NATIONAL HEALTH INSURANCE
isn't cheap

Theuns du Buisson

Part of the Solidarity Movement

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1. Summary and Background

This is Solidarity's third National Health Insurance cost report, following the cost report that Solidarity received from PriceMetrics in 2019. In 2021, an updated report was issued by the Solidarity Research Institute, containing new information. The new information unfortunately did not bring greater clarity on the government's plans with regard to funding of the NHI, but merely showed how the economic realities in South Africa were unfolding. The government's plans for funding the NHI have been left unchanged for the past 12 years. A new methodology has indeed been used in this year's report, giving a much more accurate reflection of the private health sector. This was seriously underrated in previous reports. The private health sector in its entirety also will have to be funded by the NHI, and it therefore is extremely important to estimate the extent thereof as accurately as possible.

The National Health Insurance (NHI) Bill, which was published in 2019 and at that stage already was widely criticised for the lack of information on the funding of the NHI, was passed by parliament on 12 June this year (2023). The aim of this report is to evaluate the financial feasibility of the Bill. The Bll forms part of an ongoing governance process following the publication of a Green Paper in 2011 and two White Papers, one in 2015 and one in 2017. The ultimate aim of all these documents is to make Universal Health Coverage (UHC) available to all South Africans, irrespective of financial status. The next steps include that it has to be approved by the National Council of Provinces and that new consultation processes are likely to follow.

The 2017 White Paper states that a key element of funding of UHC is that the health costs of the poor and vulnerable should be shared by society as a whole. Furthermore, the funding system for healthcare should be aimed at spreading the financial risks of disease over a broad population by collecting large pools of prepaid funds from which people can draw to cover their healthcare costs in times of distress, regardless of their ability to pay.

The White Paper fails to mention that, at least in principle, this already is the case in public hospitals, where healthcare is provided and then paid for according to what the patient can afford. Therefore, the poor are already being subsidised by means of South Africa's progressive tax system funding the public healthcare system.

Although it is argued that the Bill is not a so-called money bill, it does provide for new taxes being levied to fund the NHI. Constitutionally, this means that it is a money bill, which can be tabled in parliament only by the National Treasury and the Minister of Finance. This did not happen, and the Minister of Finance did not budget for a reasonable amount for implementation of the NHI, which implies that the Treasury does not foresee the actual implementation of the NHI in the near future. This also was the case with the previous submissions of the Bill, and now, with the Bill having been passed, the officials concerned still did not provide for this constitutional requirement.

Even so, the funding structure proposed in the NHI Bill makes provision for a new payroll tax as well as a surcharge on income tax. This is in addition to general tax revenue and a planned re-allocation of provincial budgets and conditional allocations, as well as from tax credits for medical schemes.

If the government projections made at that time are to be believed, the NHI will result in the budget deficit being further increased by about R32 billion. A more realistic calculation, as in this report, shows a deficit of R295,93 billion as an absolute minimum. Treasury cannot afford a deficit of R32 billion, let alone a deficit of R295,93 billion.

2. NHI proposals

In recent publications, the World Health Organization made it a priority for all governments to achieve universal healthcare for all inhabitants of the world. The NHI Bill envisages to do precisely this for South Africa, without any consideration of alternatives or affordability.

The World Health Organization defines UHC as follows: Universal Health Coverage is defined as ensuring that all people have access to needed health services (including prevention, promotion, treatment, rehabilitation, and palliation) of sufficient quality to be effective while also ensuring that the use of these services does not expose the user to financial hardship. Universal Health Coverage therefore has become an important objective for health reform in many countries and a priority objective of the WHO."

The NHI Bill proposes converting the present two-tier system into a single system that should provide all South Africans with access to either public or private healthcare. The costs are to be borne by the NHI scheme. The NHI will enter into contracts with hospitals and other role-players.

It is proposed that such contracts be entered into, and other systems be introduced, prior to the NHI becoming fully operational in 2026. Since then it has been suggested that 2026 will be the year when they will begin phasing in the system, but for the purpose of this report we still take 2026 as the date of commencement of the NHI because it was announced as such when the original Bill was tabled. The 2019 Bill proposes that the NHI be funded by abolishing medical tax credits, levying a payroll tax, levying a surcharge on income tax and transferring funds from provincial equitable share budgets to the new NHI budget.

