

## **Too soon to panic over demise of your medical scheme cover**

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By Laura du Preez

**Don't be spooked by draft proposals for a national health insurance system that were leaked to the media recently. Only after further consultations and costings will we know for sure how private healthcare cover will be affected.**

Proposals for a fairly radical overhaul of the country's healthcare system - including the seemingly inevitable demise of medical schemes - are likely to make all private healthcare users fearful about the future of their cover.

The proposals are contained in a document drawn up by an African National Congress-appointed task team on national health insurance (NHI) led by Dr Olive Shisana, the director of the Human Sciences Research Council. The document was leaked to the media recently.

It proposes that an NHI authority takes over the role of funding and purchasing healthcare services in both the public and private healthcare sectors, negotiating prices for services, and paying accredited doctors, hospitals, pharmacies and other healthcare providers, both public and private, on your behalf.

The proposed authority will essentially take over the role of your medical scheme, and, according to one commentator, it is proposed that 85 percent of all contributions will be channelled into the NHI fund.

The proposals suggest that NHI will be funded from general taxes and an earmarked NHI tax.

They also suggest the scrapping of the tax deduction medical scheme members enjoy for contributions paid; the subsidy will be channelled into NHI (see "Medical scheme members may lose tax subsidy" below).

Alex van den Heever, a health economist and adviser to the Registrar of Medical Schemes, told a recent Hospital Association of South Africa (Hasa) conference that he understood that schemes will be prohibited from covering any health services covered by NHI - for example, the treatment of cancer.

Although the leaked NHI pro-posals include plans (without much detail) to revitalise and adequately staff the public healthcare system, lingering fears, based on the public health system's current failings, will be hard to allay.

The NHI task team's document has been criticised for its failure to prove that such a healthcare system is affordable - there is no costing in the document, only references to financial projections that are being developed for costing the system.

There are also no details of the health services NHI would cover.

The leaked document is dated February this year and revised documents are apparently being prepared. Dr Molefi Sefularo, the deputy minister of health, told the Hasa conference that base documents on NHI would be released by the end of this month after which there would be public and community consultations.

Thereafter the Department of Health would release a white paper on NHI. The health department has committed to doing this in its 2009/10 year and to have draft legislation ready by March 2010. It aims to have the legislation promulgated by 2011 and be ready for implementation by 2012.

Once a white paper is released, the proposals will hopefully be clari-fied, making debate on their merits more meaningful.

More realistic timelines than those in the leaked document may also emerge. The document refers to starting implementation within a year and having NHI in place within five years.

### **What else can we expect?**

Besides the removal or restructuring of the tax subsidy, what should we expect from NHI?

**Di McIntyre**, a professor of health economics at the University of Cape Town, says initial interventions aimed at

implementing NHI in South Africa will have to be devoted largely to getting the public healthcare system to what it should be.

Since about 1995, there has been massive under-funding on public health, with budget allocations failing to keep up with inflation, population growth or the increasing burden of disease (including HIV).

An increase in government expenditure on public health care would have to be part of any NHI system, and this could only be good for everyone in the country.

**McIntyre's** understanding is also that the mandatory contributions that we may be forced to make to fund NHI "would not be massive".

She says it is unrealistic to expect that medical schemes will be abolished, because it would be politically and constitutionally wrong to deny people the option to choose medical scheme cover in addition to a mandatory health system.

She says such a move would be challenged by private healthcare providers, which are already briefing lawyers to defend any attempts to do away with private cover.

Heather McLeod, a professor of public health and family medicine and an independent healthcare actuary, says even the NHI plan proposed in the leaked document would require some kind of risk equalisation to ensure that funds are directed to entities in line with the needs of the people they cover.

A risk equalisation fund for medical schemes to equalise the costs of providing the prescribed minimum benefits across all schemes has been in the planning stages for a number of years. The fund is still far from ready to be implemented, and enabling legislation has been put on ice due to the focus on NHI.

#### **MEDICAL SCHEME MEMBERS MAY LOSE TAX SUBSIDY**

The scapping of the tax deduction medical scheme members enjoy for contributions paid, as suggested in the leaked proposals for NHI, has been made before to the cabinet and seems a likely contender for future implementation.

The deduction favours higher income earners rather than lower-income ones and is regarded as unfair.

Medical scheme members are allowed to deduct from their taxable income up to R625 a month for contributions paid in respect of themselves and R625 a month for the first dependant. Deductions for further dependants are limited to R380 a month each. For a family of four, this amounts to R2 010 a month or R24 120 a year.

Should you no longer be allowed to deduct medical scheme contributions, your taxable income will increase by these amounts and your tax liability by the tax you will pay on these amounts.

For a taxpayer who earns more than R525 000 a year and has three dependants, this tax would amount to 40 percent of R24 120, or R9 648 for the year. For a taxpayer on a more modest marginal tax rate of 30 percent, this would amount to R7 236 for the year.

**McIntyre** and McLeod, who have both been researching healthcare systems for many years, made a case for removing the tax subsidy when proposals for creating a social health insurance system that could be developed into a NHI system were made to the cabinet in 2005.

