

Notice of Proposed Agency Action

SUBJECT: MassHealth: Payments for Chronic Disease and Rehabilitation Hospital Services, effective October 1, 2026

AGENCY: Massachusetts Executive Office of Health and Human Services (EOHHS)

SUMMARY OF PROPOSED ACTION

Under the provisions of M.G.L. c. 118E, §13A, rates and terms of payment for services rendered by chronic disease and rehabilitation hospitals to patients entitled to medical assistance under M.G.L. c. 118E, §1, *et seq.*, are established by contract between the MassHealth program and participating hospitals. This notice describes the proposed methods and standards for the establishment of payment methods and rates by contract for rate year (RY) 2027 which begins October 1, 2026, effective for dates of service beginning October 1, 2026, between the Executive Office of Health and Human Services (EOHHS) and participating chronic disease and rehabilitation (CDR) hospitals.

DESCRIPTION OF PROPOSED METHODS AND STANDARDS

EOHHS proposes to establish a comprehensive inpatient per diem rate for each participating hospital, covering both routine and ancillary services provided to inpatients. EOHHS derives the inpatient per diem rate from the 2019 operating and capital cost information for each hospital. An efficiency standard is applied to inpatient capital costs. The efficiency standard is the median base year unit cost, determined and applied separately for a chronic disease hospital group and a rehabilitation hospital group. The operating and capital costs are updated from fiscal year 2019 (base year), using a composite index of two cost categories: labor and non-labor. These categories are weighted according to the weights used by the Centers for Medicare & Medicaid Services (CMS) for Inpatient Rehabilitation Facilities (IRF). The inflation proxy for the labor cost category is the Massachusetts Consumer Price Index. The inflation proxy for the non-labor cost category is the non-labor portion of the CMS IRF-specific market basket.

The MassHealth program proposes to establish a facility-specific rate for short-stay administrative days (short-stay AD rate) and a statewide standard rate for long-stay administrative days (long-stay AD rate), each derived from a common AD base rate. The AD base rate comprises a statewide AD routine per diem amount and a statewide AD ancillary per diem amount. The statewide AD routine per diem is derived from the weighted average Medicaid rate in calendar year 2003 for nursing facility case mix category T (10). The statewide AD ancillary per diem amount is the weighted average ancillary add-on amount derived from hospital ancillary claims data for AD patients in hospital fiscal year (HFY) 2003. The sum of the statewide AD routine per diem and ancillary add-on amount equals \$513.05. This sum is then inflated by 6.95%, resulting in an AD base rate of \$548.71.

For dates of service on or after October 1, 2026, the short-stay AD per diem rate is the AD base per diem rate of \$548.71 increased by 64% of the difference between each hospital's inpatient per diem rate and the AD base per diem rate.

For dates of service on or after October 1, 2026, the long-stay AD rate will continue at a single statewide rate of \$740.75. The MassHealth program also proposes to use a hospital-specific cost-to-charge ratio for outpatient services that is derived from historical cost and charge information. The cost-to-charge ratio will be applied to the hospital's usual and customary charges on file with the Center for Health Information & Analysis (CHIA), as of July 1, 2017, for outpatient services.

The MassHealth program proposes to continue issuing discharge planning-centered (DPC) quality performance incentive payments on a monthly basis to qualifying CDR hospitals in RY 2027 that demonstrate to EOHHS that the CDR hospital made appropriate efforts to discharge MassHealth

members, in accordance with criteria designated by EOHHS. The MassHealth program also proposes to issue supplemental payments to qualifying CDR hospitals with fewer than 15,000 Medicaid fee-for-service and managed care days paid at the Inpatient Per Diem rate in Calendar Year (CY) 2024. Hospitals will be assigned one of three payment tiers based on the hospital's aggregate qualifying Medicaid days, and payment issued proportionately within each tier.

The methods and standards described here are being proposed to establish rates and payments by contract that accurately reflect the efficient and economic provision of chronic disease services and/or comprehensive rehabilitation services. The actual change in aggregate expenditures is estimated to be \$558,000 but may vary depending on actual utilization of services.

Included with this notice are the proposed rates of payment, effective October 1, 2026. Please contact Pavel Terpelets, MassHealth Office of Long-Term Services and Supports, One Ashburton Place, 10th Floor, Boston, MA 02108, to request copies of any written comments about this notice.

