Towards an integrated health care financing system: NHI

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REPUBLIC OF SOUTH AFRICA

Introduction

- Basic principles drawing also on other country experience
- Social vs private insurance
- Need to find middle ground between existing historical public and private financing systems
- Pooling reform
- Does not mean that private will not exist in future system

Health spending 2016/17

- Approximately R384 billion spending projection for health services 2016/17, R187 billion public, R191 billion public

Rand million	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Public sector									
National Department of health core	1,478	1,772	1,926	2,243	3,955	4,610	4,591	5,190	5,487
Provincial Departments of Health	97,957	111,324	122,492	130,690	140,889	153,762	163,934	175,182	186,840
Defence	3,150	3,400	3,460	3,734	4,053	4,069	4,417	4,400	4,578
Correctional services	508	519	665	727	763	847	844	851	910
Local government (own revenue)	1,865	1,977	2,096	2,221	2,355	2,496	2,628	2,768	2,914
Workmens Compensation	1,562	3,369	3,000	2,713	2,821	2,934	3,090	3,253	3,426
Road Accident Fund	768	785	1,138	1,204	1,279	1,352	1,424	1,499	1,579
Education	3,993	4,929	5,274	5,561	5,875	6,133	6,458	6,781	7,053
Total public sector health	111,282	128,075	140,051	149,093	161,990	176,203	187,386	199,924	212,786
Private sector									
Medical schemes	96,482	107,383	117,528	129,814	140,206	149,600	159,323	168,883	179,016
Out of pocket	17,794	18,862	19,993	21,193	22,465	23,812	25,074	26,403	27,803
Medical insurance	2,870	3,120	3,392	3,687	4,007	4,356	4,587	4,830	5,086
Employer private	1,372	1,491	1,621	1,762	1,915	2,081	2,192	2,308	2,430
Total private sector health	118,518	130,856	142,534	156,456	168,593	179,849	191,177	202,424	214,335
Donors or NGOs	5,787	5,308	5,574	5,852	6,145	6,097	5,876	5,642	5,396
Total	235,587	264,239	288,159	311,401	336,728	362,150	384,438	407,991	432,517

Health spending (2)

- Total health spending close to international comparators
- Share of public spending typically higher in comparator countries
- Private financing share high in SA

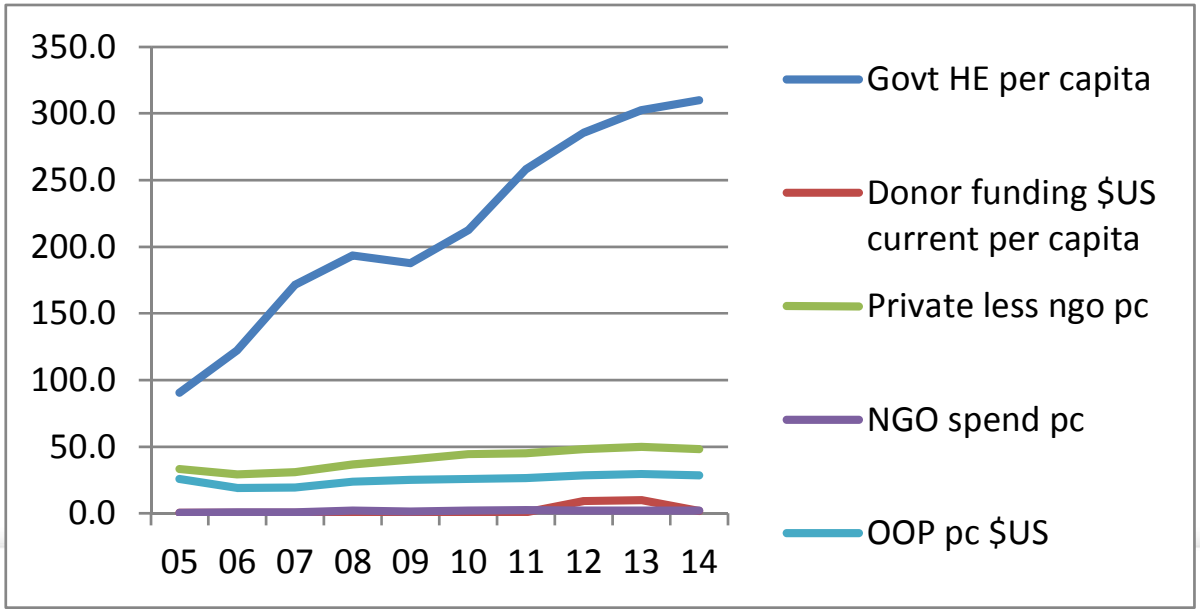
	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Total as % of GDP	8.6%	8.6%	8.7%	8.6%	8.8%	8.9%	8.8%	8.6%	8.4%
Public as % of GDP	4.1%	4.2%	4.2%	4.1%	4.2%	4.3%	4.3%	4.2%	4.1%
Public as % of total government expenditure (non-interest)	14.4%	15.0%	15.3%	15.1%	15.3%	15.1%	15.4%	15.2%	14.9%
Private financing as % of total	50.3%	49.5%	49.5%	50.2%	50.1%	49.7%	49.7%	49.6%	49.6%
Public sector real rand per capita 10/11 prices	3,441	3,701	3,775	3,734	3,776	3,829	3,758	3,720	3,682

