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

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This presentation provides information published in *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), [www.cbo.gov/publication/43319](http://www.cbo.gov/publication/43319).

# Goal of This Project

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Assess the effect on the federal budget of a policy to improve health through changes in behavior

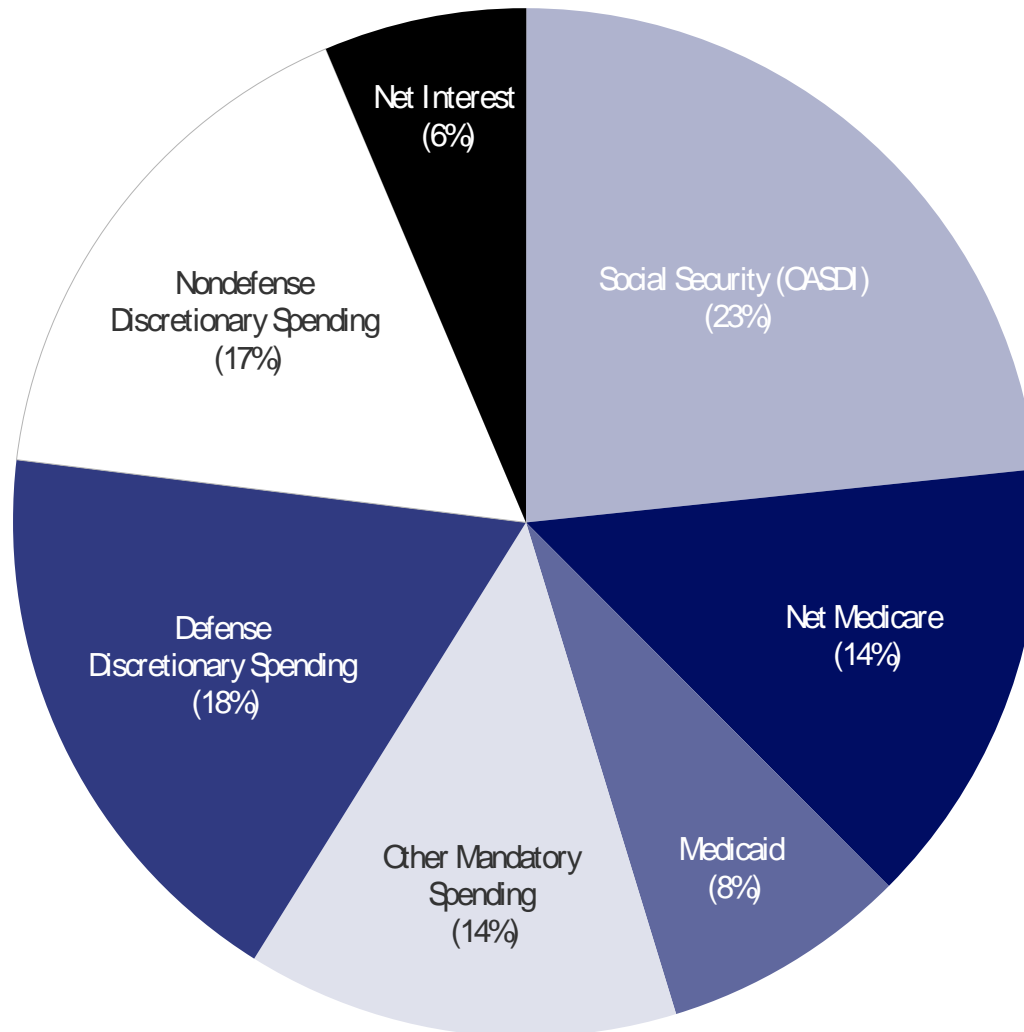
- Consider a 50-cent increase in the federal excise tax on cigarettes, indexed for inflation and growth in income
- Focus on changes in outlays and revenues resulting from changes in health because of the policy
- Estimate effects for the usual 10-year “budget window” and the longer term

# Caveats

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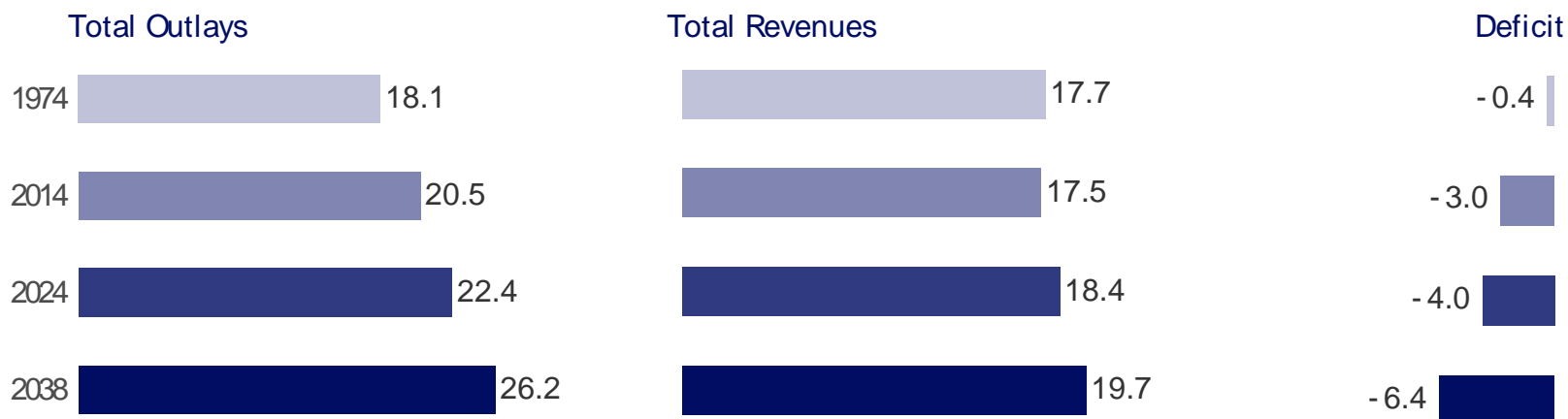
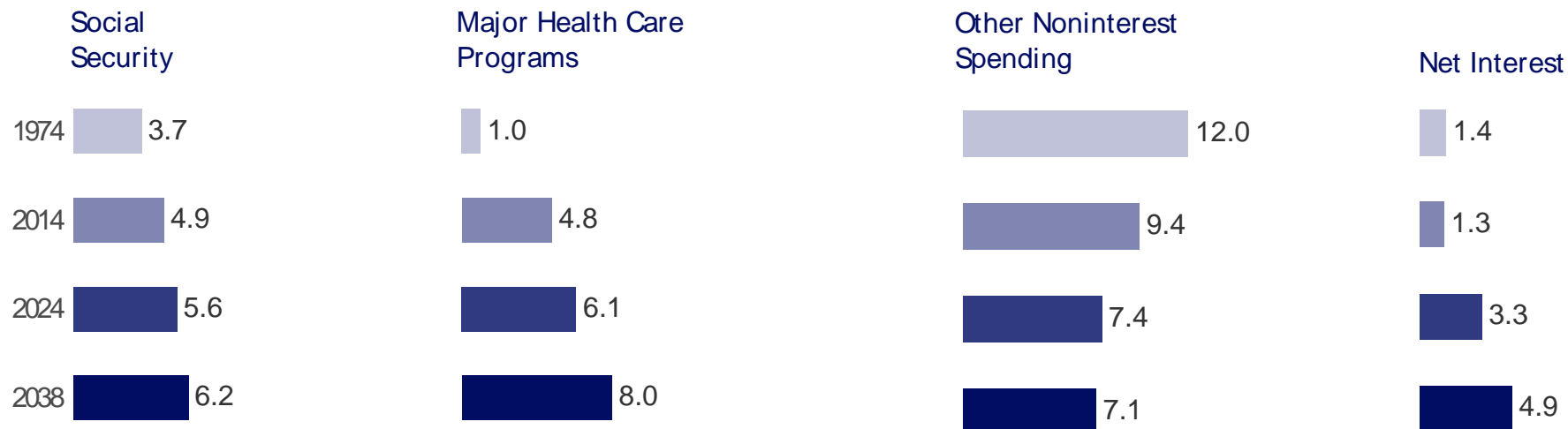
- Policymakers' decisions depend on considerations other than the budget.
- Other policies to improve health would be likely to have different effects on the budget.

