Medicare Inpatient Rehabilitation Facility (IRF) Prospective Payment System (PPS) Final Rule Impact Analysis Federal Fiscal Year (FFY) 2021

-Version 1-

Analysis Description

The FFY 2021 Medicare IRF PPS Final Rule Analysis is intended to show providers how Medicare fee-for-service (FFS) payments may change from FFY 2020 to FFY 2021 based on the policies set forth in the FFY 2021 IRF PPS final rule.

FFY 2021 IRF Final Rule Payment Changes Modeled in this Analysis:

- Marketbasket Update: 2.4% increase to account for cost increases for the services furnished by providers.
- ACA-Mandated Marketbasket Reductions: 0.0 percentage point productivity reduction to the marketbasket authorized by the Affordable Care Act (ACA) of 2010.
- Budget Neutrality (including all other budget neutrality): A 1.0013 factor to maintain program budget neutrality due to changes in the wage index as well as a 0.9970 case-mix budget neutrality factor.
- Wage Index and Labor Share: Updated wage index values based on the FFY 2021 hospital wage index without the rural floor or reclassifications. This impact includes the increase in the labor-related share from 72.7% in FFY 2020 to 73.0% in FFY 2021. The impact on the 5% cap on any reduction of hospital's FFY 2021 wage index values from the FFY 2020 wage index value is broken out separately. The wage index without the 5% cap is from the FFY 2021 Inpatient Psychiatric Facility (IPF) Final Rule wage index file.
- 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 FFY 2019 Medicare claims data and FFY 2018 IRF cost report data through the final FFY 2020 and final FFY 2021 CMG logic and assigning the respective CMG weights for each year.
- Change in Rural Status: Updated rural/urban status due to changes in CBSA delineations.

For FFY 2021, like in FFY 2020, all three facility level adjustment factors - low-income percentage (LIP), teaching, and rural - are kept at the FFY 2014 level.

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 2030. As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress eliminated the 2% sequester on Medicare payments from May 1, 2020 through December 31, 2020. The estimated sequestration reduction applicable to IRF PPS-specific payment has been calculated separately and is provided at the bottom of the impact table.

Data Sources

Estimated FFYs 2020 and 2021 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 2021 IRF PPS final rule Rate Setting File provided by CMS.

The standard payment conversion factors, wage indexes, and labor-related shares are from the FFY 2020 IRF PPS final rule and the FFY 2021 IRF PPS final 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, 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 FFY 2020 payments. Estimated FFY 2020 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 2020 to FFY 2021 for each IRF payment component is then analyzed, calculated and applied to estimated FFY 2020 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 2020 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.

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.