



KEEP TOBACCO MONEY OUT OF OUR HOSPITALS

Proposition 86

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DECISION 2006

Proposition 86 levies an excise tax of \$2.60 per pack on cigarette sales, and similar taxes on other tobacco products, resulting in anticipated excise revenues of \$2.1 billion annually.

- Prop. 86 guarantees California hospitals a “river of cash” of \$750 million—over 1 percent of their current gross revenues for which they are entirely unaccountable. It reduces their incentives to care for patients—from whom they earn less revenue—and increases their dependency on tobacco money.
- Because of the way Medi-Cal and the Healthy Families Program are funded, Prop. 86’s expansion will draw down federal matching transfers of between \$367 million and \$734 million in its first full year alone, which will eventually have to be paid by the federal taxes of both smokers and nonsmokers.
- Almost half of the funds will go to enrolling more children in government-run health care. History shows that this “crowds out” private health insurance for kids, expands government, and reduces families’ health care choices. Prop. 86 will result in about 300,000 to 550,000 kids shifting from private coverage to these welfare programs.
- The balance of the windfall will go to ill-defined tobacco education efforts. The effectiveness of such programs is highly questionable, as Americans began their journey towards smoking cessation years before the government got involved, and the rate of decline of smoking has not changed significantly as government power over smokers has expanded. Indeed, the prevalence of smoking among young adults increased by 21 percent between 1994 and 2005, despite massive government anti-smoking programs.

- Nonsmokers do not subsidize smokers. In fact, it is the other way around. By increasing the excise tax on the average smoker by \$684 per year, to a total of \$1,097, Prop. 86 confiscates resources that would otherwise help them quit smoking and make healthier choices, of their own accord.
- By levying such a punitive excise tax, Prop. 86 greatly increases the incentives to smuggle cigarettes into the state, a black market offering net profits between \$330 million and \$610 million that will attract mobsters and terrorists. A violent society is not a healthy society. Indeed, when Canada had imposed a similarly punitive excise tax it was forced to backtrack because smuggling had grown to threaten the rule of law.
- The state forbids health insurers in the small group market from accurately pricing the risk of smoking by increasing smokers' premiums. Instead of increasing government power over smokers and patients, the state should deregulate this market by allowing insurers to modify premiums based on smoking, thereby motivating smokers to take more responsibility for the unhealthy consequences of their behavior.

In sum, although marketed as a method to fund hospital services for uninsured patients and help more smokers quit, Prop. 86 will actually reduce patient focus and competition among California hospitals, harm Californians who smoke, draw more kids out of private health care and into government-run programs, create a violent cigarette bootlegging trend, and increase taxes while reducing health choices for all Californians — smokers or not.