Focus on Social Determinants of Health: How Managed Care Organizations are Funding Affordable Housing

The NORC Medicaid Managed Care Organization (MCO) Learning Hub shares timely and relevant resources to support Medicaid MCOs and other stakeholders in improving the health of their members and increasing advancements in health equity and health care transformation. We encourage you to share your experiences and feedback on future Medicaid MCO Learning Hub work so we can better serve your needs. To start the conversation or join our distribution list, please email us at MCOLearningHub@norc.org.

In February 2021, the Medicaid Managed Care Learning Hub convened a webinar to discuss MCO investments in affordable housing. This brief expands upon the learnings from the webinar to describe mechanisms and key considerations for MCOs looking to invest in the building and rehabilitation of affordable housing. This brief will provide the Robert Wood Johnson Foundation (RWJF), its grantees, MCOs, and community-based organizations, among other stakeholders with examples of how MCOs can leverage their reserves and assets to invest in affordable housing.

As social determinants of health (SDOH) continue to be in the spotlight, the lack of secure and safe housing has fully emerged as a high-impact driver of health outcomes. Access to affordable and safe housing is an issue that affects low-income populations across the U.S. in both rural and urban communities. According to the National Low Income Housing Coalition (NLIHC), 7.2 million more affordable housing units are needed to house families with extremely low incomes.[1] In addition, there is no county in the U.S. where a person making minimum wage and working full time can afford a two-bedroom apartment.

The Medicaid population in particular has been severely impacted by the growing housing crisis and lack of affordable housing. Medicaid MCOs sought solutions to help Medicaid beneficiaries obtain housing by working within and around Medicaid laws that do not allow states and MCOs to directly pay for housing. For example, CareOregon, the University of Pittsburgh Medical Center (UPMC) Health Plan, and Children's Community Health Plan (CCHP) have partnered with community-based organizations (CBOs) to provide permanent housing supports and other housing-related services to its members. Care managers within Medicaid MCOs have seen first-hand the early and clear evidence that individuals' lives and health improves as they obtain housing, which in turn lowers overall cost.[2-3]

However, with the shortage of affordable housing in the U.S., some MCOs have begun to use available financing options outside of Medicaid to address the housing stock issue, investing in the construction and rehabilitation of affordable housing units. UnitedHealthCare Community & State, CVS Health, and CareSource looked at the issue of the lack of affordable housing units and developed creative financing solutions to take on this issue outside of Medicaid financing. In February 2021, United Health Care, CVS Health/Aetna, and CareSource showcased their work in a webinar, with accompanying slides, that focused on how these organizations increased and targeted investments in housing outside of Medicaid as a way to improve health outcomes while reducing overall health care costs.

This brief expands upon that webinar to further describe how MCOs can leverage various investment mechanisms to support the building of affordable housing and key considerations for MCOs and other stakeholders looking to learn more about this area.

Investment Mechanisms for Social Impact Funds

To the extent permitted by state regulations, MCOs can leverage their reserves and assets for greater community investments like building or rehabilitation affordable housing units.[4] MCOs can use various mechanisms to fund the building and rehabilitation of affordable housing units, including: 1) equity investments, 2) below market loans, and 3) outcome-based financing (Figure 1). These investments are not grants and MCOs do expect a small monetary return on that investment.

Figure 1: Investment Mechanisms for Social Impact Funds

Mechanism	Examples
Equity Investments	▪ Cash investments ▪ Patient capital for housing or other human services organizations
Below Market Loans	▪ Low interest loans ▪ Working Capital Funds ▪ Revolving Loan Funds
Outcomes-Based Financing	▪ Pay for Success ▪ Other outcomes-based financing models
Tax Credits and Deductions	▪ Low-Income Housing Tax Credits (LIHTC)

Equity investments. MCOs can invest private equity to develop affordable housing units. Private equity offers a flexible form of capital that can be deployed rapidly and can be structured to meet the needs of local and social impact oriented investments that may be considered higher risk investments, such as affordable housing.[5]

Equity investments can include cash investments as well as patient capital for housing or other human service organizations. Patient capital, also known as long-term capital, is when an investor makes a financial investment with no expectation for a quick profit, forgoing an immediate return in exchange for longer time horizons for return of capital. In these arrangements, investors are willing to forgo maximum financial returns for social impact and have greater tolerance for risk.