Social vs private health insurance

- Mandatory vs voluntary
- Contributions: income related vs standard
- Generally no use of risk rating, exclusions
- Single or multi-scheme options; White Paper prefers single scheme option

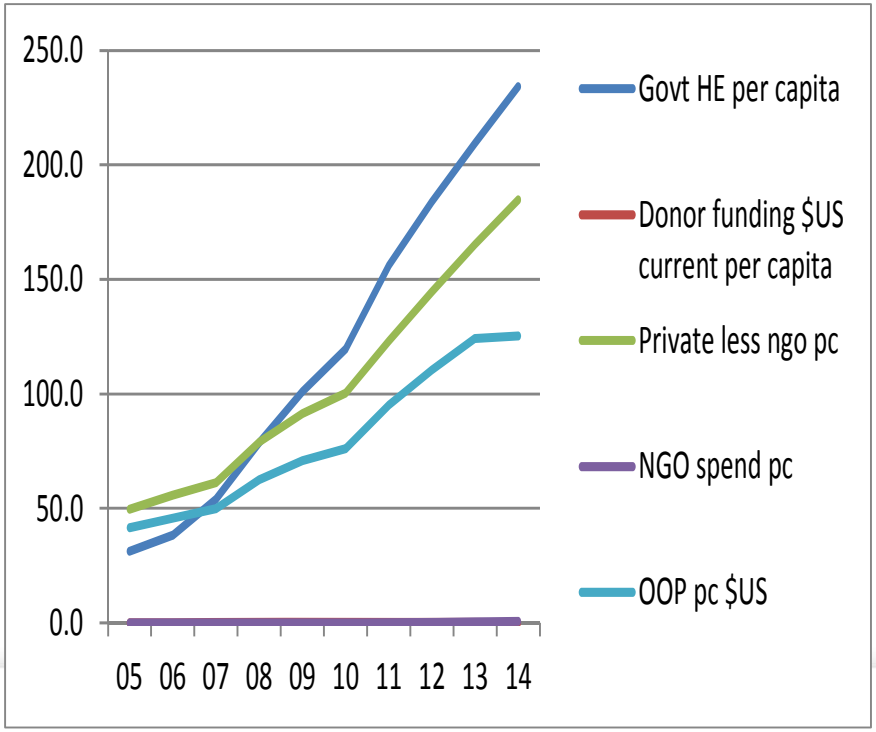
Thailand

- 2000 establishment of UC Fund
- Tax funded, growing economy
- Public funding grown substantially; strong investment in PHC
- Private provision and financing allowed, but fairly strong trust in UC system and catastrophic OOP has declined substantially
- Unable to date to consolidate civil servant and social health insurance scheme



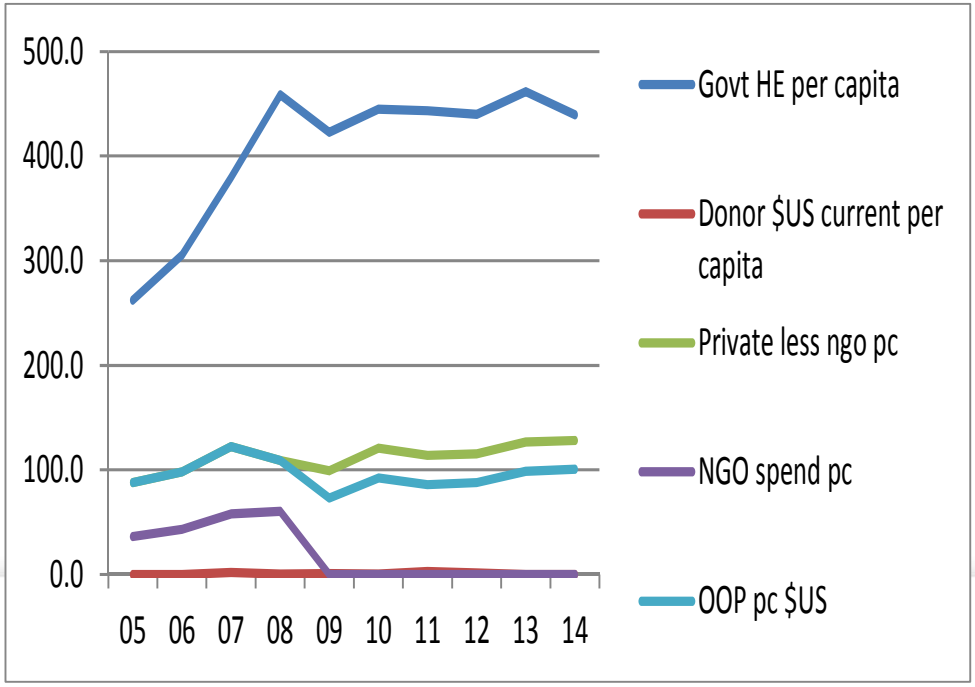
China

- Massively growing public and private expenditure
- Massive growth of mandatory health insurance
- In a context of rapid economic growth
- Massive growth in coverage



