Hospitals and Pay for Success
Considerations for Nonprofit Hospitals When Engaging in Pay for Success Projects

September 2017
An overview of Pay for Success opportunities for nonprofit hospitals.
The Green & Healthy Homes Initiative (GHHI), founded in 1986, is a national 501(c)3 nonprofit, nonpartisan organization that provides evidence-based direct services and technical assistance to create healthy, safe and energy efficient homes to improve health, economic and social outcomes for low-income families while reducing public and private healthcare costs.
Executive Summary
Pay for Success in Public Health

The purpose of this publication is to explain the ways in which nonprofit hospitals and hospital systems under a fee-for-service payment structure (hereafter referred to as “hospitals”) may participate in Pay for Success arrangements. We aim to shed light on how hospitals can use Pay for Success as a tool to achieve mission and economic goals, while addressing the public health needs of its community. This report is based on Green & Healthy Homes Initiative’s work to date developing asthma-focused Pay for Success projects across the country¹.

Healthcare delivery in the United States is constantly evolving. Healthcare organizations, experts, and policymakers are looking upstream at public health programs to address the physical and social determinants of health that contributed to costly medical utilization. Hospitals, as traditional medical providers, should consider how their economic and mission-related goals align with this shift in the healthcare paradigm. Pay for Success offers one option for hospitals to scale public-health related initiatives.

There are three roles that a hospital may play under Pay for Success projects: outcomes payer, service provider, and funder. To determine which roles are viable, a hospital can conduct an internal economic analysis to determine which subpopulations and public health programs to undertake as a means of achieving mission and economic goals. This analysis, coupled with an understanding of the hospital’s strategic goals, will provide guidance on how to move forward with Pay for Success.

¹ Green & Healthy Homes Initiative has a portfolio of eleven Pay for Success projects across ten states located in: Baltimore, MD; Buffalo, NY; Chicago, IL; Grand Rapids, MI; Houston, TX; Memphis, TN; New York, NY; Philadelphia, PA; Springfield, MA; Salt Lake County, UT; Rhode Island State. Projects are in various stages of development, including feasibility and transaction structuring phases.
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Pay for Success Background
How it works and where hospitals fit

Model overview
Pay for Success financing (also called “Social Impact Bonds”) is a contracting structure for cross-sector partnerships that focuses on paying for outcomes a social service creates, rather than paying solely for the delivery of those services. In its most basic form, private investors pay the upfront costs for providing social services and government agencies or private institutions repay investors if the program achieves predetermined outcomes (such as decreased healthcare expenditures). Exhibit 1 demonstrates the steps involved in a Pay for Success project.

Project Roles
A hospital can play any of the following roles within the Pay for Success framework: outcomes payer (“payer”), service provider, and funder.

The **payer** does not commit upfront funding to intervention services. Rather, the payer benefits under a Pay for Success project by realizing outcomes, often direct cost savings,
that accrue from the delivery of preventive services. If an independent evaluation determines that the intervention does not achieve the predetermined outcomes, then the payer does not pay anything back to the funder. In this way, PFS financing enables financial and performance risk to be transferred to the upfront investors.

The **service provider** is the entity or group of entities that deliver program services. For an intervention to be a good candidate for Pay for Success financing, it should have a strong evidence base for positive outcomes and should provide measurable value to an end payer. A hospital may be a sole service provider or collaborate with other entities, such as community-based nonprofits, to deliver a suite of services.

The **investor** provides upfront capital needed to deliver the intervention. In Pay for Success projects to date, funders have consisted of commercial banks, community development financial institutions, philanthropic entities, and high net worth individuals. While hospitals have yet to fund a Pay for Success project, many programs may make an attractive opportunity. The projects may use community benefit or other dollars in a manner that improves the health of local communities by addressing the social determinants of health and other factors beyond the traditional continuum of care, all while potentially establishing new business lines that align with developing trends in healthcare.

