

*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 (80%) or freestanding (20%)
- Medicare FFS is largest payer
  - 60% of IRF cases
  - \$5.99 billion in expenditures (2009)
- IRF PPS established in 2002 (BBA)

# IRF criteria

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- Patients must require
  - At least two types of therapy
  - Need to tolerate 3 hours of therapy per day
- IRFs must
  - Meet acute hospital COPs
  - Have a medical director of rehabilitation
  - Use preadmission screening
  - Have an interdisciplinary team approach
  - Meet the compliance threshold (60 percent rule)

# Assessing adequacy of IRF payments

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- Access to care
  - Supply of facilities
  - Occupancy rates
  - Number of rehabilitation beds
  - Volume of services
- Quality of care
- Access to capital
- Payments and costs

# Supply of IRFs remains stable in 2009

|                | 2002  | 2005  | 2008  | 2009  | Annual change<br>'02-'05 | Annual change<br>'05-'08 | Annual change<br>'08-'09 |
|----------------|-------|-------|-------|-------|--------------------------|--------------------------|--------------------------|
| All            | 1,181 | 1,235 | 1,202 | 1,196 | +1.5 %                   | -0.9 %                   | -0.5 %                   |
| Urban          | 1,004 | 1,027 | 1,001 | 992   | +0.8                     | -0.9                     | -0.9                     |
| Rural          | 177   | 208   | 201   | 204   | +5.5                     | -1.1                     | +1.5                     |
| Freestanding   | 214   | 217   | 221   | 225   | +0.5                     | +0.6                     | +1.8                     |
| Hospital-based | 967   | 1,018 | 981   | 971   | +1.7                     | -1.2                     | -1.0                     |
| Nonprofit      | 751   | 768   | 738   | 732   | +0.7                     | -1.3                     | -0.8                     |
| For-profit     | 274   | 305   | 291   | 295   | +3.6                     | -1.6                     | +1.4                     |

Note: Figures preliminary and subject to change  
 Source: MedPAC analysis of 2009 Provider of Services (POS) data from CMS

# Occupancy rates are stable in 2009

|                    | 2004 | 2008 | 2009 | % point<br>change<br>'04-'08 | % point<br>change<br>'08-'09 |
|--------------------|------|------|------|------------------------------|------------------------------|
| All                | 67.8 | 62.2 | 62.8 | -5.7                         | +0.7                         |
| Hospital-<br>based | 65.7 | 59.9 | 60.2 | -5.8                         | +0.3                         |
| Freestanding       | 71.9 | 66.1 | 67.3 | -5.7                         | +1.2                         |

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

# The number of IRF beds stabilizes in 2009

|                | 2004   | 2008   | 2009   | Annual change<br>'04-'08 | Annual change<br>'08-'09 |
|----------------|--------|--------|--------|--------------------------|--------------------------|
| All            | 37,495 | 35,879 | 35,757 | -1.1                     | -0.3                     |
| Hospital-based | 23,844 | 22,787 | 22,325 | -1.1                     | -2.0                     |
| Freestanding   | 13,650 | 13,092 | 13,432 | -1.0                     | +2.6                     |

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS



# Volume remains stable in 2009

|                                  | 2002     | 2004     | 2008     | 2009     | Annual change<br>'08-'09 |
|----------------------------------|----------|----------|----------|----------|--------------------------|
| FFS<br>Spending<br>(\$ billions) | \$5.65   | \$6.43   | \$5.96   | \$6.07   | +1.8%                    |
| Number of<br>cases               | 401,000  | 455,000  | 356,000  | 361,000  | +1.5%                    |
| Payment<br>per case              | \$11,152 | \$13,275 | \$16,649 | \$16,568 | -0.5%                    |

