TOYON ASSOCIATES, INC.

Medicare Update for 2026

hfma - Central Pennsylvania Chapter

American Association of Healthcare Administrative Management

September 18, 2025

Learning Agenda

FFY 2026 IPPS Rate Setting

FFY 2026 Inpatient Prospective Payment System (IPPS) Payment Changes from FFY 2025

Notable **increase**: $2 billion in additional Uncompensated Care Disproportionate Share Hospital ("UC DSH") payments

Notable **decrease**: $500 million from Low Volume Adjustment ("LVA") changes and expiration of Medicare Dependent Hospital ("MDH") status(2)

Notable change: For hospitals with wage index factors ("WIF") above 1.000, the labor share is reduced to 66% (from 67.6%).

(1) As projected by CMS in the FFY 2026 IPPS Final Rule.
(2) In prior years, the current reimbursement method for these payment programs have been extended with enacting legislation.

Est. FFY 2026 IPPS Payments[1] vs. FFY 2025

State	Variance %	State	Variance %	State	Variance %
AK	3.5%	ME	4.5%	SC	5.0%
AL	5.3%	MI	2.0%	SD	3.7%
AR	3.6%	MN	3.9%	TN	4.4%
AZ	1.3%	MO	8.0%	TX	8.9%
CA	0.7%	MS	4.7%	UT	7.7%
CO	7.1%	MT	3.4%	VA	3.7%
CT	0.2%	NC	5.5%	VT	2.5%
DC	0.5%	ND	2.8%	WA	4.1%
DE	3.7%	NE	7.3%	WI	2.3%
FL	6.3%	NH	1.8%	WV	4.6%
GA	4.3%	NJ	3.3%	WY	2.2%
HI	-0.3%	NM	4.6%	**National [1]**	**4.0%**
IA	4.8%	NV	0.0%		
ID	5.8%	NY	6.3%		
IL	3.5%	OH	4.2%		
IN	1.8%	OK	2.1%		
KS	2.0%	OR	3.2%		
KY	3.4%	PA	2.2%		
LA	3.5%	PR	11.7%		
MA	0.9%	RI	3.6%		

(1) Excludes Maryland hospitals (1115 Waiver State).

IPPS Market Basket Trend

	FFY 2026		FFY 2025		FFY 2024	
Adjustments	**Final**	**Proposed**	**Final**	**Proposed**	**Final**	**Proposed**
Market Basket	3.30%	3.20%	3.40%	3.00%	3.30%	3.00%
ACA Productivity Adjustment	-0.70%	-0.80%	-0.50%	-0.40%	-0.20%	-0.20%
Net Update	**2.60%**	**2.40%**	**2.90%**	**2.60%**	**3.10%**	**2.80%**
Budget Neutrality Changes	-0.66%	0.79%	-0.95%	-0.01%	-1.19%	-0.46%
Total Medicare Rate Update(1)	**1.94%**	**3.19%**	**1.95%**	**2.59%**	**1.91%**	**2.34%**

(1) For hospitals receiving the full update (for meeting electronic health record and quality submission standards).

(2) See Addendum A for FFY 2026 Operating Rates.

IPPS Budget Neutrality Adjustments
Applied to the Standard Operating Rate[1]

Description	FFY 2026 Operating Rate
Total Operating Rate w/ PY BNFs Removed	$7,257.62
Market Basket and BNF Updates:	
Updated Factor	2.60%
Wage Index BNF	0.15%
Cap Policy MS-DRG Weight BNF	-0.01%
Lowest Quartile BNF[2]	-0.03%
RCH Demonstration BNF	-0.04%
Cap Policy Wage Index BNF	-0.06%
MS-DRG Reclass and Recalib BNF Before Cap	-0.14%
Reclassification BNF	-4.32%
Operating Outlier Factor	-5.10%
Total Updates	**-6.96%**
Total Operating Rate (Per Table 1A)	**$6,752.61**

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

[2] To phase out with expiration of 25th percentile provision.

Notable Issues Related to Budget Neutrality

IPPS Budget Neutrality Adjustment Appeal

Estimated Impact at 5.92% of annual IPPS payments.

Contrary to Congressional instruction, in 1986 CMS did not remove a budget neutrality adjustment related to the transition of the reasonable cost payment system to IPPS.

Standardized Rate (Transfer DRG) Appeal

Estimated Impact at 0.89% of annual IPPS payments.

1981 cost report data understated the base year standardized amount (in 1983) by including "Transfer DRG" cases.

ATRA MACRA Appeal

Est. Impact at 0.94% of annual IPPS payments.

Beginning FFY 2024, MACRA did not fully restore Medicare rates after ATRA reduced IPPS payments from FFY 2014 through FFY 2017 to collect $11 billion related to documentation and coding corrections.

H.R.1 - One Big Beautiful Bill Act

Potential 4% PAYGO Sequestration

- CBO estimates the average increases in the deficits stemming from the Act are $415 billion over a 5-year period and $339 billion over a 10-year period.
- If initiated, PAYGO could be a 4% sequestration effective 2026 ($45 billion recoupment).
- January 2026 – OMB is required to issue a sequestration order not more than 14 days after the end of the current session of Congress.

Table 1.

Estimated Statutory Pay-As-You-Go Effects of Public Law 119-21 on Medicare

Billions of Dollars, by Fiscal Year

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2027-2034
Change in Outlays	-45	-48	-54	-52	-58	-62	-66	-75	-76	-491

Source: Congressional Budget Office.

https://www.cbo.gov/system/files/2025-08/61659-SPAYGO.pdf

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.

FFY 2026 IPPS Payment Adjustments

Medicare Dependent Hospital (MDH) Status

Without legislation, MDH status is set to expire on September 30, 2025

MDH Providers Applying for SCH Status under: 412.92(b)(2)(i) and (v) (77 FR 53404 – 53405)

Low Volume Adjustment

Enhanced criteria set to expire December 31, 2025

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

39 DRGs Increase by 10% or more from FFY25

28 DRGs Held Harmless at 10% Decrease from FFY25

MS-DRG Weights

See Addendum B for listing of MS-DRGS

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

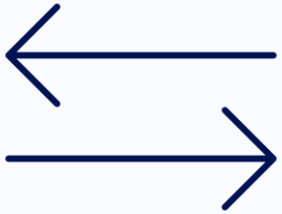
Wage Index

Area Wage Index Factors

WIF[1]

$$WIF = \frac{CBSA^{(2)}\ AHW}{National\ AHW\ x's\ RFBNF^{(3)}}$$

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



Hospitals that reclassify into another CBSA can:

- Decrease the WIF - Applied only to reclassified hospitals;

or

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

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

In FFY 2026, CMS finalizes a transitional wage index for hospitals with a wage index below the 25th percentile

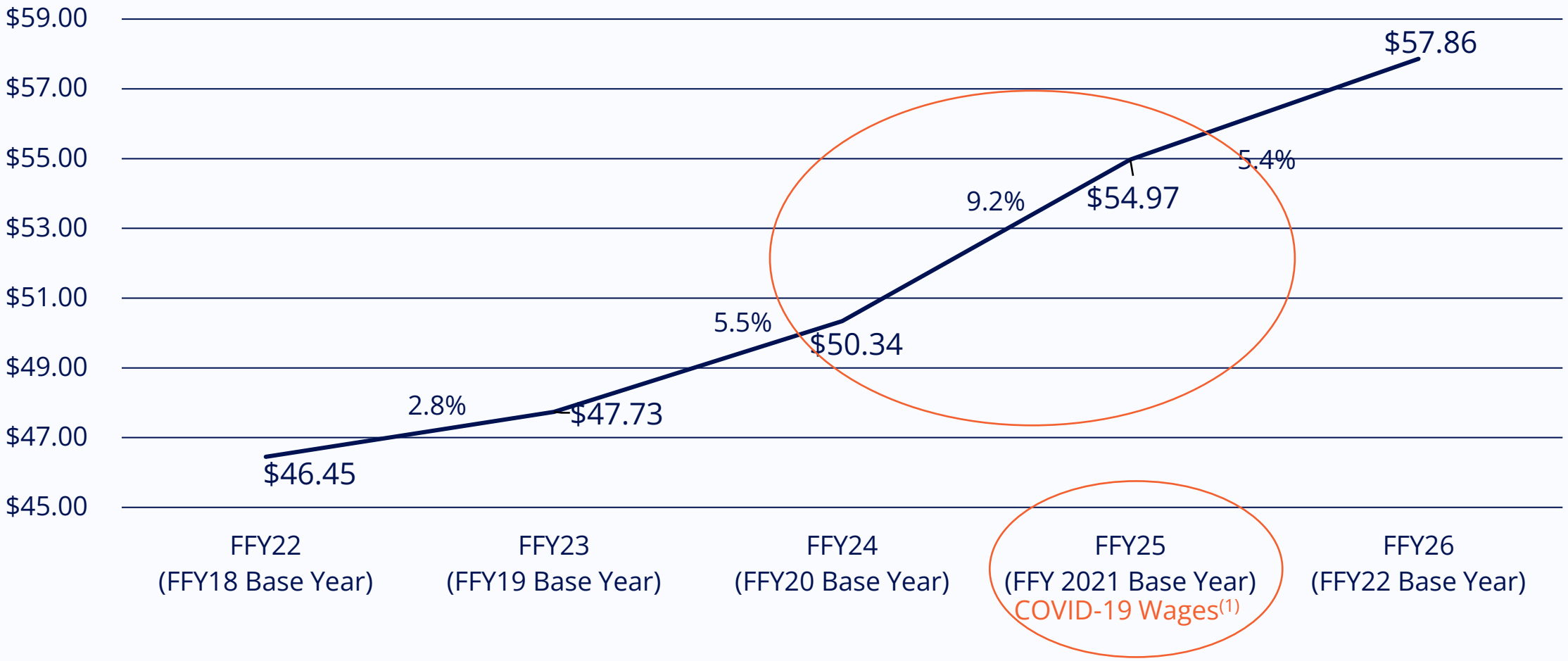
No hospital can receive an AWI less than its statewide rural wage index (rural floor)

[1]Wage Index Factor (WIF)

[2]Core Based Statistical Area (CBSA)

