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Advising the Congress on Medicare issues

Assessing payment adequacy and updating payments: Inpatient rehabilitation facility services

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Presentation roadmap

1. Overview of IRF use and spending under FFS Medicare
2. Beneficiaries' access to inpatient rehabilitation facility care
3. Quality of inpatient rehabilitation facility care
4. Inpatient rehabilitation facilities' access to capital
5. FFS Medicare payments and inpatient rehabilitation facilities' costs
6. Chair's draft recommendation

Overview of inpatient rehabilitation facility use and spending under FFS Medicare, 2023

IRF providers About 1,200 (69% hospital-based)

FFS Medicare stays 404,000

FFS Medicare spending $9.6 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: Provider of Services data, Medicare Provider Analysis and Review data, and Medicare cost report data from CMS and the 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
- 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 2023

The number of IRF beds slightly increased

- Number of IRFs increased by 2%; number of IRF beds increased by about 3%
- Majority of new IRFs were freestanding and for-profit

FFS volume increased

- Number of Medicare stays increased by 7%, reaching prepandemic levels
- Stays per FFS beneficiary increased by about 10%

Occupancy rate was stable

- Aggregate IRF occupancy rate remained stable at 69%

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 Medicare beneficiaries in 2023

Note: IRF (inpatient rehabilitation facility), 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.

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

Claims-based measures	Median facility rate, 2021–2022	Median facility rate, 2022–2023
Discharge to community	67.3%	67.2%
Potentially preventable readmissions	8.6%	8.8%

- Gaps in IRF quality data persist
  - Concerns about the validity of 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.

Access to capital: IRFs' access was strong in 2023

Hospital-based units

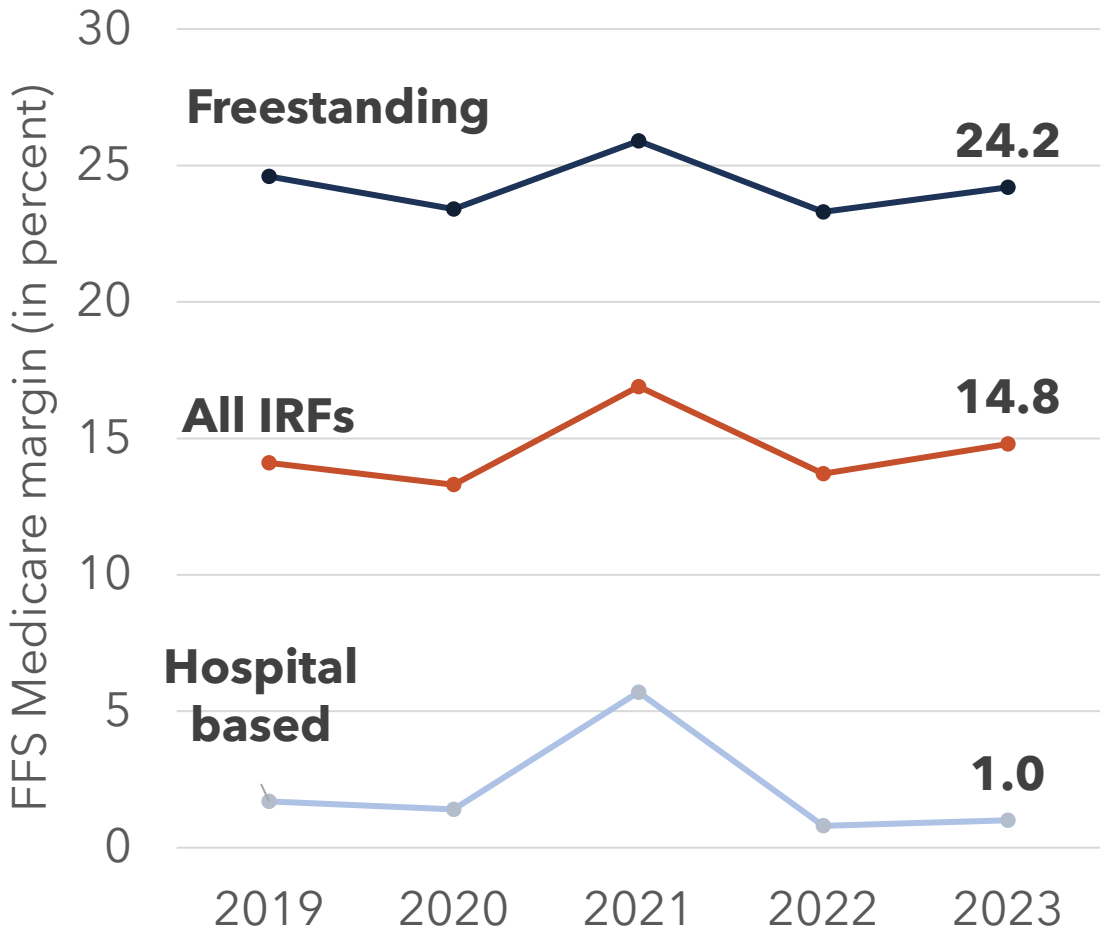
- Access capital through their parent institutions
- The all-payer operating margin among hospitals paid under IPPS increased to 5% 2023
- Preliminary data suggest hospitals' all-payer operating margin will improve in 2024

Freestanding facilities

- Access to capital appears strong
  - All-payer margin strong at 10%
  - New construction of freestanding IRFs reflects positive financial health
- About 44% are owned by one company
  - In 2023, the company opened 8 IRFs and added beds to existing IRFs, amounting to about 440 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.

