MEMORIAL HERMANN

TOYON ASSOCIATES, INC.

Medicare Updates for 2026

2025 HFMA Texas State Conference

May 18, 2025

Learning Agenda

Medicare Reimbursement Landscape

Ways and Means Committee Potential Savings

Select Health Reconciliation Items[1]

	Est maximum amount of federal savings over a 10-year period
Improve Uncompensated Care	$229 billion
Medicare Site Neutrality	$146 billion
Eliminate Medicare Bad Debt	$42 billion
Geographic Integrity in Medicare Wage Index	$15 billion
Prevent Dual Reclassifications Under Medicare	$10 billion
Reform Medicare GME Payments	$10 billion
Eliminate Inpatient-Only List	$10 billion

[1]Does not include reductions to Medicaid as discussed in the Energy & Commerce Committee "Health" Section Ways and Means Reconciliation List.

[2] Does not include May 11th Energy and Commerce Bill on Stopping Abusive Financing Practices (Subpart C).

Unleashing Prosperity Through Deregulation of the Medicare Program

Executive Order 14192

Streamlining regulations and reducing administrative burdens

For providers, suppliers, beneficiaries, Medicare Advantage and Part D plans and other Medicare Stakeholders

CMS to identify at least 10 existing regulations to be repealed

RFI cites redundancies and burdens related to:

- Conditions of Participation (CoPs) and Conditions for Coverage (CFC)
- Quality and value-based purchasing programs (VBP)

Unleashing Prosperity Through Deregulation of the Medicare Program

Executive Order 14192

Highlights of RFI Questions:

- Which specific Medicare administrative processes or quality and data reporting requirements create the most significant burdens for providers?
- Are there specific Medicare administrative processes, quality, or data reporting requirements, that could be automated or simplified to reduce the administrative burden on facilities and providers?
- Are there opportunities to reduce the frequency or complexity of reporting for Medicare providers?
- Are there documentation or reporting requirements within the Medicare program that are overly complex or redundant?

Proposed FFY26 IPPS Rate Setting

Focus Areas

1

Focus Area 1

When necessary, timely file applications and requests to Medicare and project financial impact

2

Focus Area 2

- Implement processes and strategic decisions to compliantly optimize reimbursement
- Develop comments

3

Focus Area 3

Identify significant areas of the Proposed Rule impacting Medicare cost reporting and related reimbursement

Comments to CMS

- Comments are due to CMS no later than **5p.m. EDT on Tuesday, June 10, 2025**
- In commenting, please refer to file code CMS-18833-P
- The electronic comment form for CMS-1808-P may be accessed here (Follow the instructions under the “submit a comment” tab).
- Comments may also be submitted by regular mail[1] to:

  Centers for Medicare & Medicaid Services
  Department of Health and Human Services
  Attention: CMS–1808-P
  P.O. Box 8013
  Baltimore, MD 21244–1850

[1]CMS lists a separate address for overnight mail in the FFY26 IPPS Proposed Rule.

FFY26 Inpatient Prospective Payment System (IPPS) Payment Changes from FFY25

Notable **increases**:

- $1.5 billion

  Additional Uncompensated Care Disproportionate Share Hospital (UC DSH) payments

- $234 million

  Continuation of New Technology Add-On Payments (NTAP)

Notable **decreases**:

- -$500 million

  Low Volume Adjustment (LVA) changes

  Expiration of Medicare Dependent Hospital (MDH) status

  Will there continue to be enacting legislation?(2)

(1) As projected by CMS in the FFY2026 IPPS Proposed Rule.

(2) Over the past several years, the LVA and MDH programs were temporality extended by enacting legislation. Public Law 119 - 4 - Full-Year Continuing Appropriations and Extensions Act, 2025 last extended the MDH program through September 30, 2025.

Estimated FFY26 IPPS Payments by State

Ten Largest Changes from FFY25

State	Est. FFY26 Proposed IPPS Payments	% Change from FFY25	% Change from FFY24
CO	$1,444,200,000	7.28%	9.62%
UT	$703,100,000	6.77%	7.82%
ID	$458,700,000	6.72%	7.55%
NE	$812,900,000	6.10%	6.64%
TX	$8,444,800,000	5.62%	7.99%
DE	$529,400,000	5.61%	6.16%
WA	$2,251,200,000	5.03%	6.85%
MN	$1,995,800,000	4.93%	6.08%
GA	$3,122,600,000	4.89%	5.75%
MS	$1,082,600,000	4.70%	3.28%
National	**$122,134,800,000**	**2.54%**	**4.08%**

Estimated FFY26 IPPS Payments by State

Ten Smallest Changes from FFY25

State	Est. FFY26 Proposed IPPS Payments	% Change from FFY25	% Change from FFY24
CA	$14,248,000,000	1.19%	-1.14%
AZ	$2,417,100,000	1.01%	4.55%
NY	$10,162,400,000	0.68%	-0.10%
DC	$610,100,000	0.02%	13.00%
NV	$1,062,300,000	0.01%	-2.45%
IL	$4,968,800,000	-0.03%	3.73%
MA	$4,393,600,000	-0.34%	5.94%
OK	$1,451,800,000	-0.45%	2.74%
IN	$2,384,500,000	-0.78%	8.88%
CT	$1,591,700,000	-1.35%	1.04%
National	**$122,134,800,000**	**2.54%**	**4.08%**

IPPS Market Basket Trend

Adjustments	FFY 2026 Proposed Rule	FFY 2025 Final Rule	FFY 2025 Proposed Rule	FFY 2024 Final Rule	FFY 2024 Proposed Rule
Market Basket	3.20%	3.40%	3.00%	3.30%	3.00%
ACA Productivity Adjustment	-0.80%	-0.50%	-0.40%	-0.20%	-0.20%
Net Update	**2.40%**	**2.90%**	**2.60%**	**3.10%**	**2.80%**
Budget Neutrality Changes	0.79%	-0.95%	-0.01%	-1.19%	-0.46%
Operating Rate Change from Prior Year	**3.19%**	**1.95%**	**2.59%**	**1.91%**	**2.34%**

See Addendum A for FFY2026 IPPS operating rates.

See Addendum B for the FFY26 proposed market basket for other provider types.

IPPS Budget Neutrality Adjustments

Applied to the Standard Operating Rate[1]

Description	FFY26 Proposed	FFY25 Final	FFY25 Proposed	FFY24 Final	FFY 24 Proposed
Labor After Removing PY BNFs	$4,499.73	$4,385.87	$4,385.87	$4,245.11	$4,245.11
Non-Labor After Removing PY BNFs	$2,757.90	$2,688.11	$2,688.11	$2,601.81	$2,601.84
Update and BNFs					
Updated Factor	1.0240	1.0290	1.0260	1.0310	1.0270
MS-DRG Reclass and Recalib. BNF Before Cap	0.9984	0.9972	0.9971	1.0015	1.0014
Cap Policy MS-DRG Weight BNF	0.9999	0.9999	0.9996	0.9999	0.9999
Wage Index BNF	1.0013	1.0000	1.0000	1.0007	1.0009
Reclassification BNF	0.9770	0.9628	0.9768	0.9713	0.9810
Lowest Quartile BNF[2]	0.9997	1.0000	0.9975	0.9974	0.9974
Cap Policy Wage Index BNF	0.9931	0.9992	0.9972	0.9996	0.9966
RCH Demonstration BNF	0.9995	0.9998	0.9995	0.9995	0.9996
Operating Outlier Factor	0.9490	0.9490	0.9490	0.9490	0.9490
CY BNFs	**0.9418**	**0.9364**	**0.9423**	**0.9490**	**0.9530**
Labor w BNFs	**$4,237.99**	**$4,107.12**	**$4,132.98**	**$4,028.62**	**$4,045.46**
Non-Labor w BNFs	**$2,597.48**	**$2,517.26**	**$2,533.11**	**$2,469.12**	**$2,479.48**
Change from Prior Year	**3.19%**	**1.95%**	**2.59%**	**1.91%**	**2.34%**

[1] Full rate updates of providers with wage index less than or equal to one (1.0000).

[2] In FFY26, CMS proposes transitional wage index for hospitals with a wage index below the 25th percentile.

FFY26 IPPS Rates
Labor and Non-Labor Share

- Hospitals with WIFs > 1.0000: CMS proposes to reduce the labor share to 66% (from 66.7%)
- Wages and wage-related labor costs are rebased using a 2023 cost report data[1]
  - Wages and Salaries
  - Employee Benefits
  - Labor related professional Fees
  - Administrative and Facilities Support Services
  - Installation, Maintenance and Repair Services
  - All Other

WIF > 1 (full update)

$4,511.41 66% Labor

2,324.06 34% Non-Labor

$6,835.47 Total (unadjusted for WIF[2])

WIF < = 1 (full update)

$4,237.99 62% Labor

2,597.48 38% Non-Labor

$6,835.47 Total (unadjusted for WIF[2])

[1]See FFY IPPS Proposed Rule Table IV-01-Major Cost Categories as Derived from the Medicare Cost Reports.
[2]Hospital Wage Index Factor (WIF) multiplied against the labor portion of the rate.

