South Dakota Department of Social Services

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# South Dakota Medicaid
# Hospital Reimbursement Methodology Changes
# Frequently Asked Questions

*Last Revised May 15, 2026*

## General Questions

1. **Why are hospital methodologies being reviewed?**

   Medicaid pays for healthcare services for approximately 140,000 South Dakotans. In SFY 2025, Medicaid spent approximately $400 million dollars on hospital services (not including IHS hospital expenditures). As one of the largest healthcare payers in the State as well as a publicly funded healthcare payer it is important for Medicaid to periodically review and update reimbursement methodologies to ensure the underlying components for pricing hospital services are sound and reasonable.

2. **What hospital methodologies are changing?**

   South Dakota Medicaid contracted with Myers & Stauffer to complete a review of inpatient and outpatient hospital methodologies. Recommended methodology changes include:

   - Transitioning inpatient prospective payment hospitals from MS-DRG to APR-DRG.
   - Including out-of-state hospitals in the APR-DRG and APC methodologies.

   Additional details regarding changes are described throughout this document.

3. **What hospital methodologies are <u>not</u> changing?**

   Certain methodologies were recommended to continue to be used including per diem methodologies for rehabilitation units/hospitals, long term acute care hospitals, and IHS hospitals as well as using APC for prospective payment outpatient hospitals. In some cases, although the methodology is not changing, the payment components such as the per diem amount or the base rate may be changing.

4. **What are the benefits of these changes?**

   Changes are being made to streamline, modernize, and simplify payment methodologies as well as address known issues. Benefits of the changes include:

   - **Increased In-state Reimbursement**: In-state providers will generally see an increase in reimbursement due to in-state and out-of-state methodologies being more closely aligned.
   - **Increased Reimbursement for Rural Hospitals**: Rural South Dakota hospitals will continue to see similar or higher levels of reimbursement.
   - **Equitable Reimbursement**: APR-DRG and APC base rates will be more uniform resulting in more equitable payment levels and similar payment amounts for similar services rendered.
   - **More Reasonable Per Claim Payments**: Transitioning to APR-DRG and more industry standard weight sets and cost outlier methodology will result in per claim payments more closely aligning with the associated hospital resources for rendering services.

5. **When will the hospital methodology changes be implemented?**

   South Dakota Medicaid is targeting implementing methodology changes July 1, 2026.

6. **What is the fiscal impact of the hospital methodology changes?**

   Changes were modeled to be budget-neutral for the State of South Dakota using a three-year claims set. The final modeling incorporated funding increases appropriated during the 2026 legislative session. In-state providers will generally see an increase in reimbursement due to in-state and out-of-state methodologies being more closely aligned.

7. **When will updated fee schedule and provider manuals be available?**

   Updated fee schedules for July 1, 2026, are currently available on the main provider page: https://dss.sd.gov/medicaid/providers/. Around July 1 they will also be posted on the fee schedule webpage: https://dss.sd.gov/medicaid/providers/feeschedules/. Update provider manuals will be posted in June 2026 on the main provider page https://dss.sd.gov/medicaid/providers/ and on the provider manuals webpage: https://dss.sd.gov/medicaid/providers/billingmanuals/.

**Inpatient Hospital Questions**

8. **How are inpatient prospective payment system hospitals paid?**

   Both in-state and out-of-state prospective payment hospitals will transition from the MS-DRG methodology to the APR-DRG methodology.

9. **What grouper version and weight set is Medicaid going to use?**

   Medicaid will use APR-DRG version 43 and Solventum HSRV national weight.

10. **Are there different APR-DRG base rates for different service lines?**

    No.

**11. Are any policy adjustors being used?**

No.

**12. What is the new cost outlier methodology?**

Claims will qualify for an outlier if the hospital's estimated costs are greater than the DRG Base Payment + the fixed loss threshold, which is $53,000. A claim's estimated costs are calculated by multiplying a hospital-specific cost-to-charge ratio (CCR) by the charges submitted on the claim. The amount of the outlier payment is calculated as the (Estimated Cost – (DRG Base Payment + the fixed loss ratio)) * 60 percent. The outlier payment is in addition to the base payment.

**13. What is the new transfer payment methodology?**

Payment is allowed to the transferring hospital whenever a patient is transferred to another hospital regardless of whether the receiving hospital is paid under the DRG system or is an exempt hospital or unit. The amount of payment made to the transferring hospital is prorated payment not to exceed full DRG payment, for hospital-to-hospital transfers calculated with Medicaid covered days + 1. The prorated payment amount is calculated as the (DRG base payment / APR-DRG National Average Length of Stay) * (Covered days + 1). The receiving hospital will be paid a normal DRG payment unless the patient is again transferred to another hospital, in which case the hospital is paid under the transfer payment logic stated above. Note the transfer payment logic is not used for DRGs 580 or 581. The logic applied to discharge codes: 02, 05, 07, 43, 51, 62, 63, 65, and 66.

**14. Are interim payments allowed for APR-DRG providers?**

One interim APR-DRG claim may be submitted if the stay is 60 days or longer. The discharge status for the claim must be 30. The claim will be reimbursed at a per diem amount of $400. The interim claim must be voided upon discharge and a final claim must be submitted.

**15. What hospital/hospital units are exempt from the APR-DRG methodology?**

The following hospitals/hospital units will be exempt from DRGs:

- Critical Access Hospitals;
- Rehabilitation Hospitals and Rehabilitation Hospital Units;
- Lifescape;
- Long Term Acute Care Hospitals;
- Indian Health Services Hospitals; and
- Human Services Center Hospital.

