

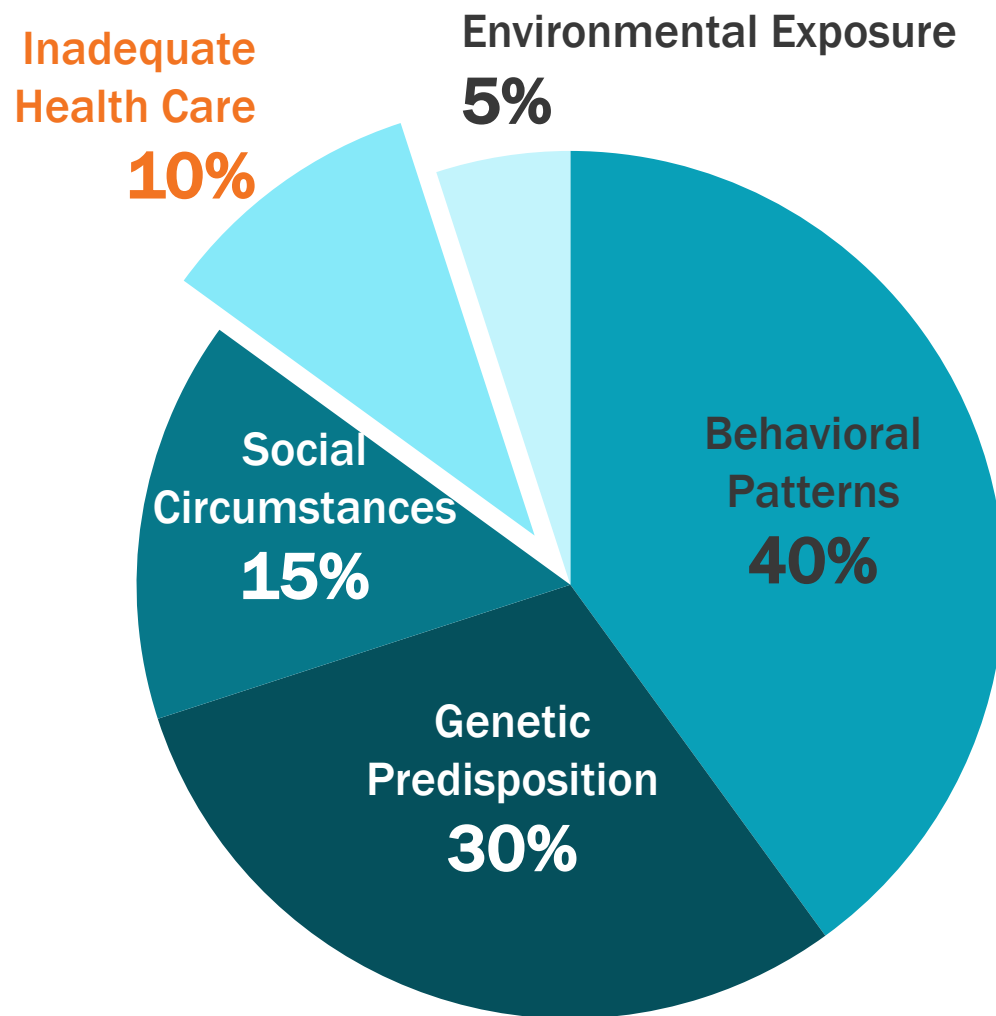


INCREASING PRIVATE SECTOR INVESTMENT IN THE NONMEDICAL DETERMINANTS OF HEALTH

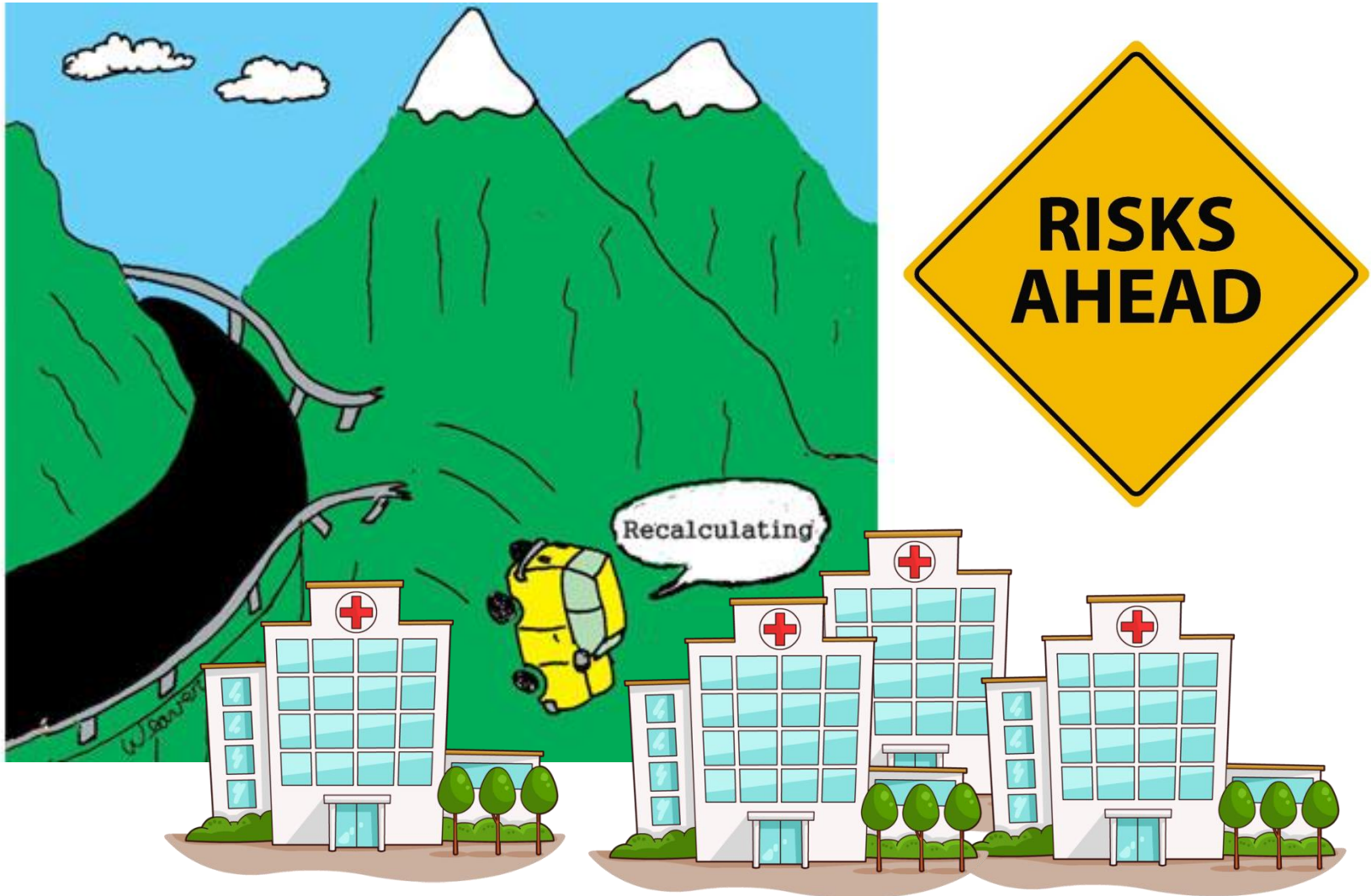
IAN GALLOWAY, FEDERAL RESERVE BANK OF SAN FRANCISCO

Institute of Medicine Roundtable on Population Health Improvement
Thursday, June 4, 2015

CONTRIBUTORS TO PREMATURE DEATH



LOOK OUT BELOW!