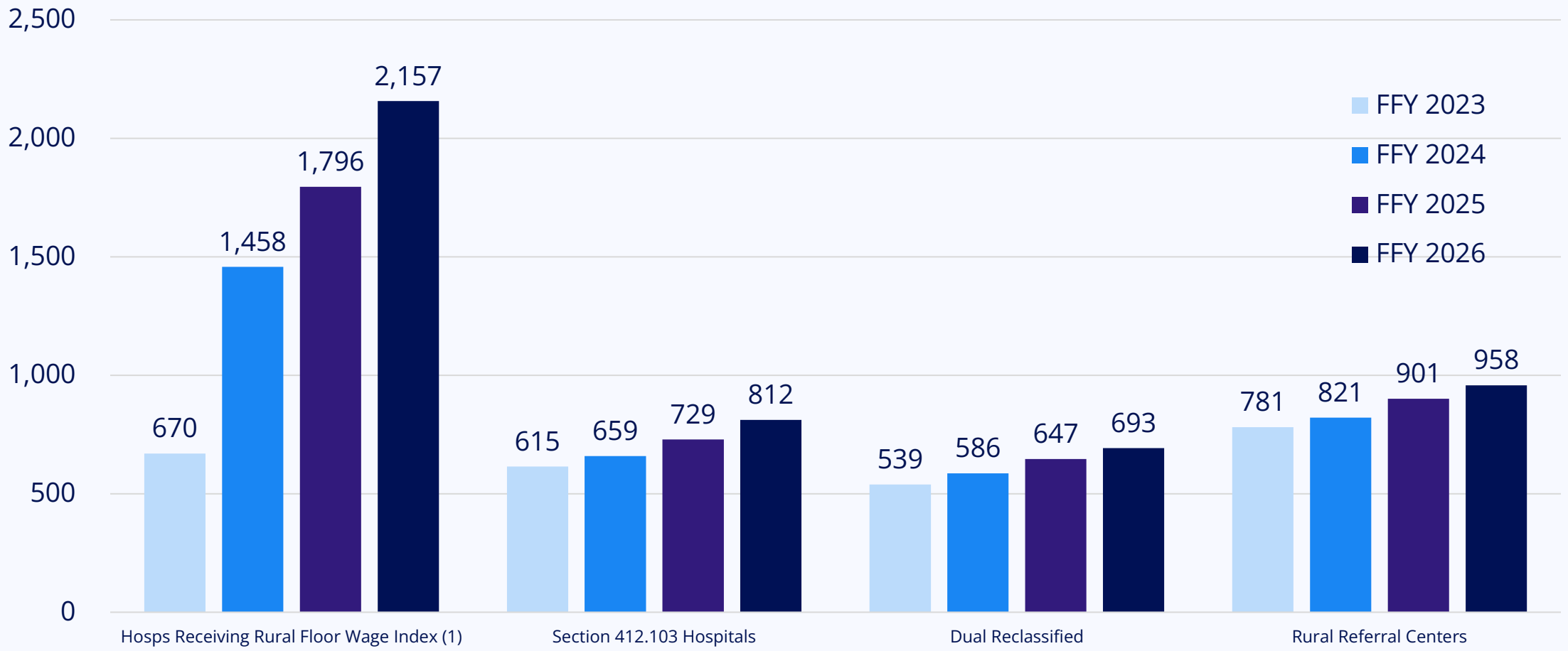
[3]Rural Floor Budget Neutrality Factor (RFBN)

National AHW Trend



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

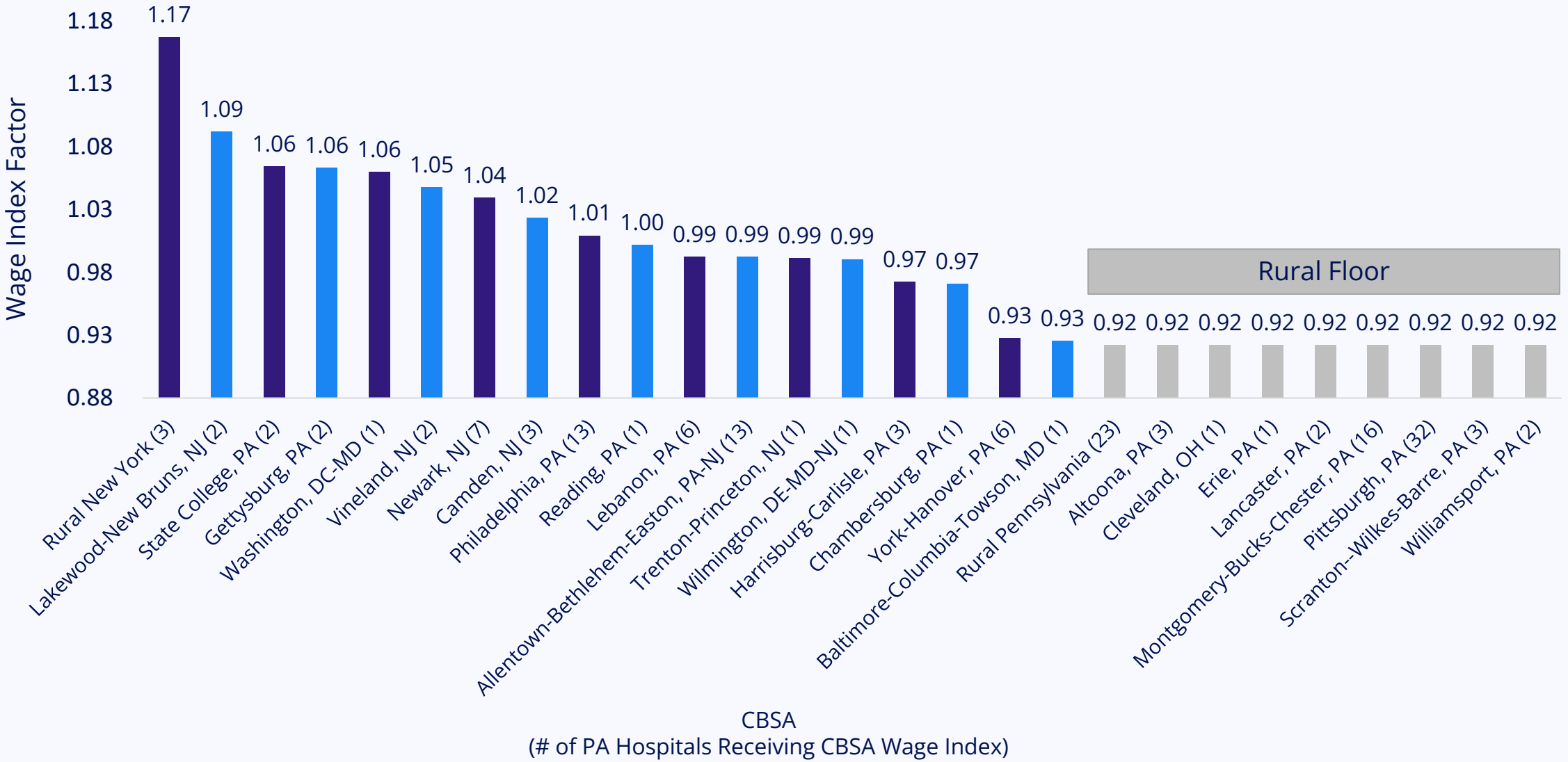
Wage Index Trends



(1) Excludes Maryland hospitals, Indian Health Services, hospitals receiving a frontier wage index, and hospitals in all-urban states receiving the imputed rural floor wage index.

See Addendum C for a Rural Wage Index Analysis by State

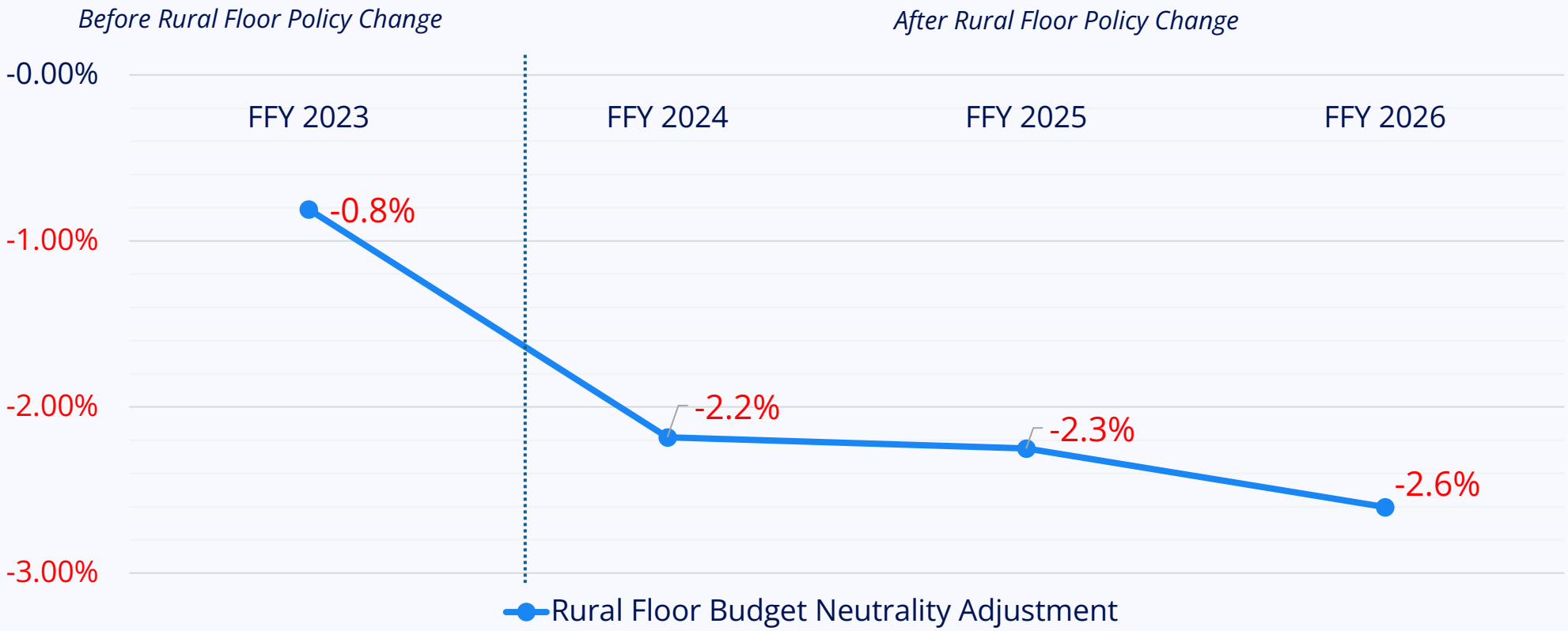
Pennsylvania FFY 2026 Wage Indices



(1) FFY 2026 shows the core area wage index, unless it is an out of state CBSA, then it is the reclassified wage index.

Rural Floor Budget Neutrality Factor

- 72% of hospitals receive the rural floor wage index in FFY 2026(1).
- The corresponding RFBNF reduces each hospitals' wage index factor(1) by -2.6%.



(1) Excludes Maryland hospitals, Indian Health Services, hospitals receiving a frontier wage index, and hospitals in all-urban states receiving the imputed rural floor wage index.

DSH and Uncompensated Care

FFY 2026 Uncompensated Care (UC) DSH Payments

FY26 Final:

$7.8 billion

$2 billion national increase

35% increase to UC DSH pool from FY25

DSH hospitals receive 23% of UC Costs (as compared to ~17% in FFY25)