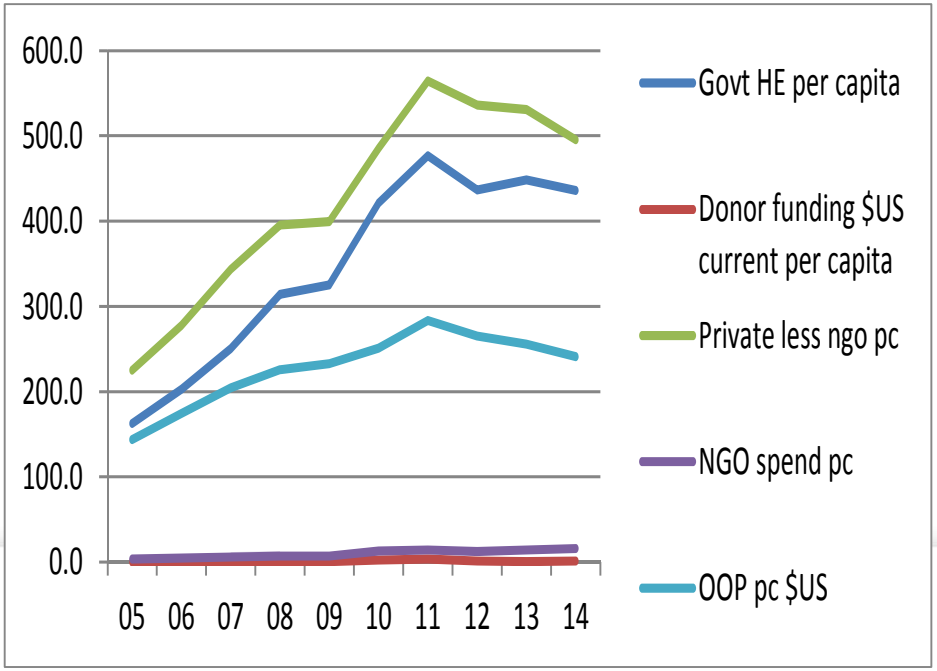
Turkey

- Lot of progress in consolidation of public funds
- Public financing system significantly exceeds private



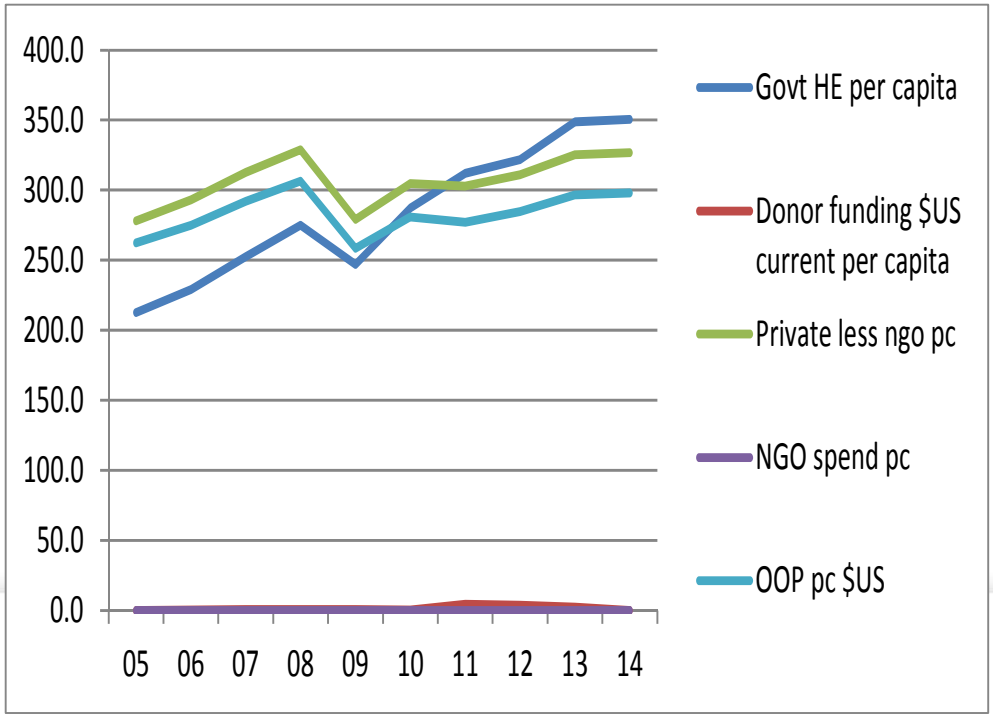
Brazil

- Not all UMIC countries that successful in controlling private spending
- Brazil has massive private financing despite successful SUS system



