Hospital Outpatient Observation Services

Reimbursement Policy

Purpose

Community Health Options reimburses observation services when Medicare billing guidelines and criteria are met, and subject to appropriate notification for approved authorization of services.

Policy

"Observation care is a well-defined set of specific, clinically appropriate services, which include ongoing short term treatment, assessment, and reassessment, that are furnished while a decision is being 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 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 services. Observation service must also be reasonable and necessary to be covered…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" (CMS). Community Health Options does not reimburse for observation services in excess of 48 hours.

Billing Guidelines

All hospital observation services are to be billed with the appropriate codes as follows:
Revenue Code:

- 0760: General Classification category
- 0762: Observation Room

HCPC code:

- G0378: Hospital observation service, per hour.
- G0379: Direct admission of patient for hospital observation care.

<u>As defined by CMS, Section 290.2 – Reporting Hours of Observation:</u>
"Observation time begins at the clock time documented in the patient's medical record, which coincides with the time that observation care is initiated in accordance with a physician's order. Hospitals should round to the nearest hour" (CMS). The observation hours are required to correspond with the unit/quantity field of the observation HCPCS code on the claim form and medical documentation, respectively. Report the number of observation hours in Field Locator 46 of the UB-04 claim form, via paper or electronic.

"Observation time may include medically necessary services and follow-up care provided after the time that the physician writes the discharge order, but before the patient is discharged. However, reported observation time would not include the time patients remain in the hospital after treatment is finished for reasons such as waiting for transportation home. If a period of observation spans more than 1 calendar day, all of the hours for the entire period of observation must be included on a single line and the date of service for that line is the date that observation care begins". Observation time should exclude the time performing diagnostic or therapeutic services for which active monitoring is a part of the procedure (e.g., colonoscopy, chemotherapy), (CMS).

Non-Covered Services

Observation services preceding an inpatient admission before midnight of the same day; the observation charge on the same day as the inpatient admission is not separately reimbursed.

"General standing orders for observation services following all outpatient surgery are not recognized" for reimbursement (CMS).

Emergency department services, prior to observation services, are considered incidental to the observation stay and are not separately reimbursed.

References

Centers for Medicare & Medicaid Services, Medicare Claims Processing Manual, Chapter 4, Section 290:
https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/clm104c04.pdf

Related Policies

7.10.1 (Medical Management) Observation and Inpatient Admissions

Document Publication History

12/10/2020 Annual review; no changes
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This policy provides information on Community Health Options' claims adjudication processing guidelines. 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, adherence to plan policies and procedures, and claims editing logic. Community Health Options reserves the right to amend a payment policy at its discretion. Policies are enforced unless underpinning direction stated otherwise.