Sentara Health Plans

Medicaid

Level of Care Guidance for Observation (OBS) versus Inpatient Hospital Stays, Medical 350

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Effective Date	11/1/2026
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Coverage Policy	Medical 350
Version	2

All requests for authorization for the services described by this medical policy will be reviewed per Early and Periodic Screening, Diagnostic and Treatment (EPSDT) guidelines. These services may be authorized under individual consideration for Medicaid members under the age of 21-years if the services are judged to be medically necessary to correct or ameliorate the member's condition. Department of Medical Assistance Services (DMAS), Supplement B - EPSDT (Early and Periodic Screening, Diagnosis and Treatment) Manual.

Purpose:

This policy addresses the medical necessity of Observation (OBS) versus Inpatient Hospital Stays Level of Care.

Description & Definitions:

Observation (OBS) level of care (also known as Ambulatory, Short Stay or outpatient services) is categorized as clinically appropriate care to include, but not limited to, ongoing short-term stabilizing treatment, clinical assessment, and reassessment prior to making a decision regarding discharge of the member from the hospital or establishing if the member requires further treatment as a hospital inpatient. The purpose of observation services is to allow this period of diagnosis and/or treatment prior to, or in lieu of, an inpatient admission.

Inpatient (IP) level of care is appropriate when a member's medical condition requires a hospital stay of at least two midnights due to the need for close monitoring, frequent interventions and specialized medical management that cannot be safely provided at a lower level of care.

An inpatient level of care is based upon a high severity of service and intensity of illness. This policy is intended as a review tool for expected or known inpatient stays lasting less than **two (2) midnights** to determine the medical necessity of an **inpatient versus observation level of care**. As a guideline, Sentara Health Plan aligns with 42 CFR and the Medicare Benefit Policy Manual Chapter 6 – Hospital Services Covered in Part B to cover clinically appropriate hospital-based services. It does not replace nationally recognized clinical support tools for determining the necessity of condition specific hospital care.

This policy does not apply to observation or inpatient care for behavioral health and maternity services (including delivery and newborn services.)

Criteria:

Inpatient level of care for hospital stays (less than two midnights) are considered medically necessary for **1 or more** of the following:

- Medical conditions appropriate for inpatient intensity and complexity of care according to a nationally- recognized clinical decision support tool
- Admission to acute hospital level of care at home
- Unexpected death during the admission process
- Transferred to/ from another inpatient facility due to a need for medically necessary specialized services according to a nationally - recognized clinical decision support tool
- Individual undergoing medically necessary hospital treatment elects hospice care
- Earlier than expected recovery in less than two midnights

Individuals with a 0-1 midnight LOS not meeting the above criteria for inpatient level of care will be considered as **Observation level of care** (i.e. ambulatory, short stay, or outpatient services.)

For hospital stays achieving or expected to achieve 2 midnights or greater, a nationally -recognized clinical decision support tool or SHP medical policy will be used to determine the appropriateness of inpatient admission and continued inpatient level of care.

Document History:

Revised Dates:

Reviewed Dates:

- July 2026: Implementation date of November 1, 2026. No changes to criteria. Updated version number and references only.

Origination Date: October 1, 2025

Coding:

Medically necessary with criteria:

Coding	Description
None	Not applicable, see facility contract for relevant coding and payment methodology.

Considered Not Medically Necessary:

Coding	Description
None	N/A

The preceding codes are included above for informational purposes only and may not be all inclusive. Additionally, inclusion or exclusion of a treatment, procedure, or device code(s) does not constitute or imply member coverage or provider reimbursement.

Policy Approach and Special Notes:

- Coverage
  - See the appropriate benefit document for specific coverage determination. Individual specific benefits take precedence over medical policy.
- Application to products
  - Policy is applicable to Sentara Health Plan Medicaid products
- Authorization requirements
  - **Observation level of care**: Does not require an authorization, therefore clinical criteria are not required to be met for the observation stay. A claim for the stay may be submitted directly for payment and reimbursement at the appropriate level of care. In the absence of an authorization for inpatient

level of care, members with a 0-1 midnight LOS will be considered outpatient (ambulatory, short stay, or observation services).
    - **Inpatient level of care**: When a provider notifies the Plan of a request for inpatient approval, SHP policy or MCG Criteria are used to determine appropriateness of hospital vs ambulatory care, and this policy will be used to determine the level of hospital care according to the most current clinical presentation.
    - Documentation from the attending physician at the time of admission must state the diagnosis and treatment plan indicating the severity of illness and intensity of treatment.
    - **Please refer to Prior Authorization List for most up to date requirement Search PAL List: Sentara Health Plans**
- Special Notes:
    - This medical policy express Sentara Health Plan's determination of medically necessity of services, and they are based upon a review of currently available clinical information. These policies are used when no specific guidelines for coverage are provided by the Department of Medical Assistance Services of Virginia (DMAS). Medical Policies may be superseded by state Medicaid Plan guidelines. Medical policies are not a substitute for clinical judgment or for any prior authorization requirements of the health plan. These policies are not an explanation of benefits.
    - Medical policies can be highly technical and complex and are provided here for informational purposes. These medical policies are intended for use by health care professionals. The medical policies do not constitute medical advice or medical care. Treating health care professionals are solely responsible for diagnosis, treatment and medical advice. Sentara Health Plan members should discuss the information in the medical policies with their treating health care professionals. Medical technology is constantly evolving and these medical policies are subject to change without notice, although Sentara Health Plan will notify providers as required in advance of changes that could have a negative impact on benefits.
    - The Early and Periodic Screening, Diagnostic and Treatment (EPSDT) covers services, products, or procedures for children, if those items are determined to be medically necessary to "correct or ameliorate" (make better) a defect, physical or mental illness, or condition (health problem) identified through routine medical screening or examination, regardless of whether coverage for the same service or support is an optional or limited service under the state plan. Children enrolled in the FAMIS Program are not eligible for all EPSDT treatment services. All requests for authorization for the services described by this medical policy will be reviewed per EPSDT guidelines. These services may be authorized under individual consideration for Medicaid members under the age of 21-years if the services are judged to by medically necessary to correct or ameliorate the member's condition. EPSDT Supplement B (updated 5.19.22)_Final.pdf.
    - Service authorization requests must be accompanied by sufficient clinical records to support the request. Clinical records must be signed and dated by the requesting provider withing 60 days of the date of service requested.

References:

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Keywords:

Observation. Inpatient Stay. Level of Care. Obs. Outpatient.