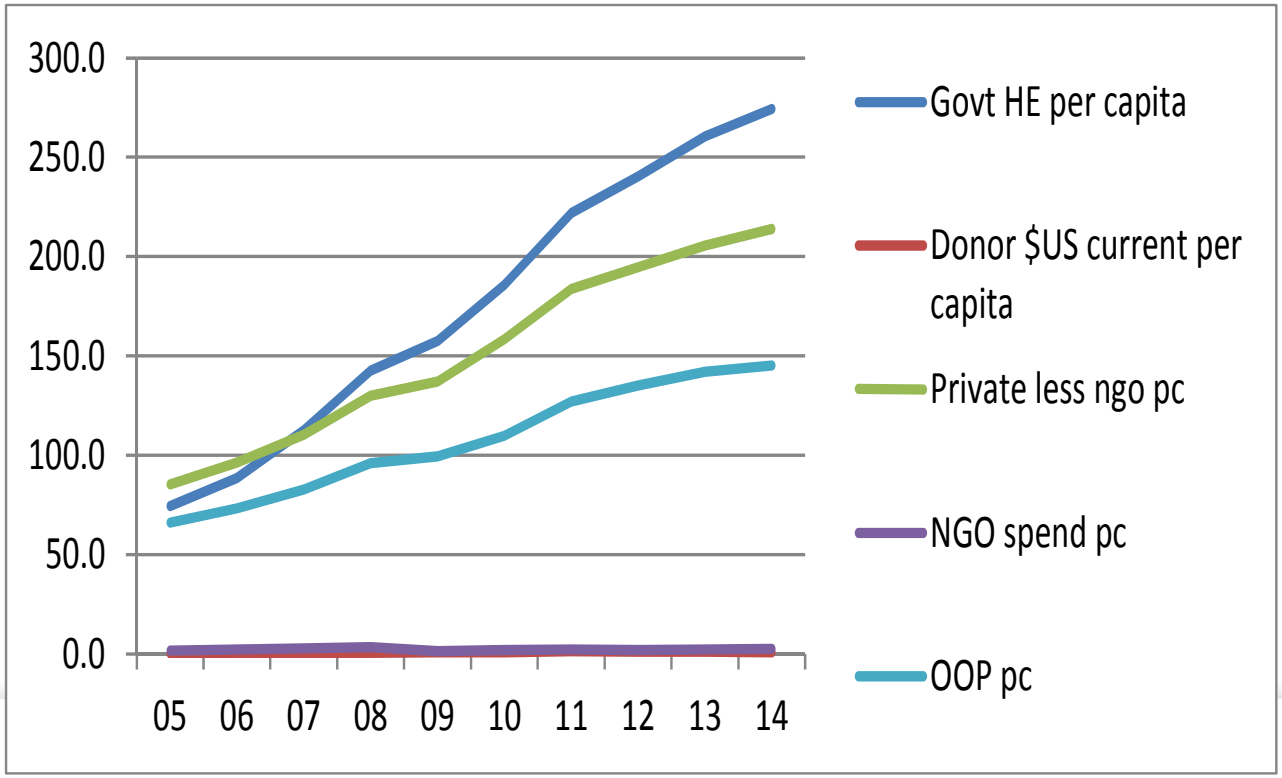
Mexico

- Mexico still has substantial private financing despite successful health insurance reforms



Upper middle income average of 15 countries

- Public financing starts exceeding private as social health insurance UHC system elaborated and matures
- OOP still significant in many countries although levelling off



