

Medicare Inpatient Rehabilitation Facility (IRF) Prospective Payment System (PPS) Final Rule Impact Analysis Federal Fiscal Year (FFY) 2017

-Version 1, August 2016-

Analysis Description

The FFY 2017 Medicare IRF PPS Final Rule Analysis is intended to show providers how Medicare fee-for-service (FFS) payments would change from FFY 2016 to FFY 2017 based on the policies established in the FFY 2017 IRF PPS final rule.

FFY 2017 IRF Final Rule Payment Changes Modeled in this Analysis

- **Marketbasket Update**: 2.7% (including all other budget neutrality) marketbasket increase to account for price increases in the services furnished by providers.
- **ACA-Mandated Marketbasket Reductions**: Combined 0.3 percentage point productivity reduction and 0.75 percentage point pre-determined reduction to the marketbasket authorized by the Affordable Care Act (ACA) of 2010.
- **Budget Neutrality**: -0.08% to maintain program budget neutrality due to changes in the wage index as well as -0.08% case-mix budget neutrality.
- **Wage Index**: Updated wage index values based on the FFY 2016 hospital wage index without the rural floor or reclassifications. The Centers for Medicare and Medicaid Services (CMS) is decreasing the labor-related share from 71.0% in FFY 2016 to 70.9% in FFY 2017.
- **Rural Adjustment**: The negative impact of IRFs that lose the rural adjustment due to new CBSA definitions is being phased-in at 1/3 in FFY 2016, 2/3 in FFY 2017, and full impact starting in FFY 2018.
- **CMG Updates**: Changes due to updates to the case-mix groupings and weights. The impact shown is the case-mix change resulting from running the FFY 2014 Medicare claims data through the 2016 final and 2017 final CMG logic and assigning the respective CMG weights for each year.

For FFY 2017, like in FFYs 2015 and 2016, all three facility level adjustments - low-income percentage (LIP), teaching, and rural - are kept at the FFY 2014 level.

Data Sources

Estimated FFYs 2016 and 2017 IRF PPS payments are calculated using individual IRF characteristics (cases, case-mix index, and factors to derive the rural, teaching, and LIP adjustments) from the FFY 2017 IRF final rule Rate Setting File provided by CMS.

The standard payment conversion factors, wage indexes, and labor-related shares are from the FFY 2016 IRF final rule and the FFY 2017 IRF final rule as published in the *Federal Register*. Wage indexes used in this analysis reflect hospital wage index values without the rural floor or reclassifications.

Note: All components related to facility operations are held constant (e.g. volume, case-mix, LIP percentage, and hospital-specific factors used to calculate the teaching adjustment) in order to measure the impacts of policy changes only.

Methods

The dollar impact of each component change has been calculated by first estimating 2016 payments. Estimated FFY 2016 payments reflect the wage index, labor-share, rural, teaching, and LIP adjusted federal amount multiplied by each IRF's appropriate cases and case-mix index.

The component change from FFY 2016 to FFY 2017 for each IRF payment component is then analyzed, calculated and applied to estimated FFY 2017 payments. The component impacts are applied sequentially in order to capture the compounded dollar impacts. For example, the change due to the marketbasket update is applied to total FFY 2016 payments. Then, the change related to the ACA-mandated marketbasket reductions is applied to the dollar result of the first change. This method continues for the remaining changes, creating a compounded effect. The difference between the results after each layered component is the dollar impact of that component.

This analysis does NOT include impact estimates due to high cost outliers, estimates for payments for Managed Care patients, or any modifications in FFS payments as a result of hospital participation in new payment models being tested under Medicare demonstration/pilot programs. Dollar impacts in this analysis may differ from those provided by other organizations/associations due to differences in source data and analytic methods.

The impacts provided do not include the 2.0% sequestration reduction to all lines of Medicare payment authorized by Congress and currently in effect through FFY 2025 unless Congress intervenes. The impact of sequester applicable to IRF PPS-specific payment has been calculated separately and is provided at the bottom of the impact table.

