America Forward on Pay for Success

Innovation, Flexibility, and Data-Driven Results

America Forward is a nonpartisan policy initiative that unites national policymakers with innovators who lead high-impact results-driven organizations to advance a public policy agenda championing innovative and effective solutions to our country's most pressing social problems. America Forward is an initiative of New Profit Inc. New Profit is a national venture philanthropy fund that invests in, and provides strategic support to, a portfolio of leading social entrepreneurial organizations to strengthen, connect, and amplify their impact and increase social mobility in America.

We advance our efforts through the leadership of the **America Forward Coalition**, a network of more than 60 innovative, impact-oriented organizations, working in more than 1,000 communities nationwide, dedicated to driving systemic change in workforce development, education, early childhood, youth development, and poverty alleviation. Our Coalition members share a commitment to innovating to achieve better results, using data to track progress and ensure accountability, and leveraging resources across silos and sectors to improve the lives of the people they serve, and are achieving measurable outcomes in communities across the country every day.

We believe that innovative policy approaches that foster innovation, reward results, and catalyze cross-sector partnerships can transform these local results into national change and propel all of America forward.

Why we care

Signs are all around us that as a nation we are failing to make the right investments that will tap the wellspring of potential represented by the productive power of the American people. No longer is the United States at the top of international education rankings. Over three quarters of a million young people drop out of school each year, and many who graduate lack the skills that would make them employable.[i] Only half of the students who enter higher education institutions get a degree on schedule (within five years or less).[ii] More than 50 percent of all African American men who drop out of high school have a prison record at some point in their lives.[iii] Millions leave prisons each year with little prospect of becoming self-supporting through legal means, and over half of all people released from prison commit another crime within three years.[iv] More than two thirds of our children and youth—34 million Americans between ages 6 and 17—are not receiving the supports they need to succeed as adults.[v] More than 20 million adults living in America have low English language proficiency, placing them at high risk for poverty and their children at risk for educational failure.[vi] As a result of these multiple challenges and others, one in seven American youths is neither employed nor in school, and many more face a bleak future.[vii]

While the impact of these systemic weaknesses on individuals is staggering, the public cost is even more far-reaching. Every person the system fails becomes a drain on those who are employed. Over the lifetimes of the young people left behind in 2011 alone, taxpayers will assume as much as a $1.6 trillion burden to meet their increased needs and compensate for lost tax revenue, and the economic impact on society will reach $4.7 trillion.[viii] We spend billions of tax dollars every year on safety net and human services programs and billions more on prisons—the public costs of which have increased four-fold in the last twenty years.[ix] Our economy suffers in other ways as well. Companies spend billions of dollars teaching basic skills to employees who arrive without them and despite the high unemployment rate, more than five million positions go unfilled in part because candidates with the right skills are in short supply.[x] And when it becomes easier to find qualified employees elsewhere, businesses leave, taking their jobs with them. We risk both our ability to compete globally and our ability to live as a nation in accord with our deepest values and boldest aspirations.

As study after study affirms, today's economy needs not just strong backs, but strong brains. Yet we are failing at every turn to capitalize on opportunities to make more people productive in ways that will take America forward.

Who we are

Every day we are doing the hard work of moving America forward. Some of us help students from under-resourced communities or with learning disabilities prosper in early childhood, elementary and high school, enabling them to graduate ready for college and career. Some of us help families through crisis periods and enable youth leaving foster care to live independently. Others offer "opportunity youth" the chance to gain the education and training they need to get back on track. Some of us help students persist in postsecondary programs by providing the extra supports they need. Others offer "bridge building jobs" that offer work experience accompanied by supports that help workers transition to future opportunities. And many of us provide critical supports, inspire and motivate those we serve, improve access to other providers, and help people navigate the often confusing education, job training, and workforce systems.

We hold ourselves to high standards. We measure our results. And our success tells us that it is possible to forge a pathway from poverty to economic success. But it will take hard work, investment, and significant reforms.

