Illinois Health and Hospital Association

RULE SUMMARY

MAY 2026

MEDICARE LTCH PPS PROPOSED RULE

Overview and Resources

On April 10, 2026, the Centers for Medicare & Medicaid Services (CMS) released the federal fiscal year (FFY) 2027 proposed rule for the Medicare Long-Term Care Hospital Prospective Payment System (LTCH PPS). The proposed rule reflects the annual updates to the Medicare fee-for-service (FFS) LTCH payment rates and policies.

A set of resources related to the LTCH PPS is available on the CMS website. An online version of the proposed rule is available here.

Program changes proposed by CMS are effective for discharges on or after October 1, 2026, unless otherwise noted. CMS estimates the overall impact of this proposed rule update to be an increase of approximately $55 million in LTCH PPS payments in FFY 2027 over FFY 2026.

Comments on this proposed rule are due to CMS by June 9, 2026 and can be submitted electronically at http://www.regulations.gov by using the website's search feature to search for file code "CMS-1849-P."

LTCH Payment Rates

Only LTCH discharges that meet certain clinical criteria (detailed below) are paid at the standard LTCH PPS payment rates. LTCH discharges that do not meet the established clinical criteria are paid the lower site-neutral payment rates (with some specified exclusions), which are based on the inpatient PPS (IPPS) rates and are the lesser of either the IPPS comparable per diem amount, including any outlier payments, or 100 percent of the estimated cost of the case. The IPPS comparable per diem payment amount is capped at the lower of the IPPS comparable per diem amount and the full comparable amount to what would otherwise be paid under IPPS.

CMS uses the following criteria in order to identify cases eligible for a standard LTCH PPS payment:

- The LTCH discharge does not have a principal diagnosis relating to a psychiatric diagnosis or to rehabilitation;
- A case must be "immediately discharged" from an IPPS hospital. This immediate discharge will be evidenced by the dates of discharge and admission to the LTCH; and
- One or both of these criteria:
    - Must receive at least three days of care in an intensive care unit (ICU) or critical care unit (CCU) during the prior hospital stay. CMS will use the full set of ICU and CCU revenue codes when counting a patient's ICU and CCU days during the prior acute care hospital stay; and/or
    - The patient received at least 96 hours of ventilator services in the LTCH stay.

Cases paid at the site neutral rate and those paid by Medicare Advantage are excluded when calculating whether an LTCH or LTCH satellite meets the existing greater than 25-day average length of stay requirement.

The LTCH discharge payment percent is the percent of all Medicare FFS discharges that are paid the standard LTCH payment rate, and not the site neutral payment rate.

The IPPS equivalent payment rate is mandated for all discharges for LTCHs that fail to meet the applicable discharge threshold in the prior FFY (less than 50% of patients for whom the standard LTCH PPS payment is made).

Incorporating the proposed updates and the effects of budget neutrality adjustments, the table below lists the proposed LTCH standard federal rate for FFY 2027 compared to the rate currently in effect:

	Final FFY 2026	Proposed FFY 2027	Percent Change
LTCH Standard Federal Rate	$50,824.51	$52,177.04	+2.66%

The following table provides details for the proposed updates for the LTCH standard federal rate for FFY 2027:

Update Factor Component	LTCH Standard Federal Rate Update
Market Basket Update	+3.2%
Affordable Care Act Mandated Productivity Adjustment	-0.8 PPTs
Wage Index/Labor Share Budget Neutrality	+0.26%
Overall Rate Change	+2.66%

Wage Index and Labor-Related Share

As in prior years, CMS is proposing to continue to use the most recent (FFY 2027) inpatient pre-rural floor, pre-reclassified hospital wage index to adjust payment rates under the LTCH PPS for FFY 2027.

The wage index, which is used to adjust payment for differences in area wage levels, is applied to the portion of the LTCH standard federal rate that CMS considers to be labor-related. CMS estimates the labor-related portion of the LTCH standard federal rate using the 2022-based LTCH market basket. CMS is proposing an increase to the labor-related share from 72.9% for FFY 2026 to 73% for FFY 2027.

CMS applies a 5% cap on any decrease to the LTCH 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 LTCH'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 LTCH's capped wage index in the prior FFY. A new LTCH 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 LTCH will not have a wage index in the prior FFY. CMS applies the 5% permanent cap on the IPPS comparable wage indexes as well for the calculation of site-neutral payments with the same stipulations, but not in a budget neutral manner.

