In total, the states spent just 45 percent of the CDC’s minimum recommendation (made in 1998), providing total funding for tobacco-free prevention programs of \$717.2 million compared to the \$1.6 billion needed to meet the CDC’s old minimum.

Beginning in 2008, however, state elected officials will get a second chance to keep the promise of the tobacco settlement and adequately fund programs to prevent kids from starting to smoke and help smokers quit.

These additional settlement funds come from two sources: an increase to the normal annual payments the MSA-participating cigarette companies have to make to the states each year; and special, new “Strategic Contribution Fund” payments that the cigarette companies must also pay to the states from 2008 to 2017. After 2017, the normal annual MSA payments to the states are scheduled to increase again, which will keep state payments at higher levels despite the termination of the Strategic Contribution Fund payments. These so-called “bonus payments” will total at least \$850 million each year in new revenue for the 46 states, the District of Columbia and the U.S. territories that are a part of the MSA (four states – Florida, Minnesota, Mississippi and Texas – reached separate, individual settlements with the tobacco companies).

Coincidentally, the annual bonus payments comes close to matching the difference between what the states currently spend on tobacco prevention and cessation programs and what they need to spend to meet the CDC’s original minimum recommendations. By allocating these new windfall funds to tobacco prevention and cessation, the states can finally begin to keep the promise of the tobacco settlement to aggressively confront the tobacco problem.

These substantial increases in annual MSA payments will start in April 2008 during the states’ fiscal year 2008 (settlement payments to the states are due by April 15 of each year).

These additional settlement funds are the result of “Strategic Contribution Fund” payments that the MSA requires signatory cigarette companies to pay to the states from 2008 to 2017. Under the MSA, these new payments must be allocated among the MSA states based on “each Settling State’s contribution to the litigation or resolution of the state tobacco litigation.” The final decisions regarding how much would be given to each state were made by a special allocation committee of state attorneys general soon after the MSA was executed in November 1998 (see section IX(c)(2) and Exhibit U of the MSA, www.naag.org/backpages/naag/tobacco/msa). After 2017, the unadjusted MSA base payment amounts owed to the states are scheduled to increase, which will keep the payment levels at the higher level despite the termination of the Strategic Contribution Fund bonus payments.

Even before receiving these additional funds, the states lack credible excuses for their failure to do more to protect children from tobacco addiction and help smokers quit.

The tobacco problem is as great as ever. Tobacco use remains the nation’s leading preventable cause of death, killing more than 400,000 people and costing the nation more than \$194 billion in health care bills and lost productivity each year. Tobacco use is a huge drain on government budgets, costing

the Medicaid program alone \$30.9 billion a year. Government spending related to tobacco amounts to a hidden tax of \$600 a year per U.S. household, with businesses bearing even larger costs.

Despite recent progress in reducing smoking, 23 percent of U.S. high school students and 20.8 percent of U.S. adults still smoke. Every day, another 1,000 kids become regular smokers; one-third of them will die prematurely as a result. The tobacco problem stems directly from the tobacco companies' expenditure of a record \$13.4 billion a year – \$36 million each day – on marketing, often in ways that appeal to children. In fact, the tobacco companies spend nearly \$19 to market deadly and addictive tobacco products for every dollar the states spend on tobacco prevention. The tobacco companies spend more on marketing in a single day than 47 states and the District of Columbia each spent in all of fiscal 2007 on tobacco prevention.

Every state has plenty of tobacco-generated revenue to fund tobacco prevention and cessation programs at CDC-recommended levels. The states in fiscal 2008 are projected to collect a record \$24.9 billion from the tobacco settlement and tobacco taxes. Just 6.4 percent of this total can fund tobacco prevention and cessation programs in every state at minimum levels recommended by the CDC. However, the states allocated only 2.9 percent of their tobacco revenue for tobacco prevention and cessation.

With the tobacco settlement bonus payments, states will have even more tobacco-generated revenue to fund tobacco prevention. New tobacco tax increases, with just a few cents per pack dedicated to tobacco prevention, could also provide the revenue needed to fund tobacco prevention programs at CDC-recommended levels.

The states have more evidence than ever before that tobacco prevention and cessation programs work to reduce smoking, save lives and save money by reducing tobacco-caused health care costs. Maine and Mississippi have each funded tobacco prevention programs at CDC-recommended levels for seven years in a row and are enjoying significant public health benefits as a result. From 1997 to 2005, Maine, which has the nation's best-funded prevention program for the fourth year in a row, reduced smoking by 64 percent among middle school students and by 59 percent among high school students. Washington state, with another well-funded prevention program, has cut smoking by 60 percent among sixth graders, 58 percent among eighth graders, 40 percent among tenth graders and 43 percent among twelfth graders.

These smoking declines translate into lives and health care dollars saved, as well as improved health. Maine, for example, estimates that its smoking declines have prevented more than 26,000 youth from becoming smokers, saved more than 14,000 of them from premature, smoking-caused deaths and already saved more than \$416 million in future health care costs, a significant return on investment for a program funded at \$14.2 million a year (savings estimates are based on research showing that smokers, on average, have \$16,000 more in long-term health care costs than non-smokers). Washington state's smoking declines translates into 65,000 fewer youth smokers, 230,000 fewer adult smokers and \$2.1 billion in long-term health care cost savings.

Studies show that California, which started the nation's oldest tobacco prevention program in 1990, has saved tens of thousands of lives by reducing smoking-caused birth complications, heart disease, strokes and lung cancer. Other studies have shown that California and Massachusetts, which started their tobacco prevention programs in 1990 and 1993 respectively, were saving as much as \$3 in smoking-caused health care costs for every dollar spent on tobacco prevention before cutting funding for their programs.

Our nation has made significant progress in reducing tobacco use with a comprehensive approach that includes well-funded tobacco prevention and cessation programs in some states, tobacco tax increases, smoke-free air laws, and the American Legacy Foundation's "truth" public education campaign. But continued progress in reducing smoking will not occur unless more states use more of the billions of dollars they are receiving from the tobacco settlement and tobacco taxes to fund tobacco prevention and cessation programs based on the recommendations of the CDC. The tobacco settlement bonus payments present the states with a second chance to make the 1998 state tobacco settlement a historic turning point in the battle to reduce tobacco's terrible toll.