Medicare Inpatient Rehabilitation Facility
Prospective Payment System

Payment Rule Brief — Update Notice
Program Year: FFY 2013

Overview, Resources, and Comment Submission

On July 30, 2012, the Centers for Medicare and Medicaid Services (CMS) officially released two regulations that will update the Medicare fee-for-service (FFS) payment rates and policies under the Inpatient Rehabilitation Facility (IRF) Prospective Payment System (PPS) for federal fiscal year (FFY) 2013.

The first regulation is an update notice that updates the IRF payment factors. The second regulation is a proposed rule (the calendar year 2013 Outpatient PPS proposed rule) that puts forward changes to the IRF quality reporting program established last year.

A copy of the update notice and other resources related to the IRF PPS are available on the CMS Web site at https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientRehabFacPPS/index.html.

An online version of the update notice is available at https://federalregister.gov/a/2012-18433.

An online version of the proposed rule that includes the IRF quality reporting proposals is available at https://federalregister.gov/a/2012-16813.

The submission of comments is not permitted on the update notice. However, comments on the proposed updates to the IRF quality reporting program are due to CMS by September 4, 2012. Comments can be submitted electronically at http://www.regulations.gov by using the Web site’s search feature to search for file code “CMS-1589-P.”

A brief of the update notice that updates the IRF payment factors and proposed rule that IRF updates to the quality reporting program along with Federal Register (FR) page references for additional details are provided below. Program changes adopted by CMS would be effective for discharges on or after October 1, 2012 unless otherwise noted.

IRF Payment Rate

The following table shows the proposed IRF standard payment conversion factor for FFY 2013 compared to the rate currently in effect (FR pages 44,628-44,629).

<table>
<thead>
<tr>
<th>IRF Standard Payment Conversion Factor</th>
<th>Final FFY 2012</th>
<th>Proposed FFY 2013</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$14,076</td>
<td>$14,343</td>
<td>+1.9%</td>
</tr>
</tbody>
</table>
The table below provides details of the proposed updates to the IRF payment rate for FFY 2013 (FR pages 44,626-44,627).

<table>
<thead>
<tr>
<th>FFY 2013 IRF Rate Updates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketbasket (MB) Update</td>
</tr>
<tr>
<td>Affordable Care Act (ACA)-Mandated Productivity MB Reduction</td>
</tr>
<tr>
<td>ACA-Mandated Pre-Determined MB Reduction</td>
</tr>
<tr>
<td><strong>Overall Rate Update (including budget neutrality)</strong></td>
</tr>
</tbody>
</table>

**Sequestration Reductions**
Absent from the update notice is guidance as to how CMS will implement the 2.0% sequestration reduction to all lines of Medicare payment set to take effect on January 1, 2013. Sequestration reductions were authorized by Congress as part of the Budget Control Act (BCA) of 2011. It is believed that the 2.0% downward reduction will be applied at remittance (the time Medicare contractors pay each Medicare FFS claim) and will be incorporated into the cost report settlement (no FR reference).

**Wage Index and Labor-Related Share**

**Wage Index**
The labor-related portion of the IRF standard payment conversion factor is adjusted for differences in area wage levels using a wage index. As has been the case in past years, CMS would use the prior year’s inpatient hospital wage index, the FFY 2012 pre-rural floor and pre-reclassified hospital wage index, to adjust payment rates under the IRF PPS for FFY 2013. A complete list of the proposed IRF wage indexes for payment in FFY 2013 is available on the CMS Web site at [https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientRehabFacPPS/Downloads/cms1433n-wage-index.pdf](https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientRehabFacPPS/Downloads/cms1433n-wage-index.pdf) (FR pages 44,627-44,628).

**Labor-Related Share**
CMS is updating the labor-related share value to 69.981% for FFY 2013, a slight decrease when compared to the current labor share of 70.199%. A decrease to the labor-related share will increase payments to IRFs with a wage index less than 1.0 and decrease payments for those with wage indexes greater than 1.0 (FR page 44,627).

