Assessing payment adequacy and updating payments: Inpatient rehabilitation facility services

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MEDPAC

IRF payment adequacy framework

Beneficiaries' access to care	Quality of care	IRFs' access to capital	Medicare payments and IRFs' costs
• Supply of IRFs • Volume of services • Marginal profit	• All-condition hospitalizations • Successful discharge to community	• All payer profitability • Financial reports • New construction	• Payments and costs • Medicare margins and efficient IRFs • Projected Medicare margins

Update recommendation for IRF PPS

Payment adequacy framework and the coronavirus public health emergency (PHE)

- COVID-19 has had tragic and disproportionate effects on Medicare beneficiaries and the health care workforce
- PHE has also had material effects on payment adequacy indicators, making them more difficult to interpret
- Temporary or highly variable coronavirus effects are best addressed through targeted, short-term funding policies rather than permanent changes to all providers' payment rates in 2023 and future years

Temporary funding and policy changes for IRFs

Provider relief

- Provider Relief Fund
  - General distribution: 2% of total revenues
- Paycheck Protection Program loans

Temporary changes in policies

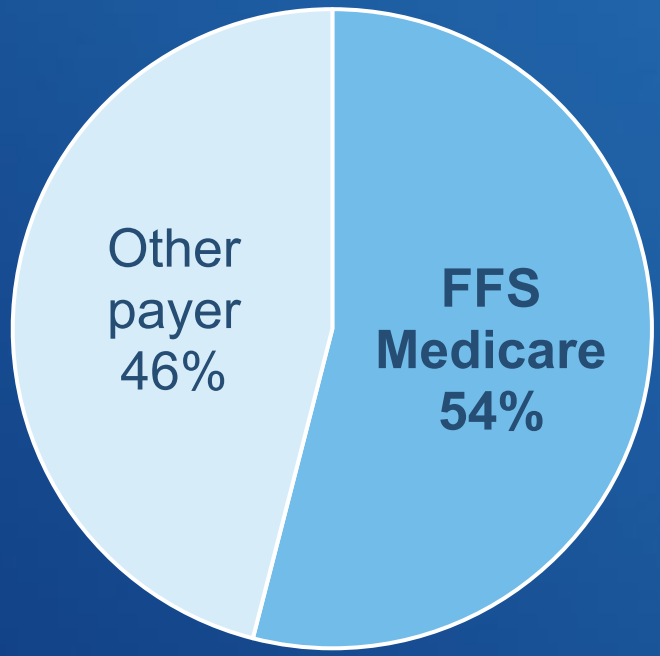
- Suspended the Medicare 2% sequestration payment reduction
- Waived the IRF "3-hour rule"
- Waived the IRF 60-percent rule

➔ Collectively, federal support to date has generally maintained IRF providers' financial performance in 2020; and more funds remain to be distributed

Overview of IRF Industry in 2020

IRF providers	1,113
FFS users	335,000
FFS stays	379,000
FFS spending	$8 billion

IRF discharges



Source: MedPAC analysis of Medicare cost report data from CMS.

