Discovery

NHI UPDATE

April 2025

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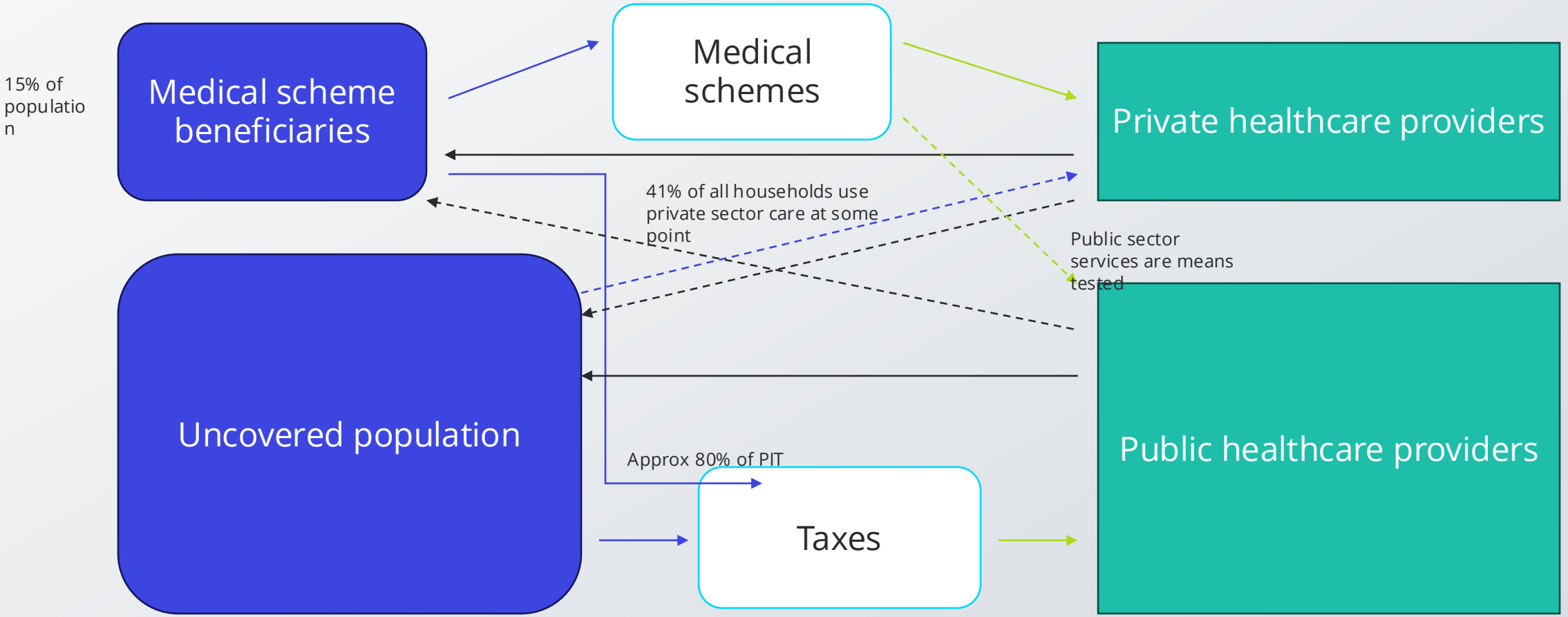
Head of Policy and Regulatory Affairs

Agenda

- The South African health system
- Status of the NHI Act
- Challenges
- Achieving UHC for South Africa

Healthcare financing in South Africa



SA spends 8.5% of GDP on healthcare and around 13% of Gov spending is on health
90% of Gov spending is through the provinces

What is Universal Health Coverage (UHC)?

Everyone has access to the healthcare services they need when the need it and without financial hardship

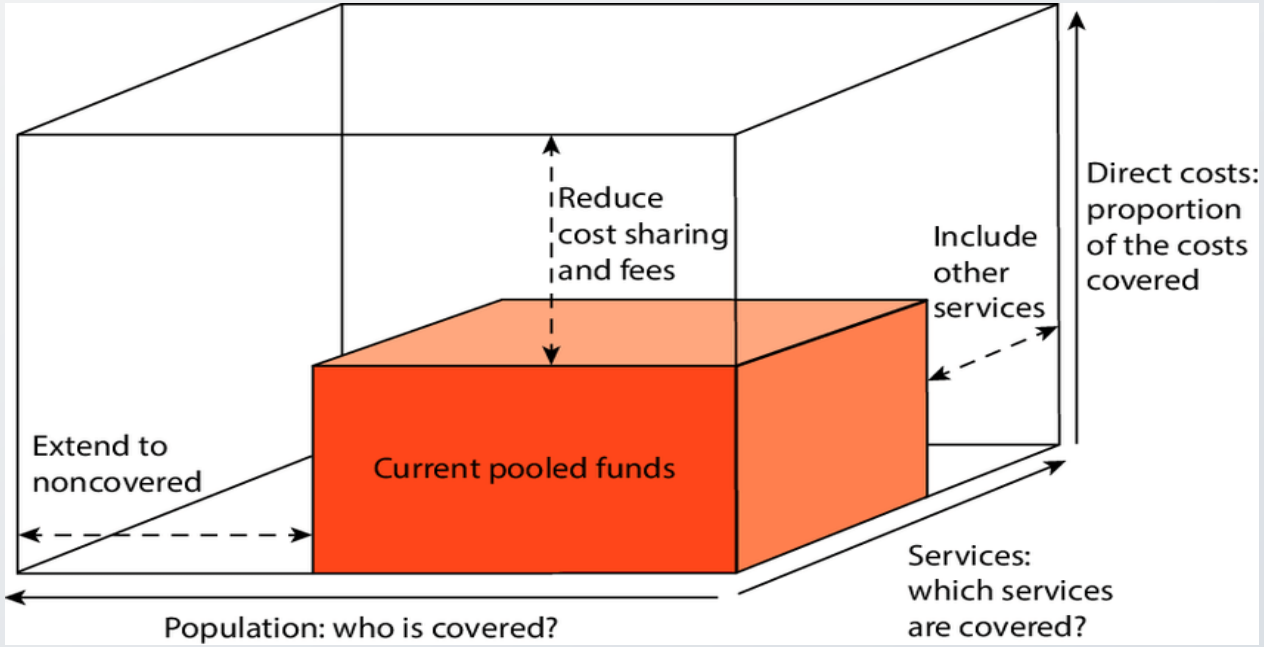
It does not need to be entirely Gov funded

It does not necessarily need to be provided by public health facilities

It needs to be accessible and affordable

There are many models for delivering UHC and the relevant model ofr any country is going to be determined by:

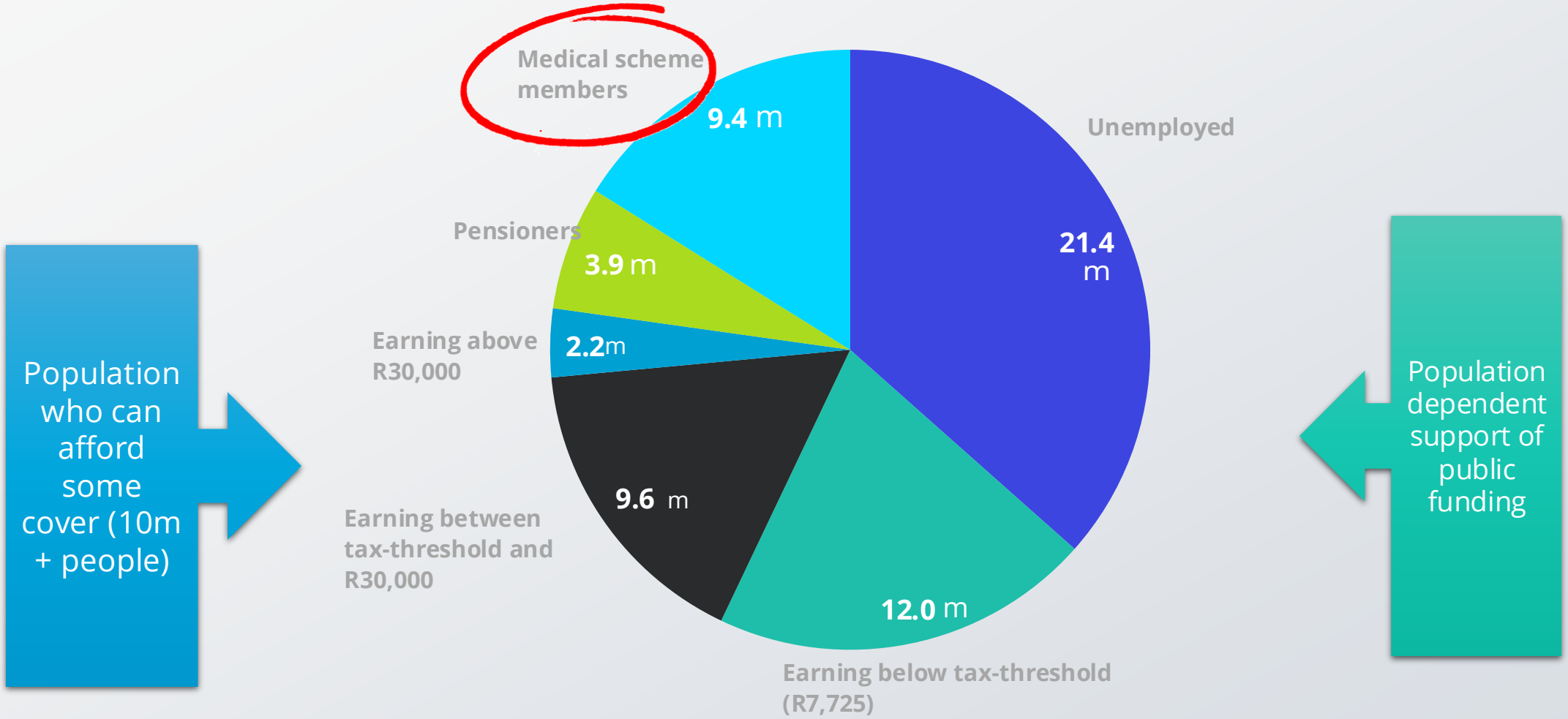
- The population needs
- The population structure
- The country's affordability level
- Other spending priorities



Funding constraints mean tough decisions are required on:

- Who is covered?
- Which benefits are covered?
- How extensive are the benefits covered?

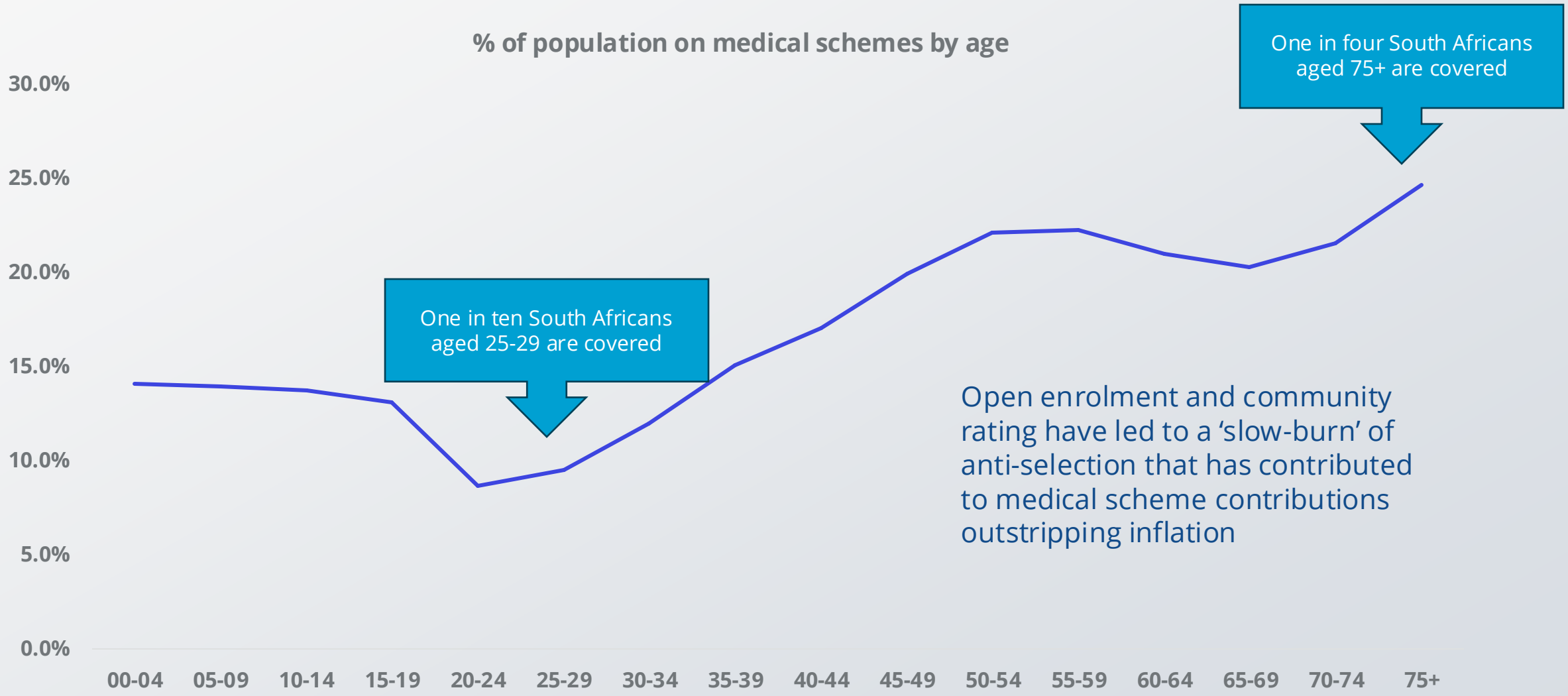
DISTRIBUTION OF SOUTH AFRICANS – MONTHLY HOUSEHOLD INCOME AND MEDICAL AID STATUS (MILLIONS)



68% of uncovered lives are unemployed or earn a monthly household income below the tax threshold (R7,725)

Source: GHS, 2022

WHO ARE THE MEDICAL SCHEME MEMBERS?