Request for Market Basket Increase

Recommended Comment to CMS

Increase Proposed FY26 Market Basket by at Least 1%

- **MedPAC's Draft Recommendations for 2026** and **March 2025 Report to Congress** include recommendations for an additional 1% to the market-basket.
- **MedPAC's March 2023 Report to Congress** highlights that CMS's market basket updates in prior years are understated.
  - For instance, the FFY 2022 hospital price increase was 3% higher than the market basket applied by CMS.
- Consider rebasing the Medicare Hospital Specific Rate (HSR) for Sole Community Hospitals and Medicare Dependent Hospitals (MDH).

27 DRGs Increase by 10% or more from FFY25

31 DRGs Held Harmless at 10% Decrease from FFY25

MS-DRG Weights

See Addendum C for listing of MS-DRGS

FFY26 IPPS Payment Adjustments

New Technology Add-On Payments	• 26 products meet newness criteria • 43 additional products with applications
Value Based Purchasing (VBP)	• One measure aligned with updates proposed in the Hospital Inpatient Quality Reporting (IQR) Program • Remove the Health Equity Adjustment from the Hospital VBP Program's scoring
Hospital Acquired Condition (HAC) Reduction Program	• Hospitals in lowest quartile on select measures continue to receive the 1% reduction to IPPS payments
Hospital Readmissions Reduction Program (HRRP)	• Include MA data for six measures | MA payments included excess readmissions calculation • Two years (as opposed to three years) as "applicable period" for measuring performance • Six measures remove a COVID-19 exclusions and risk-adjustment covariates

ECE[1]

[1]Extraordinary Circumstances Exception (ECE) policy clarifying CMS has the discretion to grant an extension, rather than only an exception, in response to ECE requests.

FFY26 IPPS Payment Adjustments
Medicare Promoting Interoperability Program

- EHR reporting period as any continuous 180-day period within respective CY
- Security Risk Analysis measure to attest “Yes” for security risk management
- Safety Assurance Factors for EHR Resilience (SAFER) Guides requiring to attest “Yes” for an annual self-assessment
- Optional bonus measure for data exchange with a public health agency (PHA)

Request For Information

- Future modifications to the Query of Prescription Drug Monitoring Program (PDMP)
- Objectives and measures moving toward performance-based reporting
- Improvements in quality and completeness of the health information exchanging across systems

FFY26 IPPS Payment Adjustments
Hospital Inpatient Quality Reporting (IQR) Program

In FFY26, CMS -

1. Requests comments on measure concepts for future years
2. Proposes to modify four and remove four current quality measures
3. Applies clarified ECE policy

FFY26 IPPS Payment Adjustments

Medicare Dependent Hospital (MDH) Status		Low Volume Adjustment[1] Enhanced criteria set to expire 12/31/25		
Change Request 13949 (Transmittal 13035)	77 FR 53404 through 53405 discusses MDHs applying for Sole Community Hospital (SCH) status	**From**: More than 15 miles **To**: More than 25 miles (road miles from another subsection (d) hospital)	**From:** Less than 3,800 discharges **To:** Hospitals with less than less than 200 discharges (Total discharges from Most recent MCR Cost Report)	**From:** 500 total discharges receive maximum 25% adjustment **To:** Empirically justifiable adjustment methodology

[1]Hospitals have until September 1, 2025, to request low volume status for FFY26.

Reminder
Update to Outlier Reconciliation for IPPS/LTCH PPS

Changes Effective	Current Criteria	Revised Criteria
Cost Reporting Periods beginning on or after October 1, 2024	• Actual operating cost-to-charge ratio (CCR) is +/- 10 percentage points or more from the CCR used to make outlier payments, and • Sum of operating and capital outlier payments in that cost reporting period exceed $500,000	• Actual operating CCR is +/- 20 percent or more from the CCR used to make outlier payments • Sum of operating and capital outlier payments in that cost reporting period exceed $500,000

Change Request 13566, March 28, 2024

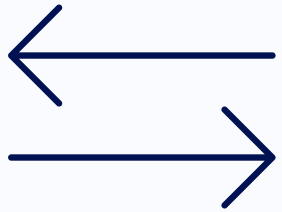
Wage Index

Area Wage Index Factors (AWI)

AWI[1]

AWI = CBSA[2] AHW / National AHW x's RFBNF[3]

- A CBSA's AHW must increase at a greater rate than the national AHW to increase its AWI



Hospitals that reclassify into another CBSA can:

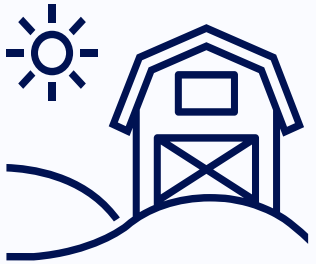
- Decrease the AWI - Applied only to reclassified hospitals;

or

- Increase the AWI - Applied to all hospitals (core and reclassified hospitals)

No hospital's AWI can decrease more than 5% from the previous federal year

In FFY26, CMS proposes transitional wage index for hospitals with a wage index below the 25th percentile



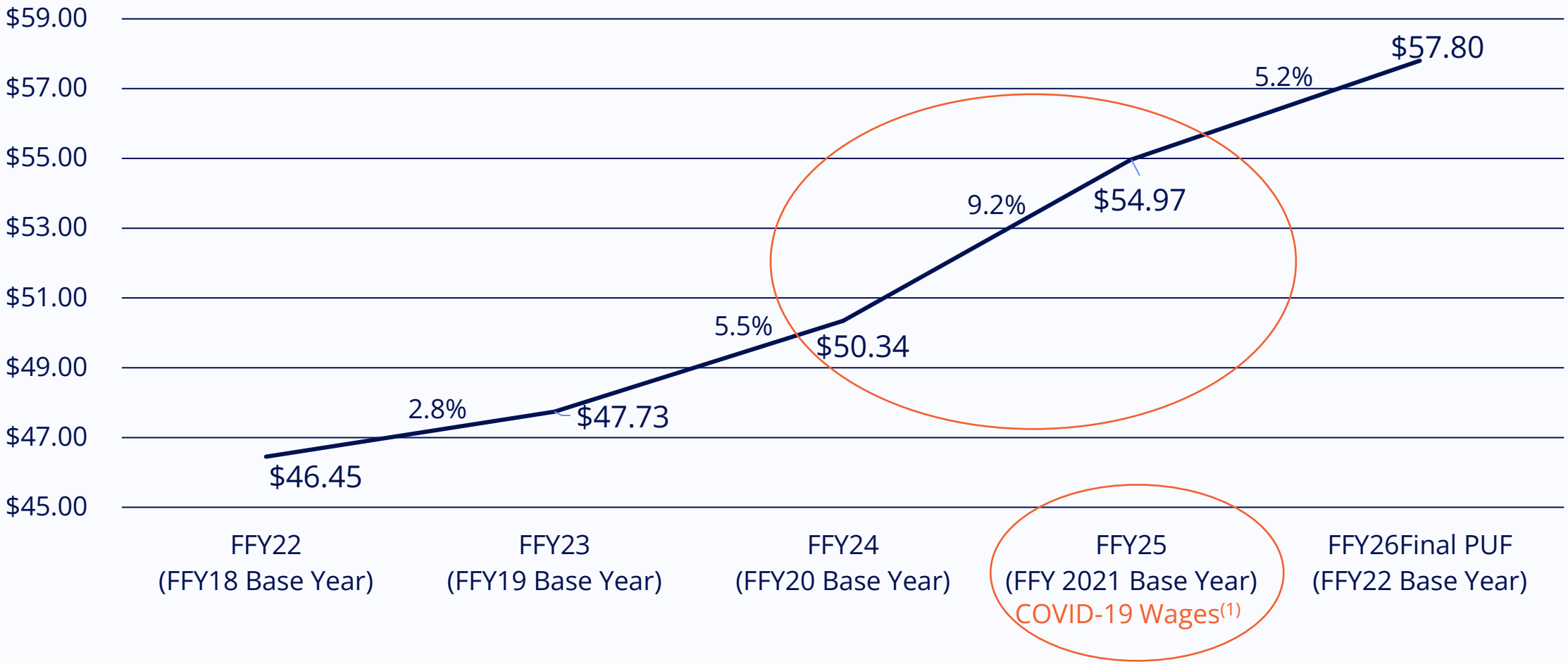
No hospital can receive an AWI less than its statewide rural wage index ("rural floor")

[1]Area Wage Index (AWI)

[2]Core Based Statistical Area (CBSA)

[3]Rural Floor Budget Neutrality Factor (RFBNF)

National AHW Trend



(1)Certain MACs began disallowing nursing contract labor with "all-inclusive" contracts in FFY25.