Private health spending in middle income countries

Countries	Private expenditure on health as % of total expenditure on health*				Out of pocket expenditure as a % of total health expenditure				Social Security expenditure on health as % General government expenditure on health			
	2005	2010	2011	2012	2005	2010	2011	2012	2005	2010	2011	2012
Azerbaijan	88.8	78.1	78.4	77.2	82.4	69.2	69.8	69.0	0	0	0	0
Venezuela	56.7	61.8	63.4	66.3	50.7	59.5	61.0	63.7	32.5	36.0	32.2	31.1
Ecuador	72.3	63.2	63.9	55.2	69.3	54.5	55.3	51.4	39.7	37.8	34.5	33.1
Mauritius	51.9	49.8	51.8	51.1	44.4	45.6	47.4	46.8				
Iraq	32.6	26.1	24.9	46.4	32.6	26.1	24.9	46.4	0	0	0	
Lebanon	59.5	61.7	62.0	62.1	45.9	44.6	44.7	44.8	64.1	50.2	49.7	53.2
Mexico	55.0	51.0	49.7	48.2	51.7	47.1	45.5	44.1	62.0	55.4	55.7	55.1
Bulgaria	39.1	44.3	44.7	43.7	37.9	42.9	43.2	42.3	53.7	68.4	68.4	66.9
Kazakhstan	38.0	40.9	42.1	42.2	37.5	40.4	41.5	41.7				
Gabon	59.3	52.6	47.1	48.8	50.3	44.6	40.0	41.4	14.4	27.1	27.1	27.1
Dominican Republic	56.9	49.6	50.7	49.1	47.4	39.0	40.0	38.7	20.4	26.4	25.8	41.8
Serbia	34.0	38.1	37.9	38.8	29.9	36.4	36.2	37.1	92.7	94.2	93.2	93.4
Turkmenistan	31.6	43.7	36.2	36.8	31.6	43.7	36.2	36.8	6.5	6.5	6.5	6.5
Peru	40.6	43.8	43.1	41.1	32.2	37.1	37.5	35.7	46.0	43.0	52.2	41.2
Malaysia	48.9	42.6	44.8	45.0	38.8	33.2	35.4	35.6	0.9	0.8	0.9	0.9
China	61.2	45.7	44.1	44.0	52.2	35.3	34.8	34.3	54.1	64.2	67.0	67.9
Brazil	59.9	53.0	54.3	53.6	37.6	30.6	31.3	31.0	0	0	0	
Jamaica	51.2	43.7	46.4	45.1	32.6	31.0	32.9	28.9	0.0	0.3	0.3	0.2
Hungary	30.0	35.2	35.0	36.4	25.0	26.3	26.0	27.1	84.1	84.5	83.7	82.2
Panama	30.4	29.4	31.8	31.4	24.6	25.0	27.1	24.8	46.5	34.9	35.6	33.1
Costa Rica	29.4	26.5	25.3	25.4	24.8	24.0	23.0	23.1	85.0	86.2	81.0	79.5
Romania	19.2	19.6	20.8	22.3	18.5	19.2	20.3	21.8	84.2	79.9	82.1	82.1
Argentina	46.5	36.0	33.5	30.8	29.9	21.6	21.0	20.1	56.4	67.1	64.1	52.8
Belarus	27.1	22.3	29.5	22.8	19.9	19.8	26.6	19.5	0	0	0	0
Turkey	32.2	24.9	27.3	26.1	22.8	16.1	17.6	16.8	56.1	57.0	57.0	57.0
Colombia	25.8	26.4	24.8	24.2	17.0	17.8	15.9	14.8	76.0	84.0	83.4	84.0
Thailand	35.6	25.4	22.3	23.6	27.2	14.2	12.4	13.1	12.2	10.3	9.3	10.1
South Africa	61.6	53.4	52.3	52.1	18.4	7.4	7.2	7.2	3.6	2.9	2.8	2.8
Namibia	51.1	42.8	38.7	38.3	3.7	7.7	6.9	6.9	3.4	2.5	2.5	2.5
Cuba	8.0	4.8	5.0	5.8	8.0	4.8	5.0	5.8	0	0	0.0	0.0
Botswana	27.3	37.2	38.4	43.6	6.3	4.4	4.9	5.5				
Median SA comparator	40.6	42.8	42.1	43.6	32.2	31.0	32.9	34.3	36.1	35.5	33.3	37.1
Median upper middle income	42.7	40.9	38.4	41.0	32.6	30.6	31.3	31.0	37.2	35.5	33.3	37.1

Comparing UMIC countries

- Extent of private and out of pocket financing in the 30 benchmarked upper middle income countries and the group as a whole and the extent to which financing is by social security. Out of pocket spending is high in the group, with median of 31% of total health spending. It exceeds 30% of total spending in 16 countries, including Venezuela (63%), Mexico (44%), China (34%) and Brazil (31%). In contrast Thailand and Colombia have relatively low out of pocket expenditure. Private spending has a median of 41% of total health spending in the UM income group. In South Africa (at 52%) it exceeds public spending and the median of the group (43.6%). South Africa has 6th highest share of private spending after Venezuela (66%), Brazil (53.6%) and others. In South Africa the majority of private expenditure is via private insurance (medical schemes), which is relatively uncommon in the group.

Comparing UMIC countries

- Social security is a key form of health financing exceeding 10% in eleven countries. The countries that use this are Serbia (93%), Columbia (84%), Hungary, Romania, Costa, Rica, China (67%), Bulgaria (67%), Turkey (57%), Mexico (55%), Argentina (52%). Several of the highest government spenders on health use social security. In contrast Thailand which has a large health insurance fund is predominantly tax and not social security funded. Brazil and Cuba are high government health spenders that do not rely on social security as a financing mechanism. South Africa has almost no social security (social insurance) funding for health at 2.8% of government health expenditure vs 41% for the median.

Health professionals

- SA relatively few doctors
- Esp public sector per capita
- Interprovincial inequity

Countries	Physicians per 1000 population	Nurses and midwives per 1000
	Last available	Last available
Botswana	0.3	2.8
Namibia	0.4	2.8
Thailand	0.4	2.1
Jamaica	0.4	
Iraq	0.6	
South Africa	0.8	4.9
Costa Rica	1.1	0.8
Peru	1.1	1.5
Malaysia	1.2	3.3
China	1.5	1.5
Colombia	1.5	0.6
Dominican Republic	1.5	1.3
Panama	1.6	2.4
Ecuador	1.7	2.0
Turkey	1.7	2.4
Brazil	1.9	7.3
Mexico	2.1	2.5
Serbia	2.1	
Romania	2.4	5.5
Hungary	3.0	6.4
Lebanon	3.2	2.7
Azerbaijan	3.4	6.7
Kazakhstan	3.6	8.2
Belarus	3.8	10.5
Bulgaria	3.8	4.7
Cuba	6.7	9.1
Median SA comparator (30 countries)	1.6	2.8
Median upper middle income	1.6	2.8

