



Advising the Congress on Medicare issues

Inpatient Rehabilitation Facilities: Assessment of Payment Adequacy

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Inpatient rehabilitation facilities

- Provide intensive inpatient rehabilitation
- 2007 Medicare FFS spending: \$6.0 billion
- Medicare FFS accounts for over 60% of IRF patients
- PPS established in 2002

75 percent rule (now 60%)

- Historically, to be paid as an IRF, 75% of all patients were required to have certain specific diagnoses
- 2004 change meant that most hip and knee replacement patients would not count toward the 75% rule going forward
- Phase-in of renewed enforcement of the 75% rule:
 - 50% July 2004-June 2005
 - 60% July 2005-June 2007
 - scheduled to be 65% July 2007-June 2008
 - scheduled to be 75% beginning July 2008
- In December 2007, the MMSEA permanently capped the threshold at 60% retroactive to July 2007

Supply of IRFs has declined modestly since 2005 after increasing in the early years of PPS

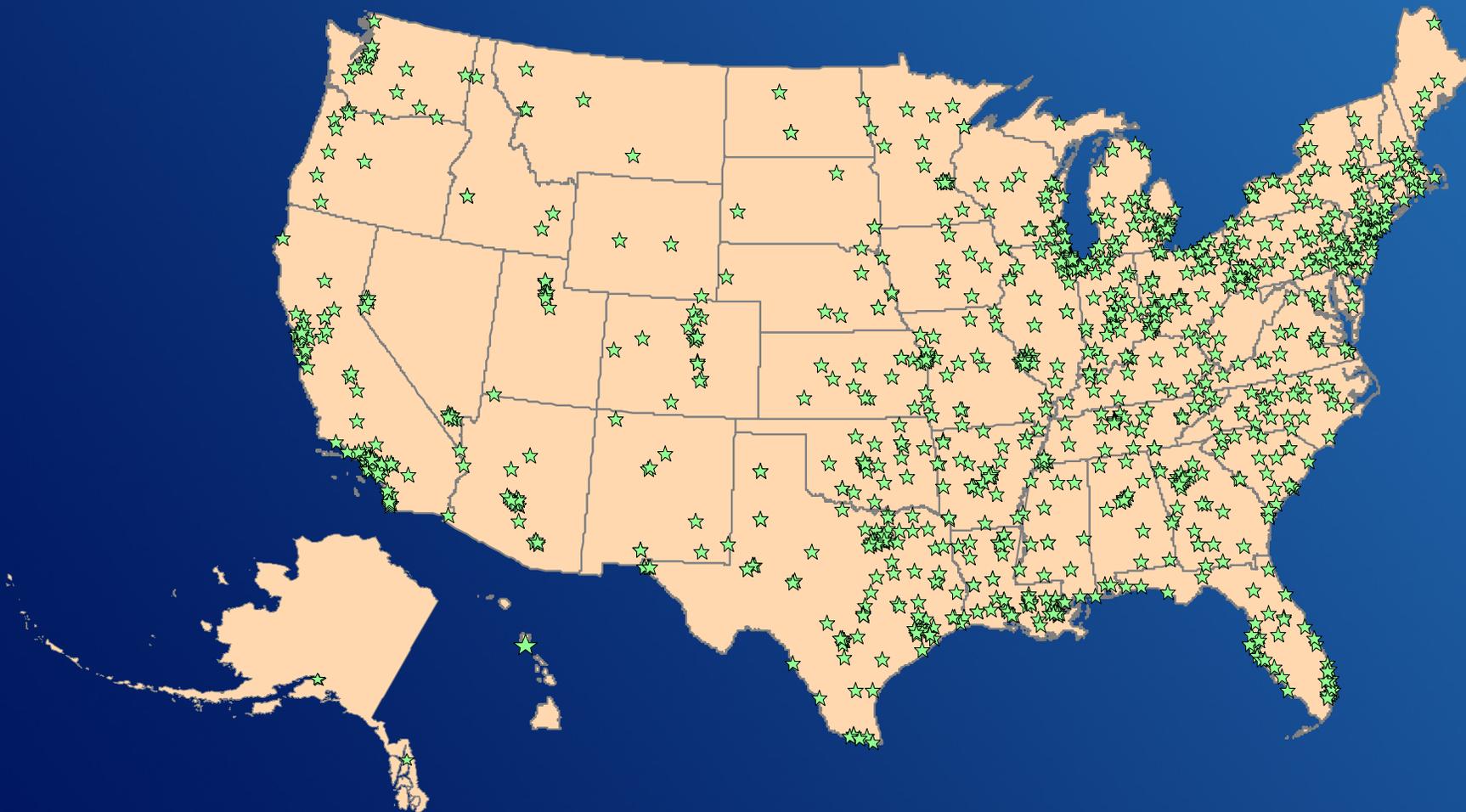
	2002	2005	2007	Annual change 2002-05	Annual change 2005-07
All IRFs	1,188	1,231	1202	1.2%	-1.2%
Urban	988	1,000	953	0.4	-2.4
Rural	200	231	249	4.9	3.8
Nonprofit	755	765	740	0.4	-1.6
For profit	277	305	288	3.3	-2.8
Freestanding	215	217	219	0.3	0.5
Hospital-based	973	1,014	983	1.4	-1.5

