



***Moving America Forward: Innovators Lead the Way to Unlocking America’s Potential***  
Policy Ideas to Tie Payments to Providers for Results Achieved

Pay for Success initiatives condition government payments for service providers on the outcomes they achieve. This innovative funding strategy targets taxpayer dollars to programs based on effectiveness, achieving better results for communities and allowing flexibility for providers to choose the best strategy. As Pay for Success pilot programs are beginning to take root across the country — addressing challenges from recidivism to housing to early childhood education — these initiatives should be expanded to new promising focus areas, including veterans, federal assistance programs, disability insurance, health care, aging in place, and child welfare and be used to support cross-agency strategies to address local needs.

**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.

**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 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.

**Defining Pay for Success**

It is important that the federal government ensure use of a common definition of Pay for Success as additional flexibility is granted across federal programs to enable Pay for Success as well as greater opportunities are developed to support Pay for Success in cross-agency strategies. The below definition is included in the recently authorized Every Student Succeeds Act and adequately defines Pay for Success for use across federal authorities and programs.

*“The term ‘pay for success initiative’ means a performance-based grant, contract, or cooperative agreement awarded by a public entity in which a commitment is made to pay for improved outcomes that result in social benefit and direct cost savings or cost avoidance to the public sector. Such an initiative shall include— “(A) a feasibility study on the initiative describing how the proposed intervention is based on evidence of effectiveness; “(B) a rigorous, third-party evaluation that uses experimental or*

*quasi-experimental design or other research methodologies that allow for the strongest possible causal inferences to determine whether the initiative has met its proposed outcomes; “(C) an annual, publicly available report on the progress of the initiative; and, “(D) a requirement that payments are made to the recipient of a grant, contract, or cooperative agreement only when agreed upon outcomes are achieved, except that the entity may make payments to the third party conducting the evaluation.”*

**Policy Idea: Using Pay for Success to Support and Strengthen Families**

Almost half a million children are in foster care in the United States and that number has been on the rise since the end of 2012. Housing instability often brings families to the attention of the child welfare system and serves as a barrier to family reunification when a child has been placed into foster care. An authorized use provision could be added to child welfare funding streams (Title IV E and/or Title IV B) for Pay for Success to address the increasing number of children entering foster care due to housing and other family-based needs. Using family-based interventions coupled with housing and other individualized support services, could decrease the number of children entering and languishing in foster care along with positively impacting child and family specific outcomes such as academic achievement, job stability, and health care needs. One local community is already advancing on a similar idea and seeing significant impact by allocating public funding to family-driven interventions that are home and community based. This policy authority would help to address the disconnect that exists in federal funding—allocating larger sums to out-of-home versus family-based interventions.

**Policy Idea: Using Pay for Success to Bring Rigor to Federal Assistance Programs**

Pay for Success could be used to simultaneously improve the lives of families accessing Federal assistance programs while bringing more rigor to these programs in order to ensure Federal funds are used effectively to produce positive outcomes for both service recipients and taxpayers. The Social Security Act Section 1115 waiver authority could be used to approve governors’ requests that would waive, for purposes of state reporting and for the project only, the inclusion of perhaps single mothers in a Pay for Success contract in the waiver state’s calculation (numerator and denominator) of the 90% and 50% TANF work participation requirements for just the one year they participate in eligible vocational education. Outcomes and outcome payments could be focused on participant persistence and skills attainment with the balance of payment predicated on if a 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 funded program.

**Policy Idea: Using Pay for Success to Decrease Veteran Unemployment Rates**

The average unemployment rate for veterans of the Iraq and Afghanistan wars in 2013 was 9.0%. Veterans between the ages of 18 and 34 experience unemployment rates higher than the civilian population of the same age range. The lack of employment for veterans is often linked to negative health conditions. Providing the Veteran’s Administration with the authority to launch a Pay for Success project that focuses on supporting both employment and wellness services for this specific veterans population could have a positive impact on not only these veterans but could have implications for the general public. Using Individualized Placement and Support, which provides employment services and wrap-around supports for individuals with underlying health issues coupled of employment and training needs, such a program could lead to outcomes such as increased job retention and earnings and decreased use of healthcare and services and public benefits.