

# Pay-for-Success

## FACT SHEET



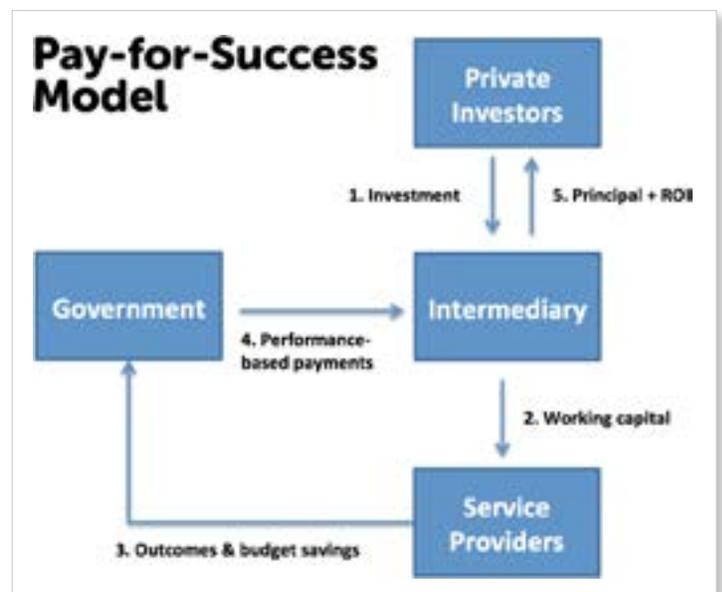
### What is Pay-for-Success?

Pay-for-Success (PFS) is a promising new approach to government contracting that combines private investment, performance-based payments and market discipline. PFS has the potential to improve results, overcome barriers to social innovation and encourage investment in cost-saving preventive services.

### How does Pay-for-Success work?

A Pay-for-Success contract (also known as a “Social Impact Bond”) is a partnership between government, a service provider, an intermediary organization and private investors. The diagram at right illustrates the model in action:

- Government contracts with an intermediary to obtain social services.
- The intermediary identifies organizations that can deliver these social services and raises operating capital from private investors in order to fund the cost of the program upfront.
- After services are delivered, government pays the intermediary based on the program’s success in achieving predetermined social outcomes.
- If the predetermined outcomes are achieved, private investors can recoup their principal plus a rate of return.
- If the program does not achieve predetermined outcomes, then government is not obligated to repay the intermediary, and the private investors do not recoup their principal or a return.



### What are the benefits of Pay-for-Success?

Pay-for-Success benefits all parties involved for many reasons, including:

- Government benefits from PFS because it shifts the risk of innovation from taxpayers to private investors, provides resources for preventive investments, and offers a way to make more rapid progress in achieving social policy goals.
- Service providers benefit from PFS because it provides stable multi-year funding and begins a relationship with government that can enable operations to scale rapidly if the provider is able to demonstrate program effectiveness.
- Private investors benefit from PFS by generating both a positive social impact and a potential financial return on their investment.

### Examples of Pay-for-Success contracts in the United States

New York State: Reduce recidivism among formerly incarcerated individuals

Massachusetts: Reduce recidivism among at-risk youth

New York City: Reduce recidivism among formerly incarcerated youth

Salt Lake City: Reduce special education utilization and remedial services among children entering kindergarten

# Pay-for-Success

IN SOUTH CAROLINA



## What is the South Carolina Pay-for-Success Project?

The South Carolina Pay-for-Success (PFS) project will be the state's first PFS contract. The project will expand home visiting services to at-risk families in the Medicaid program and will target improvements in maternal health, birth outcomes and child health and well-being. The project is currently being developed by the South Carolina Department of Health and Human Services (SCDHHS) in partnership with the Governor's Office. The project is expected to be finalized in the fall of 2014. South Carolina is expected to be the first state in the nation to use a PFS contract in health care.

## History

Improving the health and lives of mothers and babies in the Medicaid Program is a high priority for SCDHHS. As the state's Medicaid agency, SCDHHS pays for approximately 58 percent of all South Carolina births. In 2011, SCDHHS launched the Birth Outcomes Initiative, a multi-stakeholder collaborative aimed at improving birth outcomes statewide. The success of this public-private partnership encouraged South Carolina to pursue additional innovative opportunities to continue this work. In 2012, the Office of Governor Nikki Haley and SCDHHS began exploring a Pay-for-Success project to expand home visiting programs.

## Pay-for-Success Project Goals

- Use taxpayer dollars more effectively while providing needed home visiting services to families in South Carolina's Medicaid program
- Improve maternal health and birth outcomes, early child health and well-being, and school readiness among at-risk families in South Carolina
- Extend South Carolina's commitment to public-private partnership while utilizing the robust engagement of the non-profit sector
- More rigorously focus on evaluation and outcome metrics aligned with South Carolina's movement toward performance-based government
- Coalesce divergent stakeholders around meeting specific goals and outcomes related to maternal and child health

## Partners

Office of Gov. Nikki Haley  
 South Carolina Department of Health and Human Services  
 Harvard Kennedy School Social Impact Bond Technical Assistance Lab

*“South Carolina is excited about Pay-for-Success because we see public-private partnerships as the best way to bring innovative solutions to government. This is another reason for South Carolina to celebrate as we move to the national forefront in creatively finding ways to improve maternal and child health.”*

– Nikki Haley, Governor of South Carolina