

# CAPITOL STREET

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July 31, 2024

## Final Rehab Pay +2.8% for 2025

### Transfer Policy May Be Coming 2026+

Relevant Companies



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## »» Our Take & Next Up

**CMS finalized IRF 2025 pay to be +2.8% (up 30 bps from proposal) and the lack of a transfer policy is likely good news for IRFs for now (but we think it is coming).** Urban and rural for profits would see healthy updates of +2.9 and +4.4%, respectively, in 2025. As a reminder the government FY starts Oct 1. The final rule can be found [here](#). Of investor interest was the implementation of the IRF transfer rule. We do not rule it out from being proposed in the future but it was neither proposed nor finalized for 2025.

## »» Key Points

**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. +2.8%.** For FY 2025, CMS finalized updates to the IRF payment rates by +3.0% based on the final IRF market basket percentage increase of +3.5%, less a final 0.5% point productivity adjustment. Additionally, CMS finalized updates to the outlier threshold to maintain outlier payments at 3% of total payments. CMS estimates the final technical rate setting changes will result in an estimated increase in IRF payments of \$280 M for 2025. This reflects a \$300 M increase from the update to the payment rates and a \$20 M decrease due to the update to the outlier threshold.

**CMS is also looking to develop a five-star methodology for IRFs as it does for other providers (e.g., MA plans).** The rankings would 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 (in CMS's proposed rule) sought input on criteria that could be used to select measures for a star rating and how a star rating should be presented to consumers. CMS will provide additional updates on this idea in the coming months.

**Quality measures finalized by CMS (for 2028) are described below.**

- **CMS is finalizing the adoption of 4 new items in the IRF-PAI as standardized patient assessment data elements under the Social Determinants of Health (SDOH) category:** (1) Living Situation (2) Food and (3) Utilities. Identifying and collecting patients' health-related social needs these items may assist IRFs in better addressing those identified needs with the patient, their caregivers, and community partners during the discharge planning process, if indicated.
- **CMS is finalizing a modification of the Transportation item in the IRF-PAI, collected under the SDOH category.** As part of routine item and measure monitoring work, CMS has identified an opportunity to improve the data collection for this item. Specifically, the finalized modification of the Transportation item will improve and align data collection in three ways: (1) specify the look-back period for identifying if and when a patient experienced a lack of transportation, (2) simplify the response options for the patient, and (3) require collection at admission only (rather than at admission and discharge), which will decrease provider burden since the current assessment item is collected at both admission and discharge.
- **CMS is finalizing removing the Admission Class assessment item collected at admission from the IRF-PAI item set,** as CMS identified that this item is currently not used in calculating quality measures already adopted in the QRP or for purposes unrelated to the IRF QRP, such as payment, survey, or care planning. This removal will be effective beginning with the FY 2028 IRF QRP (beginning with patients admitted on October 1, 2026); however, IRFs will not be required to collect this item beginning with patients admitted on October 1, 2024.

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