What we believe

We value innovation as an essential mechanism for improving our nation's efficiency and effectiveness addressing social challenges. Innovation is poorly understood by many who believe it simply refers to that which is new. We view innovation as a cycle in which a pattern-changing idea is developed, assessed, tested, evaluated, and then refined (if it successfully achieves greater value) or abandoned (if it does not). For this cycle to work in the social policy arena, there must be clarity regarding the **outcomes** sought, **flexibility** to try new approaches and providers, a **measurement system** to determine if the approach is effective, and **resources that follow positive results**. Unfortunately, it is the rare government program that adopts and supports this cycle. Too often, outcomes are not clearly specified or focused on at all, approaches are too narrowly dictated and do not focus on prevention, the ability to measure results are severely limited, and resources are locked into specific providers or programs, even if others would yield greater value. As a result, the federal government may fund the same ineffective programs for decades without combatting the root cause of the targeted problem, costing taxpayers billions of dollars and undermining the potential of the people who the programs are intended to help.

Pay for Success contracting flips the equation, linking government payments to positive outcomes that have been measured and evaluated. Under this funding model, public dollars are tied to results rather than based on the cost of services provided, or the number of people served. Specific interventions are not spelled out, allowing providers the flexibility to adopt the strategies they determine will be most effective. In some cases, private sector funders may provide up-front financing, taking on the risk that the intervention will not succeed and recovering their investment if it does.

Definitions

Pay for Performance: The tying of incentives, such as payments or increased market share, to the achievement of specific benchmarks or outcomes.

Pay for Success: A type of pay for performance-based contracting between government and service providers in which impact is measured rigorously and government makes “success payments,” or increases a provider’s market share, only when results are achieved within a specific timeframe. (Note: In the recently authorized Workforce Innovation and Opportunity Act (WIOA), the phrase “Pay for Performance” is used broadly to mean both Pay for Performance and Pay for Success as defined here).

Social Innovation Financing: A tool designed to address the payment delays and uncertainties inherent in Pay for Success contracting. In Social Innovation Financing, private funders, using various financial instruments, provide working capital to service providers with Pay for Success contracts to deliver social, health, housing, community development, and similar services, and those private funders take on the financial risk that the service provider will not meet the level of success necessary to trigger performance payments. Social Impact Bonds are one form of Social Innovation Financing (but are not actually bonds in a traditional sense). Again, government is not required to pay unless the provider achieves results within a specified timeframe.

Contracts designed to “pay for success” and emphasize outcomes have several advantages: 1) incentives are created for cost-effective interventions and thus programs have the flexibility to focus on the most effective strategies and emphasize prevention over remediation; 2) investments are supported that have longer term social and financial benefit than those currently supported within the typical one year government budget cycle; 3) fewer resources are wasted on bureaucracy so more funds can go to program delivery rather than to compliance with rules and regulations; and finally, 4) government, and therefore taxpayers, only end up paying for effective programs that work.

Pay for Success gives governments the ability to support high-impact service providers; drive resources to effective social programs; and track outcomes, not just outputs, for individuals and communities. This structure helps government to **effectively** and **efficiently** provide services to those in need.

In some cases, an intervention may prove to reduce public costs. Sometimes these reduced costs can be used to repay private investors who funded the cost-saving intervention up front. When these public savings accrue to a single agency – e.g. the prison system for example, the savings can be captured and repurposed to repay this kind of investment. In other cases, these public savings may accrue to multiple agencies, making it more challenging to consolidate the funds and repurpose the savings to repay investors. And in still other instances, the public savings may not occur for many years – e.g. investments in education for youth that result in savings later in life – and thus not produce funding that can be used in the short term to repay investors. It is also the case that some interventions may not directly reduce public costs but instead are budget neutral while increasing the number of individuals served. In these instances, there is not a specific dollar figure that can be repurposed or reinvested by government but a noted increased efficiency in the utilization of public dollars. The ultimate *efficiency* benefit of a Pay for Success arrangement is not reducing budgets or cutting funds, but rather the more efficient use of public dollars to achieve better outcomes and measurably improve people's lives.

