

# Medicare Advantage Costs the Federal Government Less than Medicare FFS and Provides \$60 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 Medicare Fee-For-Service (FFS). Under federal law, Medicare Advantage provides the same basic benefits as Medicare FFS, but **federal spending per beneficiary is lower for Medicare Advantage**.<sup>1</sup> Government payments to Medicare Advantage plans are approximately 96% of Medicare FFS government costs for beneficiaries with Parts A and B.<sup>2\*</sup> 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 Medicare FFS – are delivered for no additional cost to the federal government<sup>3</sup> and with out-of-pocket (OOP) savings to the beneficiary.<sup>4</sup>**

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.<sup>5</sup> 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 Medicare FFS coverage.**<sup>6</sup>

## Differences in Government Spending and Coverage Between Medicare FFS and Medicare Advantage<sup>7</sup>

### Medicare FFS

 Hospital and Physician Services \$ 1,123

 CMS Administrative Costs \$ 15

No Additional Benefits

**Total Government Spending, PMPM \$ 1,138 (100%)**

### Medicare Advantage

 Hospital and Physician Services \$ 773

 Additional Services and Financial Protections \$ 185

 Profit Margin \$ 15

 Plan Administrative Costs<sup>†</sup> \$ 106

 CMS Administrative Costs \$ 10

**Total Government Spending, PMPM \$ 1,090 (96%)**

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

<sup>†</sup>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.<sup>8</sup>

\*This analysis used Medicare FFS risk scores and data from the CMS 5% sample for the Medicare Advantage portion of the analysis to normalize for part of the population differences between programs. Other differences may still exist in the underlying populations.

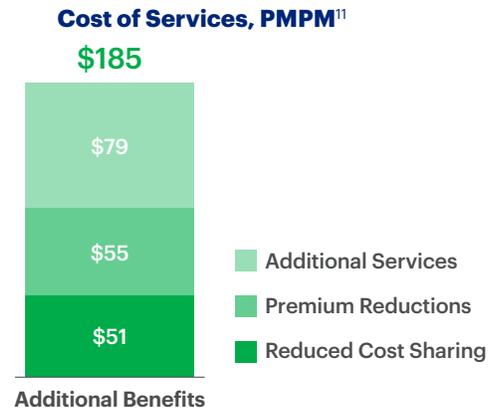
# Medicare Advantage Delivers Greater Value For Each Dollar of Federal Government Spending

Medicare Advantage provides **\$59.9 billion annually in additional benefits** for beneficiaries – an average of \$2,220 per year for each of the 27 million beneficiaries enrolled in individual Medicare Advantage plans – by redeploying savings realized by Medicare Advantage plans, which provide Medicare-covered services for less than the cost of Medicare FFS.<sup>9</sup>

## Additional Benefits

Medicare Advantage provides **\$185 per member per month (PMPM) – \$2,220 per year – in additional benefits** for beneficiaries.<sup>10</sup> 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



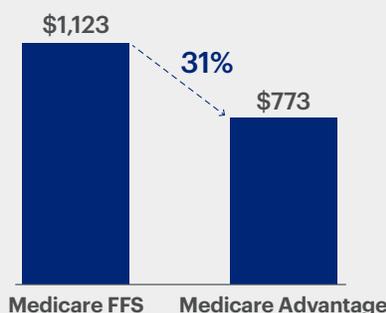
# Medicare Advantage Plans Provide Additional Value by Delivering Medicare-Covered Services More Efficiently

Medicare Advantage plans provide Medicare-covered services at a lower cost than Medicare FFS.<sup>12</sup> 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.<sup>13</sup> **The federal government retains 35% of these savings, while plans devote remaining savings to providing additional benefits** for Medicare Advantage beneficiaries.<sup>14</sup>

## Medicare-Covered Services

Medicare Advantage covers the same hospital and physician services at **31% lower cost than Medicare FFS (\$773 vs. \$1,123)**.<sup>15</sup> True to the design and intent of the program, Medicare Advantage plans devote most of this differential to provide additional benefits for beneficiaries.<sup>16</sup>

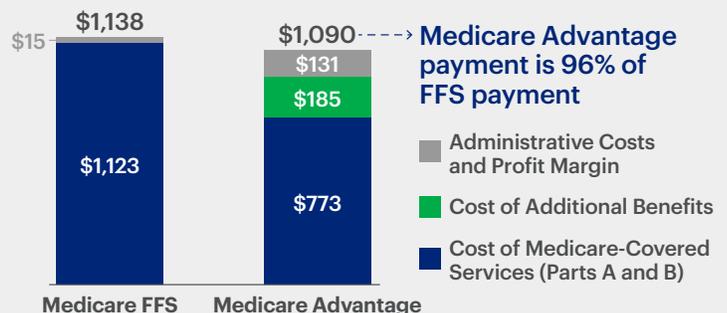
**Cost of Coverage for Medicare-Covered Services, PMPM<sup>17</sup>**



## Federal Government Spending

The government's spending per Medicare Advantage beneficiary is **96% of its spending per FFS beneficiary**, including administrative costs.<sup>18</sup> This estimate assumes the statutory 5.9% coding intensity adjustment set by the Centers for Medicare & Medicaid Services between Medicare Advantage and FFS. (For more information, see the sensitivity analysis section below.)

