Admitted for "observation?" Watch out for big medical bills

December 20 2013, by Milly Dawson

Hospitals are increasingly placing patients too ill to be sent home but not sick enough to be admitted into observation services.

Some hospitals may use observation services to avoid inpatient hospital readmissions.

Patients in observation often must pay out-of-pocket for medical services that are covered for inpatients.

Hospitals are increasingly placing emergency room patients who are not sick enough to be admitted or well enough to be sent home in observation services (OS), which can result in large medical bills for the

patient, according to a new study in Health Services Research.

"A third of hospitals have observations units now...and more are coming," says the paper's lead author Jason Hockenberry, Ph.D., a professor in health policy and management at Emory University.

For billing purposes, both Medicare and most private insurers regard observation status as an outpatient claim although patients experience it as being in the hospital. Medicare inpatient care has a maximum deductible of $1,156 for a stay of up to 60 days, with many drugs covered completely.

In contrast, Medicare outpatient care, including that provided while in a hospital for "observation", has a 20 percent copay for each service received and many drugs may not be covered. While the average out-of-pocket cost to Medicare patients for OS was $745, some patients receive bills for tens of thousands of dollars.

The researchers used 2009 data from 1,076 hospitals in 12 states; 962 hospitals (89 percent) reported sending patients for OS. The analysis examined a total of 696,732 OS stays and found that 8.8 percent of them were for visits longer than 48 hours.

Observation services usage is likely to keep growing in part because of certain Affordable Care Act (ACA) provisions. The ACA aims to reduce hospital readmissions within 30 days of discharge among certain Medicare patients and imposes heavy fines for such readmissions. But if a hospital admits a patient for observation less than 30 days after discharge, that patient does not count in the calculation of the hospital's readmission rate.

Observation units, especially those based within emergency departments, can offer appropriate, "efficient for care for those with well defined

disease processes such as chest pain, heart failure" and fainting, says Sean Collins, M.D., associate professor of emergency medicine at Vanderbilt University. Collins, however, also cited the growing use of OS as a means of avoiding readmission fines.

The study explored another issue raised by rising observation services use: Decisions about which Medicare patients qualify for skilled nursing. Medicare covers skilled nursing visits only when they are preceded by a 3-day inpatient stay. Time in observation, even stretching to days, does not count towards qualification. "You might be at the hospital three days but only for two as an [official] inpatient, and when you go to skilled nursing you get this whopping bill," said Hockenberry.

Collins says that the new study clearly demonstrates that "patients often shoulder a disproportionate financial burden as a result of prolonged OS stay." It also suggests, he says, "that we are in need of better alignment by hospitals, payers and patients for appropriate use of observation services."

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Provided by Health Behavior News Service