Pooling reforms

- Generally want to create as large as possible risk pools) to share risk, enable income cross-subsidisation and achieve efficiencies
- Mandatory contributions go into pool
- Aim to consolidate as many small public pools into the main risk pool as possible
- Many different country experience on short and long consolidation processes
- Pooling does not mean that no private funds exist outside the pool

Pooling: formation of NHI Fund

- Establishment of the NHI Fund: fairly straight forward as Schedule 3A public entity
- Potentially could be formed initially building on several conditional grants that fund personal health services eg NTSG grant (R14b), HIV and TB grant (R20b), indirect NHI grant, new ideal clinic component and new funds
- Organisation of the NHI Fund
- Governance of the NHI Fund
- Could be introduced within 3 years
- This is the easy part

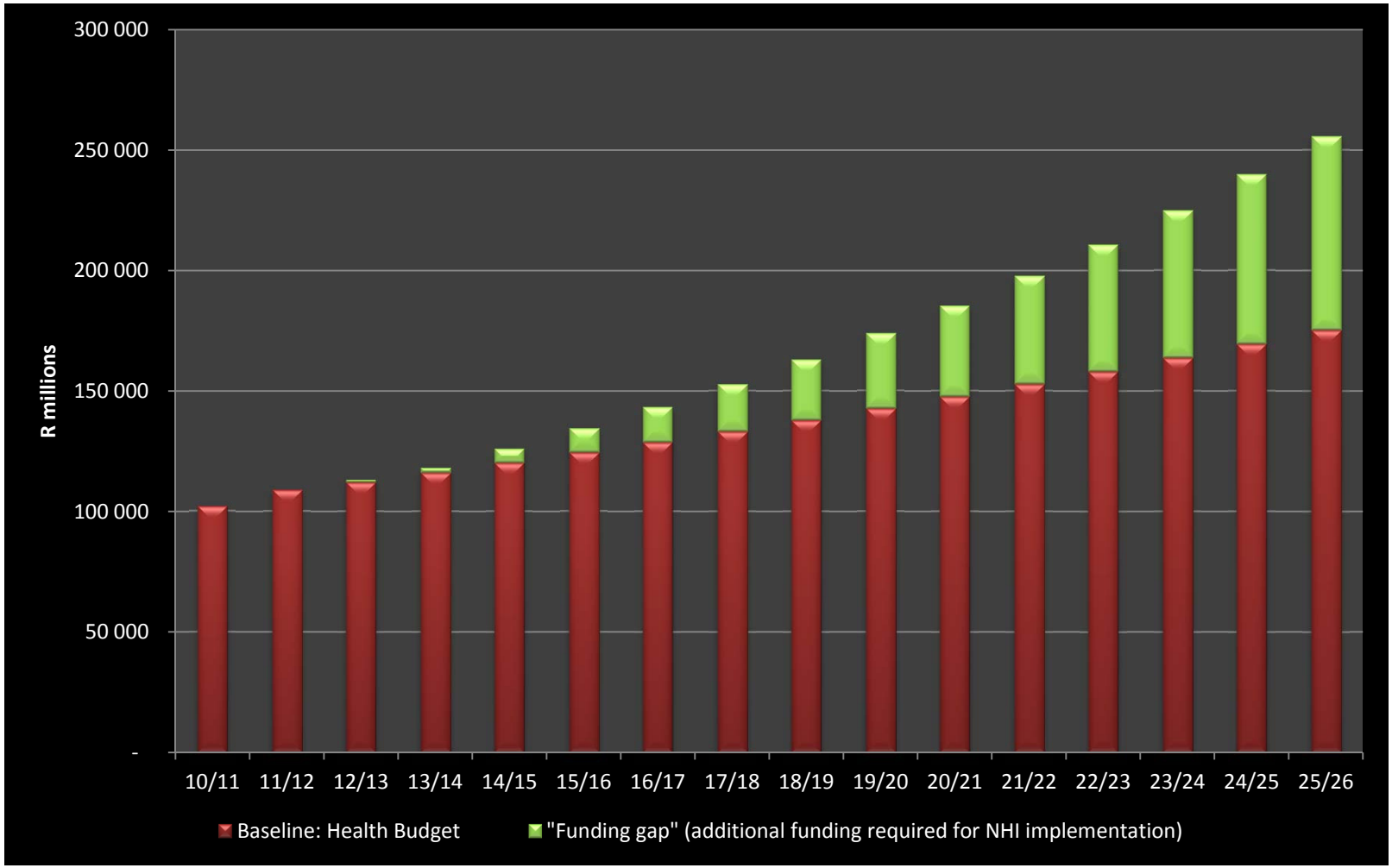
Potential sources of government funding for consideration for pooling – each has own challenges

