MEMORANDUM

TO: **CPR**

FROM: **Peter Thomas and Michael Barnett**

DATE: **August 5, 2024**

SUBJECT: **FY 2025 IRF Prospective Payment System ("IRF PPS") Final Rule**

On July 31st, the Centers for Medicare and Medicaid Services ("CMS") released the federal fiscal year ("FY") 2025 Inpatient Rehabilitation Facility Prospective Payment System ("IRF PPS") Final Rule and corresponding Fact Sheet for public inspection. As expected, the final rule aligns closely with the provisions in the proposed rule, including the lack of mention of a "transfer" policy applicable to patients moving from IRFs to home health care, which CMS had contemplated—and IRF stakeholders anticipated—they might include. As such, we are considering this as a win for the time being.

Overall, the final rule provides an overall payment increase of 2.8% for IRFs in FY 2025. This payment increase represents a 1.2% decrease compared to the 4.0% payment update that CMS finalized for FY 2024. As in recent years, CMS predicts that the vast majority of cases in FY 2025 will experience a change of less than 5% in case mix groups ("CMGs") and tiers. For the Quality Reporting Program ("QRP"), CMS is finalizing implementation of four new Standardized Patient Assessment Data Elements ("SPADEs") that focus on social determinants of health, along with modifications to an existing SPADE that measures access to transportation. CMS is also finalizing as proposed its policy to remove one measure, and provides a summary of the comments received on potential measure concepts for future years, as well as the potential development of an IRF Star Rating System for IRFs, akin to the rating system used under the Skilled Nursing Facility payment system.

A more detailed summary of the relevant provisions included in the final rule follows.

FY 2025 Payment Updates

For FY 2025, CMS estimates that overall payments to IRFs will increase by 2.8%, a decrease from the 4.0% increase finalized for FY 2024. This change is due to several factors, including an annual market basket update, a productivity adjustment, budget neutrality adjustments related to case-mix group ("CMG") weights and labor/wage changes, and adjustments to the outlier case threshold. CMS projects that 99.2% of all forecasted cases in FY 2025 will be in CMGs and tiers that will see a change in weight of less than 5%.

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Market Basket Update

The market basket update for IRF services is 3.0% based on the final IRF market basket percentage increase of 3.5%, minus a final 0.5% productivity adjustment. Additionally, CMS finalized updates to the outlier threshold to maintain outlier payments at 3% of total payments. CMS estimates the final technical rate setting changes will result in an estimated increase in IRF payments of $280 million for FY 2025, reflecting a $300 million increase from the update to the payment rates and a $20 million decrease due to the update to the outlier threshold.

Wage Index Update

CMS is also finalizing its proposal to adopt new delineations for Core-Based Statistical Areas ("CBSAs") based on the Office of Management and Budget ("OMB") designations, a practice consistent with previous years. These changes would result in some counties being reclassified from urban to rural and vice versa, as well as shifts to different CBSAs for certain counties. CMS estimates that approximately 10% of providers will have a higher wage index as a result of these changes, but 16% will face a decrease in wage index values due to being reclassified as urban, thus losing the rural adjustment. For FY 2025, CMS estimates that eight IRFs will change their status from rural to urban, leading to the loss of 14.9% rural adjustment. To mitigate the impact on affected IRFs, CMS is finalizing a transitional "phase-out" policy wherein facilities set to lose their rural adjustment would retain two-thirds of the adjustment in FY 2025, one-third in FY 2026, and fully lose the adjustment in FY 2027. This phase-out does not alter the cap on wage index decreases that was previously finalized, ensuring no IRF experiences more than a 5% decrease in their wage index compared to the prior year, regardless of the reason.

Outlier Threshold

CMS is finalizing its proposal to increase the outlier threshold amount from $10,423 in FY 2024 to $12,043 in FY 2025. This adjustment is expected to result in a 0.2% decrease in aggregate payments across the IRF PPS for FY 2025.

Overall Payment Impact

CMS estimates that the changes and updates outlined in the proposed rule would result in a net increase of $280 million in payments to the IRF industry overall. Payment increases are projected to be 2.7% in urban areas and 4.9% in rural areas. Specifically, payments to IRF units are expected to rise by 2.1% in urban areas and 4.8% in rural areas, while payments to freestanding IRFs are forecasted to increase by 3.0% in urban areas and 5.2% in rural areas.

