

Assessing payment adequacy and updating payments: Inpatient rehabilitation facility services

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Presentation roadmap

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Overview of IRF use and spending under FFS Medicare, 2024



IRF providers

1,170 (66% hospital-based providers)



FFS Medicare stays

435,000



FFS Medicare spending

\$11.0 billion



FFS Medicare share

51% of all IRF discharges

Note: IRF (inpatient rehabilitation facility), FFS (fee-for-service). FFS Medicare spending includes program and beneficiary cost-sharing payments.
Source: Medicare Provider Analysis and Review data and Medicare cost report data from CMS.

Payment adequacy framework: IRFs



Beneficiaries' access to care

- Supply of IRFs
- Volume of services



Quality of care

- Potentially preventable readmissions
- Successful discharge to community



Access to capital

- All-payer margin
- Financial reports
- Provider entry and expansion



FFS Medicare payments and IRFs' costs

- FFS Medicare margin
- Projected FFS Medicare margin

Update recommendation for IRF base rate

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

Access: IRF indicators were positive in 2024



The number of IRF beds slightly increased

- Number of IRFs increased 1%
- Number of beds increased 3.5%
- Majority of new IRFs were freestanding and for-profit



FFS volume increased

- Number of Medicare stays increased 8%, exceeding prepandemic levels
- Stays per FFS beneficiary increased 10%



Occupancy rate increased slightly

- Aggregate IRF occupancy rate: 71%

Note: IRF (inpatient rehabilitation facility), FFS (fee-for-service).
Source: MedPAC analysis of Medicare Provider Analysis and Review data from CMS.

Quality: Rates of discharge to community and potentially preventable readmissions were stable

Claims-based measures	Median facility rate, 2022-2023	Median facility rate, 2023-2024
Discharge to community	67.2%	67.5%
Potentially preventable readmissions	8.8%	9.2%

- Claims based quality measures:
 - Slight improvement in median facility risk-adjusted rate of discharge to community
 - Slight worsening in potentially preventable readmissions
- Gaps in IRF quality data persist
 - Concerns about provider-reported function data
 - Patient experience survey is available to IRFs but not required under the IRF Quality Reporting Program

Note:

IRF (inpatient rehabilitation facility)). The potentially preventable 30-day postdischarge 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 after discharge.

Source:

Medicare Care Compare from CMS.

IRFs' access to capital: Strong in 2024

Hospital-based units

- Access capital through their parent institutions
 - All-payer operating margin among IPPS hospitals: 6%
 - Preliminary data suggest hospitals' all-payer operating margin will increase in 2025

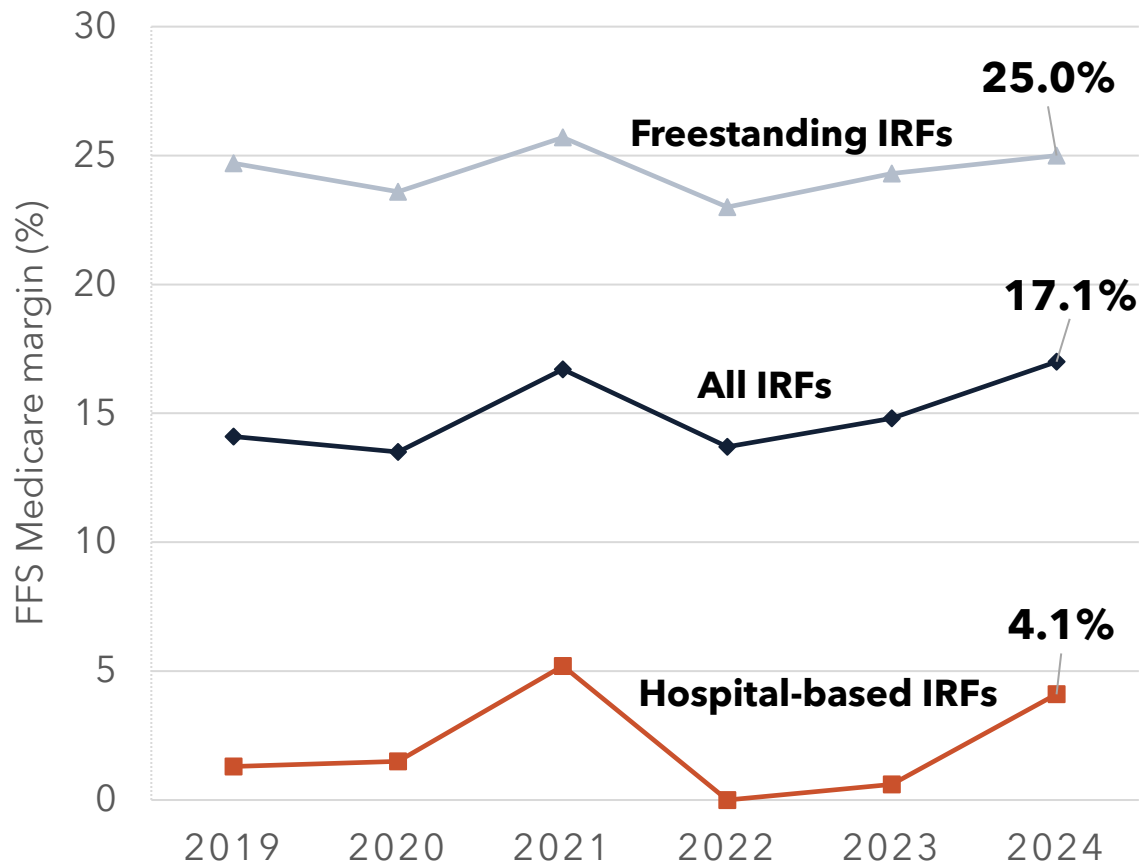
Freestanding IRFs

- All-payer margin strong at 12%
- New construction of freestanding IRFs reflects positive financial health
- About 42% are owned by one company
 - In 2024, the company opened 6 IRFs and added beds to existing IRFs, totaling about 400 new beds

Note: IRF (inpatient rehabilitation facility), IPPS (inpatient prospective payment systems). "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. Encompass Health corporate reports.

Payments and costs: IRFs' FFS Medicare margins increased in 2024



- FFS Medicare margin: 17.1%
 - Up from 14.8% in 2023
- Financial performance continued to vary widely in 2024
 - Freestanding IRFs: 25%
 - Hospital-based IRFs: 4%

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

Payments and costs: IRFs' FFS Medicare margin projected to increase in 2026

17.1%

2024 margin



18%

2026 projected margin

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

Summary: IRF payment adequacy indicators were generally positive in 2024



Beneficiaries' access to care

- Volume increased
- Capacity increased
- Occupancy rate increased slightly

Positive



Quality of care

- IRF quality measures were stable

Positive



Access to capital

- Freestanding all-payer margin: 12%
- IPPS all-payer operating margin increased in 2024

Positive



FFS Medicare payments and IRFs' costs

- FFS Medicare margin: 17.1% in 2024
 - FS: 25%
 - HB: 4%
- Projected FFS margin for 2026: 18%

Positive

Note: IRF (inpatient rehabilitation facility), FS (freestanding), HB (hospital based), IPPS (inpatient prospective payment systems).



Chair's draft recommendation

Chair's draft recommendation

For fiscal year 2027, the Congress should reduce the 2026 Medicare base payment rate for inpatient rehabilitation facilities by 7 percent.

Implications:

Spending: Relative to current law, Medicare spending would decrease

Beneficiary and provider: No adverse effect on access to care; continued provider willingness and ability to treat fee-for-service beneficiaries



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