STATUTORY AUTHORITY:

M.G.L. c.118E; 42 USC 1396

Related Regulations:

42 CFR Part 447

Executive Office of Health and Human Services

Chronic Disease and Rehabilitation Hospitals

Proposed Methods and Standards

For Rates Effective October 1, 2026

The following sections describe the proposed methods and standards to be used by the Executive Office of Health and Human Services (EOHHS) to establish rates of payment by contract, effective October 1, 2026, for services rendered by CDR hospitals to patients entitled to medical assistance under M.G.L. c. 118E, §1, *et seq.*

Section 1: Inpatient Per Diem Rate

The inpatient per diem rate is an all-inclusive daily rate paid for inpatient care and services provided by a hospital to a MassHealth member, except for administrative days (see Section 3). The inpatient per diem rate is derived using the following method: the sum of a hospital's base year inpatient operating costs (Section 1, paragraph B) and the allowable capital costs (Section 1, paragraph C) divided by a hospital's base year patient days, inflated by the Adjustment to Base Year Costs (Section 1, paragraph D).

A. Data Sources.

1. The base year for inpatient costs is HFY 2019. The MassHealth program uses the costs, statistics, and revenue reported in the HFY 2019 CHIA D403 cost report.
2. Inpatient costs include only costs incurred or to be incurred in the provision of hospital care and services, supplies, and accommodations and is determined in accordance with the Principles of Reimbursement for Provider Costs under 42 U.S.C. §§1395, *et seq.*, as set forth in 42 CFR 413, *et seq.*, and the Provider Reimbursement Manual, the HURM Manual, and generally accepted accounting principles. All references to specific schedules, columns, and lines refer to the CHIA D403 report filed with and reviewed by the Center for Health Information & Analysis (CHIA). Except where noted, all references are to the HFY 2019 version of the CHIA D403.
3. The calculations use each hospital's costs and statistics, as adjusted as a result of prior audits or reviews conducted by CHIA. The MassHealth program may also request additional information, data, and documentation from a hospital or CHIA as necessary to calculate rates.
4. If the specified data source is unavailable or inadequate, the MassHealth program will determine and use the best alternative data source and it may perform a statistical analysis to ensure comparability of data. If the required information is not furnished by a hospital within the applicable time period, it may not receive any increase to its rate.

B. Determination of Base Year Inpatient Operating Costs.

Base Year Inpatient Operating Costs are the sum of Inpatient Direct Routine Costs, Inpatient Direct Ancillary Costs, and Inpatient Overhead Costs described as follows.

1. Inpatient Direct Routine Costs. Inpatient Direct Routine Costs are a hospital's Total Inpatient Routine Costs derived from the CHIA D403.
2. Inpatient Direct Ancillary Costs. Inpatient Direct Ancillary Costs are calculated as follows.

Inpatient Direct Ancillary Costs are calculated by multiplying each hospital's chronic and rehabilitation inpatient ancillary expenses times the ratio of Total Direct Ancillary Expenses to Total Ancillary Expenses (including overhead). The resulting product constitutes the Total Inpatient Direct Ancillary Cost.

3. Total Inpatient Overhead. Total Inpatient Overhead Costs are calculated as follows.
 - a. Inpatient Routine Overhead cost is calculated by subtracting Inpatient Direct Routine Cost from Inpatient Routine Cost after step-down of overhead.
 - b. Inpatient Ancillary Overhead Cost is calculated by subtracting the Total Inpatient Direct Ancillary Cost determined in Section 1, paragraph B.2.a, from the Total Chronic and Rehabilitation Inpatient Ancillary Expenses reported on the CHIA D403.
 - c. The Allowable Chronic Disease and Rehab Inpatient Overhead Expense is then determined by adding the amounts described in 3a. and 3b.

C. Allowance for Inpatient Capital.

1. Each hospital's base year capital costs consist of the hospital's actual HFY 2019 patient care capital requirement for historical depreciation for building and fixed equipment; reasonable interest expenses; amortization; and leases and rental of facilities.
2. The limitations applicable to base year capital costs are described next.
 - a. Interest expense attributable to balloon payments on financed debt is excluded. Balloon payments are those in which the final payment on a partially amortized debt is scheduled to be larger than all preceding payments.
 - b. Where there was a change of ownership after July 18, 1984, the basis of the fixed assets used in the determination of depreciation and interest expense is the lower of the acquisition cost to the new owner or the basis allowed for reimbursement purposes to the immediate prior owner. The depreciation expense is calculated using the full useful lives of the assets.
 - c. All costs (including legal fees, accounting and administrative costs, travel costs, and the costs of feasibility studies) attributable to the negotiation or settlement of the sale or purchase of any capital asset after July 18, 1984 (by acquisition or merger), for which payment has previously been made by any payer, and which have been included in any portion of prior years' rates, are subtracted from capital costs.
3. Each hospital's base year inpatient unit capital cost equals the base year inpatient capital cost divided by the actual base year routine patient days.
4. The Inpatient Unit Capital amounts of all chronic hospitals in the Chronic Disease Hospital Group (listed in the next paragraph) are calculated and the median is set as the efficiency standard, which serves as the Chronic Disease Hospital Allowance for Inpatient Capital. Each chronic hospital in the Chronic Disease Hospital Group will be paid the lower of their actual costs or the Chronic Disease Hospital Allowance for Inpatient Capital.