Supply of IRF beds has declined modestly since 2004

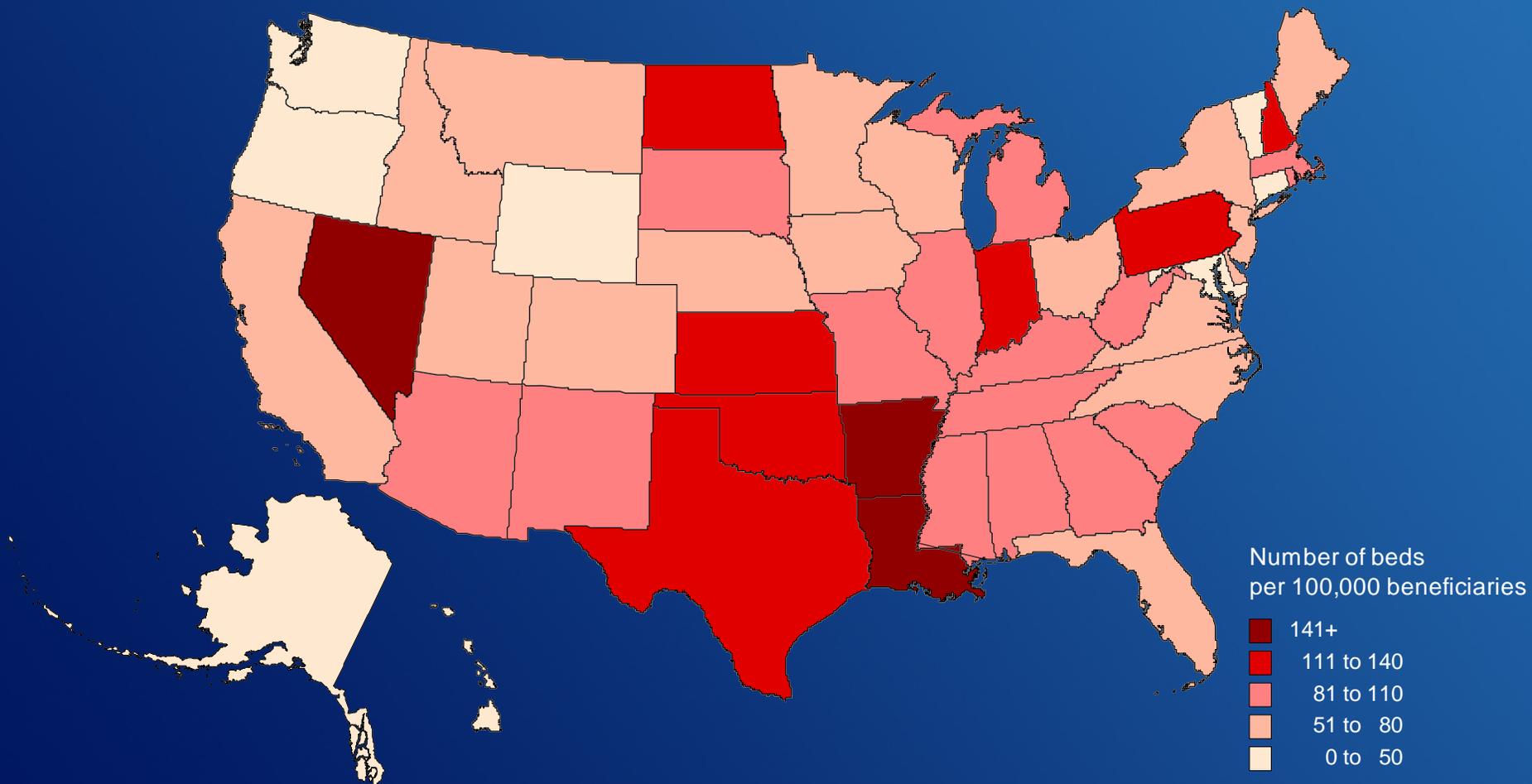
	2002	2004	2007	Annual change 2002-04	Annual change 2004-07
Total beds	36,453	37,549	36,187	1.9%	-1.2%
Freestanding	13,355	13,523	12,917	2.1	-1.5
Hospital-based	23,098	24,026	23,270	1.8	-1.1