However, since Pay for Success is also about *effectiveness* -- moving public funding to interventions that build and use evidence to deliver results -- this mechanism can be used to structure government contracting and funding in ways that incent these results, with or without private sector investment. For example, government can provide funding for the evaluation required to build the evidence base, and for performance management systems that enable organizations to use evidence in program implementation. Government can provide financial incentives – bonus payments and the like – when programs demonstrate better than average, measurable impact. Government can also incent the leveraging of private philanthropy to provide matching funds that cover these costs. Pay for Success has many important implications for retooling government's approach to tracking the allocation of funds from one focused primarily on outputs and within individual agencies to one tying funds to results impacting multiple agencies.

Of course, we have much to learn about Pay for Success in practice. Across the entire field, there is the challenge of "creaming" (targeting those easiest to serve not those most in need) as well as the regional inequality that leaves many communities without programs able to participate in Pay for Success, without access to the necessary technical assistance, or without sources of funding needed to implement a Pay for Success contract. Furthermore, in arrangements that do not incorporate a Social Innovation Financing mechanism there is a risk of putting effective organizations out of business if they cannot raise up front capital. We do not suggest that there is any field in which, at this time, Pay for Success should wholly substitute for traditional grants, transfer payments, or historic performance-based contracting arrangements between government and service providers. However, we do believe that there are many arenas in which Pay for Success designs might be the most effective method for providing services and should be the focus of serious exploration.

Pay for Success Examples

The following set of examples, both real-life and illustrative, is not intended to be limiting – in fact, Pay for Success could be incorporated into many federal social program or into a combination of federal social programs.

Education

Approximately four million youth begin ninth grade every year, but about a fourth of them do not make it to graduation. Dropout rates are dramatically higher for Latino and African American students than for white and Asian American students, and dramatically higher for low-income students compared to their middle-class counterparts.[xi] *If we could cut the dropout rate in half, we could generate $45 billion annually in new tax revenue.*[xii] *And, if we could increase minority students' participation in college to equal that of white students, we would create an additional $231 billion in GDP and at least $80 billion in new tax revenues.* [xiii] *Because dropping out is not a single occurrence, but rather, a process that begins before formal school starts and continues throughout the school experience, solutions must similarly begin with the ways that we prepare children for school, and continue throughout their education.*

- A program aimed at reducing the dropout rate by targeting middle-school students might receive payments based on improvements of a class of students against early warning indicators (such as poor attendance, disruptive behavior, and course failure).
- A program intended to help low-income students attain college degrees might receive payments based on the number of clients who achieve this goal, rather than the number who receive services.

Early Childhood Education

The first pay for success arrangement targeting early childhood education began recently in Utah in Salt Lake County area school districts. Private capital is being used to finance expansion of the Utah High Quality Preschool Program to provide early education services to up to 3,500 children over the course of the contract period.

- The Utah High Quality Preschool Program will deliver a high impact and targeted curriculum to increase school readiness and academic performance among 3- and 4-year-olds. The targeted result of the program is that children will enter kindergarten better prepared and thus fewer children will use special education and remedial services when in elementary and secondary education. This will result in cost savings for school districts, the State of Utah and other government entities.

Health Care

Fresno County in California has identified that it has one of the highest asthma rates in the country with approximately 20 percent of children diagnosed with the disease. Asthma in children has been identified as the leading cause of emergency room and hospital encounters for children in this county and the *number one health-related reason kids miss school. The estimated yearly cost to the county is more than $35 million per year and a Pay for Success arrangement aims to reduce this cost.*

- The families of 200 low-income children with asthma will be provided home care, education and support in reducing environmental triggers in order to improve patient health and significantly lower the cost of these children's care. The goal of the program is a 30 percent reduction in emergency room visits and a 50 percent reduction in hospitalizations, which would yield an approximate net savings of $5,000 per child per year.

