

Increasing Trends in the Use of Hospital Observation Services for Older Medicare Advantage and Privately Insured Patients

How has use of hospital observation stays by the privately insured enrollees age 65+ changed between 2004-2014?

Evidence and practice landscape



Millions of ER patients are placed under observation each year because they are not sick enough to be admitted as hospital inpatients, but too sick to return home. Use of observation status could have implications for the cost and quality of care patients receive.

Several studies have shown a rapid increase in the use of observation stays among patients enrolled in government health plans, such as Medicare fee-for-service (FFS) and VA Healthcare. This is especially true for observation stays lasting 2 or more days (despite guidelines specifying that such stays should rarely exceed 24 hours). Use of observation for patients in private plans has not been widely studied.

Some possible reasons

why observations stays are increasingly common in the Medicare FFS population:

- Financial penalties for hospital readmissions starting in 2012.
- Hospital efforts to improve efficiency through faster triage and disposition of ER room patients.
- Heightened scrutiny and denial of short stay inpatient FFS claims by Medicare Recovery Audit Contractors and Medicare FFS payment policy change.

This is one of the first studies to examine changes in the use of observation status among people enrolled in private plans—that is, Medicare Advantage and non-Medicare commercial plans.

Study population

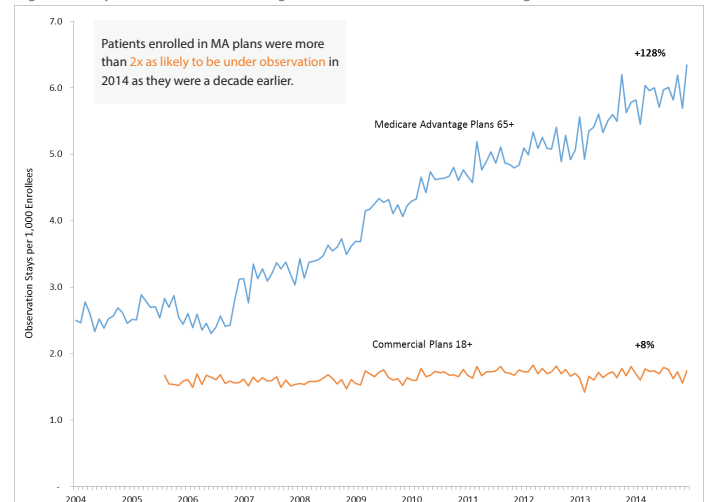
- Medicare Advantage (MA) enrollees age 65+ and commercial enrollees ages 18+ with primary medical coverage at the start of their hospital visit, with dates of service Jan 2004 - Dec 2014.
- MA enrollees under age 65 (who qualify for MA because they are disabled) were excluded due to changes in the Social Security Disability Insurance program over the study years.

Key findings

For many older patients in MA and commercial plans, outpatient observation may have become a substitute for inpatient admission and readmission.

Trends diverge dramatically for MA and commercial insurance:

Fig 1. Monthly Observation Rate among MA (2004-14) and Commercial (Aug '05-Dec '14) Plan Enrollees



- Observation stays in the MA population were stable between 2004 and 2006, before increasing significantly in late 2006.
- In commercial plans, use of observation stays remained largely unchanged—with the exception of people ages 65+, whose observation use increased somewhat over time. (Fig 2).

Key findings (continued)

- In early 2010, the climb in observation rates for commercial plan enrollees 65 years old and above began accelerating, increasing about 27% over the following 5 years.
- Observation rates for adults under 65 in commercial plans remained relatively constant, rising 6% between 2005-2014.
- **What about readmissions?** The count of privately insured patients who were placed under observation when they returned to a hospital within 30 days after an inpatient stay grew rapidly, especially for Medicare Advantage (MA) plan enrollees (+117 percent over 5 years).

