







## Medicare Advantage Provides \$32.5 Billion Annually in Additional Value through Lower Cost Sharing and Extra Benefits Relative to FFS Medicare

The Better Medicare Alliance’s Center for Innovation in Medicare Advantage engaged the actuarial consulting firm, Milliman, to study the value of Medicare Advantage vs. FFS Medicare. This brief provides BMA’s interpretation and analysis of [Milliman’s report](#).

The Medicare program covers hospital and physician services (also referred to as Medicare-covered services) for beneficiaries enrolled in both Medicare Advantage or Fee-For-Service (FFS) Medicare. Medicare Advantage is required to provide the same benefits as FFS Medicare, and federal spending per beneficiary is comparable in both options. However, Medicare Advantage plans typically include prescription drug coverage under Part D (MA-PD) and provide additional benefits such as dental, vision, and hearing coverage, as well as financial protections, like maximum out of pocket limits,

for beneficiaries. The additional benefits offered in Medicare Advantage are not covered by FFS Medicare; they are also offered for no additional cost to the federal government, funded by savings generated on the cost of providing Medicare-covered services due in part to the use of provider networks and care management programs. Medicare Advantage beneficiaries receive additional coverage at lower costs through the supplemental benefits and services, which deliver more value to the government for every dollar spent on Medicare Advantage compared to FFS Medicare coverage.

### Differences in Government Spending and Coverage in FFS Medicare and Medicare Advantage<sup>1</sup>

FFS Medicare		Medicare Advantage	
	Hospital and Physician Services	\$935.67	
	Administrative Costs	\$13.73	
	<b>NO ADDITIONAL BENEFITS</b>		
<b>Total Government Spending, PMPM</b>		<b>\$949.39</b>	
	Hospital and Physician Services		\$709.66
	Administrative Costs		\$86.07
	Supplemental Benefits		\$123.36
	Profit Margin		\$23.43
<b>Total Government Spending, PMPM</b>			<b>\$942.53</b>

*Estimated amounts adjusted to be comparable based on health status, geography, and other factors. Assumes 5.9 percent coding intensity differential between Medicare Advantage and FFS Medicare. Estimates are sensitive to risk scores and other metrics used to adjust underlying populations for comparability. A sensitivity analysis is available in the full report.*

<sup>1</sup> Milliman. Value to the Federal Government of Medicare Advantage. October 2021. <https://www.milliman.com/en/insight/Value-to-the-federal-government-of-medicare-advantage>

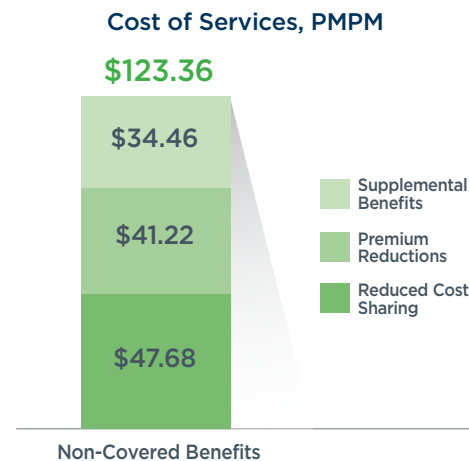
## Medicare Advantage Delivers Greater Value For Each Dollar of Federal Government Spending

Medicare Advantage provides \$32.5 billion<sup>2</sup> annually in additional non-covered benefits and lower out-of-pocket costs for beneficiaries (\$123.36 PMPM) by redeploying savings from providing Medicare-covered services for less than FFS Medicare.

