



Congressional Budget Office

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Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget

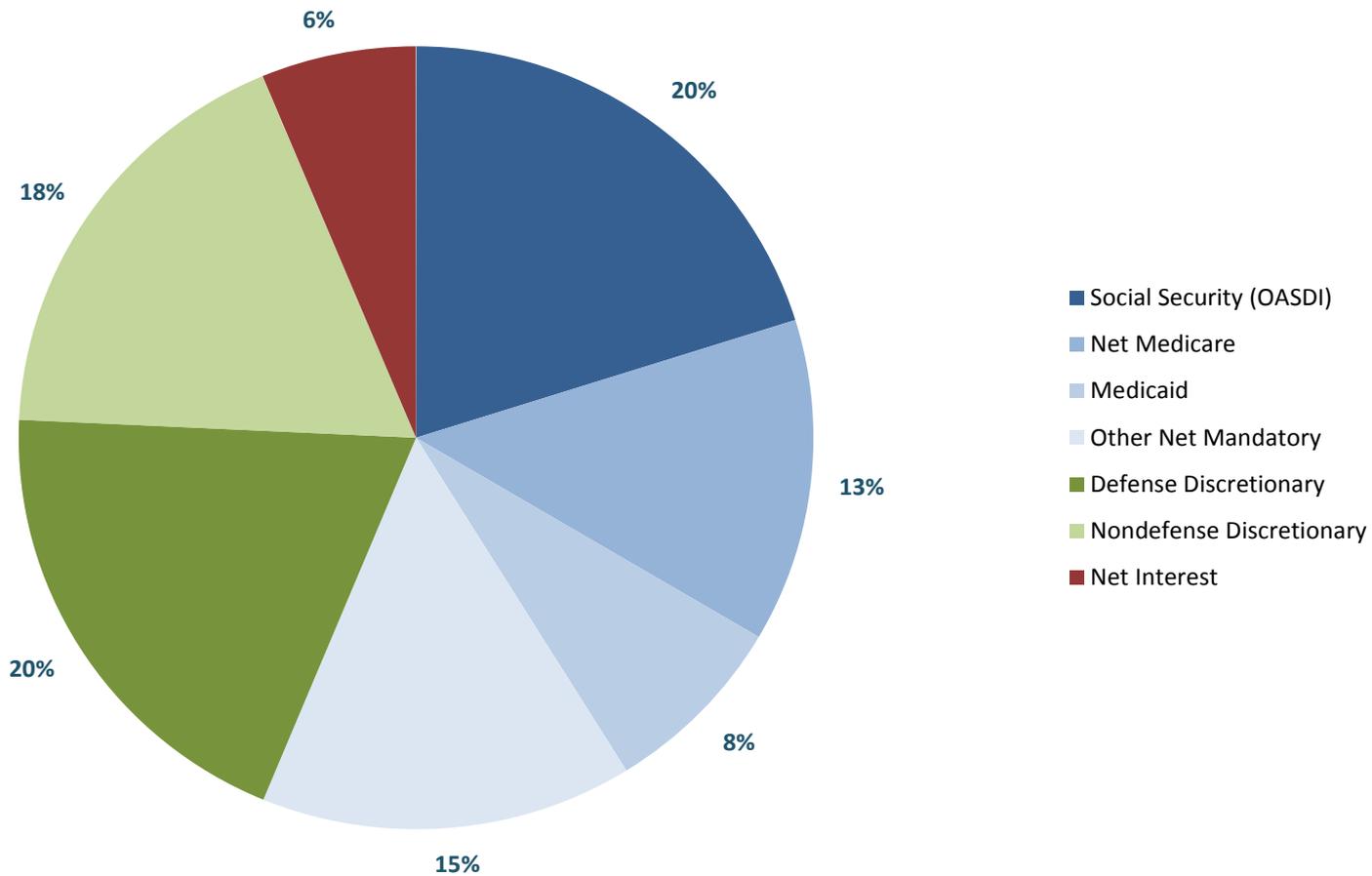
**Presentation to the AcademyHealth
2012 Annual Research Meeting**

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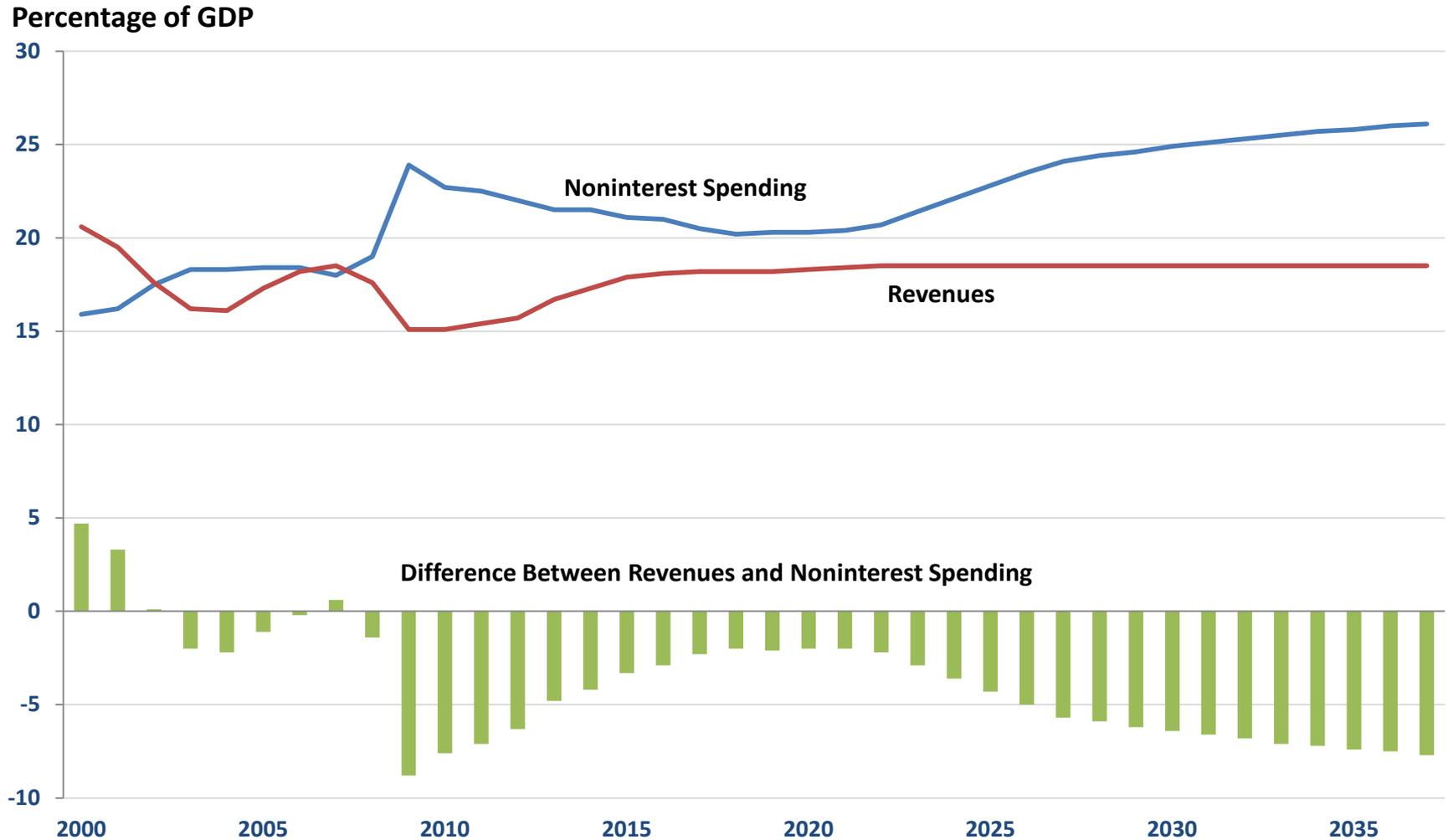
Goals of This Project