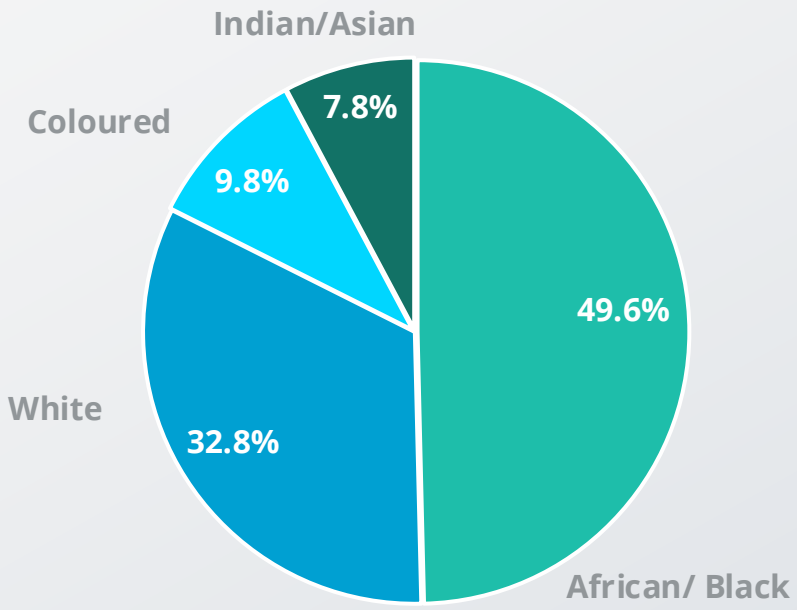
Open enrolment and community rating have led to a 'slow-burn' of anti-selection that has contributed to medical scheme contributions outstripping inflation

Source: Statssa and CMS, 2022

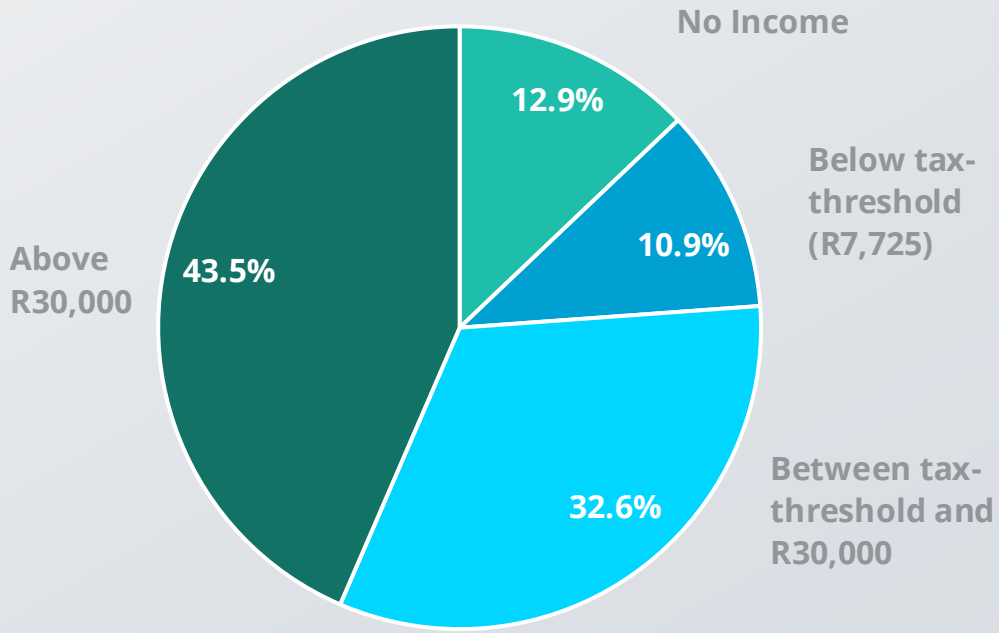
WHO ARE THE MEDICAL SCHEME MEMBERS?

Half of medical scheme members are African/ Black
More than half have household monthly incomes below R30,000

Racial distribution



Income distribution



Source: GHS, 2022

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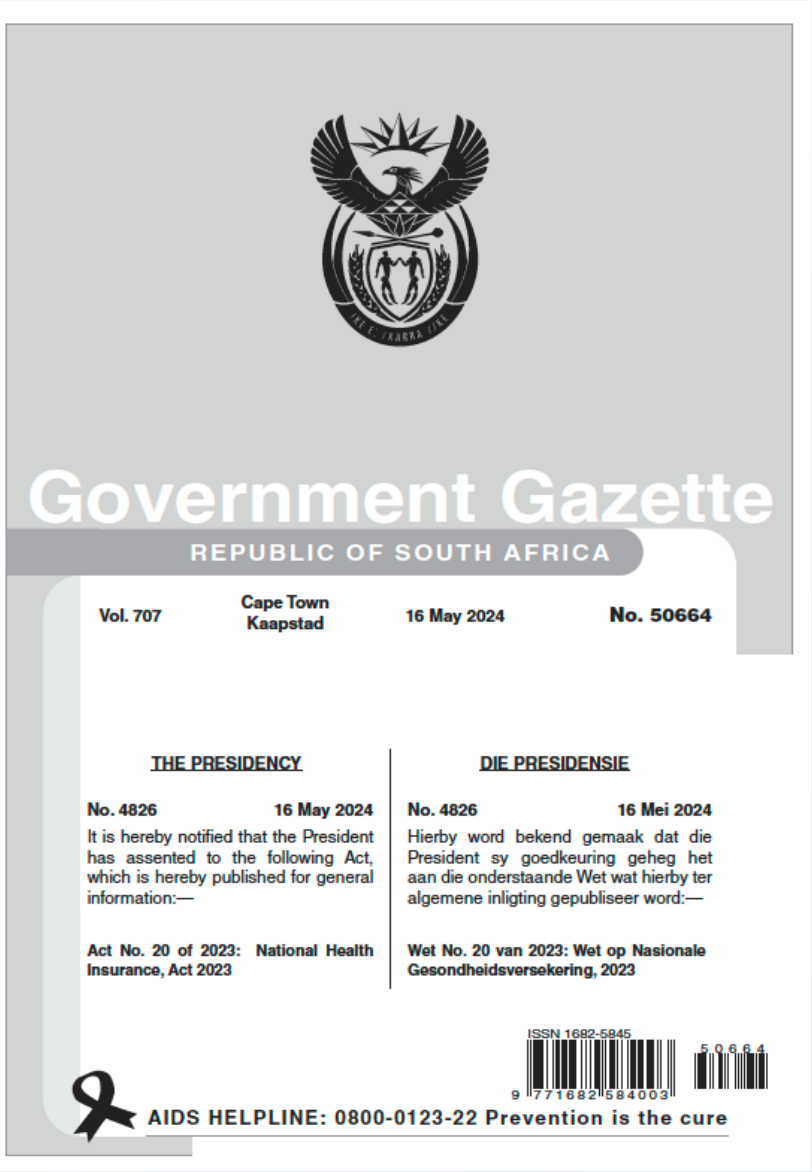


