

An Employer Guide to Tobacco: INTRODUCTION

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This unit addresses the economic costs associated with tobacco use and exposure to secondhand smoke in the workplace, including pertinent information about how smoking affects employers' costs of doing business and how employer-provided cessation coverage and smoke-free workplace policies can provide financial benefits.

The question of how to stem the tide of rapidly escalating healthcare costs has become one of the most pressing concerns of both management and labor. A review of recent economic data shows that tobacco-related workplace costs are primary drivers of the rapid escalation of healthcare costs. Looking at Minnesota and the U.S. as a whole, we see that roughly two-thirds of all deaths are caused by chronic diseases and that smoking is the leading cause of many of these diseases.¹ Every year, Minnesota loses billions of dollars on healthcare expenditures and lost productivity caused directly by smoking.²

The good news is that tobacco-related healthcare costs can be reduced dramatically when employers provide comprehensive cessation services and implement smoke-free workplace policies. In fact, the most cost-effective health insurance benefit an employer can provide to adult employees is to support their quit attempts by paying for access to comprehensive cessation services.³

Costs of Smoking

The impact of smoking on rising healthcare costs is huge and cannot be ignored. In less than ten years, Minnesota's healthcare costs have increased over 70%, from \$12 billion in 1993 to almost \$22 billion in 2001.⁴ The chief drivers of the cost increases have been hospital care, physician services, prescription drugs, and other healthcare spending.⁴ Five chronic diseases—heart disease, cancer, chronic obstructive pulmonary disease (COPD), and strokes—account for 62% of all Minnesota deaths and 68% of all U.S. deaths,¹ and smoking is the leading cause of four of these five diseases.

In all, Minnesota loses over \$1.6 billion each year on healthcare-related costs that are directly attributable to smoking and more than \$1 billion per year in lost productivity as a direct result of smoking.² Approximately 20% of the adult population of the city of Minneapolis and the state of Minnesota smoke cigarettes.⁵

Nationally, among adults, the economic cost of lost work time due to premature deaths related to smoking rose from \$47 billion in 1990 to \$84 billion in 1999.⁶ These calculations are low estimates, in that they do not include productivity losses that result from absenteeism, breaks, performance declines, early retirements, terminations due to smoking-related illnesses or disabilities, or training to replace workers who leave a job or die from smoking. These estimates also do not take into account the costs associated with deaths caused by workers' exposure to secondhand smoke or smoking-related fires.

Tobacco Taxes and Healthcare Costs

Reducing tobacco use is essential to controlling healthcare costs. One of the most successful and proven methods of reducing tobacco use among adults and youth is increasing the price of tobacco products by raising tobacco taxes. Currently, Minnesota taxes consumers 48 cents per pack of cigarettes, well below the national average of 79 cents per pack. Although Minnesota was once a leader among U.S. states on the rate of cigarette excise taxation, we now rank 35th in the nation. Seven states have cigarette excise taxes of \$1.50 per pack or more. Rhode Island, at \$2.46 per pack, has the highest cigarette excise tax rate in the U.S.⁷

Estimates indicate that raising Minnesota's cigarette excise tax by \$1.00 per pack would reduce adult smoking by 5% (or approximately 43,100 adults), and reduce youth smoking by 20% (or 69,500 children). It is estimated that raising Minnesota's cigarette tax by \$1.00 would save \$15 million over 5 years in healthcare costs related to heart attacks and strokes, \$9.4 million over 5 years in healthcare costs related to smoking-affected pregnancies and births, and \$1.2 billion in long-term healthcare costs.⁷

quick facts

- Medical costs attributable to smoking comprise 6 to 9% of the total national healthcare budget.⁸
- Every pack of cigarettes sold creates more than \$7 in medical care expenses and lost productivity.³
- For every smoker who quits, \$1,623 is saved annually in healthcare costs alone.⁹
- Smokers tend to have more hospital admissions, take longer to recover from illness and injury, have higher outpatient healthcare costs, and have lower birthweight babies.⁸

Employer Costs Attributable to Smoking

In a 1994 report, the Congressional Office of Technology Assessment estimated that each worker who smokes costs an employer between \$2,000 and \$5,000 per year in increased healthcare and fire insurance premiums, absenteeism, lost productivity and property damage.¹⁰ A more recent 2002 report by the Centers for Disease Control (CDC) estimated that each adult smoker costs employers \$3,400 per year in lost productivity and excess medical expenditures.⁹



U.S. Smoking Rates by Occupation¹¹

Transportation and material moving occupations	.46%
Waiters/waitresses	.45%
Construction laborers	.42%
Construction trades	.40%
Laborers, except construction	.39%
Fabricators, assemblers, inspectors	.37%
Health service occupations	.35%
Sales and retail workers	.27%
Executives, administrators, managers	.24%
Secretaries	.21%
Teachers	.12%

How much does tobacco cost employers?

