Observation Reimbursement Policy

Purpose

This policy is intended to ensure correct provider reimbursement and serves only as a general resource regarding Molina Healthcare's reimbursement policy for the services described in this policy. It is not intended to address every aspect of a reimbursement situation, nor is it intended to impact care decisions. This policy was developed using nationally accepted industry standards and coding principles. In a conflict, federal and state guidelines, as applicable, and the member's benefit plan document supersede the information in this policy. Also, to the extent of conflicts between this policy and the provider contract language, the Provider contract language will prevail. Coverage may be mandated by applicable legal requirements of a State, the Federal government or the Centers for Medicare and Medicaid Services (CMS). References included were accurate at the time of policy approval. If there is a state exception, please refer to the state exception table listed below.

Policy Overview

Passport by Molina Healthcare follows the observation guidelines outlined in the Current Procedural Terminology (CPT) Manual. Observation care is a well-defined set of specific, clinically appropriate services, which include ongoing short-term treatment, assessment, and reassessment, that are furnished while a decision is being made regarding whether a patient will require further treatment as a hospital inpatient or if the patient is able to be discharged from the hospital.

Observation services are commonly ordered for a patient who presents to the Emergency Department (ED) and who then requires a significant period of treatment or monitoring to decide on admission or discharge**.** Observation care involves the utilization of a hospital bed and regular monitoring by the nursing staff to assess the condition of an outpatient or ascertain the potential requirement for hospital admission as an inpatient. Hospital outpatient observation services are reported with HCPCS code G0378 or G0379.

Typically, the decision to discharge a patient from the hospital following observation care or to admit the patient as an inpatient can be made in less than 48 hours. The billing of and reimbursement for observation services are limited to rendered observation services that were specifically medically necessary and typically do not exceed 48 hours. Report Condition code 44 when patient status changes from inpatient to outpatient prior to discharge or release.

Professional Providers

All Evaluation and Management (E/M) services provided by the performing provider on the same date of service (DOS) are considered inclusive to the observation care E/M code. If there are unrelated E/M services provided by the same performing provider on the same DOS, the provider must append modifier 25 when the service is separately distinct and unrelated to the observation care. Practitioners providing observation care may report a valid observation E/M CPT code for the professional service(s) on a CMS-1500 Claim Form if the patient is not subsequently admitted as an inpatient on the DOS.

Institutional Providers

Institutional providers rendering observation services must report with the HCPCS codes G0378 (Hospital Observation Services, Per Hour) and/or G0379 (Direct Admission of Patient for Hospital Observation Services). HCPCS code G0378 must be billed with revenue code 0762 and the units equal the number of hours the individual is in an observation status. HCPCS code G0379 is used when an individual is referred directly to observation care being seen by a practitioner without an associated Emergency Room (ER) visit, hospital outpatient clinic visit, or critical care service on the same DOS as the initiation of observation care. G0379 may be reported with only one unit and must be billed in conjunction with G0378. G0379 is informational and not

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reimbursable. If a patient has two distinct observation stays on the same or overlapping days, separate claims may be submitted for each stay. However, if documentation supports that an early discharge resulted in the second stay, the charges for the observation care may be combined onto one claim. Observation care should be utilized until it is determined that the patient can either be discharged or be admitted as an inpatient.

Authorization Requirements

Observation services do not require prior authorization. However, if a procedure is performed during an observation stay that requires an authorization the facility or provider must seek authorization approval for that procedure.

Time

The period of observation begins when the patient is officially placed in observation status, as recorded in the notes of the physician or any other qualified healthcare professional (QHP). The observation period concludes when the physician or QHP issues discharge orders, which should align with the completion of the patient's observation treatment.

Documentation of Observation Services

The order for outpatient observation services must be in writing and clearly specify outpatient observation. The order must include the reason for observation, services ordered and be signed, dated, and include the start time of the observation admission by the physician responsible for the patient during his/her outpatient observation care.

Passport by Molina Healthcare reserves the right to request medical records, at any time, to confirm medically necessary services and/or accurate billing of observation services.

Reimbursement Guidelines

Reimbursement is based on the provider's CCR rate or contracted/negotiated rate. Claims for observation services will be allowed up to 48 hours, excess observation time over 48 hours will be denied. Observation service code G0378 will only be considered for reimbursement when the observation period meets or exceeds 8 hours.

Non-covered observation services include:

- Services that are not medically necessary for the diagnosis or treatment of the patient, but are provided for the convenience of the patient, their family, or a physician.
- Services that are already covered by other services, such as post-operative monitoring during a standard recovery period (e.g., four to six hours) should be billed as recovery services. This also applies to routine preparation services provided prior to diagnostic testing and recovery services afterwards, which are already included in the payment for the diagnostic service.
- Observation orders that are prescribed following outpatient procedures.

Audit and Recovery Process:

- **Review:** Claims will be meticulously examined against Molina Healthcare's standards.
- **Discrepancy Identification:** Any inconsistencies or errors identified will be documented.
- **Recovery:** Overpayments due to inaccuracies will be recovered either by offsetting from future payments or through direct refund requests.
- **Appeals:** Providers reserve the right to contest any claim adjustments or denials. Details of the appeal process will accompany the notification.

Policy Monitoring, Review, and Updates:

- The policy will undergo annual reviews or as required, ensuring its alignment with industry best practices, regulatory mandates, and Molina Healthcare's operational necessities. Any updates will be promptly communicated to providers.

Supplemental Information

Definitions

Term	Definition
CMS	the Centers for Medicare & Medicaid Services. It is a federal agency within the United States Department of Health and Human Services that administers the Medicare program and works in partnership with state governments to administer Medicaid, the Children's Health Insurance Program (CHIP), and health insurance portability standards.
Observation	A well-defined set of specific, clinically appropriate services, which include ongoing short-term treatment, assessment, and reassessment, that are furnished while a decision is being made regarding whether a patient will require further treatment as a hospital inpatient or if the patient is able to be discharged from the hospital.
G0378	Hospital Observation Services, Per Hour
G0379	Direct Admission of Patient for Hospital Observation Services

Documentation History

Type	Date	Action
Effective Date	01/01/2021	New Policy
Revised Date	01/31/2024	Updated policy for clarity - removed examples Added 8-hour minimum requirement for observation Identified G0379 is informational and not reimbursable

Related Policies

Policy Name
Hospital Routine Supplies & Services (molinahealthcare.com)

References

1. CMS
    a. Medicare Benefit Policy Manual, Chapter 6 - Hospital Services Covered Under Part B, Section 20.6
    Link: Medicare Benefit Policy Manual (cms.gov)
    b. Reviewing Short Stay Hospital Claims for Patient Status: Admissions on or After January 1, 2016
    Link: Reviewing-Short-Stay-Hospital-Claims-for-Patient-Status.pdf (cms.gov)
    c. Billing and coding: Outpatient observation bed/ room services
    Link: Article - Billing and Coding: Outpatient Observation Bed/Room Services (A56673) (cms.gov)
    d. Medicare Claims Processing Manual, Chapter 4, Section 290-290.6
    Link: Medicare Claims Processing Manual (cms.gov)
2. Current Procedural Terminology (CPT) Manual
3. Healthcare Common Procedure Coding System (HCPCS) Manual
4. Kentucky Medicaid
    a. 907 Chapter 3 Regulation 010 - Reimbursement for physicians' services
    Link: Title 907 Chapter 3 Regulation 010 • Kentucky Administrative Regulations • Legislative Research Commission

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This policy is designed to provide guidance and is not a guarantee of payment. Healthcare providers should make medical necessity determinations based on the individual clinical circumstances of each patient.