CLINICAL MEDICAL POLICY	
Policy Name:	Observation Care (Hospital Outpatient)
Policy Number:	MP-127-MD-PA
Responsible Department(s):	Medical Management
Provider Notice/Issue Date:	09/01/2025; 09/01/2024; 11/01/2023
Effective Date:	10/01/2025; 10/01/2024; 12/01/2023
Next Annual Review:	08/2026
Revision Date:	08/20/2025; 08/21/2024; 07/19/2023
Products:	Highmark Wholecare℠ Medicaid
Application:	All participating hospitals and providers
Page Number(s):	1 of 5

Policy History

Date	Activity
10/01/2025	Provider Effective date
08/20/2025	QI/UM Committee review
08/20/2025	Annual Review: No changes to clinical criteria. Updated 'Reference Sources' section.
10/01/2024	Provider Effective date
08/21/2024	QI/UM Committee review
08/21/2024	Annual Review: No changes to criteria. Updated 'Reference Sources' section.
12/01/2023	Provider Effective date
07/19/2023	QI/UM Committee review
07/19/2023	Initial policy developed

Disclaimer

Highmark Wholecare℠ medical policy is intended to serve only as a general reference resource regarding coverage for the services described. This policy does not constitute medical advice and is not intended to govern or otherwise influence medical decisions.

Policy Statement

Highmark Wholecare℠ may provide coverage under the medical-surgical benefits of the Company's Medicaid products for medically necessary hospital outpatient observation care.

This policy is designed to address medical necessity guidelines that are appropriate for the majority of individuals with a particular disease, illness or condition. Each person's unique clinical circumstances warrant individual consideration, based upon review of applicable medical records.

Definitions

Observation - Observation care is a well-defined set of specific, clinically appropriate services, which include ongoing short-term treatment, assessment, and reassessment that are furnished while a decision is being made regarding whether patients will require further treatment as hospital inpatients or if they are able to be discharged from the hospital. Observation services are commonly ordered for patients who present to the emergency department and who then require a significant period of treatment or monitoring in order to make a decision concerning their admission or discharge.

Procedures

1. Medical Necessity Guidelines Observation Care
    - Observation care is a well-defined set of specific and clinically appropriate services. These include ongoing short term treatment, assessment, and reassessment, which occur while a decision is being made regarding whether an individual will require further treatment as hospital inpatients or if they are able to be discharged from the hospital.
    - Observation services are commonly ordered for individuals who present to the emergency department and require a significant period of treatment or monitoring in order to make a decision concerning their admission or discharge.
    - Observation services must also be reasonable and necessary to be covered.
    - Healthcare providers must report all services rendered in observation with the appropriate revenue codes, HCPCS codes, CPT codes, and ICD-10 diagnosis codes.

2. Observation Services do not require prior authorization. The Medical Record must document the need for clinically appropriate services, treatments, assessments, and testing. The documentation should include, but not limited to, the following information:
    - Healthcare provider admission and progress notes:
    - Diagnostic and/or ancillary testing reports;
    - The discharge notes (with clock time) with discharge order and nurses notes

3. Observation services should not be billed in some of the following situations:
    - Observation services should not be billed along with diagnostic or therapeutic services for which active monitoring is a part of the procedure. Note that when active monitoring is part of the procedure the hospital may determine the most appropriate way to account for this time. Examples include:
        - Standing orders following an outpatient surgery

- Extended observation following a procedure
- Services provided concurrently with chemotherapy
- Routine recovery and post-operative care after same-day surgery
- Awaiting transfer to another facility
- Outpatient blood administration

- Observation services provided for the convenience of the patient, the patient's family, or a heathcare provider.

4. Post-payment Audit Statement
   The medical record must include documentation that reflects the medical necessity criteria and is subject to audit by Highmark Wholecare℠ at any time pursuant to the terms of your provider agreement.

5. Place of Service
   The proper place of service for observation is hospital outpatient.

Coding Requirements

Providers must report the Emergency Department or clinic visit code or if applicable, G0379 (direct referral to observation) and G0378 (hospital observation services, per hour) and the number of units representing the hours spent in observation (rounded to the nearest hour) for all observation services.