- Trace out the full consequences for the federal budget of a policy to improve health through changes in behavior
 - Consider a 50-cent increase in the federal excise tax on cigarettes (indexed for inflation and growth in income)
 - Focus primarily on changes in outlays and revenues resulting from changes in health because of the policy
 - Estimate effects for the usual 10-year “budget window” and the longer term
- Caveats
 - Policymakers’ decisions depend on other considerations besides the budget
 - Other policies to improve health would be likely to have different budgetary effects

Federal Outlays, 2011

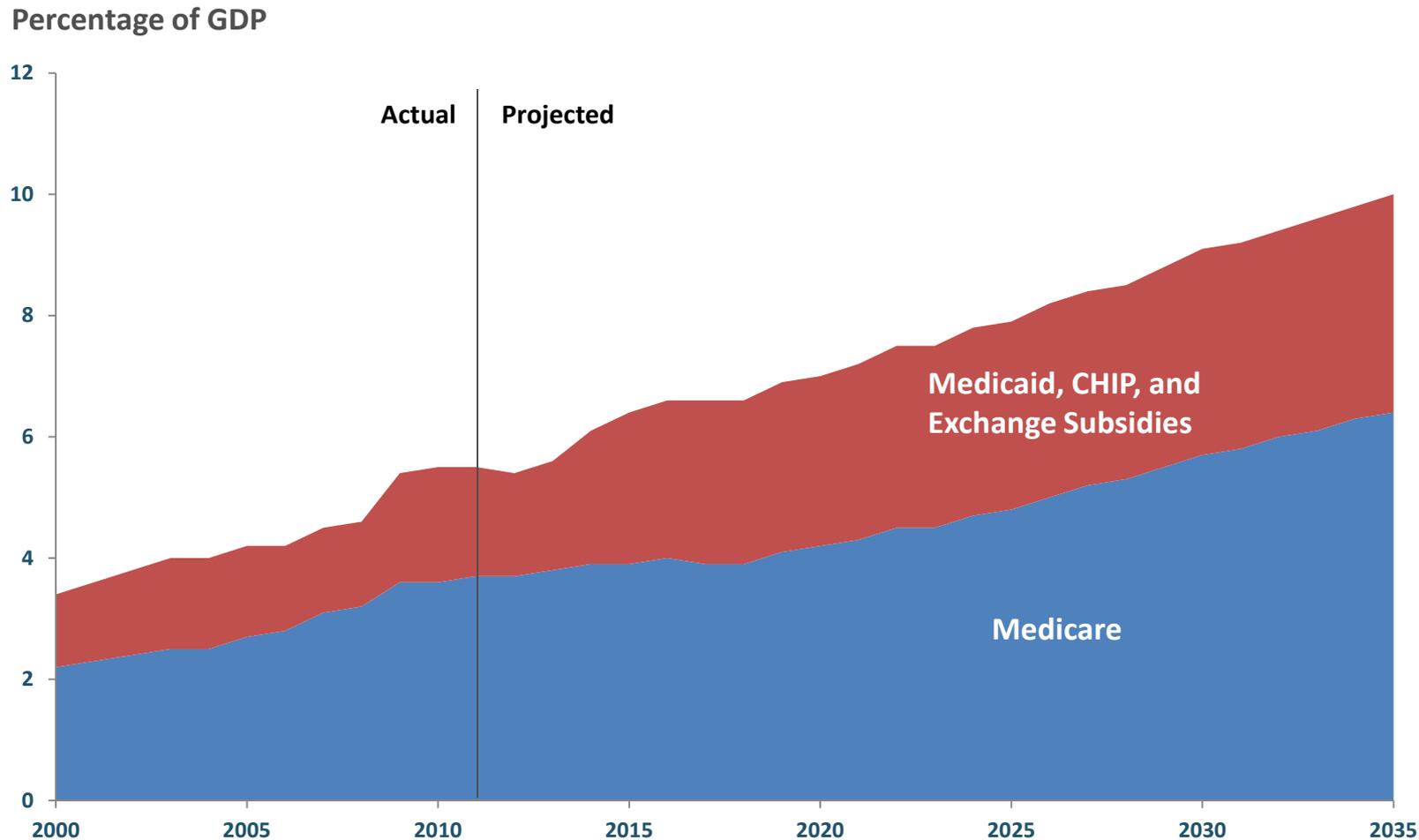


Noninterest Spending and Revenues Under CBO's Extended Alternative Fiscal Scenario



Note: The extended alternative fiscal scenario incorporates the assumptions that certain policies that have been in place for a number of years will be continued and that some provisions of law that might be difficult to sustain for a long period will be modified. Thus, it maintains what some analysts might consider "current policies," as opposed to current laws.

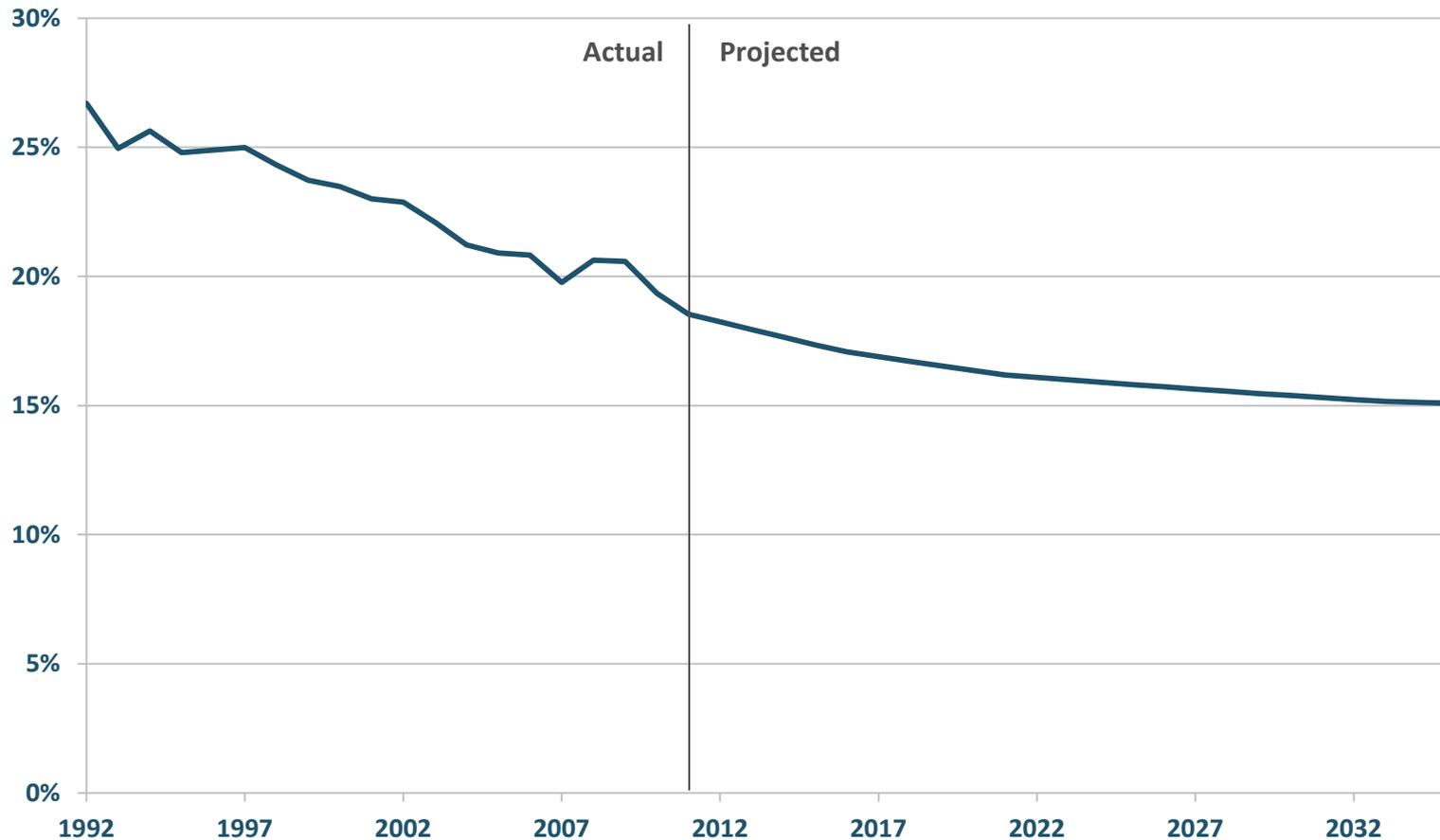
Federal Spending on Major Health Care Programs, by Category, Under CBO's Extended Alternative Fiscal Scenario