PRIVATE SECTOR TOOLS TO IMPROVE POPULATION HEALTH

- **Corporate Philanthropy**
“Context-Focused” Approach
- **Social/Health Entrepreneurship**
“Consumer-Driven” Approach
- **Pay for Success Contracting**
“Dynamic Market” Approach

CORPORATE PHILANTHROPY

STRATEGIES TO LEVERAGE CORPORATE GIVING

Factor conditions – invest in infrastructure that enables business growth (i.e., shared data infrastructure)

Demand conditions – expand product markets (i.e., product donations)

Context for strategy and rivalry - ensure uniform rules, incentives, and norms governing local competition (i.e., common health impact definitions)

SOCIAL/HEALTH ENTREPRENEURSHIP

GETTING IN THE BUSINESS OF HEALTH IMPROVEMENT

Sellers – social/health enterprises develop health-improving products

Buyers - individual consumers, hospital systems, insurance companies, employers, etc.

Investors - banks, foundations, impact and conventional investors provide working capital to bring product to market

PAY FOR SUCCESS CONTRACTING

WHAT IS PAY FOR SUCCESS?

CONTRACTING FOR OUTCOMES

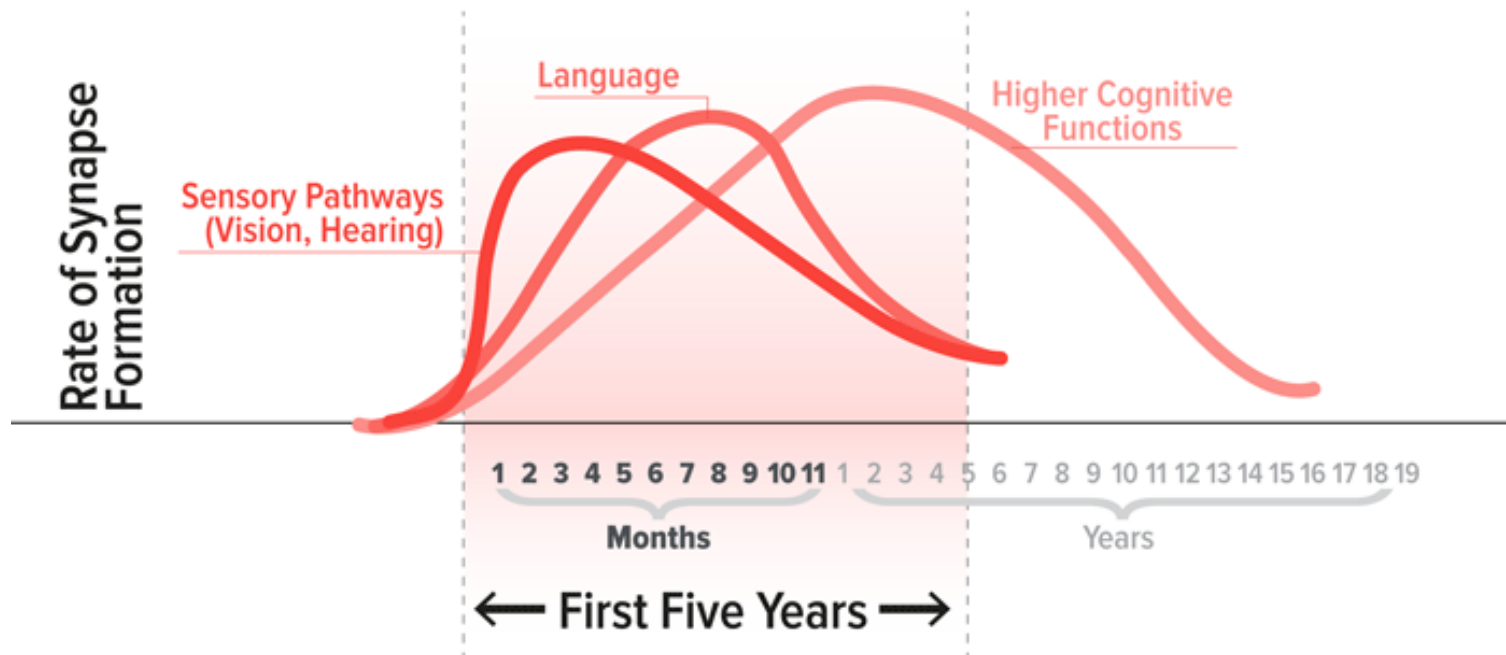
- Governments, insurance companies, CMS, employers, hospital systems (**PAYERS**) commit funding for successful outcomes (i.e., an increase in kindergarten readiness)
- Independent impact auditor evaluates program effectiveness
- The payer only “pays for success”

