Update on the National Health Insurance (NHI) Bill

The NHI Bill envisions free access for South Africans to the medical care they need. Unfortunately, South Africa cannot afford this in its current form. In addition to the cost, it is questionable whether we should be creating another State-Owned Enterprise (SOE) at a time when there is so much uncertainty around our ability to manage the current ones.

A Bill is a proposed piece of legislation that follows an approval process through Parliament before being enacted. The NHI Bill was unveiled on 8 August 2019 in Pretoria by Health Minister Zweli Mkhize. Under the NHI, Government will provide a package of comprehensive health services for free at both private and public healthcare facilities. To achieve this, the NHI Fund will be created and tasked with achieving the purpose of the Bill. The NHI Bill will be discussed and amended by the Parliamentary Health Committee and then debated in the National Assembly. It could be amended again and if approved, it will go through the same process in the National Council of Provinces. Thereafter, it will be signed by the President to make it an Act of Parliament. While this process could take as little as two or three months, it is expected that the NHI Bill will take a minimum of two years to be enacted.

Why NHI is unaffordable

The White Paper on NHI that was published in 2015 showed that the funding shortfall given an assumed GDP growth rate of 2% p.a. would be R108 billion on implementation (in 2010 values). Econex research submitted to the Davis Tax Commission in 2017 updated that number to R111 billion, given the actual growth we had over the period. If that number is adjusted with CPI from 2010 to 2019 the shortfall in current values would be R176.2 billion. To put that number in perspective, it is 31.9% of the total personal income tax projected to be received by Government for the current fiscal year. To cover this shortfall, taxpayers will have to contribute close to an additional 10% of their taxable income.

In addition to the NHI shortfall, the country needs to fund R59 billion for bailouts to our struggling SOEs, R43 billion for an economic stimulus package, the Government wage bill is set to exceed expectations by R30 billion and due to the poor economy, tax revenue is expected to be R27.4 billion less than expected. Government will not be able to fund this through taxes and has already increased borrowing by more than R1 billion per week. The interest on R160 billion of borrowings at current rates of 8.3% is R13.3 billion, money that can no longer be used for other projects.

Another SOE

The NHI will be the responsibility of the Fund, who will receive all the funds (approx. R400 billion in today's value) and pay for all the medical care provided. This will make it larger than Eskom. Estimates of the costs of running the Fund varies widely between R7 billion to R14 billion. This is in addition to the cost of providing the healthcare services itself.

To date no detailed plan is available of how the NHI will work or will be implemented. Pilot projects, which have been running for a few years, have failed to improve the quality of care at most of the sites to an acceptable level. The NHI is therefore not the solution to fixing the poor performance of our public health care system.

Other concerns

The estimated shortfall of R176.2bn is derived using the South African inflation rate (CPI) over the past 9 years. Medical inflation as experienced by medical schemes was however 11% over this period. The NHI will therefore have to be 60% more efficient than medical schemes in managing medical expenses to be able to limit this shortfall. If this is done by reducing the income of GPs and specialists, we can expect emigration of these professionals to increase. In addition, lower taxable income by people and companies in the health services sector would result in lower taxes being payable, thereby increasing the tax revenue shortfall even more.

According to the Hospital Association of SA, the NHI will decimate an existing sector and lead to 132 000 additional job losses. Finally, the fact that taxpayers will not be allowed to have medical scheme cover for services covered by the NHI, removes taxpayers' freedom of choice.

Who will be covered?

Free healthcare services will be available to all citizens, permanent residents, refugees, inmates as well as certain foreigners. While asylum seekers and illegal immigrants would only be able to access emergency healthcare, their children will be entitled to comprehensive healthcare services.

What will be covered?

While the definition of comprehensive healthcare services does not specify what is included, there are some guidelines of what will not be covered. Healthcare will be subject to availability and appropriateness and not provided if the Fund believes:

- no medical necessity exists
- no cost-effective intervention exists
- the healthcare product or treatment is not included in the approved list (to be created).

Obtaining cover

To get basic healthcare services, you will need to register with a public or private clinic or a general practitioner. When you're sick, your starting point is there. If you need a higher level of care, the clinic or doctor will need to refer you to a hospital or specialist. Jumping the queue will result in the cost being for your own account.

How will this be funded?

While healthcare services will be provided for free, there will be a mandatory prepayment by all salary earners and taxpayers. Most of the funds currently budgeted for healthcare in the National Budget will be diverted to the Fund. It will, however, require significant additional funding. It is intended to be financed by a payroll levy, the removal of the medical scheme tax credits, and by a surcharge on personal income tax.

The future of medical schemes

Medical schemes as we know them will not continue in their current form after the NHI is fully implemented. Users will only be allowed to purchase healthcare services through a medical scheme, private health insurance scheme or through out-of-pocket payments for services not covered by the Fund.

The way forward

The Bill provides for a 5-year period that already started in 2017 to prepare the way for the NHI. From 2022 to 2026, the last parts of the NHI will be implemented as part of Phase II until the Fund is fully operational in 2026. These timelines are unlikely to be met and implementation might be delayed even further depending on how long the Bill takes to be approved.

What to do next

While PSG will continue to engage constructively on the Bill and work towards a sustainable outcome, we strongly believe that clients should continue to ensure the necessary health cover remains in place for them, their families and their employees. It remains important to ensure sufficient medical cover remains in place to achieve your financial plan.