INPATIENT REHABILITATION FACILITIES PAYMENT SYSTEM

*payment***basics**

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The policies discussed in this document were current as of September 30, 2024. This document does not reflect proposed legislation or regulatory actions.

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After an illness, injury, or surgery, some patients need intensive inpatient rehabilitation services, such as physical, occupational, or speech therapy. Such services are frequently provided in skilled nursing facilities (SNFs) but are sometimes provided in inpatient rehabilitation facilities (IRFs). IRFs may be freestanding facilities or specialized units within acute care hospitals. To qualify as an IRF, a facility must meet Medicare's conditions of participation for acute care hospitals. In addition, the facility must be primarily focused on treating 1 of 13 conditions that typically require intensive rehabilitation therapy (see the discussion of the IRF compliance threshold below), and must meet other requirements, such as having a medical director of rehabilitation who provides services in the facility. Medicare payments to IRFs totaled an estimated $8.8 billion in 2022. On average, Medicare fee-for-service (FFS) beneficiaries accounted for about 51 percent of IRF discharges. In 2022, about 338,000 beneficiaries had about 383,000 stays, and 1,180 facilities were Medicare certified. Freestanding IRFs accounted for 60 percent of Medicare IRF discharges but just 29 percent of facilities.

Comparatively few Medicare beneficiaries use IRFs, in part because nationwide there are far fewer IRFs than SNFs but also because, to be eligible for treatment in an IRF, the patient generally must be able to tolerate and benefit from three hours of therapy per day. Beneficiaries transferred to an IRF from an acute care hospital pay no additional deductible. However, beneficiaries admitted from the community are responsible for a deductible—$1,632 in 2024—at the first admission during a spell of illness. Beneficiaries are responsible for a copayment—$408 per day—for the 61st through 90th days. Coverage of IRF stays is subject to Medicare's limits on inpatient hospital care; thus beneficiaries' IRF stays are covered for 90 days of hospital care per illness, with a 60-day lifetime reserve.[1]

Defining the care Medicare buys

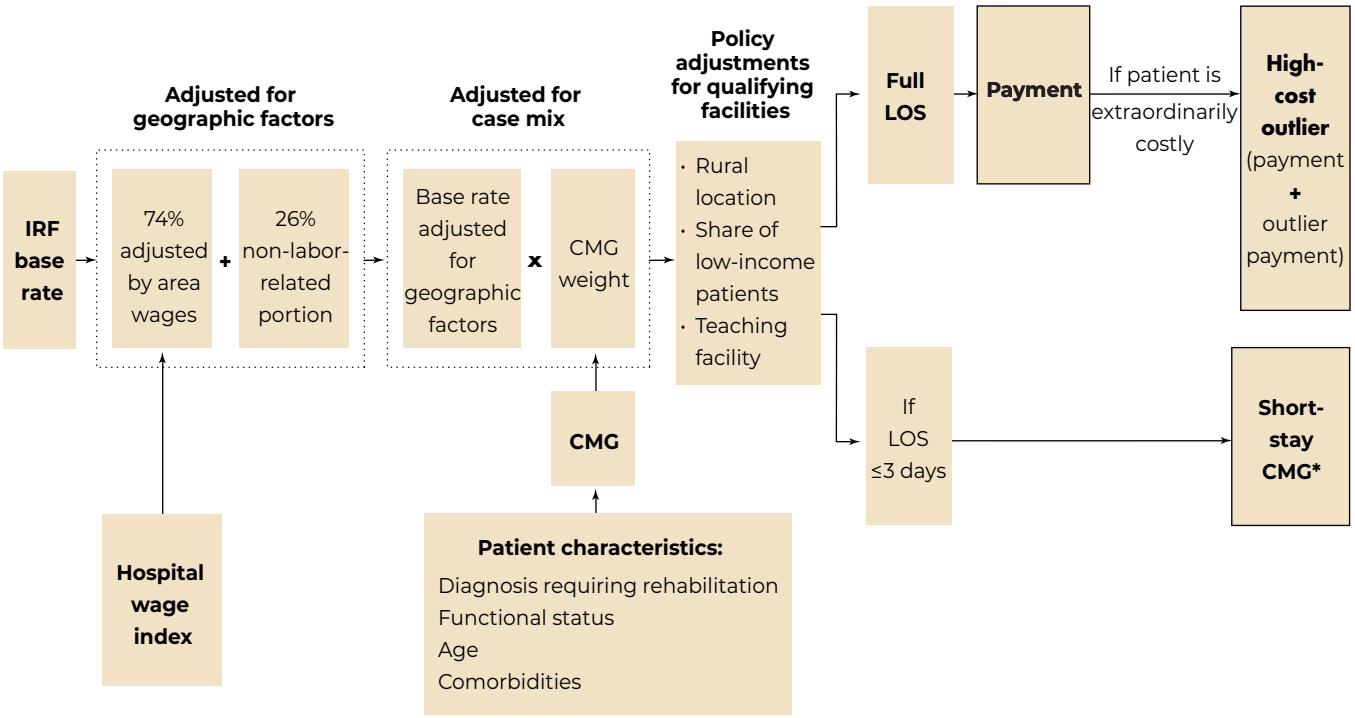
Medicare pays IRFs predetermined per discharge rates based primarily on the patient's condition (diagnoses, motor score, and age) and market area wages. Under the IRF prospective payment system (PPS), Medicare's payment rates are intended to cover all operating and capital costs that efficient facilities are expected to incur in furnishing intensive inpatient rehabilitation services.

