



## Should we pursue a universal health system or something else in South Africa?

### Introduction

This brief arises from the SHIELD (Strategies for Health Insurance for Equity in Less Developed Countries) project, which was initiated in 2006 and ends in September 2010.

The aim of SHIELD is to critically evaluate existing inequities in health care in Ghana, South Africa and Tanzania and the extent to which changes in health care financing mechanisms could address equity challenges.

The final phase of SHIELD, which has just been concluded, focuses on the feasibility and sustainability of alternative health financing reforms in relation to their respective resource requirements.

This policy brief as well as policy brief no. 1 (entitled "what resources do we need for a universal health system and what are the design implications?") summarise the key SHIELD findings in this respect for South Africa.

There has been a lot of debate recently about the proposed introduction of a National Health Insurance (NHI) in South Africa. When considering whether or not this is a good idea, it is important to compare the NHI to the health system we currently have and also to consider other ways of reforming the health system.

This policy brief outlines the financial resources required to fund health services resource requirements for three different scenarios (see Box 1 for details):

- ▶ A 'status quo' scenario;
- ▶ A 'universal coverage' scenario; and
- ▶ An 'extended medical scheme coverage' scenario.

### Box 1

#### Description of scenarios:

**'Status quo' scenario:** This scenario assumes no major changes in the structure of the health system. Recent trends in spending on public sector services and by medical schemes are projected forward. It assumes some growth in medical scheme coverage, somewhat improved cost containment within schemes and some efforts to improve the public health system.

**'Universal coverage' scenario:** This is akin to the proposed NHI and considers a comprehensive package of services for all South Africans from an integrated pool of public funds, sourced from general tax revenue and possibly a mandatory contribution or earmarked tax by formal sector workers. It broadly uses a public sector framework of service delivery. However, it uses unit costs that are substantially higher than currently prevail in the public sector to take account of the need for improved resourcing of public services to achieve high quality services. These higher unit cost levels would also enable purchasing of services from private providers. In addition, this scenario assumes very large increases in utilisation of health services, particularly at the primary care level and in district hospitals, with somewhat smaller increases at higher-level hospitals. It also assumes that some lower-income members of medical schemes may choose to 'opt-out' of schemes and rely solely on their service entitlements under the universal system.

**'Extended medical scheme coverage' scenario:** This is an option that was widely debated in the 1990s and is often called a Social Health Insurance (SHI) system. It refers to the mandatory extension of medical scheme cover to all formal sector workers above the income tax threshold and their dependents, with the remainder of the population being covered by tax-funded health services. A key assumption is that there would be a relative shift in utilisation within the schemes environment in favour of primary care services and reduced utilisation of specialist services. This is related to earlier proposals put forward that in a SHI, the prescribed minimum benefits should be expanded to include primary care services.



## What would be the impact on total health care spending?

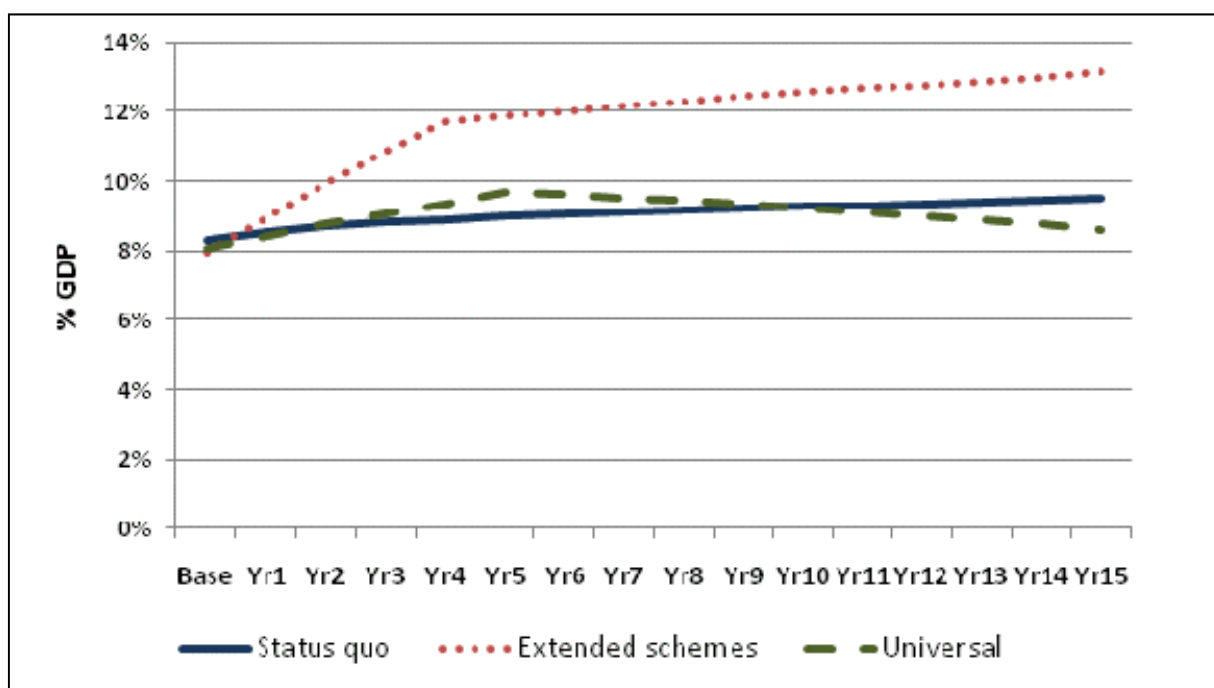
Total health care spending refers to spending from public (mainly tax) funds, from medical schemes and from out-of-pocket payments. Even if a universal health system is introduced, medical schemes will continue and for this reason, spending via medical schemes and from tax funding are included in estimated total health care spending. As it is unclear when health system change may be initiated in earnest, Figure 1 presents the findings relative to a base year (i.e. relative to what the current situation is) and projects it forward over an implementation period of 15 years from the date of initiating change.

