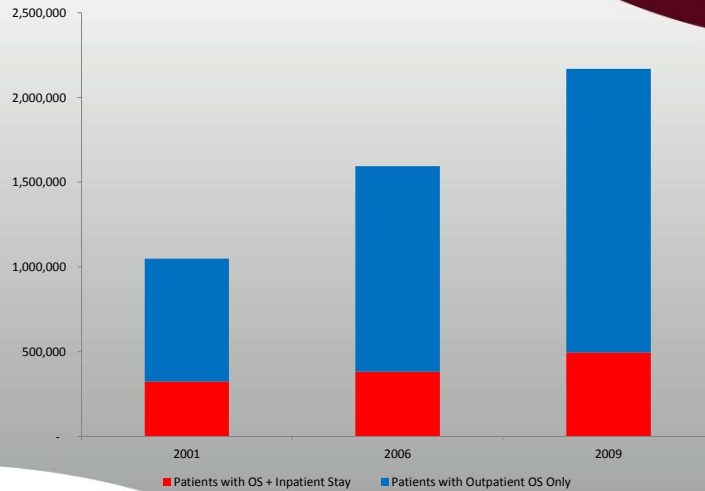


Rapid Growth in Medicare Hospital Observation Services: What's Going On?

Presentation
by
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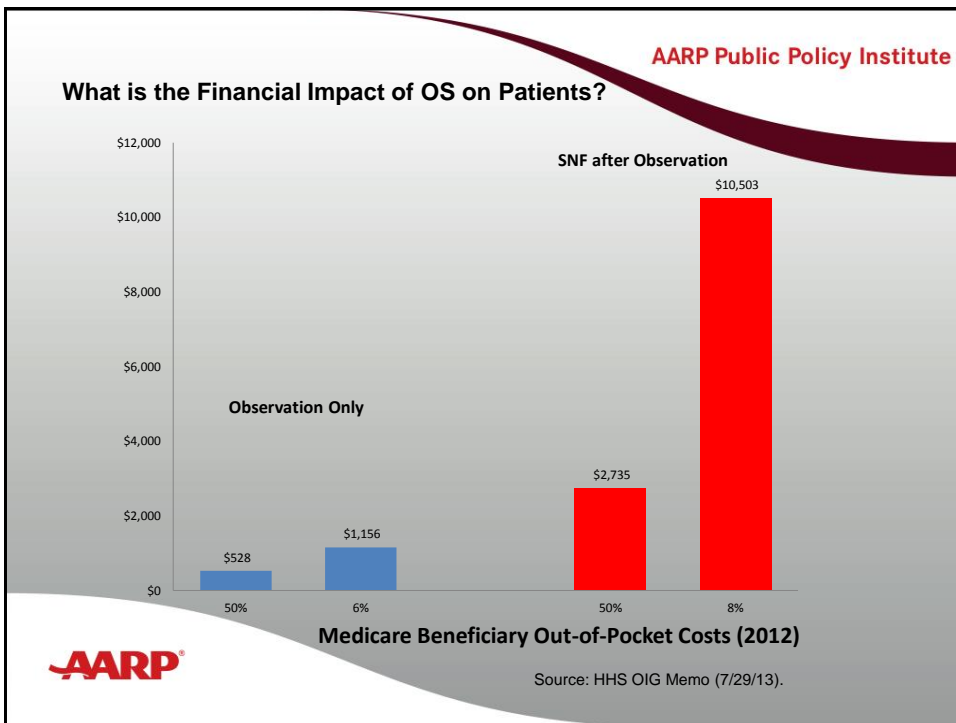
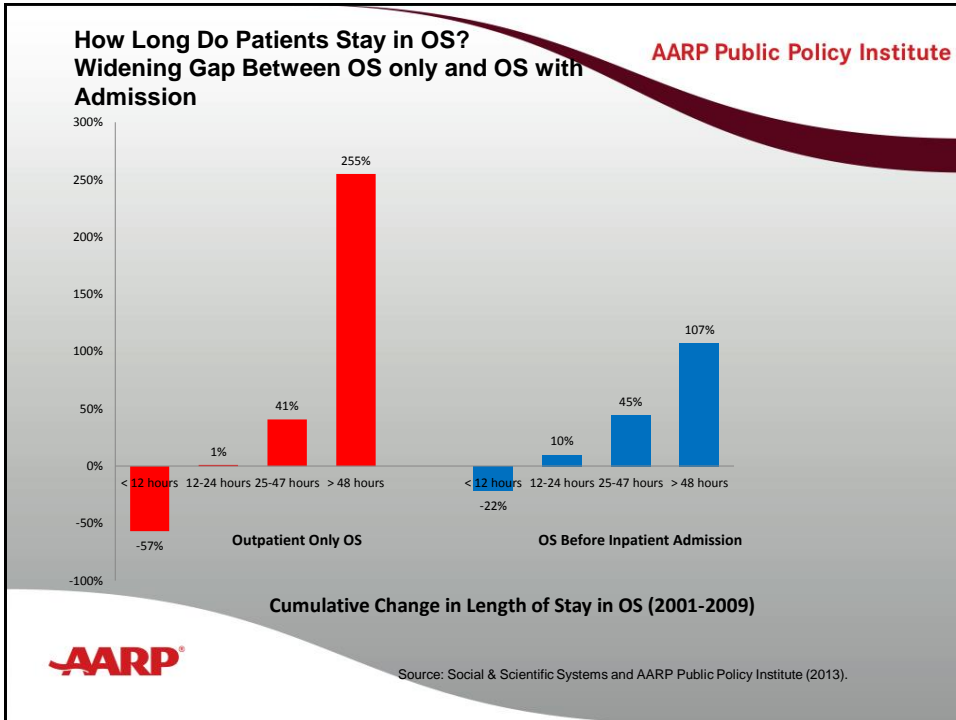
How Many Use OS? Most Use Outpatient OS Only



