

Assessing payment adequacy and updating payments: Inpatient rehabilitation facility services

Jamila Torain

December 8, 2023

Presentation roadmap

- 1 Overview of IRF use and spending under FFS Medicare
- 2 Beneficiaries' access to IRF care
- 3 Quality of IRF care
- 4 IRFs' access to capital
- 5 FFS Medicare payments and IRFs' costs
- 6 Chair's draft recommendation

Overview: IRF use and spending in 2022



IRF Providers

1,181 (71% hospital-based providers)



Stays

383,000



Spending

\$8.8 billion



FFS Medicare share

51% of all IRF discharges

Note: IRFs (inpatient rehabilitation facilities), FFS (fee-for-service).

Source: Provider of Services data, Medicare Provider Analysis and Review data, and Medicare cost report data from CMS and Office of the Actuary.

Payment adequacy framework: IRFs



Beneficiaries' access to care

- Supply of IRFs
- Volume of services
- FFS Medicare marginal profit



Quality of care

- Potentially preventable readmissions after discharge
- Successful discharge to community



Access to capital

- All-payer margin
- Financial reports
- New construction



FFS Medicare payments and IRFs' costs

- FFS Medicare margin
- Projected FFS Medicare margin

Update recommendation for IRF base rate

Note: IRFs (inpatient rehabilitation facilities), FFS (fee-for-service).

Access: IRF indicators were positive in 2022



Number of IRF beds increased

- While the number of IRFs remained the same, the number of IRF beds increased by about 2%
- The majority of new IRFs were freestanding and for profit



FFS volume increased

- Stays per FFS beneficiary increased by about 4%



Occupancy rate was stable

- Aggregate IRF occupancy rate remained stable at 68%

Note: IRF (inpatient rehabilitation facility), FFS (fee-for-service).

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

Access: IRFs continued to have a financial incentive to serve FFS beneficiaries in 2022

18%

**FFS Medicare
marginal profit for
hospital-based IRFs**

39%

**FFS Medicare
marginal profit for
freestanding IRFs**

Note: IRFs (inpatient rehabilitation facilities), FFS (fee-for-service). The FFS Medicare marginal profit is an indicator of whether IRFs with excess capacity have an incentive to treat more Medicare beneficiaries.

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

IRF quality: Discharge to community rate increased

Claims-based measures	Median facility rate, 2018-2019	Median facility rate, 2021-2022
Discharge to community	64.9	67.3%
Potentially-preventable readmissions	6.7	8.6%

- Claims-based measures: The median facility risk-adjusted rate of discharge to the community increased
- Gaps in IRF quality data persist; patient experience survey is available to IRFs but not required under the IRF Quality Reporting Program

Note: IRFs (inpatient rehabilitation facilities), FY (fiscal year), CMS (Centers for Medicaid & Medicare Services). The potentially preventable 30-day post-discharge readmission measure captures all unplanned, potentially preventable readmissions for beneficiaries who receive services in an IRF. "Successful discharge to community" includes beneficiaries discharged to the community who did not have an unplanned rehospitalization and/or die in the 31 days following discharge.

Source: Medicare inpatient claims from CMS.

Access to capital: Freestanding IRFs' access remained strong in 2022

Hospital-based units

- Access capital through their parent institutions
- The all-payer operating margin among hospitals paid under the IPPSs declined to 2.7% in 2022
- Preliminary data suggests hospitals' all-payer operating margin will remain strained but improve in 2024

