

Paying for Success in Public Health Financing

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Innovations in Public Health Financing

INTRODUCTION TO SOCIAL IMPACT BONDS

Presentation Overview

- ❑ A social impact bond (SIB) analogy
- ❑ What are SIBs and why are they important?
- ❑ Laws and proposed laws addressing SIBs
- ❑ Questions



An Analogy



The Deal

❑ Problem

- Cost of 30 new energy efficient bulbs is \$120

❑ Offer

- I replace all of your bulbs for free
- You give me nothing upfront

❑ Catch

- If you get energy savings of \$200 (\$100 per year for 2 years), then you give me \$150 after 2 years
- If not, I get nothing and take my bulbs back and return your old bulbs



The Deal: A Positive Resolution?

❑ Results if successful:

▪ For you

- Total cost: \$150
- Total savings: \$200
- Net benefit: \$50

▪ For me

- Total cost: \$120
- Total income: \$150
- Return on investment: 25%

❑ Result if unsuccessful:

▪ For you

- Go back to old bulbs

▪ For me

- Stuck with new bulbs and costs



Pay for Success

- Pay for success (PFS) arrangements
 - Payments are based on program outcomes
 - Example: SIBs



Current Problems in Social and Public Health Services

- ❑ Limited resources
- ❑ Focus on remediation not prevention
- ❑ Pay for services
 - Services might not achieve desired outcomes
- ❑ Lack of data on effectiveness of programs

Significance of PFSs and SIBs

- ❑ Social ills and public health problems cost money
 - Example: Homelessness (\$6–7 billion)¹
 - Shelter costs
 - Welfare
 - Medicaid
 - Etc.
 - Many governments lack the funding needed to address problems
- ❑ PFSs and SIBs can transform those costs into potential profit
 - If profitable, PFSs and SIBs can leverage large amounts of private capital into Social and Public Health Programs
- ❑ Can create a public policy trifecta if successful
 - Win-win-win for government, private sector, and vulnerable populations

¹ Callanan L, Law J, Mendonca L. *From Potential to Action: Bringing Social Impact Bonds to the US*, McKinsey & Company, 8 (2012).

What Are SIBs?

□ Definition

- Financing mechanisms used to raise upfront funding for social and public health preventative interventions from private investors
- Leverage the anticipated savings due to prevention as a source for financial rewards to the investors
- Rewards due if and only if the intervention succeeds in reaching predetermined benchmarks, thereby shifting the financial burden of success to the investors

□ Definitional problems

- Difficulties: novelty, flexibility, complexity, and terminology

Why Is This Model Attractive?

□ Governments

- Limited financial risk
- Funds prevention/outcomes
- Potential budget savings
- Encourages efficiency

□ Intervention providers

- Stable multiyear funding
- Builds relationship with government
- Amplify impact

□ Investors

- Philanthropic investors
 - Performance evaluated
 - Opportunity to scale initiatives
 - Program-related investments
 - Fosters collaboration
- Commercial investors
 - Promising new market for commercial profit
 - Growth to social services

□ Intervention recipients

- Access to needed programs

Liebman J and Sellman A. *Social Impact Bonds: A Guide for State and Local Governments*, Harvard Kennedy School Social Impact Bond Technical Assistance Lab, 9 (2013).

Hughes J and Scherer J. *Foundations for Social Impact Bonds: How and Why Philanthropy Is Catalyzing the Development of a New Market*, Social Finance, 17–23 (2014).