**Alignment with Public Health Initiatives**

Research indicates that the social determinants of health, such as housing, education, or environment, determine an estimated 60 percent of overall health while medical care and genetics each account for only 20 percent (Taylor, et al., 2016). Evidence-based public health programs that address the social determinants of health can be good applications for Pay for Success financing. The arrangement can allow the payer to retroactively pay for an effective program out of cost savings it generates in the future, rather than provide the initial investment when capital may not be available. Such an arrangement helps to bridge the path from paying for volume to paying for value, as payers and service providers can transfer financial risk to external investors. If a program is deemed successful
under a Pay for Success model, payers and service providers may then elect to assume full- or shared-risk arrangements.

Prior to delving into the details of Pay for Success, the hospital should ask itself the following questions to understand how public health programs may fit within its overarching approach to healthcare. These themes are present throughout sections of this report.

- **Internal alignment** – What value does the hospital place on improved population health, if not solely economic? Do public health initiatives align with mission objectives?

- **External factors** – Do/will current or future policy environments encourage hospitals to provide public health services in addition to clinical services?

- **Misalignment of economic incentives** - If overarching mission and economics are misaligned with current payment structures, what mechanisms are in place to help the hospital achieve its goals? If there are no mechanisms in place, are there intermediate steps to achieve these goals?
Hospital Economics in Public Health

Economic incentives under fee-for-service arrangements

The value-based payment approach through Pay for Success aligns well with recent efforts to reform healthcare delivery that straddles public health and clinical models. The differences between public health and medical or clinical care have been well documented by the healthcare field in recent years, and policymakers and healthcare providers are increasingly interested in seeking ways to integrate public health approaches with medical care models.

Hospital systems are traditionally considered medical service providers and typically receive reimbursement for the volume of medical services they provide. While there is a growing application of alternative payment models for medical providers, the vast majority still receive compensation through a fee-for-service structure. Even the term “value-based payment” is broadly used to include arrangements that have underlying fee-for-service bases; for example, some insurance companies will provide incentive payments to providers based on meeting or failing to meet quality metrics, in addition to a base fee-for-service payment.

This publication explores ways in which hospitals under a fee-for-service payment structure may view Pay for Success as a tool for providing (and in many cases, expanding) public health-related services, such as those highlighted in a community needs assessment or meet quality improvement initiatives.

**Stand-alone Hospital System**

A hospital system without an integrated health plan is purely a medical service provider, and so economic incentives are relatively straightforward. The service provider may receive reimbursement from any combination of the patient, the patient’s insurance provider, the patient’s government playing the role of an insurer, or other sources. Hospitals

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2 Harvard T.H. Chan’s School of Public Health provides a summary of characteristics that distinguish the two concepts, please see: (https://www.hsph.harvard.edu/about/public-health-medicine/).
do not, however, receive insurance payments for uninsured patients and charge those pa-
tients directly for services rendered, often with a population that is unable to pay the full
prices for medical care if they pay at all. Hospital systems will often realize an economic
loss for providing services for such patients.

Hospitals are economically motivated to maximize volume of services provided for in-
sured patients while minimizing volume of services to uninsured patients. This paper
focuses on how these types of hospitals may benefit from participating in Pay for Success
projects.

**Hospital System with Integrated Health Plan**

For the purposes of this paper, we will not focus on hospital systems that include an inte-
grated health plan. Many health plans do have compensation arrangements that incen-
tivize value over volume; however, the mechanics behind rate determination may only
incentivize short-term cost reduction rather than long-term health.

**Other Payment Arrangements**

There are numerous payment reform initiatives currently underway across the country
broadly under the transition from volume to value. Notable examples include the adop-
tion of global budgets for medical providers and development of accountable care organ-
izations (ACOs). While not the focus of this paper, we acknowledge that these initiatives
are in progress and hold great promise in transforming payment methods nationwide.
Hospital as Payer
Can a hospital pay for outcomes under a Pay for Success arrangement?

Process for Determination
To determine the feasibility of a hospital acting as a payer in a Pay for Success project, we must first understand how it receives compensation for different subpopulations. To do this, a hospital can pull historic charge records for a given target population (e.g. high utilizing asthma patients) and include data fields for each record, such as:

- **Trigger group**, which stratifies patients by intensity of utilization;
- **Financial class**, which identifies payer type (insurance product); and
- **Financials**, including revenue, variable costs, allocated fixed costs, and net gain.