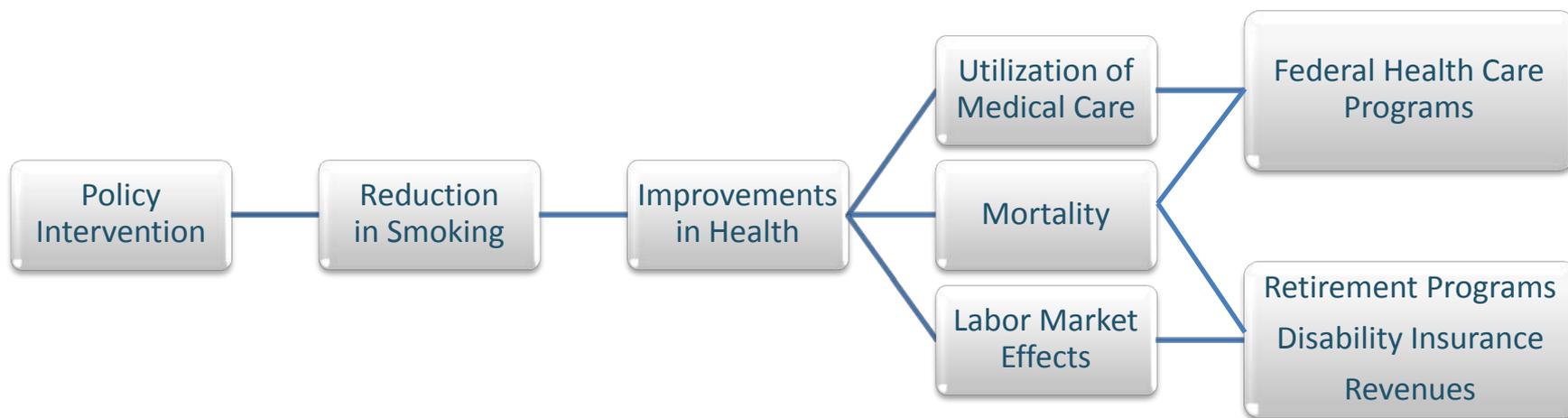
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Prevalence of Smoking Under Current Law

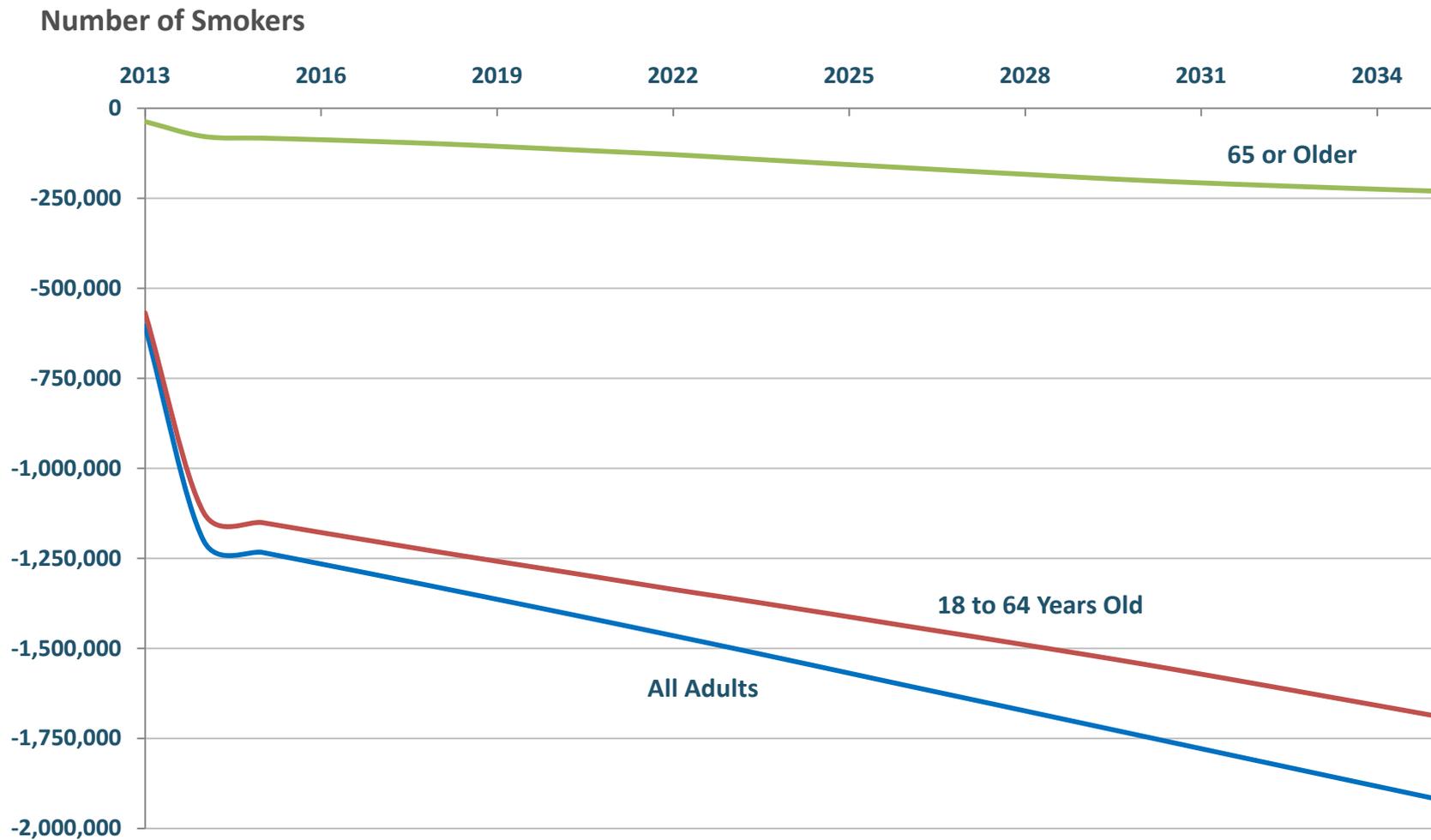
Percentage of U.S. Adults Who Smoke Cigarettes



