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Pay for Success and Population Health: Challenges and Promise

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 - *Role of Pay for Success in Population Health Improvement and Health Equity*
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Social Impact Bonds/ Pay For Success

Type of social impact investing designed to raise private sector capital to implement effective interventions with social benefit and government savings/value

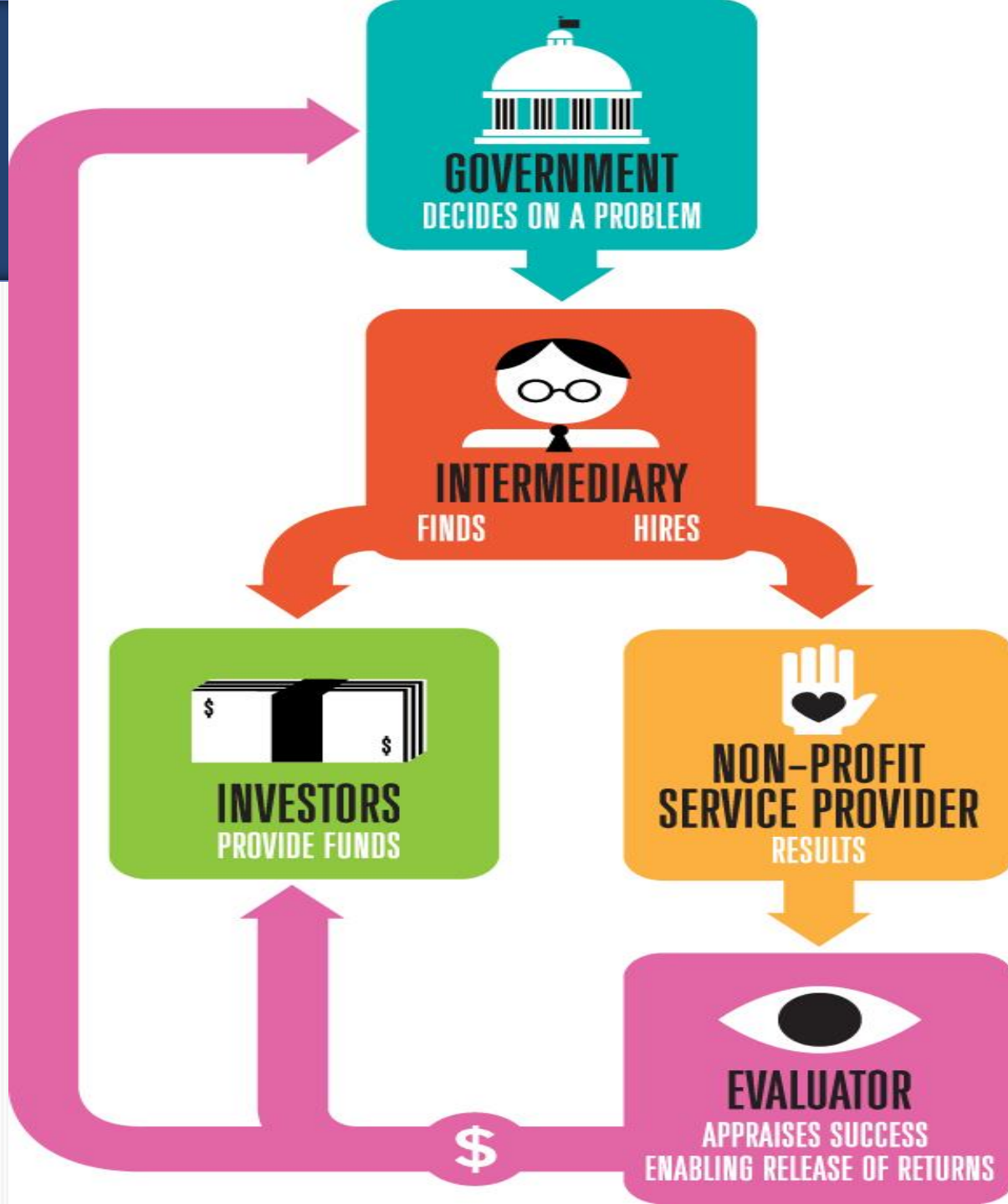
- ✓ Strong focus on prevention, which is challenging for public sector
- ✓ Mechanism used to finance specific type of government performance-based contracts

Pay for Success Contract

- **Private investors** fund a social service program that reduces public expenditures or produces value
- **Government** pays back investors based on success achieving pre-determined outcomes
- Investors bear all or most of the risk
- If successful, investors recoup investment plus rate of return
- First PFS Project: Peterborough prison, UK, 2010

Players in a PFS Deal

1. Government (local, state, federal)
2. Investor(s)
 - ✓ Bank or investment firm
 - ✓ Group of private social investors
 - ✓ Foundation or philanthropy
3. Non-governmental service provider
4. Independent evaluation team
5. Intermediary organization (optional): Project management, payment oversight, etc.



