CMS PUBLISHES FY 2026 IPPS PROPOSED RULE

On April 30, 2025, the Centers for Medicare & Medicaid Services ("CMS") released the FFY 2026 Inpatient Prospective Payment System ("IPPS") Proposed Rule ("Proposed Rule") to update IPPS payment rates, change DSH payments, increase uncompensated care payments and request input on ways to streamline Medicare regulations and reduce provider burden.

INCREASE TO PAYMENT RATES UNDER THE IPPS

CMS proposes to increase annual operating payment rates for IPPS hospitals by 3.2%, reduced by a productivity adjustment of 0.8 % for FY 2026, resulting in a proposed increase of 2.4%. This, along with other adjustments, will increase hospital payments by $4 billion. CMS proposes an annual update of a 3.4% increase in the standard payment rate for long-term care hospitals, reduced by a 0.8% percentage point adjustment for a total increase of 2.6% or $61 million.

Payments for Medicare-Dependent Hospitals ("MDHs") and low-volume hospitals will end on September 30, 2025, unless new legislation is passed. If Congress extends these payments, these hospitals would receive approximately $0.5 billion in FY 2026.

CMS proposes to rebase the IPPS market basket and capital market basket to reflect a 2023 base year. For discharges occurring on or after October 1, 2025, the labor-related share of the market basket, currently 67.6%, will be reduced to 66.0%. This proposed change is budget-neutral.

PAYMENT FOR NEW MEDICAL TECHNOLOGIES

CMS estimates additional payments for inpatient cases involving new medical technologies will increase by $234 million for FY 2026. The proposed rule provides a list of new and existing technologies eligible for new technology add-on payments, as well as technologies that are no longer considered new and no longer eligible for add-on payments.

LOW WAGE INDEX POLICY

As finalized in the FY 2025 IPPS rule, CMS reiterates that it will discontinue its low-wage index policy in FY 2026 and subsequent years but proposes a transition adjustment to low-wage hospitals whose FY 2026 wage index is decreasing by more than 9.75% from the hospital's FY 2024 wage index. The adjustment will be budget-neutral through an adjustment to the standardized amount for all hospitals.

DSH PAYMENT ADJUSTMENT – ADDITIONAL PAYMENT FOR UNCOMPENSATED CARE, AND SUPPLEMENTAL PAYMENT

CMS estimates the total uncompensated care payment to eligible hospitals will be $7.14 billion for FY 2026, an increase of $1.5 billion over the FY 2025 uncompensated care payment.

GRADUATE MEDICAL EDUCATION

CMS clarifies the procedure for calculating full-time equivalent counts and caps for cost reporting periods other than 12 months and provides notice of closure for two teaching hospitals and the deadline to apply for available slots, which is July 10, 2025.

NURSING AND ALLIED HEALTH TRAINING

CMS proposes to amend the regulation, which currently subtracts administrative and general costs from the net costs allowed for pass-through reimbursement of nursing and allied health ("NAHE") training programs. This change will reverse a federal district court decision in *Mercy Health-St Vincent Medical Center v. Becerra (Case No. 22-cv-3578-TNM (D.D.C. Feb. 9, 2024))* and will require NAHE revenues (tuition and student fees) be subtracted from direct costs incurred by the provider (trainee stipends and teacher salaries) before adding allocated administrative and general costs to establish "net costs."

QUALITY REPORTING

CMS's proposed rule eliminates screening and reporting measures tracking social determinants of health, as well as reporting the COVID-19 vaccination rate among health care providers for the Inpatient Quality Reporting Program ("IQR"). If finalized, hospitals that do not report CY 2024 data for these four measures will not be penalized in the FY 2026 payment determinations.

CMS proposes refinements to four current measures regarding mortality, readmission or complications involving specific health conditions,

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and includes data on Medicare Advantage patients in the IQR program and other quality reporting programs. This change may affect readmission rates. CMS also proposes to begin public reporting of quality data for cancer hospitals.

CMS updates the Extraordinary Circumstances Exception, which clarifies that CMS has discretion to grant extension of quality reporting deadlines requested by hospitals. For future IQR, CMS requests information from the public regarding the possible addition of well-being and nutrition measures.

Comments on the proposed rule are due on **June 10, 2025**.

If you have any questions on this topic or would like assistance with submitting comments, please contact:

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