DATA ON THE EDGE

PAYER TRENDS IN OBSERVATION SERVICES UTILIZATION

Observation services have been in and out of the spotlight, following implementation of the two-midnight rule for traditional Medicare in 2014 and the January 2024 CMS final rule, which includes requirements and clarifications related to Medicare Advantage (MA) coverage criteria. As hospitals face capacity challenges, an aging population and increasing patient acuity, a focus on better management of observation services is an opportunity for many health systems. The first step: understand growth projections and dissect characteristics of volume that present improvement opportunities. Vizient data show that 87% of observation visits originate in the emergency department, and high-acuity ED visits are projected to grow by 8% between 2024 and 2034. Well-managed, protocol-driven observation services can decongest the ED and offer a way to accelerate patient care decision-making. These benefits have a downstream impact on hospital average length of stay, ultimately creating opportunity to address capacity challenges.

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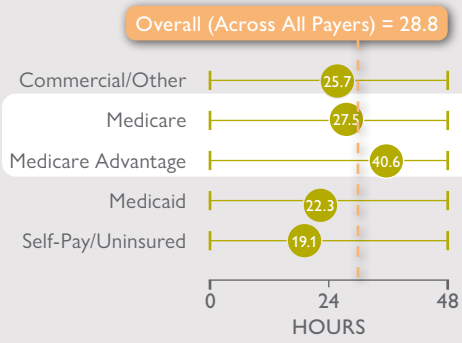
To learn more, check out Vizient data resources on page 4.

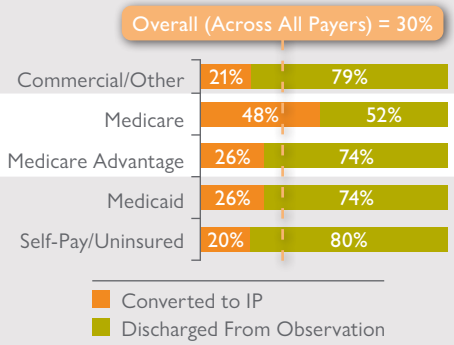
Vizient recently began collecting survey data to benchmark performance across observation services care delivery. The survey is designed to evaluate the delivery method for observation services—57% of respondents indicated discretionary care in any hospital bed as the primary method of delivery. The survey also looks at ALOS trends, conversion rates to inpatient care and payer dynamics. The median ALOS for patients converted to inpatient is 30 hours, but 35 hours for patients discharged from observation. Notably, for all survey participants to date and across all hospital types, Medicare and Medicare Advantage have the highest percentage of patients converted from outpatient with observation services to inpatient care, and MA patients consistently have a higher ALOS across all hospital cohorts. In contrast, patients with commercial insurance represent the highest proportion of patients discharged from observation services (31%), across most hospital cohorts. Vizient continues to collect data to support benchmarking; see information on page 4 if you would like to participate.

Observation Services Utilization by Payer

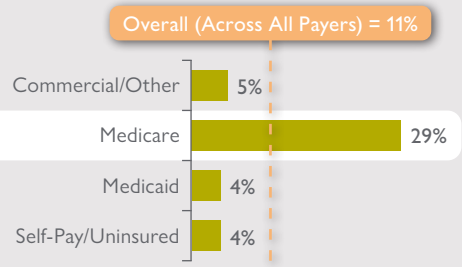
Observation Services ALOS (hours), 2023



Observation Services Patient Conversion by Payer Class, 2023



OP Visits With Observation Services Forecast, 2024–2034



Note: Survey includes CY 2023 data. **Sources:** Vizient Member Networks Observation Patient Benchmarking Survey, 2024 Refresh. https://www.vizientinc.com; Impact of Change®, 2024; HCUP National Inpatient Sample (NIS). Healthcare Cost and Utilization Project (HCUP) 2019. Agency for Healthcare Research and Quality, Rockville, MD; Proprietary Sg2 All-Payer Claims Data Set, 2022; The following 2022 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Pop-Facts®, 2024; Sg2 Analysis, 2024.

