Advising the Congress on Medicare issues

Assessing payment adequacy: Inpatient rehabilitation facility services

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Inpatient rehabilitation facilities

- Provide intensive rehabilitation
- IRFs are hospital-based (80%) or freestanding (20%)
- Medicare FFS is largest payer
  - 60% of IRF cases
  - $5.99 billion in expenditures (2009)
- IRF PPS established in 2002 (BBA)

IRF criteria

- Patients must require
  - At least two types of therapy
  - Need to tolerate 3 hours of therapy per day
- IRFs must
  - Meet acute hospital COPs
  - Have a medical director of rehabilitation
  - Use preadmission screening
  - Have an interdisciplinary team approach
  - Meet the compliance threshold (60 percent rule)

Assessing adequacy of IRF payments

- Access to care
  - Supply of facilities
  - Occupancy rates
  - Number of rehabilitation beds
  - Volume of services
- Quality of care
- Access to capital
- Payments and costs

Supply of IRFs remains stable in 2009

	2002	2005	2008	2009	Annual change '02-'05	Annual change '05-'08	Annual change '08-'09
All	1,181	1,235	1,202	1,196	+1.5 %	-0.9 %	-0.5 %
Urban	1,004	1,027	1,001	992	+0.8	-0.9	-0.9
Rural	177	208	201	204	+5.5	-1.1	+1.5
Freestanding	214	217	221	225	+0.5	+0.6	+1.8
Hospital-based	967	1,018	981	971	+1.7	-1.2	-1.0
Nonprofit	751	768	738	732	+0.7	-1.3	-0.8
For-profit	274	305	291	295	+3.6	-1.6	+1.4

Note: Figures preliminary and subject to change
Source: MedPAC analysis of 2009 Provider of Services (POS) data from CMS

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Occupancy rates are stable in 2009

	2004	2008	2009	% point change '04-'08	% point change '08-'09
All	67.8	62.2	62.8	-5.7	+0.7
Hospital-based	65.7	59.9	60.2	-5.8	+0.3
Freestanding	71.9	66.1	67.3	-5.7	+1.2

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

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The number of IRF beds stabilizes in 2009

	2004	2008	2009	Annual change '04-'08	Annual change '08-'09
All	37,495	35,879	35,757	-1.1	-0.3
Hospital-based	23,844	22,787	22,325	-1.1	-2.0
Freestanding	13,650	13,092	13,432	-1.0	+2.6

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

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Volume remains stable in 2009

	2002	2004	2008	2009	Annual change '08-'09
FFS Spending ($ billions)	$5.65	$6.43	$5.96	$6.07	+1.8%
Number of cases	401,000	455,000	356,000	361,000	+1.5%
Payment per case	$11,152	$13,275	$16,649	$16,568	-0.5%

Note: Figures preliminary and subject to change

Source: CMS Office of the Actuary (FFS spending), MedPAC analysis of Medicare MEDPAR from CMS (number of cases and payment per case)

