Analysis of Medicare Site-Neutral Payments for Selected Conditions Treated in Inpatient Rehabilitation Facilities

PRESENTED TO:

The Medicare Payment Advisory Commission (MedPAC)

PRESENTED AND PREPARED BY:

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Purpose of the Study

- **Assess the impact on inpatient rehabilitation facilities (IRFs) of a "Site-neutral payment policy" for IRFs and skilled nursing facilities (SNFs) for certain conditions**
- **The Site-neutral policy modeled for this analysis is based in part on the summary of the President's Budget proposal and MedPAC presentations**
  - Site-neutral payments would be applied for patients with stroke, unilateral major joint replacement, and hip and femur procedures
  - These cases were selected for both the MedPAC presentation and the President's Budget proposal because they are commonly treated in both SNFs and IRFs

Key Findings of the Study

- **Issues with the Site-neutral payment policy**
  - Site-neutral payments are applied to IRF cases that meet the 60% Rule
  - Site-neutral policy does not fully account for the difference in cost of regulatory compliance between IRFs and SNFs
  - Site-neutral policy does not provide for sufficient risk adjustment
  - Site-neutral policy does not specifically address the inclusion of certain IRF facility-level payment adjustments
- **Financial impact of the Site-neutral payment policy on IRFs**
  - The policy would reduce Medicare IRF payments for conditions selected for Site-Neutral payments by 15.9%
  - The policy would reduce overall Medicare payments to IRFs by 5.0%
    - conditions modeled as subject to site-neutral payment in this analysis accounted for 31.7% of all IRF cases

We assumed 16 MS-DRGs (based on prior acute care stay) would be included for Site-neutral payments

		IRF Medicare Discharges		SNF Medicare Discharges		
	Prior Acute Hospital MS-DRG	Number of Medicare Discharges	Average Medicare Payment Amount	Number of Medicare Discharges	Average Medicare Payment Amount	Percent Difference Medicare Payment Amount
61	Acute ischemic stroke w/ use of thrombolytic agent w MCC	799	$25,389	787	$17,264	32.0%
62	Acute ischemic stroke w/ use of thrombolytic agent w CC	1,727	$23,239	1,049	$17,532	24.6%
63	Acute ischemic stroke w/ use of thrombolytic agent w/o CC/MCC	304	$19,049	150	$13,742	27.9%
64	Intracranial hemorrhage or cerebral infarction w MCC	9,919	$24,011	17,511	$15,475	35.5%
65	Intracranial hemorrhage or cerebral infarction w CC or tPA in 24 hours	25,161	$22,474	26,682	$16,683	25.8%
66	Intracranial hemorrhage or cerebral infarction w/o CC/MCC	8,535	$19,347	8,605	$15,150	21.7%
466	Revision of hip or knee replacement w MCC	568	$18,409	1,866	$14,853	19.3%
467	Revision of hip or knee replacement w CC	2,382	$15,297	8,224	$12,616	17.5%
468	Revision of hip or knee replacement w/o CC/MCC	1,109	$13,978	3,713	$10,192	27.1%
469	Major joint replacement or reattachment of lower extremity w MCC	4,009	$18,613	13,043	$14,471	22.3%
470	Major joint replacement or reattachment of lower extremity w/o MCC	37,498	$15,004	133,378	$10,678	28.8%
480	Hip & femur procedures except major joint w MCC	3,340	$20,691	14,507	$17,984	13.1%
481	Hip & femur procedures except major joint w CC	13,990	$18,908	49,770	$19,061	-0.8%
482	Hip & femur procedures except major joint w/o CC/MCC	5,159	$18,006	13,519	$18,124	-0.7%
535	Fractures of hip & pelvis w MCC	559	$20,710	3,608	$16,028	22.6%
536	Fractures of hip & pelvis w/o MCC	3,180	$18,255	15,558	$16,321	10.6%

IRF payments include adjustments for wage index, indirect medical education, low-income patient share, rural location and outliers and are calculated for FY2014.
SNF payments include adjustments for wage index and rural location. Discharge level payments are sum of per-diem amounts for the stay and are calculated for FY2014.
Source: Dobson | DaVanzo analysis using the 2012 Medicare Inpatient 100% Limited Data Set (LDS).

