

REPORT OF THE COMMITTEE OF THE WHOLE ON THE PROPOSED
FORMULA FOR DISBURSEMENT OF THE NATIONAL HEALTH INSURANCE
FUND FOR THE YEAR 2015

1.0 INTRODUCTION

The proposed formula for disbursement of the National Health Insurance Fund for the year 2014 was laid before the House on Wednesday, 24th March, 2015.

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 2015.

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 Alex Odoi Nartey, Deputy Chief Executive Officer
- iii. Mr. Ahmed Imoro, Director of Finance

Hon Deputy Minister for Health, Dr Victor Asare Bampoe and the Deputy Minister for Finance, Hon Cassiel Ato Forson were also present to assist the Committee.

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 2014 RECEIPTS AND PAYMENTS

Receipts

For the year 2014, a total amount of GH¢ 1,336.03 million was approved. This amount was made up of the following:

- GH¢926.61 million expected to come from the SSNIT/ NHIL

- GH¢109.79 million expected to come from other receipts
- GH¢299.63 million expected as additional inflows to be financed by the Ministry of Finance (Funding Gap).

A total amount of GH¢1,063.20 million was received from MOFEP for the year ended 31st December, 2014. Other receipts amounted to GH¢41.08 million giving a total receipts of **GH¢1,104.28 million** for the year. Of this amount, GH¢332.20 related to the 2013 arrears

Payments

On accrual basis, the total expenditure for the year 2014 amounted to GH¢1,312.26 million as against an annual budget of GH¢ 1,336.03 million.

Net Cash Position

The Net cash position of the Authority as at the end of the year 31st December, 2014 was GH¢104.32 million.

7.0 COMPARATIVE ANALYSIS OF COLLECTIONS AND RECEIPTS

The Authority budgeted **GH¢926.61 million** as NHIL/ SSNIT collections for 2014. However, the Ministry paid a total amount of **GH¢1,063.20 million**. Of this amount, GH¢332.20 relates to 2013 outstanding from Ministry of Finance whilst GH¢731 million was payment for 2014.

The Authority also received an additional amount of GH¢138.20 million as at 16th March, 2015 for 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, 2014, the principal value of the Fund was GH¢159.92 million but this balance decreased to GH¢104.32 million at the end of 2014.

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 practices require 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 a serious threat to the sustainability of the National Health Insurance Scheme.

9.0 GENERAL PROJECTIONS UNDERLYING THE 2015 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¢2,172.51 million** in 2015 from NHIL/SSNIT and other sources to be able to execute its mandate in 2015. The composition is as follows:

9.2 Levies from NHIL and SSNIT

On the basis of MOFEP Budget Statement for 2015, the National Health Insurance Fund is expected to realize an amount of **GH¢1,185.67million** from NHIL and SSNIT contributions in the year 2015.

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¢12.00** per member for an active membership of **3,638,742** for the informal sector in 2015.

9.4 Interest Income from Investment

The Authority expects to earn total interest income of **GH¢15.95 million** from its investment portfolio.

9.5 Processing Fees & Other Income

The Authority expects to earn a total amount of **GH¢39.88 million** on processing fees, provider credential fees, motor insurance fees, and sale of tender documents.

9.6 Funding Gap

The funding gap is **GH¢887.35 million**. This is expected to be financed by government from its contingency vote.

Sources	Amount GH¢ million	%
NHIL	1,003.09	46.1
SSNIT	182.58	8.4
Premium (Informal)	43.99	2.0
Income on Investment	15.95	0.7
Processing Fees & Other Income	39.88	1.8
Revenue expected from GoG (Financing gap)	887.35	40.8
Total	2,172.51	100

9.7 Registration coverage

The population of Ghana in 2013 is estimated at 26.69 million; and the projection for 2015 is 27.22 million. Current registration figures indicate that active membership was 10.25 million and that constituted 38.4% 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 40.1% of the population or 10.93 million would constitute the active membership of the NHIS in 2015. This is about 6.6% increase over the active membership base in 2014.

The allocation of the Fund is therefore based on the assumption that 10.93 million of the population in Ghana will access benefits under the scheme in 2015.

9.8 Average premium per head

Average premium rates per member (informal sector) in 2014 was GH¢10.73. In 2015, 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¢12.00.

