

## **International Comparison of South African Private Hospital Price Levels:<sup>1</sup> A Summary**

### **1. What was the aim of the study?**

This study explored the prices of private hospital services in South Africa. South Africa spends 8.9% of its GDP on health – a comparable level to the average in OECD countries. What is unusual is that approximately 41.8% of these funds (3.7% of GDP) are dedicated to private voluntary health insurance (VHI) that covers only 17% of the population. Therefore, what happens in the private sector has an impact on the health system as a whole. Under South Africa’s National Health Insurance (NHI) agenda, reforms are being implemented to achieve universal health coverage. This comparison of prices and affordability thus aims to inform the discussions about options to increase access to health services under the NHI. Specifically, the study compared utilization and prices for private hospital services in South Africa with OECD countries. The study first examined the correlations between a country’s wealth and hospital prices. It then evaluated the drivers of hospital prices, including admissions, length of stay, and the components of the price, i.e., specialists and hospitals.

### **2. What methods were used to allow for robust cross-country comparison?**

The methods have been applied and validated in OECD countries. Comparator hospital data were collected from 20 OECD countries as part of the OECD-Eurostat regular data collection on Purchasing Power Parities (PPPs).<sup>2</sup> PPPs convert different currencies to a common currency and uniform price level and, in the process of conversion, equalize purchasing power thus reflecting only the differences in the volume of goods and services consumed across countries. The study selected a sample of 28 medical and surgical services or ‘case types’ for the analysis. The price of each service includes hospital costs, specialist fees, pathology, and radiology. It represents the total price paid by medical schemes or public payers.<sup>3</sup>

Several large medical schemes in South Africa provided hospital data from 625,940 cases for three years (2011-13). The data represent nearly 60% of medical scheme members. To ensure comparability between South Africa and OECD countries, OECD experts worked closely with consultants from Insight South Africa and experts from several medical schemes including the Government Employees Medical Scheme (GEMS), Medscheme Holdings (Pty) Ltd, Bonitas Medical Fund and others. These organizations generously gave their time and expertise to this study, and openly and transparently shared their data. The study could not have been conducted without their assistance.

### **3. What were the main findings?**

***Prices in private hospitals in South Africa are expensive relative to the country’s income and general price levels for goods and services.*** The study showed that higher levels of economic development of a country

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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>

<sup>2</sup> Austria, Czech Republic, Estonia, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovenia, Spain, Sweden, Switzerland and United Kingdom

<sup>3</sup> South Africans using private health care services without private VHI may face different prices, which could be higher.

(measured by GDP per capita) correspond with higher price levels for hospital services. However, South Africa is an exception to this trend. Price levels for private hospital services in South Africa are comparable to the average observed across OECD countries with considerably higher wealth. Private hospital prices in South Africa are on par with prices in countries such as the United Kingdom, Germany, and France. At the same time, prices for other goods and services in South Africa are nearly half (53%) of those observed in OECD countries. Therefore, private hospital services in South Africa are expensive relative to what could reasonably be predicted given the country's income. In addition, South Africa has the largest difference between hospital price levels and general price levels across countries in our study – and can be thus ranked as the least affordable in comparison with OECD countries studied.

***South African private hospital services are increasing at a rate higher than prices of general goods and services.*** For the selected hospital services studied between 2011 and 2013 in South Africa, prices increased above the rate of inflation. Whereas general prices in South Africa increased by 5.6 – 5.7% between 2011 and 2013, prices of private hospital services increased on average by 6.5% per year. This implies that private hospital services are becoming more expensive compared with other goods and services in South Africa.

***The main components of the private hospital prices in South Africa are hospital costs and specialist fees.*** In this study, hospital costs accounted for approximately half of the price for both surgical and medical cases studied. Specialist fees are the second highest cost driver among surgical cases, accounting to up to 33% of the price. In addition, increases over time can be seen in the share of the price dedicated to specialists. Prices for specific surgical cases were substantially higher than OECD averages, suggesting the importance of specialists and surgical services in contributing to higher prices.

***Admissions in South African private hospitals are relatively high but average length of stay was lower compared with OECD averages.*** In comparison with OECD averages, relatively high admissions rates were observed in the South African sample for some services – in particular high volume surgical inpatient cases, such as hip and knee replacements. Lower average lengths of stay were reported for all conditions observed in South African private hospitals in comparison with OECD averages. Taking into consideration the low average length of stay, the price per day in the South African sample is twice the OECD average for seven conditions: discectomy, acute myocardial infarction, coronary angioplasty, coronary artery bypass graph, excision of the knee, knee replacement and hip replacement.

#### **4. What are the policy implications?**

South Africa's private hospital prices are expensive relative to what could reasonably be predicted given the country's income and relative to general goods and services. Given the magnitude of private spending, these findings have implications beyond the personal budgets of the population that can afford them, as the private sector sets benchmarks for how much the public sector has to pay to attract medical specialists to work in the public sector. This study suggests that efforts to control prices while ensuring accessibility and quality are needed, which could help individual South Africans and the country at large get more from their considerable spending on health care.

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