

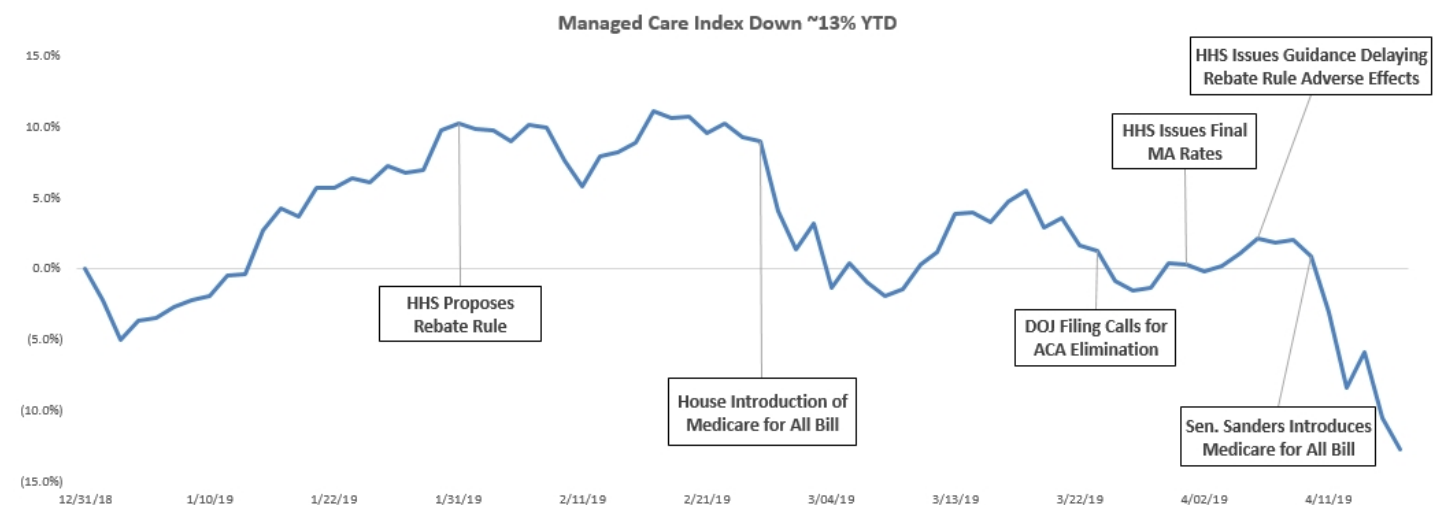
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## Medicare for All, Managed Care, and the Path Forward

To paraphrase Mark Twain, the reports of the death of managed care are greatly exaggerated. Policy announcements from DC are driving movement in the managed care space (see the chart below). Headlines related to Medicare for All are likely to continue for the foreseeable future, but it is still not going to become a reality in the next five years. Senator Sanders is viewed as a front-runner for the Democratic nomination and multiple Democratic candidates (Senators Booker, Gillibrand, Harris, and Warren) have cosponsored the bill. As campaign rallies are held, the topic is likely to continue to be raised. What the market has shown us this week is that the negative sentiment is not going to change as companies beat and increase earnings because the sentiment is impacted by Washington alone. Below, we highlight some potential catalysts to sentiment, discuss at a high level the probabilities associated with Medicare for All (MFA), and describe why bypassing the filibuster does not substantially impact the likelihood of MFA passing.

### Policy is Driving Managed Care Movement



Source: FactSet; Raymond James research

### WHY DOES BYPASSING THE FILIBUSTER NOT SUBSTANTIALLY IMPACT THE LIKELIHOOD OF MFA PASSING?

Since introducing the legislation, Senator Sanders has discussed using the reconciliation process to advance the bill through Congress. As a reminder, reconciliation only requires a simple majority vote to pass the Senate (at least 50 Senators, with the Vice President acting as the tie breaker), and this maneuver can only be used a limited number of times per year. The reconciliation process bypasses the filibuster. To accomplish this, he would have to have senators change the reconciliation rules to allow this to occur. The President does not get to set Senate rules so he would need a majority to be willing to make this change. We also note that several Democratic senators have already come out against MFA, which means that the Democrats will likely need to lock up more than a simple majority for any change to the senate rules. While only needing 50 instead of 60 votes would make passing it easier, we have always believed that the next time any one party controls the House, Senate, and Presidency; the legislative filibuster will largely go away. Therefore, Senator Sander's comments do not change our calculus.