General Analytic Approach

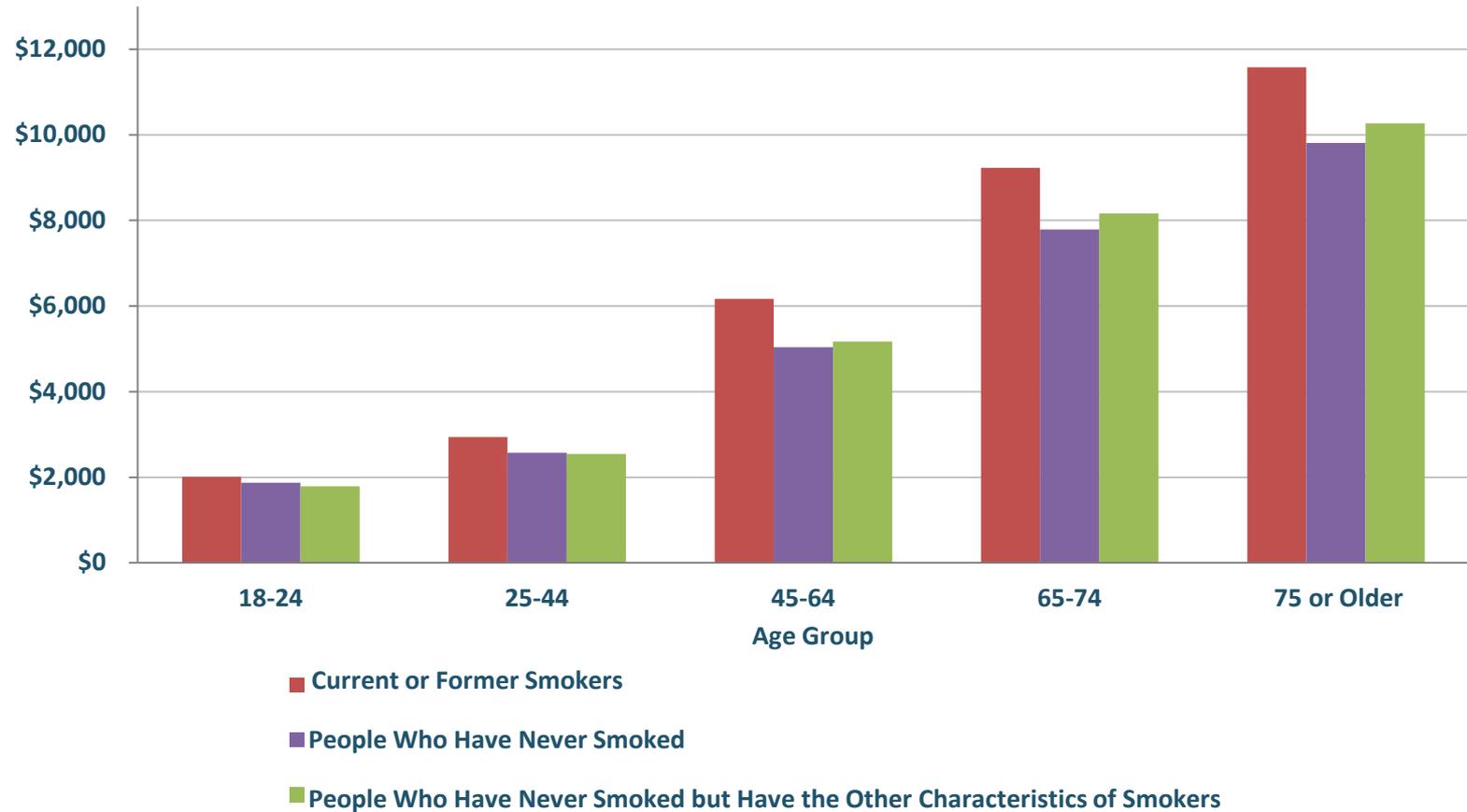


Cumulative Reduction in the Number of Smokers Because of the Policy



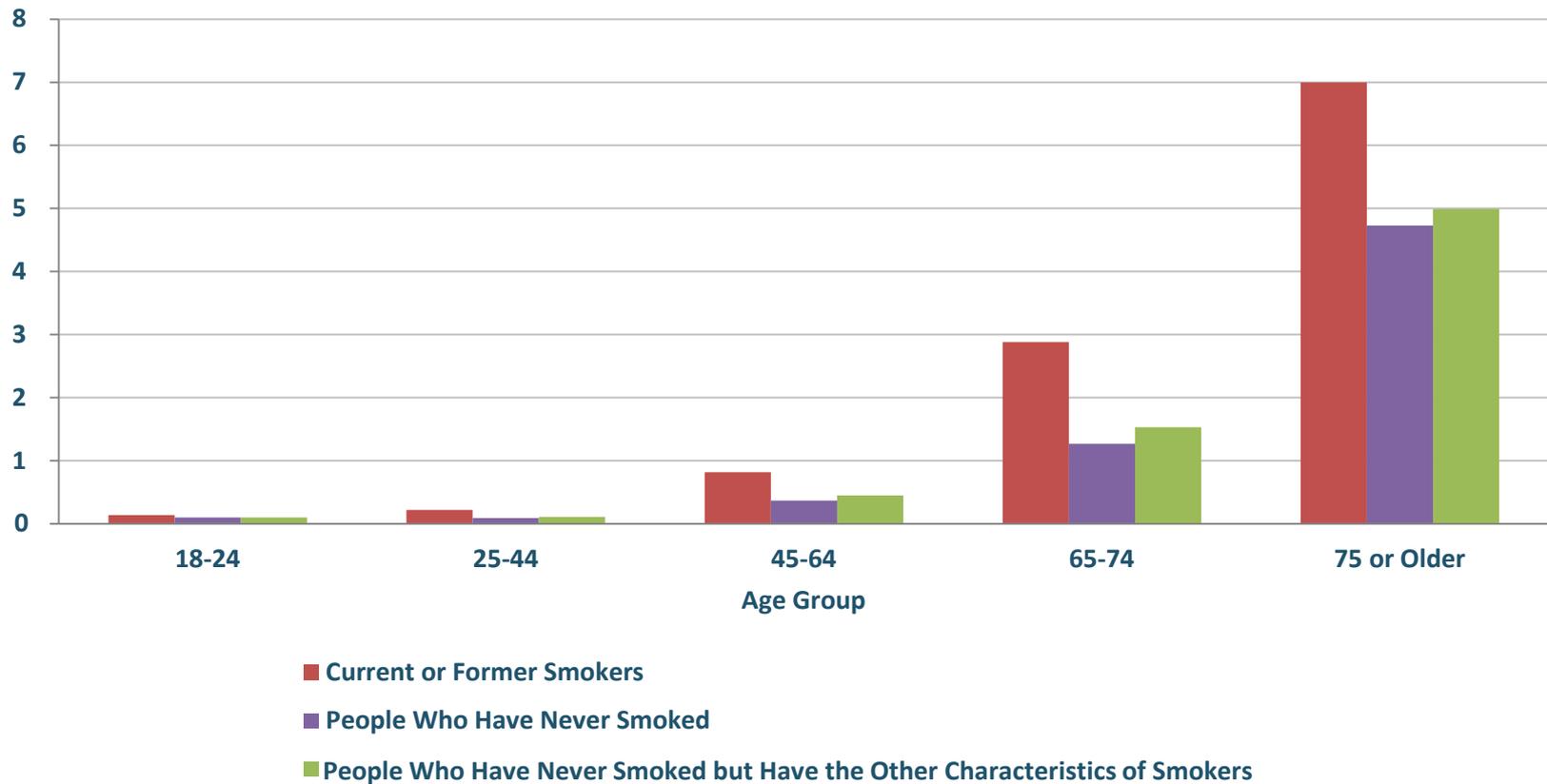
Smoking and Health Care Spending

Health Care Spending per Capita (2008 dollars)



Smoking and Mortality

Probability of Dying in the Next Year (Percent)



Smoking and Earnings

■ Possible channels:

- Reduced working-age mortality—yes
 - Higher working-age labor force participation—yes
 - Later retirement—yes
 - Increased work hours when employed—no
 - Reduced absenteeism
 - Improved productivity
- } inferred from earnings

- ## ■ CBO concluded that smoking reduces earnings by 4 percent to 7 percent, depending on people's age