Note: Individual percentages and dollars shown in this analysis may not add to total due to compounding and rounding. Dollar amounts less than \$50 and percentages less than 0.05% will appear as zeros due to rounding.

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Medicare Inpatient Rehabilitation Facility Prospective Payment System

Payment Rule Brief — FINAL RULE

Program Year: FFY 2017

Overview and Resources

On August 5, 2016, the Centers for Medicare and Medicaid Services (CMS) released the federal fiscal year (FFY) 2017 final payment rule for the Inpatient Rehabilitation Facility (IRF) Prospective Payment System (PPS). The final reflects the annual update to the Medicare fee-for-service (FFS) IRF payment rates and policies.

A copy of the final rule *Federal Register* (FR) and other resources related to the IRF PPS are available on the CMS website at <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientRehabFacPPS/Spotlight.html>

An online version of the final rule is available at <https://federalregister.gov/a/2016-18196>.

A brief of the final rule is provided below along with FR page references for additional details. Program changes adopted by CMS will be effective for discharges on or after October 1, 2016, unless otherwise noted.

IRF Payment Rate

FR pages 52071-52079

Incorporating the final updates with the effect of a budget neutrality adjustment, the table below shows the IRF standard payment conversion factor for FFY 2017 compared to the rate currently in effect:

	Final FFY 2016	Final FFY 2016	Percent Change
IRF Standard Payment Conversion Factor	\$15,478	\$15,708	+1.49%

The table below provides details of the final updates to the IRF payment rate for FFY 2017:

	IRF Rate Updates and Budget Neutrality Adjustment
IRF-Specific Marketbasket (MB) Update	2.7% (no change from proposed)
Affordable Care Act (ACA)-Mandated Productivity Reduction	-0.3 percentage points (proposed at -0.5 percentage points)
ACA Pre-Determined Reduction	-0.75 percentage points (no change from proposed)
Wage Index/Labor-Related Share Budget Neutrality (BN)	-0.08% (no change from proposed)
Case-Mix Group Relative Weight Revisions Budget Neutrality	-0.08% (no change from proposed)
Overall Rate Change	+1.49% (proposed at +1.27%)

Wage Index, Labor-Related Share and Rural Adjustments

FR pages 52073 – 52076

The labor-related portion of the IRF standard rate is adjusted for differences in area wage levels using a wage index. CMS is not making any major changes to the calculation of Medicare IRF wage indexes. As has been the case in previous years, CMS will use the prior year's inpatient hospital wage index, the FFY 2016 pre-rural floor and pre-reclassified hospital wage index, to adjust payment rates under the IRF PPS for FFY 2017. A complete list of the wage indexes for payment in FFY 2017 is available on the CMS website at <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientRehabFacPPS/Data-Files.html>.

In 2013, the Office of Management and Budget (OMB) made a number of significant changes related to the delineation of Metropolitan Statistical Areas, Micropolitan Statistical Areas, and Combined Statistical Areas. To align with these changes, CMS adopted the newest Office of Management and Budget delineations for the FFY 2016 IRF PPS wage index. For FFY 2017, CMS will use the CBSA labor market definitions and the FFY 2016 pre-reclassification and pre-floor hospital wage index.

Based on updates to this year's marketbasket value, there will be a small decrease to the labor-related share of the standard rate from 71.0% for FFY 2016 to 70.9% (proposed at 71.0%) for FFY 2017. This change will provide a small increase to IRFs with a wage index less than 1.0.

Rural Adjustments: The adoption of revised OMB delineations for the FFY 2016 IRF PPS wage index resulted in 19 IRF providers having their status changed from rural to urban, resulting in a loss of a 14.9 percent rural adjustment. These 19 IRF providers are being provided with a gradual phase out of their rural adjustment over a three-year period. In FFY 2016, IRFs that were designated as rural in FFY 2015 and became designated as urban in FFY 2016 received two-thirds of the 2015 rural adjustment of 14.9 percent. FFY 2017 is the second year of the 3-year phase out of the rural adjustment, in which these same IRFs will receive one-third of the 2015 rural adjustment. In FFY 2018, these IRFs will receive the full FFY 2018 wage index with no rural adjustment.