Government Gazette

REPUBLIC OF SOUTH AFRICA

Vol. 707 Cape Town Kaapstad 16 May 2024 No. 50664

THE PRESIDENCY

No. 4826 16 May 2024

It is hereby notified that the President has assented to the following Act, which is hereby published for general information:—

Act No. 20 of 2023: National Health Insurance, Act 2023

DIE PRESIDENSIE

No. 4826 16 Mei 2024

Hierby word bekend gemaak dat die President sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

Wet No. 20 van 2023: Wet op Nasionale Gesondheidsversekering, 2023

ISSN 1682-5845

9 771682 584003 50664

AIDS HELPLINE: 0800-0123-22 Prevention is the cure

Update on the status of the NHI Act, 2023

Signed into law on 15 May 2024

None of the sections of the Act have been given effective dates as yet

Status quo is unsustainable, universal health coverage is crucial and NHI a remedy

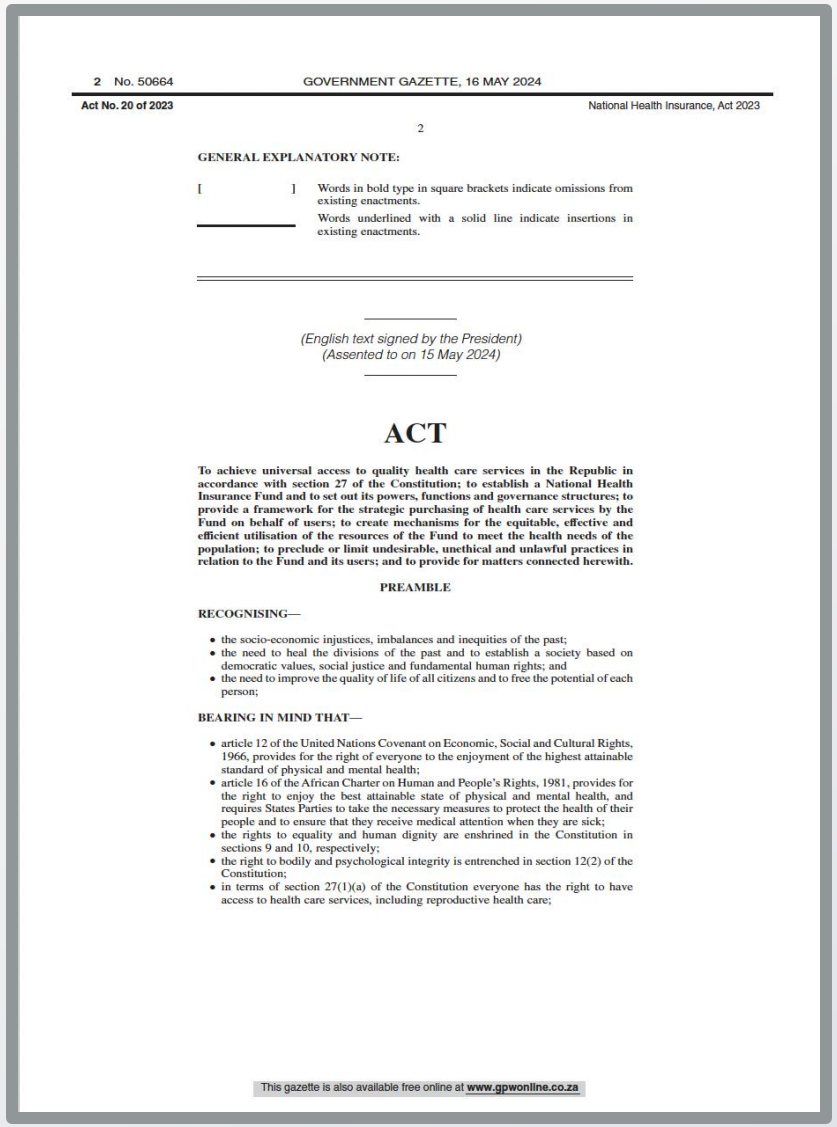
Discovery's position: NHI is not workable without private sector collaboration

A change to Section 33 is required to enable private sector collaboration

"33. Once National Health Insurance has been fully implemented as determined by the Minister through regulations in the Gazette, medical schemes may only offer complementary cover to services not reimbursable by the Fund"

No change to medical schemes for the foreseeable future

The Minister of Health has stated that medical schemes will not be affected for 10-15 years



2 No. 50664 GOVERNMENT GAZETTE, 16 MAY 2024

Act No. 20 of 2023 National Health Insurance, Act 2023

2

GENERAL EXPLANATORY NOTE:

[ ] Words in bold type in square brackets indicate omissions from existing enactments.

Words underlined with a solid line indicate insertions in existing enactments.

(English text signed by the President)
(Assented to on 15 May 2024)

ACT

To achieve universal access to quality health care services in the Republic in accordance with section 27 of the Constitution; to establish a National Health Insurance Fund and to set out its powers, functions and governance structures; to provide a framework for the strategic purchasing of health care services by the Fund on behalf of users; to create mechanisms for the equitable, effective and efficient utilisation of the resources of the Fund to meet the health needs of the population; to preclude or limit undesirable, unethical and unlawful practices in relation to the Fund and its users; and to provide for matters connected herewith.

PREAMBLE

RECOGNISING—

- the socio-economic injustices, imbalances and inequities of the past;
- the need to heal the divisions of the past and to establish a society based on democratic values, social justice and fundamental human rights; and
- the need to improve the quality of life of all citizens and to free the potential of each person;

BEARING IN MIND THAT—

- article 12 of the United Nations Covenant on Economic, Social and Cultural Rights, 1966, provides for the right of everyone to the enjoyment of the highest attainable standard of physical and mental health;
- article 16 of the African Charter on Human and People's Rights, 1981, provides for the right to enjoy the best attainable state of physical and mental health, and requires States Parties to take the necessary measures to protect the health of their people and to ensure that they receive medical attention when they are sick;
- the rights to equality and human dignity are enshrined in the Constitution in sections 9 and 10, respectively;
- the right to bodily and psychological integrity is entrenched in section 12(2) of the Constitution;
- in terms of section 27(1)(a) of the Constitution everyone has the right to have access to health care services, including reproductive health care;