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*The site-neutral policy in the President's Budget proposal would pay SNF payment rates with a partial adjustment for cost differences**

IRF Site-neutral Modified Standard Payment =

Average Per Stay SNF Payment Rate for the Applicable Condition	+	**25% of the Difference Between:** *[Overhead Cost Component of the Average <u>IRF</u> Per Stay Payment Amount for the Applicable Condition; and,* *Overhead Cost Component of the Average Per Stay <u>SNF</u> Payment Rate for Such Condition]*	+	**33% of the Difference Between:** *[Patient Care Cost Component of the Average <u>IRF</u> Per Stay Payment Amount for the Applicable Condition; and,* *Patient Care Cost Component of the Average Per Stay <u>SNF</u> Payment Rate for Such Condition]*

Modified payment amount would not apply if it results in an increase in the payment that would otherwise apply under the IRF-PPS for the applicable condition

* MedPAC analyses do not include this adjustment.

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Issue #1 – Site-neutral payments are applied to IRF cases that meet the 60% Rule

- **The Site-neutral policy applies the lower Site-neutral payment rates to conditions that IRFs are required to treat under the 60% Rule**
  - CMS has stated that "We continue to believe that the 13 medical conditions that are listed in regulation at § 412.29(b)(2) are conditions that ''typically'' require the level of intensive rehabilitation that provide the basis of need to differentiate the services offered in IRFs from those offered in other care settings." [1]
- **The higher intensity of services provided by IRFs for these particular patients requires more resources and thus justifies higher payments**
- **Applying Site-neutral payments to any of these conditions, such as stroke cases, is contrary to the intent of the 60% Rule**

1/ Federal Register / Vol. 78, No. 151 / Tuesday, August 6, 2013 / Rules and Regulations.

We estimate that 75% of IRF cases modeled for this analysis comply with the 60% Rule

	Prior Acute Hospital MS-DRG	Medicare Discharges	Number of Discharges that Satisfy the 60% Rule	Percent of Cases that Satisfy the 60% Rule
61	Acute ischemic stroke w/ use of thrombolytic agent w MCC	799	778	97%
62	Acute ischemic stroke w/ use of thrombolytic agent w CC	1,727	1,692	98%
63	Acute ischemic stroke w/ use of thrombolytic agent w/o CC/MCC	304	293	96%
64	Intracranial hemorrhage or cerebral infarction w MCC	9,919	9,602	97%
65	Intracranial hemorrhage or cerebral infarction w CC or tPA in 24 hours	25,161	24,572	98%
66	Intracranial hemorrhage or cerebral infarction w/o CC/MCC	8,535	8,309	97%
466	Revision of hip or knee replacement w MCC	568	263	46%
467	Revision of hip or knee replacement w CC	2,382	795	33%
468	Revision of hip or knee replacement w/o CC/MCC	1,109	312	28%
469	Major joint replacement or reattachment of lower extremity w MCC	4,009	2,718	68%
470	Major joint replacement or reattachment of lower extremity w/o MCC	37,498	16,394	44%
480	Hip & femur procedures except major joint w MCC	3,340	2,966	89%
481	Hip & femur procedures except major joint w CC	13,990	12,686	91%
482	Hip & femur procedures except major joint w/o CC/MCC	5,159	4,799	93%
535	Fractures of hip & pelvis w MCC	559	419	75%
536	Fractures of hip & pelvis w/o MCC	3,180	2,172	68%
	All Site Neutral Cases	**118,239**	**88,770**	**75%**
	All other cases	255,006	152,690	60%
	Total: All Cases	**373,245**	**241,460**	**65%**

Source: Dobson | DaVanzo analysis using the 2012 Medicare Inpatient 100% Limited Data Set (LDS).

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Impact of including 60% Rule cases in a Site-neutral payment policy

- **If Site-neutral payments are based on SNF payment levels, then**
  - IRFs may need to reduce the number of Site-neutral payment cases because of treatment costs
  - If these include cases satisfying the 60% Rule, the Site-neutral payment policy would make complying with the 60% Rule more difficult for IRFs to achieve because the very patients who are compliant under the Rule are also the patients that IRFs could not afford to treat
- Excluding Site-neutral cases from the 60% Rule compliance calculation would also be problematic for IRFs because this would reduce the number of compliant cases (numerator) in addition to the number of overall cases that are counted (denominator)

Issue #2 – Site-neutral policy does not fully account for the difference in cost of regulatory compliance between IRFs and SNFs