By looking at charge records through such fields, we can understand which specific subpopulations are profitable to the hospital.

Analysis and Findings
For subpopulations where providing a given set of medical services is profitable, the hospital has an economic incentive to continue to provide those medical services. Paying for preventive services that keep patients out of the hospital and decrease their medical utilization results in economic losses to the hospital. In this scenario, the hospital is not economically motivated to act as payer for these services; however, if a hospital is over capacity, then there is potentially less short-term risk to its current profitability. That is, if there are so many patients who utilize said medical services, then preventing partial utilization may not result in overall revenue decrease to the hospital. Confirmation of hospital economics would require additional analysis into matters such as the hospital’s ability to transfer admissions to other facilities and existing revenue sharing agreements for referrals.
For subpopulations where providing a given set of services is not profitable, the hospital has an economic incentive to reduce provision of those medical services. Paying for preventive services that keep patients out of the hospital and decrease their medical utilization may result in economic gains to the hospital. Therefore, a hospital does have economic incentive to participate as payer under a Pay for Success arrangement. One example where this may hold true is with uninsured subpopulations, as a hospital does not receive payment for services they provide to these individuals. One consideration is whether this target population is large enough to sustain a full-scale Pay for Success project. Pay for Success projects can have relatively high development and transaction costs, so there is generally a minimum scale they must reach to be economically viable. For more information regarding transaction costs and economics of a Pay for Success project, refer to GHHI’s Economic Modeling Handbook (Olson & McKnight, 2016). If the scale of a hospital’s uninsured population is prohibitive to sustaining transaction costs of a Pay for Success arrangement, the hospital may consider other ways to fund the program. If internal resources are available, the hospital should consider self-funding such a program. The section in this report entitled Hospital as Funder explores this option in further detail.

Key Questions Moving Forward

To determine if a hospital can be an outcomes payer under a Pay for Success arrangement, consider the following questions:

- Are there certain subpopulations and services that result in economic loss to the hospital? If so, can Pay for Success finance services that reduce medical utilization for these subpopulations?
- Would paying for preventive services displace currently profitable services?
- If prevention could reduce profitable services, do mission objectives outweigh economic objectives?
- Does the hospital expect payment structures to change in the future so that services, which are profitable today, may not be profitable in the future?
Hospital as Service Provider
Can a hospital be a service provider under a PFS arrangement?

Process for Determination
As medical service providers, hospitals are well positioned to expand their operations as service providers more broadly. Pay for Success can be used to finance this expansion of services that address conditions outside of the traditional healthcare system. This may be an opportunity to capture reimbursement for services that may not be medically reimbursable under existing frameworks. For example, a community health worker home visiting model may not be a medically reimbursable program, but does result in fewer emergency department visits. The hospital may therefore consider hiring a team of community health workers under its current nurse manager staff. Without an existing reimbursement source, the hospital would need to self-fund the program (see section Hospital as Funder) or secure funding externally. For example, one hospital that we worked with established an asthma home visiting program with a CMS innovation grant and is now braiding funding streams from internal sources, direct reimbursement from MCOs, and Pay for Success to scale the services.

The option of hospital-as-service provider may be economically viable for unprofitable subpopulations; by reducing utilization of unprofitable services, the hospital will avoid some future financial losses.

Even for subpopulations where hospitals are traditionally profitable, acting as service provider may be attractive as well. For example, fees from a new program could offset some or all diverted revenue that came from traditional utilization and, with other entities possibly seeking to enter the market as nontraditional service providers, this would ensure that the hospital system maintains presence in this market. Securing upfront funding for services would be advantageous where reimbursement from payers is not guaranteed. Some asthma home visiting programs, for example, receive partial reimbursement from insurers; the remaining cost of the program is supported through grants. Institutions may undertake this course of action, even if all lost revenue is not fully recovered by
new fees, when the program aligns with the organization’s mission or is seen as strategically valuable. The payment arrangements in this model would allow hospitals to align their services with the value they create rather than their billable costs.

