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MEMORANDUM

TO: Coalition to Preserve Rehabilitation
FROM: Peter Thomas and Michael Barnett
DATE: April 14, 2025
RE: **Summary of FY 2026 IRF Prospective Payment System Proposed Rule**

On Friday, April 11th, the Centers for Medicare and Medicaid Services ("CMS") released the federal Fiscal Year ("FY") 2026 Inpatient Rehabilitation Facility Prospective Payment System ("IRF PPS") Proposed Rule (CMS-1829-P) and corresponding Fact Sheet. As expected, the proposed rule is relatively short this year (only 95 pages total). CMS is proposing a relatively minimal payment update for FY 2026 as well as updates to the FY 2026 IRF Quality Reporting Program ("QRP") and several requests for information ("RFIs") mostly relating to burden reduction. CMS—yet again—did not include mention of a "transfer" policy applicable to patients moving from IRFs to home health care, which CMS has contemplated in recent years they might include.

Overall, the proposed rule would provide a 2.8% payment increase for IRFs in FY 2026. This proposed payment increase represents a 0.3% increase compared to the 2.5% payment update that CMS finalized for FY 2025. As in recent years, CMS predicts that the vast majority of cases in FY 2026 will experience a change of less than 5% in case mix groups ("CMGs") and tiers. For the QRP, CMS proposed to remove two measures related to COVID-19 vaccination requirements beginning with the FY 2026 (CY 2024) and FY 2028 (CY 2026) IRF QRP, respectively. CMS is also proposing to remove four social determinants of health ("SDOH") patient assessment data elements to reduce burden beginning October 1, 2025. The agency is also proposing to amend its reconsideration policy and process on which IRFs can appeal IRF QRP payment penalties and also includes four separate RFIs on the IRF QRP in general.

A more detailed summary of the relevant proposals included in the proposed rule follows.

FY 2026 Payment Updates

In FY 2026, CMS estimates that overall payments to IRFs will increase by 2.8%, a modest increase from the 2.5% increase finalized for FY 2025. This change is due to several factors, including an annual market basket update, a downward productivity adjustment, budget

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neutrality adjustments related to CMG weights and labor/wage changes, and adjustments to the outlier case threshold. Similar to last year, CMS projects that 99.2% of all forecasted cases in FY 2026 will be in CMGs and tiers that will see a change in weight of less than 5%.

Market Basket Update

The projected market basket update for IRF services is 3.4%, but this will be reduced by a productivity adjustment of 0.8%, resulting in a net increase of 2.6% for the market basket adjustment. These figures may change in the final rule if updated forecasts are issued, as is typical. CMS is proposing to adjust the labor-related share of IRF payments from 74.4% to 74.5% based on these market basket forecasts, although this, too, is subject to change with updated forecasts.

Wage Index Update

Last year, CMS proposed to adopt new delineations for Core-Based Statistical Areas ("CBSAs") based on the Office of Management and Budget ("OMB") designations, a practice consistent with previous years. These changes resulted in certain counties being reclassified from urban to rural and vice versa, as well as shifts to different CBSAs for certain counties. To mitigate the impact on affected IRFs, CMS finalized a transitional "phase-out" policy wherein facilities set to lose their rural adjustment would retain two-thirds of the adjustment in FY 2025, one-third in FY 2026, and fully lose the adjustment in FY 2027.

For the FY 2026 IRF PPS, CMS is proposing to continue this phase-out policy as planned. Hospitals that were reclassified to rural status in the FY 2025 rule did not undergo any transition policy, and received the full 14.9% rural adjustment in FY 2025 (and will retain that in FY 2026). Importantly, this phase-out does not alter the cap on wage index decreases that was previously finalized, ensuring that no IRF will experience more than a 5% decrease in their wage index compared to the prior year, regardless of the reason.

Outlier Threshold

CMS is proposing to decrease the outlier threshold amount from $12,043 in FY 2025 to $11,971 in FY 2026. This proposed adjustment is expected to result in a 0.2 percent decrease in aggregate payments across the IRF PPS for FY 2026.

Overall Payment Impact

CMS estimates that the changes and updates outlined in the proposed rule would result in a net increase of $295 million in payments to the IRF industry overall. Specifically, payments to IRF units are expected to rise by 2.8% in urban areas and 2.9% in rural areas, while payments to freestanding IRFs are forecasted to increase by 2.8% in urban areas and 2.2% in rural areas.

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Request for Information on Reducing Administrative Burden

In order to comply with Trump Executive Order 14192 "Unleashing Prosperity Through Deregulation of the Medicare Program," CMS is seeking public input on approaches and opportunities to streamline regulations and reduce burdens on those participating in the Medicare program.

Proposed Quality Reporting Program ("QRP") Updates

Proposed QRP Measures and Items to be Modified and Removed

CMS is proposing to remove two measures from the IRF QRP. First, beginning with the FY 2026 ("CY 2024") IRF QRP, CMS is proposing to remove the "COVID-19 Vaccination Coverage among Healthcare Personnel ("HCP")" measure from the IRF QRP. CMS currently requires IRFs to report data at least one week each month for covered personnel, which include employees, volunteers, and others. CMS states that the rationale for the proposed removal of this measure is because the costs associated with the implementation of this measure outweigh the benefits of its continued use in the program. Importantly, CMS notes in the proposed rule that, if finalized, IRFs that did not report the required data for CY 2024 would still be deemed compliant for FY 2026 payment determination purposes and that they would not receive a QRP payment penalty on the basis of this measure.

