



Healthcare Reform and the US Market

As President Barack Obama seeks to keep his election campaign promise of healthcare reform the debate continues about how this should be done. Healthcare reform has become necessary because the current system is expensive and does not offer coverage to everyone. The US currently spends an average of \$2 trillion annually on healthcare. This is twice the amount of any other nation. It is estimated that the average American spends about \$6,714 for healthcare. In contrast to other countries such as, the UK where \$2,760 is spent or in France \$3,449 and even in Canada where only \$3,678 is spent. It may seem that due to more money being spent by the US it would have a better health care system, but this is not the case. The US is currently ranked 50th in life expectancy and 180th in infant mortality. In addition to this, presently about 46 million Americans do not have coverage, while 25 million are underinsured. President Obama is therefore seeking to establish a new system that would:

- Increase the number of persons who receive health care coverage either through public or private insurance companies
- expand the array of health care providers that the public can choose from
- improve the quality of health care e.g. increase access to specialists
- decrease the cost of health care

It is estimated that transformation of the healthcare system would cost an already debt-laden US government about \$1 trillion over a decade. To achieve his objectives, President Obama is seeking to introduce a new tax for individuals earning over \$250,000. It is proposed from 2011 that for individuals earning:

<u>Income Level</u>	<u>Tax Rate</u>
o \$350,000 - \$500,000	1%
o \$500,000 - \$1m	1.5%
o Over \$1million	5.4%

He has also sought the assistance of hospitals, pharmaceutical and insurance companies to provide cost reductions to consumers. Hospitals have agreed that they will cut \$155billion from their healthcare charges over the next decade in the form of reduced billings to Medicare and Medicaid. Drug makers have also committed \$80 billion in drug discounts for seniors for costs not covered by their current Medicare Plan. This too will happen over a 10 year period.

To ensure that everyone has coverage, it is being proposed that employers who do not provide coverage for their employees will face a penalty that would be about 8% of their workers' wages, with the exception of small businesses. In addition to this, for individuals who decline to have an offer of affordable coverage they will be charged 2.5% of their income. This amounts to the average cost of a health insurance plan.

How will such a Reform affect the financial markets?

The health care sector comprises of the following companies: drug manufacturers, medical instruments, institutional services and drug wholesalers. The US government is proposing to implement an insurance system that would compete with private insurance companies such as United health Group, Well Point Inc. Aetna Inc. in terms of cost, coverage and quality or type of service offered. Presently, the Federal Government has two programs: Medicare, which is a health program covering persons who are over the age of 65 and the disabled of any age and Medicaid, which finances healthcare for the poor. Neither of these directly compete with private insurance companies. With reformation, a private insurance company would no longer be able to turn away higher-risk persons, that is, those over the age of 65 and those with pre-existing conditions. Such action could reduce the profit levels of these companies since the premiums that they receive will be less than the claims being paid. In addition to that, competition would reduce the pool of customers that they serve. As of 2007, private insurance companies covered more than 67% or over 200 million people in the US.

Furthermore, it is argued that there will be serious ramifications for biotechnology companies such as Amgen, Gilead Sciences, Celgene Corp., or Genetech. With the reform:

- drug prices will be lower through the Medicare and Medicaid programs; this will result in lower profit margins for such companies especially Celgene and Genetech who rely heavily on Medicare patients. 45% of Genetech revenues are derived here.
- they would face competition from the re-importation of prescription drugs
- it will accelerate the approval of generic drugs and alter the tax code to limit the ability of the US companies to prevent overseas profits from being taxed. Amgen currently has a heavy concentration in overseas business and pays about 20% of its profits in taxes.

All is not lost in this industry because if tax credits are granted to support research and development of new products, this would be beneficial to this industry. Also, President Obama supports embryonic stem cell research which is another advantage for this industry.

Healthcare Reform may be beneficial to generic drug manufacturers such as Johnson and Johnson, Pfizer and Wyeth. As the focus shifts to reducing costs, generic drug companies are able to produce their drugs at lower prices than brand name drugs. They can increase their market share as the number of persons covered increases. Increased competition however, from generic imports can pose a risk of further reducing prices and ultimately their profit levels. These are large drug manufacturers that should be able to withstand competition and would be a good long term investment in one's portfolio.

Medical equipment companies like: Medtronic Inc., Baxter International Inc. and St. Jude Medical Inc. would face more competition from other countries like China, UK, Spain and India. The increase in competition could reduce profit levels. However, the negative effects can be somewhat offset if they too are given tax credits for research and development to improve on existing technology or if they move their manufacturing plants to low cost regions like India or China.

Profit margins of the drug retailer and wholesaler would be reduced as prices fall. Companies such as Medco Health Solutions, Express Scripts Inc., Mc Kesson Corp may be adversely affected. However, if these companies are able to import cheaper generic products this would positively impact their profit levels.

Healthcare Reform will have its disadvantages as well as some advantages. How advantageous it becomes to market-players depends on the measures that they take mitigate any potential risk that they face.

Table 1: Regional Market Performance (as at 16 July 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	777.29	-0.42	-0.23	-7.79	-33.45
All Trinidad	1,081.46	0.14	0.16	-6.35	-30.44
JSE Index	80,954.24	0.32	-1.88	1.00	-25.84
JSE Select	1,821.04	1.02	-0.81	-8.25	-40.21
All Jamaica	66,897.27	0.73	-1.88	-9.59	-39.55
BSE Composite	844.27	0.03	0.00	-8.22	-21.71

Table 2: International Market Performance (as at 16 July 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	940.74	6.58	3.15	4.15	-24.46
Nasdaq Composite	1,885.03	7.56	4.95	19.53	-17.50
Dow Jones Industrial	8,711.82	6.46	2.44	-0.74	-22.49
German Dax	4,957.19	7.07	1.36	3.06	-19.47
FTSE 100	4,361.84	4.89	0.77	-1.63	-15.31
Nikkei 225	9,344.16	0.57	-4.19	6.82	-26.77
Hang Seng	18,361.87	3.21	1.08	27.62	-13.48
DJ Eurostoxx	2,458.97	6.27	1.36	0.31	-22.55

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