



Congressman Pedro R. Pierluisi
Statement as Prepared For Delivery
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“Transforming for a Better Future”
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Good morning. It is good to be here with you at PIA’s 24th annual meeting.

I want to begin by thanking PIA president Camilo Gómez, the general manager of commercial operations at Abbvie; PIA vice-president Carlos Ceinos, the general manager at Novartis manufacturing; and the entire board of directors.

More generally, I want to thank all of the men and women from Puerto Rico that work for the 15 biotechnology and pharmaceutical companies that are members of PIA, which are among the most respected companies in the world.

According to the most recent data, the bio-pharmaceutical industry supports around 20,000 direct jobs and over 65,000 indirect jobs in Puerto Rico, although your positive effect on the economy cannot be adequately captured by those numbers alone. You manufacture products that save, extend and improve the quality of human life here in Puerto Rico, in the mainland U.S., and

around the world. Dr. Sigfrido García, an executive at Pfizer and the president of the non-profit consortium Induniv, delivered a presentation earlier this month in which he noted that five of the top 10 biotech products in the world are produced in Puerto Rico. And, according to *Caribbean Business*, 16 of the 20 top-selling drugs in the United States—a remarkable 80 percent—are manufactured on the island. PIA member companies are responsible corporate citizens who care deeply about the island and its future, and who—I suspect—are concerned about the severe economic, fiscal and public financing problems that Puerto Rico is currently facing. Puerto Rico is proud of your presence here, and is committed to formulating responsible and thoughtful public policies designed to enable the bio-pharmaceutical industry to sustain manufacturing and commercial operations—and, hopefully, to expand research and development activities—on the island.

I know that the bio-pharmaceutical industry confronts considerable challenges, globally, nationally and locally, due to a range of factors. These challenges include the fact that patents on certain products manufactured on the island have expired or will soon expire. They also include the recent imposition of poorly-conceived or poorly-timed local taxes that increase the cost of conducting business, as well as the unacceptably high cost of electricity and water that has long been atop the list of the business community's biggest complaints.

Given these challenges, it is fitting that the theme of this year's meeting is "Transforming for a Better Future." As you clearly recognize, the bio-pharmaceutical industry in Puerto Rico, in order to survive and to thrive, must look for ways to adapt and evolve in light of changing circumstances. I recently read about one step that PIA member companies are taking in this

regard. Specifically, in an effort to increase efficiency, shorten the supply chain and reduce costs, I understand you are now exporting products directly from Puerto Rico to over 60 foreign countries, rather than shipping those products to distribution centers in the states and *then* exporting them abroad. This is good for your bottom line, and it is good for Puerto Rico, which is well-positioned to transform itself into an export hub. In difficult times, this is precisely the sort of creative thinking that is required.

I am here today to provide a brief update from Washington, and I want to speak about two topics in particular, namely health care reform and tax reform. In the question-and-answer session that follows, I can discuss these matters more fully or discuss any other subject that interests you, including the recent 16-day federal government shutdown or the intense budget battles that are currently being waged in Congress. Washington is deeply polarized right now, and I am happy to offer you my thoughts on where things stand and where things may be headed in the coming months.

Many of you have heard me speak about health care reform in the past, but I think it is useful for me to quickly outline how the 2010 *Affordable Care Act* is positively impacting the health care system in Puerto Rico, and to explain the efforts I am currently undertaking to further improve the island's treatment under federal health programs. All of this is relevant, either directly or indirectly, to the island's bio-pharmaceutical industry as a whole and to the individual companies you represent. And, of course, it is germane to overall quality of life in the place you call home.

Most significantly, the *Affordable Care Act* dramatically increases federal funding for Puerto Rico's Medicaid program. The federal government pays at least half the program's cost in the states, and up to 80 percent in the poorest states. By contrast, the law imposes a yearly cap on federal Medicaid funding for Puerto Rico. Before 2009, Puerto Rico's cap was so low that the federal government paid under 20 percent of the program's costs on the island each year. This has made it difficult for Puerto Rico to provide quality health care to our most vulnerable residents. It has also required the Puerto Rico government to spend a tremendous amount of its own funds to compensate for the shortfall in federal dollars, which has caused damage to the island's fiscal health and led to excessive government borrowing in the bond market, the consequences of which you are seeing now.