Rural Floor AWIs

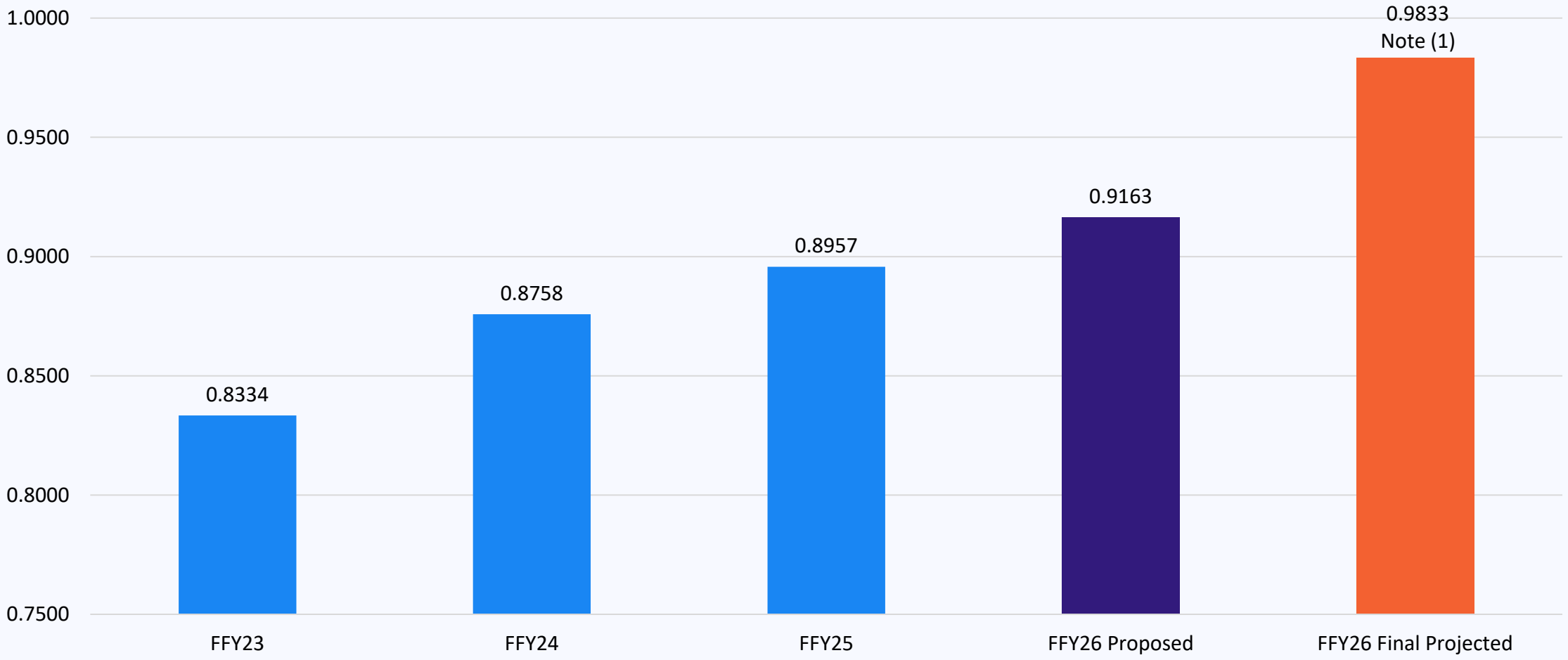
FFY 2024 IPPS Final Rule

CMS changes interpretation of section 1886(d)(8)(E) of the Act[1]

- The rural floor hold harmless formula provides hospitals the highest rural wage index value, considering the data of geographically rural hospitals and rural redesignated hospitals (42 CFR 412.103)
- **In FFY24 CMS changed the formula to account for "dual reclass" hospitals**
  - These are hospitals redesignated rural under 42 CFR 412.103 with MGCRB wage index reclassifications
- In the updated formula, the AHW data of "dual reclass" hospitals is excluded when the result is in an increase to a state's rural AWI

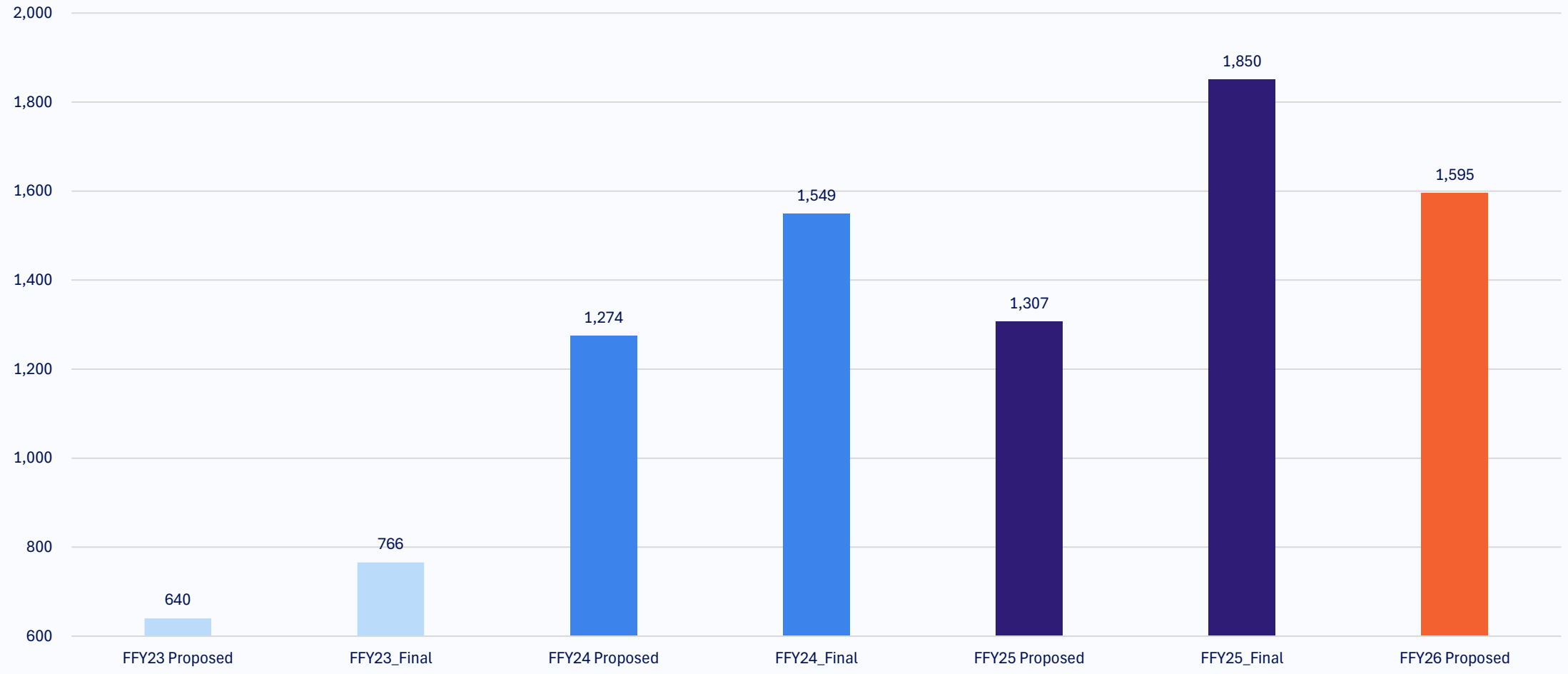
[1] § 412.103 reclassification functions the same as if the reclassifying hospital had physically relocated into a geographically rural area."..."(CMS) influenced by the fact that courts have largely adopted this interpretation of section 1886(d)(8)(E) of the Act, and that it requires considerable resources to unwind a wage index policy after adverse judicial decisions*—often requiring an Interim Final Rule with Comment Period (IFC) outside the usual IPPS rulemaking schedule." - Citrus HMA, LLC, d/b/a Seven Rivers Regional Medical Center v. Becerra, No. 1:20-cv-00707 (D.D.C.), Deaconess Hospital Inc. v. Becerra, No. 1:22-cv-03136 (D.D.C. Oct. 14, 2022)

