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AARP Report: Outpatient Observation Status Can Prove Costly for Medicare Patients

AARP supports changes to Medicare coverage of hospital stays and skilled nursing care

WASHINGTON, DC—AARP's [Public Policy Institute](#) today released a new report showing how observation patients can face unexpected, high out-of-pocket costs under Medicare rules compared with people who have been admitted as inpatients. Nearly 2 out of 3 observation patients who needed skilled nursing facility (SNF) care after hospital discharge did not meet Medicare's 3-day inpatient requirement for coverage, according to the report.

According to the new PPI report, "**Observation Status: Financial Implications for Medicare Beneficiaries**," being placed under observation can have significant financial implications for Medicare beneficiaries. For instance, some observation patients owed over \$12,000 for post-hospital SNF care, more than 5 times the amount owed by patients who met Medicare's 3-day prior hospital inpatient stay requirement for coverage.

"These findings demonstrate the disproportionate financial impact on some patients who are unwittingly caught by Medicare's arbitrary rules for coverage of hospital outpatient services and skilled nursing facility care," said [Keith Lind, JD, MS, Sr. Strategic Policy Advisor](#), AARP Public Policy Institute, and co-author of the report. "The Medicare rules should change so patients get the care they need without the unnecessarily high costs."

Observation Status vs Inpatient Status

Doctors may place emergency room patients under observation instead of formally admitting them as hospital inpatients while determining their diagnosis. Patients often do not know their patient status. Under Medicare rules, observation patients are considered outpatients.

For Medicare beneficiaries, observation status can result in unexpectedly high out-of-pocket hospital bills, as well as thousands of dollars for SNF care. Medicare inpatients typically only pay a one-time deductible. Under observation, however, Medicare beneficiaries pay a deductible plus part of the cost of each individual hospital service provided, with no limit on what they may owe, plus the cost of non-covered drugs.

Medicare covers 100% of the first 20 days for approved SNF care, but only for those with a minimum of 3 full 'inpatient' days in the hospital. Medicare does not cover follow-up SNF care for observation patients because they are considered outpatients, not inpatients.

Report Highlights

- Nearly 2 out of 3 of Medicare observation patients that needed post-hospitalization SNF care did not meet the 3-day inpatient requirement for Medicare coverage.
- 1 in 10 Medicare observation patients paid more out-of-pocket for hospital services than if they had been admitted as inpatients.
- Some observation patients owed more than \$12,000 for post-hospital SNF care, more than 5 times the amount owed by patients who met Medicare's 3-day prior inpatient stay requirement for coverage.

Policy Solutions

To help protect Medicare beneficiaries from getting stuck paying disproportionately high out-of-pocket costs, AARP supports:

- Placing a cap on total beneficiary out-of-pocket costs for observation services and other outpatient services to match the one-time Medicare Part A deductible for inpatients.
- Crediting time spent in observation toward the 3-day hospital inpatient stay required to qualify for SNF coverage.
- Working to replace the 3-day prior hospital inpatient stay requirement with appropriate clinical criteria related to the need for SNF care.

AARP has endorsed the bipartisan [Improving Access to Medicare Coverage Act \(S. 843/H.R. 1571\)](#) that would count a patient's time in observation toward the 3-day hospital inpatient stay requirement for Medicare

coverage of SNF care.

“Observation Status: Financial Implications for Medicare Beneficiaries” Methodology

AARP’s Public Policy Institute examined a random 5% sample of hospital and skilled nursing facility claims from 2009 representing more than 2.1 million Medicare beneficiaries. In addition to being enrolled in Medicare Parts A and B, beneficiaries had also been placed under hospital observation sometime during 2009. Medicare Advantage subscribers were excluded from the sample. AARP’s Public Policy Institute examined a random 5% sample of hospital and skilled nursing facility claims from 2009 representing more than 2.1 million Medicare beneficiaries. In addition to being enrolled in Medicare Parts A and B, beneficiaries had also been placed under hospital observation sometime during 2009. Medicare Advantage subscribers were excluded from the sample.

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Additional Resources

- **Blog: Are You in the Hospital or Not?** Keith Lind, January 2014
- **PPI Report: Rapid Growth in Medicare Hospital Observation Services—What’s Going On?** October 2013
- **Medicare: Inpatient or Outpatient?** *AARP Bulletin*, October 2012

About AARP

AARP is a nonprofit, nonpartisan organization, with a membership of nearly 38 million, that helps people turn their goals and dreams into real possibilities, strengthens communities and fights for the issues that matter most to families such as healthcare, employment and income security, retirement planning, affordable utilities and protection from financial abuse. We advocate for individuals in the marketplace by selecting products and services of high quality and value to carry the AARP name as well as help our members obtain discounts on a wide range of products, travel, and services. A trusted source for lifestyle tips, news and educational information, AARP produces AARP The Magazine, the world's largest circulation magazine; AARP Bulletin; www.aarp.org; AARP TV & Radio; AARP Books; and AARP en Español, a Spanish-language website addressing the interests and needs of Hispanics. AARP does not endorse candidates for public office or make contributions to political campaigns or candidates. The AARP Foundation is an affiliated charity that provides security, protection, and empowerment to older persons in need with support from thousands of volunteers, donors, and sponsors. AARP has staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Learn more at www.aarp.org.

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