Assessing payment adequacy and updating payments: Inpatient rehabilitation facility services

Jamila Torain

December 4, 2020

MEDPAC

Overview

About IRFs

Ongoing concerns

Payment Adequacy

Inpatient rehabilitation facilities (IRFs)

About IRFs

- Provide intensive rehabilitation
- Patient must be able to tolerate intensive therapy
- Per case payments vary by condition, level of impairment, age, and comorbidity; adjusted for:
  - Rural location, teaching status, low-income share, short stays
  - Outlier payments for extraordinarily costly patients
- Compliance threshold (60% Rule): At least 60% of an IRF's patients must have one of 13 specified conditions

MEDPAC

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

Results preliminary; subject to change

Overview of IRF Industry in 2019

- Medicare accounted for 58% of IRFs' discharges
- Average length of stay in an IRF was 12.6 days
- 1,152 IRF facilities
- About 363,000 beneficiaries had 409,000 stays
- Medicare spending totaled about $8.7 billion

Profitability varies by case type

Rehabilitation Impairment Category	Number of stays	Payment-to-cost ratio
All conditions	**376,336**	**1.11**
Other neurological conditions	53,419	1.20
Other orthopedic conditions	29,485	1.16
Non-traumatic brain injury	26,463	1.12
Cardiac conditions	20,742	1.09
Stroke	73,696	1.07
Major joint replacement of lower extremity	15,470	1.06

Source: Urban Institute analysis of Medicare cost reports and Medicare fee-for-service claims data for IRF stays that began in 2017.

Results preliminary; subject to change

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

Access was adequate in 2019

- Supply stable
  - Slight decline in the number of IRFs (-1.5%)
  - Slight increase in aggregate number of beds (0.4%)
- Volume increased 0.3% (1.6% on a per FFS beneficiary basis)
- Occupancy rate stable at 67%
- Marginal profit:
  - Freestanding: 40%
  - Hospital-based: 19%

Quality: Relatively stable since 2015

Measure	2015	2019
All-condition hospitalizations	**7.9%**	**7.8%**
Successfully discharged to the community	**64.6%**	**65.5%**