# Federal Outlays, 2013



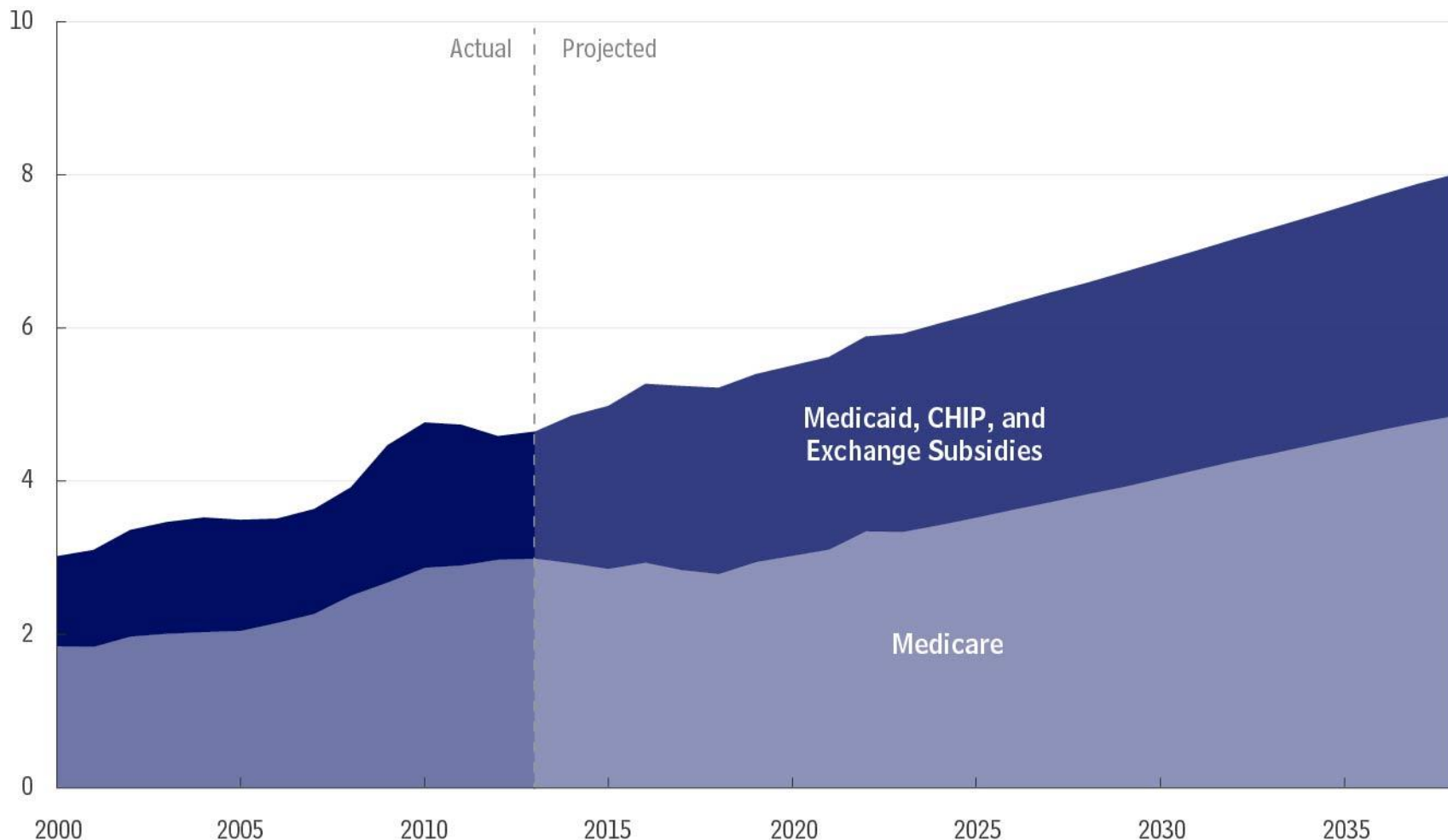
# Spending and Revenues Projected in CBO's Baseline (February 2014) and Extended Baseline (September 2013)

(Percentage of gross domestic product)

