Payment Policy: Observation Services

**Purpose:** Commonwealth Care Alliance® (CCA) reimburses for observation status when acute care services are provided in a hospital setting based on the facility’s contract. Observation services are defined as services provided in a hospital to treat and/or evaluate a condition and should result in either a discharge within 48 hours or a verified diagnosis that will be followed by an inpatient admission. Observation status should be assigned at the time of admission if clinical data is available. CCA will determine observation status consistent with Utilization Management policies.

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**Scope:** Commonwealth Care Alliance (CCA) Product Lines:

- All product lines [X]
- Senior Care Options [ ]
- One Care [ ]

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**PAYMENT POLICY SUMMARY**
CCA reimburses covered, medically necessary observation services according to CCA’s contracted terms with a facility. CCA will reimburse up to 48 hours, or two days, of observation services. The following providers may bill for observation services:

- A physician who ordered hospital outpatient observation services and was responsible for the patient during his/her observation care
- A physician who does not have inpatient admitting privileges but who is authorized to furnish hospital outpatient observation services may bill these codes.
- There must be a medical observation record for the patient that contains dated and timed physician’s orders regarding the observation services the patient is to receive, nursing notes, and progress notes prepared by the physician while the patient received observation services. This record must be in addition to any record prepared as a result of an emergency department or outpatient clinic encounter.
- Reimbursement for an initial observation care code is for all the care rendered by the ordering physician on the date that the patient’s observation services began. All other physicians who furnish consultations or additional evaluations or services while the patient is receiving hospital outpatient observation services must bill the appropriate outpatient service codes.
AUTHORIZATION REQUIREMENTS
Prior authorization is not required for observation services.

PROVIDER REIMBURSEMENT
Services are covered only when provided by the order of a physician or other individual authorized by state licensure law and hospital staff bylaws to admit patients to the hospital or to order outpatient tests. The reason for observation must be clearly stated in the physician’s order for observation. The patient must be in the care of a physician during the period of observation, as documented in the medical record by admission, discharge, and other appropriate legible progress notes that are timed, written, and signed by the physician. Coverage criteria for hospital billing of observation room services require that services are:

- Reasonable and necessary (i.e., safe, effective, non-investigational and appropriate based on available medical information) to evaluate an outpatient’s condition or to determine the need for admission.
- Provided as a result of a physician’s order or one by another practitioner authorized by state licensure law to admit patients or order outpatient tests.
- Revenue code 0762 must be billed with the services units reported as the number of hours that the outpatient is in observation status. Hospital billing for observation services begins on the clocked time documented in the patient’s medical record, which coincides with the time that observation services are initiated in accordance with the physician’s order for observation services. A patient’s time receiving observation services (and hospital billing) ends when all clinical and medical interventions have been completed, including follow-up care furnished by hospital staff and physicians that may take place after a physician has ordered the patient be released or admitted as an inpatient.

Status Changes:
- If CCA member is in observation more than 48 hours the Transition of Care (TOC) unit and designated hospital will work collaboratively to have the member discharged to next level of care.
- The provider will submit clinical documentation to the TOC unit who will run through Interqual to determine the appropriate level of care. The TOC unit will work directly with the hospital utilization management staff to help in determining the appropriate level of care for the member.

Inpatient Admissions:
- When requesting authorization for inpatient services for a member admitted through observation, the date of the inpatient admission should be the date the patient was seen in observation.
• Observation charges should be billed as part of the inpatient claim and will be reimbursed according to the provider’s inpatient reimbursement rate.

Non-covered observation services include:

• Services that are not reasonable and necessary for the diagnosis or treatment of the patient but are provided for the convenience of the patient, his or her family, or a physician
• Services covered under other services, such as post-operative monitoring during a standard recovery period (e.g., four to six hours) should be billed as recovery services; routine preparation services furnished prior to diagnostic testing and recovery afterwards that are included in the payment for the diagnostic service.
• Standing orders for observation following outpatient surgery
• Observation care services/time between 49 and 72 hours will be reviewed prior to denial to ensure observation criteria is met. Observation services over 72 hours could be denied depending on criteria limitations and physician review.
• CCA will typically pay per Medicare Outpatient Prospective Payment System (OPPS) guidelines and consider observation services 48 hours or less.