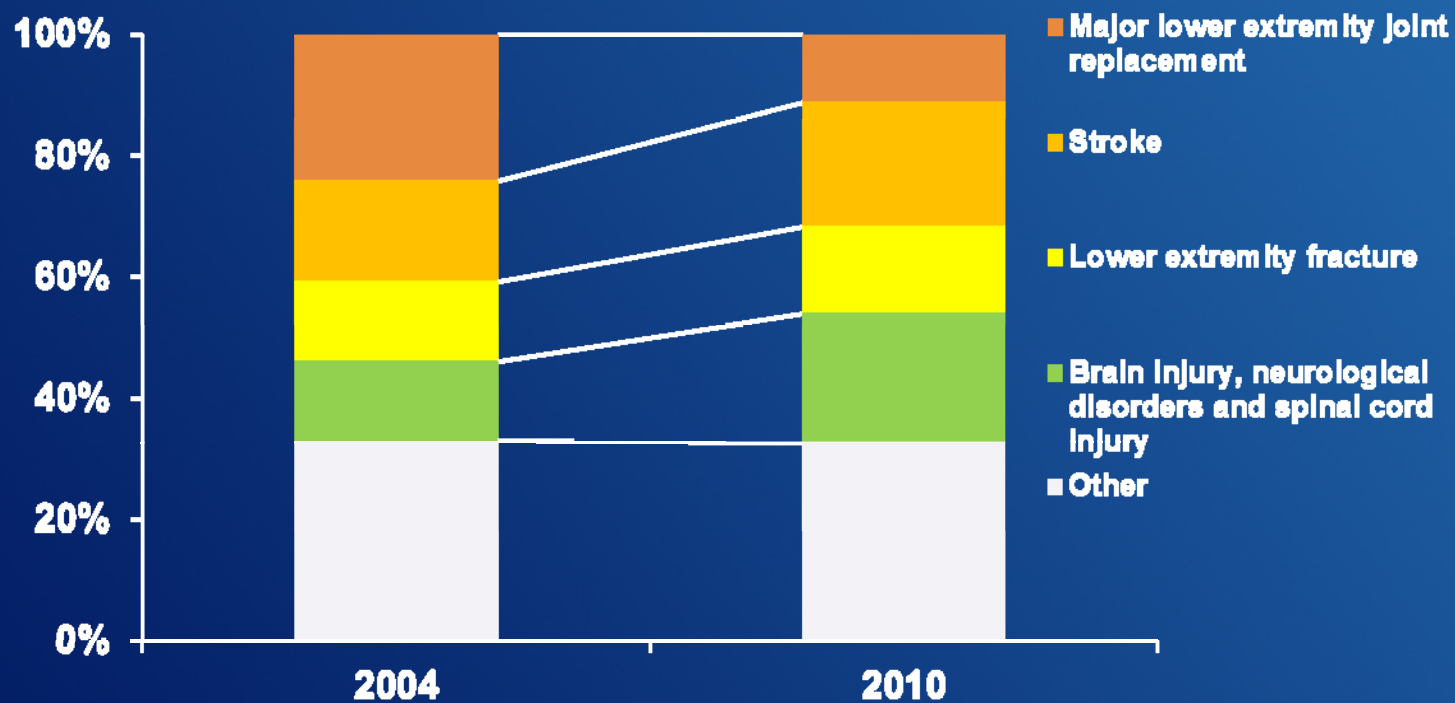
Note: Figures preliminary and subject to change

Source: CMS Office of the Actuary (FFS spending), MedPAC analysis of Medicare MEDPAR from CMS (number of cases and payment per case)



# IRF patient mix has changed

## Percent of Medicare IRF cases



Note: Figures preliminary and subject to change  
Source: MedPAC analysis of IRF-PAI data from CMS, 2004 - 2010

# Hip and knee replacement cases shift to other PAC settings

## Discharge destinations of hip and knee replacement cases

|             | 2004 | 2006 | 2009 | % point change '04-'09 |
|-------------|------|------|------|------------------------|
| IRF         | 28%  | 20%  | 13%  | - 15                   |
| SNF         | 33   | 35   | 37   | + 4                    |
| Home Health | 21   | 27   | 31   | + 10                   |
| Other       | 18   | 18   | 18   | 0                      |

Note: Figures preliminary and subject to change

Source: MedPAC analysis of hospital MedPAR data from CMS, 2004 - 2009

# Quality of Care

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- Between 2004 to 2010
  - Gain in functional status between admission and discharge increased
  - Functional status at admission declined
- Gain in functional status could reflect improved quality or declining functional status at admission