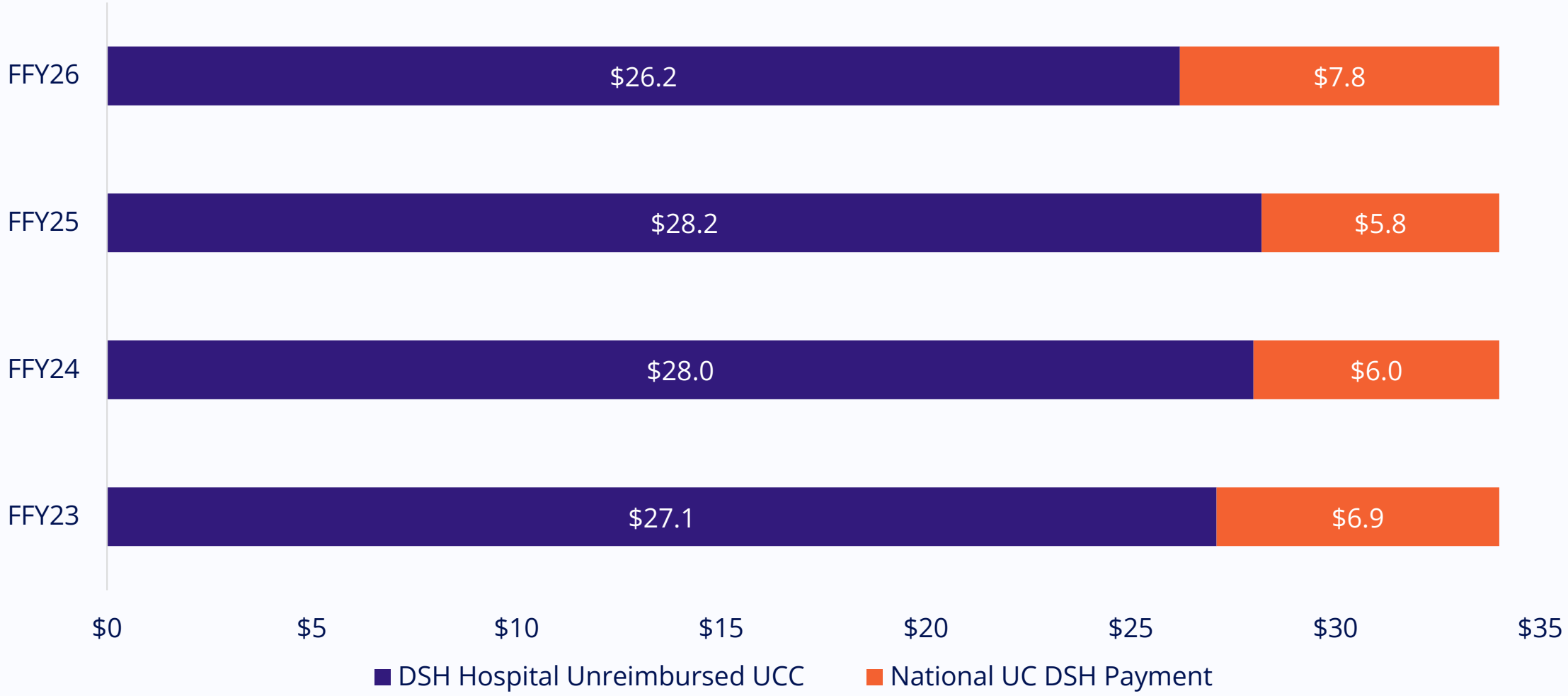
Pennsylvania DSH Hospitals

$641M of UC Costs

$147M of Medicare UC DSH Payments

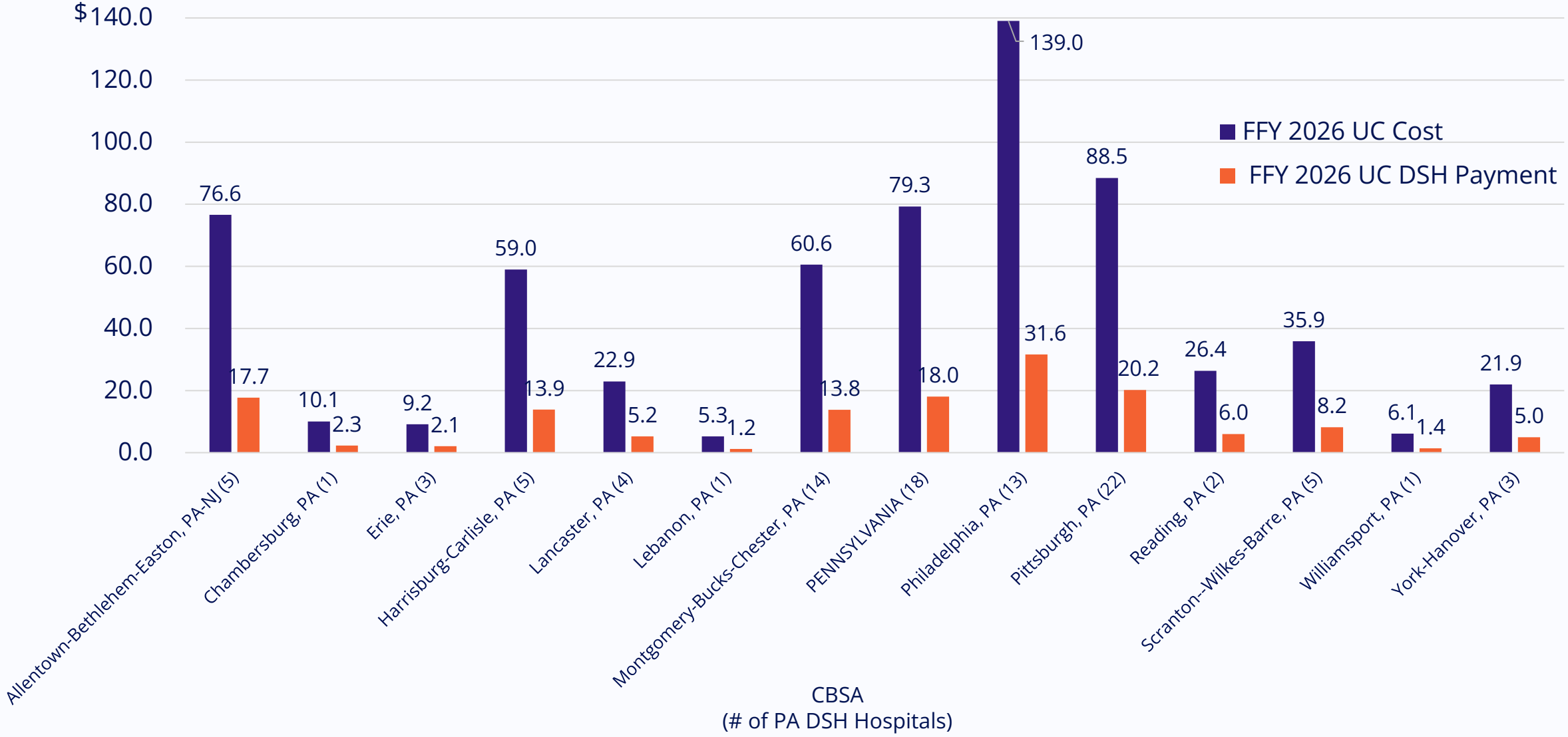
Trend of Unreimbursed UC Cost

Dollars in Billions



See Addendum D for a UC DSH Analysis by State

Pennsylvania FFY 2026 UC DSH
Dollars in Millions



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).

FFY 2026 uses a June 25, 2025 report for the projection of the uninsured population.

Trend of Unreimbursed UC Cost

Dollars in Billions

	A	B	C = A+B	D=C*75%	E	F = 1+(E-14%)/14%	G = (D*F)-D	H = D+G
Federal Fiscal Year	Factor 1				Factor 2			UC DSH Fund
	Base Year Empirical DSH Payments	Factor 1 Add-On	Base Year Adjusted for Factor 1	75% of Base Year Adjusted for Factor 1	Post-ACA % without Insurance	Factor 2[(1)]	Factor 2 Reduction	
FFY 2026 Final	$13.0	$3.5	$16.5	$12.4	8.70%	62%	($4.7)	$7.7
FFY 2026 Proposed	$13.0	$2.6	$15.6	$11.7	8.50%	61%	($4.6)	$7.1
FFY 2025 Final	$13.4	$0.6	$14.0	$10.5	7.60%	54%	($4.8)	$5.7
FFY 2025 Proposed	$13.4	$0.5	$13.9	$10.5	8.70%	62%	($4.0)	$6.5

[(1)]Post ACA comparison against 14% (pre-ACA % without Insurance).

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 FFY 2026 IPPS Final 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

Prorating Non-12-Month Cost Report Periods

- CMS finalizes clarification for prorating FTEs and caps for cost reporting periods other than twelve months
- Accounts for current, prior and penultimate year FTEs

Nursing and Allied Health Education (NAHE)

Not Finalized

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.

- Not finalized in response to comment NAH cost centers would receive less than their share of institutional overhead.
- Expected to be addressed in future rulemaking.

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.

TEAM Alternative Payments

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
- Target Price adjusted for Medicare spending and quality
- 30 Days Post-Hospital Discharge (IP&OP)

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

FFY 2026 Highlights

- Information Transfer Patient Reported Outcome-based Performance Measure beginning in PY3
- Replace the Area Deprivation Index with the Community Deprivation Index
- Deferment period of one-year for new hospitals (CCNs after 1/31/24)
- Current MDHs remain on Track 2 | Exclusion of IHS hospitals
- Low volume threshold of 31 episodes per period per category
- Neutral score for no or incomplete raw quality measure score for a given quality measure

Other Notable IPPS Changes

FFY 2026 IPPS Payment Adjustments

New Technology Add-On Payments	• 27 products meet newness criteria • 19 applications received | 5 approved
Value Based Purchasing (VBP)	• 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)	Effective FFY 2027 • 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 extensions in response to ECE requests.

FFY 2026 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)

Comments may be considered in future policy:

- 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

FFY 2026 IPPS Payment Adjustments
Hospital Inpatient Quality Reporting (IQR) Program

In FFY 2026, CMS -

- Modifies four and removes four current quality measures
- Includes COVID-19 diagnosis for seven measures
- Applies clarified ECE policy

Unleashing Prosperity Through Deregulation of the Medicare Program

Executive Order 14192

Streamlining regulations and reducing administrative burdens

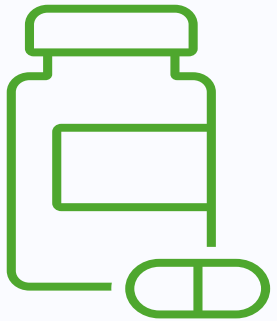
For providers, suppliers, beneficiaries, Medicare Advantage and Part D plans and other Medicare Stakeholders

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)

Health Data, Technology, and Interoperability: Electronic Prescribing, Real-Time Prescription Benefit and Electronic Prior Authorization (HTI-4) Final Rule



- Published as part of the FY2026 IPPS Final Rule (CMS-1833-F).
- Includes “updated health IT certification criteria for electronic prior authorization, electronic prescribing, and real-time prescription benefit information.”

CY 2026 OPPS Proposed Rule

Market Basket Trend

Outpatient Prospect Payment System (OPPS)

CY 2026 OPPS Final Rule will be published in November

	Scenario A[1]	Scenario B[1]			
Adjustments	**Est. CY 2026 Final -2.0% 340B Offset**	**Est. CY 2026 Final -0.5% 340B Offset**	**CY 2026 Proposed -2.0% 340B Offset**	**CY2025 Final**	**CY 2025 Proposed**
Market Basket	3.30%	3.30%	3.20%	3.40%	3.00%
ACA Productivity Adjustment	-0.70%	-0.70%	-0.80%	-0.50%	-0.40%
Net Update	**2.60%**	**2.60%**	**2.40%**	**2.90%**	**2.60%**
Budget Neutrality Changes[1]	-1.52%	-0.02%	-1.51%	-0.85%	-0.31%
Total Medicare Rate Update	**1.08%**	**2.58%**	**0.89%**	**2.05%**	**2.29%**

(1) Does not include changes to any other budget neutrality factors in the CY 2026 OPPS Proposed Rule.

Est. Final CY 2026 OPPS Payments(1) vs. CY 2025

State	With 2.0% 340B Remedy Reduction	With 0.5% 340B Remedy Reduction	State	With 2.0% 340B Remedy Reduction	With 0.5% 340B Remedy Reduction	State	With 2.0% 340B Remedy Reduction	With 0.5% 340B Remedy Reduction
AK	3.4%	4.8%	ME	1.2%	2.7%	SC	1.0%	2.5%
AL	-1.1%	0.4%	MI	0.6%	2.1%	SD	1.7%	3.2%
AR	0.4%	1.8%	MN	2.9%	4.4%	TN	-0.4%	1.1%
AZ	0.2%	1.6%	MO	4.8%	6.4%	TX	3.4%	4.9%
CA	-0.0%	1.4%	MS	-1.7%	-0.3%	UT	3.5%	5.1%
CO	3.3%	4.7%	MT	0.8%	2.3%	VA	1.5%	3.0%
CT	-0.6%	0.8%	NC	1.3%	2.8%	VT	2.7%	4.2%
DC	0.7%	2.0%	ND	1.0%	2.4%	WA	2.0%	3.5%
DE	1.3%	2.7%	NE	5.7%	7.3%	WI	0.4%	1.8%
FL	4.0%	5.5%	NH	0.8%	2.1%	WV	3.0%	4.4%
GA	-1.1%	0.4%	NJ	1.2%	2.7%	WY	0.7%	2.1%
HI	-1.3%	0.4%	NM	2.1%	3.4%	National	1.1%	2.6%
IA	2.7%	4.2%	NV	-1.2%	0.3%			
ID	2.3%	3.9%	NY	4.3%	5.9%			
IL	2.1%	3.6%	OH	0.9%	2.4%			
IN	0.5%	2.0%	OK	0.6%	2.1%			
KS	-0.9%	0.5%	OR	0.8%	2.3%			
KY	1.1%	2.6%	PA	0.1%	1.6%			
LA	-0.7%	0.7%	PR	0.0%	0.0%			
MA	0.4%	1.9%	RI	0.9%	2.3%			

(1) Estimated CY 2026 OPPS Payments using the Final Market Basket Update of 2.6% and Wage Indices from the FFY 2026 IPPS Final Rule (Table 2). Does not include changes to any other budget neutrality factors in the CY 2026 OPPS Proposed Rule. Excludes Maryland hospitals (1115 Waiver).