Pursuant to one section in the *Affordable Care Act*, federal funding for Puerto Rico's Medicaid program, Mi Salud, was increased by \$5.4 billion dollars starting July 2011 and ending October 2019. Another section in the law provided Puerto Rico with an additional \$925 million dollars, to become available at the beginning of this month—that is, 30 days ago. Puerto Rico was given the option of establishing a health care exchange, which is a marketplace of private plans, and using this sliver of funding to help individuals afford coverage on that exchange. Or, in the alternative, the bill gave Puerto Rico the option of applying this money to its Medicaid program. Last month, the Puerto Rico government announced that it would be using the \$925 million for Mi Salud, to supplement the \$5.4 billion that it had already received under the bill.

Therefore, the *Affordable Care Act* has provided a total of \$6.3 billion dollars in new Medicaid funding for Puerto Rico. Trust me when I tell you that we had to fight for every single penny.

Indeed, \$2 billion dollars of that amount was included mere days before the legislation was voted on by Congress, after I went with a select group of members of the Congressional Hispanic Caucus to the White House, and told President Obama—respectfully but firmly—that the version of the bill then under consideration was profoundly unfair to my constituents. He agreed, and our treatment was improved.

As a result, between now and 2019, Puerto Rico’s Medicaid program, instead of receiving about \$300 million dollars a year in federal funding, will receive over \$1 billion dollars annually. This funding was used by the Fortuño Administration, and is now being used by the García Padilla administration, to expand Mi Salud coverage to more individuals and to improve the quality of care they receive.

While this is the largest infusion of federal health care funding in Puerto Rico’s history, it is nowhere close to state-like treatment and nobody should pretend for a moment that it is. If Puerto Rico were a state, it would receive an *additional* two to three billion dollars in Medicaid funding each year. Moreover, island residents who do not earn much money but who nevertheless do not qualify for Mi Salud would receive billions of dollars in subsidies to help them purchase insurance on a health care exchange. Furthermore, because there is no exchange in Puerto Rico, the mandates that will apply in the states—which require individuals to purchase insurance and certain employers to offer insurance to their employees—will not apply on the island. Like in the states, however, insurance companies in Puerto Rico will have to provide consumers with a range of protections. Among many other things, insurers will be prohibited from denying coverage because of a pre-existing condition, ending coverage because a

beneficiary gets sick, or imposing annual or lifetime limits on the amount of coverage a beneficiary can receive.

In short, the health care reform law applies in a very different manner in Puerto Rico than it does in the states. The positive—indeed, historic—aspects of the bill should be appreciated. But they should not blind us to the many aspects of the bill where we are treated unequally or excluded altogether.

Although much has been accomplished on the health care front, much work remains to be done. For example, the *Affordable Care Act*, for all of its positive features, did not mitigate the various disparities that Puerto Rico faces under Medicare, although it was certainly not because of a lack of effort on our part. In Congress, as in life more generally, you win some battles and you lose some battles. But you live to fight another day. And you never stop fighting.

I want to thank PIA for recently signing a memorandum of agreement that established a Puerto Rico Medicare Coalition for Fairness, which seeks to improve our treatment under this federal program and consists of stakeholders from different sectors of the island's health care community. The creation of this Coalition reflects an enduring truth, which is that policymakers in Washington, whether they work in Congress or CMS, are far more likely to respond to Puerto Rico's legitimate needs if we approach them with a unified front and speak with one, clear voice.

I strongly support the primary pillars of the Coalition's platform. The first pillar, to ensure that Medicare Advantage plans in Puerto Rico are equitably reimbursed by the federal government, is

an issue I have worked a great deal on since 2010. Over 70 percent of all Medicare beneficiaries in Puerto Rico—more than 500,000 individuals—are enrolled in an MA plan, the highest penetration rate in the country by a substantial margin. These plans provide high-quality services and financial assistance to help lower-income seniors make their premium, prescription drug, and other health-related payments. That is why it is so critical that these plans are fairly compensated by the federal government.

As the Coalition platform rightly acknowledges, more work remains to be done to achieve this goal. At the same time, it is important to pause and acknowledge the progress that we have made to date. In April, CMS released its final rule establishing the payment rates for MA plans in 2014, and the agency expressly concurred with the argument, put forward by me and others, that MA plans in Puerto Rico deserved a meaningful increase in the payments they receive from the federal government, compared to what CMS had initially proposed in its initial rule back in February. This was the second time we convinced CMS to take steps to improve Puerto Rico's treatment under MA, because our earlier efforts led them to boost rates beginning in 2012.

