



## Health Care Sector Implications of the Presidential Candidates

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Both President Trump and Democratic Nominee Joe Biden have proposed plans aimed at reducing health care expenses for the nation. This has recently taken on greater urgency with the rapidly depleting Medicare Trust Fund, which is expected to run short of funds in 2024 (Figure 1).

With that said, neither candidate is likely to implement drastic change such as enacting a public option or lowering the age of Medicare eligibility without controlling both the Presidency and Congress. Absent full control of both branches of government, we believe it is likely that whoever wins the Presidency will continue to use administrative rulemaking to incrementally alter the health care landscape.

If President Trump wins reelection, it would largely be a positive for hospitals and other health care providers, mixed for health insurers, and potentially negative for drug makers and health care firms with large out-of-network reimbursement.

In a Biden presidency, there is the potential for transformative health care legislation if the Democrats are able to win a majority in the Senate and structure legislation to avoid a Republican filibuster. Under this scenario, hospitals and other health care providers would see lower earnings, while health insurers with large Medicare and Medicaid memberships would benefit.

### Health Care Policy Under a Biden Presidency

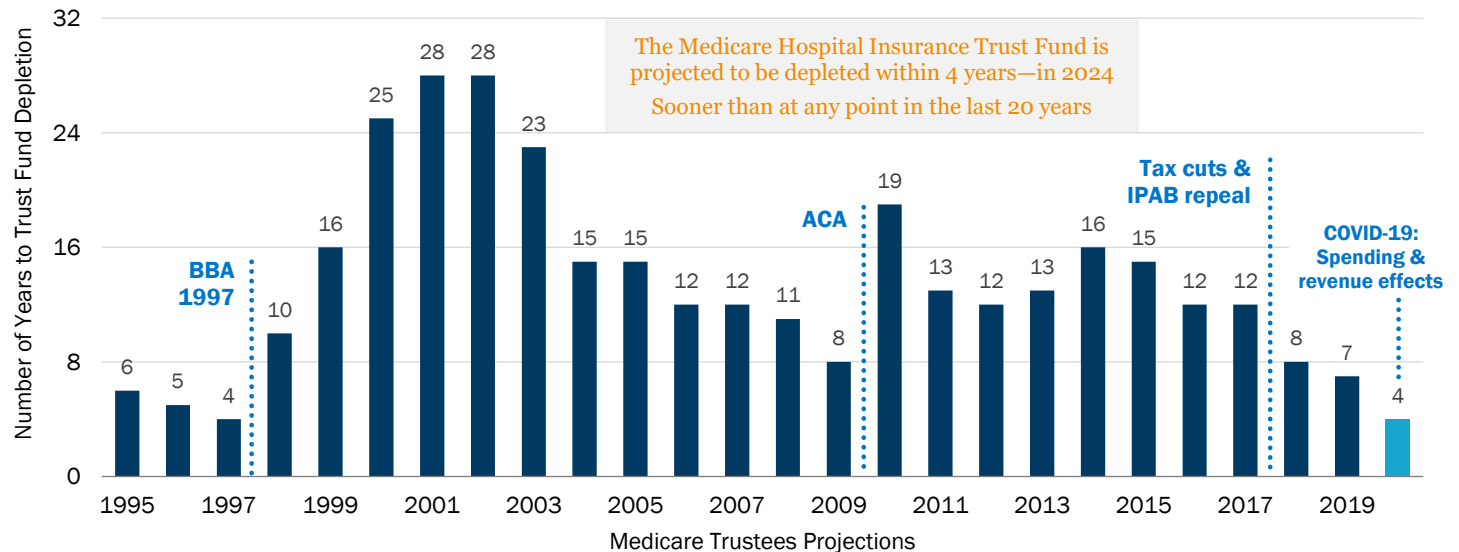
Our analysis begins with an examination of Democratic nominee Joe Biden's health care proposals, as some aspects of his plan – especially a public health care option – would represent a meaningful deviation from current health care policy. However, the public option and other portions of Biden's health care plan would require Democrats to emerge from the election with control of both chambers of Congress.

