



Healthcare policy decisions often hinge on public understanding of complex medical concepts. Our Healthcare Defined series provides clear explanations of healthcare terms and frameworks to support informed policy discussions. This resource offers an overview of hospital admission statuses and the two-midnight rule.

Deciphering Hospital Admission Status

A variety of factors determine the type of care a patient needs and receives in a hospital. Level of care can be classified into one of three categories – inpatient, outpatient, or observation. This distinction determines how the patient is medically treated, which rules and policies apply under the patient’s insurance, how the patient is billed, and how the hospital is paid.

Inpatient Care

Inpatient care status is when a physician formally admits someone to the hospital because their care necessitates an overnight stay or longer and cannot be provided safely without continuous monitoring. Inpatient care is the most resource-intensive level of hospital care. It often occurs in association with more complex surgeries, medical procedures, or if the patient experienced a medical emergency or significant health complications. For traditional Medicare enrollees, Part A typically covers this type of care, including patient room and board, nursing support, and hospital services.

Outpatient Care

Outpatient care is not exclusive to the hospital setting. It includes services furnished in a hospital, clinic, or ambulatory setting when the patient is not formally admitted by a physician and care may not require an overnight stay. Outpatient care requires considerably less staff and is less resource-intensive than inpatient care. It is associated with less complex, same-day surgeries and procedures, diagnostic tests and imaging services, and emergency department visits which do not result in admission, among other services. For traditional Medicare enrollees, Part B typically covers this type of care, including doctor services and outpatient hospital services.

Observation Status

Observation status is the middle ground between inpatient and outpatient care. Patients under observation status are kept in a hospital bed for short-term treatment, evaluation, and monitoring. For patients covered by a Medicare Advantage plan, this status can be particularly confusing as these insurers often use their own criteria and definitions for what qualifies as inpatient – or observation-level care. These definitions sometimes conflict with traditional Medicare policies and other medical protocols.

Two-midnight Rule

To clarify the distinction between inpatient care and observation status, the Centers for Medicare and Medicaid Services (CMS) created the “two-midnight rule” in 2013. This rule states that patient care should be classified as inpatient care if the supervising physician anticipates that patient’s stay in the hospital will cross two midnights. If the patient stay is expected to be shorter than two midnights, it is typically considered an observation stay. While the rule is intended to standardize decision-making and ensure consistency in care and coverage, when Medicare Advantage plans utilize varying criteria, patients may experience confusion or surprise bills.