Medicare Advantage Costs the Federal Government Less than Traditional Medicare and Provides $63 Billion Annually in Additional Value through Lower Out-of-Pocket Costs and Additional Services

The Medicare program covers hospital and physician services for beneficiaries enrolled in Medicare Advantage or Traditional Medicare. Under federal law, all Medicare Advantage plans provide the same basic benefits as Traditional Medicare, but federal spending per beneficiary is lower for Medicare Advantage.[1] **In 2025, government payments to Medicare Advantage plans were approximately 91% of – or 9% lower than – government costs for Traditional Medicare beneficiaries with Parts A and B.**[2]* This estimate is driven in part by continued phase-in of the Centers for Medicare & Medicaid Services (CMS) v28 risk model, which led to an approximate 4.0% reduction in 2025 Medicare Advantage plan revenue compared to risk scores calculated exclusively on the prior risk score model.[3] Another factor is CMS's underestimate of 2025 Traditional Medicare trends; under updated 2025 benchmarks, government costs under Medicare Advantage would have been approximately 93% of government costs for Traditional Medicare in 2025.[4]

Medicare Advantage plans typically include prescription drug coverage under Part D and provide beneficiaries with additional benefits, including:

- Services like **dental**, **vision**, and **hearing** coverage, and
- Financial protections like **premium reductions**, **reduced cost sharing**, and **maximum out-of-pocket limits**.

The additional benefits offered in Medicare Advantage – which are not covered by Traditional Medicare – are delivered for no additional cost to the federal government[5] **and with out-of-pocket savings to the beneficiary.**[6]

Medicare Advantage plans deliver these additional benefits by realizing savings on the cost of Medicare-covered services through care and cost management strategies, including care coordination programs, utilization management programs, negotiated provider networks, and risk sharing arrangements with providers.[7] These strategies seek to improve and manage beneficiary care while reducing the cost. As a result, **Medicare Advantage beneficiaries receive additional benefits, and, for every dollar spent, the federal government receives more value from Medicare Advantage compared to Traditional Medicare coverage**.[8]

Differences in Government Spending and Coverage Between Traditional Medicare and Medicare Advantage, 2025[9]

Traditional Medicare

Hospital and Physician Services	$ 1,219
CMS Administrative Costs	$ 15
No Additional Benefits	
Total Government Spending, PMPM	**$ 1,234** (100%)

Medicare Advantage (Industry Average)

Hospital and Physician Services	$ 790
Additional Services and Financial Protections	$ 188
Profit Margin	$ 22
Plan Administrative Costs†	$ 107
CMS Administrative Costs	$ 10
Total Government Spending, PMPM	**$ 1,117** (91%)

PMPM = per member per month
CMS = Centers for Medicare & Medicaid Services

†Plan administrative costs include health plan spending on: quality improvement and care management to improve beneficiaries' health outcomes and experience of care, establishing and managing provider networks, investments in technology, beneficiary enrollment and education, and other core operational activities.[10]

**This analysis used 2023 Medicare Advantage and Traditional Medicare risk scores and claims trended to 2025 from the Chronic Conditions Warehouse (CCW) Virtual Research Data Center (VRDC). Differences in risk score and geography were accounted for to normalize part of the population differences between programs. Other differences may still exist in the underlying populations.*

Medicare Advantage Delivers Greater Value For Each Dollar of Federal Government Spending

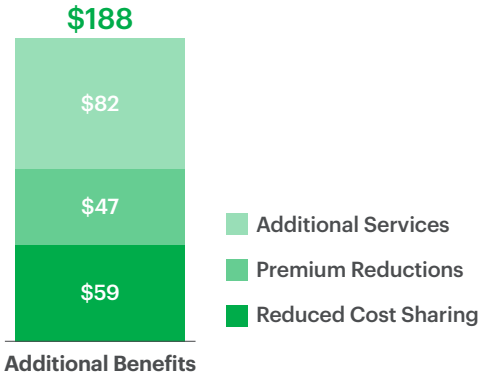
Medicare Advantage provides **$63 billion annually in additional benefits** for beneficiaries – an average of $2,256 per year for each of the 28 million beneficiaries enrolled in individual plans – by redeploying managed care savings realized by Medicare Advantage plans, which provide Medicare-covered services for less than the cost of Traditional Medicare.[11]

Additional Benefits

Medicare Advantage provides **$188 per member per month (PMPM) – $2,256 per year – in additional benefits** for beneficiaries.[12] Available additional benefits typically include:

