



**Medicare Inpatient Rehabilitation Facility (IRF) Prospective Payment System (PPS)
Proposed Rule Impact Analysis
Federal Fiscal Year (FFY) 2020**

-Version 1-

Analysis Description

The FFY 2020 Medicare IRF PPS Proposed Rule Analysis is intended to show providers how Medicare fee-for-service (FFS) payments will change from FFY 2019 to FFY 2020 based on the policies set forth in the FFY 2020 IRF PPS proposed rule.

FY 2020 IRF Proposed Rule Payment Changes Modeled in this Analysis:

- Market basket Update: 3.0% increase to account for price increases in the services furnished by providers.
- ACA-Mandated Market basket Reductions: 0.5 percentage point productivity reduction to the marketbasket authorized by the Affordable Care Act (ACA) of 2010.
- Budget Neutrality (including all other budget neutrality): A 1.0076 factor to maintain program budget neutrality due to changes in the wage index as well as a 1.0016 case-mix budget neutrality factor.
- Wage Index: Updated wage index values based on the FFY 2020 hospital wage index without the rural floor or reclassifications. CMS is proposing to increase the labor-related share from 70.5% in FFY 2019 to 72.6% in FFY 2020. This is different from prior years because CMS proposed to use the current IPPS wage index instead of the prior year wage index.
- Case-Mix Group (CMG) Updates: Changes due to updates to the case-mix groupings and weights. The impact shown is the case-mix change resulting from running the FFYs 2017 and 2018 Medicare claims data and FFY 2017 IRF cost report data through the final 2019 and proposed 2020 CMG logic and assigning the respective CMG weights for each year.

For FFY 2020, like in FFYs 2019, all three facility level adjustment factors - low-income percentage (LIP), teaching, and rural - are kept at the FFY 2014 level.

Data Sources

Estimated FFYs 2019 and 2020 IRF PPS payments are calculated using individual IRF characteristics (cases, case-mix index, and factors to derive the rural, teaching, and LIP adjustments) from the FFY 2020 IRF proposed rule Rate Setting File provided by CMS.

The standard payment conversion factors, wage indexes, and labor-related shares are from the FFY 2019 IRF final rule and the FFY 2020 IRF proposed rule as published in the *Federal Register*. Wage indexes used in this analysis reflect hospital wage index values without the rural floor or reclassifications.

Note: All components related to facility operations are held constant (e.g. volume, case-mix, LIP percentage, and hospital-specific factors used to calculate the teaching adjustment) in order to measure the impacts of policy changes only.

Methods

The dollar impact of each component change has been calculated by first estimating 2019 payments. Estimated FFY 2019 payments reflect the wage index, labor-share, rural, teaching, and LIP adjusted federal amount multiplied by each IRF's appropriate cases and case-mix index.

The component change from FFY 2019 to FFY 2020 for each IRF payment component is then analyzed, calculated and applied to estimated FFY 2019 payments. The component impacts are applied sequentially in order to capture the compounded dollar impacts. For example, the change due to the annual update is applied to total FFY 2019 payments. Then, the wage index and labor-related share budget neutrality factor is applied to the dollar result of the first change. This method continues for the remaining changes, creating a compounded effect. The difference between the results after each layered component is the dollar 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 hospital 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.

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 2027. The estimated sequestration reduction applicable to IRF PPS-specific payment has been calculated separately and is provided at the bottom of the impact table.

Note: Individual percentages and dollars shown in this analysis may not add to total due to compounding and rounding. Dollar amounts less than \$50 and percentages less than 0.05% will appear as zeros due to rounding.