

**Q: What will the NHI Fund cost to administer?**

A: To answer the question, we will first look at other government funds administered by the public sector, that pay out claims. These are the Compensation Fund and the Road Accident Fund (RAF).

**Compensation Fund**

The Compensation Fund is a government administered fund that reimburses medical expenses for employees that get injured while on duty and also covers disability payment and pensions to employees. The fund had an annual contribution income of R8.4 billion in 2014/15. The administration cost of the 1630 employees at the fund was R445 million, or 5.3% of contributions received.

The Compensation Fund currently holds reserves of R 53.1 billion. Expressed in medical scheme terms, the fund would have a solvency rate of 637%. The fund currently has provisions of R3.26 billion for current outstanding claims and R7.3 billion provision for non-current claims. These provisions amount to 126% of received contributions. The Public Finance Management Act determines that service providers need to be paid within 30 days of invoice and even though service providers have 12 months to submit claims, the R7.3 billion provision for non-current claims is a serious indictment of the efficiency of the Compensation Fund.

In April 2015, in answer to a parliamentary question, the Director General of Labour, Thobile Lamati, indicated that there were 231 000 outstanding claims<sup>1</sup>, to the amount of R23 billion. In the week of 15 April 2016, the previous compensation commissioner was sentenced with a three month suspended jail sentence for failing to comply with a court order where he agreed to pay outstanding claims in 75 days. The newly implemented Umehluko system was supposed to streamline the claims process, but last year, one of the largest pre-funders of WCA claims, Compsol, had to cease their pre-funding activities, as the new system “has virtually ground to a halt due to its dysfunctionality and incapacity to process and pay the volume of claims and medical accounts in SA”<sup>1</sup>. Claim payments have dropped from 1.8 million claims in 2013/14 to 609 000 claims in 2014/15. Furthermore, the RSSA and 19 radiological practices are litigating against the Department of Labour for R121 million in outstanding claims.

**Road Accident Fund**

The RAF provides compulsory cover to all users of South African roads, citizens and foreigners, against injuries sustained or death arising from accidents involving motor vehicles within the borders of South

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<sup>1</sup> Ensor, L. “Claims Firm Stops Prefunding Doctors”. Business Day 12 May, 2016

Africa. This cover is in the form of indemnity insurance to persons who cause the accident, as well as personal injury and death insurance to victims of motor vehicle accidents and their families. The total RAF income for the 2014/15 financial year was R22.4 billion. The administration costs of the RAF in staff salaries was R 1.31 billion for this period, which amounted to 5.8% of contributions. The fund employs 2555 staff members.

The RAF currently has R7.366 billion in reserves, which compared to medical scheme rules, would provide for a solvency rate of 32.5%. The fund has provision of R 34.4 billion for current outstanding claims and R82 billion for non-current claims. These provisions amount to 514.5% of contributions.

### **Implications for a government run NHI Fund**

Paragraph 322 of the White paper states that *“NHI will be established as a single-payer and single-purchaser fund responsible for the pooling of funds and the purchasing of personal health services. The NHI Fund will be appropriately financed in order to be able to actively purchase personal health services for all who are entitled to benefit.”* Further to this paragraph 325 of the White Paper states that *“The NHI Fund will be publicly administered and established through legislation as an autonomous public entity.”* The White Paper also specifies in paragraph 332 that *“Once fully implemented, the NHI fund will include medical benefits currently reimbursed through the Compensation Fund... and Road Accident Fund.”*

At the Compensation Fund, 35.6% of all claim payments were for medical claims in 2014/15, while 5.4% of claim payments at RAF for was for Medical claims. If one projects the current income, reserve and liability trends of the RAF (at 5.4% of total claims paid) and Compensation fund (at 35.6% of total claims paid) forward to 2025, when the NHI Fund would be fully operational and assuming responsibility of these claims, it would create the following scenario for the NHI Fund: The fund will start with reserves of R 55.9 billion, largely attributable to the Compensation Fund reserves. This will give the fund a solvency ratio of 21.8% by current medical scheme standards, if government’s projected costs of R256 billion annually is used. The fund will also have outstanding medical claim liabilities of R30.2 billion, or 11.8% of annual contributions.

When one looks at possible scenarios for the costs involved with administration of the NHI Fund, one can use the Compensation Fund as a barometer. The Compensation Fund employs 1630 employees who pay out R4.1 billion annually in claims. Escalated to the projected R256 billion costs of the NHI in 2025, it would require 101 775 Compensation Fund staff members to run the NHI Fund. The current cost per staff member of the Compensation Fund is R273 000. The administrative budget of the NHI Fund would thus amount to R 27.78 billion, using the current efficiency levels of the Compensation

Fund. The Compensation Fund employees only paid 61% of all liabilities in the 2014/15 year, which has serious implications for the administration of the NHI fund and the continued delivery of healthcare services if providers go unpaid.

If one looks at the RAF, it employs 2555 employees, who paid out R 23 885 453 000 in claims last year. Taking the NHI budget at R256 billion, it would require 27 384 RAF staff members to run the NHI Fund. RAF staff are more efficient than Compensation Fund staff when it comes to monetary value of claims paid out and are remunerated at higher levels. The cost of the RAF staff is R456 000 per employee. This would amount to a total expenditure of R12.49 billion in administrative costs, if the NHI fund was run at the efficiency of the RAF. It is important to note, that RAF staff only managed to pay 41% of liabilities in any given year.

The costs of administering the NHI Fund privately at a premium of 4.5% (Cost of the private administration of GEMS medical scheme) would amount to R 11.52 billion per annum. Although the costs of staffing the NHI Fund at the efficiency of the RAF will cost R12.49 billion per annum, the biggest concern is that only 41% of claims would be paid in any given year. At a cost R27.78 billion, the NHI Fund could run as efficiently as the Compensation Fund, with 61% of claims being paid in any given year. To reach the efficiency levels of private scheme administrators, where 96.4% of claims get paid annually, the government run administrative costs could escalate to R61.78 billion (See Table 1), when exponential equations are used. This would mean that the government administration of the NHI Fund at levels that equal the efficiency of private medical administrators could cost 24.1% per year and require 226 300 staff members, as opposed to the 4.5% costs of private administration.

**Table 1 Efficiency costs of Government Administration of NHI Fund**

