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MACs shall update the PSF by following the steps **in the order listed below to ensure the appropriate wage index is assigned properly** based on policies described in the corresponding implementation instructions. **We note, as MACs follow the steps in the sequence below, they may overwrite values filled in from a previous step.**

Files for download listed throughout this document are available on the CMS website. Files mentioned in this document include:

- **Table 2:** Wage Index Table by CCN
- **Table 4B:** Counties Redesignated Under Section 1886(d)(8)(B) of the Act (LUGAR COUNTIES)
- **County to CBSA Crosswalk file**

MACs shall use the following link to download these files from the CMS website (when not otherwise specified):

- <https://www.cms.gov/medicare/payment/prospective-payment-systems/acute-inpatient-pps/fy-2026-ipp-pps-final-rule-home-page>

Alternatively, the files on the webpage listed above are also available on the CMS website at [Acute Inpatient PPS website](#). Click on the link on the left side of the screen titled, “FY 2026 IPPS Final Rule Home Page” or the link titled “Acute Inpatient--Files for Download” (and select ‘Files for FY 2026 Final Rule and Correction’).

Note: Unless otherwise instructed, MACs shall use the final rule or if applicable correcting document version of the tables and data files posted on the FY 2026 Final Rule Tables and FY 2026 Final Rule Data Files webpages. Information on revisions made to the applicable correcting document tables and data files can be found on the MAC Implementation Files Webpage.

In general, for all tables, use the tab in Excel labeled with the term “FR” unless there is a tab with label “CA” or “CN”. For example, for Table 2, use the tab labeled “CN Table 2” and not the tab labeled “FR Table 2”.

LUGAR Hospitals and Urban to Rural Reclassification (42 CFR 412.103): For hospitals that have NOT waived their LUGAR status, MACs shall not rely on Table 2 to determine whether a hospital has Lugar status as hospital statuses can change. It is the responsibility of the MAC to verify the hospital’s LUGAR status. Lugar counties that are deemed urban are listed on Table 4B of each fiscal year’s IPPS final rule (or correcting document, as applicable). Also, MACs shall not rely on Table 2 to determine whether a hospital has an urban-to-rural 412.103 reclassification as hospital statuses can change.

For hospitals located in rural counties that are deemed Lugar counties on Table 4B (that is, counties redesignated under section 1886(d)(8)(B) of the Act), MACs must verify and ensure that a hospital’s Lugar status is applied appropriately. See below for complete details on how to fill-out the PSF for such hospitals.

Section 1: Hospitals Listed on FY 2026 Table 2

REMINDER: *For hospitals listed in Table 2, CMS is providing a spreadsheet by provider that can be used by the MACs as a guide to fill in the PSF based on the information available at the time of the FY 2026 IPPS Final Rule (or correcting document, as applicable). Since the spreadsheet is based on a hospital's geographic and reclassification information at the time of the FY 2026 IPPS Final Rule, **it should only be used as a guide**. The spreadsheet should NOT be relied upon as the final source to update the PSF (as more recent geographic or reclassification information for a hospital may become available subsequent to the development of the final rule). The steps in this document contain complete instructions for correctly filling in the PSF regarding ALL circumstances related to the wage index and is to be relied upon as the final source to update the PSF.*

Step 1- STATE CODE, GEOGRAPHIC CBSA, COUNTY CODE, SUPPLEMENTAL WAGE INDEX FIELD and SUPPLEMENTAL WAGE INDEX FLAG: Ensure the following fields are filled out for all providers with the correct value:

