Illinois Health and Hospital Association

RULE SUMMARY

AUGUST 2025

MEDICARE IPF PPS FINAL RULE

Overview and Resources

On July 31, 2025, the Centers for Medicare & Medicaid Services (CMS) released the federal fiscal year (FFY) 2026 final payment rule for the Inpatient Psychiatric Facility (IPF) Prospective Payment System (PPS). The final rule reflects the annual update to the Medicare fee-for-service (FFS) IPF payment rates and policies.

A link to the final rule and other resources related to the IPF PPS are available on the CMS website. An online version of the final rule can be found here.

Program changes adopted by CMS will be effective for discharges on or after Oct. 1, 2025, unless otherwise noted. CMS estimates the overall economic impact of the final payment rate updates to be an increase of $70 million in aggregate payments to IPFs in FFY 2026 over FFY 2025.

IPF PPS Payment Rates

The table below lists the IPF federal per diem and electroconvulsive therapy (ECT) base rates adopted for FFY 2026 compared to the rates currently in effect:

	Final FFY 2025	Final FFY 2026	Percent Change
IPF Per Diem Base Rate	$876.53	$892.87 (proposed at $891.99)	+1.86% (proposed at +1.76%)
ECT Base Rate	$661.52	$673.85 (proposed at $673.19)	

The following table provides details for the finalized updates to the IPF payment rates for FFY 2026.

Update Factor Components	IPF Base Rate Update
Market Basket (MB) Update	3.2% (as proposed)
Affordable Care Act (ACA)-Mandated Productivity Adjustment	-0.7 percentage points (PPTs) (proposed at -0.8 PPTs)
Refinement Standardization Factor	-0.73% (as proposed)
Wage Index and Labor-Related Share Budget Neutrality	+0.11% (as proposed)
Net Rate Update	**+1.86%**

The Consolidated Appropriations Act (CAA) of 2023 includes a provision that CMS interprets as any revisions in payment adjustments implemented for the IPF PPS for FFY 2025 and onwards must be budget neutral. As such, CMS is adopting a refinement standardization factor of 0.9927 (as proposed) for FFY 2026 in order to account for the updates to IPF adjustment factors for teaching and rural status. This factor will be applied to the IPF per diem base rate and the ECT per treatment amount.

Facility- and Patient – level Adjustments to the IPF Payment Rates

For FFY 2026, CMS is finalizing revisions to the teaching and rural adjustments using calendar year (CY) 2020–2022 Medicare Provider Analysis and Review files and FFY 2020–2022 cost report data. For providers that do not have a Medicare cost report for one or more of these years, CMS uses the most recent available cost report prior to the year for which the cost report was missing. These revisions consider comments received by CMS in FFY 2024 rulemaking on topics of refining the IPF PPS as required by the CAA of 2023, and reporting of ancillary charges on IPF claims.

Wage Index, Cost-of-Living Adjustment (COLA), Labor-Related Share, and Revised CBSA Delineations

The labor-related portions of the IPF per diem base rate and the ECT base rate are adjusted for differences in area wage levels using a wage index. CMS will continue to use the current year pre-floor, pre-reclassification inpatient PPS (IPPS) wage index for FFY 2026 to adjust payment rates for labor market differences.

CMS applies the wage index to the estimated labor-related portion of the IPF standard rate to adjust for differences in area wage levels. CMS is adopting an increase to the labor-related share of the IPF per diem base rate and the ECT base rate from 78.8% in FFY 2025 to 79 % for FFY 2026 (proposed at 78.9%).

CMS is adopting a wage index budget neutrality factor of 1.0011 (as proposed) for FFY 2026 to ensure that aggregate payments made under the IPF PPS are not greater or less than would otherwise be made if wage adjustments had not changed. This includes the budget neutrality associated with the 5% wage index cap, described below.

CMS applies a 5% cap on any decrease to the IPF wage index, compared with the previous year's wage index. The cap is applied regardless of the reason for the decrease and implemented in a budget neutral manner. This also means that if an IPF's prior FFY wage index is calculated with the application of the 5% cap, the following year's wage index will not be less than 95% of the IPF's capped wage index in the prior FFY. A new IPF is paid the wage index for the area in which it is geographically located for its first full or partial FFY with no cap applied, because a new IPF would not have a wage index in the prior FFY.

