



*Advising the Congress on Medicare issues*

# Assessing payment adequacy: Inpatient rehabilitation facility services

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# Inpatient rehabilitation facilities

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- Provide intensive rehabilitation
- IRFs are hospital-based or freestanding
  - Hospital-based IRFs represent 80% of facilities, but only 55% of Medicare IRF discharges
- Medicare FFS is the largest payer
  - 62% of IRF cases
  - \$6.46 billion in expenditures (2011)
- IRF PPS established in 2002 (BBA)

# IRF criteria

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- Patients must
  - Require at least two types of therapy
  - Tolerate 3 hours of therapy per day
- IRFs must
  - Have a medical director of rehabilitation
  - Screen patients within 48 hours prior to admission
  - Have an interdisciplinary team approach
  - Meet the compliance threshold (60 percent rule)
    - Volume and patient mix sensitive to policy changes
    - Major joint replacement cases shifted to SNFs and HHAs

# Assessing adequacy of IRF payments

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- Access to care
  - Supply of facilities, number of rehabilitation beds, and occupancy rates
  - Volume of services
- Quality of care
- Access to capital
- Payments and costs

# IRF capacity and supply continued to decline slightly in 2011

	2008	2010	2011	Percent of industry	Average annual change	
					'08-'10	'10-'11
<b>Facilities</b>						
<b>All IRFs</b>	<b>1,202</b>	<b>1,179</b>	<b>1,165</b>	<b>100%</b>	<b>-1.0%</b>	<b>-1.2%</b>
Hospital-based	981	946	931	79.9%	-1.8%	-1.6%
Freestanding	221	233	234	20.1%	2.7%	0.4%
<b>Number of beds</b>						
<b>All IRFs</b>	<b>35,758</b>	<b>35,521</b>	<b>35,249</b>	<b>100%</b>	<b>-0.3%</b>	<b>-0.8%</b>
Hospital-based	22,666	21,948	21,698	61.6%	-1.6%	-1.1%
Freestanding	13,092	13,573	13,551	38.4%	1.8%	-0.2%

Note: Figures preliminary and subject to change

Source: Medicare hospital cost report data from CMS

# Occupancy rates suggest capacity adequate to meet demand

	2008	2010	2011	Percent of industry	Average annual change	
					'08-'10	'10-'11
<b>Occupancy rates</b>						
<b>All IRFs</b>	<b>62.1%</b>	<b>62.4%</b>	<b>63.3%</b>	<b>100%</b>	<b>0.2%</b>	<b>1.4%</b>
Hospital-based	59.8%	59.4%	59.8%	79.9%	-0.3%	0.7%
Freestanding	66.1%	67.2%	68.3%	20.1%	0.8%	1.6%
Urban	63.4%	63.6%	64.5%	83.4%	0.2%	1.4%
Rural	49.4%	49.7%	49.6%	16.6%	0.3%	-0.2%

Note: Figures preliminary and subject to change  
 Source: Medicare hospital cost report data from CMS

# Volume and payment increasing

	2008	2010	2011	Average annual change	
				'08-'10	'10-'11
FFS Spending (\$ billions)	\$5.93	\$6.14	\$6.46	+1.7%	+5.2%
Number of cases	356,000	359,000	371,288	+0.4%	+3.3%
Payment per case	\$16,646	\$17,085	\$17,398	+1.3%	1.8%

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare MEDPAR from CMS (number of cases and payment per case)

# Quality of care: risk-adjusted measures show relative stability

	2009	2010
FIM gain	32.2	27.4
Discharge to community	70.6%	71.1%
SNF admission within 30 days after discharge to community	3.6%	4.0%
Discharge to acute care hospital	10.4%	10.3%
Hospital readmission within 30 days after discharge to community	12.0%	12.0%

Note: Figures preliminary and subject to change. Estimates developed from risk-adjustment models. FIM gain (the difference between the Functional Independence Measure on the IRF-Patient Assessment Instrument between admission and discharge).

Source: RAND analysis of IRF-PAI, MedPAR, denominator file, and provider of services file



# Adequate access to capital

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- Hospital-based units
  - Access capital through their parent institutions: hospitals maintain reasonable access to capital but are shifting capacity to outpatient
- One major freestanding IRF chain
  - Ability to borrow increased, largely due to improving credit markets and the chain's strong operating performance

Note: Data is preliminary and subject to change

# Medicare margins increased in 2011, but vary by type of facility

	Percent of industry	Percent of spending	2009	2010	2011
<b>Margins</b>					
<b>All IRFS</b>	<b>100%</b>	<b>100%</b>	<b>8.4%</b>	<b>8.7%</b>	<b>9.6%</b>
Hospital-based	79.9%	56.1%	0.3%	-0.3%	-0.8%
Freestanding	20.1%	43.9%	20.3%	21.4%	22.9%
Nonprofit	61.0%	54.6%	2.3%	2.0%	2.0%
For-profit	25.2%	35.7%	19.0%	19.7%	21.3%

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

# Hospital-based IRFs: factors that impact margins

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- 80% of facilities, but 55% of Medicare IRF discharges
- Tend to be smaller with lower occupancy
  - 57% have fewer than 22 beds
- Higher costs than freestanding IRFs
  - 30% higher direct costs per case; 11% higher indirect costs per case
- Are able to cover their direct costs
  - 2010 direct cost margin: 34.4%
- Total acute hospital Medicare margins are 2.1 percentage points higher for acute hospitals with an IRF

Note: Data is preliminary and subject to change

# Summary

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- Beneficiary access
  - Capacity remains adequate to meet demand
- Risk-adjusted quality remains stable
- Access to credit appears adequate
- 2011 margin is 9.6%

Note: Figures preliminary and subject to change