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

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

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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
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
  - Pay for Performance Act, S.2691, 113th Cong. (2014)
- Money set aside for PFS in President’s FY 2016 Budget Proposal

- 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
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**

- **Technical Guides**

- **Commentary**
QUESTIONS?
Thank you!

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