A complete list of the adopted IPF wage indexes to be used for payment in FFY 2026 is available on the CMS website.

Patient Condition Medicare-Severity Diagnosis Related (MS-DRG) Adjustment

For FFY 2026, CMS will continue to utilize the MS-DRG system used under the IPPS to classify Medicare patients treated in IPF, in a budget neutral manner.

Similar to prior years, principal diagnoses codes (ICD-10-CM) that group to one of 19 MS-DRGs recognized under the IPF PPS will receive a DRG adjustment. Principal diagnoses that do not group to one of the designated MS-DRGs recognized under the IPF PPS will receive the federal per diem base rate and all other applicable adjustments but will not include a DRG adjustment in the payment.

The following table lists the 19 MS-DRGs that have been finalized to continue to be eligible for a MS-DRG adjustment under the IPF PPS for FFY 2026 and the estimated updates to the adjustment factor for each MS-DRG.

MS-DRG	Description	Adjustment Factor
056	Degenerative nervous system disorders w MCC	1.12
057	Degenerative nervous system disorders w/o MCC	1.11
876	O.R. 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 & mental retardation	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

Patient Comorbid Condition Adjustment

For FFY 2026, CMS will continue with the previously adopted comorbidity categories for which an adjustment to the per diem rate can be applied. For each claim, an IPF may receive only one comorbidity adjustment per comorbidity category, but it may receive an adjustment for more than one category. The following table lists the comorbid condition payment adjustments to continue for FFY 2026.

Description of 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 and Urinary	1.07
Severe Musculoskeletal & Connective Tissue Diseases	1.05

Poisoning	1.16
Intensive Management for High-Risk Behavior	1.07

Patient Age Adjustment

CMS will continue utilizing the patient age adjustments adopted for FFY 2025, which is based on the patient age at the time of admission.

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

Patient Variable Per Diem Adjustment

For FFY 2026, CMS will continue to use the per diem rate adjustments adopted for FFY 2025, which are based on patient length-of-stay (LOS) using a variable per diem adjustment factor.

The following table lists the adopted variable per diem adjustment factors for FFY 2026.

Day-of-Stay	Adjustment Factor	Day-of-Stay	Adjustment Factor
Day 1	1.28 (w/o ED) 1.54 (w/ ED)	Day 6	1.06
Day 2	1.20	Day 7	1.03
Day 3	1.15	Day 8	1.02
Day 4	1.12	Day 9	1.01
Day 5	1.08	Day 10+	1.00

ED Adjustment

For FFY 2026, CMS is adopting a continuation of the policy where IPFs with a qualifying ED will receive a variable per diem adjustment for day one of each stay. This adjustment is intended to account for the costs associated with maintaining a full-service ED. The ED adjustment applies to all IPF admissions, regardless of whether a patient receives preadmission services in the hospital's ED. This adjustment will continue to be 1.54 (as proposed) in FFY 2026 and will not be made when a patient is discharged from an acute care hospital or Critical Access Hospital (CAH) and admitted to the same hospital or CAH's psychiatric unit. In such cases, the IPF will continue to receive an adjustment factor of 1.28 (as proposed).

Rural Adjustment

IPFs located in rural areas currently receive an adjustment to the per diem rate of 1.17. This adjustment is provided because a previous analysis by CMS determined that the per diem cost of rural IPFs was 17% higher than that of urban IPFs.

For FFY 2026, because of a more recent analysis, CMS is adopting a rural adjustment of 1.18 (as proposed).

In the FFY 2025 IPF PPS final rule, CMS stated that ten facilities designated as rural in FFY 2024 became urban in FFY 2025 due to revisions to the Core Based Statistical Area (CBSA) delineations, resulting in a

loss of the 17% rural adjustment. To mitigate the impacts of this loss, these ten IPF providers were provided with a gradual phase out of their rural adjustment over a three-year period. Specifically, these providers received two-thirds of the rural adjustment in FFY 2025 and will receive one-third of the rural adjustment in FFY 2026, and no rural adjustment in FFY 2027.

