NHI costs to skyrocket

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Johannesburg - The estimated cost assumptions for the implementation of the National Health Insurance (NHI) for South Africa in the White Paper published last December have been called into question by research and public interest bodies.

The White Paper estimates the cost of healthcare under the NHI by 2025 at R256 billion, however several commentators warned that these estimates were done with an optimistic assumption of 3.5 percent annual economic growth.

Several companies, associations and institutions submitted their comments on the NHI in May and June questioning the lack of clarity on funding.

Economics consultancy Econex says its calculations indicate that the total amount required to fund the NHI in 2025 is almost as large as the estimated revenue collected from individuals in the 2015/16 fiscal year.

The Free Market Foundation has done some "back of the matchbook calculations" and estimated the NHI to cost R367.4 billion when fully implemented. Econex says a 16 percent increase in NHI costs will bring the final cost to R357 billion by 2025.

Shortfall

The White Paper estimates NHI expenditure of R185 billion in the 2020/21 fiscal year and R255 billion in 2025/26. According to the White Paper, the shortfall in 2025 will be R108 billion based on 2010 prices.

Econex estimates the funding shortfall at approximately R200 billion. This is because SA’s economic growth has been assumed at a more optimistic rate than the reality.

The economy showed a 1.2 percent contraction in the first quarter of 2016 and future growth has been forecasted around 1 percent or 2 percent, at best.

The International Monetary Fund (IMF) has cut South Africa's economic growth outlook for this year from 1.3 percent to 0.7 percent, and growth projection for next year was revised down to 1.8 percent from 2.1 percent.

"The funding shortfall in 2025, assuming a growth rate of 2 percent per annum would equal more than a third of tax revenue generated from personal income tax, 75 percent of corporate income tax and 51 percent of VAT," Econex points out.

In total, the funding shortfall under this scenario is projected to be 13 percent of total tax revenue generated in the 2015/16 fiscal year.

The Free Market Foundation says in its submission it is seriously doubtful whether South Africa is in a position to afford an ambitious proposal such as the NHI.

"We are of the view that the introduction of an NHI will place an unnecessary and intolerable burden not only on South Africa's people but also the South African government - a burden that will be felt for many generations to come if it is introduced."

Government has indicated that the NHI will be funded by tax revenue and mandatory NHI contributions.

The Free Market Foundation says government should concentrate its efforts and scarce taxpayer resources on those who cannot afford health care.

Government could act as financier for those who truly cannot afford it and let people decide for themselves where to spend their money, it says. "It is not necessary to finance the healthcare needs of the entire population. Doing so is not a particularly good use of scarce taxpayer resources," the foundation concludes.

Lack of compliance

Public interest law centre Section 27 refers to an assessment of the Office of Health Standards Compliance which indicated that on average health facilities across the country achieved 46 percent compliance to standards.

"This suggests that most health facilities are unlikely to be of a standard to support an NHI," it says in a submission published in June.

"The White Paper touches on issues of human resources, infrastructure, funding of NHI and a health information system, but insufficient detail is provided to enable an assessment of the prospects of success of interventions and insufficient progress has been made thus far."

The law centre says the administration process and issues of management and governance remain "extremely opaque". The roles of provinces, districts and municipalities have been obscured.

The current timeframes do not give the Department of Health enough time to ensure that implementation of the NHI is successful.

"The setting of unrealistic timeframes creates unrealistic expectations from health service users and from those implementing the policy. There is little doubt that it will not be possible to fully implement NHI by 2025. There is no reason, therefore, for the department to set itself up for failure," says Section 27.

Costly

Keith Engel, CEO of the South African Institute of Tax Professionals (SAIT), says there is no doubt that the NHI will be expensive in both the short and long-run.

"Most countries have underestimated the cost. The question is where will the funds come from in a South Africa? Treasury has indicated that a VAT increase is a strong candidate."

Engel says government may have to increase taxes just to cover already committed expenditure. In early 2016, many talked of a VAT hike to cover current operating costs. He questions the wisdom of "multiple layers of tax increases".

The Helen Suzman Foundation says the "hard fact" of the matter is that the financial basis for the envisaged plan will not exist until South Africa grows at a rate faster than that projected by the IMF for any year up to 2021.

The low growth rates will mean that government will be forced to postpone aspects of its program, disrupting the phasing of the program proposed in the White Paper.

The White Paper also propose major restructuring of publicly provided health care. This reorganisation will impose costs, not only in terms of funding, but also of management attention and health professional skill development.

The Suzman foundation says the Medium Term Expenditure Framework should define the context of everything that is done in the public provision of health care.

Greater attention has to be paid to costing units of provision, cost effectiveness studies and cost-benefit analysis. This is the only way to develop better service with the limited resources available, the foundation says.

By Amanda Visser