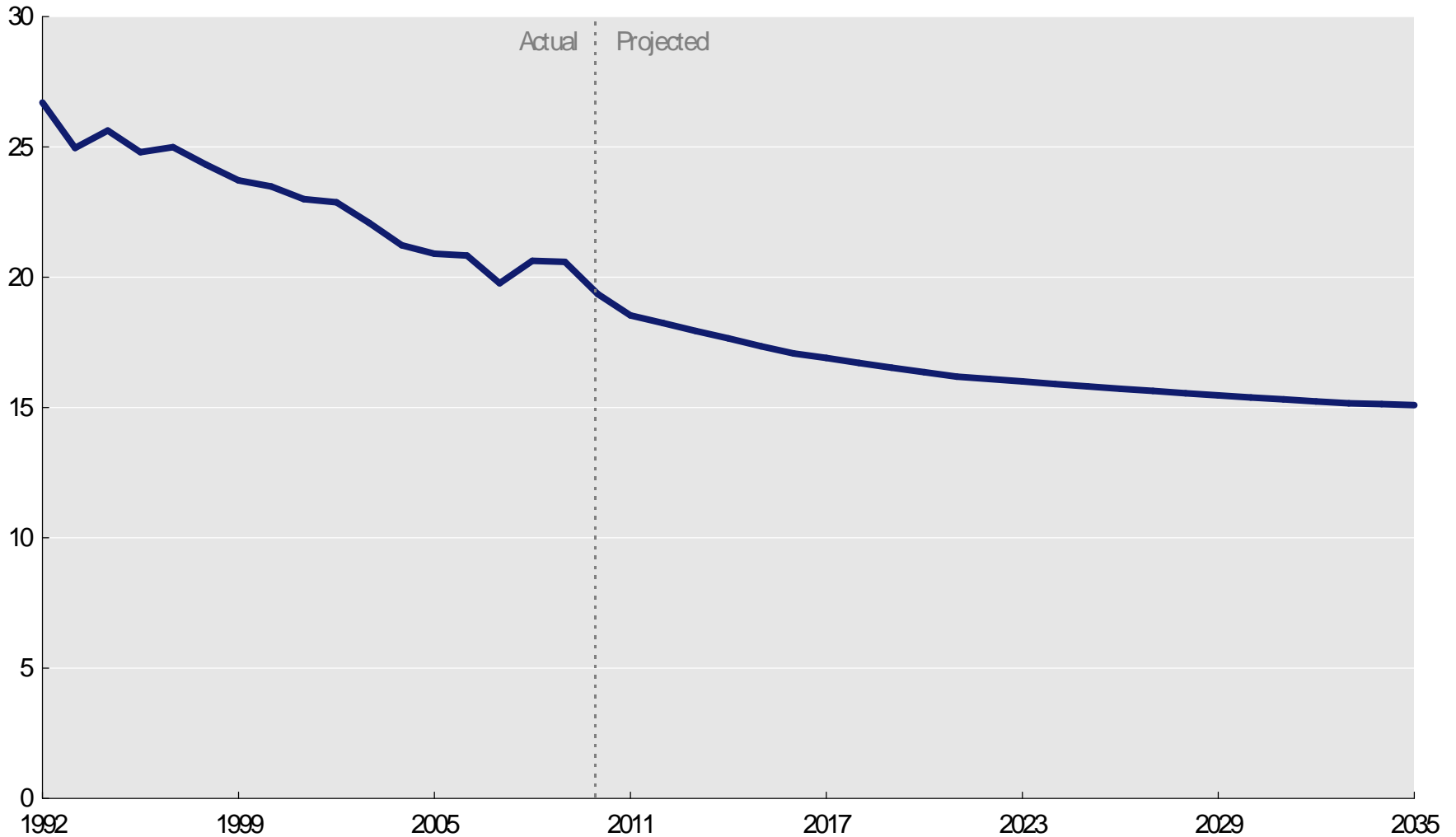


# Federal Spending on Major Health Care Programs, by Category, Under CBO's Extended Baseline (September 2013)

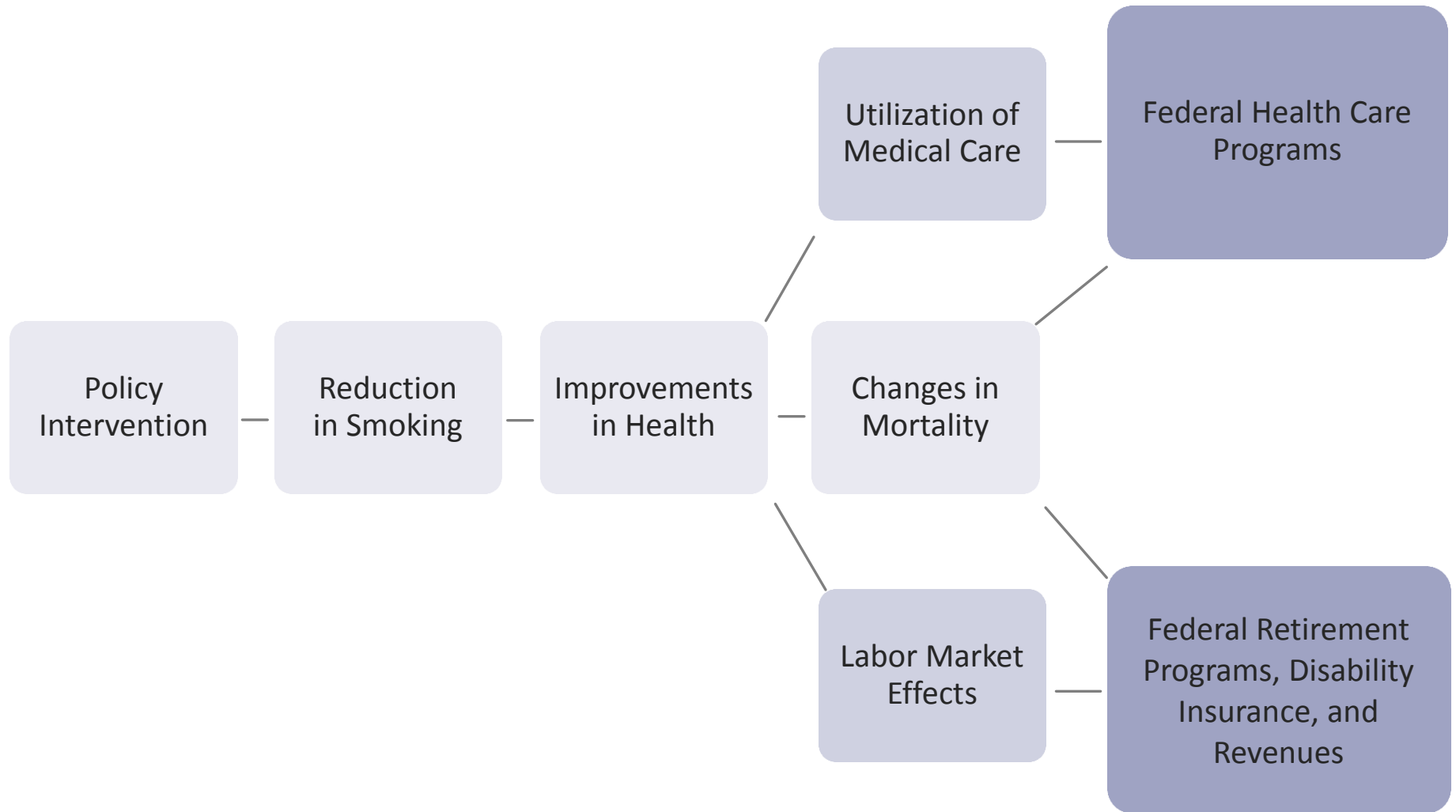
(Percentage of gross domestic product)



