

1 Introduction

1.1 Purpose

This report provides an evaluation of alternative strategic policy options for the South African health system based on a review performed by the Department of Health and the Health task group of the Committee of Inquiry into a Comprehensive System of Social Security.

Although certain aspects of the review cover existing policy accepted by Government, this report is a consultation document and does not represent a final policy position by the Department of Health.

The review proposes a broad course of action for achieving a move toward a more effective and unified health system. The purpose is to highlight key policy issues as a point of departure for consultation and the preparation of a final position by the Department of Health.

1.2 Terms of Reference

1.2.1 Overall terms of reference

The terms of reference given to the Committee requires the review of a broad number of elements relating to social security. The general objectives of this analysis include:

- o **Options on ultimate objectives and targets for the social security system:** Alternative options indicating an envisaged final structure should be provided. These should be extensively motivated and viable. (Terms of Reference, 2000, par. 2.1.1).
- o **Options for immediate practical implementation:** alternatives consistent with envisaged ultimate objectives should be outlined. These would need to be practical and focused on immediate needs, the current level of South Africa's development and affordability. (Terms of Reference, 2000, par. 2.1.2).
- o **Viability and implications of options considered:** all relevant information concerning the viability and significant negative or positive implications linked to any options considered must be provided. (Terms of Reference, 2000, par. 2.1.3).

The specific social security areas that must be covered are:

- o **National pensions system:** This must involve an assessment of the entire environment providing for post-retirement cover, as well as general financial support for the aged. (Terms of Reference, 2000, par. 2.2.1).
- o **Social assistance grants:** This must involve an evaluation of the entire social assistance mechanism including all grants, their funding mechanisms, and the efficiency with which they achieve their goals. (Terms of Reference, 2000, par. 2.2.2).
- o **Social insurance schemes:** All social insurance schemes, including funding and protections for injury on duty and cover for road accident victims must be examined. (Terms of Reference, 2000, par. 2.2.3).
- o **Unemployment insurance:** The current system of unemployment protection must be examined. This must include the adequacy of all forms of support for the unemployed, including special employment programmes. (Terms of Reference, 2000, par. 2.2.4).
- o **Health funding and insurance:** The public and private sector environments must be examined with a view toward ensuring universal access to basic health care. (Terms of Reference, 2000, par. 2.2.5).

Each of the specific areas identified above must include the following analyses: (Terms of Reference, 2000, section 2.3).

- o **Existing processes:** In many instances there are existing policy processes examining specific funds and safety nets. The Committee will be expected to liaise extensively with these initiatives in order to inform the final recommendations.
- o **Core issues:** Each policy area must be examined taking account of the following:
 - Adequacy of adherence to principles of social solidarity;
 - The legislative and general regulatory environment;
 - The social budget;
 - Institutional structure;
 - The tax environment;
 - Sources of finance;
 - Perverse incentives;

- Significant gaps and the underlying reasons;
 - Macroeconomic environment;
 - Impacts on government as an employer;
 - Income distribution.
- o **Key recommendations on future directions:**
 - Long-term or ultimate objectives and targets;
 - Short-term or required intermediate reforms consistent with the long-term objectives
 - o **Implementation process:** The Committee must make concrete recommendations on implementation steps and prerequisites.

In addition to the specific analyses indicated above, the Committee is also required to develop a social budget for all the key social security areas. (Terms of Reference, 2000, section 2.4).

- o The Committee must generate a detailed social budget for the country, outlining public and private expenditure on key areas of social policy.
- o The Committee must also set up the basis for the annual presentation of a social budget for the country. This will involve the creation of the relevant capacity within key government departments to ensure this can be done.

The Committee is also expected to enter into a fairly broad consultation process with all stakeholders. (Terms of Reference, 2000, section 2.5).

- o The Committee will be required to consult with all relevant stakeholders linked to the core issues under examination. The nature and structure of this consultation will be at the discretion of the Committee.
- o The Committee will be expected to take inputs from all relevant South African experts in the various policy areas under examination.
- o The Committee will be expected to consult directly with all government departments affected by the proposals.