WHAT IS PAY FOR SUCCESS?

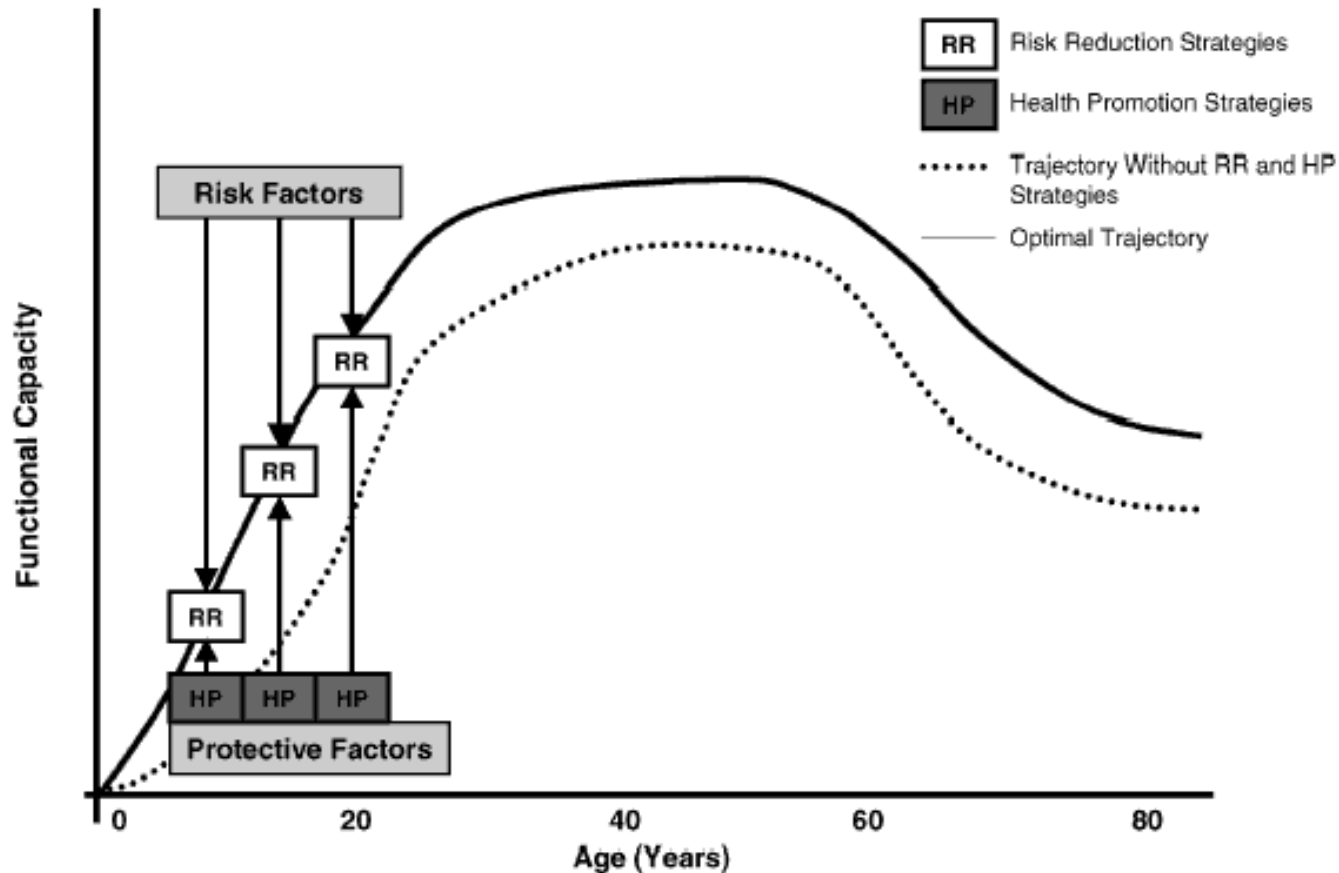
BRIDGE FINANCING

- Banks, foundations, pension funds, endowments, high net worth individuals (**INVESTORS**) fund the service provider in exchange for a future success payment
- Financing terms are based on:
 1. Difficulty of achieving success
 2. Track record of the service provider
 3. Length of the contract
- Investors bear the risk that success won't be achieved (and that the success payment won't be triggered)

EARLY CHILDHOOD CRITICAL TO DEVELOPMENT



DISPARITIES PERSIST OVER LIFE COURSE



Source: Halfon, N., M. Inkelas, and M. Hochstein. 2000. *The Health Development Organization: An Organizational Approach to Achieving Child Health Development*. *Milbank Quarterly* 78(3):447–97.

EARLY CHILDHOOD EDUCATION

SALT LAKE COUNTY

600 low-income 3 and 4 year olds were enrolled in the **Utah High Quality Preschool Program** last fall and will have their academic progress tracked from K-6 grade.

Children participating in the program were given the Peabody Picture Vocabulary Test to determine how many, **absent high impact preschool**, would likely require special education services in the future.

Those that tested **two standard deviations below** average were assigned to the Pay for Success payment group.

EARLY CHILDHOOD EDUCATION

SALT LAKE COUNTY

\$725,000 senior loan from Goldman Sachs.