# Percentage of U.S. Adults Who Smoke Cigarettes

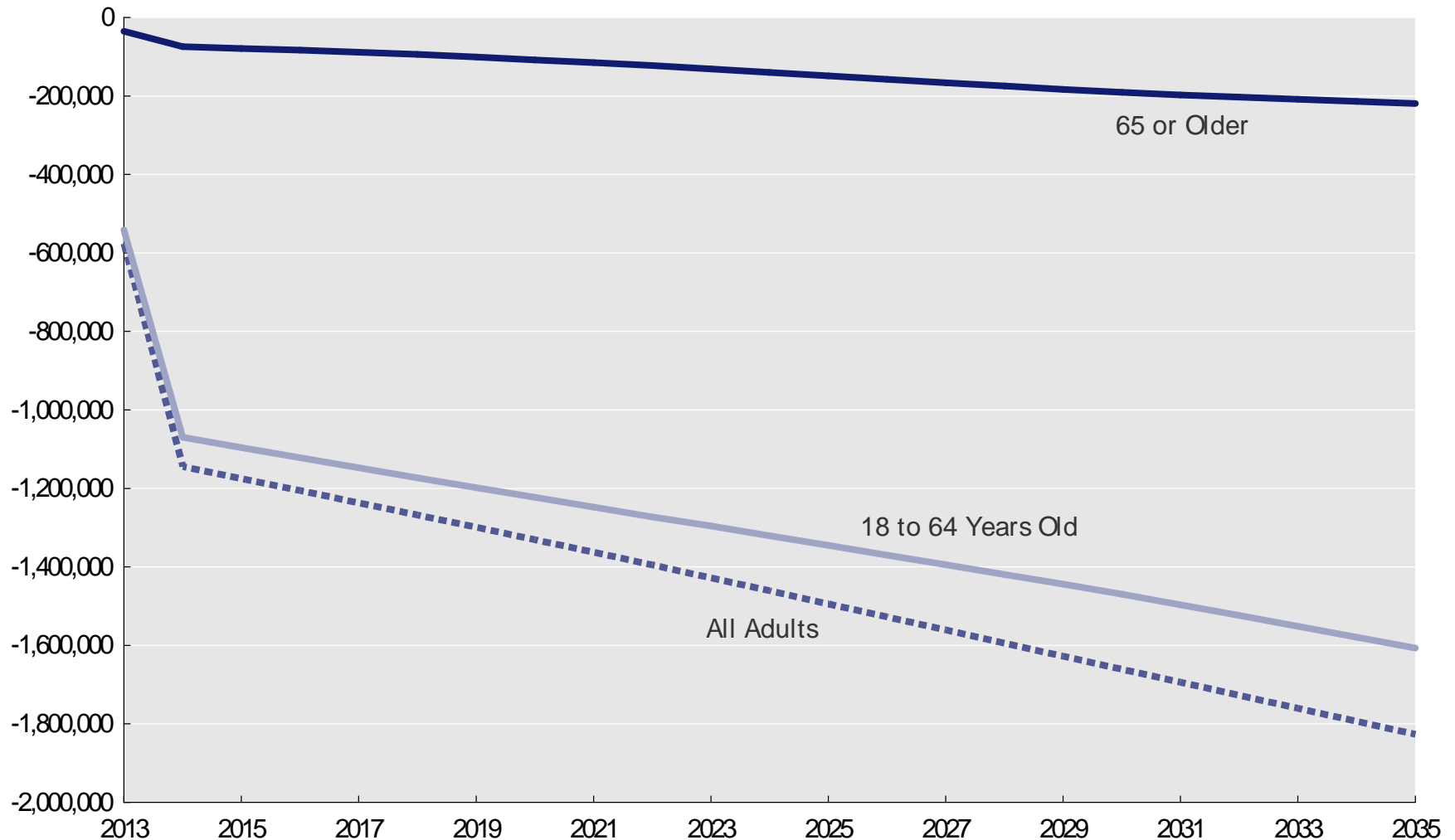


# General Analytic Approach



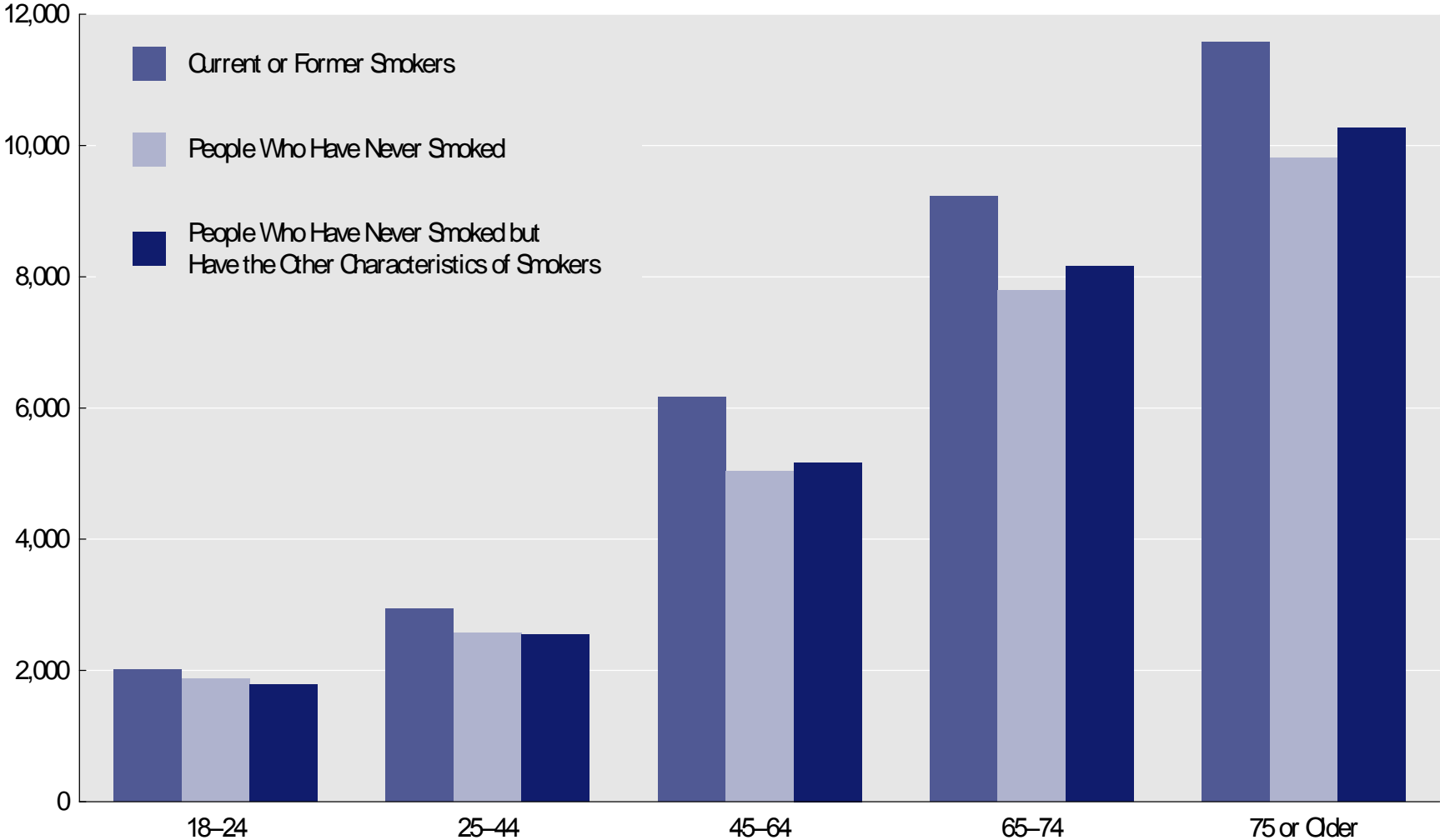


# Cumulative Reduction in the Number of Smokers Because of the Illustrative Increase in the Cigarette Tax



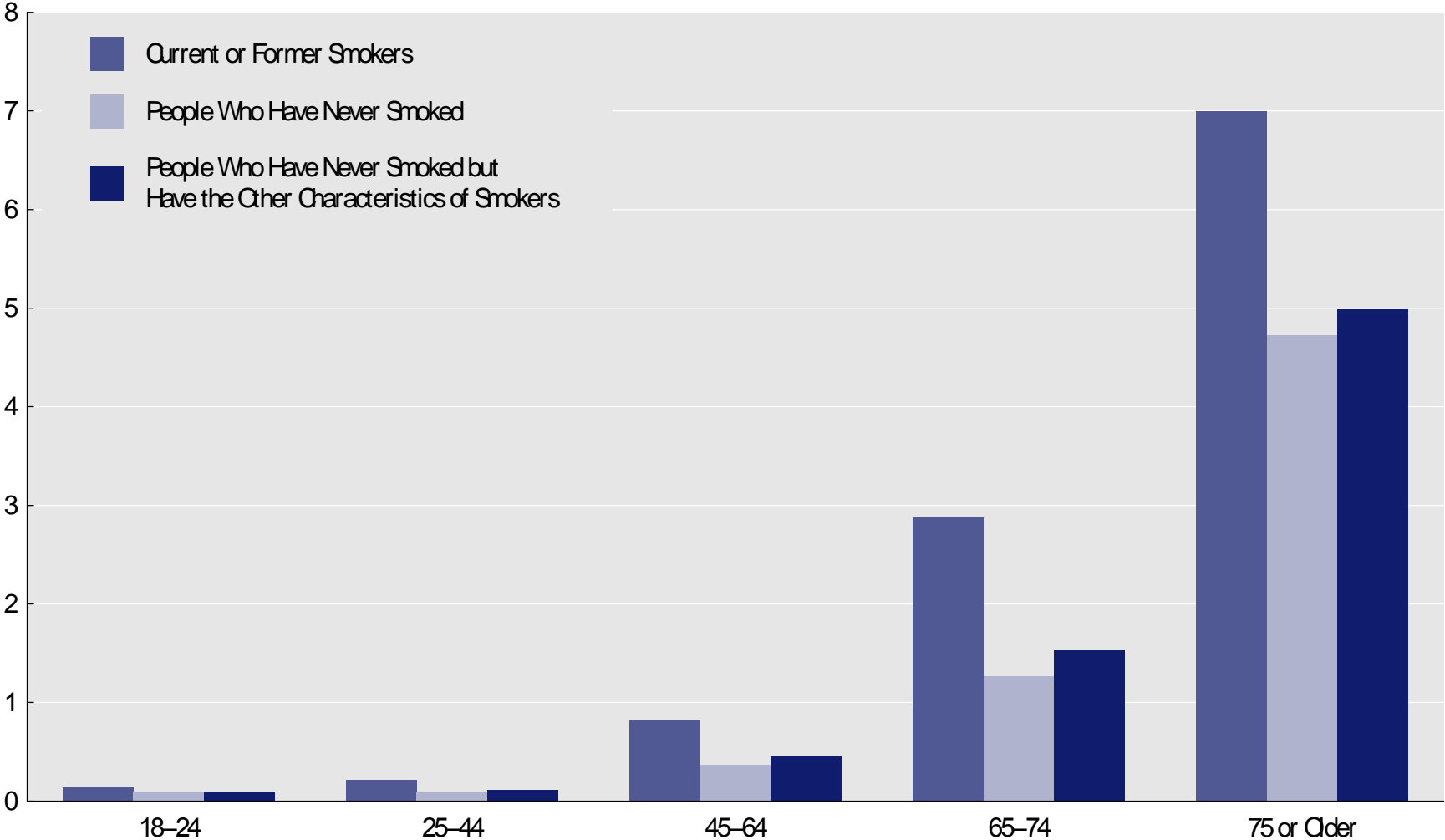
# Annual Spending on Health Care for Smokers, Nonsmokers, and Nonsmokers Who Otherwise Resemble Smokers, by Age Group

(2008 dollars)



# Probability of Dying in the Next Year for Smokers, Nonsmokers, and Nonsmokers Who Otherwise Resemble Smokers, by Age Group

(Percent)



# Smoking and Earnings

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- Possible effects of reduced smoking
  - Reduced working-age mortality (yes)
  - Higher working-age labor force participation (yes)
  - Later retirement (yes)
  - Increased work hours when employed (no)
  - Reduced absenteeism (inferred from earnings)
  - 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

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- Projects smoking rates under current law
- Identifies people affected by the policy (smokers and would-be smokers)
- Projects 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

Analysis focuses on people who, under current law, either smoke or will take up smoking—considered in two categories:

- People who smoke until death, or
- People who will quit regardless of whether there is a tax increase (spontaneous quitters)

