

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

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



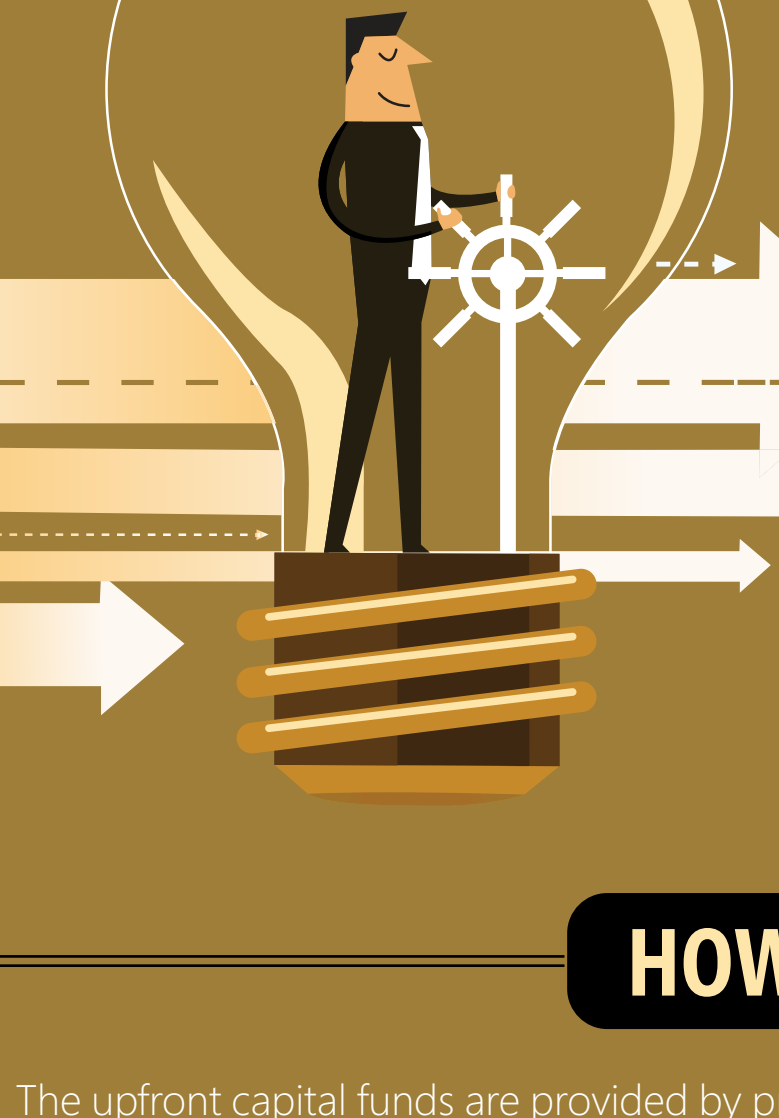
Pay-for-success (PFS) contracts, also known as social impact bonds, are changing the way human services are being offered to consumers. This type of payment model has attracted private investors and is poised to gain wider acceptance within the counseling industry.

