Population Health NEWS

Pay-for-Success Financing: A New Vehicle for Improving Population Health?

by Megan Golden

You may have heard about "pay for success financing," also called "social impact bonds," the new kind of financing that is capturing the imagination of government, foundations, socially minded investors and social service programs around the world. Invented in the United Kingdom in 2010, pay- for-success financing (PFS) is designed to bring substantial new financing to programs whose long-term benefits to society—and savings to government—exceed their costs.

What is this new financing mechanism all about? Can it be used to bring new resources to population health improvement programs and shift resources from treatment to prevention? A feasibility study I conducted for the Institute for Child Success (ICS) with offices in both Greenville and Columbia, S.C., helps explain how PFS works and can be applied to population health and improve health outcomes.

What Is Pay-for-Success Financing?

Pay-for-success financing grew in part out of an emerging interest among investors in putting their money in ventures that not only generate a financial return, but also make the world a better place. At the end of 2010, JP Morgan and the Rockefeller Foundation produced a report called "Impact Investments: An Emerging Asset Class."[1] It found that there is a growing number of individuals, foundations, banks and other investors who are interested in creating positive impact beyond financial return; the estimated size of that market is $400 million to $1 trillion over 10 years.

A note on terminology:

This new kind of financing was initially called "social impact bonds," or "SIBs." However, almost none of the financing mechanisms are actually bonds so that terminology can be confusing. In the United States, many people are using the term "pay-for-success financing" that conveys the key feature of this new financing mechanism: payment based on outcomes.

This is how it works:

1. Investors invest money upfront to implement cost-effective programs on a large scale.
2. Government contracts to pay back the investors, with a premium, only if the programs achieve agreed-upon results.
3. There may be an intermediary that manages the project, contracting with the investors, the government and service providers.
4. An impartial evaluator determines whether outcomes are achieved..

This new approach addresses a problem familiar to the population health field: Evidence-based programs that benefit society and save government money don't have the funding to go to scale because resources are tied up remediating the problems they help prevent.

PFS financing can benefit all parties involved. Communities and individuals can take advantage of more effective services and better results; non-profits receive upfront funding to implement programs on a large scale; and the government gets better results that pay for themselves over time. Although investors might only earn modest returns, they have the ability to make a positive impact on society.[2]

New York City was the first jurisdiction in the country to complete a PFS financing transaction (which it called a SIB) in August 2012. Prior to that time, almost 50% of the teenagers released from jail returned within one year. The city wanted more of these young people to succeed and fewer of them to come back. It reviewed research on effective programs and found a cognitive-behavioral program that had reduced recidivism for this population.

The SIB funded implementation of this program on a large scale for about 3,000 young people coming through the city's jail every year. Goldman Sachs invested $9.6 million in the deal through a six-year loan to the non-profit MDRC, a non-profit, non-partisan education and social policy research organization that is serving as the intermediary.

Pay-for-Success Financing continued

The Vera Institute of Justice is the evaluator. Outcomes will be determined by comparing the results of those served to those of a matched comparison group.[3] The outcome metric that determines payment is based on how many days participants in the program spend in jail after they are released.

If recidivism is reduced by less than 8.5%, the city pays nothing. To reduce the risk to investors, Bloomberg Philanthropies provided a $7.2 million loan guarantee so the most an investor can lose is $2.4 million.

So how widespread is this new financing mechanism, and does it really work? Thus far, there have been only nine completed transactions in the world, but many, many more are being developed. In the United States, we went from one completed transaction to four in a year and a half. Many jurisdictions have begun procurement processes for PFS contracts, and the federal government is encouraging all federal agencies to explore and support the field's development.

NYC Payment Terms

Reduction in Reincarceration	City Payment
≥ 20.0%	$11,712,000
≥ 16.0%	$10,944,000
≥ 13.0%	$10,368,000
≥ 12.5%	$10,272,000
≥ 12.0%	$10,176,000
≥ 11.0%	$10,080,000
≥ 10.0%(breakeven)	$9,600,000
≥ 8.5%	$4,800,000

Source: *NYC Office of the Mayor, Bringing Social Impact Bonds to NYC, Media Presentation,* August 2012

Pay for Success and Population Health

Although health lends itself to this type of financing given the cost-saving benefits of many preventive programs, there haven't been any PFS deals focused on outcomes yet. Social Finance Israel is planning a social impact bond to prevent type 2 diabetes.[4]

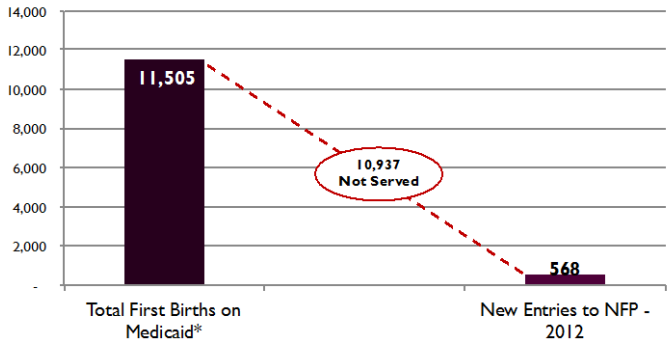
My feasibility study aimed to determine whether PFS financing was a feasible way to scale the Nurse-Family Partnership (NFP), a maternal and early childhood health program based on home visits, and improve outcomes for South Carolina's children.