Analysis and Findings
As with the development of any new program, the hospital will need to grow the necessary infrastructure to support the intervention: staffing, training, equipment and supplies, process design and protocols, performance management, etc. The hospital may implement the program completely in-house, or it may coordinate with community-based service providers to deliver some portion of services. We have found hospitals to be eager and enthusiastic about teaming up with community-based organizations. These groups often bring a set of programs and referral pathways that are beneficial to hospital patients.

Key Questions Moving Forward
Hospitals should view the role of service provider in a Pay for Success project as a new line of business. To determine if the role is viable, hospitals should consider the following questions:

- Would providing the Pay for Success services cannibalize existing revenue streams for medical services?
- Are there existing or potential funding streams for these types of services?
- Would fees generated by providing the Pay for Success services mitigate potential lost revenue?
- Is there value (economic or otherwise) in developing public health capacities that may complement or displace medical services in the future?
- Are there opportunities to collaborate with the community and community-based organizations by providing public health interventions?
Hospital as Funder
Should hospital directly pay for preventive services?

Regardless of whether a hospital decides to enter into a Pay for Success arrangement, there are incentives to reduce medical utilization of uninsured population by providing preventive services via contracted partners or directly (hospital plays the role of both a funder and service provider). There are potential internal sources that a hospital could consider drawing from to fund a program that serves the uninsured; these include administrative funds, community benefit funds, and quality payments.

Operating funds
Hospitals may have operating funds that draw from assets such as cash-on-hand or capital expenditures. As hospitals look for ways to invest in their local communities, one attractive option is to invest these funds into programs that will produce cost savings in the future and at the same time improve the public health of the immediate community.

Community benefit
All nonprofit hospitals are required to meet community benefit requirements to maintain a tax-exempt status, and hospitals have traditionally provided charity care to meet these requirements. The advent of the Affordable Care Act has brought about requirements for hospitals to conduct a community health needs assessment (CHNA) every three years, and to adopt strategies to meet those needs that have been identified. Investing community benefit funds into preventive programs not only helps to fulfill the community benefit requirement by meeting public health objectives related to those identified in the community health needs assessment, but also reduces future spending on charity care for uninsured patients. This frees up additional funds for the hospital to spend on other community-building initiatives.
Quality payments

Some hospitals may be participating in quality initiatives that include payment for meeting metrics around reducing utilization for certain populations or conditions and procedures. These quality payments could be used to reinvest into preventive programs that generate the payments on the front end.
Conclusions and Recommendations
Potential next steps based on internal analysis

Pay for Success is a promising tool to scale evidence-based social interventions, including those that address public health issues. Hospitals can use Pay for Success to achieve their own goals in serving patients with the most severe needs and financing expansions in new services addressing the social determinants of health.

Determining Pay for Success Roles through Internal Analysis
First, a hospital must understand why it is interested exploring Pay for Success. Are these reasons strategic, economic, mission-driven, or other? How might broader shifts in the healthcare system and policy changes affect these reasons?

Second, an economic analysis of subpopulations will determine if there are opportunities for public health interventions to generate economic benefits to the system. The hospital can decide how the economics tie into its overarching goals; typically, the two potential roles that a hospital can fill in a Pay for Success project are some combination of 1) payer or 2) service provider.

Developing Community-based Programs to Improve Public Health
Hospitals have well-established capacities in addressing public health issues through existing services and programs. Given the ongoing movement from volume to value, hospitals are well positioned to build on their current capacities to better address community needs. Pay for Success provides one tool by which hospitals can do so, whether as payer, service provider, or both. Further, hospitals have internal resources to fund preventive programs even outside of a Pay for Success arrangement. There is great potential for hospitals to strengthen ties to the community by addressing public health from within the community as opposed to inside the four walls of the hospital: household injury, nurse home visiting, and respiratory health related to indoor air quality, and many others.
Bibliography

