Coverage Summary

Observation Care (Outpatient Hospital)

Policy Number: H-005  Products: UnitedHealthcare Medicare Advantage Plans  Original Approval Date: 07/16/2008
Approved by: UnitedHealthcare Medicare Benefit Interpretation Committee  Last Review Date: 08/15/2017

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The benefit information in this Coverage Summary is based on existing national coverage policy, however, Local Coverage Determinations (LCDs) may exist and compliance with these policies are required where applicable.

INDEX TO COVERAGE SUMMARY

| I. | COVERAGE |
| II. | DEFINITIONS |
| III. | REFERENCES |
| IV. | REVISION HISTORY |

I. COVERAGE

Coverage Statement: Outpatient hospital observation services are covered when Medicare coverage criteria are met.

All outpatient hospital observation services must be reasonable and necessary to be covered. Decisions on the setting for delivery of healthcare services should be based on nationally recognized guidelines and evidence-based medical literature.

The CMS Hospital Inpatient Patient Payment System (IPPS) Final Rule provides clarity when inpatient hospital admissions are generally appropriate for payment. Detailed information on the final rule is available at https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/FY2017-IPPS-Final-Rule-Home-Page.html. (Accessed August 1, 2017)

1. Outpatient observation services are covered for up to 48 hours and may include:
   a. Use of a bed within a hospital for the purpose of observing the member’s condition
   b. Periodic monitoring by the hospital’s staff to evaluate an outpatient’s condition and/or determine the need for a possible admission to the hospital as an inpatient

Outpatient observation services should not be used for routine diagnostic services and outpatient surgery/procedures. Refer to Guidelines # 3.c.

If the physician or healthcare professional is uncertain if an inpatient admission is appropriate, then the physician or healthcare professional should consider admitting the patient for observation. Refer to the Coverage Summary for Hospital Services (Inpatient and Outpatient)
For coverage to be appropriate under Medicare for an inpatient admission, the patient must demonstrate signs and/or symptoms severe enough to warrant the need for medical care and must receive services of such intensity that they can be furnished safely and effectively only on an inpatient basis.

Notes:

- In the majority of cases, the decision whether to discharge a patient from the hospital following resolution of the reason for the observation care or to admit the patient as an inpatient can be made in less than 48 hours, usually in less than 24 hours. In only rare and exceptional cases do reasonable and necessary outpatient observation services span more than 48 hours.

- Hospitals may bill for patients who are “direct admissions” to observation. A “direct admission” occurs when a physician in the community refers a patient to the hospital for observation, bypassing the clinic or emergency department (ED). Effective for services furnished on or after January 1, 2003, hospitals may bill for patients directly admitted for observation services.

- Copayment or coinsurance may apply as either Emergency Room Services or Observation, check member’s Evidence of Coverage/Schedule of Benefit document.

- A patient admitted to observation and then admitted to inpatient status on the same day is billed using inpatient admission codes only.

- A patient admitted to observation and then admitted to inpatient status on a different day may be billed with both the initial observation codes and also hospital admission codes on the subsequent day.

See the Medicare Benefit Policy Manual, Chapter 6, §20.6 - Outpatient Observation Services and Medicare Claims Processing Manual, Chapter 4, §290 - Observation Services. (Accessed August 1, 2017)

Also see the Quality Improvement Organization Manual, Chapter 4, §4110 - Admission/Discharge Review. (Accessed August 1, 2017)

Local Coverage Determinations (LCDs) exist and compliance with these policies is required where applicable. See LCDs for (1) Acute Care: Inpatient, Observation and Treatment Room Services, and (2) Outpatient Observation Bed/Room Services at http://www.cms.gov/medicare-coverage-database/overview-and-quick-search.aspx. (Accessed August 1, 2017)

2. Change of Status from Inpatient to Outpatient

When an inpatient admission is changed to outpatient, consistent with Medicare billing guidelines, a provider may submit an outpatient claim for all medically necessary services furnished during the stay only if all code 44 criteria are met (including any member notice requirements). For more detailed information, refer the following Medicare references:

- Medicare Managed Care Manual, Chapter 13, §150.2 - Special Considerations. (Accessed August 1, 2017)

- Medicare Claims Processing Manual, Chapter 1, §50.3.2 - Policy and Billing Instructions for Condition Code 44. (Accessed August 1, 2017)

- Medicare Learning Network (MLN) Matters, Number SE0622 (Accessed August 1, 2017)
3. The following services are not covered as the services are not medically reasonable or necessary:
   a. Services that are not reasonable and necessary for the diagnosis or treatment of the
      member. See the Medicare Benefit Policy Manual, Chapter 6, §10.1 - Reasonable and
   b. Outpatient observation services that are provided only for the convenience of the member
      or his/her family or physician. (e.g., following an uncomplicated treatment or a procedure,
      physician busy when patient is physically ready for discharge, patient awaiting placement
      in a long term care facility). See the Medicare Claims Processing Manual, Chapter 4,
      §240 - Inpatient Part B Hospital Services. (Accessed August 1, 2017)
   c. Services that are covered under Part A, such as a medically appropriate inpatient
      admission, or services that are part of another Part B service, such as postoperative
      monitoring during a standard recovery period, (e.g., 4-6 hours), which should be billed as
      recovery room services. Similarly, in the case of patients who undergo diagnostic testing
      in a hospital outpatient department, routine preparation services furnished prior to the
      testing and recovery afterwards are included in the payment for those diagnostic services.
      Observation should not be billed concurrently with therapeutic services such as
      chemotherapy. See the Medicare Benefit Policy Manual, Chapter 6, §20 - Outpatient
      Hospital Services. (Accessed August 1, 2017)
   d. Standing orders for observation following outpatient surgery. See the Medicare Claims
      Processing Manual, Chapter 4, §290.2.2 - Reporting Hours of Observation. (Accessed
      August 1, 2017)

II. DEFINITIONS

Observation Care: A well-defined set of specific, clinically appropriate services, which include
ongoing short term treatment, assessment, and reassessment before a decision can be made regarding
whether patients will require further treatment as hospital inpatients or if they are able to be
discharged from the hospital. Observation status is commonly assigned to patients who present to
the emergency department and who then require a significant period of treatment or monitoring
before a decision is made concerning their admission or discharge. Medicare Benefit Policy Manual,
Chapter 6, §20.6 - Outpatient Observation Services. (Accessed August 1, 2017)

III. REFERENCES

See above

IV. REVISION HISTORY

08/15/2017 Annual review; no updates.
08/16/2016 Annual review; no updates.
09/15/2015 Annual review without updates.
09/16/2014 Annual review with the following updates:
Guideline #1 (Inpatient Hospital Services) - added a reference link to the CMS FAQ
for the Two-Midnight rule specific to Medicare Advantage Plans.
Guideline #3 (Examples when observation care services may be medically necessary) - removed guideline; reference LCD for Acute Inpatient Services versus Observation (Outpatient) Services (L32222) was retired.

Definitions – updated definition of Observation Care to include the reference link to the Medicare Benefit Manual, Chapter 6, §20.6 Outpatient Observation Services.


04/29/2013 Added billing guidelines when an inpatient admission is changed to outpatient. Added examples when observation care services may be medically necessary.

10/31/2012 Annual review; no updates.

10/13/2011 Annual review; no updates.

09/07/2010 Policy updated to further clarify the benefit coverage for hospital observation services.