



**Subject:** Outpatient Observation Services

**Revision Date:** 6/24

## **DESCRIPTION**

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 a covered person will require further treatment as hospital inpatient or if they are able to be discharged from the hospital. Observation services are commonly ordered for covered persons 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.

Hospitals may bill for covered persons who are directly referred to the hospital for outpatient observation services. A direct referral occurs when a physician in the community refers a covered person to the hospital for outpatient observation, bypassing the clinic or emergency department (ED) visit. Effective for services furnished on or after January 1, 2003, hospitals may bill for covered persons directly referred for observation services.

## **COVERAGE**

When a physician orders observation care for a covered person, the level of care is that of an outpatient. The purpose of observation is to determine the need for further treatment or for inpatient admission. Thus, a covered person receiving observation services may improve and be

released or be admitted as an inpatient.

All hospital observation services, regardless of the duration of the observation care, that are medically reasonable and necessary are covered by OSU Health Plan. In most circumstances, observation services are supportive and ancillary to the other separately payable services provided to a covered person.

## CRITERIA

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.

If the physician or healthcare professional is uncertain if an inpatient admission is appropriate, then the physician or healthcare professional should consider admitting the covered person for observation. For coverage to be appropriate for an inpatient admission, the covered person 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.

In the majority of cases, the decision whether to discharge a covered person from the hospital following resolution of the reason for the observation care or to admit the covered person 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. Any case exceeding 48 hours of observation care will require medical director review. (Refer to *UMPP 7.0.1 Medical Director Review Process*.)

## LIMITATIONS

The following outpatient observation 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.
- 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).
- c) Services that are covered under a medically appropriate inpatient admission, or services that are part of another 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.
- d) Standing orders for observation following outpatient surgery.

OSUHP does not cover inpatient room and board on the day of discharge. Therefore, one day of inpatient room and board if the covered person is admitted and discharged to a lower level of care on the same day.

## PROCESS

When a claim is received, the third-party administrator (TPA) will allow up to 48 hours of observation without a prior authorization. After 48 hours of observation, the TPA will deny as provider liability. If the provider wishes to appeal the denied charges, clinical documentation can be submitted to OSU Health Plan for review.

## REFERENCES

Medicare Benefit Manual (Pub. 100-2) Chapter 6 §20.6 Outpatient Observation Services available at <http://www.cms.hhs.gov/manuals/Downloads/bp102c06.pdf>