Setting the payment rates

Since January 2002, payments to IRFs are determined by adjusting a base payment rate for geographic differences in labor costs and for case mix. The base payment rate for each IRF discharge is based on the national average routine operating, ancillary, and capital costs in IRFs in 1998, updated for inflation. The IRF base payment rate—$18,907 for fiscal year 2025—is adjusted for differences in labor costs by multiplying the labor-related portion of the base payment amount—74 percent—by a version of the hospital wage index (Figure 1).

The wage-adjusted base rate is then case-mix adjusted. Medicare patients are assigned to case-mix groups (CMGs) based on the primary reason for intensive rehabilitation care (for example, a stroke or hip fracture), age, and level of motor function. Within each of these CMGs, patients are further categorized into one of four tiers based on the presence of specific comorbidities that have been found to increase the cost of care. Each CMG tier has a specific weight that is used to adjust the base payment rate up or down to reflect the costliness of patients in that CMG tier relative to the costliness of the average Medicare IRF patient. Patients

Figure 1 Inpatient rehabilitation facility prospective payment system, FY 2025



Note: FY (fiscal year), IRF (inpatient rehabilitation facility), CMG (case-mix group), LOS (length of stay).
*The base payment for a short-stay case is $3,233 in FY 2025.

with a length of stay less than four days are assigned to a single CMG regardless of diagnosis, age, level of function, or presence of comorbidities.[2]

Payment rates are also adjusted to account for certain facility characteristics. Rural facilities' payment rates are increased by 14.9 percent because they tend to have fewer cases, longer lengths of stay, and higher average costs per case. Payments for IRFs that are teaching institutions are adjusted upward based on the ratio of residents to average daily census. In addition, an IRF's payments are adjusted for the share of low-income patients it treats. This adjustment is based on the facility's combined share of Medicare days furnished to beneficiaries eligible for Supplemental Security Income benefits and the share of all patient days furnished to Medicaid patients who are not covered by Medicare.[3]

High-cost outliers—The IRF PPS has an outlier policy for cases that are extraordinarily costly. Medicare makes outlier payments when an IRF's estimated total costs for a case exceed a cost threshold. The outlier payment for a case is equal to 80 percent of costs above this threshold. The cost threshold is equal to the sum of the IRF's usual payment for the case-mix group plus a fixed loss amount. (For fiscal year 2025, the fixed loss amount is $12,043, adjusted for the applicable wage index and the facility characteristics outlined above.) High-cost outlier payments are funded by reducing the standard base payment amount for all IRFs by an amount estimated to equal 3 percent of total spending for IRFs.

Interrupted stays—IRFs receive one payment for "interrupted-stay" patients. An interrupted stay is when a patient is

discharged from an IRF and returns to the same IRF within three days.

The IRF compliance threshold ("60 percent rule")

To receive payment under the IRF PPS, a facility must demonstrate that it is primarily engaged in furnishing intensive rehabilitation services. The compliance threshold requires that no less than 60 percent of an IRF's patient population (Medicare and other) have as a primary diagnosis or comorbidity at least 1 of 13 conditions that typically require intensive rehabilitation therapy. The 13 qualifying medical conditions, specified by CMS, are:

- stroke
- spinal cord injury
- congenital deformity
- amputation
- major multiple trauma
- hip fracture
- brain injury
- certain neurological conditions (e.g., multiple sclerosis, Parkinson's disease)
- burns
- three arthritis conditions for which appropriate, aggressive, and sustained outpatient therapy has failed
- hip or knee replacement when it is bilateral, when the patient's body mass index is greater than or equal to 50, or when the patient is age 85 or older.

The intent of the compliance threshold is to distinguish IRFs from acute care hospitals. Facilities that cannot demonstrate compliance with the 60 percent rule are paid as acute care hospitals under the inpatient PPS.

Payment updates

Both the base rate and relative weights are updated annually. The base rate is updated using an IRF-specific market basket index, which measures the price increases of goods and services IRFs buy to provide patient care.[4] The Affordable Care Act of 2010 requires that the annual update to the IRF payment rates be reduced by an adjustment for productivity, effective fiscal year 2012. ■

1 Beneficiaries are liable for a higher copayment for each lifetime reserve day—$816 per day in 2024.

2 The few patients who die in IRFs are assigned to one of four CMGs depending on the primary reason for IRF care and the patient's length of stay.

3 Unlike acute care hospitals, IRFs do not have to reach a threshold share of low-income patients before payments are adjusted.

4 By law, the market basket increase is reduced by 2 percentage points for IRFs that fail to provide data on quality indicators specified by CMS.