Using Social Impact Bonds to Advance Public Health Goals

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Paying for Success in Public Health Financing

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Centers for Disease Control and Prevention

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INTRODUCTION TO SOCIA 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
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

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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
Introduced and enacted laws relating to PFS or SIBS:

- Introduced laws: States in yellow
- Enacted laws: States in blue
Proposed Federal PFS and SIB Efforts

- Bipartisan federal legislation proposed
  - 113th Congress
    - Pay for Performance Act, S.2691, 113th Cong. (2014)
  - 114th Congress

- 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**

- **Technical Guides**

- **Commentary**
QUESTIONS?
Thank you!

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Using Social Impact Bonds to Advance Public Health Goals

Ruth Ann Norton
May 28, 2015
Why Asthma and PFS: Using Evidence/Data to Prove Results and ROI

• In 2010, 18.7 million adults and 7 million children had asthma—a 15% rise since 2001. Total annual asthma medical costs $51 billion/year.

• The Commission on Building a Healthier America* found that 40% of all incidents of asthma are attributable to home-based environmental health hazards.

• HHS Guidelines call for 1) Assessment of disease severity; 2) Medication; 3) Patient education; and 4) Environmental control.

• Evidence Base: HHS’s Community Preventive Services Task Force found “strong evidence of effectiveness of in-home environmental interventions” in improving asthma management.

• ROI: HHS’s economic review of published studies showed a return of $5.3 to $14 for each $1 invested.

• Quick payback and easily identifiable empirical outcome measures

*Robert Wood Johnson Foundation Commission on Building a Healthier America
Reduced Costs Equates to Cashable Savings

• **68%** reduction in asthma-related client hospitalizations

• **34%** reduction in asthma ER visits

• Reduction in asthma-related client hospitalizations – **1 hospital stay on average costs $7,506 in Baltimore City. Reductions in hospitalizations produces cashable savings**

• Reduction in asthma-related emergency room visits - **1 emergency room visit on average costs $820 in Baltimore City. Reduction in ER visits produces cashable savings**
GHHI’s Pay for Success Work

• GHHI is developing a $10 million asthma Social Impact Bond/Pay For Success project with Johns Hopkins Hospital, Priority Partners, and The Calvert Foundation

• GHHI and its partner, Calvert Foundation, are building capacity and working with healthcare centers and service providers in five U.S. Cities to replicate the Hopkins transaction. This work is funded by $1.1 million from the CNCS Social Innovation Fund

• CNCS’ Social Innovation Fund supports eight Pay for Success grantees that are looking at feasibility of projects in multiple areas: http://www.nationalservice.gov/programs/social-innovation-fund/pay-success
Pay for Success/Social Impact Bonds

Built on Cashable Savings & Improved Outcomes

- **Funder** (Investor and Guarantor)
- **Independent Evaluator**
- **Service Provider** (Intermediary may manage providers)
- **Payor / Saver** (Government or private sector)

- $ upfront costs
- $ repayments including ROI for meeting agreed upon outcomes
- $ cashable savings from reductions in ED visits and hospitalizations

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www.ghhi.org
GHHI’s Asthma Pay for Success Model

**Structure & intervention**

1. All involved parties sign agreements to support the structure
   - Investor & GHHI
   - Investor & Hospital
   - GHHI and Evaluator
   - Hospital & Evaluator
   - Investor & guarantor

2. Investor provides GHHI with the first tranche of the financing (three draws)

3. GHHI provides services to 1/3 of the total homes in year 1, 1/3 in year 2, and 1/3 in year 3

4. The third party evaluator assesses the program’s effectiveness and determines if savings targets are met

**If the targets are met...**

5. The hospital / payor repays the Investor’s principal and the interest that has accrued

**If the targets are not met...**

6. The investor’s guarantee is called, repaying the Investor at a set %; Investor loses the balance
How PFS Can Help Scale Healthy Housing

• Solving the “wrong pocket” problem
  Investment directed to improve housing  Savings produced for healthcare

• Building the evidence to promote policy change
  ✓ Rigorous evaluation
  ✓ Proving model at scale
  ✓ Eliminates risk to government / healthcare / education system
Questions to Ask Before Exploring PFS

Outcomes
What agencies are impacted by your work?

ROI
Can a monetary value be placed on outcomes? Is there a business case?

Scale
Can the program be successful serving more clients, adding additional resources, etc.

Underwriting
Can the organization advance through a process of due diligence by investors? Are there protocols, defined processes?

