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# Issue Brief

FEDERAL ISSUE BRIEF



*Analysis provided for MHA by Larry Goldberg, Goldberg Consulting*

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## **CMS Proposes Fiscal Year PPS 2027 Inpatient Psychiatric Facilities Update**

The Centers for Medicare & Medicaid Services (CMS) are issuing a proposed rule to update the Inpatient Psychiatric Facilities (IPF) Prospective Payment System (PPS).

The proposal would update the payment rates, the outlier threshold, and the wage index for services provided by Inpatient Psychiatric Facilities (IPFs) for discharges occurring during fiscal year (FY) 2027 (beginning October 1, 2026, through September 30, 2027).

The proposed rule also includes a proposal to limit an IPF's outlier payments to no more than 20 percent of its total IPF PPS payments in a year.

Lastly, the rule would implement a standardized IPF patient assessment instrument and remove two quality measures.

This rule proposes to update:

- The IPF PPS Federal per diem base rate from \$892.87 to \$912.58.
- The IPF PPS Federal per diem base rate for providers who failed to report quality data to \$894.74.
- The electroconvulsive therapy (ECT) payment per treatment from \$673.85 to \$688.73.
- The ECT payment per treatment for providers who failed to report quality data to \$675.26.
- The labor-related share from 79.0 percent to 79.1 percent.
- The wage index budget neutrality factor to 0.9991.
- The fixed dollar loss threshold amount from \$39,360 to \$37,820, to maintain estimated outlier payments at 2.0 percent of total estimated aggregate IPF PPS payments.

For the IPF Quality Reporting Program, CMS is proposing to implement a standardized IPF patient assessment instrument (IPF-PAI), as mandated by section 4125(b)(1) of the **Consolidated Appropriations Act** of 2023 (CAA, 2023), and to remove two measures from the program: Alcohol

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Use Brief Intervention Provided or Offered and Alcohol Use Brief Intervention (SUB-2/2a) and Tobacco Use Treatment Provided or Offered at Discharge (TOB-3/3a).

A copy of the 115-page display document is available at: <https://public-inspection.federalregister.gov/2026-06675.pdf>. The rule is scheduled for publication in the April 7 **Federal Register**, and includes a 60-day comment period.

### Comment

The proposal does not contain a table of contents. We are adding page numbers in red.

### Summary of Impacts (Page 5)

Provision Description	Total Transfers & Cost Reductions
FY 2027 IPF PPS payment update	The overall economic impact is <b>an estimated \$50 million</b> in increased payments to IPFs during FY 2027.
IPF Quality Reporting Program update	CMS estimates a net increase of \$7,223,725 in costs to facilities for the IPF Quality Reporting Program due to policies proposed in this rule.

### Provisions of the Proposed Rule (Page 12)

#### A. Proposed FY 2027 Market Basket Increase and Productivity Adjustment for the IPF PPS

Based on IHS Global Inc.'s (IGI) fourth quarter 2025 forecast with historical data through the third quarter of 2025, the proposed 2021-based IPF market basket increase factor for FY 2027 is **3.1 percent**.

Based on IGI's fourth quarter 2025 forecast, the proposed productivity adjustment for FY 2027 (the 10-year moving average change of the total factor productivity ((TFP) for the period ending FY 2027) is projected to be **0.8 percentage point**.

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This results in a proposed FY 2027 IPF PPS payment rate update of **2.3 percent** (3.1 percent – 0.8 percentage point = 2.3 percent).

***Proposed FY 2027 IPF Labor-Related Share (Page 14)***

Based on IGI's fourth quarter 2025 forecast of the 2021-based IPF market basket, the sum of the FY 2027 relative importance moving average of Wages and Salaries; Employee Benefits; Professional Fees: Labor-Related; Administrative and Facilities Support Services; Installation, Maintenance, and Repair Services; All Other: Labor-Related Services is 76.0 percent.

CMS is proposing, consistent with prior rulemaking, that the portion of Capital-Related costs that are influenced by the local labor market is 46 percent. Since the relative importance for Capital-Related costs is 6.7 percent of the 2021-based IPF market basket for FY 2027, CMS proposed to take 46 percent of 6.7 percent to determine a labor-related share of Capital-Related costs for FY 2027 of 3.1 percent. Therefore, CMS is proposing a total labor-related share for FY 2027 of **79.1 percent** (the sum of 76.0 percent for the labor-related share of operating costs and 3.1 percent for the labor-related share of Capital-Related costs).