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

Results preliminary; subject to change

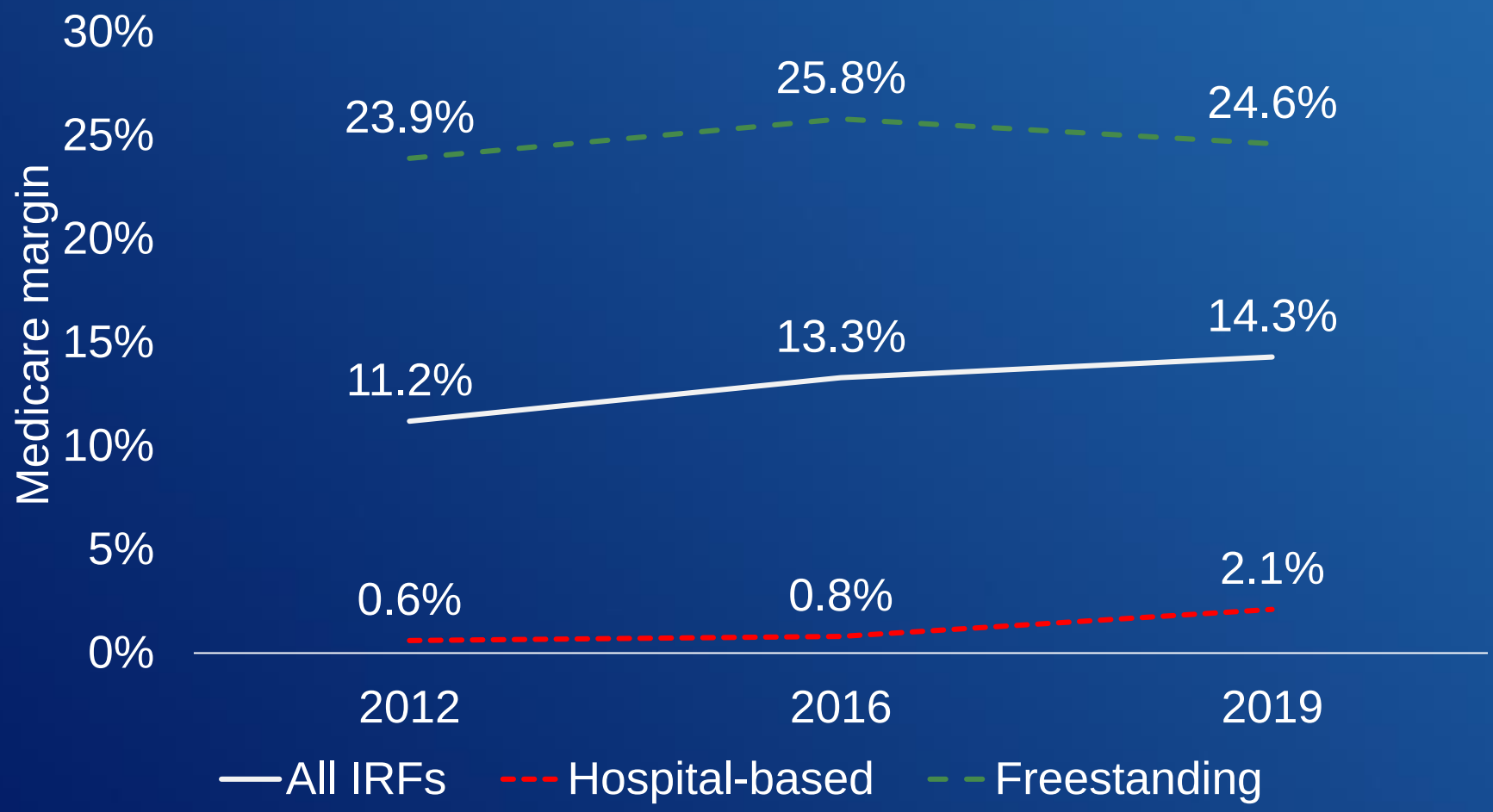
Access to capital appears adequate

- Hospital-based units
  - Access capital through their parent institutions
  - Hospitals maintain good access to capital markets
  - Hospitals with units have higher relative inpatient Medicare margins
- Freestanding facilities
  - Over 40% owned by one company
    - Access to capital appears strong; new construction reflects positive financial health
  - Little information available for others
  - All-payer margins strong at 10.4 percent

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

Results preliminary; subject to change

With payments rising faster than costs, aggregate Medicare margins have been increasing



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

Results preliminary; subject to change

Factors that contribute to lower margins in hospital-based IRFs

- Majority are nonprofit; may be less focused on cost control
  - From 2010-2019, costs up 22% vs. 12% in freestanding
- Tend to be smaller with lower occupancy
- May assess and code their patients differently
- Lower share of highly profitable cases
  - 9% admitted for “other neurological” conditions vs. 19% in freestanding
  - 24% admitted for stroke vs. 17% in freestanding

Source: MedPAC analysis of Medicare cost report data, Medicare Provider Analysis and Review data, and Inpatient Rehabilitation Facility–Patient Assessment Instrument data

Results preliminary; subject to change

Relatively efficient IRFs compared to other IRFs in 2019

	Relatively efficient IRFs (N=174)	Other IRFs (N=843)
Quality measures		
All-conditions hospitalizations	6.8%	7.7%
Successful discharge to the community	69.1%	65.1%
Standardized cost per discharge	$15,040	$17,367
Medicare margin	15.8%	4.6%

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 2016 to 2019.

Results preliminary; subject to change

Effect of pandemic on IRF services

- IRF volume declined in mid-March 2020, followed by partial rebounds to pre-pandemic in late June, and then a spike in COVID-19 cases this fall; 2021 uncertain
- IRFs reported using more PPE and increases in the costs of equipment
- Certain geographic areas hit harder than others
- Decrease in certain case types compared to same period in 2019

Summary: IRF payment adequacy indicators are positive

Beneficiaries' access to care	Quality of care	IRFs' access to capital	Medicare payments and IRFs' costs

• Capacity appears adequate
• Increase in volume
• High marginal profit
  • FS: 40%
  • HB: 19%
	• Risk-adjusted outcome measures relatively stable since 2015	• IRFs maintain good access to capital markets
		• The all-payer margin for freestanding IRFs is a robust 10.4%
			• In 2019, the aggregate Medicare margin was 14.3%

Positive	Positive	Positive	Positive