Pay for Success vs. Pay for Performance

The term "pay for performance" refers to a way of compensating providers in the healthcare field. Pay for success, while related, is different because it focuses on outcomes, not process measures. For example, PFS financing would not compensate on the basis of a percent of patients who get a specific type of screening; instead, it would look at the percent that get the disease for which they are being screened in relationship to an appropriate comparison group.

With South Carolina ranking 45th in the country in overall child well-being,[5] there is plenty of room for improvement. Home visiting programs, in which trained professionals provide services and support to pregnant women and families with young children, primarily during visits to families' homes, has proved to significantly improve the health and development of both mothers and children.

Unmet Need for NFP in SC



* 2011 Data; Michael G. Smith, SC DHEC, Bureau of MCH
** NFP State Nurse Consultant, South Carolina DHEC

(Graph/chart on page): Institute for Child Success, Using Pay for Success Financing to Improve Outcomes for South Carolina's Children: Results of a Feasibility Study (2013).

Although about 11,500 very poor women give birth to their first child in South Carolina every year, NFP was only able to serve 568 new families in 2012.

The Institute analyzed what it cost to bring NFP to scale. If ICS were to expand NFP to serve 2,750 new families, it would cost about $21 million. Based on an analysis of research on NFP's effectiveness and government costs, the government would save about $52 million for a net savings of $31 million. Almost two-thirds of those savings would come from Medicaid.[6]

NFP would phase in the new families over three years. Choosing one or two health outcomes, the state would pay only if there were improvements in the outcomes compared to a control or matched group. Evaluation of success would take up to six years for the whole group.

Pay-for-Success Financing continued

One potential outcome for the program could be preterm births, for which South Carolina ranks 47th in the country. If NFP is scaled up, based on national research and state data, here are the anticipated changes:

Fewer pre-term births mean healthier children who need less medical care, do better in school and lead more productive lives.

The last piece of the puzzle was the financing. Consultation with the two nonprofit organizations devoted to facilitating pay-for-success contracts culminated in at least three viable ways of structuring a deal involving a mix of commercial and philanthropic capital. South Carolina is now actively exploring PFS financing to improve maternal and child health.

Conclusion

Pay-for-success financing is not a panacea; there are still questions to be answered, including: How many public health interventions have a strong and consistent enough research base to stake payment on one or two outcomes?

Expected Preterm Birth Reduction by Site

Assuming NFP reduces preterm births by **27.4%***

Region	Current Rate	Post-NFP Expansion Rate
Greenville	11.2%	8.1%
Richland	11.1%	8.1%
Charleston	10.9%	7.9%
Orangeburg	9.7%	7.0%
Florence	13.8%	10.0%

* Source: Miller, Cost Savings of Nurse-Family Partnership in South Carolina, April 2013

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However, this new financing mechanism, and the excitement it is generating, presents an opportunity to get the public, private and non-profit sectors to focus together on population health outcomes and perhaps bring new prevention-focused resources to communities.

1 http://www.rockefellerfoundation.org/uploads/files/2b053b2b-8feb-46ea-adbd-f89068d59785-impact.pdf.

2 “Pay for Success Financing for Early Childhood Programs: A Path Forward.” Institute for Child Success. January 2014.

3 Bloomberg MR. “Bringing Social Impact Bonds to New York City.” New York City Office of the Mayor. Media Presentation. August 2012. http://www.nyc.gov/html/om/pdf/2012/sib_media_presentation_080212.pdf.

4 Balicer R, Bitterman H, Liberman N, et al. “Planning a Social Impact Bond to Reduce Development of Type 2 Diabetes in High-risk Pre-diabetics. http://www.socialfinance.org.il/social-impact-bonds/42/reducing-development-type-2-diabetes-in-high-risk-pre-diabetics.

5 KIDS COUNT Data Book. Kids Count Data Center. 2013. http://datacenter.kidscount.org/~/media/71/2013KC_state_profile_SC.pdf.

6 Golden M. “Using Pay for Success Financing to Improve Outcomes for South Carolina's Children: Results of a Feasibility Study.” Institute for Child Success. September 2013.

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