### 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)**

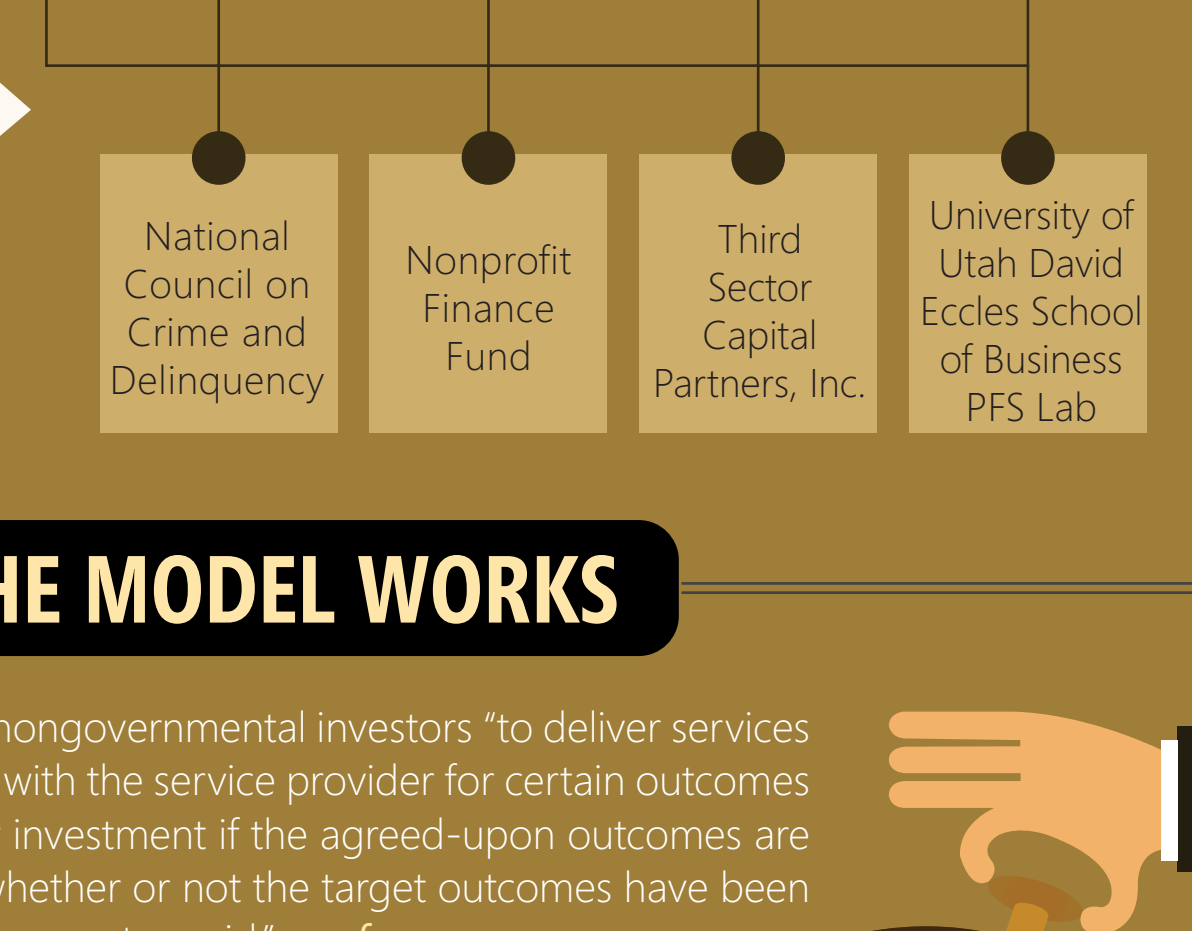


As of September 2014, the following cities/counties have either launched, initiated, or began developing a PFS project:

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

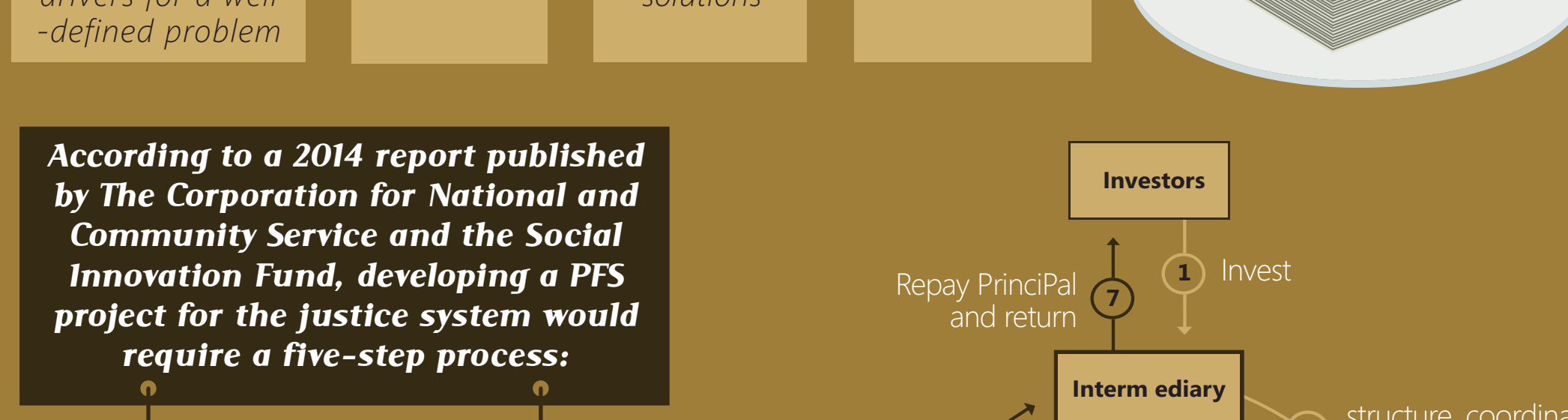
South Korea has used the PFS model to improve its child welfare issues, foster care, and family support SSIR

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:

