



Medicare IPF PPS Proposed Rule Impact Analysis

Federal Fiscal Year 2027 | Version 1

Analysis Description

The federal fiscal year (FFY) 2027 Medicare Inpatient Psychiatric Facility (IPF) Prospective Payment System (PPS) Proposed Rule Analysis is intended to show providers how Medicare fee-for-service (FFS) payments may change from FFY 2026 to FFY 2027 based on the policies set forth in the FFY 2027 IPF PPS proposed rule.

FFY 2027 IPF PPS Proposed Rule Changes Modeled in This Analysis:

- Market Basket Update: +3.1% adjustment to account for cost increases for the services furnished by providers.
- ACA-Mandated Market Basket Adjustment: -0.8 percentage point productivity adjustment to the market basket authorized by the Affordable Care Act (ACA) of 2010.
- Wage Index Budget Neutrality: A budget neutrality factor adjustment of 0.9991 due to changes in the wage index. This includes the budget neutrality impact of the 5% cap on IPF wage index decreases.
- Wage Index and Labor Share: Updated wage index values based on the IPPS FFY 2027 facility wage index without the rural floor or reclassifications. This impact includes the proposed increase in the labor-share from 79.0% for FFY 2026 to 79.1% for FFY 2027 and the result of the 5% cap on any reduction of an eligible hospital's FFY 2027 wage index from the FFY 2026 wage index, the value of which is also broken out separately.
- Change in Rural Status: Effect on rural adjustment due to a change in rural/urban status due to the CBSA updated delineations adopted in FFY 2025. IPFs that lost rural status lost one-third of the 17.0% adjustment in FFY 2025, lost two-thirds of the adjustment in FFY 2026, and will receive no adjustment in FFY 2027.
- Change in Cost-of-Living Adjustment (COLA): Change due to the proposed update to COLA adjustments for providers located in Alaska and Hawaii.
- All Other Adjustments: Changes due to other adjustments made by CMS in the FFY 2027 IPF PPS Proposed Rule Rate Setting File not reflected in adjustments listed above in this analysis and not including outlier payments.

The values shown in the impact table do not include estimated outlier payments or the 2.0% sequestration reduction to all lines of Medicare payment authorized by Congress to end in FFY 2033. The estimated outlier payments and sequestration reduction applicable to IPF PPS-specific payment has been calculated separately and are provided below the impact table.

Data Sources

Estimated IPF PPS payments, teaching adjustments, rural statuses, COLA factors, and outlier payments for FFYs 2026 and 2027 are from the FFY 2027 IPF PPS Proposed Rule Rate Setting File. Rural status and adjustment to

account for the transitional rural adjustment are from the FFY 2026 IPF PPS Final Rule Rate Setting File. The federal per diem base rates, wage indexes, and labor-related shares are from the FFY 2026 IPF PPS Final Rule Correction Notice and the FFY 2027 IPF PPS proposed rule. Individual IPF characteristics/factors to derive IPF sub providers are from the most recent Medicare cost report (FFYs 2023, 2024, or 2025) provided by CMS. Wage indexes used in this analysis reflect facility wage index values without the rural floor or reclassifications.

All components related to facility operations are held constant (e.g. patient volume and case-mix index) 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 2026 adjustment factors for each provider by removing outlier payments from the published estimated revenue. Next, the FFY 2026 to FFY 2027 change for each IPF payment component is analyzed, calculated, and applied to estimated FFY 2026 payments. The component impacts are applied sequentially in order to capture the compounded dollar impacts. For example, the component changes due to the market basket update, as well as the component change in the ACA-mandated market basket reductions, are applied to total 2026 payments. Then, the component change of the wage index budget neutrality is applied to the dollar result of the previous changes. This method continues for the remaining changes, creating a compounded effect. The difference between the results after each layered component is the impact of that component.

This analysis does not include impact estimates for payments for Managed Care patients nor any modifications in FFS payments as a result of facility 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.

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 zero due to rounding.