Expect Growth in Medicare Visits and Improve ALOS for Medicare Advantage Patients

Given the clinical and operational nature of observation services, stratifying the data by payer class allows for targeted strategy development. There are several key takeaways:

- Overall, OP stays with observation services will rise 11% between 2024 and 2034, yet Medicare volume growth will outpace that, growing at nearly 30%.
- Medicare and Medicare Advantage patients currently account for 56% of observation volume among Vizient survey participants.
- About 30% of all observation visits were converted to an inpatient stay, compared to a 48% conversion rate for traditional Medicare. While survey results show only 26% of Medicare Advantage patients were converted to IP, hospitals should expect an inpatient conversion rate similar to traditional Medicare in the future, especially with an increase in MA enrollment.
- Length of stay is a critical area of focus for observation services, with a significant variance of 21.5 hours between the highest ALOS (Medicare Advantage at 40.6 hours) and the lowest (self-pay at 19.1 hours).
- Medicare Advantage patients experience the longest ALOS, both for those converted to inpatient and those discharged from observation services. Factors contributing to the longer ALOS include case mix, observation status approval changes, inpatient status preauthorization requirements for MA patients, hospital capacity issues and health equity concerns.

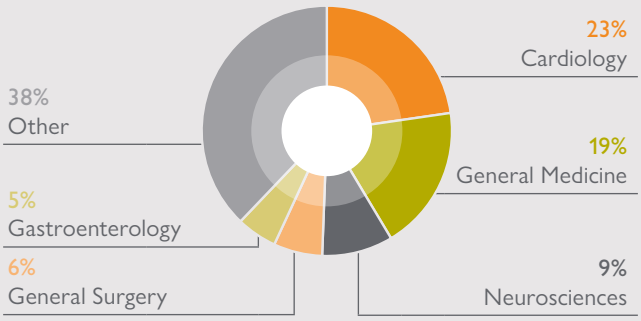
Comparing your organization's data with Vizient's survey data can illustrate specific operational improvement opportunities.

Highest-Volume Observation Services Will Grow, Especially for Medicare and MA Patients

About 23% of total observation visits in 2024 were for cardiac-related conditions. The five conditions with the highest volume for OP with observation services—cardiac triage, syncope, dysrhythmia, abdominal pain and osteoarthritis—are expected to grow over the next decade. For these conditions, the growth for Medicare patients will outpace the growth for other payer classes combined. For example, growth for Medicare patients who require cardiac triage is projected to increase by 17%, while the growth rate for non-Medicare volume is projected to decrease by 4%. To improve throughput in anticipation of future growth, including within observation protocols, a utilization review of all cases at all entry portals can help ensure patients are placed in the appropriate status and consistently evaluated.

Outpatient With Observation Services Projected Growth

OP With Observation Services by Service Line, 2024



OP With Observation Services: Top-Volume CARE Families, Projected Growth, 2024–2034

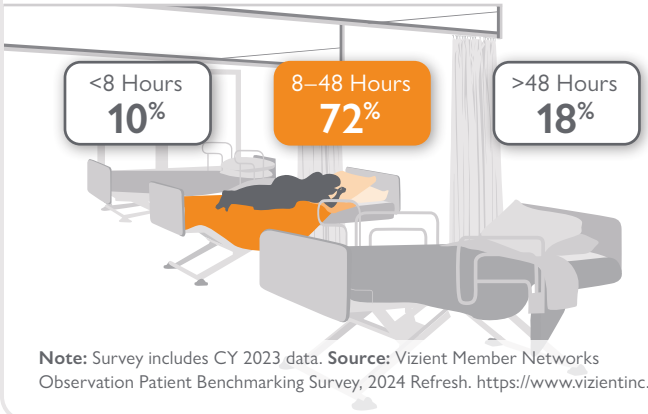
CARE FAMILY	MEDICARE	NON-MEDICARE
Cardiac Triage	17%	–4%
Syncope	42%	15%
Dysrhythmia	38%	11%
Abdominal Pain	15%	–3%
Osteoarthritis	87%	53%

Note: Analysis excludes 0–17 age group, and behavioral health and obstetrics service lines. Other includes service lines with 5% or less share. Cardiac triage includes three CARE Families: Chest Pain—Noncardiac (excl. Angina), Myocardial Infarction, and Coronary Heart Disease and Angina. **Sources:** Impact of Change®, 2024; HCUP National Inpatient Sample (NIS). Healthcare Cost and Utilization Project (HCUP) 2019. Agency for Healthcare Research and Quality, Rockville, MD; Proprietary Sg2 All-Payer Claims Data Set, 2022; The following 2022 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Pop-Facts®, 2024; Sg2 Analysis, 2024.

Increase Operational Vigor to Maintain Financial Viability for Observation Services

To be eligible for Medicare reimbursement, observation requires at least 8 hours but typically less than 48 hours of care. Approximately 72% of observation cases have a length of stay between 8 and 48 hours, with an ALOS above 48 hours being rare. An LOS between 48 and 72 hours requires documentation of medical necessity, and above 72 hours is likely to come under payment scrutiny. No survey respondent has exceeded a 72-hour ALOS, and no respondent had an ALOS less than 8 hours. Throughput and operational issues should be examined to assess how to effectively manage visits and the overall cost of care of a stay less than 8 hours. Conversely, a deep dive into the drivers of a stay more than 48 hours is operationally and financially critical.