No proper cost calculation has been made by the state, apart from brief references to 2010 values in the 2017 White Paper. Even in this instance it is not clear how the calculations were made by the state. Furthermore, without Treasury's participation it will be of no value, even if the calculations were valid in other respects.

3. The economic environment and South Africa's ability to absorb further expenditure items such as the NHI

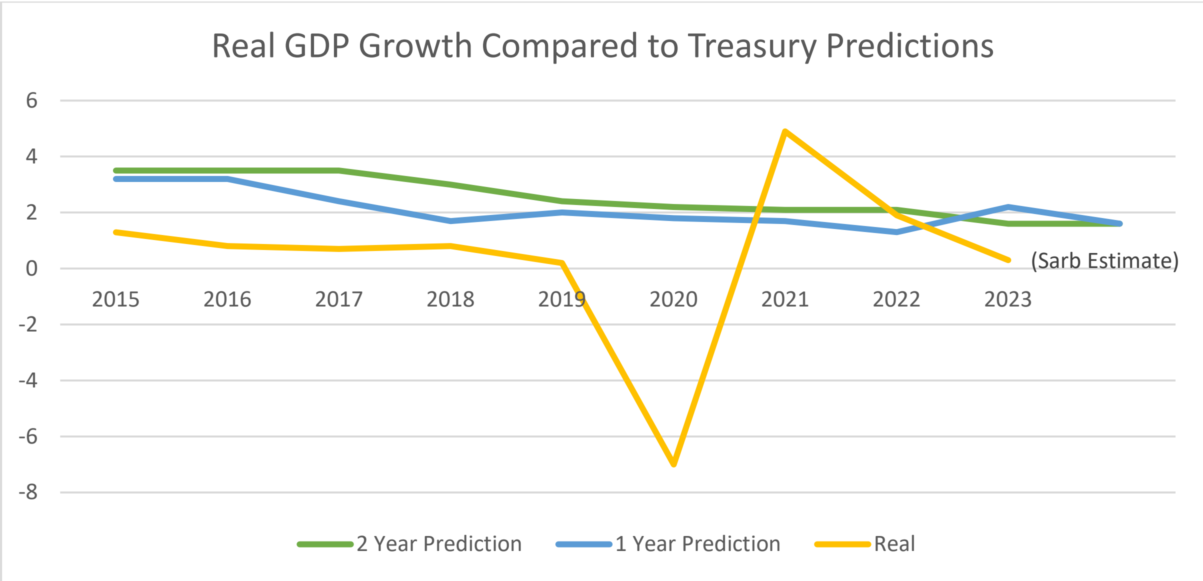
The global economy was severely affected by the COVID-19 pandemic. South Africa in particular is struggling to recover and achieve real growth. In 2019, prior to the pandemic, South Africa's GDP growth amounted to 0,2%. If it was not for enormous profits in the agriculture sector in that year, South Africa would have experienced a contraction. In 2020, the economy contracted by 7%, mainly as a result of the pandemic. Growth of 4,7% was recorded for 2021, and since then South Africa has returned to the trend of the last decade, when growth was constantly lower than the rates projected by Treasury.

South Africa's fiscal position

One cannot begin planning for any further state expenditure without first taking into account the country's current fiscal position. South Africa currently has a budget deficit of 4,2%, although HSBC believes it will be 5,1% and Moody's predicts a 5,6% deficit as a result of lower than expected tax revenue and a higher than expected salary adjustment for public servants. This follows after 14 years of successive budget deficits. Such a state of affairs is totally unsustainable. This spiral of debt, which in itself shows that South Africa has reached a tax ceiling, is hampering any further investment in government services or infrastructure. Furthermore, social services are responsible for more than one third of state expenditure. While social services are enormously important, they leave behind no physical infrastructure with tangible value. This in itself is not sustainable, and the NHI if implemented will be yet another cost item in this category. In 2023, debt servicing costs already are taking up R340,5 billion of the national budget. This is one of the largest single items in the budget, absorbing just over 17% of state revenue.