Texas Rural Floor



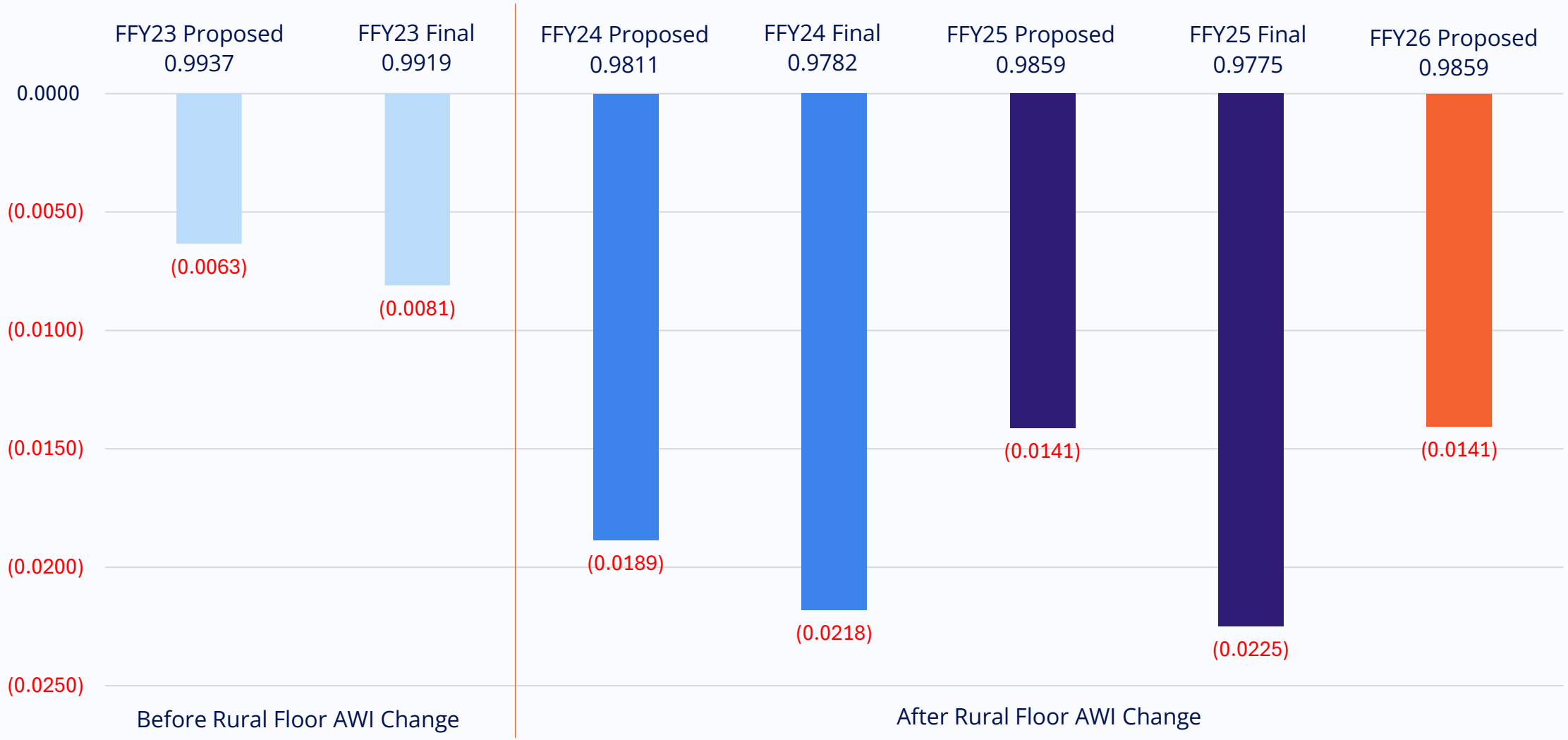
(1) Based on Toyon estimates from the Final FFY26 PUF and subject to change.

IPPS Rural Floor Wage Index Recipients



Per Table 2 of the respective Rule. In the FFY26 IPPS Proposed Rule, there are 3,259 acute care hospitals receiving IPPS payments (including Puerto Rico).
See Addendum D for additional trends of hospital reclassifications and redesignations.

IPPS Rural Floor Budget Neutrality Factor



Per Table 2 of the respective Rule. In the FFY26 IPPS Proposed Rule, there are 3,259 acute care hospitals receiving IPPS payments (including Puerto Rico).
See Addendum D for additional trends of hospital reclassifications and redesignations.

Important Dates for the FFY26 Wage Index

May 27, 2025[1]

Medicare Geographic Classification Review Board (MGCRB) Terminations and Withdraws

June 10, 2025 [2]

Rural Redesignation Lock-In Date

Deadline to cancel 412.103 Rural Status for FFY26

~September 2, 2025

Deadline for FFY27 AHW and MOMA revisions

Deadline for FFY27-29 Geographic Reclassifications

[1]Reclassified hospitals are not eligible to receive an out-migration factor adjustment, so hospitals that are expected to receive a rural floor wage index (imputed or Statewide rural floor) should consider reclassification withdrawal to secure an outmigration adjustment.

[2] 45 days of the public display of the annual notice of proposed rulemaking on the website of the Office of the Federal Register, or within 7 calendar days of receiving a decision of the Administrator in accordance with § 412.278 of this part, whichever is later.

DSH and Uncompensated Care

Proposed FFY26 UC DSH Payments

FY26 Proposed:

$7.2 billion

$1.5 billion increase:

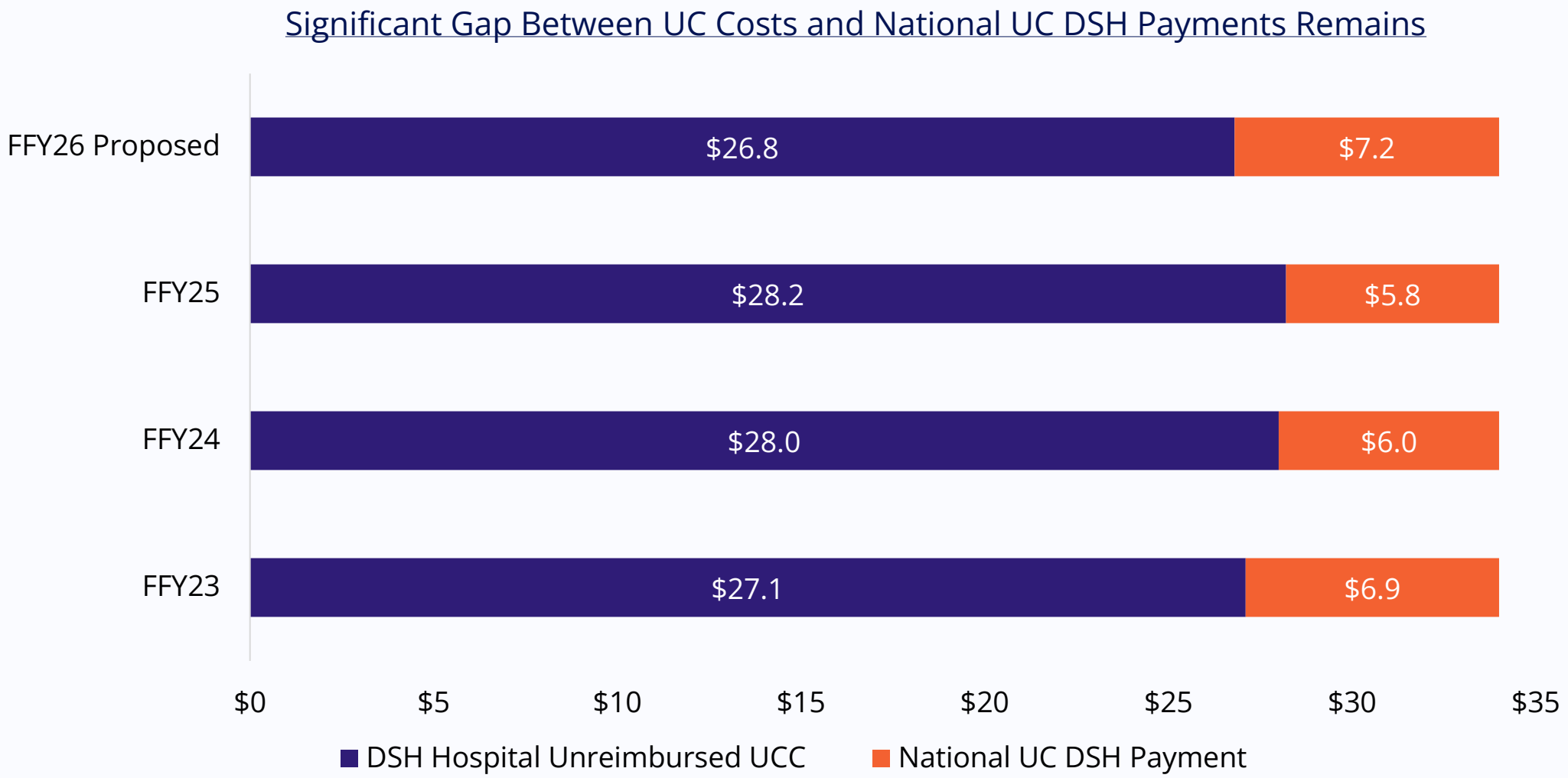
(25%) from FY25

Increase to TX DSH hospitals of $351M (31%)

Will it stick?

Trend of Unreimbursed UC Cost

Dollars in Billions



Adjustment Factors

1

Factor 1

Hypothetical pre-ACA empirical DSH payments.

Starting Point are est. FFY 2022 empirical DSH payments and updated with FY 2023 through FY 2026 factors:

- Market Basket
- Discharge Update
- CMI
- “Other”

75% of Factor 1 is applied towards Factor 2.

2

Factor 2

Measures percentage change in uninsured pre and post ACA.

The pre-ACA uninsured rate of 14% from CY 2013 is used as a baseline each year.