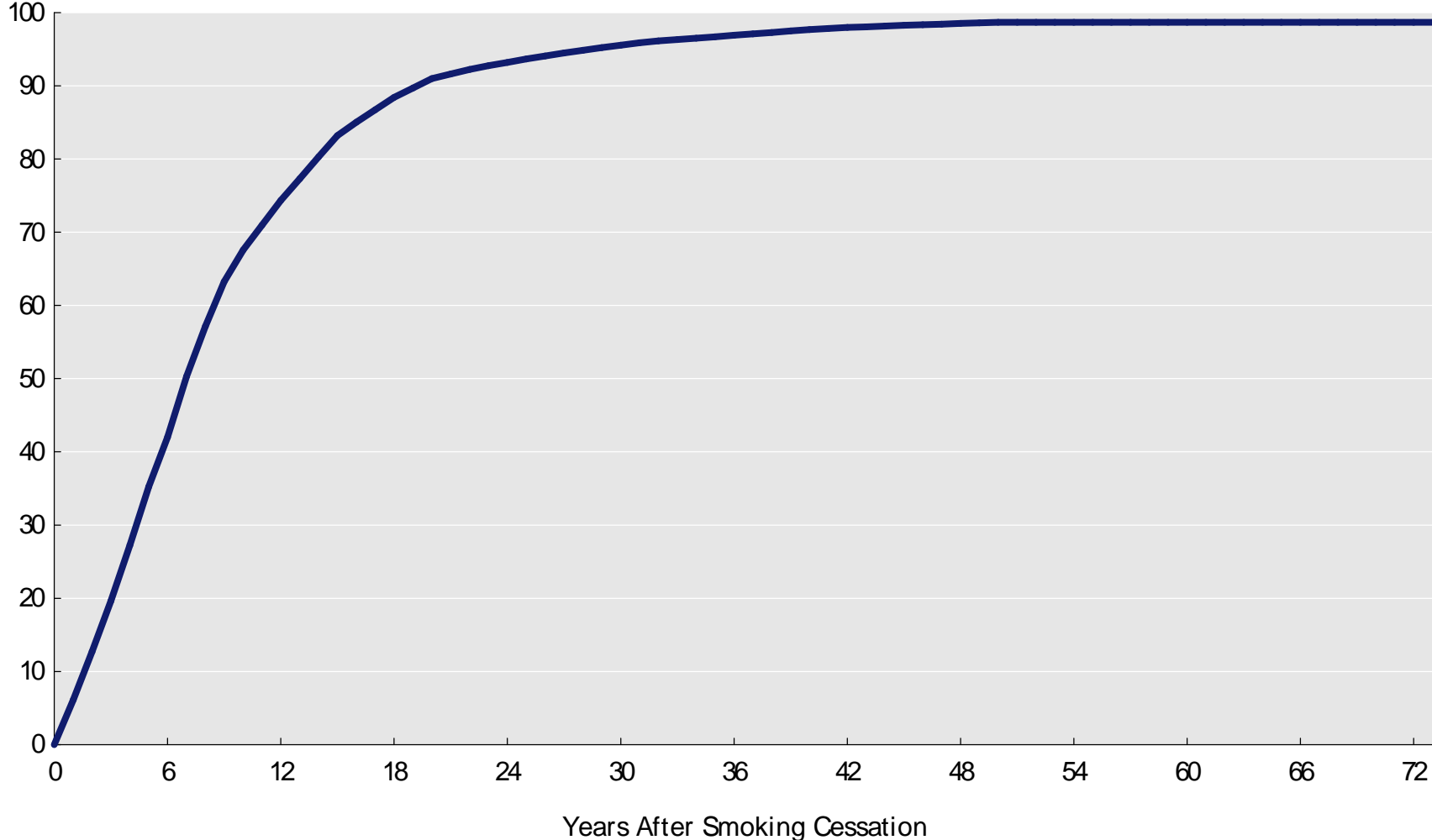
Of those, it addresses the effects on spending for people who, because of the tax increase, would either stop or never start smoking:

- For smokers who would stop, projected spending transitions from current-law spending to spending for people who've never smoked
- For people who never smoke because of the policy, projected spending is the same as spending under current law for people who've never smoked

Longevity and earnings are projected in a similar way

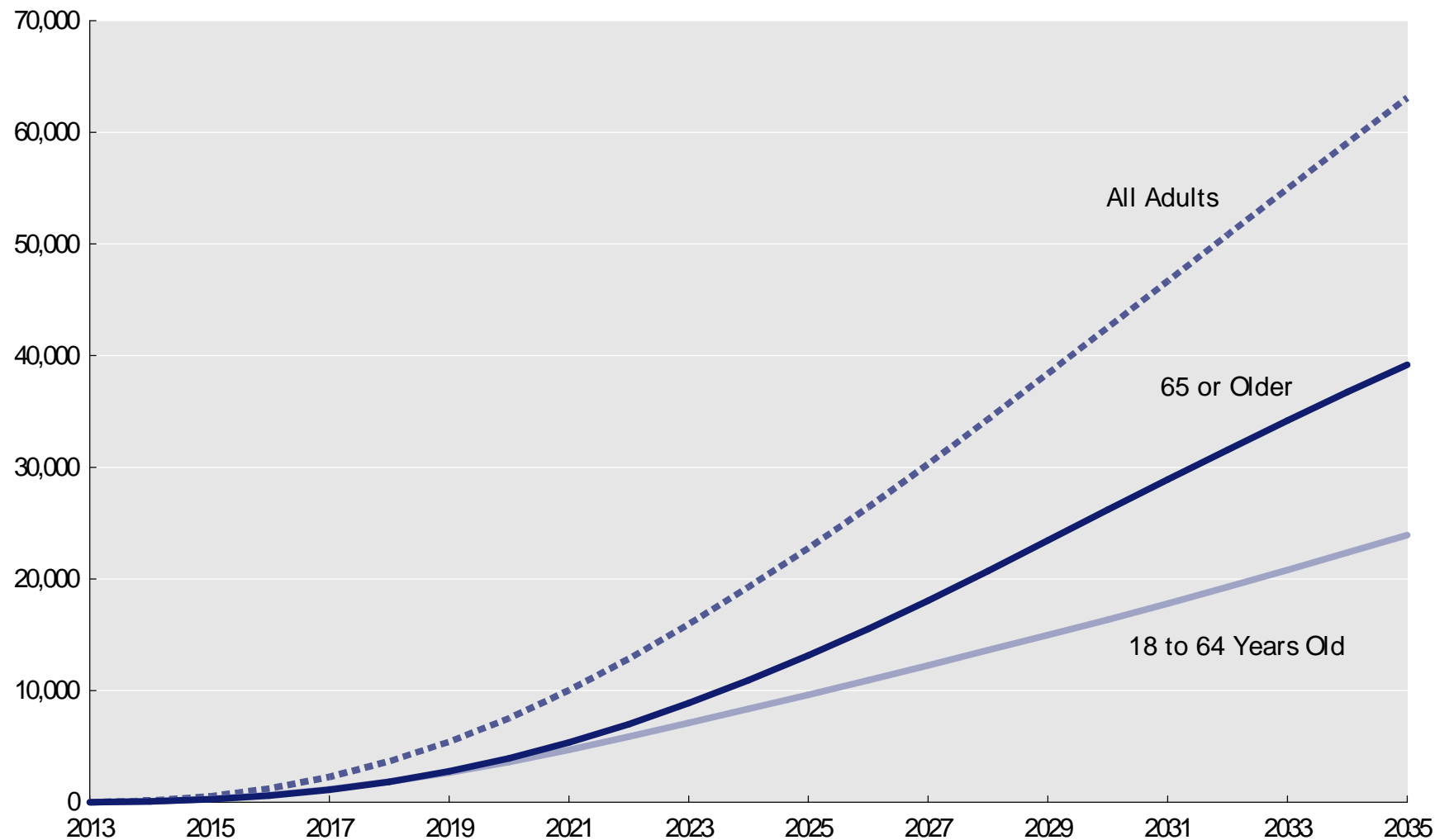
# Rate at Which Former Smokers' Longevity and Health Care Spending Approach Those of People Who Have Never Smoked

(Percentage recovery)