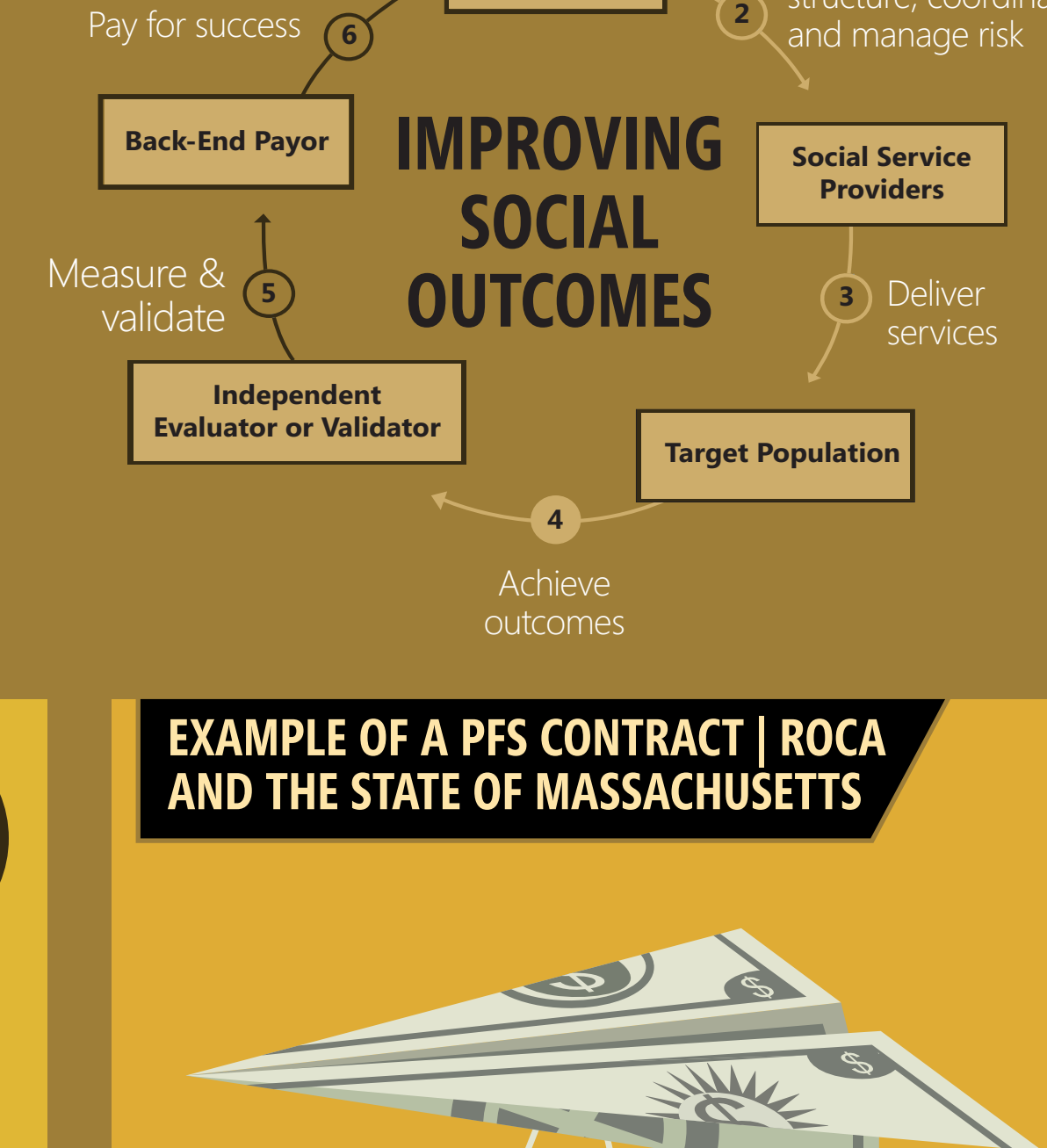
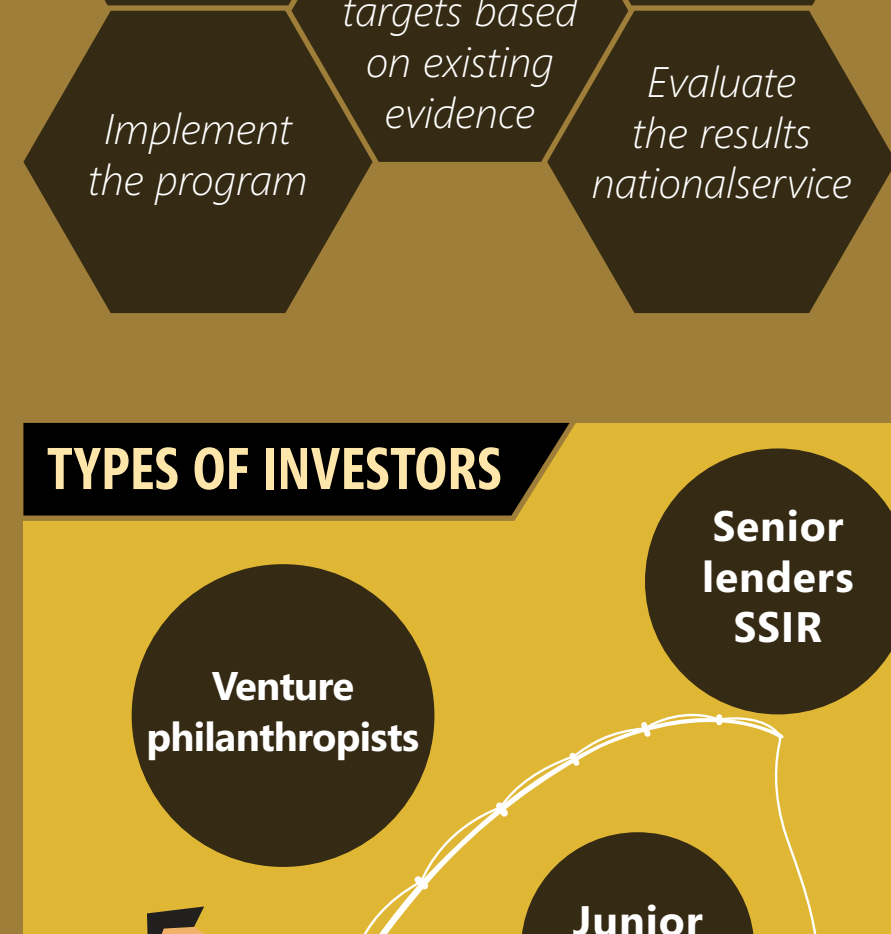