Workforce

Almost 6 million young people, aged 16 – 24, are neither in school nor working. Over the lifetimes of the young people left behind in 2011 alone, taxpayers will assume as much as a $1.6 trillion burden to meet their increased needs and compensate for lost tax revenue, and the economic impact on society will reach $4.7 trillion[xiv]*. Programs targeted to address the particular needs of this population as well as the millions of hard-to-employ and chronically unemployed individuals would have impacts not only on workforce related outcomes (wages and tax revenue collection) but also to the public benefit, criminal justice, and homelessness systems.*

- A program intended to prepare hard-to-employ individuals for jobs, such as the federal YouthBuild program run by the Department of Labor, with a current success rate of 60% in placing opportunity youth in livable wage jobs, can easily expand services to additional youth through an existing network of local providers using a Pay for Success approach. Funds could be awarded to providers for additional program slots each time a program achieves success against certain previously agreed upon metrics, such as seeing a student through to program completion, placement in a livable wage job, and retention of that job for a specific period of time.
- A program focused on individuals who have been chronically unemployed would provide training and support to secure the individuals work in a transitional job, and retention supports when they move into competitive employment. The program would be paid based on achieving placement for the individual at both points.

Child welfare

Today in America, over 400,000 children are being raised in foster care, at a cost to taxpayers of more than $9 billion annually[xv]*. Young people who spend long periods in foster care are disproportionately likely to experience homelessness, health problems, unemployment, incarceration, and other poor outcomes that impose still higher costs on these individuals and society at large.*

- A program intended to encourage preventive approaches in child welfare might receive payments based on the number of hard-to-serve kids that are able to remain with their families, achieve permanency (reductions in moving in and out of placements), experience a decline in child abuse, and an increase in positive child development indicators.

Homelessness

The Commonwealth of Massachusetts has recently launched a Pay for Success initiative to reduce chronic individual homelessness. The initiative will provide 500 units of stable, supportive housing for up to 800 chronically homeless individuals over six years. The Commonwealth is leveraging both philanthropic and private capital investment to fund the work.

- The goals of the programs are to improve the well-being of individuals while saving taxpayer dollars by reducing the utilization of costly emergency resources like shelters and Medicaid payments. Success will be measured by stable housing for at least one year for chronically homeless individuals participating in the program.

Recidivism

The Commonwealth of Massachusetts launched the largest financial investment in a Pay for Success project in the United States. This first state-level project focuses on reducing recidivism among at-risk youth. A single provider is tasked with providing a high-impact intervention to at-risk young men aged 17 to 23 who are in the probation system or exiting the juvenile justice system. Massachusetts, using commercial and philanthropic funding, deferred service fees, state funds, and federal U.S. Department of Labor grant dollars, will repay the investors and service provider only if the services are proven to produce positive societal outcomes and savings for the Commonwealth.

- The intervention is delivered over an intensive two-year period followed by two years of follow-up engagement. The program aims to reduce recidivism and increase employment through intensive street outreach and targeted life skills, education and employment programming.

Veterans

While most veterans make the transition to civilian life with minimal disruption, a subset of the 22 million veterans in the United States face unique challenges transitioning to civilian life, including: obstacles to obtaining full-time employment, accessing healthcare to manage their multiple chronic diseases, and securing adequate and stable housing. The cost to government of caring for this population is projected to be substantial and enduring, especially as 3.6 million of these veterans live with service-related disabilities.