- o The Committee will be expected to review all relevant material on international practice in both industrialised and developing country settings.

1.2.2 Interpretation of terms of reference

The specific section relating to health issues is very broad and effectively involves a review of the entire health system with a view to ensuring universal access. As such the terms of reference preclude reviewing issues which do not involve the provision of universal access. This is a significant limitation and implies a prior policy decision in this regard.

There is substantial international evidence that such a policy stance is appropriate and for this reason the limitation is accepted. The issue of the desirability of universal access and how this might be interpreted will however be addressed by the Committee as wide policy discretion is possible here.

Universal cover internationally is provided through a mixture of methods. These include non-contributory and contributory financing systems as well as various service delivery models. The contributory environments typically involve both earmarked taxes or various degrees of compulsion applied to private insurance markets.

1.3 Structure of Report

The initial sections of the Report, from **sections 2 to 4** provide the context for later discussions and recommendations. **Section 2** provides an historical review of South Africa's public and private health sector. **Section 3** summarises the results obtained from a number of stakeholder reviews performed by the Department of Health. **Section 4** outlines key equity principles that universally underpin health systems policy.

Sections 5 to 12 provide evaluations and policy recommendations. **Section 5** looks at the financing of the public health system and linkages to broader reform objectives. **Section 6** looks at the tax subsidy provided to medical scheme members, and reviews how this could be altered and incorporated into a more integrated subsidy system linking the public and private sectors.

Section 7 evaluates the need for risk-equalisation within the medical schemes environment and indicates how this can be linked to the reform of the tax subsidy discussed in **section 6**. **Section 8** analyses the current mechanism for dealing with systemic adverse selection within the medical schemes environment, late-joiner penalties, and the option of moving toward mandating membership of a medical schemes as an alternative and ultimate solution.

Section 9 looks at the issue of cost-containment in the private sector and options required to deal with the problem. **Section 10** evaluates the need for public hospital reform in order to improve the management of hospitals and to permit them to obtain funding from medical schemes.

Section 10 discusses the option of a state-sponsored medical scheme and how this could influence the development of a low-cost provider market. **Section 12** assesses the important question of mandating universal cover for civil servants. The options in this section relate to both to the development of a low-cost provider market (**section 10**), and the development of a state-sponsored medical scheme (**section 11**). **Section 13** looks at medical savings accounts and their role in the health system.

Section 14 summarises some of the key strategic challenges facing the South African health system, based on international evidence and the reviews provided in this Report. **Section 15** integrates all the various issues and recommendations raised in the Report into a strategic reform process.

1.4 Consultation Process Forward

This document provides information intended to generate comment from the public on a number of key questions affecting the future of the health system. The process needs to ensure that the response from the public extends further than those with a commercial stake in particular directions. The areas that are important for the purposes of feedback to the Department of Health are:

- a) Central recommendations and proposed directions framed in this Report;
- b) The development of a contributory environment for low-income groups (i.e. medical schemes);
- c) Reform of the management and governance of public hospitals;
- d) The full retention of revenue at public hospitals;
- e) Budget options for the public health system, taking note of the need to ensure compatibility with either a mandatory or voluntary contributory environment (medical schemes);
- f) The system of cross subsidies to be guaranteed by government;
- g) The contents of a basic essential set of services which government must be provided by the public sector, the private sector, and any future mandatory contributory environment;
- h) The role of the private health sector and its importance for achieving greater integration with the public sector;
- i) Reform requirements for the medical schemes movement, ensuring that all key groups remain covered with access to a comprehensive set of benefits;

- j) The implementation of a system of risk-equalisation between medical schemes;
- k) Conversion of the existing tax subsidy for medical schemes into an on-balance-sheet per capita allocation for those covered in the medical schemes environment, and how such a system may form the basis for a future system of national health insurance;
- l) Options to contain cost increases within the private health system including reforms required to enhance competition for lower-cost service provision (both hospitals and primary care) in the private sector;
- m) The introduction of a system of direct controls to limit medical cost increases in the private health system; and
- n) Medium- to long-term options for the development of social and national health insurance options.