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



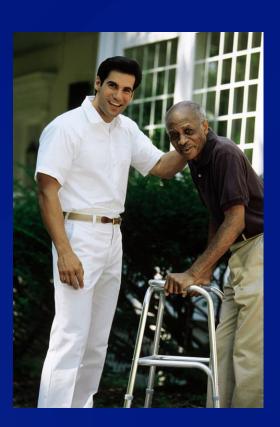
The Deal: A Positive Resolution?

- 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

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

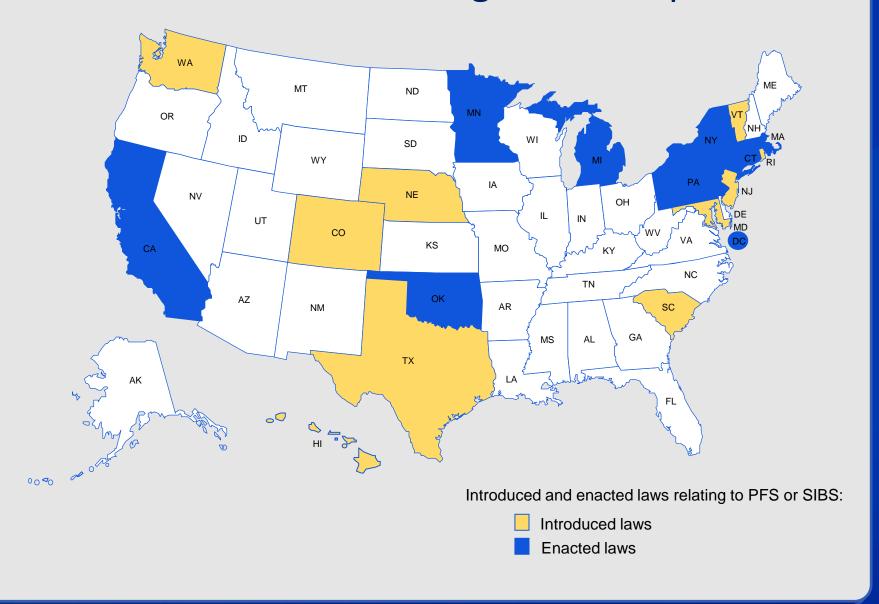
Liebman J and Sellman A. Social Impact Bonds: A Guide for State and Local Governments, Harvard Kennedy School of Government, 20 (2013).

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

State PFS and SIB Legal Landscape



Proposed Federal PFS and SIB Efforts

- Bipartisan federal legislation proposed
 - 113th Congress
 - Social Impact Bond Act, H.R. 4885, 113th Cong. (2014)
 - Pay for Performance Act, S.2691, 113th Cong. (2014)
 - 114th Congress
 - Social Impact Partnership Act, H.R. 1336, 114th Congress (2015)
 - Social Impact Partnership Act, S.1089, 114th Congress (2015)
- Money set aside for PFS in President's FY 2016 Budget Proposal
 - \$300M "Pay for Success Incentive Fund" operated by Dept. of Treasury
 - \$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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