- **State Code (Data element 19)** contains the two digit state code. This field must match **the first** state code listed for each state on Publication 100-07, State Operations Manual, Chapter 2, Section 2779A1. This manual is available on the CMS website at [State Operations Manual Chapter 2](#).
- **Actual Geographic Location Core-Based Statistical Area (CBSA) field (Data Element 35)** contains either a two digit state code or a 5 digit CBSA code (depending on if the hospital is physically located in an urban or rural area).
- **County Code field (Data Element 60)** contains the 5 digit Federal Information Processing Standards (FIPS) county code. This field should match the value on the “FIPS County Code” column on FY 2026 Final Rule Table 2.
- **REMINDER Supplemental Wage Index Field (Data Element 63) and Supplemental Wage Index Flag (Data Element 64)** – For FY 2026, CMS is applying a 5 percent cap for FY 2026 on any decrease in a hospital's final wage index from the hospital's final wage index in FY 2025.
 - **Hospitals Eligible for the Cap:** All hospitals listed in Table 2 are eligible for the 5 percent cap (as applicable). **Therefore, MACs shall do the following for all hospitals listed in FY 2026 Table 2:**
 - The Supplemental Wage Index Flag (data element 64) must be “1”.
 - The Supplemental Wage Index field (data element 63) shall equal the wage index in Table 2 in the column labeled “FY 2025 Wage Index”.
 - These fields are used by the Pricer to determine the 5 percent cap on the decrease in a hospital's wage index for FY 2026, as applicable.
 - **Note: If the MAC or hospital believes that the wage index in Table 2 in the column “FY 2025 Wage Index” is incorrect, then the MAC shall contact the CMS Central Office at wageindex@cms.hhs.gov for further instructions.**
 - **Hospitals Ineligible for the Cap:** Note, under the 5 percent cap policy, new hospitals that open during FY 2026 are **NOT** eligible for the 5 percent cap. For newly opened hospitals in FY 2026 and hospitals not listed in FY 2026

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Table 2, MACs shall follow the instructions in Section 2 below. (As noted above, this is not relevant to hospitals listed in FY 2026 Table 2.)

Step 1a- Special Pay Wage Index: New for FY 2026 (Transitional Exception Policy)- The transitional exception policy applies to hospitals that benefitted from the FY 2024 low wage index hospital policy. For those eligible hospitals, we compare the hospital's FY 2026 wage index to the hospital's FY 2024 wage index. If the hospital is significantly impacted by the discontinuation of the low wage index hospital policy, meaning the hospital's FY 2026 wage index is decreasing by more than 9.75 percent from the hospital's FY 2024 wage index, then the transitional payment exception for FY 2026 for that hospital would be equal to the additional FY 2026 amount the hospital would be paid under the IPPS if its FY 2026 wage index were equal to 90.25 percent (95 percent for FY 2025 * 95 percent for FY 2026) of its FY 2024 wage index.

In order for Pricer to apply the transitional payment policy in FY 2026, it is necessary to use the Special Payment Indicator (data element 33) field and Special Wage Index field (data element 38) in the PSF. MACs shall use the spreadsheet titled "FY 2026 MAC Table 2 PSF Guide.xlsx" (which is included with MAC Implementation File 5) to identify hospitals eligible for the transitional payment policy. Hospitals eligible for the transition payment policy will have a "1" or "2" in the column titled "Special Payment Indicator field (Data Element 33)".

For hospitals eligible for the transitional payment policy in FY 2026, per the "FY 2026 MAC Table 2 PSF Guide.xlsx" spreadsheet, enter a "1" or "2" from the column titled "Special Payment Indicator field (Data Element 33)" in data element 33 of the PSF and enter the wage index from the column titled "Special Wage Index field (data element 38)" in data element 38 of the PSF.

REMINDER For all other hospitals that are not eligible for the transitional payment policy in FY 2026, MACs shall ensure that NO hospital has a "1" or "2" in the Special Payment Indicator (data element 33) field and no wage index value in the Special Wage Index field (data element 38) with an effective date of October 1, 2025. Unless otherwise instructed by CMS, MACs must seek approval from the CMS Central Office to use a "1" or "2" in the Special Payment Indicator (data element 33) field and a wage index value in the Special Wage Index field (data element 38).

Step 1b- Indian Health Providers: Pricer will apply the applicable wage index for Indian Health Service (IHS) or Tribal hospitals if the Provider Type Field (data element 9) is a "08". MACs shall ensure that data element 9 contains "08" for IHS or Tribal hospitals and follow the rest of the steps below in this section.

