

Cosatu on SHI



Government has continued to work on proposals for a Social Health Insurance (SHI) Scheme. Organised labour has expressed its concern around the impact of the scheme on workers. **Cosatu** presents its view...

Proposals around a SHI now centres on increasing income taxes, which would be used to pay private medical schemes for taxpayers. Labour has voiced its concern that this approach would substantially increase the cost of health care for workers earning over R3 000 a month, while increasing government subsidies for the relatively well off and not for the poor. While government had worked closely with the private medical schemes on its proposals, it had failed to meet with organised labour and employers.

THE SHI PACKAGE

In effect, the SHI proposal consists of five elements:

- Regulation of the private sector to control duplication and waste. These regulations include the certificates of need, regulation on dispensing and control of medicine prices. Cosatu has agreed in principle with the need to regulate the private sector, although specific measures have often proven poorly designed.
- Increased spending on public health care. In the event, the public health budget has risen fairly steeply in the past two years, along with the rest of the budget. The SHI

proposals do not, however, spell out how much the budget should increase. Health remains one of the most under-funded of the major public services.

- Establishment of a state-managed health scheme for the low-income group.
- Restructuring of the current tax benefit for medical-scheme members. The tax benefit, which costs government around R10-billion a year, mostly helps the rich, both because they have a higher tax rate and because they are more likely to belong to medical aids. The proposal is to redirect the tax benefit to subsidise workers who belong to medical schemes and who earn over R3 000 a month.
- A 4.5% increase in income tax, which would be paid to medical schemes on behalf of members. In effect, every income-tax payer would automatically become a member of a medical scheme – either a private scheme or the state-run fund – in return for the increase in taxation. The vast majority of lower-income workers in this group do not currently belong to medical schemes. They would probably get better medical care, but the cost of health care would rise from around 1% of their income today to 4.5% under SHI.

Labour accepts the proposals on regulating the private sector, improving funding for the public sector, establishing a state-funded medical scheme and restructuring the tax benefits. But the proposal to increase taxes in order to force workers into private health care is not acceptable.

THE MAIN OBJECTIONS ARE:

- Government tax revenue would simply be turned over to private health schemes. Any revenue from higher taxes should be used to improve public health care.
- The scheme would, according to government's own estimates, mean that the government subsidy for people earning enough to pay income tax (over R3 000 a

month) would be twice as high as for those earning less than the income-tax threshold.

- The scheme would raise the cost of health care for workers earning between R3 000 and R4 500 from around 1% of income to about 4.5% of income. Government researchers try to downplay this by exaggerating the cost of health care to lower-income workers today, claiming that the average low-income worker spends over 20% of their income on private health care. According to government surveys, the figure is in fact about 1%.
- By increasing the cost of health care, the scheme would ultimately increase the burden on the economy as a whole. South Africa already spends more than most middle-income countries on health care relative to the GDP, essentially because of the large and inefficient private sector. The SHI proposals would aggravate the situation.
- In order to gain support for the proposal, it appears that government researchers are fudging the facts. They claim that the revenue from the proposed tax changes in the current tax benefit would be sufficient to cover medical scheme care for all taxpayers. They reach this conclusion, however, by assuming dramatic reductions in the cost of care compared to current trends. If costs do not go down as much, the tax-funded system could fall into a serious crisis.

If the scheme could deliver quality private health care to workers earning R3 000 a month for 4.5% of their income – R132 a month – then many workers might consider it acceptable. The risk is that government has underestimated the cost, and has to either increase the tax or reduce the quality of care.

Even if many workers consider the scheme desirable, however, the question remains why the increased tax revenue could not be used to improve public facilities for all South Africans. It seems odd to simply take government tax money and hand it over to private medical schemes.