

Our thoughts on the implications of US healthcare reforms

In the US President Obama signed into law a historic piece of legislation on healthcare reform today. At over 2400 pages the bill is highly complex so there are many moving parts here. It includes not only healthcare reform legislation but also methods to pay for it some of which have nothing to do with healthcare. But there are two main points. Firstly, it intends to provide healthcare insurance to more than 30 million currently uncovered people in the US, and secondly, it intends to pay for this through various reform measures along with new taxes and fees.

According to the Congressional Budget Office the healthcare reform legislation enacted will reduce the federal deficit over the next ten years, but that is clearly dependent on follow through on many of the reforms, fees, and new taxes in the bill. The difficulty comes from the fact that many of the provisions of the bill will not be implemented until years out and then are phased in gradually. So the net impact of the bill is highly dependent on future politicians not tinkering with the legislation. Certain items such as a tax on "Cadillac" or high value insurance plans and an increase in income tax on those making over \$200,000 are sure to be hotly debated, both of which are set to be implemented in 2013 and beyond, which is after the next presidential election.

One immediate impact from the bill will be to require insurance companies to cover those with pre-existing conditions by September. Currently insurance companies in the US can deny coverage to those with pre-existing conditions such as cancer, thereby exposing some people at high risk to the threat of not being able to pay for much needed treatment.

In terms of impact on stocks we think this bill is relatively benign as there are offsetting positives with the negatives. For most healthcare companies you will see a larger patient population as a result of the 30m+ people coming into the insurance fold, which will offset the reduction in prices or increase in fees and taxes. We think reform will be particularly positive for the diagnostics sector, where we have significant exposure in the international funds, due to increased use of those services in addition to the larger covered patient pool.