



What is observation?

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Observation is a term used to describe patients who are hospitalized (i.e., placed in a hospital bed other than in the emergency department or for a planned outpatient procedure or surgery) but who have not been admitted for inpatient care. Observation refers to the services provided by the hospital and physician for such patients.

Most commonly, after an emergency department physician has decided that a patient must be hospitalized, an attending physician orders observation services when they want to provide short-term treatment and/or diagnostics in the hospital but they do not expect to reach the threshold for inpatient admission based on the payer's requirements.

Observation is time limited. Under Medicare's two-midnight rule, observation patients should be admitted as inpatients if they have required or the physician anticipates they will require more than one midnight of hospital care. MCG and InterQual publish minimal clinical criteria for observation and limit observation to a maximum of 48 hours. Various Medicare Advantage and commercial insurance plans have their own rules for determining when inpatient admission is appropriate. These criteria may be defined in the hospital's contract or by the plan's utilization plan and are subject to negotiation at the time of contracting.

Observation is not a status, though it is often referred to as one. There are only 2 statuses for hospitalized patients: inpatient and outpatient. Patients "in observation" are classified as outpatients for billing purposes; under traditional Medicare, observation is paid by Part B.

Observation is inappropriate for planned (scheduled) outpatient surgery or procedures unless there is a post-procedure complication that requires hospital care beyond routine recovery, which may be overnight for some procedures. Observation is never used for inpatients, including inpatient surgery.