BILLING AND CODING GUIDELINES
Report all outpatient facility services related to the observation stay on the same claim form. Observation services begin with a physician’s order. Observation services end when all clinical and medical interventions have been completed, including follow-up care furnished by hospital staff and physicians that may take place after a physician has ordered the patient be released or admitted as an inpatient.

Facility
Facilities reimbursed according to Ambulatory Payment Classification (APC) should bill with code G0378. Otherwise, the following codes should be used when billing observation status:
• Revenue code: 0762 (Observation Room)
• CPT codes: 99217-99220, 99224-99226, and 99234-99236

Observation code G0378 is bundled into the payment for other observation codes unless specified otherwise in the contractual agreement. Bill observation (room charges revenue code 0762) services indicating the total number of hours in the service unit field. Reimbursement will be based on the facility's contract.

Provider
The following codes should be used when billing observation status:
• CPT codes:
  • 99218, 99219, 99220 – used to report the first encounter with the patient when designated as observation status, the patient stay is 1-7 hours and is discharged in same calendar day or the patient stays past midnight and goes into a second day
  • 99234, 99235, 99236 – used to report when there is a minimum patient stay of 8 hours within same calendar day; patient is discharged before midnight. This one code pays for observation and discharge services.
  • 99224-99226 – used to report services in day 2 of observation
• 99221-99223 – used to report when the patient is admitted from observation status to inpatient status
• 99217 - used to report discharge from observation status when the discharge occurs after the first day of observation care. This should not be billed on the same day as inpatient hospital care.

* Observation codes function by calendar day and are considered “outpatient” codes.

Observation Status is defined as services which are reasonable and necessary to evaluate an outpatient’s condition to determine the need for admission. Observation status implies a diagnosis and patient outcome is “not known”. Both observation and inpatient admissions require a written order with a date, provider signature and time of order. Provider documentation must clearly support the medical necessity of being in observation such as continual care, frequent nursing and provider visits, lab orders and diagnostic testing to support the reasonableness of continuing a stay in observation.

**Observation examples:**
If a patient is admitted into observation for abdominal pain, no diagnosis has been made yet, and within the same day the patient is admitted/changed to an “inpatient” status, code: 99221-99223 (inpatient admission only).
If a patient is admitted to observation and stays after midnight and is discharged the next day then code:
• Day 1: 99218-99220
• Day 2: 99217 (discharge code)

If a patient is admitted and discharged within the same calendar day and has stayed a minimum of 8 hours from either observation and/or inpatient status, code: 99234-99236 (POS: 22-outpatient. This code pays discharge and evaluation “all in one”).
If a patient is admitted to observation on day 1 and is still in observation on day 2 and is discharged on day 3, code:
• Day 1: 99218-99220
• Day 2: 99224-99226
• Day 3: 99217

**AUDIT AND DISCLAIMER INFORMATION**
As every claim is unique, the use of this policy is neither a guarantee of payment nor a final prediction of how specific claim(s) will be adjudicated. Claims payment is subject to member eligibility and benefits on the date of service, coordination of benefits, referral/authorization and utilization management guidelines when applicable and adherence to plan policies and procedures and claims editing logic. CCA has the right to conduct audits on any provider and/or facility to ensure compliance with the guidelines stated in this payment policy. If such an audit determines that your office/facility did not comply with this payment policy, CCA has the right to expect your office/facility to refund all payments related to non-compliance.

**REFERENCES**
CMS Website: [http://www.mass.gov/courts/docs/lawlib/116-130cmr/130cmr433.pdf](http://www.mass.gov/courts/docs/lawlib/116-130cmr/130cmr433.pdf)  
CCA Website: http://www.commonwealthcarealliance.org/
Medicare Advocacy Outpatient Observation Status: http://www.medicareadvocacy.org/medicare-info/observation-status/
Mass Health Inpatient Hospital Regulations: http://www.mass.gov/eohhs/docs/masshealth/regs-provider/regs-acuteinpathosp.pdf
CMS Outpatient Prospective Payment System: https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/HospitalOutpatientPPS/Hospital-Outpatient-Regulations-and-Notices-Items/CMS-1678-FC.html