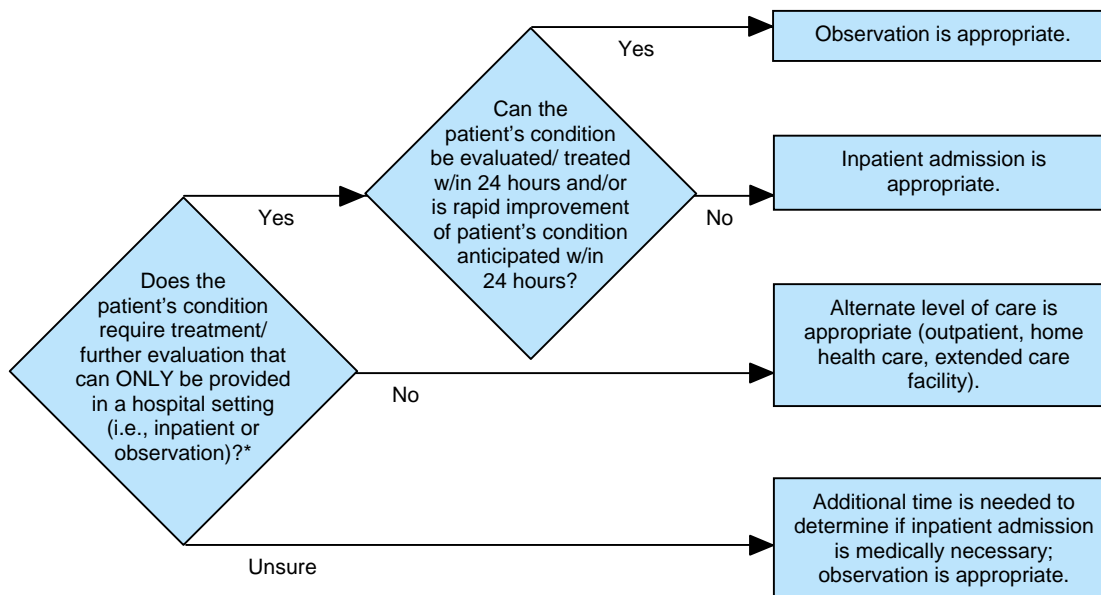


## MEDICARE PATIENTS: Observation or Inpatient Admission?



To aid the physician in determining when observation may be appropriate, TMF Health Quality Institute (TMF) has developed a decision tree outlining the thought process for determining whether observation or inpatient admission is appropriate. TMF hopes that this tool will be valuable to physicians when having to make this decision.



\* The decision to admit a patient as an inpatient requires complex medical judgment including consideration of the patient's medical history and current medical needs, the medical predictability of something adverse happening to the patient, and the availability of diagnostic services/procedures when and where the patient presents.

### Key Points to Remember:

- Outpatient observation services are reimbursed under the Outpatient Prospective Payment System.
- Using outpatient observation as an alternative to admission will allow you time to determine if admission is necessary, reduce denials for unnecessary admissions and ensure that some payment is received for services rendered.
- Care in outpatient observation can be the same as inpatient care, but reimbursement is different. Patients with chest pain, CHF and asthma are paid under specific observation Ambulatory Payment Classifications (APCs). Payment for all other conditions is bundled into the APC package.
- An order simply documented as "admit" will be treated as an inpatient admission. A clearly worded order such as "inpatient admission" or "place patient in outpatient observation" will ensure appropriate patient care and prevent hospital billing errors.
- Medicare coverage for observation services requires at least eight hours of monitoring and is limited to no more than 48 hours unless the fiscal intermediary grants an exception. The hospital is only reimbursed for 24 hours. The clock starts with the nurse's note reflecting initiation of observation care/arrival to observation site. The clock ends with staff sign-off of the discharge order and when all clinical or medical interventions have been completed.
- An outpatient observation patient may be progressed to inpatient status when it is determined the patient's condition requires an inpatient level of care.
- **Hospitals can convert and bill an inpatient case as an outpatient if the hospital utilization review committee determines before the patient is discharged and prior to billing that this setting would have been more appropriate.** A physician must concur with the decision of the committee, and the physician's concurrence and status change must be documented in the medical record.
- Services that do not qualify for outpatient observation include services for convenience reasons, routine prep for and recovery after diagnostic testing, certain therapeutic services, normal post-procedure recovery time (4-6 hours) and procedures designated as "inpatient only" or that are inappropriate as inpatient.
- Documentation must support the level of care provided (inpatient admission versus outpatient observation).