9.9 Average claim bill per active member

The average claim bill per active member in 2013 was GH¢80.03. In 2014 the cost rose to GH¢95.02 per active member. For 2015, the Authority projects a medical inflation of 16.3% and this is expected to increase medical cost and tariffs to 25% in 2015.

The Authority also plans to pursue vigorous cost efficiency reforms in 2014 and this is expected to yield cost savings of 5% in claims for 2015.

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).

The Authority requires an amount of **GH¢87.45million** to meet the above requirement

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
1	Claim Arrears	456.40
2	Subsidy - Claims	1,232.78
3	Loan Repayment	57.70
4	NHIA Operational Expenses	133.35
5	Support to District Offices	40.55
6	Support for MOH	45.00
7	Support for District Health Projects and MP's M&E	19.88
8	Construction of Head Office Annex & District Office	29.25
9	Provider Payment- Capitation Rollout	5.50
10	Claims Processing Centres	10.00
11	Call Centre	3.20
12	Support for Health Related Research	1.00
13	Nationwide ICT System	43.45
14	Instant ID Card & Authentication system	68.00
15	Sensitization, Publicity and Marketing	5.00
16	Archival System	10.00
17	Contingency	11.45
18	Total	2,172.51

11.0 OBSERVATIONS AND RECOMMENDATIONS

11.1 Budget of the Authority

The Committee observed that a total amount of GH¢1,185 million was approved for the Authority per the Appropriations Act, 2015. However total claims budgeted for 2015 amounted to GH¢1, 232.78 million, a variance of GH¢47.78 million.

The Committee further noted that for the year 2015, the Authority budgeted an amount of GH¢2,172.51 million for their operations and service delivery. However only an amount of GH¢1,185 million was approved for the activities of the Authority.

The Chief Executive of the Authority intimated to the Committee that the Authority would not be able to fully pay for claims for the year 2015 even if the total amount of NHIL/ SSNIT releases are paid in full and on time. He therefore called on the House to urge the Ministry of Finance to make shortfall available to the Authority to enable it meet its obligations

The Deputy Minister for Finance informed the Committee that the Ministry of Finance is committed to ensuring timely releases of funds for statutory payments. He also assured the Committee that the Ministry is in touch with the Ministry of Health and the Authority to source additional funding for health delivery in Ghana.

The Deputy Minister further informed the Committee that in order to raise additional sources of funding to support the NHIS, Cabinet has approved an amendment to put a charge/levy on some activities of financial institutions in the country. This, he said this would go a long way to finance the occurring gaps in the finances of the Authority and clear the arrears.

The Committee therefore urged the Ministry of Health and the Ministry of Finance to facilitate the Amendment Bill to the House for approval.

11.2 Payment of Arrears

The House was informed that a total amount of GH¢456 million stood as arrears in respect of claims of providers.

The Chief Executive Officer of the NHIA informed the Committee that it was these arrears that have led to the recent uproar by providers not to recognise the NHIS cards at their facilities/ premises. Attached as **Appendix 1** is the Claims payment trend

The Committee inquired from the Ministry of Finance steps it was taking to ensure that adequate funds are released to the Authority to pay its outstanding debts.

The Deputy Finance Minister informed the Committee that the Ministry acknowledges the arrears and it is taking the needed steps to ensure that it meets its obligations towards the NHIS. He informed the Committee that the 1st tranche had already been

forwarded to Bank of Ghana for payment. He was of the view that if the amendment bill is passed, it would also go a long way to support the Scheme.

The Committee recommended to the Ministry of Finance to support the NHIA to clear the arrears.

11.3 Revised Budget

The Committee observed that following negotiations with the IMF, the Finance Minister informed the House in a statement that figures as contained in the approved budget would be reviewed. Subsequently the amount of GH¢1, 185 million is likely to be reviewed.

In furtherance of this the Committee recommended that the House should only approve the formula as required by law and direct the NHIA to re-engage Parliament when the final reviewed figures are released.

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 2015. Find the Formula attached as Appendix 1.

13.0 CONCLUSION

After careful consideration, the Committee recommended to the House to approve the Proposed Formula for the disbursement of the National Health Insurance Fund for the year 2014 be approved.

