HEALTH PLAN POLICY				
Title: Observation Stay Review	Number: MUM08 Revision: H			
Department: Medical Management	Sub-Department: Utilization Management			
Applicable Lines of Business: □ Children's Health Insurance Plan ⊠ Medicare				
☐ Commercial	Insured ☐ Non-Insured Business			
⊠ Health Insura	ance Exchange 🗵 USFHP			
☐ Medicaid				
Effective Date: 12/09/2014				
Revision Date(s): 03/04/2016, 06/01/2017, 09/20/2018, 04/29/2020, 12/15/2020, 12/07/2021, 11/18/2022, 04/16/2024				

PURPOSE:

The purpose of this policy is to establish clear guidelines for conducting thorough medical necessity reviews of patients under observation level of care. Additionally, it aims to facilitate the smooth transition of ongoing care to the most suitable level of care following the observation period.

DEFINITIONS AND ACRONYMS:

- Medicare Outpatient Observation Notice (MOON) A standard form used to inform Medicare beneficiaries when they are receiving observation services as an outpatient in a hospital. It provides information about the reasons for observation status, potential financial implications, and the patient's right to appeal the decision.
- Observation Services Involve continuous or periodic monitoring of patients' vital signs, behaviors, and symptoms within healthcare facilities. They are crucial for assessing patient conditions, ensuring postoperative recovery, and monitoring responses to treatment, particularly in acute care and mental health settings. These services also play a vital role in clinical research by observing participants' responses to experimental treatments.
- Unstable Medical Condition Refers to a variance from generally accepted normal laboratory values; and clinical signs and symptoms are present that need further evaluation and monitoring; and changes in patient's status or condition that may require immediate medical intervention.

POLICY:

A. Observation stay is covered if the following criteria are met:

- The patient arrives at the facility with an unstable medical condition via the emergency room; observation services are indicated to evaluate medical conditions to determine the need for possible inpatient admission to hospital.
- Laboratory, radiology or other testing is necessary in order to assess the patient's need for hospitalization
- Based upon the patient's condition, the completion of treatment plan is anticipated within 48 hours
- Care that is provided to adult or pediatric patients beyond the emergency department (ED) care time frame (ie, beyond 3 to 4 hours) when additional time for patient testing, monitoring, and treatment is needed to help determine if inpatient care is warranted

B. Observation services include:

HEALTH PLAN POLICY Policy Title: Observation Stay Review Number: MUM08 Revision: H

- Diagnostic testing: For scheduled invasive outpatient diagnostic tests, the routine preparation and immediate recovery is not considered observation service. If the patient has significant adverse reaction (beyond the usual and expected response) and requires further monitoring, the observation services may be reasonable and necessary. Observation services begin at the point of time when the significant adverse reaction has occurred and ends when it is determined whether the patient required inpatient admission.
- Outpatient therapeutic services and surgical procedures: When a patient has been scheduled for ongoing therapeutic services as a result of a known medical condition, a period of time is required to evaluate the response and recovery to the service. The period of evaluation is an appropriate component of the therapeutic service and is not considered an observation service. The observation service begins at that point of time when a significant adverse reaction occurred that is above and beyond the usual and expected response to a service or procedure.
- Patient evaluation: When a patient arrives at the facility with an unstable condition via emergency room, observation services are reasonable and necessary to evaluate medical conditions to determine need for possible admission to the hospital as inpatient.

C. Observation services are not appropriate for:

- Services provided for the convenience of the patient, patient's family or physician.
- Routine recovery following an outpatient procedure or test.
- Care that can be only provided in the inpatient setting and is expected to require more than 48 hours.
- Services provided while awaiting transfer to another facility or due to delay in patient transportation.
- Observation status does not apply when a beneficiary is treated as an outpatient for the administration of blood only and receives no other medical treatment. The use of the hospital facilities is inherent in the administration of the blood and is included in the payment for administration.

D. Documentation required for determining the appropriateness of observation stay:

- Physician's orders for observation with clock time, or clock time can be noted in the nurse's observation admission note.
- The ending time of observation occurs when the patient is discharged from the hospital or admitted as an inpatient.
- Admission history, physical exam, and progress notes pertinent to observation care.
- Any other pertinent clinical information such as diagnostic, ancillary testing reports, and treatments performed.
- A rationale or criteria such as intensity of service and severity of illness used in clinical justification of observation stay.
- Discharge orders with clock time and appropriate discharge notes or nurse's notes.
- Administration and review with members of the Medicare Outpatient Observation Notice (MOON), completed by the on-site case manager.

HEALTH PLAN POLICY		
Policy Title: Observation Stay Review	Number: MUM08 Revision: H	

Hospitals and critical access hospitals are required to provide written and verbal explanation to Medicare and Medicare Advantage members who receive observation services as outpatients for more than 24 hours. The process for delivery of this standardized notice (Form CMS-10611), the Medicare Outpatient Observation Notice (MOON) can be found on the CMS.gov website.

REFERENCES:

- Centers of Medicare and Medicaid Local Coverage Determination (LCD): Outpatient Observation Bed/Room Services https://www.cms.gov/medicare-coverage-database/view/lcd.aspx?LCDId=34552
- Introduction to Observation Care Guidelines MCG Health, Inpatient & Surgical Care, 28th Edition
- TRICARE Policy Manual 6010.60-M, April 1, 2021, Chapter 2, Outpatient Observation stays https://manuals.health.mil/pages/DisplayManualHtmlFile/2022-12-05/AsOf/TPT5/C2S2_3.html
- Medicare Outpatient Observation Notice, https://www.cms.gov/medicare/forms-notices/beneficiary-notices-initiative/ffs-ma-moon

RELATED DOCUMENTS:

None

REVISION HISTORY:

Revision	Date	Description of Change	Approval Committee
New	12/09/2014	Initial Release	Board of Directors
A	03/04/2016	Yearly review – updated to current template, and minor	Board of Directors
		edits to grammar.	
В	06/01/2017	Annual Review. Changed signatory from Anita Leal,	Board of Directors
		Executive Director to Nancy Horstmann, CEO.	
С	09/20/2018	Annual review - product lines and references updated	Executive Leadership
D	04/29/2020	Annual review. Updated References and verbiage	Executive Leadership
		throughout policy.	
E	12/15/2020	Compliance review. Updated References. Added	Executive Leadership
		information about Medicare Outpatient Observation	
		Notice.	
F	12/07/2021	Annual review. Updated to current TRICARE Policy	Executive Leadership
		Manual, definition of observation stay, and website for	
		CMS.	
G	11/18/2022	Annual review. No change to policy content.	Executive Leadership
Н	04/16/2024	Annual review. Updateed formatting, purpose statement,	Executive Leadership
		definitions, and references. Added verbiage throughout	
		policy section for clarity.	