Figure 1 shows that the 'mandatory extension of medical scheme coverage' scenario has the highest level of resource requirements and would result in total health care spending in South Africa exceeding 13% of Gross Domestic Product (GDP). The main reason for the high spending levels is that within 15 years, just under 40% of the population would be covered by medical schemes and spending is far greater per person in the medical scheme environment than for publicly funded services. Spending by medical schemes would be about 10% of GDP.

The 'status quo' scenario ultimately translates into higher spending levels (equivalent to 9.5% of GDP) than at present; the 'status quo' scenario also translates into higher spending levels than the 'universal coverage' scenario (8.6% of GDP). The reason for this is that medical schemes would be covering more people under the 'status quo' option (about 20% of the population within 15 years), than under a universal health system, but at a much higher cost per person than would be the case in terms of publicly funded health services.

***“...the ‘status quo’ scenario translates into higher spending levels than the ‘universal coverage’ scenario (8.6% of GDP)...”***

Figure 1: Predicted trends in total spending on health care in South Africa for the three scenarios



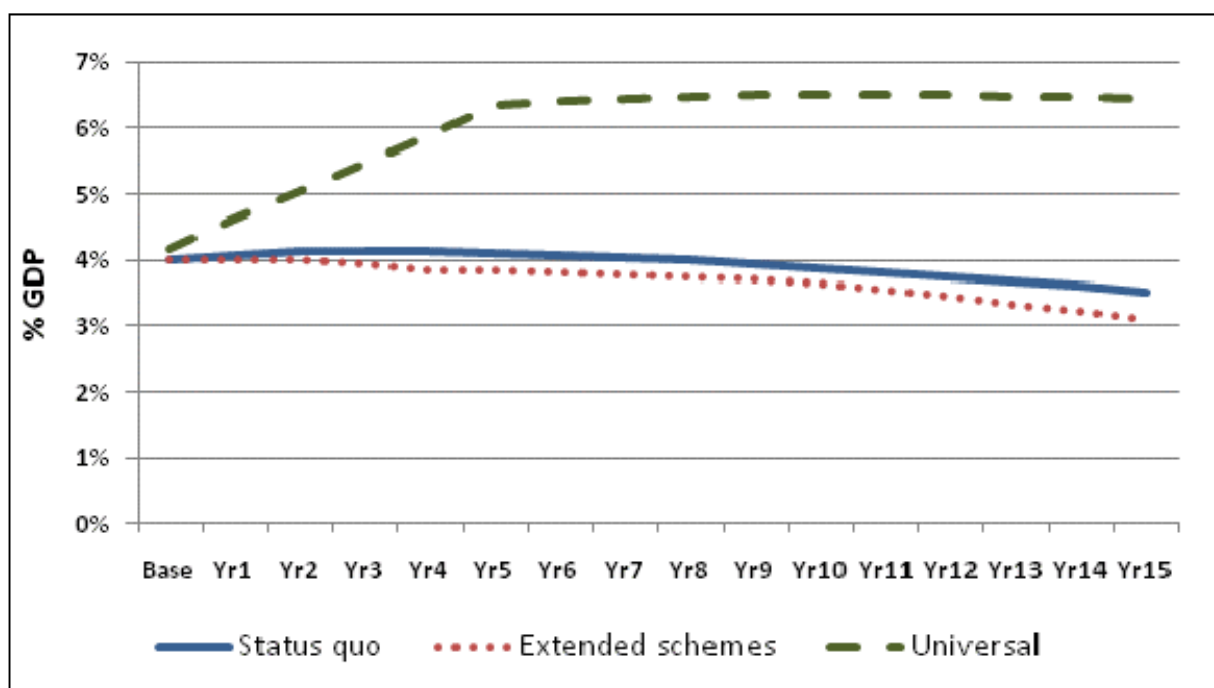
## What would be the impact on public health care spending?

