

# Corporate Medical Policy

## Observation Room Services

**File Name:** observation\_room\_services  
**Origination:** 2/1997  
**Last Review:** 2/2024

### Description of Procedure or Service

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Observation services are defined as the use of a bed and periodic monitoring and/or short term treatment by a hospital's nursing or other staff. These services are considered reasonable and necessary to evaluate a patient's condition to determine the need for possible inpatient admission. Observation care provides a method of evaluation and treatment as an alternative to inpatient hospitalization.

The services may be considered eligible for coverage only when provided under a physician's order or under the order of another person who is authorized by state statute and the hospital's by laws to admit patients and order outpatient testing.

The observation services must be patient-specific and not part of a standard operating procedure or facility protocol for a given diagnosis or service.

***\*\*\*Note: This Medical Policy is complex and technical. For questions concerning the technical language and/or specific clinical indications for its use, please consult your physician.***

### Policy

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**BCBSNC will provide coverage for Observation Room Services when it is determined to be medically necessary because the medical criteria and guidelines shown below are met.**

### Benefits Application

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This medical policy relates only to the services or supplies described herein. Please refer to the Member's Benefit Booklet for availability of benefits. Member's benefits may vary according to benefit design; therefore member benefit language should be reviewed before applying the terms of this medical policy.

### When Observation Room Services are covered

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In order for an observation stay (a period not to exceed 48 hours) to be considered medically necessary, the following conditions must be met:

- The patient is clinically unstable for discharge; **And**
- Clinical monitoring, and/or laboratory, radiologic, or other testing is necessary in order to assess the patient's need for hospitalization; **Or**
- The treatment plan is not established or, based upon the patient's condition, is anticipated to be completed within a period not to exceed 48 hours; **Or**
- Changes in status or condition are anticipated and immediate medical intervention may be required.

**Observation Services** may be categorized as follows:

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- **Patient evaluation:** When the patient arrives at the facility in an unstable medical condition, an observation stay pending determination of a definitive treatment plan may be considered appropriate.
- **Outpatient surgery:** Observation service coverage is restricted to situations where a patient exhibits an inordinate or unusual reaction to the surgical procedure, such as difficulty in awakening from anesthesia, a drug reaction, or other post-surgical complications which require monitoring or treatment beyond that customarily provided in the immediate postoperative period. Routine pre-operative preparation and recovery room services are not to be billed as observation services.
- **Diagnostic testing:** For scheduled outpatient diagnostic tests which are invasive in nature, the routine preparation before the test and the immediate recovery period following the test is not considered as an observation service. However, when a patient has a significant adverse reaction (above and beyond the usual or expected response) as a result of the test that requires further monitoring, outpatient observation services may be reasonable and necessary. Observation services would begin at that point in time when the reaction occurred and would end when it is determined that the patient is either stable for discharge or appropriate for inpatient admission.
- **Outpatient therapeutic services:** When the patient has been scheduled for ongoing therapeutic services as a result of a known medical condition, a period of time is often required to evaluate the response to that service. This period of evaluation is an appropriate component of the therapeutic service and is not considered an observation service. Observation service would begin at that point in time when a significant adverse reaction occurred, that is above and beyond the usual and expected response to the service. Observation status does not apply when a beneficiary is treated as an outpatient for the administration of blood only and receives no other medical treatment. The use of the hospital facilities is inherent in the administration of the blood and is included in the payment for administration.

### When Observation Room Services are not covered

When the medical criteria and guidelines listed above are not met.

Observation services that extend beyond a 48 hour period are not covered. Providers must contact BCBSNC and obtain approval for inpatient status for any services beyond the initial 48 hour period.

The following is a list of services that are not considered appropriate for observation room services (this list is not all inclusive):

- services that are not reasonable or necessary for the diagnosis or treatment of the patient
- outpatient blood or chemotherapy administration
- lack of/delay in patient transportation
- provision of a medical exam for patients who do not require skilled support
- routine preparation prior to and recovery after diagnostic testing
- routine recovery and post-operative care after ambulatory surgery
- when used as a substitute for inpatient admission
- when used for the convenience of the physician, patient or patient's family
- while awaiting transfer to another facility
- when an overnight stay is planned prior to diagnostic testing
- standing orders following outpatient surgery
- services that would normally require inpatient stay

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- observation following an uncomplicated treatment or procedure
- services that are not reasonable and necessary for care of the patient
- services provided concurrently with chemotherapy
- when inpatients discharged to observation status

### Policy Guidelines

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1. When in receipt of clinical data requesting hospital authorization, if inpatient status is medically necessary, **and inpatient status is requested by the attending physician**, inpatient status shall be authorized, regardless of anticipated length of stay (LOS).
2. If inpatient status is medically necessary, **but observation status is requested by the attending physician**, observation status shall be authorized.
3. If clinical data at the time of hospital presentation does **not** support inpatient status, **regardless of the attending physician's request**, inpatient status will be denied and observation status will be recommended.