Facility-Level Adjustments

FR page 52071

There are no changes to the facility-level adjustments. In FFY 2017, CMS will continue to hold the facility-level adjustments at the FFY 2014 levels as they continue to evaluate IRF claims data.

Case-Mix Group Relative Weight Updates

FR pages 52062 - 52071

CMS assigns IRF discharges into case-mix groups (CMGs) that are reflective of the different resources required to provide care to IRF patients. Patients are first categorized into rehabilitation impairment categories (RICs) based on the primary reason for rehabilitative care. Patients are further categorized into CMGs based upon their ability to perform activities of daily living or based on age and cognitive ability. Within each of the CMGs there are four tiers, each with a different relative weight that is determined based on comorbidities. Currently, there are 87 CMGs with four tiers and another five CMGs that account for very short stays and patients who die in the IRF.

Each year, CMS updates the CMG relative weights and average lengths of stays (ALOS) with the most recent available data. CMS is updating these factors for FFY 2017 using FFY 2015 claims data and FFY 2014 IRF cost reports. To compensate for the finalized CMG weights changes, CMS finalized a FFY 2017 case-mix budget neutrality factor of 0.9992 (proposed at 0.9990).

CMS is not making any changes to the CMG categories/definitions. Using FFY 2015 claims data, CMS' analysis shows that 99.7% of IRF cases are in CMGs and tiers that will experience less than a +/-5% change in its CMG relative weight as a result of the updates. A table that lists the FFY 2017 CMG payments weights and ALOS values is provided on Federal Register pages 52063 - 52070.

The changes in the ALOS values for FFY 2017, compared with FFY 2016, are small and do not show any particular trends in IRF length of stay patterns.

Outlier Payments

FR pages 52079 - 52080

Outlier payments were established under the IRF PPS to provide additional payments for extremely costly cases. Outlier payments are made if the estimated cost of the case exceeds the payment for the case plus an outlier threshold. Costs are determined by multiplying the facility's overall cost-to-charge ratio (CCR) by the allowable charges for the case. When a case qualifies for an outlier payment, CMS pays 80% of the difference between the estimated cost of the case and the outlier threshold.

CMS has established a target of 3.0% of total IRF PPS payments to be set aside for high cost outliers. To meet this target for FFY 2017, CMS is updating the outlier threshold value to \$7,984 (proposed at \$8,301) for FFY 2017, a 7.78% decrease compared to the current threshold of \$8,658.

Updates to the IRF Cost-to-Charge Ratio (CCR) Ceiling

FR page 52080

CMS applies a ceiling to IRF's CCRs. If an individual IRF's CCR exceeds this ceiling, the IRF's CCR is replaced with the appropriate national average CCR for that FY, either urban or rural. The national urban and rural CCRs and the national CCR ceiling for IRFs are updated annually based on analysis of the most recent data that is available. The national urban and rural CCRs are applied when:

- New IRFs have not yet submitted their first Medicare cost report;
- IRFs overall CCR is in excess of the national CCR ceiling for the current FY;
- Accurate data to calculate an overall CCR are not available for IRFs.

CMS will continue to set the national CCR ceiling at 3 standard deviations above the mean CCR, and therefore the national CCR ceiling for FY 2017 is 1.29 (proposed at 1.36). If an individual IRF's CCR exceeds this ceiling for FY 2017, the IRF's CCR will be replaced with the appropriate national average CCR, urban or rural. CMS is finalizing a national average CCR of 0.522 (proposed at 0.562) for rural IRFs and 0.421 (proposed at 0.435) for urban IRFs.

Updates to the IRF Quality Reporting Program (QRP)

FR pages 52080 - 52132

CMS collects quality data from IRFs on measures that relate to five stated quality domains and three stated resource domains. IRFs that do not successfully participate in the IRF QRP are subject to a 2.0 percentage point reduction to the marketbasket update for the applicable year—the reduction factor value is set in law.

