



South Dakota
Department of
Social Services

DEPARTMENT OF SOCIAL SERVICES
DIVISION OF MEDICAL SERVICES
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July 1, 2026

Attention: Providers and Billing Professionals

From: South Dakota Medicaid

RE: SFY 27 Reimbursement Methodology and Rate Updates

South Dakota Medicaid is implementing reimbursement methodology updates for SFY27 intended to modernize methodologies, strengthen primary care, align payments more closely with relative resources associated with delivering services, and implement inflationary increases.

Hospital Reimbursement Updates

Medicaid is implementing updated hospital methodologies effective July 1, 2026. Methodology updates better align in-state and out-of-state hospital methodologies and better ensure, and equitable reimbursement. Methodology changes are expected to result in an additional \$17.8 million in annual payments to South Dakota hospitals primarily due to more closely aligning in-state and out-of-state reimbursement methodologies. Methodology updates also incorporate an additional \$5.8 million in appropriated inflationary increases. Changes include transitioning from MS-DRG to APR-DRG. For additional details please refer to our [Hospital Reimbursement Methodology FAQs](#).

FQHC Alternative Payment Methodology

Medicaid is implementing an alternative payment methodology for Federally Qualified Health Centers. The methodology is a cost-based weighted average that provides enhanced cost coverage for FQHCs. The methodology will help ensure continued access to Medicaid primary care and dental services for Medicaid recipients through Medicaid's FQHC partners. Changes are anticipated to result in approximately \$8 million in additional annual payments to FQHC providers.

Care Connect Rate Rebase

The Care Connect quality incentive payment pool and PMPM payment rates will receive a 1.4 percent inflationary increase. In order to better align Care Connect tier payments with cost avoidance generated by each Care Connect Tier, Tier 1 to 4 PMPM payment rates were initially rebased prior to applying the inflationary increase. The changes represent an increase in the PMPM for Tiers 1, 2, and 3 and a decrease for Tier 4 from current PMPM amounts. In addition, it also makes the tier payments uniform for both Community Mental Health Center and Primary Care Provider Care Connect providers. PMPM tier payments will be the following effective July 1, 2026:

- Tier 1: \$35.15
- Tier 2: \$58.99
- Tier 3: \$99.54
- Tier 4: \$166.35

In the aggregate, the changes are budget neutral prior to application of the 1.4 percent inflationary increase.

Professional Services and Other Services Inflationary Rate Increases

South Dakota Medicaid is implementing \$5,346,988 million in inflationary increases for professional and other healthcare services. Inflationary rate increases will be implemented effective July 1, 2026. Professional services rates generally received a 1.4% inflationary rate increase not to exceed 100% of the Medicare rate. This includes:

- Ambulatory Surgical Centers
- Supplies, Orthotics and Prosthetics with no Medicare rate
- Durable Medical Equipment (Not including items subject to Section 1903(i)(27)) of the Social Security Act)
- Dental Services including Dentures
- Early and Periodic Screening, Diagnosis, and Treatment (EPSDT)
- Optometric Services
- Chiropractic Services
- Occupational, Speech, and Physical Therapy
- Nutritionists and Dietician Services
- Clinic Services
- Eyeglasses
- Free Standing Birth Centers
- Diabetes Self-Management Training
- Nurse Midwife Services
- Community Transportation
- Home Health Agencies
- Independent Mental Health Practitioners Services
- Physician Services
- Nursing Facility Services
- Physician Administered Drugs with no Medicare rate
- Community Health Worker Services
- Doula Services
- Targeted Case Management Services
- Child Private Duty Nursing Services
- Applied Behavior Analysis Services
- Disproportionate Share Hospital Payment Pools
- Graduate Medical Education Payment Pools
- PCP and Pregnancy Care Management Program Per Member Per Month Payments

All professional service reimbursement rates that were above 100% of Medicare or that would exceed 100% of Medicare with inflation applied were limited to 100% of the Medicare allowable amount. This was applied using the South Dakota Medicare non-qualifying APM conversion factor rate. In addition, rates were capped using both Medicare’s non-facility and facility rates. Refer to the [General Claims Guidance](#) provider manual for more information regarding when the maximum allowable fee is the non-facility rate or the facility rate. Savings from rates being capped at the Medicare rate were reinvested into increasing other professional service rates as described below, which resulted in increases for services such as primary care services, independent mental health services, and air and ground ambulance services.

Service	Type	Rate/Method
Professional Services including Ground Ambulance	Targeted Increase	<ul style="list-style-type: none"> • Procedure codes with rates below 96.5% of Medicare increased 96.5% of Medicare

Air Ambulance	Targeted Increase	<ul style="list-style-type: none"> • Procedure codes were rebased to 80% of Medicare
Community and Secure Transportation Services	Targeted Increase	<ul style="list-style-type: none"> • A0100 - \$5.20 • A0120 - \$5.20 • A0130 - \$43.39 • S0209 - \$2.61 • S0215 - \$1.04 • T2001 - \$2.60 • T2005 - \$109.66 • T2049 - \$2.61
Ambulatory Surgical Centers	Targeted Adjustments	<ul style="list-style-type: none"> • Adjusted codes within grouper reimbursement structure

Updated fee schedules are available online at <https://dss.sd.gov/medicaid/providers/feeschedules/>.

BabyReady Program Updates

Based on provider feedback that recipients are generally transitioned to a primary care provider after two months, the BabyReady program will allow for postpartum eligibility for two months instead of 3 months. Savings generated by this change were reinvested to increase the prenatal care enhanced payment (HCPCS Code G9151) rate for achieving adequate or adequate plus prenatal care. The new rate for G9151 is \$333.30.

If you have any questions, please contact the Division of Medical Services at 1-800-452-7691 or DSS.Medicaid@state.sd.gov.

Sincerely,

South Dakota Medicaid