

# 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)<sup>1</sup>
    - 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

<sup>1</sup> 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

# **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





# Proposed Federal PFS and SIB Efforts

## ❑ Bipartisan federal legislation proposed

- 113<sup>th</sup> Congress
  - Social Impact Bond Act, H.R. 4885, 113th Cong. (2014)
  - Pay for Performance Act, S.2691, 113th Cong. (2014)
- 114<sup>th</sup> Congress
  - Social Impact Partnership Act, H.R. 1336, 114<sup>th</sup> Congress (2015)
  - Social Impact Partnership Act, S.1089, 114<sup>th</sup> 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](http://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](http://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](http://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](http://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](http://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](http://www.nj.gov/state/programs/pdf/faith-based-investment-success-financing.pdf)

**QUESTIONS?**

# Thank you!

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