Pay for Success Contracts (Social Impact Partnerships)[1] and Federal Legislation
Frequently Asked Questions
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General Pay for Success Questions

What is Pay for Success Contracting?
A type of performance-based contracting that provides payments in part or entirely based on the achievement of outcomes. Usually, these contracts are between government and strong service providers or providers' representatives in which impact is measured rigorously and government makes "success payments," or increases a provider's market share, when outcomes are achieved within a specific timeframe. Also referred to as Pay for Performance or Outcomes-Based Contracting.

***What is Pay for Success Financing*?**
A tool designed to address the payment delays and uncertainties inherent in some forms of Pay for Success Contracting. In Pay for Success Financing, mission-driven private funders (e.g., banks, philanthropies, individuals), 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. Sometimes these funders receive a rate of return if the outcomes are met. Social Impact Bonds are one form of Pay for Success Financing (but are not actually bonds in a traditional sense). Also referred to as Social Impact Financing.

What is the goal of Pay for Success Contracting?
The goal of Pay for Success Contracting is to improve outcomes among people in need by supporting innovative and effective interventions that address some of the biggest social and educational issues of our time. Pay for Success contracts contain commitments to provide an intervention (e.g., services, technology), rigorously evaluate its impact, and make "success payments" or provide other financial incentives only when results are achieved within a specific timeframe.

Do Pay for Success contracts divert public funding to private investors?
No. In Pay for Success contracts, taxpayer dollars are protected until individual lives are actually improved, and governments have the ability to make smarter decisions about future spending. Far from delivering less money and more costs to taxpayers, Pay for Success does exactly the opposite by driving greater resources toward programs that actually work, delivering better outcomes for people in need and improved accountability for spending. When Pay for Success Financing is utilized, a modest return is usually provided to the mission-driven private funders if the intervention they financed indeed improved people's lives. But that return is set by the government and usually provides far less compensation for the risk absorbed by investors than what the market would provide for the actual level of risk that the intervention succeeds.

How is success in a Pay for Success contract measured?
The definition of success is the core feature of the contract negotiation process; the definition must be something for which a jurisdiction is willing to pay and service providers are willing to be held accountable. The goals for each Pay for Success contract are discussed collaboratively with the service provider, government, and independent project manager (if applicable) – but ultimately determined by

[1] Pay for Success contracts, also known as Social Impact Partnerships, may or may not include mission-driven funders providing up-front funds to finance the intervention. These contracts are instead defined by the government paying only if certain outcomes are achieved at pre-set target levels, as determined by an independent evaluator using a rigorous evaluation design.

the government—to ensure they are ambitious, yet realistic outcomes that strengthen the program and the services it delivers to measurably help people in need.

How is success evaluated? Are Randomized Controlled Trials required?
Within each individual Pay for Success contract, success is defined and evaluated differently. Current Pay for Success contracts have used Randomized Controlled Trials, quasi-experimental structures, longitudinal studies, and a combination of validated data and experimental/quasi-experimental designs as methodologies to evaluate the intervention and determine success.

At what point(s) in Pay for Success contracts is 'success' achieved?
The timeline for determining success and outcome payments is also detailed during the contract negotiation process. Timeline is determined based on the time needed to achieve the outcomes of interest as well as the appetite of the end payors and investors for short- or long-term investment. Prior Pay for Success contracts have been scheduled to last for: 4, 5, 5.5, 6, 7, 12, and 17 years.

Are Pay for Success contracts confusing outcomes with impact?
No. Pay for Success contracts are focused on improving particular outcomes due to an intervention. In other words, Pay for Success contract seek to achieve positive impact in terms of those outcomes. Rigorous evaluation of the interventions in Pay for Success contracts seek to understand the true impact of the intervention again on the basis of improved outcomes.

Is 'creaming' an issue in Pay for Success contracts?
Experience shows that, to date, Pay for Success is actually enabling service providers to reach some of the hardest-to-serve. While creaming is a risk in many service contracts with or without Pay for Success, effective mechanisms have been inserted into Pay for Success contracts to avoid it. In particular, the rigorous evaluations that are a core element of Pay for Success contracts help to mitigate the opportunities for providers to take the easiest to serve and claim success.