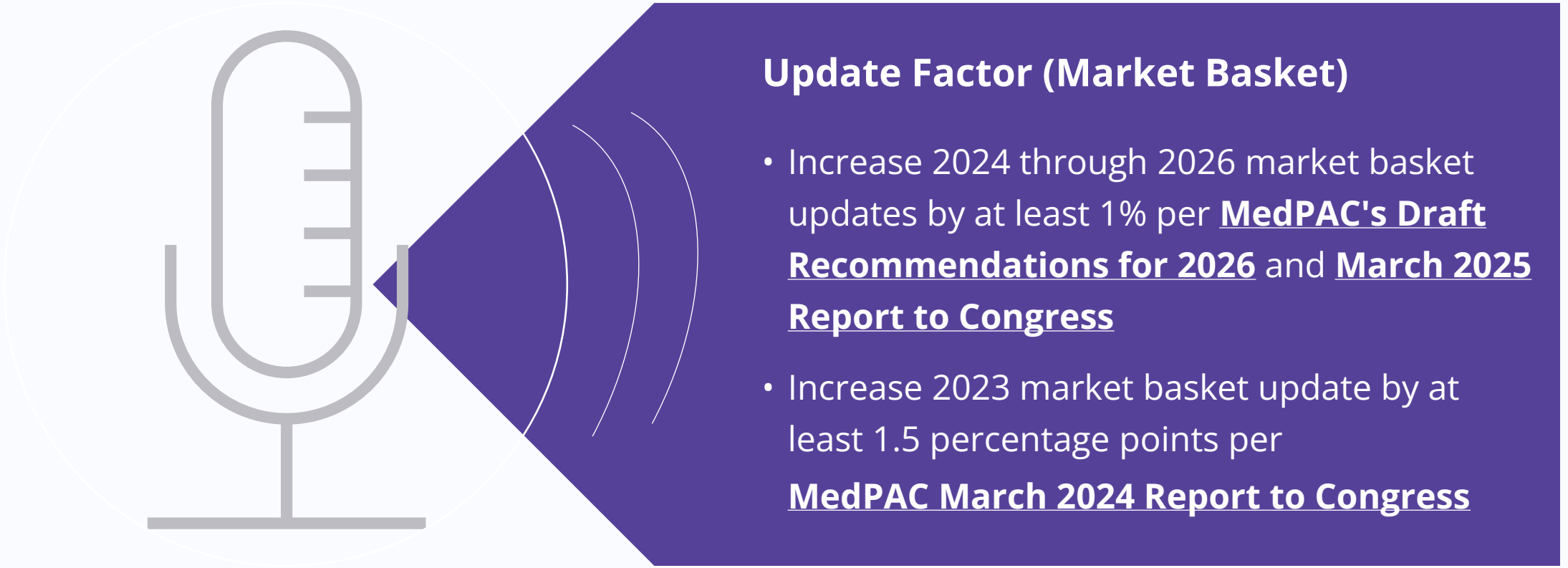
Data source: National Health Expenditure Accounts (NHEA)

FFY26 uses a June 12, 2024 report using 2022 data for 2023 through 2032 projections.

Trend of Proposed vs. Final Payments
Dollars in Billions

	A	B	C	D=A+C	E=D*.75	F	G	H	I = E+H
	Factor 1					Factor 2			
Federal Fiscal Year	Base Year Empirical DSH Pmts	Factor 1 Avg	Factor 1 Add-On	Base Year Adjusted for Factor 1	75% of Base Year Adjusted for Factor 1	Post-ACA % without Insurance	Post-ACA Change in Uninsured	Factor 2 Reduction	UC DSH Pool
FFY26 Proposed	$13.0	104.8%	$2.6	$15.6	$11.7	8.5%	61%	($4.6)	$7.1
FFY25 Final	$13.4	101.2%	$0.6	$14.0	$10.5	7.6%	54%	($4.8)	$5.7
FFY25 Proposed	$13.4	101.0%	$0.5	$13.9	$10.5	8.7%	62%	($4.0)	$6.5
FFY24 Final	$13.3	100.2%	$0.1	$13.4	$10.0	8.3%	59%	($4.1)	$6.0
FFY24 Proposed	$13.3	100.8%	$0.4	$13.7	$10.2	9.2%	66%	($3.5)	$6.7
FFY23 Final	$13.8	100.4%	$0.1	$13.9	$10.5	9.2%	66%	($3.6)	$6.9
FFY23 Proposed	$13.8	99.1%	($0.5)	$13.3	$9.9	9.2%	66%	($3.4)	$6.5

Suggested Comments to CMS on Factor 1



Update Factor (Market Basket)

- Increase 2024 through 2026 market basket updates by at least 1% per **MedPAC's Draft Recommendations for 2026** and **March 2025 Report to Congress**
- Increase 2023 market basket update by at least 1.5 percentage points per **MedPAC March 2024 Report to Congress**

Factor 3
Hospital Proportion UC DSH Funding Allocation

FFY26 = UC Cost (UCC) Avg FFY 2020, FFY 2021 and FFY 2022[(1)]

Next year (FFY 2027), UC DSH will use FFY 2021, FFY 2022 and FFY 2023 UC cost data

FFY 2023 cost reports will be subject to MAC audit

If necessary, it is recommended providers work with MACs to request amended cost reports and/or re-openings for any material UC cost changes needed on other cost reports used in the three-year average (e.g., 2021 and 2022), which will impact FFY 2027 UC DSH payments

[(1)]If multiple cost reports, CMS uses the longest cost report within the federal fiscal year.

Worksheet S-10 UC Cost Verification

Providers have until **June 10th(1)** to notify CMS for issues related to mergers and/or to report potential upload discrepancies due to MAC mishandling of Worksheet S-10 data during the report submission process

Please see CMS's file entitled "FY 2026 IPPS Proposed Rule Medicare DSH Supplemental Data File (ZIP):" at the FFY 2026 Proposed Rule Home Page

Providers may contact CMS at Section3133DSH@cms.hhs.gov to request corrections

(1) 60 days from the April 11, 2025 public display date of the FFY26 IPPS proposed rule in the Federal Register

Empirical DSH Update

Empirical DSH Cost Reports Beginning Before 10/1/04	Empirical DSH Cost Reports Beginning Between 10/1/04 – 9/30/13	Other SSI Litigation
1498-R2 allowed selection of covered days vs. total days in the SSI numerator	Supreme Court Decision in Empire v. Becerra resulted in 1498-R3 (reversed "R2") and settles all open cost reports on total SSI days	CMS interpretation includes Part C days in the SSI fraction
		Pomona v. Becerra challenges the accuracy of SSI ratio used by CMS
		Supreme Court recently ruled in favor of CMS in Advocate v. Becerra

MedPAC's March 2025 Report to Congress

CMS refers to MedPAC's report the FFY26 IPPS Proposed Rule

Medicare Safety Net Index (MSNI)

1. Medicare Low-Income Subsidy (LIS) Enrollment Ratio: Medicare dual Eligible +Part D LIS[(1)]) / Total Medicare IP Discharges
2. Ratio of Uncompensated Care Costs to Total Operating Revenue
3. Medicare Share of Total Inpatient Days

MedPAC Medicare DSH Payment Recommendation

1. Transition empirical DSH and UC DSH through the MSNI
2. Add $4 billion to the MSNI pool (Recommended at $2 billion in the 2023 MedPAC Report)
3. Reimburse providers through scaled IPPS and OPPS percentage add-on amounts and corresponding amounts for MA population

[(1)]Part D (Prescription Coverage) = Income below 150 percent of the federal poverty level.

Graduate Medical Education

Available FTE Slots from Hospital Closures (ACA Section 5506)

Applications due no later than July 10, 2025

Must apply through the Medicare Electronic Application Request Information System™ (MEARIS™)

Medicare Provider Number	Provider Name	ACA Section 5506 Round	CBSA	Available IME Caps	Available GME Caps
12-0004	Wahiawa General Hospital	24	Urban Honolulu, HI	17.16	14.31
22-0017	Carney Hospital	25	Boston, MA	63.15	61.14

Prorating Non-12-Month Cost Report Periods

- CMS proposes methodology for prorating FTEs and caps for cost reporting periods other than twelve months
- Methodology accounts for current, prior and penultimate year FTEs

Nursing and Allied Health Education (NAHE)

- MERCY HEALTH-ST. VINCENT MEDICAL CENTER LLC et al v. BECERRA ruled in favor of providers to allow direct and indirect costs to be summed, and tuition and fees to be subtracted from that sum.

- 42 CFR 413.85(d)(2)(i) updated to clarify the following steps:

    1. Determine allowable provider direct costs for trainee stipends and compensation of teachers employed by the provider.

    2. Subtract from allowable direct costs the revenues the provider receives from students or on behalf of students enrolled in the program.

    3. Add indirect costs of the activities (per 42 CFR 413.24), but limited to indirect costs that the provider itself incurs as a on sequence of operating the approved educational activities.

NAHE (continued)

- CMS notes is not uncommon for a provider's total revenues from tuition, student fees and other sources to exceed the provider's allowable direct costs of its nursing and allied health education programs.

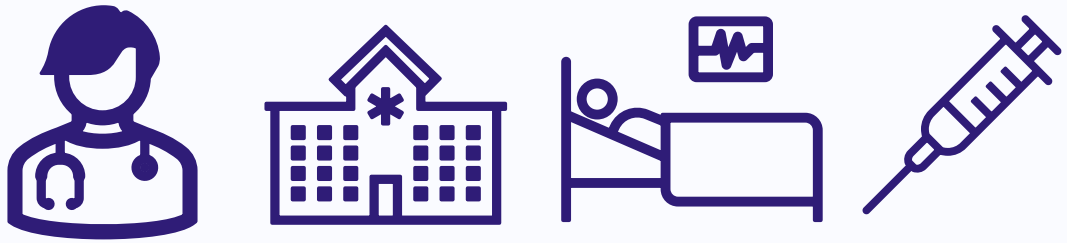
- CMS states if a provider wishes to change its statistical allocation basis for a particular cost center and/or the order in which the cost centers are allocated, the provider must make a written request to its MAC in accordance with PRM 15-1, chapter 23, section 2313.