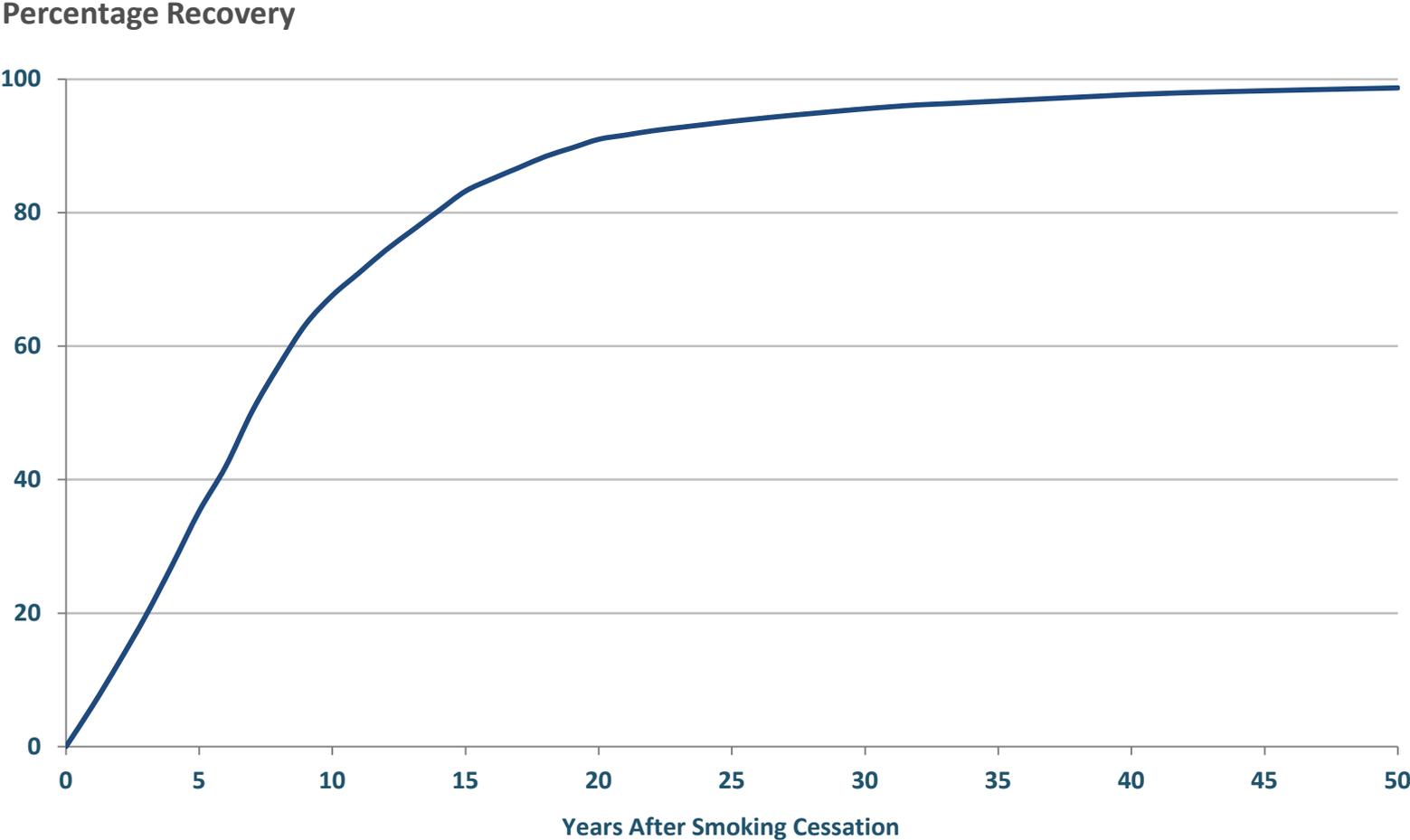
CBO's Simulation Model

- Project smoking rates under current law
- Identify people affected by the policy (smokers and would-be smokers)
- Determine health care spending, longevity, and earnings:
 - Under current law (taking into account that some people would quit even without the policy change)
 - With the illustrative tax increase

Projecting Health Care Spending per Capita

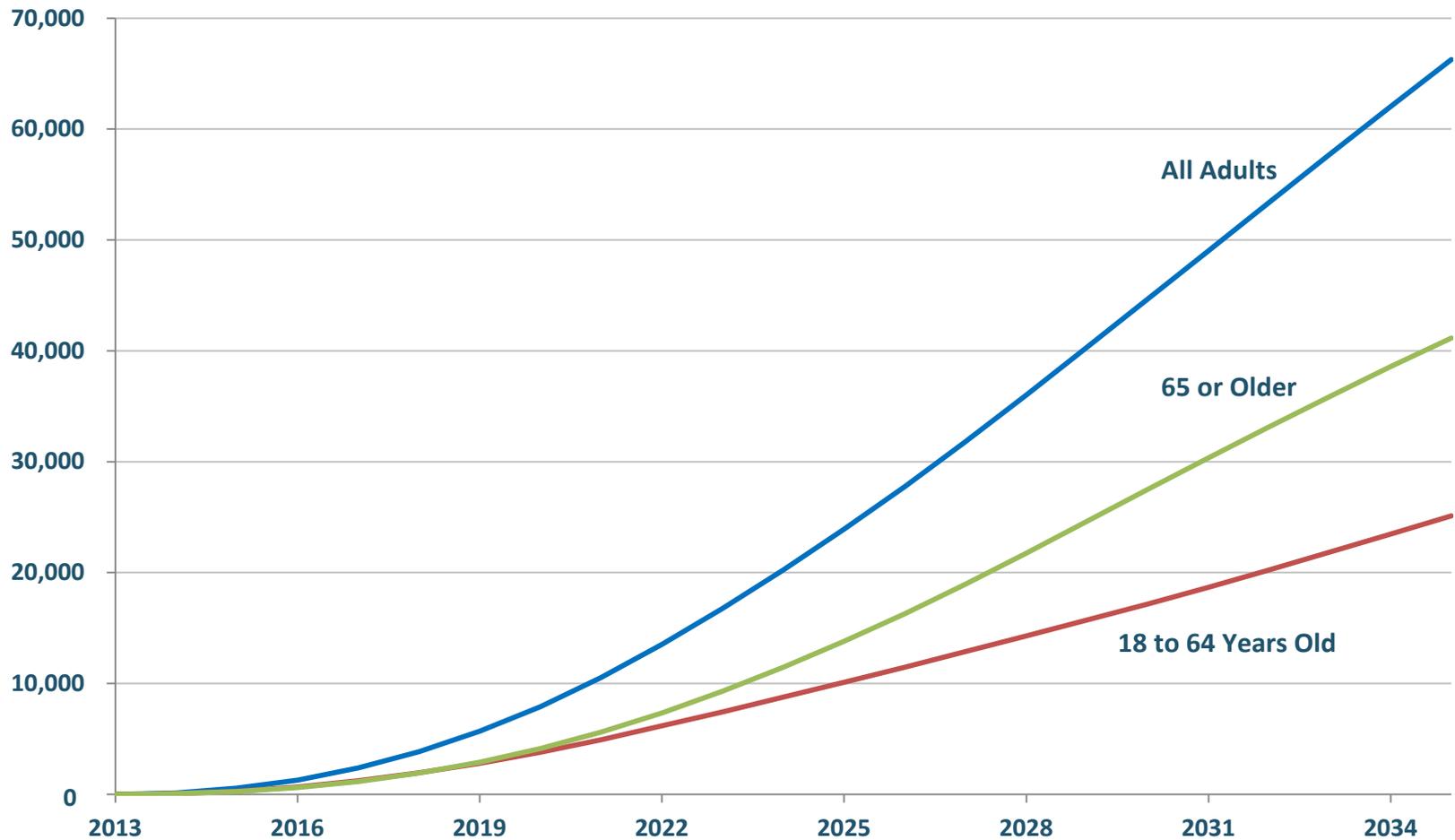
- Spending under current law is given by a weighted average of spending for:
 - People who smoke until death
 - Spontaneous quitters (people who would quit anyway, regardless of the tax increase)
- Spending under the tax increase is given by a weighted average of spending for:
 - People who never start smoking
 - People who smoke until death under current law
 - Spontaneous quitters under current law
- Longevity and earnings are projected in a similar way

How Former Smokers' Outcomes Approach Those of People Who Have Never Smoked but Have the Other Characteristics of Smokers



