

## Valuation of MSOs: Technological & Reimbursement Environments

As discussed in the first installment of this three-part series on the valuation of management service organizations (MSOs), technological innovation has allowed greater efficiency and automation within MSOs, which allow MSOs to provide more cost-effective services to medical practices, and potentially optimize their revenue. As a result, technology is expected to play a crucial role in the operations of MSOs and the overall delivery of healthcare services. This second installment discusses the impact of technological advancements on their operations, as well as how MSOs are reimbursed/compensated.

Research indicates that the implementation of technology may assist the management of complex patient records, payment invoices, and privacy requirements.<sup>1</sup> Technologies such as electronic health records (EHRs) have resulted in cost savings, improved quality, and better coordination of care.<sup>2</sup> Most EHR software systems are customizable and can be designed for specific specialties, such as physical therapy, and increase the productivity of tasks such as appointment scheduling, medical billing, electronic prescribing, lab tests, document management, patient engagement, and telehealth services.<sup>3</sup>

MSOs may experience the indirect benefits of EHRs, as the technology has been shown to help deliver high-quality care and create measurable improvements within a practice.<sup>4</sup> EHRs allow a practice to provide accurate, up-to-date information that is easy to access at the point of care for more coordinated treatment.<sup>5</sup> EHRs allow providers to keep patient data private, but also utilize the platform to securely share patient information with other providers.<sup>6</sup> Along with clinical benefits, EHRs can provide numerous administrative benefits that can lead to increased convenience, efficiencies, and cost savings. EHRs can improve productivity and efficiency within a practice with thorough, uniform records on a patient that can reduce duplication, improve safety, promote coordinated care, and streamline billing and coding services.<sup>7</sup> Particularly, EHR systems may also serve as a platform for communication between providers and patients. With increased communication between provider and patient, cost savings can also be achieved, along with reduced hospitalization and readmissions.<sup>8</sup>

Research indicates that implementation of health information technology (HIT) may lead to improved efficiency and quality management.<sup>9</sup> HIT includes a variety of software applications, such as billing software, staffing models, and EHR.<sup>10</sup> Over the past decade, there has been a rapid adoption of technological innovations in the U.S.,

which has fundamentally changed the healthcare delivery system.<sup>11</sup> For example, as alluded to above, technologies such as EHRs have resulted in cost savings, improved quality, and better coordination of care.<sup>12</sup> However, HIT poses significant administrative and cost burdens to physician practices, which may prevent small-practice physicians from adopting this technology.<sup>13</sup>

Health data analytics involves extracting insights from sets of patient data from various sources, primarily EHRs.<sup>14</sup> The need for data analytics in MSOs is spurred by the use of data analytics technology for population health management (PHM).<sup>15</sup> PHM is a practical approach to improving healthcare delivery and outcomes for a group of patients while simultaneously lowering costs to the provider.<sup>16</sup> Using EHR data in analytics is a subset of data analytics called clinical data analytics.<sup>17</sup> MSOs that are positioned to adopt rapidly-advancing technology may be able to utilize data analytics to improve savings and the quality of care.

As noted above, MSOs that are well-positioned to harness technology to provide management services to medical practices may be able to optimize their revenue. MSOs are compensated by medical practices for the non-clinical services they provide, as dictated by their management services agreement (MSA).<sup>18</sup> Payments that are considered permissible to an MSO (e.g., do not violate fraud and abuse laws) can be for returns on expenses for items such as equipment, space, staff, loan payments, and intellectual property, as well as the payment of a management fee.<sup>19</sup> A management fee is typically structured as either a fixed fee or a percentage of collections (gross or net).<sup>20</sup> The fee's structure is dependent on federal and state law, as well as on the strategies and business plans of the involved parties.<sup>21</sup> Typically, the medical practice is responsible for paying the MSOs for rendered services provided by non-licensed professionals.<sup>22</sup> While U.S. federal healthcare programs do not directly pay MSOs, they remain the largest payor of medical costs, and have a strong influence on the reimbursement of physicians, which can in turn influence the management fees paid to MSOs, as some MSO fees are structured as a percent of the amounts reimbursed by payors.

However, as alluded to above, it is important to note that the management fee structure is regulated by healthcare fraud and abuse laws, which largely dictates how (and how much) a medical practice can pay an MSO for management services. The last installment in this three-part series will discuss the highly-regulated environment in which MSOs operate.

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