- IRF occupancy rate declined from 67 percent in 2004 to 61 percent in 2007

Geographic location of IRFs, 2007



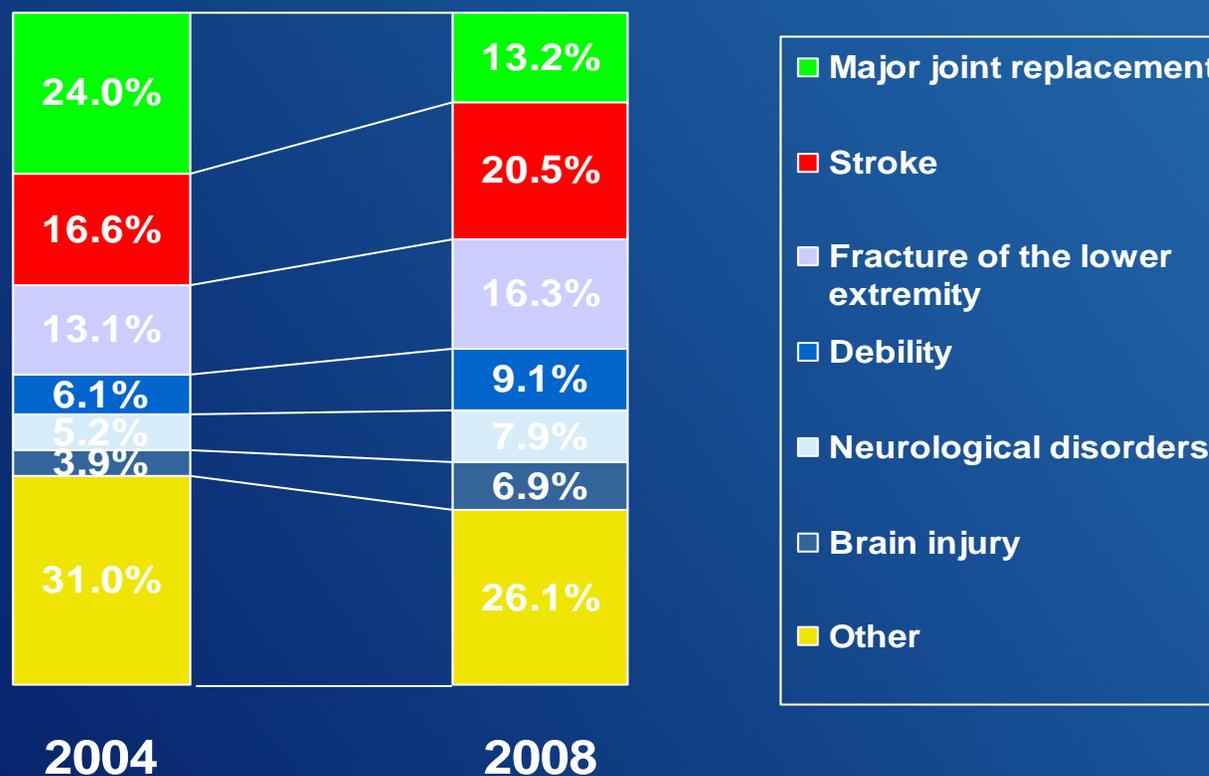
IRF beds per 100,000 beneficiaries, 2007