***B. Proposed Updates to the IPF PPS Rates for FY Beginning October 1, 2026 (Page 16)***

The Federal per diem base rate is used as the standard payment per day under the IPF PPS and is adjusted by patient-level and facility-level adjustments that are applicable to the IPF stay.

CMS says the documentation for the update is available at:

<https://www.cms.gov/medicare/payment/prospective-payment-systems/inpatient-psychiatric-facility>.

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### ***Determining the Electroconvulsive Therapy (ECT) Payment per Treatment (Page 18)***

To receive the payment per ECT treatment, IPFs must indicate on their claims the revenue code and procedure code for ECT (Rev Code 901; procedure code 90870) and the number of units of ECT, that is, the number of ECT treatments the patient received during the IPF stay.

### ***Proposed Update of the Federal per Diem Base Rate and Electroconvulsive Therapy Payment per Treatment (Page 19)***

The current (FY 2026) Federal per diem base rate is \$892.87 and the ECT payment per treatment is \$673.85. For the proposed FY 2027 Federal per diem base rate, CMS would apply the proposed IPF market basket update of 2.3 percent (that is, the proposed 2021-based IPF market basket percentage increase for FY 2027 of 3.1 percent reduced by the proposed productivity adjustment of 0.8 percentage point), and a proposed wage index budget neutrality factor of 0.9991 to the final FY 2026 Federal per diem base rate of \$892.87, yielding a proposed Federal per diem base rate of **\$912.58** for FY 2027.

For IPFs that fail to report required data under the IPF Quality Reporting Program, CMS will apply a proposed 0.3 percent payment rate update—that is, the proposed IPF market basket increase for FY 2027 of 3.1 percent reduced by the proposed productivity adjustment of 0.8 percentage point for a proposed update of 2.3 percent, and further reduced by 2.0 percentage points in accordance with section 1886(s)(4)(A)(i) of the Act. (Page 20)

CMS is proposing to apply the proposed IPF market basket update of 2.3 percent and a proposed wage index budget neutrality factor of 0.9991 to the final FY 2026 ECT payment per treatment of \$673.85, yielding a proposed ECT payment per treatment of **\$688.73** for FY 2027.

For IPFs that fail to report required data under the IPF Quality Reporting Program, CMS will apply the proposed 0.3 percent payment rate update and the 0.9991 wage index budget neutrality factor to the FY 2026 ECT payment per treatment of \$673.85, yielding a proposed ECT payment per treatment of **\$675.26** for FY 2027.

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**C. Proposed Updates to the IPF PPS Patient-Level Adjustment Factors (Page 20)**

For FY 2027, CMS proposes to use the existing regression-derived patient-level adjustment factors established for FY 2025. CMS is not proposing any changes to the patient-level adjustment factors for FY 2027.

**D. Proposed Updates to the IPF PPS Facility-Level Adjustments (Page 27)**

The IPF PPS includes facility-level adjustments for the wage index, IPFs located in rural areas, teaching IPFs, cost of living adjustments for IPFs located in Alaska and Hawaii, and IPFs with a qualifying Emergency Department (ED).

**Comment**

These adjustments are available in Addendum A which can be found at:  
<https://www.cms.gov/files/document/fy-2027-addendum-ipf-pps-proposed-payment-updates.pdf>.

We are providing these factors below:

**FY 2027 IPF PPS Proposed Rates and Adjustment Factors**

**Per Diem Rate:**

Federal Per Diem Base Rate	\$912.58
Labor Share (79.1%)	\$721.85
Non-Labor Share (20.9%)	\$190.73

**Per Diem Rate Applying the 2 Percentage Point Reduction:**

Federal Per Diem Base Rate	\$894.74
Labor Share (79.1%)	\$707.74
Non-Labor Share (20.9%)	\$187.00

**Fixed Dollar Loss Threshold Amount(Outlier): \$37,820**

**Wage Index Budget-Neutrality Factor: 0.9991**

**Facility Adjustments:**

Rural Adjustment Factor	1.18
Teaching Adjustment Factor	0.7957
Wage Index	FY 2027 Pre-floor, Pre-reclassified IPPS Hospital Wage Index

**Cost of Living Adjustments (COLAs):**

Area	Cost of Living Adjustment Factor
<b>Alaska:</b>	
City of Anchorage and 80-kilometer (50-mile) radius by road	1.28
City of Fairbanks and 80-kilometer (50-mile) radius by road	1.32
City of Juneau and 80-kilometer (50-mile) radius by road	1.36
Rest of Alaska	1.44
<b>Hawaii:</b>	
City and County of Honolulu	1.20