### Billing/Coding/Physician Documentation Information

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This policy may apply to the following codes. Inclusion of a code in this section does not guarantee that it will be reimbursed. For further information on reimbursement guidelines, please see Administrative Policies on the Blue Cross Blue Shield of North Carolina web site at [www.bcbsnc.com](http://www.bcbsnc.com). They are listed in the Category Search on the Medical Policy search page.

*Applicable service codes: 99221, 99222, 99223, 99231, 99232, 99233, 99234, 99235, 99236, 99238, 99239, G0378*

BCBSNC may request medical records for determination of medical necessity. When medical records are requested, letters of support and/or explanation are often useful, but are not sufficient documentation unless all specific information needed to make a medical necessity determination is included.

Documentation should include the following information:

- the attending physicians order for observation care with clock time (or clock time can be noted in the nurse's observation admission note)
- the physician admission and progress notes confirming the need for observation care
- the supporting diagnostic and/or ancillary testing reports
- the admission progress notes (with the clock time) outlining the patient's condition and treatment
- the discharge notes (with clock time) with discharge order and nurses notes

### Scientific Background and Reference Sources

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9/96 Medical Director's Committee

3/99 Vice President of Healthcare Management

3/99 Medical Policy Advisory Group Review

Medical Policy Advisory Group - 3/1/2001

Specialty Matched Consultant Advisory Panel - 9/2002

Medical Policy Advisory Group - 10/2003

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Medical Policy Advisory Group - 9/2005

Centers for Medicare & Medicaid Services. Medicare Benefit Policy Manual. 20.5-Outpatient Observation Services. Effective 1/1/06. Retrieved 8/29/06 from <http://www.cms.hhs.gov/manuals/Downloads/bp102c06.pdf>

Centers for Medicare & Medicaid Services. LCD for Outpatient Observation Bed/Room Services (L1158). Effective 6/21/06. Retrieved 8/29/05 from [http://www.cms.hhs.gov/mcd/viewlcd.asp?lcd\\_id=1158](http://www.cms.hhs.gov/mcd/viewlcd.asp?lcd_id=1158)

Coffey RM, Barrett ML, Steiner S. Final Report Observation Status Related to Hospital Records. 2002. HCUP Methods Series Report #2002-4. ONLINE September 27, 2002. Agency for Healthcare Research and Quality. Available: <http://www.hcup-us.ahrq.gov>

Specialty Matched Consultant Advisory Panel- 3/2011

Centers for Medicare & Medicaid Services. LCD for Outpatient Observation Bed/Room Services (L1158). Effective 6/21/06 and revision effective date 9/30/2010. Retrieved 1/22/13 from <http://www.cms.gov/medicare-coverage-database>

Specialty Matched Consultant Advisory Panel- 2/2013

Centers for Medicare & Medicaid Services. LCD for Outpatient Observation Bed/Room Services (L1158). Retrieved 1/30/14 from: <https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/downloads/bp102c06.pdf>

Specialty Matched Consultant Advisory Panel- 2/2014

Specialty Matched Consultant Advisory Panel- 2/2015

Specialty Matched Consultant Advisory Panel- 2/2016

Specialty Matched Consultant Advisory Panel review 2/2020

Centers for Medicare & Medicaid Services. LCD for Billing and Coding: Acute Care: Inpatient, Observation, and Treatment Room Services (A52985). Effective 10/01/2015 and revision effective date 11/14/2019. Retrieved 1/22/13 from [https://www.cms.gov/medicare-coverage-database/details/article-details.aspx?articleId=52985&ver=34&Ctrctr=331&ContrVer=1&CtrctrSelected=331\\*1&DocType=All&s=All&bc=AAQAAABAAAA&](https://www.cms.gov/medicare-coverage-database/details/article-details.aspx?articleId=52985&ver=34&Ctrctr=331&ContrVer=1&CtrctrSelected=331*1&DocType=All&s=All&bc=AAQAAABAAAA&)

Specialty Matched Consultant Advisory Panel review 2/2021

Specialty Matched Consultant Advisory Panel review 2/2022

Medical Director review 2/2022

Specialty Matched Consultant Advisory Panel review 2/2023

Medical Director review 2/2023

Specialty Matched Consultant Advisory Panel review 2/2024

Medical Director review 2/2024

## Policy Implementation/Update Information

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2/97	Original policy issued
3/99	Guidelines changed per Vice President of Healthcare Management Review. MPAG approved.
8/99	Reformatted, Medical Term Definitions added.
3/01	Medical Policy Advisory Group review. No change in criteria. Reaffirm. System changes.
2/02	Coding format change.

