

**REPORT OF THE COMMITTEE OF THE WHOLE ON THE PROPOSED
FORMULA FOR DISBURSEMENT OF THE NATIONAL HEALTH INSURANCE
FUND FOR THE YEAR 2014**



1.0 INTRODUCTION

The proposed formula for disbursement of the National Health Insurance Fund for the year 2014 was laid before the House on Tuesday, 26th March, 2014.

The Rt. Hon. Speaker, referred the proposed formula to the Committee of the Whole for consideration and report in accordance with Standing Order 196 of the House and article 103 (3) of the Constitution of the Republic of Ghana.

2.0 REFERENCE DOCUMENTS

The Committee during its deliberations referred to the following documents:

- i. The 1992 Constitution of the Republic of Ghana.
- ii. The Standing Orders of the House.
- iii. The National Health Insurance Act 2012 (Act 852).
- iv. The proposed formula for 2014.

3.0 ACKNOWLEDGEMENT

The Committee sought clarifications on the proposed formula from the following officials of the National Health Insurance Authority (NHIA):

- i. Mr Sylvester Mensah, Chief Executive Officer
- ii. Mr Nathaniel Otoo, Deputy Chief Executive Officer
- iii. Mr Alex Odoi Nartey, Deputy Chief Executive Officer

The Committee is most grateful to them.

4.0 BACKGROUND

The Government of Ghana through the Ghana Poverty Reduction Strategy (GPRS) has planned its policy strategy of the essential components of the GPRS as the strategy to deliver accessible and affordable healthcare to all residents in Ghana, especially the poor and vulnerable.

In achieving the above strategy, the National Health Insurance Authority introduced a district-wide mutual health insurance scheme to enable access to basic healthcare services without paying cash at the point of the service used/delivered.

The introduction of the National Health Insurance Act 2012 (Act 852) brought the National Health Insurance Authority (NHIA) into being to secure the implementation of a National Health Insurance policy. Consequently, the National Health Insurance Fund (NHIF) was established under section 39 of Act 852 and mandated the Council of the NHIA to be responsible for the management of the Fund.

5.0 OBJECT OF THE FUND

The object of the Fund is to pay the health care services of members of the National Health Insurance Scheme (NHIS)

For the purposes of implementing the object of the Fund, Section 40 (2) of Act 852 stipulates that the monies from the Fund shall be expended as follows:

- To pay for the health care costs of members of the National Health Insurance Scheme
- To pay for approved administrative expenses in relation to the running of the National Health Insurance Scheme
- To facilitate the provision of access to healthcare services, and
- To invest in any other facilitating programmes to promote access to health services as may be determined by the Minister in consultation with the Board

5.1 Sources of funds for the NHIF

Section 41 of the National Health Insurance Act, 2012 (Act 852)-

- i. The National Health Insurance Levy (NHIL)
- ii. Two and a one half percent (2.5%) contribution to SSNIT Pension Fund.
- iii. Funds allocated by Parliament.
- iv. Moneys that accrue to the Fund from investments made by the Authority.
- v. Grants, donations, gifts and any other voluntary contributions made to the Fund.
- vi. Fees charged by the Authority in the performance of its functions
- vii. Contributions made by members of the Scheme, and
- viii. Monies accruing from the National Insurance Commission under Section 198 of the Insurance Act, 2006 (Act 724)

6.0 GENERAL ANALYTICAL REVIEW OF 2013 RECEIPTS AND PAYMENTS

Receipts

For the year 2013, a total amount of GH¢ 1,128.76 million was approved. This amount was made up of the following:

- GH¢917.86 million expected to come from the SSNIT/ NHIL
- GH¢92.90 million expected to come from other receipts
- GH¢118 million expected as additional inflows to be financed by the Ministry of Finance (Funding Gap).

Of the **GH¢917.86 million** budgeted for, only **GH¢750.78 million** was released by the Ministry of Finance to the Authority as at the end of March, 2014.

Payments

On accrual basis, total expenditure for the year 2013 amounted to GH¢975.79 million against an annual budget of GH¢ 1,128.76 million.

Net Cash Position

Net cash position of the Authority as at the end of the year 31st December, 2013 was GH¢159.92 million.