As we approach the US Presidential election, Democratic Presidential nominee Joe Biden is looking to unify the party after a divisive primary process pitting moderate Democrats against the growing progressive wing of the party. Following this unifying theme, Biden has melded some of his views with those of Senator Bernie Sanders in hopes of securing the support of the progressive wing of the Democratic Party in November. Most notably, Biden released a proposal in July that blends his original plan to “build on the Affordable Care Act (ACA)” with Senator Sanders' Medicare for All plan. The plan proposes to expand the ACA by: (i) increasing marketplace subsidies, (ii) adopting auto-enrollment, and (iii) offering a new public option available to those in the individual market or those currently unhappy with their employer-sponsored coverage. The plan would also lower the Medicare eligibility age to 60 from 65 and establish new tax subsidies to offset rising health care costs.<sup>1</sup>

Biden plans to finance his health care plan by: (i) raising the top tax rate to 39.6%, (ii) closing capital gains loopholes, and (iii) lowering prescription drug prices.<sup>1</sup>

1. <https://joebiden.com/healthcare/>

FIGURE 1: OUTLOOK FOR MEDICARE TRUST FUND



BBA = Balanced Budget Act of 1997; ACA = Affordable Care Act; IPAB: Independent Payment Advisory Board (agency created under the ACA to achieve specified savings in Medicare without affecting coverage or quality)

Source: 1995-2019 projections from intermediate projections from 1995-2019 Annual Reports of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds; 2020 projection from CBO, The Outlook for Major Federal Trust Funds: 2020 to 2030, September 2020.

### Health Insurance Tax Credits

One of the plan’s key pillars is to increase the value of tax credits in order to lower premiums and extend coverage to more Americans. The current ACA plan provides tax credits to families that earn between 100% and 400% of the federal poverty level and assistance is calculated to ensure each family does not have to pay more than a certain percentage of their income. However, families earning more than 400% of the federal poverty line (~\$50,000 for a single person and ~\$100,000 for a family of four) do not qualify for financial assistance. The Biden plan aims to help families by eliminating the 400% income cap and lower the limit on the cost of coverage from 9.86% of income to 8.5%. The plan also pledges to ensure that people earning below 138% of the federal poverty line (~\$18,000 for a single person and ~\$36,000 for a family of four) will be covered through automatic enrollment.<sup>1</sup>

### Public Option

The public option proposal looks to create a government-run plan that is available on the health insurance marketplaces and is open to all Americans with auto enrollment for low-

income people who live in states that have not expanded Medicaid. Currently, 12 states have not expanded Medicaid coverage under a provision in the ACA. Under Medicaid expansion, Medicaid eligibility would be extended to adults up to age 64 with incomes up to 138% of the federal poverty line. In the 12 states that have not expanded, it is estimated up to five million individuals are not insured. Biden’s plan seeks to provide premium-free access to these individuals who would be eligible for Medicaid if their state expanded coverage.<sup>1</sup>

The public option also proposes opening up enrollment to individuals unhappy with their current employer-sponsored coverage. This could potentially be beneficial for those who work for small businesses that lack the scale to negotiate lower costs from health insurers. However, the current law prohibits those with employer-sponsored coverage from receiving federal subsidies, thus reducing one of the key financial benefits of the health care exchanges. If this plan were to have any chance of lowering costs for individuals, subsidies would need to be offered to all participants in order to encourage

1. <https://joebiden.com/healthcare/>

individuals to move from employer-sponsored coverage to the government's new public option.

However, the likelihood of the public option passing in its current form under a Biden Presidency is low since the Democrats will have to control Congress and the Presidency. Republicans currently control the Senate with a 53-seat majority, vs. 45 Democrat-controlled seats and two Independents (both caucus with the Democrats and one is Bernie Sanders). Therefore, the Democrats need to win at least four net Senate seats if they hope to pass meaningful legislation. Further, Biden will need to win over more conservative/centric members of the Democratic Party and potentially some Republicans. In addition, to avoid a Republican filibuster to prevent a vote on the public option, Democrats in the Senate would need to craft health care legislation that is budget neutral after ten years. This would require pairing the public option not just with health care cost-savings measures, but also with meaningful tax increases.

### Public Option Financial Impact

At this point, there remain more questions than answers on the public option, as we do not know how much health care providers will be paid by the public option and whether the government will mandate provider participation. If we assume hospitals and other health care providers are paid under the public option using Medicare as a base rate, we would expect to see profit margins decrease, partially offset by less bad debt from uninsured/underinsured individuals as well as increased patient volume.

### Lowering the Medicare Age to 60

This is a new item added to Biden's health care plan and is likely influenced by Senator Sanders. Lowering the age of Medicare to 60 from 65 helps provide a pathway to Sanders' Medicare-for-All plan since it slowly introduces the country to universal coverage (e.g., if enacted, Democrats will then seek to lower the age to 55, then 50, etc.). If enacted, the plan would be mixed for health insurers and negative for hospitals since

Medicare typically pays much lower rates than commercial insurance.<sup>1</sup>

### Health Care Under a Second Trump Term

At the opposite end of the spectrum, President Trump is focused on building on his vision to rein in high drug prices, end surprise medical billing, and invalidate the ACA – all themes from his 2016 election. If President Trump wins re-election, it would largely be a positive for hospitals and other health care providers, mixed for health insurers with material concentrations in ACA exchange membership, and potentially negative for drug makers with high Medicare exposure and health care firms with large out-of-network concentration (surprise-billing legislation).