- Finding jobs for transitioning veterans is especially important because persistent unemployment is often linked to negative health conditions, which exacerbate pre-existing mental health conditions. A program that combines employment services with mental health support could positively impact the trajectory of the lives of veterans while potentially generating government savings through higher lifetime earnings, lower healthcare utilization, and lower benefit utilization.
- A program that focuses on female veterans, who are overrepresented within the veterans' homeless population, could have a positive impact on not only these veterans but their children as well. Permanent supportive housing and mental health supports have strong evidence of effectiveness. When combined with transitional housing, substance abuse treatment, and other

wraparound services and if targeted to the specific needs of females, such a continuum of care could lead to reduced reliance on emergency services and generate significant social benefits.

Combination of Federal Programs

Pay for Success is being, or could be, applied to the federal policy areas listed above. It is also important to note that some current Pay for Success initiatives reach multiple policy areas at once. For example, there is a Pay for Success initiative underway in Cuyahoga County, Ohio that is providing a comprehensive continuum of care to homeless families whose children are in, or at-risk of entering, foster care. This initiative is utilizing an evidence-based homelessness transition therapy and is linking caregivers to housing and community support networks. This example demonstrates the emerging opportunity for Pay for Success initiatives to help serve the high-need communities impacting multiple government agency areas.

Investment design options

There are many ways that Pay for Success programs can be constructed, from traditional pay for performance designs that offer bonuses or the prospect of increased market share for achieving specified outcomes, to new forms that engage private sector funders. Because it takes multiple years to determine whether or not a service provider has successfully achieved a given outcome in these specialized models, providers may have to be able to finance program implementation for multiple years without any government funding. Social Innovation Financing arrangements allow these providers to raise the upfront working capital necessary to implement and scale their programs, bridging the timing gap between project implementation and government success payments.

Social Innovation Financing, including specialized mechanisms such as Social Impact Bonds, shifts early risk onto private sector investors, including philanthropy, business, commercial lenders and high net worth individuals. Funding can be raised using various combinations of financial instruments from grants and low-interest loans to credit enhancements and guarantees. Depending on the funding agreement, investors may be repaid once success payments are made, or payments may be reinvested in the program to fund more services. The level of success payments is determined by the effectiveness of the program and the related government savings. This model was first adopted in the United Kingdom, and has since been actively developed in Canada, Australia, India, Brazil, and the United States, where the first projects were launched in New York City, Massachusetts, and New York state. Other projects are being developed at an increasing rate around the country, including additional ones in Massachusetts and New York as well as new projects in California, Colorado, Connecticut, Illinois, Michigan, Ohio, South Carolina, and Utah. A current competition through the Corporation for National and Community Service is designed to further increase the development of Pay for Success projects across many more states and localities.

Another finance model, Human Capital Performance Bonds (HUCAPs), consists of State AA “annual appropriation” bonds that support high impact organizations. Rather than being financed through the appropriations process, HUCAPs are purchased by private investors and financial institutions seeking investment returns as well as social investors who support organizations that demonstrate positive societal impact. Service providers receive bond funding based on their likely social and economic impact, and investors are repaid from the government savings associated with service providers' success. A bill to create a $10 million Human Capital Performance Bond pilot project was recently passed in Minnesota to fund workforce development and housing programs. A similar bond structure was recently approved in the city of Richmond, California to focus on the issue of housing blight in the area.

Project design considerations

Pay for Success arrangements must be carefully designed to avoid commonly cited challenges. These include the limited availability of data to document outcomes as well as antiquated data systems; the mobility of populations, which may make it hard to track outcomes absent a state or national database; the need for start-up or transitional support; a service delivery workforce that has been focused on compliance with rules rather than achievement of outcomes, or that is not accustomed to working with data; and, the risk that providers will choose to serve only those who are easiest to help. All of these challenges could be addressed through program design and improved data systems.

Federal policymakers can advance Pay for Success models by creating incentives for federal agencies or state and local governments to develop model programs, providing funding for and encouraging technical assistance advisors to explore the feasibility of and create pathways towards potential Pay for Success transactions, providing insurance against default by state and local governments, and addressing data systems and privacy issues. Shifting resources from unproductive programs to Pay for Success models that pay based on the achievement of outcomes will ultimately make taxpayer dollars more productive and improve the lives of those whom these programs are designed to help.

