Hospital Finance in South Dakota

SDAHO

Health care financing in South Dakota presents unique challenges due to the state's rural geography, aging population, and complex payer mix.

Hospital margins in rural areas average 0-3%, significantly lower than other industries, while Medicare and Medicaid comprise 60-70% of most hospital revenue but reimburse below actual costs. Non-profit hospitals in South Dakota provide millions on dollars in community benefits annually, serving as critical economic anchors in rural communities.

Hospital Operating Costs



Labor = 48% | Supplies = 24% | Other = 20% | Depreciation = 5% | Interest = 1% | Margin = 0-3%

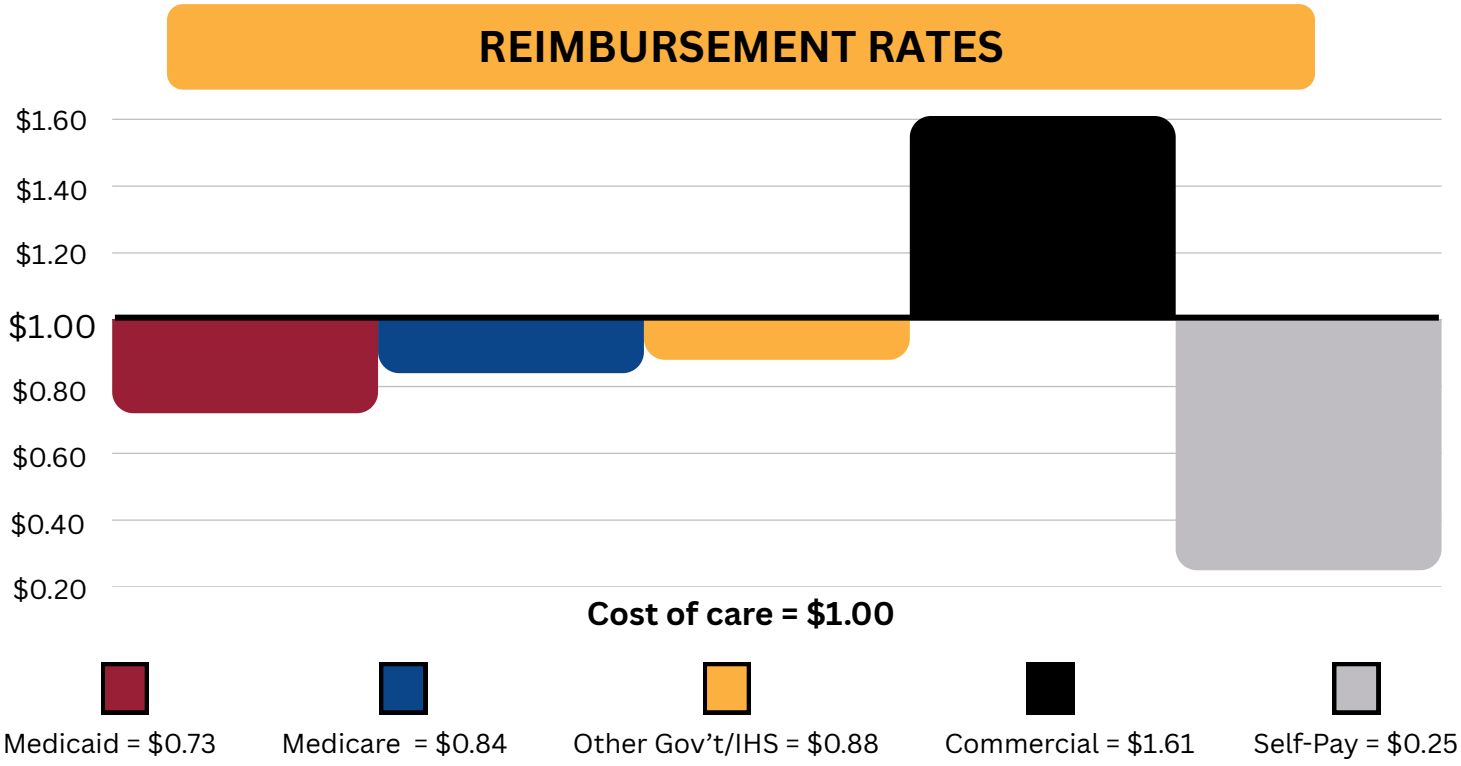
Non-Profit Hospital Community Benefits

- Non-profit hospitals receive tax exemptions in exchange for providing community benefits.
- Charity care represents free medical services for patients below poverty thresholds.
- Non-profit hospitals also serve as major educational institutions, providing nursing programs, physician residency training, clinical sites for healthcare students, and continuing education to address workforce shortages.
- Hospitals serve as major employers and purchasers from local vendors while supporting their community events. South Dakota hospitals provided over $3B in employee wages in 2024. Rural hospitals particularly serve as critical community anchors, with hospital closures significantly impacting local economic development and forcing residents to travel long distances for emergency and specialty services.
- When South Dakota hospitals have a positive margin, **they must reinvest that in their communities, employees, or infrastructure.**



How does payer mix impact margins

Hospitals must contract rates with insurance providers that help make up the shortfall between the cost of care and the severe underfunding from government payers.



Payer Mix - percentage of patient population by payer type



Types of Health Care Payers

Government

- **Medicaid:** Serves low-income individuals and families, primarily children, pregnant women, the elderly, and people with disabilities. Has a cost sharing mechanism between the State and federal government called the Federal Matching Assistance Percentage (FMAP). This match is capped at 50% for the State.
  - **Medicaid Expansion:** Starting July 1, 2023 low-income, childless adults age 18-64 became eligible for full Medicaid benefits in SD. Paid for utilizing FMAP with 90% federal contribution.
- **Medicare:** Health insurance for individuals 65 and older paid for by the federal government.
- **Indian Health Services (IHS)**: Serves American Indians and Alaska Natives. Paid for by the federal government.
- **Children's Health Insurance Program (CHIP)**: Serves Children in low to moderate income families not eligible for Medicaid. Paid for utilizing FMAP. Mirrors Medicaid for reimbursement.

Commercial

- **Private insurers:** Wellmark Blue Cross Blue Shield, Sanford Health Plan, Avera Health Plans, UnitedHealthcare.
- **Employer-sponsored plans:** State of South Dakota
- **Marketplace/ACA plans**

Uninsured

- **Self-pay:** individuals who pay out of pocket for their healthcare
- **Bad debt:** occurs when payment was expected but the patient fails to pay and the provider is unable to collect after reasonable collection efforts.
- **Charity care:** free or discounted care provided intentionally to patients who are unable to pay, based on financial need.

**figures are averages from facilities located across the state*