**Critical Access Hospitals (CAHs) Questions**

**16. How are in-state Critical Access Hospitals paid?**

Critical Access Hospitals are being held harmless and will continue to be reimbursed using the current two peer group structure.

- Peer Group 1: These providers will transition from MS-DRG to percent of charge reimbursement for inpatient hospital services, which will provide more robust inpatient

hospital reimbursement. Outpatient hospital services will continue to be reimbursed using percent of charge reimbursement.

- Peer Group 2: These providers will continue to be reimbursed at 95% of billed charges for inpatient hospital services and 90% of billed charges for outpatient hospital services. These are the same percentages at which these hospitals are currently reimbursed.

The rates and peer groups are published on the fee schedule website: https://dss.sd.gov/medicaid/providers/feeschedules/.

**17. How were peer groups determined?**

CAHs have historically been split into two peer groups based on Medicaid claims volume with each peer group paid under different inpatient and outpatient hospital methodologies. In order to hold CAHs harmless, the two peer groups were maintained as currently constituted.

- Peer Group 1: Has historically consisted of higher Medicaid volume CAHs. These CAHs are currently paid under MS-DRG for inpatient services and percent of charge rates for outpatient services. The rates were originally tied to cost, but have not been recently rebased to current costs.
- Peer Group 2: Has historically consisted of very small, very rural CAHs with low Medicaid claims volume. These providers have historically been paid 95% for inpatient hospital services and 90% for outpatient hospital services.

**18. Can a CAH move between peer groups?**

As the methodology is holding CAHs harmless and the overall updates to the methodology are budget neutral for the Medicaid budget it is not anticipated CAHs will move between peer groups at this time. Medicaid is open to revisiting the CAH methodology and the peer group structure during the next hospital comprehensive rate review, which is currently anticipated to occur in SFY 29.

**19. How are in-state CAH rates reviewed?**

Peer Group 1 cost reports will be reviewed on an annual basis. If the payment for a Peer Group 1 provider is below 100% cost coverage for the hospitals inpatient and outpatient hospital services combined, the hospital will receive an additional payment to bring them up to 100% cost coverage. The hospital's percent of charge rates would also be adjusted to approximate 100% cost coverage. Peer Group 1 CAHs would also see a rate adjustment if the annual rate review indicates their cost coverage level exceeds the greater of 100% of allowable cost or their 2024 cost coverage level. The proposed methodology does not include recoupment if the hospital is paid above cost.

Medicaid will also review Peer Group 2 cost reports on an annual basis and monitor cost coverage levels. The hold harmless methodology proposes to continue to reimburse hospitals at 95% for inpatient hospital services and 90% for outpatient hospital services without adjusting rates on an annual basis.

**20. When do in-state CAHs need to submit cost reports?**

In-state CAHs must file their Medicare cost report with South Dakota Medicaid no later than five months after the end of their fiscal year. This requirement goes into effect July 1, 2026. For example, for hospitals with a fiscal year ending December 31, 2026, the cost report must be

submitted to the state no later than May 31, 2027. Cost reports must be submitted electronically to DSSFinancePRA@state.sd.us.

**21. How are out-of-state CAHs be reimbursed?**

Out-of-State CAHs will be reimbursed using the APR-DRG and APC methodologies with enhanced base rates to provide enhanced cost coverage. The enhanced base rates were modeled to provide aggregate 100% cost coverage for this peer group.

## Outpatient Hospital and Dialysis Questions

**22. How is the outpatient hospital acute care methodology changing?**

Both in-state and out-of-state outpatient hospitals will be paid under the APC methodology. Medicare PPS hospitals will all be paid using the same base rate rather than a hospital-specific base rate.

**23. How is the dialysis methodology changing?**

South Dakota Medicaid is implementing a composite methodology to reimburse covered dialysis services. This payment methodology will bundle all dialysis related services into one payment reimbursed under CPT 90999. The renal dialysis composite rate will be $550.35.

**24. Will these changes impact both outpatient and freestanding dialysis clinics?**

Yes, both outpatient and freestanding dialysis clinics with a dialysis taxonomy of 261QE0700X will be moving to a composite rate methodology. Dialysis units owned by a CAH will be reimbursed at their outpatient percent of charge.

**25. What is included in the composite payment?**

The composite payment was modeled to be inclusive of all dialysis related treatments and services. This includes dialysis treatments, labs, drugs and biologicals, supplies, Transitional Add-on for New and Innovative Equipment and Supplies (TPNIES), Transitional Drug add-on Payments (TDAPA), blood, blood products, and training.

**26. Are any services reimbursed in addition to the composite payment?**

Yes, additional payment may be made for non-ESRD related labs, supplies, drugs and biologicals, and immunizations when reported with the AY modifier.

**27. How does this methodology differ from Medicare?**

South Dakota Medicaid will differ from Medicare's methodology in that no additional payments will be made for the following:

- Outlier payments
- Blood, blood products, and albumin
- TDAPA drugs (transitional drug add-on payments)
- TPNIES (Transitional Add-on for New and Innovative Equipment and Supplies)
- Training

## Additional Questions

**28. What is the best way to contact Medicaid regarding questions that were not answered in this document?**

Please email additional questions to Medicaid at DSS.Medicaid@state.sd.us and include Hospital Reimbursement Methodology Updates in the subject line.