Teaching Adjustment

IPFs with teaching programs will continue to receive an adjustment to the per diem rate to account for the higher indirect operating costs experienced by hospitals that participate in graduate medical education programs. Currently, CMS applies a teaching adjustment coefficient value at 0.5150, which is based on the number of full-time equivalent interns and residents training in the IPF and the IPF's average daily census. For FFY 2026, because of a more recent analysis, CMS is adopting a teaching adjustment of 0.7957 (proposed at 0.7981).

In addition, the CAA of 2023 provides for the distribution of at least 100 psychiatry or psychiatry subspecialty resident FTEs and provides for corresponding increases to IME payments under the IPPS but makes no provisions pertaining to the indirect operating costs for IPFs with teaching programs. As a result, for FFY 2026, CMS is finalizing to recognize the resident cap increases to either an IPF or IPPS (with an IPF PPS sub-unit) hospital resulting from the CAA of 2023 in order to align with the established teaching cap policy under the IPF PPS.

Outlier Payments

Outlier payments were established under the IPF PPS to provide additional payments for extremely costly cases. Outlier payments are made when an IPF's estimated total cost for a case exceeds a fixed dollar loss threshold amount (multiplied by the IPF's facility-level adjustments) plus the federal per diem payment amount for the case. Costs are determined by multiplying the facility's overall cost-to-charge ratio (CCR) by the allowable charges for the case. When a case qualifies for an outlier payment, CMS pays 80% of the difference between the estimated cost for the case and the adjusted threshold amount for the first through ninth day of the stay, and then 60% of the difference for the tenth day onwards. The varying 80% and 60% "loss sharing ratios" were established to discourage IPFs from increasing patient LOS in order to receive outlier payments.

CMS will continue to use the established target of 2% of total IPF PPS payments to be set aside for high-cost outliers. To meet this target for FFY 2026, CMS is finalizing the outlier threshold at $39,360 (as proposed), a 3.3% increase over the FFY 2025 threshold of $38,110. To calculate this outlier threshold, CMS used FFY 2024 claims updated as of March 2025, excluding providers if their change in estimated average cost per day is outside three standard deviations from the mean.

Updates to the IPF CCR Ceiling

CMS applies a ceiling to IPFs' CCRs. If an individual IPF's CCR exceeds the appropriate urban or rural ceiling, the IPF's CCR is replaced with the appropriate national median CCR for that FFY, either urban or rural. The national urban and rural CCRs and the national urban and rural CCR ceilings for IPFs are updated annually, based on analysis of the most recent data that is available. The national median CCR is applied when:

- New IPFs have not yet submitted their first Medicare cost report;
- IPFs' overall CCR is in excess of three standard deviations above the corresponding national CCR ceiling for the current FFY; and/or
- Accurate data to calculate an overall CCR are not available for IPFs.

CMS will continue to set the national CCR ceilings at three standard deviations above the mean CCR, and therefore the national CCR ceiling for FFY 2026 will be 2.4373 (proposed at 2.3331) for rural IPFs and 1.8305 (proposed at 1.7585) for urban IPFs. If an individual IPF's CCR exceeds this ceiling for FFY 2026, the IPF's CCR will be replaced with the appropriate national median CCR, urban or rural. CMS is adopting a national median CCR of 0.5720 (as proposed) for rural IPFs and 0.4200 (as proposed) for urban IPFs, with both values being the same as adopted for FFY 2025. Calculations of both the adopted national CCR ceiling and national median CCR are based on current CBSA-based geographic designations.

IPF Quality Reporting (IPFQR) Program

IPFs that do not successfully participate in the IPFQR Program are subject to a 2.0 percentage point reduction to the market basket update for the applicable year.

CMS had previously finalized 15 measures for the FFY 2025 payment determination and for subsequent years. All currently adopted IPFQR measures, and their associated payment determination FFY, are listed in the table below.