- **IRFs have certain structural and staffing characteristics and must comply with specific regulations that differentiate them from SNFs**
  - IRFs are licensed as hospitals and are subject to state health department rules and regulations
  - IRFs provide medical, nursing, rehabilitation therapies and other services on an intensive basis
  - Under Medicare rules, IRFs must provide patients with 24/7 availability of physicians and nurses
  - IRFs must provide patients with interdisciplinary team-based care
  - Number of staff members has to be sufficient to provide patients with at least three hours of therapy daily and meet patient's rehabilitation, medicine and nursing needs
- **These regulatory differences would imply that IRFs and SNFs provide different services**
- **Due in part to these different requirements and service offerings, IRFs have higher cost structures than SNFs**

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Per discharge, IRF overhead costs are 76% higher than SNFs and patient care costs are 30% higher

	Prior Acute Hospital MS-DRG	IRF Overhead Cost Per Discharge	SNF Overhead Cost Per Discharge	Percent Difference in Overhead Costs	IRF Patient Care Cost Per Discharge	SNF Patient Care Cost Per Discharge	Percent Difference in Patient Care Costs
61	Acute ischemic stroke w/ use of thrombolytic agent w MCC	$11,674	$5,788	102%	$11,833	$7,789	52%
62	Acute ischemic stroke w/ use of thrombolytic agent w CC	$10,981	$5,838	88%	$10,945	$7,554	45%
63	Acute ischemic stroke w/ use of thrombolytic agent w/o CC/MCC	$8,679	$4,813	80%	$8,288	$6,069	37%
64	Intracranial hemorrhage or cerebral infarction w MCC	$10,944	$5,220	110%	$11,042	$6,843	61%
65	Intracranial hemorrhage or cerebral infarction w CC or tPA in 24 hours	$10,558	$5,623	88%	$10,478	$7,402	42%
66	Intracranial hemorrhage or cerebral infarction w/o CC/MCC	$8,875	$5,171	72%	$8,703	$6,774	28%
466	Revision of hip or knee replacement w MCC	$8,733	$5,158	69%	$8,709	$6,949	25%
467	Revision of hip or knee replacement w CC	$7,514	$4,470	68%	$7,186	$5,977	20%
468	Revision of hip or knee replacement w/o CC/MCC	$6,625	$3,627	83%	$6,213	$4,808	29%
469	Major joint replacement or reattachment of lower extremity w MCC	$8,826	$4,937	79%	$8,748	$6,576	33%
470	Major joint replacement or reattachment of lower extremity w/o MCC	$7,003	$3,717	88%	$6,565	$4,932	33%
480	Hip & femur procedures except major joint w MCC	$9,829	$6,120	61%	$9,811	$8,041	22%
481	Hip & femur procedures except major joint w CC	$9,044	$6,468	40%	$8,686	$8,368	4%
482	Hip & femur procedures except major joint w/o CC/MCC	$8,453	$6,168	37%	$7,970	$7,934	1%
535	Fractures of hip & pelvis w MCC	$9,566	$5,476	75%	$9,337	$6,955	34%
536	Fractures of hip & pelvis w/o MCC	$8,421	$5,578	51%	$7,820	$7,105	10%
	Weighted Average Across All DRGs	$8,831	$5,023	76%	$8,576	$6,590	30%

Note: Overhead costs include Medicare-allowable costs included in the general services cost centers of the Medicare Cost Report.
Source: Dobson | DaVanzo analysis using the 2012 Medicare 100% Limited Data Set (LDS) and Medicare hospital cost reports for 2011 and 2012.

Site-neutral policy does not fully account for the difference in cost of regulatory compliance between IRFs and SNFs

- **The Site-neutral policy provides for an adjustment to the Site-neutral base payment rate to account for a portion of the cost differences between IRFs and SNFs**
- **However, the cost differential adjustment accounts for only a small portion of these cost differences**
  - This could leave payments to IRFs for these patients below what it costs to treat them
- **At the same time the Site-neutral policy does not address any modification in the regulatory requirements for IRFs that would allow them to better control costs for these patients**
  - Per MedPAC: "Medicare could waive some of the requirements [3-hours of therapy per day, frequency of physician supervision, 60% compliance threshold, etc.] for IRFs when they treat beneficiaries who could be appropriately treated with less intensive care, which would allow IRFs the option of functioning more like SNFs in treating those conditions and, thus, leveling the playing field with respect to regulatory requirements". [1]