Promising SIB Applications

- ❑ Recidivism
 - UK, NYC, MA, NY
- ❑ At-risk youth services
 - UK, NY, MA, Australia
- ❑ Homelessness
 - UK, MA
- ❑ Workforce development
 - US Department of Labor
- ❑ Early childhood services and education
 - Salt Lake City, UT
- ❑ Prenatal care
 - SC
- ❑ Asthma reduction
 - CA, MD
- ❑ Diabetes
 - Israel
- ❑ Elderly services
 - UK, South Korea
- ❑ Others likely in the future

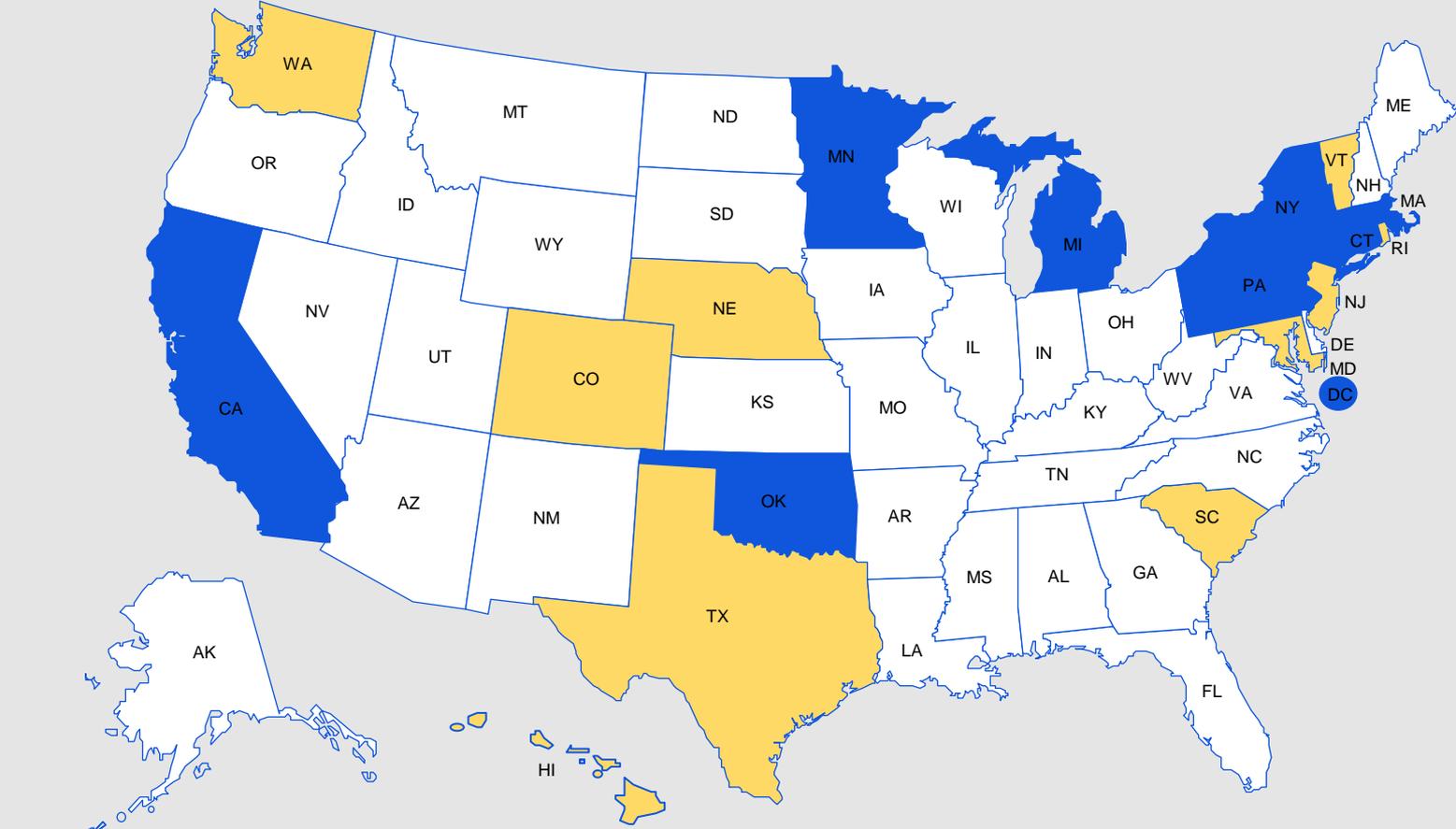
EXISTING AND PROPOSED LAWS

States Law Landscape

- ❑ **9 States have laws relating to PFS or SIB programs***
 - CA, CT, DC, MA, MI, MN, NY, OK, and PA
- ❑ **19 States have introduced PFS or SIB laws***
 - CA, CO, CT, DC, HI, MA, MD, MI, MN, NE, NJ, NY, OK, PA, RI, SC, TX, VT, and WA

