

President-Elect Obama's Plans for Healthcare and Tax

December 19, 2008



Administrative Issues

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Presenters

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Agenda

- Current Environment
- President-Elect Obama's Healthcare Reform Plan
- President-Elect Obama's Business Tax Proposals
- Next Steps

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2009 Environment

President-Elect Obama faces the following issues:

- Need for economic stimulus/recovery package
- Expansion of health insurance coverage
- Addressing R&D credit and other tax extenders
- Extension of the 2001-2003 tax cuts
- Addressing international competitiveness in the tax law
- Confronting the long-term problems in the budget

The President will have to deal with these issues at the same time that he is dealing with initiatives related to transportation, energy, and the environment.

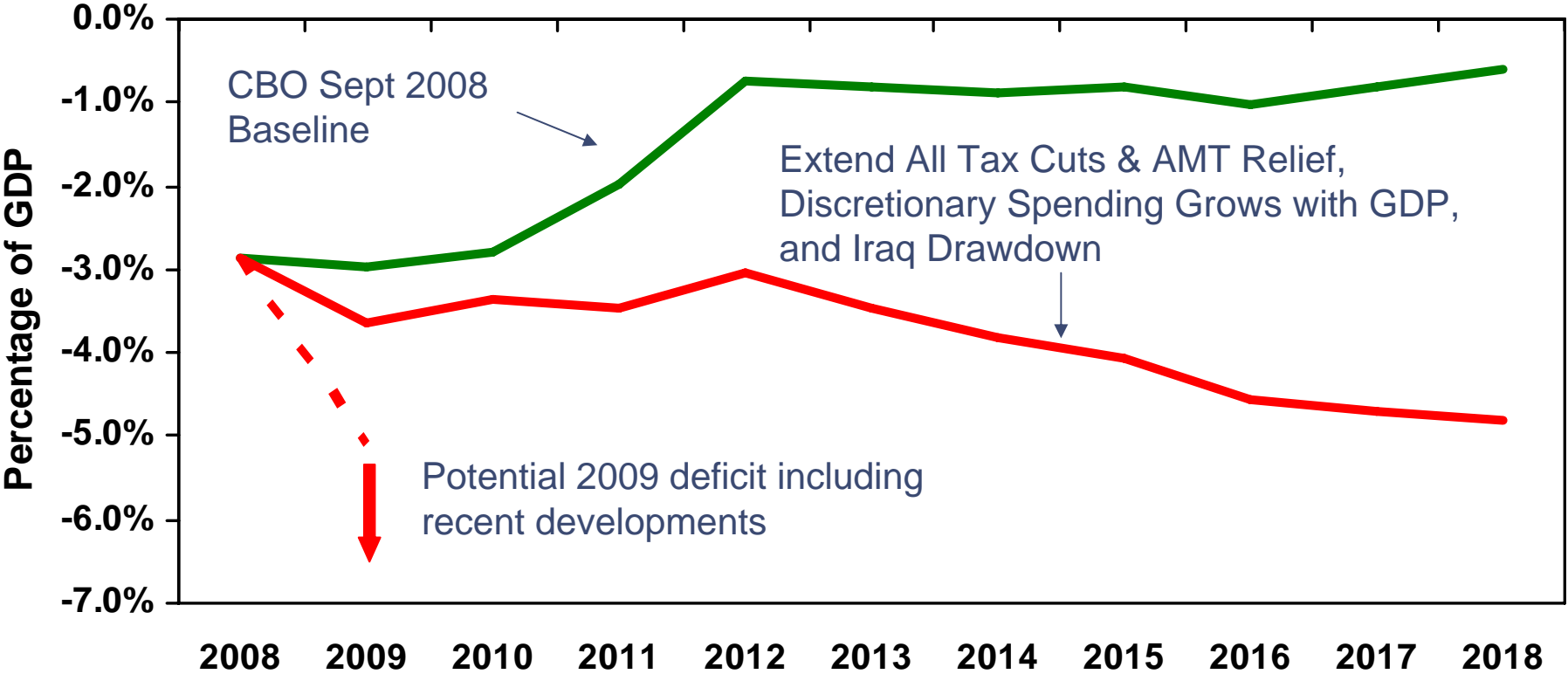
CPE Question 1

Do you see tax reform or health reform as a higher priority issue in 2009?

