

Use of observation stays over hospital admissions drives up costs for one in four medicare patients

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In the midst of a growing trend for Medicare patients to receive observation care in the hospital to determine if they should be formally admitted, a new study from researchers at the Perelman School of Medicine at the University of Pennsylvania shows that for more than a quarter of beneficiaries with multiple observation stays, the cumulative out-of-pocket costs of these visits exceeds the deductible they would have owed for an inpatient hospital admission. According to the Medicare Payment Advisory Commission, there were 1.8 million observation patients nationally in 2012, an increase of 88 percent over the previous six years. The results of the study are available online this week in the *Journal of Hospital Medicine*.

Observation care is considered by Medicare to be an outpatient service even though patients typically stay in beds in the emergency room or other areas of the hospital while they are tested, treated, and assessed. Using Medicare data to identify hospital observation stays among beneficiaries from 2010 to 2012, the researchers found that on average, patients owed nearly \$470 - a significantly lower cost than the standard deductible of \$1,100 for an inpatient visit. However, when beneficiaries had to return to observation care within 60 days of a prior observation stay, on average, their cumulative costs more than doubled (\$947), and for 26.6 percent of these patients, the costs usurped the inpatient deductible.

"While most patients receiving observational care do spend significantly less in out-of-pocket co-payments, those with at least two observational stays within 60 days are potentially facing higher co-payments than if they were admitted," said the study's lead author Shreya Kangovi, MD, an assistant professor of Medicine at Penn Medicine. "Additionally, the design of the Medicare benefit allows several ways in which observation stays may become more costly to patients. For example, Medicare patients are required to pay a percentage of the cost of each service provided during an observation stay, as opposed to a single fixed cost for an inpatient stay."

Kangovi noted that Medicare beneficiaries who return to the [hospital](#) frequently are typically of lower socioeconomic status and thus may be disproportionately affected by any increased financial liability.

The Penn team found that the number of [patients](#) with multiple observation visits within a 60-day period rose by 22 percent between 2010 and 2012.

"This could signal that excess cumulative financial liability will be all the more common in the future," said senior author David Grande, MD, an assistant professor of Medicine at Penn Medicine. "Some have suggested capping the total out-of-pocket expense for observation care at the inpatient-deductible amount. This warrants further study since observational care is already more costly than inpatient stay for a significant portion of the patient population."

Provided by University of Pennsylvania School of Medicine

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