### HOW THE MODEL WORKS

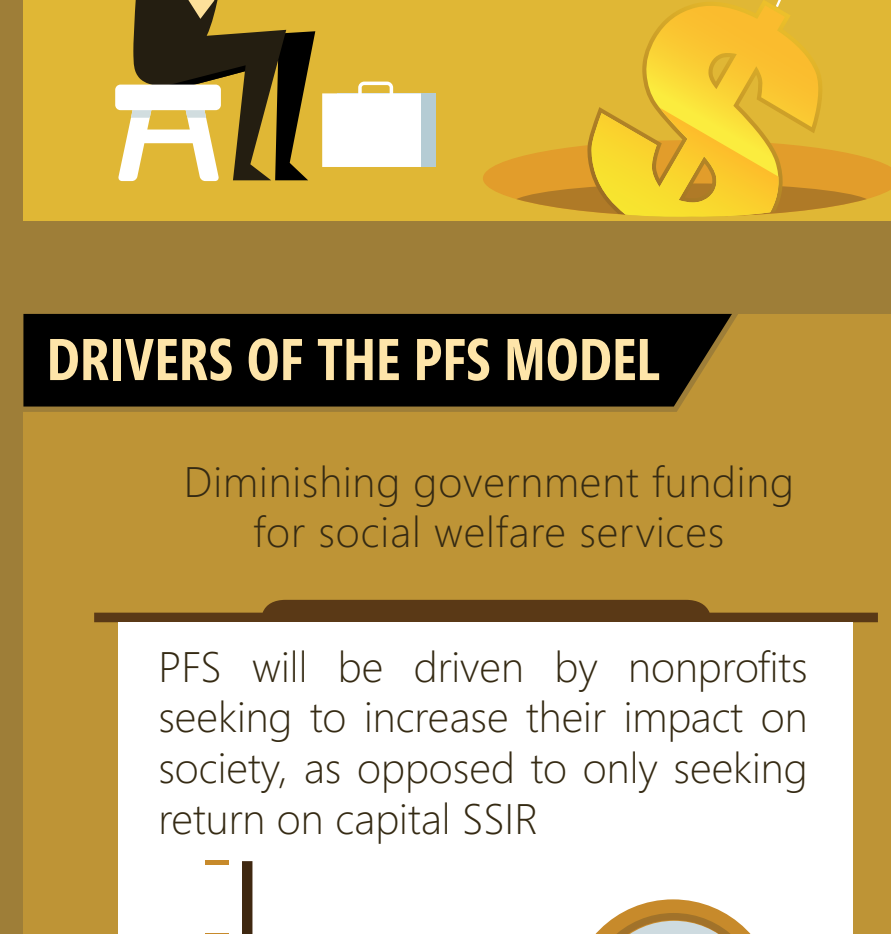
The upfront capital funds are provided by private, nongovernmental investors "to deliver services over the life of a PFS contract. The payor contracts with the service provider for certain outcomes and also contracts with investors to pay back their investment if the agreed-upon outcomes are achieved. 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*



