USING PAY FOR SUCCESS TO SOLVE THE "WRONG POCKETS" PROBLEM

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The new county director of human services shook her head in frustration as she read a newspaper article highlighting the plight of Bob, a 56-year-old homeless man living on the streets for over two decades. According to the story, Bob was frequently intoxicated, which made it difficult to house him. He also faced serious mental health challenges and too often found himself in shelters, jails, or other crisis care. The director wanted to help Bob and others like him but wondered how best to tackle it during tough budget times.

She asked her staff to find a cost-effective solution for housing Bob and other chronically homeless individuals in the county. They presented her with a plan to create supportive housing, a proven, evidence-based intervention that delivers housing stability for individuals with complex needs. Bob would not need to give up alcohol before moving into an apartment and, once housed, could receive services that would reduce his time in homeless shelters and jails. Such results would mean better lives for people like Bob and less outreach and monitoring costs, saving crucial human services dollars. Embracing the plan and promise of future savings, the director scrubbed her budget for every penny and secured other resources to create 50 units of supportive housing and launch an independent evaluation to verify the value to her department.

Two years later, the evaluation demonstrated that Bob and the other chronically homeless served by the initiative remained in stable housing and reduced their time spent in shelters and jails. But the director noticed that the vast majority of cost offsets accrued to the sheriff's office, not to her budget. The savings resulting from less time in jails were so great they could have covered her department's cost for the supportive housing.

Although she was happy the intervention was succeeding, she faced the uncomfortable dilemma of how to justify the new costs now affecting her budget without the obvious offsets to human services programs.

The dilemma in this illustration is known as the "wrong pockets" problem, and it could happen in any county or community in the country. It occurs when the entity investing the resources in an intervention is not the sole—or even primary—beneficiary of the program's success.

In the scenario earlier, the department of human services paid for supportive housing because it was its strategic (and public) priority to house chronically homeless individuals, but the sheriff's office benefited most from the cost savings/offsets. In this case, the question about which budget should pay for the intervention is between two departments at a county level.

This challenge can be compounded if savings accrue to budgets on the city, county, state, and federal levels.

Health care service reduction is a good example of this complexity. Thorough analysis and evaluation would be needed to determine whether Bob's stabilized health led to savings that were realized at the local hospital level, in the state Medicaid budget, or both.

There may also be a situation in which savings generated across multiple systems—state Medicaid, federal Medicaid, county jails, state prisons, local health care—demonstrate a cost-effective program in aggregate but not enough savings to individual departments or government levels to warrant investment by any one of them alone.

Pay for Success is a model that drives resources toward proven, successful programs and offers opportunities to address the "wrong pockets" problem by providing a mechanism through which the comprehensive needs and costs of a particular target population are assessed, and budget allocations agreed to prior to implementing an intervention. It breaks down siloed thinking by taking a holistic view of an intervention's impact across all relevant systems. Furthermore, because payment is made only if success is observed, the primary end payer is guaranteed to pay only for pre-agreed outcomes of value.

For these reasons, Pay for Success is an attractive way to bring supportive housing to scale. If the director of human services had used Pay for Success, she would have realized that supportive housing required significant upfront resources and identified the various departments benefitting from its implementation. She may have agreed to pay for some of the supportive housing on the basis of length of stay, or she may have decided to ask the county administrator and budget office to fund the program on the basis of avoided jail days. Either way, she would have been clear about which agencies must participate and to what extent, as well as what the benefits would be and where they should, and could, be realized.

Our supportive housing Pay for Success transaction in Denver takes this holistic view by basing its success payments on anticipated reductions in jail days, police encounters, court costs, detox, hospital emergency department and other medical visits, as well as housing stability. There may also be savings that accrue to managed care organizations (MCOs) or state Medicaid based on a shift from emergency room usage to preventive care among members of the target population. Although these MCO and state savings add another wrinkle to the "wrong pockets" problem, as they are not being directly captured through the Pay for Success initiative, Denver is using this opportunity to push toward a more sustainable funding model for services in supportive housing and exploring potential roles for MCOs and the state in realizing that goal.

As Denver identified, the value of some outcomes goes beyond cost savings. In our illustration, the director of human services did not try to place a monetary value on successfully achieving a strategic priority for her department. She also did not consider the difficulty of transforming the life of a person who has struggled through homelessness, addiction, or similar challenges in her assumption of benefits. These intangible benefits should also form a component of the Pay for Success analysis.

Pay for Success is filled with opportunities, but continuous work to ensure the combined talents, efforts, and targets of the multiple entities involved is an absolute must if success is to be recognized. It has been described as an "admissions ticket" that serves as a lever to bring diverse stakeholders to the table and reorient systems around investing in and scaling what works. A Pay for Success initiative will not be successful if the participants remain focused on their own siloed missions and fail to look beyond their individual interests and budgets.

Nonetheless, the process of making partnership work can be challenging. Difficulties may arise in sharing data and information to identify status quo costs of the target population and evaluate potential savings. Data sharing protocols and memoranda of understanding need to be agreed upon, which can be a lengthy process. If the partners have identified a cohort for the target population, they may wish to try matching named data from across systems, which again requires maneuvering through bureaucratic approval and data sharing logistics.

Furthermore, the process of developing a Pay for Success model may highlight structural barriers when scaling interventions, such as supportive housing. For example, there are supportive housing programs in the pipeline that will likely reduce Medicaid expenses for a given population. Although these cost savings can be realized at the state level, the federal government also stands to benefit—but there is so far no mechanism to realize or use these federal savings in a Pay for Success project. The lack of shared federal and state Medicaid budgets means savings cannot be used directly to pay for the housing required to make the project sustainable.

In the short term, Pay for Success overcomes these challenges by empowering public agencies and investors to be comprehensive, inclusive, and transparent about what objectives are attainable, which entities are able to fund the housing required to make the intervention sustainable, and where benefits could be realized. While the partnership-building required to do this takes time, a successful approach results in a comprehensive understanding of the scope and scale of the opportunity.

As we move forward with Pay for Success, we must consider the creation of an approach in which savings or benefits accruing to one department can be applied to another. This could take the form of a scoring system in which realized benefits are valued even from different departments or levels of government.

At CSH, our role as technical advisor or intermediary in many Pay for Success transactions can help streamline collaborations and access to resources, as well as the process of receiving and distributing success payments—potentially serving as a mechanism to allow these to be pooled from multiple departments or entities.

If we collectively focus on the right priorities, Pay for Success can be a powerful tool to ensure that we fully understand the scope and scale of the challenges faced by vulnerable populations in our communities. It can also be a catalyst for the implementation of effective and efficient solutions that generate positive and far-reaching outcomes.

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