Stages of PFS Projects

- 1 Exploration
- 2 Development
- 3 Launch

>75 worldwide

12 in U.S. (in 10 states)

3 reached payout decision

Results of Landscape Analysis of 11 U.S. Projects

(Lantz et al., *Health Affairs*, November, 2016)



Investors

Types of investors:

Investment banks (Goldman Sachs)

Foundations/Philanthropies

Trusts

Groups of private individual investors

All projects involve multiple investors

Public Payors

City	2
County	2
City/County	1
County/State	1
State	5

Federal government contributing to payout in 1 case

PFS Projects in U.S.:

Intervention Areas

Recidivism after Incarceration	3
Homelessness	4
Early Childhood Education	2
Maternal and Child Health	1
Family Stability/Substance Use	1

PFS Project Outcomes

- Recidivism - jail/prison bed days
 - Job readiness
 - Employment
 - Transitional employment
 - Housing – months of stable tenancy
 - Social welfare referrals
 - Days in foster care
 - Kindergarten readiness
 - Third grade reading level
 - Use of special education services
- HEALTH:**
- Pre-term births
 - Hospitalization/emergency department use
 - Birth spacing
 - Reductions in substance abuse

All PFS Projects Launched in US Focus on Social Determinants of Health

Socioeconomic Position:

Education/Income/Jobs 4

Material Conditions of Well-Being:

Supportive Housing 4

Psychosocial/Behavioral:

Psychosocial supports/therapy 2

Home visiting/case mgmt. 1

Partnering for Family Success (Ohio)

- Aims to reduce length of stay in foster care by providing access to **housing/supportive services** (material condition of health)
- Population: 135 randomly-selected homeless families with children in foster care
- Funder: 5 Foundations
- Service provider: FrontLine Services and Cuyahoga Metropolitan Housing
- Back-End Payor: Cuyahoga County (spends >\$25 million a year on foster care)
- 5-year timeline; Goal: *sustainability*

PFS is Promising

- **PFS model has great potential for:**
 - Increasing investments in prevention
 - Expanding public/private partnerships
 - Incentivizing innovation in public sector at no risk to taxpayers
 - Spreading/scaling effective interventions
 - Increasing attention to the upstream, social determinants of health

Four Challenges

1. Evidence-based interventions and rigorous evaluation designs
2. Perverse incentives for prevention
3. “Wrong pockets” problem
4. Federal legal/regulatory constraints for federal agency payouts

1. Research Evidence/ Evaluation Designs

- **PFS projects require robust, high-quality research in two key areas:**
 - **Evidence base for the intervention**
 - **Evaluation of intervention in PFS context**
- **Landscape analysis of 11 launched projects reveals concerns in both of these areas**

U.S. PFS Project Payout Decisions

3 PFS projects have reached payout decision

➤ Rikers Island Adolescent Behavioral Learning Experience (ABLE)

- NO PAYOUT: Weak intervention had no impact

➤ Utah High Quality Preschool Program

- SMALL PAYOUT: Concerns that weak evaluation design overestimated the intervention impact

➤ Chicago Early Childhood Education Project

- STRONG EVALUATION OF EVIDENCE-BASED INTERVENTION: First success payment authorized; potential \$34 million in success payments for \$16.9 million investment from 3 investor groups

Recommendation

(which is actually controversial)

PFS contracts should only involve interventions with strong evidence base

Within a performance-based contract, the ability to meet metrics should not be a question mark.

“Promising” interventions/proof of concept demonstrations should use other financing mechanisms with very strong evaluation designs

Problems with early PFS projects are dampening enthusiasm for the model; conflation of PFS model itself with design and execution. *“PFS doesn’t work.”*

2. Perverse Incentives

PFS model only works for narrow types of prevention:

- Many prevention interventions do not save money
- Investors prefer short timelines for payout
- The more high risk/narrow the target population, the more likely PFS intervention will save money

Example: Home remediation for childhood asthma

PFS steers initiatives towards quick, cost-saving rather than longer-term, cost-effective interventions.

3. Wrong Pockets Problem

- General problem in public administration
- Governmental entity bearing costs of a prevention program often sees little or no corresponding benefit in its own budget
- Many prevention interventions addressing social problems will save money across multiple governmental programs, agencies, budgets
- Administrative/logistical challenges

4. Federal Legal Constraints

- Federal law/regulations regarding a number of U.S. agencies and programs present significant challenges for sharing federal savings with private investors
- Includes Medicaid/Medicare, which together comprise 23% of federal budget
- Medicaid:
 - Authorized to provide “medical assistance” not social goods/services
 - States can fund what they want but will not receive federal match
 - Other regulations prevent payments to private investors

Solution

- General solution to both “wrong pockets” problem and legal/regulatory challenges in payouts is creation of fund or appropriation through which central government (not an agency or program) makes the payout.
- Current research project: Legal analysis of city, county, state and federal government activities related to PFS (laws, ordinances, executive orders, budget allocations, creation of PFS funds, creation of new units/programs, requests for information, requests for proposals, contracting rule changes, etc.)

Conclusions

- Lots of interest in PFS at local, state and federal level in the U.S.
- 12 projects launched to date; many others in exploration and development
- Some serious challenges do need to be addressed
- PFS has significant potential to use private sector investments to fuel public/private partnerships to address key social problems and improve health

Discussion



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