



RICHARD M.  
FAIRBANKS  
FOUNDATION

# THE HIDDEN SMOKING TAX PAID BY INDIANA BUSINESSES

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## INDIANA EMPLOYERS SPEND \$3.1 BILLION ANNUALLY IN SMOKING-RELATED COSTS

Indiana has made progress in decreasing cigarette consumption, with the smoking rate falling from 24.0% in 2012 to 17.3% in 2021. However, Indiana still has the eighth-highest smoking rate in the U.S., much higher than the national average of 14.4%.

While the health implications of smoking cigarettes are well known, with 11,000 Hoosiers dying each year from smoking-related diseases, what's lesser known are the smoking-related costs Indiana businesses pay every year. The Richard M. Fairbanks Foundation partnered with leading experts who have decades of experience measuring the economic impacts of smoking and commissioned a report to calculate these costs.

### THE REPORT'S FINDINGS ARE STRIKING.

From extra absenteeism and unsanctioned smoking breaks to excess healthcare costs, employees who smoke cost Indiana employers **\$3.1 billion annually**, which serves as an additional "tax" for Indiana businesses equaling 1.7% of total wages.

In Marion County alone, businesses paid nearly \$609 million in this hidden "smoking tax" in 2022. This report makes it clear how Indiana's high smoking rate undermines the success of our business community and may prevent the state from attracting and retaining businesses in the future.




# \$645M

Indiana has the highest share of manufacturing employment of all U.S. states, so it is not surprising the industry is most affected by the costs of smoking. In 2022, **manufacturing businesses paid nearly \$645 million** in smoking “taxes.” In Marion County, the healthcare and social assistance industry paid the largest amount – \$110 million.

TO SEE THE COSTS PAID BY A VARIETY OF INDUSTRIES, SEE THE FULL REPORT AT [RMFF.ORG/SMOKING](https://rmff.org/smoking).

### SMOKING-RELATED EMPLOYEE ABSENTEEISM

Studies show employees who smoke are absent from work approximately 2.5 days more than a non-smoking employee. The costs related to these absences equaled approximately \$272 million paid by Indiana employers in 2022, with nearly \$56 million of those costs specifically incurred by Marion County businesses.

### EMPLOYEE SMOKE BREAKS

Employees who smoke often take smoke breaks separate from their allocated break times. This loss in productivity, conservatively estimated at two 15-minute breaks per workday, equaled \$1.7 billion in costs to Hoosier employers in 2022, with nearly \$359 million paid by Marion County businesses alone.

### SMOKING-RELATED LOST PRODUCTIVITY

Nicotine addiction and withdrawal directly affect employee productivity, with studies estimating employees who smoke work somewhere between 1.9% to 4.0% less per year than non-smokers. Taking into account a conservative estimate of a 1% loss in productivity, Indiana employers paid nearly \$283 million toward this hidden smoking tax in 2022. In Marion County, employers paid more than \$58 million.

### COST OF SMOKING TO EMPLOYERS WHOSE HEALTH CARE IS SELF-INSURED

Employers that self-insure bear excess costs for smoking employees, as their insurance plans are paying for smoking-related health issues such as cancer, cardiovascular disease, respiratory disease, diabetes, immune and

autoimmune disorders, among many others. Because nearly 70% of Indiana employees are covered by self-insured plans, the study estimates the smoking-related costs to these employers equaled more than \$757 million in 2022, with nearly \$136 million specifically paid by Marion County employers.

### “HIDDEN TAX” LIKELY UNDERESTIMATED

While the \$3.1 billion in total costs to employers is alarming, what’s even more disturbing is the actual number is **likely far higher than estimated**, as this study does not account for items such as higher health insurance premiums for employers who purchase private insurance, higher workers’ compensation costs for smokers, higher life insurance premiums for smoking employees and the cost of secondhand smoke on non-smokers in workplaces where smoking is permitted.

**MORE INFORMATION** To read the full report and see the list of data sources, visit [RMFF.org/smoking](https://rmff.org/smoking). While there, you can also read the Richard M. Fairbanks Foundation’s [2018 report on the tobacco epidemic](#), which details ways to combat smoking across sectors, including policy recommendations, as well as recommendations for the business community, healthcare providers and educators, both K-12 and postsecondary.