340B Remedy Adjustment

$7.8 billion recoupment

- Adjustment to OPPS payments accounting for the lump sump correction related to CY 2018 – 2022 340B drug reimbursement.

-2% Reduction (CY 2026 - CY 2031)

- Proposed change from -0.5% reduction from CY 2026 through CY 2041
- CMS believes a shorter timeframe is appropriate

Notable CY 2026 OPPS Proposals

Excepted Off-Campus Provider-Based Departments Drug Administration Services

- Physician fee schedule rate (40% of OPPS) for HCPCS codes assigned to drug administration APCs
- Rural SCHs are exempted

Inpatient Only (IPO) List

- Elimination of IPO over three-year period, beginning with 285 musculoskeletal procedures for CY 2026

ASC Covered Procedures List (ASC CPL)

- 276 procedures added
- 271 added codes removed from the CY 2026 IPO list

Notable CY 2026 OPPS Proposals

OPPS Drugs Acquisition Cost Survey

To be conducted early CY 2026 and intended for CY 2027 policy making

Medicare Advantage Median Payer-Specific Charges

(Medicare Cost Reports on/after 1/1/26 for FY2029 DRG relative weights)

Help understand and determine IP Medicare payment rates

Seeking comment on how other information like this can be utilized to improve additional Medicare FFS payment systems

Hospital Price Transparency (HPT) – Rider

For payer-specific negotiated charges that are based on percentages or algorithm:

Methodology and disclosure of the 10th,median, and 90th percentile

Notable CY 2026 OPPS Proposals

Rate Setting

Intensive Outpatient Program (IOP)

Partial Hospitalization Program (PHP)

Community Mental Health Centers costs (used for per diem rates) based on 40% of the proposed hospital-based IOP and PHP costs

Quality Star Rating

4-star cap

Hospitals in the lowest quartile of the Safety of Care measure group performance in CY 2026

1-star reduction

Hospitals in the lowest quartile of Safety of Care measure group performance in CY 2027

Addendum A

FFY 2026 IPPS Operating Rates

FFY 2026 IPPS Rates
Labor and Non-Labor Share

- Hospitals with WIFs > 1.0000: CMS reduces the labor share to 66% (from 67.6%)
- 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)
$4,456.72 (66% Labor)
2,295.89 (34% Non-Labor)
$6,752.61 Total (unadjusted for WIF[2])

WIF < = 1 (full update)
$4,186.62 (62% Labor)
2,565.99 (38% Non-Labor)
$6,752.61 Total (unadjusted for WIF[2])

[1]See FFY IPPS Final 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.

FFY 2026 IPPS Operating Rates

2.60% Full Update		
Labor/Non-Labor	**FFY 2026**	**Variance from FFY 2025**
Wage Index > 1.0000		
Labor[(1)] (66.0%)	$4,456.72	-0.48%
Non-Labor (34.0%)	$2,295.89	6.97%
Total	$6,752.61	1.94%
Wage Index < = 1.0000		
Labor (62.0%)	$4,186.62	1.94%
Non-Labor (38.0%)	$2,565.99	1.94%
Total	$6,752.61	1.94%

[(1)]CMS used updated cost report data from 2023 resulting in a reduction the labor share to 66% (from 67.6%).

FFY 2026 IPPS Operating Rates

1.775% Reduced Update (Meaningful EHR User, but no Quality data)		
Labor/Non-Labor	**FFY 2026**	**Variance from FFY 2025**
Wage Index > 1.0000		
Labor[1] (66.0%)	$4,420.88	-0.46%
Non-Labor (34.0%)	$2,277.43	6.99%
Total	$6,698.31	1.96%
Wage Index < = 1.0000		
Labor (62.0%)	$4,152.95	1.96%
Non-Labor (38.0%)	$2,545.36	1.96%
Total	$6,698.31	1.96%

[1]CMS used updated cost report data from 2023 resulting in a reduction the labor share to 66% (from 67.6%).

FFY 2026 IPPS Operating Rates

0.125% Update (Quality Reporting, but not Meaningful EHR User)		
Labor/Non-Labor	**FFY 2026**	**Variance from FFY 2025**
Wage Index > 1.0000		
Labor[(1)] (66.0%)	$4,349.21	-0.41%
Non-Labor (34.0%)	$2,240.51	7.04%
Total	$6,589.72	2.00%
Wage Index < = 1.0000		
Labor (62.0%)	$4,085.63	2.00%
Non-Labor (38.0%)	$2,504.09	2.00%
Total	$6,589.72	2.00%

[(1)]CMS used updated cost report data from 2023 resulting in a reduction the labor share to 66% (from 67.6%).

FFY 2026 IPPS Operating Rates

-0.70% Reduced Update (Not Meaningful EHR User Nor Quality data)		
Labor/Non-Labor	**FFY 2026**	**Variance from FFY 2025**
Wage Index > 1.0000		
Labor[(1)] (66.0%)	$4,313.38	-0.39%
Non-Labor (34.0%)	$2,222.05	7.07%
Total	$6,535.43	2.03%
Wage Index < = 1.0000		
Labor (62.0%)	$4,051.97	2.03%
Non-Labor (38.0%)	$2,483.46	2.03%
Total	$6,535.43	2.03%

[(1)]CMS used updated cost report data from 2023 resulting in a reduction the labor share to 66% (from 67.6%).

FFY 2026 IPPS Rates

Other Key Rates and Factors		
Description	**FFY 2026**	**Variance from FFY 2025**
National UC DSH Funding	$7,824,000,000	35.20%
Sequestration Adjustment	-2.00%	0.00%
Capital Rate	$524.15	2.35%
Fixed Loss Outlier Threshold	$40,397.00	-12.59%
Long Term Care Hospital (LTCH) Rates:		
LTCH Full Update	$49,383.26	0.00%
LTCH Reduced Update	$48,424.36	0.00%

Addendum B

MS-DRG Weights

FFY 2026 IPPS MS-DRG Weights
Increases over 10% from FFY25 (Page 1 of 2)

MS-DRG	MS-DRG Title	FFY 2026	FFY 2025	% Var
499	LOCAL EXCISION AND REMOVAL OF INTERNAL FIXATION DEVICES OF HIP AND FEMUR WITHOUT CC/MCC	2.01	1.16	73.57%
783	CESAREAN SECTION WITH STERILIZATION WITH MCC	2.46	1.84	33.28%
624	SKIN GRAFTS AND WOUND DEBRIDEMENT FOR ENDOCRINE, NUTRITIONAL AND METABOLIC DISORDERS WITHOUT CC/MCC	1.25	1.00	24.80%
804	OTHER O.R. PROCEDURES OF THE BLOOD AND BLOOD FORMING ORGANS WITHOUT CC/MCC	1.36	1.11	22.65%
257	UPPER LIMB AND TOE AMPUTATION FOR CIRCULATORY SYSTEM DISORDERS WITHOUT CC/MCC	1.09	0.89	22.46%
769	POSTPARTUM AND POST ABORTION DIAGNOSES WITH O.R. PROCEDURES	1.69	1.39	21.61%
411	CHOLECYSTECTOMY WITH C.D.E. WITH MCC	3.30	2.74	20.72%
498	LOCAL EXCISION AND REMOVAL OF INTERNAL FIXATION DEVICES OF HIP AND FEMUR WITH CC/MCC	3.02	2.52	19.48%
508	MAJOR SHOULDER OR ELBOW JOINT PROCEDURES WITHOUT CC/MCC	1.51	1.29	17.34%
801	SPLENIC PROCEDURES WITHOUT CC/MCC	1.91	1.64	16.28%
122	ACUTE MAJOR EYE INFECTIONS WITHOUT CC/MCC	0.79	0.68	15.85%
886	BEHAVIORAL AND DEVELOPMENTAL DISORDERS	2.08	1.80	15.52%
259	CARDIAC PACEMAKER DEVICE REPLACEMENT WITHOUT MCC	2.02	1.76	15.04%
642	INBORN AND OTHER DISORDERS OF METABOLISM	1.42	1.24	14.58%
018	CHIMERIC ANTIGEN RECEPTOR (CAR) T-CELL AND OTHER IMMUNOTHERAPIES	43.18	37.71	14.50%
114	ORBITAL PROCEDURES WITHOUT CC/MCC	1.35	1.18	14.46%
750	OTHER FEMALE REPRODUCTIVE SYSTEM O.R. PROCEDURES WITHOUT CC/MCC	1.48	1.29	14.45%
939	O.R. PROCEDURES WITH DIAGNOSES OF OTHER CONTACT WITH HEALTH SERVICES WITH MCC	3.63	3.17	14.32%
263	VEIN LIGATION AND STRIPPING	3.06	2.68	13.99%

FFY 2026 IPPS MS-DRG Weights
Increases over 10% from FFY25 (Page 2 of 2)

MS-DRG	MS-DRG Title	FFY 2026	FFY 2025	% Var
618	AMPUTATION OF LOWER LIMB FOR ENDOCRINE, NUTRITIONAL AND METABOLIC DISORDERS WITHOUT CC/MCC	1.42	1.25	13.91%
143	OTHER EAR, NOSE, MOUTH AND THROAT O.R. PROCEDURES WITH MCC	3.75	3.30	13.47%
279	ULTRASOUND ACCELERATED AND OTHER THROMBOLYSIS OF PERIPHERAL VASCULAR STRUCTURES WITHOUT MCC	3.61	3.20	12.55%
714	TRANSURETHRAL PROSTATECTOMY WITHOUT CC/MCC	1.06	0.94	12.53%
325	CORONARY INTRAVASCULAR LITHOTRIPSY WITHOUT INTRALUMINAL DEVICE	3.21	2.86	12.17%
547	CONNECTIVE TISSUE DISORDERS WITHOUT CC/MCC	0.84	0.75	12.06%
258	CARDIAC PACEMAKER DEVICE REPLACEMENT WITH MCC	3.14	2.81	12.00%
882	NEUROSES EXCEPT DEPRESSIVE	1.07	0.96	11.62%
959	OTHER O.R. PROCEDURES FOR MULTIPLE SIGNIFICANT TRAUMA WITHOUT CC/MCC	2.94	2.64	11.35%
075	VIRAL MENINGITIS WITH CC/MCC	1.92	1.72	11.33%
278	ULTRASOUND ACCELERATED AND OTHER THROMBOLYSIS OF PERIPHERAL VASCULAR STRUCTURES WITH MCC	5.57	5.00	11.25%
802	OTHER O.R. PROCEDURES OF THE BLOOD AND BLOOD FORMING ORGANS WITH MCC	3.98	3.58	11.14%
745	D&C, CONIZATION, LAPAROSCOPY AND TUBAL INTERRUPTION WITHOUT CC/MCC	1.14	1.02	11.00%
735	PELVIC EVISCERATION, RADICAL HYSTERECTOMY AND RADICAL VULVECTOMY WITHOUT CC/MCC	1.35	1.21	10.84%
730	OTHER MALE REPRODUCTIVE SYSTEM DIAGNOSES WITHOUT CC/MCC	0.67	0.61	10.73%
940	O.R. PROCEDURES WITH DIAGNOSES OF OTHER CONTACT WITH HEALTH SERVICES WITH CC	2.34	2.11	10.68%
218	CARDIAC VALVE AND OTHER MAJOR CARDIOTHORACIC PROCEDURES WITH CARDIAC CATHETERIZATION WITHOUT CC/MCC	6.58	5.95	10.52%
949	AFTERCARE WITH CC/MCC	1.19	1.08	10.26%
333	RECTAL RESECTION WITH CC	2.34	2.13	10.21%
582	MASTECTOMY FOR MALIGNANCY WITH CC/MCC	1.93	1.75	10.02%

