PSG Wealth

FEBRUARY 2016

EMPLOYEE BENEFITS NEWSFLASH

News you need to know

The NHI White Paper – What are the implications?

On 11 December 2015, the long-awaited National Health Insurance (NHI) White Paper was released for comment by the Department of Health. The White Paper provided more detail on how the Department plans to implement the system in South Africa, but many questions remain unanswered.

The introduction of NHI will coincide with a complete overhaul of the healthcare system in South Africa, which will then be organised into three areas of healthcare service delivery:

1. Primary Health Care (PHC)
2. Hospital and Specialised Services
3. Emergency Medical Services (EMS)

Phased implementation

It is proposed that a central NHI Fund, which will buy health services from accredited providers, be implemented in three phases over a 14-year period as follows:

1. Phase I, which started in the 2012/2013 financial year and will continue to the 2016/2017 financial year, is focusing on strengthening the public system and establishing the NHI Fund. This includes implementing the re-engineered Primary Health Care system, and establishing six work streams to support the required activities.

2. Phase II will extend from the 2017/2018 financial year until 2020/2021. This is when population registration will start, with vulnerable groups (defined as children, orphans, the aged, adolescents, people with disabilities, women and rural communities) being prioritised. The NHI Fund Management and Governance structures will also be established, and contracting with public and private providers at PHC level (including general practitioners, audiologists, oral health practitioners, optometrists and speech therapists) will start. In the latter stages of this phase the NHI Fund will buy personal health services from public hospitals and EMS, and the Medical Schemes Act will be amended so that medical schemes are only allowed to offer cover that is complementary to NHI.

3. Phase III will extend from the 2021/2022 financial year until 2024/2025. During this phase health facilities will be certified by the Office of Health Standards Compliance and accredited by NHI. In addition, the NHI Fund will start to contract with private sector providers at higher levels of care, such as specialists and private hospitals. The mandatory prepayment for the NHI will also start.

Medical cover

It is still not entirely clear what the NHI will cover, although the White Paper lists 15 different categories of care to be covered in a comprehensive package of health services. Detailed treatment guidelines, based on available evidence about the most cost-effective interventions, will be used to guide the delivery of the health services, and providers will be reimbursed at the NHI tariff.

The future role of medical schemes is also clearly set out in the White Paper. Once the NHI is fully implemented they will not be allowed to provide cover for services that are included in the health service benefits and medicines approved by the NHI Benefits Advisory Committee.

NHI Financing

Financing for NHI looks to be via a combination of three sources:

1. Payroll tax
2. Surcharge on income
3. Increased VAT

Various scenarios are provided in the White Paper demonstrating how NHI could potentially be financed. In all cases, implementation is from the 2016/2017 financial year. In addition, State medical scheme subsidies to civil servants and the tax credits provided to all medical scheme members will be reallocated towards the funding required for NHI.

Implementation challenges

Many challenges have been highlighted in the media by various commentators, ranging from potential constitutional problems through to the poor quality of care in the public sector. However, there are three reasons why the single largest challenge facing the introduction of NHI is how it will be funded.

- Firstly, in elaborating on the benefits of NHI, the White Paper refers to the positive economic and social spin-offs experienced by several middle-income countries due to successfully implemented NHI systems. The challenge we face in South Africa is that while our unemployment rate is significantly higher than those countries (see table below), individuals

The opinions expressed in this document are the opinions of the writer and not necessarily those of PSG and do not constitute advice. Although the utmost care has been taken in the research and preparation of this document, no responsibility can be taken for actions taken on information in this newsletter. PSG Wealth Financial Planning (Pty) Ltd is an authorised financial services provider. FSP 33657

are already disproportionately the highest contributors to the fiscus. The pool of individual taxpayers is thus already under pressure. Further increases to income tax are likely to put disposable household incomes under more pressure and negatively impact savings (which is acknowledged in the White Paper)

Country	Unemployment rate
Brazil	6.6%
Costa Rica	9.5%
South Korea	3.4%
Thailand	0.9%
Turkey	10.1%
South Africa	26.4%

- Secondly, as mentioned on the previous page, the White Paper proposes an increase to the VAT rate to contribute to the funding of NHI. This is likely to meet fierce opposition from organised labour.

- Lastly, the White Paper assumes a GDP growth rate of 3.5% to calculate the funding shortfall which needs to be covered. This is substantially higher than the projected growth rate (recently revised to less than 1%). This will result in the actual shortfall being substantially higher than the White Paper estimates. The recent economic turbulence and the expected downgrading of our credit rating will put further pressure on Government's ability to service debt. This will leave even fewer funds available for the NHI.

So where do we stand

The reappointment of Pravin Gordhan as Minister of Finance, given his historic opposition to audacious spending, may well result in a 'softening' of the almost militant delivery of the White Paper by the Minister of Health.

This was evidenced by a recent interview with the media, where the Minister of Health seemed to backtrack on the future role of medical schemes and stated that 'there is nothing wrong with giving a person their own choice to buy whatever they want'. This will no doubt come as a relief to the millions of medical scheme members. He also seemed to question the cost projections, and conceded that NHI is a long-term project, which will require financing on a programme by programme basis – starting with the re-engineering of primary healthcare. Given the many and varied challenges, this makes far more sense than the blind commitment to the implementation of NHI outlined in the White Paper.

We believe the Department of Health's commitment to strengthening the public health system will be crucial in obtaining the buy-in required from both providers and consumers to ensure the successful implementation of NHI.

The opinions expressed in this document are the opinions of the writer and not necessarily those of PSG and do not constitute advice. Although the utmost care has been taken in the research and preparation of this document, no responsibility can be taken for actions taken on information in this newsletter. PSG Wealth Financial Planning (Pty) Ltd is an authorised financial services provider. FSP 33657