

PEDIATRICS PERSPECTIVES

The Role of Social Impact Bonds in Pediatric Health Care

AUTHOR: D. Max Crowley, PhD

Center for Child and Family Policy, Duke University, Durham, North Carolina

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ABBREVIATION

SIB—social impact bond

Dr Crowley conceptualized this perspectives article, drafted the initial manuscript, and approved the final manuscript as submitted.

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Address correspondence to D. Max Crowley, PhD, Center for Child and Family Policy, Box 90545, Durham, NC 27705. E-mail: max.crowley@duke.edu

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In 2010, the United Kingdom's Ministry of Justice entered into an agreement with a nonprofit known as Social Finance to prevent reoffending by juvenile offenders released from prison in Peterborough, England. What made this contract unique is that the government payments to Social Finance were not based on delivery of services but instead on the level of government cost aversion from reduced recidivism. To cover the upfront cost of funding this prevention effort, Social Finance raised \$5 million from private investors. If the effort successfully reduces recidivism 7.5% by 2016, then they will receive back their initial investment plus a performance bonus—totaling up to \$8 million. This contract, now commonly known as a social impact bond (SIB), represents an innovative financing strategy that leverages private investment to move public services upstream to prevent greater costs in the future. Interim results from the Peterborough SIB indicated that recidivism has dropped 6% compared with the rest of England.¹ Since its implementation, new SIBs are being developed to target a wide array of public problems (eg, reducing recidivism, preterm births, and special education). These bonds are attracting substantial interest and support from the private sector. For instance, Goldman Sachs is supporting a \$9.6 million SIB to reduce recidivism on Rikers Island in New York City. In addition, they are supporting, along with the J.B. and M.K. Pritzker Family Foundation, a \$7 million bond in Salt Lake City, Utah, to reduce special education needs. Goldman Sachs has also recently announced the development of a \$250 million social impact financing accelerator to promote new bonds. Furthermore, Morgan Stanley has founded the Institute of Sustainable Investing with a goal of attracting more than \$10 billion in client funds for investing in social finance.²

SIBs, also referred to as “Pay for Success” financing, are multi-stakeholder agreements that aim to align incentives of various contract parties (eg, cost savings to government, improved health of patients, and financial return for investors). Government and private sector partnerships are bridged by an intermediary, and an independent evaluator monitors program performance to determine if investors will receive capital returns.³ Recently, bonds explicitly seeking to improve children's health to prevent downstream costs are being designed and offered. Colorado, Connecticut, California, Illinois, Michigan, South Carolina, Ohio, and the District of Columbia have all released requests for proposals or information for new

SIBs. Legislators in Maryland and New Jersey have both introduced SIB-related legislation—with the New Jersey General Assembly passing the Social Innovation Act to support bond development around early interventions for the uninsured. In the context of this growing momentum, these bonds hold great promise for demonstrating preventive health services at scale. Currently, the majority of work in this area is being driven by advocates within social finance and philanthropic organizations. Opportunities and outcomes surrounding Pay for Success financing of children's health services are ripe for pediatric research. SIBs to support pediatric chronic health management and child welfare programs are 2 areas especially likely to benefit from greater involvement by prevention and pediatric researchers.

Chronic disease accounts for 75% of health care spending and often has its roots in childhood. In particular, asthma is the most common chronic condition affecting children.⁴ To address this issue, a new bond is being offered in Fresno, California, for preventing asthma-related emergency department visits. The California endowment has invested \$660 000 to launch the Fresno bond, which will deliver an asthma management program to 200 children who are covered by California Medical Assistance Program, or Medi-Cal.⁵ The Endowment's investment will cover not only the costs of services, but the costs of tracking emergency department visits and inpatient hospitalization of each child (ie, evaluation costs). The bond aims for a 30% reduction in emergency department visits and 50% reduction in hospitalization—for a net savings of \$5000 per child per year. Families of children with asthma will receive in-home support (eg, free high-efficiency filter vacuums, hypoallergenic pillow cases, humidity monitors, and fragrance-free cleaning supplies)

as well as education (eg, administering asthma medication) around managing asthma. If the initial savings are realized over the next 2 years, the bond will be expanded to >3000 children.

Bond development is also accelerating around strategies for enhancing child welfare—in particular, SIBs to support effective home visiting services. The South Carolina Department of Health and Human Services has conducted broad exploratory work in this area. A recent feasibility study was completed by the Institute of Child Success that outlined a \$24 million SIB that would support the delivery of Nurse Family Partnerships to 2750 families in South Carolina.⁶ The bond's performance would be tied specifically to reductions in preterm births for families receiving Medicaid. On the basis of previous trials of Nurse Family Partnerships, the proposed bond sets a target of reducing preterm births by 27.4%. If successful, the government could save \$52.6 million, and investors could receive a 6% to 10% return on their investment. Another SIB currently being explored in this area, through funding from the Robert Wood Johnson Foundation, is to support a brief universal home visiting program delivered in North Carolina. This program provides postnatal education to all parents and links families to local social support. The program has demonstrated a 50% reduction in emergency care 1-year postpartum within a population-level randomized controlled trial.⁷

These programs represent evidence-based practices that have yet to be widely disseminated and are indicative of the larger research-to-practice gap that exists in pediatric health services. Bridging that gap requires helping public and private insurers recognize that, in addition to improving pediatric outcomes, substantial cost aversion

can be realized from investing early in children's health. Employing SIB models to quantify exactly when and where this savings occurs can provide actuaries the data needed to model how preventive services can fit into covered care and could reduce total expenditures, thus providing health and financial incentive for dissemination.

Pay for Success financing and SIB development have the potential to provide the resources needed for large-scale dissemination trials with the explicit goal of demonstrating effective pediatric service's capacity for downstream savings.⁸ Such demonstrations of savings from scaled prevention programs provide powerful evidence to public and private insurers about which services are and are not cost-effective. Although engaging private investors to support pediatric services is likely to be foreign to many and risky to some, these models are growing rapidly—driven not by health researchers, but by philanthropic business leaders. The pediatrics community cannot afford to ignore this new development. Leveraging this new financing tool to accelerate dissemination of evidence-based prevention requires careful stewardship to ensure the health and safety of all children. In this context, pediatric program developers should (1) expand measurement of preventive intervention's effects on receipt of health care and social services in the future, (2) conduct fiscal analyses of interventions' actual impact on public costs, and (3) evaluate the risks and opportunities that using an SIB to demonstrate an intervention's savings at scale could present. These initial steps, combined with a willingness to develop a greater dialogue with Pay for Success financing leaders, can ensure that pediatrics is not left behind during what appears to be an important evolution in health financing.

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