    - …"specific to NAHE education programs, a provider may elect to subscript its A&G cost center (line 5 of Worksheet A) for overhead costs directly related to NAHE programs and use a statistic other than accumulated costs, which specifically relates to the NAHE cost being allocated."

"TEAM" Alternative Payments Update

TEAM Update

Anchor Hospitalization



All other Medicare Parts A and B spending

Beginning of IP admission or OP service

30 Days Post-Hospital Discharge

Transforming Episode Accountability Model (TEAM)

TEAM Update

Five Surgical Episode Categories

Coronary Artery Bypass Graft (CABG)	Lower Extremity Joint Replacement (LEJR)	Major Bowel Procedure	Surgical Hip/Femur Fracture Treatment (SHFFT)	Spinal Fusion

- Mandatory 5-Year Episode-Based Payment System
- Performance Years January 1, 2026, through December 31, 2030
- IPPS hospitals selected through random sampling of CBSAs

Transforming Episode Accountability Model (TEAM)

TEAM Update

Track	Performance Year (PY)	Participants	Financial Risk
1	PY 1 only	All	• Upside risk only (10% stop-gain limit) • CQS[1] adjustment percentage of up to 10% for positive reconciliation amounts
2	PYs 2-5	• Safety net • Rural • MDH • SCH • EACH	• Upside and downside risk (10% stop-gain/stop-loss limits) • CQS adjustment percentage of up to 10% for positive reconciliation amounts and CQS adjustment percentage of up to 15% for negative reconciliation amounts
3	PYs 1-5	All	• Upside and downside risk (20% stop-gain/stop-loss limits) • CQS adjustment percentage of up to 10% for positive and negative reconciliation amounts

[1]Composite Quality Score
Transforming Episode Accountability Model (TEAM)

TEAM Update

Episode Category	Billing Codes (MS-DRG/HCPCS)
CABG	MS-DRG 231, 232, 233, 234, 235, 236
LEJR	MS-DRG 469, 470, 521, 522 HCPCS 27447, 27130, 27702
Major bowel procedure	MS-DRG 329, 330, 331
SHFFT	MS-DRG 480, 481, 482
Spinal fusion	MS-DRG 453, 454, 455, 459, 460, 471, 472, 473 HCPCS 22551, 22554, 22612, 22630, 22633

Transforming Episode Accountability Model (TEAM)

TEAM Update

FFY26 IPPS Proposed Rule Highlights

- Replace the Area Deprivation Index with the Community Deprivation Index
- Three Team Quality Measures
- Deferment period of one-year for new hospitals (CCNs after 1/31/24)
- Current MDHs remain on Track 2
- Price per episode weighted three-year rolling target benchmark by MS-DRG/HCPCS type and region
- Comprehensive risk adjustments:
  - Beneficiary factors including age, hierarchical condition category and economic risk
  - Hospital factors including bed size and safety-net status
  - Episode-specific adjustors tailored to care complexity

Addendum A

Proposed FFY26 IPPS Operating Rates

Proposed FFY26 IPPS Operating Rates

2.40% Full Update		
Labor/Non-Labor	**FFY26 Proposed**	**FFY26 Proposed vs. FFY25 Final**
Wage Index > 1.0000		
Labor (66.0%)	$4,511.41	0.74%
Non-Labor (34.0%)	$2,324.06	8.28%
Total	$6,835.47	3.19%
Wage Index < = 1.0000		
Labor (62.0%)	$4,237.99	3.19%
Non-Labor (38.0%)	$2,597.48	3.19%
Total	$6,835.47	3.19%

Proposed FFY26 IPPS Operating Rates

0.00% Update (Quality Reporting, but not Meaningful EHR User)		
Labor/Non-Labor	**FFY26 Proposed**	**FFY26 Proposed vs. FFY25 Final**
Wage Index > 1.0000		
Labor (66.0%)	$4,405.67	0.88%
Non-Labor (34.0%)	$2,269.59	8.43%
Total	$6,675.26	3.33%
Wage Index < = 1.0000		
Labor (62.0%)	$4,138.66	3.33%
Non-Labor (38.0%)	$2,536.60	3.33%
Total	$6,675.26	3.33%

Proposed FFY26 IPPS Operating Rates

1.60% Reduced Update (Meaningful EHR User, but no Quality data)		
Labor/Non-Labor	**FFY26 Proposed**	**FFY26 Proposed vs. FFY25 Final**
Wage Index > 1.0000		
Labor (66.0%)	$4,476.16	0.79%
Non-Labor (34.0%)	$2,305.90	8.33%
Total	$6,782.06	3.23%
Wage Index < = 1.0000		
Labor (62.0%)	$4,204.88	3.23%
Non-Labor (38.0%)	$2,577.18	3.23%
Total	$6,782.06	3.23%

Proposed FFY26 IPPS Operating Rates

-0.80% Reduced Update (Not Meaningful EHR User Nor Quality data)		
Labor/Non-Labor	**FFY26 Proposed**	**FFY26 Proposed vs. FFY25 Final**
Wage Index > 1.0000		
Labor (66.0%)	$4,370.43	0.93%
Non-Labor (34.0%)	$2,251.43	8.48%
Total	$6,621.86	3.38%
Wage Index < = 1.0000		
Labor (62.0%)	$4,105.55	3.38%
Non-Labor (38.0%)	$2,516.31	3.38%
Total	$6,621.86	3.38%

Proposed FFY26 IPPS - Other Key Rates and Factors

Description	FFY26 Proposed	FFY26 Proposed vs. FFY25 Final
National UC DSH Funding	$7,244,000,000	25.18%
Sequestration Adjustment	-2.00%	0.00%
Capital Rate	$528.95	3.28%
Fixed Loss Outlier Threshold	$44,305.00	-4.14%
Long Term Care Hospital (LTCH) Rates:		
LTCH Full Update	$50,728.77	2.72%
LTCH Reduced Update	$49,739.90	2.72%

Addendum B

Proposed FFY26 Market Basket Updates for Other Provider Types and Services

Market Basket Trend

Outpatient Prospect Payment System (OPPS)

CY26 OPPS Proposed Rule will be published in mid-July

Adjustments	CY25	CY24	Change
Market Basket	3.40%	3.30%	0.10%
ACA Productivity Adjustment	-0.50%	-0.20%	-0.30%
Net Update	**2.90%**	**3.10%**	**-0.20%**
Budget Neutrality Changes(1)	-0.85%	-1.00%	0.10%
Total Medicare Rate Update(1)	**2.05%**	**2.10%**	**-0.05%**

$1.8 billion increase in CY25

(1) Determined by comparing CY25 and CY24 conversion factors of $89.169 and $87.382, respectively.

FFY26 Market Basket Trend

Other Provider Types

Adjustments	Inpatient Psychiatric Facility	Inpatient Rehabilitation Facility	Skilled Nursing Facility	Hospice
Market Basket	**3.20%**	**3.40%**	**3.00%**	**3.20%**
ACA Productivity Adjustment	-0.80%	-0.80%	-0.80%	-0.80%
Forecast error adjustment	0.00%	0.00%	0.60%	0.00%
Net Update	**2.40%**	**2.60%**	**2.80%**	**2.40%**

Addendum C
MS-DRG Weights

27 DRGs Increase by 10% or more from FFY25
31 DRGs Held Harmless at 10% Decrease from FFY25

FFY26 IPPS MS-DRG Weights
Increases over 10% from FFY25 (Page 1 of 2)

MS-DRG	MS-DRG Title	FY26 Prop.	FY25 Final CN	% Var
783	CESAREAN SECTION WITH STERILIZATION WITH MCC	2.45	1.84	24.96%
624	SKIN GRAFTS AND WOUND DEBRIDEMENT FOR ENDOCRINE, NUTRITIONAL AND METABOLIC DISORDERS WITHOUT CC/MCC	1.26	1.00	20.53%
508	MAJOR SHOULDER OR ELBOW JOINT PROCEDURES WITHOUT CC/MCC	1.60	1.29	19.45%
804	OTHER O.R. PROCEDURES OF THE BLOOD AND BLOOD FORMING ORGANS WITHOUT CC/MCC	1.36	1.11	18.51%
257	UPPER LIMB AND TOE AMPUTATION FOR CIRCULATORY SYSTEM DISORDERS WITHOUT CC/MCC	1.09	0.89	18.17%
769	POSTPARTUM AND POST ABORTION DIAGNOSES WITH O.R. PROCEDURES	1.69	1.39	17.75%
411	CHOLECYSTECTOMY WITH C.D.E. WITH MCC	3.30	2.74	17.18%
801	SPLENIC PROCEDURES WITHOUT CC/MCC	1.91	1.64	14.14%
114	ORBITAL PROCEDURES WITHOUT CC/MCC	1.37	1.18	13.66%
618	AMPUTATION OF LOWER LIMB FOR ENDOCRINE, NUTRITIONAL AND METABOLIC DISORDERS WITHOUT CC/MCC	1.44	1.25	13.26%
122	ACUTE MAJOR EYE INFECTIONS WITHOUT CC/MCC	0.78	0.68	13.15%
022	INTRACRANIAL VASCULAR PROCEDURES WITH PRINCIPAL DIAGNOSIS HEMORRHAGE OR INTRACRANIAL NEUROSTIMULATOR IMPLANT WITHOUT CC/MCC	4.06	3.53	13.08%
750	OTHER FEMALE REPRODUCTIVE SYSTEM O.R. PROCEDURES WITHOUT CC/MCC	1.48	1.29	12.81%