- Dental, vision, and hearing services, over-the-counter drug cards, and transportation to provider visits
- Lower cost sharing for Medicare-covered services
- Reduced beneficiary premiums for Part B (physician office services) and Part D (prescription drug) coverage

2025 Cost of Services, PMPM[13]



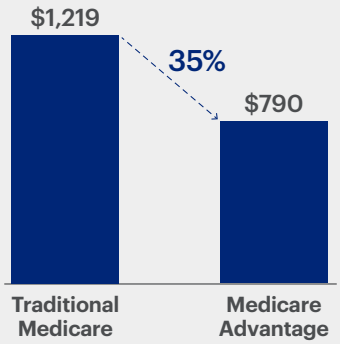
Medicare Advantage Plans Provide Additional Value by Delivering Medicare-Covered Services More Efficiently

Medicare Advantage plans provide Medicare-covered services at a lower cost than Traditional Medicare.[14] Plans create savings through implementation of care and cost management strategies, including care coordination programs, utilization management programs, negotiated provider networks, and risk sharing arrangements with providers.[15] **The federal government retains 34% of these savings, while plans devote remaining savings to providing additional benefits** for Medicare Advantage beneficiaries.[16]

Medicare-Covered Services

Medicare Advantage covers the same hospital and physician services at **35% lower cost than Traditional Medicare ($790 vs. $1,219)**.[17] True to the design and congressional intent of the program, Medicare Advantage plans devote most of this differential to provide additional benefits for beneficiaries.[18]

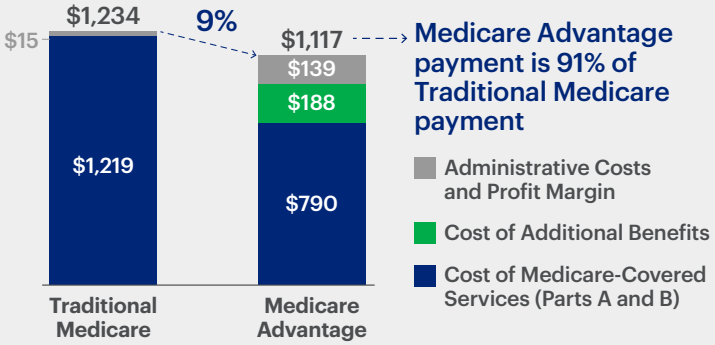
2025 Cost of Coverage for Medicare-Covered Services, PMPM[19]



Federal Government Spending

The government's spending per Medicare Advantage beneficiary is **91% of its spending per Traditional Medicare beneficiary**, including administrative costs.[20] This estimate assumes the statutory 5.9% coding intensity adjustment set by CMS between Medicare Advantage and Traditional Medicare. (For more information, see the sensitivity analysis section below.)

2025 Government Spending for Traditional Medicare vs. Medicare Advantage Coverage, PMPM[21]



This analysis used 2023 Medicare Advantage and Traditional Medicare risk scores and claims trended to 2025 from the CCW VRDC. Differences in risk score and geography were accounted for to normalize part of the population differences between programs. Other differences may still exist in the underlying populations. Categories may not sum to total due to rounding.

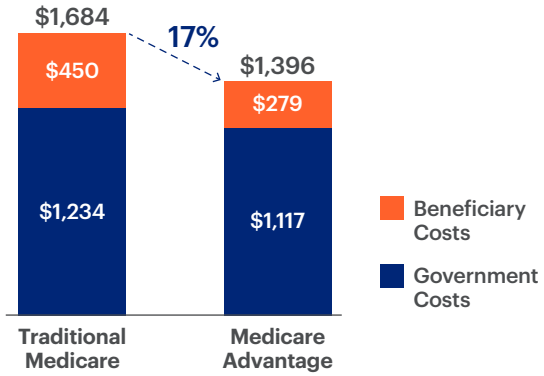
Beneficiaries in Medicare Advantage Receive More Benefits and Lower Out-of-Pocket Costs Than Beneficiaries in Traditional Medicare

In addition to lower government spending, Medicare Advantage allows beneficiaries to spend less out of pocket for Medicare-covered services and to receive additional services not covered under Traditional Medicare.

Combined Federal Government and Beneficiary Costs

Lower spending both by government and beneficiaries results in combined spending that is **17% ($288 PMPM) lower for Medicare Advantage** compared to Traditional Medicare.[22] This lower combined spending incorporates both the additional services and financial protections that Medicare Advantage beneficiaries receive.