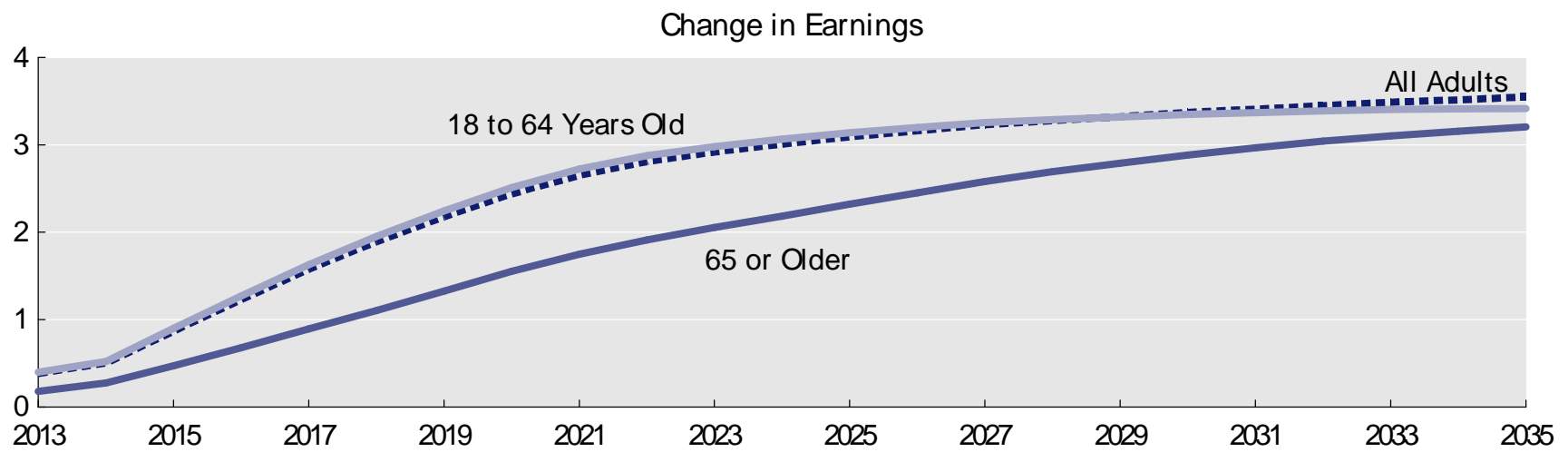
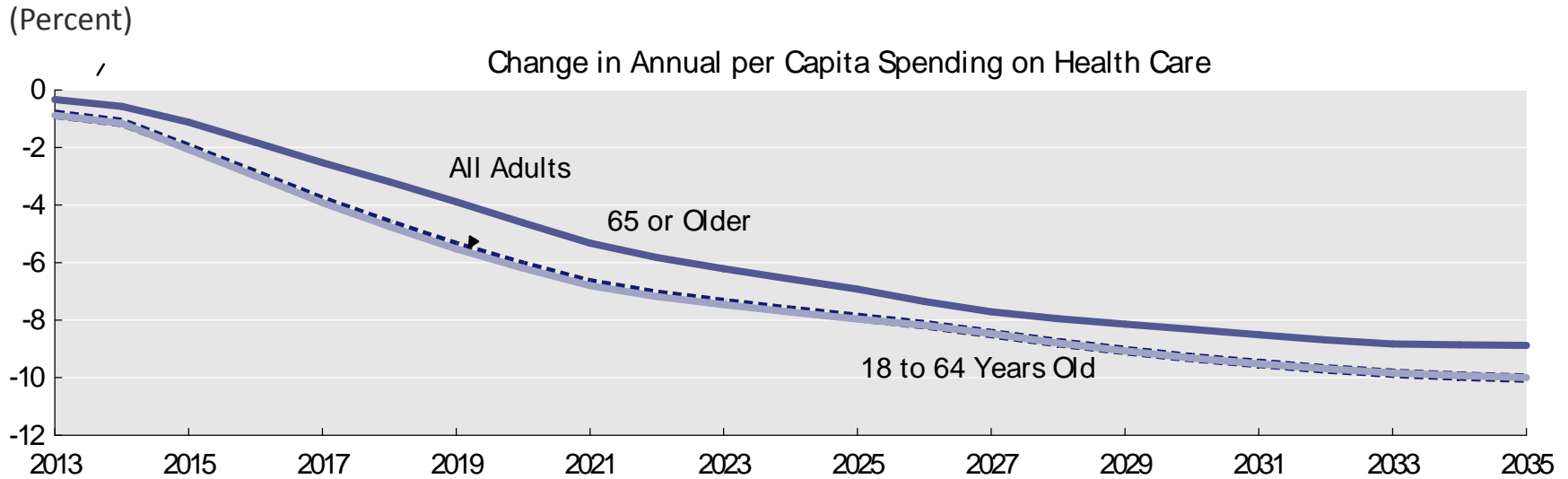
# Population Increase Resulting from the Illustrative Increase in the Cigarette Tax

(Number of additional people)





# Average Changes in Health Care Spending and Earnings for People Affected by the Illustrative Increase in the Cigarette Tax



