



Medicare: Issue of the Day

July 29, 2004

BETTER BENEFITS – MORE CHOICES

Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!

MEDICARE ANNOUNCES PAY INCREASE FOR INPATIENT REHABILITATION FACILITIES

Rural Facilities Get An Important Boost In Payment Rates

- ◆ Hospitals that serve Medicare beneficiaries who require intensive inpatient rehabilitation are slated to receive a 3.1 percent increase in their payment rates for fiscal year 2005, beginning October 1, 2004, the Centers for Medicare & Medicaid Services announced today.
 - ◇ Aggregate **payments to these facilities in fiscal year 2005 are projected to be \$5.7 billion, up 5.6 percent** from a projected \$5.4 billion in FY 2004.
- ◆ There are many Medicare beneficiaries with serious illnesses and inpatient rehabilitation services are essential for high-quality care. All beneficiaries, including those living in rural areas, must have access to rehabilitation services in order to regain health as quickly as possible.
- ◆ Medicare pays for services provided in inpatient rehabilitation facilities using a prospective payment system that went into effect in January 2002.
 - ◇ Under this system, payment rates are based on case-mix groups (CMGs) that reflect the clinical characteristics of the patient and the anticipated resources that will be needed for treatment.
 - ◇ There are a number of **adjustments to the payment rates, including a 19 percent adjustment for rural facilities** to offset the higher costs they incur because they have fewer cases, longer lengths of stay, and higher average costs per case.
- ◆ CMS estimates that there will be **approximately 483,000 Medicare admissions to Medicare-certified inpatient rehabilitation facilities around the country in FY 2005**. Of a total of 1,220 facilities, 215 facilities are freestanding, and 1005 facilities are special units in acute care hospitals. About ten percent are situated in rural areas.
- ◆ Medicare covers **high quality rehabilitation care** in a variety of settings, including the **home, outpatient centers, skilled nursing facilities, and hospitals**.

Medicare has historically required that to qualify for the significantly higher payments provided to inpatient rehabilitation facilities, at least 75 percent of the facility's population had to have one of ten diagnoses generally associated with the need for intensive inpatient rehabilitation. These included stroke, spinal cord injury, congenital deformity, amputation,

major multiple traumas, fracture of the femur, brain injury, polyarthritis, neurological disorder, and burns.

- ◆ These payment increases come on top of a major effort by CMS to ensure that inpatient rehabilitation facilities are compensated appropriately for patients who need their services. After extensive analysis and public consultation, CMS published revised regulations earlier this year **expanding the criteria to be classified as an inpatient rehabilitation facility** in several important ways.
 - ◇ First, it replaced the term polyarthritis with three clinically meaningful types of arthritis.
 - ◇ Second, it added a new qualifying condition associated with complex joint replacement cases.
 - ◇ It also allowed a facility to count toward the percentage threshold, patients who have a secondary medical condition that meets one of the qualifying diagnoses.
- ◆ Finally, to provide even greater flexibility for providers in their admissions practices, CMS has adopted a **three-year transition of the compliance threshold**.
 - ◇ The compliance threshold is 50 percent in the first year, and moves incrementally back to 75 percent after the third year.
 - ◇ Since a number of facilities were not in compliance with the pre-existing regulations, this will provide a long phase-in period before the new, more flexible and clinically-based regulations take effect.
 - ◇ During this period, CMS will also **pursue research in this area to generate even better data to make sure that payments for rehabilitation services are appropriate**.
- ◆ The revised criteria are expected to **support access to inpatient rehabilitation facility services for patients truly requiring the specialized and intensive rehabilitation care provided in inpatient rehabilitation facilities**, in contrast to rehabilitation care that can be appropriately provided in other settings at a lower cost.

The notice of the payment increase will be published in the July 30 *Federal Register*.