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 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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**ANDY McMAHON** is vice president of CSH’s policy and external affairs team. McMahon has an MPA from Northeastern University and more than 20 years of experience working on issues related to homelessness, housing, health care, and reforming public policies to better serve our most vulnerable populations. McMahon leads work to impact funding and policy for housing, health, and homeless programs, spur innovation in the supportive housing industry, and expand its reach to additional sectors and populations nationally. Previously, as associate director for CSH’s innovations team, McMahon led CSH’s Returning Home, a national initiative focused on engaging corrections and criminal justice systems to create supportive housing and end the cycle of homelessness and incarceration. Prior to joining CSH, McMahon worked in Washington, DC representing state housing and community development agencies on issues related to affordable housing and homeless programs and policy.

**STEPHANIE MERCIER** has more than ten years of experience working with communities to strategically address the needs of their most vulnerable citizens particularly as it relates to homelessness and housing. As an associate director with CSH’s strategy and impact team, Mercier focuses her efforts on developing the use of Pay for Success as a tool to scale supportive housing and drive system change. Prior to joining her current team, Mercier was on CSH’s consulting and training team, providing training, facilitation and technical assistance to organizations working to address issues of housing and homelessness in their communities. Before coming to CSH, Mercier was a housing coordinator directly connecting shelter clients with housing in the community. Mercier has an MSW and an MBA from the University of Michigan.