Medicaid Updates and Discussion

July 15, 2025

South Dakota Department of Social Services

Reimbursement Methodology Studies

- Medicaid is working with vendors to review both the hospital reimbursement methodologies and FQHC/RHC reimbursement rates.

- The hospital reimbursement review is intended to modernize the methodologies and align them with industry practices.

- The Federally Qualified Health Centers (FQHCs)/Rural Health Clinics (RHCs) rate review is intended to review costs and explore potential alternative payment methodologies.

Hospital Updates

- IHS Hospitals
  - IHS hospitals will continue to be reimbursed in accordance with the per diem rates established by the federal government.
- APR-DRG
  - Move from MS-DRG to APR-DRG.
  - APR-DRG is better suited for the Medicaid population and has more refined pricing that better reflects case severity.
- Standardize Payment Methodologies
  - Methodologies will be more uniform in-state and out-of-state.
  - Base rates for calculating payments will be standardized across providers instead of provider specific.
- Critical Access Hospitals
  - Align closer with Medicare's cost-based methodology.
- Implementation Date
  - Changes are targeted for January 1, 2026 pending completion of programming.

FQHC/RHC Updates

- A survey was sent to providers in May to collect feedback about current reimbursement as cost information.

- The State's vendor will provide a report to the State by August 31st, which will include findings from the analysis and any recommendations regarding alternative payment methodologies.

- It is anticipated that if an alternative payment methodology is adopted by South Dakota Medicaid that it would be implemented in SFY 27 (July 2026).

July Rate 1 Updates

- Many professional services received a 1.25% rate increase.
  - Rates were limited to 100% of Medicare, which resulted in some rates decreasing.

- Targeted increases were applied to transportation service rates including ambulance, secure transportation, and community transportation.

- Facilities including hospitals reimbursed under APC, DRG, and per diems received a 1.25% increase.
  - IHS and tribal 638 providers per diem is based on the rate determined by the federal government and is not subject to the 1.25% increase.

Care Management Mental Health Referrals

- Effective for dates of service of June 1, 2025, care management referrals (Primary Care Provider, Health Home, and BabyReady programs) are no longer required for outpatient mental health services provided by community mental health centers, independent mental health practitioners, and psychiatrists.

- The change is intended to remove a potential barrier to accessing mental health services.

- Community mental health center services for individuals with serious emotional disturbance or serious mental illness as well as substance use disorder treatment agency services were already exempt from care management referrals and continue to be exempt.

- Care management providers should continue to help Medicaid recipients on their caseload locate and coordinate behavioral health services as needed. However, claims for these services will no longer require a referral from the care management provider in order to pay.

Frequently Asked Questions Discussions

Medicaid is currently working on updating the frequently asked questions on our website:

- What common questions do you hear or have that you would like included in this update?

- Would you prefer FAQs in a centralized location or embedded in subject areas? For example, care management FAQs included on the Care Management page.