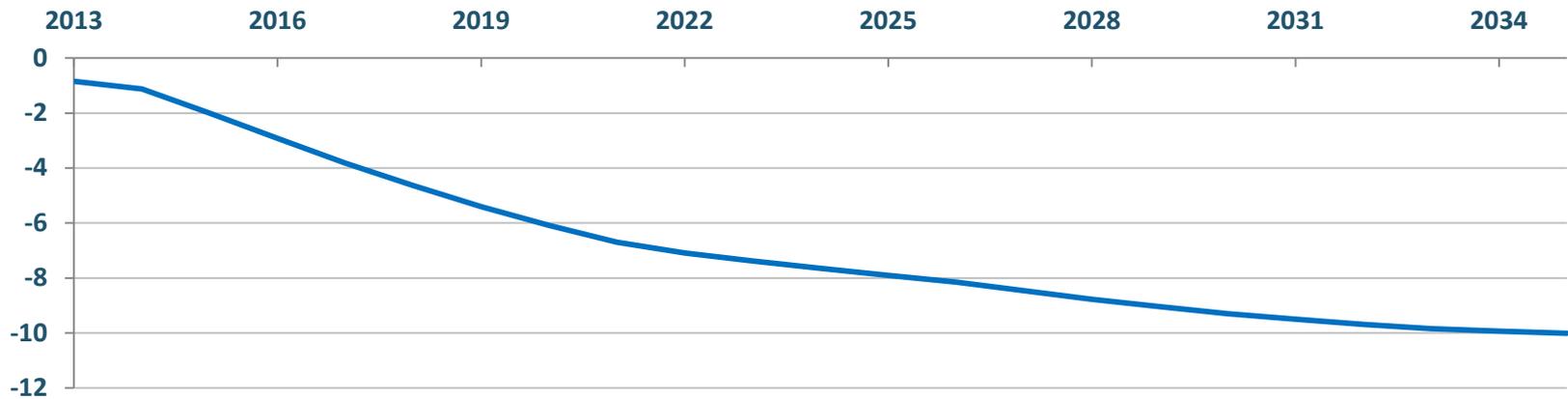
Increase in the Population Because of the Policy

Number of Additional People

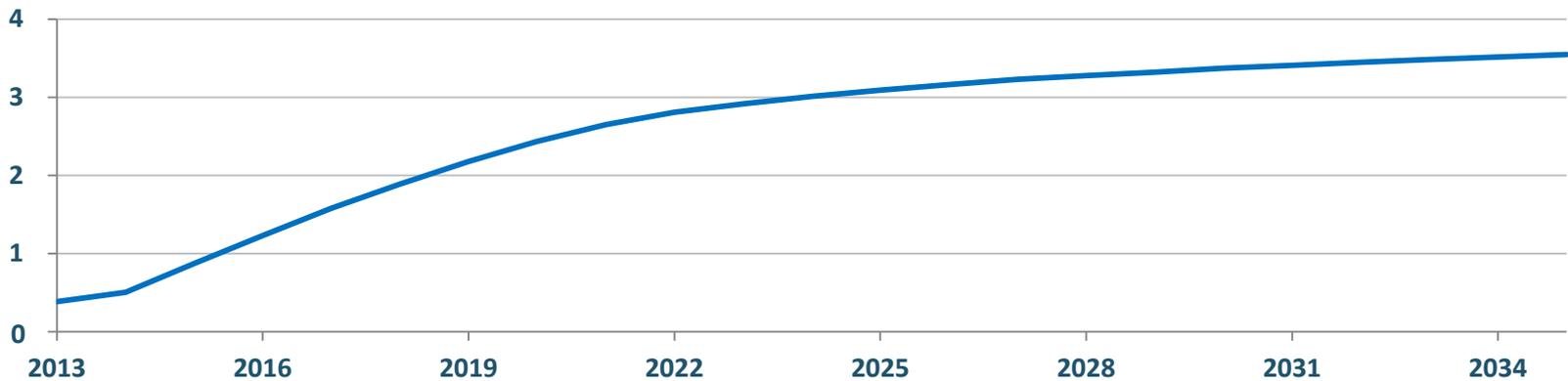


Average Changes in Health Care Spending and Earnings for Adults

Percentage Change in Health Care Spending per Capita



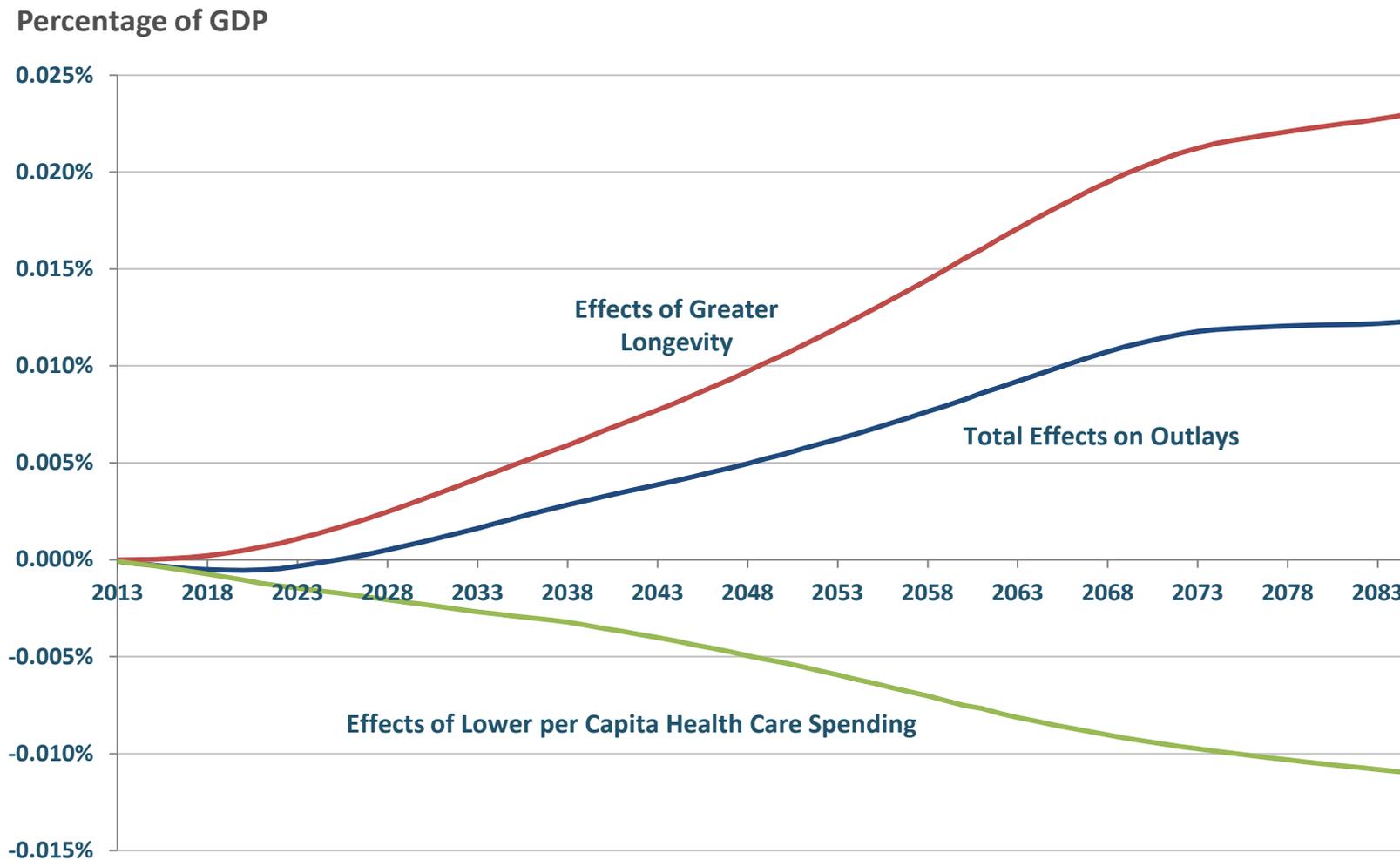
Percentage Change in Earnings per Capita