**Surprise Billing.** On September 24, President Trump signed an executive order (EO) protecting people with preexisting conditions (currently protected under the ACA) from insurance discrimination and surprise billing. The current law protecting those with preexisting conditions is widely popular and thus while the EO does not materially change protections for those with such conditions, Trump wanted to be on the record protecting this benefit. The surprise billing EO calls for the Secretary of Health and Human Services (HHS) to work with Congress to achieve reform on surprise medical bills, but does not detail a strategy to resolve the standstill over how insurers should be required to pay for out-of-network health care (e.g., arbitrations vs. median in-network benchmark rate).

**Drug Pricing.** President Trump's EOs on drug pricing seek to: (i) tie Medicare payments for outpatient drugs to international prices, (ii) pass drug maker rebates along to patients, (iii) allow for drug importation from countries approved by the FDA, and (iv) lower patients' out-of-pocket costs for EpiPens and insulin by forcing federal community health centers to pass on their 340B drug discounts to patients.<sup>2</sup> At this time, any impact on the drug industry is expected to be minimal given the limited scope of the drug pricing EOs, unless Congress is able to pass legislation permitting Medicare to negotiate with pharmaceutical manufacturers.

1. <https://www.kff.org/medicare/>

2. Section 340B of the Public Health Service Act requires pharmaceutical manufacturers participating in Medicaid to sell outpatient drugs at discounted prices to health care organizations that care for low-income patients

FIGURE 2: HEALTH CARE POLICIES OF PRESIDENTIAL CANDIDATES

Name	Trump	Biden
<b>AFFORDABLE CARE ACT (Obama-Care)</b>	<p><b>Eliminate the Affordable Care Act</b></p> <ul style="list-style-type: none"> <li>▪ Goal is to invalidate the ACA in its entirety, but the President plans to keep certain provisions such as requiring health insurers to cover all pre-existing conditions for customers</li> </ul>	<p><b>Enhance the Affordable Care Act</b></p> <ul style="list-style-type: none"> <li>▪ Biden plans to build on this program which he considers to be part of his legacy</li> <li>▪ Increase tax credits for health insurance on the exchanges</li> </ul> <p><b>Medicare and Public Health Option</b></p> <ul style="list-style-type: none"> <li>▪ Lower age for Medicare eligibility</li> <li>▪ Create new public health option (similar to Medicare)</li> </ul>
<b>DRUG PRICING</b>	<p><b>Wants to Lower Drug Costs</b></p> <ul style="list-style-type: none"> <li>▪ Allow prescription drug re-importation from Canada</li> <li>▪ Tie Medicare payments for outpatient drugs to an international pricing index</li> <li>▪ Pass drug maker rebates along to patients</li> <li>▪ Lower patient's out-of-pocket costs for Epi-Pens and insulin</li> </ul>	<p><b>Wants to Lower Drug Costs</b></p> <ul style="list-style-type: none"> <li>▪ Allow Medicare to negotiate over drug prices</li> <li>▪ Limit new drug launch prices in situations where there is no competition</li> <li>▪ Limit price increases for all brand, biotech and "abusively priced generic drugs"</li> <li>▪ Allow consumers to buy prescriptions from other countries</li> <li>▪ Terminate tax break allowed for drug manufacturers for advertisement spending</li> </ul>
<b>SURPRISE BILLING</b>	<p><b>End surprise billing</b></p> <ul style="list-style-type: none"> <li>▪ Goal is to eliminate unexpected bills related to the complexity of the US Healthcare system</li> </ul>	<p><b>End surprise billing</b></p> <ul style="list-style-type: none"> <li>▪ Goal is to eliminate unexpected bills related to the complexity of the US Healthcare system</li> </ul>

Source: <https://joebiden.com/healthcare/>, <https://www.modernhealthcare.com/>

Irrespective of which candidate or party takes control in 2020, the winner will need to make tough choices and address rising health care costs and the potential depletion of the Medicare Trust Fund as early as 2024. The way forward will likely be a combination of reduced health care expenditures (reimbursement cuts, drug pricing controls, and limitations on surprise billing) and higher taxes. In the case of a Biden presidency, his plan for a public option will seek to expand health care to those who are uninsured or underinsured, but it is unlikely to "bend the cost curve" and ultimately reduce costs since the plan calls for extensive subsidies to ensure affordability for low-income households.

If the Federal government fails to reduce costs or raise revenue, Medicare spending would need to be cut by approximately 17%, or \$1,000 per beneficiary upon insolvency, according to the Congressional Budget Office. Such tough choices will require the next President to commit significant political will to health care reform and a bipartisan commitment to the effort. We remain skeptical that the current political climate is conducive to this path forward, at least in the early years of the next administration.

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