

UCDHS Compliance Office

Medicare Guidance for Observation Versus Inpatient Admission

The use of observation is frequently misunderstood, especially the difference between observation services and inpatient admission. When a patient, whose condition warrants outpatient observation services, is admitted as an inpatient, the hospital is often required to adjust off the hospital bill as provider liability.

What are observation services?

Observation services are hospital outpatient services performed to evaluate a patient's condition to determine whether admission is reasonable and medically necessary. To admit a patient for observation services, the order must clearly state the intent for observation services such as "outpatient observation." Documentation of the need for observation services is required in all cases.

When is inpatient admission warranted?

Per the Centers for Medicare and Medicaid Services (CMS), the decision to admit a patient is a complex medical judgment which can be made only after the physician has considered a number of factors, including the patient's medical history and current medical needs, the types of facilities available to inpatient and to outpatients, the hospital's by-laws and admissions policies and the relative appropriateness of treatment in each setting.

UCDHS clinical case management (CCM) uses InterQual as a medical necessity screening tool to assist providers in determining a patient's status (inpatient, outpatient, or outpatient with observation services). Admitting physicians should have a general understanding of the criteria for both the severity of illness and the intensity of service for inpatient admissions.

Where does observation take place?

Observation care can be delivered at any ward in the hospital, including the ED.

How long does observation last?

In the majority of cases, the decision whether admission or discharge is warranted can be made in less than 48 hours, usually in less than 24 hours. In exceptional situations, outpatient observation services may span more than two calendar days. Outpatient observation stays exceeding 23-hours are not automatically converted to inpatient admissions.

Appropriate use of observation status includes:

- Patients with symptoms suggesting a diagnosis that must be ruled out (e.g., chest pain)
- Patients requiring medication adjustments or hydration management
- Patients requiring pain management
- Patients with post-procedure complications which do not require an inpatient level of care but do require on-going monitoring

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Inappropriate use of observation status includes:

- Patients maintained onsite due to social factors
- Patients held at physician convenience for later testing or examination
- Patients onsite in preparation for, or routine recovery from, ambulatory procedures (including surgery)
- Patients onsite for routine outpatient procedures (i.e., transfusion or chemotherapy)

Can I convert a patient from inpatient to observation?

There is one circumstance in which the status of a Medicare inpatient may be converted to outpatient. When a physician orders a Medicare patient to be admitted to an inpatient bed, but upon internal utilization review, it is determined that the level of care does not meet the hospital's admission criteria, the patient's status may be changed to outpatient if all the requirements of Condition Code 44 are met.

The Centers for Medicare and Medicaid (CMS) makes it clear these should be infrequent occasions. "Use of Condition Code 44 is not intended to serve as a substitute for adequate staffing of utilization management personnel or for continued education of physicians and hospital staff about each hospital's existing policies and admission protocols."¹

What are Condition Code 44 requirements?

- The change in patient status from inpatient to outpatient is made prior to discharge or release, while the beneficiary is still a patient of the hospital;
- The determination to change the patient's status was made by the UR committee;
- The physician responsible for the care of the patient concurs with the utilization review committee's decision;
- The physician's concurrence is documented in the patient's medical record;
- New outpatient observation orders are written;
- The patient receives written notification of the change from inpatient to outpatient status; and
- The hospital has not submitted a claim for the inpatient stay.

For non-Medicare patients, the ability to convert a patient's status and receive payment is dependent upon the payer. The Admissions Department must be notified of the change in status so that payer notification can be made in a timely manner.

¹ CMS MLN Matters Number SE0622- Clarification of Medicare Payment Policy When Inpatient Admission Is Determined Not To Be Medically Necessary, Including the Use of Condition Code 44: "Inpatient Admission Changed to Outpatient"