7.0 COMPARATIVE ANALYSIS OF COLLECTIONS AND RECEIPTS

The Authority budgeted **GH¢917.86 million** as NHIL/ SSNIT collections for 2013. However, the collection reports stated that a total amount of **GH¢831.45 million** had been collected by the revenue agencies for 2013.

Out of the collection, only **GH¢750.78 million** was received by the NHIA for the year 2013 (**GH¢498.48 million** was paid by the end of December, 2013, **GH¢102 million** paid in January, 2014 whilst GH¢150.30 million was received in March, 2014).

8.0 REVIEW OF INVESTMENT PERFORMANCE AND POSITIONS IN 2013

Investments of the Authority are in fixed deposits with banks. As at January 1, 2013, the principal value of the Fund was GH¢190.16 million but this balance decreased to GH¢159.92 million at the end of 2013.

The decrease in the values of the investment portfolio was largely due to dis-investments of investment income which was applied against the payment of claims.

Acceptable international practice requires that for an insurance scheme to be sustainable, the scheme should have an investment cover of at least 18 months. Currently, the Fund investment balance provides cover for only two and a half months. This situation poses serious threat to the sustainability of the National Health Insurance Scheme.

9.0 GENERAL PROJECTIONS UNDERLYING THE 2014 ALLOCATION

The following revenue projections underline the NHIF Allocation & Budget Allocation for 2014.

9.1 BUDGET RECEIPT

The Authority expects to receive a total amount of **GH¢1,036.40 million** in 2014 from NHIL/SSNIT and other sources to be able to execute its mandate in 2014. The composition is as follows:

9.2 Levies from NHIL and SSNIT

On the basis of MOFEP Budget Statement for 2014, the National Health Insurance Fund is expected to realize an amount of **GH¢926.61 million** from NHIL and SSNIT contributions in the year 2014.

9.3 Premium from Informal Sector

The Premium from informal sector is budgeted at **GH¢43.99 million**. This represents an average premium of **GH¢12.50** per member for an active membership of **3,518,433** for the informal sector in 2014.

9.4 Interest Income from Investment

The Authority expects to earn total interest income of **GH¢28.80 million** from its investment portfolio.

9.5 Processing Fees & Other Income

The Authority expects to earn a total amount of **GH¢37.00 million** on processing fees, provider credential fees, motor insurance fees, and sale of tender documents.

9.6 Funding Gap

The funding gap is **GH¢299.63 million**. This is expected to be financed by government from its contingency vote for 2013.

Sources	Amount GH¢ million	%
NHIL	765.19	57.3
SSNIT	161.42	12.1
Premium (Informal)	43.99	3.3
Income on Investment	28.80	2.2
Processing Fees & Other Income	37.00	2.8
Revenue expected from GoG (Financing gap)	299.63	22.4
Total	1,336.03	100

9.7 Registration coverage

The population of Ghana in 2013 is estimated at 26.16 million; and the projection for 2014 is 26.69 million. Current registration figures indicate that active membership was 9.78 million and that constituted 36.6% of the population.

The Authority plans to intensify efforts through massive membership campaigns and policy reforms to encourage enrolment and renewal of membership. It is therefore estimated that 40.3% of the population or 10.75 million would constitute the active membership of the NHIS in 2014. This is about 10% increase over the active membership base in 2013.

The allocation of the Fund is therefore based on the assumption that 10.75 million of the population in Ghana will access benefits under the scheme in 2014.

9.8 Average premium per head

Average premium rates per member (informal sector) in 2013 was GH¢10.58. In 2014, it is planned to strengthen controls over the CPA system in order to improve premium collections and accountability, and also reduce leakages. It is expected that the average premium per member would increase to GH¢12.50.

9.9 Average claim bill per active member

The average claim bill per active member in 2012 was GH¢74.12. In 2013 the cost rose to GH¢74.84 per active member. For 2014, the Authority projects a medical inflation of 14% and this is expected to increase medical cost and tariff in 2014.

The Authority also plans to pursue vigorous cost efficiency reforms in 2014 and this is expected to yield cost savings of 6.5% in claims for 2014. Claims cost is therefore projected at GH¢79.77 per member in 2014.

