Medicare Advantage Costs the Federal Government Less than Traditional Medicare and Provides $69 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 2026, government spending for Medicare Advantage beneficiaries is approximately 95% of – or 5% lower than – government spending for Traditional Medicare beneficiaries with Parts A and B.**[2]*

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[3] **and with out-of-pocket savings to the beneficiary.**[4]

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.[5] These strategies seek to improve and manage beneficiary care while reducing the cost. As a result, **Medicare Advantage beneficiaries receive additional benefits, and the federal government receives more value from Medicare Advantage compared to Traditional Medicare coverage**.[6]

Differences in Government Spending and Coverage Between Traditional Medicare and Medicare Advantage, 2026[7]

Traditional Medicare

Hospital and Physician Services†	$ 1,288
Direct Graduate Medical Education	$ 9
CMS Administration	$ 15
No Additional Benefits	
Total Government Spending, PMPM	**$ 1,312** (100%)

PMPM = per member per month
CMS = Centers for Medicare & Medicaid Services
Categories may not sum to total due to rounding.

Medicare Advantage (Industry Average)

Hospital and Physician Services	$ 850
Indirect & Direct Graduate Medical Education and Kidney Acquisition	$ 39
Additional Services and Financial Protections	$ 198
Profit Margin	$ 27
Plan Administration††	$ 121
CMS Administration	$ 10
Total Government Spending, PMPM	**$ 1,244** (95%)

† Hospital and Physician Services under Traditional Medicare include Indirect Medical Education expenses and Kidney Acquisition Costs.

†† Plan administration includes 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.[8]

**This analysis used 2024 Medicare Advantage and Traditional Medicare risk scores and claims trended to 2026 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 to Beneficiaries and the Federal Government

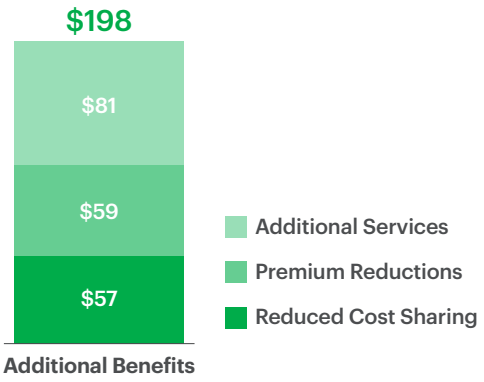
Medicare Advantage provides **$69 billion annually in additional benefits** for beneficiaries – an average of $2,376 per year for each of the 29 million beneficiaries enrolled in individual plans – by redeploying managed care savings realized by Medicare Advantage plans, which provide Medicare-covered services for less than the cost of Traditional Medicare.[9]

Additional Benefits

Medicare Advantage provides **$198 per member per month (PMPM) – $2,376 per year – in additional benefits** for beneficiaries.[10] 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

2026 Cost of Services, PMPM[11]



Categories may not sum to total due to rounding.

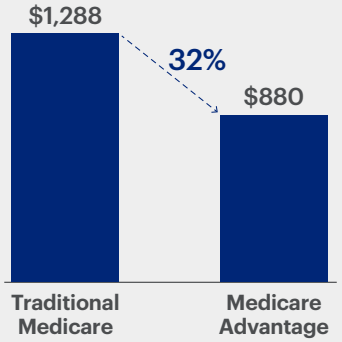
Medicare Advantage Plans Provide Additional Value by Delivering Medicare-Covered Services More Efficiently

Medicare Advantage plans provide Medicare-covered services at a lower cost than Traditional Medicare.[12] 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.[13] **The federal government retains 34% of these savings, while plans devote remaining savings to providing additional benefits** for Medicare Advantage beneficiaries.[14]

Medicare-Covered Services

Medicare Advantage covers the same hospital and physician services at **32% lower cost than Traditional Medicare ($880 vs. $1,288)**.[15] True to the design and congressional intent of the program, Medicare Advantage plans devote most of this differential to provide additional benefits for beneficiaries.[16]

2026 Cost of Coverage for Medicare-Covered Services,† PMPM[17]

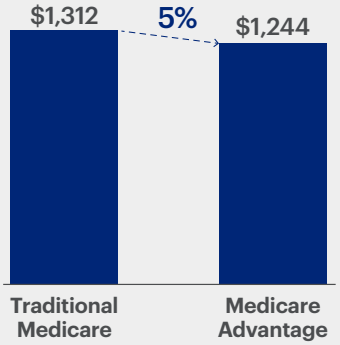


† Medicare-Covered Services include Indirect Medical Education expenses and Kidney Acquisition Costs.