- A. Tax
- B. Health
- C. Not sure

Deficits are both a short-term and a long-term problem

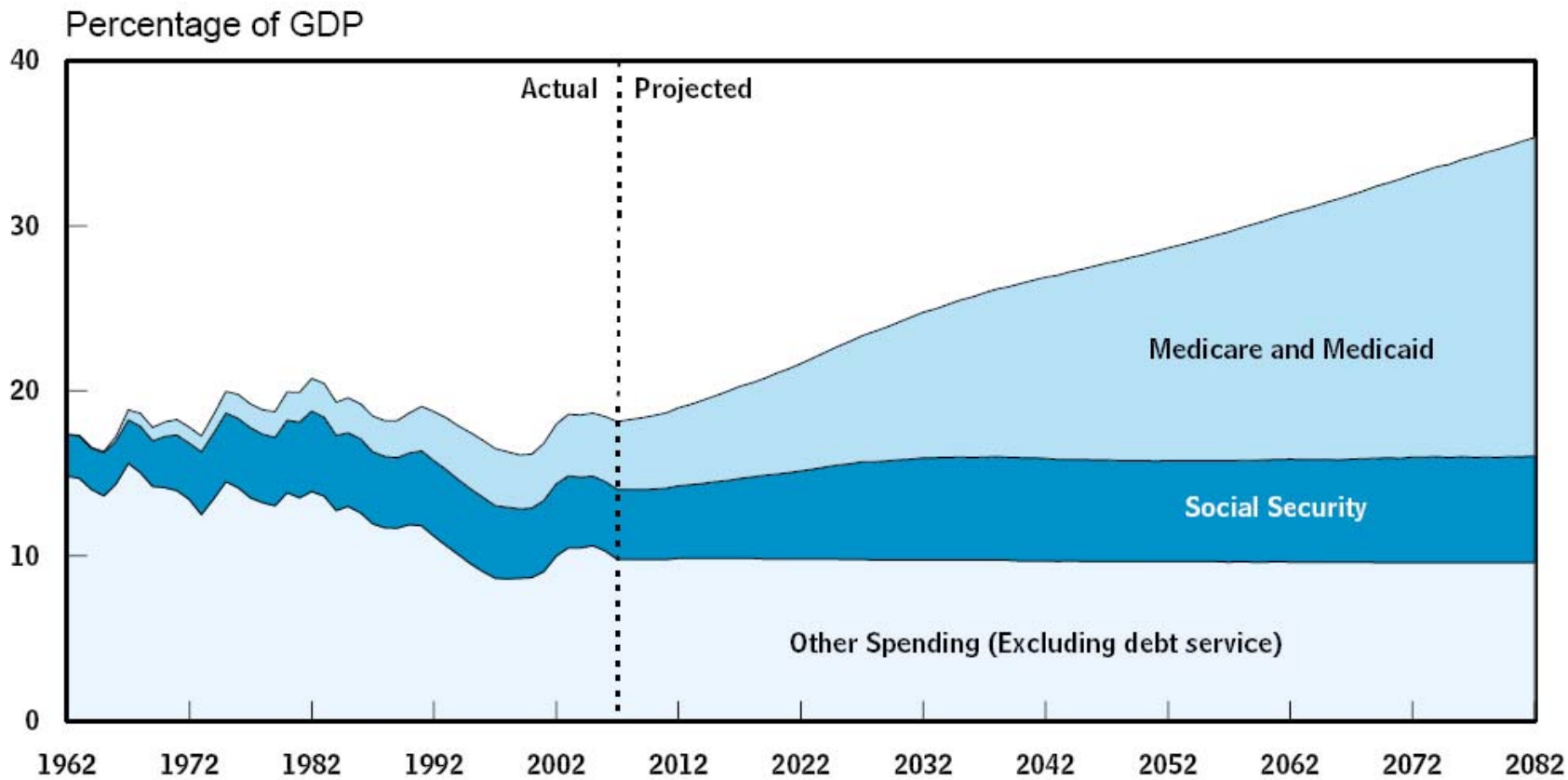
Budget Outlook: CBO September Projections (Deficit as a percentage of GDP)



