

**The Fiscal Year 2007 Inpatient Rehabilitation Facility
Prospective Payment System Final Rule Background Sheet
(CMS-1540-F)**

The Centers for Medicare & Medicaid Services (CMS) issued a final rule entitled “Inpatient Rehabilitation Facility Prospective Payment System for Federal Fiscal Year 2007; Certain Provisions Concerning Competitive Acquisition for Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS); Accreditation of DMEPOS Suppliers.”

The final rule updated the IRF PPS payment rates and revised policies that become effective on October 1, 2006. This final rule will result in an overall estimated increase of \$50 million to the IRF PPS Medicare program. In addition, the final rule conforms the IRF regulations to the provisions of the Deficit Reduction Act of 2005 (DRA), and makes technical adjustments to the patient classification structure. Below is a summary of the provisions of the final rule.

Provisions of the final rule:

- **Implemented a 2.6 percent reduction** to the standard payment amount to account for changes in coding that do not reflect real changes in case mix. We reduced the adjustment from 2.9 percent in the proposed rule to 2.6 percent to provide additional flexibility for providers in responding to other changes to the IRF PPS, such as the FY 2006 refinements and the phase-in of the 75 percent rule compliance percentage.
- **Implemented minor changes to the tier comorbidities, the relative weights, and the average lengths of stay** to correct some minor discrepancies in the comorbidity (ICD-9) codes used in establishing the relative weights and the IRF PPS grouper software. The changes merely represent a fine-tuning of the FY 2006 refinements.
- **Implemented a one-year extension of the 75 percent rule phase-in period** to conform to statutory language in section 5005 of the Deficit Reduction Act of 2005 (DRA). In addition, the rule extends the use of the comorbidities in determining compliance with the 75 percent rule until the compliance percentage reaches the full 75 percent.
- **Updated the high-cost outlier threshold** from \$5,129 to \$5,534 based on the 2.6 percent reduction to the standard payment amount and analysis of updated data.
- **Updated the FY 2007 payment rates.** The final standard payment conversion factor for FY 2007 is \$12,981. The factors used in calculating the payment rates are the
 - IRF market basket (3.3 percent),
 - labor-related share (75.612 percent), and the
 - CBSA wage indexes. We maintain the FY 2006 policy and eliminate the one-year transition MSA/CBSA blended wage index, adopting the FY2007 wage index based solely on the CBSA market area definitions.
- **Communicated efforts on integrated post-acute payment**, the DRA demonstration project; the design of health IT systems, the development of value-based purchasing, and the introduction of other quality initiatives.