Issue Brief

FEDERAL ISSUE BRIEF

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CMS Issues Proposed FY 2026 Inpatient Psychiatric Facility PPS Update

The Centers for Medicare and Medicaid Services (CMS) have issued a proposed rule to update the Medicare Inpatient Psychiatric Facility (IPF) Prospective Payment System (PPS) for Fiscal Year (FY) 2026.

A copy of the 121-page document is available at: https://public-inspection.federalregister.gov/2025-06298.pdf. The rule is scheduled for publication in the April 30 ***Federal Register***. A 60-day comment period ending June 10 is provided.

Addendum A summarizes the fiscal year (FY) 2026 IPF PPS payment rates, outlier threshold, cost of living adjustment factors (COLA) for Alaska and Hawaii, national and upper limit cost-to-charge ratios, and adjustment factors.

Addendum B shows the complete listing of ICD–10 Clinical Modification (CM) and Procedure Coding System (PCS) codes, the FY 2026 IPF PPS comorbidity adjustment, and electroconvulsive therapy (ECT) procedure codes.

Addenda A and B are available on the CMS website at: https://www.cms.gov/medicare/payment/prospective-payment-systems/inpatient-psychiatric-facility/tools-and-worksheets.

Tables setting forth the FY 2026 Wage Index for Urban Areas Based on Core Based Statistical Area (CBSA) Labor Market Areas, the FY 2026 Wage Index Based on CBSA Labor Market Areas for Rural Areas, and the FY 2026 CBSA Labor Market Areas are available exclusively through the internet, on the CMS website at: https://www.cms.gov/medicare/payment/prospective-payment-systems/inpatient-psychiatricfacility/wage-index.

Comment

Another significant rule with no table of contents. And as usual we are adding page numbers from the display copy of the rule.

Summary of Major Provisions (Page 4)

CMS is proposing to:

- Revise the facility-level IPF PPS adjustment factors for teaching status and for IPFs located in rural areas.
- Make technical rate setting updates:

- The IPF PPS payment rates will be adjusted annually for input price inflation, as well as statutory and other policy factors.

This rule proposes to update:

- The IPF PPS Federal per diem base rate from $876.53 to $891.99.
- The IPF PPS Federal per diem base rate for providers who failed to report quality data to $874.57
- The electroconvulsive therapy (ECT) payment per treatment from $661.52 to

$673.19.
- The ECT payment per treatment for providers who failed to report quality data to $660.04.
- The labor-related share from 78.8 percent to 78.9 percent.
- The wage index budget neutrality factor to 1.0011. This proposed rule would apply a refinement standardization factor of 0.9927.
- The fixed dollar loss threshold amount from $38,110 to $39,360, to maintain estimated outlier payments at 2.0 percent of total estimated aggregate IPF PPS payments.

For the Inpatient Psychiatric Facilities Quality Reporting (IPFQR) Program CMS proposes:

- to modify the reporting period of the 30-Day Risk-Standardized All Cause Emergency Department (ED) Visit Following an IPF Discharge measure,
- to remove the COVID–19 Vaccination Coverage Among Healthcare Personnel (HCP) measure
- to remove the Facility Commitment to Health Equity measure,
- to remove the Screening for Social Drivers of Health and Screen Positive Rate for Social Drivers of Health measures,
- and to update and codify changes to the Extraordinary Circumstances Exception (ECE) policy.

- In addition, CMS is soliciting feedback on three topics through requests for information on a potential future star rating system for IPFs, future measures for the IPFQR Program, and on using the Fast Healthcare Interoperability Resources® (FHIR®) standard for electronic exchange of healthcare information for patient assessment reporting.

Summary of Impacts (Page 4)

Provision Description	Total Transfers & Cost Reductions
FY 2026 IPF PPS payment update	The overall economic impact of this proposed rule is an estimated $70 million in increased payments to IPFs during FY 2026.
IPFQR Program update, including measure removals	CMS estimates a cost reduction of $1,746,474 ($1,731,712 in CY2026 and a further $14,761 in CY 2027) for facilities and patients due to the policies being proposed for the IPFQR Program.

