



Minimizing Revenue Loss from Inpatient to Observation Status Downgrades

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Introduction

Hospital revenue reductions associated with reclassing a patient's status from inpatient to observation based on medical necessity continues to be a growing concern for hospital providers. Enhancing technology, workflows, and ensuring interdepartmental engagement and coordination throughout the organization is required to minimize revenue risk. Understanding payor contracting requirements and escalation protocols is paramount to preserving the organization's appeal rights when payors deny the status billed by a hospital provider.

Problem

Hospital providers are challenged with understanding and complying with payor-defined medical necessity requirements to meet inpatient criteria. Payors continue to reduce hospital provider revenue by denying inpatient status and paying for much-needed inpatient care under observation rates which can be eighty percent lower. Nowhere is this more evident than from the managed Medicare payors. Inpatient criteria is relatively straightforward for traditional Medicare-covered patients that stay more than two midnights, but managed Medicare payors have created a medical necessity and authorization gauntlet to prevent providers from getting reimbursed appropriately. CMS globally expects managed Medicare payors to provide hospitals with reimbursement equal to the rate providers would receive if the patients were covered by traditional Medicare. However, some of the more egregious payors deny as much as 50% of their covered enrollees inpatient reimbursement based on internally-developed medical necessity and authorization criteria. Managed Medicare is not the only patient group where these payor reductions occur. Commercial and managed Medicaid payors have also developed complex criteria to the detriment of hospital revenue and patients.

Solution

Understanding the magnitude of lost revenue from patient status downgrades can be challenging. Too often hospital providers take the path of least resistance or get weary of fighting with payors to be paid appropriately and self-deny or submit claims to the payor with an observation status when inpatient reimbursement is warranted. Therefore, providers must ensure that organizational workforce, processes, and technology are aligned to fully document care, submit claims appropriately, and dispute improper denials.

People – Multiple departments and teams must work together to minimize the risk of lost revenue from status downgrades. It is vital to have engagement and coordination from hospital teams including Patient Access, Case Management, Physician Advisors, HIM/Coding, Patient Accounting, Denial Management, Payor Contracting, Information Technology, and Legal.

Process – Process maps will ensure that responsibility is well defined, and handoffs occur timely. Any breakdowns in the process could result in the loss of appeal rights. Payor contract terms including clinical criteria and the appeal process needs to be well-documented and aligned with the process map. A payor matrix defining appeal and dispute criteria should be available to all teams to ensure proper payments are received and appeal rights preserved.

Technology – Technology should be developed to support the process and assist team members to mitigate revenue reductions. The use of system flags and work queues will ensure team members are alerted when they need to act, and system prompts will identify when steps are delayed. Leveraging technology to automate and monitor the process will ensure each individual payor requirement is completed and documented.

Conclusion

It's time to stop payors from inappropriately reducing revenues to hospitals by reimbursing inpatient care with lower observation rates. Hospital providers should thoroughly analyze the revenue lost from these downgrades and develop a playbook that includes a path to litigation to mitigate the risk. Analyzing the revenue differential from managed Medicare payors compared to traditional Medicare for patients staying in the hospital at least two midnights is a great starting point. Using strategies to integrate technology with well-defined processes will help interdepartmental teams ensure revenue is appropriately captured and appeal rights are preserved. Organizational perseverance is required to capture accurate reimbursement from every payor and every patient population. Hospitals across the country continue to provide excellent inpatient care and save lives, and they should be reimbursed accordingly.