Translation potential

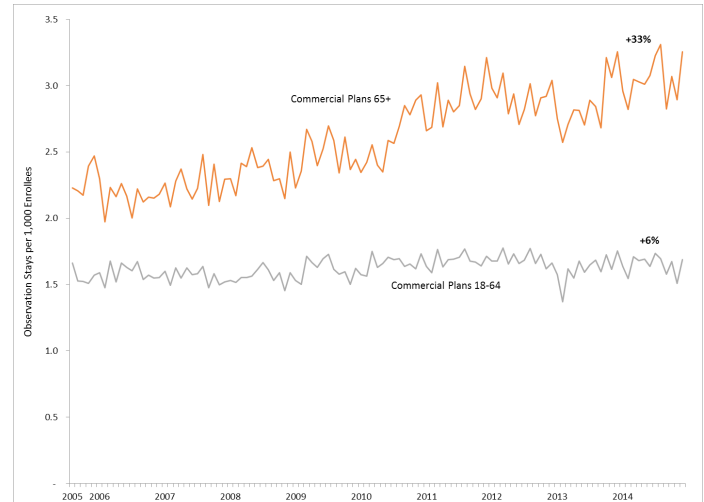
This study addresses issues of importance to:

- **Patients** who may not know whether they are admitted to the hospital or placed in observation and who may not understand the reasons for the use of this “level of care.”
- **Providers** who may opt to treat all older patients similarly, or who may be questioned by patients about their hospital status and expected costs.
- **Payers and policy makers** who determine and evaluate performance and quality measures related to hospital care via ER, observation and inpatient levels of care.

Implications:

- Divergent trends in the use of outpatient observation for MA patients 65 + versus commercial patients under 65 suggest that physicians may be diverting older patients to observation at disproportionately higher rates than younger patients, a trend that has increased over time.

Fig 2. Monthly Observation Rate among Commercial Plan Enrollees, by Age (Aug '05-Dec '14)



- Medicare FFS rules that may be driving divergent trends in the use of observation versus inpatient admission and readmission, such as scrutiny of short inpatient stays and penalties for avoidable readmissions, do not apply to most MA and commercial plans.
- However, incentives to increase use of observation that were created by Medicare FFS rules may have spilled over to management of older private plan enrollees.
- Declining readmission rates may not be an adequate measure of success in reducing medical complications or improving quality of care for patients.
- Further research is needed on the appropriateness of the level of care setting and how this choice affects quality of care and patient out-of-pocket costs.

Project mechanics

Objective

- Examine how MA and non-Medicare commercial and employer plan enrollees' observation stays have changed over 11 years, from January 2004-December 2014.

Methods

- Retrospective analysis using the *OptumLabs Data Warehouse*, which includes retrospective administrative claims data on over 130 million MA and commercially insured enrollees.

- Identified individuals who had an observation stay by using a combination of revenue codes and CPT-4 codes.
- Excluded observation stays that were immediately followed by inpatient admission.
- For enrollees with more than one observation stay during a month, included all stays in the analysis.
- For each month, identified short-term inpatient stays lasting 2 days or less. Counted observation stays that resulted in a hospitalization lasting no more than 2 days as short-term

Methods (continued)

- Calculated monthly rates of observation stays and short-term inpatient stays separately for enrollees in MA and commercial plans using the number of visits as the numerator and the total number of enrollees as the denominator.
- Further analyses on inpatient readmission and return observation stays – calculated monthly readmission rates and return observation rates using the total number of index admissions as the denominator and the number of index admissions followed by at least one readmission or return observation stay as the numerator.
- Identified unplanned inpatient claims from the top third of hospitals with the largest drop in readmission between January 2009 and December 2014. For each of these index inpatient

stays, identified subsequent readmissions and observation stays that happened within 30 days of leaving the hospital.

Study limitations

- Hours spent under observation status were not available.
- Location data for where the observation stay takes place (e.g. in the ER, dedicated unit, or inpatient bed) was not available.
- Not able to estimate the effect of patient mortality in the analysis of return observation stays and readmissions due to limitations of the data.

Driving discovery

Members on the research team include:

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AARP is a nonprofit, nonpartisan organization with a membership of more than 37 million. AARP helps people turn their goals and dreams into real possibilities; strengthens communities; and fights for the issues that matter most to families, such as health care, employment and income security, retirement planning, affordable utilities and protection from financial abuse.

This study was conducted in collaboration with **Mayo Clinic**, a nonprofit organization committed to clinical practice, education and research, providing expert, whole-person care to everyone who needs healing.

OptumLabs™ is an open collaborative research and innovation center co-founded by Optum and Mayo Clinic, and later joined by AARP as founding consumer advocate organization in late 2013. Our mission is to accelerate improvements in patient care and value through clinical, policy and product innovation driven by new insights from big data.

Sources

Lind KD, Noel-Miller C, Sangaralingham LR. [Increasing trends in the use of hospital observation services for older medicare advantage and privately insured patients](#). *Med Care Res Rev*. Epub 2017 July 8.

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