



# PI Payment Policy 34

## Appropriate Level of Care Reimbursement

### *All States & Lines of Business*

### Purpose

This policy is intended to ensure correct provider reimbursement and serves only as a general resource regarding Molina Healthcare's reimbursement policy for the services described in this policy. It is not intended to address every aspect of a reimbursement situation, nor is it intended to impact care decisions. This policy was developed using nationally accepted industry standards and coding principles. In the event of a conflict, federal and state guidelines, as applicable, as well as the member's benefit plan document supersede the information in this policy. Additionally, to the extent there are any conflicts between this policy and the provider contract language, the Provider contract language will prevail. Coverage may be mandated by applicable legal requirements of a State, the Federal government or the Centers for Medicare and Medicaid Services (CMS). References included were accurate at the time of policy approval.

### Overview

The use of observation is an alternative to inpatient admission that allows for a period of treatment or assessment, pending a decision regarding the need for additional care. This will determine if inpatient admission is necessary or whether observation services would have sufficed. Proper use of observation status and inpatient admission will ensure that the appropriate level of care is used for the medically necessary care that was given.

### Process

Molina Healthcare or designee may perform clinical and claim validation reviews both pre-payment and post-payment to confirm DRG assignments and appropriate payment for facility stays. This helps to ensure that claims represent the services provided to our members, and that billing and reimbursement is compliant with federal and state regulations as well as applicable standards, rules, laws, policy and contract provisions.

The level of care, not the physical location of the bed, dictates admission status. Hospitals can use specialty areas (including CCU or ICU) to provide observation services. Continuous monitoring, such as telemetry, can be provided in an observation or inpatient status. In determining admission status, overall severity and intensity of the services will be considered rather than any single or specific intervention. In the absence of a designated outpatient observation unit, outpatient observation members may be placed in any available acute care bed. A member status can change from outpatient observation to inpatient without actually changing beds. Care and treatment in outpatient observation status can be the same as inpatient care, and an outpatient observation member may progress to inpatient status when it is determined that the member's condition requires an inpatient level of care. Conversion from observation status to inpatient status must meet medical necessity.

Observation care is a well-defined set of specific, clinically appropriate services, which include ongoing short-term treatment, assessment, and reassessment before a decision can be made regarding whether a member will require further acute inpatient treatment in the hospital or if they are able to be discharged. Observation care spans the gap between outpatient and inpatient care. Observation care may be appropriate when time beyond outpatient or emergency department care is required for continued assessment of the member. For example:

- testing or reevaluation is needed to determine the member's diagnosis and care needs
- the initial history, symptoms, signs and/or diagnostic tests are inconclusive, but the member is clinically stable
- to determine whether the member's response to treatment is adequate
- the member's immediate condition is not life-threatening and initial response to treatment is favorable
- the member shows initial and progressive improvement with treatment suggesting rapid resolution of the presenting problem
- the member requires medication adjustments or hydration management
- the member requires pain management
- the member has post procedural complications which do not require an inpatient level of care but necessitate ongoing monitoring

Observation or inpatient orders must be in writing by a physician or other individuals authorized by hospital staff by-laws. CMS does not consider the use of inpatient or observation as a convenience of the member, the member's family, or a physician to be appropriate.

Inappropriate use of inpatient status includes:

- members maintained on-site due to socioeconomic factors
- members held at physician convenience for later testing or examination
- members on-site in preparation for, or in routine recovery from, ambulatory procedures
- members on-site for routine outpatient procedures (i.e. transfusion or chemotherapy)
- services routinely performed in the emergency department or outpatient setting



- custodial care

When performing inpatient and observation status reviews, Molina Healthcare applies an evidenced based clinical criteria guideline, as long as the methodology complies with Federal or State regulations and the Hospital or Provider Services Agreement. The role for observation is included in well recognized national criteria sets. The patient receiving observation services may improve and be released or be admitted as an inpatient. Guidelines, such as InterQual and MCG, may serve as guidance and clinical screening criteria of the appropriate use of observation care versus inpatient care. Guidelines are screening tools and are not intended to be a substitute for clinical judgment. Molina’s Medical Director reviewers may refer to guideline criteria in reaching the determination but are not required to adhere to any single published criteria. Molina Healthcare follows these standards in making a determination regarding the payment methodology to be used. All Molina Healthcare professionals reviewing cases for medical necessity need sufficient clinical information to make the appropriate medical necessity determination.

For Medicare members, an inpatient admission for a surgical procedure specified by Medicare as Inpatient Only under 42 C.F.R. § 419.22(n) is generally appropriate for inpatient payment, regardless of the expected duration of care.

Should an admission be identified for reimbursement review, the provider will be requested to supply documentation to support the claim submitted. This information includes but is not limited to complete medical charts, itemized bills and consent forms. Obtaining authorization does not guarantee payment. The plan retains the right to review benefit limitations and exclusions, beneficiary eligibility on the date of the service, correct coding and billing practices and whether the service was provided in the most appropriate and cost-effective setting of care.