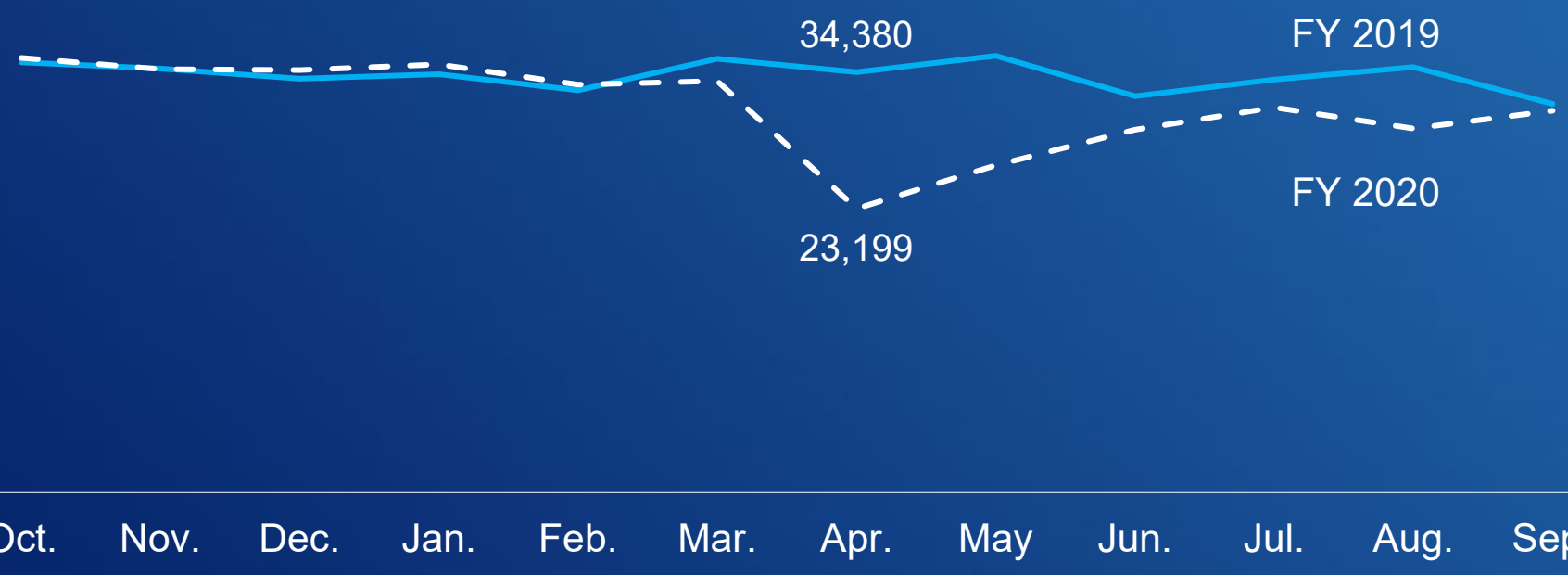
Results preliminary; subject to change

Access to care: IRF indicators mixed but unlikely to reflect adequacy of Medicare's payments, 2020

- Decline in the number of IRFs (-3.4%)
  - Slight decrease in aggregate number of beds (-1.8%)
  - Some IRFs closed due to historically poor financial performance
- Medicare marginal profit:
  - Freestanding: 38%
  - Hospital-based: 19%
- Occupancy rate stable (67%)
- Volume decreased (-7.4%)

Source: MedPAC analysis of Medicare Provider Analysis and Review data from CMS..
Results preliminary; subject to change

Access to care: IRF cases declined in Spring 2020, rebounded by Summer 2020



➔ CMS enacted numerous waivers to increase beneficiaries' access to IRF services and ease the burden on health care providers during the PHE

Source: MedPAC analysis of Medicare Provider Analysis and Review data from CMS..

Results preliminary; subject to change

Quality of care: Difficult to assess in 2020

- Change in measures reflects temporary changes in the delivery of care and data limitations unique to the PHE rather than trends in the quality of care provided to beneficiaries, and our post-acute care quality metrics rely on risk-adjustment models that do not explicitly account for COVID-19
  - All-condition hospitalizations remained steady
  - Successful discharges to community increased

Source: MedPAC analysis of Inpatient Rehabilitation Facility–Patient Assessment Instrument data from CMS.

Results preliminary; subject to change

Access to capital: IRFs' access remained strong in 2020

Hospital-based units

- Access capital through their parent institutions
  - Hospitals maintain good access to capital markets
- Hospitals' aggregate all-payer total margin was slightly higher in hospitals with IRF units compared with those without such units

Freestanding facilities

- Over 50% owned by one company
  - Access to capital appears strong; new construction reflects positive financial health
  - Returned $237 million in relief funds
  - M&A activity rebounded in 2021
- Little information available for others
- All-payer total margin strong at 10.2% (without provider relief funds)

Source: MedPAC analysis of Medicare cost report data from CMS.