**Government Spending for Medicare FFS vs. Medicare Advantage Coverage, PMPM<sup>19</sup>**



This analysis used Medicare FFS risk scores and data from the CMS 5% sample for the Medicare Advantage portion of the analysis to normalize for 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.

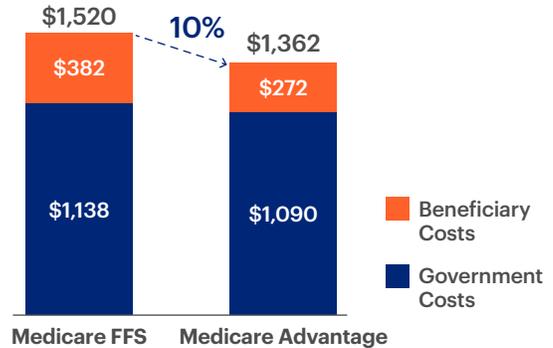
# Beneficiaries in Medicare Advantage Receive More Benefits and Lower Out-of-Pocket Costs Than Beneficiaries in Medicare FFS

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 FFS.

## Combined Federal Government and Beneficiary Costs

Lower spending both by government and beneficiaries results in combined spending that is **10% (\$158 PMPM) lower for Medicare Advantage** compared to Medicare FFS.<sup>20</sup> This lower combined spending incorporates both the additional services and financial protections that Medicare Advantage beneficiaries receive.

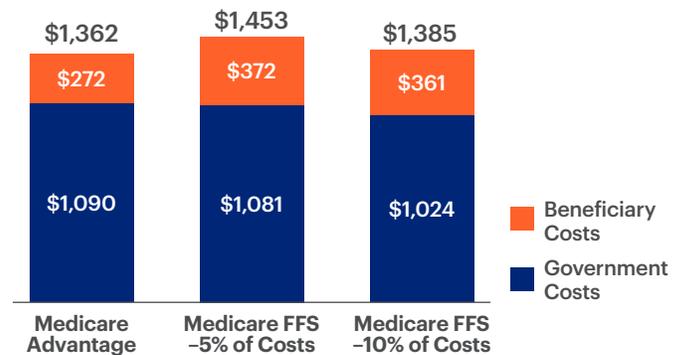
Combined Government and Beneficiary Costs, PMPM<sup>21</sup>



## Sensitivity Analysis

There are some potential differences between the Medicare FFS 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.<sup>22</sup> To account for these potential differences, a sensitivity analysis was performed by reducing the FFS comparator population costs by 5% and 10%. This sensitivity analysis concludes that, even if FFS costs were adjusted to be 5% and 10% lower, total program costs, inclusive of government and beneficiary costs, are lower for Medicare Advantage than for Medicare FFS.<sup>23</sup>

Combined Government and Beneficiary Cost in Medicare Advantage vs. Medicare FFS -5% and -10%, PMPM<sup>24</sup>



# Citations

- 1 Milliman, "Value of Medicare Advantage to the Federal Government," April 2024, page 9.  
<https://www.milliman.com/en/insight/value-of-medicare-advantage-to-the-federal-government>
- 2 Milliman, April 2024, page 9.
- 3 Milliman, April 2024, page 9.
- 4 Milliman, April 2024, page 3.
- 5 Milliman, April 2024, page 1.
- 6 Milliman, April 2024, pages 2–3.
- 7 Milliman, April 2024, page 2.  
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 Medicare FFS. 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, April 2024, page 16.
- 9 Milliman, April 2024, page 2.
- 10 Milliman, April 2024, page 2.
- 11 Milliman, April 2024, page 12.
- 12 Milliman, April 2024, page 2.
- 13 Milliman, April 2024, page 1.
- 14 Milliman, April 2024, page 7.
- 15 Milliman, April 2024, page 2.
- 16 Milliman, April 2024, page 1.
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- 18 Milliman, April 2024, page 9.
- 19 Milliman, April 2024, page 2.
- 20 Milliman, April 2024, page 3.
- 21 Milliman, April 2024, page 3.
- 22 Milliman, April 2024, page 4.
- 23 Milliman, April 2024, page 4.
- 24 Milliman, April 2024, page 19.