
Impact of the 2020 US Election on Healthcare



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The federal government is a major constituent in the US healthcare system, therefore party affiliation in key political positions directly influences the broader ecosystem. With the 2020 US elections behind us, we now await the impact of a Democratic presidency and Congress on the US healthcare system over the next several years.

While it is believed a Democratic-controlled government will result in an expansion of the healthcare system, dramatic reform contemplated under stronger Democratic control will likely be muted due to a closely divided Senate. Change will occur where there is bipartisan support. Thus far, President Biden has focused his legislative efforts on the \$1.9 trillion COVID relief bill, but many expect legislative activity on healthcare starting in the second half of 2021. Key government priorities include expanding insurance coverage, lowering drug prices, and implementing value-based care.

Expanding Insurance Coverage and Access to Care^{1,2}

Despite discussion on the campaign trail around Medicare for All, it is doubtful that the Biden administration will suggest such broad-based expansion of coverage. Rather, more tactical changes to increase coverage and access to care are expected from the White House. Specifically, a new public insurance option, an expansion of the Affordable Care Act (“ACA”), and increased federal funding for Medicare and Medicaid.

- A **public health insurance** option is expected to be broadly available to the population, and particularly useful in expanding coverage to individuals that are otherwise eligible for Medicaid, but live in a state that opted not to accept federal funding for program expansion. Similar to Medicare, administrators of the public plan will likely negotiate directly with hospitals and other healthcare providers.
- The **ACA** contracted under the Trump administration; the Biden administration is expected to reverse several of the actions taken to limit the program, ultimately expanding the population and services addressed.
- The **Medicare** eligibility age is expected to decrease from 65 years old to 60 years old, which would increase the eligible population by 23 million. **Medicaid** expansion is likely to occur primarily through automatically enrolling eligible individuals in the new public health insurance option. While several states that opted not to accept federal funding for Medicaid have suggested they will re-evaluate expansion, the odds of meaningful near-term expansion are low.



The creation of a public health insurance option, resuscitation of the ACA, and expansion of Medicare and Medicaid ultimately increases both the number of individuals eligible to receive healthcare services as well as the number of individuals with benefit coverage. Individually or together, these actions would be positive for the healthcare industry as the demand for services would increase.

Drug Pricing³

According to a survey conducted by the Kaiser Family Foundation⁴, drug costs prevent 30% of Americans from taking their medicine as prescribed. Poor drug adherence, in turn, creates significant unintended consequences for the healthcare system, including increased costs from poorly managed illnesses. Given the links to population health and system-level cost of care, controlling prescription drug prices generally has bipartisan support. However, there has been scant drug price reform, despite efforts by prior government administrations. The most likely policy change under the Biden administration, given bipartisan support, is a redesign of how prices are determined in Medicare Part D, the optional federal program that helps cover the cost of prescription drugs.⁵ Estimates from the Congressional Budget Office suggest that Medicare Part D reform could save the federal government more than \$90 billion over the next 10 years.⁶ Importantly, this reform could help achieve the bipartisan goal of decreasing the cost of prescription drugs for consumers.

Value-Based Care

Similar to drug price reform, there is bipartisan support for value-based care and the move from a 'fee for service' reimbursement model to a 'performance-based' model in which reimbursement is tied to service quality and patient outcomes. As reimbursement becomes more heavily influenced by patient outcomes, healthcare providers will increasingly bear the risk associated with patient lives in order to capture the upside of delivering high-quality outcomes. Providers assuming more risk necessitates the continued investment in technology to manage populations across the healthcare landscape. In addition, Medicare and Medicaid expansion could put pressure on reimbursement levels broadly, as government programs tend to reimburse at lower rates than private/commercial insurers. Despite the need for continued investment and potential downward pressure on reimbursement, increasing the number of covered lives and sharing in the impact of savings from delivering higher quality care at a reduced cost presents significant opportunity for providers. Importantly, it fuels consistent investment and innovation in the delivery of lower cost, higher quality care.