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Step 2- LUGAR Hospitals

- a) **(REMINDER for FY 2026):** Hospitals that waive LUGAR status are listed Table 2 in the column titled “Hospitals that Waive LUGAR to Receive Out-Migration Adjustment”. As indicated in Table 2, the following hospitals have waived LUGAR status for FY 2026 and are considered rural for all payments: 180056 and 320033. For these hospitals, MACs shall enter the following with an effective date of October 1, 2025:
- Data element 35 (Actual Geographic Location CBSA) reflects the CBSA of the hospital’s geographic rural location. This field should match the value in the “Geographic CBSA” column on FY 2026 Table 2.
 - Data elements 33, 36, and/or 37 shall contain “blank” values. Note: These hospitals above are now eligible for the out-migration adjustment (as described in the note below in this section).
- b) For hospitals that have the following:
- An active urban to rural 412.103 reclassification as of October 1, 2025
 - A “Y” in the “Dual Status 412.103 and MGCRB/LUGAR” column of FY 2026 Table 2
 - A CBSA listed in the “LUGAR/NECMA” and/or “MGCRB Reclass” column of FY 2026 Table 2

MACs shall enter the following with an effective date of October 1, 2025:

- Enter the two digit state code from data element 19 in the Standardized Amount CBSA field (data element 37).
- Enter a "Y" for reclassified in the Special Payment Indicator field (data element 33)
- Enter the CBSA from the “Wage Index Payment CBSA” column on FY 2026 Table 2 in the Wage Index Location CBSA field (data element 36)
- Ensure that data element 38 is blank

Note: Under this scenario (2(b)), MACs shall ensure that hospitals located in a LUGAR county, that is, hospitals that have an active urban to rural 412.103 reclassification as of October 1, 2025 and did not waive its LUGAR status, are properly reflected in the PSF per the instruction above (for a list of hospitals that waived LUGAR status and instructions for the PSF, see step 2(a)).

- c) For hospitals that have the following on FY 2026 Table 2:
- A CBSA listed in the “LUGAR/NECMA” column.
 - Do **not** have a CBSA listed in the “MGCRB Reclass” column
 - A blank in the “Dual Status 412.103 and MGCRB/LUGAR” column.

MACs shall enter the following with an effective date of October 1, 2025:

- Ensure the two digit rural CBSA state code from the “Geographic CBSA” column (FY 2026 Table 2) is in the Geographic Location Core-Based Statistical

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Area (CBSA) field in the PSF (data element 35). (This two digit rural CBSA code is the same as the state code in data element 19.)

- Enter a "Y" for reclassified in the Special Payment Indicator field (data element 33).
- Enter the CBSA from the "Wage Index Payment CBSA" column in FY 2026 Table 2 in the Wage Index Location CBSA field (data element 36).
- Enter the CBSA from the "LUGAR/NECMA" column in FY 2026 Table 2 in the Standardized Amount CBSA field (data element 37).

d) For hospitals that have the following on FY 2026 Table 2:

- A CBSA listed in the "Lugar/NECMA" column.
- A CBSA listed in the "MGCRB Reclass" column.
- A blank in the "Dual Status 412.103 and MGCRB/LUGAR" column.

MACs shall enter the following with an effective date of October 1, 2025:

- Ensure the two digit state code from data element 19 matches the Geographic Location Core-Based Statistical Area (CBSA) field in the PSF (data element 35).
- Enter a "Y" for reclassified in the Special Payment Indicator field (data element 33).
- Enter the CBSA from the "Wage Index Payment CBSA" column on FY 2026 Table 2 in the Wage Index Location CBSA field (data element 36).
- Enter the CBSA from the "LUGAR/NECMA" column in FY 2026 Table 2 in the Standardized Amount CBSA field (data element 37).

Step 3- Urban to Rural Reclassification (42 CFR 412.103):

For hospitals that have the following:

- An active urban to rural 412.103 reclassification as of October 1, 2025.
- A "Y" in the "Hospital Reclassified as Rural Under Section 1886(d)(8)(E) of the Act (412.103)" column of FY 2026 Table 2.
- A blank in the "Dual Status 412.103 and MGCRB/LUGAR" column of FY 2026 Table 2.

MACs shall enter the following with an effective date of October 1, 2025:

- Enter the two digit state code from data element 19 in the Standardized Amount CBSA field (data element 37).
- Ensure that data elements 33, 36, and 38 are blank.