Measure	NQF #	Payment Determination Year
Required Measures		
HBIPS-2—Hours of Physical Restraint Use	#0640	FFY 2015+
HBIPS-3—Hours of Seclusion Use	#0641	FFY 2015+
IMM-2—Influenza Immunization	#1659	FFY 2017+
TOB-3/3a Tobacco Use Treatment Provided or Offered at Discharge and Tobacco Use Treatment at Discharge	N/A	FFY 2018+
SUB-2/2a Alcohol Use Brief Intervention Provided or Offered and Alcohol Use Brief Intervention	N/A	FFY 2018+
Transition record with specified elements received by discharged patients	N/A	FFY 2018+
Screening for Metabolic Disorders Measure	N/A	FFY 2018+
SUB-3/3a Alcohol and Other Drug Use Disorder Treatment Provided or Offered at Discharge and Alcohol and Other Drug Use Disorder Treatment at Discharge	N/A	FFY 2019+
30-Day All-Cause Unplanned Readmission Following Psychiatric Hospitalization in an Inpatient Facility	#2860	FFY 2019+
Medication Continuation Following Inpatient Psychiatric Discharge	#3205	FFY 2021+
COVID-19 Healthcare Personnel (HCP) Vaccination Measure **(adopted to be removed FFY 2026)**	N/A	FFY 2025+
Follow-Up After Psychiatric Hospitalization (FAPH)	N/A	FFY 2024+
Facility Commitment to Health Equity **(adopted to be removed FFY 2026)**	N/A	FFY 2026+
Screening for Social Drivers of Health **(adopted to be removed FFY 2026)**	N/A	FFY 2027+
Screen Positive Rate for Social Drivers of Health **(adopted to be removed FFY 2026)**	N/A	FFY 2027+
30-Day Risk-Standardized All-Cause ED Visit Following an IPF Discharge	N/A	FFY 2027+
Voluntary Measures		

Psychiatric Inpatient Experience (PIX) Survey	N/A	Voluntary FFY 2025-2027

In order to fully align the IPF ED Visit and IPF Unplanned Readmission measures so that the same cohort of patients can be compared, CMS is finalizing a modification to the current one-year reporting period for the IPF ED Visit measure to instead use a two-year reporting period. This period will be from July 1st, four years prior to the applicable fiscal year payment determination, to June 30th, two years prior to the applicable fiscal year payment determination. This change will begin with the July 31, 2025–June 30, 2027 reporting period for the FFY 2029 payment determination.

CMS is also finalizing the removal of the following measures from the IPFQR program starting with the CY 2024 reporting period/FFY 2026 payment determinations:

- Facility Commitment to Health Equity (FCHE) measure;
- COVID–19 Vaccination Coverage Among Healthcare Personnel (HCP) measure;
- Screening for Social Drivers of Health measure; and
- Screen Positive Rate for Social Drivers of Health measure.

In addition, CMS is adopting an update to the Extraordinary Circumstance Exception (ECE) policy under the IPFQR program. Specifically, this will shorten the exemption request period from the current 90 days post-event, down to 60 days (proposed as 30 days) post-event in order to align with the request periods of other quality reporting programs. CMS will provide the final decision to the requestor in writing, via email. CMS is also adopting that it may grant an ECE to any IPFs that had not requested one, if it is determined that either a systemic problem with CMS data systems impacting the ability of IPFs to comply with the quality data reporting requirement, or that an extraordinary circumstance has affected an entire region/locale.

Request for Information (RFI) – Future Star Rating for IPFs

CMS is interested in expanding the public reporting of Star Ratings on Care Compare to the IPF setting in order to help patients and caregivers quickly and easily understand quality of care information. In support of this, CMS requested comments on the following topics:

- Criteria for measure selection;
- Suitability of measures currently in the IPFQR Program; and
- Future use of additional data for an IPF Star Rating System.

RFI – Future Measures for the IPFQR Program

CMS sought input on the importance, relevance, appropriateness, and applicability of the measure concepts of well-being and nutrition for future quality measures. In addition, CMS sought comment on the tools, measures, and frameworks that might be used to assess these measures for the IPF setting.

RFI – Digital Quality Measurement Strategy: Approach to FHIR Patient Assessment Reporting in the IPFQR Program

In order to improve healthcare quality data by promoting the adoption of interoperable health information technology (IT) using Fast Healthcare Interoperability Resources® (FHIR®) standards, CMS sought comment on the current state of health IT use.

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