From Figure 2, it is clear that the 'universal coverage' scenario will require a substantial increase in public funding, to the equivalent of about 6.4% of GDP. In contrast, the 'status quo' and the 'mandatory extension of medical scheme coverage' options will lead to declining demand for public funding. Under the 'status quo' scenario, public spending would be equivalent to 3.5% of GDP and would only require an allocation to the health sector from the government budget of about 10.5%; the figures for the 'mandatory extension of medical scheme coverage' option are about 3% of GDP or about 9.4% of the government budget.

The major reason for larger demands on public funding under the 'universal coverage' option is that there will be substantial improvements in access to good quality health services for all South Africans. If such health service improvements are to be made available to all, they will have to be funded from public funds; funding from medical schemes only benefit those who contribute to these schemes.

***"...it is clear that the 'universal coverage' scenario will require a substantial increase in public funding, to the equivalent of about 6.4% of GDP..."***

Figure 2: Predicted trends in public spending on health care in South Africa for the three scenarios



## Which policy direction should we head in?

The total resource requirements for the 'mandatory extension of medical scheme coverage' option (or SHI) are considerable. Only one country in the world has spending levels as high as 13% of GDP – the USA. In my view, this option is unaffordable in the South African context. This basis for this conclusion is that the burden on households that are required to join a medical scheme will be very high, with scheme contribution rates per person being twice as high as they currently are in real terms (i.e. before the effect of inflation is added).

The major decision facing policy makers is therefore whether we should retain the status quo or whether we should pursue a universal health system. Interestingly, the 'universal coverage' option would see health spending levels increasing in line with expected economic (GDP) growth, so that when fully implemented, total health care spending as a percentage of GDP would be comparable to what it currently is. However, the key challenge with pursuing universal coverage is the need to allocate more public funds to the health sector, partly through increased taxes.

The choice between moving towards universal coverage or retaining the status quo is a policy decision that needs to draw on a wide range of information. For example, the health status improvements and the other social benefits of dramatically improved financial protection and access to needed health services for all in South Africa under a universal health system need to be taken into account. This information has to be weighed against the need to increase public funding for the health sector.



### Acknowledgements

Full details of the models and all assumptions used are available in a comprehensive report: McIntyre, D. (2010). *SHIELD Work Package 5 Report: Modelling the estimated resource requirements of alternative health care financing reforms in South Africa*. Cape Town: Health Economics Unit, University of Cape Town.

SHIELD reports are available from:  
<http://web.uct.ac.za/depts/heu/SHIELD/reports/reports.htm>

This policy brief forms part of the research completed for the SHIELD (Strategies for Health Insurance for Equity in Less Developed Countries) project. SHIELD aims to critically evaluate existing inequities in health systems and to examine the extent to which mechanisms to provide financial protection can address these inequities in Ghana, South Africa and Tanzania.

### SHIELD partners 2006-2010

#### South Africa:

- ▶ Health Economics Unit, University of Cape Town
- ▶ Centre for Health Policy, University of the Witwatersrand

#### Ghana

- ▶ Health Research Unit, Ghana Health Service

#### Tanzania

- ▶ Ifakara Health Institute

#### London

- ▶ London School of Hygiene and Tropical Medicine

#### Netherlands

- ▶ Koninklijk Instituut voor de Tropen

#### Sweden

- ▶ Medical Management Centre



SHIELD is a multi-partner project

Visit the SHIELD website: <http://web.uct.ac.za/depts/heu/SHIELD/about/about.htm>  
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