This gazette is also available free online at www.gpwonline.co.za

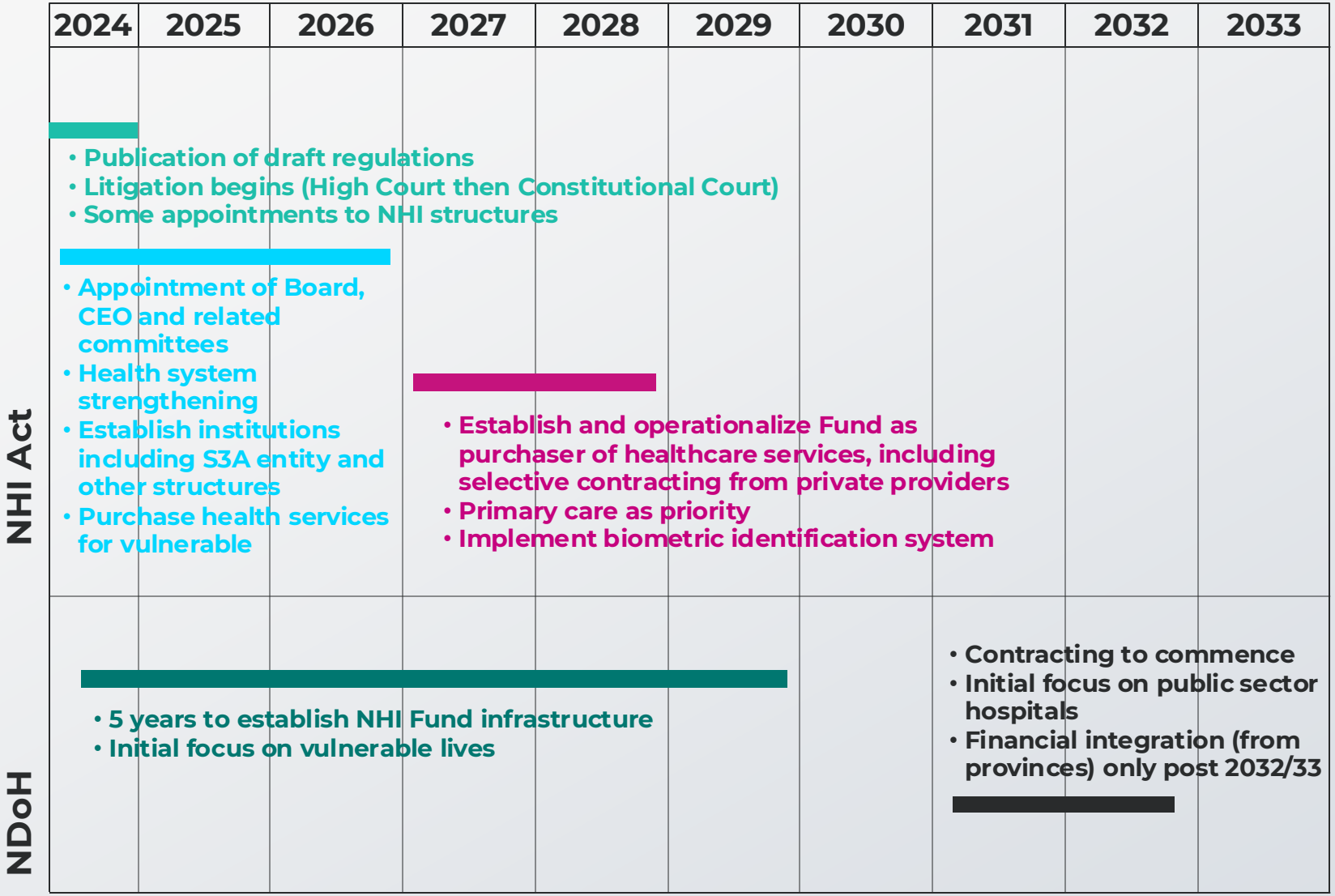
1 Significant **funding** gap (>R200bn p.a.); no clear funding plan or Money Bill

2 **Implementation** inordinately complex; substantial re-engineering across public and private health systems

3 Wide-ranging and unprecedented **legal challenges**; likely resulting in protracted litigation

4 **Section 33** restriction on the role of medical schemes only once NHI is fully implemented

Timelines between NHI Act and NDoH differ, amendments will be likely



No changes to taxes until Money Bill is published

- Section 3 of NHI Act specifically provides that there is no change to the funding of any organ of state until other legislation enacted per Constitution
- Will require period of public comment
- National Treasury have indicated aversion to earmarked taxes and constrained fiscal envelope as well as the pressure of other social demands – education, social grants etc.

No changes to medical scheme benefits until fully implemented status achieved (section 33)

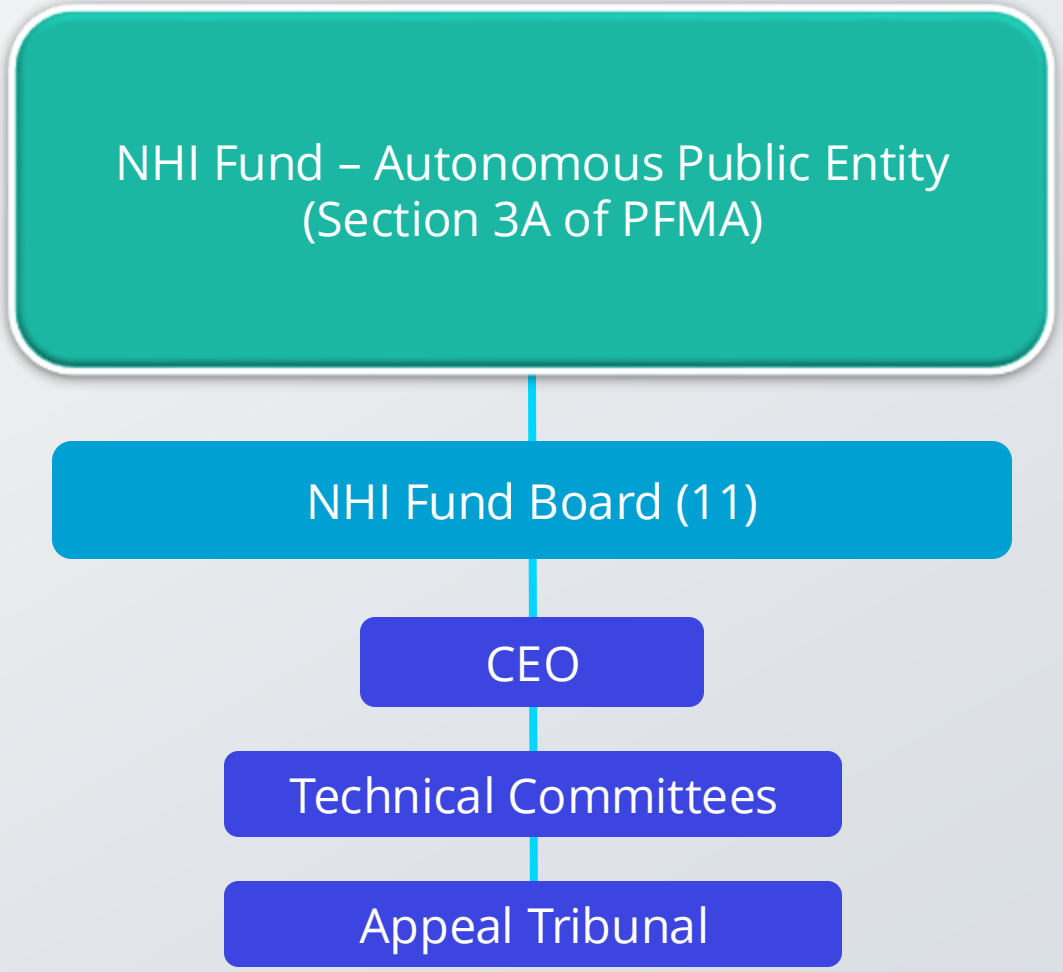
- Regulations may define requirements of fully implemented status. This would need to include:
  - **Extent of the benefits** – there is a considerable gap between 'essential' and 'comprehensive'
  - **Levels of access** – considerable growth and enhancement of healthcare resources are required to serve the whole population
  - **Standard of quality** – majority of public facilities require upgrades to meet accreditation standards (funding for this is unclear)