Below-market loans are loans where interest rates are lower than the federal market rate. These may include low interest loans, working capital funds, and revolving loan funds. Below-market loans make it possible to borrow at a lower cost, reducing the costs of servicing the loans and making it easier to provide affordable housing.[6]

UNITEDHEALTHCARE COMMUNITY & STATE

UnitedHealthcare developed a social impact investment strategy focused on shaping investments through a range of vehicles that drive social impact, track outcomes, and create systemic change and policy reforms. To accomplish this, UnitedHealthcare created a strategic framework (Figure 1) that is based on improving health equity. Of the pillars of health equity, UnitedHealthcare identified housing as the largest need since housing is tied to the other three efforts of the framework.

Figure 1: UnitedHealthcare's Strategic Framework to Improve Health Equity

Pillar	Need
Public Health Crises	Scale proven interventions and cultivate partnerships that aid in addressing opioids, homelessness, etc.
Health & Human Services Integration	Support the building, scaling and adaption of health and human services collaborations
Delivery System Capacity Building & Transformation	Support delivery system modernization to improve and expand capability and increase access
Affordable Housing Creation & Preservation	Expand the supply of affordable and supportive housing

To execute upon its strategic investment strategy, UnitedHealthcare created a $150 million-dollar social impact fund to fulfill its strategic investment strategy. The fund focuses investments through equity, below market loans, and outcomes-based financing.

Outcomes-based Financing, such as Pay for Success, is a financing model where MCOs pay for the outcomes associated with SDOH interventions.[7] The Pay for Success housing program, developed by U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Justice, uses a variety of metrics, including measures related to housing stability (e.g. reducing homelessness and shelter use), reducing criminal justice involvement and reentry to jail and prison and increasing appropriate health care services and improved health (e.g.

decreasing avoidable ER and hospital visits and connecting individuals to mental and physical health care and substance abuse treatment).

For example, UnitedHealthcare has developed a Pay for Success initiative with Los Angeles County and the Los Angeles county jail. Under this initiative, UnitedHealthcare partnered with the Hilton Foundation to invest $8 million to provide permanent supportive housing to individuals experiencing homelessness who have a mental health condition, substance use disorder, or physical disability as they exit the Los Angeles County jail. Program participants receive permanent supportive housing, connections to health care and treatment, and intensive case management.

CARESOURCE

Based on prior research studies assessing the impact of rental assistance and healthy birth outcomes, CareSource understood that the provision of rental assistance had a large positive impact on birth outcomes. However, they found that finding housing is often a challenge, highlighting the need for more housing units in the market. Thus, CareSource saw a valuable opportunity to invest in housing.

As a nonprofit, CareSource structures housing investments differently, as they do not buy low-income housing tax credits. They turned instead to other investment tools to address gaps in housing financing. They started by leveraging their membership in the Federal Home Loan Bank of Cincinnati. As a bank member, they could participate in community programing and access investment funds. This relationship helped CareSource learn how housing development occurred, the role of community-based organizations, pooling funding for affordable housing across sources and the risks associated with the lack of affordable housing.

CareSource opted to invest in the Housing Action Fund, a $100 million fund that has funded over 10 projects. In August of 2020, CareSource made a $50 million commitment to invest in affordable housing development and preservation. The investment will go toward low interest loans, hat will be repaid. What makes this unique, is that for the return they are looking for measurable improvement in health outcomes. They hope to do this through collaboration with strong partners where the investment is not purely transactional. They also prefer medium- to long-term investments with a horizon of 10 years or less and that are geographically diverse.

Low-Income Housing Tax Credits (LIHTC). Often, an entity provides an equity investment in exchange for tax benefits (credits and deductions). Low-Income Housing Tax Credits (LIHTC) are tax credits for the “acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate- income tenants.”[8] LIHTC are issued by the federal government to state and territorial governments, who then award it to developers of affordable rental housing projects. Developers can sell the credits to private investors, e.g., MCOs, to obtain funding. The investors are then able to reduce their tax burden with the credit when the development is complete.

