

Pricing Strategies to Improve Public Health

Place Matters: Working Together to Create Healthy Communities
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Pricing as Public Health Intervention OVERVIEW

- The tobacco experience
- Tobacco industry response – retail price manipulation
- Sugar-loaded beverage (and junk food?) policies
- Pricing strategies to encourage healthy choices

Cigarette Pricing



- Costs of Production } (\$5.00)
- Producers Profit }
- + Federal Excise Tax (\$1.01)
- + State Excise Tax (avg. \$1.20)
- + Local Excise Tax
-
- Counter Price (\$7.00)
- + General Sales Tax (8.25%)
-
- Final Price to Consumer (\$7.56)

Sales Taxes



- Imposed on consumers who purchase goods at retail
- Usually measured as a percentage of the overall sales price
- Seller is responsible for collecting the tax, but the tax is usually passed on to the consumer

Excise Taxes

An **Excise Tax** is imposed on the performance of some act, and is often imposed on the act or business of selling a particular tangible good

- More points of intervention
- Often causes visible price increase
- Common product-specific tax (tobacco, alcohol, gasoline...)



With a 10% price increase, overall consumption decreases by 4%

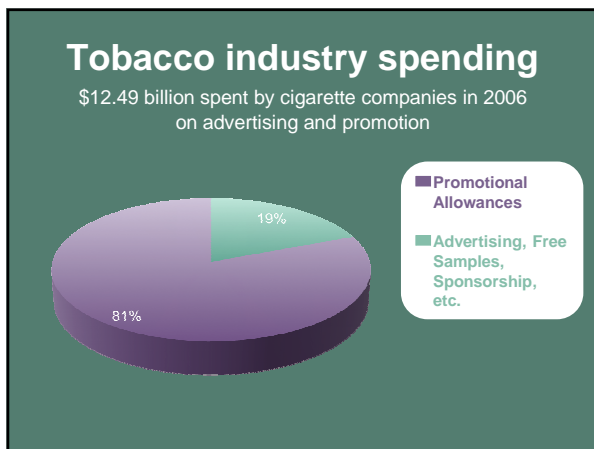
Price Sensitivity Varies by Consumer Group

Youth Low income adults

Elasticity of Demand



What Changes Prices



Coupons



Countering Price Manipulation

- ↑ \$ Raise the price
- ⊘ ↓ \$ Prohibit discount offers
- ↔ Change how the product is sold
- ⊕ Require more information

↑ \$ Raise the Price

Minimum Price Laws

- Exist in about half the states
- Usually based on a formula
- Problem: most don't cover buy-downs, etc.

Prohibit Discount Offers




Change How the Product is Sold

- Tobacco-only stores
- Single pack sales
- Carton-only sales




Require More Information

"Sunshine" laws



Pro-health advertising

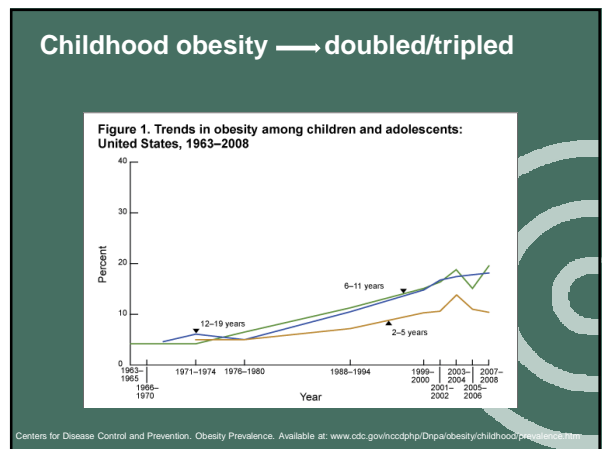
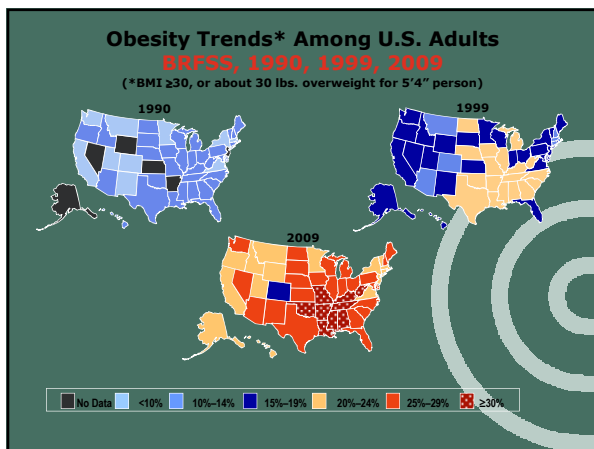


What can we learn from tobacco?

