Pay for Performance/Pay for Success in the Workforce System: A Review and Discussion

INNOVATIONS IN WORKFORCE INNOVATION AND OPPORTUNITY ACT STATE PLANS

SEPTEMBER 30, 2016

America FORWARD

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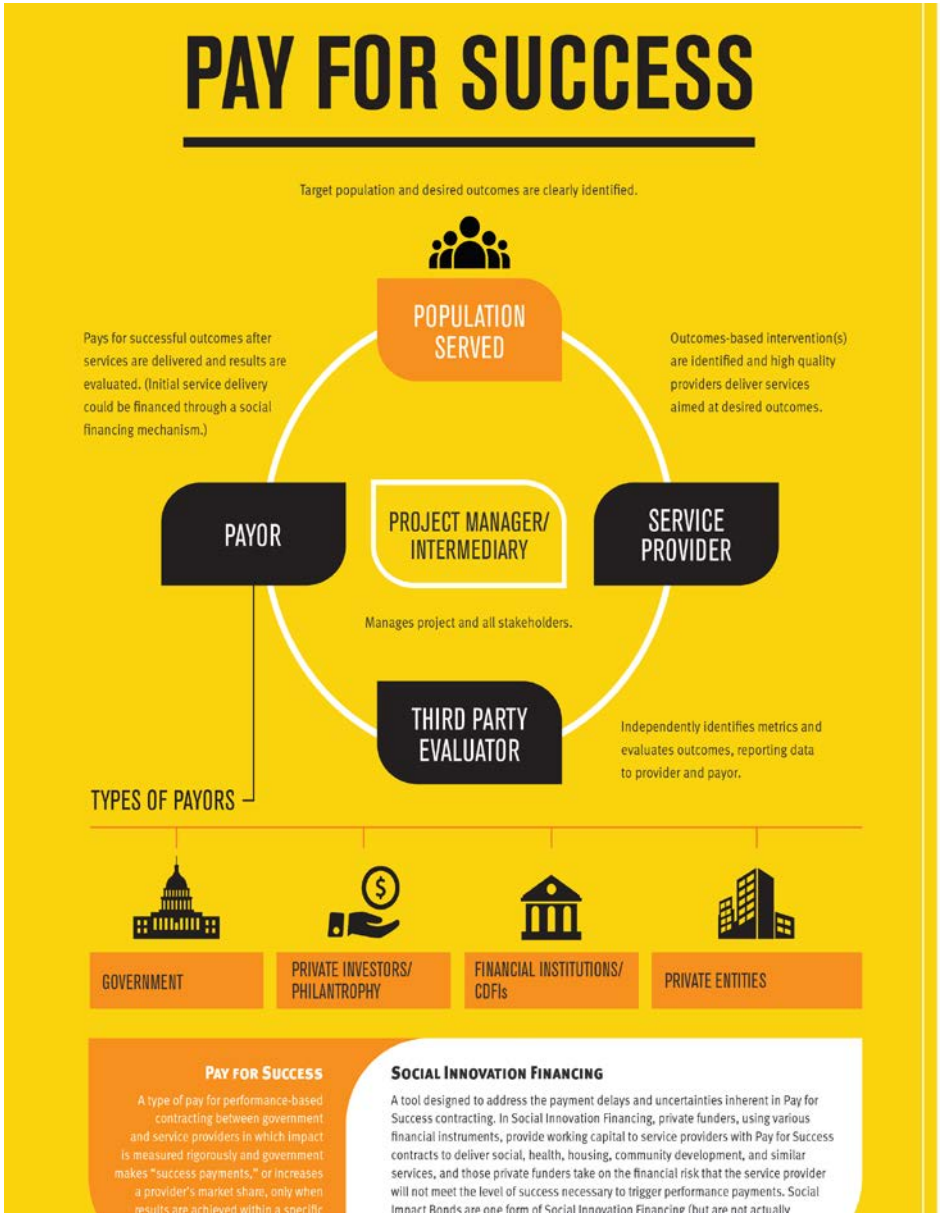
About America Forward

- **Who we are**: Nonpartisan policy initiative of New Profit Inc. that connects policymakers and innovators with high-impact organizations that get results
- **What we do**: Advance a public policy agenda that champions innovative and effective solutions to our most pressing social problems.
- **What we believe**: Innovative policy approaches that 1) foster innovation, 2)reward results, 3) and catalyze cross-sector partnerships can transform local results into national change.
- **Our vision for government's role**:
  - Rewards what works
  - Recognizes that organizations matter
  - Reaches across sectors



Pay for Success

A type of pay for performance-based contracting between government and service providers in which impact is measured rigorously and government makes "success payments," or increases a provider's market share, only when results are achieved within a specific timeframe. Also referred to as Pay for Performance or Outcomes-Based Contracting.