Source: Congressional Budget Office, September 2008. Iraq drawdown follows CBO alternative with troop reduction to 30,000 by 2011.

Medicare and Medicaid Begin to Consume Available Resources after Baby Boomers Retire

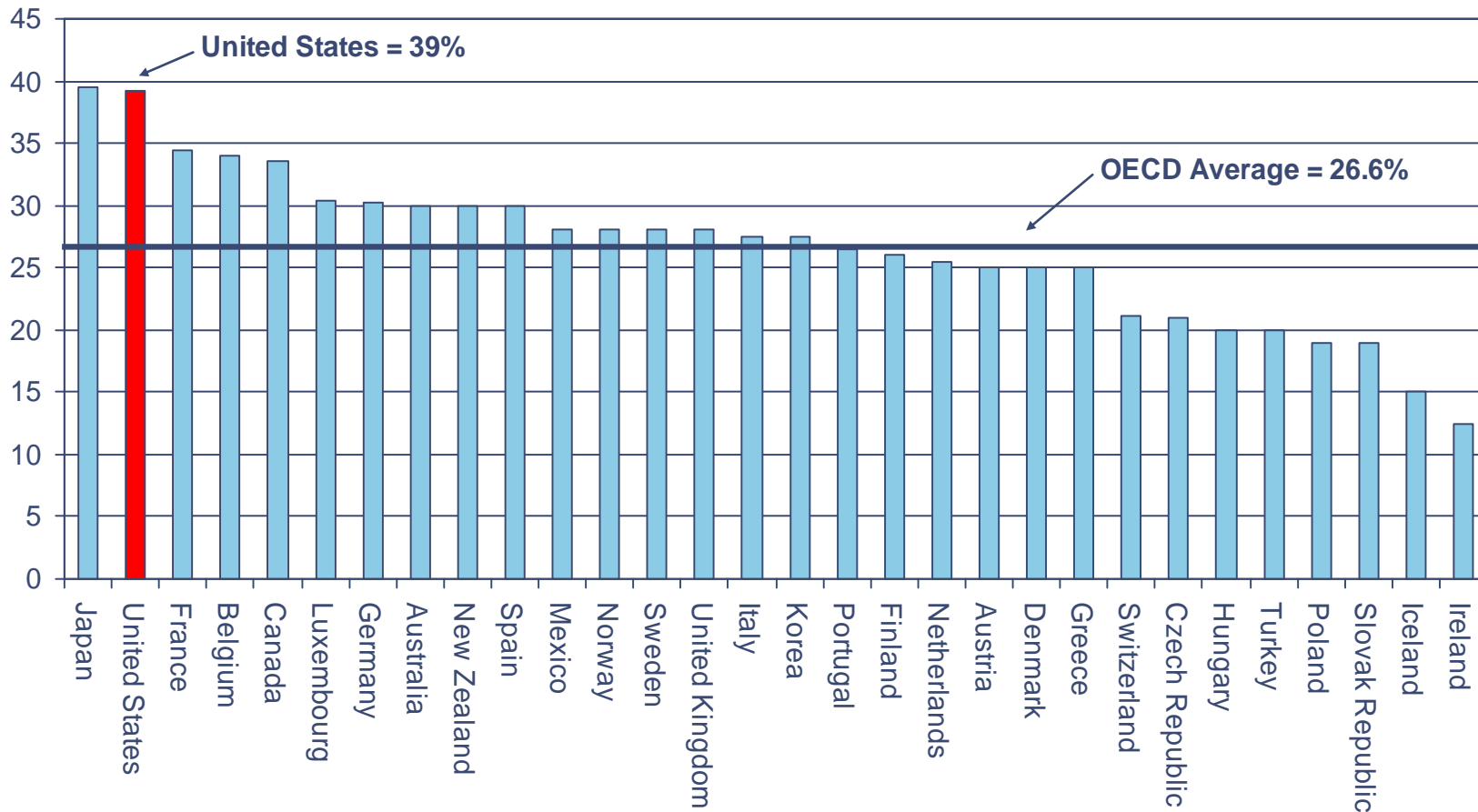
Long-Term Fiscal Outlook



Source: Congressional Budget Office, December 2007

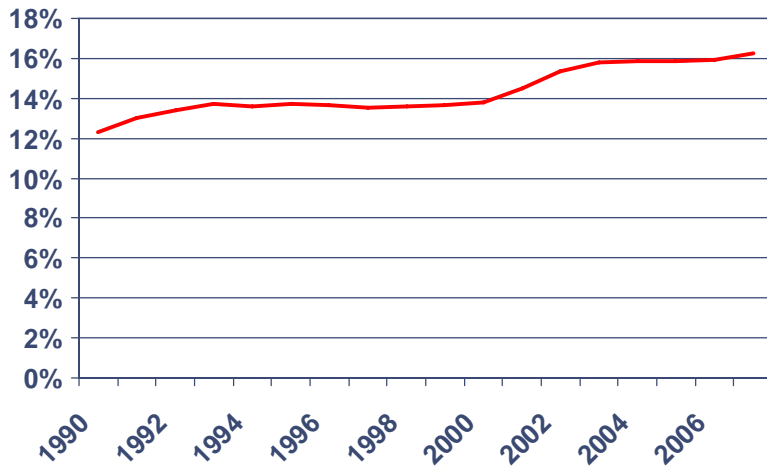
The U.S. corporate tax rate is the second-highest of OECD countries

Combined Corporate Tax Rates for OECD Countries, Tax Year 2008



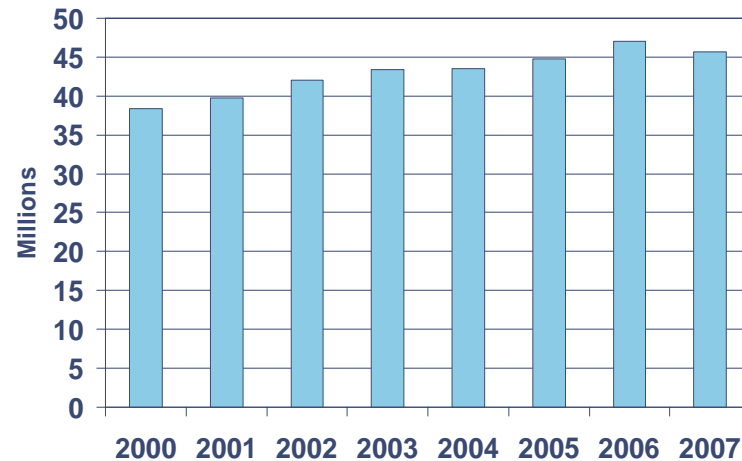
Factors promoting healthcare reform

Healthcare Spending as a Share of GDP, 1990–2007



Source: CMS, National Health Accounts

Number of Uninsured Individuals, 2000–2007



Source: Census Bureau, Current Population Survey

- U.S. healthcare costs continue to grow faster than the economy, which is untenable in the long term.
- Approximately 46 million residents lack health insurance coverage.
- The quality of the U.S. healthcare system is being questioned.
- Long-term fiscal pressures attributable to healthcare costs will begin to appear in the budget window.
- The President will have to deal with these issues at the same time that he is dealing with initiatives related to transportation, energy, and the environment.