As policymakers develop Pay for Success programs, we urge that they consider the following principles:

- Enable providers to participate even if they have not previously been a major recipient of public funding. If opportunities are limited to existing providers, innovative organizations that offer better outcomes will be excluded.
- Be cautious in replacing existing funding streams with Pay for Success models without transitional support. Organizations that have previously relied on public dollars may not be able to frontload funding of their services from private sources. This could cause many providers to fail financially. This concern does not apply in situations in which initial funding is available but re-funding is contingent upon achieving reasonable results in prior years.
- Be careful to identify a range of appropriate benchmarks rather than a single long-term outcome. Such benchmarks enable organizations to track their results and make adjustments as necessary.
- Ensure that consideration is given not only to the potential for cost savings or increased tax revenue through these arrangements but also to greater efficiency in the utilization of public dollars resulting in more individuals served using the same allocations, and to the potential for long-term impact across multiple government agencies.
- Include a partnership with a credible technical assistance advisor. It is difficult for governments to work alone to support the education, feasibility analysis, and the financial modeling

necessary to launch these initiatives. The technical assistance advisor should have a track record of exploring the feasibility of Pay for Success in different localities and in launching Pay for Success transactions.

- Develop systems that prevent providers from choosing only those clients who are easiest to serve, while also retaining flexibility for providers to serve multiple at-risk populations.
- Include a partnership with a credible research organization to conduct evaluations that most feasibly and appropriately measure the reform's impact on government spending and on participants' well-being (and any other key program goals). Ideally, the evaluation should meet the Congressional Budget Office (CBO) and Office of Management and Budget's (OMB) high evidence standards, including their priority for well-conducted randomized controlled trials, so that if savings are found the CBO and OMB will find the savings credible enough to count toward deficit reduction or reprogramming.
- Create opportunities and funding for government agencies to learn from others' experiences and build the capacity of providers, technical assistance advisors, and intermediaries to participate in Pay for Success programs.
- Approve waiver applications across multiple federal departments meeting the above criteria, and provide appropriate technical assistance to awardees. The Department of Labor, the Department of Housing and Urban Development as well as the Department of Justice have already funded, or begun the exploration of using, Pay for Success and evidence-based strategies within its funding structures.
- All final Pay for Success documents are encouraged to be in an "open source" format and should be posted on the internet/web platform.

Specific Policy Proposals

Workforce Development

America Forward has been working to advance Pay for Success models at the federal level through various legislative initiatives including a Pay for Success authority in the Workforce Innovation and Opportunity Act (WIOA), the law that was enacted in July of 2014 and reauthorized the Workforce Investment Act with bipartisan and bicameral support. The Pay for Success provision in WIOA (referred to as "pay for performance" in the bill) allows for local workforce area boards to use up to 10% of their federal workforce dollars for Pay for Success approaches. WIOA also authorizes the expansion of the Governor's reserve to 15%, which totals almost $400 million in funding, and permits use of the reserve funds to incentivize or pilot Pay for Success approaches.

The support of these provisions through the regulatory process by the Department of Labor will be important as states and localities consider utilization of these pay for performance mechanisms effectively across their workforce systems. Training and technical assistance will also be needed for states to ensure that they are aware of this new authority and to ensure the resources needed to engage in these types of arrangements are accessible to those interested in utilizing the authority.

Justice
America Forward has been working with, and will continue to work with, members of the House and Senate Judiciary Committees to assist them with potential Pay for Success provisions in justice-related reauthorizations, such as the Second Chance Act and the Juvenile Justice and Delinquency Prevention Act.