Quality Reporting Program ("QRP") Updates

QRP Measures to be Added, Modified, and Removed

CMS is finalizing revisions to the Standardized Patient Assessment Data Elements ("SPADEs") in the IRF Quality Reporting Program ("QRP") to enhance the collection of information on social determinants of health (SDOH). This incorporates stakeholder feedback from a Request for Information ("RFI") on SDOH data included in last year's proposed rule.

Beginning with the FY 2028 IRF QRP (beginning with patients admitted on October 1, 2026), CMS is finalizing the adoption of four new SPADE items:

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1. Living Situation: This item asks, "What is your living situation today?" with response options including: (1) I have a steady place to live; (2) I have a place to live today, but I am worried about losing it in the future; (3) I do not have a steady place to live; (4) Patient declines to respond; and (5) Patient unable to respond.
2. Food Items: Two finalized food items inquire about food security within the past 12 months:
    - "Within the past 12 months, you worried that your food would run out before you got money to buy more."
    - "Within the past 12 months, the food you bought just didn't last and you didn't have money to get more." Response options for both items include: (1) Often true; (2) Sometimes true; (3) Never True; (4) Patient declines to respond; and (5) Patient unable to respond.
3. Utilities: This item asks, "In the past 12 months, has the electric, gas, oil, or water company threatened to shut off services in your home?" Response options are: (1) Yes; (2) No; (3) Already shut off; (4) Patient declines to respond; and (5) Patient unable to respond.

CMS is also finalizing modifications to an existing SPADE focused on transportation. In alignment with the AHC HRSN Screening Tool, CMS is revising the "A1250. Transportation" item currently collected in the IRF-PAI in three ways: (1) adjusting the look-back period for when the patient experienced a lack of reliable transportation and (2) simplifying the response options for patients; and (3) requiring collection at admission only (rather than at admission and discharge).

The new Transportation item asks, "In the past 12 months, has a lack of reliable transportation kept you from medical appointments, meetings, work, or from getting things needed for daily living?" The finalized response options are: (1) Yes; (2) No; (3) Patient declines to respond; and (4) Patient unable to respond.

Additionally, CMS is finalizing its proposal to remove the "Admission Class" item from the IRF-PAI beginning October 1, 2026. This item is currently not used in the calculation of quality measures adopted in the IRF QRP or for other established purposes unrelated to the IRF QRP, such as payment, survey, or care planning.

Two Requests for Information

CMS requested feedback from the public on the following RFI's, which will help develop potential policies for rulemaking in future years.

RFI for Future QRP Refinements

CMS sought feedback on future revisions to the IRF QRP focusing this year on specific quality measure "concepts" that the agency is considering based on feedback from stakeholders in prior years. These concepts included:

- A potential composite measure for vaccinations, which could reflect the overall immunization status of patients, similar to the Adult Immunization Status measure in the Universal Foundation.
- The concept of depression for the IRF QRP, which might be similar to the Clinical Screening for Depression and Follow-up measure in the Universal Foundation.

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- The concept of pain management.

CMS received robust stakeholder feedback on these concepts and provided a summary in the final rule. CMS plans to use this feedback to inform future measure development.

RFI on the Development of an IRF Star Rating System

CMS also requested feedback on the creation of a five-star methodology for IRFs that can effectively differentiate the quality of care provided by IRFs. According to CMS, these star ratings would help consumers easily compare and select providers based on quality.

CMS specifically sought public comment on the following questions:

1. What specific criteria should CMS consider when selecting measures for an IRF star rating system?
2. How should CMS present IRF star ratings information to consumers to ensure it is most useful to them?

For comparison, a 5-Star Rating System for skilled nursing facilities ("SNFs") has been in place for several years with mixed results. Many argue the system is widely "gamed" and not a reliable and timely indicator of high quality SNFs. Critics assert that the system is more focused on measuring safety than quality and is heavily process oriented. A major component of the SNF 5-Star Rating System consists of measures of sufficient staffing, which is not a major issue in IRFs. The quality measures selected under the IRF rating system will be critical to accurately assessing the quality of care provided in IRFs.

CMS states in the Fact Sheet that it "intend[s] to develop a five-star methodology for IRFs that can meaningfully distinguish between quality of care offered by providers in IRFs." The Agency received robust stakeholder feedback on these concepts and provided a summary of those comments in the final rule. CMS did not provide any timeframe or offer any other specific details in the final rule, but stated that it will use this feedback to inform any future rulemaking.

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