NHI Fund Structure: Initial period for setting up the Fund

The draft regulations do not change the provisions in the Act that enable the Minister to make all appointments

Minister of Health appoints:

- Benefits Advisory Committee
- Health Care Benefits Pricing Committee
- Office of Health Products Procurement
- Stakeholder Advisory Committee



- National Department of Health
- Semi-autonomous hospitals
- District Health Management Office
- District Contracting Units

Health Facilities and Providers

Accessing care in the NHI Fund

All residents entitled to services (section 4)

Register with accredited provider (section 5)

Access at primary facility

Follow referral pathways (section 8)

Treatment guided by formularies, cost effectiveness (Section 8)

Treatment/referral subject to medial necessity

(Section 7)

Services that are covered are free at point of service (section 8)

Otherwise patient must pay out of pocket or through voluntary insurance (Sections 6 and 8)

Some outstanding questions:

- What services will be covered?
- How will the referrals be determined?
- Will there be enough accredited facilities for everyone?
- How will healthcare providers be contracted and at what rate?
- How will this be funded?

Significant uncertainty regarding the role of private health cover and the rationale for limiting this roles

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Major funding gaps:
Expected revenue for NHI per National Department of Health

Expected revenue for NHI

Public healthcare budget 2023 allocation	**R233bn**	90% of total healthcare public sector budget for 2023/4 excluding health allocations in UIF, COIDA etc which are estimated at R5bn
+		
Redirection of the medical scheme tax credits	**R28bn**	This relies on collecting more tax from individuals. The wording in Section 49 of the NHI Bill is ***factually incorrect*** since medical scheme tax credits are not paid to medical schemes but are amounts that a taxpayer may deduct from their tax payable – **this will reduce take-home pay for medical scheme members**
+		
Government employer medical scheme subsidies	**R70bn**	Based on NDoH estimate (doesn't reconcile with CMS report which is much lower) and results in double payment by public sector employees (losing subsidy and paying more tax). This has a ***detrimental impact on state employees*** particularly lower income employees
+		
Additional tax revenue	**R200bn**	Per NDoH estimates, and refer to either a "payroll tax" or "surcharge on personal income tax" but both are ***unaffordable for SA*** as the scenarios show on following slides
=		
Total NHI Revenue	**R531bn**	Using Stats SA's latest population estimate of 62m people ***implies R714 public expenditure per capita per month***

Medical Scheme Tax Credits: critical for lower income earners on cover

Facts about the tax credits

- Tax credits reduce the tax payable by taxpayers who are members of medical schemes
- Tax credits for 2024/5:
  - R364 for taxpayer + 1st dependant
  - R246 per additional dependant
  - i.e. family of 4 = R1220 per month
- No inflationary change from 2023/4
- From National Treasury report 2021
  - Tax credits iro medical scheme contributions: R27.8bn
  - Tax credits for additional expenditure by taxpayers: R7.5bn
- Tax credits as % of medical scheme contributions: approx. 12%
- NHI Act erroneously refers to tax credits as being paid to medical schemes
- HMI recommendations: the current tax credit regime be reconstituted to take the form of a contribution subsidy that favours lower income earners

Risks of removing tax credits

- Removing tax credits increases the amount of tax that medical scheme members have to pay and reduces their take-home pay.
- Medical schemes do not receive any payments related to the tax credits.
- The Health Market Inquiry recommended that tax credits should be restructured to provide greater support to lower income earners (did not recommend removal)

- **Econex and Insight analysis of tax credits**
  - Impact is significant on low-income segment of medical scheme market (covers 40%+ of contributions)
  - Affordability pressure could cause people to drop off their medical scheme membership without having alternative cover during NHI implementation phase if tax credit scrapped (Estimated 400k to 700k people)
  - Additional impacts on the elderly and disabled who receive additional tax benefits related to their medical expenses.

Medical scheme tax credit enhances affordability for low to middle income households – the tax credits subsidise people, not medical schemes

Case study:
Income of R20 000 per month and covered on KeyCare Plus (principal + two dependants)

	With tax credit	Without tax credit
Monthly income	R 20 000	R 20 000
Tax (reduced by tax credit)*	-R 2 183 + R974 = - R1 209	-R 2 183
Medical scheme contributions	- R4 295	-R4 295
Take home pay	**R 14 496**	**R 13 522**

R11 688 less take home pay per year

Notes:
- The tax credit reduces the tax this family pays by 55%
- The tax credit supports this family affording cover by covering 23% of the contribution
- Without the tax credit this family's take home pay reduces by 6.7% (R11 688 less per year)
- This is likely to cause them to rethink having medical scheme cover and if they drop off cover, they will be dependent on the public sector
- The requirement for Gov to provide their health requirements will offset the additional R974 that they now pay in tax every month.

* For illustration and ignoring any other deductions such as pension etc.

Multiple parties involved in litigation

Any Con Court ruling that the NHI Act (or any part of it) is unconstitutional and will ultimately lead back to Parliament for amendment or a new process

Categories	Status
BUSA	Ongoing engagement across stakeholders and assessment of constructive/supportive role that can be played
Funders (HFA, BHF)	• BHF review application heard in March 2025 • BHF and HFA preparing substantive actions
Healthcare professionals (SAPPF, SAMA)	• SAPPF launched action 1 October 2024 • SAMA action launched 1 April 2025
Hospitals (HASA)	• HASA launched in February 2025
Political parties (DA)	• Appears to be under discussion through GNU processes
Trade unions (Solidarity)	• Action launched in May 2024 • NDoH response filed 27 November 2024

The Minister of Health's affidavit filed 27 November 2024 states that he does not expect medical schemes to be affected or limited by NHI for **10 to 15 years**.

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Likely NHI trajectory

NHI IMPLEMENTATION WILL BE SLOW WITH INITIAL FOCUS ON THE VULNERABLE

Key risks are:

- Lack of investor confidence confidence continuing to impact economy
- Unrealistic expectations hindering sales and driving withdrawals
- Low confidence levels affecting healthcare providers
- Impact of training capacity on availability of healthcare resources (and training pipeline)
- Stalling of necessary reforms to stabilize medical schemes

Timing	Developments*	DH actions
2025/6	- Regulations to establish NHI Fund and committees - Piloting for proof of concept (narrow primary care model)	- Pursue opportunities for collaboration - Be a reliable source of information for key stakeholders (incl healthcare providers and clients) - Participate in industry actions (BUSA and HFA) to seek amendments (through engagement & litigation)
Medium term (5-10 years)	- Initial package defined - Roll out to vulnerable groups - Upgrading of facilities to accreditation standards - Funding through existing appropriation mechanisms	- Progress opportunities to offer coverage that aligns with NHI objectives - Support enhancing PHC capacity - Drive adoption of VBC through reimbursement mechanisms and delivery models
Longer term (10-15 years)	- Raise tax funding to broaden package and reach	- Demonstrate benefits of collaborative approach - Continue to push for rational and realistic approach to funding and delivery

Engagement on amendments to NHI Act?