Elementary and Secondary Education
America Forward has proposed that the Secretary of Education be authorized to reserve funds within specific Elementary and Secondary Education Act (ESEA) programs for Pay for Success pilots designed to promote innovative strategies and provide incentives for improving outcomes while reducing the government investment required. Proposed programs include:

- Proposed High School Reform (FY '16 appropriation or ESEA reauthorization)
- Proposed Early Education (FY '16 appropriation, ESEA reauthorization, or other early education vehicle such as comprehensive tax reform)
- Proposed First in the World (FY '16 appropriation or HEA reauthorization)
- Investing in Innovation (i3) (FY '16 appropriation or ESEA reauthorization)
- Fund for the Improvement of Education (FY '16 appropriation or ESEA reauthorization)

Pay for Success Incentive Fund
America Forward is encouraging the creation of an incentive fund at the federal level to expand the piloting and use of Pay for Success. America Forward has been working closely with the current Administration and key champions in Congress on a bipartisan, bicameral approach to create such a fund that could be used to structure Pay for Success projects and contracts, fund feasibility work, evaluation, and contribute to success payments. Legislation was introduced in the 113th Congress in both the House (Social Impact Bond Act) and the Senate (Pay for Performance Act) for a $300M Treasury Incentive Fund with key sponsorship from Representatives Todd Young (R-Indiana) and John Delaney (D-Maryland) and Senators Michael Bennet (D- Colorado) and Orrin Hatch (R-Utah). The House has reintroduced their bill (now known as the Social Impact Partnership Act) with the same champions and the Senate reintroduction is anticipated. The passage of both pieces of legislation in the 114th Congress as well as the development of other similar bills is a priority for America Forward.

Agency-Wide Waivers
America Forward has been working to promote a federal initiative using existing waiver authorities to enable federal agencies to demonstrate, replicate and scale successful Pay for Success approaches. We have suggested application of such waiver authorities for Pay for Success approaches to seven different major federal programs, listed below.

- Opportunity Youth Workforce Development Program Innovations:
  WIOA continues the broad WIA waiver authority for promoting innovations including outcomes-driven approaches to opportunity youth workforce development.

- Job Corps:

WIOA continues the broad WIA waiver authority that could be used to test Pay for Success-type strategies aimed at improved outcomes for participants and to ease administrative difficulties plaguing the program.

- WIOA Programs:
  WIOA continues the availability of the WIA's broad waiver authority for promoting innovations including outcomes driven approaches to workforce development.

- TANF and WIOA Concurrent Waivers:
  Solicit state waiver requests for TANF- related early childhood education/childcare (SSA Section 1115 Waiver) and WIOA adult training and job placement/retention (as referenced above) programs.

- Senior Community Service Employment Program (SCSEP) Mature Worker Rapid Reemployment Initiative:
  Use the Older Americans Act (OAA) Sec 502(e) waiver/demonstration authority for addressing the "new poor" older workers in the SCSEP program.

- TANF Training/Education Waiver Initiative:
  Use the SSA Sec. 1115 waiver authority to offer TANF training/education providers partial payments for participant persistence and skills attainment and the balance of their full fixed payment if the Pay for Success participant is placed in a job whose wages are at least 10% greater than the participant's TANF benefit, within 13 months of starting in the Pay for Success program.

Data Access and Evaluations

- **Access to National Directory of New Hires and to Unemployment Insurance Wage Records:** Subject to appropriate privacy protections, the federal government should amend laws and regulations to permit federal, state, and local education and workforce agencies, state and local workforce boards, nonprofit workforce development organizations, social enterprises, and post-secondary institutions certified by the Department of Education for participation in Title IV of the Higher Education Act (HEA) to have access to the National Directory of New Hires and to Unemployment Insurance Wage Records. Access to such data could be used to help determine provider payments under Pay for Success-type approaches in such federal programs.
- **Establish uniform definition of 'job placement':** Additionally, the Department of Labor, in consultation with the Departments of Education and Health and Human Services, should establish for all federal workforce education and training programs a uniform definition of job placements, recognizing the changing nature of work in our economy, and an accurate methodology for calculating job placement rates of program participants.
- **Encourage evaluations:** The federal government also has the opportunity to encourage the use of low-cost Randomized Controlled Trials (RCTs) that have been seen as the most rigorous evaluation design format currently used in Pay for Success initiatives. The government can also encourage the use of quasi-experimental designs, which do not require random assignment, thereby ensuring that services are not denied to those who need them, but maintain control

and experimental group rigor. The Coalition for Evidence Based Policy, for example, launched a three year competition to fund a handful of low cost RCTs to demonstrate the feasibility and value of such studies for driving efficient use of social spending.

