



Advising the Congress on Medicare issues

Assessing payment adequacy: Inpatient rehabilitation facility services

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Inpatient rehabilitation facilities

- Provide intensive rehabilitation
- IRFs are hospital-based or freestanding
 - Hospital-based IRFs represent 80% of facilities, but only 55% of Medicare IRF discharges
- Medicare FFS is the largest payer
 - 62% of IRF cases
 - \$6.46 billion in expenditures (2011)
- IRF PPS established in 2002 (BBA)

IRF criteria

- Patients must
 - Require at least two types of therapy
 - Tolerate 3 hours of therapy per day
- IRFs must
 - Have a medical director of rehabilitation
 - Screen patients within 48 hours prior to admission
 - Have an interdisciplinary team approach
 - Meet the compliance threshold (60 percent rule)
 - Volume and patient mix sensitive to policy changes
 - Major joint replacement cases shifted to SNFs and HHAs

Assessing adequacy of IRF payments

- Access to care
 - Supply of facilities, number of rehabilitation beds, and occupancy rates
 - Volume of services
- Quality of care
- Access to capital
- Payments and costs

IRF capacity and supply continued to decline slightly in 2011

	2008	2010	2011	Percent of industry	Average annual change	
					'08-'10	'10-'11
Facilities						
All IRFs	1,202	1,179	1,165	100%	-1.0%	-1.2%
Hospital-based	981	946	931	79.9%	-1.8%	-1.6%
Freestanding	221	233	234	20.1%	2.7%	0.4%
Number of beds						
All IRFs	35,758	35,521	35,249	100%	-0.3%	-0.8%
Hospital-based	22,666	21,948	21,698	61.6%	-1.6%	-1.1%
Freestanding	13,092	13,573	13,551	38.4%	1.8%	-0.2%

Note: Figures preliminary and subject to change

Source: Medicare hospital cost report data from CMS

Occupancy rates suggest capacity adequate to meet demand

	2008	2010	2011	Percent of industry	Average annual change	
					'08-'10	'10-'11
Occupancy rates						
All IRFs	62.1%	62.4%	63.3%	100%	0.2%	1.4%
Hospital-based	59.8%	59.4%	59.8%	79.9%	-0.3%	0.7%
Freestanding	66.1%	67.2%	68.3%	20.1%	0.8%	1.6%
Urban	63.4%	63.6%	64.5%	83.4%	0.2%	1.4%
Rural	49.4%	49.7%	49.6%	16.6%	0.3%	-0.2%

Note: Figures preliminary and subject to change
 Source: Medicare hospital cost report data from CMS

Volume and payment increasing

	2008	2010	2011	Average annual change	
				'08-'10	'10-'11
FFS Spending (\$ billions)	\$5.93	\$6.14	\$6.46	+1.7%	+5.2%
Number of cases	356,000	359,000	371,288	+0.4%	+3.3%
Payment per case	\$16,646	\$17,085	\$17,398	+1.3%	1.8%

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare MEDPAR from CMS (number of cases and payment per case)

Quality of care: risk-adjusted measures show relative stability

	2009	2010
FIM gain	32.2	27.4
Discharge to community	70.6%	71.1%
SNF admission within 30 days after discharge to community	3.6%	4.0%
Discharge to acute care hospital	10.4%	10.3%
Hospital readmission within 30 days after discharge to community	12.0%	12.0%

Note: Figures preliminary and subject to change. Estimates developed from risk-adjustment models. FIM gain (the difference between the Functional Independence Measure on the IRF-Patient Assessment Instrument between admission and discharge).

Source: RAND analysis of IRF-PAI, MedPAR, denominator file, and provider of services file

Adequate access to capital

- Hospital-based units
 - Access capital through their parent institutions: hospitals maintain reasonable access to capital but are shifting capacity to outpatient
- One major freestanding IRF chain
 - Ability to borrow increased, largely due to improving credit markets and the chain's strong operating performance

Note: Data is preliminary and subject to change

Medicare margins increased in 2011, but vary by type of facility

	Percent of industry	Percent of spending	2009	2010	2011
Margins					
All IRFS	100%	100%	8.4%	8.7%	9.6%
Hospital-based	79.9%	56.1%	0.3%	-0.3%	-0.8%
Freestanding	20.1%	43.9%	20.3%	21.4%	22.9%
Nonprofit	61.0%	54.6%	2.3%	2.0%	2.0%
For-profit	25.2%	35.7%	19.0%	19.7%	21.3%

Note: Figures preliminary and subject to change

Source: MedPAC analysis of Medicare hospital cost reports from CMS

Hospital-based IRFs: factors that impact margins

- 80% of facilities, but 55% of Medicare IRF discharges
- Tend to be smaller with lower occupancy
 - 57% have fewer than 22 beds
- Higher costs than freestanding IRFs
 - 30% higher direct costs per case; 11% higher indirect costs per case
- Are able to cover their direct costs
 - 2010 direct cost margin: 34.4%
- Total acute hospital Medicare margins are 2.1 percentage points higher for acute hospitals with an IRF

Note: Data is preliminary and subject to change

Summary

- Beneficiary access
 - Capacity remains adequate to meet demand
- Risk-adjusted quality remains stable
- Access to credit appears adequate
- 2011 margin is 9.6%

Note: Figures preliminary and subject to change