



# Are inpatient short stays worth pursuing?

The Medicare Two-Midnight Rule allows inpatient payment for short stays – visits lasting less than two midnights – if the treating physician provides clear documentation justifying the admission. Providing this documentation requires a complete utilization review (UR) process involving case managers, physician advisors and treating physicians.

Some financial leaders may believe they can reduce UR costs by applying a simplified time standard and leaving all visits of less than two midnights as outpatient. However, following this strategy is costly.

Before assigning patient status solely on time, consider the consequences such a policy would have on **four aspects** of their organization.



## Reimbursement

The impact inpatient short stays can have on reimbursement dwarfs the incremental cost of reviewing them. In a study involving 66 hospitals from five health systems across the country, **3,407 of the 22,418 short stays initially identified as outpatient were appropriate for inpatient status** and ultimately paid as such.<sup>1</sup> If these hospitals would have simply assigned all short stays as outpatient, they would have missed out on appropriate inpatient revenue for these 3,407 cases.

### What does this mean for a hospital?

At a blended DRG rate of \$5,400 or more, the difference between Medicare inpatient and outpatient payments is about \$3,000. If, somewhere in the hospital, just one patient per day is incorrectly placed in observation when they should have been an inpatient, it **would cost the hospital \$1 million per year**. Failing to review inpatient short stays leads to significant reimbursement shortfalls.

**3,407**  
**out of 22,418**  
short stays initially  
identified as  
outpatient were  
appropriate for  
inpatient care and  
paid as such.<sup>1</sup>



## Compliance

The Two-Midnight Rule allows Medicare fee-for-service inpatient payment based on medical necessity and the physician's expectation that a patient will require hospital care for more than two midnights.<sup>2</sup> Vitaly important is the word, "expectation." An inpatient stay expected to span two midnights may be cut short for many reasons, including transfers, unexpected clinical improvement, or departure against medical advice. The Two Midnight Rule also states that inpatient short stays may be appropriate for Part A payment on a case-by-case basis, if the documentation supports the physician's judgment that inpatient admission is necessary.<sup>3</sup> This documentation of physician judgment is essential.

CMS has also instructed hospitals not to use an Inpatient Part B rebilling or Condition Code 44 process as a substitute for concurrent utilization review. The 2014 IPPS final rule states, "Use of Condition Code 44 or Part B inpatient billing pursuant to hospital self-audit is not intended to serve as a substitute for adequate staffing of utilization management personnel."<sup>4</sup>



## Patient financial experience

Hospitals aren't the only ones affected by patient status. Costs for Medicare beneficiaries vary depending on whether they're treated as inpatients or outpatients. While inpatient status involves a single deductible under Medicare Part A, outpatient services under Medicare Part B involve separate charges. A similar situation can exist for commercial members as well.

These charges can add up to overwhelming, unexpected medical expenses that cause patient dissatisfaction and lost loyalty. **Placing patients in the wrong status exacerbates these consequences,** can harm HCAHPS\* survey scores, and lead to poor public relations and investigative scrutiny. A comprehensive UR program can reduce the risk of these ramifications only if hospitals review short stays according to the same robust UR process as their other cases.



## Quality monitoring

Ignoring inpatient short stay reviews can also affect a hospital's quality metrics, which are often calculated only on inpatient admissions. For instance, **declaring all short stays as outpatient** can raise average length of stay and affect the DRG or APC codes assigned. Since many facilities limit clinical documentation improvement (CDI) reviews to inpatient cases or specific DRGs, incorrect patient status could lead to missed CC or MCC assignment and affect case mix index.

These consequences can affect perceptions of quality as it impacts reimbursement under value-based care contracts and incentives – and penalties – for Medicare performance programs. Poorer than expected performance can lead to network leakage if referring physicians and patients review hospital performance metrics before making care decisions.

An inpatient stay expected to span two midnights may be cut short for many reasons, including transfers, unexpected clinical improvement, or departure against medical advice.

Are inpatient short stays worth pursuing?

While reducing costs can be appealing, correctly identifying inpatient short stays provides value that far exceeds incremental case review costs.

A comprehensive UR process that relies on physician judgment and evidence-based decision-making is the most effective way to produce patient status decisions that are compliant, cultivate positive patient experiences, protect revenue integrity and enable accurate quality measurements.



**Contact us for an analysis of how inpatient short stays affect your organization.**

[optum.com/contactus](https://optum.com/contactus)

\*Hospital Consumer Assessment of Healthcare Providers and Systems.

1. Based on retrospective analysis of 837/835 claim and remittance data for the 66 hospitals belonging to five U.S. health systems. Past performance does not guarantee future results.
2. [cms.gov/newsroom/fact-sheets/fact-sheet-two-midnight-rule-0](https://cms.gov/newsroom/fact-sheets/fact-sheet-two-midnight-rule-0).
3. Ibid.
4. FY 2014 Hospital Inpatient Prospective Payment System (IPPS) Final Rule, CMS 1599-F.

**Optum**

11000 Optum Circle, Eden Prairie, MN 55344 | [optum.com](https://optum.com)

Optum® is a registered trademark of Optum, Inc. in the U.S. and other jurisdictions. All other brand or product names are the property of their respective owners. Because we are continuously improving our products and services, Optum reserves the right to change specifications without prior notice. Optum is an equal opportunity employer.

© 2022 Optum, Inc. All rights reserved. WF6804313 04/22