Federal Government Spending

The government's spending per Medicare Advantage beneficiary is **95% of its spending per Traditional Medicare beneficiary**, including administrative costs.[18] 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.)

2026 Government Spending for Traditional Medicare vs. Medicare Advantage Coverage, PMPM[19]



Medicare Advantage spending is 95% of Traditional Medicare spending

This analysis used 2024 Medicare Advantage and Traditional Medicare risk scores and claims trended to 2026 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.

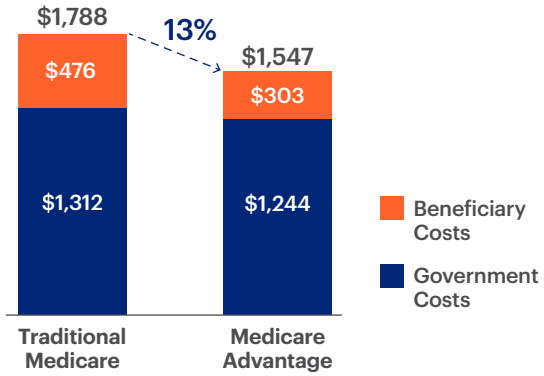
Beneficiaries in Medicare Advantage Receive More Benefits and Spend Less Out of Pocket Than Beneficiaries in Traditional Medicare

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 Spending

Lower spending both by government and beneficiaries results in combined spending that is **13% ($241 PMPM) lower for Medicare Advantage** compared to Traditional Medicare.[20] This lower combined spending incorporates both the additional services and financial protections that Medicare Advantage beneficiaries receive.

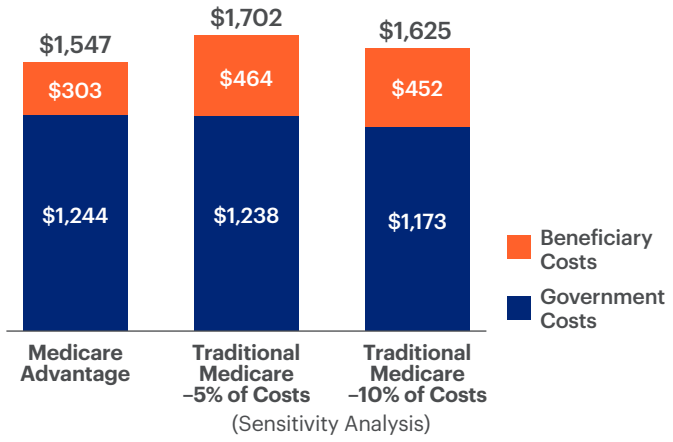
2026 Combined Government and Beneficiary Costs, PMPM[21]



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.[22] 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.[23]

2026 Combined Government and Beneficiary Cost in Medicare Advantage vs. Traditional Medicare -5% and -10%, PMPM[24]



Citations

1 Milliman, "Value of Medicare Advantage to the Federal Government: 2026," November 2026, p. 4, 11. https://www.milliman.com/en/insight/value-medicare-advantage-federal-government-2026

2 Milliman, November 2026, p. 11–12.

3 Milliman, November 2026, p. 11–12.

4 Milliman, November 2026, p. 13–14.

5 Milliman, November 2026, p. 2.

6 Milliman, November 2026, p. 11–12.

7 Milliman, November 2026, p. 10.
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.

8 Milliman, November 2026, p. 17.

9 Milliman, November 2026, p. 3.

10 Milliman, November 2026, p. 3.

11 Milliman, November 2026, p. 3.

12 Milliman, November 2026, p. 11.

13 Milliman, November 2026, p. 2.

14 Milliman, November 2026, p. 7.

15 Milliman, November 2026, p. 11.

16 Milliman, November 2026, p. 2–3.

17 Milliman, November 2026, p. 11.

18 Milliman, November 2026, p. 11–12.

19 Milliman, November 2026, p. 11–12.

20 Milliman, November 2026, p. 15.

21 Milliman, November 2026, p. 15.

22 Milliman, November 2026, p. 5.

23 Milliman, November 2026, p. 19.

24 Milliman, November 2026, p. 19.

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