

CAPITOL STREET

March 27, 2024

Proposed Rehab Pay +2.5% for 2025

Transfer Policy Not Floated Here but May Be Coming

Relevant Companies



»» Our Take & Next Up

CMS proposed IRF 2025 pay to be +2.5%, which is in line for Inpatient Rehab Facilities (IRFs), and the lack of a transfer policy is likely good news for now. Urban and rural for profits would see healthy updates of +2.7 and +4%, respectively, in 2025. As a reminder the government FY starts Oct 1. After comments are received, CMS will finalize payment on or around Aug 1, 2025. The 102-page proposal can be found [here](#).

»» Key Points

Of investor interest was the implementation of the IRF transfer rule. We do not see a proposal for 2025 but we do not rule it out from being proposed in the future.

- **What is the CMS transfer policy?** Medicare *reduces* hospital diagnosis related groups (DRG) payments when: The patient's length of stay (LOS) is at least 1 day less than the geometric mean DRG LOS. The hospital transfers the patient to another IPPS-covered acute care hospital, or for certain MS-DRG patients, a post-acute setting. For home health agencies, the policy has been in place for about a decade, and hospitals/HHAs have not complained.

As a reminder, CMS and Congress have been urged to drastically reduce pay to IRF for about seven (7) years. See below for a re-hash of MedPAC recommendations from this past Jan.

- MedPAC recommended (Jan 2024) that Congress reduce the base rate for IRF facilities by -5% for 2025.
- MedPAC predicts a 2024 Medicare margin of +14% (+13.7% in 2022) for IRF services. Medicare margin for inpatient rehab services in 2022 was +13.7%. Medicare margin for freestanding facilities was +23.3%, significantly higher compared to +0.9% for hospital-based IRFs.
- Fee for service Medicare patients made up 51% of all IRF discharges. All-payer margin for 2022 for freestanding facilities was +9%.

The average estimated increase for all IRFs in FY25 is approx. 2.5%. This estimated net increase includes the effects of the IRF MB update for FY 2025 of +2.8%, which is based on an IRF market basket percentage increase of 3.2%, less a 0.4% point productivity adjustment. It also includes the approximate 0.2% overall decrease in IRF outlier payments from the update to the outlier threshold amount. Since CMS is proposing to

make updates to the wage index, labor-related share and the CMG relative weights in a budget-neutral manner, the agency estimates there is no expected impact to total estimated IRF payments in aggregate.

The update proposes to maintain the outlier threshold amount at 3.0% of total payments. This is a 0.2% decrease in payments from the 3.2% estimated for FY 24 IRF outlier payments. CMS estimates an increase in IRF payments of \$255 M for FY 2025. This reflects a \$280 M increase from the update to the payment rates and a \$25 M decrease due to the proposed update to the outlier threshold.

Updates to the IRF Quality Reporting Program (QRP) for 25 are as proposed and follow:

- **CMS is proposing the adoption of four new items in the IRF-PAI as standardized patient assessment data elements under the Social Determinants of Health (SDOH) categories (1) Living Situation, (2) Food, and (3) Utilities beginning October 1, 2026.** These items aim to address patient health related social needs and these measures may assist IRFs in better addressing those identified needs during the discharge planning process.
- **Additionally, CMS is proposing to modify the current Transportation item, and to remove one item (Admission Class) from the IRF-PAI.** The modification to the Transportation item will (1) clarify the look-back period for when a patient experienced a lack of reliable transportation, (2) the response options will be simplified for the patient, and (3) the revised assessment item will be collected at admission only to decrease provider burden. CMS is also proposing to remove the “Admission Class” assessment item as it is currently not used in the calculation of quality measures already adopted in the IRF QRP.

CMS is also seeking feedback on future IRF QRP quality measure concepts and an IRF star rating system. The proposed rule includes two Requests for Information (RFIs) on quality measure concepts for future IRF QRP years and a star rating system for publicly reporting IRF QRP measures on Care Compare. The agency is specifically looking for potential measure concepts of vaccination composite, pain management, and depression.

- **CMS is also looking to develop a five-star methodology for IRFs that can meaningfully distinguish quality of care offered by providers and would also be reported on both Care Compare and the Provider Data Catalog.** Star ratings for IRFs. The RFI seeks input on criteria that could be used to select measures for a star rating and how a star rating should be presented to consumers.

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