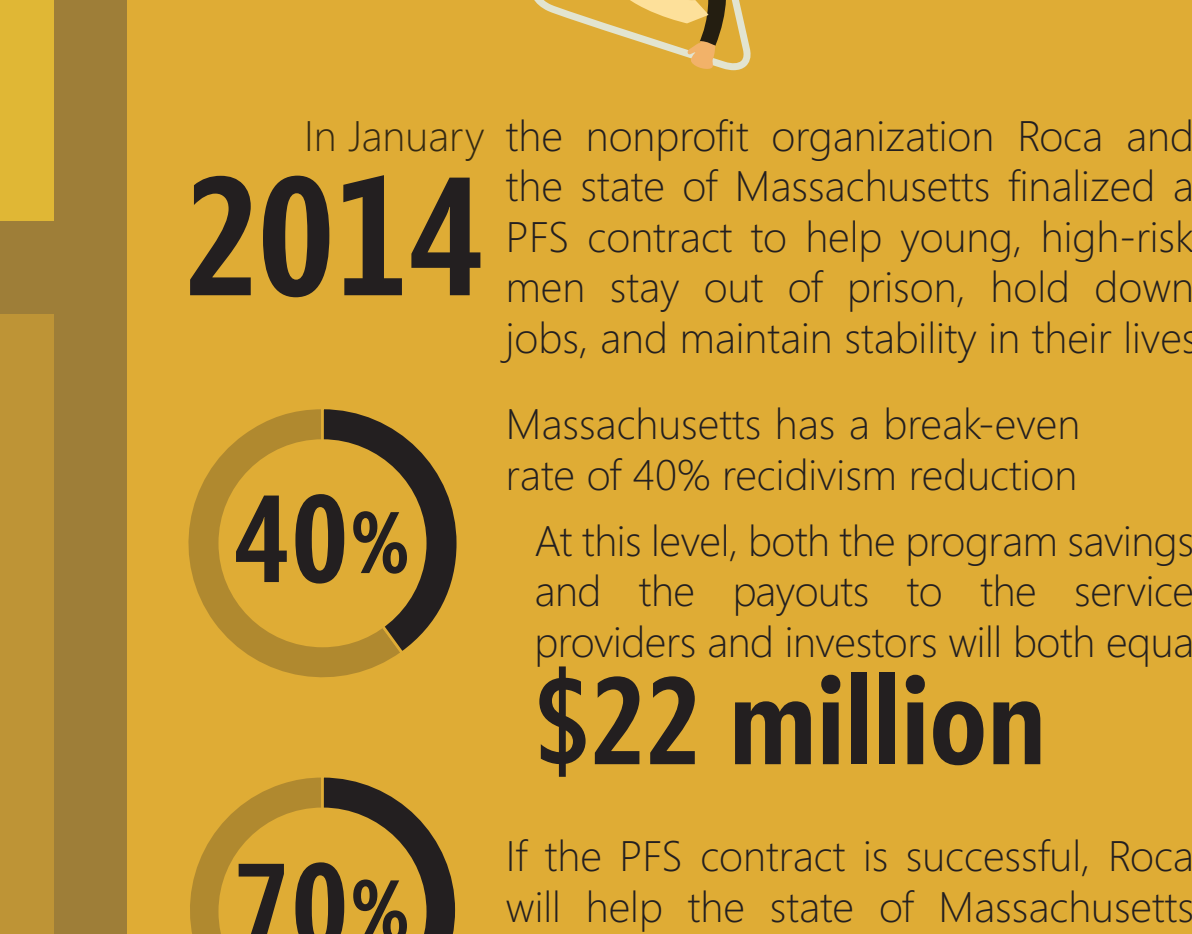
According to a 2014 report published by The Corporation for National and Community Service and the Social Innovation Fund, developing a PFS project for the justice system would require a five-step process:



#### TYPES OF INVESTORS



#### 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**

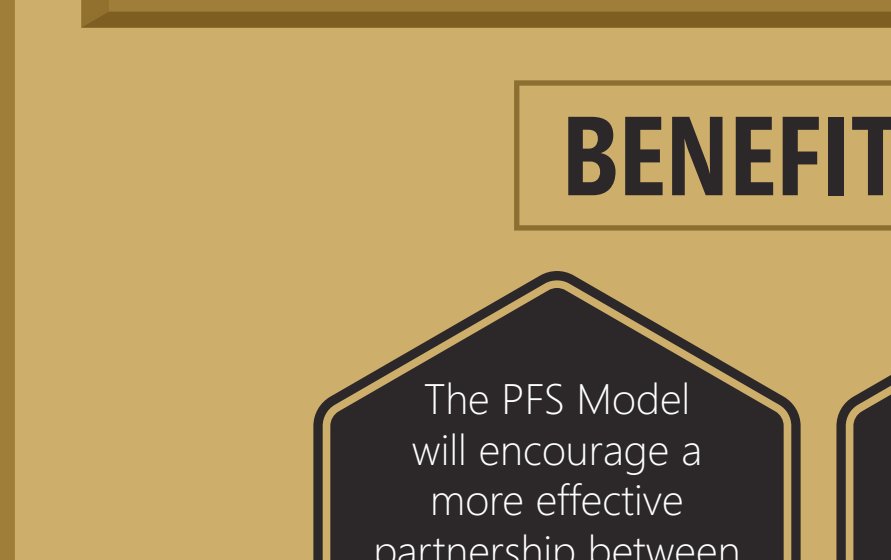
If the PFS contract is successful, Roca will help the state of Massachusetts achieve a 70% reduction in recidivism

