INCREASING PRIVATE SECTOR INVESTMENT IN THE NONMEDICAL DETERMINANTS OF HEALTH

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CONTRIBUTORS TO PREMATURE DEATH

- Behavioral Patterns: 40%
- Genetic Predisposition: 30%
- Social Circumstances: 15%
- Inadequate Health Care: 10%
- Environmental Exposure: 5%

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
STRAATEGIES 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)

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
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

Source: C.A. Nelson, in Neurons to Neighborhoods, 2000
DISPARITIES PERSIST OVER LIFE COURSE

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.
$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

GOLDMAN SACHS BANK USA
Senior Lender

J.B. PRITZKER
Subordinate Lender

UNIVERSITY OF SALT LAKE
Intermediary

STREAM OF PAYMENTS TO FUND INTERVENTION

PRESCHOOL PROVIDERS

EVALUATOR

SALT LAKE COUNTY & UNITED WAY OF SALT LAKE
Payers

PERFORMANCE ACCOUNT MANAGER

SUCCESS PAYMENTS

DETERMINES SUCCESS PAYMENTS

MEASURES IMPACT

Source: Goldman Sachs Bank USA and Federal Reserve Bank of San Francisco
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)
$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

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