

Inpatient vs. observation: Difference can be costly



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When a person enters the hospital because of required medical treatment, she is generally not concerned about how she is classified as a patient. But what may seem like an arbitrary classification can be very costly for people with Medicare.

Hospitals classify patients' status as "inpatient" or "observation." Inpatient status implies severe problems requiring highly skilled care. Observation status implies less severe problems and a shorter stay.

Under current practices, most hospitals will not notify a patient that she has been categorized as in observation status until discharge. Then, a hospital representative presents a document for the patient's signature indicating that she understands that the classification has been observation status.

A patient who enters the hospital for an emergency and only stays for a short period of time may understand that she is considered an outpatient. However, a patient who plans a procedure well in advance and stays in a hospital for more than 48 hours may expect that she will be categorized as an inpatient, but that is not the case for many patients.

For many years now, hospitals have been deeming more and more patients in observation status, and they have even used that categorization for patients who stay for a week or longer. The Medicare standard is the so-called "two midnights" rule: If a patient passes two consecutive midnights in the hospital, she merits inpatient status. Unfortunately, things often don't work out that way. In fact, hospitals have the right to retroactively change the patient's status to observation.

My wife recently had a pacemaker installed at a Florida hospital, and she received excellent treatment. She spent two days in the hospital. Her procedure was planned weeks in advance. I expected that she would be categorized as an inpatient. She was not. She was provided with paperwork an hour before dismissal for her to sign indicating that she had been in observation status. This meant that she was covered not under Part A of Medicare but under Part B.

Fortunately, she has Part B and Medigap, so most of her expenses will be covered. If she did not have Part B or Medigap, she would have faced significant expenses. However, Part B does not cover medications, so she will be billed for them. She does have Part D, which covers prescription drugs, so some of the drug expenses may be covered. However, if she had been categorized as an inpatient, most if not all of her hospital expenses would have been covered.

This is not the first time that a family member has spent two or more days in

the hospital and only found out at discharge that they were not categorized as an inpatient. Frankly, I think the existing hospital policy in this regard is shameful. A patient should know as soon as possible what their status is. This is especially important for people who don't have Part B coverage or its equivalent. They have a right to know the hospital expenses they will be facing depending on their patient status.

Another example: Assume a person has been a patient at the hospital for three or more days. If he had been categorized as an inpatient, he could be admitted to a rehab facility and be covered by Medicare for 20 days. However, if he had been categorized as observation status, Medicare would not cover any of the 20-day expenses, because he was not an inpatient. He would be on the hook for rehab, and that cost would run into many thousands of dollars.

Unfortunately, Medicare policies and hospital policies in this area are ambiguous. Because of pressure from Medicare, hospitals are deeming observation status more frequently in the last several years, and most patients are not aware of the cost implications.

Congress needs to establish fairer and better defined policies, and better protection for Medicare patients. I urge you to contact your congressional representatives. The current practices don't protect patients at all.

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