The second IRF QRP measure, the "COVID-19 Vaccine Percent of Patients/Residents Who Are Up to Date" measure, is proposed for removal beginning with the FY 2028 ("CY 2026") IRF QRP. CMS states that the basis for removing this measure is similar to the COVID-19 HCP vaccination measure. The agency further notes that the only reason that it proposes removal of this measure on October 1, 2026, is because it is not technically possible to remove the item earlier. If finalized, this item will become voluntary and IRFs are no longer required to collect or submit Patient/Resident COVID-19 vaccine data beginning with patients discharged on or after October 1, 2025.

CMS is also proposing to remove four SDOH Standardized Patient Assessment Data Elements ("SPADEs") that were recently finalized in last year's rule as a method to reduce burden associated with these items. Beginning October 1, 2025, data submission on one item for Living Situation (R0310), two items for Food (R0320A and R0320B) and one item for Utilities (R0330) will be made optional. Beginning with the FY 2028 IRF QRP, these items will be removed from the IRF-Patient Assessment Instrument ("IRF-PAI") altogether.

Proposed Updates to the CMS Reconsideration Policy for Contested QRP Penalties

CMS is proposing several process and review-related changes to the process by which IRFs can request a reconsideration of an IRF QRP penalty finding. Currently, IRFs can be subject to a significant payment penalty (up to 2% of total Medicare payments for a one-year period) for

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failure to comply with IRF QRP requirements. CMS is proposing in this year's rule to remove the word "extenuating" circumstances used in previous iterations of the reconsideration policy and replacing it with "extraordinary" circumstances, which raises the bar on what must be demonstrated to justify an appeal of IRF QRP payment penalties. CMS is also proposing to modify its reconsideration policy to clarify that the agency will permit IRFs to request, and CMS to grant, an extension to file a request for reconsideration of a noncompliance determination if the IRF was affected by an extraordinary circumstance beyond the control of the IRF.

Four Requests for Information ("RFIs")

The proposed rule includes four dedicated RFIs related to the IRF QRP and IRF-PAI. A summary of each is provided below.

Future Measure Concepts for the IRF QRP

CMS is seeking input on four potential concepts for the IRF QRP. These concepts include:

- Interoperability: CMS is seeking input on the quality measure concept of interoperability, focusing on information technology systems' readiness and capabilities in the IRF setting. Specifically, CMS is seeking input and comment on approaches to assessing interoperability in the IRF setting, for instance, measures that address or evaluate the level of readiness for interoperable data exchange, or measures that evaluate the ability of data systems to securely share information across the spectrum of care.

- Well-Being: According to CMS, well-being is a comprehensive approach to disease prevention and health promotion as it integrates mental and physical health, while emphasizing preventative care to proactively address potential health issues. CMS is requesting input and comment on tools and measures that assess for overall health, happiness, and satisfaction in life that could include aspects of emotional well-being, social connections, purpose, fulfillment, and self-care work for the IRF setting.

- Nutrition: CMS is seeking input on a quality measure concept of nutrition for future quality measures. Specifically, CMS is requesting input and comment on tools and frameworks in the IRF setting that promote healthy eating habits, exercise, nutrition, or physical activity for optimal health, well-being, and best care for all.

- Delirium: Finally, CMS is seeking input on a quality measure concept of delirium for future quality measures. Delirium, which is often under-detected, is a common complication of illness or injury that leads to negative health outcomes like frailty, cognitive impairment, and functional decline. CMS is seeking input and comment on the applicability of measures in the IRF setting that evaluate for sudden, serious change in a person's mental state or altered state of consciousness that may be associated with underlying symptoms or conditions.

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Potential Revisions to the IRF-PAI

CMS is seeking feedback on potential revisions to the IRF-PAI to reduce burden and streamline data collection for IRFs. Specifically, CMS is seeking input on the following questions:

- How can CMS increase clarity around the definition of an unplanned discharge and which items would be required for unplanned discharges? How would IRFs recommend CMS implement skip patterns for certain items depending on how an IRF patient is discharged?
- Should CMS consider a pediatric IRF-PAI assessment to reduce burden, streamline the assessment process, and focus on age-appropriate assessment items for the pediatric population?
- Are there ways to revise the IRF-PAI to reduce burden and streamline data collection in IRFs?

Data Submission Deadlines for the IRF QRP

As a way to reduce the potential burden the IRF QRP data submission timeframe may place on IRFs, CMS is proposing to reduce the data submission deadline from 4.5 months to 45 days to improve the timeliness of public reporting by one quarter. CMS is requesting feedback on this potential future reduction of the IRF QRP data submission deadline from 4.5 months to 45 days that is under consideration. Specifically, CMS is requesting comment on:

- How this potential change could improve the timeliness and actionability of IRF QRP quality measures;
- How this potential change could improve public display of quality information; and
- How this potential change could impact IRF workflows or require updates to systems.

Digital Quality Measurement for the IRF QRP

As part of CMS' effort to advance the digital quality measurement ("dQM") transition, the agency is issuing this RFI to gather broad input on the dQM transition in IRFs. Specifically, CMS is seeking feedback on the current state of health information technology ("health IT") use within IRFs, including the use of electronic records, the use (or not) of a third-party intermediary to assist with submitting patient assessment data to CMS, challenges with current electronic devices, health IT privacy and security compliance, and potential opportunities for expanding the use of Fast Healthcare Interoperability Resources (FHIR)-based technologies to manage the IRF-PAI.

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