Five things to watch for healthcare and pharma in 2025

2025 promises to be a tumultuous year for the American healthcare and pharma sector. Increased scrutiny on pricing and the incoming Trump administration will certainly trigger changes, as supply chain capacity remains high on the agenda and sustainability gains more traction

We think a new US administration on the horizon as well as increased scrutiny on several key healthcare institutions are sure to make 2025 an interesting year to watch

1 Trump 2.0 will affect ACA and NIH funding

US President-elect Donald Trump will be inaugurated on 20 January. For the pharmaceutical and healthcare sector, his second term will likely be a dynamic one – and that's putting it mildly. With Trump's nomination of Robert F. Kennedy Jr. – who has previously criticised pharmaceuticals – as head of the US Health and Human Services Department, the Affordable Care Act (ACA) and National Institutes of Health (NIH) funding will also likely be affected.

Currently, a record number of 45 million Americans are enrolled in coverage related to the ACA. Despite its success, Trump has often promised to repeal and replace the ACA, though he has recently distanced himself from such remarks. The previous Trump administration also tried to

overturn Obamacare, but failed to do so on multiple occasions. We don't believe that a complete overhaul of Obamacare under Trump is likely, but cutting federal subsidies (like premium tax credits) for Obamacare policy holders is. In addition, the Trump administration could reduce spending on advertising and shorten enrolment periods, which would likely lead to less enrolment.

For NIH funding, the proposal to give at least a portion of the NIH budget directly to states has drawn the most ire. Rather than going through the NIH's peer-review system, grant money would be dispensed by states. We think this is a change that is likely to happen. With government efficiency high on the agenda for Trump, Musk and Ramaswamy, cuts to federal budgets and subsidies are also likely.

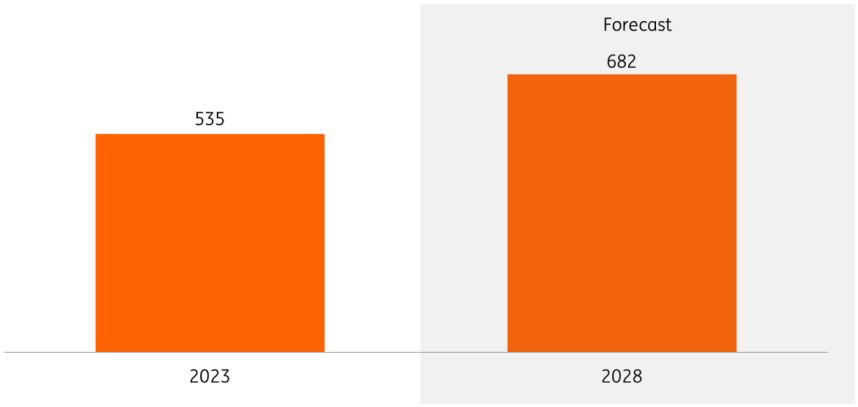
2 Prices of drugs will receive additional scrutiny, but not under the IRA

Under the Inflation Reduction Act (IRA) introduced by the Biden administration, Medicare can directly negotiate with drug manufacturers of important costly drugs to secure lower prices. For the first 10 drugs selected, lower prices have been agreed and will come into effect in 2026. In 2025, a second round of negotiations for 15 additional drugs will take place.

However, Trump has previously stated that his administration will focus on legislation that mandates pricing transparency. This means that price negotiations at Medicare will likely be delayed and, as legislative proposals develop, could even cancelled under Trump. Even though there will be price pressure, our base case is still for pharmaceutical sales to increase with a compound annual growth rate of 5% per year until 2028. This is driven by population ageing and strong demand.

Pharmaceutical sales to increase over the coming years

Pharmaceutical sales in billions of US dollars



Source: OECD; EIU; ING Calculations

3 PBMs likely to be a priority for Trump

In addition, Trump has recently turned his attention to pharmacy benefit managers (PBMs). PBMs such as CVS Health, OptumRx and Express Scripts get paid by insurance companies to manage drug costs and to get rebates from manufacturers, of which they keep a percentage. Moreover, they negotiate with pharmacies over reimbursements and with manufacturers over drug prices. As such, PBMs have been blamed by both Democrats and Republicans for high drug prices.

In December, Trump stated his intent to “knock out” these drug middlemen. What's more, on 18 December a stopgap bill to alter PBM funding was proposed by a bipartisan coalition.

The bill would prohibit PBMs from keeping part of negotiated rebates. In addition, they would no longer be allowed to bill Medicaid states and billing more for drugs than what they reimburse pharmacies. However, whether prices would actually go down as a result of the bill is unclear. PBMs could ask more administrative fees to compensate their losses, which could weaken their incentive to negotiate lower prices and may end up driving prices higher. Regardless of the effect on prices, it is certain that PBMs will be caught in the crosshairs of the incoming US administration.

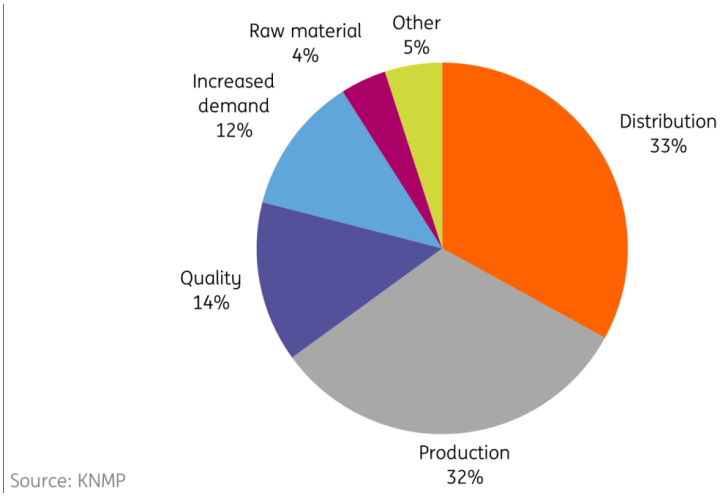
4 Supply chain capacity key issue for pharma

Pharmaceutical supply chains are notoriously fragile as a result of specialised production in a few very large factories, raw materials, increasing demand, and an increasing reliance on generic drugs. This, in turn, leads to drug shortages across the globe. As the US pays more for drugs than other Western nations, shortages are less pronounced but still persistent; drug shortages at the end of 2024 were 277, down from an all-time high 323 in 2023.

Against this background, it is no wonder that pharma is one of the sectors in which nearshoring is likely over the coming years. This entails substantial investments in new facilities as well as the growing importance of contract development and manufacturing organisations, or CDMOs. Unsurprisingly, we expect both nearshoring and CDMO deals to accelerate in 2025.

Most medicine shortages stem from issues with distribution and production

Reasons for medicine shortages in percentages



Source: KNMP

5 CSRD will increase attention to sustainability

A final factor worth keeping track of is the Corporate Sustainability Reporting Directive (CSRD). While not very well known in the US, this EU rules package requires large companies to disclose detailed information on their ESG impact and most importantly their Scope 1, 2 and 3 emissions. The first reports are due in 2025, which means that a lot of information on Scope 1 and 2 emissions of pharmaceutical companies will soon become available. We therefore expect a greater

focus on sustainability in pharma over the coming years.

All in all, with a new administration on the horizon as well as increased scrutiny on several key US healthcare institutions, the US healthcare and pharma story promises to be an eventful one to watch in 2025.

Author

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com