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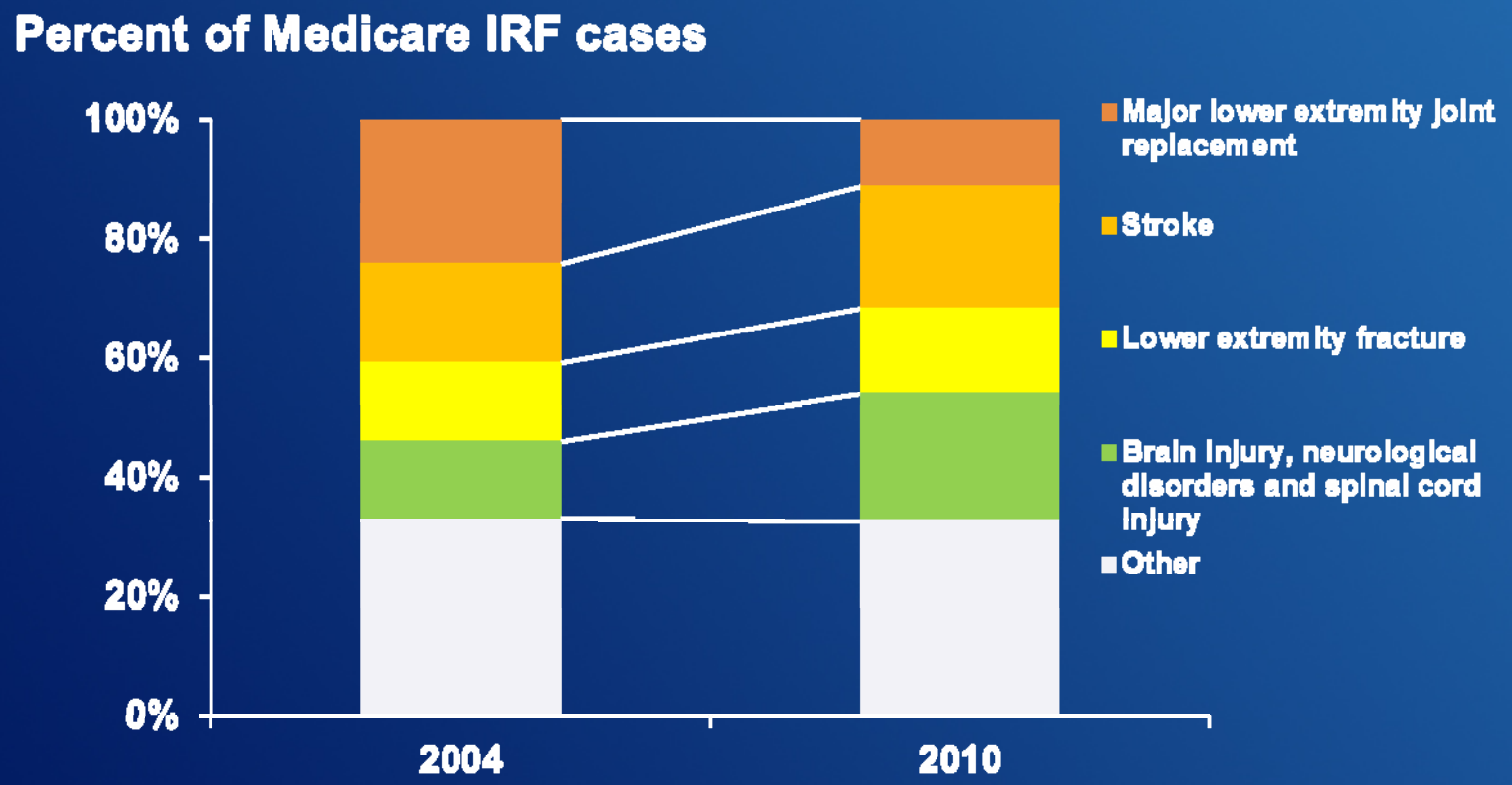
IRF patient mix has changed



Note: Figures preliminary and subject to change
Source: MedPAC analysis of IRF-PAI data from CMS, 2004 - 2010

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Hip and knee replacement cases shift to other PAC settings

Discharge destinations of hip and knee replacement cases

	2004	2006	2009	% point change '04-'09
IRF	28%	20%	13%	- 15
SNF	33	35	37	+ 4
Home Health	21	27	31	+ 10
Other	18	18	18	0

Note: Figures preliminary and subject to change
Source: MedPAC analysis of hospital MedPAR data from CMS, 2004 - 2009

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Quality of Care

- Between 2004 to 2010
  - Gain in functional status between admission and discharge increased
  - Functional status at admission declined

- Gain in functional status could reflect improved quality or declining functional status at admission