Results preliminary; subject to change

Medicare payments and costs: IRF costs per case grew faster than payments per case in 2020

Growth in payments per case

- 7.5%
- Annual update was 2.5%
- Suspension of the Medicare 2% sequestration
- Temporary flexibility in IRF criteria
- Faster growth in case mix

Growth in costs per case

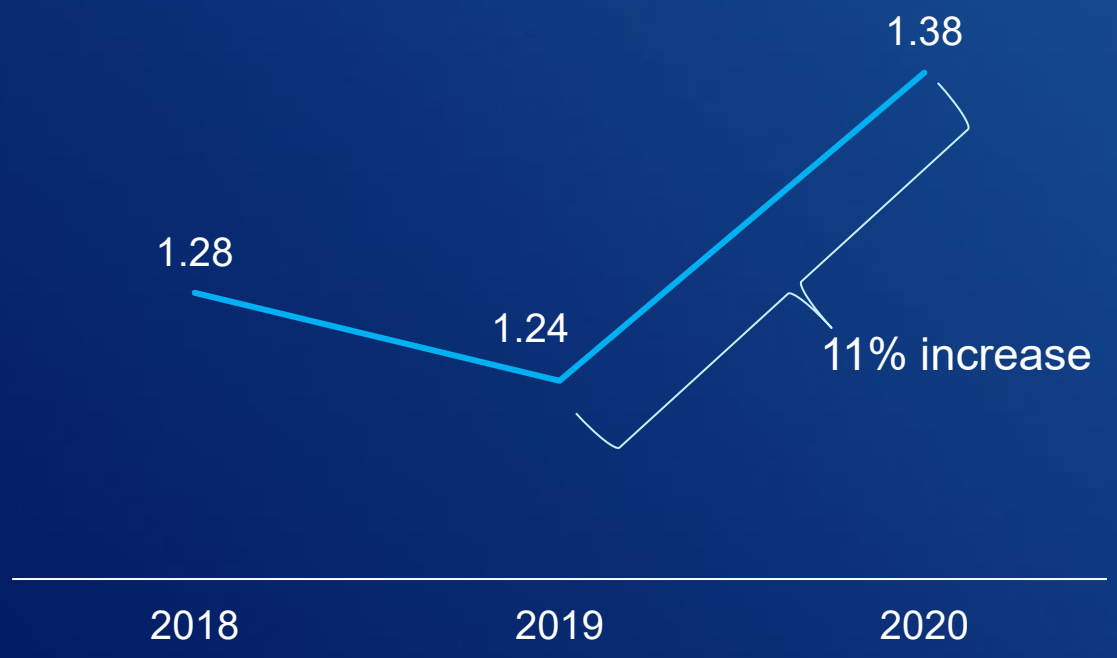
- 8.5%
- Spreading fixed costs over fewer IRF cases
- Increase in labor costs
- Increase in supplies
- Increase in IRF average length of stay
- Faster growth in case mix

Source: MedPAC analysis of Medicare cost report data from CMS.

Results preliminary; subject to change

Faster growth in IRF case-mix index (CMI)

