



Medicare IRF PPS Proposed Rule Impact Analysis

Federal Fiscal Year 2027 | Version 1

Analysis Description

The Federal Fiscal Year (FFY) 2027 Medicare Inpatient Rehabilitation Facility (IRF) 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 IRF PPS proposed rule.

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

- Market Basket Update: 3.2% increase to account for cost increases in the services furnished by providers.
- ACA-Mandated Productivity Adjustment: -0.8 percentage point (PPT) productivity adjustment to the market basket authorized by the Affordable Care Act (ACA) of 2010.
- Budget Neutrality (including all other budget neutrality): A 1.0033 factor to maintain program budget neutrality due to changes in the wage index as well as a 0.9990 case-mix budget neutrality factor. This includes the budget neutrality impact of the previously adopted 5% cap on IRF wage index decreases.
- Wage Index and Labor Share: Updated wage index values based on the proposed FFY 2027 hospital wage index without the rural floor or reclassifications. This includes an increase in labor share from 74.4% in FFY 2026 to 74.5% in FFY 2027. The impact of the 5% cap on any reduction to an eligible hospital's FFY 2027 wage index values from the FFY 2026 wage index value is 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. IRFs that lost rural status lost one-third of the 14.9% adjustment in FFY 2025, lost two-thirds of the adjustment in FFY 2026, and will receive no adjustment in FFY 2027.
- Case-Mix Group (CMG) Updates: Changes due to updates to the case-mix groupings and weights. The impact shown is the case-mix change resulting from running the FFY 2025 IRF claims data and FFY 2024 IRF cost report data through the final FFY 2026 and proposed FFY 2027 CMG logic and assigning the respective CMG weights for each year.

For FFY 2027, all three facility level adjustment factors — low-income percentage (LIP), teaching, and rural — are proposed to remain at the FFY 2014 level.

The values shown in the impact table do not include the 2.0% sequestration reduction to all lines of Medicare payment authorized by Congress to end in FFY 2033. The estimated sequestration reduction applicable to IRF PPS-specific payment for FFY 2027 has been calculated separately and is provided at the bottom of the impact table.

Data Sources

Estimated FFYs 2026 and 2027 IRF PPS payments are calculated using individual IRF characteristics (cases, case-mix index, and factors to derive the rural, teaching, and LIP adjustments) from the FFY 2026 IRF final rule and FFY 2027 IRF proposed rule Rate Setting Files provided by CMS.

The standard payment conversion factors, wage indexes, and labor-related shares are from the FFYs 2026 IRF PPS final rule and 2027 IRF PPS proposed rule as published in the Federal Register. Wage indexes used in this analysis reflect hospital wage index values without the rural floor or reclassifications.

All components related to facility operations are held constant (e.g. volume, LIP percentage, and hospital-specific factors used to calculate the teaching adjustment) in order to measure the impacts of policy changes only.

Methods

Calculating Impacts by Component Change

The dollar impact of each component change has been calculated by first estimating FFY 2026 payments. Estimated FFY 2026 payments reflect the wage index, labor-share, rural, teaching, and LIP adjusted federal amount multiplied by each IRF's appropriate cases and case-mix index.

The component change from FFY 2026 to FFY 2027 for each IRF payment component is then 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 change due to the annual update is applied to total FFY 2026 payments. Then, the wage index and labor-related share budget neutrality factor is applied to the dollar result of the first change. This method continues for the remaining changes, creating a compounded effect. The difference between the results after each layered component is the dollar impact of that component.

This analysis does NOT include impact estimates due to high-cost outliers, estimates for payments for Managed Care patients, or any modifications in FFS payments as a result of hospital 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.