
CMS Manual System

Pub. 100-02 Medicare Benefit Policy

Department of Health &
Human Services (DHHS)
Centers for Medicare &
Medicaid Services (CMS)

Transmittal 19

Date: September 10, 2004

CHANGE REQUEST 3444

SUBJECT: Hospital Services Covered Under Part B

I. SUMMARY OF CHANGES: This transmittal revises chapter 6, section 70.4 of Pub. 100-02, Medicare Benefit Policy Manual, to conform to the instruction provided in added section 50.3 of chapter 1 of Pub. 100-04, Medicare Claims Processing Manual, and to remove obsolete language.

NEW/REVISED MATERIAL - EFFECTIVE DATE*: April 1, 2004

IMPLEMENTATION DATE: October 12, 2004

Disclaimer for manual changes only: The revision date and transmittal number apply to the red italicized material only. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.

II. CHANGES IN MANUAL INSTRUCTIONS: (N/A if manual not updated.)

(R = REVISED, N = NEW, D = DELETED) – (Only One Per Row.)

R/N/D	CHAPTER/SECTION/SUBSECTION/TITLE
R	6/70.4/Outpatient Observation Services

III. FUNDING: Medicare contractors shall implement these instructions within their current operating budgets.

IV. ATTACHMENTS:

	Business Requirements
X	Manual Instruction
	Confidential Requirements
	One-Time Notification
	Recurring Update Notification

*Unless otherwise specified, the effective date is the date of service.

70.4 - Outpatient Observation Services

(Rev.19, 09-10-04, Effective: 04-01-04, Implementation: 10-12-04)

A. Outpatient Observation Services Defined

Observation services are those services furnished by a hospital on the hospital's premises, including use of a bed and at least periodic monitoring by a hospital's nursing or other staff which are reasonable and necessary to evaluate an outpatient's condition or determine the need for a possible admission to the hospital as an inpatient. Such services are covered only when provided by the order of a physician or another individual authorized by state licensure law and hospital staff by-laws to admit patients to the hospital or to order outpatient tests.

Hospitals may bill for patients who are "direct admissions" to observation. A "direct admission" occurs when a physician in the community refers a patient to the hospital for observation, bypassing the clinic or emergency department (ED). Effective for services furnished on or after January 1, 2003, hospitals may bill for patients directly admitted for observation services.

See Pub. 100-04, Medicare Claims Processing Manual, chapter 4, §290, for billing and payment instructions for outpatient observation services.

B. Coverage of Outpatient Observation Services

When a physician orders that a patient be placed under observation, the patient's status is that of an outpatient. The purpose of observation is to determine the need for further treatment or for inpatient admission. Thus, a patient in observation may improve and be released, or be admitted as an inpatient (See Pub. 100-02, Medicare Benefit Policy Manual, chapter 1, §10 "Covered Inpatient Hospital Services Covered Under Part A").

C. Notification of Beneficiary

If a hospital intends to place or retain a beneficiary in observation for a noncovered service, it must give the beneficiary proper written advance notice of noncoverage under limitation on liability procedures (See Pub. 100-04, Medicare Claims Processing Manual; chapter 30, "Financial Liability Protections," §20, for information regarding Limitation On Liability (LOL) Under §1879 Where Medicare Claims Are Disallowed). "Noncovered," in this context, refers to such services as those listed in paragraph D, below.

D. Services That Are Not Covered as Outpatient Observation

The following types of services are not covered as outpatient observation services:

- *Services that are not reasonable or necessary for the diagnosis or treatment of the patient but are provided for the convenience of the patient, the patient's family, or a physician, (e.g., following an uncomplicated treatment or a procedure, physician busy when patient is physically ready for discharge, patient awaiting placement in a long term care facility).*
- *Services that are covered under Part A, such as a medically appropriate inpatient admission, or services that are part of another Part B service, such as postoperative monitoring during a standard recovery period, (e.g., 4-6 hours), which should be billed as recovery room services. Similarly, in the case of patients who undergo diagnostic testing in a hospital outpatient department, routine preparation services furnished prior to the testing and recovery afterwards are included in the payment for those diagnostic services. Observation should not be billed concurrently with therapeutic services such as chemotherapy.*
- *Standing orders for observation following outpatient surgery.*

Claims for the preceding services are to be denied as not reasonable and necessary, under §1862(a)(1)(A) of the Act.