Observation care consists of evaluation, treatment and monitoring services (beyond the scope of the usual outpatient care episode) that are reasonable and necessary to determine whether the patient will require further treatment as an inpatient or can be discharged from the hospital.

In most cases the evaluation and treatment associated with the usual outpatient care episode can be completed in less than 3 to 6 hours, although some treatment settings such as infusion centers may provide care for longer periods of time. When additional time to determine the need for inpatient admission is required, the decision to admit or discharge can usually be made within 24 hours, although in some circumstances it may require up to 48 hours.

The following billing guidelines are consistent with requirements of the Centers for Medicare and Medicaid Services (CMS):

Observation Time

Observation services must be ordered by the physician or other appropriately authorized individual. The reason for observation and the observation start time must be documented in the order. Observation time ends when all medically necessary observation services are completed. The observation time billed must be consistent with start and end times documented in the medical record. General standing orders are not recognized.

Observation and Other Services:

Observation and Emergency Services. When a patient receives emergency services and the physician determines that an extended period of evaluation, treatment or monitoring is medically necessary, it is appropriate to bill for both the emergency services and the additional observation services.

Observation and Outpatient Surgery. Routine postoperative monitoring (e.g. 4-6 hours) is considered to be part of the associated surgical procedure and should be billed as recovery room services. If a patient experiences post-surgical complications requiring an extended period of monitoring and treatment beyond the routine recovery period, it is appropriate to bill observation services.

Observation and Services Requiring Active Monitoring. Observation services should not be billed for monitoring associated with diagnostic or therapeutic services such as colonoscopy, chemotherapy or blood transfusion. Active monitoring is considered to be a part of these procedures and should not be billed separately unless the patient develops a complication that requires an extended period of evaluation, monitoring or treatment.

Observation and Diagnostic Testing. Observation services should not be billed for routine preparation prior to testing and the recovery afterwards, as these services are considered included in the diagnostic services provided.

Observation and Inpatient Admission. When observation services are provided (by the same provider) on the day of, or immediately prior to an inpatient admission, the observation services are to be billed on the inpatient claim. Reimbursement will be included in the payment for the inpatient stay.

Claims submitted with charges for observation services are subject to audit including review of medical record documentation and potential recoupment of payment for inappropriately billed charges.
*Note: Pursuant to newly passed Minnesota Statutes section 144.586, effective August 1, 2015, the Minnesota Department of Health requires hospitals to provide oral and written notice to each patient the hospital places in observation status of such placement within 24 hours after such placement.

The notices must include: (i) a statement that the patient is not admitted to the hospital but is under observation status; (ii) a statement that observation status may affect the patient’s Medicare coverage for certain services; and (iii) a recommendation that the patient contact the patient’s health insurance provider or the Office of the Ombudsman to better understand the implications of placement in observation status.

For more information on the notice requirements and the full text of the new law, please refer directly to Minnesota Statutes section 144.586.