Medicare Beneficiaries with Observation Stay

Source: Social & Scientific Systems and AARP Public Policy Institute (2013).





What Factors Are Driving These Trends?

- Non-Clinical Factors
- Medicare payment policy changes
- Increased scrutiny, audits & denials of short inpatient stays
- Efficiency advantages
 - Quicker triage from ER; reduce ER crowding; fewer ambulance diversions
- Increased reporting.
- OS not counted toward readmission penalties starting in 2012
- Diagnosis & case mix changes unlikely to account for growth in OS use



Conclusions

- Increasing use of OS is not a temporary, short term or recent trend
- OS is becoming a substitute for inpatient admission
- Driven by non-clinical factors
- Questionable clinical benefit of long stay OS use
- Uncertain impact of OS on quality of care
- Questionable impact on patient experience



Implications

- OS affects relatively few but increasing number of Medicare beneficiaries
- Most pay less OOP in OS than inpatient deductible
- A few beneficiaries incur very high OOP costs, due to outpatient cost sharing and non-covered SNF admissions
- A few beneficiaries do not get needed SNF care due to non-coverage
- For those affected, financial impacts can be substantial and potentially catastrophic
- Apparently Medicare paid all but \$22 million of these SNF costs in 2012 according to OIG (HHS OIG; Memo to CMS; 7/29/13)

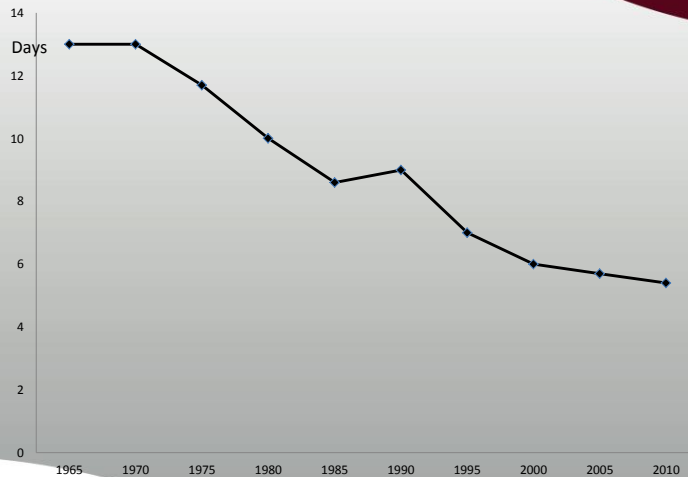


Policy Recommendations

- Eliminate 3 day prior stay requirement for SNF care
 - Prior inpatient stay not required for coverage of other post-acute care services (HHA, IRF, LTCH)
 - 3-day stay rule was repealed by “Catastrophic” in 1988 but reinstated when “Catastrophic” was repealed in 1989
 - Effect on SNF spending minimal because Medicare is already paid all but \$22 million of these SNF costs in 2012 according to OIG
- Until repealed, credit time spent in OS toward 3-day stay



Medicare's Falling Inpatient LOS



Medicare Hospital Inpatient Length of Stay

Source: CMS/CSP (Dec 2011); Cong OTA (Aug 1983).



Policy Recommendations (Cont'd)

- Cap beneficiary liability for OS at inpatient deductible
- Count OS as admission for purposes of readmission penalty
- Clarify Medicare criteria for OS vs inpatient status
- Notify patients of OS status and impact on OOP



Questions?

THANK YOU
**Rapid Growth in Medicare Hospital Observation
Services: What's Going On?**

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