IRFs' overall CMI increased 11 percent, from 2019 to 2020



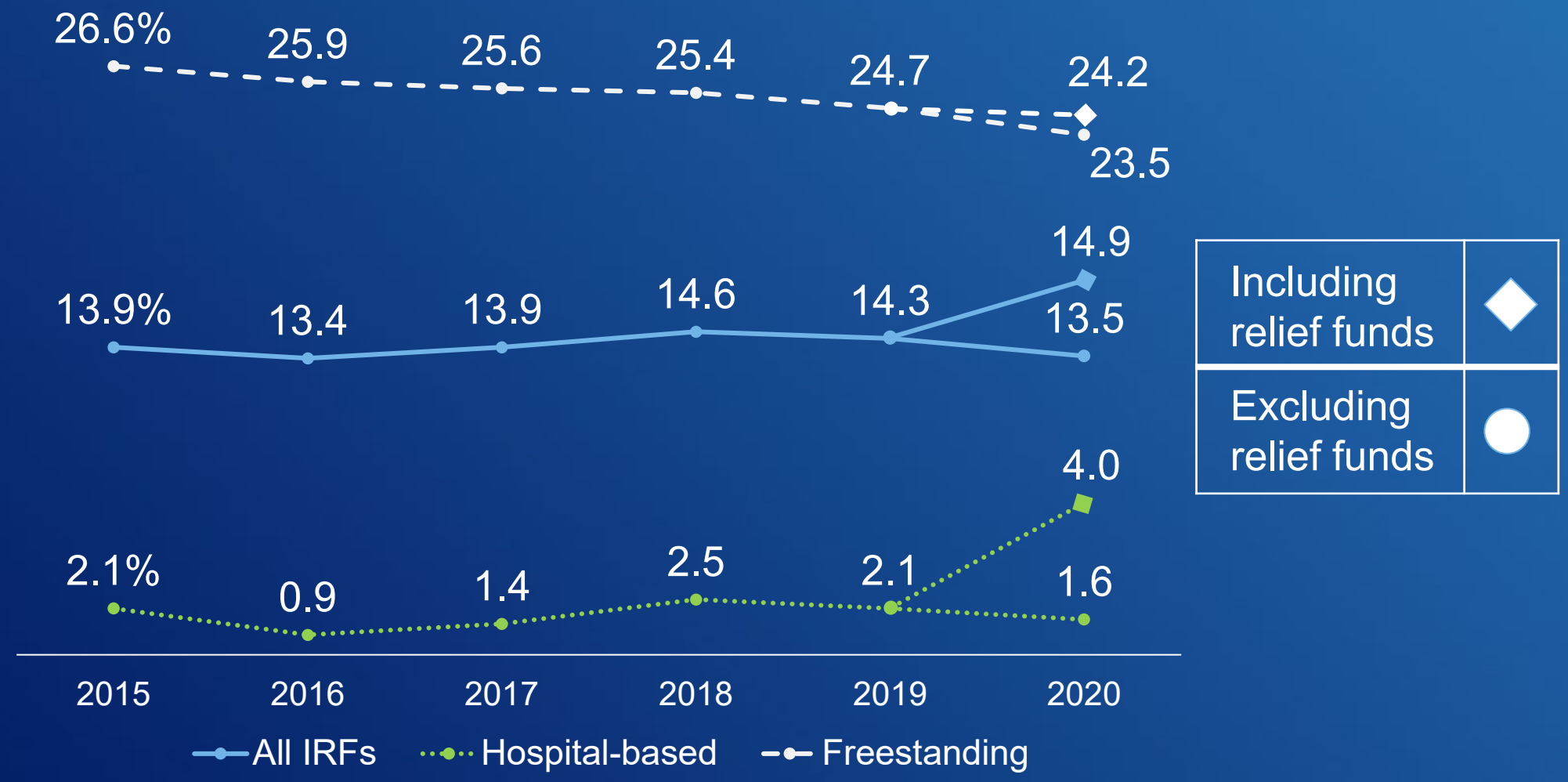
- Increase in patient comorbidities
- The waiver of the "3-hour rule" may have allowed IRFs to admit patients with more comorbidities & functional impairment
- Patient deferral of elective procedures and anxiety may have resulted in only the most acute patients seeking care

Source: MedPAC analysis of Inpatient Rehabilitation Facility–Patient Assessment Instrument data from CMS

Results preliminary; subject to change

Medicare payments and providers' costs: IRF
Medicare margins remained high in 2020

Medicare margins are in line with historical trend after including estimated Medicare share of federal relief funds



Source: MedPAC analysis of Medicare cost report data from CMS.

Results preliminary; subject to change

Relatively efficient IRFs generally maintained better performance in 2020

	Relatively efficient IRFs (N=230)	Other IRFs (N=702)
Performance in 2020		
All-condition hospitalizations	7.4%	7.6%
Successful discharge to the community	66.3%	68.3%
Standardized cost per discharge	$13,840	$16,554
Medicare margin	17.9%	3.9%

Source: MedPAC analysis of Medicare cost report data, Medicare Provider Analysis and Review data, and Inpatient Rehabilitation Facility–Patient Assessment Instrument data from CMS for 2017 to 2020.

Results preliminary; subject to change

Summary: COVID-19 affected IRF adequacy indicators, but they remained generally positive

Beneficiaries' access to care

- Capacity appears adequate
- Decrease in volume
- High marginal profit
  - FS: 38%
  - HB: 19%

Quality of care

- Measure changes not indicative of changes in quality or payment adequacy

IRFs' access to capital

- IRFs maintain good access to capital markets
- The all-payer total margin for freestanding IRFs is a robust 10.2%

Medicare payments and IRFs' costs

- 2020 aggregate Medicare margin: 13.5%

Note: Freestanding = FS, hospital-based = HB

Results preliminary; subject to change