

CAPITOL STREET

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Proposed Inpatient Hospital Pay +3.4% In 2026

Regulatory Burden Reduction, MAHA Quality Measures, Surgery Demonstration “TEAM” Survives

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Proprietary hospitals would see pay +3.4% in 2026 if the proposal is finalized. Today, the Centers for Medicare and Medicaid Services (CMS) released the draft FY 2026 hospital inpatient rule (IPPS) and long-term acute care hospital (LTCH) payment rules ([here](#)). The update for for-profit hospitals will be +3.4%. Other policies are described below. The new Trump CMS will keep-but-modify the TEAM mandatory pilot (5-years) which impacts surgeries and post-acute care. New rates start Oct 1, 2025, the start of FY26.

»» Key Points

Rural hospitals will see a lower update (+2.5%) than urban facilities (+3.5%) under the proposal. This is based on the combined effects of the hospital update to the national standardized amount and the hospital update to the hospital-specific rate.

DSH and UC pay hike helps hospitals across-the-board. CMS projects that Medicare Disproportionate Share Hospitals (DSH) and uncompensated care (UC) payments will increase pay \$1.5 B, or +1.4% for proprietary hospitals. Overall CMS pay to inpatient hospitals will increase by \$4.0 B in 2026.

Per the Trump EO (Jan 31, 2025), CMS seeks comments on regulatory reform, reducing admin burden. In line with ongoing efforts to reduce unnecessary administrative burdens and costs, and create a more efficient healthcare system, CMS requests information to better understand any challenges to identify opportunities for deregulation, while also ensuring the continued delivery of high-quality care to beneficiaries. CMS seeks public input via a RFI on approaches and opportunities to streamline regulations and reduce administrative burdens on providers, suppliers, beneficiaries, Medicare Advantage and Part D plans, and other stakeholders participating in the Medicare program.

CMS is furthering its commitment to Making America Healthy Again by improving patient nutrition and wellness outcomes. The agency is requesting input from the public on enhancing nutrition and physical activity to promote better wellness through quality measurement and other initiatives.

CMS is proposing to modernize healthcare regulations by reducing duplications through technology and holding providers accountable for safety and outcomes. The agency is seeking feedback on potential future quality measures, implementing Fast Healthcare Interoperability Resources (FHIR), modernizing health reporting, and reducing burden.

CMS modifies the Biden-era 5-year mandatory Transforming Episode Accountability Model (TEAM) for surgeries; likely positive for PAC providers such as IRF. We have said that the new CMS (and CMMI) will continue to look to mandatory models to achieve program savings.

- The purpose of this model is to “improve quality of care for people with Medicare undergoing certain high-expenditure, high-volume surgical procedures by reducing rehospitalization and recovery time while lowering Medicare spending and driving equitable outcomes” ([here](#)).
- Changes to TEAM would capture quality measure performance using patient-reported outcomes in the outpatient setting, improve target price (TP) construction, and expand the three-day Skilled Nursing Facility Rule waiver.
- TEAM is a 5-year, mandatory episode-based payment model that starts January 2026.
- Hospitals that are required to participate would be chosen based on geographic regions from across the US.
- The procedures are: Lower Extremity Joint Replacement, Surgical Hip Femur Fracture Treatment, Spinal Fusion, Coronary Artery Bypass Graft, and Major Bowel Procedure.

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