Key Features of TEAM: Medicare's New Mandatory Bundled Payment Model

Medicare's new mandatory bundled payment model, the Transforming Episode Accountability Model (TEAM), begins in 2026. Under TEAM, hospitals will be required to assume financial risk for five 30-day surgical episodes, including the initial admission and most services provided to patients over the next 30 days.

Selected Markets: CMS will implement TEAM in 188 geographic markets listed here. The markets include approximately 741 hospitals which are listed here. Hospitals participating in BPCI-Advanced and Comprehensive Care for Joint Replacement (CJR) can opt into the model regardless of where they are located.

Model Timeline. TEAM begins on January 1, 2026, and continues through 2030.

Covered episodes: (1) Major joint replacement of the lower extremity, (2) surgical hip and femur fracture treatment (SHFFT), (3) spinal fusion, (4) coronary artery bypass graft (CABG), and (5) major bowel procedures. These episodes include 29 diagnostic related groups (DRGs) and eight hospital outpatient surgeries.

Qualifying hospitals. All acute care hospitals in selected CBSAs that are paid under Medicare's prospective payment system (PPS) with at least 31 qualifying episodes in the 3-year baseline period (2022-2024).

Target price methodology. Hospital target prices are based on average risk-adjusted spending per episode in each of nine US census regions during the 3-year baseline period. Target prices are set individually for each DRG in the model. CMS applies a 1.5% discount factor for the target prices of CABG and major bowel procedures and a 2% discount factor for major joint replacement, spinal fusion, and SHFFT episodes.

Financial risk. Hospitals are at full risk for gains and losses under TEAM subject to stop-loss and stop-gain thresholds in three risk tracks.

- **Track 1**: Hospitals can earn up to 10% in the model with no downside risk. Track 1 is available to all hospitals in 2026. Safety-net hospitals can remain in Track 1 through 2028.
- **Track 2**: Hospitals can earn up to 5% in the model and losses are capped at 5%. Only rural and safety net hospitals can participate in Track 2.
- **Track 3**: Hospitals in Track 3 can earn up to 20% in the model with losses capped at 20%. All non-rural, non-safety net hospitals must begin Track 3 in 2027.

Risk adjustment. The TEAM risk adjustment model includes 45 variables (shown here). These include four patient age categories, a social needs score, the count of HCCs in the three months prior to the episode start, hospital bed size and safety net status, five additional beneficiary characteristics, and 25 episode-specific HCC codes. Beneficiary social need is a yes/no variable, triggered if the beneficiary qualifies for full Medicaid benefits; is eligible for the Part D low-income subsidy; or lives in a community with a national area deprivation index (ADI) ranking above the 80th percentile or state ADI ranking above the 8th decile.

Physician Engagement. Physicians can participate as formal "collaborators" with TEAM hospitals and are eligible for gainsharing payments that must incorporate quality criteria.

Target Pricing Updates. Target prices are updated annually with a 1-year gap between the baseline period and the performance year. For example, 2026 prices are based on historical episode data from 2022 – 2024. They are trended to the performance year using a prospective updated factor subject to a retroactive adjustment of +/-3%.

Quality adjustments. TEAM adjusts each hospital's net payment reconciliation amounts (NPRA) using a composite quality score (CQS) based on its performance on five measures from the Hospital Inpatient Quality Reporting (IQR) program. Hospitals that meet the quality threshold receive an increase of up to 10 percent in any positive NPRA earned or a reduction in any negative NPRA of up to 15 percent for hospitals in Track 2 and up to 10 percent for hospitals in Track 3. The measures are:

1. Hybrid Hospital-Wide All-Cause Readmission Measure
2. Falls with Injury Rate
3. Postoperative Respiratory Failure Rate
4. Thirty-day Risk-Standardized Death Rate among Surgical Inpatients with Complications
5. For LEJR episodes: Hospital-Level Total Hip and/or Total Knee Arthroplasty (THA/TKA) Patient-Reported Outcome-Based Performance Measure (PRO-PM)

CMS calculates a CQS adjustment percentage by comparing each hospital's score to the distribution of scores among a national cohort of hospitals. This score determines the percentage adjustment to the hospital's NPRA.

This document is a high-level summary. Detailed model specifications are available in the 2025 iPPS final rule.

About IAC: The Institute for Accountable Care (IAC) is an independent, non-profit research institute dedicated to informing public policy and supporting organizations navigating value-based care. IAC is the official research partner of the National Association of ACOs (NAACOS).

Contact us if you would like to learn more about TEAM or its financial implications for your hospital: analytics@institute4ac.org