FFY 2026 IPPS MS-DRG Weights
DRGs Held Harmless at 10% Reduction from FFY25 (1 of 2)

MS-DRG	MS-DRG Title	FFY 2026	FFY 2025	% Var
010	PANCREAS TRANSPLANT	7.18	7.97	-10.00%
017	AUTOLOGOUS BONE MARROW TRANSPLANT WITHOUT CC/MCC	5.43	6.04	-10.00%
019	SIMULTANEOUS PANCREAS AND KIDNEY TRANSPLANT WITH HEMODIALYSIS	7.13	7.93	-10.00%
022	INTRACRANIAL VASCULAR PROCEDURES WITH PRINCIPAL DIAGNOSIS HEMORRHAGE WITHOUT CC/MCC	3.18	3.53	-10.00%
052	SPINAL DISORDERS AND INJURIES WITH CC/MCC	1.81	2.01	-10.00%
076	VIRAL MENINGITIS WITHOUT CC/MCC	0.83	0.92	-10.00%
135	SINUS AND MASTOID PROCEDURES WITH CC/MCC	2.17	2.41	-10.00%
139	SALIVARY GLAND PROCEDURES	1.24	1.37	-10.00%
461	BILATERAL OR MULTIPLE MAJOR JOINT PROCEDURES OF LOWER EXTREMITY WITH MCC	5.52	6.14	-10.00%
488	KNEE PROCEDURES WITHOUT PRINCIPAL DIAGNOSIS OF INFECTION WITH CC/MCC	1.77	1.97	-10.00%
497	LOCAL EXCISION AND REMOVAL OF INTERNAL FIXATION DEVICES EXCEPT HIP AND FEMUR WITHOUT CC/MCC	1.21	1.34	-10.00%
506	MAJOR THUMB OR JOINT PROCEDURES	1.35	1.50	-10.00%
541	OSTEOMYELITIS WITHOUT CC/MCC	0.79	0.87	-10.00%
575	SKIN GRAFT FOR SKIN ULCER OR CELLULITIS WITHOUT CC/MCC	1.80	2.00	-10.00%
599	MALIGNANT BREAST DISORDERS WITHOUT CC/MCC	0.77	0.85	-10.00%

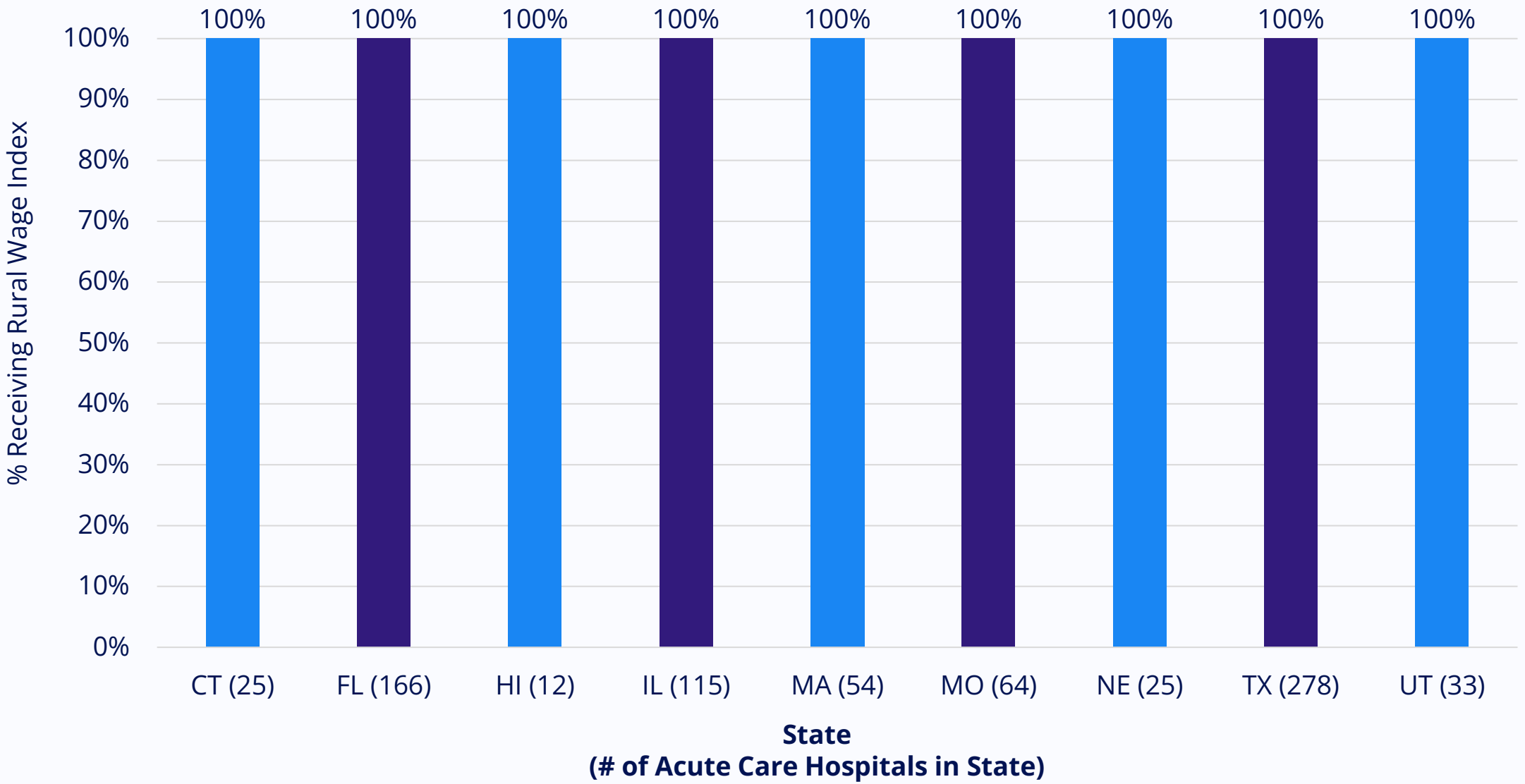
FFY 2026 IPPS MS-DRG Weights
DRGs Held Harmless at 10% Reduction from FFY25 (2 of 2)

MS-DRG	MS-DRG Title	FFY 2026	FFY 2025	% Var
724	MALIGNANCY, MALE REPRODUCTIVE SYSTEM WITHOUT CC/MCC	0.66	0.73	-10.00%
739	UTERINE AND ADNEXA PROCEDURES FOR NON-OVARIAN AND NON-ADNEXAL MALIGNANCY WITH MCC	3.58	3.98	-10.00%
747	VAGINA, CERVIX AND VULVA PROCEDURES WITHOUT CC/MCC	0.86	0.96	-10.00%
761	MENSTRUAL AND OTHER FEMALE REPRODUCTIVE SYSTEM DISORDERS WITHOUT CC/MCC	0.57	0.63	-10.00%
779	ABORTION WITHOUT D&C	0.84	0.93	-10.00%
817	OTHER ANTEPARTUM DIAGNOSES WITH O.R. PROCEDURES WITH MCC	2.28	2.54	-10.00%
818	OTHER ANTEPARTUM DIAGNOSES WITH O.R. PROCEDURES WITH CC	1.16	1.29	-10.00%
905	SKIN GRAFTS FOR INJURIES WITHOUT CC/MCC	1.48	1.65	-10.00%
906	HAND PROCEDURES FOR INJURIES	1.96	2.18	-10.00%
927	EXTENSIVE BURNS OR FULL THICKNESS BURNS WITH MV >96 HOURS WITH SKIN GRAFT	21.35	23.72	-10.00%
933	EXTENSIVE BURNS OR FULL THICKNESS BURNS WITH MV >96 HOURS WITHOUT SKIN GRAFT	3.89	4.33	-10.00%
976	HIV WITH MAJOR RELATED CONDITION WITHOUT CC/MCC	0.90	1.00	-10.00%
977	HIV WITH OR WITHOUT OTHER RELATED CONDITION	1.30	1.44	-10.00%

