

Anthea Jeffery: Time to stop reckless promises of 'free' health care under NHI

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The ANC seems intent on making reckless promises: most pertinent at the present time is its promise of 'free' health care for 55 million South Africans under the proposed National Health Insurance (NHI) system ...

The ANC's promise of free higher education has now resulted in many of South Africa's universities being held hostage by a small and radical minority determined to close these institutions down until such time as the government delivers on the party's pledge.

The ANC nevertheless remains intent on making more reckless promises

Most pertinent at the present time is its promise of 'free' health care for 55 million South Africans under the proposed National Health Insurance (NHI) system.

No health care service can be 'free', and the overall costs of implementing the NHI will undoubtedly be high. Just how high is difficult to tell, as the White Paper on the NHI published in December 2015 lacks necessary detail on the medical benefits to be provided.

The White Paper was also supposed to provide the National Treasury's detailed projections on costs and how the funding shortfall would be met. But the Treasury's views were not included, while the White Paper itself is dismissive of the need for accurate forecasting, saying 'it is not useful to focus on getting the exact number indicating the estimated costs'.

Health minister *Dr Aaron Motsoaledi* has also dismissed the importance of accurate costing, saying 'what the NHI costs will depend entirely on how we design it' and that 'it could cost anything up to R1 trillion'.

The White Paper seems to assume that the costs of the NHI can be met by pooling the money that is already being spent on health care in the public and private sectors. This makes current expenditure in both these spheres a useful starting point in estimating what the NHI might cost once it is fully operational.

Treasury figures cited in the White Paper put budgeted spending on public health care at some R183bn in 2016/17. In the same period, total spending on private health care (mostly in the form of contributions to medical schemes) is expected to come in at R189bn. This gives a combined total of R372bn in the current financial year.

However, this sum probably under-estimates what the full costs of the NHI might be. Back in 2009, when the ANC released a discussion paper on the issue, *Dr Jonathan Broomberg*, chief executive of *Discovery Health*, said: 'If the NHI were to provide the current package of benefits provided to the average member of a medical scheme to the entire population, this would cost about R497bn'. This estimate from six years ago no doubt merits substantial upward revision.

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NHI benefits might instead be limited to the prescribed minimum benefits (PMBs) the government insists that medical schemes provide to all their members. At present, medical schemes need around R600 per person per month to cover the PMBs. On this basis, the cost of providing these benefits to 55 million South Africans would be R396bn.

Also relevant is the question of how much the NHI would cost over the next ten years, under the impact of consumer inflation and other factors. In nominal terms, expenditure on both public and private health care has gone up by roughly 45% over the past five years or by 9% a year on average. It is unlikely that the rate of increase would be any lower in the future, especially with the rand so weak and inflation proving so difficult to tame.

Let us then assume that the NHI is introduced in full in the current financial year, at a conservative cost of R372bn (ie, the total of public and private health spending this year). From this base, the cost of the NHI would rise by 45% to R539bn in 2021, and by a further 45% to R782bn in 2026.

If the economy were to grow by 1.5% of GDP a year (which may be too optimistic a forecast), then GDP in 2026 in basic prices would amount to some R4 630bn. On this basis, expenditure on the NHI would then amount to roughly 17% of GDP. This is simply unaffordable.

The White Paper also assumes that the price controls to be introduced – on medicines, medical devices and equipment, and the fees payable to hospitals and health practitioners – will greatly reduce the costs of health care. But this overlooks the inefficiencies that are sure to arise when state controls replace the market mechanism.

Without a market to help assess demand, bureaucrats will have to decide on what health services, medicines, and other goods will be needed when and where. Inevitably, there will be over-provision in some areas and under-provision in others. This will generate huge inefficiencies in the system as a whole, which will add to costs rather than reducing them.

The White Paper also ignores the costs of the large bureaucracy that will be needed to administer the NHI

The NHI Fund is likely to need some 160 000 officials simply to pay all health care practitioners and facilities for the services they provide. A similar sized army of bureaucrats could also be required to pay for all the medicines, medical equipment, diagnostic tests, and other goods and services that will be needed.

In addition, a host of other bureaucratic entities will be required to decide on NHI benefits, determine treatment protocols, set prices, accredit health care professionals, monitor their performance, and combat the fraud and corruption the system is sure to foster.

No one knows quite how big the new bureaucracy might have to be, or how much it will cost once salaries and other perks have been provided. Yet the White Paper ignores this issue altogether.

The limited financial projections provided by the White Paper are also unconvincing

Based on various flawed assumptions – including an unsubstantiated belief that the economy will grow by 3.5% of GDP a year over the next ten years – the White Paper assumes that R79bn in additional revenue will be needed in 2025 to fund the NHI. It further assumes that this shortfall could be covered via a 1% payroll tax, coupled with a 1 percentage point increase in the marginal rate of personal income tax and a 1 percentage point increase in the VAT rate.

Given the obvious shortcomings in these figures, Econex, an economics consultancy, has remodelled them using more realistic economic growth projections, among other things. On this basis, it concludes that the revenue shortfall could well be R210bn in 2025. A shortfall of this magnitude cannot easily be bridged when the total yield from personal income tax in 2015/16 was roughly R392bn, while corporate taxes yielded some R189bn and VAT about R278bn.

Will the country then witness more damaging demonstrations by militant youths and a determination to close down the country's hospitals until such time as the government delivers on this promise?

In pushing for the NHI without first counting its likely costs, the government is again being irresponsible

When it fails to fulfil the NHI's pledge of 'quality, affordable health services for all', as it inevitably will, what will be the consequence?

Will the country then witness more damaging demonstrations by militant youths and a determination to close down the country's hospitals until such time as the government delivers on this promise?

It is time for the ANC to end the entitlement mentality, stop making feckless promises that cannot be met, and implement the major reforms that alone can attract direct investment, expand the economy, and generate the jobs vital to individual self-reliance and upward mobility.

About the author

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