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

Presentation by Keith D Lind, JD, MS Senior Policy Advisor AARP Public Policy Institute

How Many Use OS? Most Use Outpatient OS Only

How Long Do Patients Stay in OS? Widening Gap Between OS only and OS with Admission

Cumulative Change in Length of Stay in OS (2001-2009)


What is the Financial Impact of OS on Patients?

Medicare Beneficiary Out-of-Pocket Costs (2012)

Source: HHS OIG Memo (7/29/13).
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  - 3-day stay rule was repealed by “Catastrophic” in 1988 but reinstated when “Catastrophic” was repealed in 1989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- Until repealed, credit time spent in OS toward 3-day stay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
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Keith Lind
PPI@AARP.Org
(202) 434-3890