CMS is also proposing a wage index and labor-related share budget neutrality factor of 1.0025505 for FFY 2027 to ensure that aggregate payments made under the LTCH PPS are not greater or less than would otherwise be made if wage adjustments had not changed. This budget neutrality factor also includes the impact of the 5% cap on LTCH wage index decreases.

Updates to the Medicare Severity-Long Term Care-Diagnosis Related Groups (MS-LTC-DRG)

Each year, CMS updates the MS-LTC-DRG classifications and relative weights. These updates are made to reflect changes in treatment patterns, technology, and any other factors that may change the relative use of hospital resources. Although the DRGs used to classify patients under the LTCH PPS are the same as those used under IPPS, the relative weights are different for each setting. The MS-LTC-DRG relative

weights are determined using only data from LTCH discharges that meet the criteria for exclusion from the site neutral payment rate (that is, LTCH PPS standard federal payment rate cases). CMS is proposing to continue using its existing methodology to determine the MS-LTC-DRG relative weights.

CMS is proposing to continue applying a 10% cap on the reduction of a MS-LTC-DRG's relative weight each year compared to the weight in the previous year to MS-LTC-DRGs with at least 25 applicable LTCH cases in the claims data used to calculate the relative weights for the FFY. CMS is proposing to implement the cap in a budget neutral manner, with a budget neutrality factor applied directly to the MS-LTC-DRG weights.

The full list of proposed MS-LTC-DRGs for FFY 2027 can be found here.

High-Cost Outlier (HCO) Payments

HCO payments were established under the LTCH PPS to provide additional payments for very costly cases. Outlier payments are made if the estimated cost of the case exceeds the payment for the case plus a fixed-loss amount. 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 of the case and the fixed-loss amount as a separate outlier payment, in addition to the traditional DRG payment.

If an LTCH's CCR is higher than the LTCH total CCR ceiling, the LTCH is assigned the statewide average CCR, which would then be used in the HCO formula. CMS is proposing a total CCR ceiling of 1.354 for FFY 2027 for both LTCH PPS standard federal payment rate cases and site neutral payment rate cases.

There are two separate HCO targets – one for LTCH PPS standard federal payment rate cases and one for site neutral payment rate cases. Under the current two-tiered system, there is an 8% HCO target for standard LTCH PPS cases using only standard LTCH cases. For site neutral cases, CMS uses a 5.1% target, the same as the operating IPPS target.

As a result of the previously issued Change Request 14233 that expanded the outlier reconciliation criteria, CMS does not believe the most recently available data for estimating outlier payments is reflective of the expected LTCH experience in FFY 2027. Currently CMS lacks sufficient information to reasonably quantify the magnitude a behavioral change would have on charging practices and outlier payment trends in FFY 2027. To allow time to gain insight into LTCHs' response to the additional reconciliation criteria, CMS is proposing to maintain the threshold for cases paid under the LTCH standard federal payment rate for FFY 2027 at the FFY 2026 rate of $78,936, which results in estimated outlier payments projected to be equal to 7.975% of estimated FFY 2027 payments for such cases.

CMS is also proposing a fixed-loss threshold for cases paid under the site neutral payment rate increase from $40,397 in FFY 2026 to $51,679 in FFY 2027. This proposed fixed-loss amount for site-neutral payment rate cases is the same as the FFY 2027 proposed IPPS fixed-loss amount.

CMS will continue making an additional HCO payment for the cost of a case that exceeds the HCO threshold amount that is equal to 80 percent of the difference between the estimated cost of the case and the outlier threshold (the sum of the fixed-loss amount and the amount paid under the SSO policy) for both LTCH standard cases and site-neutral cases.

To ensure that estimated HCO payments payable to site-neutral payment rate cases would not result in any increase in aggregated payments, CMS is proposing to apply a budget neutrality adjustment that reduces site-neutral payment rate by 5.1% in FFY 2027, which is the same as FFY 2026. CMS would apply the 5.1% only to the non-HCO portion of the site-neutral rate payment amount.

