

Observation Out-of-Pocket Costs FAQ

How do insurance companies handle bills for observation stays?

Insurance companies consider observation to be outpatient care, so the observation portion of the patient's hospital visit is billed as separate event than the initial ED evaluation or subsequent inpatient admission, if needed. Since it is an outpatient visit, the patient's outpatient insurance benefits apply (i.e., Part B for Medicare patients). Patients pay a coinsurance (i.e., 20% of the allowable charge) for services, diagnostics and treatments rather than a flat rate deductible payment, which is usually the case for ED and inpatient visits. In addition, time spent in observation does not count toward the three-day minimum inpatient stay for Medicare Part A to pay for subsequent skilled nursing facility (SNF) care, if needed.

Can observation patients take their own home medications in the observation unit?

Current BWH policy does not allow for self administration of routine medications that are readily available in the ED. However, BWH patients are not billed for their home medications during their observation stay.

What is the least expensive option for my patients?

For a patient not requiring inpatient admission immediately following their ED stay, discharge to home with an outpatient follow up plan would be the least costly option (i.e., a reasonable discharge plan without further observation). Observation should be avoided in patients with an expected observation stay of less than 6 hours. For patients clearly needing an inpatient admission, observation only adds cost with no clinical benefit.

Can it cost a patient more to be in observation than to be admitted as an inpatient?

A recent OIG report found that 94% of Medicare observation visits resulted in a lower cost to the patient than a short inpatient stay. In practice it is very rare but possible to have higher out of pocket costs for an observation stay because there is no cap on total observation charges, and since patients pay a portion of every charge, the total bill can add up. For example, Medicare has a rule that no single charge in observation can be higher than the Part A deductible (around \$1200 for 2014). However, the sum of all the smaller charges in observation can accumulate to exceed this amount. Typically, the cases where patients have been charged very high out of pocket costs for observation relate to very prolonged observation stays (i.e., over three days followed by a SNF stay that was not covered by Medicare).

What happens if we can't send the patient home after care in an ED observation unit?

If the patient becomes progressively ill or is not safe for discharge home as they approach or exceed two midnights in the observation unit without an impending disposition, we discuss the case with the care facilitator and typically admit the patient to an inpatient service in the hospital. If the patient qualifies for inpatient care, the patient's status will be changed to inpatient from observation. At that point, the observation billing (and out of pocket expense for observation) will stop, and the patient will then be responsible for paying their inpatient deductible. If the patient does not qualify for inpatient care, they will continue to be billed as an observation patient until hospital discharge. If a Medicare patient already paid their Part A deductible within the previous 60 days for a related inpatient admission, they do not have to pay it again.

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