1/ Transcripts of MedPAC meeting, March 6, 2014

The overhead and patient care cost differential adjustment will increase payment rates 1% to 10%, but cost differences are 30% to 76%

	Prior Acute Hospital MS-DRG	Unadjusted Medicare SNF Payment Per Discharge	25% difference between IRF and SNF Overhead Component of Payment Amount	33% difference between IRF and SNF Patient-Care Component of Payment Amount	Calculated Site Neutral Rate	Impact of Adjustments on Site-Neutral Rate
61	Acute ischemic stroke w/ use of thrombolytic agent w MCC	$16,948	$1,017	$568	$18,533	8.6%
62	Acute ischemic stroke w/ use of thrombolytic agent w CC	$17,198	$774	$282	$18,254	5.8%
63	Acute ischemic stroke w/ use of thrombolytic agent w/o CC/MCC	$13,451	$767	$366	$14,584	7.8%
64	Intracranial hemorrhage or cerebral infarction w MCC	$15,510	$1,052	$733	$17,295	10.3%
65	Intracranial hemorrhage or cerebral infarction w CC or tPA in 24 hours	$16,813	$799	$271	$17,883	6.0%
66	Intracranial hemorrhage or cerebral infarction w/o CC/MCC	$15,328	$626	$89	$16,043	4.5%
466	Revision of hip or knee replacement w MCC	$14,761	$509	-$57	$15,213	3.0%
467	Revision of hip or knee replacement w CC	$12,630	$476	-$78	$13,028	3.1%
468	Revision of hip or knee replacement w/o CC/MCC	$10,049	$595	$184	$10,828	7.2%
469	Major joint replacement or reattachment of lower extremity w MCC	$14,533	$636	$131	$15,301	5.0%
470	Major joint replacement or reattachment of lower extremity w/o MCC	$10,689	$690	$264	$11,643	8.2%
480	Hip & femur procedures except major joint w MCC	$18,068	$480	-$181	$18,367	1.6%
481	Hip & femur procedures except major joint w CC	$19,199	$204	-$661	$18,742	-2.4%
482	Hip & femur procedures except major joint w/o CC/MCC	$18,214	$223	-$626	$17,811	-2.3%
535	Fractures of hip & pelvis w MCC	$15,944	$667	$177	$16,788	5.0%
536	Fractures of hip & pelvis w/o MCC	$16,287	$465	-$246	$16,507	1.3%

Issue #3 – Site-neutral policy does not provide for sufficient risk adjustment

- **Under the IRF and SNF Site-neutral payment methodology, a payment is made for a patient regardless of setting (i.e., SNF or IRF)**
- **MS-DRGs by themselves are an inadequate unit of payment for post-acute care payment bundles [1]**
- **MedPAC found that only 8% of the variation in charges for 30-day PAC-only episodes could be explained by the MS-DRG from the prior acute hospital stay [2]**
- **MS-DRGs do not take into account the patient's functional status, this may be most evident for stroke patients, where functional and cognitive status of patients with the same acute hospital MS-DRG can vary dramatically**

1/ James C. Vertrees, Richard F. Averill, Jon Eisenhandler, Anthony Quain, James Switalski, "Bundling Post-Acute Care Services into MS-DRG Payments", Medicare & Medicaid Research Review 2013: Volume 3, Number 3.
2/ MedPAC, "Report to the Congress: Medicare and the Health Care Delivery System", June 2013.

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A second-level case mix adjustment is needed to level the playing field across IRFs

- **Our analysis found that across the IRF setting, the resources required (as measured by relative CMG weights) for patients with the same acute hospital MS-DRG differ dramatically**
  - For example, stroke patients categorized by MS-DRG 65 from the acute hospital stay fell into 136 different tiered-CMG groups in IRFs
- **A second-level case mix adjustment for IRF Site-neutral payments would significantly reduce the negative impact that the site-neutral policy would have on IRFs that treat more complex patients**
  - adequately reimburse IRFs for the complexity of cases within MS-DRG
  - would level the playing field across IRFs under this policy

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Issue #4 – Site-neutral policy does not specifically address the inclusion of certain IRF facility-level payment adjustments

