



*Advising the Congress on Medicare issues*

# Assessment of payment adequacy: Inpatient rehabilitation facilities

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# Inpatient rehabilitation facilities

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- Provide intensive rehabilitation (physical, occupational, speech therapy)
- Medicare accounts for ~70% of IRF patients
- PPS established for IRFs in 2002, pursuant to BBA
- \$6.0 billion Medicare spending in 2006
- “75% rule”

# The “75 percent rule”

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- To be paid under IRF PPS, long-standing requirement that 75 percent of patients must be admitted with one of 13 diagnoses.
- In 2004, few facilities met this requirement
- CMS began to phase-in new enforcement of 75 percent rule
- IRF volume subsequently declined

# IRF provisions in the Medicare, Medicaid, and SCHIP Extension Act of 2007

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- Eliminates payment update for fiscal years 2008 and 2009
- Changes IRF classification criteria
  - Rolls back the “75% rule” compliance threshold to 60 percent (permanent)
  - Allows continued use of comorbidities to qualify (permanent)
- HHS report to Congress

# Assessing adequacy of Medicare payments for IRF services

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- Supply of facilities (including supply of beds)
- Volume of services / access to care
- Quality of care
- Access to capital
- Payments and costs
  - emphasis on the costs of the efficient provision of care (MMA Section 735)

## Supply of IRFs and beds declined slightly since 2004

	2002	2004	2006	Annual change 2002-04	Annual change 2004-06
Total IRFs	1,188	1,227	1,224	1.8%	-2.0%
Total beds	35,859	36,770	35,290	1.6%	-0.1%

## Volume and spending rapidly increased after PPS, followed by volume declines

	2002	2004	2006	Annual Change 2002-2004	Annual Change 2004-2006
Cases	440,000	497,000	404,000	6.3%	-9.8%
Cases per 10k beneficiaries	126	137	113	4.2%	-9.0%
Payment per case	\$11,152	\$13,275	\$15,354	9.1%	7.5%
Spending (billions)	\$5.7	\$6.4	\$6.0	6.7%	-3.6%

## Quality of care: improvement in functioning, discharge v. admission, 2004-2007

### Change in FIM™ Score

Medicare patient type	2004	2005	2006	2007
All	22.8	23.2	23.5	23.8
Percent change		4.0	4.0	1.8
Discharged home	25.0	26.0	27.0	27.5
Percent change		4.0	1.1	1.4

Source: MedPAC analysis of IRF-PAI data from CMS, 2004 – 2007.

Note: 2007 data is January – June. “All” includes patients discharged to other inpatient settings, other post-acute care, outpatient care, and home.



# IRFs' access to capital is mixed

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- 80% of IRFs are hospital-based and access capital through parent
- Freestanding IRFs: large chain providers may be facing difficulty accessing capital

# IRFs' financial performance in 2006

	% of IRFs	Margin
All IRFs	100	12.4
25 <sup>th</sup>	25	-4.6
75 <sup>th</sup>	25	19.7
Urban	79.2	13.0
Rural	20.8	7.8
Hospital-based	83	9.5
Freestanding	17	17.9
Nonprofit	57	10.7
For profit	30	16.6
Government	13	6.2

# Policy changes for modeling 2008 margins

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- Update in 2007
- Change in outlier threshold increased payments
- Update in 2008 (reflects ½ year at prior law update)
- Effect of phase-in of the 75% rule (2006-2007, as modified by MMSEA)

	<u>2006</u>	<u>Estimated 2008</u>
All IRFs' margin	12.4%	8.4%

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# Summary

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- Supply of IRFs stable
- Volume and spending declined in 2006
- Access appears adequate – especially w/MMSEA changes to 75% rule
- Small improvement in quality
- IRFs' access to capital is mixed
- 2008 estimated margin 8.4%