Note: Data is preliminary and subject to change

# Access to capital appears adequate

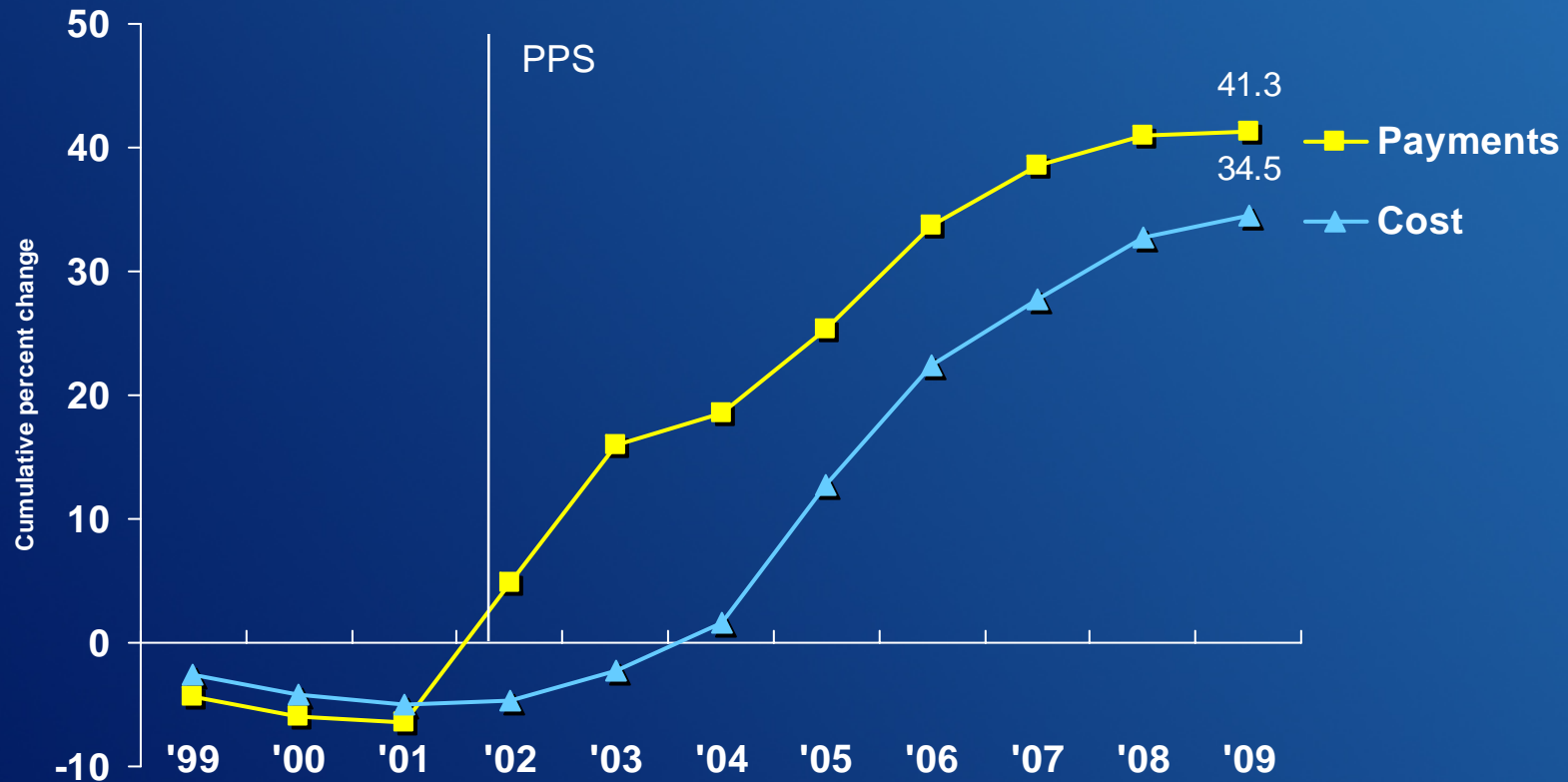
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- Hospital-based units
  - Access capital through their parent institutions
- Two major freestanding IRF chains
  - Positive revenue growth
  - Able to fund acquisitions and refinance debt

Note: Data is preliminary and subject to change

# Payments have grown faster than costs from 2002 through 2009

Cumulative changes in IRF payments and costs per case, '99-'09



Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

# Adjusted costs per case reflect economies of scale

Characteristics of IRFs by quartiles of costs per case adjusted for wage-index, case-mix, and outliers

|                        | Low cost quartile | High cost quartile |
|------------------------|-------------------|--------------------|
| Percent hospital-based | 52.0%             | 93.9%              |
| Percent freestanding   | 48.0%             | 6.1%               |
| Median bed size        | 37                | 18                 |
| Median occupancy rate  | 69%               | 50%                |
| Median case-mix weight | 1.21              | 1.19               |

Note: Figures preliminary and subject to change

Source: MedPAC analysis of 2009 standard analytical file and Medicare cost report data from CMS

# Medicare margins decline but remain healthy

|                | 2004  | 2006  | 2008  | 2009   |
|----------------|-------|-------|-------|--------|
| All            | 16.6% | 12.4% | 9.6%  | 8.4%   |
| Urban          | 16.9% | 12.6% | 9.8%  | 8.5%   |
| Rural          | 13.9% | 10.6% | 7.9%  | 6.6%   |
| Hospital-based | 12.1% | 9.7%  | 4.4%  | 0.5%   |
| Freestanding   | 24.7% | 17.4% | 18.2% | 20.1%  |
| Bed size       |       |       |       |        |
| 1-10           | 3.4%  | -3.6% | -4.1% | -10.7% |
| 11-21          | 9.6%  | 7.0%  | 0.9%  | -2.4%  |
| 22-59          | 16.0% | 12.3% | 8.7%  | 6.3%   |
| 60+            | 22.5% | 17.5% | 17.2% | 18.3%  |