- **The Site-neutral policy does not specifically address the inclusion of certain IRF facility-level payment adjustments in the Site-neutral payment policy**
  - indirect medical education,
  - share of low-income patients, and
  - rural location
- **However, we believe that these adjustments are intended to be included under the proposal through its reference to Section 1886(j)(3) of the Social Security Act**
- **These payment adjustments are needed to properly reflect variation in necessary costs for treatment across IRFs**

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Financial Impact of Site-neutral Payment Policy on IRFs

- **The overall impact of the Site-neutral payment proposal would reduce Medicare payments to IRFs for each of the MS-DRGs under the site neutral policy**
  - The policy would reduce Medicare IRF payments for conditions selected for site-neutral payments by 15.9%
  - The policy would reduce overall Medicare payments to IRFs by 5.0% (conditions modeled as subject to site-neutral payment in this analysis accounted for 31.7% of all IRF cases)
  - Compared to current Medicare IRF-PPS payments, the Site-neutral payment would be:
    - 15.5 to 21.4% lower for stroke patients,
    - 10.4 to 19.7% lower for major joint replacement and revisions, and
    - 3.6 to 13.0% lower for hip and femur fractures

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Medicare Payment Impact of Site-neutral Payment Policy on IRFs by Condition

	Prior Acute Hospital MS-DRG	Number of Medicare Discharges	Distribution of Cases	Average Current IRF Medicare Payment Per Discharge	Average Site-Neutral Payment per Discharge	Percent Difference from Current Payment
61	Acute ischemic stroke w/ use of thrombolytic agent w MCC	799	0.2%	$25,371	$20,938	-17.5%
62	Acute ischemic stroke w/ use of thrombolytic agent w CC	1,727	0.5%	$23,181	$19,594	-15.5%
63	Acute ischemic stroke w/ use of thrombolytic agent w/o CC/MCC	304	0.1%	$19,056	$15,617	-18.0%
64	Intracranial hemorrhage or cerebral infarction w MCC	9,919	2.7%	$23,987	$18,852	-21.4%
65	Intracranial hemorrhage or cerebral infarction w CC or tPA in 24 hours	25,161	6.7%	$22,442	$18,493	-17.6%
66	Intracranial hemorrhage or cerebral infarction w/o CC/MCC	8,535	2.3%	$19,302	$16,088	-16.7%
466	Revision of hip or knee replacement w MCC	568	0.2%	$18,398	$16,481	-10.4%
467	Revision of hip or knee replacement w CC	2,382	0.6%	$15,287	$13,377	-12.5%
468	Revision of hip or knee replacement w/o CC/MCC	1,109	0.3%	$13,974	$11,514	-17.6%
469	Major joint replacement or reattachment of lower extremity w MCC	4,009	1.1%	$18,613	$15,741	-15.4%
470	Major joint replacement or reattachment of lower extremity w/o MCC	37,498	10.0%	$14,996	$12,035	-19.7%
480	Hip & femur procedures except major joint w MCC	3,340	0.9%	$20,686	$18,459	-10.8%
481	Hip & femur procedures except major joint w CC	13,990	3.7%	$18,890	$17,841	-5.6%
482	Hip & femur procedures except major joint w/o CC/MCC	5,159	1.4%	$17,987	$16,924	-5.9%
535	Fractures of hip & pelvis w MCC	559	0.1%	$20,677	$17,991	-13.0%
536	Fractures of hip & pelvis w/o MCC	3,180	0.9%	$18,238	$16,349	-10.4%
	All Site Neutral Cases	**118,239**	**31.7%**	**$18,847**	**$15,849**	**-15.9%**
	All Other Cases	255,006	68.3%	$19,315	$19,315	0.0%
	Total	373,245	100.0%	**$19,167**	**$18,217**	**-5.0%**

Source: Dobson | DaVanzo analysis using the 2012 Medicare Inpatient 100% Limited Data Set (LDS).

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Conclusion

- **Before Site-neutral payment is implemented, the issues raised from the results of this analysis should be considered**
  - The incremental approach of a Site-neutral payment being applied to compliant cases under the 60% Rule is self-contradictory
  - Site-neutral policy should account for the difference in cost of regulatory compliance between IRFs and SNFs
  - Site-neutral policy should provide for sufficient risk adjustment between SNFs and IRF as well as across IRFs
  - Site-neutral policy should specifically address the inclusion of IRF facility-level payment adjustments

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