PYA Healthcare Regulatory Roundup #100 – 2026 Inpatient PPS and SNF PPS Final Rules: Key Takeaways and Strategic Implications

Presented August 27, 2025 by PYA's Martie Ross and Kathy Reep | Part of the Healthcare Regulatory Roundup Webinar Series

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WEBINAR SUMMARY

In this webinar, experts Martie Ross and Kathy Reep celebrated the 100th episode of PYA's Healthcare Regulatory Roundup webinar series, focusing on the 2026 Inpatient Prospective Payment System (IPPS) and Skilled Nursing Facility Prospective Payment System (SNF PPS) final rules. Key points included a 2.6% increase in IPPS base rates, a 3.2% rise for SNFs, and a 2.4% boost for inpatient psychiatric facilities. CMS finalized a 66% labor share adjustment for hospitals with wage indices >1. The new 340B drug rebate program aims to reduce Medicare payments, potentially impacting safety net hospitals. The Transforming Episode Accountability Model (TEAM) mandatory Alternative Payment Model (APM) began its fifth year, with no downside risk in 2026. Various quality reporting programs were updated, including the removal of certain measures and adjustments to reconsideration policies.

Key topics include:

- **Medicare payment rules**
- **IPPS and SNF PPS final rule**
- **Labor share, wage index, outlier threshold**
- **Quality reporting**
- **Value-based purchasing**
- **Hospital acquired conditions**
- **340B Program and safety net hospitals**
- **Drug rebate pilot**
- **Alternative payment model**

WEBINAR HIGHLIGHTS AND FREQUENTLY ASKED QUESTIONS

What was the focus of this PYA Healthcare Regulatory Roundup webinar?

- This webinar covered the FY 2026 Medicare payment final rules, with emphasis on the IPPS and SNF PPS.
- Additional sections reviewed inpatient psychiatric and rehabilitation facilities, hospice updates, the TEAM mandatory alternative payment model, and the 340B drug rebate pilot program.

How are hospital inpatient PPS payments changing for FY 2026?

- Base rate increase: 2.6% (vs. 2.9% in FY 2025).
- Labor share adjustment: Reduced from 67.6% to 66% for hospitals with a wage index >1.0 (remains at 62% for ≤1.0, as required by statute).
- Outlier threshold: Decreased to $40,397.

- Disproportionate share and uncompensated care: $2 billion increase.
- New technology add-on payments: $192 million increase.

What changes affect quality reporting and interoperability programs?

- Inpatient Quality Reporting (IQR): Medicare Advantage patient cohorts added, performance period shortened to 2 years, and 4 measures removed.
- Promoting Interoperability: New attestation for risk analysis & management, SAFER Guide requirement, TEFCA bonus measure; penalties can reduce updates by 75%.
- Value-Based Purchasing: Redistribution of 2% withheld funds continues, health equity adjustment removed.
- Readmissions Program: Medicare Advantage data added, period shortened, COVID-19 exclusions removed.

What is the TEAM model, and when does it begin?

- TEAM (Transforming Episode Accountability Model) is a 5-year mandatory episodic payment model starting January 1, 2026.
- Hospitals are responsible for cost and quality from surgery through 30 days post-discharge. Year 1 (2026) is upside-only; downside risk begins in 2027.
- Low-volume hospitals (<31 episodes) face no downside risk but may earn reconciliation payments.
- Discharge planning must include a referral to a primary care provider, considering patient location and preferences.

How will SNF payments and reporting change in FY 2026?

- Rate update: 3.2% increase.
- 34 Patient-Driven Payment Model (PDPM) code-mapping changes finalized.
- Quality reporting: Reversal of certain patient assessment data elements; reconsideration policies streamlined.
- Value-based purchasing: Health equity adjustments removed, reconsideration appeals process added.

What updates were finalized for inpatient psychiatric and rehab facilities?

- Psychiatric facilities: 2.4% payment increase, rural add-on raised to 18%, teaching adjustment to 0.7957.
- Rehabilitation facilities: 2.6% payment increase, outlier threshold reduced, COVID-19 vaccination measures removed.

What are the FY 2026 hospice payment updates?

- Rate update: 2.6% (Routine home care 1–60 days = $230.83; 61+ = $181.94).
- Hospice cap: Increased to $35,361.44.
- Policy clarifications: Any IDG physician may recommend hospice admission. Signed clinical notes suffice for attestation.
- Quality reporting: New HOPE instrument reporting system live October 1, 2025.

What changes are coming to the 340B Drug Program?

- Oversight shifting to CMS likely, with new reporting and auditing.
- New CMS pricing survey expected to reduce Medicare payments for 340B drugs beginning FY 2027.
- Rebate pilot program (Jan 1, 2026): Covered entities buy at wholesale acquisition price and submit claims for rebates. Manufacturers must cover IT/admin costs and pay within 10 days; limited initially to CMS drug list.

What are the strategic implications for hospitals and providers?

- Monitor payer contracts, especially Medicare Advantage.
- Prepare for TEAM's downside risk in 2027.
- Evaluate 340B exposure for budget impacts.
- Adjust compliance processes: though some health equity measures removed, coding and Diagnosis Related Group (DRG) accuracy remain critical.

ACTION ITEMS

- Review the 340B drug rebate program pilot and prepare to submit comments by September 2.