The value of the credit is based on whether the project was a new build or rehabilitation and on the amount of rent subsidization. The most common form of the program used is the 9 percent credit, although LIHTC also offers a 4 percent tax credit. Additionally, investors can claim the LIHTC over a 10-year period.

The risk of loss under this arrangement is tax recapture due to lender foreclosure during the 15-year compliance period. Investments are sourced through a national network of syndicators and developers. Figure 2 in the Appendix provides a visual depiction of the LIHTC process.

CVSHEALTH

CVS Health has made housing a priority, investing over $985 million in affordable housing, which equates to investments in over 1,100 affordable housing communities and building or preserving nearly 100,000 housing units. In 2020, CVS Health closed commitments to invest $114.1M to construct or rehabilitate over 2,800 affordable housing units in 30 cities across 12 states. Over 460 of these are Permanent Supportive Housing (PSH) units for people experiencing homelessness, and other vulnerable populations. Services include social, behavioral health, substance use disorder recovery, and other supportive services. Additionally, 560 of these units are dedicated to housing older adults, while over 100 are reserved specifically for veterans and their families, and 60 are reserved for Native Hawaiians and their families. Much of CVS Health’s investments are done through LIHTCs.

Key Considerations for Investments

Consider the Terms of the Loan. When investing in affordable housing units, MCOs should consider the following key parameters:

- return of principle is required;
- concessionary interest rates are based on the health impact value proposition;
- terms are generally 1 to 5 years, with room for adjustment; and

- there must be the potential to pair social investments with tax credit investments.

To make this work, it is very important to concede interest rates on returns as that is the catalyst for the concessionary capital to make housing deals reach the contractual stage.

Develop Criteria for Decision-making on Investments. MCOs can consider various criteria for affordable housing investments. For example, MCOs can set expectations for the types of services provided as part of the development, whether the development is located near grocery stores or transportations, if the development is markets which high concentrations of Medicaid populations, requirements for access to supportive housing services, etc. There has been a recent focus on projects with special set-asides and required supportive services for residents. MCOs, however, should consider state Fair Housing laws that may limit allocation of housing units to MCO.

Consider the Mission and Priorities of Developers. MCOs can consider working with developers that have aligned missions for community investment and that specialize in affordable housing, non-profit developers, or community development corporations (CDCs) that focus on implementing community development projects in low-income neighborhoods. This allows MCOs to leverage the experience and expertise of developers in affordable housing. MCOs can consider the experience and reputation of the developer and alignment of mission and priorities between the developer and the MCO.

Work with Community Development Financial Institutions (CDFIs). CDFIs banks for community developers who often offer low interest loans to community revitalization and economic development efforts in underserved communities, investing heavily in areas like affordable housing.

Partner with MCOs and other Key Stakeholders to Develop Housing Funds. MCOs can develop funds in partnership with other MCOs, foundations, hospital systems, and other key stakeholders. By pooling resources, funds can increase purchasing power for affordable housing.

For example, UnitedHealthcare established a $100 million affordable housing fund in partnership with Safe Stewards for Affordable Housing for the Future (SAHF) and the National Affordable Housing Trust (NAHT). This fund focuses on housing for people with extremely low incomes, and every project will have a connection with health and social services. For example, there may be an agreement with a nearby FQHC or onsite services. CVS Health/Aetna pledged $15 million to support Home Matters to Arizona (HTMA), a statewide initiative focused on generating affordable housing. Through this mechanism, CVS Health/Aetna provides debt financing.

Encourage State Leadership and Policies that Promote Investments in Housing. State leadership can serve as a facilitator in promoting MCO investment in affordable housing. For example, the Arizona Health Care Cost Containment System (AHCCCS), Arizona's Medicaid program, uses several strategies to support MCOs in addressing social issues, including housing. Arizona requires regional behavioral health authorities (RBHAs) to reinvest 6 percent of their profits back to the community, allows MCOs to use a share of their equity as a line of credit to invest in low-income housing, and provides them $35M in state-only grants for housing.[9]

Conclusion

The lack of affordable housing is a large-scale national problem that negatively impacts the lives of the people MCOs serve and drives high cost and poor health outcomes. MCOs' choice to invest in housing both meets their need to better serve their members and supports their respective business growth. Providing grants alone may not meet MCOs' business needs and may not be sustainable long-term given the need to have a return on the investment. Thus, MCOs have looked for alternative solutions for investing in housing.

