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Rising public health expenditures have required policy makers to consider reforms that will improve the efficiency of New Zealand's healthcare system while ensuring medical needs are met. Increasing co-payments for costly medications creates the opportunity to improve patient access to clinically effective medicines. Additionally, expenditures would be reduced as patients opt for preventative treatments over costly hospitalisations. Co-payment reform would also address socioeconomic and ethnic inequalities in the healthcare system by ensuring that subsidies are provided for those who need them the most.

Nonetheless, if not structured correctly, increased patient payments may exacerbate ethnic healthcare inequalities in the status quo. Furthermore, policies ought to continue subsidising preventative care in order to reduce long-run healthcare expenditures. A well-designed co-payment reform plan has the opportunity to improve living standards by promoting healthcare equality and managing human capital risks.

Increasing co-payments for more costly medications would allow patients better access to clinically effective medicines. PHARMAC (The New Zealand Pharmaceutical Management Agency) manages public funding of medicines and determines which products are subsidised in the status quo. Funding limitations have required PHARMAC to seriously consider the budgetary consequences of changes to pharmaceutical subsidisation policies. Funding is largely decided through cost utility analysis that the cost effectiveness of medication as a treatment option.<sup>1</sup>

PHARMAC's decision not to fund certain products has often led to controversy in the past. Restrictions in the early 1990s limited the availability of statin drugs, which were only provided for high-risk individuals who were nominated by medical specialists. Nonetheless,

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<sup>1</sup> New Zealand Pharmaceutical Management Agency—PHARMAC (2013). Making Funding Decisions. Retrieved from [http://www.pharmac.health.nz/ckeditor\\_assets/attachments/377/infosheet-04-funding-decisions-2013.pdf](http://www.pharmac.health.nz/ckeditor_assets/attachments/377/infosheet-04-funding-decisions-2013.pdf)

research at this time demonstrated a direct correlation between falls in LDL cholesterol and reduced risk of heart disease. The United States and other countries responded to this scientific advancement by expanding access to statins for lower-risk groups. However, statin access for medium and lower risk patients remained limited in New Zealand until 1999. Budgetary concerns led PHARMAC to recommend alternative treatment options aside from statins.<sup>2</sup>

Medical professionals argue that PHARMAC's rationing policies have limited the availability of effective medications within New Zealand. A 2008 report indicated that "New Zealand has 84 fewer innovative medicines funded than Australia."<sup>3</sup> Limited availability of blood pressure and lipid level medication can be costly in the long run as patients seek more expensive treatment for largely preventable cardiovascular conditions. Cardiovascular disorders accounted for the largest percent of "avoidable hospitalisations" within a Canterbury Hospital study.<sup>4</sup>

Increasing co-payments for medications that benefit patients but are restricted in the status quo would improve the quality and efficiency of the healthcare system. Funding limitations have driven PHARMAC to fund some medications for high risk individuals only. However, expanded usage of pharmaceuticals such as statins may benefit lower risk patients and strengthen the healthcare system by preventing unnecessary costs in the long run. Co-payments could be applied to drugs such as statins that are widely beneficial but expensive to provide.

Furthermore, co-payment schemes can be designed to reduce unnecessary treatments through an emphasis on preventative care. Raising the co-payment for hospitalisation while

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<sup>2</sup> Ellis, C. & White, H. (2006). PHARMAC and the statin debacle. *The New Zealand Medical Journal (Online)*, 119 (1236), U2029. Retrieved from

<http://journal.nzma.org.nz/journal/119-1236/2033/>

<sup>3</sup> New Zealand Pharmaceutical Industry Taskforce (2007). "Submission on the Towards a New Zealand Medicines Strategy Consultation Document." Retrieved from [www.rmianz.co.nz/downloads/NZPITsub.pdf](http://www.rmianz.co.nz/downloads/NZPITsub.pdf).

