RIA Checklist

- Identify the problem.
- Establish a baseline.
- Assess benefits.
- Assess costs.
- Consider alternatives.
- Consider the net.
Identify the problem to establish the need for the regulatory action.
RIA Case Study: Warning Labels for Cigarette Packages

**PROBLEM**: Insufficient/ineffective information available to the public regarding the harmful health effects of smoking cigarettes.

**Market failure**: information asymmetry and lack of information salience (lack of attention to and ineffectiveness of existing cigarette health labels).

**Other examples?** Externalities, market collusion
RIA Case Study: Warning Labels for Cigarette Packages

• One of nine new health warnings to be displayed directly, and on the upper portion and rear panel of cigarette packages.

• Health warnings must be included in advertisements for cigarettes.

• Cigarette labels must include information on resources to assist individuals to quit smoking.
Establish the baseline.

What does the world without the regulation look like?
RIA Case Study: Warning Labels for Cigarette Packages

**BASELINE:** The number of smokers that would be expected, based upon currently projected trends, during the time horizon of the analysis.

**Set the Time Horizon for Analysis** – period long enough to encompass all important benefits and costs likely to result from the regulation.

**TIMEFRAME:** 20 years to capture one-generation of smokers (2012-2031)

**Other considerations?** state of technology, available substitutes
Assess the benefits.

How do proposed solutions improve on the problem?
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Benefits of the rule:

- Reduction in the number of U.S. smokers. (Smokers’ life years saved)
- Health status improvements - reduction in number of people who will ultimately become ill or die from diseases caused by smoking.
- Medical expenditure reduction
- Fire loss averted (less homes burned down by cigarettes!)
- Other financial effects

Other examples? Public health (asthma, IQ, birth defects), visibility, natural resources, safety (avoided death/injury)
How much do you think a life is worth?

How much do you think a an extra year of life is worth?
For this rule, the U.S. Federal and Drug Administration established a Value of Statistical Life Year (VSLY) of:

- $106,308
- $212,615
- $318,923
Assess the costs. What costs do the proposed solutions impose?
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Costs of the rule:

• Manufacturing costs to change cigarette labels.
• Market testing of new cigarette package labels.
• Recordkeeping and administrative costs to ensure equal and random display of 9 warning labels over time.
• Costs to manufacturers and retailers to remove point of sale advertising that does not comply with the regulation.
• Government cost associated with administering and enforcing the regulation.

Other examples? Available substitutes? Loss to society? Distributional impacts – who bears costs (e.g. supply chains)?
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Best Practices:

• Quantify and Monetize the Benefits and Costs of the Regulation using the best obtainable scientific, technical, economic and other information.

• Discount Future Benefits and Costs

• Evaluate Non-Quantified and Non-monetized Benefits and Costs (those that are difficult or impossible to quantify/monetize)

• Characterize uncertainty in benefits, costs, and net benefits.
Consider alternatives. What trade offs do alternate approaches present?
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Identify a Range of Regulatory Alternatives
Alternatives should especially consider flexible approaches, economic incentives (user fees/marketable permits), information disclosure.

• ALTERNATIVES to the Proposed Cigarette Labeling Rule:
  • Shorter (6 month) or longer (24 month) compliance period for cigarette manufacturers.
  • Different graphical images/messages to be displayed on cigarette label.

Other examples? Achieving same benefits at lower costs (e.g. half-life); when no substitute readily available in the market (industry agreement)
Consider the Net.

What approach maximizes net benefits?
## RIA Case Study: Warning Labels for Cigarette Packages

### SUMMARY OF BENEFITS AND COSTS

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<tr>
<th></th>
<th>PRIMARY ESTIMATE</th>
<th>LOW ESTIMATE</th>
<th>HIGH ESTIMATE</th>
<th>YEAR DOLLARS</th>
<th>DISCOUNT RATE</th>
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