# NHI: A feasible proposal or is it dead in the water?

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The government's release on the 11th December 2015 of the long awaited white paper on National Health Insurance (NHI) was eagerly anticipated but the event was largely overshadowed by the widespread condemnation of President Zuma's axing of Finance Minister, Mr Nene, earlier that same week.

Subsequent to Nene's axing and the hasty appointment of Pravin Gordhan as Finance Minister - a bid to stem the Rand's horrifying free fall - the rand remains weaker than it was before, share values are also still lower and it prompted international rating agencies to put out negative rating watches on SA.

So, whatever hopes Health Minister Dr Aaron Motsoaledi had of receiving scarce fiscal funding for his ambitious NHI, lay in serious doubt even before commentators had the chance to read the white paper.

Government's burgeoning wage bill, even more rapidly growing debt financing costs, rising inflation, the depreciating rand, linked with declining tax revenues from low economic growth, stand in stark contrast to the vast sums that Dr Motsoaledi is hoping to receive from National Treasury to fund NHI.

The white paper's projected expenditure on NHI has not materially changed from the rather optimistic 2011 green paper, still standing at a projected R256 billion by 2025/26 (in 2010 prices).

If we look at some financial statistics from 2010/11, tax revenue topped just over R740 billion, the public health budget was R107 billion and the country's GDP was R3000 billion. This means that state funded healthcare constituted 3.6% of the GDP in 2010/11 but under NHI it's looking to consume 8.5% by 2025/26.

The shortfall between the state budget and the projected NHI costs is therefore R149 billion (still talking 2010 prices) and a rough calculation puts that shortfall at around R200 billion for the 2014/15 budget figures.

This means that the revenue shortfall required for funding the NHI will need to come from outside of the existing revenue available to government, i.e. additional taxes. The following sources have been identified in the white paper:

- The removal of tax credits for medical scheme membership (±R16b in 2014/15);
- The removal of subsidies for state employees for medical scheme membership (est ±R20b in 2014/15);
- The redirecting of levies for the RAF and COIDA that relate to the funding of medical services (quantum unknown but would not be significant);
- An increase in taxes.

Regardless of the above, the white paper's proposals on funding the NHI remain about as vague as they were in the 2011 green paper and with comments such as these below, one can hardly consider that the funding proposals have been taking seriously:

[Extract from NHI white paper:]
*"Therefore, focusing on the question – 'what will NHI cost?' - is the wrong approach"* (para 250)

and

*"It must be stressed that these [tax increases] are not proposed as overall tax increases, but illustrates the tax implications of a shift from private insurance to NHI funding ….. "* (para 294)

What the white paper is loosely hanging onto is this – the private sector currently spends 4.1% of the GDP on healthcare and so does the public sector. So if we throw these two together into one pot (i.e. the NHI)

we will have around 8.2% of GDP to spend on healthcare and we (i.e. the state) can deliver good quality healthcare for all citizens.

At face value, this intent appears laudable - but there are a few palpable problems with that assumption:

- Firstly, the money that the private sector spends to purchase medical scheme cover is a voluntary decision (read constitutional) to purchase private treatment of their own choice. The funds employed for this are not owned by the state and the only tax relief offered by the state for membership of a medical scheme has been whittled down over the years to R16b pa (±10% of total annual medical scheme spend).
- Secondly, can Dr Motsoaledi honestly expect the private sector to believe that the same quality of care will be available to all citizens given the deleterious state of his department? Issues relating to fixing the quality problems in the public sector have barely been touched upon in the white paper.
- Thirdly, assuming the quality of care is good, what level of private care will still need to be purchased outside of the NHI? The details of care to be provided under NHI has also been rather vague, so is the NHI just another stealth tax?

These are issues that have not been addressed in the white paper and the private sector will fight hard against the NHI unless these matters are adequately addressed.

However, let's get back to the funding issues. Even a cursory, high level assessment of available resources indicates clearly that the vast majority of the additional funding for the NHI will need to come from additional taxes.

The white paper proposes five possible combinations from the following three additional tax sources:

**A Dedicated NHI Payroll Tax** – this would draw revenue from all formally employed citizens, including those earning below the income tax threshold (±15 million people);

**A Surcharge on Income Tax** – this would draw revenue only from higher income citizens earning above the income tax threshold (currently ±7 million people);

**An Increase in VAT** – this would draw revenue from virtually all citizens and companies.

An increase in VAT will hit the poor the hardest and given the ruling ANC's declining support at the polls and their strong reliance on the rural vote, a VAT increase seems the most unlikely of these three options.

