How to Pay for Success in Public Health

The mechanical options available to public-health institutions to enable Pay for Success

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Executive summary

There are a variety of options to enable private investment in public-health and speed the rate of innovation through Pay for Success

Purpose
To illustrate how to enable Pay for Success in your state.

Importance
Any single project is only the tip of the iceberg, they represent tests of service delivery innovation, each with the ability to change the standard of care for the entire population.

Pay for Success can:
• Provide access to billions of dollars in private capital markets to fund new tests of service delivery;
• Speed the rate of innovation in service-delivery;
• Further the triple aim of better health and experience for patients while reducing costs of providing care; and
• Provide a transition to value-based payments that lets health-systems transfer the risk to investors.

Preview
• What’s the problem?
• What is Pay for Success?
• What do I need to know about paying for outcomes?
• Why aren’t governments doing this now?
• Why isn’t the private sector doing this already?
• How can it work in my state?

Source(s): GHHI analysis of publicly available information
Pay for Success allows investments in public-health programs, but repayment is contingent on success.

1. Investor provides upfront capital for service delivery.
2. Service Provider implements intervention for target population.
3. Intervention results in a benefit to the Payer, usually measured in cost saving.
4. Payer returns capital to Investor if outcomes are met, often verified by an independent evaluator.
5. An intermediary may provide project- and financial-management services.

Note(s): The programs funded are often not currently covered or fully covered by existing arrangements, but are seeking to be in the future.

Source(s): GHHI analysis of publicly available information
Pay for Success leverages outcomes-based payments to ensure that projects are effective at reducing costs, using net savings to return capital.

Key concept: Outcomes-based payment

Outcomes based payments mechanism, 12 month period

$ thousands

- Overrun
- Cost savings
- Cost
- Expected costs
- Cumulative savings

Final payment: $180 thousand

Key insight
Despite variability, outcomes-based payments allow repaying investments over their useful life up to the cost-savings value.

Note(s):
* Expectations could be based on historical projections or comparisons against a selected target population.

Source(s):
GHHI analysis of publicly available information
For Pay for Success to work in Public health there needs to be a way to repay investors

**Situation**
Pay for Success is based on outside parties taking the risk on new projects, but getting repaid if successful.

**Complication**
Public-health policy does not have an effective gain-sharing mechanism to incentivize investments in preventative care.

**Benefits**
With an effective framework for gain-sharing in place, the public-health institutions would be able to leverage outside investment to drive down the cost of providing care, using the savings to repay those investments.
We have a roadmap of possible solutions that we plan on pursuing and we are continuing to evaluate them in the context of each state.

Possible paths forward

Government led mechanisms
- Direct payment
- State plan amendment
- Demonstration waiver
- Actuarial guidance change
- Capitation carve-outs setting long-term payment terms

Managed care contracts
- Non-encounter data included in cost of care
- Outcomes-based payments as medically relevant expenses
- Services “in lieu” of state plan services

Accountable care entities
- Create specific accountable care or purchasing entity
- Leverage existing entity with new contract

Source(s): GHHI analysis of publicly available information

Note(s): Colors represent general assessments of each mechanism, for more detailed assessments please contact pfs@ghhi.org.
Pay for Success
Efforts Led by Governments
An overview of options to lead Pay for Success efforts in a jurisdiction
We have a roadmap of possible solutions that we plan on pursuing and we are continuing to evaluate them in the context of each state.

**Policy advocacy options**

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Source(s): GHHI analysis of publicly available information
Governments are already doing Pay for Success projects and they can work in Public Health as well.

Financial flows diagram

Key insight
Governments divert savings from their health plans and other sources to return capital to the Pay for Success project.

Pros
• Direct, governments select the issues that matter to them.
• Lots of control over who does what, when, where and why

Cons
• The time and effort for a project is substantial and this creates a bottleneck that limits the potential of many small projects generating continuous and incremental change.

Source(s): GHHI analysis of publicly available information
Direct payment

States can use available funds to cover the services directly or enter into Pay for Success arrangements, retaining all of the benefits and risks.

A state can always go it alone
States can directly pay for the services up-front or on an outcomes basis; however, the federal government has no commitment to participate in the payments, which may change the economics depending on the state’s matching rate established with CMS.

Pros
- No federal oversight, compliance, or restrictions on services offered;
- Could be implemented immediately with highest potential reward for states; and
- Could establish a leadership position for the state on population health issues.

Cons
- Requires capital availability;
- No federal payment participation (FPP) dollars makes it difficult to justify with savings to federal programs;
- The state would take all risks associated with the project; and
- Could set a precedent for non-reimbursement in later cycles.

Source(s): GHHI analysis of publicly available information
A State Plan amendment can include language that enables Pay for Success for any party in the public-health system.

Potential language for State Plan inclusion

Outcomes based payments, such as those in Pay for Success projects, that are for improvements in patients’ health, experience, or cost of care should be considered fully reimbursable medical expenses treated as if they were State Plan services.

