Center on Budget and Policy Priorities
820 First Street NE, Suite 510 Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056
center@cbpp.org | www.cbpp.org

Campaign for Tobacco-Free Kids
1400 Eye Street, Suite 1200, Washington DC 20005
Tel: 202-296-5469 Fax: 202-296-5427
info@tobaccofreekids.org | www.tobaccofreekids.org

October 16, 2007

EXPANDING CHILDREN'S HEALTH INSURANCE AND RAISING FEDERAL TOBACCO TAXES HELPS LOW-INCOME FAMILIES

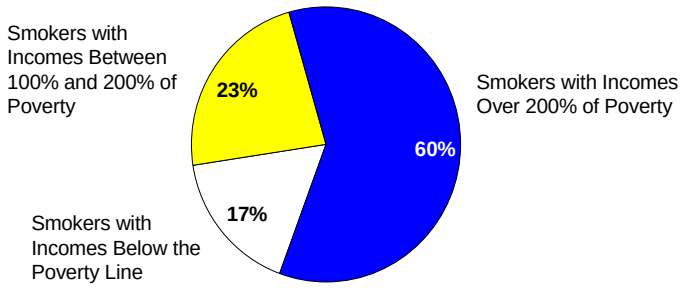
In explaining President's Bush's veto of bipartisan legislation to strengthen the State Children's Health Insurance Program (SCHIP) and pay for it by raising federal tobacco tax rates, White House Press Secretary Dana Perino claimed that the tobacco increase would primarily be paid for by low-income people, since "the majority of smokers are low-income." She also claimed that the legislation would create "a middle-class entitlement"[1] Both claims are incorrect.

Most smokers are *not* low-income. Recent data from the Centers for Disease Control and Prevention show that 60 percent of adult smokers have incomes *above* 200 percent of the poverty line.[2]

Since a minority of smokers have low incomes, those with low incomes will contribute a relatively modest share of the revenue collected by the proposed tobacco tax increase. The main share of the costs of strengthening children's coverage will come from smokers with incomes above 200 percent of the poverty line.

FIGURE 1

The Majority of Adult Smokers Are Not Low-Income, 2006



Source: CDC, 2006 National Health Interview Survey

Higher tobacco taxes would encourage more low-income smokers to quit. While low-income adults are more likely to smoke than those with higher incomes, studies show they also are more likely to quit or cut back on smoking when they have to pay more for cigarettes.[3] Thus, a

[1] Transcript of White House press briefing, October 2, 2007.

[2] CDC, National Center for Health Statistics, *Summary: Health Statistics for U.S. Adults, 2006*, Table 24, Provisional Report No. 10(235), Aug. 2007

[3] CDC, "Response to Increases in Cigarette Prices by Race/Ethnicity, Income and Age Groups — United States, 1976-1993," *Morbidity and Mortality Weekly Report*, 47(29):605-609, Jul. 31, 1998. M. Farrelly *et al.*, "Responses to Cigarette Prices by Socioeconomic Characteristics," *Southern Economic Journal*, 68(1): 156-65, 2001. Campaign for Tobacco-Free Kids, "Federal Tobacco Tax Increases Will Benefit Lower-Income Households," revised Sept. 24, 2007, http://tobaccofreekids.org/research/factsheets/pdf/0022.pdf.

tobacco tax increase would reduce smoking more effectively among low-income individuals than among those at higher income levels. In fact, more than three-quarters of the smokers who would be expected to quit in response to the 61 cents per pack cigarette tax increase in the bipartisan legislation have incomes below 200 percent of the poverty line.[4]

Low-income smokers — and their families — would enjoy the lion's share of the economic and public health benefits from a tobacco tax increase. Since three out of every four smokers expected to quit because of the tax increase would be low-income, most of the economic and health benefits of quitting would go to low-income families. By spending less money on cigarettes (including the taxes on cigarettes), those low-income families with an individual who stops smoking would free up funds for family needs such as child care, utilities, and food. Quitting smoking also improves a person's health and reduces the harm that secondhand smoke inflicts on his or her family.

Lower-income families would also benefit the most from expanded children's health coverage. According to the Congressional Budget Office (CBO), 84 percent of the 3.8 million otherwise-uninsured children who would gain coverage by 2012 under the bipartisan legislation have incomes below their states' existing SCHIP eligibility limits. In most states, these limits are at or near 200 percent of the poverty line. Moreover, CBO estimates that 1.7 million of these 3.8 million children are eligible for Medicaid, which serves children with even lower incomes than SCHIP does — generally below the poverty line.[5] Urban Institute researchers report similar results. They estimate that more than 75 percent of the uninsured children who would gain coverage under the legislation have incomes below 200 percent of the poverty line.[6]

The bill would not turn SCHIP into an entitlement. Like the current SCHIP program, the bipartisan legislation would cap annual federal SCHIP funding. It would not create any right to health coverage among eligible children or establish any kind of entitlement.

In sum, the value of the benefits to low-income families from the SCHIP legislation's expanded health care coverage — and the expected declines in smoking — would substantially outweigh the amounts low-income families would pay in increased tobacco taxes under the legislation. The SCHIP bill would advance efforts both to improve children's health and to reduce the harm and costs of smoking, and the biggest gains in both areas would come among low-income families. As Senator Gordon Smith (R-OR) has stated, "This bill marries good policy with good health by funding a vital health program for kids and discouraging smoking among our youth."[7]

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[4] The Campaign for Tobacco-Free Kids generated the estimates of current smokers, by income group, who would stop due to higher effective prices, based on income and price responsiveness research from CDC and Farrelly (see note 3), CDC data on smoking prevalence by income level (note 1), and available data on current cigarette prices.

[5] Congressional Budget Office, "CBO's Estimate of Changes in SCHIP and Medicaid Enrollment of Children Under the House Amendments to the Senate Amendments to H.R. 976, the Children's Health Insurance Program Reauthorization Act of 2007," September 24, 2007. See also Edwin Park, "CBO Estimates Show SCHIP Agreement Would Provide Health Insurance to 3.8 Million Uninsured Children," Center on Budget and Policy Priorities, revised September 25, 2007.

[6] G. Kenney *et al.*, "SCHIP Reauthorization: How Will Low-income Children Benefit Under the House and Senate Bills?" Urban Institute, as updated on October 4 at http://www.urban.org/publications/411545.html.

[7] Press release by the minority side of the Senate Finance Committee, "Republican Senators Support Children's Health Insurance Program," Sept. 27, 2007.