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

#### DRIVERS OF THE PFS MODEL

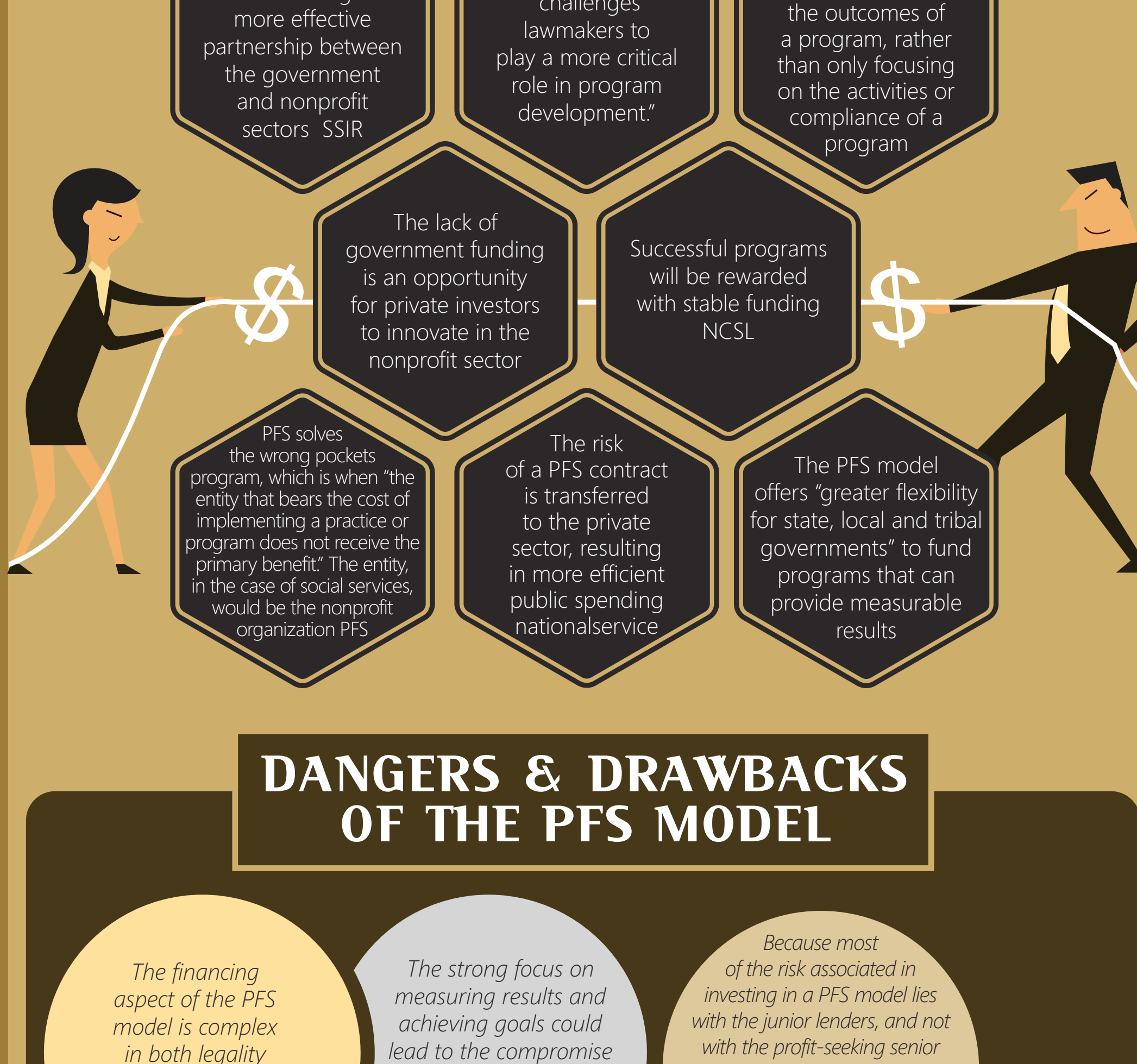
Diminishing government funding for social welfare services

