

What is the real cost of NHI?

By [Martin van Staden](#)

14 Sep 2017

The true cost of the National Health Insurance (NHI), and how government intends to fund it, are two outstanding details of great importance on which South Africans have been given no clarity.



[123rf.com](#)

The Treasury has yet to publish its cost estimate of the NHI, which is understood to have been completed. Instead, we are still relying on the Department of Health's 2010 estimate, which projects that NHI will cost R255.8bn by 2025. That the 2017 NHI White Paper included the same 2010 figures was quite disheartening; the figure should have made provision for inflation at the very least.

With the exception of the controversial nuclear deal, the NHI is going to be the biggest government expenditure item on the horizon. It is therefore even more disheartening, and condescending to the taxpayer, that both the 2010 and 2017 white papers say that "the question of 'what the NHI will cost' is the wrong approach", amidst a technical recession and stagnated economic growth.

With the 2010 cost estimation inflated with the consumer price index, in 2017 terms the NHI will not cost the taxpayer R255.8bn, but R368.8bn, by 2025. Even this, however, is a conservative estimate in light of overly-generous future growth estimates provided by government. Furthermore, in 2017 terms, NHI will cost South Africa R156bn every year from 2025 onward – assuming we achieve 2% growth – which is roughly equal to four 2010 Soccer World Cup tournaments or 1.4 million government houses per year. The NHI would double South Africa's health budget.

How will this massive price tag be funded?

There are, broadly, two options. The first is to earmark money already in the system, for the NHI. In other words, redirect it from other portfolios like education or defence, to health. The second is, of course, for government to receive more revenue. Government has proposed a payroll tax of 2% and an income tax surcharge of 2%, meaning everyone who pays income tax will find themselves that much poorer.

The scope for increasing taxes on a very limited tax base is minimal. Government struggled to raise an additional R28bn in 2017 for miscellaneous expenditure items. Raising hundreds of billions in additional revenue each year from 2025 onward is impossible without significant economic growth, which seems improbable at this time.

Even with these hypothetical tax increases, government stands to raise only between R63-69.72bn to cover its projected R71.9bn shortfall. Econex, however, estimates the shortfall at R111.61bn, meaning the tax increases will not come close to funding NHI.

There is no doubt that South Africa needs serious healthcare reform. The National Health Insurance as it is proposed currently, however, is simply unrealistic, and if attempted, will do more harm than good to our economy.

ABOUT THE AUTHOR

Martin van Staden is a legal researcher at the Free Market Foundation.

For more, visit: <https://www.bizcommunity.com>