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New Report Finds Rapid Growth in Use of Medicare Observation Services

Raises Concerns About Clinical Benefit and Out-of-Pocket Costs to Patients

Washington, DC – Today, AARP Public Policy Institute released a new report examining the use of hospital observation status for Medicare patients.

Hospital emergency rooms sometimes hold patients for observation before admitting them or sending them home. The use of this service, known as observation status, has grown rapidly in recent years. For Medicare patients, the distinction is important because it can affect out-of-pocket costs. Use of observation status as a substitute for admission also raises concerns about quality of care.

The report, “Rapid Growth in Medicare Hospital Observation Services: What’s Going On?,” analyzed the frequency and duration of the use of observation status for Medicare beneficiaries between 2001 and 2009. It found a dramatic increase in Medicare claims for observation status – more than 100 percent growth over nine years – and an even greater percentage increase in the length of time spent in observation, with visits longer than 48 hours increasing the most.

“The dramatic increase in the use of observation status for Medicare patients deserves a closer look,” said Debra Whitman, AARP Executive Vice President for Policy, Strategy and International Affairs. “The clinical benefit of long-term observation remains questionable. And for Medicare patients who remain in the hospital under observation, they may not realize the high out-of-pocket costs they’ll have to pay.”

Currently, Medicare requires a patient have a three-day inpatient hospital stay before receiving covered care in a skilled nursing facility, such as rehab for a knee replacement or the like. However, a patient may spend three nights in the hospital under observation and not meet that requirement, potentially resulting in unexpectedly high out-of-pocket costs and lack of coverage for needed care.

The report explores the reasons for growth in the use of observation services as well as potential policy solutions, including counting time spent in observation toward the three-day stay requirement. Bipartisan legislation has been introduced in both the House and Senate (sponsored by Representatives Joe Courtney (D-Conn.) and Tom Latham (R-Iowa) and Senators Sherrod Brown (D-Ohio) and Susan Collins (R-Maine)) to count the time spent in observation toward the three-day stay requirement. The legislation, the Improving Access to Medicare Coverage Act of 2013 (H.R. 1179/S. 569), has been endorsed by AARP.

The full report, “*Rapid Growth in Medicare Hospital Observation Services: What’s Going On?*” is available here: <http://www.aarp.org/health/medicare-insurance/info-10-2013/rapid-growth-in-medicare-hospital-observation-services-AARP-ppi-health.html>

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CONTACT:

Allyson Funk

202-434-2560 or media@aarp.org

@AARPMedia