FFY26 IPPS MS-DRG Weights
Increases over 10% from FFY25 (Page 2 of 2)

MS-DRG	MS-DRG Title	FY26 Prop.	FY25 Final CN	% Var
886	BEHAVIORAL AND DEVELOPMENTAL DISORDERS	2.05	1.80	12.48%
939	O.R. PROCEDURES WITH DIAGNOSES OF OTHER CONTACT WITH HEALTH SERVICES WITH MCC	3.63	3.17	12.46%
642	INBORN AND OTHER DISORDERS OF METABOLISM	1.42	1.24	12.36%
143	OTHER EAR, NOSE, MOUTH AND THROAT O.R. PROCEDURES WITH MCC	3.74	3.30	11.77%
714	TRANSURETHRAL PROSTATECTOMY WITHOUT CC/MCC	1.06	0.94	11.63%
018	CHIMERIC ANTIGEN RECEPTOR (CAR) T-CELL AND OTHER IMMUNOTHERAPIES	42.66	37.71	11.60%
263	VEIN LIGATION AND STRIPPING	3.02	2.68	11.19%
959	OTHER O.R. PROCEDURES FOR MULTIPLE SIGNIFICANT TRAUMA WITHOUT CC/MCC	2.97	2.64	10.89%
221	CARDIAC VALVE AND OTHER MAJOR CARDIOTHORACIC PROCEDURES WITHOUT CARDIAC CATHETERIZATION WITHOUT CC/MCC	5.15	4.59	10.78%
218	CARDIAC VALVE AND OTHER MAJOR CARDIOTHORACIC PROCEDURES WITH CARDIAC CATHETERIZATION WITHOUT CC/MCC	6.64	5.95	10.47%
325	CORONARY INTRAVASCULAR LITHOTRIPSY WITHOUT INTRALUMINAL DEVICE	3.20	2.86	10.45%
735	PELVIC EVISCERATION, RADICAL HYSTERECTOMY AND RADICAL VULVECTOMY WITHOUT CC/MCC	1.35	1.21	10.18%
940	O.R. PROCEDURES WITH DIAGNOSES OF OTHER CONTACT WITH HEALTH SERVICES WITH CC	2.35	2.11	10.13%
547	CONNECTIVE TISSUE DISORDERS WITHOUT CC/MCC	0.83	0.75	10.07%

FFY26 IPPS MS-DRG Weights
DRGs Held Harmless at 10% Reduction from FFY25 (1 of 2)

MS-DRG	MS-DRG Title	FY26 Prop.	FY25 Final CN	% Var[1]
736	UTERINE AND ADNEXA PROCEDURES FOR OVARIAN OR ADNEXAL MALIGNANCY WITH MCC	3.58	3.94	-10.12%
665	PROSTATECTOMY WITH MCC	3.12	3.43	-10.16%
975	HIV WITH MAJOR RELATED CONDITION WITH CC	1.29	1.42	-10.52%
933	EXTENSIVE BURNS OR FULL THICKNESS BURNS WITH MV >96 HOURS WITHOUT SKIN GRAFT	3.91	4.33	-10.79%
182	RESPIRATORY NEOPLASMS WITHOUT CC/MCC	0.75	0.84	-11.10%
297	CARDIAC ARREST, UNEXPLAINED WITH CC	0.63	0.70	-11.10%
887	OTHER MENTAL DISORDER DIAGNOSES	1.07	1.19	-11.11%
052	SPINAL DISORDERS AND INJURIES WITH CC/MCC	1.81	2.01	-11.11%
906	HAND PROCEDURES FOR INJURIES	1.96	2.18	-11.11%
747	VAGINA, CERVIX AND VULVA PROCEDURES WITHOUT CC/MCC	0.86	0.96	-11.11%
905	SKIN GRAFTS FOR INJURIES WITHOUT CC/MCC	1.48	1.65	-11.11%
576	SKIN GRAFT EXCEPT FOR SKIN ULCER OR CELLULITIS WITH MCC	4.86	5.40	-11.11%
135	SINUS AND MASTOID PROCEDURES WITH CC/MCC	2.17	2.41	-11.11%
817	OTHER ANTEPARTUM DIAGNOSES WITH O.R. PROCEDURES WITH MCC	2.28	2.54	-11.11%
019	SIMULTANEOUS PANCREAS AND KIDNEY TRANSPLANT WITH HEMODIALYSIS	7.13	7.93	-11.11%
976	HIV WITH MAJOR RELATED CONDITION WITHOUT CC/MCC	0.90	1.00	-11.11%
139	SALIVARY GLAND PROCEDURES	1.24	1.37	-11.11%

[1]Toyon is investigating why percentages do not reconcile to -10%.

FFY26 IPPS MS-DRG Weights
DRGs Held Harmless at 10% Reduction from FFY25 (2 of 2)

MS-DRG	MS-DRG Title	FY26 Prop.	FY25 Final CN	% Var[(1)]
818	OTHER ANTEPARTUM DIAGNOSES WITH O.R. PROCEDURES WITH CC	1.16	1.29	-11.11%
616	AMPUTATION OF LOWER LIMB FOR ENDOCRINE, NUTRITIONAL AND METABOLIC DISORDERS WITH MCC	3.48	3.87	-11.11%
927	EXTENSIVE BURNS OR FULL THICKNESS BURNS WITH MV >96 HOURS WITH SKIN GRAFT	21.35	23.72	-11.11%
017	AUTOLOGOUS BONE MARROW TRANSPLANT WITHOUT CC/MCC	5.43	6.04	-11.11%
739	UTERINE AND ADNEXA PROCEDURES FOR NON-OVARIAN AND NON-ADNEXAL MALIGNANCY WITH MCC	3.58	3.98	-11.11%
977	HIV WITH OR WITHOUT OTHER RELATED CONDITION	1.30	1.44	-11.11%
076	VIRAL MENINGITIS WITHOUT CC/MCC	0.83	0.92	-11.11%
541	OSTEOMYELITIS WITHOUT CC/MCC	0.79	0.87	-11.11%
599	MALIGNANT BREAST DISORDERS WITHOUT CC/MCC	0.77	0.85	-11.11%
575	SKIN GRAFT FOR SKIN ULCER OR CELLULITIS WITHOUT CC/MCC	1.80	2.00	-11.11%
761	MENSTRUAL AND OTHER FEMALE REPRODUCTIVE SYSTEM DISORDERS WITHOUT CC/MCC	0.57	0.63	-11.11%
779	ABORTION WITHOUT D&C	0.84	0.93	-11.11%
796	VAGINAL DELIVERY WITH STERILIZATION AND/OR D&C WITH MCC	1.15	1.28	-11.11%
724	MALIGNANCY, MALE REPRODUCTIVE SYSTEM WITHOUT CC/MCC	0.66	0.73	-11.12%

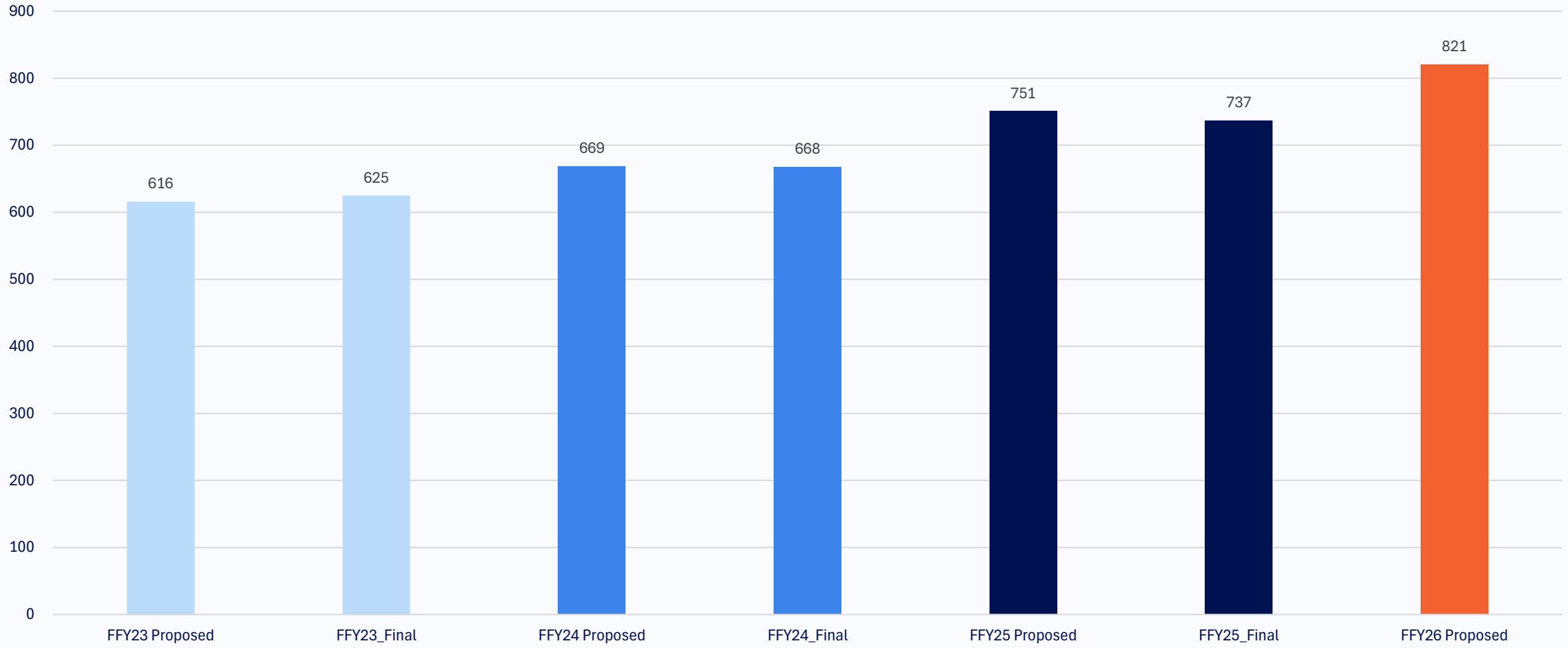
[(1)]Toyon is investigating why percentages do not reconcile to -10%.

