NACDS NATIONAL ASSOCIATION OF CHAIN DRUG STORES

Statement

Of

The National Association of Chain Drug Stores

For

U.S. House of Representatives
Committee on Ways and Means

Hearing on:
Increasing U.S. Competitiveness and Preventing American Jobs from Moving Overseas
May 23, 2017
10:00 A.M.

1100 Longworth House Office Building

National Association of Chain Drug Stores (NACDS)
1776 Wilson Blvd., Suite 200
Arlington, VA 22209
703-549-3001
www.nacds.org

Introduction

The National Association of Chain Drug Stores (NACDS) thanks Chairman Brady, Ranking Member Neal, and the Members of the Committee on Ways and Means for the opportunity to submit the following statement for the record regarding "Increasing U.S. Competitiveness and Preventing American Jobs from Moving Overseas." More specifically, our testimony reflects our concerns with the negative impact of a border adjustment tax (BAT) on retail pharmacies within the United States. As employers of 3.2 million Americans, the chain pharmacy industry is committed to partnering with Congress to promote American job growth, but a BAT would financially harm chain pharmacies, interfere with patient access to affordable medications, and potentially cause chain pharmacies to cut jobs.

NACDS represents traditional drug stores, supermarkets and mass merchants with pharmacies. Chains operate 40,000 pharmacies, and NACDS' more than 100 chain member companies include regional chains, with a minimum of four stores, and national companies. As previously mentioned, chains employ more than 3.2 million individuals, including 178,000 pharmacists. They fill over 3 billion prescriptions yearly, and help patients use medicines correctly and safely, while offering innovative services that improve patient health and healthcare affordability. NACDS members also include more than 850 supplier partners and over 60 international members representing 21 countries.

BAT Would Increase Healthcare Costs

While NACDS supports corporate tax reform, a BAT is not the proper means to achieve this goal. NACDS represents small and large pharmacies across the United States, and almost universally, these businesses and their customers will suffer damaging consequences if

Congress passes a BAT. Broadly, 60 to 70% of a pharmacy's business involves selling products that originate overseas, including drug products. Under a BAT, the cost to pharmacies to purchase these products rises, which yields a host of negative consequences for both pharmacies and their customers. Retail bears the lion's share of the burden of a BAT, and pharmacies are especially burdened where a BAT applies to foreign manufactured drugs.

A significant concern with applying a BAT to retail pharmacies and foreign manufactured pharmaceuticals is the impact on patient access to prescription drugs. Pharmacies rely heavily on purchasing drugs that have been manufactured overseas in FDA-approved facilities under FDA oversight. This is particularly true for generic drugs, many of which are manufactured in India. If these drugs are subject to a BAT, then the price to purchase these drugs rises and that higher price is ultimately passed on to patient. Therein lies the access problem. Consumers may not be able to afford the BAT-induced drug price increases. Even patients with health insurance coverage for their medications may not be able to afford the increase to their cost sharing, such as increased co-pays and deductibles.

Patients' failure to take their medication due to high costs is a medication adherence problem. These patients are not taking the drugs they need to stay healthy or manage a chronic illness. The result is not only a decrease in patient health care quality and outcome, but a fiscal loss for the payer, whether that payer is the government or private insurance. For example, in the context of TRICARE, the CBO studied the impact of increases in prescription drug copays for TRICARE beneficiaries and found:

> [W]hile the higher copayments may deter some beneficiaries from filling prescriptions they no longer need or use, those higher copayments also could

> cause some chronically ill beneficiaries to stop taking their medications, resulting in more doctor visits and hospitalizations. As a result, CBO estimates that the $4.9 billion in direct pharmacy savings would be offset by a $1.1 billion increase in other federal spending for medical services (mostly from Medicare).[1]

Similarly, a *Health Affairs* study found that a 1% increase in overall prescription drug use is associated with decreases in overall Medicaid costs by as much as $760 million annually.[2] Both findings demonstrate that higher cost drugs lead to lower drug utilization by patients, which leads to higher health care costs in the long run, whereas lower drug costs lead to better drug utilization by patients and health care cost savings in the long run. A BAT incentivizes the former, while discouraging the latter.

A BAT is particularly damaging to patient access to generic drugs. Many generic drugs originate in foreign countries. These low cost alternatives to high cost brand name drugs become more expensive once a BAT is introduced. Instead of lowering drug costs by incentivizing the use of low cost generics, a BAT creates a disincentive to use these generics because their cost goes up with the application of a BAT. A BAT undermines federal and state government efforts, as well as insurer efforts to promote generic drug utilization. A BAT hinders the common public policy goal of many lawmakers to lower drug costs by encouraging generic drug utilization.

Worse yet, some generic drugs are only available overseas. There is no domestic alternative. If one of the purposes of a BAT is to discourage outsourcing drug manufacturing in foreign countries, it fails as applied to generic drugs. The intellectual property rights for some drugs

[1] Congressional Budget Office, Cost Estimate: S. 1376 National Defense Authorization Act for Fiscal Year 2016 (June 2015), pp. 29-30. https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/costestimate/s13761.pdf

[2] Increased Use of Prescription Drugs Reduces Medical Costs in Medicaid Populations; *Health Affairs,* September 2015, vol. 34, no. 9, 1586-1593.

are located overseas. It is not possible to incentivize manufacturers to move their FDA-approved manufacturing facilities to the United States to avoid a BAT. Wholesaler, pharmacy, and ultimately consumer purchasers have no choice except to purchase the inflated foreign manufactured generic drug prices, assuming they are still able to afford those drugs.

BAT would have Negative Impact on Economy

Secondary to patient access concerns, a BAT would be extremely financially damaging to many chain pharmacies. Retail pharmacies rely so heavily on imported products that a BAT would have wide application within a pharmacy's inventory. Not only would pharmacies pay a higher price for these imported products, but also they would no longer be allowed to take a tax deduction on the cost of imported drugs. To make matters worse, chain pharmacies have no way to take advantage of financial benefits of exports under a BAT because chain pharmacies sell all of their products almost entirely within the United States.

To emphasize the devastating impact of a BAT on retail pharmacy, it is important to note that chain pharmacies would bear the burden of a BAT without any of the benefit. Our members have indicated that any lower corporate tax rate used to offset a BAT would not be a sufficient offset for them. Many retail chain pharmacies would have a higher tax bill than they have today. The higher purchasing costs, loss of import tax deductions, and lack of exports would severely depress pharmacy bottom lines. Of particular relevance to this hearing are retail pharmacy layoffs. If pharmacies suffer financial losses because of a BAT, then they would have to streamline their businesses and one path that some will choose will be cutting staff. The goal of this hearing is to discuss ideas for job growth within the United

States, but as far as pharmacy is concerned, a BAT likely reduces the number of pharmacy jobs in the United States; it does not increase them.

Conclusion

In conclusion, NACDS supports corporate tax reform to lower the corporate tax rate and we support United States jobs. Chain pharmacies are major employers across the country. However, a BAT is a misguided method to achieving tax reform and promoting United States job growth. For chain pharmacies, a BAT has the opposite of its intended impact, which is harmful for the pharmacy business and would raise healthcare costs. NACDS thanks the Committee for consideration of our comments. We look forward to working with policymakers and stakeholders on these important tax issues.