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While many tobacco bond owners and several state government's face serious financial loss, the e-cigarette fans and medical communities have reason to celebrate. There is new evidence that suggests cigarette bonds could default in the coming years due to the success of the success seen by e-liquid retailers. Some estimate that these defaults could occur within the next decade if current tobacco use decline rates continue.

The bonds were sold when cigarette companies were enjoying greater popularity. However, despite conservative estimates that suggested tobacco use could drop by two percent annually, the actual drop off has been much more drastic, at 3.4% annually since the turn of the century. At this rate, tobacco bonds could begin to default in just ten years. However, more aggressive estimates suggest that the tobacco users will be quitting in even greater numbers in the years to come. Should that decline rate rise to six percent annually, the defaults could be a reality in less than five years' time.

Currently, e-cigarettes sales amount to between $1.5 - $2.2 billion depending on the source reporting, which is just a small percentage of the overall nicotine market. However, many reports, like that seen in ChurnMag recently, these numbers could grow by as much as 25% per year. It is conjectured that the vaporizers could take over half of the total sales figures within the next decade.

Moody's Investors Service does not paint a pretty picture for those who have invested in the high yield tobacco bonds. It has been suggested that as many as eighty percent are headed for default. The nearly five percent drop in cigarette shipments last year was the largest decline seen by the industry since the 2009 federal excise tax. American consumption of tobacco cigarettes dropped from 14.1 billion packs in 2012 to just over 13 billion one year later. Meanwhile, e-cigarette sales doubled in the same length of time. It is thought that the 400,000 packs of e-cigarettes sold could jump to more than five million by 2024.

Seeing this trend, cigarette manufacturers are wasting no time jumping on the bandwagon. A potential merger is being suggested between Reynolds American Inc. - maker of Camel, Winston, Salem, and other cigarette brands - and Lorillard - current owner of Blu e-cig brand. USA News featured a story on how the e-liquid brand would be a big selling point. Lorillard only has hold of the leading e-cigarette brand because of an acquisition costing $135 million in 2012. Around the same time, they also picked up SKYCIG, a popular brand overseas. That cost them a mere $49 million. Of course, Reynolds is not entirely new to the e-liquid seen, having released Vuse e-cigarettes recently.

So, what does this mean for bond holders? First, one must understand what the bonds stand for. There is an agreement between cigarette manufacturers and forty-six US states, in which they promised the governments of those states a certain payment based on the tobacco shipments processed. High population states were to claim the largest percentage of these payouts. The idea behind the agreement was that these funds were to be used to cover some of the medical expenses associated with cigarette smoking. Of course, the governments were quick to find other uses for the money, allotting just 14.6 percent, since the agreement was signed, to the intended purpose. And, in order to get the money faster, the states sell high yield bonds, which are meant to be paid off when the tobacco fees are paid. Investors were quick to jump in, as the bonds promised a 6.24% interest rate as compared to 2.9% being paid on muni bonds.

The problem with this is that estimates of the money to come in were based on sales figures in a time when cigarette smoking was more popular than it is today. The money coming in will soon be too little to cover that owed on the bonds. Already, states are making moves to cover the insufficient tobacco funds. New Jersey reported the release of $12.5 million from reserves. Two other states followed the lead.

E-Cigarette users and retailers fear that federal government representatives might soon get their way, which could lead to e-cigarettes being placed under the same restrictions and high tax rates that cigarette manufacturers face. The reasoning is that e-cigs could .become a trend with youth', however those standing against such movements argue that the officials are really looking to boost government earnings, as opposed to serving the public's best interest.

About the Author

Though it has had a negative impact on state governments and bond holders, is there not reason to applaud those making the switch from highly toxic tobacco products to the e-liquids that can help them quit? **What is E-liquid**