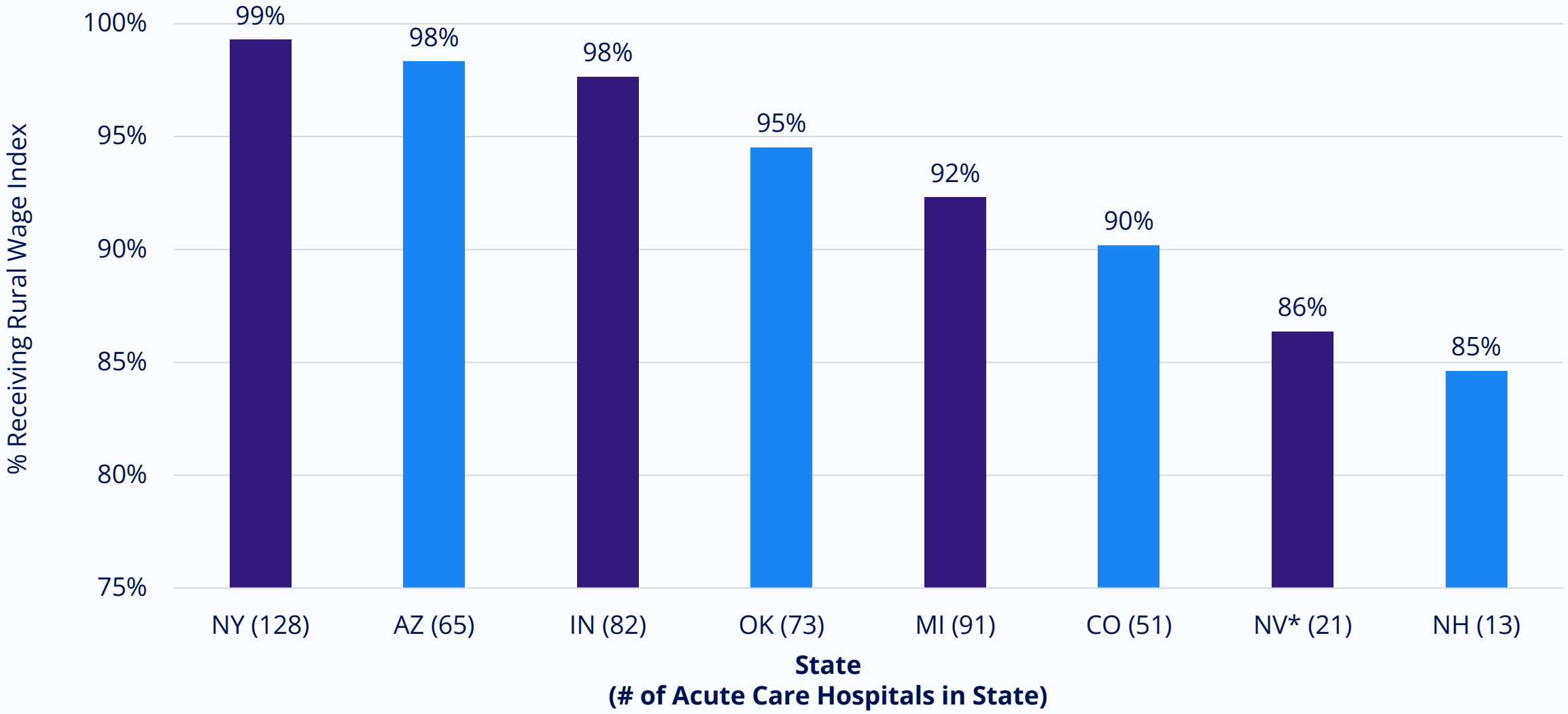
Addendum C

Rural Floor Wage Index Analysis by State

Medicare Wage Index
Rural Floor Recipients

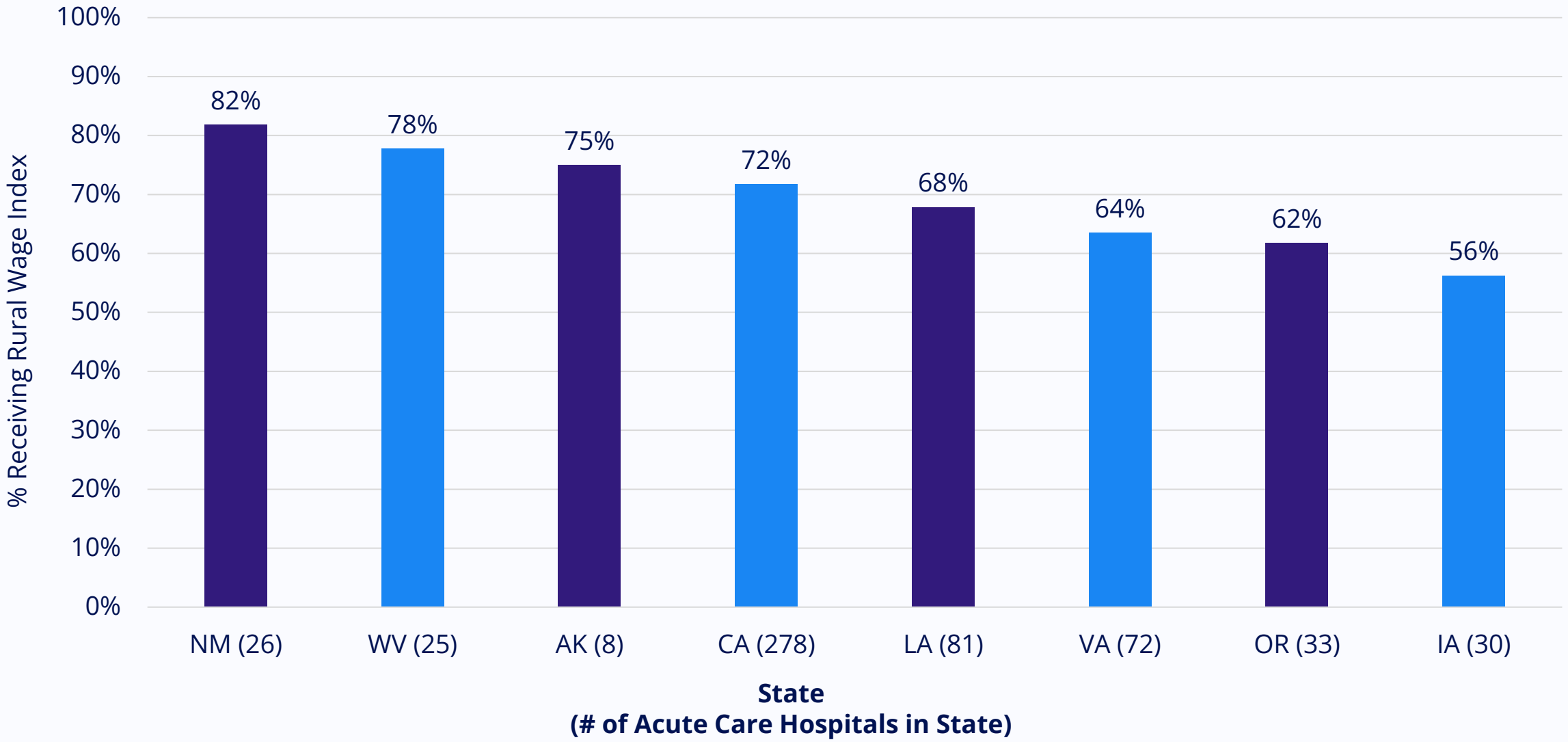


Medicare Wage Index Rural Floor Recipients

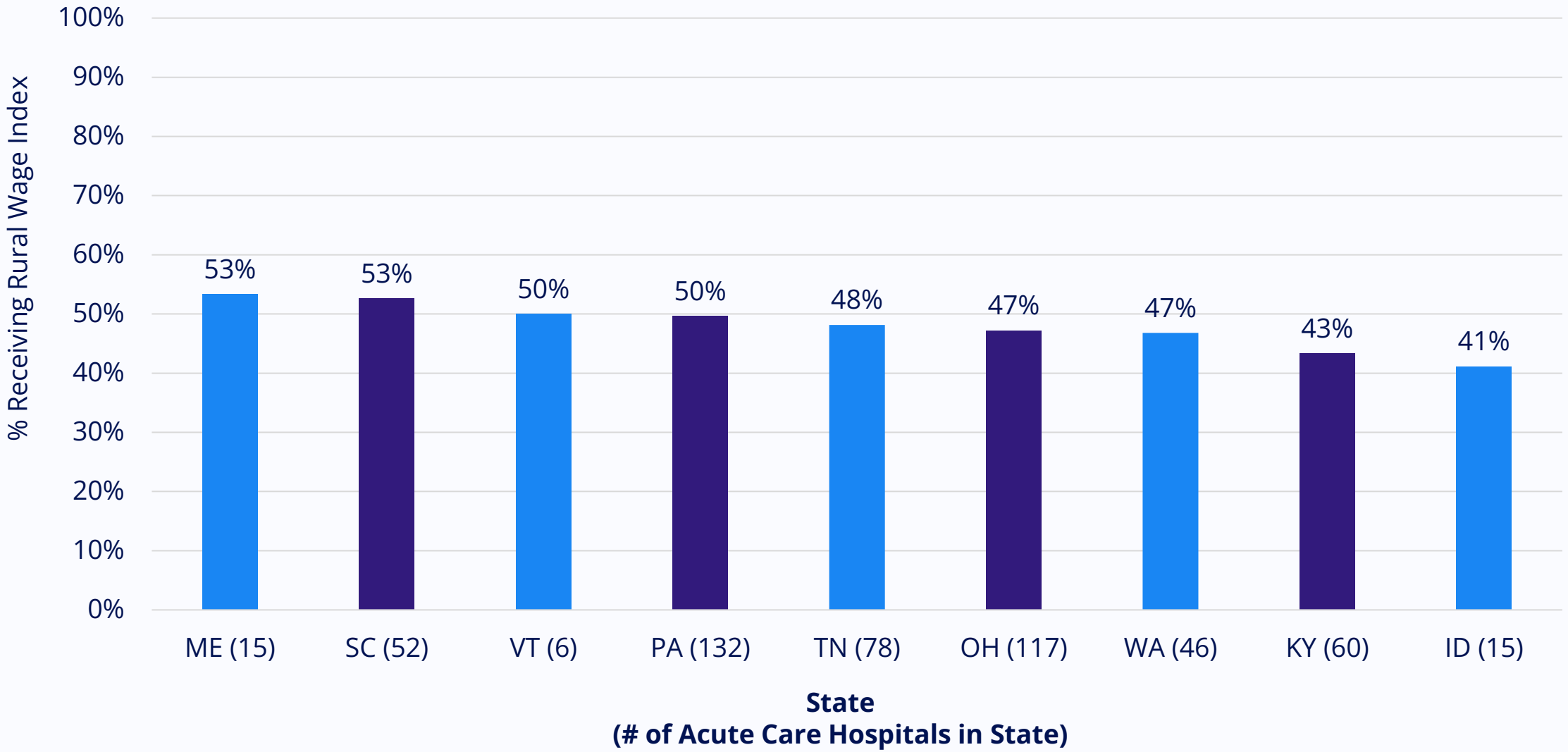


*NV is also a frontier state (with rural floor wage index greater than 1)

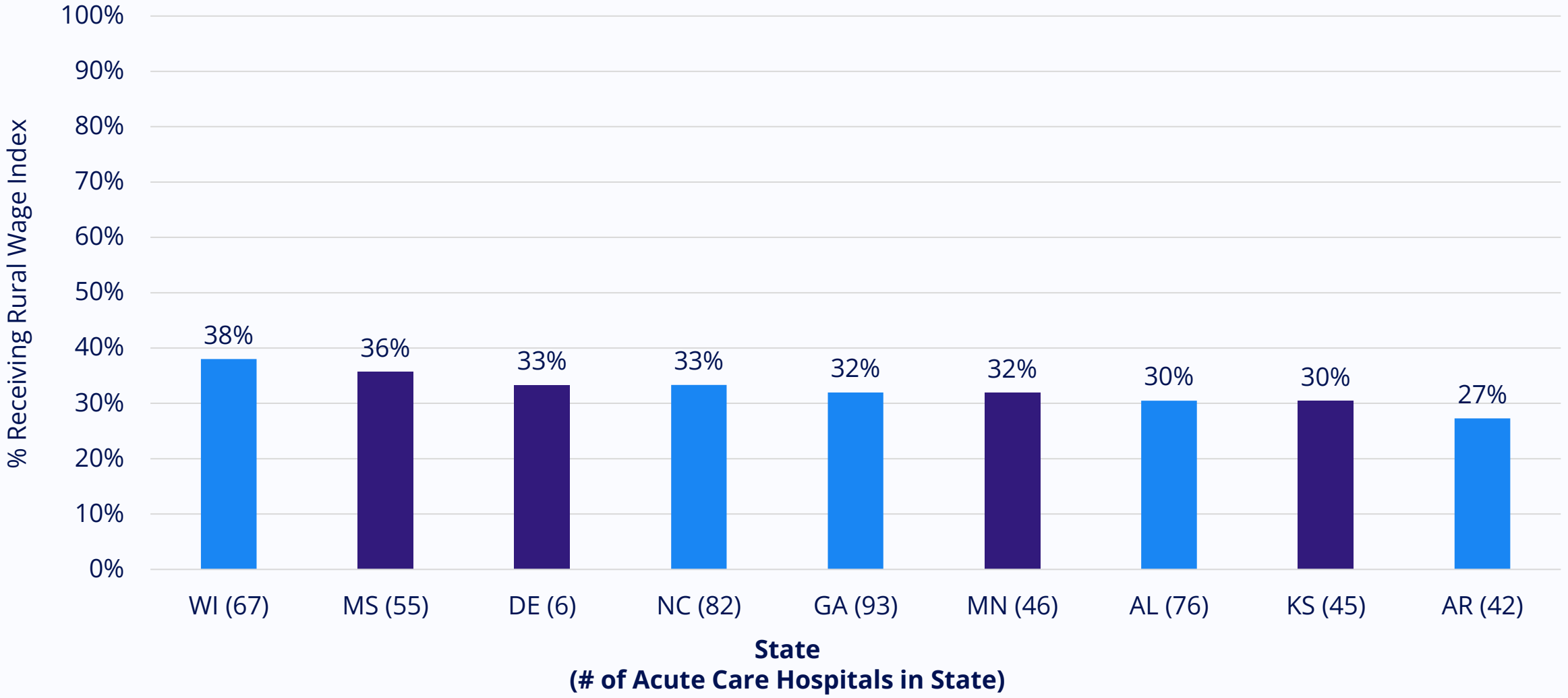
Medicare Wage Index Rural Floor Recipients