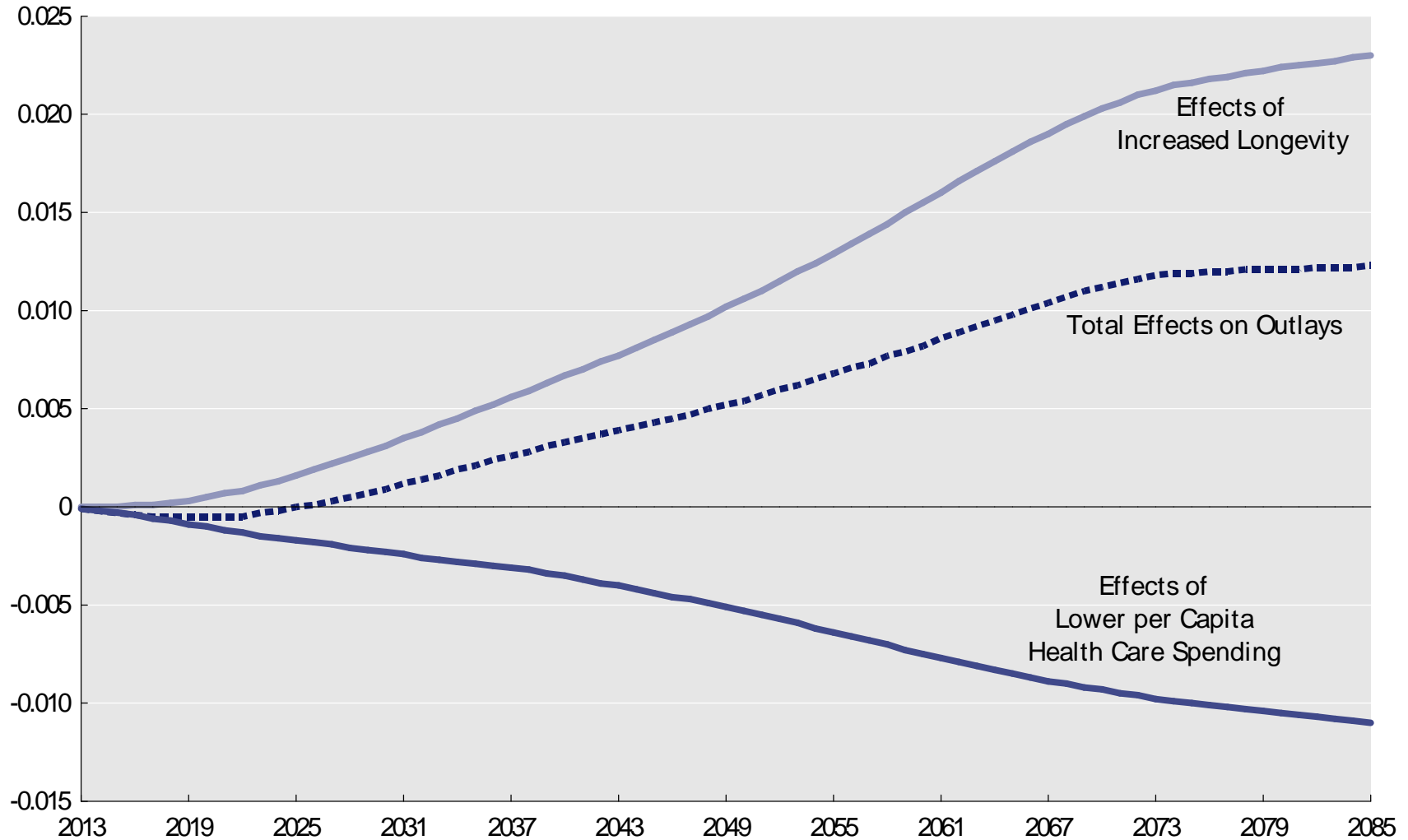
# Effects of the Policy on the Budget

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

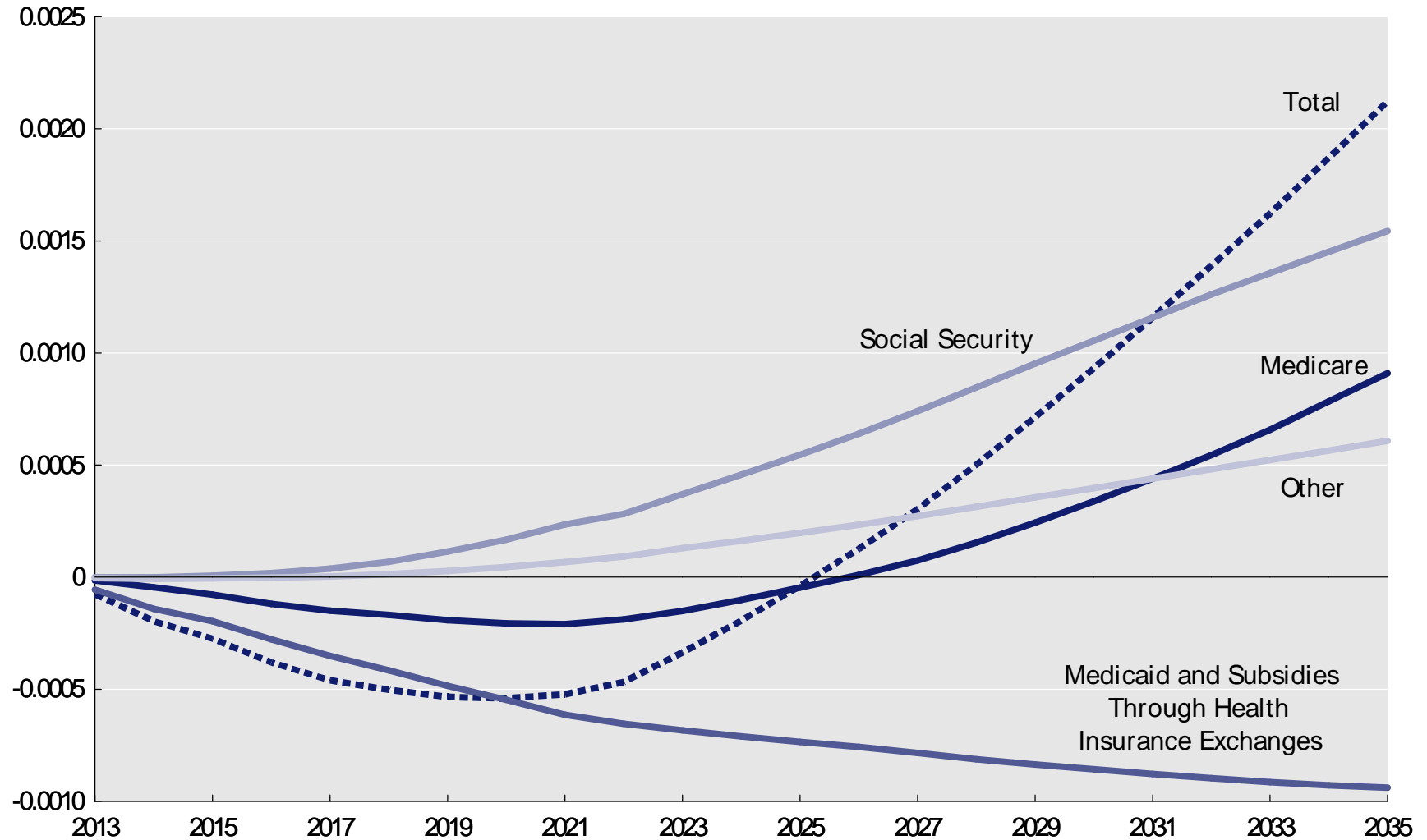
# Effects on Outlays of the Illustrative Increase in the Cigarette Tax

(Percentage of gross domestic product)



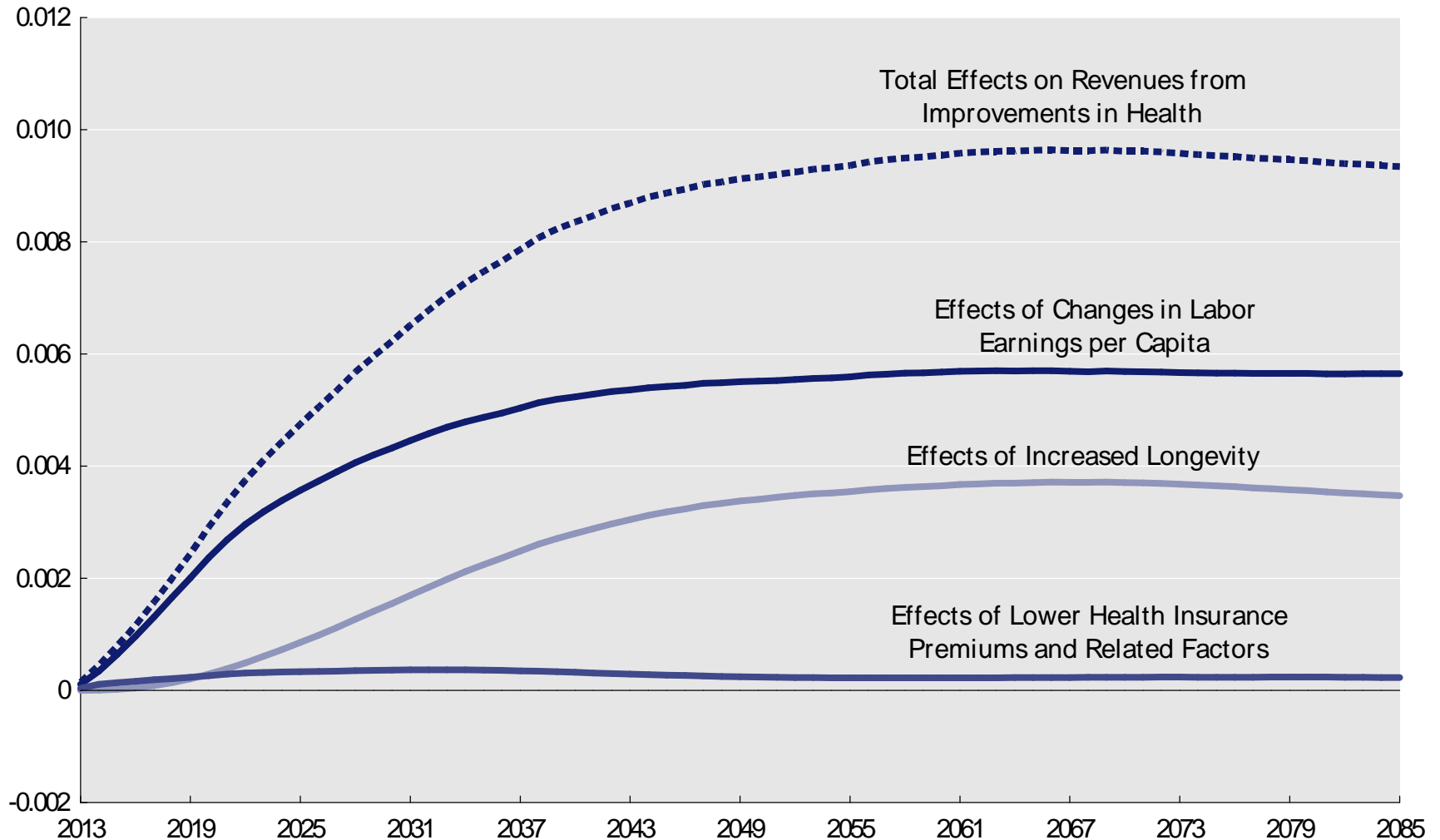
# Effects on Outlays of the Illustrative Increase in the Cigarette Tax, by Program

(Percentage of gross domestic product)