When proposals concerning the NHI first were made in 2010, it was projected that the NHI would be fully implemented in 2026. Since then, the government's proposals have not deviated from 2010 prices. The government departments involved have not yet adequately explained how they arrived at these prices. In 2020, however, the South African economy had just experienced a boom that lasted up to 2008, before grinding to a halt owing to the global financial crisis. The economy briefly showed signs of growth thanks to the 2010 Soccer World Cup tournament and the general euphoria surrounding the tournament. The brief period of growth in 2010 is referred to as a "dead cat bounce" – a short-lived recovery during a bear market. Since then, South Africa has not experienced any real growth that came near to meeting the predictions in the annual budget reviews. The line graph below shows the differences between the predictions in the two years preceeding the year in question, compared to the actual GDP growth. One therefore cannot expect anything but disastrous consequences, because budgets are drawn up according to presumed future growth that never is realised or even comes close to being realised. National Treasury may be forgiven for its overestimated 2020 forecasts, but we should never forget that the pandemic was preceeded by five years of insignificant GDP growth. The GDP per capita has declined by about a quarter since 2008.[1] This has the knock-on effect that the government either has to spend less money on every citizen or has to take more money from taxpayers. Because this takes money out of circulation, or moves money from productive citizens to unproductive organs of state, it has a harmful effect on the economy as a whole.

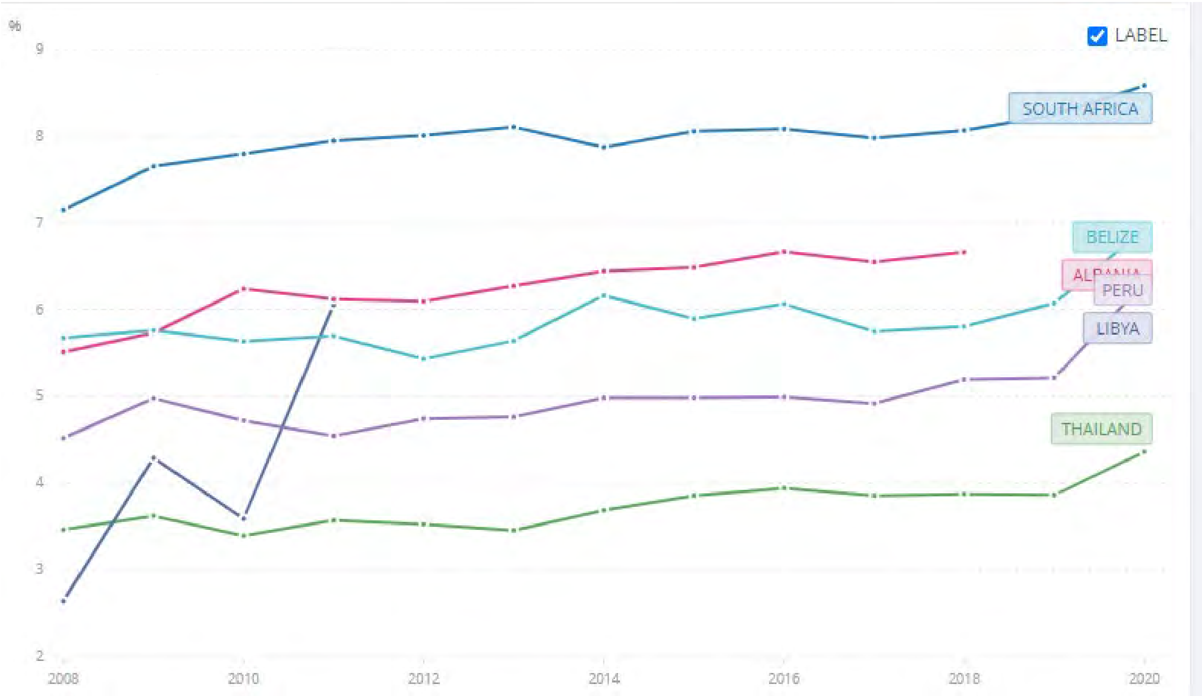
With the exception of 2020 and 2021, the trend throughout has been that the government hugely overestimates GDP growth over a two-year period, then adjusts it to a relatively big overestimate, and eventually has to be satisfied with about two percentage points lower than the two-year estimate. Even in 2022, the estimate was slightly lower than the two-year prediction, notwithstanding the fact that the country at that stage still was supposed to be recovering from the pandemic.



4. Funding of the NHI

Worldwide, the norm for middle-income countries such as South Africa is to spend about 6% of GDP on healthcare. This includes spending by the state and the private sector. In South Africa this was approximately 8,6% in 2020, which is high in comparison with other countries with an income per capita similar to that of South Africa. The state usually budgets between 4% and 5% of GDP for health. For 2023, the proportion is a meagre 3,9%. This indicates a budget that is under severe pressure. The graph below by the World Bank compares South Africa's spending on healthcare to that of other countries in our income group.