Medicare volume and spending rapidly increased after PPS, followed by volume declines

	2002	2004	2007	Annual Change 2002-2004	Annual Change 2004-2007
Unique patients per 10K FFS beneficiaries	114	124	98	4.4%	-7.5%
Payment per case	\$11,152	\$13,275	\$16,143	9.1%	6.7%
Unique Medicare patients	398,000	451,000	338,000	6.5%	-9.2%
Spending (billions)	\$5.7	\$6.4	\$6.0	6.7%	-2.6%

Change in composition of Medicare IRF cases, 2004 – 2008



Source: MedPAC analysis of IRF-PAI data from CMS, 2004 - 2008.

Implications for FFS beneficiaries' access to care: hip and knee replacement example

Percent of hospital patients in hip and knee replacement DRG by discharge destination

Hospital discharge destination	2004	2005	2006	2007	% point change, 04 – 06	% point change, 06 – 07
IRF	28%	24%	20%	16%	-8	-4
SNF	33%	34%	35%	36%	2	1
Home health	21%	25%	27%	29%	6	2
Other	18%	18%	18%	19%	0	1
Total	100%	100%	100%	100%		

Quality of care: increase in functional gain, 2004-2008

Medicare patient type	2004	2006	2008
All patients			
FIM™ Admission	68.0	63.6	61.2
FIM™ Discharge	90.4	87.1	85.5
FIM™ Gain	22.4	23.5	24.3
Discharged home			
FIM™ Admission	71.9	68.0	65.7
FIM™ Discharge	97.1	94.9	93.8
FIM™ Gain	25.3	26.9	28.1