### WHEN WILL SOME CATALYSTS OCCUR THAT MAY CHANGE SENTIMENT?

In conversations with investors, the question we are most often hearing is "What upcoming catalysts could impact sentiment one way or another regarding Medicare for All?" We have outlined below some potential upcoming catalysts that could change sentiment.

**Earnings - They seem to not matter:** The obvious example here is UNH, which on Tuesday reported 1Q19 results that beat Street expectations, while management raised their 2019 EPS range (see John Ransom's earnings write up [here](#)). Shares initially reacted positively to the earnings rallying ~3% before being caught up in the sector wide sell-off we believe was sparked by MFA rhetoric at an event hosted by Bernie Sanders.

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**House Congressional Hearings on Medicare for All:** The House Rules Committee and the House Budget Committee are going to hold hearings on "Medicare For All." Neither of these committees have jurisdiction to actually advance a bill like that, but Speaker Pelosi agreed to have hearings to appease her most progressive members as she was campaigning for speaker. These hearings will put MFA back in the news. We believe Republicans will emphasize all the challenges associated with moving toward an MFA plan.

**Senate Vote on Medicare for All** - Senator McConnell could call for a vote on the "Medicare for All". This hypothetical vote would put Democrats who are up for reelection, and those running for president in 2020, in a tough spot politically, as they would be on the record. A similar maneuver was made in March when Senator McConnell forced a vote for the Green New Deal; this vote failed 0-57, with 43 Democrats voting present. If any Democratic senators vote against MFA, it would show not all of them are on board, thus making it more difficult for the next President to get this done.

**Democratic Debates:** At the first [Democratic debate in June 2019](#), we anticipate healthcare will be a topic and different candidates will lay out their vision. When Democratic candidates express concerns with MFA, this could signal to investors that not all will be supportive of MFA.

**Democratic Primaries:** - If a Democratic candidate who does not support MFA wins in Iowa (scheduled for February 3, 2020), New Hampshire (scheduled for February 22, 2020) and other early states, that would likely shift sentiment away from a concern over MFA.

**Democratic Convention:** - At the Democratic Convention (July 13-16, 2020), the party delegates will nominate and confirm the party's ticket for President. This will be the first opportunity for the party's presidential and vice presidential candidates to officially address the nation. In addition to using this platform to unite the party, we believe it will serve as an outlet for nominees to reinforce their stances on certain campaign issues, with the potential for said candidates to take a more moderate position to better appeal to the more independent voter.

**Election Day:** Given that healthcare is shaping up to be a primary topic debated in the 2020 election, the results of the election will serve as a defacto public referendum on the future of the industry.

#### PROBABILITIES ASSOCIATED WITH MEDICARE FOR ALL

While we continue to strongly believe Medicare for All will not become law in the next 3-5 years (see our reports [here](#), and [here](#), and [here](#)). As an intellectual exercise, we want to look at the probabilities of different events that would be necessary for it even to become a possibility. This does not look at all of the public pressure challenges (millions of job losses, large tax increases to pay for it, taking away private insurance from individuals, etc.), and only what would be necessary to set the necessary mechanisms in place. Basically what has to change is the political composition in Washington.

#### MFA Scenario Analysis

Probability a MFA supporting candidate becomes the Democratic nominee	40%	Includes latest aggregate polling data for Sanders, Warren, Harris, Booker & Gillibrand
Probability a MFA supporting candidate would defeat President Trump	50%	We assume this is too early to call. All current polling has MFA supporting candidates in basically a dead heat with President Trump.
Implied likelihood of MFA supporting candidate becoming President	20%	
Probability Democrats pick up 3 Senate seats to reach 50% of the chamber	40%	We are not including the House race in our analysis, as there is a ~0% chance that post election Democrats will only control the Senate
Implied probability of a MFA supporting democrats winning the White House with democrats controlling both legislative branches	8%	
Probability Democrats pick up +10 seats in the Senate	5%	We believe based on current Dem senators opposing MFA, Democrats would need to pick up at least 10 seats to make it plausible
Implied probability of a MFA supporting candidate winning the White House with democrats picking up +10 seats in the Senate	<1%	Probable situation will be present to make MFA vote possible

Source: Raymond James research

As referenced in the table above, we believe that for MFA to become law Democrats will likely need to pick up +10 seats in the Senate, as multiple Democrat Senators have already voiced opposition. To this point, we note that Senators Machin (WV) and Heitkamp (ND) and Jones (AL) have already voiced their opposition to this policy. We also estimate that the Democrats have a 65% chance of maintaining control of the House, though we do not see a path where Democrats lose the House but gain the majority in the Senate so we did not include it above.

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