Pay for Success
A look at a new way for government to finance prevention programs based on measured results.

Pay for Success is a financing mechanism to fund prevention programs, where investors provide capital to implement a social service. Once the government verifies a project’s success, it pays the investors back based on how much money the project saved the government. Here’s what it looks like:

**Flow of upfront funding and project implementation**

**Potential flow of achieved outcomes and outcome payments**

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**Example: New York Recidivism**

This project is designed to reduce recidivism rates and increase employment rates of high-risk individuals recently released from state prison each year.

**Example: Utah Early Childhood Education**

This project funds Granite School District’s high-quality preschool program. If the program is effective, it reduces future special education costs for at-risk children.

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**What are the Benefits and Risks of Pursuing Pay for Success?**

**Benefits include:**

- Improved outcomes for vulnerable populations
- Lower long-term costs and reduced demand for remediation programs
- Shifting financial risk to investors

**Risks include:**

- Performance: If the project fails, governments may not meet their goals, and investors could lose money.
- Termination: If one party ends their participation early, the target population may lose access to services.
- Financial: If the program costs more than it saves, the government could lose money. If performance targets are not met, investors could lose money.

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**Government**

- Contracts to achieve certain goals and assess risk for success.

**Intermediary**

- Holds the contract and manages the project.

**Service providers**

- Administers the services.

**Investors**

- Fund projects upfront and receive returns based on success.

**Evaluator**

- Determines whether results were achieved.

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**Example: New York Recidivism**

- **Potential outcome payments**
  - DOL provided $23.7 million to Massachusetts and New York to reduce recidivism and increase employment for recently-released inmates.
- **Benefit calculations**
  - State of New York and U.S. Department of Labor:
    - Will pay a combined maximum of $21.5 million in outcome payments, at which point they expect at least $29.0 million in savings and benefits.
  - State of Utah:
    - Will pay about $2,590 per student, per year not enrolled in special education.
    - Can expect to save $2,700 per student.
- **Service providers**
  - Will serve around 2,000 formerly incarcerated individuals.
- **Investors**
  - Multiple private and philanthropic investors provide $13.5 million in capital.
  - A foundation provides a 10 percent first-loss guarantee (up to $1.3 million), which is intended to protect investor principal.
- **Evaluator**
  - Will conduct a random control trial and compare outcomes to a group that did not receive the intervention.

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**Example: Utah Early Childhood Education**

- **Benefit calculations**
  - Utah Early Childhood Education State of Utah:
    - Will pay about $2,590 per student, per year not enrolled in special education.
    - Can expect to save $2,700 per student.
- **Service providers**
  - Will serve 3,500 children.
- **Investors**
  - Primary investors funding $4.6 million in loans.
  - Secondary investors funding $2.4 million in loans.
- **Evaluator**
  - Administers pre-test to identify at-risk children in each cohort.
  - Determines how many at-risk children use special education after participating in the program.

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**What if something goes wrong?**

**Performance**

- If the project fails, governments may not meet their goals, and investors could lose money.

**Termination**

- If one party ends their participation early, the target population may lose access to services.

**Financial**

- If the program costs more than it saves, the government could lose money. If performance targets are not met, investors could lose money.

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**Governments**

- Implement innovative, evidence-based prevention programs.
- Improve outcomes for vulnerable populations.
- Lower long-term costs and reduced demand for remediation programs.
- Shift financial risk to investors.

**Investors**

- Return on investment.
- Opportunity to affect society positively.
- Improve outcomes for vulnerable populations.

**Service providers**

- Stable funding.
- Greater flexibility in service delivery.

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**Federal Agencies Have Contributed to Pay for Success Projects in Two Ways**

The federal government has played a limited role by:

- **Building the capacity of organizations interested in implementing projects in the future**
- **Providing upfront payments for early projects if successful**

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