The Chronic Disease Hospital Group consists of PAM Health Specialty Hospital, New England Sinai Hospital, Vibra Hospital of Western Massachusetts, and Spaulding Hospital-Cambridge.

5. The Inpatient Unit Capital amounts of all rehabilitation hospitals in the Rehabilitation Hospital Group (listed in the next paragraph) are calculated and the median is set as the efficiency standard, which serves as the Rehabilitation Hospital Allowance for Inpatient

Capital. Each rehabilitation hospital in the Rehabilitation Hospital Group will be paid the lower of their actual costs or the Rehabilitation Hospital Allowance for Inpatient Capital.

The Rehabilitation Hospital Group consists of Encompass Health of Braintree, Fairlawn Rehab Hospital, Vibra Hospital of Southeastern Massachusetts, Encompass Health Rehab Hospital of New England, Encompass Health of Western Mass, Spaulding Hospital-Cape Cod, Vibra Hospital of Western Massachusetts, Spaulding Rehabilitation Hospital-Boston, Whittier Rehabilitation Hospital-Bradford, and Whittier Rehabilitation Hospital-Westborough.

D. Adjustment to Base-Year Operating and Capital Costs.

Beginning RY 2025, an update factor of 6.383% was applied to base year costs based on the costs reported by the hospitals and an inflation estimate based on the Massachusetts Consumer Price Index.

Section 2: Determination of Inpatient Rate for New Hospitals

(i.e., Newly Licensed as Chronic Disease or Rehabilitation Hospitals after October 1, 2018).

A. The allowable overhead, routine, and ancillary per diem costs will be established at the median of HFY 2019 per diem costs reported by chronic and rehabilitation hospitals, updated by the factor calculated pursuant to Section 1, paragraph D.

B. The allowable capital per diem costs will be established at the efficiency standards as calculated pursuant to Section 1, paragraph C.

Section 3: Determination of Rate for Administrative Day Patients

A hospital will be paid for administrative days using either a facility-specific short-stay or statewide standard long-stay administrative day per diem rate (AD rate). AD rates are all-inclusive daily rates.

The short-stay and long-stay AD rates are based on an AD base per diem rate comprising the statewide AD routine per diem amount and the statewide AD ancillary per diem amount. The statewide AD routine per diem amount is derived from the weighted average Medicaid payment rate for case mix category T (10) patients in nursing facilities in 2003. The statewide AD ancillary per diem amount is derived from the statewide weighted average Medicaid ancillary payment for AD patients in chronic disease and rehabilitation hospitals in FY 2003. The sum of the routine per diem and ancillary add-on amount equals \$513.05, which is then inflated by 6.95%, resulting in an AD base per diem rate of \$548.71.

For RY2027, the short-stay AD per diem rate is the AD base per diem rate of \$548.71 increased by 64% of the difference between each hospital's inpatient per diem rate and the AD base per diem rate.

For RY2027, the long-stay AD per diem rate is the AD base per diem rate of \$548.71 increased by 35%, for a single statewide per diem rate of \$740.75.

Section 4: Determination of Outpatient Rate

A. The base year for outpatient costs is HFY 2014. The MassHealth program uses the costs, statistics, and revenue reported in the HFY 2014 CHIA D403 cost report.

B. A hospital will be paid for outpatient services using a hospital-specific outpatient cost-to-charge ratio. The outpatient cost-to-charge ratio is a fixed percentage that is applied to a hospital's usual and customary charges for outpatient services, based on charges filed with the CHIA as of July 1, 2017. Payment for a particular outpatient service will be equal to the product of the cost-to-charge ratio times the hospital's usual and customary charge for the outpatient service in effect as of July 1, 2017. Any such payment will not exceed the hospital's usual and customary charge.

- C. The cost-to-charge ratio for a specific hospital is calculated by dividing its outpatient costs (Schedule XVIII) by its outpatient service revenue (Schedule VI), as derived from the CHIA D403.

Section 5: RY2027 Discharge Planning Centered Quality Performance Incentive Payments to CDR Hospitals other than Pediatric CDR Hospitals

EOHHS will issue discharge planning-centered (DPC) quality performance incentive payments to qualifying CDR hospitals in RY 2027. The criteria for receiving a quality incentive payment are as follows.