<sup>4</sup> Sheerin, I., Allen, G., Henare, M., & Craig, K. (2006). Avoidable hospitalisations: Potential for primary and public health initiatives in Canterbury, New Zealand. *The New Zealand Medical Journal (Online)*, 119(1236), U2029. Retrieved from <http://ezproxy.auckland.ac.nz/login?url=http://search.proquest.com/docview/1034227552?accountid=8424>

subsidising early detection and other preventative measures will reduce long run expenses. Individuals will be likely to consult their general practitioner and take early measures to resolve potential health issues. Reducing hospital visits by increasing patient co-pays in this area may be an effective way to reduce healthcare expenditures, as hospitalisation is vastly more expensive than preventive care measures. The total estimated cost of avoidable hospitalisations in 2003 was over NZ\$96 million. At the Christchurch Hospital, “avoidable admissions” comprised 31% of all hospitalisations.<sup>5</sup> Measures that increase co-payment ought to exempt early detection and intervention expenses, as these are likely to prevent more costly hospitalisations in the long run.

Requiring a patient payment will further boost the efficiency of the healthcare system. Individuals are less likely to seek medical care they deem as unnecessary or low-value when a larger patient payment is required. The New Zealand Treasury estimates that increasing pharmaceutical co-payments has the opportunity to save between NZ\$100-\$200 million annually. An emphasis on preventative care and reduction of unnecessary treatment will ensure that public healthcare expenditures remain at a sustainable level.<sup>6</sup>

Finally, co-payment reform has the potential to improve upon ethnic and socioeconomic healthcare inequalities. The current healthcare payment policy is designed to promote equitable healthcare by providing extra funding for deprived populations. Policies that increase co-payments must ensure that low decile populations are still able to afford quality healthcare after reforms are implemented. In 2007, a “single capitation formula” was implemented for primary care services. The government aimed to bolster services for poorer populations by replacing consultation subsidy payments with “two interim capitation funding formulas” for organisations with low-income populations. The special formula was approved for organisations with

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<sup>5</sup> Sheerin, I., Allen, G., Henare, M., & Craig, K. (2006).

<sup>6</sup> New Zealand Treasury. Budget 2012 Information Release. June 2012. Retrieved from <http://www.treasury.govt.nz/publications/informationreleases/budget/2012/pdfs/b12-2220502.pdf>

significant populations of Maori, Pacific Islander or low income groups. The scheme additionally aimed to fully subsidise care for patients between 6 to 25 years and over 45.<sup>7</sup>

Although funding for low-income healthcare has increased, a disproportionate amount of current expenditures are spent on high decile areas. Since the late 1990s, healthcare funding has increased more for higher income deciles than the more needy lower income categories.

Increased expenditures on broad initiatives—such as the community-based Primary Healthcare Strategy—have been largely responsible for the discrepancy between deciles. As a result, combined spending on decile 1-5 areas dropped to 54% in 2010.<sup>8</sup> Under a co-payment reform plan, subsidies could be targeted towards low-income groups to ensure equitable treatment.

Increased patient payments could be designated for higher income individuals with the means to afford a modest increase in their current co-pay.

Although implementing new co-payments may reduce healthcare inequality—if not structured properly—reforms also have the potential to adversely impact deprived populations. Healthcare among minorities is likely to suffer if co-payments for prescription medications are universally increased. Statistics New Zealand's 2009 Survey of Family Income and Employment indicated that 3 percent of New Zealanders delayed picking up a prescription because of cost. Other national studies have indicated that as many as 19 percent of the population did not fill a prescription because of funding difficulties.<sup>9</sup>

In particular, minority populations are more likely to have difficulty paying for prescription medications. One study indicated that eight percent of Maoris and 10 percent of

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<sup>7</sup> Gauld, R. and Mays, N. (2006), Reforming primary care: are New Zealand's new primary health organisations fit for purpose?, *British Medical Journal*, Vol. 333 (12).1216-1218.

<sup>8</sup> Aziz, O., Gibbons, M., Ball, C. & Gorman, E (2012). The Effect on Household Income of Government Taxation and Expenditure in 1988, 1998, 2007 and 2010. *Policy Quarterly* (A publication of the Victoria University of Wellington Institute for Governance and Policy Studies), 8(1). Retrieved from <http://ips.ac.nz/publications/files/2d6039de603.pdf>.