Data Capacity
Can you track your work and outcomes?
Prerequisites for PFS Projects

• Proven intervention/defined service model
• Compelling base of evidence and ability to track outcomes
• Infrastructure to scale interventions locally
• Organizational bandwidth (i.e. project manager, etc.)
• Know why you’re doing this (e.g. To scale? To change policy?)
• Board support... these things take time, no guarantees
## Key Components of Feasibility Study

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Design, manage work plan</td>
<td>Evaluate need for asthma to be addressed through PFS</td>
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<tr>
<td>Healthcare payor risk assessment</td>
<td>Assess and vet capacity of local service providers</td>
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<tr>
<td>Model the financial transaction</td>
<td>Document service delivery process and costs</td>
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<tr>
<td>Inventory potential investors</td>
<td>Develop evaluation model</td>
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<tr>
<td>Engage stakeholders</td>
<td>Educate partners on transaction process</td>
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### Investible Elements of Healthy Housing

<table>
<thead>
<tr>
<th>Services</th>
<th>Sectors that could act as savers/payers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asthma Trigger Reduction and Education</td>
<td>Healthcare / Education</td>
</tr>
<tr>
<td>Lead Hazard Reduction</td>
<td>Justice System / Education / Economic Development</td>
</tr>
<tr>
<td>Trip &amp; Fall Risk Reduction</td>
<td>Healthcare</td>
</tr>
<tr>
<td>Fire &amp; Injury Prevention Measures</td>
<td>Healthcare</td>
</tr>
<tr>
<td>Energy Efficiency Measures</td>
<td>Utilities / Public Service Commission</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>Community Development / Neighborhood Stabilization</td>
</tr>
<tr>
<td>Radon Mitigation</td>
<td>Healthcare</td>
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PFS Project Development Structure

- Executive Steering Committee
- Core Project Team
- Working Groups
  - Outcome Setting
  - Data & Evaluation
  - Finance & Accounting
  - Service Provision
  - Secondary Benefits
  - Stakeholder Outreach
  - Experts
  - Experts
  - Experts
  - Experts
  - Experts
  - Experts
Emerging Trends

• Bundled Transactions Benefit Smaller Communities and/or Organizations
  o Generate new revenue sources to fund Healthy Homes interventions where no funding resource exists
  o Prove out the local model to attract sustainable funding from federal and state agencies (Medicaid)
  o Leverage funding sources for maximum impact

• Small market PFS
Questions?

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- A Leading Impact Investor in the US

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Through its comprehensive community development platform, UIG has committed over $4.1 billion of GS capital to revitalize underserved communities.

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UIG investments have helped finance:

- 17,000 affordable housing units
- 5 million square feet of neighborhood serving retail and commercial space
- dozens of community facilities that provide essential social services and job opportunities to neighborhood residents
- thousands of temporary construction and permanent jobs
- 4 of 7 US social impact bonds financings
- Over 450 small business loans through our 10,000 Small Businesses initiative

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Social Impact Bond Financing

- **Overview**

- Social impact bond financings are emerging financing tool that leverage private capital to expand high impact social programs while generating double bottom line returns for investors - both a financial return and social impact.

- SIBs are structured as working capital loans where the repayment of the principal and interest is through the proceeds of a government contract that pays **only if** the social program is successful at achieving targeted outcomes.

- Risk of social impact is shifted from the government, which has typically funded these activities on a reimbursement basis, to investors who finance upfront program costs in expectation of receiving an attractive double bottom line return.

- GS has financed early education in Chicago and Utah and services for high risk youth in New York City and Massachusetts using this...
Early Education Social Impact Bond Financing

- Utah

**Investment Overview**

- $4.6 mm social impact bond financing for the expansion of the Utah High Quality Preschool Program to provide early education services for up to 5 cohorts totaling up to 3,500 children
  - The loan supports the delivery of a high impact and targeted curriculum to increase school readiness and academic performance among 3 and 4 year olds in targeted at-risk communities
- Loan is repaid through a pay for success contract with the state of UT where payments are based on avoided costs of special education and remedial services by students identified as at risk
  - Payments will be made equal to 95% of the avoided costs annually in kindergarten through sixth grade
- Leverages a “best in class” public-private partnership to foster social and financial innovation
- Double Bottom Line Returns
  - More children enter kindergarten ready to learn and on track for school success
  - Creation of a new source of capital to address pressing social problems
  - Financial return aligned with social impact
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