9.10 Determination of allocation of funds

Based on the above allocation formula and the objectives of the fund, the following criteria for the allocation of the fund as described by Act 852 shall be applied;

9.11 Subsidies for the exempt Group

For the purpose of implementing the object of the Fund, section 77 (2) of Act 852 stipulates the setting aside of some monies from the Fund to provide for health care for the indigents, and by extension, the exempt group.

Act 852 exempts the following groups from paying premium and thereby enjoins the Authority to make premium payments on behalf of the exempt group to cover their health care cost.

The exempt groups are;

- i. Indigents
- ii. Under 18 years of age
- iii. Pensioners under the SSNIT Scheme
- iv. Aged (70 years of age and above)
- v. SSNIT contributors
- vi. Pregnant women
- vii. Persons with mental disorders

Premium of contributors to the SSNIT Pension Scheme are to be paid from NHIF by virtue of the payments of 2.5 per cent of SSNIT contributions to the NHIF. The rest are also exempt by law (Act 852).

10.0 SUMMARY OF PROPOSED ALLOCATION OF FUNDS FOR 2014

The proposed allocation of funds to various Activities is stated in the Table below:

Activity	GH¢ 'million
Subsidy – Premium for Exempt Category	90.38
Subsidy - Claims	723.09
Loan Repayment	118.00
NHIA Operational Expenses	122.19
Support to District Offices	37.30
Support for MOH – Public Health & Preventive Care	26.00
Support for MOH – Health Sector Investment	17.00
Support for District Health Projects and MP's M&E	17.91
Construction of Head Office Annex & District Office	37.36
Provider Payment- Capitation Rollout	6.50
Claims Processing Centers	10.90
Call Center	2.00
Support for Health Related Research	1.00
Nationwide ICT System	34.19
Instant ID Card & Authentication system	64.45
Sensitization, Publicity and Marketing	4.00
Archival System	7.00
Contingency	16.72
Total	1,336.03

11.0 OBSERVATIONS AND RECOMMENDATIONS

11.1 Bridge Financing Facility

The Committee observed that the Authority had borrowed an amount of GH¢118 million from the banks to augment its operations.

It was explained to the Committee that the facility was more of a bridge financing facility and it was procured due to the late releases of funds by the Ministry of Finance. The Chief Executive of the Authority explained that the Ministry of Finance authorised the Authority to procure the facility and indicated that the Finance Ministry would cater for the interest on the facility. The Authority was to repay the facility with the releases from Ministry of Finance. He further informed the Committee that currently the Authority had paid part of the facility and was left with a balance of GH¢44million.

The Committee expressed concern about the late release of funds to the Authority and financial challenges it is posing to the Scheme.

The Committee therefore urged the House to direct the Minister for Finance to ensure prompt release of funds to the Scheme to prevent a similar situation.

11.2 Decline in Investments of the Authority

The Committee noted that for the year 2013, dis-investments by the Authority amounted to GH¢92.86 million and expressed concern about the trend.

The Committee was informed that the dis-investments were applied against payment of claims. The Committee was further informed that the Authority had presented comprehensive proposals to the Ministry of Finance on the financing of the Health Insurance Scheme. This is because total outflows of the Scheme currently exceed the inflows and there is the need to address the trend.

The Committee was also informed that as part of efforts to sustain the Scheme, stringent measures were also being put in place to contain cost.

11.3 Financing Gap

The Committee observed that there is a financing gap of GH¢299.63 million and that if the Authority is to undertake its program of activities successfully, there is the need for the gap to be closed.

The Committee also noted that in 2013 there was a funding gap of GH¢118 million which the Ministry of Finance failed to release funds to tackle. This gave rise to the bridge financing procured by the Authority.

The Committee therefore recommended to the House to urge the Minister for Finance to make the necessary allocations either through the Contingency Fund or a Supplementary Budget to fund this gap.

12.0 FORMULA FOR DISBURSEMENT

In line with the provisions of the National Health Insurance Act, 2012 (Act 852) the Chief Executive presented the formula for the disbursement of the National Health Insurance Fund for the year 2014. Find the Formula attached as Appendix 1

13.0 CONCLUSION

After careful consideration, Committee recommended to the House to approve the sum of **GH¢1,336.03 million** to the National Health Insurance Authority to enable it fund its activities for 2014 financial year.

The Committee further urged the Minister of Finance to take the necessary steps to provide the necessary funding to ensure that the funding gap is closed to enable the Authority to implement its program of activities for the year 2014.