- NHI grants
- New funds e.g. new taxes
- Provincial funds: conditional grants, provincial equitable share
- Local government funds
- RAF
- UIF
- Workmen’s Compensation
- Government medical schemes: GEMS, Polmed, Parl scheme
- Other govt departments: Defence SAMS, Correctional Services

NHI expenditure projections, (real 2010/11) – assume real economic growth rate of 3.5% (real increase in health expenditure)

		Average annual per cent increase	Cost Projection R m (2010 prices)
Baseline public health budget:	**2010/11**		**109 769**
Projected NHI expenditure:	2015/16	4.1%	134 324
	2020/21	6.7%	185 370
	2025/26	6.7%	**255 815**
Funding shortfall in 2025/26 if baseline increases by:		2.0%	180 080
		3.5%	71 914
		5.0%	27 613

NHI: Funding Requirements



Purchasing

- Key set of issues and reforms for emerging NHI system
  - Separation of purchaser from provider
  - Reimbursement reform: DRGs, capitation
  - Contracting, information systems
  - Contracting with public and private providers
  - Pricing: what can of prices are required to bring in a diverse mix of public and private providers

Provision

- Mix of public and private provision
- Necessary to get clearer sense of future envisaged mix and how this will roll out
- Current contracting of GPs in pilot sites is a sessional employment model, not an independent practice model as in most NHI systems
- To raise specific new taxes for NHI, users need to understand and value improved services and benefits they will be receiving

Potential funding for NHI

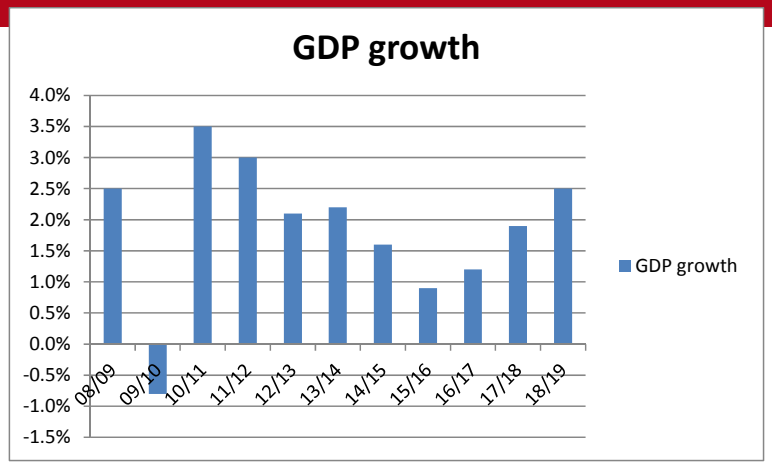
- Budget Review 2012:
  - *Over time, the new system [NHI] will require funding over and above current budget allocations to public health. Funding options include:*
    - *Increase in **VAT**;*
    - ***Payroll tax** on employers;*
    - ***Surcharge on taxable income**; or*
    - *A **combination** of the above.*
  - *Achieving an appropriate balance in the funding of national health insurance is necessary to ensure that the tax structure remains supportive of economic growth, job creation and savings.*

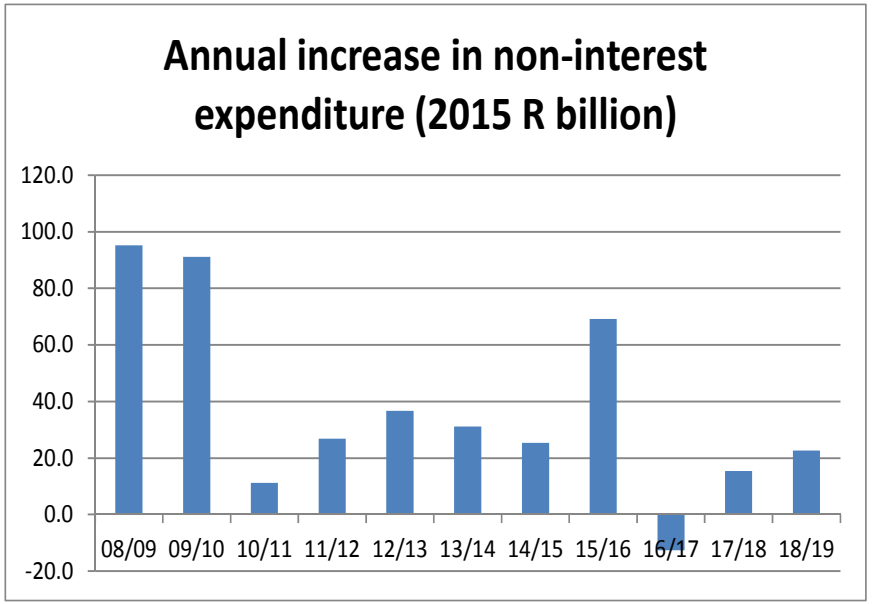
- The three tax instruments all have different consequences and careful thought needs to go into adjusting / introducing new mechanisms.