[1] https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=ZA



Source: World Bank data

The Reserve Bank expects GDP growth to be 0,4% this year, 1% in 2024 and 1,1% in 2025. These predictions are used for the asumptions in the table below. For determining total healthcare spending, research by Charles Simkins and the Helen Suzman Foundation is used. In terms of this, 48,7% of health spending takes place in the public sector, as against 51,3% in the private sector. According to research by the Foundation, total spending in 2019 was approximately 9% of GDP, which compares well with the World Bank's estimate of 8,3% for the same year. An estimated health inflation rate of 5,5% is used for forecasting the public health budget if the NHI is not implemented. The asumption here is that the state will in one way or another attempt to absorb general cost increases in health services, given the fact that spending on public health currently is relatively low compared to previous years. From 2022 to 2023 the health budget was increased by 0,08%, which is negligible.

(R billion)	2022	2023	2024	2025	2025	2026
Health budget	259	259.2	273.456	288.496	304.363	321.103
Private health sector	272.83	273.04	288.06	303.90	320.61	338.25
Minimum costs of NHI	531.83	532.24	561.51	592.39	624.98	659.35
Acceptable total budget (5% of GDP)	332.565	350.285	351.686	355.203	359.11	363.42
Deficit	199.26	181.95	209.83	237.19	265.87	295.93

If NHI were to be implemented today, there would be a budget deficit of R181,95 billion. The fact of a decrease from 2022's assumed figure actually underlines the unaffordability of the NHI, because it stems from failure by the Treasury to properly adjust the health budget this year. Looking at 2026, the year in which the NHI is supposed to be implemented, an enormous extra R295,93 billion will be required in order to balance the books. With a total cost of R659,35 billion, this would make healthcare by far the biggest item in the South African budget. It is unheard of for a middle-income country, where spending on education usually enjoys highest priority. While more affluent countries spend more on healthcare, social grants usually receive highest priority, never health.

If the NHI were to be implemented, the demand for health services would increase, because affordability currently is regulating the demand for such services. If this regulating mechanism should fall away, it will result in an enormous shortage of medical staff and especially specialists not only in the public sector but also in the private sector. Shortages always give rise to price increases, and in the proposed system these increases will have to be absorbed by the NHI. If they refuse, for example by setting prices at low levels, we may expect an exodus of medical staff. The estimates in this report therefore are probably low, being based on current figures and trends.

The 2023 budget will be adjusted to reflect 2026 values based on projected economic growth in the table below. The subsequent tax projections are based on this. Tax revenue for 2026 then will be composed as follows, on the assumption that there will be no major reforms and adjustments:

	(R billion)
Tax revenue	**1853.44**
Personal Income Tax	**663.92**
Corporate Income Tax	**348.5**
VAT	**488.89**
Tax on International Trade and Transactions	**79.43**
Non-tax revenue	**53.5**
Less: SACU payments	**-82.74**
Principal Budget Revenue	**1 824.37**
Provinces, social security funds and public entities	**207.07**
Consolidated Budget Revenue	**2031.16**

R295,93 billion could theoretically be generated by abolishing the medical tax credit (about R30 billion) and levying the following taxes:

- A 40% surcharge on income tax.
- Increasing VAT from 15% to 22%.

- A payroll tax of 13,4%.
- Increasing corporate income tax from 27% tot 45%
- A combination of these.

In real terms, none of these is possible, because the South African taxpayer already is overtaxed. These therotecial suggestions serve for illustration only and to demonstrate their absurdity.

5. Conclusion

If the government's forecasts are to be believed, a budget deficit of approximately R32 billion may be expected. If this was the case, the medical tax credits of about R30 billion per annum would almost be enough to fund the NHI. Abolishing medical tax credits is indeed one of the actions proposed, but it is totally insufficient to fund the NHI. According to the current calculations, we can see that a deficit or R295,93 billion is a more realistic expectation.

None of the proposed taxes is feasible, because it would be contrary to South Africa's progressive tax system. Neither VAT, a payroll tax or a income tax surcharge is progressive. The latter two are mentioned pertinently by the government. Arguing that the eventual taxes would be much less than the figures stated in this report, is dishonest, unless the state is planning not actually to make access to private healthcare available to everybody.

South Africa cannot afford the NHI in any form and should much rather invest in current public health systems. These are not being adequately funded or managed at present. The costs of the NHI are severely underestimated by the government and have been intentionally kept secret since the 2011 Green Paper.

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