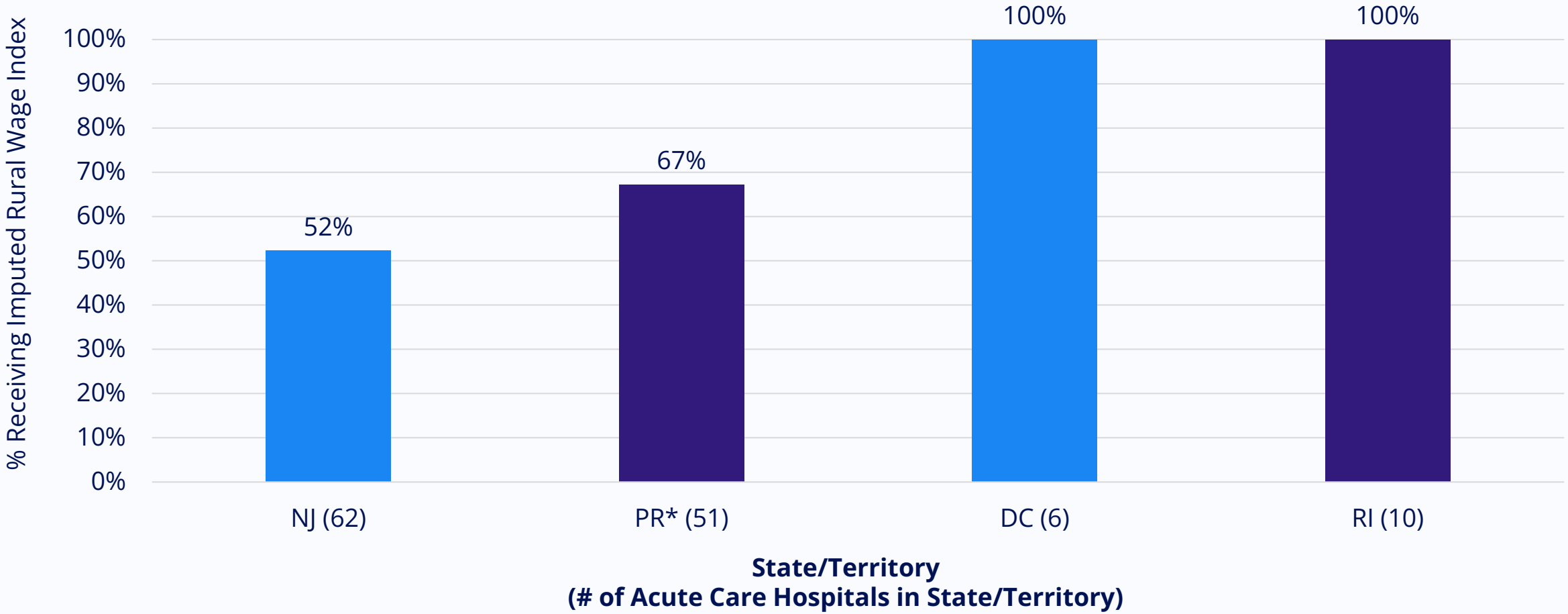
Medicare Wage Index
Rural Floor Recipients



Medicare Wage Index Rural Floor Recipients

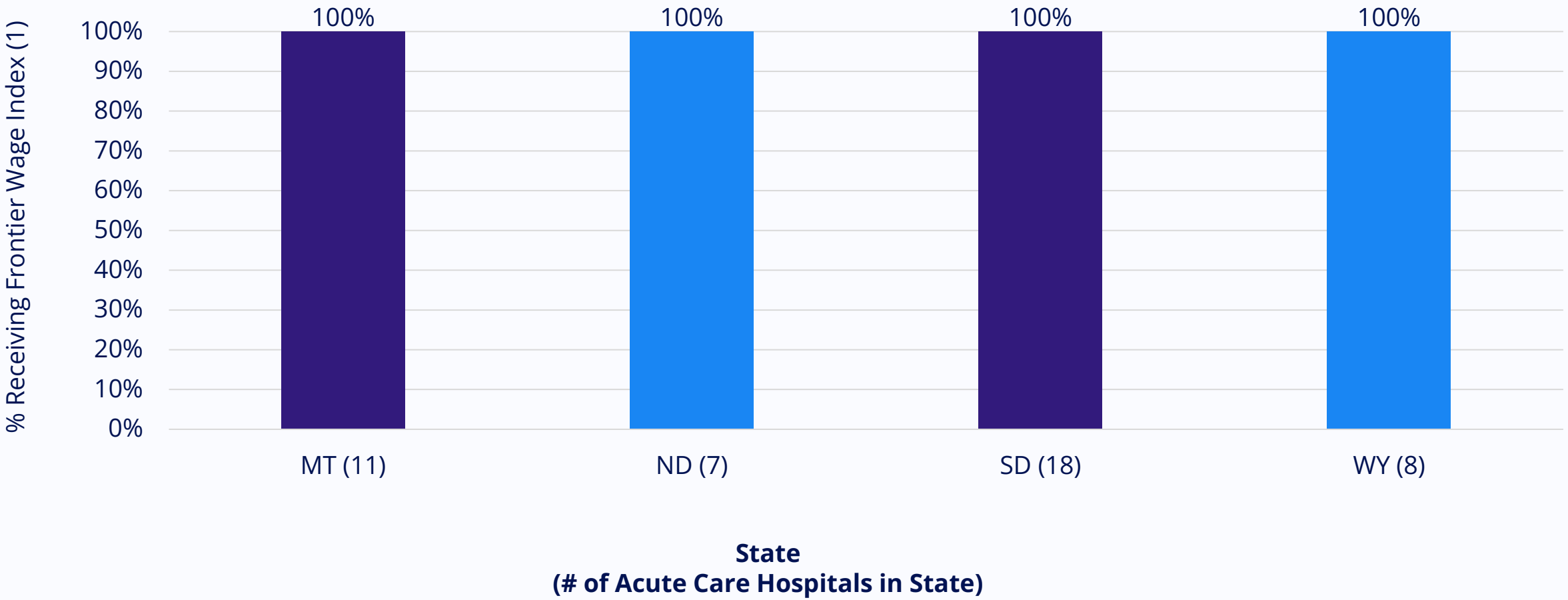


Medicare Wage Index
All-Urban States/Territories



*Impacted by Bottom Quartile Wage Index Transition

Medicare Wage Index
Frontier States



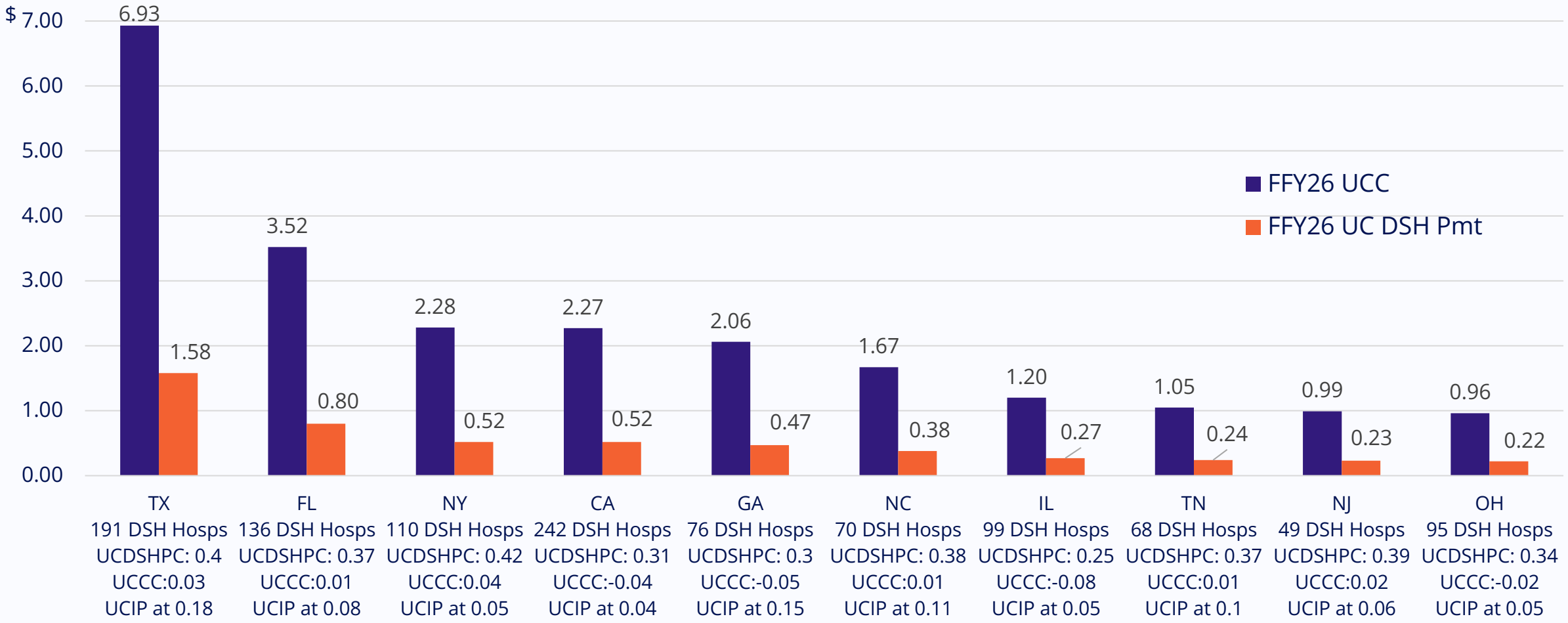
(1) NV is also a frontier state (but has a rural wage index greater than 1)

Addendum C

UC DSH Analysis by State

UC DSH Analysis by State

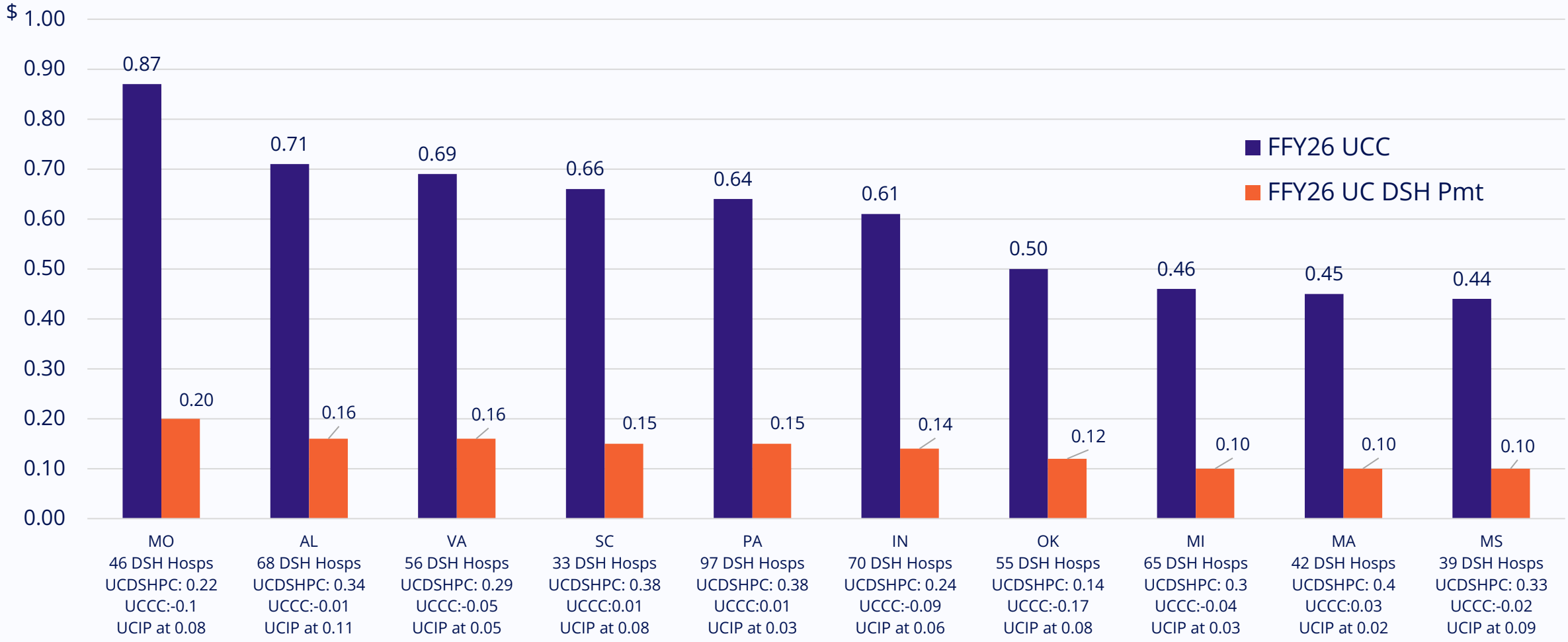
Dollars in Billions



UCDSHPC: Percent change in UC DSH Payments, FFY 2026 vs. FFY 2025
UCCC: Percent change in UC Cost used for FFY 2026 vs. FFY 2025
UCIP: Percentage of IPPS payments related to UC DSH