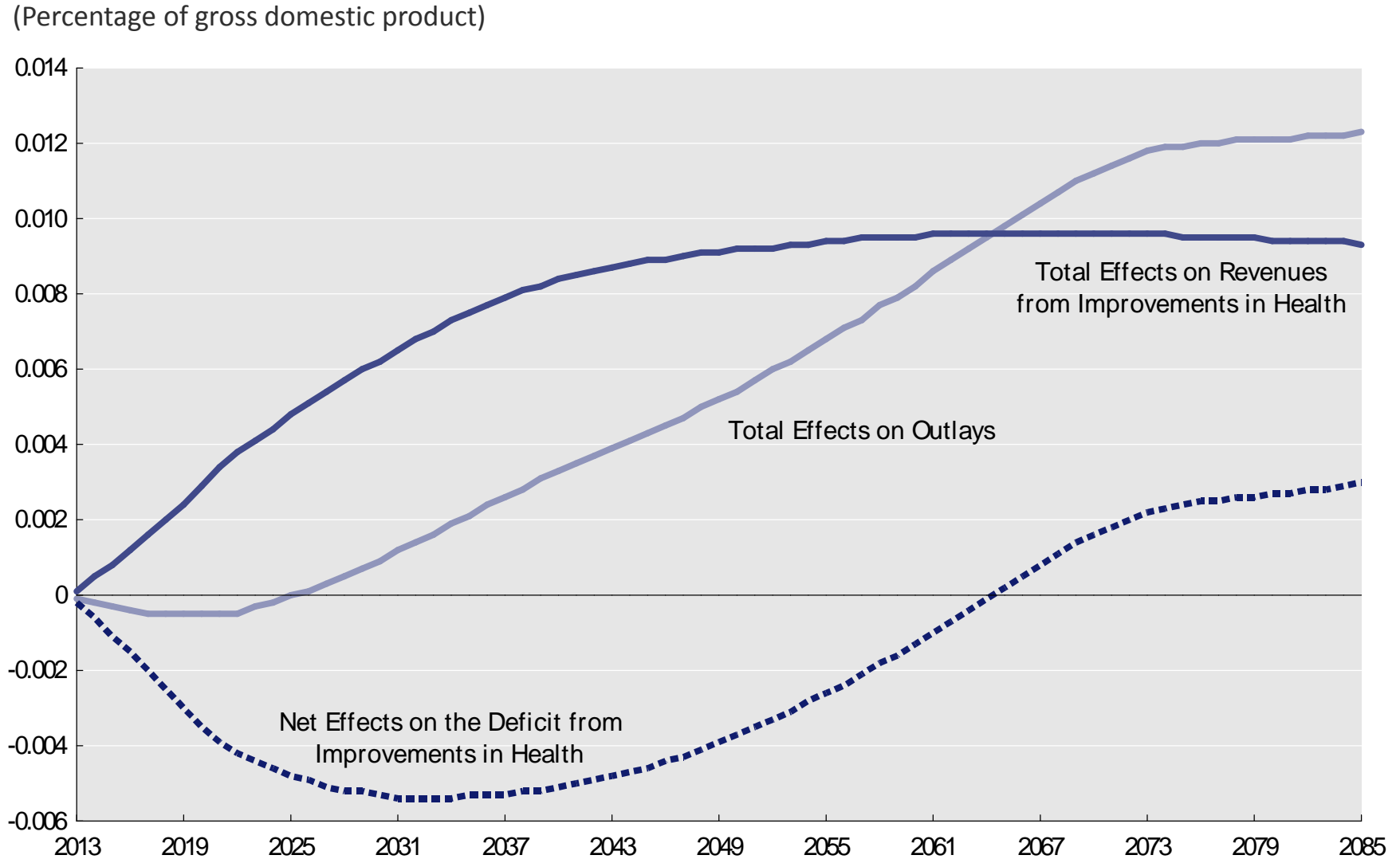


# Health-Related Effects on Revenues of the Illustrative Increase in the Cigarette Tax

(Percentage of gross domestic product)

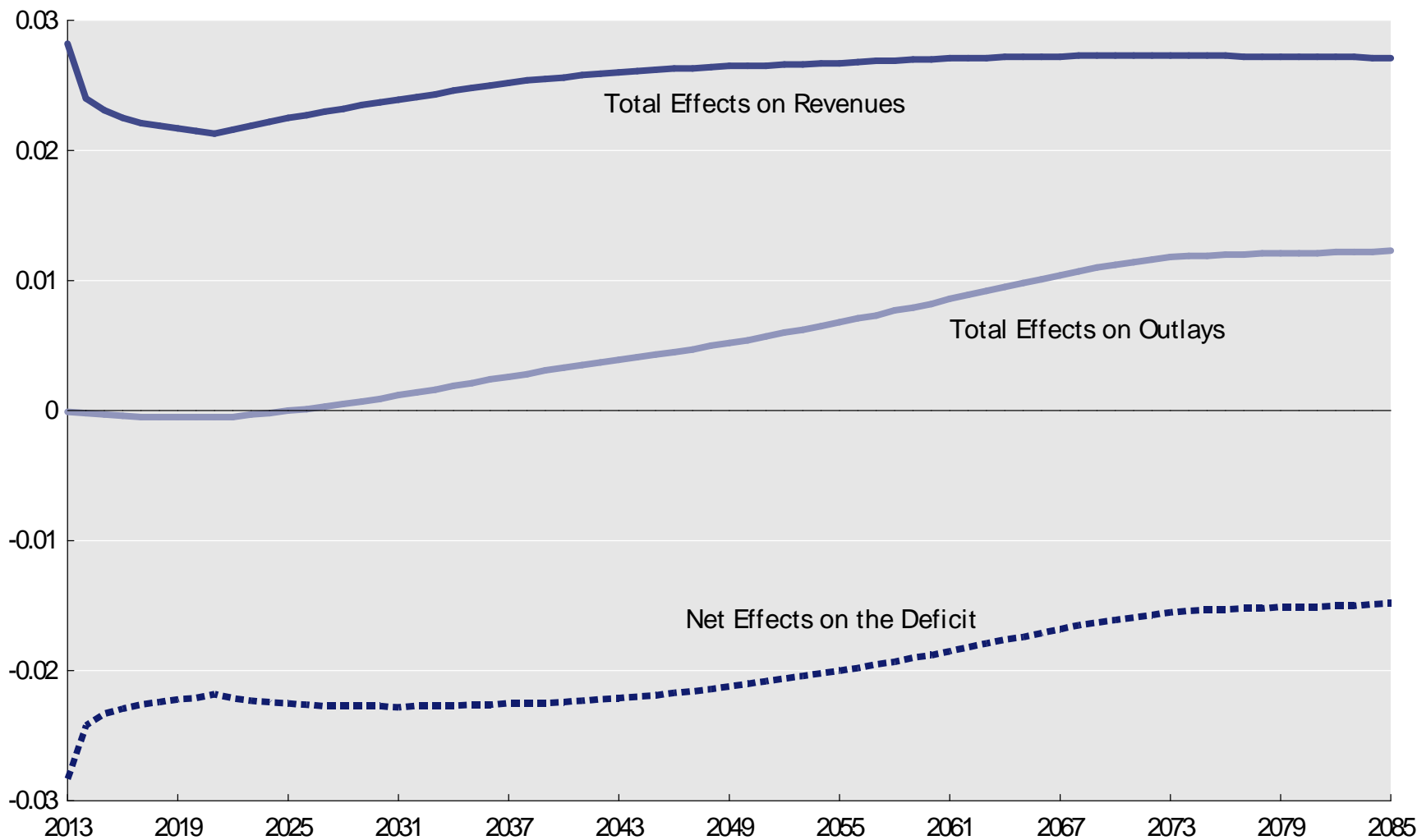


# Health-Related Effects on Revenues, Outlays, and the Deficit of the Illustrative Increase in the Cigarette Tax



# Total Budgetary Effects of the Illustrative Increase in the Cigarette Tax

(Percentage of gross domestic product)



# Conclusions

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- 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 increase in the second or third decade.
- Improved health would cause increases in revenues on an ongoing basis.



## Conclusions (Continued)

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- The health effects as a whole would produce very small net declines in the deficit for roughly five decades; the 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 an overall result of a net decrease in the deficit.