



Health Care For All



January 15, 2015

The Honorable Nancy Pelosi
Minority Leader
United States House of Representatives
Washington, DC 20515

Dear Minority Leader Pelosi,

As members of the Patient, Consumer, and Public Health coalition and enthusiastic supporters of the Affordable Care Act, we thank you for helping millions of Americans obtain health insurance. We are writing to ask you to vigorously defend the 2.3% excise tax on medical

devices by opposing H.R. 160. The excise tax is a key provision in the law that provides a significant source of funding.

Opponents of the tax claim that the medical device industry has suffered as a result of the tax, which went into effect in January 2013. However, the most recent evidence clearly contradicts that claim.

One of our member organizations, the National Center for Health Research, a coalition partner, has recently provided you with a statistical analysis of stock prices, profit margins, sales, and R & D spending of the 12 largest medical device companies¹ based in the United States. Only companies that primarily or exclusively make medical devices were included.

The comparison of stock prices on the day the law went into effect and on its two-year anniversary indicate that stock prices for the 12 companies increased by 6% to 126% with an average increase of 66%. Medical device makers strongly outperformed the New York Stock Exchange Composite Index, which increased by 25% during that same period, and NASDAQ, which increased 52%. The device company stocks increased even more than stocks in the top US-based pharmaceutical companies, which increased 54% during the same two years. Over the last decade, profit margins for the 12 largest device companies averaged between 9-17% (except for 1% in 2009), and the most recently reported 12-month profit margins averaged above 15%.

The analysis also indicates that the companies' sales have steadily increased since 2005, R & D spending has steadily increased, and profit margins are stable from year to year, with a few exceptions of a few companies with volatile changes that are unrelated to the device tax. There is no evidence that the device tax had a negative impact.

It is important to acknowledge that stock prices and other economic indicators are influenced by many factors, including acquisitions and mergers, new blockbuster products, and recalls of popular devices. However, the trends clearly show that the device companies are doing well and there is no indication of problems resulting from the device tax when 2013 and 2014 indicators are compared to any of the years before or after the 2008 financial crisis.

As the *Washington Post* Fact Checker reported last week, small device companies also are doing well, despite concerns expressed in a very small AdvaMed survey. A January 2014 survey of 1,203 senior managers at U.S. medical device companies by Emergo Group, a medical device industry consulting firm, found that 50% made no significant changes in response to the tax.² Fewer than 9% said they reduced staff or employee headcounts in 2013 to lower costs. These data are more credible than the predictions made by only 38 device companies that responded to the AdvaMed survey; moreover, with its response rate of less than 13%, the AdvaMed survey would not be considered scientifically representative of all device companies of any size.

Approximately 10 million Americans have obtained health insurance through the ACA and millions more through Medicaid expansion.³ This benefits medical device manufacturers because patients no longer have to wait for years to be able to afford diagnostic tests, joint replacements, cardiac surgery, and other treatments that involve devices.

Levies in the ACA were designed to ensure that the companies that are benefiting from the ACA will do their part to help support it. The medical device tax is no exception. According to the Joint Committee on Taxation, repealing the excise tax on medical devices would cost more than \$29 billion over 10 years.⁴ In addition to adding to the deficit, this would set a terrible precedent that could encourage others to try even harder to undo crucial funding provisions in the ACA.

As the most recent analyses show, the medical device industry is highly profitable and has continued to thrive since the excise tax was implemented. CRS notes that the device tax has not harmed companies or the cost of health care.⁵ Meanwhile, the cost of health care increased less from 2013 to 2014 than it has in the past 10 years.⁶

Fortunately, Congress designed the excise tax to apply equally to imported and domestically produced devices, and does not apply to devices produced in the U.S. for export, so there would be no benefit for manufacturers to shift production overseas.

The medical device industry has spent \$150 million in lobbying to repeal the medical device excise tax.⁷ A repeal of the medical device excise tax would be unacceptable to those of us who strongly support the Affordable Care Act.

Thank you for your strong leadership and please continue to do everything possible to ensure that the ACA is not undermined by special interests and unnecessary cuts in revenue. We urge you to oppose H.R. 160, which would repeal the excise tax on medical devices.

American Medical Student Association
American Medical Women's Association
Breast Cancer Action
Community Catalyst
Health Care For All, Boston Massachusetts
Jacobs Institute of Women's Health
MISSD
Mothers Against Medical Error
National Center for Health Research
National Consumers League
National Physicians Alliance
National Women's Health Network
The TMJ Association
WomenHeart: The National Coalition for Women with Heart Disease
WoodyMatters

¹ We selected the 12 largest US-based companies that primarily or exclusively sell devices from the top company listed on *Medical Device and Diagnostic Industry* (December 14, 2013). *Top 40 Medical Device Companies*. <http://www.mddionline.com/article/top-40-medical-device-companies>

² Lee, M (January 7, 2015). Fact Checker: Has the medical device tax eliminated ‘thousands’ of jobs? The Washington Post. <http://www.emergogroup.com/resources/research/annual-medical-device-industry-survey>

³ New York Times (November 11, 2014). The Upshot: Affordable Care Act Enrollment FAQs. <http://www.nytimes.com/interactive/2014/11/11/upshot/obamacare-facts-affordable-care-act-enrollment.html?module=Search&mabReward=relbias%3Aw%2C%7B%221%22%3A%22RI%3A11%22%7D&abt=00&abg=0>

⁴ Joint Committee on Taxation (May 29, 2012). Description of H.R. 436, the Protect Medical Innovation Act of 2011. <https://www.jct.gov/publications.html?func=startdown&id=4431>

⁵ Congressional Research Service (November 3, 2014). The Medical Device Excise Tax: Economic Analysis. <http://fas.org/sgp/crs/misc/R43342.pdf>

⁶ U.S. Bureau of Labor Statistics. Medical Care.

http://data.bls.gov/timeseries/CUUR0000SAM?output_view=pct_12mths

New York Times (November 11, 2014). The Upshot: Affordable Care Act Enrollment FAQs.

<http://www.nytimes.com/interactive/2014/11/11/upshot/obamacare-facts-affordable-care-act-enrollment.html?module=Search&mabReward=relbias%3Aw%2C%7B%221%22%3A%22RI%3A11%22%7D&abt=00&abg=0>

⁷ USA Today editorial (January 4, 2015). Keep medical device tax: Our view.

<http://www.usatoday.com/story/opinion/2015/01/04/obamacare-medical-device-tax-repeal-congress-editorials-debates/21261737/>