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CPE Question 2

Do you think the Congressional Democrats will move forward with President-Elect Obama's plan despite the economic downturn?

- A. Yes
- B. No
- C. Not sure

President-Elect Obama's plans for healthcare reform and tax would build on current systems

Healthcare Reform

- Require coverage for all children
- Provide subsidies to small employers and low-income individuals
- Expand coverage through current providers (employers, Medicaid)
- Create new government-sponsored insurance choices

Tax Proposals

- Business stimulus tax options
- Extend 2001–2003 tax cuts for lower-and middle-income households
- Close foreign and domestic tax “loopholes”
- Make permanent the R&D tax credit
- Lower corporate tax rate if done in a revenue-neutral manner

CPE Question 3

Do you believe Congress will increase taxes to fund healthcare reform?

- A. Yes
- B. No
- C. Not sure

President-Elect Obama's health reform proposal has three prongs

Goal	Action plan	Potential impact
Expand access to quality and affordable health insurance	<ul style="list-style-type: none">• Expand Medicaid/SCHIP eligibility• Implement child and employer mandates• Offer tax subsidies to small employers and low-income Americans• Create a National Health Insurance Exchange with public option	<ul style="list-style-type: none">• More coverage lead to more demand for drugs• More coverage could lead to higher demand for rebates• Public expansion leads to more Medicaid-style rebates
Modernize healthcare	<ul style="list-style-type: none">• Support comparative effectiveness research• Allow prescription drug reimportation and increase generic drug use• Allow Medicare Part D to negotiate drug prices• Invest \$50 billion in health IT over five years• Strengthen antitrust laws on malpractice insurers• Require healthcare quality and cost measurement and reporting	<ul style="list-style-type: none">• Comparative effectiveness research could cut demand for branded drugs• Push for generics leads to more pressure for bio-equivalents• Reimportation and Medicare Part D negotiation could cut margin on drugs• Pressure to reduce premium growth could prompt insurers to move drugs covered by the medical benefit to the drug benefit, where coinsurance is higher• Increased government support for research
Promote public health, prevention, and wellness	<ul style="list-style-type: none">• Require preventive services coverage• Expand community-based health initiatives• Reward work site wellness programs	<ul style="list-style-type: none">• Wellness and prevention initiatives lead to increased market size for drugs

President-Elect Obama's plan adds 30 million newly insured people at a potential cost of \$75 billion per year*

	Enrollment (millions)	Total Costs, 2009 (billions)
Fully subsidized	9.0	\$ 39
Partially subsidized	3.5	7
Medicaid	5.1	17
New Employer	14.7	11
Other Non-Group	6.6	–
Net Reduction in Uninsured	30.4	–
Total Government Cost		\$ 75

*Chart full implementation in January 2009.

Source: PricewaterhouseCoopers calculations.

Implementing five of President-Elect Obama's health policy proposals could lower health spending

Proposal	As % of national health expenditures (2025)
Comparative effectiveness research	
• Funding sources and governance?	(0.6)%
Health information technology	
• Requirements on providers?	(3.6)%
Medical malpractice reform and defensive medicine	
• Effects on insurers and premiums?	(1.6)%
Changed reimbursement model	
• Role of transparency, cost-sharing and bundled payment?	(0.5)%
Disease management, chronic care prevention and wellness	
• Incentives for employers, ties to payment?	(2.7)%
	(9.0)%

The Obama plan could increase overall drug spending by \$7.3 billion, or 2.8 percent

Impact on Overall Drug Spending, 2009 (assuming plan is effective 1/1/2009)

Change	Utilization	Average Price	Overall Impact
Billions of 2009 dollars	+\$10.3	-\$3.0	+\$7.3
Percent	+3.9%	-0.9%	+2.8%

Source: PricewaterhouseCoopers calculations.