Note: FY 2026 Table 2 contains a hospital's urban to rural 412.103 reclassification status as of the time of the development of the FY 2026 final rule. A hospital may have been approved or may have cancelled urban to rural 412.103 reclassification after this time and before October 1, 2025; thus, a hospital's urban to rural 412.103 reclassification status at the time of the effective date of this instruction may not be reflected in FY 2026 Table 2. Therefore, **MACs shall ensure that any changes in urban to rural 412.103 reclassification status are reflected in**

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the PSF so hospitals are paid appropriately for periods prior to and after October 1, 2025. To update the PSF, follow the instructions in Section 3 (titled “Hospitals Approved for an Urban to Rural Reclassification Under Section 1886(d)(8)(E) of the Act (42 CFR 412.103) in the Middle of the Fiscal Year”) below, if the hospital was approved for an urban to rural 412.103 reclassification, and follow the instructions in Section 4 (titled “Hospitals that Cancel their Urban to Rural Reclassification Under Section 1886(d)(8)(E) of the Act (42 CFR 412.103) in the Middle of the Fiscal Year”) below, if the hospital cancelled its urban to rural 412.103 reclassification. As discussed in these sections, it may be necessary for the MAC to reprocess claims from the effective date in the PSF until the date of reprocessing to ensure that claims are paid correctly.

Note: *For hospitals that are subsequently approved for urban to rural 412.103 reclassification with an effective date after 10/1/2025, see Section 3 (titled “Hospitals Approved for an Urban to Rural Reclassification Under Section 1886(d)(8)(E) of the Act (42 CFR 412.103) in the Middle of the Fiscal Year”) below. Also, for hospitals that subsequently cancel an approved urban to rural 412.103 reclassification with an effective date after 10/1/2025, see Section 4 (titled “Hospitals that Cancel their Urban to Rural Reclassification Under Section 1886(d)(8)(E) of the Act (42 CFR 412.103) in the Middle of the Fiscal Year”) below.*

Step 4- MGCRB Reclassification:

a) For hospitals that have the following:

- An active urban to rural 412.103 reclassification as of October 1, 2025.
- A “Y” in the “MGCRB Reclass to Home” column of FY 2026 Table 2.
- The CBSA in the “Geographic CBSA” column **matches** the CBSA in the “MGCRB Reclass column” in FY 2026 Table 2.

MACs shall enter the following with an effective date of October 1, 2025:

- Enter the two digit state code from data element 19 in the Standardized Amount CBSA field (data element 37).
- Enter a "D" for reclassified in the Special Payment Indicator field (data element 33).
- Enter the CBSA from the “Wage Index Payment CBSA” column on FY 2026 Table 2 in the Wage Index Location CBSA field (data element 36).

Note: *Under this scenario (4(a)), MACs shall ensure that hospitals with dual status have an active urban to rural 412.103 reclassification as of October 1, 2025.*

b) For hospitals that have the following:

- An active urban to rural 412.103 reclassification as of October 1, 2025.
- A “Y” in the “Dual Status 412.103 and MGCRB/LUGAR” column of FY 2026 Table 2.
- A CBSA listed in the “MGCRB Reclass” column.
- A blank in the “MGCRB Reclass to Home” column of FY 2026 Table 2.
- The “Lugar/NECMA” column is blank in FY 2026 Table 2.

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- The CBSA in the “Geographic CBSA” column **differs** from the CBSA in the “MGCRB Reclass column”.

MACs shall enter the following with an effective date of October 1, 2025:

- Enter the two digit state code from data element 19 in the Standardized Amount CBSA field (data element 37).
- Enter a "Y" for reclassified in the Special Payment Indicator field (data element 33)
- Enter the CBSA from the “Wage Index Payment CBSA” column on FY 2026 Table 2 in the Wage Index Location CBSA field (data element 36).
- Ensure that data element 38 is blank.

Note: *Under this scenario (4(b)), MACs shall ensure that hospitals with dual status have an active urban to rural 412.103 reclassification as of October 1, 2025.*

c) For hospitals that have the following on the FY 2026 Table 2:

- A CBSA listed in the “MGCRB Reclass” column.
- A blank in the “Dual Status 412.103 and MGCRB/LUGAR” column.
- A blank in the “Lugar/NECMA” column.

MACs shall enter the following with an effective date of October 1, 2025:

- Enter a "Y" for reclassified in the Special Payment Indicator field (data element 33).
- Enter the reclassified CBSA from the column titled “Wage Index Payment CBSA” on FY 2026 Table 2 in the Wage Index Location CBSA field (data element 36).
- Ensure that data elements 37 and 38 are blank.

