

The Recent Health Care Law: Consequences for Indiana Families and Workers

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My name is Denis Johnson, and I am the Vice President of Operations at Boston Scientific's manufacturing facility in Spencer, IN. Thank you for inviting me to testify today on the impact of the Patient Protection and Affordable Care Act (PPACA) on Indiana's medical device industry.

Boston Scientific is one of the world's largest medical device companies dedicated to less-invasive medicine. The company's mission is to improve the quality of patient care and the productivity of health care delivery through the development and advocacy of less-invasive medical devices and procedures. We accomplish this by continually refining our existing products and developing new technologies that are designed to reduce risk, trauma, cost, and procedure time. Boston Scientific has 15,000 employees in the U.S. and invests \$1 billion each year in research and development.

In Spencer we have nearly 1,000 employees who produce 2.2 million less-invasive medical devices every year. Their average salary and benefits package is significantly higher than the state average. Nearly half of our employees live right in Owen County, so our impact on this rural part of the state is significant, and growing. We are good community partners as well. Boston Scientific contributes nearly \$150,000 a year to local charities and hundreds of volunteer hours for worthy causes such as Christmas for Kids, Hoosiers Outrun Cancer, local schools and various other health related events. Because of our significant impact in America's heartland, Spencer was highlighted in a recent ad campaign that showed the impact and opportunity companies like ours have for our workers, their families and our community.

The US and Indiana Medical Technology Industry

The medical device industry is a uniquely American success story -- both for patients and for our economy. The United States is the world leader in manufacturing life-saving and life-enhancing treatments for patients. At the same time, the medical technology industry has become an important engine for economic growth, especially in Indiana.

Our industry employs more than 400,000 workers nationwide. In Indiana alone, there are nearly 20,000 Hoosiers working at more than 300 FDA registered medical device manufacturers, with an annual payroll of \$1.1 billion. The industry has grown by nearly 30% in recent years and provides high-quality jobs that pay 40 percent more than the average wage in Indiana.

Nationwide, the industry is fueled by small businesses and entrepreneurs providing high-quality jobs: 62% of firms have less than 20 employees and only 2% have more than 500. Additionally, the medical device industry is a net exporter, totaling more than \$33B annually, and has consistently enjoyed a favorable balance of trade. With the aging of US and foreign populations and the accelerating pace of biomedical discovery, the growth potential for this industry strong.

Impact of the Patient Protection and Affordable Care Act (PPACA) on Indiana's Medical Device Industry

Boston Scientific strongly supported health care reforms that improve quality by advancing the cause of evidence-based medicine. As part of the debate on PPACA, we

strongly advocated for the creation of a comparative effectiveness research institute to help clinicians and patients better understand the benefits of alternative treatments. This research can pave the way for more personalized medicine and better care by learning what works best for different populations.

We advocated for reforms to encourage greater coordination among health providers and called for greater emphasis on individual patient responsibility, prevention and wellness. We also highlighted the potential of remote monitoring technologies to improve care by better tracking and managing patients with costly chronic diseases.

Medical Device Tax Will Impede Innovation and Patient Access to Medical Technology

While we are very proud of the progress we have made in improving patient care and see immense future opportunities to provide jobs and contribute to long-term economic growth in the United States, we are very concerned about the burden of the medical device tax on the industry. The new health law imposed a 2.3% excise tax on most types of medical devices. The excise tax is based on revenue, not profit, and begins in 2013. This harmful new tax is expected to collectively increase federal taxes on medical device companies by \$20 billion through 2019, and will cost Boston Scientific alone more than \$100M a year in additional taxes. Such a severe increase in tax liability will undoubtedly force us to cut critical R&D funding and inhibit job creation and retention.

Contrary to the stated goals of the president's reform efforts, the medical device tax will actually increase health care costs and undermine another of the White House's important objectives—promoting innovation. The US Congress should embrace the value of the medical technology industry to our economy and to our health care system by repealing this onerous tax. It will inevitably stifle innovation, destroy jobs, and thwart patient access to breakthrough technologies that have saved and enhanced millions of lives.

The Medical Device Tax Should be Repealed for Three Important Reasons:

First, this tax will stifle innovation and cost thousands of high-paying jobs. It will dramatically increase the effective tax rate for medical technology companies -- severely reducing financial resources that should be used for R&D, clinical trials and investments in manufacturing. The impact will be especially hard on smaller companies whose innovations are not immediately profitable.

Second, this new tax will increase health care costs, not contain them, as much of the 2.3% increase will be passed on to consumers either directly or indirectly.

Third, there is no device industry "windfall" from healthcare reform. Unlike other industries that may benefit from expanded coverage, a majority of device-intensive medical procedures are performed on patients that are older and already have private insurance or Medicare coverage. In Massachusetts, which passed a healthcare reform law which became the basis for the new federal law, there has been no device "windfall" despite the addition of 400,000 covered lives. The lack of a windfall is

evidenced by the largely unchanged volumes of device-intensive procedures in Massachusetts after coverage expansion.

Conclusion

The bottom line is this regressive tax would undermine America's, and Indiana's global leadership position in product innovation, clinical research and patient care. In this challenging economic environment, this tax will most assuredly hinder the development of the next generation of breakthrough treatments. Again, thank you for inviting me to testify on the impact of PPACA on the medical device industry. I look forward to answering your questions.