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- 10/02 Specialty Matched Consultant Advisory Panel review. No change in policy.
- 1/03 Policy updated for clarity. References to a 24 hour limit removed. No system coding changes required. Policy name changed from Observation Room Services and 23 Hour Stay to Observation Room Services.
- 10/03 Medical Policy Advisory Group review. All references to Milliman and Robertson changed to Milliman Care Guidelines.
- 3/04 Policy Number changed from ADM 9100 to MED 1303.
- 10/8/05 Specialty Matched Consultant Advisory Panel [MPAG] review on 9/8/05. No changes to policy coverage criteria recommended.
- 10/2/06 Added statement to Description: Observation care provides a method of evaluation and treatment as an alternative to inpatient hospitalization. Moved the statement regarding "Outpatient services being used for the convenience of the hospital, physicians, patients or patients' families" to the Not Covered section. Added the following statement to the Covered section: the medical necessity for inpatient treatment is unclear because the delayed or slow progression of a patient's signs and symptoms makes quick diagnosis difficult, and the patient's monitoring and treatment does not meet hospital inpatient level of care. Added a list of services that are not considered appropriate for observation room services (this list is not all inclusive). Item #4 deleted from Policy Guidelines. Documentation requirements added to Billing/Coding section. References updated. All references to Milliman Care Guidelines removed from policy. (adn)
- 10/22/07 Item 3 in Policy Guidelines revised to read, "If clinical data at the time of hospital presentation does **not** support inpatient status, **regardless of the attending physician's request**, inpatient status will be denied and observation status will be recommended." Specialty Matched Consultant Advisory Panel review meeting 9/20/07. No changes to coverage criteria. (adn)
- 10/26/09 Specialty Matched Consultant Advisory Panel review 9/28/09. No change to policy statement or coverage criteria.
- 6/22/10 Policy Number(s) removed (amw)
- 4/12/11 Added "a period not to exceed 48 hours" to the first statement under "When Observation Room Services are covered section." This statement added to clarify the 48 hour period. Also added the statement "Observation services that extend beyond a 48 hour period are not covered. Providers must contact BCBSNC and obtain approval for inpatient status for any services beyond the initial 48 hour period" under "When Observation Room Services are not covered" section. Deleted the statement "the medical necessity for inpatient treatment is unclear because the delayed or slow progression of a patient's signs and symptoms makes quick diagnosis difficult, and the patient's monitoring and treatment does not meet hospital inpatient level of care" under When Observation Room Services Are Covered section and added "Clinical monitoring, and/or laboratory, radiologic, or other testing is necessary in order to assess the patient's need for hospitalization." Specialty Matched Consultant Advisory Panel review meeting 3/31/11. (lpr)
- 3/12/13 Specialty Matched Consultant Advisory Panel review meeting 2/20/2013. No change to policy statement. References updated. (lpr)
- 3/11/14 Specialty Matched Consultant Advisory Panel review meeting 2/25/2014. No change to policy statement. Reference updated. (lpr)
- 3/10/15 Specialty matched consultant advisory panel review meeting 2/25/2015. No change to policy statement. (lpr)
- 4/1/16 Specialty Matched Consultant Advisory Panel review 2/24/2016. No change to policy. (an)
- 3/31/17 Specialty Matched Consultant Advisory Panel review 2/22/2017. No change to policy. (an)

## Observation Room Services

- 3/29/18 Routine annual review. Codes 99224, 99225, 99226 added to Billing/Coding section. Specialty Matched Consultant Advisory Panel review 2/28/2018. No change to policy statement. (an)
- 10/1/18 HCPCS Code G0378 added to Billing/Coding section. (an)
- 3/12/19 Specialty Matched Consultant Advisory Panel review 2/20/2019. No change to policy. (an)
- 3/10/20 Specialty Matched Consultant Advisory Panel review 2/19/2020. No change to policy. (eel)
- 12/31/20 Corrected code in Billing/Coding section to read G0378. (bb)
- 3/23/21 Specialty Matched Consultant Advisory Panel review 2/17/2021. Reference added. No change to policy. (bb)
- 3/8/22 Specialty Matched Consultant Advisory Panel review 2/2022. Medical Director review 2/2022. No change to policy statement. (tt)
- 12/30/22 Removed the following codes from Billing/Coding section: 99217, 99218, 99219, 99220, 99224, 99225, 99226, effective 1/1/2023. (tt)
- 3/7/23 References updated. Added the following codes to Billing/Coding section: 99221, 99222, 99223, 99231, 99232, 99233, 99238, 99239. Specialty Matched Consultant Advisory Panel review 2/2023. Medical Director review 2/2023. No change to policy statement. (tt)
- 3/6/24 Specialty Matched Consultant Advisory Panel review 2/2024. Medical Director review 2/2024. No change to policy statement. (tt)

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Medical policy is not an authorization, certification, explanation of benefits or a contract. Benefits and eligibility are determined before medical guidelines and payment guidelines are applied. Benefits are determined by the group contract and subscriber certificate that is in effect at the time services are rendered. This document is solely provided for informational purposes only and is based on research of current medical literature and review of common medical practices in the treatment and diagnosis of disease. Medical practices and knowledge are constantly changing and BCBSNC reserves the right to review and revise its medical policies periodically.