- A. Qualification. To qualify for a DPC quality performance incentive payment, a CDR hospital must
1. be a CDR hospital (other than a pediatric CDR hospital or non-acute chronic hospital) with at least 500 licensed beds as of June 30, 2005, with at least 150,000 Medicaid patient days in the state fiscal year ended June 30, 2006, and with an established geriatric teaching program for physicians, medical students, and other health professionals;
 2. be a CDR hospital in Massachusetts serving MassHealth members;
 3. demonstrate to EOHHS that the CDR hospital made appropriate efforts to discharge MassHealth members in accordance with criteria designated by EOHHS in the Chronic Disease and Rehabilitation Inpatient Hospital Bulletin 101 and embedded Quality Performance Incentive Payment for Discharge Planning Form, available on the Commonwealth's website at [Chronic Disease and Rehabilitation Inpatient Hospital Provider Bulletins | Mass.gov](#); and
 4. bill for unpaid administrative days using appropriate billing codes, as designated by EOHHS.
- B. Payment. Subject to legislative authorization; compliance with all applicable federal statutes, regulations, and state plan provisions; the availability of funds; and full federal financial participation, EOHHS will make \$700 available to each qualifying CDR hospital for each patient day on which the hospital meets the criteria designated pursuant to Section 6.A. for a MassHealth member, for up to a maximum of 45 qualifying patient days per member.

EOHHS will issue the DPC quality performance incentive payments to qualifying CDR hospitals on or before the last day of the month following the month that the discharge planning form was submitted to EOHHS.

Section 6: RY2027 Supplemental Payment to CDR Hospitals other than Pediatric CDR Hospitals

Subject to compliance with all applicable federal statutes, regulations, and state plan provisions, the availability of funds and full federal financial participation, in RY 2027 EOHHS will make \$10,608,350 in total aggregate supplemental payments to qualifying non-acute CDR hospitals as described next.

- A. Qualification. To qualify for a supplemental payment, a qualifying non-acute chronic hospital must be a non-acute chronic hospital in Massachusetts with fewer than 15,000 Medicaid fee-for-service and managed care days paid at the Inpatient Per Diem rate in Calendar Year (CY) 2024.

Tier 1: A qualifying non-acute chronic hospital with fewer than 2,000 Medicaid fee-for-service and managed care days paid at the Inpatient Per Diem rate in CY 2024 will receive a supplemental payment of \$100,000 plus an additional payment from a pool of \$350,000 based on the hospital's proportional number of qualifying days within the tier.

Tier 2: A qualifying non-acute chronic hospital with more than 2,000 and fewer than 10,000 Medicaid fee-for-service and managed care days paid at the Inpatient Per Diem rate in CY 2024 will receive a supplemental payment from a pool of \$8,750,000 based on the hospital's proportional number of qualifying days within the tier.

Tier 3: A qualifying non-acute chronic hospital with more than 10,000 and fewer than 15,000 Medicaid fee-for-service and managed care days paid at the Inpatient Per Diem rate in CY 2024 will receive a supplemental payment from a pool of \$1,108,349 based on the hospital's proportional number of qualifying days within the tier.

- B. Payment. EOHHS will issue a RY 2027 Supplemental Payment to qualifying non-acute chronic hospitals during RY2027, with one payment no later than RY 2027 based on each hospital's proportional number of qualifying Medicaid days within the total number of qualifying Medicaid days from all qualifying non-acute chronic hospitals within the tier.

Table 1: Chronic Disease and Rehabilitation Hospital
Final Medicaid Inpatient and Outpatient
Per Diem Rates and Outpatient Cost/Charge Ratios
October 1, 2026

Facility	Inpatient Per Diem	Inpatient Short-Stay AD Per Diem	Outpatient Cost/Charge Ratio
Encompass Health of Braintree	\$1,047.74	\$868.09	66.58 %
Fairlawn Rehab Hospital	\$1,103.46	\$903.75	78.11 %
Vibra Hospital of Southeastern MA	\$1,353.54	\$1,063.80	51.92 %
Encompass Health Rehab Hosp of New England	\$1,189.21	\$958.63	80.48%
PAM Health Specialty Hospital	\$1,717.95	\$1,297.03	39.48 %
Vibra Hospital of Western MA	\$1,346.06	\$1,059.02	N/A
Spaulding Rehab Hospital-Cape Cod	\$1,749.15	\$1,316.99	38.96 %
Encompass Health Rehab Hospital West MA	\$1,074.51	\$885.22	83.13 %
Spaulding Rehab Hospital-Boston	\$2,013.84	\$1,486.39	44.08 %
Whittier Rehab-Bradford	\$1,422.66	\$1,108.03	46.51 %
Whittier Rehab-Westborough			

	\$1,387.23	\$1,085.36	36.95 %
Spaulding Hospital- Cambridge	\$2,182.10	\$1594.08	90.63 %