REIMBURSEMENT POLICY	Observation Status
Effective Date: 11/1/2022	UM69
 11/1/2022	Committee Approved Date: 10/2022
Medical Officer Date	

SCOPE:

Providence Health Plan, Providence Health Assurance, Providence Plan Partners, and Ayin Health Solutions as applicable (referred to individually as "Company" and collectively as "Companies").

☐ Professional
☒ Facility

APPLIES TO:

All lines of business

DOCUMENTATION REQUIREMENTS

The Plan may request medical records to confirm accurate billing and representation of observation care. Medical record documentation for observation services must include:

- A **physician order** which specifies "observation"
- When a patient has been in observation status for 24 hours, documentation in the progress notes must include one of the following:
  - Need to continue observation status with plan for discharge within the next 12-24 hours; or
  - Need to convert to inpatient hospital admission, documenting the medical necessity for admission; or
  - Medical stability for discharge and plan for follow-up as needed.

POLICY STATEMENT

Outpatient Observation Services

I. Observation services are **reimbursable** when determined to be medically necessary **(The Plan follows InterQual® criteria when determining suitability of inpatient or outpatient observation level of care) and** 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 services).

Observation Admission Converted to Inpatient Admission

II. When an observation admission is converted to an inpatient admission, The Plan's reimbursement method is to pay the entire stay as an inpatient admission (i.e., if any part of the stay is inpatient, the whole stay is paid as an inpatient admission).

Not Reimbursable as Outpatient Observation

III. The following (A.-D.) are **not reimbursable** as outpatient observation services:

A. Services not reasonable or medically necessary for the diagnosis or treatment of the patient.
B. No physician's order for admission to observation.
C. Services that are covered as medically appropriate during 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 or as part of the diagnostic testing.
D. Standing orders for observation following outpatient surgery.
E. Outpatient blood administration.
F. Services provided for the convenience of the patient, the patient's family, or a physician, such as:
    - Physician is unavailable when patient is ready for discharge
    - Extended hospital stays due to lack of or delay in patient transportation, including patients awaiting transfer to another facility
    - Provision of a medical exam for patients who do not require skilled support.
G. Stays exceeding 48 hours, unless approved during the concurrent review process.
H. Overnight stays that are planned prior to surgical or diagnostic procedures.
I. Inpatients discharged to an outpatient observation status.
J. Services provided concurrently with chemotherapy.

DEFINITIONS

Outpatient Observation Services

Observation services are those services furnished by a hospital on the hospital's premises, including use of a bed and at least periodic monitoring by a hospital's nursing or other staff, which are reasonable and necessary to evaluate a patient's condition or determine the need for a possible admission to the hospital as an inpatient.

According to the Centers for Medicare & Medicaid Services (CMS), observation care is defined as the following:

> *"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 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."*[1]

When observation is ordered by the physician this will be considered an outpatient service. The purpose of observation is to determine the need for further treatment or for inpatient admission. Thus, a patient in observation may improve and be released, or be admitted as an inpatient. Observation is intended for short-term monitoring. The observation patient, if not admitted to a hospital, is expected to improve and be ready for discharge or transfer to lower level of care within 48 hours.

BILLING GUIDELINES

Inpatient Admission Converted to Observation Admission

For Medicare lines of business or for providers who contract specifically with PHP to pay using CMS's Outpatient Prospective Payment System (OPPS)*, the change from inpatient bill type to observation bill type must be made while the member is hospitalized. A bill type cannot be changed post discharge.

> *For all other lines of business or facilities who do not fall in the above categories, the facility may change the bill type to observation post-discharge.

INSTRUCTIONS FOR USE

Company Reimbursement Policies serve as guidance for the administration of plan benefits. Reimbursement policies do not constitute medical advice nor a guarantee of coverage.Company Reimbursement Policies are reviewed annually. The Companies reserve the right to determine the application of Reimbursement Policies and make revisions to Reimbursement Policies at any time. Providers will be given at least 60-days' notice of policy changes that are restrictive in nature.

The scope and availability of all plan benefits are determined in accordance with the applicable coverage agreement. Any conflict or variance between the terms of the coverage agreement and Company Reimbursement Policy will be resolved in favor of the coverage agreement.

REFERENCES

1. Centers for Medicare & Medicaid Services. CMS Medicare Benefit Policy 100-02; Transmittal 42. 2005; https://www.cms.gov/regulations-and-guidance/guidance/transmittals/downloads/r42bp.pdf.