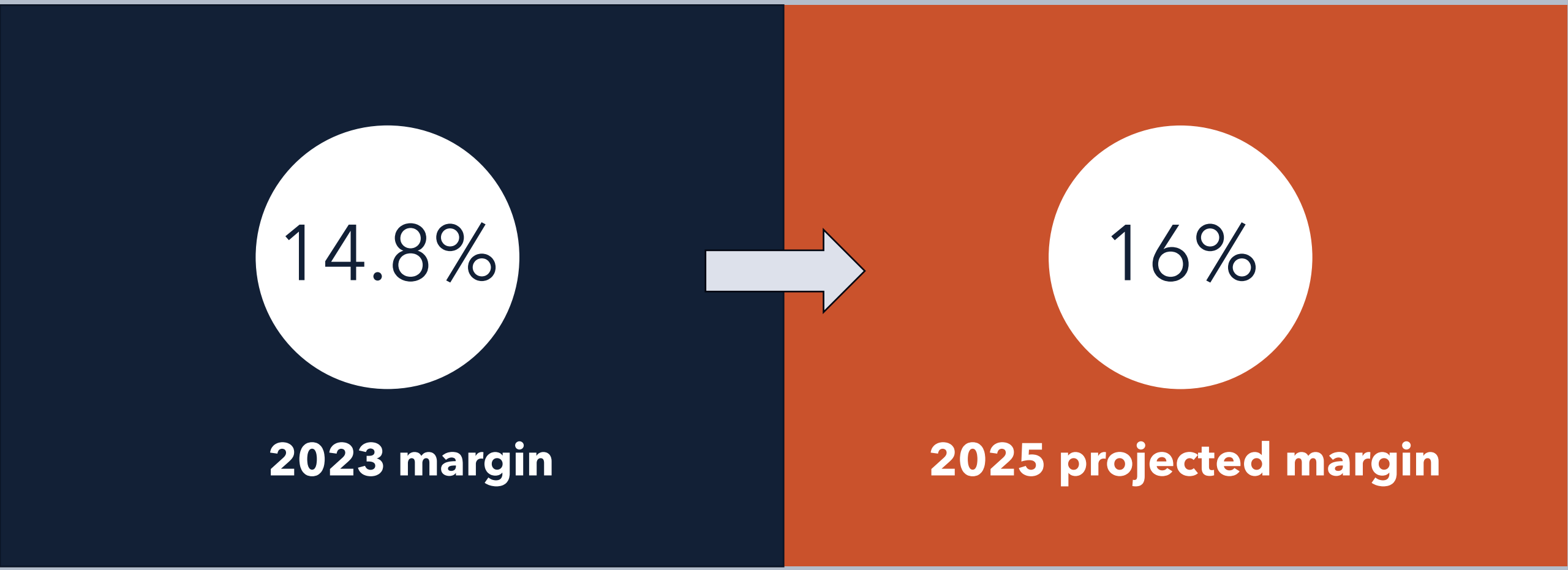
Payments and costs: IRFs' FFS Medicare margins increased in 2023



- Aggregate FFS Medicare margin increased to14.8% in 2023
- Financial performance continued to vary widely across IRFs
  - Freestanding IRFs: ≈ 24% ≈
  - Hospital-based IRFs: ≈1%

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 2025



Note: IRF (inpatient rehabilitation facility), FFS (fee-for-service).
Source: MedPAC analysis of IRF cost report and claims data, CMS final rules, and CMS market basket data.

Summary: IRF payment adequacy indicators were positive in 2023

Beneficiaries' access to care

- Volume increased
- Capacity increased
- Occupancy rate stable
- FFS Medicare marginal profit:
  - HB: ≈ 18%
  - FS: ≈ 40%

Positive

Quality of care

- IRF quality measures were stable in 2023

Positive

Access to capital

- The freestanding all-payer margin: ≈ 10%
- The IPPS all-payer operating margin improved in 2023

Positive

FFS Medicare payments and IRFs' costs

- 2023 FFS Medicare margin: 14.8%
  - HB: ≈ 1 %
  - FS: ≈ 24%
- 2025 projected margin: 16%

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 2026, the Congress should reduce the 2025 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 Medicare beneficiaries' access to care; could increase financial pressure on some providers

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