Submitted claims must adhere to Medicaid Billing Guidance including but not limited to:

- A HCPCS Type A ED visit code (99281, 99282, 99283, 99284, 99285) or G0384 Type B ED visit code, critical care (99291), or G0463 HCPCS clinic visit code is required to be billed on the day before or the day that the patient is placed into observation status.
  - If the patient is a direct referral to observation, the G0379 may be reported in lieu of an ED or clinic code.
  - The Evaluation and Management code associated with these services must be billed on the same claim as the observation and include modifier -25 if provided on the same date of service for observation code G0378.
- Observation stay hours must be documented in the 'UNITS' field on the claim form.
- The individuals must be under the care of a healthcare provider during the time of observation care. This care must be documented in the medical record admission notes, progress notes, treatments and discharge instructions which are timed, written, and signed by the healthcare provider.
  - A nonphysician healthcare provider licensed by the state and approved by internal credentialing and bylaws to supervise individuals in observation may do so.

Procedure Codes

CPT Code	Description
Professional Provider Billing Codes	
99238	Hospital inpatient or observation discharge day management; 30 minutes or less on the date of the encounter
99239	Hospital inpatient or observation discharge day management; more than 30 minutes on the date of the encounter

99221	Initial hospital inpatient or observation care, per day, for the evaluation and management of a patient, which requires a medically appropriate history and/or examination and straightforward or low level medical decision making. When using total time on the date of the encounter for code selection, 40 minutes must be met or exceeded.
99222	Initial hospital inpatient or observation care, per day, for the evaluation and management of a patient, which requires a medically appropriate history and/or examination and moderate level of medical decision making. When using total time on the date of the encounter for code selection, 55 minutes must be met or exceeded
99223	Initial hospital inpatient or observation care, per day, for the evaluation and management of a patient, which requires a medically appropriate history and/or examination and high level of medical decision making. When using total time on the date of the encounter for code selection, 75 minutes must be met or exceeded.
99231	Subsequent hospital inpatient or observation care, per day, for the evaluation and management of a patient, which requires a medically appropriate history and/or examination and straightforward or low level of medical decision making. When using total time on the date of the encounter for code selection, 25 minutes must be met or exceeded.
99232	Subsequent hospital inpatient or observation care, per day, for the evaluation and management of a patient, which requires a medically appropriate history and/or examination and moderate level of medical decision making. When using total time on the date of the encounter for code selection, 35 minutes must be met or exceeded.
99233	Subsequent hospital inpatient or observation care, per day, for the evaluation and management of a patient, which requires a medically appropriate history and/or examination and high level of medical decision making. When using total time on the date of the encounter for code selection, 50 minutes must be met or exceeded.
99234	Hospital inpatient or observation care, for the evaluation and management of a patient including admission and discharge on the same date, which requires a medically appropriate history and/or examination and straightforward or low level of medical decision making. When using total time on the date of the encounter for code selection, 45 minutes must be met or exceeded.
99235	Hospital inpatient or observation care, for the evaluation and management of a patient including admission and discharge on the same date, which requires a medically appropriate history and/or examination and moderate level of medical decision making. When using total time on the date of the encounter for code selection, 70 minutes must be met or exceeded
99236	Hospital inpatient or observation care, for the evaluation and management of a patient including admission and discharge on the same date, which requires a medically appropriate history and/or examination and high level of medical decision making. When using total time on the date of the encounter for code selection, 85 minutes must be met or exceeded.
Facility Billing Code	
G0378	Hospital observation service, per hour
G0379	Direct admission of patient for hospital observation care

Reference Sources

Novitas Solutions, Inc. Part B Fact Sheet: Observation Services. Last modified August 29, 2023. Accessed on July 28, 2025.

Medicare Claims Process Manual: Chapter 30-Financial Liability Protections. Published date January 21, 2022. Revised on December 20, 2024. Accessed on July 28, 2025.

Centers for Medicare and Medicaid Services (CMS). Newsroom Fact Sheet: Two-Midnight Rule. October 30, 2015. Accessed on July 28, 2025.

Centers for Medicare and Medicaid Services (CMS). Medicare Claims Processing Manual, Chapter 4 – Part B Hospital. Revision date November 22, 2024. Accessed on July 28, 2025.

Centers for Medicare and Medicaid Services (CMS). Medicare Benefit Policy Manual, Chapter 6 – Hospital Services Covered Under Part B. Revision date December 21, 2023. Accessed on July 28, 2025.

Reimbursement

Participating facilities will be reimbursed per their Highmark Wholecare℠ contract.