UC DSH Analysis by State

Dollars in Billions



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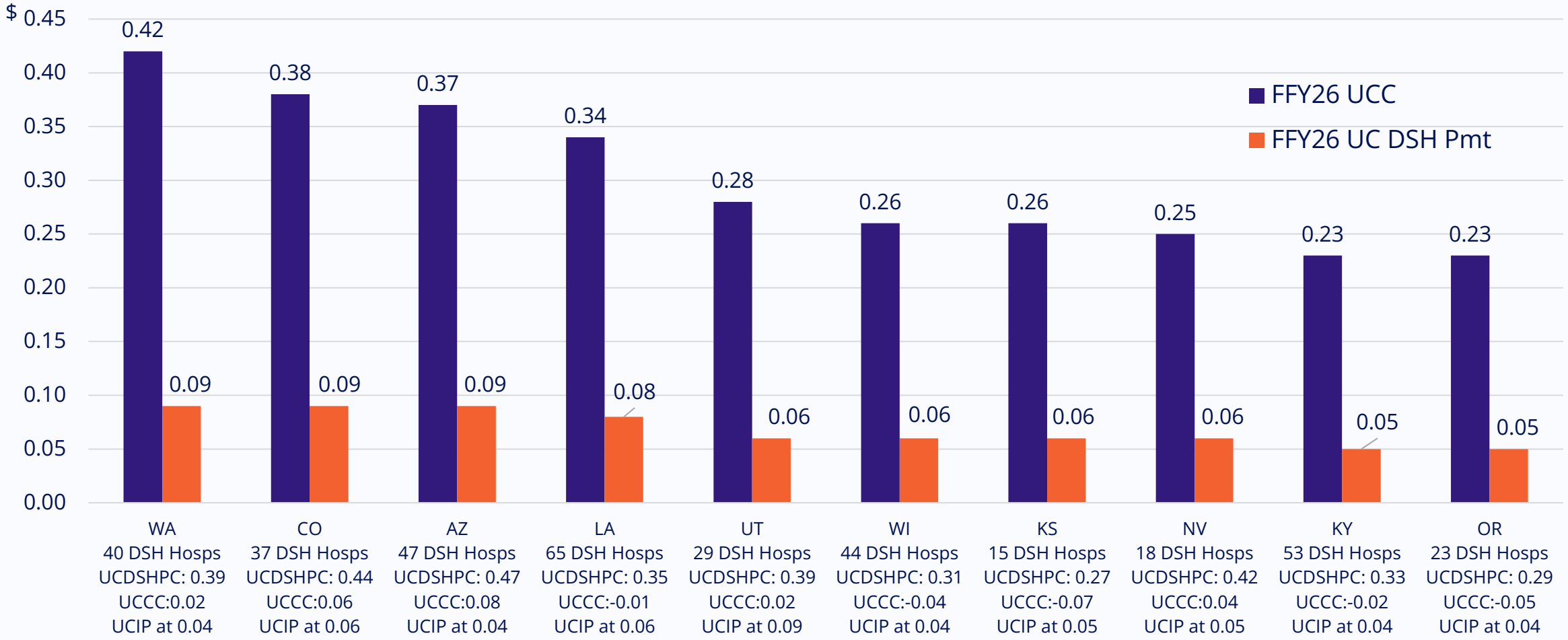
UCIP: Percentage of IPPS payments related to UC DSH

UC DSH Analysis by State

Dollars in Billions



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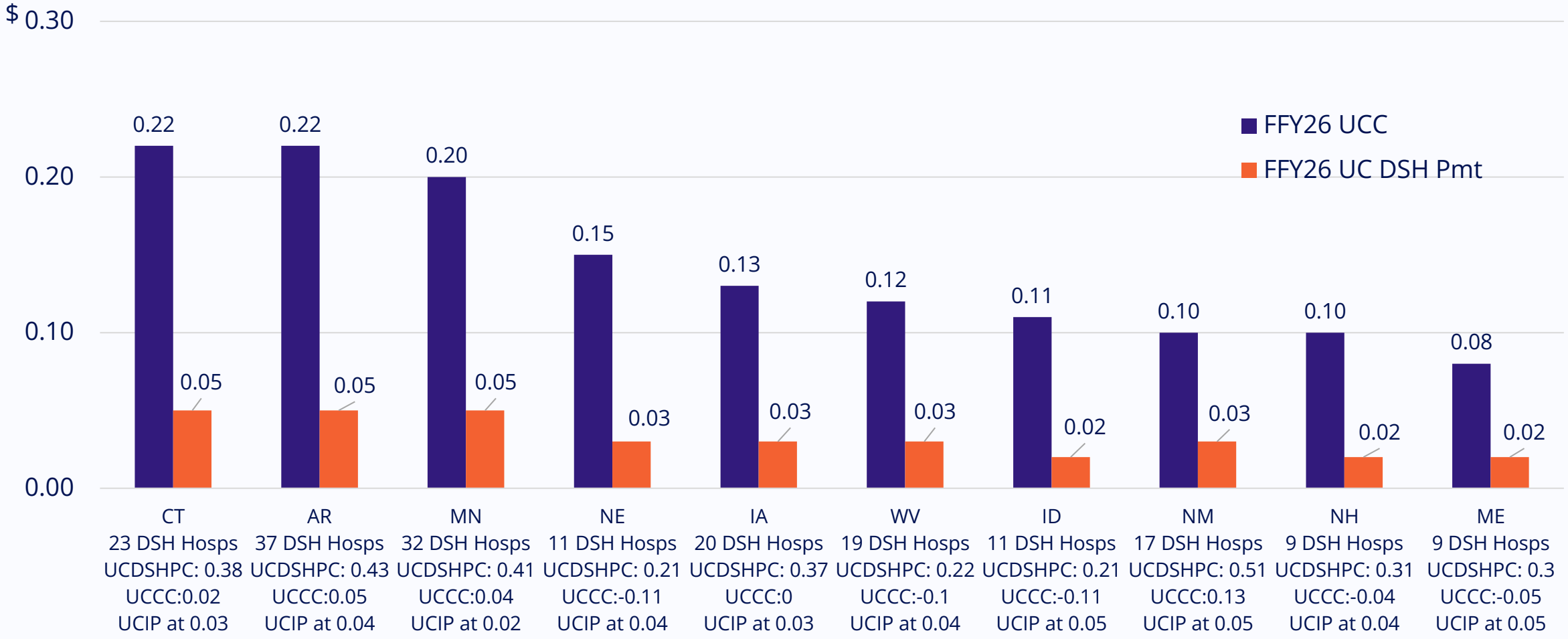
UC DSH Analysis by State

Dollars in Billions



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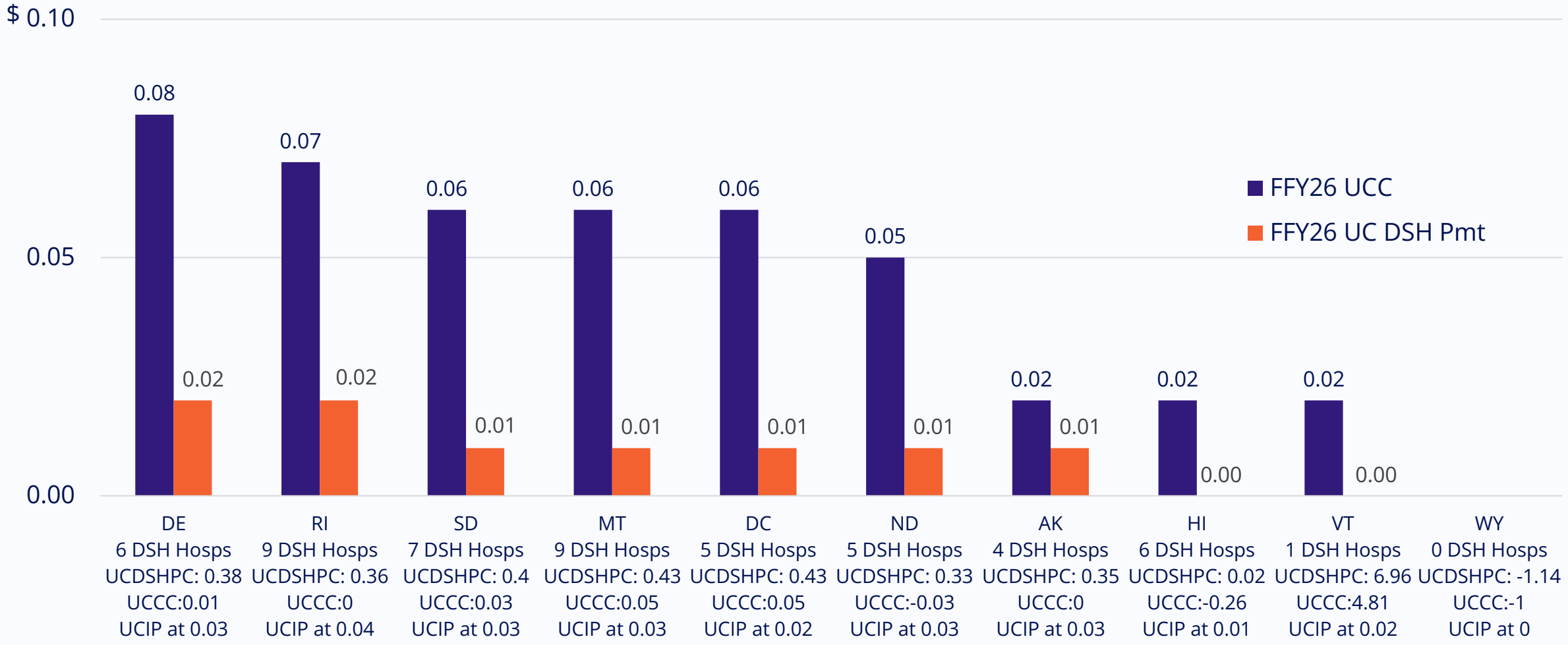
UC DSH Analysis by State

Dollars in Billions



UCDSHPC: Percent change in UC DSH Payments, FFY 2026 vs. FFY 2025
UCCC: Percent change in UC Cost used for FFY 2026 vs. FFY 2025
UCIP: Percentage of IPPS payments related to UC DSH

Addendum E

FFY 2026 Market Basket Updates for Other Provider Types

FFY 2026 Market Basket Trend

Other Provider Types

Adjustments	Inpatient Psychiatric Facility	Inpatient Rehabilitation Facility	Skilled Nursing Facility	Hospice
Market Basket	**3.20%**	**3.30%**	**3.30%**	**3.30%**
ACA Productivity Adjustment	-0.70%	-0.70%	-0.70%	-0.70%
Forecast Error Adjustment	0.00%	0.00%	0.60%	0.00%
Net Update	**2.50%**	**2.60%**	**3.20%**	**2.60%**

Thank you

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