LAW OFFICES OF STEPHENSON ACQUISTO & COLMAN

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FY 2027 Medicare IPPS/LTCH PPS Proposed Rule — High-Level Summary of Proposed Changes

This proposed rule (published April 14, 2026, at 91 FR 19314) updates Medicare's Hospital Inpatient Prospective Payment System (IPPS) for acute care hospitals and the Long-Term Care Hospital Prospective Payment System (LTCH PPS) for FY 2027, and revises the associated quality, GME, and alternative payment model programs. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes) All items below are **proposals**, subject to public comment before finalization. The summary is organized by topic.

1. Acute Care Hospital (IPPS) Payment Updates

- **Market basket / operating update.** CMS proposes an FY 2027 market basket increase of **3.2 percent**, reduced by a **0.8 percentage-point** productivity adjustment, yielding a proposed **2.4 percent** update to the operating standardized amount for hospitals that are both meaningful EHR users and successful quality reporters. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- **Aggregate payment impact.** Acute care hospitals are estimated to see roughly a **$1.9 billion increase** in FY 2027 payments — about **$1.5 billion** from operating (including outlier) and uncompensated care payments, **~$0.18 billion** from capital, and **~$0.18 billion** from other changes (new technology add-ons and the statutory expiration of the temporary low-volume adjustment). (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- **Capital payments.** The capital Federal rate is proposed to increase approximately **4.02 percent**, with capital payments per discharge estimated to rise about **2.3 percent**. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- **Outlier threshold.** The proposed FY 2027 fixed-loss cost threshold is **$51,704** (targeting outliers at 5.14 percent of payments), reflecting a proposed methodology that incorporates an estimate of outlier reconciliation. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and

Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

- **Expiring rural programs.** The Medicare-Dependent Hospital (MDH) program and the temporary low-volume hospital adjustment both expire **January 1, 2027** absent further legislation; the rule includes conforming amendments reflecting the Consolidated Appropriations Act, 2026 extensions through December 31, 2026. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

2. MS-DRG Classifications, Relative Weights, and New Technology Add-Ons

- Proposed annual changes to **MS-DRG classifications** and recalibration of the **MS-DRG relative weights** based on CMS's yearly review. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- Evaluation of FY 2027 applicants for **new technology add-on payments (NTAP)**, including alternative-pathway applicants for certain devices and antimicrobial products. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- **Repeal of the alternative pathway** for NTAP and OPPS device pass-through applications; all applicants would instead have to demonstrate they meet all standard eligibility requirements. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- Proposed update/revision to the payment adjustment for certain **immunotherapy** cases. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

3. Wage Index and Geographic Reclassification

- FY 2027 wage index update using **FY 2023 cost report** wage data and the **2022 Occupational Mix Survey**. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care

Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

- Continued application of the **rural, imputed, and frontier State floors**, the out-migration adjustment, and the cap on year-over-year wage index decreases; and updated redesignation/reclassification provisions. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- **Continued transition for discontinuation of the low wage index hospital policy** — that policy was discontinued following *Bridgeport Hospital v. Becerra*, and CMS proposes to continue the multi-year transition mitigating payment reductions for affected hospitals. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

4. Disproportionate Share (DSH) and Uncompensated Care Payments

- Proposed calculation of **Factor 1 and Factor 2** of the uncompensated care methodology, with **Factor 3** determined using the **same methodology as FY 2026**. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- Interim uncompensated care payments would be based on the **average of the most recent 3 years** of discharge data. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

5. Long-Term Care Hospital (LTCH) PPS

- Proposed LTCH standard Federal payment rate update of **2.4 percent** (3.2 percent market basket less the 0.8 point productivity adjustment), applying an update factor of **1.024** to the FY 2026 rate of **$50,824.51**. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- LTCHs that fail to submit required quality data receive a further **2.0 percentage-point** reduction, for a net update of **0.4 percent** (factor 1.004). (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes

and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

- Estimated aggregate LTCH payment increase of approximately **$55 million** for FY 2027 (based on 318 LTCHs). (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

6. Graduate Medical Education (GME) and Nursing/Allied Health (NAH)

- **Nondiscrimination requirement.** Approved medical residency programs (and NAH programs and accreditors) would be required not to discriminate — or promote/encourage discrimination — on the basis of race, color, national origin, sex, age, disability, or religion, including use of those characteristics or proxies as selection criteria. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- **New residency program criteria.** For a program to count as "new" for cap-building, at least **90 percent** of individual residents must lack prior training in another program in the same specialty (with exceptions for small programs, displaced residents, and binding third-party matches); prior employment of the program director/faculty would no longer be considered. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- Proposed clarifications on calculating direct GME and IME payments after a **teaching hospital merger**, a notice of closure of two teaching hospitals with slot-application opportunity, and proposed NAH Medicare Advantage add-on rates and direct GME MA percent reductions for CY 2024. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