- **Support Evidence-Based Policymaking Commission:** Access to data, a focus on outcomes, and support of rigorous evaluations are all elements that should be common practice in federal policymaking. Representative Ryan (R-WI) and Senator Murray (D-WA) introduced the Evidence-Based Policymaking Commission Act of 2014 to establish a commission to study how best to expand the use of data to evaluate the effectiveness of federal programs and tax expenditures. The development of this commission should be supported and the findings of their work should be swiftly integrated into the work of Congress.

Training and Technical Assistance

Due to the complexity of developing and participating in Pay for Success approaches, training and technical assistance should be made available to assist state and local government, as well as potential providers, to participate. Training and technical assistance would guide governments and providers from pre-development feasibility and procurement design to deal-construction impact and economic feasibility, financial arrangement and complex negotiation and contracting- all steps necessary to launch a Pay for Success pilot. Intermediary organizations can play a central role in delivering this assistance, through grant or contract.

The authorized **Social Innovation Fund's Pay for Success grant competition** is an important recent federal effort to advance and evaluate emerging models that align the funding of social services with evaluated social outcomes. Through this competition, states, localities, and providers can receive technical assistance in their efforts to assess the feasibility of developing Pay for Success arrangements and training on how to structure Pay for Success contracts. These grants were authorized in both the Fiscal Year 2014 and 2015 appropriations bills and should be supported in future years. In addition, similar concepts should be seeded in other agencies through the appropriations process to continue to provide the support needed to increase the allocation of federal dollars to programs that produce positive, long-term outcomes.

Learning from Demonstrations

Once the federal government has launched a broad demonstration program of innovative financing mechanisms to provide additional support to Pay for Success policies and programs, it should assess the continuum of Pay for Success innovative financing approaches represented at all levels of government to determine their potential for broader national policy.

A new pilot project authority, known as the **Performance Partnership Pilots** (P3), is a demonstration focused on more efficiently and effectively allocating federal discretionary funding to implement evidence-informed practices to improve outcomes for disconnected youth or those at risk for disconnecting. America Forward supports this concept and much could be learned from it not only about what works for this specific population but about how Pay for Success can best finance these innovative interventions. P3 and other such demonstrations should continue and expand to other federal programs serving populations in need, both for the knowledge they generate and to inform permanent policy approaches to the issues and populations addressed by these time-limited demonstrations.

The continuum of approaches represented in new Pay for Success authorities like WIOA, P3, and at the Corporation for National and Community Service include features that could be replicated and scaled or that could be "mixed and matched" to test hybrid approaches – or new ones – in innovative efforts. These features include various approaches to risk allocation among government, provider, investor or intermediary. Features also vary as to source of funds for performance payments—from government agencies to private investors, and also include the variation of a limited investor guarantee provided by the charitable sector.

One thing we do know about these various features and models is that we still do not know enough about if, how, and how effectively innovative financing models will contribute to the success of Pay for Success program models. ***Our primary recommendation, therefore, is that the federal government continues to expand its efforts aimed at actively promoting and supporting numerous demonstrations, replications, and scaling of innovative models for* Pay for Success*.***

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[i] Press Release, America's Promise Alliance, 28 Apr. 2014, http://www.americaspromise.org/news/2014-building-gradnation-report-released.

[ii] http://www.act.org/research/policymakers/pdf/13retain_trends.pdf

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