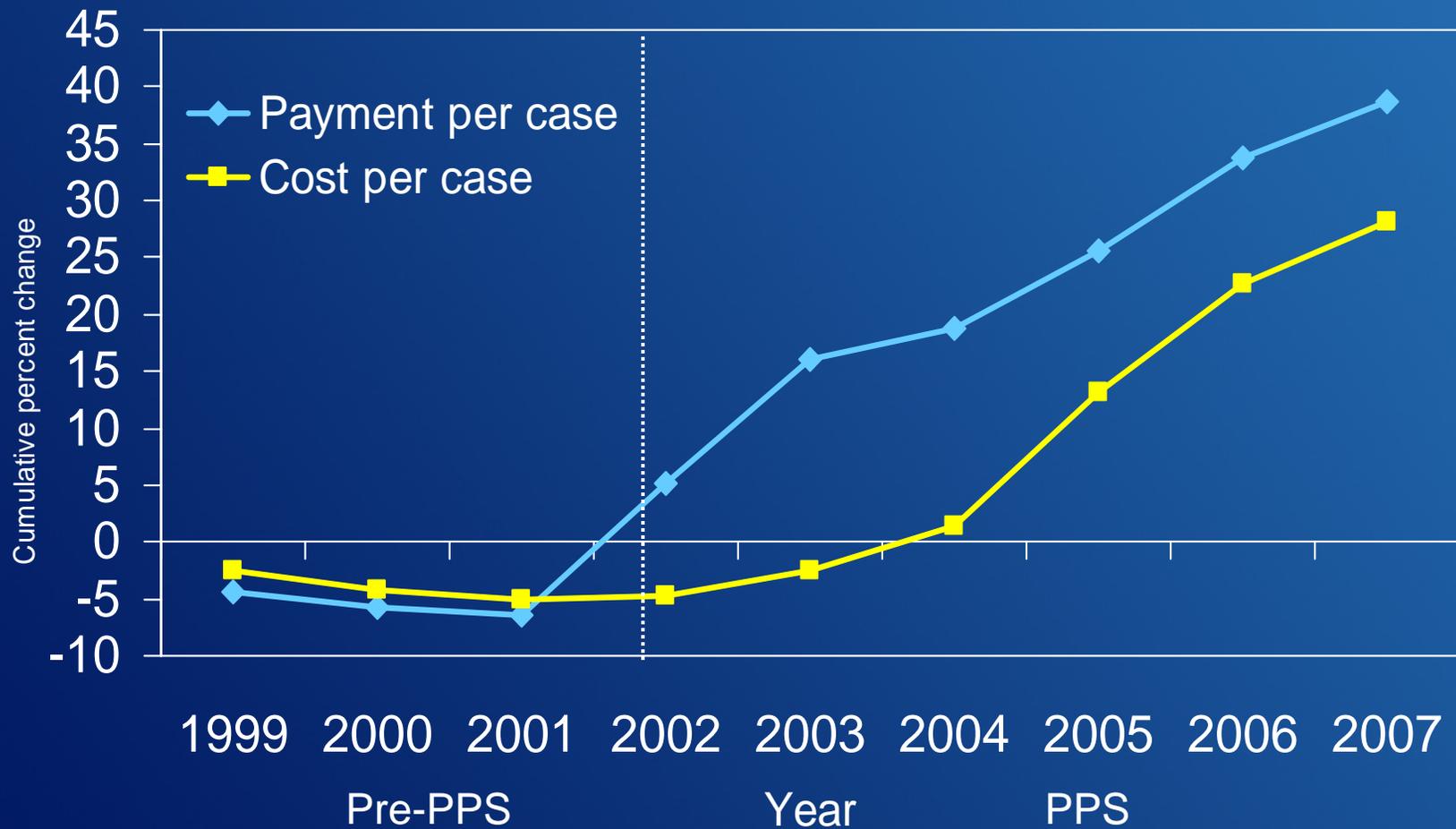
Source: MedPAC analysis of IRF-PAI data from CMS, 2004 – 2008.

Note: “All patients” includes patients discharged to other inpatient settings, other post-acute care, outpatient care, and home.

