MEDPAC | Medicare Payment Advisory Commission

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April 30, 2026

Mehmet Oz, M.D., M.B.A.
Administrator
Centers for Medicare & Medicaid Services
Department of Health and Human Services
P.O. Box 8016
Baltimore, MD 21244-8016

Attention: CMS-1847-P

Dear Dr. Oz:

The Medicare Payment Advisory Commission (MedPAC) appreciates the opportunity to submit comments on the Centers for Medicare & Medicaid Services' (CMS's) proposed rule entitled "Medicare Program; Fiscal Year (FY) 2027 Inpatient Psychiatric Facilities (IPF) Prospective Payment System (PPS)—Rate Update; Proposed Rule," *Federal Register* 91, no. 66, pp. 17720–17756 (April 7, 2026). We appreciate your staff's continuous efforts to administer and improve the Medicare payment system and quality reporting program for IPFs, particularly given the competing demands on the agency.

Our comments cover CMS's requests for information about changes in source of data for the wage index.

Construction of an IPF-specific wage index

For FY 2027, CMS proposes to continue to use the unadjusted inpatient prospective payment systems (IPPS) wage index (referred to as the "pre-floor, pre-reclassification hospital inpatient wage index").

The proposed rule also solicits comments on whether CMS should consider using alternative data sources to construct an IPF-specific wage index for potential use in future years, citing MedPAC's 2023 recommendation for the Secretary to phase in new Medicare wage index systems. CMS seeks feedback to better understand the potential advantages and limitations of using alternative data sources, such as Bureau of Labor Statistics (BLS) data and IPF cost reports, as well as other methodologies that stakeholders believe could appropriately reflect the geographic variation in labor costs for IPFs.

Comment

The Commission has long been concerned with flaws in the wage indexes Medicare uses to adjust provider payments to reflect geographic differences in labor costs.[1] To improve the

[1]Medicare Payment Advisory Commission. 2007. *Report to the Congress: Promoting greater efficiency in Medicare.* Washington, DC: MedPAC.

accuracy and equity of Medicare's wage index systems for IPPS hospitals and other providers (such as, but not limited to, IPFs), Medicare needs wage indexes that are less manipulable, more accurately reflect geographic differences in market-wide labor costs, and limit how much wage index values can differ among providers that are competing for the same pool of labor within a given market. In the Commission's June 2023 report to the Congress, we recommended that the Congress repeal the existing Medicare wage index statutes, including current exceptions, and require the Secretary to phase in a new Medicare wage index system for hospitals and other types of providers that:

- Uses all-employer, occupation-level wage data with different occupation weights for the wage index of each provider type;
- Reflects local area level differences in wages between and within metropolitan statistical areas and statewide rural areas; and
- Smooths wage index differences across adjacent local areas.[2]

The Commission supports CMS's initial steps toward constructing an IPF-specific wage index for potential use in future years. The use of BLS Occupational Employment and Wage Statistics (OEWS) data for core-based statistical area (CBSA)– and occupation-level wage estimates has numerous advantages: This data source is publicly available, recent, and includes all-employer mean wage data. These features would reduce CMS administrative burden, reflect more recent data than the current cost report data that is the basis of the unadjusted hospital wage index, acknowledge that employers in a market compete for similar types of workers, and decrease current circularity that causes deviation between the labor costs reported by hospitals and broader labor market wages. For IPF-specific occupation weights, either sector-specific cost reports (or surveys) or industry-specific BLS data would be reasonable and involve trade-offs between accuracy, completeness, and administrative burden. Hospital cost reports do not currently include occupation-level wages (or full-time equivalents), but could be modified to do so, or CMS could conduct an episodic occupational mix survey (as is currently done for IPPS hospitals). Alternatively, industry-level BLS data could be used as a proxy for each sector. While the occupational mix at IPFs may differ from the closest existing North American Industry Classification System category, we continue to believe that using these data to calculate occupation weights and then applying these weights to all-employer occupation-level relative wages would yield a better approximation of IPFs' variation in labor costs across markets than the current approach of using aggregate wage data from hospital cost reports.

Regardless of the alternative wage index data sources used, we urge CMS also to consider the two other parts of our June 2023 wage index recommendation: to account for differences in wages within metropolitan statistical areas (for example, by using data from the Census Bureau's American Community Survey), and to smooth wage index differences across adjacent local areas (such as county lines). We also encourage the agency to estimate the magnitude of changes under an improved wage index and contemplate phasing in larger changes over a period of time.

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[2] Medicare Payment Advisory Commission. 2023. *Report to the Congress: Medicare and the health care delivery system.* Washington, DC: MedPAC.

Conclusion

MedPAC appreciates your consideration of these issues. The Commission values the ongoing collaboration between CMS and MedPAC staff on Medicare policy, and we look forward to continuing this relationship. If you have any questions regarding our comments, please do not hesitate to contact Paul B. Masi, MedPAC's Executive Director, at 202-220-3700.

Sincerely,

Michael E. Chernew, Ph.D.
Chair