ALOS for Observation Services, 2024



Note: Survey includes CY 2023 data. **Source:** Vizient Member Networks Observation Patient Benchmarking Survey, 2024 Refresh. https://www.vizientinc.com.

Why It Matters

Observation services are a key component of a hospital's system of care. Often, observation services are also used as a capacity relief valve for other hospital services, including ED and ancillary departments. Important considerations to optimize observation services include:

- **Assess organizational need and opportunity to guide performance improvement.** Conduct a retrospective study on ED, observation and short-stay inpatient care by leveraging benchmarking study results to pinpoint opportunities for optimizing your observation services structure. Continuous assessment of patient status to ensure patients are placed in the appropriate status (inpatient, outpatient with observation services or outpatient) should be a key part of your organization's operational management of observation services.
- **Expect an increase in Medicare Advantage patients using observation services.** A clear plan to manage MA patients is crucial to maintain quality of care and throughput. Survey data show these patients had longer lengths of stay, often due to inpatient admission denials, leaving them in outpatient status with observation services. With the recent change that extends the two-midnight rule to MA patients, it is now more important than ever to ensure thorough documentation to meet heightened review and scrutiny. This will help provide the right care in the right setting while supporting the hospital's financial stability.
- **Determine the appropriate types of observation beds and locations based on volumes and top conditions.** A dedicated observation unit, which enables tight management of patients in observation services, should be considered when volumes are sufficient. Average length of stay is lower with a service structure that has a dedicated unit in contrast to one that scatters observation patients throughout the hospital. Adjacent to or near the ED is an ideal location for observation patients transferred from the emergency department. Establishing a "closed" unit with limited admitting privileges for ED physicians or hospitalists will maintain efficiency of the unit.
- **Strengthen protocols to support active management of patients.** This includes clear and specific documentation of the clinical conditions of the patient. Physician documentation that details why the patient requires inpatient care and the rationale for treatment to address their needs is critical.

Sources: CMS. Frequently asked questions related to coverage criteria and utilization management requirements in CMS final rule (CMS-4201-F). February 6, 2024; Vizient Clinical Data Base. Irving, TX: Vizient, Inc.; 2024. https://www.vizientinc.com.

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To speak with one of our experts about Vizient Member Networks' Observation Patient Benchmarking Survey, ambulatory strategy or capacity planning, email membercenter@sg2.com.

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VIZIENT DATA AND DIGITAL PLATFORM

This report's analysis leverages the following proprietary data and analytics assets.

The **Vizient Clinical Data Base** is the definitive health care analytics platform for performance improvement. The CDB provides high-quality, accurate and transparent data on patient outcomes—such as mortality, length of stay, complication and readmission rates, and hospital-acquired conditions—that enable hospitals to benchmark against peers; identify, accelerate and sustain improvements; reduce variation; and expedite data collection to fulfill agency reporting requirements. Clinical benchmarking tools such as dashboards, simulation calculators, and templated and customizable reports enable you to quickly identify improvement opportunities and their potential impact.

The Vizient Member Networks conducted the **Observation Patient Benchmarking Survey** refresh in 2024, with the data collection period between January 1, 2023, and December 31, 2023. The purpose of the benchmarking survey is to allow organizations to gain a broader understanding of each individual organization's observation services, benchmark observation metrics against peers, identify opportunities for improvement and track relevant outcome metrics to monitor effectiveness of management of observation services. The analysis for this report was derived from the survey results as of August 31, 2024, with the participation of 47 hospitals. To participate in the survey, please email membercenter@sg2.com.

Sg2's Impact of Change® model forecasts demand for health care services over the next decade, examining the cumulative effects and interdependencies of key impact factors driving change in utilization. Using both disease-based and DRG-based analyses, the forecast provides a comprehensive picture of how patients will access inpatient and outpatient services along the continuum of care.

Sg2 Intelligence is a diverse team of subject matter experts and thought leaders who represent specialties ranging from clinical service lines to enterprise strategy. The team develops strategy-specific content in the form of editorial reports, including the Data on the Edge series, and perspective-based analytics, such as the Impact of Change® forecast.

The Vizient Data on the Edge series team includes Brianna Motley; Catherine Maji; Eric Lam; Alyssa Harris; Madeleine McDowell, MD, FAAP; Jen Goff; Kerstin Liebner; and Sg2 Creative Services.

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