How will taxpayers benefit from Pay for Success contracts?
Americans broadly support government spending on effective social programs to help people most in need in their communities. However, governments need better information about how well social programs are working so they can make informed funding decisions and use taxpayer dollars for the greatest good. Pay for Success helps drive resources toward programs that actually work, delivering better outcomes for people in need and improved accountability for government spending.

Is it true that Pay for Success has no positive track record?
No. Pay for Success has worked as intended to date, improving outcomes or, when outcomes aren't achieved, saving taxpayer dollars. While still a new model, Pay for Success implementation to date has been uniformly successful.

For example, the evaluation embedded in the first Pay for Success contract with Pay for Success financing (and the only contract that has fully run its course) found no statistically significant effect on the outcomes sought at Rikers Island. This has on rare occasions been mistakenly cited as a failure of Pay for Success. It is important not to confuse the success of an intervention with the success of the Pay for Success model. Pay for Success promises government will not pay for failure, and it worked in NYC. NYC taxpayers paid nothing for the services, whereas they would have paid upfront for these services if they had been funded outside a Pay for Success framework.

While we await evaluations on other projects, no one disputes that, as a result of Pay for Success contracts, communities in need are receiving services that they otherwise would not: in Salt Lake and

Chicago, youth are receiving high quality pre-K; in New York and Massachusetts, those exiting or at-risk of entering the criminal justice system are receiving support to get jobs; in Cleveland, homeless moms are getting housing that allows them to keep their families together; in Denver, Santa Clara, and Boston, the chronically homeless are getting permanent supportive housing; and in South Carolina at-risk moms and their young children are receiving nurse home visiting support they'd not otherwise receive, as just a few examples.

Is Pay for Success simply a way to privatize government services?
No. Pay for Success is not a way to privatize government services. It is a contracting approach that holds private contractors/providers accountable for the results in fields where service delivery is already privatized. For decades, far before Pay for Success, local, state, and federal government has partnered with the nonprofit sector to deliver social and educational services. Pay for Success channels the energies of service providers to what matters most and what taxpayers want to see: outcomes.

Pay for Success has shown it can also expand public services provided by public employees. In Chicago, Pay for Success has driven the expansion of government-run early childhood programs in the public school system enabling the hiring of more government employees in schools.

Is Pay for Success a more expensive way (as cited in a 2012 McKinsey report) to expand social services than if government were to expand services on its own, paying service providers directly and upfront?
By avoiding payment for programs that don't work and driving broader value to government, Pay for Success is increasing value and driving down costs. While Pay for Success contracts can have certain unique transaction costs, as would be expected in any new field, those costs are coming down.

When the McKinsey report was published in 2012, no Pay for Success contract had closed (i.e. signed and launched) in the US. Since that time, over a dozen contracts have closed and costs from the first contract to the most recent contract have already come down. As contracts and Pay for Success documents standardize, it is expected that transaction costs will continue to drop, just as they have for Low-Income Housing Tax Credits (LIHTC) and other social program innovations.

If private investors provide up-front financing in a Pay for Success contract, can the investors terminate their efforts in these contracts early? Do the contracts have parameters regarding grounds for investors terminating their effort in a project?
Contingency plans for winding down a contract early are typically also included in the contract negotiation process, and those plans would be agreed to by all parties as part of that process. For instance, the contract for Rikers Island included two interim evaluations; if the contract was not performing as expected, the investor could wind down the contract. Approximately two years into that four-year contract, the first interim evaluation showed that the intervention was not producing the desired outcomes, and the contract ended—savings taxpayers from spending $9.6 million on a program that did not work.

Federal Pay for Success Legislation Specific Questions

Is the phrase Social Impact Partnerships just another way to say social impact bonds?
That is not necessarily the case. Social Impact Partnerships may include up-front financing, sometimes called social impact bonds, wherein private funders such as banks or charitable foundations provide the up-front dollars needed for the intervention and related costs. But sometimes service providers have enough funds to cover the costs of providing their interventions to the community, and funders are not needed. What is key about Social Impact Partnerships is that, regardless of any involvement of funders, a government does not pay until lives are improved as determined by a rigorous and independent evaluation.

