

## Payment Policy | Outpatient Observation Services



**EFFECTIVE DATE:** 07|10|2010

**POLICY LAST UPDATED:** 12|21|2022

### OVERVIEW

Observation care provides interim services in place of an inpatient admission that allows necessary time to reasonably evaluate and provide needed services to a member whose diagnosis and treatment are not expected to exceed 24 hours, but no longer than forty-eight (48) hours without discharge or admission. Observation care is considered a medical service received in any location within a hospital. Observation care can, for example, be delivered in a hospital emergency room, an area designated as "observation," a bed within a unit, or an entire unit designated as an observation area.

### PRIOR AUTHORIZATION

None

### POLICY STATEMENT

#### Medicare Advantage Plans and Commercial Products

Observation services are covered and reimbursed up to a maximum of 48 hours when: (Note: Individual hospital contract language supersedes policy)

- Ordered by a physician or another individual authorized by State licensure law and hospital staff bylaws to admit patients to the hospital or to order outpatient services.
- The chart order indicates the physician's intent regarding level of care intended, such as "admit to observation" with a date and time (the order must be included in the patient's medical record).
- An "Admit Stamp" or preprinted order must include the signature of the physician, and the date and time of the order.

#### Reimbursement:

##### When Observation Stay Begins

Admission to observation begins at the clock time documented in the medical record when the patient clearly transitions to observation level of care (i.e. is placed in an observation bed), as confirmed by the initiation of services rendered and documented, in accordance with the directions on the physician order.

##### When Observation Stay Ends

Observation time ends when all medically necessary services related to observation care are completed. \*Observation time may include follow-up observation care provided after the time that the physician writes the discharge order, but before the patient is actually discharged. Alternatively, the end time of observation services may coincide with the time the patient is actually discharged from the hospital or admitted as an inpatient. However, observation time does not include the time patients remain in the hospital after treatment is finished, for reasons such as waiting for transportation home.

##### Outpatient Procedures/Surgeries Related to Observation Hours

Routine preoperative preparation, monitoring and postoperative recovery is included in the allowance for the procedure. Prolonged services that require placing the patient in observation status are not eligible for payment unless a 6-hour threshold of post-operative monitoring is exceeded, regardless of the location of the postoperative monitoring.

##### Observation Care to Inpatient

- Outpatient observation services provided on the day prior to an inpatient admission will be reimbursed as an outpatient service. The calculation for observation time will end at 12 midnight of the day of observation care.  
**For example**, on June 1 a patient is outpatient observation status. On June 2, the patient is admitted to inpatient care at 2:00 p.m. in the afternoon. The time spent in observation care ceases to be counted as observation time at 11:59 p.m. on June 1. The hours spent between 12 midnight and 1:59 p.m. will not be calculated as observation time, as it is inclusive of the inpatient service.
- A patient admitted to inpatient care on the same day as outpatient observation; all services provided as part of observation care will be reimbursed as inpatient hospitalization.
- A patient may not be discharged to outpatient observation status after an inpatient hospital admission.

## MEDICAL CRITERIA

Not Applicable

## BACKGROUND

As defined by Centers for Medicare and Medicaid Services (CMS), observation care is 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 services are commonly ordered for patients who present to the emergency department and who then require a significant period of treatment or monitoring in order to make a decision concerning their admission or discharge.

Observation services are covered only when provided by the order of a physician or another individual authorized by State licensure law and hospital staff bylaws to admit patients to the hospital or to order outpatient tests. 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.

When a physician orders that a patient receive observation care, the patient's status is that of an outpatient. The purpose of observation is to determine the need for further treatment or for inpatient admission.

## COVERAGE

Benefits may vary between groups/contracts. Please refer to the appropriate Evidence of Coverage or Subscriber Agreement for applicable Outpatient/Observation Services benefits/coverage.

## CODING

### Medicare Advantage Plans and Commercial Products

#### Claims Submissions:

To ensure correct claims processing, claims should be submitted with the correct revenue and HCPCS code

Claim forms submitted must specify the number of hours the patient received outpatient observation services in the "units" column on the UB-92. Hospitals should round to the nearest hour. For example, a patient who was placed in an observation bed at 3:03 p.m. according to the nurses' notes and discharged to home at 9:45 p.m. should be written as "7" in the units field of the reported observation HCPCS code.

#### Revenue Code:

Observation services are billed under revenue code 762 with the applicable HCPCS code noted below

## HCPCS Code

**G0378** Hospital observation service, per hour

**G0379** Direct admission of patient for hospital observation care

## RELATED POLICIES

None

## PUBLISHED

Provider Update, February 2023

Provider Update, January 2020

Provider Update, June 2017

Provider Update, December 2015

Provider Update, July 2013

Provider Update, August 2011

Provider Update, September 2010

## REFERENCES

1. Medicare Claims Processing Manual: Chapter 4 - Part B Hospital (Including Inpatient Hospital Part B and OPPS), Section 290 Outpatient Observation Services. Accessed 03/16/2010 at

<http://www.cms.hhs.gov/manuals/downloads/clm104c04.pdf>

2. Medicare Benefit Policy Manual: Chapter 6 - Hospital Services Covered Under Part B, Section 20.6 - Outpatient Observation Services (Rev. 107, Issued: 05-22-09, Effective: 07-01-09, Implementation: 07-06-09) A. Outpatient Observation Services Defined. Accessed 03/10/2011.

<http://www.cms.hhs.gov/manuals/Downloads/bp102c06.pdf>

3. CMS Manual System. Pub. 100-02 Medicare Benefit Policy. December 16, 2005. January 2006 Update of the Hospital Outpatient Prospective Payment System (OPPS) Manual Instruction: Changes to Coding and Payment for Observation.

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