County of Hawaii	1.32
County of Kauai	1.26
County of Maui and County of Kalawao	1.24

**Patient Adjustments:**

ECT – Per Treatment	\$688.73
ECT – Per Treatment Applying the 2 Percentage Point Reduction	\$675.26

**Variable Per Diem Adjustments:**

Adjustment Factor	
Day 1 -- Facility Without a Qualifying Emergency Department	1.28
Day 1 -- Facility With a Qualifying Emergency Department	1.54
Day 2	1.20
Day 3	1.15
Day 4	1.12
Day 5	1.08
Day 6	1.06
Day 7	1.03
Day 8	1.02
Day 9	1.01
Day 10 and After	1.00

**Age Adjustments:**

Age (in years)	Adjustment Factor
Under 45	1.00
45 and under 55	1.02
55 and under 60	1.05
60 and under 65	1.06
65 and under 70	1.09
70 and under 80	1.11
80 and over	1.13

Questions? Contact Andrew Wheeler, MHA's Vice President of Federal Finance, at 573-893-3700 | ext. 136 or [awheeler@MoHospitals.org](mailto:awheeler@MoHospitals.org)

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**DRG Adjustments:**

MS-DRG Descriptions		Adjustment Factor
056	Degenerative nervous system disorders w MCC	1.12
057	Degenerative nervous system disorders w/o MCC	1.11
876	OR procedure w principal diagnoses of mental illness	1.29
880	Acute adjustment reaction & psychosocial dysfunction	1.08
881	Depressive neuroses	1.06
882	Neuroses except depressive	1.02
883	Disorders of personality & impulse control	1.17
884	Organic disturbances & intellectual disabilities	1.08
885	Psychoses	1.00
886	Behavioral & developmental disorders	1.07
887	Other mental disorder diagnoses	1.00
894	Alcohol/drug abuse or dependence, left AMA	0.86
895	Alcohol/drug abuse or dependence w rehabilitation therapy	0.90
896	Alcohol/drug abuse or dependence w/o rehabilitation therapy w MCC	1.00
897	Alcohol/drug abuse or dependence w/o rehabilitation therapy w/o MCC	0.95
917	Poisoning and toxic effects of drugs w MCC	1.19
918	Poisoning and toxic effects of drugs w/out MCC	1.12
947	Signs and Symptoms w MCC	1.12
948	Signs and Symptoms w/out MCC	1.09

**Comorbidity Adjustments:**

Comorbidity	Adjustment Factor
Developmental Disabilities	1.04
Tracheostomy	1.09
Eating Disorders	1.09
Renal Failure, Acute	1.06
Renal Failure, Chronic	1.08
Oncology Treatment	1.44
Uncontrolled Diabetes Mellitus	1.05
Severe Protein Malnutrition	1.17
Cardiac Conditions	1.04
Gangrene	1.12

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Chronic Obstructive Pulmonary Disease and Sleep Apnea	1.09
Artificial Openings – Digestive & Urinary	1.07
Severe Musculoskeletal & Connective Tissue Diseases	1.05
Poisoning	1.16
Intensive Management for High-Risk Behavior	1.07

**Proposed Payment for Rural Location (Page 35)**

CMS provided a 17-percent payment adjustment for IPFs located in a rural area. In the FY 2026 final rule CMS increased the adjustment to 18 percent to more accurately represent the difference in costs between urban and rural IPFs. CMS is proposing to continue to apply an 18 percent payment adjustment for IPFs located in a rural area as defined at § 412.64(b)(1)(ii)(C).

**End of Rural Transition (Page 36)**

In the FY 2025 IPF PPS final rule, CMS implemented a 3-year budget neutral phase-out of the rural adjustment for IPFs located in the 54 rural counties that would become urban under the new OMB delineations. For FY 2027, these IPFs will not receive a rural adjustment.

**Proposed Teaching Adjustment (Page 36)**

For FY 2027, CMS proposes to retain the coefficient value of 0.7957 for the teaching adjustment to the Federal per diem base rate.

**Proposed Adjustment for IPFs with a Qualifying Emergency Department (ED) (Page 41)**

For FY 2027, CMS proposes to maintain the 1.54 adjustment factor for IPFs with qualifying EDs.