Pros

- Most broadly enables outcomes based payments an Pay for Success meaning the broadest potential for impact; and
- Can also include other limitations such as no net-new costs or requires approval from the state in writing.

Cons

- Gives complete autonomy to cover anything through outcomes-based payments.
- Requires a State Plan amendment process, which is time and resource intensive.

Source(s): GHHI analysis of publicly available information
Demonstration (1115) waiver

Including the same language in a waiver such as an 1115 demonstration waiver would enable Pay for Success during the waiver’s effect.

Potential language for inclusion in waiver
Outcomes based payments, such as those in Pay for Success projects, that are for improvements in patients’ health, experience, or cost of care should be considered fully reimbursable medical expenses treated as if they were State Plan services.

Pros
• Broadly enables outcomes based payments an Pay for Success.
• Can also include other limitations such as no net-new costs or requires approval from the state in writing.

Cons
• Gives complete autonomy to cover anything through outcomes-based payments.
• Requires a Waiver process, which is time and resource intensive.
• Expires with waiver.

Source(s): GHHI analysis of publicly available information
Pay for Success
Efforts Facilitated by Governments
An overview of options to facilitate private Pay for Success efforts in a jurisdiction
Policy advocacy options

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Source(s): GHHI analysis of publicly available information
Managed care providers can use outcomes-based payments to amortize investments in prevention up to the cost-savings created.

**Pros**
- Enables the private sector,
- Doesn’t risk public capital,
- Many decentralized projects,
- Higher aggregate rate of innovation,
- Higher long-term effect on cost curve.

**Cons**
- Less control over issue areas, they will be market driven; and
- Less immediate return, because of providing private incentives.

Source(s): GHHI analysis of publicly available information
Managed care contracts: Actuarial Guidance Change

Guide actuaries by stating that rate setting should not include favorable changes in expenditures attributed to non-covered services.

Guidance
Medicaid offices should provide guidance that due to the currently uncertain medical outcomes, rates for the target population should be held constant.

Logic
• Medicaid does not currently cover the services, potentially because they are unsure about the effectiveness of the interventions and, in turn, the associated savings.
• If true, they should be equally unsure if those savings, if any, will persist.
• So if Medicaid they are unsure that the savings will persist, it would be they should not adjust the expected cost of care for that population.

Pros
• Only requires guidance to actuary, not formally amending contracts or regulations.

Cons
• Uncertainty around how to formalize this agreement in a way that gives the health plans the written assurances needed to enter into agreements with investors.

Source(s): GHHI analysis of publicly available information
Managed care contracts: Capitation carve-outs

Creating a carve-out for the target population can enable limited Pay for Success projects with that target population

Pros
- Specificity of the project targets impact;
- Multi-plan applicability; and
- Creates a substantial incentive to address a focus area for a government.

Special program
- Special terms and special services

Cons
- Specificity of the project limits impact; and
- Creates complexity in the rate setting process for other conditions.

Source(s): GHHI analysis of publicly available information
Including outcomes based payments directly in managed care contracts can also enable Pay for Success projects in a more sustainable manner.

**Pros**
- Pioneers a new way of transitioning to value-based payments;
- Allows for risk-transference during early transition to value-based care; and
- Demonstrates the effectiveness of new care compensation models

**Cons**
- No precedent for this mechanism; and
- Would need forethought around what payments will be enabled.

Source(s): GHHI analysis of publicly available information
Managed care contracts: Non-encounter data

Non-encounter data submission can enable Pay for Success projects when the outcomes-based payments are counted rather than direct expenses.

Pros
• Uses an existing mechanism; and
• Allows data collection for policy analysis.

Cons
• May be phased out in near future;
• Does not address issues with medial loss ratio;
• Needs an outcomes based payment mechanism to enable Pay for Success; and
• Not treated the same way in every state, limiting applicability.

Source(s): GHHI analysis of publicly available information
Managed care contracts: Services in lieu of State Plan services

The recent managed care regulations (2016) provide a possible option of designating services in lieu of state plan services, possibly even outcomes.

Pros
- Pioneers a new payment mechanism using an existing regulatory mechanism that was recently updated opening this door; and
- Can designate outcomes-based payments as the compensation for services in lieu.

Cons
- No precedent for this mechanism;
- Is an expansion of the existing use of the “in lieu” services definition; and
- Early indications are that CMS may not have intended this mechanism for this purpose.

Source(s): GHHI analysis of publicly available information
A state can enter into an accountable care contract with an entity or enable health plans to do the same for outcomes-based payment programs.

Pros
- Moves forward value-based payments;
- Incentivizes creation of ACEs where needed;
- Multiple health plans can leverage one ACE program; and
- Can work with direct government contract of through health plans.

Cons
- Not all states have entities in place, the need, or the infrastructure to support this system; and
- Requires additional layers of contracts.

Source(s): GHHI analysis of publicly available information
The initial complexity of determining financial flows is due to the number of options and the malleability of the project design.

Financial flows options

Financial flows diagram

Key questions:
- What names for the entities or programs work best?
- What arrangement allow for the project to advance?

Source(s): GHHI analysis of publicly available information

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