If a Social Impact Partnership takes the form of a social impact bond (i.e. a Pay for Success contract using Pay for Success financing), are there limits to the return investors can get? Who determines the rate of return?
The rate of return at various levels of success is part of the overall contract negotiation process. All parties would typically have to agree to the repayment terms prior to entering into a contract. To protect against potential windfall returns, in the event that a contract succeeds beyond expectations, contracts can include a cap on the total returns. This was the case in Utah's pre-K contract, which included a cap at 5 percent above the municipal bond rate.

Are the Social Impact Partnership application standards too burdensome? Won't they result in a narrow pool of applicants?
There have been over a dozen Pay for Success contracts launched to date, and over 70 potential Pay for Success contracts are in development with funds from the federal government alone, with more sponsored by non-federal actors. The response from states and local jurisdictions to Pay for Success opportunities indicates an interest and ability to meet standards much like those associated with the Social Impact Partnership application standards.

Is the definition of savings defined too narrowly?
Savings is associated with costs both to the Federal government and state and local governments as well as program-by-program and in the aggregate. Value, however, is not defined monetarily in one bill thus allowing for a greater interpretation of how to quantify (or qualify) the value associated with the outcomes of interest*.*

Are Federal savings 'real' if Congress will just always spend the amount on entitlement programs?
Savings can result in lower overall government expenditures—or in the freeing of taxpayer dollars to serve other individuals who are not currently served or to serve existing beneficiaries at a deeper level. This is true for programs including entitlement programs such as TANF and Medicaid – and delivers meaningful value for taxpayers. An interpretation of savings to mean more efficient use of limited taxpayer resources by serving the same number, or even more, individuals with the same amount funding is possible given that savings are to be projected both program-by-program and in the aggregate.

Can't the investor or others influence the results of the evaluation that determines whether the federal government pays in these Social Impact Partnerships?
No. The legislation takes great strides to ensure the independence of the evaluator. Specifically, the bills ensure that the federal government must be satisfied with the independence and qualifications of the evaluator, as well as even the evaluator's plans, before it will commit to paying for outcomes or the

evaluation. States, cities, or counties applying to the Treasury Fund must submit a feasibility study that includes:

- "The detailed roles and responsibilities of each entity involved in the project, including an… independent evaluator…"
- "The evaluation design."
- "The metrics that will be used to determine whether the outcomes have been achieved and how the metrics will be measured."
- "An explanation of how the metrics used to determine whether the outcomes have been achieved are independent, objective indicators of impact and are not subject to manipulation by the service provider, intermediary, or investor."
- "A summary explaining the independence of the evaluator from the other entities involved in the project and the evaluator's experience in conducting rigorous evaluations of program effectiveness including, where available, well-implemented randomized controlled trials on the intervention or similar interventions."

Additionally, before a contract may be issued (committing federal dollars to pay for the evaluation), the head of the relevant federal agency (e.g., HHS) must determine "that the evaluator is independent of the other parties to the agreement and has demonstrated substantial experience in conducting rigorous evaluations of program effectiveness including, where available and appropriate, well-implemented randomized controlled trials on the intervention or similar interventions."

The legislation also ensures transparency by requiring the publication of information about the evaluator and its plans, increasing accountability for the evaluator's fitness and independence. Specifically, if the federal government commits dollars for a specific project, the federal government must share the following information with the public:

- "The detailed roles and responsibilities of each entity involved in the project, including an… independent evaluator…"
- "The evaluation design."
- "The metrics that will be used to determine whether the outcomes have been achieved and how the metrics will be measured."

Is there a risk that Social Impact Partnerships will simply 'teach to the test' and not actually address the root causes of the social problems they aim to address?

Pay for Success contracts are more likely to address root causes of social problems than typical contracting approaches that reward social service and educational providers for process compliance and outputs. Pay for Success contracts seek to scale preventive solutions that avoid painful and costly outcomes, getting to the root causes of those symptoms. To date, Pay for Success contracts have supported interventions to reduce child abuse and neglect, increase kindergarten readiness, increase employment, reduce homelessness, and reduce incarceration among other things.

Pay for Success is not a panacea but is one tool in the toolbox to improve outcomes for people in need. There is evidence that Pay for Success is helping shift government to an outcomes focus. As compared to traditional approaches to contracting, Pay for Success is attempting to emphasize prevention strategies over remediation to address the root causes of the greatest challenges facing individuals.