<sup>9</sup> Willmot, E. and Lawton, B., Rose S. & Brown, S (2009). Exploring knowledge of prescription charges: a cross-sectional survey of pharmacists and the community. *The New Zealand Medical Journal Online*. 122(1301). Aug 21, 2009. 19-24.

Pacific Islanders populations did not fill a prescribed medication due to its cost. The long-term effects of unfulfilled healthcare needs will further strain New Zealand's healthcare budget. Affordability barriers to drugs have led to increased hospitalisations and increased healthcare costs in the United States. Any increase in co-payments ought to be accompanied with concessionary charges for individuals in order to reduce ethnic health discrepancies.<sup>10</sup>

Finally, policymakers ought to avoid increasing the cost of preventative measure co-payments, as untreated conditions are more costly for long-term public health and human capital. Insured individuals who have affordable access to testing and diagnostic care are more likely to be diagnosed for conditions early when more affordable treatment options are available. In the United States, fully insured individuals are four times more likely to have their blood pressure regularly monitored than those who are uninsured. Additionally, women with full coverage are 17 times more likely to receive mammograms than the uninsured. Early diagnosis plays a key role in ensuring successful treatment in addition to reducing costs.<sup>11</sup>

Through the co-payment system, an incentive structure ought to be developed that encourages preventative care by making it affordable and easily accessible. Exempting preventative care from increased co-payments will help accomplish the dual goals of improving health and while exercising prudent control of limited resources.<sup>12</sup>

If implemented correctly, increasing co-payments creates an opportunity to increase equity within healthcare while managing future human capital risks. The Treasury endeavours to create Higher Living Standards in New Zealand by promoting equity, which “builds the

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<sup>10</sup> Jatrana, S., Crampton, P., Richardson, K., & Norris, P. (2012). Increasing prescription part charges will increase health inequalities in New Zealand. *The New Zealand Medical Journal (Online)*, 125(1355) Retrieved from <http://ezproxy.auckland.ac.nz/login?url=http://search.proquest.com/docview/1034435885?accountid=8424>

<sup>11</sup> Bernstein, J., Chollet, D., and Peterson, G. (2010). Encouraging Appropriate Use of Preventative Health Services, Issue 2. *Mathematica Policy Research Issue Brief*. Retrieved from [http://www.mathematica-mpr.com/publications/PDFs/Health/Reformhealthcare\\_IB2.pdf](http://www.mathematica-mpr.com/publications/PDFs/Health/Reformhealthcare_IB2.pdf)

<sup>12</sup> Machiosek, M., Coffield, A., Flottemesch, T., Edwards, N., & Solberg, L. Greater Use of Preventative Services in US Health Care Could Save Lives at Little or No Cost. *Health Affairs* 32(8). Retrieved from <http://content.healthaffairs.org/content/29/9/1656.full>

capabilities and opportunities of individuals to participate in society in a way that they value”.<sup>13</sup>

By improving socioeconomic and racial healthcare inequalities, co-payment reform has the potential to improve the quality of life for New Zealanders. Providing equal and exceptional healthcare ensures that individuals are fully equipped to contribute in a meaningful way to our country’s society. Designing a healthcare system that emphasises preventative care mitigates the risk of a human capital shortage by fostering a society of healthy and productive individuals.

To protect the long-term sustainability of New Zealand’s healthcare system, it is essential for policymakers to take action. Enacting co-payment reforms will improve the efficiency of the current system while ensuring that medical needs are fulfilled. Increasing co-payments in certain areas will improve patient access to clinically effective medicines, reduce costs through preventative treatment emphasis and reduce socioeconomic inequities in the current system. Nonetheless, a prudent approach is essential to ensure that the policy achieves its goals by directing subsidies towards needy populations and supporting early detection measures. Implementing new co-payments will improve existing living standards by promoting equality and managing human capital risks.

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<sup>13</sup> New Zealand Treasury (2013). Living Standards: A Short Guide to ‘Increasing Equity’. January 13, 2013. Retrieved from <http://www.treasury.govt.nz/abouttreasury/higherlivingstandards/hls-ag-equity-jan13.pdf>

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