



South Dakota Medicaid Hospital Reimbursement Methodologies Update

May 7, 2025

Background

Project Goals

- Explore modernization of South Dakota Medicaid reimbursement methodologies while maintaining budget neutrality for the Medicaid budget.
- Conduct a comprehensive analysis of current reimbursement methodologies in comparison with contemporary practices, including those used by other state Medicaid programs.
- Project includes inpatient hospital, outpatient hospital, and dialysis reimbursement methodologies.
- Stated baseline objectives include potentially transitioning to the APR DRG payment methodology for inpatient hospital services and more widespread use of the APC methodology for outpatient hospital services.
- Myers and Stauffer will provide a report outlining the review, analysis, and recommendations for South Dakota Medicaid.

Background

Project activities to date

- Review of current South Dakota Medicaid reimbursement methodologies.
- Perform peer state research and compile information on other state policies and practices for DSS consideration.
 - Peer states include all border states (Iowa, Minnesota, Montana, Nebraska, North Dakota, Wyoming) and Colorado.
- Prepare policy decision matrix documenting South Dakota Medicaid reimbursement components.
- Provide preliminary recommendations from Myers and Stauffer.
- Obtain claims data and conduct modeling of an APR DRG transition for inpatient hospital services and more widespread adoption of APCs for outpatient hospital services.

Anticipated Positive Outcomes

- Modernized and streamlined reimbursement methodologies, which provides a better pathway to claims system modernization.
- Rebalancing of in-state and out-of-state expenditures as methodology changes result in higher reimbursement in the aggregate for in-state providers.
- Increased DRG Base Payments by reducing outlier payments to a more reasonable level and investing in higher base payments.
- Increased cost coverage for key service lines including pediatrics and obstetrics.
- Implementation of APR-DRG, which is better suited to the Medicaid population and will utilize a weight set that more accurately reflect case severity.

Recommended Payment Methodology Changes



Updated Inpatient Payment Methodologies

Hospital Type	Current Reimbursement Methodology	New Reimbursement Methodology
In-state Acute Care Hospitals	MS-DRG	APR-DRG
NICUs	Per Diem	APR-DRG
Psychiatric Units	MS-DRG or Per Diem	APR-DRG
Rehabilitation Units	Per Diem	Per Diem
IHS Hospitals	Per Diem	Per Diem
Long Term Acute Care Hospitals	Per Diem	Per Diem
Human Services Center	Per Diem	Per Diem
Critical Access Hospitals	MS-DRG or 95% UCC	% UCC with Cost Settlement
Specialized Surgical Hospitals	66% UCC & 60% UCC for room and board	APR-DRG
Out-of-State Hospitals	44.15% UCC	APR-DRG

Recommended Inpatient Payment Methodology Changes

APR-DRG

Reimbursement Component	Updated Reimbursement Methodology
Grouper Version	APR-DRG Version 42
DRG Weights	Solventum (formerly 3M) National DRG Weights <ul style="list-style-type: none">Hospital Specific Relative Value (HSRV) Weights
Base Rate	Statewide Base Rate \$11,302.23* (final values TBD based on final modeling)
Base Rate Add-Ons	Peer Group Add On's <ul style="list-style-type: none">Out of State CAH \$16,675* (TBD based on final modeling)Out of State Pediatric Hospital & Specialty Hospital \$13,875* (TBD based on final modeling)
Outlier Methodology	Cost Based <ul style="list-style-type: none">Fixed Loss Threshold \$65,000 (final values TBD based on final modeling)Marginal Cost Percentage 50% (final values TBD based on final modeling)Hospital Specific Cost to Charge RatiosTargeting 5-6% of inpatient expenditures through outlier payments

Recommended Inpatient Payment Methodology Changes

Per Diem

Reimbursement Component	Updated Reimbursement Methodology
Rate	Rehabilitation Hospital & Units - \$1,354.48* (<u>final values TBD based on final modeling</u>) Long Term Acute Care Hospitals – Rate TBD
Days	Covered Days

Recommended Inpatient Payment Methodology Changes

Percent of Charge

Reimbursement Component	Updated Reimbursement Methodology
Rate	Hospital Specific <ul style="list-style-type: none">• Cost Settled at 100%
Charges	Usual and Customary Charges

Updated Outpatient Payment Methodologies

Hospital Type	Current Reimbursement Methodology	New Reimbursement Methodology
In-State Acute Care Hospitals and Specialized Surgical Hospitals	APC, Fee Schedule	APC, Fee Schedule
IHS Hospitals	Per Diem	No Change
In-state Critical Access Hospitals	Percent of Charge	Percent of Cost (100%)
Out-of-State Hospitals	Percent of Charge	APC

Recommended Outpatient Payment Methodology Changes

APC

Reimbursement Component	Updated Reimbursement Methodology
Conversion Factor(s)	National conversion factor for most APC hospitals \$89.17* (<u>Final values TBD based on final modeling</u>) Enhanced conversion factor for out-of-state CAHs \$160.07* (<u>Final values TBD based on final modeling</u>)
APC Weights	CMS National APC Relative Weights
Fee Schedule	South Dakota Medicaid Fee Schedule used to price lines without APC assignments

Recommended Outpatient Payment Methodology Changes

Percent of Charge

Reimbursement Component	Updated Reimbursement Methodology
Rate	Hospital Specific <ul style="list-style-type: none">• Cost Settled at 100%
Charges	Usual and Customary Charges

Proposed Timelines



Proposed Timelines

- System Calculations and Modeling (June 2024 - April 2025)
- Initial Stakeholder Presentations (April & May 2025)
- System changes to SD MMIS (May-December 2025)
- Additional Modeling (As Needed)
- Future Stakeholder Meetings (As needed)
- Release Frequently Asked Questions Document (As needed)
- New Payment Methodology and/or Rates Effective (January 2026)*
- Annual/Biennial Update of System Components

*Pending programming

Q&A





Thank You

Contact Medicaid at DSS.Medicaid@state.sd.us

