



# Board of Supervisors Memorandum

February 10, 2015

## Tobacco Policy/Tobacco Surcharge on Medical Insurance In Fiscal Year 2015/16

### Introduction

I requested this item be continued to the February 10, 2015 meeting in order to provide additional information to the Board of Supervisors regarding the Self-Insurance Trust Fund proposed rates for Fiscal Year (FY) 2015/16 and to provide additional information regarding the tobacco policy and surcharge.

As I have indicated previously, Pima County has a significantly higher percentage of smokers than the national average. Based on our data collected during biometric testing, 32 percent of County employees use tobacco products. The national average is 18 percent. The use of tobacco products by County employees costs the County in both medical claims and employee productivity.

### Hiring Policy

In an effort to reduce these costs and increase productivity long term, I am recommending that effective July 1, 2015, all job applicants for the County be required to certify they have been nicotine/tobacco-free for the previous 12 months in order to be considered for employment. This policy will apply to external candidates only; current employees will not be affected.

### Tobacco Surcharge

The Affordable Care Act allows employers to impose a tobacco surcharge of up to 50 percent of total premiums for those employees that use tobacco products. Numerous non-tobacco users have voiced concerns about subsidizing those that choose to use tobacco. Requiring tobacco users to pay a higher share of the premiums is an equitable approach. The surcharge will be waived for employees who provide proof they have completed one of the County-approved tobacco cessation programs.

My recommendation is to begin implementing a surcharge July 1, 2015 with the following increases:

FY 2015/16 – 30 percent  
FY 2016/17 – 40 percent  
FY 2017/18 – 50 percent

In addition to avoiding the surcharge, benefit eligible employees who are nicotine/tobacco-free will have the opportunity to take advantage of the healthy lifestyle premium discount of \$5 per pay period.

#### Cost of Pima County Smokers

I previously reported to the Board that the additional cost of smokers to the health plan claims cost was \$25.80 per month-per member (PMPM). This information was based on the national book of business for Aetna. Aetna has since analyzed claim and biometric data solely for Pima County. The additional cost based on Pima County employees is \$30.26 PMPM. This is based on incurred claims between September 1, 2013 and August 31, 2014. Data included medical and pharmacy claims.

Benefit eligible employee tobacco/nicotine users were identified through the Aetna Health Assessment. Claim costs, for employees that use tobacco products and who took the health assessment, were \$280.64 PMPM during the time period indicated. Nonsmokers for the same time period cost \$250.37 PMPM, a difference of \$30.26 PMPM. These figures are based on aggregate claims for both the PPO (Preferred Provider Option) and The High Deductible Health Plan (HDHP). This equates to over \$4.1 million in additional costs to the Self-Insurance Trust Fund, the employees and the taxpayers.

#### Arizona County and Cities

Staff surveyed counties and cities in Arizona to determine the courses of action other jurisdictions have taken regarding employee tobacco/nicotine use. To date, there are only two other jurisdictions charging higher premiums to their employees who use tobacco – Maricopa and Mohave Counties. However, several cities and counties polled are discussing this option.

#### Updated National Statistics

The following are highlights from the 50-year Anniversary Update Report of the famous 1964 Surgeon General's report:

- In the United States, smoking causes:
  - 87 percent of lung cancer deaths
  - 32 percent of coronary heart disease deaths
  - 79 percent of all cases of chronic obstructive pulmonary disease
- One out of three cancer deaths is caused by smoking
- Causes or increases colorectal and liver cancer and increases the failure rate of treatment for all cancers
- Causes multiple serious diseases, diminishes overall health, impairs immune functions and reduces quality of life

Dr. Francisco Garcia recently presented the following information at the Lung Force Expo:

- Tobacco use kills 480,000 people a year, more than AIDS, alcohol, car accidents, illegal drugs, murders, suicides and fires – COMBINED!
- The national cost is \$333 billion annually:
  - \$130 billion in health care costs and
  - \$150 billion in lost productivity

#### What's Next Argument?

Many opponents of tobacco/nicotine-free hiring policies and surcharges make the argument, "what's next, obesity, diabetes, heart problems, etc." I believe the data presented previously more than justifies the economic and health reasons for these actions. However, in a December 2013 issue of the Suffolk University Law Review, the following response was presented:

*"Tobacco is inherently different from other consumable products because it is harmful when used exactly as intended. In fact, it is the only legal, consumable product that can claim this dubious distinction. Like all consumable products, both food and alcohol can be abused; however, these products are not inherently harmful and, when consumed in moderation, are beneficial to overall health. Unlike food and alcohol, tobacco cannot be used safely in moderation because any amount of tobacco consumed is harmful to one's health.*

*A clear distinction can be made between the use of a specific product like tobacco and medical conditions like obesity and alcoholism. It is undisputed that, like tobacco use, obesity and alcoholism result in both increased healthcare costs and productivity losses for employers. However, unlike tobacco use, there is no evidence that the off-duty consumption of specific foods or alcoholic beverages directly relate to healthcare cost increases or productivity losses. While tobacco use directly correlates with negative health consequences, alcoholism and obesity-related diseases are caused by a complex web of factors, which cannot be directly linked to the use of a single product."*

#### Recommended Pima County Tobacco Surcharge

Based on the recommended option for medical insurance for FY 2015/16, the tobacco surcharge for the PPO would be \$72.86 per pay period and the HDHP surcharge would be \$47.36. This is 30 percent of the Employee-only premium amount. The table below details the premium structure based on the recommended medical option.

**FY 2015/16 Recommended Premium Structure.**

		Proposed Biweekly Non-tobacco user			Proposed Biweekly Tobacco User		
Plan	Level of Coverage	Total	Employee Portion	Employer Portion	Total	Employee Portion	Employer Portion
PPO	Ee Only	\$242.87	\$108.68	\$134.19	\$242.87	\$181.54	\$61.33
	Ee + Spouse	555.73	230.62	325.11	555.73	303.48	252.25
	Ee + Child(ren)	541.18	224.59	316.59	541.18	297.45	243.73
	Ee + Family	790.98	328.26	462.72	790.98	401.12	389.86
HDHP	Ee Only	157.86	23.67	134.19	157.86	71.03	86.83
	Ee + Spouse	361.22	36.11	325.11	361.22	83.47	277.75
	Ee + Child(ren)	351.77	35.18	316.59	351.77	82.54	269.23
	Ee + Family	514.13	51.41	462.72	514.13	98.77	415.36

Employees will be required to certify they are nicotine/tobacco-free in order to avoid the surcharge and receive the healthy lifestyle premium discount. An employee will only be subjected to testing should his/her Appointing Authority believe there is reasonable suspicion to do so. An employee found to be using nicotine/tobacco after signing an affidavit will be subject to corrective action in accordance with revised Personnel Policies, up to and including termination. The employee shall forfeit the premium discount and be assessed the appropriate surcharge.

Recommendation

I recommend the Board of Supervisors approve one of the following options for Fiscal Year 2015/16:

- Option 1 – Approve the tobacco hiring policy, as well as the tobacco surcharge.
- Option 2 – Approve only the tobacco hiring policy.
- Option 3 – Approve only the tobacco surcharge.

Respectfully submitted,



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 County Administrator

CHH/mjk

c: Allyn Bulzomi, Director, Human Resources