While this is an area of growth, there are still barriers to success. For example, regulatory and statutory requirements and limitations of housing programs can be difficult to navigate. In addition, low-income housing tax credits are limited, and the market is competitive with multiple entities seeking to buy the credits. As a result, MCOs have turned to other financial tools, especially low-cost loans and teaming with diverse development partners. The partnerships bring both the needed housing, and health care and related SDOH services that are provided either onsite or nearby to really be able to improve health outcomes.

Medicaid programs are seeing the private sector stepping up to help because there are incentives to make positive change in this area. Those incentives are only present in managed care and do not exist in the Medicaid fee-for-service program. As part of a public-private partnership, Medicaid programs are well served to better understand the various housing finance programs that exist to leverage opportunities to work with Medicaid MCOs. In the meantime, Medicaid managed care programs are driving innovative solutions to address the housing crisis throughout the country.

ABOUT NORC MEDICAID MCO LEARNING HUB

The key goal of the NORC Medicaid MCO Learning Hub is to serve as a source of information, expertise, and best practices to support managed care organizations in moving forward with system reform. NORC and its partner organizations identify, develop, and disseminate promising approaches and emerging opportunities for MCOs to improve the physical health, behavioral health, and social needs of their members.

Your ideas and opinions are important to us. We welcome your feedback on future Medicaid MCO Learning Hub work or programs you are working on to better serve your needs.

We want to hear from you. Please contact us at MCOLearningHub@norc.org to start the conversation or join our distribution list.

www.norc.org/Research/Projects/Pages/medicaid-managed-care-organization-learning-hub.aspx

NORC'S PARTNERS

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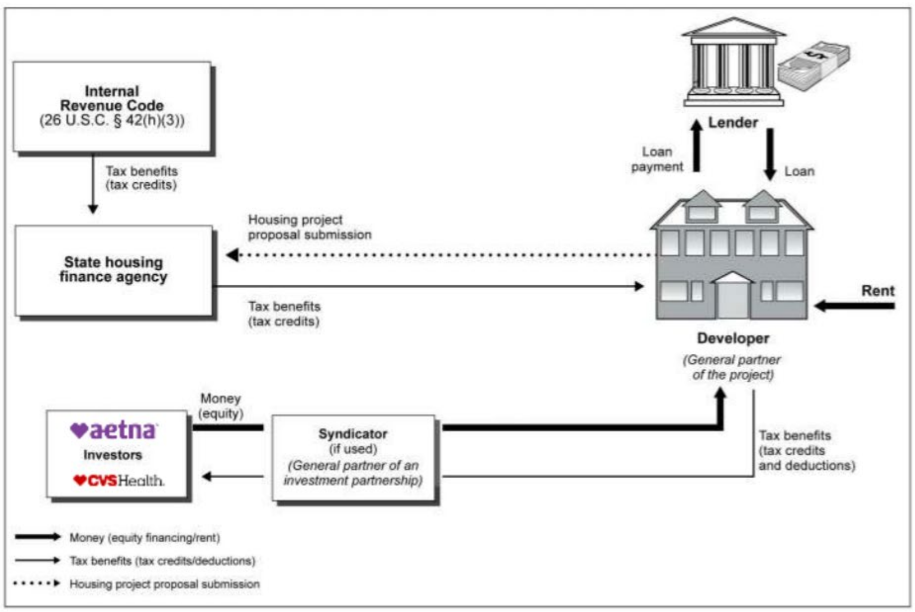
Appendix: Figure 2

Low-Income Housing Tax Credit (LIHTC) Investment Structure



- Equity investment in exchange for tax benefits (credits and deductions)
- Risk of loss is tax recapture due to lender foreclosure during the 15-year compliance period
- Investments sourced through our national network of syndicators and developers
- Recent focus on projects with special set-asides and required supportive services for residents
- Early involvement of our business units, as well as Workforce and Project Health Initiatives