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EXECUTIVE IMPACT BRIEF

FY 2027 IPPS Final Rule

What It Means for Your Organization

CMS finalizes hospital inpatient payment policies for FY 2027 with a 2.3% standard rate update but a 1.7% estimated net payment impact. The rule establishes CJR-X as the first mandatory, nationwide episode-based payment model for lower extremity joint replacements.

AT A GLANCE

WHAT HAPPENED?
CMS issues final policies and payment rates for the Inpatient Prospective Payment System (IPPS) and Long-Term Care Hospital (LTCH) prospective payment system for FY 2027.

WHO IS AFFECTED?
Nearly all IPPS hospitals, LTCHs, and providers of inpatient hospital services.

WHY DOES IT MATTER?
Payment changes, new mandatory bundle model, and expiring programs carry significant financial and operational implications.

WHEN?
Most policies are effective October 1, 2026.
CJR-X implementation delayed to January 1, 2028.

COMMENT DEADLINE.
N/A – Final rule

ISSUED BY
Centers for Medicare & Medicaid Services (CMS), U.S. Department of Health and Human Services

MANDATORY NATIONWIDE VALUE-BASED PAYMENT MODEL: CJR-X

CJR-X (Comprehensive Care for Joint Replacement Expanded) is the first nationwide, mandatory episode-based payment model for lower extremity joint replacements.

Implementation Delayed
Launch delayed to January 1, 2028 with calendar-year performance periods to give hospitals time to prepare.

Mandatory Participation
Applies to nearly all IPPS and OPPS hospitals. TEAM participants are exempt.

Two-Sided Financial Risk
Hospitals bear both upside and downside risk against quality-adjusted, regionally indexed target prices.

Improved Risk Adjustment
Uses 29 risk adjusters (aligned with TEAM) including patient-level factors (age, dual-eligibility, prior PAC use, and 21 clinical HCCs) and hospital-level factors (bed size, share of dual-eligible patients).

Low-Volume Threshold
Hospitals with fewer than 31 episodes annually are protected from downside risk.

Exclusions
Maryland hospitals (all-payer rate setting), Critical Access Hospitals, Rural Emergency Hospitals, hospitals in the Rural Community Hospital Demonstration, and IHS/Tribal providers not paid under OPPS.

KEY FINANCIAL IMPACTS

2.3% STANDARD RATE UPDATE
Reflects a 3.2% market basket increase offset by a 0.9 percentage point productivity adjustment. Hospitals must meet IQR requirements and be meaningful EHR users to receive the full update.

1.7% ESTIMATED NET PAYMENT IMPACT
After accounting for reduced outlier payments, expiration of certain programs, and other policy changes. Inpatient payments may rise about $2.9 billion.

22% HIGHER OUTLIER THRESHOLD
Threshold increases to $49,346 per discharge ($40,397 in FY 2026). Sickest cases must exceed the threshold by $8,949 more before relief begins.

$1.95B ADDITIONAL SUPPORT PAYMENTS
Uncompensated care, IHS, Tribal, and Puerto Rico supplemental payments increase by $227.8 million total in FY 2027.

$300M RURAL PAYMENT CLIFF RISK
Medicare-dependent hospital and low-volume hospital payments expire Dec. 31, 2026. Without congressional action, another cliff for rural and small hospitals.

OTHER IMPORTANT POLICY UPDATES

Medicare Advantage Data in Quality Programs
MA patients now included in IQR, HVBP, and HRRP measures. Performance periods shortened from 3 years to 2.

Electronic Prior Authorization
Becomes an optional bonus measure in 2027 and mandatory in 2028 under the Promoting Interoperability Program.

New Technology Add-On Payments
CMS projects $1.7 billion in total NTAP spending in FY 2027 across traditional and alternative pathways.

LTCH Payment
LTCH standard rate update of 2.3% (about 2.2%, or $54 million).

QUESTIONS EXECUTIVES SHOULD BE ASKING

1. What is our estimated net IPPS financial impact in FY 2027?
2. How will CJR-X affect our joint replacement strategy, net revenue, and post-acute partnerships?
3. Are we prepared for downside risk and the low-volume threshold requirements?
4. How do expiring rural payments impact our organization and advocacy strategy?
5. How are we integrating Medicare Advantage data into our quality and performance programs?
6. What operational changes are needed for electronic prior authorization and interoperability requirements?

KEY TIMELINE

AUGUST 4, 2026
Final rule published in the Federal Register.

OCTOBER 1, 2026
Most payment policies and updates take effect.

NO COMMENT PERIOD
Final rule – no comments.

DECEMBER 31, 2026
Rural and small hospital special payments expire (absent congressional action).

JANUARY 1, 2028
CJR-X mandatory model implementation begins.

CALENDAR-YEAR PERIODS
CJR-X performance periods align with calendar year.

This summary highlights key provisions. Review the FY 2027 IPPS/LTCH Final Rule and supporting materials for details and assess impacts on your organization.

For more information, visit **hfma.org/regulatory**