Medicare IPF Proposed Rule Impact Analysis
Federal Fiscal Year 2025

-Version 1-

Analysis Description

The federal fiscal year (FFY) 2025 Medicare Inpatient Psychiatric Facility Prospective Payment System (IPF PPS) Proposed Rule Analysis is intended to show providers how Medicare fee-for-service (FFS) payments could change from FFY 2024 to FFY 2025 based on the policies set forth in the FFY 2025 IPF PPS proposed rule.

FFY 2025 IPF Proposed Rule Changes Modeled in this Analysis:

- Electroconvulsive Therapy (ECT) Update: 75.3% increase to the FFY 2024 ECT base rate to account for the proposal to use the calendar year 2024 Outpatient PPS pre-scaled, pre-adjusted geometric mean cost for ECT as a basis for estimating the FFY 2025 ECT base rate.

- Market Basket Update: 3.1% increase to account for cost increases for the services furnished by providers.

- ACA-Mandated Market Basket Adjustment: -0.4 percentage point productivity adjustment to the market basket authorized by the Affordable Care Act (ACA) of 2010.

- Wage Index Budget Neutrality: A budget neutrality factor adjustment of 0.9998 due to changes in the wage index. This includes the budget neutrality impact of the 5% cap on IPF wage index decreases.

- Refinement Standardization Factor: A budget neutrality factor adjustment of 0.9514 to account for proposed updates to IPF patient-level adjustment factors, emergency department adjustments, and updates to the ECT per treatment amount.

- Wage Index and Labor Share: Updated wage index values based on the FFY 2025 facility wage index without the rural floor or reclassifications. This impact includes the proposed increase in the labor-share from 78.7% for FFY 2024 to 78.8% for FFY 2025; the result of the 5% cap on any reduction of an eligible hospital's FFY 2025 wage index from the FFY 2024 wage index, the value of which is also broken out separately; and any changes due to the proposed revised CBSA delineations.

- Change in Provider and Facility-Level Adjustments: Changes due to the proposed revision of facility and patient-level adjustments. Includes the following adjustment categories: Patient Condition Medicare-Severity Diagnosis Related Group Adjustment, Patient Comorbidity Adjustment, Patient Age Adjustment, Patient Variable Per Diem Adjustment, Teaching Adjustment, and Emergency Department Adjustment.

The values shown in the impact table do not include the 2.0% sequestration reduction to all lines of Medicare payment authorized by Congress through FFY 2032. The estimated sequestration reduction applicable to IPF PPS-specific payment has been calculated separately and is provided at the bottom of the impact table.

Data Sources

Estimated IPF PPS payments for FFYs 2024 and 2025 are calculated using FFY 2023 claims data from the FFY 2025 IPF Proposed Rule Limited Data Set (LDS) and the most recent Medicare cost report file (2021, 2022, or 2023) provided by CMS. The federal per diem base rates, ECT per treatment base rates, wage indexes, and labor-related shares are from the FFY 2024 IPF final rule correction notice and the FFY 2025 IPF proposed rule. Individual IPF characteristics/factors to derive IPF sub providers are from the most recent Medicare cost report (FFY 2021, FFY 2022, or FFY 2023) provided by CMS. Wage indexes used in this analysis reflect facility wage index values without the rural floor or reclassifications.

The total estimated change from FFY 2024 to FFY 2025 may be overstated due to offsetting the increase from applying provider and facility level adjustments to revenues estimated using FFY 2022 claims with CMS' proposed budget neutrality factor that was calculated using FFY 2023 claims.

Note: All components related to facility operations are held constant (e.g. patient volume and case-mix index) in order to measure the impacts of policy changes only.

Methods

The dollar impact of each component change has been calculated by first estimating FFY 2024 adjustment factors for each provider based on their facility and patient-level characteristics from FFY 2023 claims data in the FFY 2025 IPF proposed rule LDS and the most recent (FFYs 2021, 2022, or 2023) Medicare cost report. Estimated 2024 payments per claim are calculated by applying all adjustments relevant to the claim to the wage-adjusted per-diem base payment rate and adding the result to the product of the claim's ECT volume and the wage-adjusted ECT per treatment rate. Next, the FFY 2024 to FFY 2025 change for each IPF payment component is analyzed, calculated, and applied to estimated FFY 2024 payments. The component impacts are applied sequentially in order to capture the compounded dollar impacts. For example, the component changes due to the market basket update, as well as the component change in the ACA-mandated market basket reductions, are applied to total 2024 payments. Then, the component change of the wage index budget neutrality is applied to the dollar result of the previous changes. This method continues for the remaining changes, creating a compounded effect. The difference between the results after each layered component is the impact of that component.

This analysis does not include impact estimates due to high-cost outliers, estimates for payments for Managed Care patients, or any modifications in FFS payments as a result of facility participation in new payment models being tested under Medicare demonstration/pilot programs. Dollar impacts in this analysis may differ from those provided by other organizations/associations due to differences in source data and analytic methods.

Note: Individual percentages and dollars shown in this analysis may not add to total due to compounding and rounding. Facilities with lower volume may have higher percentage errors due to rounding. Dollar amounts less than $50 and percentages less than 0.05% will appear as zeros due to rounding.