** Based on the NDoH response to the Solidarity litigation but which conflicts with the wording of the NHI Act which requires implementation in 2 phases to 2028.*

Agenda

The South African health system

Status of the NHI Act

Challenges

Achieving UHC for South Africa

There are immediate opportunities to improve access to healthcare in South Africa, in parallel with developing NHI

The entire national healthcare system requires urgent strengthening and reform

1 Use surplus capacity in private healthcare

The NHI Fund can be set up and **contract with private sector facilities to fill gaps in the public sector**, such as cancer treatment

2 Use private sector to help train nurses & doctors

The private healthcare sector **can support the training of doctors and nurses immediately** to build our health system resources

3 Allow affordable private primary healthcare

The private healthcare sector is ready to **provide affordable access primary healthcare services** to millions more South Africans. This **simply requires regulatory approval** from the Council for Medical Schemes

4 Reduce cost of private health insurance by +20%

Implementing recommendations of the Health Market Inquiry can **reduce the cost of private cover by +20%** and **create an integrated NHI framework** that is feasible and effective

These initiatives can **start now**, and continue post implementation of the Bill

A **few key amendments and clarifications** to the NHI Bill will allow these to be done **in parallel** to implementing the NHI Fund

This is consistent with the goals of transforming the health system into an integrated system (enshrined in 1997 White Paper)

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Factors leading to contributions increases

UTILISATION RATHER THAN PRICE IS THE DRIVER OF MEDICAL SCHEME INCREASES ABOVE INFLATION

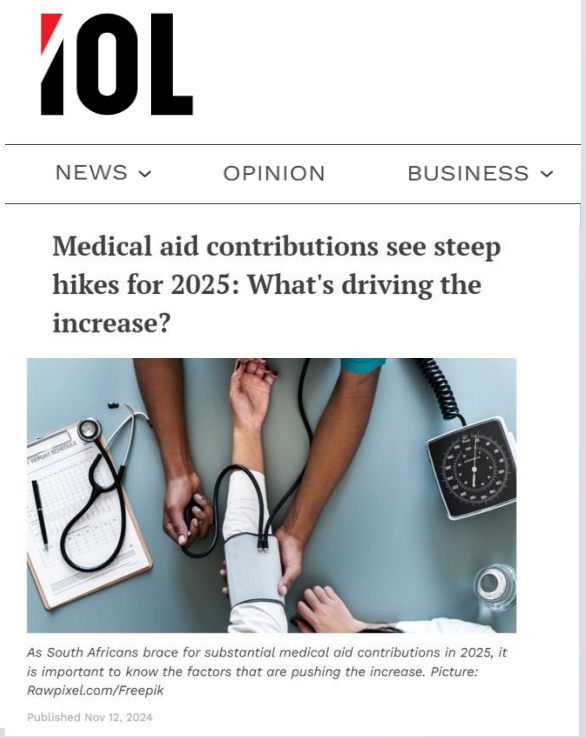
Regulatory factors
PMB obligations enabling FFS, no Risk adjustment mechanism, solvency requirements, HPCSA rules

Demand side factors
Aging, chronicity, cancer, new tech, HCDs

Supply side factors
Overservicing, defensive medicine, FFS reimbursement, PMB entitlement

Table 1: Utilisation trends vs headline inflation

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actual Contribution Increase rate	9.7	8.9	8.9	9.5	8.8	11.3	7.2	8.2	6.2	2.9	3.6	*
CPI	5.6	5.7	6.1	4.6	6,4	5.3	4.6	4.6	3.3	3.8	6.9	6.0
Assumed utilisation increase	2.0	2.8	2.3	2.9	3.1	3.9	3.3	3.9	3.7	4.4	3.8	3.2
Tariff	6.3	6.8	6.9	6.3	5.6	7.4	5.5	5.4	5.1	4.2	4.4	6.2
Total assumed increase	8.3	9.6	9.2	9.2	8.6	11.3	8.2	8.6	8.8	8.5	8.2	9.4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NEWS OPINION BUSINESS

Medical aid contributions see steep hikes for 2025: What's driving the increase?

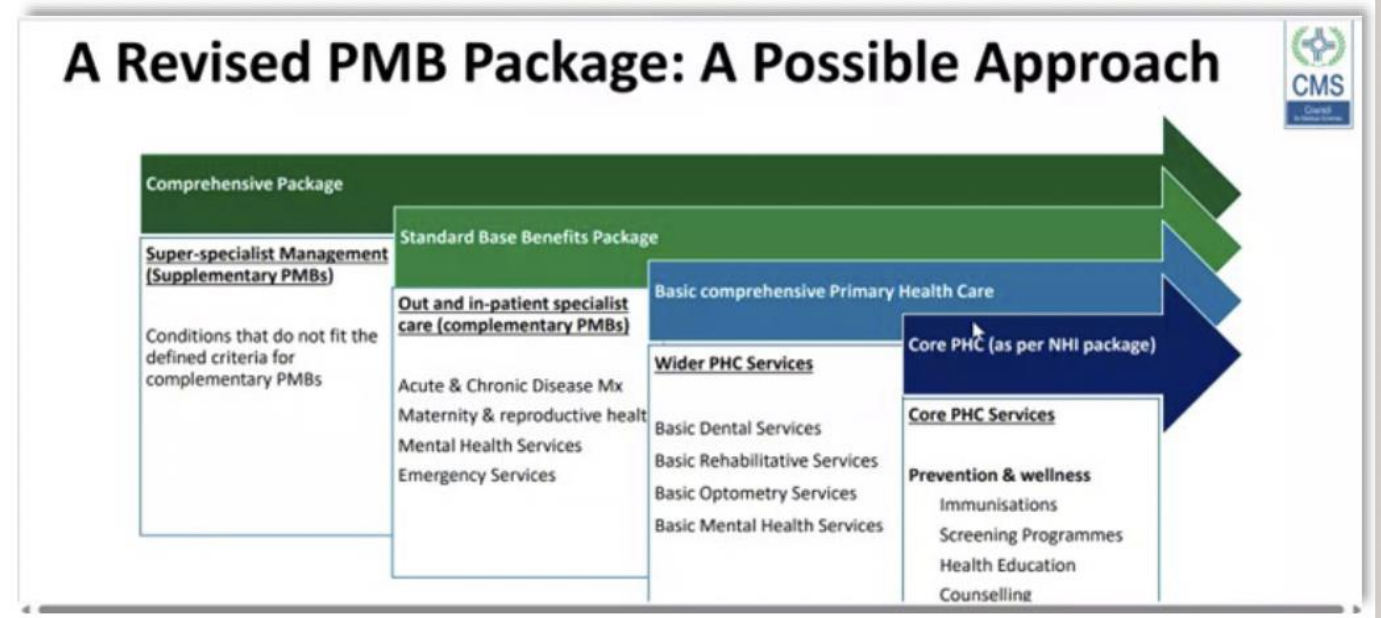
As South Africans brace for substantial medical aid contributions in 2025, it is important to know the factors that are pushing the increase. Picture: Rawpixel.com/Freepik