PROVISIONS OF THE FY 2026 IPF PPS PROPOSED RULE (Page 13)

Proposed FY 2026 Market Basket Increase and Productivity Adjustment for the IPF PPS (Page 13)
Based on IGI's fourth quarter 2024 forecast with historical data through the third quarter of 2024, the proposed 2021-based IPF market basket increase factor for FY 2026 is **3.2** percent.

Based on IGI's fourth quarter 2024 forecast, the proposed productivity adjustment for FY 2026 (the 10-year moving average of TFP for the period ending FY 2026) is projected to be **0.8 percentage point.**

Therefore, the proposed FY 2026 IPF update is equal to **2.4 percent** (3.2 percent market basket update reduced by the 0.8 percentage point productivity adjustment). (Page 15)

Proposed FY 2026 IPF Labor-Related Share (Page 15)

Based on IGI's fourth quarter 2024 forecast of the 2021-based IPF market basket, the sum of the FY 2026 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 75.8 percent.

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 2026, CMS is proposing to take 46 percent of 6.7 percent to determine a labor-related share of Capital-Related costs for FY 2026 of 3.1 percent.

Therefore, CMS is proposing a total labor-related share for FY 2026 of **78.9 percent** (the sum of 75.8 percent for the labor-related share of operating costs and 3.1 percent for the labor-related share of Capital-Related costs).

Proposed Update of the Federal per Diem Base Rate and Electroconvulsive Therapy Payment per Treatment (Page 21)

The current (FY 2025) Federal per diem base rate is $876.53 and the ECT payment per treatment is $661.52..

For the proposed FY 2026 Federal per diem base rate, CMS is proposing to apply the proposed 2.4 percent IPF market basket update (that is, the proposed 2021-based IPF market basket percentage increase for FY 2026 of 3.2 percent reduced by the proposed productivity adjustment of 0.8 percentage point), the proposed wage index budget neutrality factor of 1.0011, and the proposed refinement standardization factor of 0.9927 to the FY 2025 Federal per diem base rate of $876.53, yielding a proposed Federal per diem **base rate of $891.99** for FY 2026

CMS is proposing to apply the proposed 2.4 percent IPF market basket update, the proposed 1.0011 wage index budget neutrality factor, and the proposed 0.9927 refinement standardization factor to the final FY 2025 ECT payment per treatment of $661.52, yielding a proposed ECT payment per treatment of **$673.19** for FY 2026.

In the case of an IPF that fails to report required quality data with respect to a Rate Year (RY), the Secretary will reduce any annual update to a standard Federal rate for discharges during the RY by 2.0 percentage points. Therefore, CMS is applying a 2.0 percentage point reduction to the annual update to the Federal per diem base rate and the ECT payment per treatment as follows:

- For IPFs that fail to report required data under the IPFQR Program, CMS would apply a proposed 0.4 percent IPF market basket update for FY 2026 —that is, the proposed IPF market basket increase for FY 2026 of 3.2 percent reduced by the proposed productivity adjustment of 0.8 percentage point for an update of 2.4 percent, and further reduced by 2.0 percentage points in accordance with section 1886(s)(4)(A)(i) of the Act, yielding a proposed Federal per diem base rate of $874.57 for FY 2026.

- For IPFs that fail to report required data under the IPFQR Program, CMS would apply the proposed 0.4 percent annual IPF market basket update, the proposed 0.9927 refinement standardization factor, and the proposed 1.0011 wage index budget neutrality factor to the FY 2025 ECT payment per treatment of $661.52, yielding a proposed ECT payment per treatment of $660.04 for FY 2026.

PROPOSED UPDATES TO THE IPF PPS PATIENT-LEVEL ADJUSTMENT FACTORS (Page 22)

IPF PPS Patient-Level Adjustments

The IPF PPS includes a number of payment adjustments for patient-level characteristics: (1) Medicare Severity Diagnosis Related Groups (MS–DRGs) assignment of the patient's principal diagnosis, (2) selected comorbidities, (3) patient age, and (4) variable per diem adjustments.