**E. Other Payment Adjustments and Policies**

Under CMS’ current policy the outlier threshold amount would need to be updated to \$42,720 to maintain estimated outlier payments at 2.0 percent of total estimated aggregate IPF payments for FY 2027. This update would be an increase from the FY 2026 threshold of \$39,360.

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CMS is proposing to change the outlier policy for FY 2027 to minimize the impact of a small number of high-cost IPFs on the outlier fixed dollar loss threshold amount. (Page 46)

CMS data indicates that approximately 37 high-cost IPFs would receive approximately 47.8 percent of all outlier payments in FY 2027 under current policy. In contrast, these providers represent 2.7 percent of the total population (approximately 1,400) of IPF PPS providers. According to CMS simulations, each of these providers' outlier payments would account for more than 20 percent of its total IPF PPS payments. (Page 47)

CMS is proposing to establish a facility-level cap on outlier payments beginning in FY 2027. Specifically, CMS proposes to limit total outlier payments to no more than 20 percent of a facility's total IPF PPS payments. Under this proposal, if an IPF exceeds the 20 percent facility-level cap,

it would no longer receive an outlier payment for high-outlier cases but would receive the IPF PPS per diem payment. CMS solicits comments on this proposed cap policy as well as comments about setting the cap at 20 percent versus an alternative percentage.

Under the proposed policy, CMS estimates that the outlier threshold for FY 2027 would be \$37,820, which it previously noted would be lower than what it would be under the current outlier policy and much closer to the FY 2026 outlier fixed dollar loss threshold amount of \$39,360. (Page 52)

### **Inpatient Psychiatric Facility Quality Reporting Program (Page 54)**

CMS is proposing to remove two measures beginning with the CY 2026 reporting period/FY 2028 payment determination: the Alcohol Use Brief Intervention Provided or Offered (SUB-2) and subset Alcohol Use Brief Intervention (SUB-2a) measure and the Tobacco Use Treatment Provided or Offered at Discharge (TOB-3) and subset Tobacco Use Treatment at Discharge (TOB-3a) measure.

CMS is also proposing to implement a standardized IPF patient assessment instrument (IPF-PAI), as mandated by section 4125(b)(1) of the **Consolidated Appropriations Act** of 2023 (CAA, 2023). IPFs will have the option to submit IPF-PAI data through a CMS-developed web application or using Application Programming Interfaces (APIs) CMS has built from the Health Level Seven (HL7) Fast Healthcare Interoperability Resources (FHIR)® specification. This would be the first CMS statutory quality reporting program to use the FHIR® standard to support patient assessment data submission.

CMS is not proposing any new measures for the IPF Quality Reporting Program in this proposed rule. (Page 60)

CMS proposes that IPFs paid under the IPF PPS be required to complete the IPF-PAI for all patients aged 18 and older. (Page 65)

CMS proposes to include in the IPF-PAI assessment items for each of the five data categories required by statute, and data elements in a category of administrative items as an additional category determined appropriate by the Secretary that are necessary for record matching and database management.

The table below lists the proposed IPF-PAI assessment items by category.

**Proposed Assessment Items to be Included in the IPFPAI**

CAA, 2023 Category	Proposed Assessment Item
Functional status	Mobility: Chair/Bed-to-Chair Transfer
Cognitive function and mental status	Suicide Screening
Special services, treatments, and interventions	Special Services, Treatments, and Interventions in the Inpatient Psychiatric Setting (Psychiatric Treatments, Restrictive Interventions)
Medical conditions and comorbidities	Primary Medical Condition Category
Impairments	Hearing; Speech Clarity; Vision
Administrative: Assessment items required for record matching and database management	Legal Name of Patient, Birth Date, Sex, Social Security and Medicare Numbers, Facility Provider Numbers (National Provider Identifier, CMS Certification Number), Admission/Discharge Date, Payer Information—Primary Payer, Type of Record, Assessment Reference Date, Reason for Assessment, Type of Admission/Type of Discharge, IPF-PAI Completion Date

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CMS proposes including an Administrative data category to collect certain administrative information to enable database management and record matching.

## **Final Comments**

Please note that we have not summarized all items in the proposal. For example, there is section pertaining to form and manner of reporting information.

The best way to be sure one has identified all issues relating to their facility is to read the proposed or final rules.

The outlier proposal brings an interesting possible change. Limiting individual providers to a set amount of outlier payments can be adopted by all PPS providers.

The proposed FY 2027 rules appear to suggest that new provider wage indexes may become a reality and the need to base such using hospital inpatient data may at long last becoming to an end.