

# Wake Forest University Master of Arts in Counseling, Emphasis in Human Services

## HOW THE PAY-FOR-SUCCESS (PFS) MODEL IS TRANSFORMING HUMAN SERVICES



Pay-for-success (PFS) contracts, also known as social impact bonds, are changing the way human services are being offered to consumers. This type of payment model has attracted private investors and is poised to gain wider acceptance within the counseling industry.

### WHAT'S DRIVING THE PFS MODEL?

#### STATISTICS AND OVERVIEW

Currently active PFS contracts around the world total an estimated **\$200 million**

In 2010, the UK was the first to develop a large-scale PFS project, also known as a social impact bond (SIB) and currently holds the bulk of PFS contracts, with almost **\$60 million** committed to 15 projects focusing on recidivism, youth employment, and foster care avoidance  
*nationalservice SSIR*

In Australia, the PFS model is known as a **SOCIAL BENEFIT BOND (SBB)**

As of September 2014, the following cities/counties have either launched, initiated, or began developing a PFS project:

Chicago, Cuyahoga County, Dallas, Denver, Fresno, Memphis, Newark, New York City, Philadelphia, Prima County, Salt Lake City, Washington, D.C.

South Korea has used the PFS model to improve its child welfare issues, foster care, and family support SSIR

**In 2014, the Social Innovation Fund (SIF) PFS Competition awarded grants through "an open & transparent competition" for a period of up to three years to the following organizations:**

Corporation for Supportive Housing	Green & Healthy Homes Initiative	Harvard Kennedy School Social Impact Bond Lab	Institute For Child Success, Inc.
National Council on Crime and Delinquency	Nonprofit Finance Fund	Third Sector Capital Partners, Inc.	University of Utah David Eccles School of Business PFS Lab

### HOW THE MODEL WORKS

The upfront capital funds are provided by private, nongovernmental investors "to deliver services over the life of a PFS contract. The payor contracts with the service provider for certain outcomes and also contracts with investors to pay back their investment if the agreed-upon outcomes are achieved. An independent evaluator determines whether or not the target outcomes have been met. If the target outcomes are not met, investors are not repaid." *payforsuccess*

**THE PFS MODEL REQUIRES**

- An assessment of justice system cost and population drivers for a well-defined problem
- Identification of service gaps
- Development of evidence-based solutions
- Determination of the suitability of PFS funding

**According to a 2014 report published by The Corporation for National and Community Service and the Social Innovation Fund, developing a PFS project for the justice system would require a five-step process:**

- Attribute a price to the PFS product
- Set performance targets based on existing evidence
- Implement the program
- Evaluate the results
- nationalservice

**IMPROVING SOCIAL OUTCOMES**

Investors

1 Invest

2 structure, coordinate and manage risk

3 Deliver services

4 Achieve outcomes

5 Measure & validate

6 Pay for success

7 Repay Principal and return

Intermediary

Back-End Payor

Independent Evaluator or Validator

Target Population

Social Service Providers

#### TYPES OF INVESTORS

Venture philanthropists

Senior lenders SSIR

Junior lenders

#### DRIVERS OF THE PFS MODEL

Diminishing government funding for social welfare services

PFS will be driven by nonprofits seeking to increase their impact on society, as opposed to only seeking return on capital SSIR

#### EXAMPLE OF A PFS CONTRACT | ROCA AND THE STATE OF MASSACHUSETTS

In January 2014 the nonprofit organization Roca and the state of Massachusetts finalized a PFS contract to help young, high-risk men stay out of prison, hold down jobs, and maintain stability in their lives

Massachusetts has a break-even rate of 40% recidivism reduction

At this level, both the program savings and the payouts to the service providers and investors will both equal **\$22 million**

If the PFS contract is successful, Roca will help the state of Massachusetts achieve a 70% reduction in recidivism

The government will pay \$27 million and the state's savings will be \$18 million for the duration of the contract. Goldman Sachs (the profit-seeking senior lender) would receive an additional payment of up to \$1 million and both Living Cities and the Kresge Foundation (the junior lenders) will receive an additional \$300,000. Roca will receive \$1 million. SSIR

