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Observation Units: The Bridge Between Inpatient and Outpatient Care

Observation patients are a growing patient population that bridges the gap between inpatients and outpatients. Health care organizations across the country are creating dedicated units to more effectively manage the care of observation patients (see sidebar for definitions of observation patients). Clustering observation patients into one or more units within the hospital has been shown to improve clinical outcomes, increase patient satisfaction, relieve capacity constraints, and strengthen financial performance. While observation units can provide organizationwide benefits, the most significant outcomes are often evident in the emergency department and inpatient nursing units.

It may take as long as 12 to 15 hours to determine if a patient who arrives in the emergency department requires hospital admission. Patients with more serious conditions will often develop additional symptoms during this observation period. Various studies have shown that 60% to 80% of observation patients can be safely sent home following observation, thus avoiding the expense of unnecessary hospital admissions.

Health care organizations with dedicated observation units have the space and staff to allow for continued

Types of Observation Patients:

- **Emergency Department Patients:** Patients who will benefit from the diagnostic evaluation of symptoms such as chest pain and abdominal pain, for periods longer than the typical emergency department length of stay; or patients who require short-term treatment for asthma, dehydration, or allergic reactions
- **"23-hour" observation patients:** Medical and post-surgical patients whose condition is not serious enough to satisfy Medicare or Medicaid admission criteria following testing or outpatient surgery
- **Pre- and Post- Procedure:** Patients: Patients undergoing certain outpatient procedures, including cardiac catheterization, imaging special procedures and endoscopies who require extended recovery time

assessment so that inappropriate discharges and admissions can be avoided. In hospitals without a dedicated observation unit, 23-hour observation patients frequently occupy beds on inpatient nursing units that would otherwise be available for patients awaiting admission.

5 Keys to A Successful Observation Unit:

1. Clearly defined admission criteria
2. Well-planned policies and procedures
3. Clear chain of command
4. Proper staffing, location and equipment
5. Carefully developed programs for quality assurance and utilization review

Source: American College of Emergency Physicians, July 1994

One Hospital's Challenge

One 350-bed regional referral center in the south central United States converted a dedicated observation unit to inpatient use in early 2002 to accommodate increasing admissions from market share gains. The 23-hour observation patients were assigned to any available bed on a medical-surgical unit. While this decision temporarily solved the demand for inpatient beds, the resulting shortage of observation beds created several other problems: existing emergency department capacity constraints were exacerbated; daily caps were placed on certain types of procedures because the pre- and post-procedure unit was at capacity; and it became more difficult to effectively manage the observation patient population that was now scattered throughout the hospital.

A demand analysis projected a need for approximately 80 observation beds including 27 beds on nursing units, 10 beds in the emergency department, and 44 pre/post-procedure beds. The medical center is currently in the midst of a major construction project, which includes expansion of the emergency department and space for a dedicated observation unit to meet the projected demand. Absent this expansion, the medical center would have continued to experience dramatic capacity and throughput problems, constraints on future growth, and lost revenue because of patients who had to be turned away.

4 Principles That Should Guide the Development of the Admission Criteria for an Observation Unit

1. The period of observation should have a focused goal (e.g., further evaluation of patients at risk of a heart attack).
2. The intensity of care required should be consistent with the staffing levels of the observation unit.
3. The patient's illness should have limited severity so that the patient is likely to be discharged following observation.
4. The clinical condition should be appropriate for observation.

Source: American College of Emergency Physicians, July 1994

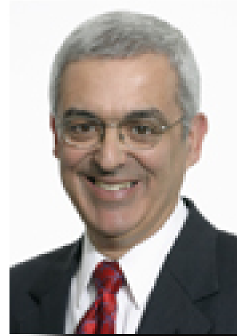
Reimbursement

Hospitals now receive separate Medicare reimbursement for observation services provided to patients with chest pain, asthma, and congestive heart failure under an ambulatory payment classification (APC) created in April 2002 as long as specific criteria are met. This change improved the financial picture for observation units. Despite several requests to separately reimburse observation services provided in the treatment of dehydration, abdominal pain, atrial fibrillation, and seizures, the Centers for Medicare & Medicaid has not yet expanded its list. The reimbursement picture for non-Medicare payers is complicated because private insurers and managed care companies often use a different definition for observation services than Medicare does and payment policies vary.

As the observation patient population continues to grow, many hospitals are formalizing their approach to caring for these patients by establishing dedicated units and developing clinical care guidelines. Patients and

hospitals alike can benefit from focused care delivered in the more cost-effective observation unit setting.

For more information on observation units, please contact Maria Finarelli or Hugo Finarelli, or call 215-636-3500.



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8 Penn Center
1628 John F. Kennedy Boulevard
Suite 200
Philadelphia, PA 19103
(215) 636-3500
www.hss-inc.com

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