NOTE: *Out Migration Adjustment: The Pricer will apply the out migration adjustment. Hospitals that are LUGAR (and did not waive their LUGAR status) or that have a MGCRB or urban to rural 412.103 reclassification are not eligible for the out migration adjustment. Therefore, if the MAC has entered a "Y" in the Special Payment Indicator field (data element 33) from step 2, 3 or 4 or has entered the rural CBSA in data element 37, then the hospital does not qualify for the out migration adjustment.*

Section 2: Hospitals Not Listed in FY 2026 Table 2 and New Hospitals in FY 2026

Note: Only hospitals listed in FY 2026 Table 2 are typically eligible for MGCRB reclassification. Therefore, this section does not address MGCRB reclassification.

In general, for the steps below, if the hospital was opened and certified to participate in Medicare prior to October 1, 2025 then the effective date in the PSF should be October 1, 2025. For new hospitals opened and certified to participate in Medicare after October 1, 2025 and on or before September 30, 2026, the effective date in the PSF should be the date the hospital was opened and certified to participate in Medicare.

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Step 1a (REMINDER) - Supplemental Wage Index Field (Data Element 63) and Supplemental Wage Index Flag (Data Element 64) - For FY 2026, CMS is applying a 5 percent cap for FY 2026 on any decrease in a hospital's final wage index from the hospital's final wage index in FY 2025.

- a) **Hospitals Ineligible for the Cap:** Under the 5 percent cap policy, new hospitals that open during FY 2026 are not eligible for the 5 percent cap. Therefore, for newly opened hospitals in FY 2026, the Supplemental Wage Index Flag field (data element 64) shall be blank and the value in the Supplemental Wage Index field (data element 63) shall be zeroes.
- b) **Hospitals Eligible for the Cap:** For hospitals not listed on Table 2 (other than new hospitals opened in FY 2026), **if the MAC or hospital believes that a hospital is eligible for this transitional wage index in FY 2026, MACs shall contact the CMS Central Office (see instructions below).**
 - i. The CMS Central Office will determine if a provider is eligible for the 5 percent cap policy. If the CMS Central Office determines that the provider is eligible for the 5 percent cap, CMS will provide instructions with the values that shall be filled in the Supplemental Wage Index Field (Data Element 63) and the Supplemental Wage Index Flag (Data Element 64).
 - ii. MACs shall email the CMS Central Office at wageindex@cms.hhs.gov with an explanation and the following information:
 - Provider Number
 - Provider Tie in Date
 - County Code (data element 60)
 - Geographic Location (data element 35)
 - Special Payment Indicator field (data element 33)
 - Wage Index Location CBSA field (data element 36)
 - Standardized Amount CBSA field (data element 37)

Even if the provider is eligible for the transition, MACs MUST follow steps 2a - 5 below.

Step 2a- STATE CODE (Data Element 19): Ensure the state code in data element 19 is filled out. This field should match **the first state code** listed for each state on Publication 100-07, State Operations Manual, Chapter 2, Section 2779A1. This manual is available on the CMS website at [State Operations Manual Chapter 2](#).

Step 2b- Indian Health Providers (Data Element 9): Pricer will apply the applicable wage index for Indian Health Service (IHS) or Tribal hospitals if the Provider Type Field (data element 9) is a "08". MACs shall ensure that data element 9 contains "08" for IHS or Tribal hospitals and follow the rest of the steps below in this section.

Step 2c- Special Payment Indicator (Data Element 33) field and Special Wage Index field (data element 38): For all IPPS providers (except those specified by CMS that are eligible for Transitional Exception Policy described in Step 1a of "Section 1: Hospitals Listed on FY 2026 Table 2"), MACs shall ensure that no hospital has a "1" or "2" in the Special Payment Indicator

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(data element 33) field and no wage index value in the Special Wage Index field (data element 38) with an effective date of October 1, 2025. Unless otherwise instructed by CMS, MACs must seek approval from the CMS Central Office to use a “1” or “2” in the Special Payment Indicator (data element 33) field and a wage index value in the Special Wage Index field (data element 38).

Step 3a- County Code (Data Element 60): Enter the FIPS county code in the county code field (data element 60). MACs shall determine the county where the provider is located and enter the appropriate FIPS county code in the “FIPS County Code” column from the *County to CBSA Crosswalk* file on the FY 2026 Final Rule webpage.