Note: Data is preliminary and subject to change

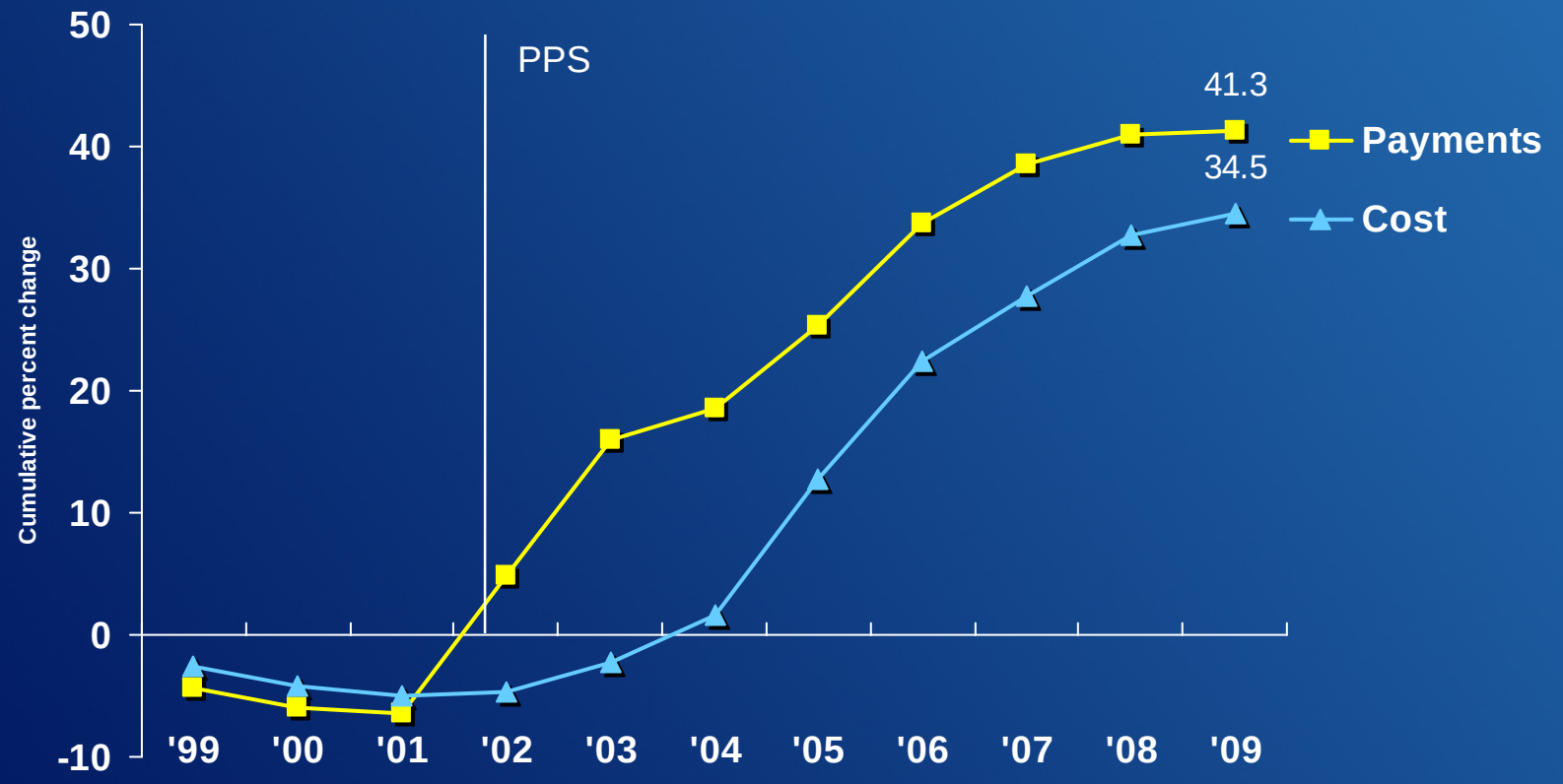
Access to capital appears adequate

- Hospital-based units
  - Access capital through their parent institutions
- Two major freestanding IRF chains
  - Positive revenue growth
  - Able to fund acquisitions and refinance debt

Note: Data is preliminary and subject to change

Payments have grown faster than costs from 2002 through 2009

Cumulative changes in IRF payments and costs per case, '99-'09



Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

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Adjusted costs per case reflect economies of scale

Characteristics of IRFs by quartiles of costs per case adjusted for wage-index, case-mix, and outliers

	Low cost quartile	High cost quartile
Percent hospital-based	52.0%	93.9%
Percent freestanding	48.0%	6.1%
Median bed size	37	18
Median occupancy rate	69%	50%
Median case-mix weight	1.21	1.19

Note: Figures preliminary and subject to change

Source: MedPAC analysis of 2009 standard analytical file and Medicare cost report data from CMS