Effects of the Policy on the Budget

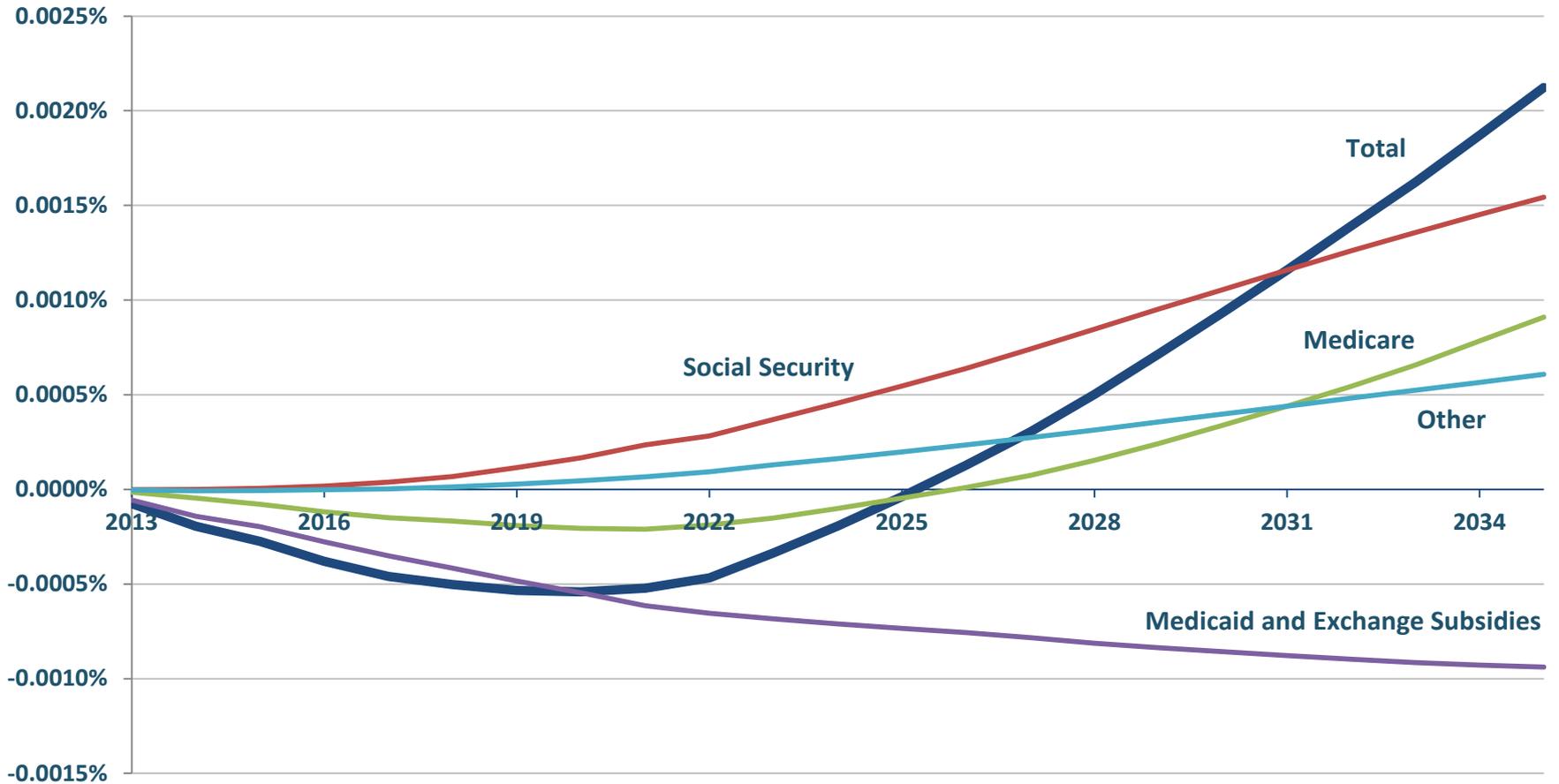
- Outlays reduced because of better health
- Outlays increased because of greater longevity
- Revenues increased because of better health
- Revenues increased because of additional excise tax collections

Effects on Outlays of Increased Longevity and Lower per Capita Health Care Spending



