

## **Hospital short stay policy issues**

**ISSUE:** As inpatient stays have shortened and some inpatient services have migrated to the outpatient setting over the years, the issue of whether a patient requires inpatient care or could be treated successfully as an outpatient has received increasing attention. The high profitability of one-day stays under the inpatient payment system and the generally lower payment rates for similar care under the outpatient payment system has heightened concern about the appropriateness of inpatient one-day stays. This led the Recovery Audit Contractors to focus their audits on inpatient one-day stays, leading to a large number of claims denied on the grounds of inappropriate admission. Hospitals responded by increasing their use of outpatient observation status.

In an effort to clarify admission appropriateness and alleviate concerns about increased use of observation, its impact on beneficiary liability, and hospitals' concerns about RAC audits, CMS established the "2-midnight rule." This rule has generated controversy among stakeholders and its implementation has been delayed by CMS and Congress. CMS, in its FY 2015 inpatient hospital rulemaking, requested comment on whether a short stay payment policy could address some of the issues that led to the establishment of the 2-midnight rule and how such a policy might be structured.

**KEY POINTS:** This paper provides background on inpatient short-stay policy issues and provides a conceptual discussion of potential payment policy changes that could be explored.

**ACTION:** Commissioners should provide feedback on research directions.

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