## THE PROS AND CONS OF PFS

### BENEFITS OF PFS MODEL

- The PFS Model will encourage a more effective partnership between the government and nonprofit sectors SSIR
- The PFS Model "challenges lawmakers to play a more critical role in program development."
- Lawmakers can turn their focus to the outcomes of a program, rather than only focusing on the activities or compliance of a program
- The lack of government funding is an opportunity for private investors to innovate in the nonprofit sector
- Successful programs will be rewarded with stable funding NCSL
- The PFS model offers "greater flexibility for state, local and tribal governments" to fund programs that can provide measurable results
- PFS solves "the wrong pockets program, which is when 'the entity that bears the cost of implementing a practice or program does not receive the primary benefit.' The entity, in the case of social services, would be the nonprofit organization PFS
- The risk of a PFS contract is transferred to the private sector, resulting in more efficient public spending nationalservice

### DANGERS & DRAWBACKS OF THE PFS MODEL

- The financing aspect of the PFS model is complex in both legal and operations nationalservice
- The strong focus on measuring results and achieving goals could lead to the compromise of the well-being of the individuals being served by the program
- Because most of the risk associated in investing in a PFS model lies with the junior lenders, and not with the profit-seeking senior lenders, private market capital may not be in a rush to fund PFS deals if the impact investors and philanthropists are not involved SSIR
- The PFS model could potentially favor the organizations currently committed to a contract and discourage other providers from innovating and operating more efficiently
- Governments will have to track the success of each program and eliminate programs that aren't achieving expected outcomes NCSL
- The level of measurement and tracking that is required to measure a program's effectiveness will place an added strain on the nonprofit's resources SSIR

Smaller nonprofit organizations may be intimidated by the success of previous, larger nonprofits and avoid seeking out PFS funding

- This could lead to essential services becoming further disadvantaged and handicapped in seeking financial aid

Not all social causes have outcomes that lend themselves well to being measured

- For example, the PFS model would be difficult to apply in social services such as preventing domestic violence or providing early childhood education, job training, or adult mental health intervention governing

### TRADITIONAL PAYMENT MODELS IN THE HUMAN SERVICES SECTOR

Charitable contributions

Corporate philanthropy

Grants from federal, state and local governments

Fees for services that are charged by the nonprofit organization

Various foundations (corporate, family, community) thebalance

## WHAT'S NEXT FOR PFS

### REQUIREMENTS OF A PFS CONTRACT

- The PFS Model is ideal for the nonprofits that can deliver and measure their results and translate the benefits of their services into financial savings
- The government agencies involved must also be able to measure their aggregated cost savings as a result of nonprofit involvement
- A randomized control trial (RCT) should be conducted to assess the potential impact of a nonprofit's services SSIR

### THE EVOLUTION OF PFS MODELS

- The Community Reinvestment Act (CRA) "requires banks to meet all the credit needs of the communities they serve, including low and moderate income communities."
- If banks are willing to qualify PFS projects as part of their CRA obligations "there is a potential to open up vast volumes of non-impact investment capital to PFS-financed projects." nationalservice
- It may be more beneficial to consider the PFS model "as a tool and a process that could produce many types of outcomes, some good, some less desirable." fastcoexist
- PFS projects will be adopted as an opportunity to continuously learn from past results and encourage nonprofit organizations to innovate their processes and increase efficiency PFS

### CONCLUSION:

As the PFS model gains wider attention from governments, private investors, and the nonprofit sector, the demand for human service professionals with analytical skills will increase. The key to success in a PFS project is a keen understanding of how services can be measured, tracked, and optimized.

#### SOURCES:

<http://www.payforsuccess.org/learn/basics/>  
[https://ssir.org/for\\_debate/article/the\\_payoff\\_of\\_pay\\_for\\_success](https://ssir.org/for_debate/article/the_payoff_of_pay_for_success)  
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