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Assessing the potential impacts on U.S. health care in an election year

From the Field
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Key Insights

- While health care historically has been one of the hottest political potatoes in the lead-up to a U.S. presidential election, discussions this campaign have been more subdued.
- Perhaps the biggest issue at stake is in relation to the future of the Affordable Care Act, aka Obamacare, with potentially binary impacts depending on the election outcome.
- Both leading candidates have voiced concerns about rampant health care cost inflation, and each appears committed to reducing the high cost of prescription drugs.

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The 2024 U.S. presidential election campaign has been noteworthy for the lack of big-ticket issues or policies from either leading candidate. Health care, for example, historically has been one of the hottest of all political potatoes during election years, given the scope for impactful change, but it has featured much less prominently in either candidate's campaigning in this election cycle. This low-key focus has been less disruptive for the health care sector than in recent election year campaigns, a fact duly reflected on the markets, with the sector posting positive returns in 2024 to date, albeit trailing the broader equity market's rally.

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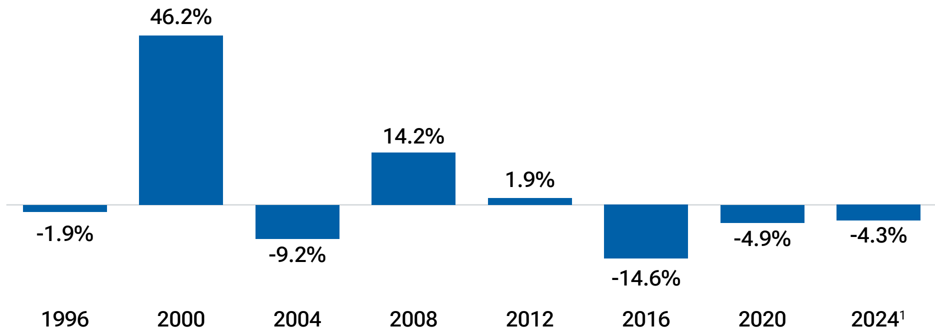
Health care returns have been inconsistent in election years

(Fig. 1) Annual relative returns in U.S. election years (S&P health care sector vs. S&P 500)



As of May 15, 2024. Annual total returns.
Past performance is not a reliable indicator of future performance.
Index performance is for illustrative purposes only and is not indicative of any specific investment. Investors cannot invest directly in an index.
[1] Year to date as of May 15, 2024.
Source: Refinitiv Eikon. Analysis by T. Rowe Price.

By way of comparison, recent election years show the health care sector performing inconsistently, delivering an array of negative and positive annual returns in different election years (Fig. 1). This erratic track record has much to do with how central a topic health care has been in each election campaign and how significant the proposed changes to the U.S. health care system have been in the lead-up to each election. One only needs to look back to the 2019–2020 campaign trail, when Democrat candidates proposed wholesale change in the form of "Medicare for All," a single-payer health system, to understand the pivotal role that health care can play in an election campaign.

With health care not being central to either candidate's campaign talking points in 2024, the biggest impact on the sector is likely to come from which candidate ultimately wins and what this might mean for key health care issues. In this paper, we delve deeper into some of these contentious health care areas and consider the potential impacts depending upon who is elected come November.

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U.S. managed care could see binary impacts

One of the most divisive—and decisive—areas of U.S. health care is the managed care industry, where ideology sees each candidate diametrically opposed in their view of, and approach to, providing health care to the American population.

Drilling down into the broad managed care landscape, we see four key topics that are likely to be central areas of focus for both candidates but that could see very different impacts, depending on who is ultimately elected the next U.S. president. We consider each of these below, from both sides of the political aisle.

If Joe Biden is elected:

1. The Affordable Care Act

During his current term of office, President Biden has gone to great lengths to strengthen the Affordable Care Act (ACA)—also known as Obamacare—and expand affordable health care coverage to more Americans. Since his election, President Biden meaningfully strengthened the ACA exchanges, which allow individuals to shop for subsidized health insurance plans, both through the introduction of enhanced subsidies in 2021, and increasing the income levels eligible for subsidy. An increase in marketing spending also aided ACA exchange awareness. During the most recent 2024 enrollment period, some 21 million Americans signed up for health insurance coverage through ACA exchanges—the highest-ever total—and a massive increase from 11.4 million members in 2020.[1]

With the expanded subsidies set to sunset in 2025, President Biden will be keen to try and make these subsidies permanent should he secure a second term. The main beneficiaries of an extension of the subsidies and continued growth in the ACA exchange enrollment will be managed care companies with sizable exchange businesses, along with providers who have seen incremental volume growth and improved payer mix associated with the increasing exchange membership.

2. Medicare

Under a reelected Biden administration, Medicare—the government-funded health plan primarily for older Americans—is likely to see a continuation of the status quo. While not expected at the time of the 2020 election, President Biden and the Democratic administrators at Centers for Medicare and Medicaid, which sets Medicare policy and rates, has put forth policies that have been much more onerous than expected for the Medicare Advantage (MA) industry.

Many of the adjustments made to the Medicare program thus far have created new headwinds to profitability for Medicare plans. These have included meaningful changes to the "risk model," which MA plans use to determine individual beneficiary payment rates, and much more modest Medicare Advantage rate updates than the industry received during the Trump administration. While a reelection of President Biden should be a continuation of the status quo, the last two rate-setting cycles have created challenges for the MA industry, and as such, we believe the industry would welcome a change in administration.