Determining an employer's smoking-related costs is difficult because many factors and variables can influence the calculation. Based on the CDC's estimate that each adult smoker costs employers \$3,400 per year, the following formula may provide a useful starting point in determining the cost of smoking to a particular employer.

Step 1: Multiply the total number of employees times the estimated percentage of employees who smoke. To calculate the percentage of employees who smoke, enter either the percentage of adult Minnesotans who smoke (20%), or the percentage of smokers within a given occupation (from the occupation table). The resulting number provides an estimate of the total number of smokers within a workplace.

Step 2: Multiply the total number of smokers times the CDC estimate of the cost per smoker (\$3,400).

$$\begin{array}{r}
 \text{_____} \quad \text{Total number of employees} \\
 \times \\
 \text{_____} \quad \text{Estimated \% of employees who} \\
 \quad \text{smoke (20\% of Minnesota adults} \\
 \quad \text{or \% from occupation table)} \\
 = \\
 \text{_____} \quad \text{Total \# of smokers} \\
 \times \\
 \$3,400 \quad \text{cost per smoker (CDC estimate)} \\
 = \\
 \text{_____} \quad \text{Employer's estimated cost of smoking} \\
 \quad \text{per year}
 \end{array}$$

Smoking-Attributable Employer Costs⁸

- Increased absenteeism
- Decreased productivity
- Increased health and life insurance premiums and claims
- Increased level of early retirements
- Increased cleaning and maintenance expenses, property damage and related expenses
- Increased fire insurance premiums and costs of fires caused by smoking
- Increased potential legal liability
 - Where smoking is permitted, nonsmoking employees have received workers' compensation settlements, unemployment compensation benefits and disability benefits based on claims of exposure to secondhand smoke.

Investing in Tobacco Cessation Cuts Employer Costs³

Short-term benefits:

- Increased productivity
- Savings on fire insurance premiums
- Savings on ventilation services, property upkeep and repair

Long-term benefits:

- Reduced healthcare costs
- Reduced absenteeism
- Increased productivity
- Reduced life insurance costs

Smoking cessation treatment is referred to as the 'gold standard' of preventative interventions.¹²



Cost Benefits of Smoke-Free Workplace Policies

Among our nation's health goals for the year 2010 is to reduce the rates of current smoking among adults to 12% or less;¹³ however, unless cessation programs and other tobacco control efforts are expanded, this 2010 national health objective will not be achieved.¹⁴ This is because unless smoking cessation among current smokers increases quite rapidly, the rate of smoking-attributable deaths is not expected to decline substantially for many years.⁸ Employers can help reduce the rate of current smoking by working with unions to develop smoke-free workplace policies and negotiate the provision of cessation coverage.

Reducing the number of smokers in the workplace is cost-effective, even for cash-strapped budgets. Cessation programs are relatively low-cost, and studies show that they yield financial returns for employers over the short- and long-term that far outweigh their costs.¹⁵ The single most cost-effective clinical preventive service that employers can provide to employees, tobacco cessation treatment costs considerably less than other disease prevention interventions, such as treatment of hypertension and high blood cholesterol.³ A theoretical model for the U.S. estimates the potential net benefit of a smoking cessation program in a manufacturing workforce of 10,000 to be about \$4.7 million after 25 years.¹⁵

How Much Does Cessation Coverage Cost?³

- Providing a comprehensive tobacco cessation benefit costs between 10 and 40 cents per employee per month. Costs vary based on utilization and dependent coverage.
- Cost analyses have shown tobacco cessation benefits to be either cost-saving or cost-neutral. Generally, cost/expenditure to employers equalizes at 3 years; by 5 years, benefits exceed costs.

quick facts

- Tobacco use treatment doubles quitting success rates.¹²
- Working in a smoke-free workplace is associated more strongly with successful quitting than either physician advice or use of nicotine replacement products.¹⁶
- The smoking rate among Union Pacific Railroad employees decreased from 40% to 25% in a 7-year period during which the employer offered a cessation benefit as part of a comprehensive cessation program.¹⁷
- Smokers employed in smoke-free workplaces smoke fewer cigarettes per day, are more likely to be considering quitting, and quit at greater rates than smokers employed in workplaces that allow smoking.¹⁸
- If all workplaces became smoke-free, the per-capita consumption of cigarettes across the U.S. would decrease by 4.5% per year.¹⁹
- Minnesota can save \$9.2 million in Medicaid costs per year by expanding and funding programs that reduce tobacco use by only 25%.²⁰
- Employers with smoke-free workplaces may be able to negotiate reduced insurance rates for life, fire or health insurance. Some insurers have offered up to 45% discounts on life insurance for nonsmokers.²¹