Revisions to MS–DRG Adjustment Factors (Page 23)

For FY 2026, CMS proposes to continue making the existing payment adjustments for psychiatric diagnoses that group to one of the existing 19 IPF MS–DRGs listed in Addendum A, and replicated below.

MS-DRG	MS-DRG Descriptions	FY 2025 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

Revisions to Comorbidity Adjustments (Page 26)

For FY 2026, CMS proposes to use the same comorbidity adjustment factors in effect in FY 2025. The factors from Appendix A are as follows;

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
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

Patient Age Adjustments (Page 28)

CMS is revising the age adjustment factors as reflected in the table below.

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

Variable Per Diem Adjustments (Page 84)

For FY 2025, CMS is revising the variable per diem adjustment factors as indicated in the table below, and as also shown in Addendum A.

	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

UPDATES TO THE IPF PPS FACILITY-LEVEL ADJUSTMENTS (Page 50)

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).

Proposed Wage Index Budget Neutrality Adjustment (Page 50)

The FY 2026 budget neutral wage adjustment factor of 1.0011.

Proposed Adjustment for Rural Location (Page 52)

For FY 2026, CMS is proposing to increase the rural adjustment from 17 to 18 percent.

Proposed Teaching Adjustment (Page 55)

For FY 2026, CMS is proposing to increase the teaching adjustment to 0.7981, based on the results of its latest regression model. It currently is 0.5150.

Proposed FY 2026 Cost of Living Adjustment (COLA) Factors: IPFs Located in Alaska and Hawaii (Page 62)

Area	Proposed COLA
Alaska:	
City of Anchorage and 80-kilometer (50-mile) radius by road	1.22
City of Fairbanks and 80-kilometer (50-mile) radius by road	1.22
City of Juneau and 80-kilometer (50-mile) radius by road	1.22
Rest of Alaska	1.24
Hawaii:	
City and County of Honolulu	1.25
County of Hawaii	1.22
County of Kauai	1.25
County of Maui and County of Kalawao	1.25

Proposed Adjustment for IPFs with a Qualifying Emergency Department (ED) (Page 62)

Beginning in FY 2025, IPFs with a qualifying ED receive an adjustment factor of 1.53 as the variable per diem adjustment for day 1 of each patient stay. If an IPF does not have a qualifying ED, it receives an adjustment factor of 1.27 as the variable per diem adjustment for day 1 of each patient stay. For FY 2026, CMS proposes to maintain the **1.53 adjustment factor** for IPFs with qualifying EDs.

Proposed Update to the Outlier Fixed Dollar Loss Threshold Amount (Page 65)

CMS is proposing to update the outlier threshold amount to **$39,360** to maintain estimated outlier payments at 2.0 percent of total estimated aggregate IPF payments for FY 2026. This proposed update would be an increase from the FY 2025 threshold of $38,110.

Proposed Refinement Standardization Factor (Page 65)

The proposed FY 2026 refinement standardization factor is **0.9927.**

INPATIENT PSYCHIATRIC FACILITY QUALITY REPORTING (IPFQR) PROGRAM (Page 69)

Proposal to Modify the Reporting Period of the IPF ED Visit Measure to Begin Q3 CY 2025–Q2 CY 2027 Reporting Period/FY 2029 Payment Determination (Page 71)

CMS proposes to modify the current 1-year reporting period for the IPF ED Visit measure to a 2-year reporting period. CMS proposes that this 2-year reporting period would run from July 1st, 4 years prior to the applicable fiscal year payment determination, to June 30th, 2 years prior to the applicable fiscal year payment determination. This proposed 2-year reporting period for the IPF ED Visit measure would align with the IPF Unplanned Readmission measure. This proposal would modify the first reporting period for the measure to Quarter (Q)3 CY 2025–Q2 CY 2027 for the FY 2029 payment determination.

Final Comments

This rule is another containing too much unneeded material that is unrelated to the actual changes being adopted. It would be very helpful to understand CMS' rationale for all the continued historical redundancy.

We have tried to highlight most items, but there are some that are not addressed. The rule, itself, is the only source to become knowledgeable with all details.