



How This Works
**BETTER RESULTS
FOR VULNERABLE
COMMUNITIES**

MORE SERVICES, LESS WASTEFUL SPENDING

Pay for Success as an Innovative Strategy to Combat the Opioid Crisis

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Communities across the country are coping with a crisis of opioid use disorders that ravage lives by the day. The Centers for Disease Control and Prevention (CDC) reports that opioids claimed the lives of more Americans in 2015—over 33,000—than in any other year on record.¹ The annual number of opioid overdose deaths, the CDC also notes, has almost quadrupled since 1999.²

And yet, many of the best-intentioned policymakers are struggling to effectively address this mushrooming problem. One reason is that state and local government budgets are already severely strained. Communities may recognize that, as the federal government has shown, about one of every ten Americans who needs treatment for substance use is actually getting it.³ And they may even know about evidence-based interventions, as well as promising new programs, that have been proven to work in other communities. But government leaders are not sure how to fund these interventions that could successfully ameliorate, if not eradicate, this crisis. And even if they did find the dollars, if government operated as normal, it would simply fund expanded activities by service providers rather than ensuring that their funding ultimately improves people's lives.

1 Centers for Disease Control and Prevention, "Opioid Overdose," available at <https://www.cdc.gov/drugoverdose/>.

2 Centers for Disease Control and Prevention, "Wide-Ranging Online Data for Epidemiologic Research (WONDER)," National Center for Health Statistics (2016), available at <http://wonder.cdc.gov>.

3 Substance Abuse and Mental Health Services Administration (SAMHSA), "Results from the 2015 National Survey on Drug Use and Health: Detailed Tables," Table 5.58B (September 2016), available at <http://www.samhsa.gov/data/sites/default/files/NSDUH-DET-Tabs-2015/NSDUH-DET-Tabs-2015/NSDUH-DET-Tabs-2015.pdf>.

So what's a community to do?

In the midst of these challenges, one potential solution, one tool in the proverbial toolbox, has emerged: Pay for Success.

If you're like most Americans, you've never heard of Pay for Success. But this wonky model, which is quietly gaining traction, may be one of our best hopes for tackling the undeniable toll of opioid use disorders—and other seemingly intractable issues of our time.

Pay for Success is a strategy to produce better outcomes, like fewer opioid overdoses, by paying only once an intervention (e.g., services, technology, medication) works. Instead of paying upfront without regard to results, government provides payment only once an intervention produces certain positive outcomes, as determined by an independent evaluator. For example, payment could flow after a program of medication-assisted treatment, in conjunction with behavioral counseling, reduces the rate of substance use relapse by eight percent over six years across a state, hitting the preset goal.

Meanwhile, the organization providing the intervention may well need dollars to cover its upfront costs. Impact investors—wealthy individuals, banks, or charitable foundations—are recruited to provide this capital (called Pay for Success financing).⁴ And if the evaluator deems that the project hit its outcomes goals, then government pays back investors and provides a modest return. If the intervention does not achieve its intended impact, investors are not repaid.

The potential benefits in a case like tackling the opioid crisis are clear:

- The organization offering services to individuals who are experiencing substance use disorders and those at risk is freed from the narrow confines in which it may normally operate, given its traditional funding sources. They are no longer mandated by many grant rules—for example, to provide very specific services regardless of what its clients truly need in real time. The organization is also liberated from the

tyranny of daily fundraising when it has an inflow of upfront capital to cover its costs, allowing staff to focus on mission over money.

- Government is able to preserve its limited taxpayer dollars for interventions that work. And helping a person overcome his or her substance use disorder may ultimately be far less expensive to taxpayers than paying for the costs that substance use can incur through increased crime, homelessness, and foster care demands. Although it is true that government will likely need to set aside the funds now for outcomes payments that it may or may not make down the road, it is still able to hang onto those dollars until lives are improved. And if the intervention produces cashable savings or avoids costs that it would have otherwise incurred, government could make its outcomes payments with dollars it didn't have available before.
- Investors not only stand to make a return, but they can do so in a way that aligns with shared values. As pointed out by David Wilkinson, a Pay for Success expert with whom I used to work at the White House, some investors put their dollars into private prisons and profit when more people are sent to jail, for example. Through Pay for Success, he'd note, impact investors can profit when ex-offenders do not return as a result of programs that reduce recidivism by tackling substance use disorders.
- The person ultimately served—say, someone with a substance use disorder who needs treatment—is receiving services he or she may not have otherwise been able to access. And with service providers whose reputation is on the line and investors who get paid only if outcomes improve, all under the watchful eyes of an independent evaluator, there is a good chance that the ecosystem will do everything it can to ensure the person's life is genuinely, measurably improved.

Thus, it's no surprise that national leaders on both sides of the aisle, from former President Obama to House Speaker Paul Ryan, have endorsed this model: more services for those in need, more efficient spending. There's a lot to like there.

Opioid use disorders are, in theory, a great fit for Pay for Success approaches. And innovators have taken notice. Connecticut has launched a Pay for Success project that is expanding services available to parents to enable them to keep their families together and their children out of foster

⁴ Pay for Success financing is sometimes known as a social impact bond, though the arrangement usually is not technically a bond.

care. Addressing substance use disorders is a major component of this work. A group of investors is providing \$11.2 million to finance Family-Based Recovery, an intervention that includes home visits to families to help parents develop stronger skills, receive substance use treatment, and take toxicology screens. The evaluators at the University of Connecticut will measure the results, and the state will repay the investors if parental substance use, among other negative outcomes, decreases due to the intervention, saving the state substantial costs by helping to avoid foster care placements.

Beyond this pilot, Pay for Success approaches can take different shapes and forms in different communities. It could be used to expand evidence-based practices or pilot innovative ones. It can base only part of a funding stream, instead of all of it, on achieving outcomes. A Pay for Success project could involve multiple entities paying for the outcomes, and government need not be one of them. Hospitals, foundations, and others may be interested in paying for reduced substance use. Pay for Success could even be used to advance environmental outcomes instead of outcomes related to human lives. The possibilities go on.

Of course, Pay for Success has some limitations. One is that Pay for Success does not provide a quick solution to the opioid crisis and other pressing problems. Developing a carefully constructed project that guards against unintended consequences and wins the approval of all parties involved takes time. But like so many other urgent issues, the opioid crisis requires an all-hands-on-deck approach, and we need short-, medium-, and long-term approaches. Pay for Success is not designed to fix everything that needs fixing. It is meant to be one helpful piece of the puzzle, bringing together the sectors in a common mission to improve people's lives in the midst of some real constraints, often raising some sorely needed capital.

But even when funding for the opioid crisis is easier to find, Pay for Success will still be a relevant tool. The fact that Pay for Success can surface millions of dollars for services is a convenient, helpful feature of the model. Its core value is in guaranteeing that lives will be improved before governments (or other “payers”) pay for something. We need governments, service providers—the whole social sector—to embrace what works, improve or

discard what doesn't, and test what is unknown. All involved need to be prudent stewards in times of tight budgets, but even more important, they need to be moral stewards in any budgetary environment.

Scripture tells us, “...where your treasure is, there will your heart will be also.”⁵ For our hearts to be linked in solidarity with those among us who most need support, including those wrestling with an opioid use disorder, we must usher in a different way to spend our collective treasure. And that's exactly what Pay for Success offers.

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5 The King James Bible, (Matthew 6:21).