This leaves only two options – an income tax surcharge on current taxpayers or a dedicated payroll tax or a combination of both of these.

The payroll tax may also be an unlikely option, as it will hit current non-taxpayers, which will invoke the ire of the labour unions. Again, the reasons for not going this route will be political and not financial.

So it seems that the only viable source will be a surcharge on income tax, extracting more from the existing tax paying base of ±7 million people. This is the basis of the fifth and last funding proposal in the white paper, which outlines an additional tax surcharge of 0.5% in 2016/17, increasing each year to an eventual 4% surcharge by 2025/26.

Unfortunately, again, the numbers do not tally! An additional 4% on existing tax rates will only raise about R80 billion, using the 2015/16 budget numbers, whereas the rough estimates above indicate needing R200 billion (in 2015 prices).

However, regardless of the veracity of these funding proposals or where additional taxes will possibly come from, there is one other fundamental issue to consider around the scenario of raising taxes.

South Africa's almost certain downgrade to junk status by the international credit rating agencies will dramatically increase our already high cost of servicing debt. Over and above this, we have the unrelenting

rise in the public wage bill, rising interest rates from the weaker rand and escalating food prices from our now crippling drought.

And then for good measure, throw in the very low projected economic growth for at least the next few years and you have declining tax revenue - at best this could be a drop in real terms or, even worse, an overall drop in collections.

In simple terms government is running out of money and as the budget deficit continues to grow over the next few years, they will need to turn to taxpayers to balance the books.

Effectively, it means that there will be a prioritisation on where and how additional taxes are used and, undoubtedly, it will be dedicated to the budget deficit rather than to support any new, additional expenditure program.

Given the massive uproar around the axing of Finance Minister Nene and the rapid and embarrassing reversal by President Zuma to reappoint Pravin Gordhan as finance minister to calm the markets, Gordhan is now politically untouchable.

He historically held firm against any overly ambitious government plans that would impinge on his tight fiscal discipline, so it seems very unlikely that the NHI's massive price tag will be given any credence by Finance Minister Gordhan.

In my mind, given these circumstances, the NHI is dead in the water even before it has had a chance to get going.

There does, however, seem to be some justice should this transpire, for the critics of the NHI have long pointed out that SA's per capita public health spend is higher than most of our peers yet we have much poorer health outcomes.

This points to severe and systemic problems within the Department of Health (DoH) that contribute significantly to massive levels of wastage (financial) and inept service delivery (poor health outcomes).

If we look at SA's maternal and neonatal mortality rates, these have improved according to the department's own statistics in recent years, yet they still remain substantially poorer than the outcomes achieved by peer countries with similar or even lower per capita health budgets.

The DoH's governance and management track record is very poor. It has consistently over recent years recorded the worst audit record of all national state departments from the Auditor General, receiving more qualified audits showing fraud, corruption, maladministration and unauthorised expenditure than any other state department.

In February last year, the Justice Department announced that the DoH's provision for medical malpractice lawsuits breached the R25 billion mark. Consider that the entire annual public health budget for this 2015/16 fiscal year was R156 billion, this level of wastage is astronomical.

Reflecting on these glaring governance and delivery problems, one has to beg the question why the DoH has not rather given priority to finding obviously, substantially available efficiencies within the existing budget and looked at improving the quality of care it is delivering?

The tone of the white paper in its opening chapters focuses on a lack of funding being the primary barriers to adequate quality healthcare for all citizens and that the 'private sector creates financing schemes for a privileged few that punish the poor'.

The white paper has been written in a bizarre denial of the problems the persistently impinge on the ability of the DoH to deliver even basic primary healthcare, let alone more complex specialised treatment.

How does Dr Motsoaledi propose that the public units are going to deliver better healthcare with more NHI money, when currently all that happens in his department with existing funds is wilful wastage and

pillaging? This is not a new problem - so where are the plans to rectify this before tax payers are asked to pour many more billions into a dysfunctional system?

Inevitably, what this does tell us is that the NHI has been more of a political invention rather than a pragmatic, well considered solution to improve the quality of care and to get rid of fraud and corruption in the state.

From this perspective, the white paper is quite a naïve approach. Given that it will almost certainly fail a constitutional challenge and has been virtually silent on addressing the existing disastrous public health system, it can hardly be accepted as a rigorously considered government policy that is in the best interest of the country and its citizens!

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