Short-Stay Outlier (SSO) Payments

SSO payments are established under the LTCH PPS to ensure that LTCH payments, which are predicated on long lengths of stay, are not applied to cases where the patient may have received only partial treatment at an LTCH. A SSO case is a covered length of stay that is less than or equal to 5/6ths of the geometric average length of stay for a specific MS-LTC-DRG. Generally, the average length of stay for an LTCH is 25 days. CMS is not proposing any changes to the SSO policy.

Updates to the LTCH Quality Reporting Program (LTCH QRP)

The applicable annual update is reduced by two percentage points for any LTCH that does not meet the QRP requirements.

The following table lists the previously adopted LTCH QRP measures and payment determination years.

Measures	NQF #	Finalized Cross-Setting Measure	Payment Determination Year
National Healthcare Safety Network (NHSN) Catheter-Associated Urinary Tract Infection (CAUTI) Outcome Measure	#0138		FFY 2015+
NHSN Central Line-Associated Blood Stream Infection (CLABSI) Outcome Measure	#0139		FFY 2015+
Influenza Vaccination Coverage among Healthcare Personnel	#0431		FFY 2016+
NHSN Facility-Wide Inpatient Hospital-Onset Clostridium difficile Infection (CDI) Outcome Measure	#1717		FFY 2017+
Application of Percent of Residents Experiencing One or More Falls with Major Injury (Long-Stay)	#0674	Yes	FFY 2018+
Functional Outcome Measure: Change in Mobility among LTCH Patients Requiring Ventilator Support	#2632		FFY 2018+
Medicare Spending Per Beneficiary (MSPB) – Post Acute Care (PAC) LTCH Quality Reporting Program (QRP)	N/A	Yes	FFY 2018+
Discharge to Community – Post Acute Care (PAC) LTCH QRP	N/A	Yes	FFY 2018+
Potentially Preventable 30-Day Post-Discharge Readmission Measure for LTCH QRP	N/A	Yes	FFY 2018+
Drug Regimen Review Conducted With Follow-Up for Identified Issues- PAC LTCH QRP	N/A	Yes	FFY 2020+
Changes in Skin Integrity Post-Acute Care: Pressure Ulcer/Injury	N/A		FFY 2020+
Compliance with Spontaneous Breathing Trial (SBT) by Day 2 of the LTCH Stay	N/A		FFY 2020+
Ventilator Liberation Rate	N/A		FFY 2020+
Transfer of Health Information to the Provider PAC	N/A		FFY 2022+
Transfer of Health Information to the Patient PAC	N/A		FFY 2022+

COVID–19 Vaccination Coverage among Healthcare Personnel (HCP)	N/A		FFY 2023+ ***(proposed to be removed beginning FFY 2028)***
Discharge Function Score	N/A		FFY 2025+
COVID–19 Vaccine: Percent of Patients/Residents Who Are Up to Date	N/A		FFY 2026+ ***(proposed to be removed beginning FFY 2028)***

CMS is proposing to remove both the COVID–19 Vaccination Coverage among HCP measure and the COVID–19 Vaccine: Percent of Patients/Residents Who Are Up to Date measure beginning with the FFY 2028 LTCH QRP, as CMS believes the costs and reporting burden of these measures now outweigh its benefits and seeks to align the LTCH QRP with QRPs in other post-acute care settings. If finalized, CMS is proposing to publicly report data for these measures for the last time with the September 2026 Care Compare refresh.

Beginning with the FFY 2029 LTCH QRP, CMS is proposing to revise both the LTCH QRP Assessment Data Submission Deadline and the Centers for Disease Control and Prevention NHSN Data Submission deadlines from the current 4.5-month deadline to approximately 45 days. Specifically, for both submission deadlines CMS is proposing that LTCHs must complete their data submissions and any corrections, if necessary, no later than the 15th day of the second month after the end of the calendar quarter. If the 15th day of the second month falls on a Friday, weekend, or Federal holiday, the deadline would be delayed until 11:59 p.m. EST on the next business day. Table IX.E.-02 and Table IX.E.-03 detail the proposed data collection timeframes and data submission deadlines for the FFY 2029 payment determination.

Request for Information – LTCH QRP Measure Concepts Under Consideration for Future Years

CMS is seeking input on the importance, relevance, appropriateness, and applicability of the quality measure concepts related to advanced care planning, a continuous process that supports people in understanding and communicating their goals, values, and preferences regarding future medical decisions. CMS is also seeking input on the relevant aspects of advanced care planning and measures appropriate for the LTCH setting.

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