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

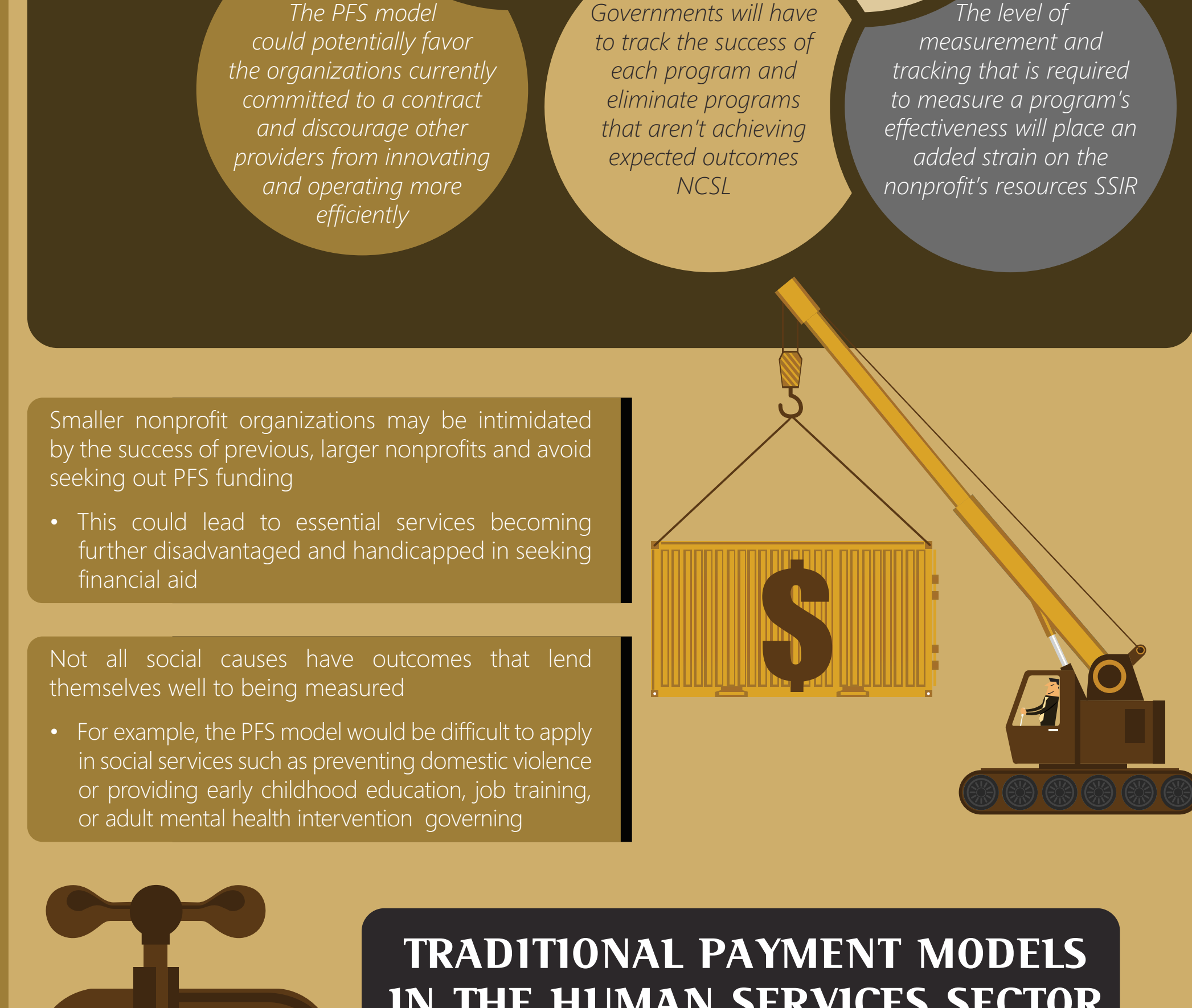


### THE PROS AND CONS OF PFS

#### BENEFITS OF PFS MODEL



#### DANGERS & DRAWBACKS OF THE PFS MODEL



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

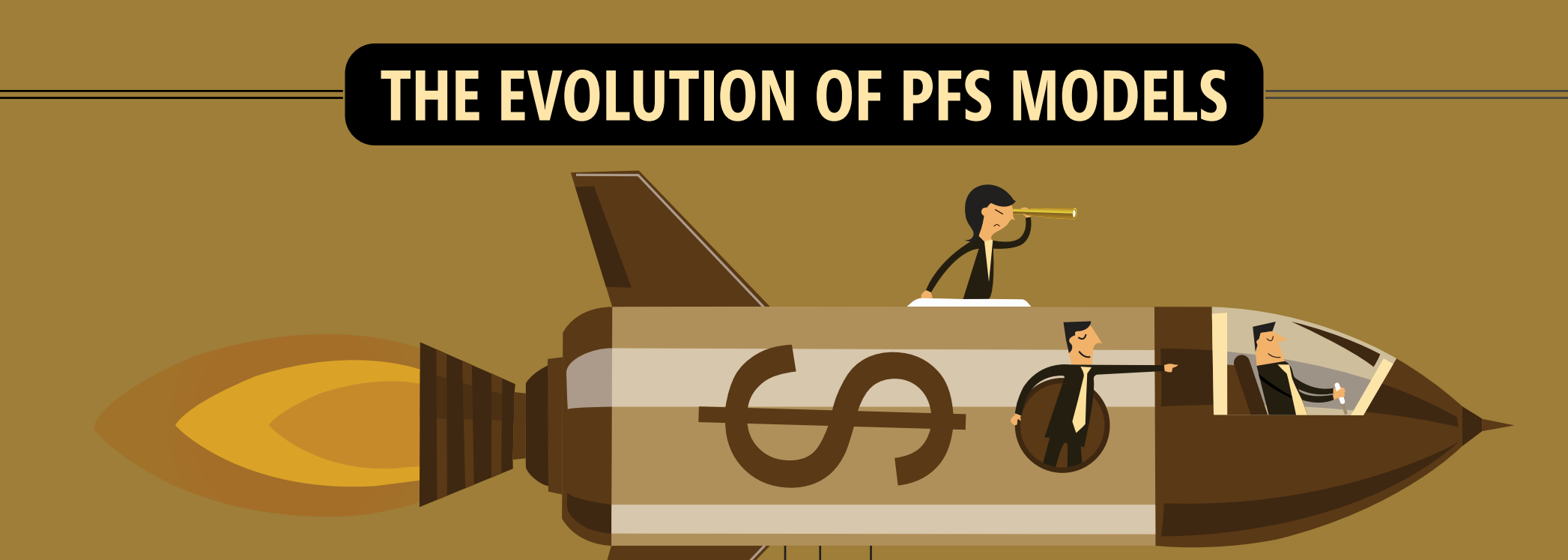
For example, the PFS model would be difficult to apply in social services such as preventing