**McIntyre** says internationally it is an accepted practice that if you want private insurance, you - and not the government - must pay for it.

In South Africa, the government is subsidising medical schemes to provide "outrageously expensive and inefficient" health care. It is not a good investment, **McIntyre** says.

If the subsidy was removed, medical schemes and providers would have to work within the constraints of the money collected from employers and members, she says.

There is a lot of fat in the private healthcare system that could be trimmed, **McIntyre** says.

McLeod and Pieter Grobler, an actuary from Medscheme Health Risk Solutions, presented a paper outlining the impact of the sequential implementation of various healthcare reforms to the recent conference of the Actuarial Society of South Africa.

Their paper shows how withdrawing the tax subsidy for medical scheme contributions and expenses would affect the percentage of your income you spend on contributions if you pay for a family of four and fall within one of eight income groups chosen by the researchers.

The effect on professionals, who fall within the highest income group, is to increase the average percentage of income contributed to a medical scheme from 4.8 percent to 5.2 percent a year.

For people at a managerial or supervisory level, removing the tax deduction and replacing it with a per capita subsidy would increase the percentage of their income contributed to a medical scheme from 12.9 percent to 13 percent.

In lower-income groups, the removal of the subsidy would decrease the proportion of income contributed to a medical scheme. For example, people in clerical positions could see the proportion of their income spent on health decrease from 24 to 22 percent.

The impact would be greatest on the lowest income groups, the likes of domestic and farmworkers, for whom medical scheme membership is largely unaffordable. Currently, scheme membership would amount to 60 percent of their income. With the help of an employer subsidy, they might consider joining a scheme where the total contributions would amount to 28 percent of their income.

### **A revised tax subsidy**

The National Treasury announced in the Budget in February that it is considering revising the tax deduction allowed for medical scheme contributions and expenses.

The Budget Review says the current deductions could be replaced with a tax credit or refund of 30 percent of the deductions you are currently allowed for medical expenses.

So a person who currently enjoys a deduction from taxable income of R24 120 for contributions paid for a family of four would be given a tax credit equal or refund equal to 30 percent of this amount, or R7 236.

Such a system would benefit middle- and lower-income earners who are paying an average tax rate of less than 30 percent. It would be disadvantageous to those who are paying a higher rate - taxpayers who earn more than R290 000 a year and pay a marginal rate of 35 percent, 38 percent or 40 percent.

A discussion document on this tax deduction proposal is expected this year. National Treasury officials indicated this week that the proposal will be for implementation in the 2011/12 year only.

Asked if the proposal is linked to the NHI plans, Cecil Morden, the chief director of the tax policy unit at the National Treasury, said the treasury had not even seen the ANC task team's proposals for NHI.

In their paper, McLeod and Grobler analysed the impact of converting the current subsidy as proposed by the National Treasury.

They found that the proposal would have no impact on people who earn below the tax threshold - that is, less than R54 200 in the current tax year - and no measurable effect on those who earn just more than this threshold.

There would be some benefits for middle-income earners, whereas the highest-income earners would be disadvantaged, they found.

McLeod told the Actuarial Society convention that removing the current tax deduction and replacing it with a direct government subsidy equivalent to what is spent per person in the public sector would be more beneficial for low-income earners. McLeod and Grobler worked on the assumption that this subsidy in 2007 terms would amount to R1 450 a year.

### **WHY DO WE NEED NHI?**

A national health insurance (NHI) system would seek to ensure that all South Africans will be able to access healthcare services because they need them and not just because they can afford to pay for them, **Di McIntyre**, a professor of health economics at the University of Cape Town, says.

She says the healthcare benefits South Africans enjoy are heavily skewed towards the wealthiest people, yet the burden of disease is greatest among the poorest people.

About 45 percent of the total amount spent on health care in South Africa is spent on medical scheme members, who account for about 15 percent of the population, **McIntyre** says. Through the public healthcare system, the

government looks after the health care of more than 64 percent of the population on less than what is spent in the private sector.

**McIntyre** says if South Africans are ranked on income, the wealthiest 40 percent, including the 15 percent on medical schemes, derive the most out of the public healthcare system. The NHI system would seek to address these inequities.

**McIntyre** says the best insurance systems have the biggest risk pools (that is, the most people contributing and subsidising each other's claims), and an NHI system should seek to integrate the current public and private healthcare systems.

Innovative Medicines of South Africa has set up a website that has documents on NHI. One of these says that the World Health Organisation reported in 2004 that 27 countries have implemented a universal social healthcare system.

From start to finish, Germany took 127 years, Belgium took 118 years, Israel took 84 years, Austria took 79 years, Luxembourg took 72 years, Japan took 36 years and the Republic of Korea took 26 years.

**McIntyre** says we cannot sit around for 20 years before we do anything to address the healthcare situation in South Africa. Although it is not possible to predict feasible timelines, suggestions that NHI could begin within a year and be implemented within five years are over-ambitious.

**McIntyre** says she participated in a study of 5 000 South African households that were asked whether they would contribute to a publicly supported health insurance scheme if the contributions could be set lower than those of medical schemes. Seventy-one percent of medical scheme members who participated in the study said they would.

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