



NATIONAL CENTER FOR HEALTH RESEARCH

The Voice For Prevention, Treatment And Policy

January 9, 2015

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, DC 20510

Dear Majority Leader McConnell,

We are writing to challenge the claim that the 2.3% excise tax on medical devices should be repealed because it is harming medical device companies. As scientists, we decided to scrutinize the evidence, and found that medical device companies have continued to prosper since the tax went into effect in January 2013.

We examined the stock prices, profit margins, sales, and R & D spending of the 12 largest companies¹ based in the United States that exclusively make medical devices.

We compared stock prices on the day the law went into effect and on its two year anniversary. As you can see in our chart below, 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. And, 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%.

Device Company	Close on 1/2/2013	Close on 1/2/2015	% change in last 2 years	Net Profit Margin for the last 12 months*
Boston Scientific (NYSE:BSX)	\$5.89	\$13.22	124%	3.9%
St. Jude Medical (NYSE:STJ)	\$36.61	\$64.94	77%	14.8%
Allergan (NYSE:AGN)	\$94.04	\$212.75	126%	18.6%
Zimmer Holdings (NYSE:ZMH)	\$67.70	\$112.59	66%	17.0%

CareFusion (NYSE:CFN)	\$29.28	\$59.43	103%	10.6%
CR Bard (NYSE:BCR)	\$101.83	\$167.48	64%	25.5%
Medtronic (NYSE:MDT)	\$41.88	\$71.88	72%	16.8%
Stryker (NYSE:SYK)	\$55.88	\$93.99	68%	6.7%
Hologic (NasdaqGS:HOLX)	\$20.47	\$26.38	29%	0.7%
Varian Medical Systems (NYSE:VAR)	\$72.47	\$87.02	20%	13.2%
Edwards Lifesciences (NYSE:EW)	\$92.14	\$127.72	39%	34.7%
Intuitive Surgical (NasdaqGS:ISRG)	\$497.52	\$525.57	6%	20.8%
AVERAGE			66.2%	15.3%
N.Y. Stock Exchange Composite Index	\$8,632.01	10,830.92	25%	
NASDAQ	\$3,112.26	\$4,726.81	52%	

*Data from nytimes.com on 1/7/15 representing trailing 12 months of data posted by the companies.

More detailed information about the top device companies is included in the attached chart, which provides data from 2005 or earlier, depending on the indicator. As you can see, sales have steadily increased since 2005, R & D spending has steadily increased, and profit margins are remarkably stable from year to year. There is absolutely no evidence that the device tax had a negative impact. Please note, we have R & D statistics and sales for 2013, but 2014 data won't be posted until February.

Of course, stock prices and other economic indicators are influenced by many factors, including acquisitions and mergers, new blockbuster products, and frightening recalls. However, the trends are absolutely clear: the device companies are doing well (despite some expensive, well-publicized recalls of medical devices in recent years) and there is no indication of problems resulting from the device tax when 2013 and 2014 indicators are compared to any of the last 10+ years.

As the *Washington Post* Fact Checker reported yesterday, there is no objective evidence that small device companies were harmed by the device tax. In fact, 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% did not make any significant changes in response to the tax.² Fewer than 9% said they reduced staff or employee headcounts in 2013 to lower costs. We agree with the Fact Checker article that these data are more meaningful than the more subjective 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 is not considered scientifically valid.

Device companies are thriving because about 10 million Americans have obtained health insurance through the Affordable Care Act and millions more through Medicaid expansion.³ The ACA is greatly benefiting medical device manufacturers because baby boomers and others no longer have to wait for Medicare coverage in order to have diagnostic tests, joint replacements, cardiac surgery, and other surgeries and treatments that involve devices. Like the other levies in the ACA, the device tax was designed to ensure that the companies that are benefiting from the ACA will do their part to help support it.

According to the Joint Committee on Taxation, repealing the excise tax on medical devices would cost more than \$29 billion over 10 years,⁴ which our economy cannot afford. It is also worth noting that U.S. Taxpayers are paying a disproportionate share of the cost of medical devices, since the prices of devices in the U.S. far exceed the prices for the same devices sold in other comparable countries, and these costs contribute to the higher costs of health care in the U.S. compared to other countries with longer life expectancies.^{5,6}

As our charts (above and attached) show, the medical device industry is highly profitable and is thriving since they started paying the excise tax. Whether or not the manufacturers increase the cost of their devices by 2.3% as a result of the tax, it has had or would have almost no impact on the cost of consumers' health care or insurance, given the many other factors contributing to the high cost of health care.⁷ In fact, the cost of health care increased less from 2013 to 2014 than it has in the past 10 years.⁸

It is important to note that Congress designed the excise tax so that it applies 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.

Thank you for your commitment to the fiscal integrity of our economy. The medical device industry has spent nearly \$150 million in lobbying to repeal the medical device excise tax,⁹ but lobbying clout should not be the deciding factor regarding a tax that is estimated to provide \$29 billion to the U.S. budget over the next 10 years and is being used to expand Medicaid and provide affordable health insurance for your constituents and millions of other Americans.

Sincerely,

A handwritten signature in cursive script that reads "Diana Zuckerman".

Diana Zuckerman, PhD, President

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=0002&abg=0>

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

⁵ Angrisano C, Farrell D, Kocher B, Laboissiere M, Parker S. (January 2007). Accounting for the Cost of Health Care in the United States. McKinsey Global Institute. http://www.mckinsey.com/insights/health_systems_and_services/accounting_for_the_cost_of_health_care_in_the_united_states

⁶ Farrell D, Jensen E, Kocher B, MD, Lovegrove N, Melhem F, Mendonca L, Parish B (December 2008). Accounting for the cost of US health care: A new look at why Americans spend more. McKinsey Global Institute. http://www.mckinsey.com/insights/health_systems_and_services/accounting_for_the_cost_of_us_health_care

⁷ Center on Budget and Policy Priorities (October 2, 2013). Excise Tax on Medical Devices Should Not Be Repealed, Industry Lobbyists Distort Tax’s Impact <http://www.cbpp.org/cms/?fa=view&id=3684>

⁸ 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.

⁹ 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/>