domestic violence or providing early childhood education, job training, or adult mental health intervention governing

#### TRADITIONAL PAYMENT MODELS IN THE HUMAN SERVICES SECTOR

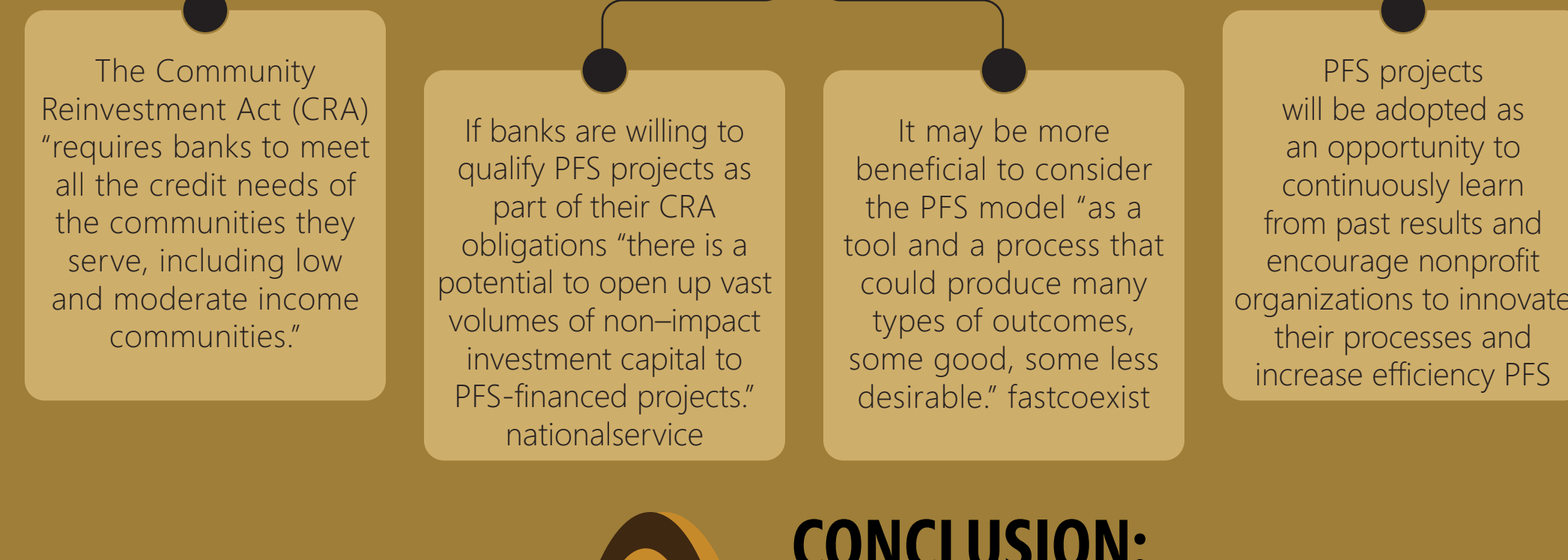


### WHAT'S NEXT FOR PFS

#### REQUIREMENTS OF A PFS CONTRACT



#### THE EVOLUTION OF PFS MODELS



#### 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.