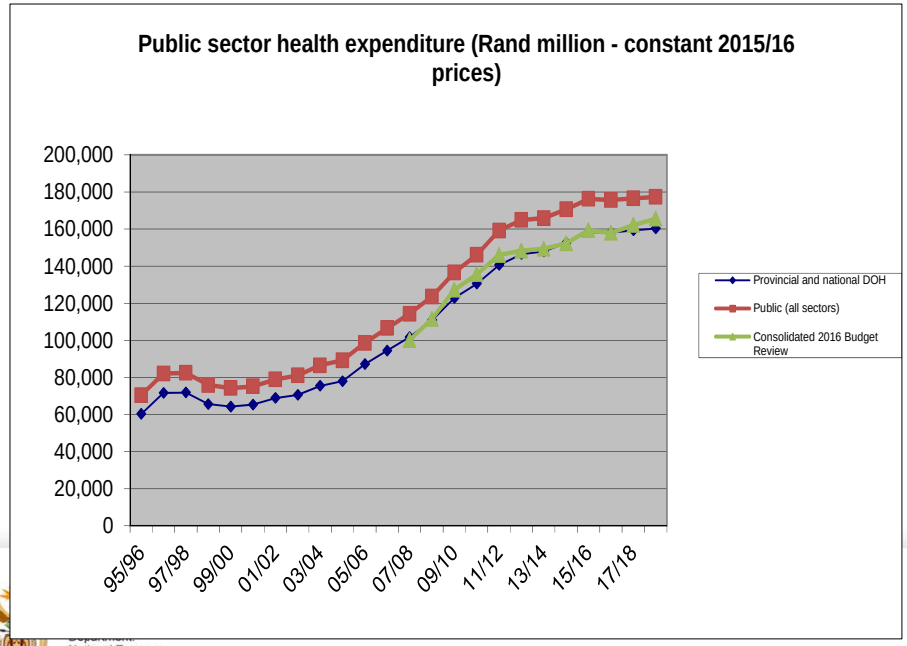
Tax options under consideration for NHI

Tax	Pros & cons
Surcharge on taxable income: • Personal Income Tax (PIT) system is progressive, marginal tax rates increase - 18% to 40%. • Allows for relatively high tax threshold	• A flat surcharge on taxable income in addition to the PIT liability (similar to the Medicare levy in Australia) could be considered • Administratively feasible • Possible concern is the potential negative impact on savings
Payroll Taxes: • Imposed on employer and/or employee • Current payroll taxes: UIF, Skills development levy (1%) • Social security reforms in the pipeline	• Increases cost of employment and incentivizes movement to the informal economy • Consider high unemployment rate in South Africa • Recent global trends show a movement away from this due to the impact on cost of employment, esp. for low & unskilled workers • Usually earmarked?
Value added tax: • Indirect tax • Levied on transactions	• Less distortionary, has a relatively broad base • All those benefitting from NHI would contribute in some way • Does not impact on savings or employment negatively • Impact on the poor – how regressive and how to compensate? • Most VAT revenues from middle and upper income households • SA's VAT rate 14% - compared to global average of 16.4% • Used to fund NHIS in Ghana (majority of funding – 2.5% levy), considering the tax base and future growth in Ghana

Fiscal constraints







Cumulative required tax increases for a combination of payroll taxes, surcharge on taxable income & VAT

		Payroll tax	Surcharge on taxable income	Increase in value-added tax
Scenario A: Payroll tax and VAT increase	2015/16	0.5%		0.5%
	2018/19	1.0%		1.0%
	2021/22	1.5%		1.0%
	2022/23	1.5%		1.5%
	2024/25	2.0%		1.5%
	2025/26	**2.0%**		**1.5%**
Scenario B: Surcharge on taxable income	2015/16		1.0%	
	2017/18		1.5%	
	2019/20		2.0%	
	2021/22		2.5%	
	2022/23		3.0%	
	2024/25		3.5%	
	2025/26		**4.0%**	
Scenario C: Surcharge on taxable income and VAT increase	2015/16		0.5%	0.5%
	2018/19		1.0%	1.0%
	2021/22		1.5%	1.0%
	2022/23		1.5%	1.5%
	2024/25		2.0%	1.5%
	2025/26		**2.0%**	**1.5%**
Scenario D: Surcharge on taxable income, VAT increase and Payroll tax	2015/16	0.5%	0.5%	0.0%
	2016/17	0.5%	0.5%	0.5%
	2021/22	0.5%	1.0%	0.5%
	2022/23	1.0%	1.0%	0.5%
	2024/25	**1.0%**	**1.0%**	**1.0%**

Summary

- NHI will to create a new social health insurance financing mechanism between existing public and private systems
- Building on social solidarity principles seeks to provide a greater sense of protection from health and income risks at affordable contribution rates
- Establishment of NHI Fund
- Initiation of new revenue sources go into Fund
- Progressive pooling of other public pools into the Fund
- Purchasing and provision reforms
- Mixed provision platform