

## BEYOND MEDICAL CARE FACT SHEET

# Pay-for-success financing



## What is pay-for-success financing?

Pay-for-success (PFS) projects, also referred to as social impact bonds (SIBs), involve a performance-based contract between a service provider (usually a private nonprofit organization implementing an evidence-based intervention) and a payer (usually a government agency). The agency agrees to pay the service provider if specific outcomes are met at the end of a set time period, typically 3-7 years.

In order to fund implementation of the intervention up front, the service provider raises money from philanthropy, banks or other private investors. These investors assume the risk; they receive a "success payment" if the intervention is successful, but absorb the losses if the outcomes are not achieved. The government agency benefits because it only has to pay the service provider if outcomes are met. This gives government agencies the opportunity to make investments in prevention without taking on the risk of paying for an intervention that does not work.

A third-party evaluator assesses outcomes, typically using a comparison group and rigorous evaluation methods. A fourth-party intermediary organization facilitates the contract, negotiates the financing terms and oversees the intervention.

The pay-for-success financing vehicle is best suited to program areas with clearly-defined outcomes, available administrative data and existing evidence-based interventions.<sup>1</sup> Although initially developed in the areas of corrections, workforce training and early childhood education, SIBs can be well-suited to health-related interventions that can demonstrate cost savings within a medium-term time frame for a specific population. Efforts to reduce asthma exacerbation or preterm birth, and supportive housing

for people recovering from addiction are examples of program areas that may be a good fit for this approach. SIBs are typically more appropriate for secondary prevention (such as preventing the progress of pre-diabetes to diabetes) than for primary prevention (such as promoting active living and healthy eating among the general population).

SIBs differ from shared savings or pay-for-performance models, such as ACOs or Medicaid managed care performance-based contracts, in that SIBs are a financial vehicle with an outside investor. An ACO or a Medicaid managed care plan could participate in a SIB as a payer.



## What's the landscape in Ohio?

In 2014, Cuyahoga County launched the nation's first county-level pay-for-success project, Cuyahoga Partnering for Family Success. The goal is to reduce length of stay in out-of-home foster care placements for children whose families are homeless. The intervention involves housing and behavioral health services for 135 homeless parents. The service provider is FrontLine Service, a private nonprofit organization. The payer is the County of Cuyahoga. The investors include several private foundations and the Reinvestment Fund, a Community Development Financial Institution (CDFI). The independent evaluator is the Center on Urban Poverty and Community Development at Case Western Reserve University.<sup>2</sup>

In 2013, the State of Ohio was selected to participate in a Harvard Kennedy School SIB Lab initiative and received technical assistance regarding several potential SIB projects. Although Ohio decided not to launch a SIB at that time, leaders within several state agencies are now familiar with SIBs and view them as part of the "toolbox" for achieving positive outcomes.



## Examples from other states

Contracts for several health-related pay-for-success projects are currently being negotiated in other states, including efforts to: reduce asthma-related ED visits in Fresno, California; improve birth outcomes in South Carolina; and prevent progression of pre-diabetes to diabetes in New York State. The California and South Carolina projects both involve Medicaid as a potential payer.<sup>3</sup> SIBs in Chicago<sup>4</sup> and Salt Lake County, Utah<sup>5</sup> are investing in early childhood education, and a Massachusetts SIB aims to decrease incarceration and increase job readiness and employment among young men.<sup>6</sup>



## What are the potential policy mechanisms?

Before a government agency can engage in a SIB, some barriers related to appropriations and procurement may need to be overcome through legislation or rule changes. In Massachusetts, for example, legislation was enacted that gives the Secretary of Administration and Finance the authority to enter into multi-year pay-for-success contracts backed by the “full faith and credit” of the state. Cuyahoga County passed an ordinance in 2014 that established a Social Impact Financing Fund and authorized the county executive to negotiate the multi-year pay-for-success contract.<sup>7</sup>

In order for additional pay-for-success projects to take root in Ohio, state agencies, local governments, Medicaid managed care plans or other entities that could serve as payers need to identify specific outcomes and interventions that would be a good fit for the SIB model. Investors, a service provider and an evaluator then need to be secured. Because the contract and financing negotiations can be complex, finding an intermediary organization or “transaction coordinator” with pay-for-success experience is important. Third Sector Capital Partners, Inc. serves this role in the Cuyahoga County project.



## Pay-for-success financing recommendations

Public and private partners can:

1. Build collective knowledge about pay-for-success financing in Ohio.
2. Identify and cultivate champions within state and local government who can follow through on pay-for-success project ideas.
3. Build capacity to enter into pay-for-success contracts by sharing lessons learned from the Cuyahoga County project and health-related pay-for-success projects in other states, and by engaging intermediary organizations to provide guidance.

State health agencies, Medicaid managed care plans, ACOs and local governments can:

4. Identify projects that would be a good fit for the pay-for-success financing model.

State and local-level policymakers can:

5. Consider ways to reduce barriers to pay-for-success contracts, such as siloed budgets and data systems, and inflexible procurement rules and budgeting requirements.<sup>8</sup>

## Recommended resources

- **Social Impact Bonds: A guide for state and local governments**, Harvard Kennedy School Social Impact Bond Technical Assistance Lab, 2013
- **Partnering for Family Success**, Cuyahoga County Pay-for Success project profile, 2015
- **Can pay-for-success reduce asthma emergencies and reset a broken health care system?**, Federal Reserve Bank of San Francisco, 2013
- **Frequently asked questions: Social impact bonds**, Center for American Progress, 2012
- **Using pay-for-success to increase investment in the nonmedical determinants of health**, *Health Affairs* article, 2015
- **Pay for success learning hub**, Nonprofit Finance Fund website

## To learn more

To view the complete publication "Beyond medical care: Emerging policy opportunities to advance prevention and improve health value in Ohio," as well as more fact sheets about the specific policy opportunities discussed in the report, visit:

[www.hpio.net/beyond-medical-care](http://www.hpio.net/beyond-medical-care)



## Sources

1. Center for American Progress. "Frequently asked questions: Social impact bonds". December 2012.
2. Third Sector Capital Partners. "Fact sheet: The Cuyahoga Partnering for Family Success Program." Accessed March 6, 2015. [http://www.thirdsectorcap.org/wp-content/uploads/2014/12/141204\\_Cuyahoga\\_PFS\\_Fact-Sheet.pdf](http://www.thirdsectorcap.org/wp-content/uploads/2014/12/141204_Cuyahoga_PFS_Fact-Sheet.pdf)
3. Galloway, I. "Using pay-for-success to increase investment in the nonmedical determinants of health." *Health Affairs*, November 2014.
4. Goldman Sachs. "Child-Parent Center Pay-for-Success Initiative/ SIB Fact Sheet." Accessed September 1, 2015. <http://www.goldmansachs.com/what-we-do/investing-and-lending/impact-investing/case-studies/chicago-social-impact-bond-multimedia/fact-sheet.pdf>.
5. Goldsmith, S. "Utah applies Social Impact Bonds to Early Childhood Education." *Governing*, 2015.
6. Third Sector Capital Partners. "Massachusetts Juvenile Justice PFS Initiative." Accessed September 1, 2015. <http://www.thirdsectorcap.org/portfolio/massachusetts-juvenile-justice-pfs-initiative/>
7. Social Innovation Research Center. "Pay-for-success in child welfare: A case study." February 2015.
8. Galloway, I. "Using pay-for-success to increase investment in the nonmedical determinants of health." *Health Affairs*, November 2014.



[www.hpio.net](http://www.hpio.net)