

Assessing payment adequacy and updating payments: Inpatient rehabilitation facility services

Jamila Torain and Betty Fout
December 9, 2022

MedPAC's payment adequacy framework: Inpatient rehabilitation facilities



Access to care

- Supply of IRFs
- Volume of services
- Marginal profit



Quality of care

- All-condition hospitalizations
- Successful discharge to community



Access to capital

- All-payer profitability
- Financial reports
- New construction







Medicare payments and IRFs' costs

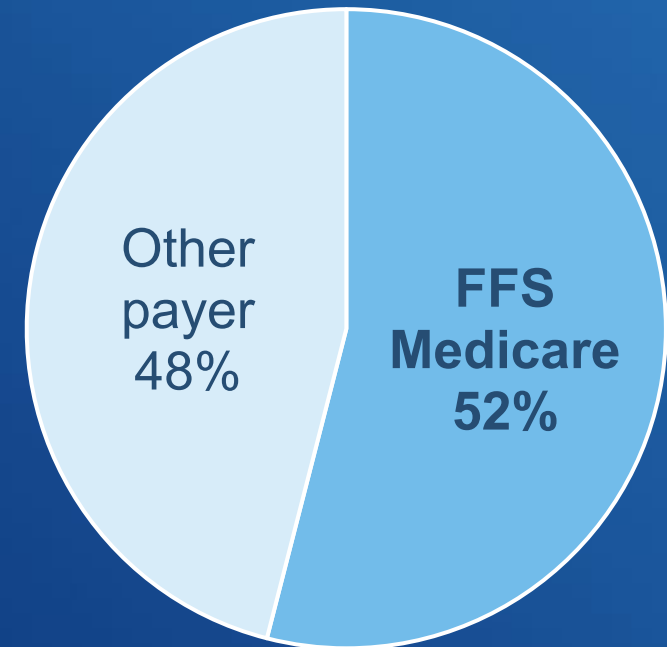
- Medicare margin among all and relatively efficient IRFs
- Projected margin

Update recommendation for payment system base rates

Overview of IRF sector in 2021

	IRF providers	1,181
	FFS users	335,000
	FFS stays	379,000
	FFS spending	\$8.5 billion

IRF discharges



Access to care: IRF indicators stabilized in 2021

- In 2021, volume increased by about 4%
- Increase in the number of IRFs (1.9%)
 - Slight increase in aggregate number of beds (0.5%)
 - The majority of new IRFs were free-standing and for profit IRFs
- Occupancy rate: 68%
- Medicare marginal profit:
 - Hospital-based: 22%
 - Freestanding: 41%

Quality of IRF care is difficult to assess in 2021

- Two risk-adjusted quality measures for all PAC settings
 - Successful discharge to the community
 - All-condition hospitalizations
- Mean rates of these measures improved in 2021 compared to 2020
- Current risk-adjustment model does not include COVID-19

Access to capital: IRFs' access remained strong in 2021

Hospital-based units (72%)

- Access capital through their parent institutions
 - Hospitals maintain good access to capital markets
- The all-payer operating margin among hospitals paid under the inpatient prospective payment systems reached a record high in 2021 despite a decline in federal relief funds

Freestanding facilities (28%)

- Almost 45% owned by one company
 - Access to capital appears strong; new construction reflects positive financial health
 - In 2021, the company opened 8 IRFs and added 117 beds to existing IRFs
 - M&A activity rebounded in 2021
- All-payer total margin strong at 14.0%

Medicare payments and providers' costs: IRF

Medicare margins remained high in 2021



Investigation of variation in IRF profitability

- Differences in profitability among IRF conditions and among case-mix groups within a condition
 - Can lead to selection of certain types of patients and incentive to code lower functional status
- IRFs with higher case-mix also have higher profitability in 2021 – this was not the case in 2007
 - Shift towards more IRFs with higher case-mix over the period
- We plan further investigation of the calculation of payment weights and IRF coding practices

Relatively efficient IRFs had higher margins than other IRFs in 2021

Performance in 2021	Relatively efficient IRFs (17%)	Other IRFs (83%)
All-condition hospitalizations	6.4%	7.2%
Successful discharge to the community	70.3%	67.6%
Payment per discharge	\$23,290	\$24,371
Standardized cost per discharge	\$14,423	\$17,284
Median Medicare margin	20.4%	9.5%

Summary: IRFs' payment adequacy indicators are generally positive in 2021



Access to care

- Capacity appears adequate
- Occupancy rate stable at 68%
- High marginal profit
 - HB: 22%
 - FS: 41%



Quality of care

- IRF measures of quality of care improved in 2021
- Interpret with caution



Access to capital

- IRFs maintain good access to capital markets
- The all-payer total margin for freestanding IRFs is a robust 14.0%



Medicare payments and IRFs' costs

- 2021 aggregate Medicare margin: 17.0%
- Relatively efficient median Medicare margin: 20.4%