Step 3b- Geographic Location (Data Element 35): MACs shall ensure the Actual Geographic Location Core-Based Statistical Area (CBSA) field in the PSF (data element 35) reflects the correct current CBSA delineations. Use the *County to CBSA Crosswalk* file on the FY 2026 Final Rule webpage. Determine the county that the hospital is located in (data element 19) and enter the CBSA code from the column titled “FY 2026 CBSA (Revised Delineations)” in data element 35. If the CBSA column in the *County to CBSA Crosswalk* file is blank, then the hospital is rural, and enter the two digit state code from data element 19 into data element 35.

Step 4- LUGAR Hospitals:

- a) For hospitals located in rural counties that are deemed Lugar counties on Table 4B and are not approved for an urban to rural 412.103 reclassification, MACs shall do the following:
- Enter a "Y" for reclassified in the Special Payment Indicator field (data element 33)
 - Enter the urban CBSA on Table 4B from the column titled “LUGAR CBSA” in the Wage Index Location CBSA field (data element 36) *and* in the Standardized Amount CBSA field (data element 37)

Note: *Only those counties listed in Table 4B are deemed Lugar for FY 2026.*

For hospitals located in rural counties that are deemed Lugar counties on Table 4B and have been approved by the CMS Regional Office to reclassify as rural under section 1886(d)(8)(E) of the Act (42 CFR 412.103), MACs shall do the following:

- Enter the two digit state code from data element 19 in the Standardized Amount CBSA field (data element 37) with an effective date of October 1, 2025 or effective the date that the CMS Regional Office received the hospital’s application (typically specified in the Regional Office’s approval letter).
- Enter a "Y" for reclassified in the Special Payment Indicator field (data element 33).
- Enter the urban CBSA on Table 4B from the column titled “LUGAR CBSA” in the Wage Index Location CBSA field (data element 36)
- Ensure that data element 38 is blank.

Note: *Only those counties listed on Table 4B are deemed Lugar for FY 2026.*

Step 5- Urban to Rural Reclassification (42 CFR 412.103):

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If a hospital is located in an urban CBSA and has been approved by the CMS Regional Office to reclassify as rural under section 1886(d)(8)(E) of the Act (42 CFR 412.103) (and the hospital is not located in a LUGAR county on Table 4B and does not have a MGCRB reclassification), MACs shall do the following:

- Enter the two digit state code from data element 19 in the Standardized Amount CBSA field (data element 37) with an effective date of October 1, 2025 or effective the date that the CMS Regional Office received the hospital's application (typically specified in the Regional Office's approval letter).
- Ensure that data elements 33, 36, and 38 are blank.
- Ensure that all claims after the effective date in the PSF are paid correctly; the MAC may need to reprocess claims from the effective date in the PSF until the date of reprocessing to ensure that claims are paid correctly.

***Note:** For hospitals that are subsequently approved for urban to rural 412.103 reclassification with an effective date after 10/1/2025, see section 3 (titled "Hospitals Approved for an Urban to Rural Reclassification Under Section 1886(d)(8)(E) of the Act (42 CFR 412.103) in the Middle of the Fiscal Year") below. Also, for hospitals that subsequently cancel an approved urban to rural 412.103 reclassification with an effective date after 10/1/2025, see Section 4 (titled "Hospitals that Cancel their Urban to Rural Reclassification Under Section 1886(d)(8)(E) of the Act (42 CFR 412.103) in the Middle of the Fiscal Year") below.*

Section 3: Hospitals Approved for an Urban to Rural Reclassification Under Section 1886(d)(8)(E) of the Act (42 CFR 412.103) in the Middle of the Fiscal Year

At any point during a fiscal year, MACs may be notified by the CMS Regional Offices of hospitals located in an urban CBSA that are approved to reclassify as rural under section 1886(d)(8)(E) of the Act (42 CFR 412.103). The regulations at 412.103(a)(c) provide the CMS Regional Offices with up to 60 days to review and approve an urban to rural 412.103 reclassification request.

- a) Hospitals nationwide that have an MGCRB reclassification or LUGAR status and are then subsequently approved by the CMS Regional Office to reclassify as rural under section 1886(d)(8)(E) of the Act (42 CFR 412.103) **may keep** their existing LUGAR status or MGCRB reclassification for purposes of payment under the wage index. Under this scenario, MACs shall enter the following with an effective date in the PSF that is the date that the CMS Regional Office received the hospital's urban to rural 412.103 reclassification application (typically specified in the Regional Office's approval letter):
 - a) Enter the two digit state code from data element 19 in the Standardized Amount CBSA field (data element 37).
 - b) Enter (or leave in place) a "Y" or "D" for reclassified in the Special Payment Indicator field (data element 33).
 - c) Enter (or leave in place) the MGCRB or LUGAR CBSA in the Wage Index Location CBSA field (data element 36).
 - d) Ensure that data element 38 is blank.