CPE Question 4

With increased health insurance coverage, do you believe that pharmaceutical industry revenues will be increased by health reform?

- A. Yes
- B. No
- C. Not sure

Selected Business Economic Stimulus Tax Options (from various sources)

- Pension Plan Funding Relief
- Business Tax Credit for New Hires
- Repatriation of Foreign Earnings
- Expanded Loan Period from CFCs
- Temporary Capital Gains Tax Relief
- Expanded NOL Carryback Period
- Bonus Depreciation
- Expanded Small Business Expensing Limits
- Other?

President-Elect Obama's tax proposals: Selected business tax changes

- Make the research tax credit permanent
- Address tax provisions that “reward corporations that retain their earnings overseas”
- Address offshore tax havens
- Eliminate “CEO pay deductibility loophole”
- Provide tax credit for certain corporations (U.S. based, health care, maintain U.S. work force, retirement plans)
- Codify the economic substance doctrine
- Tax carried interest as ordinary income

The cost of extending the current tax code exceeds \$4 trillion over the coming 10 years

Provision	2009-2018 10-Yr Cost (in billions)
Estate Tax Repeal	\$ 669.8
Extension of Individual Rates	1,041.0
Child Credit, Marriage Penalty, Education, Other 2001 Act	362.0
Dividends and Capital Gains Rates, Small Business Expensing (2003 Act)	340.7
Permanent Individual AMT Relief:	
▪ With 2001 Act Extension	1,282.0
▪ Without 2001 Act Extension	685.0
Permanent Extension of Other Tax Extenders (e.g., R&E Credit)	415.0
Total (Assumes Extension of All)	\$ 4,110.5

Source: 2008 - Joint Committee on Taxation and Congressional Budget Office

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Business Tax Reform?

- House Ways and Means Chairman Rangel preparing new tax reform legislation
 - Successor to H.R. 3970
- 28% target corporate rate

Chairman Rangel Tax Reform Bill (H.R. 3970): Revenue-Neutral Corporate Rate Reduction

Provision	10-Year Cost
Reduce corporate income tax rate to 30.5%	\$ (364 billion)
Permanent extension of small business expensing	(21 billion)
Repeal domestic manufacturing deduction	115 billion
Repeal LIFO and LCM inventory methods	114 billion
Defer expenses on foreign income and limit FTC	106 billion
Repeal worldwide interest expense allocation	26 billion
Increase goodwill amortization period to 20 years	21 billion
Limit eligibility for tax treaty benefits	6 billion
Reduced dividends received deduction	5 billion
Codify economic substance doctrine	4 billion

CPE Question 5

At such time as Congress considers corporate tax reform, would you support the lowering of the corporate rate if it meant repealing certain corporate tax benefits such as Section 199?

- A. Yes
- B. No
- C. Not sure

Positive implications for Pharma, Life Science and Med Device

- More insured means more demand for drugs
- Less need for free drug programs
- Continued R&D tax credit
- Incentives and funding for personalized medicine research
- Possible stimulus proposals that lower corporate taxes

Negative implications for Pharma, Life Science and Med Device

- More drugs come under Medicaid and other government programs with Medicaid-style rebates
- Comparative effectiveness could reduced some branded drug revenue
- Increased pressure on bio-equivalent drug innovators
- Reimportation from Canada could put downward price pressure on branded drugs in the U.S.
- Possible increased taxation of international operations
- Corporate tax reform would result in winners and losers

Next Steps

President-Elect Obama's healthcare and tax proposals raise significant issues.

- Examine company exposure to the potential changes.
- Analyze the potential impact of health reform
 - Consider how the outcomes could vary based on the details of the reform
- Work with policymakers to communicate concerns and the importance of different health and tax proposals

Questions & Answers