## Coding

## Approval History

TYPE	DATE	ACTION
Effective Date	1/7/2022	New Policy

## References

Medicare Program Integrity Manual  
<https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/pim83c06.pdf>  
 (Page 25 - 6.5.2 - Conducting Patient Status Reviews of Claims for Medicare Part A Payment for Inpatient Hospital Admissions)

Medicare Benefit Policy Manual  
<https://www.cms.gov/media/125106> (Page 21 - Outpatient Observation Services Defined)  
<https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/bp102c01.pdf> Chapter - 1, Section 10 " Covered Inpatient Hospital Services Covered Under Part A"

CFR 42  
<https://www.law.cornell.edu/cfr/text/42/412.3> (42 CFR § 412.3 - Admissions)

CMS  
<https://www.cms.gov/Regulations-and-Guidance/Guidance/Transmittals/2018Downloads/R2109OTN.pdf>

## Supplemental Information

### Definitions

**Acceptable Clinical Information** – includes but not limited to: history and physical, emergency room notes, medication records, physician orders, laboratory values and any supporting clinical documentation for the requested level of care. Hospital case management reviews cannot take the place of clinician’s documentation.

**Observation** – is an alternative to inpatient admission (and consequently it is considered an outpatient status). CMS stipulates that "observation care is a well-defined set of specific, clinically appropriate services...that are furnished while a decision is being made regarding whether patients will require further treatment as hospital inpatients or if they are able to be discharged from the hospital."

## Appendix

### California

Molina HP Policy published in 2016: <https://www.molinahealthcare.com/providers/ca/PDF/Duals/JTF-07-01-2016-Inpatient-vs-Observation-IE-IM-LA-SAC-SD.pdf>

[http://files.medi-cal.ca.gov/pubsdoco/manual/man\\_query.asp?wSearch=%28%23filename+%2A%5F%2Ai00%2A%2Edoc+OR+%23filename+%2A%5F%2Ai00%2A%2Ezip+OR+%23filename+%2A%5F%2Az00%2A%2Edoc+OR+%23filename+%2A%5F%2Az00%2A%2Ezip+OR+%23filename+%2A%5F%2Az02%2A%2Edoc+OR+%23filename+%2A%5F%2Az02%2A%2Ezip%29&wFLogo=Part+2+%26%23150%3B+Inpatient+Services+%28IPS%29&wFLogoH=53&wFLogoW=564&wAlt=Part+2+%26%23150%3B+Inpatient+Services+%28IPS%29&wPath=N](http://files.medi-cal.ca.gov/pubsdoco/manual/man_query.asp?wSearch=%28%23filename+%2A%5F%2Ai00%2A%2Edoc+OR+%23filename+%2A%5F%2Ai00%2A%2Ezip+OR+%23filename+%2A%5F%2Az00%2A%2Edoc+OR+%23filename+%2A%5F%2Az00%2A%2Ezip+OR+%23filename+%2A%5F%2Az02%2A%2Edoc+OR+%23filename+%2A%5F%2Az02%2A%2Ezip%29&wFLogo=Part+2+%26%23150%3B+Inpatient+Services+%28IPS%29&wFLogoH=53&wFLogoW=564&wAlt=Part+2+%26%23150%3B+Inpatient+Services+%28IPS%29&wPath=N)

### Florida

[https://ahca.myflorida.com/medicaid/review/specific\\_policy.shtml](https://ahca.myflorida.com/medicaid/review/specific_policy.shtml) (59G-4.150 (Page 5))

### Illinois

<https://www.illinois.gov/hfs/SiteCollectionDocuments/h200.pdf> (page 69)

### Michigan

<https://www.mdch.state.mi.us/dch-medicaid/manuals/MedicaidProviderManual.pdf> (Page A66)

### Mississippi

<https://medicaid.ms.gov/wp-content/uploads/2014/11/Provider-Billing-Handbook.pdf> (Page 71)

### New Mexico

[https://www.hsd.state.nm.us/uploads/files/Providers/Manuals%20and%20Guides/Managed%20Care%20Policy%20Manual/NM%20Managed%20Care%20Policy%20Manual\\_FINAL.pdf](https://www.hsd.state.nm.us/uploads/files/Providers/Manuals%20and%20Guides/Managed%20Care%20Policy%20Manual/NM%20Managed%20Care%20Policy%20Manual_FINAL.pdf) (page 167)

### New York

[https://www.emedny.org/ProviderManuals/Inpatient/PDFS/Inpatient\\_Billing\\_Guidelines.pdf](https://www.emedny.org/ProviderManuals/Inpatient/PDFS/Inpatient_Billing_Guidelines.pdf) (Page 8)

### Ohio

<https://medicaid.ohio.gov/RESOURCES/Publications/ODM-Guidance#161541-provider-billing-instructions> (Page 31, Inpatient Hospital Stay with Outpatient Services)

### South Carolina

[https://www.scdhhs.gov/historic/ServiceProviders/hospitalsvcs\\_in.html](https://www.scdhhs.gov/historic/ServiceProviders/hospitalsvcs_in.html)

<https://www.scdhhs.gov/internet/pdf/manuals/Provider%20Administrative%20and%20Billing%20Guide.pdf>

### Texas

[http://www.tmhp.com/Manuals\\_PDF/TMPPM/TMPPM\\_Living\\_Manual\\_Current/2\\_Med\\_Specs\\_and\\_Phys\\_Srvs.pdf](http://www.tmhp.com/Manuals_PDF/TMPPM/TMPPM_Living_Manual_Current/2_Med_Specs_and_Phys_Srvs.pdf) (Page 177)

### Utah

<https://medicaid.utah.gov/Documents/manuals/pdfs/Medicaid%20Provider%20Manuals/Hospital/Hospital%20Services/HospitalServices.pdf> (page 13)

### Washington

<https://www.hca.wa.gov/assets/billers-and-providers/Inpatient-hospital-bi-20200401.pdf> (Page 78-79, Change from inpatient to outpatient observation status)

### Wisconsin

<https://www.dhs.wisconsin.gov/mandatoryreports/mastateplan/4-19a.pdf> (Page 8)