Only one-third of hospitals in America provide observation care, but for those that do, patients may be observed for several hours or a full day. They may remain in or near the emergency department — or they may be moved to inpatient floors in the hospital. Observation care can be confusing, especially to patients on inpatient floors, because they are still not considered “admitted” patients, even though it may look and feel that way to them. Also, observation care can result in the patients unexpectedly becoming responsible for greater portions of their hospital bills, although this is rare.

In addition, if skilled nursing facility care is needed upon leaving the hospital, the patient may be responsible for the nursing home bill, because federal law requires patients to first be admitted to the hospital for three consecutive days in order for the patient’s stay in a skilled nursing facility to be covered. Again, this is rare, but nursing home expenses can be considerable.

What about Medicare Patients?

News stories have raised concerns about the use of observation care for Medicare patients, given that some patients have been stuck with costly, unexpected bills. The Centers for Medicare & Medicaid Services (CMS) has strict rules that govern whether Medicare will pay for a patient’s admission to the hospital from the emergency department. Medicare patients who do not meet these criteria may be treated and released from the emergency department. If the patient does not meet the criteria, but the physician has concerns about the patient’s safety if discharged home, the physician may place them in “observation care.”

Even when a Medicare patient is admitted to the hospital, his or her status can change from “inpatient” to “observation” after the fact, which is not controlled by the emergency physician.
What Do Emergency Physicians Say?
Observation care done in emergency departments is less confusing to patients and:

- Is supervised by physicians using clinical protocols and engaging in frequent patient status reviews.
- Reduces lengths of stay in observation (less than 24 hours) compared with patients observed in inpatient settings. It also reduces overall lengths of stay in the hospital for patients who are ultimately admitted.
- Reduces unnecessary hospital admissions and avoidable re-admissions.
- Allows additional time to review results of tests and lab work (e.g., cardiac enzymes) to determine whether patients can safely go home or need admission to the hospital.
- Potentially reduces out-of-pocket costs for patients (by avoiding admission to the hospital).

Emergency physicians support the use of dedicated observations units in the emergency department or use of protocols for short stay (less than 24 hours) observation in other parts of the hospital supervised by emergency physicians. The use of observation care has been projected to save the health care system more than three billion dollars through avoidable hospital admissions.

Emergency physicians are urging Congress and CMS to support changing the rules so that patients in observation status longer than one day do not have to pay more than if they were admitted to the hospital.

They also are urging changes to make observation status count toward the three-day rule, and there are bills before Congress to make this change:


**NOTE:** This report found that about 1 percent of Medicare observation patients suffered financial penalties because their skilled nursing facility benefits were denied, and about 6 percent of Medicare observation patients have paid more under observation care than if they were admitted to the hospital.