

**International Comparison of South African Private Hospital Price Levels:<sup>1</sup>  
10 Frequently Asked Questions**

**1. Why are the prices in private hospitals a public policy concern?**

Broad consensus exists on the need for government intervention to address market failures in health. Health is a public good – i.e., the health of one individual affects others and the economy as a whole. In some countries, hospital and physician services are concentrated and thus governments intervene to ensure competition. Therefore, governments play an important role to ensure that health spending (whether public or private) is spent wisely to obtain the highest possible level of health across the population as a whole.

**2. Why does the study compare South Africa with countries in the Organization for Economic Cooperation and Development (OECD) – rather than other African countries or BRICS countries?**

The WHO commissioned OECD to carry out this study because OECD has developed a robust and validated methodology for cross-country health services price comparisons over the last 7 years. OECD's methodology was identified as the best methodology available globally. Therefore, the study utilizes existing robust internationally validated methods, which allowed for a comparison with OECD countries that have applied the same methods. The WHO is currently investigating the possibility to expand this work to BRICS countries.

**3. How is the South African health system unique in comparison to OECD countries?**

In South Africa, the private voluntary health insurance (VHI) covers only 17% of the population, but it represents 41.8% of total health expenditures (THE) – or approximately 3.7% of GDP. This is more than any other OECD country and represents >6 times the OECD average (6.3%). The second highest is the U.S. -- spending 34.9% of THE on private VHI that serves 61% of the population. Furthermore, private VHI in OECD countries principally provides supplementary coverage excluded from the benefits package – such as cosmetic surgery or private hospitals rooms. In contrast, South Africa's medical schemes mostly cover duplicative services that finance an alternative to seeking care in the public sector, by reimbursing private hospitals and specialists.

Therefore, policies and prices in the private health care sector are very important in terms of their *spillover* effect to the overall health system. For example, the wages in the private sector have an impact on the ability of the public sector to attract health workers. Therefore, prices set in the private sector impact whether the public sector can afford to contract services or attract health care practitioners.

**4. How is price setting in South Africa different to OECD countries?**

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<sup>1</sup> International Comparison of South African Private Hospitals Price Levels; OECD Working Paper No. 85. DELSA/HEA/WD/HWP(2015)99. Available at <http://www.oecd.org/health/workingpapers>

In most OECD countries, the public sector tends to have some form of price setting for specialist medical services and hospital services. This is typically a technical exercise based on estimations of actual costs. Prices are used by public purchasers (i.e., National Health Systems or social insurance funds) to pay for hospital services (either from public or private hospitals), and provide benchmarks for private insurers and hospitals. This process thus allows the government to draw on private sector facilities to expand access to health services. South Africa lacks such price setting processes in the public sector.<sup>2</sup>

**5. The study used prices from the public and private sectors in OECD countries, but only the private sector in the South African sample. Does this make a difference to the results?**

Most OECD countries have established pricing mechanisms, whereby the public sector payer (i.e., government) defines the prices based on actual costs and service provision attributes. This price is then used to contract either public or private health care providers, and serves broadly as a benchmark. Thus we would not expect to see large price differences among public and private sectors in most OECD countries.

**6. The study uses the national Gross Domestic Product (GDP) per capita level for comparison with other countries. For the private sector in South Africa, why not use the GDP for medical scheme members?**

GDP per capita is consistently used in most international comparisons, and reflects the level of development of a country. It also reflects broadly the population's ability to pay for goods and services. It would not be a valid analysis of affordability to use only the incomes of people who can already afford private health care in South Africa. Affordability and prices are relevant for all South Africans.

**7. The reports state that private hospital prices are high and have increased over time. Are the prices related to the reliance on imported medical products or the fluctuations in the exchange rate?**

Pharmaceuticals and medical devices are important components of hospital prices – in addition to operational costs, human resources (i.e., nurses, support and administrative staff), specialist fees, and hospital capital and profits. Therefore, the prices of imported medical commodities could explain part of the price but not all of it. A future study will examine the pharmaceuticals.

Exchange rate changes are reflected in the CPI as well as in the hospital prices. In addition, the data for 2011–13 demonstrate consistent results and the magnitude in the price difference is the same. Therefore, this study finds that the exchange rate did not play a significant role in the price increases.

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<sup>2</sup> Pricing and Competition in Specialist Medical Services: A report for South Africa (OECD 2014) <http://www.oecd.org/els/health-systems/pricing-and-competition-in-specialist-medical-services.htm> and Tapering payments in hospitals (OECD 2015) [http://www.oecd-ilibrary.org/social-issues-migration-health/tapering-payments-in-hospitals\\_5js4h5rlkxxr-en](http://www.oecd-ilibrary.org/social-issues-migration-health/tapering-payments-in-hospitals_5js4h5rlkxxr-en)

**8. Could the prices be related to medical scheme membership, or longer length of stay (LOS) in South African private hospitals?**

The composition and changes in medical scheme membership do not appear to have had a major impact on utilization or use of medical procedures over the period of the study. The medical schemes reported an increase in older members in 2011-13, which can influence admissions for some hospital services. However, overall admission rates per population were stable over the time period studied. In addition, this does not explain the price levels.

The study finds that the average length of stay is much shorter in South Africa compared with OECD countries. In fact, when we consider the relatively short length of stay, and the relatively high prices, the price per day is up to three times higher than in OECD countries. The study did not measure quality of patient care and, therefore, we cannot interpret the impact of significantly lower length of stay on patient outcomes.

**9. The study uses general Consumer Price Index (CPI) when Stats SA has calculated a hospital CPI. Why are you not using the hospital CPI?**

The study analyzes hospital prices relative to the prices of other goods and services in the country. The consumer price index (CPI) is the international standard measure that reflects the changes in prices for a common basket of goods and services for all segments of the population. CPI is thus a reference to country-specific price inflation for households.

A comparison between price increases in private hospitals in South Africa with the South African CPI thus allows us to understand whether the changes in hospital prices are similar to the changes in prices for general goods and services in South Africa. We find the rate of increase for private hospital prices is higher than the general CPI. This implies that hospital prices are increasing at a higher rate in comparison with the prices of general goods and services in South Africa. Stats SA publishes price changes over time including price increases in hospital services. These changes are reflected in the value of the CPI reflecting their share in the consumption of the South African population.

**10. How does this work contribute to the work of the Competition Commission inquiry into the private health care sector?**

The study contributes as an independent analysis of private hospital prices in South Africa. Its main finding is that private hospital prices in South Africa are high in comparison with its overall level of economic development and general price levels. This analysis presents a step towards investigating what drives health service prices in South Africa.

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