*Data reflect laws and proposed laws through December 2014

State PFS and SIB Legal Landscape



Introduced and enacted laws relating to PFS or SIBS:

- Introduced laws
- Enacted laws

Proposed Federal PFS and SIB Efforts

- ❑ **Two bills with bipartisan support introduced in 113th Congress**
 - Social Impact Bond Act, H.R. 4885, 113th Cong. (2014)
 - Pay for Performance Act, S.2691, 113th Cong. (2014)
- ❑ **Money set aside for PFS in President's FY 2016 Budget Proposal**

Proposed Federal Legislation, 113th Congress: Social Impact Bond Act (H.R. 4885) & Pay for Performance Act (S.2691)

- ❑ **Both authorize federal participation in PFS and SIB**
- ❑ **Establish guidelines for**
 - Eligible PFS and SIB programs
 - Acceptance of PFS and SIB proposals
- ❑ **Set limits on federal contract authority**
 - Ex: Federal payments cannot exceed expected savings
- ❑ **Authorize \$300 million over 10 years for PFS and SIB**
- ❑ **Creation of Federal Interagency Council**

Proposed Federal Legislation: Eligible Programs

□ Eligible PFS and SIB programs must address:

- Teen and unplanned pregnancies
- Improving birth outcomes
- Preventable diseases such as asthma and diabetes
- Reducing dependence on federal benefits (e.g., Medicaid)
- Unemployment
- High school graduation
- Recidivism
- Child abuse and neglect
- Child-family arrangements (e.g., foster care, adoption, etc.)
- Other positive social outcomes capable of delivering federal savings

President's FY 2016 Budget Proposal

- ❑ **\$300M “Pay for Success Incentive Fund” operated by Dept. of Treasury**
 - “Similar to bipartisan legislation in the House and Senate last year”
- ❑ **\$64M to Dept. of Education, Dept. of Justice, and Corporation for National and Community Service to support PFS projects.**

Selected Resources

❑ CDC Public Health Law Program Research Anthology

- www.cdc.gov/phlp/docs/sib-researchanthology.pdf

❑ Descriptive

- Liebman, JB. *Social Impact Bonds*, CENTER FOR AMERICAN PROGRESS (February 2011). Located at: www.americanprogress.org/issues/2011/02/pdf/social_impact_bonds.pdf

❑ Technical Guides

- Barclay L and Symons T. *A Technical Guide to Developing Social Impact Bonds*. SOCIAL FINANCE (January 2013). Located at: www.socialfinance.org.uk/resources/social-finance/technical-guide-developing-social-impact-bonds
- Godeke S and Resner L. *Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape*, GODEKE CONSULTING (2012). Located at: www.rockefellerfoundation.org/media/download/6a7eba56-aa6f-47bf-a451-f883b8b4ccc5
- Liebman J and Sellman A. *Social Impact Bonds: A Guide for State and Local Governments*, HARVARD KENNEDY SCHOOL SOCIAL IMPACT BOND TECHNICAL ASSISTANCE LAB (June 2013). Located at: payforsuccess.org/sites/default/files/social-impact-bonds-a-guide-for-state-and-local-governments1.pdf

❑ Commentary

- *Pay for Success Financing*, 9 COMMUNITY DEVELOPMENT INVESTMENT REVIEW 1, 1–137, (Ian Galloway ed. 2013). Located at: www.nj.gov/state/programs/pdf/faith-based-investment-success-financing.pdf

QUESTIONS?

Thank you!

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