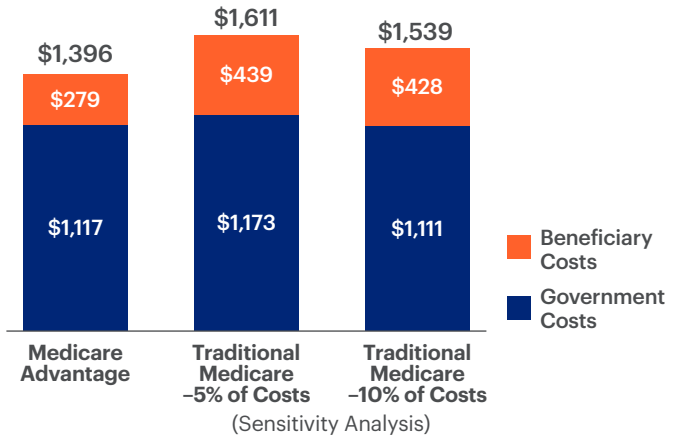
2025 Combined Government and Beneficiary Costs, PMPM[23]



Sensitivity Analysis

There are some potential differences between the Traditional Medicare and Medicare Advantage populations, such as unadjusted additional coding intensity, selection, and differing eligibility status, for which data was not available to perform a robust analysis and corresponding normalization.[24] To account for these potential differences, a sensitivity analysis was performed by reducing the Traditional Medicare comparator population costs by 5% and 10%. This sensitivity analysis concludes that, even if Traditional Medicare costs were adjusted to be 5% and 10% lower, estimated total program costs, inclusive of government and beneficiary costs, are lower for Medicare Advantage than for Traditional Medicare.[25]

2025 Combined Government and Beneficiary Cost in Medicare Advantage vs. Traditional Medicare -5% and -10%, PMPM[26]



Categories may not sum to total due to rounding.

Citations

1 Milliman, "Value of Medicare Advantage to the Federal Government," January 2026, page 11. https://www.milliman.com/en/insight/2025-value-medicare-advantage-unitedhealth

2 Milliman, January 2026, pages 11–12.

3 Milliman, January 2026, page 9.

4 Milliman, January 2026, page 20.
As the Milliman report explained: "One year after 2025 Medicare Advantage (MA) benchmarks were established, when developing 2026 benchmarks, CMS revised projected 2025 non-end-stage renal disease Traditional Medicare costs upward by 4.3% from the initial estimate in the 2025 Rate Announcement. This restatement was driven by updated claims trends that were higher than initially projected. The MA benchmarks included in our analysis reflect the original 2025 benchmarks, as these do not get restated when paying MA plans, and are lower than more recent projections of 2025 Traditional Medicare costs. This drives a portion of the government cost differential for 2025. We explored what the government value may have looked like using MA benchmarks that align more closely with current trends. When increasing 2025 benchmarks approximately 4.3% (consistent with the Traditional Medicare cost restatement), we observed government costs under MA would have been approximately 93% of government costs for Traditional Medicare in 2025, assuming 2025 bids remain the same and the increase in benchmarks would directly lead to increases in MA rebates."

5 Milliman, January 2026, pages 11–12.

6 Milliman, January 2026, pages 15–16.

7 Milliman, January 2026, page 7.

8 Milliman, January 2026, pages 11–12.

9 Milliman, January 2026, page 11.
Estimated amounts are adjusted to be comparable based on health status, geography, and other factors. Estimates assume a 5.9% coding intensity differential between Medicare Advantage and Traditional Medicare. Estimates are sensitive to risk scores and other metrics used to adjust underlying populations for comparability. A sensitivity analysis is available in the Milliman report cited above.

10 Milliman, January 2026, page 18.

11 Milliman, January 2026, page 3.

12 Milliman, January 2026, page 3.

13 Milliman, January 2026, page 11.

14 Milliman, January 2026, page 11.

15 Milliman, January 2026, page 7.

16 Milliman, January 2026, page 8.

17 Milliman, January 2026, page 11.

18 Milliman, January 2026, pages 1–2.

19 Milliman, January 2026, page 11.

20 Milliman, January 2026, pages 11–12.

21 Milliman, January 2026, page 11.

22 Milliman, January 2026, page 16.

23 Milliman, January 2026, page 16.

24 Milliman, January 2026, page 5.

25 Milliman, January 2026, page 21.

26 Milliman, January 2026, page 21.

January 2026