



FACT SHEET

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Policy and payment rate updates for inpatient rehabilitation facilities in fiscal 2012

OVERVIEW: The Centers for Medicare & Medicaid Services (CMS) issued a final rule on July 29, 2011, that will update payment rates and policies for services furnished to Medicare patients in inpatient rehabilitation facilities (IRFs) that are paid under the IRF Prospective Payment System (PPS). The final rule establishes a new IRF quality-reporting program that is required by section 3004 of the Affordable Care Act.

CMS projects that the changes in the final rule will increase the fiscal (FY) 2012 payment rates for IRFs by 2.2 percent, and that total payments to IRFs will increase by approximately \$150 million in FY 2012.

The final rule will apply to more than 200 freestanding IRFs, and to more than 1,000 IRF units of acute care hospitals, including a small number of IRF units in critical access hospitals (CAHs), and will be effective for discharges in FY 2012, which begins Oct. 1, 2011.

BACKGROUND: Prior to the introduction of the Inpatient Prospective Payment System (IPPS) in 1983, Medicare paid for hospital care based on the hospital's reasonable costs, subject to a statutory limit. The IPPS replaced cost-based payment for acute inpatient hospital stays with payment based on the average costs of treating a patient in a particular diagnosis-related group (DRG). However, the DRGs did not fully address the many variables of the rehabilitation portion of a hospital stay, so these services continued to be reimbursed on a cost basis until 2002 when CMS implemented the IRF PPS. The new payment system, which was required by the Balanced Budget Act of 1997 in response to the rapid growth in spending for inpatient rehabilitation services, became effective for cost reporting periods beginning on or after Jan. 1, 2002.

HOW THE IRF PPS WORKS: Upon admission to an IRF, each patient is assigned to a case mix group (CMG) based on the patient's principal diagnosis, functional and cognitive abilities at

the time of admission, and, in some cases, age. The patient is also assigned to a tier within the CMG based on the presence of specified comorbidities that are likely to affect the costs of treatment. Each CMG and tier is assigned a relative weight that serves as the basis for the payment rate. CMS makes a single prospectively determined payment to the IRF based on the CMG and tier assignment that is intended to pay for rehabilitative services to restore or maximize the patient's physical functioning as well as the monitoring and treatment of the patient's clinical conditions.

The payment rate is adjusted at the facility level for teaching status, the applicable geographic wage index, and the percentage of low-income patients served by the facility. IRFs in rural areas receive an additional payment adjustment. Cases with extraordinarily high costs for a particular patient compared to the prospectively-set payment for that stay may qualify for an additional payment, called an outlier payment.

FY 2012 IRF PPS CHANGES: The final rule will update the payment rates for IRFs under the IRF PPS for FY 2012, and establish a new quality reporting system.

- **Payment Rate Update:** We estimate the total impact of the final FY 2012 payment rate updates to be an increase of approximately \$150 million (or + 2.2 percent). Most of this is due to a 1.8 percent increase to the payment rates, which is based on an FY 2012 Rehabilitation, Psychiatric, and Long-Term Care (RPL) market basket estimate of 2.9 percent, less a 1.0 percent productivity adjustment and a 0.1 percentage point reduction mandated by the Affordable Care Act. Another 0.4 percent increase is due to the update to the outlier threshold amount to increase estimated outlier payments from 2.6 percent in FY 2011 to 3 percent in FY 2012.
- **New Quality Reporting Program:** CMS will establish the new IRF quality-reporting program required by the Affordable Care Act. Beginning October 1, 2012, IRFs will submit data for the calculation of two measures: a urinary catheter-associated urinary tract infection measure and a measure for new or worsening pressure ulcers, IRFs that don't comply with the new program will see their payments reduced by two percentage points beginning in FY 2014. CMS anticipates adding quality measures to the reporting program in future years through rulemaking, and currently has under development a third measure, "30-day Comprehensive All Cause, Risk Standardized Readmission."
- **Case-Mix Group Relative Weights:** CMS will update the case-mix group (CMG) relative weights using FY 2010 IRF claims and FY 2009 IRF cost report data.
- **Wage Index Adjustment:** CMS will continue using the pre-reclassified and pre-floor hospital wage data to determine the FY 2012 rates. For the purposes of this final rule,

CMS used the final FY 2011 hospital inpatient prospective payment system (IPPS) pre-reclassified and pre-floor wage data.

- **Facility-Level Adjustments:** CMS will freeze the facility-level adjustment factors for FY 2012 at FY 2011 levels for one additional year while the agency explores ways to improve upon the accuracy and consistency of the current methodology used to calculate the facility-level adjustment factors. CMS will also allow IRFs to receive temporary adjustments to their full-time equivalent (FTE) intern and resident caps if they take on interns and residents unable to complete their training because the IRF that had been their assigned training site closed or ended its residency training program.

Finally, because freestanding IRFs and IRF units are paid the same rates and, with very few exceptions, are now subject to the same Medicare rules and policies, the final rule consolidates and streamlines the IRF PPS regulations to apply to both types of IRFs.

The final rule went on display on July 29, 2011 at the Office of the Federal Register's Public Inspection Desk and can be downloaded at:

www.ofr.gov/inspection.aspx?AspxAutoDetectCookieSupport=1

It will appear in the Aug. 5, 2011 *Federal Register*.

For more information, please see: www.cms.hhs.gov/InpatientRehabFacPPS/

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