Workforce Innovation and Opportunity Act (WIOA)

In 2014, President Obama signed the Workforce Innovation and Opportunity Act into law

Important changes in the new law:

- Restores Governor's reserve authority portion of **formula funds to 15%**
- Creates a permanent **authority** within all three formula funding streams (Adult, Youth and Dislocated Workers) **for Pay for Performance**
- Allows use of non-federal resources and WIOA funds to **incentivize the use of Pay for Performance**
- Makes **new service providers** eligible for Pay for Success contracts.
- Requires 75 percent of all youth funding to support **out-of-school youth**, of which 20 percent is prioritized for work-based activities such as internships.

Defining Pay for Performance in WIOA

WIOA includes the following criteria for a Pay for Performance Contract (defined in Section 3 of the bill):

- Fixed amount that will be paid to an eligible service provider (including providers not previously approved by the local workforce board, which may now include community-based organizations, community colleges, nonprofits, other training providers) based on achievement of a **specified level of performance** for target populations as identified by the local board in accordance with the performance accountability system established by WIOA (found in Sec. 116(b)(2)(A) of the bill)
- **Pre-determined time table for achieving outcomes and related 'success' payments**, which may include bonus payments for the service provider to expand its capacity
- **Independent validation** of the achievement of the performance described in the contract
- Description of how the State or local area will **reallocate funds** not paid to a provider because the achievement of the **pre-determined outcomes is not met**

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Performance-Based Contracting to Paying for Performance

- The Pay for Performance authority in the bill is different from traditional performance-based contracting.
- Very often, performance contracting in the workforce space has focused on **'inputs and 'outputs' rather than 'outcomes**,' where funding may be based on the number of people served through a training program and some early indicators of success like achievement of credentials.
- However, outcomes, like job placement and retention for a pre-determined period of time (ex: 6 months) are not currently the determining factors of many contracts.
- Pay for Performance in WIOA would flip this concept and **incentivize contracts that would hold providers accountable for 'high bar' outcomes** and success payments would only flow to providers delivering those pre-negotiated outcomes.

Minnesota and Twin Cities Rise!

- **Twin Cities RISE! (TCR!)** is a Minnesota-based provider that has been providing job training programs for hard to employ persons for over twenty years.
- TCR! has had a **performance-based contract** with the State of Minnesota for more than fifteen years.
- The contract had **two performance thresholds**.
  - A first payment is made for everyone who is placed in a job paying at least $20,000 with an increase in income of at least $10,000.
  - **A second payment is only made when that person has retained that or a higher paying job for a year**.
  - The amount of the payment that TCR! receives was determined by the **economic value to the state of Minnesota from increased taxes, lower public subsidies and lower recidivism of felons**.
- Since the launch of the contract, the State of Minnesota has received a 7 to 1 return or over 600%.

This is a major departure from most workforce training contracts, in which service providers are paid for the number who move through the training program, or perhaps are placed. “Placement” is not the same as placement in a good paying job where the employee retains that job and where “retention “ is the more significant outcome.

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Tennessee's TANF Workforce Experiment

- In 2007, Tennessee converted **TANF employment and case management services** for individuals receiving cash assistance to a Pay for Success approach for approximately 14,000 clients across 30 Tennessee counties including two of the largest, Davidson (Nashville) and Hamilton (Chattanooga).
- The state made specific **payments based on finding employment** for such TANF participants and for **employment retention (at nine months**).
- **The state was entitled to recoup an amount equal to twice the amount billed for each individual pay point if the provider could not justify the amount invoiced and the outcomes achieved with proper verification.**

Extraordinary Outcomes in the Depths of the Great Recession

- In Davidson County, the Work Participations Rates (WPR) increased from a dismal 16.7% in 2007 to **70.2%** in 2014.
- In Chattanooga and the surrounding 28 counties, the WPR increased from 44.1% in 2007 to **67.9%** in 2014.
- These extraordinary outcomes contributed to the State of Tennessee achieving its federal WPR requirements and to avoiding a reduction of its annual federal TANF block grant funding.

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