Medicare margins decline but remain healthy

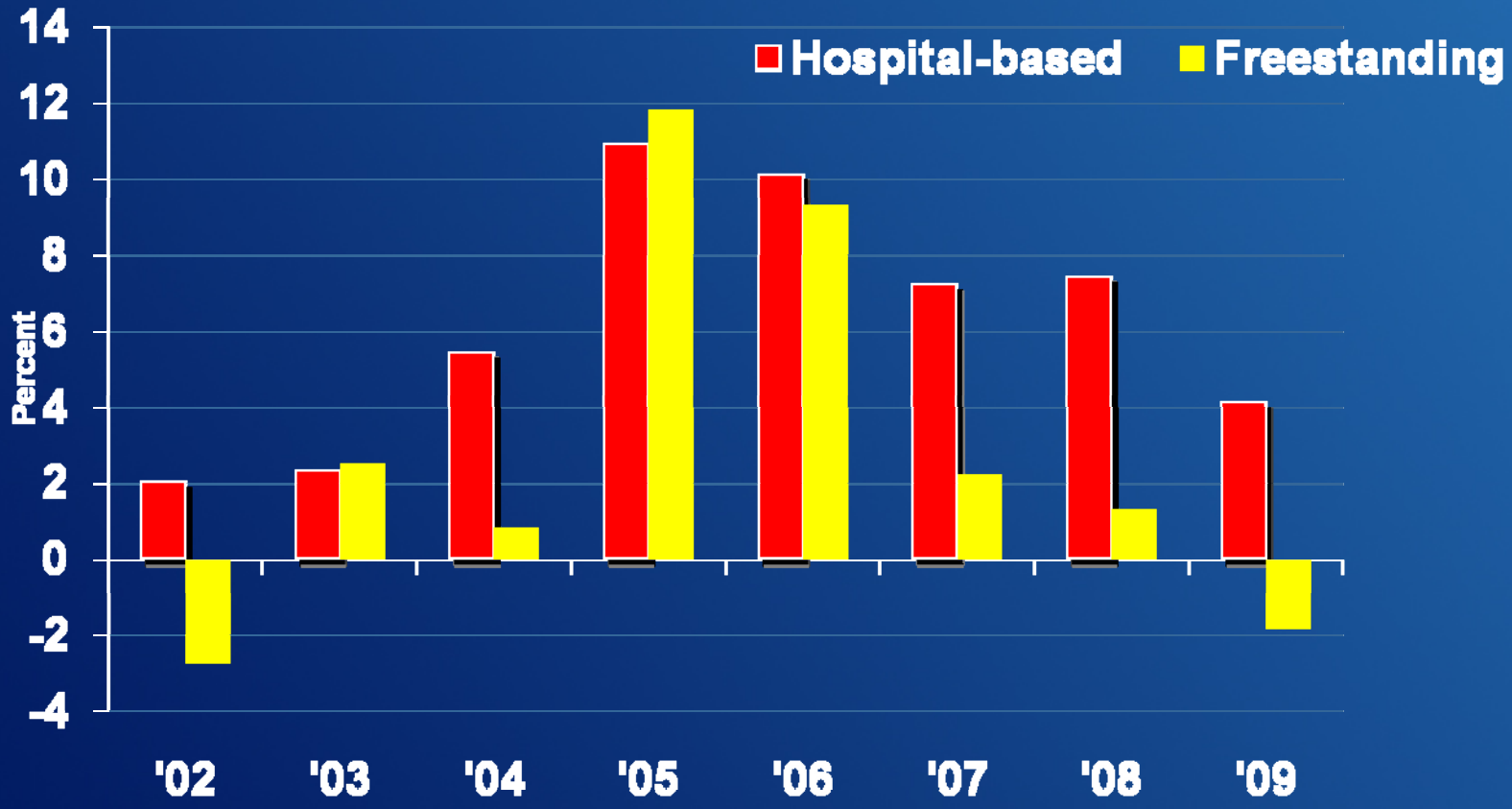
	2004	2006	2008	2009
All	16.6%	12..4%	9.6%	8.4%
Urban	16.9%	12.6%	9.8%	8.5%
Rural	13.9%	10.6%	7.9%	6.6%
Hospital-based	12.1%	9.7%	4.4%	0.5%
Freestanding	24.7%	17.4%	18.2%	20.1%
Bed size				
1-10	3.4%	-3.6%	-4.1%	-10.7%
11-21	9.6%	7.0%	0.9%	-2.4%
22-59	16.0%	12.3%	8.7%	6.3%
60+	22.5%	17.5%	17.2%	18.3%

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

Low hospital-based margins partly due to high growth in costs per case

Growth in average cost per case



Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

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Summary

- Beneficiary access
  - Supply and capacity are stable in 2009
  - Volume stable in 2009
- Quality: changes in functional gain at admission prevent definitive conclusions
- Access to credit appears to be adequate
- 2009 margins are 8.4%

Note: Figures preliminary and subject to change

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