Not Smoking Could Be Hazardous to Pension System

Medicare, Social Security May Be Pinched if Anti-Tobacco Campaign Succeeds, Report Says

By Malcolm Gladwell
Washington Post Staff Writer

If the campaign to curb tobacco use is successful in reducing the number of Americans who smoke, it could place a serious strain on the nation's Social Security and Medicare programs, according to recent economic studies.

That conclusion contradicts the widely reported comments from Health and Human Services Secretary Louis W. Sullivan, who in kicking off his campaign for a tobacco-free America last week estimated that an end to smoking could save $52 billion every year in lower health care costs and increased productivity.

But according to many health economists, Sullivan failed to account for the fact that even though smokers run up higher medical bills, they die relatively young. That means that—on average—they collect only a fraction of the money they pay into Social Security during their working lives. In effect, they subsidize the pensions of non-smokers.

Because they die prematurely, smokers may also end up with medical bills no larger than those of non-smokers, who on average have four to five more years of life in which to incur hospital charges.

None of the economists who studied this issue say their conclusions should discourage Sullivan's anti-tobacco campaign, which they see as important in combating one of the nation's gravest health problems. But their results suggest that the war on tobacco is more appropriately cast as a public health crusade than as an attempt to save money.

They also suggest that as Congress and the White House step up their fight against tobacco they should fortify institutions that are most likely to bear the social consequences: Social Security and Medicare.

"The implications of our results are that smokers 'save' the Social Security system hundreds of billions of dollars," three Stanford University economists concluded in a recent study for the National Bureau of Economic Research, a Cambridge, Mass., think tank. "Certainly this does not mean that decreased smoking would not be socially beneficial. In fact, it is probably one of the most cost-effective ways of increasing average longevity. It does indicate, however, that if people alter their behavior in a manner which extends life expectancy, then this must be recognized by our national retirement program," the economists said in their report.

Little is known about whether smoking costs society more than it saves. One recent study by University of Michigan economist Willard Manning, weighed the smoking related expense of higher medical costs, life insurance, fires, and lives lost to "passive smoke" against the higher taxes tobacco-users pay and their lower costs in retirement pensions and nursing home care. It found the two sides were roughly equal.

But the study was controversial. Manning's team did not count what they termed internal costs in their figures. For example, if a smoker paid $300 of a $1,000 hospital bill for lung cancer treatment out of his own pocket, then only $700 was counted toward the cost to society.

By contrast, the numbers cited by Sullivan counted the whole $1000 on the theory that even medical costs borne directly by smokers should count as part of the social costs of smoking.

But even if the overall balance of costs and benefits of smoking is difficult to determine, it is clear that an end to smoking will produce an enormous increase in the financial obligations of the federal government.

Take Medicare, for example. Smokers who die at age 60, if they are employed, are likely to have their final medical bills paid by their company's private health insurance plan. If they never smoke but live to age 70, the burden of health care shifts from the private sector to Medicare. Four years ago, Virginia Baxter Wright, an Eastern Kentucky University economist, calculated that each light-smoking (less than a pack a day) male who quits at age 45 will cost the Medicare system between $204 and $2,745 extra, depending on the economic assumption used.

Non-smoking has a similar effect on Social Security. In a 1987 study, Stanford economists John Shoven, Jeffrey Sundberg and John Bunker tracked male and female smokers born in 1920. They found that by smoking, males in that group received about $20,000 less in federal retirement benefits, and women $10,000 less than they would have otherwise.

Multiplying those figures by the number of smokers born in the group, the economists calculated that if no one born in 1920 had ever smoked, the Social Security system would have had to pay out an additional $14.5 billion. Given that this reflects the impact for those born in only one year, the study concluded that the total impact of smoking on Social Security amounts to hundreds of billions of dollars.

"Prevention of disease is obviously something we should strive for," said Health Policy Center economist Gio Gori, who has conducted cost-benefit analysis for a variety of health programs. "But it's not going to be cheap. We will have to pay for those who survive."

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