The Committee also recommended that the Proposed Formula for the disbursement of the National Health Insurance Fund for the year 2014 be approved.

Respectfully submitted



**HON. EBO BARTON-ODRO
CHAIRMAN, COMMITTEE ON THE WHOLE**



**ASANTE AMOAKO ATTA
CLERK TO THE COMMITTEE**

27th March 2014

APPENDIX I

6.1 DETERMINATION OF THE FORMULA

Allocation of funds for the provision of subsidy to cover the payment of claim is based on a risk equalization formula. Risk equalization mechanism was applied in the allocation formula to neutralize insurance risks confronting the Scheme.

The formula is based on risk equalization from both the income and expenditure sides.

Income Side Risk Equalization

The income side risk equalization accounts for the financing gap arising from the non-payment of premium by the exempt group and the deviation of actual premium per each territorial district from the national average premium.

The following are the definition for the various notations used in the formula.

- D_i^{prem} = total number of the premium paying active members for territorial district i ,
- N^{exempt} = total number of the premium exempted active members in the National Scheme,
- C_i = total amount of premium received by territorial district i ,
- N^{prem} = total number of members paying premium across all territorial districts
($= \sum_i D_i^{prem}$)
- C = total amount of premium received by all territorial districts ($= \sum_i C_i$)
- c_i = average premium received by territorial district i
- c = average premium across all territorial districts.

The overall average premium across all territorial districts is given by:

$$c = \sum_i C_i / \sum_i D_i^{prem} \dots\dots\dots(1)$$

Subsidy, S^1 (to cater for premium for exempt members in the National Scheme) is given by:

$$S^1 = c \cdot N^{exempt} \dots\dots\dots(2)$$

Subsidy, S_i^2 , (for equalizing the average premium to the overall average premium for all territorial districts) is given by:

$$S_i^2 = (c - c_i) \cdot D_i^{prem} \dots\dots\dots(3)$$

As a national unitary scheme, the sum of equalizing the district average premium to the overall national premium is zero.

$$\sum_i S_i^2 = \text{zero}$$

Therefore, the risk equalization formula on the income side for the National scheme is given by

$$\boxed{S^{inc} = c \cdot N^{exempt} + (c - c_i) \cdot D_i^{prem}} \dots\dots\dots(4)$$

$$S_{inc} = c \cdot N_{exempt} + \text{Zero} \dots\dots\dots(5)$$

Expenditure Side Risk Equalization

The expenditure side risk equalization takes account of financing gap between the average cost of claims per active member and the average premium payable per active member.

- N = total number of active members in the National Scheme
- E = total claims amount payable by the National scheme
- K = (E/N) = average claim amount per active member in the National scheme
- c = average premium payable in the National Scheme.

The risk equalization formula on the expenditure side for the National Scheme is given by

$$S_{exp} = (K - c) \cdot N \dots\dots\dots(6)$$

$$S_{exp} = \{E / N - (\sum_i C_i / \sum_i D_i^{prem})\} \cdot N \dots\dots\dots (7)$$

6.2 SUBSIDY ALLOCATION FORMULA

The overall allocation to the National Scheme is given by

$$S = S_{inc} + S_{exp} \dots\dots\dots (8)$$

$$S = c \cdot N_{exempt} + (c - c_i) \cdot D_i^{prem} + (K - c) \cdot N \dots\dots\dots (9)$$

Where, $c = \sum_i C_i / \sum_i N_i^{prem}$ and $K = E / N$

And $(c - c_i) \cdot D_i^{prem} = \text{zero}$

6.3 SUBSIDY ALLOCATION FORMULA - AGGREGATE

The total Subsidy expected to accrue to the National Scheme in 2013 to cater for risk is given by:

$$\sum S_i = c \cdot N_{exempt} + \sum_i (c - c_i) \cdot D_i^{prem} + (K - c) \cdot N \dots\dots\dots (10)$$

Where, $c \cdot N_{exempt}$ - represents income side equalization subsidy (premium for exempt group)

$((K - c) \cdot N)$ - represents expenditure side equalization subsidy (claims subsidy) and

$\sum((c - c_i) * D_i^{prem})$ - is applied to equalize average premium for territorial districts overall national average premium. The sum across all territorial districts is zero.