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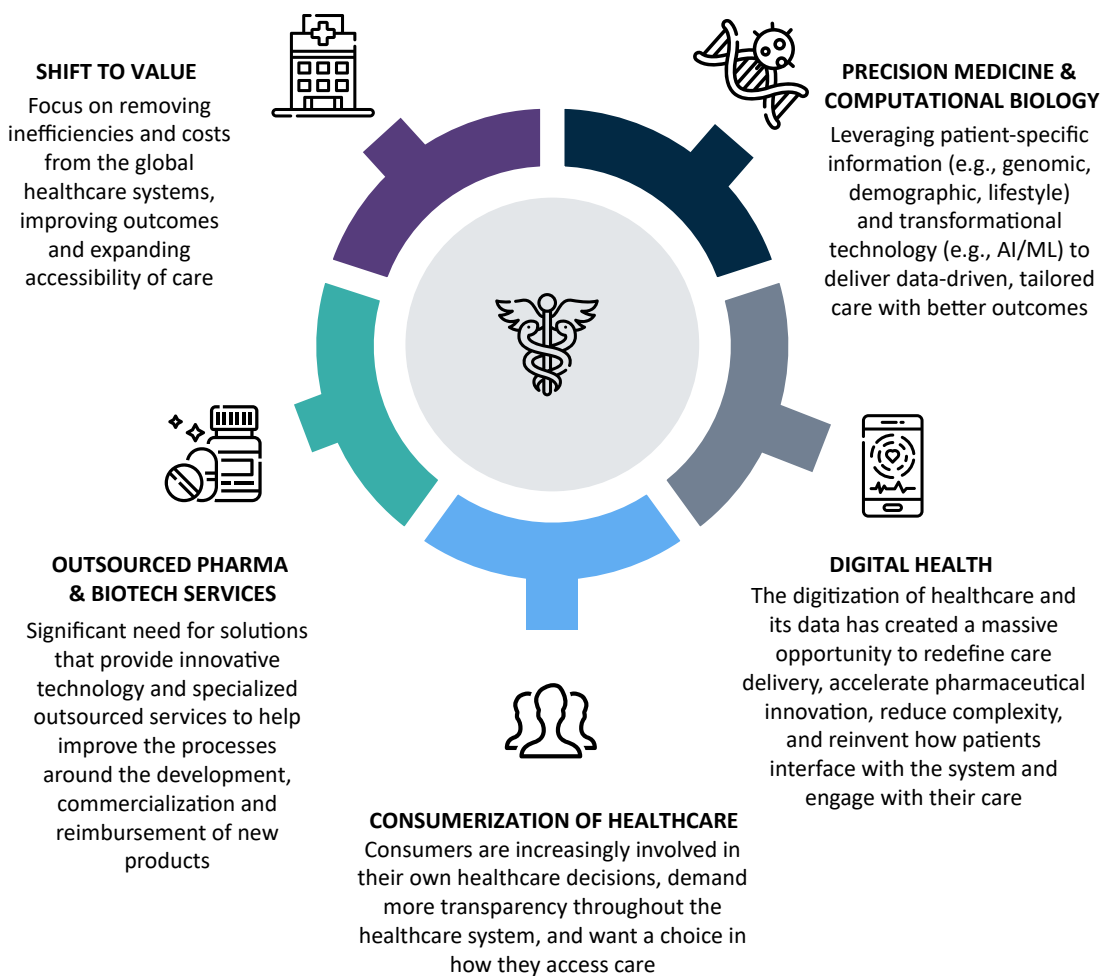
Adams Street's Strategy

Adams Street remains confident in the private markets investment opportunity in healthcare. While the 2020 election results are expected to expand the healthcare environment, we believe our overarching focus on lower cost, higher quality care helps to ensure the success of our portfolio under any administration. Below are the sub-themes that we are currently focused on in the healthcare sector. It is important to note that technological innovation plays a critical role across all five. The evolution of each of these categories has translated into durable investment themes for private equity investors.