WEBINAR OUTLINE

Introduction and Celebration of Milestone

- The moderator welcomes attendees to the 100th episode of the PYA healthcare regulatory roundup Webinar Series and introduces the topic: 2026 inpatient PPS and SNF PPS final rules, key takeaways, and strategic implications. Martie Ross and Kathy Reep are introduced as presenters.
- Martie Ross expresses gratitude towards Kathy Reep, past contributors, and the webinar production team.

Overview of Federal Fiscal Year Final Rules

- Martie Ross discusses the importance of the IPPS rule, covering payment rates, reporting programs, and the mandatory alternative payment model (APM).
- Additional topics include the SNF rule, inpatient psychiatry and rehabilitation rules, hospice payment rates, and the new 340B drug rebate program.
- Kathy Reep begins discussing the financial aspects of the IPPS Final Rule, highlighting the use of a 2023 base year and a 2.6% increase in the base rate.
- CMS's decision to use the Bureau of Labor Statistics Employment Cost Index to measure labor costs is noted, despite receiving numerous comments against it.

Impact of Wage Index Adjustments

- Kathy Reep explains the impact of wage index adjustments on hospitals, noting a reduction in the portion of the payment rate adjusted by labor for hospitals with a wage index greater than one.
- The discontinuation of the low wage index hospital program and the introduction of a budget-neutral transitional exception for affected hospitals are discussed.
- Increases in capital payment amounts and the outlier threshold are highlighted as positives for providers.
- Significant increases in Medicare inpatient disproportionate share and uncompensated care payments, as well as new technology add-on payments, are noted.

Quality and Other Programs

- Martie Ross transitions to discussing value-based programs within the IPPS, starting with the Hospital Inpatient Quality Reporting Program (IQR).
- Modifications to IQR measures, including the addition of Medicare Advantage beneficiaries and shortening the reporting period, are detailed.
- Removal of certain measures from the FY 26 payment determination and changes to the extraordinary circumstances exception are explained.
- The Promoting Interoperability Program (PIP) is discussed, emphasizing the severity of penalties for failing to report on certain measures.

Hospital Value Based Purchasing Program

- Martie Ross continues with the Hospital Value Based Purchasing Program, explaining the redistribution of funds between hospitals based on performance.
- Modifications to measures, including the inclusion of Medicare Advantage cohorts and changes to the performance period, are outlined.
- The removal of COVID-19 excluded patients from readmission measures and updates to the extraordinary circumstances exception are noted.
- The Hospital Acquired Conditions (HAC) Program is briefly mentioned, with no proposed changes except for technical updates.

TEAM Mandatory Payment Model

- Martie Ross shifts focus to the Team mandatory APM, detailing its structure and objectives.
- Explanation of the low volume hospital adjustment, ensuring hospitals with fewer than 31 episodes are not penalized.
- Clarification of the primary care referral requirement, emphasizing the importance of considering beneficiaries' preferences.
- Technical changes proposed by CMS to improve the efficiency of the program are mentioned.

Skilled Nursing Facility (SNF) Payments

- Kathy Reep discusses the SNF payment update, noting a 3.2% increase based on a 2022 base year.
- Code mapping changes under the Patient Driven Payment Model to better align with ICD-10 coding guidelines are highlighted.
- Updates to the Skilled Nursing Facility Quality Reporting Program, including the removal of health equity adjustments, are mentioned.
- The SNF Value Based Purchasing Program receives routine maintenance, with minor changes to measures and performance standards.

Inpatient Psychiatric Facilities (IPF) PPS Final Rule

- Kathy Reep reviews the IPF PPS Final Rule, noting a 2.4% increase in rates based on 2021 data.
- Changes to the base rate, labor share, and outlier thresholds are detailed, with potential impacts on payment amounts depending on wage indices.

- Positive adjustments for rural and teaching hospitals are highlighted, aiming to increase payment rates in these settings.
- Consistent themes of removing health equity adjustments and simplifying quality reporting programs are observed across multiple rules.

Inpatient Rehabilitation Facilities (IRF) PPS Final Rule

- Kathy Reep covers the IRF PPS Final Rule, noting a 2.6% increase in rates, similar to other programs.
- Changes to the labor share and outlier threshold are mentioned, with potential impacts on payment amounts.
- Removal of vaccine requirements for IRF staff and reversal of standardized patient assessments are noted.
- Updates to the IRF Quality Reporting Program, including the removal of vaccine requirements and improvements to the reconsideration policy, are detailed.

Hospice Quality Reporting Program

- Kathy Reep discusses the Hospice Quality Reporting Program, noting a 2.6% increase in rates based on the IPPS market basket.
- The hospice cap is raised from $34,465 to $35,003.61, affecting total expenditure limits for hospice patients.
- Policy clarifications regarding recommendations for hospice care and documentation requirements are highlighted.
- Implementation of the new hospice outcomes and patient evaluation instrument submission system is mentioned, aimed at improving data collection and reporting.

340B Drug Rebate Pilot Program

- Martie Ross addresses the 340B drug rebate pilot program, noting its potential impact on safety net hospitals.
- Legislative efforts to promote transparency and protect the 340B program are mentioned, alongside challenges faced by hospitals.
- Announcement of a new pricing survey by CMS, expected to lead to reductions in Medicare payments for 340B-acquired drugs, is highlighted.
- Details of the pilot program, including participant selection, implementation timelines, and protections for covered entities, are provided.

Conclusion and Final Remarks

- Martie Ross notes Congress reconvenes on September 2 and decisions on the FY 2026 budget, creating the administration for Make America Healthy Again (MAHA), and the reorganization of HHS are all pending.
- The presenters thank the audience and note upcoming cybersecurity and Washington Update webinars.