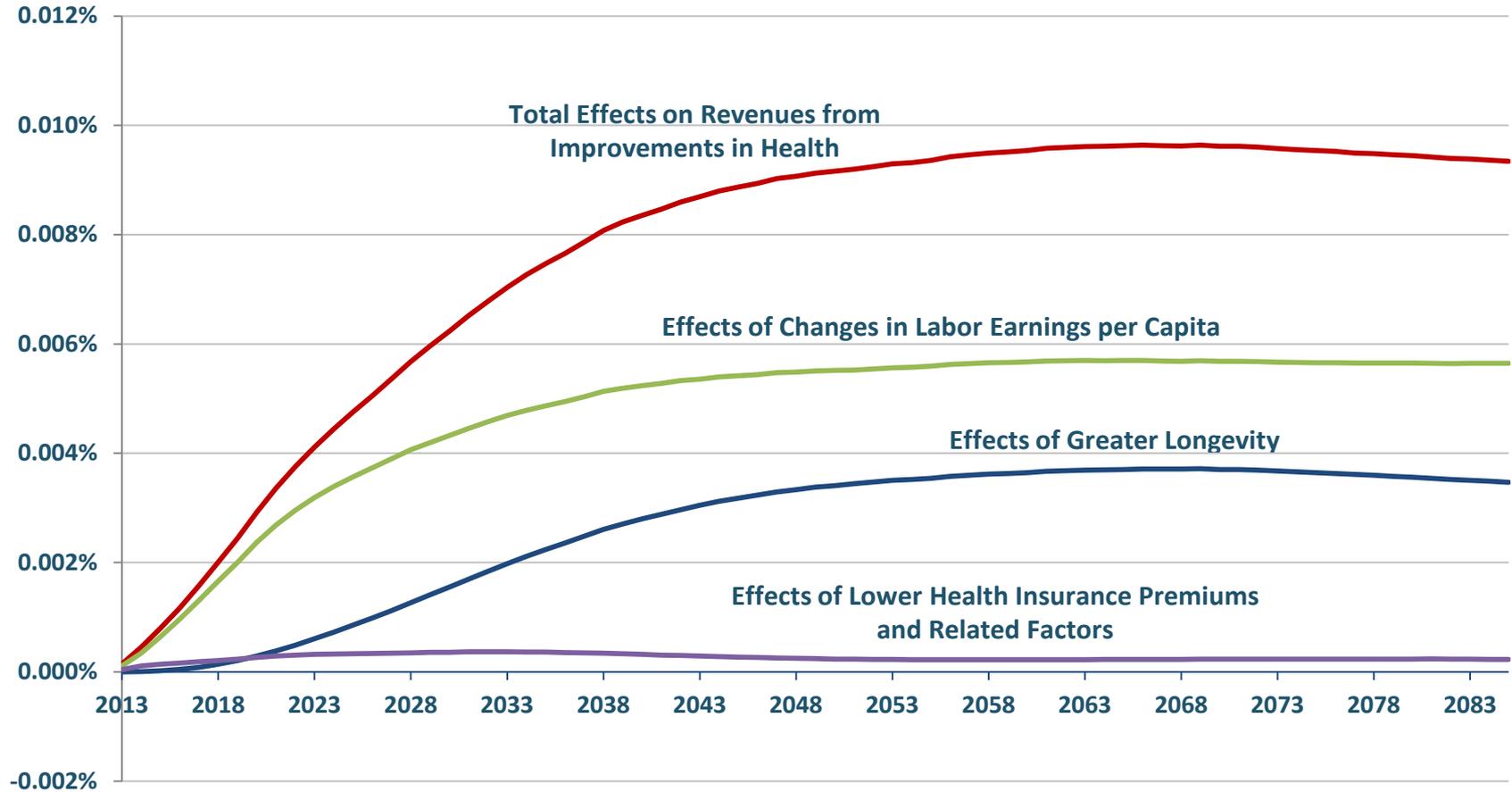
Effects on Outlays, by Program

Percentage of GDP

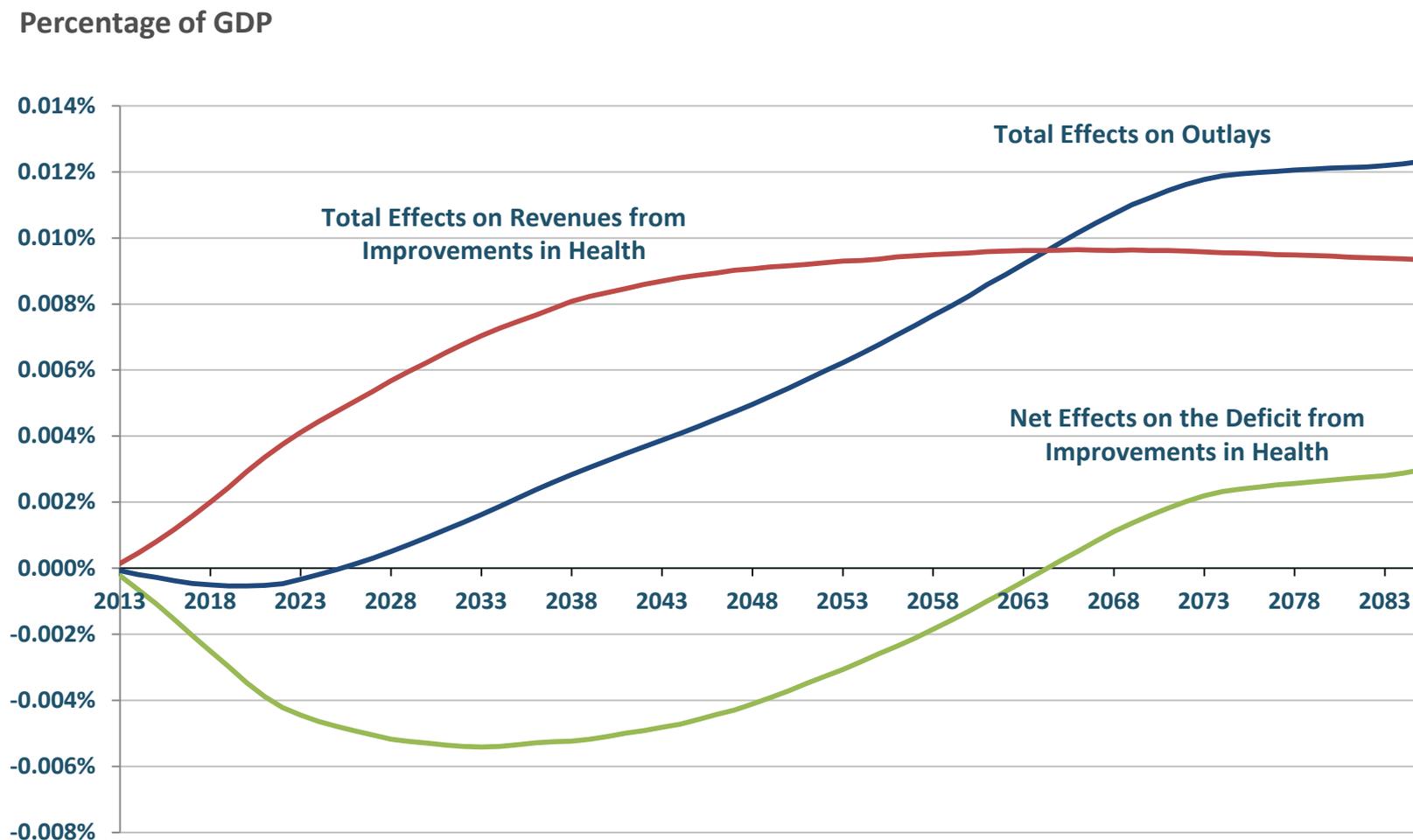


Health-Related Effects on Revenues

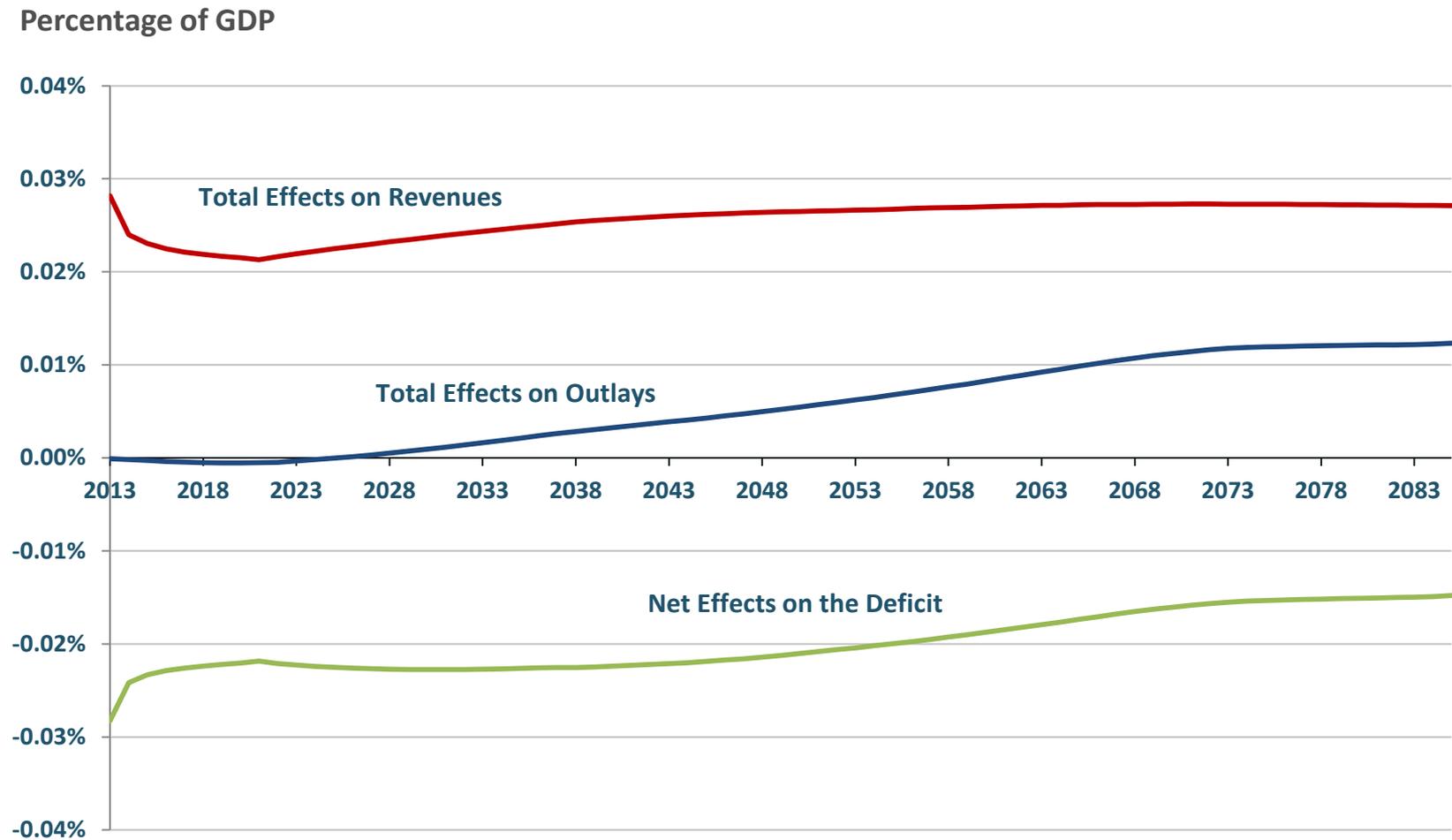
Percentage of GDP



Health-Related Effects on Revenues, Outlays, and the Deficit



Overall Budgetary Effects of the Policy



Main Conclusions

- Changes in federal spending from improved health would be quite small relative to the size of the programs affected
- Federal spending would be reduced throughout the first decade, but would be increased beginning in the second or third decade
- The effects of improved health would increase revenues on an ongoing basis

Main Conclusions (Continued)

- Together, the health effects would produce very small net declines in the deficit for roughly five decades. Those net declines would peak about 20 years into the policy
- The increased excise tax receipts from the policy would exceed the policy's health-related effects on both revenues and outlays for at least 75 years, with the overall result being a net decrease in the deficit

The Report Online

This presentation provides information published in

Congressional Budget Office, *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), www.cbo.gov/publication/43319