- Taxes/fees can discourage consumption of unhealthy foods (by increasing price)
- Taxes/fees raise funds for prevention/treatment
- Taxes are part of a larger policy movement

What can't we learn from tobacco?

- Pricing strategies to encourage healthy choices



What role have sugar-sweetened beverages played?

- Between 1977 - 2002, the per capita intake of caloric beverages doubled in the U.S.



Portion sizes have continued to increase over the years.



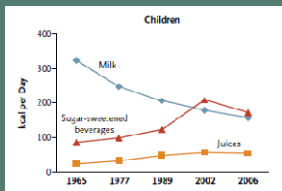
Equivalent of 17 cubes of sugar in every 20 oz soda (average portion size in 1996)

What are sugar-sweetened beverages?

Beverages with **added caloric sweeteners** are most associated with increased weight and obesity



Children are drinking more sugary drinks



Greater consumption of sugar-sweetened beverages =

- Increased caloric intake
- Weight gain
- Diabetes
- Obesity

Brownell KJ, et al. The public health and economic benefits of taxing sugar-sweetened beverages. *New England Journal of Medicine*. 2009; 361:1599.

Addressing SSB Prices



Raise the price



Prohibit discounting tactics



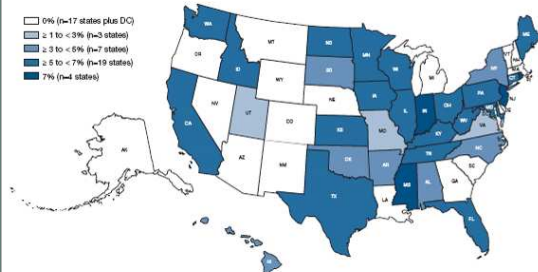
Change how the product is sold



Require more information

Many states apply sales tax to soda ("disfavor" soda)

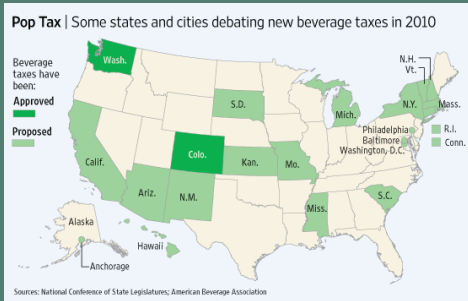
State Soda Sales Tax Rates (as of January 1, 2009)



Existing soda-specific excise taxes

- AL License taxes and fees
- ARK Excise tax of \$0.21/gallon
- RI Excise tax of \$0.04/case
- TN Privilege tax of 1.9% of gross receipts
- VA Range of excise taxes
- WA Excise tax of \$1/gallon of syrup
- WV Range of excise taxes for bottles and syrups
- Chicago 3% excise tax

2010 - a busy year

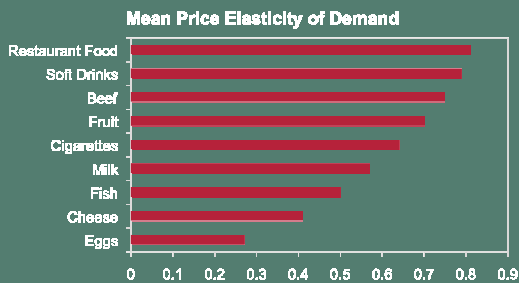


Are existing taxes effective in reducing consumption?

No.

Existing taxes are too small, or are sales taxes not resulting in price increase

Demand for SSBs is particularly elastic



↑ \$ Higher price = less consumption

- A 10% price increase for SSBs may reduce consumption from 8% ~ 11.5%

NEJM Health Policy Report: Brownell, et al. The Public Health and Economic Benefits of Taxing Sugar-Sweetened Beverages

- Recent USDA study:

A 20% price increase for SSBs could reduce net calorie intake from beverages by 37 calories/day for adults, 43 calories/day for children. Daily calorie reductions would result in an average reduction of 3.8 lbs/year for adults and 4.5 lbs/year for children.

Study available at: <http://www.ers.usda.gov/Publications/err100err100.pdf>

A tax must increase the shelf price

If the tax increases the price, it can reduce consumption – like tobacco taxes

How to ensure that the price will increase?

- Excise taxes are more effective than sales taxes