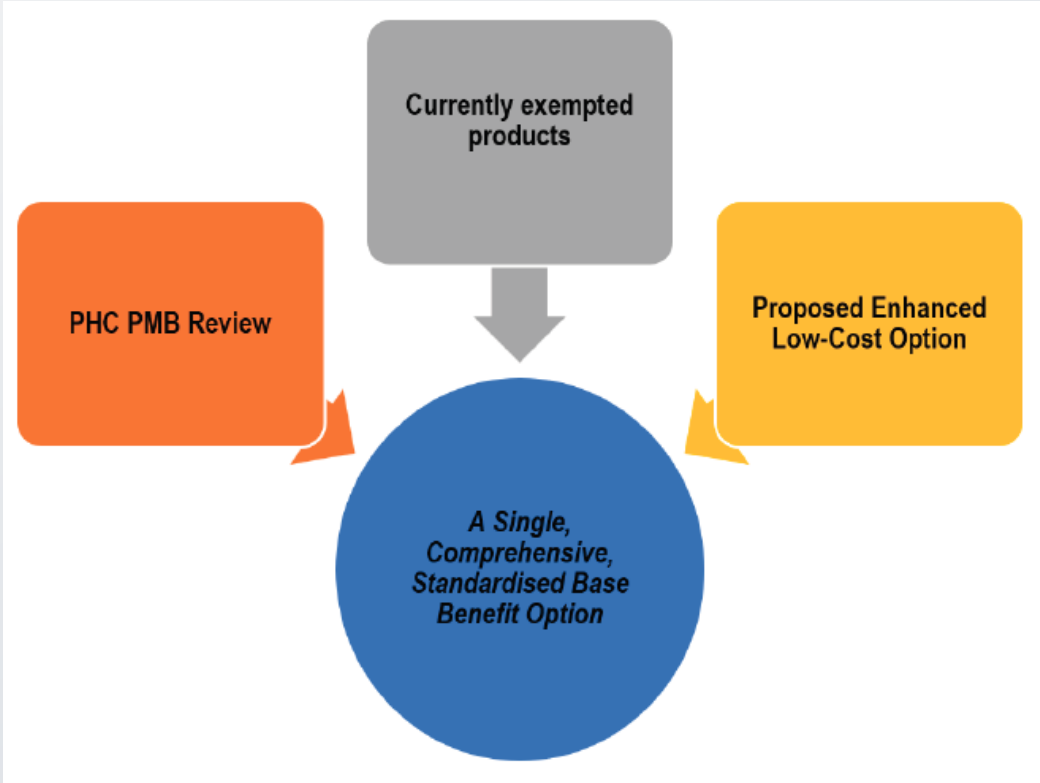
Published Nov 12, 2024

Source: CMS Circular 27 of 2023

The PMB Review

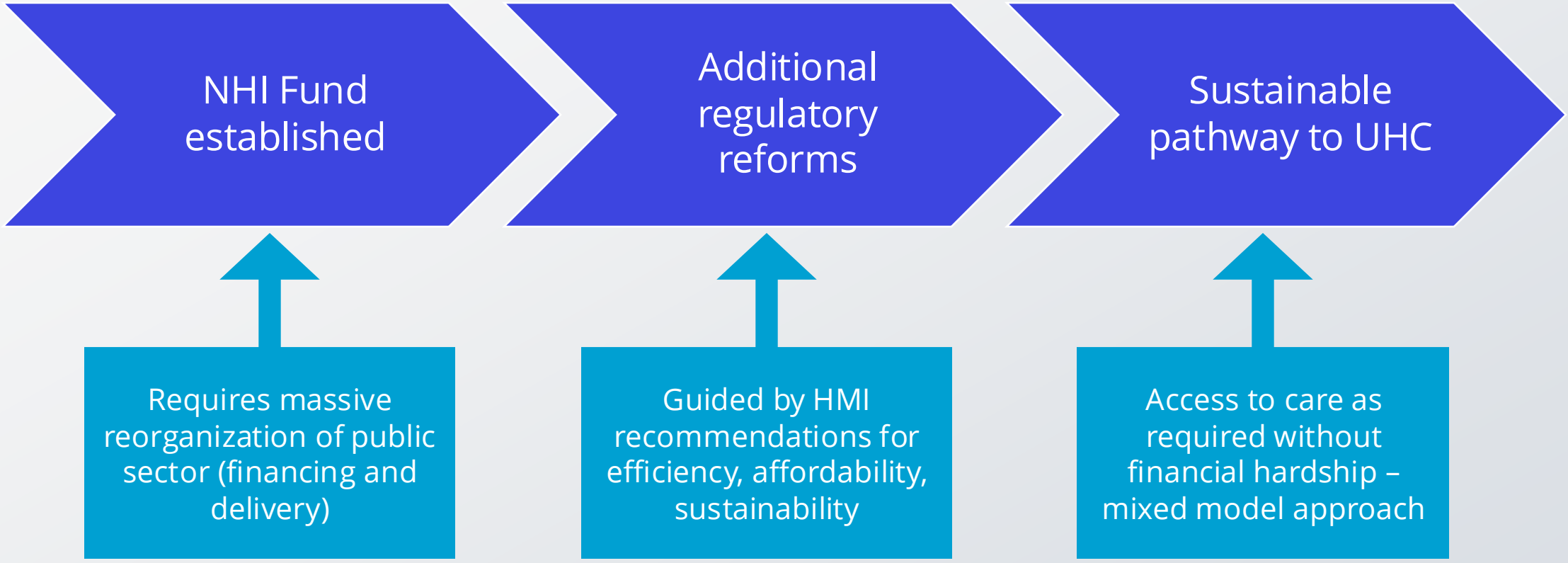
Initial focus on adding primary care package has evolved into comprehensive review





- HMI recommended review of PMBs to meet patient needs
- Evolve into Base Benefit package + supplementary cover
- Challenge of adding primary care and being affordable
- Requires overhaul of coverage requirements and delivery models

Alternative pathway to UHC



Mixed model = common benefit package + common contracting framework + social solidarity funding

Damaging restrictions of Section 33 are unnecessary and other legislative changes require due process

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Discovery's considerations in developing a workable NHI model

Key messages

- There are no immediate changes to medical scheme benefits or taxes
- Significant public sector is required for NHI to come into effect

➢ We all need to work together to address inequalities

- We need to retain and build a motivated healthcare workforce

NHI with amendments will mean:

- Partnership approach that will attract funding into the healthcare system
- Opportunities for rapid improvement in healthcare access without having to raise taxes or borrowing
- Promotes innovation and a social solidarity regulatory framework which will be to the benefit of all
- Opportunity for more rapid expansion of access to care