7. Quality Reporting and Value Programs

Hospital Inpatient Quality Reporting (IQR). Adopt three new measures (Excess Days in Acute Care after Diabetes hospitalization; Advance Care Planning eCQM; Hospital Harm–Postoperative VTE eCQM); adopt five modified risk-standardized mortality measures (AMI, heart failure, pneumonia, COPD, CABG); modify three Excess Days in Acute Care measures; remove three measures (VTE-1, VTE-2, STK-02 eCQMs); and

expand mandatory eCQM/structural measure reporting. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

Hospital Value-Based Purchasing (VBP). Modify the same five mortality measures (AMI, heart failure, pneumonia, COPD, CABG) beginning with the FY 2032 program year; no other substantive updates. Estimated **no net financial impact** (statutorily budget-neutral); ~$1.9 billion available for value-based incentive payments. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

Hospital Readmissions Reduction (HRRP). Adopt the **30-Day Risk-Standardized Readmission Following Sepsis Hospitalization** measure (early look FY 2028, use beginning FY 2029); **no financial impact** for FY 2027. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

Hospital-Acquired Condition (HAC) Reduction. No substantive updates beyond cross-program measure proposals. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

PPS-Exempt Cancer Hospital (PCH) QRP. Adopt Advance Care Planning and Malnutrition Care Score eCQMs; remove the HCP COVID-19 Vaccination measure; establish eCQM reporting requirements. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

LTCH QRP. Remove two measures (beginning FY 2028); revise data submission deadlines (beginning FY 2029); RFI on future measure concepts. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

Medicare Promoting Interoperability. Revise the CEHRT definition; remove two attestations (ONC Direct Review, ONC-ACB Surveillance) and two referral-loop measures; modify the Electronic Prior Authorization measure; adopt a Unique Device Identifiers measure; and align eCQM additions/removals with the IQR program. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

8. Mandatory Alternative Payment Models

TEAM (Transforming Episode Accountability Model). A 5-year mandatory model (Jan. 1, 2026–Dec. 31, 2030) covering CABG, lower extremity joint replacement, major bowel, surgical hip/femur fracture, and spinal fusion episodes. Proposed refinements: add MS-DRGs that trigger a spinal fusion anchor hospitalization; clarify quality measure performance periods; use a rolling historical Composite Quality Score baseline; add an APC and MS-DRG update factor to target prices; and use the full baseline period to construct the prospective normalization factor. RFIs on ambulatory surgical center episodes and voluntary participation of physician-owned hospitals. No significant change to prior savings estimates. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

CJR-X (Comprehensive Care for Joint Replacement Expanded). National expansion (including U.S. Territories) of the CJR model, proposed as a **mandatory** model beginning **October 1, 2027** for acute care hospitals paid under IPPS and OPPS, excluding TEAM participants and Maryland hospitals. Hospitals would be accountable for cost and quality of lower extremity joint replacement (LEJR) episodes through **90 days** post-discharge, using five quality measures and a composite quality score, regional risk-adjusted target prices with capped normalization/trend factors, special pricing for low-volume and high-dual hospitals, permitted financial arrangements, certain program waivers, data sharing, and APM participation options. Estimated Medicare savings of **$725 million over 5 performance years**. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

9. Other Notable Proposals

- **Provider-based location criteria.** Proposed revision to the provider-based rules for off-campus facilities/organizations (§ 413.65). (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- **Organ acquisition costs.** Proposal to reconcile non-renal organ acquisition costs for independent organ procurement organizations and histocompatibility laboratories, with Medicare Administrative Contractors setting and publishing standard acquisition charges/testing rates. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

- **Reasonable cost reimbursement.** Proposed codification of certain longstanding Medicare reasonable-cost reimbursement policies. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)
- **Excluded hospitals / demonstrations.** Rate-of-increase update (3.2 percent) for certain excluded hospitals (children's, cancer, RNHCIs, territory hospitals); continued Frontier Community Health Integration Project and Rural Community Hospital demonstrations. (Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS) and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year (FY) 2027 Rates; Requirements for Quality Programs; and Other Policy Changes)

This is a high-level overview of a lengthy proposed rule; it captures the major provisions but not every technical or conforming change. All figures are CMS proposals subject to comment and possible revision in the final rule, and several rates will be updated using more recent forecast data before finalization.