

## Why the Pfizer-Trump pharma deal is a win for branded pharma, but not for consumers

The deal on drug prices between the US Administration and Pfizer will leave the margins of innovative pharma companies intact. Yet, benefits to consumers will be modest. Furthermore, prices for generic medication are still set to increase because of tariffs



### What does the Pfizer-Trump deal cover?

The deal between the Trump Administration and Pfizer provides clarity about the near-term future of the US patent-protected pharmaceutical sector after months of (tariff) uncertainty. If companies manufacture and invest in the US, they will be exempt from tariffs. This means that the margin risk from tariffs is largely muted, as branded pharma companies from the US, Europe, and Asia have already announced additional US investments in the next few years.

In addition to providing clarity on tariffs, the Trump-Pfizer deal introduces two new pricing mechanisms, both of which are good news for the industry, but will not substantially lower prices for US consumers. First, a direct-to-consumer (DTC) website will be launched where consumers can buy branded pharmaceuticals at a 50% discount. Second, Pfizer has agreed to lower the prices of

its prescription drugs in the Medicaid programme to those in other OECD countries (Most Favoured Nation or MFN pricing). Furthermore, the [White House stated that](#) Pfizer will do the same for new innovative treatments: those will be introduced at similar price points in all OECD countries.

## The DTC part will offer savings to uninsured consumers, squeezing 'middlemen'

The direct-to-consumer part of the deal will have a limited effect on margins and prices. If the administration were to conclude a similar deal with all branded pharmaceutical manufacturers, which is our expectation, this could yield a potential \$1.9 billion in cost savings for uninsured Americans. We arrive at this estimate through the uninsured population size, which is currently 8% and could rise to [10-12% as a result of the One Big Beautiful Bill](#). So, this measure would roughly benefit 30 million uninsured Americans.

In 2018, the median out-of-pocket spend [was \\$55](#), but this spending distribution is skewed: a minority pay a lot (e.g. the 95th percentile paid over \$1600 in the same year). So, we assume that the mean expenditure is \$250 this year and that out of 30 million uninsured people, half will use a prescription drug and the other half will forego a prescription. That yields a potential expenditure of \$3.75 billion on prescription drugs by uninsured Americans, of which half would be saved if the Pfizer deal applied to all branded pharma drugs.

So, a total of \$1.9 billion in cost savings, which is modest compared to a market size of [\\$590 billion](#) for pharmaceuticals in the US. Still, these cost savings would be realised at the cost of 'middlemen' in the US healthcare system, such as Pharmacy Benefit Managers (PBMs), leaving the margins of branded pharma intact.

## The Medicaid mechanism will have a limited effect on prices and margins

The new Medicaid pricing mechanism also has a limited effect on margins because drugs are often already sold to Medicaid at a substantial discount. Consumers will not see benefits as their out-of-pocket costs are capped (at \$8 per prescription for the lowest income Americans). So, the savings would benefit state Medicaid programmes but not consumers.

Then, there are new innovative drugs which will be offered in the US at similar price points as those in comparable countries. However, this already happens, but other governments often do not agree to prices for new treatments as they deem them too expensive. This is the reason why the US is the country that offers the best and most innovative treatments for rare diseases. This could mean that nothing changes: the US is willing to pay high prices for innovative medications that other nations aren't, which results in better treatment of illnesses but higher medication costs. This part of the deal, therefore, offers some cost savings but will also leave branded pharma margins intact.

## Price rise of generics will increase costs for consumers

That leaves the generic segment, which accounts for more than 90% of prescriptions and still has to deal with a 30% tariff on China and a 50% tariff on India, where the supply chain sits. Our base case is that these tariffs will remain in place for a prolonged period, meaning prices for generics will gradually increase when stocks run out and contracts are renegotiated. A 50% tariff on India will

translate to a price increase for generics imported from the country of roughly 25% as we calculated in [earlier articles](#).

Given that the US imports [47% of its generic prescriptions from India](#), and generics account for roughly 10% of prescription drug costs. This tariff would increase costs for the US healthcare system by roughly \$7 billion and could therefore negate some of the cost savings for uninsured Americans. It will, in any case, increase costs for the US healthcare system as a whole. Moreover, the tariff does not address the strategic dependence on foreign drugs that the Trump administration expressed its discontent with earlier this year.

Given the clarity on the branded segment, the generic space is one we will be watching closely over the coming months.

## Author

### Diederik Stadig

Senior Economist, Healthcare & Technology

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).