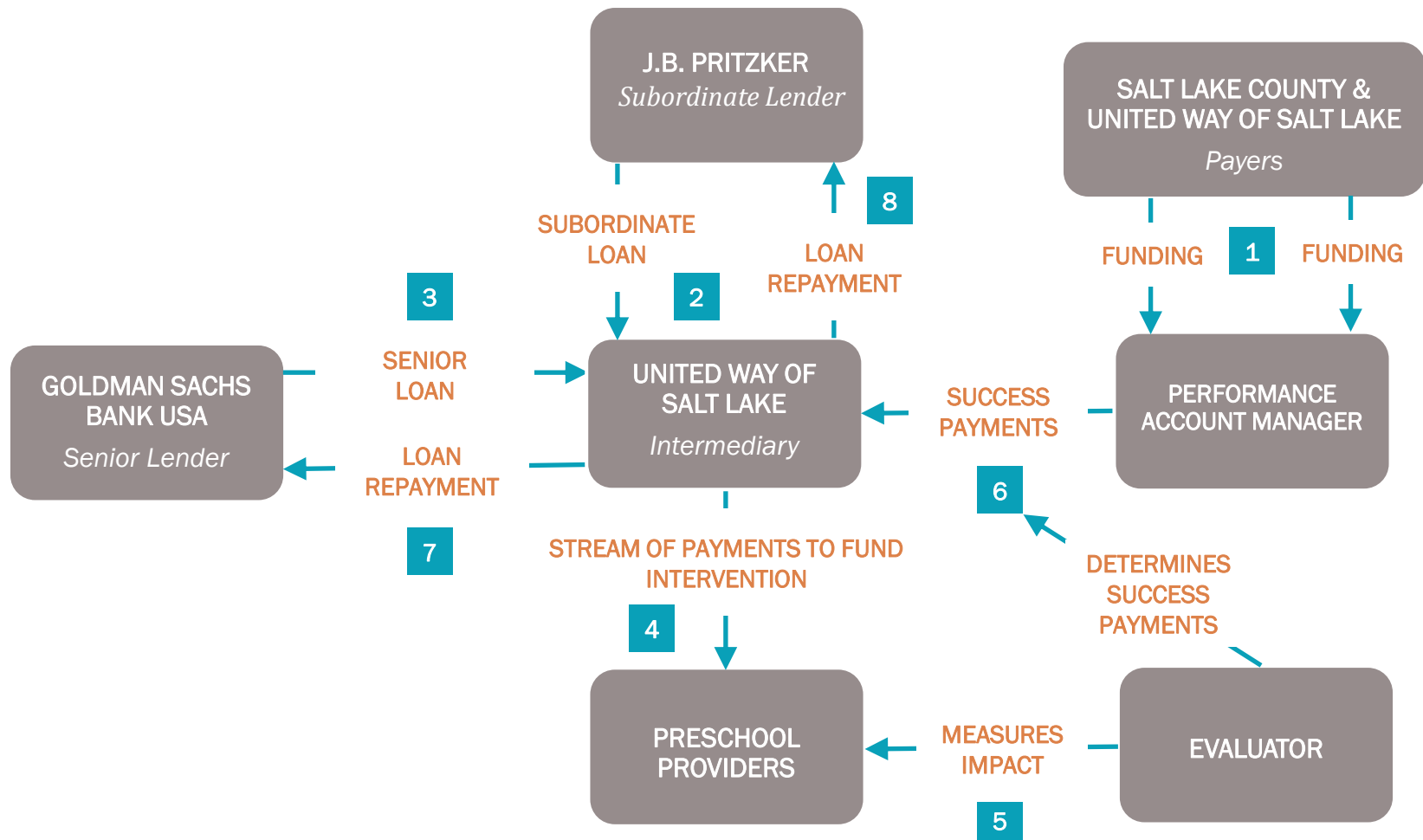
\$375,000 subordinate loan from J.B. Pritzker (a high net worth investor).

United Way of Salt Lake oversees implementation of the project and manages investor repayments.

Every year of avoided special education generates a success payment of \$2,470/child plus 5% interest to Goldman Sachs and J.B. Pritzker until senior and subordinate debt is fully repaid (\$1,040/child thereafter through sixth grade).

EARLY CHILDHOOD EDUCATION

SALT LAKE COUNTY



PAY FOR SUCCESS

NEW AND UNPROVEN

New York City – Recidivism reduction at Rikers Island Prison
(August 2012)

Salt Lake County – Special education avoidance (June 2013)

New York State – Recidivism reduction and labor force reentry
(December 2013)

Massachusetts – Prison avoidance and employment support for at-risk
young men (January 2014)

Chicago – Special education avoidance (October 2014)

Massachusetts – Supportive housing for the chronically homeless
(December 2014)

Cuyahoga County – Foster care avoidance (December 2014)

PAY FOR SUCCESS

PICKING UP STEAM

\$300 million bi-partisan bill for technical assistance pending in Congress

\$11.2 million disbursed by the White House Social Innovation Fund for deal preparation and construction

\$5 million grant to the Nonprofit Finance Fund from the James Irvine Foundation to support five projects in California

\$8.4 million grant to the Urban Institute from the Laura and John Arnold Foundation to support projects across the country

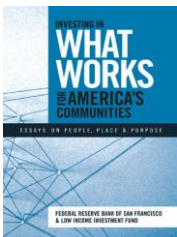
ADDITIONAL RESOURCES & CONTACT INFORMATION



Health Affairs (November 2014)
healthaffairs.org



Community Development Investment Review (April 2013)
frbsf.org/community-development



**Investing in What Works for America's Communities
(September 2012)**
whatworksforamerica.org

Ian Galloway

Federal Reserve Bank of San Francisco

Ian.Galloway@sf.frb.org |  [@IJGalloway](https://twitter.com/IJGalloway)