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- e) Ensure that all claims after the effective date in the PSF are paid correctly. We note, if the MAC made no changes to data elements 33 and 36 and therefore no changes were made to the wage index, an urban to rural 412.103 reclassification still affects other payment policies such as Medicare Disproportionate Share (DSH). Therefore, if necessary, the MAC may still need to reprocess claims from the effective date in the PSF until the date of reprocessing to ensure that claims are paid correctly.
- b) If the hospital is approved by the CMS Regional Office to reclassify as rural under section 1886(d)(8)(E) of the Act (42 CFR 412.103) **and does not** have an existing LUGAR status or MGCRB reclassification, MACs shall enter the following with an effective date in the PSF that is the date that the CMS Regional Office received the hospital's urban to rural 412.103 reclassification application (typically specified in the Regional Office's approval letter):
 - Enter the two digit state code from data element 19 in the Standardized Amount CBSA field (data element 37).
 - Ensure that data elements 33, 36, and 38 are blank.
 - Ensure that all claims after the effective date in the PSF are paid correctly; if necessary, the MAC may need to reprocess claims from the effective date in the PSF until the date of reprocessing to ensure that claims are paid correctly.

Section 4: Hospitals that Cancel their Urban to Rural Reclassification Under Section 1886(d)(8)(E) of the Act (42 CFR 412.103) in the Middle of the Fiscal Year

REMINDER: CMS changed the policy/regulations of the cancellation of an Urban to Rural Reclassification under Section 1886(d)(8)(E) of the Act (42 CFR 412.103). Under the regulations in section 412.103(g)(4), for all written requests submitted by hospitals on or after October 1, 2021, to cancel urban to rural reclassifications a hospital may submit a written request to the CMS Regional Office not less than 1 calendar year after the effective date of the rural reclassification and not less than 120 days prior to the end of a Federal fiscal year. The hospital's cancellation of the classification is effective beginning with the next Federal fiscal year.

Therefore, once a hospital meets the requirements for cancellation in section 412.103(g)(4), the last day the urban to rural reclassification shall be effective in the PSF is September 30 of the final Fiscal Year the urban to rural reclassification is effective.

Based on the above, if a hospital meets the requirements for cancellation in section 412.103(g)(4), MACs shall do the following:

- a) Delete the rural CBSA from Standardized Amount CBSA field (data element 37) effective the first October 1 that occurs after the final Fiscal Year that the 412.103 urban to rural reclassification was effective.
- b) If the hospital is listed on FY 2026 Table 2, follow steps 1, 1a, 1b, 2c, 2d, 4a, and 4c in Section 1 above (titled "Hospitals Listed on FY 2026 Table 2") with the following exceptions:

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- For step 2c and 2d, disregard the requirement that hospitals must have a blank in the “Dual Status 412.103 and MGCRB/LUGAR” column).
- For step 4c, disregard the requirement that hospitals do not have a “Y” in the “Dual Status 412.103 and MGCRB/LUGAR” column).

***Note:** Per the steps required of this bullet, if the hospital has LUGAR status or is approved for reclassification by the MGCRB, leave in place the following: the MGCRB or LUGAR CBSA in the Wage Index Location CBSA field (data element 36) and the "Y" or "D" for reclassified in the Special Payment Indicator field (data element 33).*

- c) If the hospital is not listed on FY 2026 Table 2, follow steps 1 (1a and 1b), 2a, 2b, 2c, 3a, 3b, and 4 (and 4a)

***Note:** Per the steps required of this bullet, if the hospital has LUGAR status or is approved for reclassification by the MGCRB, leave in place the following: the MGCRB or LUGAR CBSA in the Wage Index Location CBSA field (data element 36) and the "Y" for reclassified in the Special Payment Indicator field (data element 33).*

- d) Ensure claims are paid correctly. it may be necessary for the MAC to reprocess claims from the effective date in the PSF, that is October 1, until the date of reprocessing.