

ERRATA

To: Recipients of TR-207-CMS, 2005

From: RAND Corporation Publications Department

Date: December 2005

Re: Corrected page (p. iii)

A paragraph was inadvertently omitted from the Preface. After the first paragraph, the following should be added:

For some analyses in this report, we estimated the costs of IRF services provided to Medicare beneficiaries in 2002. To make these estimates, we generally used cost report information in the public use files that matched the date of the beneficiary's discharge (in other words, for a beneficiary discharged June 1, 2002 we used the IRF's cost report that included June 1, 2002, assuming it was available on the file). After this report was completed, but during the public comment period on the proposed rule updating the IRF PPS effective October 1, 2005, HealthSouth, a large chain organization, notified CMS that its IRFs did not include any home office costs in their cost reports for cost reporting periods beginning on or after October 1, 2001 and before October 1, 2003. Home offices of chain organizations such as HealthSouth usually furnish central management and administrative services such as centralized accounting, purchasing, personnel services, management, and other services to support patient care services furnished by its member providers. The reasonable costs of these services are normally included in the provider's cost report and reimbursed as part of the provider's costs. The home office costs for HealthSouth are approximately 13 percent of total costs for its IRFs. The home office costs were included in the cost reports used to estimate 1999 costs for HealthSouth IRFs but were omitted from their cost reports covering 2002 discharges. The HealthSouth hospitals cared for about 19 percent of the cases in our sample hospitals and we estimate that analyses in this report are based on costs per case that were understated by approximately 1.6 percent on average, and by about 6 percent for freestanding IRFs. For further information on this issue, see the IRF PPS final rule (Department of Health and Human Services, Centers for Medicare and Medicaid Services, "Medicare Program; Inpatient Rehabilitation Facility Prospective Payment System for FY 2006; Final Rule," Federal Register, Vol. 70, No. 156, August 15, 2005, p. 47884).

We regret the inconvenience.

Preface

This report covers the RAND Corporation's analyses concerning the possible refinement of the comorbidity parameters of the Inpatient Rehabilitation Facility Prospective Payment System (IRF PPS). This work was performed during phase II of our project to design, develop, implement, monitor, and refine the IRF PPS. Phase II began in October 2001. Implementation of the IRF PPS began January 1, 2002. This research was sponsored by the Centers for Medicare and Medicaid Services (CMS) under contract No. 500-95-0056 and is one part of the final report on that project. The research was conducted within RAND Health, a division of the RAND Corporation. A profile of RAND Health, abstracts of its publications, and ordering information can be found at www.rand.org/health.

For some analyses in this report, we estimated the costs of IRF services provided to Medicare beneficiaries in 2002. To make these estimates, we generally used cost report information in the public use files that matched the date of the beneficiary's discharge (in other words, for a beneficiary discharged June 1, 2002 we used the IRF's cost report that included June 1, 2002, assuming it was available on the file). After this report was completed, but during the public comment period on the proposed rule updating the IRF PPS effective October 1, 2005, HealthSouth, a large chain organization, notified CMS that its IRFs did not include any home office costs in their cost reports for cost reporting periods beginning on or after October 1, 2001 and before October 1, 2003. Home offices of chain organizations such as HealthSouth usually furnish central management and administrative services such as centralized accounting, purchasing, personnel services, management, and other services to support patient care services furnished by its member providers. The reasonable costs of these services are normally included in the provider's cost report and reimbursed as part of the provider's costs. The home office costs for HealthSouth are approximately 13 percent of total costs for its IRFs. The home office costs were included in the cost reports used to estimate 1999 costs for HealthSouth IRFs but were omitted from their cost reports covering 2002 discharges. The HealthSouth hospitals cared for about 19 percent of the cases in our sample hospitals and we estimate that analyses in this report are based on costs per case that were understated by approximately 1.6 percent on average, and by about 6 percent for freestanding IRFs. For further information on this issue, see the IRF PPS final rule (Department of Health and Human Services, Centers for Medicare and Medicaid Services, "Medicare Program; Inpatient Rehabilitation Facility Prospective Payment System for FY 2006; Final Rule," *Federal Register*, Vol. 70, No. 156, August 15, 2005, p. 47884).