**LIP, Teaching, and Rural Adjustments**
CMS adjusts the IRF standard payment conversion factor for differences at the facility level, including adjustments to account for an IRF’s percentage of low income patients (LIP), teaching status, and rural location. CMS is not making any changes to these adjustments for FFY 2013. The following describes the adjustments (FR pages 44,625-44,626):

- **LIP Adjustment**: CMS will maintain the LIP adjustment factor at 0.4613 for FFY 2013. CMS will maintain the following formula to calculate the LIP adjustment: \((1 + \text{Disproportionate Share Hospital (DSH) patient percentage})^\text{0.4613}\). The DSH patient percentage for each IRF is calculated using the following formula: \((\text{Medicare SSI days} / \text{total Medicare days}) + (\text{Medicaid, non-Medicare days} / \text{total days})\).
• **Teaching Adjustment**: CMS will maintain the teaching adjustment factor at 0.6876 for FFY 2013. This payment adjustment is based on the number of full-time equivalent (FTE) interns and residents training in the IRF and the IRF’s average daily census (ADC). CMS will maintain the following formula to calculate the teaching payment adjustment: \((1 + \text{IRF’s FTE resident to ADC ratio})^0.6876\).

• **Rural Adjustment**: CMS will maintain the rural adjustment at 18.4% for FFY 2013.

**CMGs**

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 2013 using the most current full federal fiscal year of claims data (FFY 2011) and the most recently available IRF cost reports. CMS is not making any changes to the CMG categories/definitions. Using FFY 2011 claims data, CMS analysis shows that 95% of IRF cases are in CMGs and tiers that will experience less than a +/-5% change in the CMG relative weight as a result of the updates. A table that lists the FFY 2013 CMG payments weights and ALOS values is provided in the FR (FR pages 44,622-44,625).

**Outlier Payments**

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 2013, CMS is updating the outlier threshold value to $10,466 for FFY 2013, a 1.8% decrease compared to the current threshold of $10,660. The threshold decrease will increase the number of rehabilitation cases eligible for outlier payments (FR pages 44,630-44,631).

**IRF QRP**

The ACA required CMS to implement a quality data pay-for-reporting program for providers paid under the IRF PPS. Last year, CMS adopted 2 measures to implement the Inpatient Rehabilitation Facility Quality Reporting Program (IRF QRP). Providers must begin reporting on these measures this year. IRFs that fail to successfully participate in the IRF QRP receive reduced payments through a reduction of 2.0 percentage points to the IRF marketbasket update. CMS will make these payment determinations each year. CMS will make the first payment determination related to the 2 measures adopted last year in FFY 2014. Details on the measures and rules adopted for FFY 2014 payment determinations are available in FR pages 47,874-47,883 of FFY 2012 IRF PPS final rule at http://www.gpo.gov/fdsys/pkg/FR-2011-08-05/pdf/2011-19516.pdf.
Using the OPPS proposed rule, CMS is proposing to incorporate National Quality Forum (NQF) technical updates/changes to the 2 measures adopted for FFY 2014 payment determinations: Catheter-Associated Urinary Tract Infections (CAUTI) Outcome Measure (NQF #0138); and Percent of Residents with Pressure Ulcers that are New or Have Worsened (NQF #0678). Since their adoption last year, technical updates/changes have been made to the CAUTI measure and the pressure ulcer measure is currently in the NQF review process. A full description of these technical updates/changes is available on the OPPS proposed rule FR pages listed below.

To handle potential future NQF technical updates/changes to measures adopted for use under the IRF QRP, CMS is proposing to use a “subregulatory” process rather than the traditional proposed and final rulemaking process. Under this proposal, CMS would notify the industry of technical measure updates/changes via the CMS IRF QRP Web site at http://www.cms.gov/IRF-Quality-Reporting/. CMS is proposing to use this subregulatory process when the agency believes the NQF modifications would not substantially change the nature of the measure. CMS would continue to use the traditional proposed and final rulemaking process when CMS believes the NQF modifications would substantially change the nature of the measure. Similar policies have been proposed for the other quality reporting programs under the Medicare PPSs.

CMS is also proposing to modify how the agency adopts and retains measures under the IRF QRP. CMS is proposing that when a measure is adopted for use, that measure is automatically adopted for all subsequent year determinations unless CMS proposes to remove, suspend, or replace the measure. Currently, CMS proposes to retain measures on a year-by-year basis. CMS is proposing to apply this method to the CAUTI measure and pressure ulcer measure adopted for FFY 2014 payment determinations. CMS has not proposed any additional measures for use under the IRF QRP for FFY 2015 payment determinations and beyond.

Instructions on how to submit comments on the proposed IRF QRP changes is provided in the “Overview, Resources, and Comment Submission” section above (OPPS proposed rule FR pages 45,193-45,196).

####