ISSUE BRIEF 7

Is the Price Right?

SOCIAL FINANCE

Pay for Success (PFS) projects are built on specific, measurable outcomes, each with an associated dollar value unlocked through demonstrated performance. In this brief, we share strategies to determine prices for project outcomes.

About This Issue Brief Series

This issue brief is the first in a 10-part series written for government officials interested in learning how to use Pay for Success tools and principles.

The series summarizes best practices and lessons learned at Social Finance from a decade of designing, launching, and managing Pay for Success projects. It includes guidance on each step of the process, from deciding whether Pay for Success is a good fit to actively managing a project post-launch.

Access the complete issue brief series here.

Outcome Prices Signal Perceived Values

The outcomes selected for a PFS project help to signal what the outcome funder cares about; the prices assigned to each outcome signal how much it cares about them.

In PFS projects, the goal is to choose prices that appropriately reflect the fiscal and social value of each outcome while also considering the local and political realities. Here, we share methods for achieving that goal, assuming outcome selection—see more about this in Issue Brief 5—Defining Success—and measurement methodology selection—see more about this in Issue Brief 6—Measuring Success—are complete.

Predicting Outcome Performance

It is nearly impossible to predict exactly how well an intervention will work in a given time and place. Therefore, PFS projects must attempt to link payment and performance along a continuum of possible outcomes. To do this, one of the inputs project developers need for pricing outcomes is the range of expected outcomes performance.

Past performance or historical data of the intervention or program can be used as a starting point, but project partners should ensure that any historical evidence used is relevant to the current project in terms of intervention specificity, outcome specificity, geography, target population, time, and delivery mechanism.

Parameters that Influence Pricing Models

There is no single formula to determine outcome prices. Rather, the inputs for establishing outcome prices differ based on the project's design. Below, we discuss different variables that may impact pricing and how they can be used to model outcome prices.

The fiscal and social value of project outcomes represents the theoretical best answer for how much an outcome is worth. Government entities enter into contracts with social service providers because they seek to generate fiscal and community value. Fiscal value refers to budgetary impact on government (e.g., reduced emergency room costs resulting from a prevention-focused intervention); and community value refers to broad benefits for constituents (e.g., quality-of-life improvements for individuals who spend less time in the emergency room).

Different outcomes vary widely in the amount of fiscal and community value they generate. One method for quantifying and comparing the value of different outcomes is to conduct a cost-benefit analysis (CBA). A CBA measures the total possible benefits, both fiscal and social, of achieving project outcomes, versus the costs required to achieve them. An outcomes funder likely wouldn't be willing to pay more for an outcome than the total fiscal and community value it generates, so a CBA can help project partners understand the maximum price for project outcomes.

While CBAs may seem like precise estimates that can translate directly into outcome prices, they are not. The benefits of a given intervention typically accrue across multiple entities, not all of which are involved in the project. For example, learning outcomes may benefit not only immediate project partners but also practitioners in the field at large and possibly other private or public entities. Outcomes values themselves are often imprecise. And of course, benefit calculations are predicated on unreliable estimations of impact (see sidebar). So, while calculating the fiscal and social value of different outcomes is a helpful starting point, it is rarely the end point in determining outcome prices for PFS contracts.

Provider costs for delivering services are also an important parameter for determining outcome prices. In all, it's valuable to keep providers heavily involved throughout the outcomes selection and pricing process, as they help propel the data-driven procurement and impact mechanisms that lay the foundation for achieving outcomes. Providers cannot sustainably offer services for less money than it costs to deliver them, so project partners need to ensure that PFS outcome prices are high enough to cover deliver costs. Therefore, the provider costs for delivering services helps project partners understand the minimum price for project outcomes. (This is not to say that outcomes funders will always pay more than the cost of service delivery; they might not pay at all, if positive results aren't achieved. But if projects are successful at getting good outcomes, they should never be funded at less than their costs.)

Considering the outcomes funders' willingness to pay ultimately guides project designers between these two poles. Outcomes funders, guided by the above analyses and grounded in local political realities, cannot budget an unlimited amount for outcomes payments, so they typically put aside a fixed pool of funds. In other words, the total available outcomes dollars is a constraint on the amount that can be paid for the achievement of each outcome. [1] But this reality actually opens the door to another pricing approach whereby taking the total dollar amount available for paying for outcomes, the outcomes of interest, and the priority of these outcomes and applying frequency estimates, project partners have the ability to reverse engineer appropriate outcomes prices.

This approach should be used to help project partners determine and negotiate outcome prices that fall between the maximum price derived from a CBA and the minimum price derived from provider costs to deliver services.

Outcome Pricing Training

In 2021, Social Finance hosted a series of outcome pricing workshops for staff at the California Department of Social Services to integrate an outcomes-based approach into their $100 million Housing Support Program. Learn more.

Pricing for Employment Outcomes

To illustrate how project parameters influence pricing models, we share an example below of how project developers calculated outcome prices for a project focused on improving workforce outcomes.

The outcomes funder's goal for the project was to incentivize service providers to achieve client employment outcomes that were above and beyond contractual obligations. For example, service providers' contracts required them to achieve a certain number of job placements, but the outcomes funder was willing to pay more for job placements with higher wages.

This project was designed as an outcomes rate card (ORC), a PFS tool in which outcomes funders contract directly with service providers to achieve specific outcomes at pre-set prices. [2] To determine the price paid for each outcome on the ORC, the project partners:

1. Determined the outcomes funder's willingness to pay: The outcomes funder decided that payments should be capped at 5 percent of provider costs. Across all four service providers contracted under ORC, 5% of costs equaled $137,000.

2. Modeled performance scenarios: This exercise led to a predicted range of expected outcomes for the one-year performance period of the ORC based on data from the prior three years.

1. Social Finance, 2024.
2. Social Finance, 2024.

3 Conducted a CBA: This helped determine the relative value of the four outcomes included in the ORC. For example, job placement at $15 per hour had higher fiscal and social value than job placement at $12 per hour, so it was determined that it should have a higher price.

4 Calculated outcomes prices: Used all of the above inputs to ensure (1) that the $137,000 reserved for outcomes payments would not run out even if providers over performed the modeled performance scenarios by 20%, and (2) that higher prices were assigned to outcomes with higher fiscal and social value. The resulting outcome prices for the project were:

- Client enrolls in program: $25
- Client obtains job placement at $12 per hour: $150
- Client obtains job placement at $15 per hour: $200
- Client earnings over a year following the program are greater than their earnings over the two years before enrollment: Up to $1500 depending on the earning increase

For this project and others, outcomes pricing is an inexact exercise. But unlike traditional budgeting, it makes explicit the assumptions and values underlying program goals—which helps outcomes funders get more precise over time.

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About Social Finance

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