I also strongly support the second pillar of the Coalition's platform, which seek to modify a provision in federal law that adversely affects Puerto Rico hospitals and their patients. Currently, Medicare pays every hospital in the states the same base amount per patient to cover the hospital's operating and capital costs. Puerto Rico is the only jurisdiction where hospitals do not receive 100 percent of the national payment rates. Instead, payments to island hospitals are derived from a unique formula based on 75 percent national rates and 25 percent local costs. This formula results in per patient payments to Puerto Rico hospitals that are about 13 percent

lower than the payments made to stateside hospitals. Thus, an island hospital will receive substantially less than any urban, suburban, or rural hospital in the states for providing the same inpatient services, making it harder for them to deliver high-quality care and to remain financially sound. Last Congress, I introduced legislation to eliminate this disparity, and I intend to re-introduce this legislation in the coming weeks.

The third pillar in the Coalition's platform is of particular relevance to PIA member companies. As you know, under the current system, while the states receive federal subsidies—based on need—to help their low-income residents purchase prescription drugs under Part D, Puerto Rico receives only a limited block grant for this purpose. This is an egregious disparity that does severe damage to Puerto Rico's most vulnerable residents, and the Coalition is right in seeking its elimination. You have in ally in me in this fight.

In the question-and-answer session, I can talk about my other legislative priorities in the area of health, including bills I have introduced regarding electronic health records and automatic enrollment in Medicare Part B. But, for now, let me briefly touch upon the subject of federal tax reform, which I know is of great interest to you.

As you are well aware, President Obama and leaders in the Republican-controlled House and the Democratic-controlled Senate all agree on the need to reform the U.S. tax system for both individuals and corporations. Goals of reform include simplifying the tax code, raising revenue (in the case of Democrats), and making U.S. companies more competitive in the globalized economy. It remains to be seen whether a consensus can be reached among all the stakeholders

in government and the business community on a specific path forward that will result in comprehensive tax reform legislation being enacted into law either this year or in the coming years. While the desire for action is there, the devil—as always—is in the details. The challenges and obstacles that lie ahead are substantial, given the variety, complexity and interdependence of the issues, the amount of money at stake, the fact that powerful stakeholders often have divergent interests and goals, and the sharp philosophical divisions between Democrats and Republicans.

Nevertheless, I am being very vigilant, and am taking the steps necessary to ensure that Puerto Rico's interests are protected and promoted in any bill that does move forward in the legislative process. I have been speaking with key members of Congress and Obama Administration officials on this issue since 2011, and recently talked to both the top Republican on the Ways and Means Committee, Dave Camp, and the top Democrat on the Committee, Sandy Levin. My broad message—which has been very well-received—has been simple and consistent. Puerto Rico is a U.S. jurisdiction and jobs in Puerto Rico are U.S. jobs. Therefore, tax reform legislation should help, not hurt, Puerto Rico.

In my meetings with senior officials and fellow lawmakers, I have further explained that Puerto Rico's economy is weak and labor participation on the island is low, which has resulted in an exodus of talented Puerto Ricans to the states in search of better opportunities. I have also noted that manufacturing constitutes a substantial percentage of Puerto Rico's economy and tax base, and that Puerto Rico—unlike certain foreign countries—is not a tax haven.

In addition, I have explained to federal officials that Puerto Rico is treated differently than the states under federal tax law, and that federal tax law has played a major role in Puerto Rico's industrialization. I expressed concern that certain tax reform proposals that have been put forward, absent reasonable modification, could jeopardize investment and job creation in Puerto Rico and make it more difficult for the territory to compete with other jurisdictions. I have made clear that provisions should be included in any tax reform legislation to prevent such an adverse impact and, instead, to help the island's economy grow.

As you are well aware, I support statehood for Puerto Rico in meaningful part because history shows that every territory that joins the Union experiences a substantial increase in its economic activity and standard of living. I believe statehood is the only status that will enable Puerto Rico, on an enduring basis, to reduce unemployment, attract investment, retain talent, promote growth, and manage our deficits and debt. Territory status has been tried, and it has failed. As evidenced by the November referendum, a clear majority of the Puerto Rico public believes it is time to close this chapter in our political life.

However, until the day that Congress welcomes Puerto Rico as a full and equal member of the American family, it is my responsibility to take all reasonable steps to strengthen the Island's economy within the severe constraints imposed by the current territory status. My north star is—and always will be—to protect Puerto Rico and to advance its interests, and the debate over tax reform is no exception.

In closing, I want to thank you for inviting me and again express my gratitude to PIA and its member companies for all that you do for Puerto Rico. Now, I am happy to take your questions.