Figure 1: Global Healthcare Themes⁷

The need for innovation, combined with the global macroeconomic trends underlying growth in the healthcare sector, create an attractive investment opportunity.

We believe private equity is particularly well-suited to take advantage of the growth and change occurring in the market.



SHIFT TO VALUE

Adams Street believes GPs with strong experience and expertise around the provision of care and payor relations/contracting are best suited to capitalize on the Shift to Value. This is playing out in real time with growth equity and buyout investments into provider platforms taking capitated risk, such as Medicare Advantage-focused primary care platforms. One such platform is VillageMD, which provides value-based primary care in-person through clinics and Walgreens, and virtually through their proprietary technology solution.

PRECISION MEDICINE AND COMPUTATIONAL BIOLOGY

Adams Street sees meaningful activity in this area from GPs with earlier stage and deep scientific expertise (e.g., MDs, PhDs, scientific advisory). Breakthroughs in technology and science (e.g., artificial intelligence, machine learning, genomics) are helping to catalyze this sub-theme, and we believe those equipped to understand and leverage these breakthroughs are poised to create and capture significant value. Companies like Freenome, which uses artificial intelligence and machine learning to detect cancer at early stage through a blood test, is utilizing developments in technology and science to improve patient outcomes and drive costs out of the healthcare system. Most of this activity is expected to occur within venture capital managers.

DIGITAL HEALTH

Digital Health is well-served across company stages, from early stage managers through buyout managers. Examples include innovation around wearables, new and evolving virtual care platforms/telehealth, and data analytics to better predict and manage care. WeDoctor, a China-based mobile app which uses technology to empower medical care and increase access to patients, is a prime example.

OUTSOURCED PHARMA & BIOTECH SERVICES

Adams Street sees continued tailwinds around the outsourcing of key capabilities along the drug development process. Opportunities include contract development and manufacturing organizations (CDMOs), contract research organizations (CROs), and technologies that underpin the drug development process (e.g., clinical trial management software). WuXi AppTec, a global company which provides R&D and manufacturing services to the pharma industry, is capitalizing on this trend as pharma companies continue to outsource services while focusing on their core business. In our experience, growth and buyout GPs with deep pharma/biotech expertise are best suited to successfully adopt this approach.

CONSUMERIZATION OF HEALTHCARE

Consumers will continue to play an increasingly important role in making their own healthcare decisions. Investment opportunities within this sub-theme include direct primary care, tech-enabled platforms for patient engagement, and data-centric platforms providing price transparency. GoodRx, which allows patients to compare the price of prescription drugs and provides coupons through their app and website, is helping engaged consumers save on out-of-pocket expenses. Activity within this sub-theme is seen across the stage continuum.

Conclusion

The Biden administration's healthcare ambitions will be tempered by a divided Congress and other administration priorities (e.g., COVID, infrastructure). On balance, the Biden administration is expected to shore up the ACA, with a focus on expanding access to care and benefit coverage. In addition, progress on select bipartisan areas of focus such as prescription drug pricing and value-based care models may be seen. Much of this effort will occur in the back half of 2021 and beyond. Adams Street believes healthcare will remain a highly attractive area for investment that will continue to benefit from strong secular tailwinds. ■



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Notes

1. Source: <http://files.kff.org/attachment/Slideshow-Health-Care-and-the-2020-Presidential-Election.pdf>
2. Source: <https://www.kff.org/report-section/potential-health-policy-administrative-actions-under-president-biden-issue-brief/>
3. Source: <https://www.kff.org/medicare/issue-brief/a-status-report-on-prescription-drug-policies-and-proposals-at-the-start-of-the-biden-administration/>
4. Source: <https://www.kff.org/report-section/potential-health-policy-administrative-actions-under-president-biden-issue-brief/>
5. Source: <https://www.commonwealthfund.org/blog/2021/prospects-drug-pricing-reform-under-biden-harris-administration>
6. Source: https://www.cbo.gov/system/files/2019-07/PDPRA_preliminary_estimate.pdf
7. Adams Street Research. Views and opinions subject to change.

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