HALL RENDER
KILLIAN HEATH & LYMAN

HEALTH LAW NEWS

APRIL 14, 2026

CMS RELEASES FFY 2027 IPPS PROPOSED RULE; WAGE INDEX DEADLINES

The FFY 2027 IPPS Proposed Rule ("Proposed Rule") was released on April 10, 2026, and CMS published the associated tables on its Proposed Rule homepage. The Proposed Rule was published in the Federal Register on April 14.

The release of the Proposed Rule and the accompanying tables triggers the start of several deadlines for hospitals, including the unofficial start of the Medicare Geographic Classification Review Board ("MGCRB") application process. Hospitals should conduct a preliminary review of the Proposed Rule tables to assess whether they qualify for MGCRB reclassification this year. In addition, hospitals should assess whether they should file an MGCRB withdrawal or termination based on the Proposed Rule data.

BACKGROUND

The Medicare Hospital Inpatient Prospective Payment System ("IPPS") is designed to pay hospitals for services provided to Medicare beneficiaries based on a national standardized amount adjusted for the patient's condition and related treatment. Further, Social Security Act Section 1886(d)(3)(E) requires that the standardized amount be adjusted for differences in hospital wage levels, which CMS implemented through the wage index system. CMS also uses the hospital wage index for the Outpatient Prospective Payment System ("OPPS").

In computing the wage index, CMS calculates an average hourly wage for each urban and rural area (total wage costs divided by total hours for all hospitals in the geographic area) and a national average hourly wage (total wage costs divided by total hours for all hospitals in the nation). A labor market area's wage index value is the ratio of the area's average hourly wage to the national average hourly wage.

CMS defines hospital labor market areas based on the definitions of Core-Based Statistical Areas ("CBSAs") established by the Office of Management and Budget. A Metropolitan Statistical Area ("MSA") is a CBSA associated with at least one urbanized area that has a population of at least 50,000 that comprises the central county or counties containing the core, plus adjacent outlying counties that have a high degree of social and economic integration with the central county, measured through commuting. Medicare payment programs classify hospitals into rural and urban status for a variety of purposes. An "urban area" is defined as an area within an MSA. A "rural area" is defined as any area outside an urban area.

The Medicare program also has an "in between" status called "Lugar status." Generally, these "Lugar counties" would otherwise be rural, but because of their proximity and commuting patterns to one or more MSAs, they are treated as urban for some purposes and rural for others. Finally, CMS provides an out-migration adjustment for hospitals located in certain counties that have a relatively high percentage of hospital employees who reside in the county but work in a different county (or counties) with a higher wage index.

WAGE INDEX RECLASSIFICATION

One of the ways hospitals can improve the wage index for their IPPS and OPPS payments is to apply for MGCRB wage index reclassification if it meets specified requirements. The MGCRB is an independent board organized under the Department of Health & Human Services that reviews applications submitted by hospitals seeking a higher wage index to a nearby MSA or a statewide rural area based on meeting certain published criteria. MGCRB applications may be submitted on an individual or group basis.

This year, MGCRB applications must be submitted by September 1, 2026 (the first business day in September) and are acted on by the MGCRB no later than the end of February 2027. If approved, reclassifications are effective for three years beginning October 1, 2027 (13 months after the submission deadline) for IPPS services. The new wage index is effective for OPPS services on January 1, 2028, or three months after the October effective date for IPPS. The regulations allow for withdrawals, terminations and reinstatements each year of the reclassification.

The Proposed Rule also triggers several important filing deadlines related to hospital wage indices:

- Lugar hospitals that also qualify for an out-migration adjustment can waive their Lugar status and accept the outmigration adjustment by notifying CMS within 45 days from the release of the public display copy of the Proposed Rule (*hospitals actually have 46 days this year, or* until May 26, 2026, because the regulatory deadline falls on Memorial Day).

THIS IS AN ADVERTISEMENT
© 2002-2024. Hall, Render, Killian, Heath & Lyman, P.C. All Rights Reserved.

- Similarly, a hospital that previously waived Lugar status has 45 days from the release of the public display copy of the Proposed Rule (*i.e.*, until May 26, 2026) to notify CMS that they no longer wish to accept the outmigration adjustment and elect instead to return to Lugar (deemed urban) status.
- Hospitals have 45 days from the release of the public display copy of the Proposed Rule (*i.e.*, until May 26, 2026) to request the withdrawal or termination of an MGCRB reclassification.
- For hospitals that will be seeking new 412.103 Rural Reclassification, if they are approved within 60 days of the release of the Proposed Rule (*i.e.*, until June 9, 2026), they will be treated as rural in the FY 2027 wage index and budget neutrality calculations. This is known as the "lock-in date."
- Hospitals have until June 2, 2026 (not less than 120 days prior to the end of a Federal fiscal year and not less than one calendar year after the effective date of the rural reclassification) to cancel 412.103 Rural Reclassification.

Hall Render and Hall Render Advisory Services provide geographic reclassification services to hundreds of hospitals each year using fixed-rate fee arrangements. Last year, we assisted over 450 hospitals in assessing their reclassification opportunities based on the IPPS Proposed and Final Rules and filed MGCRB applications on behalf of over 100 hospitals.

If your hospital needs assistance assessing geographic reclassification opportunities or has questions regarding the wage index and reclassification process, please contact one of the following professionals:

- Joseph Krause at (414) 721-0906 or jkrause@hallrender.com;
- David Snow at (303) 801-3536 or dsnow@hallrender.com;
- Lori Wink at (414) 721-0456 or lwink@hallrender.com;
- Benjamin Fee at (720) 282-2030 or bfee@hallrender.com; or
- Your primary Hall Render contact.

Hall Render blog posts and articles are intended for informational purposes only. For ethical reasons, Hall Render attorneys cannot—outside of an attorney-client relationship—answer specific questions that would be legal advice.

THIS IS AN ADVERTISEMENT
© 2002-2024. Hall, Render, Killian, Heath & Lyman, P.C. All Rights Reserved.