Although Australian Indigenous populations residing in non-remote areas have twice the prevalence of chronic conditions such as diabetes, heart disease, and asthma, their spending on prescription drugs is half that as for non-indigenous Australians. Reducing out-of-pocket costs for medications may promote their appropriate use, improve medication adherence, and potentially prevent complications arising from chronic disease. The 2010 Closing the Health Gap PBS Copayment Measure reduced copayments to approximately $5.40 per month (the concessional copayment) for eligible indigenous patients. Indigenous patients who already qualify for the concessional copayment level of $5.40 had copayments waived entirely. Using health utilization data from 16 areas in Australia, we find substantial reductions in hospitalizations for ambulatory care-sensitive conditions during the first two years following the Closing the Gap measure. These reductions were concentrated in regions with the greatest uptake of the PBS copayment incentive. The results are significant given the profound disparities in mortality and morbidity that impact Aboriginal and Torres Strait Islander populations with chronic illness and the need to identify effective policy interventions, both in Australia and in other countries, that can reduce racial and ethnic health disparities.

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