Addendum D

Trend of Hospital Reclassifications and Redesignations

IPPS Hospitals Redesignated as Rural

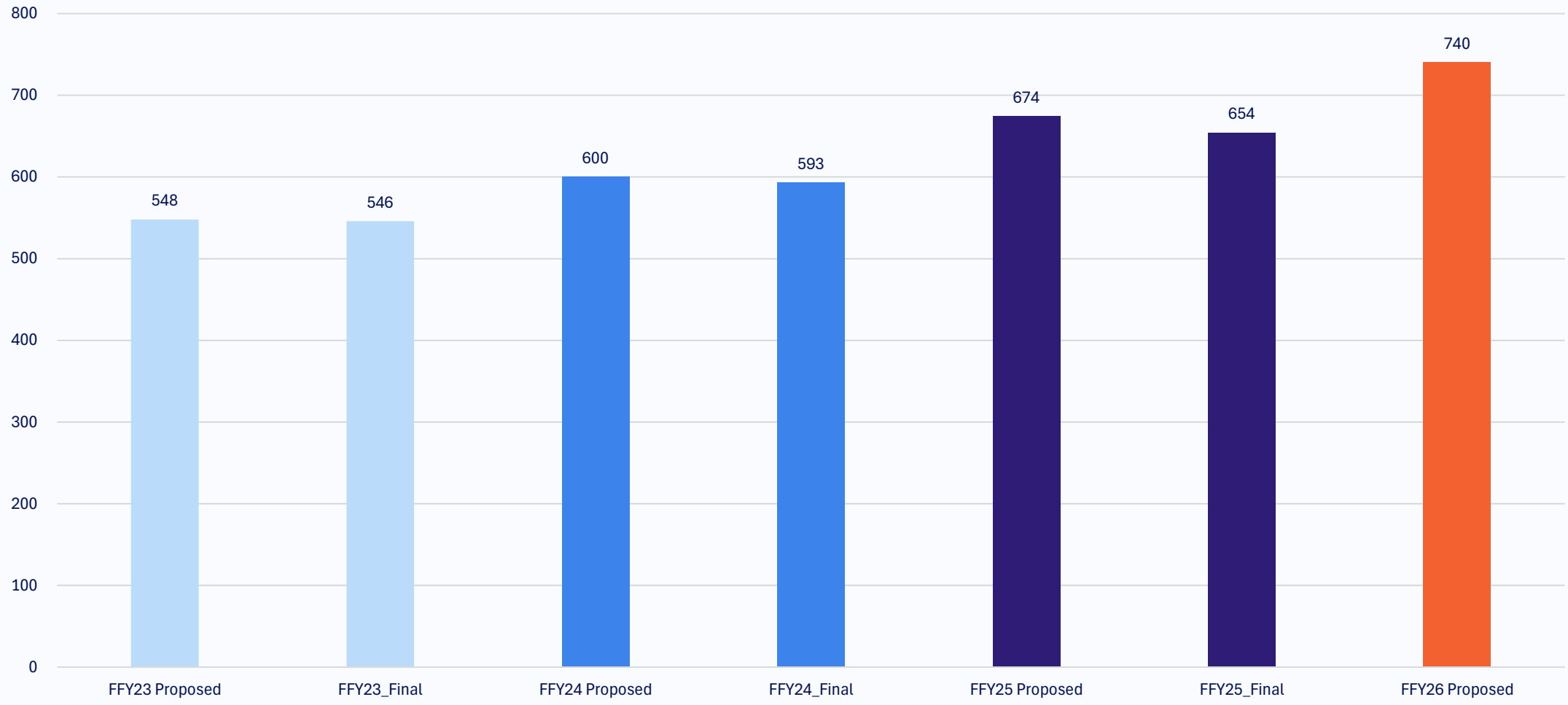
42 CFR 412.103



Per Table 2 of the respective Rule. In the FFY26 IPPS Proposed Rule, there are 3,259 acute care hospitals receiving IPPS payments (including Puerto Rico).

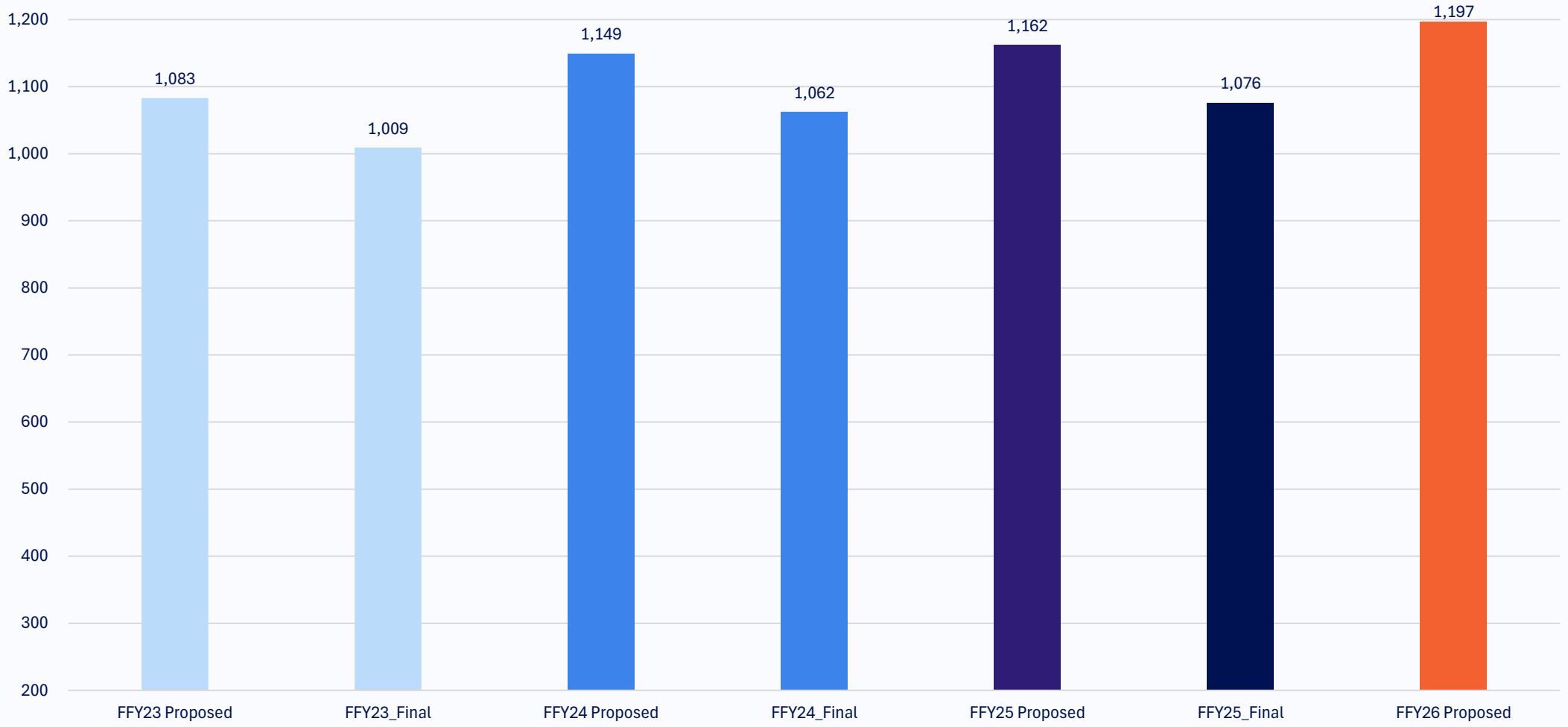
IPPS Hospitals with Dual Reclassifications

42 CFR 412.103 and MGCRB Reclassifications



Per Table 2 of the respective Rule. In the FFY26 IPPS Proposed Rule, there are 3,259 acute care hospitals receiving IPPS payments (including Puerto Rico).

IPPS Hospitals with MGCRB Reclassifications



Per Table 2 of the respective Rule. In the FFY26 IPPS Proposed Rule, there are 3,259 acute care hospitals receiving IPPS payments (including Puerto Rico).

Thank you

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