Respectfully submitted



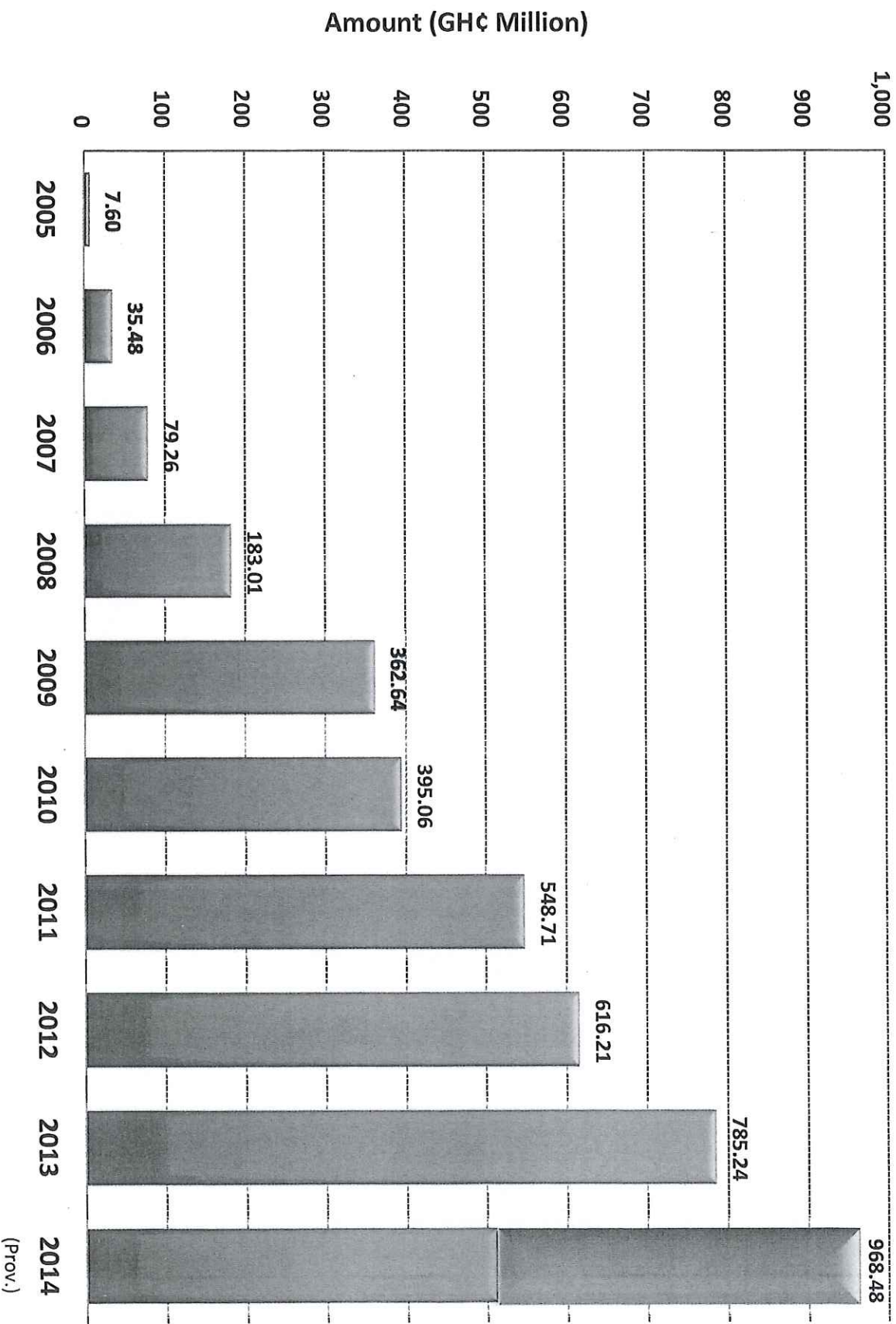
HON. EBO BARTON-ODRO
CHAIRMAN, COMMITTEE ON THE WHOLE



ASANTE AMOAKO ATTA
CLERK TO THE COMMITTEE
26th March 2015

APPENDIX 1

Claims Payment Trend (GH¢ Million)



Data Source: Unaudited Financial Statement

Appendix 2

6.0 Allocation Formula

Section 42 (1) of Act 852 stipulates that the Authority shall allocate and disburse moneys from the Fund in order to achieve the object of the Fund. The Authority shall in the preparation of the formula and disbursement of moneys from the Fund ensure the sustainability of the Scheme.

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.

APPENDIX 2 (cont)

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

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

$$S^{inc} = c \cdot N^{exempt} + \text{Zero} \dots\dots\dots(5)$$

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.

Appendix 2 Cont

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

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