CMS is using the FFY 2017 rulemaking process to adopt new NQF-endorsed measures for FFY 2018 payment determinations along with updated and/or new data submission timelines for the previously adopted and newly adopted measures.

For FFY 2018 payment determinations, CMS will collect data on a total of 13 previously adopted quality measures. The following lists the IRF QRP measures and applicable payment determination years:

Previously Adopted IRF Measures for FFY 2017/2018 Payment Determinations		
IRF QRP Measures	NQF #	Payment Determination Year
National Healthcare Safety Network (NHSN) Catheter-Associated Urinary Tract Infection (CAUTI) Outcome Measure	#0138	FFY 2015 and beyond
Influenza Vaccination Coverage among Healthcare Personnel	#0431	FFY 2016 and beyond
Percent of Residents or Patients Who Were Assessed and Appropriately Given the Seasonal Influenza Vaccine (Short Stay)	#0680	FFY 2017 and beyond
NHSN Facility-Wide Inpatient Hospital-Onset Methicillin-Resistant Staphylococcus aureus (MRSA) Bacteremia Outcome Measure	#1716	FFY 2017 and beyond
NHSN Facility-Wide Inpatient Hospital-Onset Clostridium difficile Infection (CDI) Outcome Measure	#1717	FFY 2017 and beyond
All-Cause Unplanned Readmission Measure for 30 Days Post-Discharge from IRFs	#2502	FFY 2017 and beyond *refined for FFY 2018 and beyond
Percent of Residents or Patients with Pressure Ulcers That Are New or Worsened (Short Stay)	#0678	FFY 2014 and beyond *refined for FFY 2018 and beyond
An application of Percent of Residents Experiencing One or More Falls with Major Injury (Long Stay)	#0674	FFY 2018 and beyond
An application of Percent of LTCH Patients with an Admission and Discharge Functional Assessment and a Care Plan That Addresses Function	#2631	FFY 2018 and beyond
IRF Functional Outcome Measure: Change in Self-Care Score for Medical Rehabilitation Patients	#2633	FFY 2018 and beyond
IRF Functional Outcome Measure: Change in Mobility Score for Medical Rehabilitation Patients	#2634	FFY 2018 and beyond
IRF Functional Outcome Measure: Discharge Self-Care Score for Medical Rehabilitation Patients	#2635	FFY 2018 and beyond
IRF Functional Outcome Measure: Discharge Mobility Score for Medical Rehabilitation Patients	#2636	FFY 2018 and beyond

To address the IRF QRP changes mandated in the IMPACT Act, CMS adopted four claims-based measures for inclusion in the IRF QRP for FFY 2018 payment determination and subsequent years.

- Discharge to community – Post Acute Care IRF, with the added exclusion of patients with a hospice benefit in the 31-day post-discharge observation window
- Medicare Spending Per Beneficiary - Post Acute Care IRF
- Potentially Preventable 30 Day Post-Discharge Readmission Measure for IRFs; and
- Potentially Preventable Within Stay Readmission Measure for IRFs.

CMS finalized one new assessment-based quality measure for inclusion in the IRF QRP for FFY 2020 and subsequent years

- Drug Regimen Review Conducted with Follow-Up for Identified Issues (assessment-based)

CMS is reviewing comments it received while considering these IRF QRP Quality Measures for Future Years:

- Transfer of health information and care preferences when an individual transitions;
- Patient Experience of Care;
- Percent of Patients with Moderate to Severe Pain; and
- Venous Thromboembolism Prophylaxis.

As it does each year, CMS updated the IRF QRP data submission deadlines and procedures, data validation requirements and methods, and other program details.

By Fall 2016, CMS is required to display performance data for the IRF QRP quality measures on a CMS website, such as Hospital Compare. CMS is finalizing four new measures to be displayed for CY 2017. IRFs will receive confidential preview reports prior to the public reporting, and will have an opportunity to review and correct the data. CMS adopted extension of the timeline for submission of exception and extension requests for extraordinary circumstances from 30 days to 90 days from the date of the qualifying event.

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