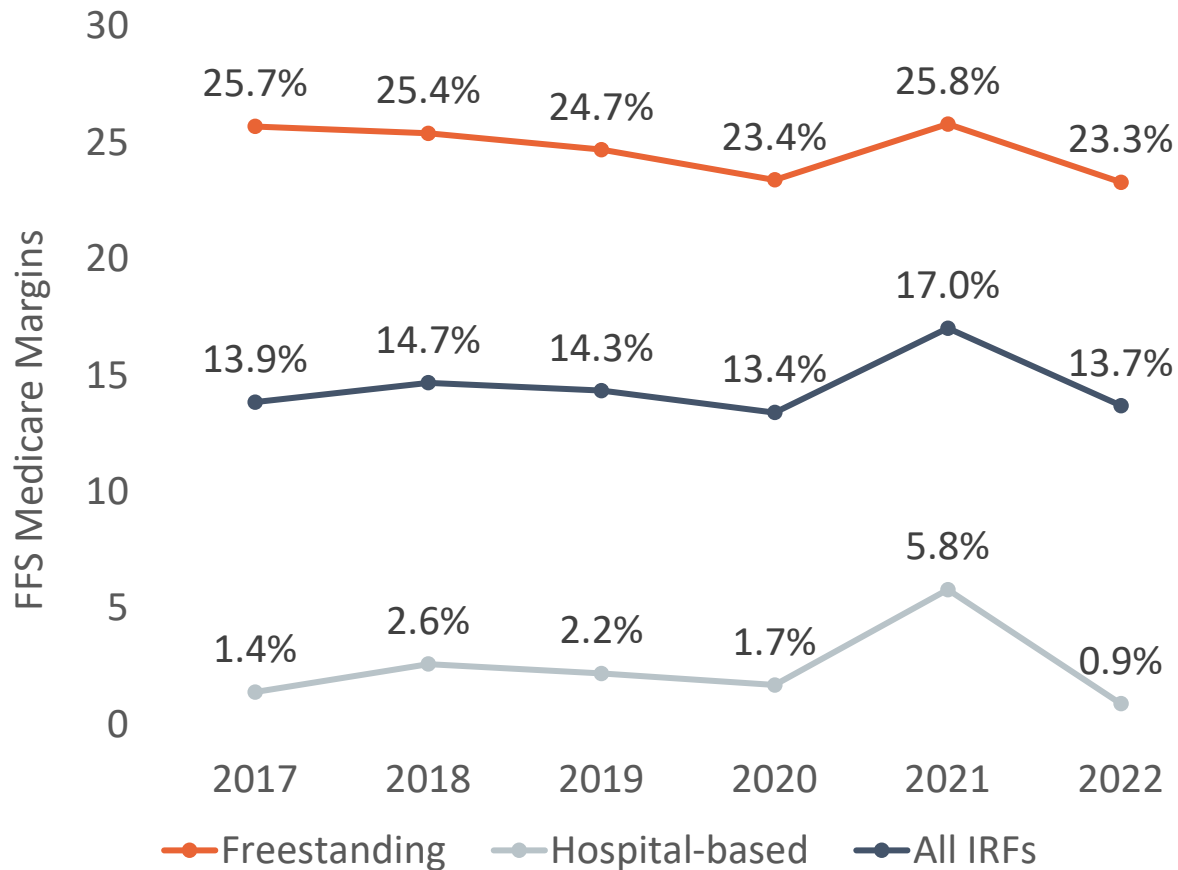
Freestanding facilities

- All-payer margin strong at 9%
- Almost 45% of freestanding IRFs owned by one company
 - Access to capital appears strong; new construction reflects positive financial health
 - In 2022, the company opened 9 IRFs and added 87 beds to existing IRFs

Note: IRFs (inpatient rehabilitation facilities), IPPS (Inpatient prospective payment system). "All-payer operating" margin includes payments from all payers, with revenue limited to patient care and other operating revenue.

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

IRF payments and costs: Aggregate FFS Medicare margins remained strong in 2022



- 2022 aggregate FFS Medicare margin: 13.7%
- Financial performance continued to vary widely across IRFs.
 - Freestanding IRFs: $\approx 23\%$
 - Hospital-based IRFs: $\approx 1\%$

Note: IRFs (inpatient rehabilitation facilities), FFS (fee-for-service).
Source: MedPAC analysis of Medicare cost report data from CMS.

Summary: IRF payment adequacy indicators



Beneficiaries' access to care

- Capacity appears adequate
- Occupancy rate stable at 68%
- 2022 FFS Medicare marginal profit:
 - HB: 18%
 - FS: 39%



Quality of care

- Facility rate of discharge to the community increased to 67.3%



Access to capital

- 2022 freestanding all-payer margin \approx 9%
- IPPS all-payer operating margin declined in 2022 but preliminary data suggests it will improve in 2024



FFS Medicare payments and IRFs' costs

- 2022 FFS Medicare margin: 13.7%
 - HB: \approx 1%
 - FS: \approx 23%

Note: IRFs (inpatient rehabilitation facilities), FS (freestanding), HB (hospital-based), IPPS (Inpatient prospective payment system).

Medicare Payment Advisory Commission

✉ meetingcomments@medpac.gov

🌐 www.medpac.gov

✂ [@medicarepayment](https://twitter.com/medicarepayment)