Medicare Patient Status vs Services

One-Page Reference

This reference clarifies how Medicare defines patient status versus services. It is intended for Physician Advisors, Case Management, Utilization Review, Nursing, Finance, and Compliance staff.

What Medicare Recognizes

Under the Centers for Medicare & Medicaid Services (CMS), there are only TWO patient statuses:

1. 1. Inpatient (IP)

- Requires a physician inpatient admission order
- Covered under Medicare Part A
- Subject to the Two-Midnight Rule and medical necessity requirements

2. 2. Outpatient (OP)

- Default status when no inpatient admission order exists
- Covered under Medicare Part B
- Includes a wide range of hospital services

There is no third Medicare patient status.

Observation: What It Is and Is Not

- Observation IS:

- A set of outpatient services
- Provided to an outpatient
- Often delivered in a hospital bed
- Used when additional time is needed to determine disposition

- Observation IS NOT:

- A patient status
- An admission
- A substitute for inpatient admission

Observation is a service, not a status.

Orders: What Is Required vs Not Required

- Required Orders:

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- Inpatient admission order to establish inpatient status
- Observation service order to bill observation services
- Specific treatment or service orders (e.g., transfusions, infusions, imaging)

- Not Required:

- An outpatient status order
- An outpatient admission order

Outpatient status exists by default when no inpatient admission order is written.

Common Scenarios

- Blood transfusions provided in a hospital bed:

- No inpatient admission order
- No observation services ordered
- Status: Outpatient
- Orders needed: Transfusion order only
- No outpatient status order required

- Patient placed in observation for chest pain evaluation:

- Observation service order written
- Status: Outpatient
- Service: Observation
- Billing: Outpatient with observation services

- Patient admitted with expectation of crossing two midnights:

- Inpatient admission order written
- Status: Inpatient

Key Principle

Status is a legal and billing designation. Services describe what care is provided to the patient.

Why This Matters

- Prevents misuse of observation services
- Reduces Condition Code 44 confusion
- Minimizes audit risk
- Improves physician and staff understanding
- Protects beneficiaries from inappropriate financial liability

Teaching Takeaway

Medicare recognizes only inpatient and outpatient status. Observation is an outpatient service, not a third status.

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