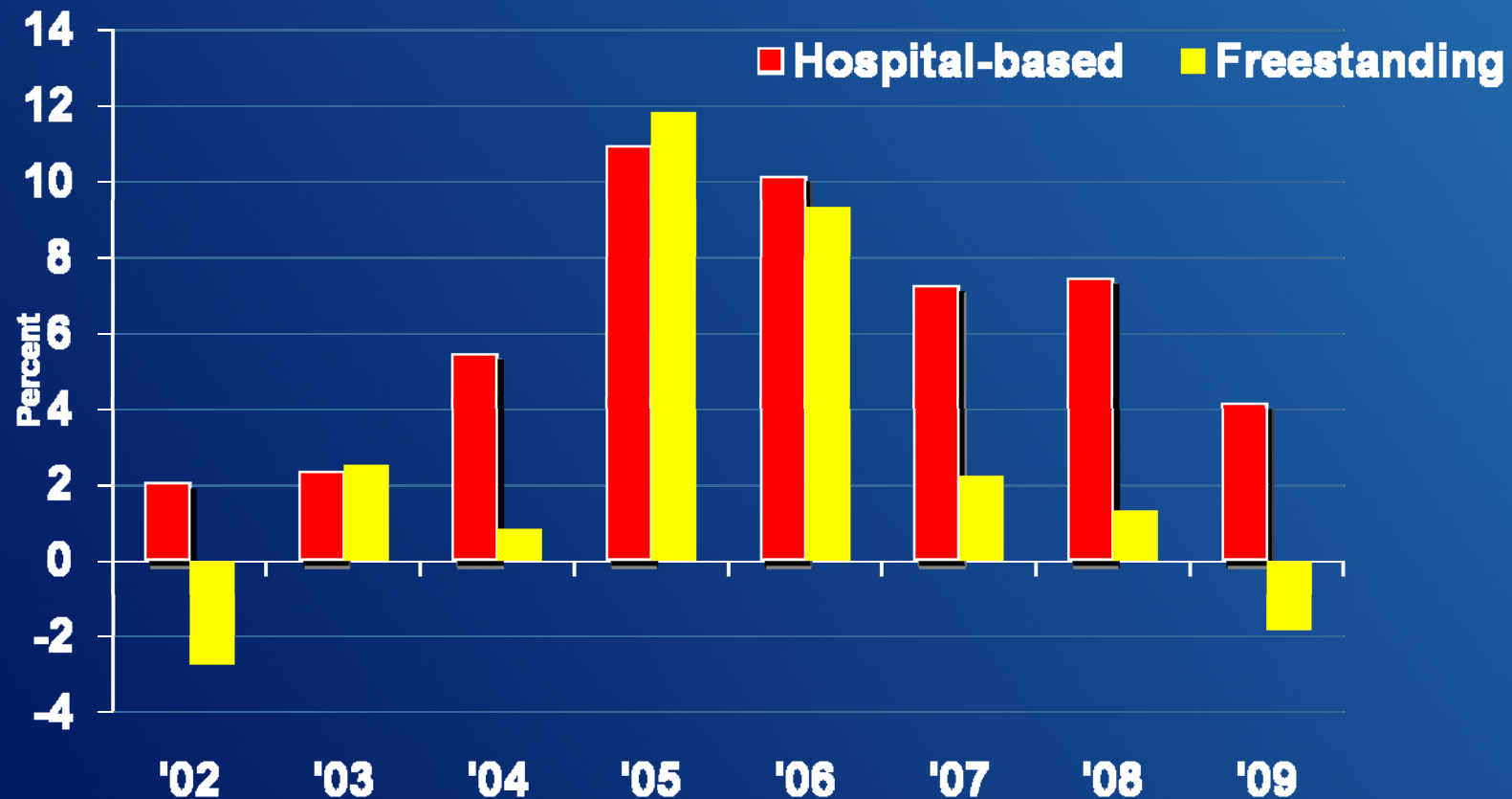
Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS



# Low hospital-based margins partly due to high growth in costs per case

Growth in average cost per case



Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

# Summary

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- Beneficiary access
  - Supply and capacity are stable in 2009
  - Volume stable in 2009
- Quality: changes in functional gain at admission prevent definitive conclusions
- Access to credit appears to be adequate
- 2009 margins are 8.4%

Note: Figures preliminary and subject to change



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