3. Hospitals and health services

U.S. hospitals have been meaningful beneficiaries of the expanded ACA subsidies introduced under the Biden administration, driving increased patient volumes coming from newly insured ACA enrollees. Since commercial insurance typically reimburses hospitals at higher rates than government programs such as Medicare and Medicaid, and most certainly relative to uninsured patients, the growth in ACA-insured patients in hospitals has also contributed to higher profit margins for hospitals. A likely continuation of the ACA subsidies under a reelected Biden administration would see this trend continue.

Less positively, since taking office, the current administration has also attempted to control consolidation in the hospital subsector, including banning several planned mergers. While hospital mergers are ideally supposed to create cost efficiencies among often struggling hospitals, the creation of huge conglomerates and hospital networks has driven up U.S. medical costs, with some boasting near-monopoly pricing power.

4. Drug pricing

The main uncertainty in relation to drug pricing revolves around legislation introduced under the Inflation Reduction Act (IRA) giving Medicare (under Part D of the program, which covers drug prescriptions and subsidies available to plan members) the power for the first time to negotiate drug prices with manufacturers. The negotiations began in August 2023, with 10 drugs selected, and older Americans are already seeing lower out-of-pocket costs.

By the time the redesign of Part D is fully implemented in late 2025, it is expected that pharmaceutical companies will be picking up a considerably larger portion of U.S. prescription drug costs than has previously been the case. If reelected, President Biden would continue to push through measures introduced under the IRA, potentially expanding the number of drugs eligible for price negotiation. In December 2023, the Biden administration also announced new plans to boost competition in the pharmaceutical sector, while ensuring lower prescription drug costs.

[1] KFF—independent provider of U.S. health policy polling and research. As of January 24, 2024.

If Donald Trump is elected:

1. The Affordable Care Act	Former President Trump has resumed his criticism of the ACA this campaign, and vowed to repeal and replace the legislation if he is reelected. While a full repeal and replace is highly unlikely, having failed during President Trump's prior term, if reelected, President Trump could embark on efforts to weaken key provisions of the ACA. One key element of the ACA that a Trump victory could impact would be the expanded ACA subsidies that are set to expire at the end of 2025 and would require legislative action to be extended. Other levers available to President Trump, if elected, would be to scale back on ACA marketing investments and, on the Medicaid side, increasing the power of states to restrict eligibility to Medicaid via work requirements and other measures.
2. Medicare	A reelection of former President Trump would likely be more positive for the MA program, as his actions in his first presidential term served to strengthen funding for MA and increase the penetration relative to traditional fee-for-service Medicare. While a Trump reelection would be a "net win" for the Medicare plans, it is not known if President Trump would be as supportive of MA in a second term as he was in his first due to increasing rhetoric in Washington on both sides of the political aisle around overpayments to Medicare Advantage plans relative to fee for service.
3. Hospitals and health services	There is concern among investors in hospitals that a Trump administration is unlikely to extend the expanded ACA subsidies once they expire in 2025. These subsidies have driven a sharp increase in ACA enrollment, which has led to an increase in hospital admissions and provided a boost to hospital profitability in recent years. That said, there is one significant consideration that may give former President Trump reason for pause, namely the fact that the constituents in the key Republican states of Texas and Florida have been huge beneficiaries of the expanded ACA subsidies with ACA enrollment up 120% in Florida and 210% in Texas since 2020. The Trump administration would have to consider both the impact on constituents (voters) in these states, with 4.6 million individuals gaining coverage since 2020 in these two states, as well as the locally important hospital industry. The publicly traded for-profit hospital companies are highly exposed to Texas and Florida, where the most growth in ACA exchange enrollment has been seen. State hospitals, which are also large employers in their local markets; state governments; and, importantly, local voters, have all benefited to varying degrees. So, cutting off the current expanded ACA subsidies completely in 2025 may be easier said than done.
4. Drug pricing	Drug pricing has not featured as prominently as it has in previous election campaigns; however, the high cost of prescription medicine remains an important issue on both sides of the political spectrum. Both candidates have voiced a desire to rein in health care inflation and reduce drug prices, albeit via different means. During his time in office, President Trump floated the idea of implementing a "Favored Nation Model," whereby Medicare Part B prescription drug prices would be pegged to the lowest price paid by other developed nations. While the proposal was ultimately blocked, it highlights a clear commitment to act on what is a key issue for American voters. Whether or not a new Trump administration would continue with the price negotiation powers granted to Medicare under the IRA remains to be seen. To date, President Trump has said little on this, nor has he proposed any alternative policies aimed at reducing drug prices. Suffice it to say that, previously, President Trump has not been a particular friend to "big pharma," so a return to office is unlikely to be more favorable than a Biden administration for the sector, and possibly much less so.

Health care spending will continue to rise, but beneficiaries will differ

Whoever ultimately is elected the next U.S. president in November, we would expect health care spending to continue rising under either a Biden or a Trump administration. Even though both candidates have voiced a desire to bring down medical inflation, and specifically to rein in high drug prices, total spending will continue to be driven higher by patient demand, an aging population, and the cost of medical services and innovation. Our expectation, should President Biden win, is for total health care expenditure to increase, with public spending outpacing private. An early budgetary port of call for a new Biden administration is likely to be an extension to the expanded ACA subsidies. In contrast, if President Trump is reelected, we anticipate that he will move to reduce or eliminate the expanded federal subsidies, as well as reduce funding for several health programs, including Medicaid. While any attempts to overturn Obamacare fully are unlikely to succeed, weakening the ACA could ultimately see higher costs and reduced coverage for lower-income Americans. In the event of a Trump victory, we would anticipate increased private health expenditure, at the expense of public programs, while pharmaceutical companies could also be better off, should a new Trump administration revoke Medicare's power to negotiate drug prices directly.

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