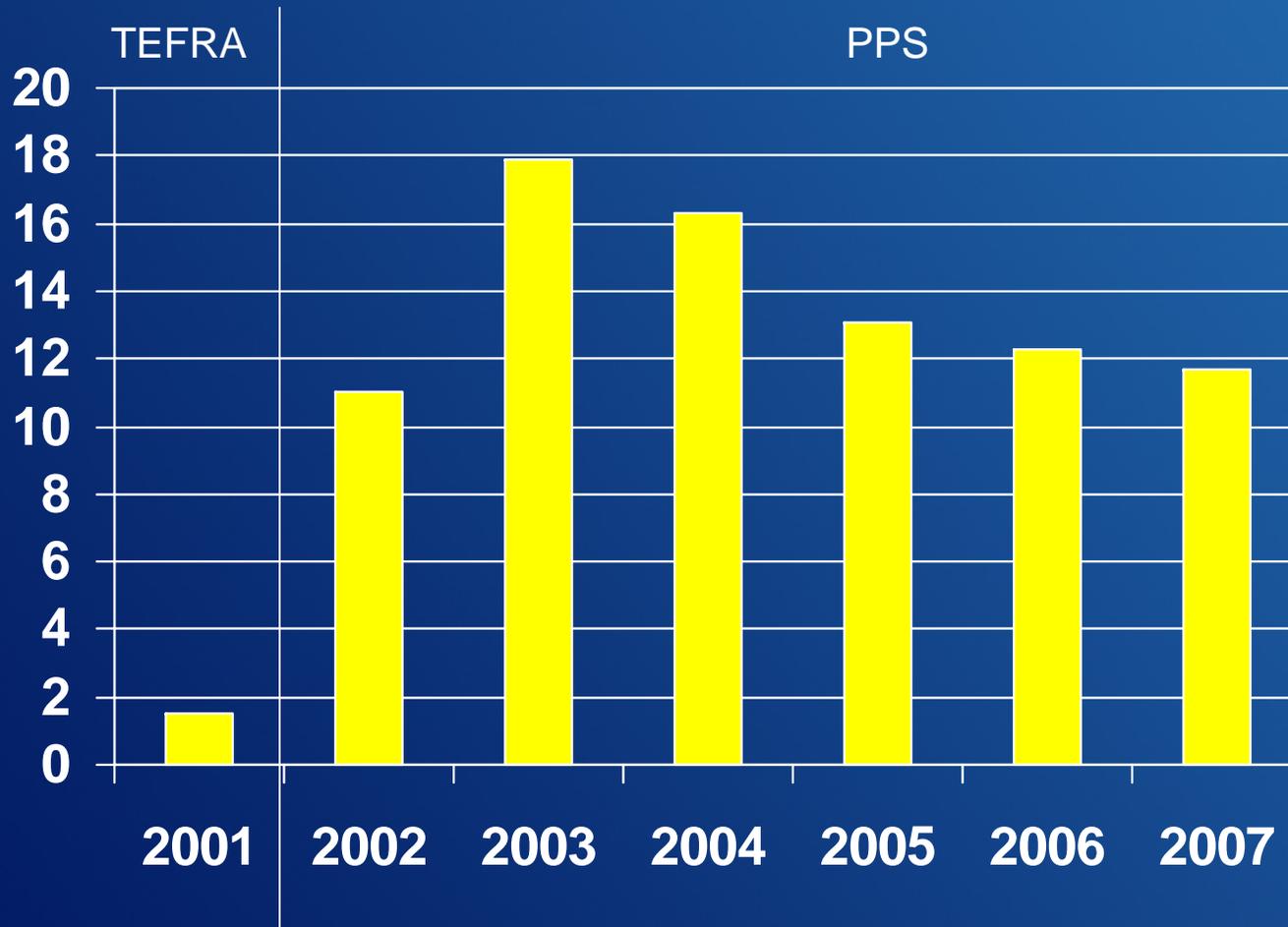
Access to capital tightened in 2008

- Changes in the credit markets are broad and not related to specific changes in Medicare payment policy
- Economy-wide issues in the credit markets may result in increased capital costs or delayed access to capital for IRFs

Cumulative changes in IRFs' payments and costs per case, 1999-2007



IRF Medicare margins, 2001 - 2007



IRF Medicare margins in 2007

	% of IRFs	Margin
All IRFs	100	11.7
25 th	25	-5.7
75 th	25	19.2
Urban	79	12.1
Rural	21	8.9
Hospital-based	82	7.9
Freestanding	18	18.5
Nonprofit	62	9.3
For profit	24	16.9
Government	14	NA

Policy changes for modeling 2009 margins

- Zero update between 2007 and 2009 (per MMSEA)
- Outlier adjustment in 2009

	<u>2007</u>	<u>Estimated 2009</u>
All IRFs' margin	11.7%	4.5%

Summary

- Facilities/beds declined modestly in 2007
- Volume and spending declined in 2007
- Access to care appears to be adequate, but is complicated to assess
- Quality: increase in functional gain; case-mix changes prevent definitive conclusions
- 2009 projected margin 4.5%