### Additional Benefits and Services

Medicare Advantage provides \$123.36 per member per month (PMPM) in additional, non-covered benefits for beneficiaries. Additional benefits typically include:

- Dental, vision, hearing, and other non-medical benefits like transportation to primary care visits
- Lower cost-sharing for Medicare-covered services
- Reduced beneficiary premiums for Part B (physician office services) and Part D (prescription drug) coverage



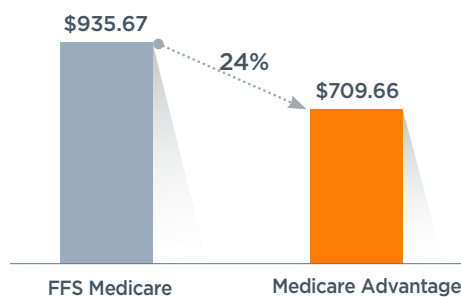
## Medicare Advantage Plans Achieve Efficiencies in Delivering Medicare-Covered Services to Provide the Additional Value

While the government's spending per beneficiary in Medicare Advantage and FFS Medicare is comparable, Medicare Advantage plans provide Medicare-covered services at a lower cost than FFS Medicare. Plans achieve these lower costs, in part, through implementation of provider networks and care management programs. The remaining government payment is then redeployed to provide additional non-covered, valuable services and benefits to Medicare Advantage beneficiaries and to cover health plan administrative expenses and profit margin.

### Medicare-Covered Services

Medicare Advantage covers the same hospital and physician services at 24% lower cost than FFS Medicare (\$709.66 in MA vs. \$935.67 in FFS). True to the design and intent of the Medicare Advantage program, Medicare Advantage plans deploy some of this differential in the form of additional benefits and lower cost sharing for beneficiaries.

### Cost of Coverage for Medicare-Covered Services, PMPM

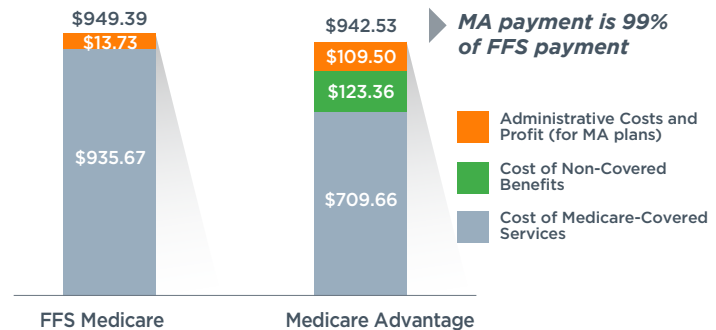


<sup>2</sup> In 2021, approximately 22 million MA beneficiaries enrolled in individual MA plans (non-employer group) received additional services and cost-sharing reductions worth on average \$123.36 PMPM (which amounts to \$1,480.32 per member per year).

## Total Federal Government Spending

The government's spending per Medicare Advantage beneficiary is 99% of its spending per FFS beneficiary when accounting for administrative costs. These values assume the statutory 5.9% coding intensity adjustment set by CMS between Medicare Advantage and FFS, with no additional coding intensity. For more information, see the sensitivity analysis section below.

## Government Spending for FFS Medicare vs. Medicare Advantage Coverage, PMPM



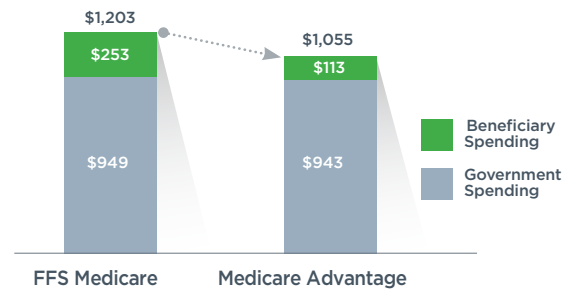
## Beneficiaries in Medicare Advantage Receive More Benefits and Lower Cost Sharing Than in FFS Medicare

In addition to lower spending by the government, Medicare Advantage beneficiaries spend less in out-of-pocket costs for Medicare-covered services, and they also receive additional benefits not available under FFS.

## Total Federal Government and Beneficiary Spending

The lower spending by both the government and the beneficiary reduces total spending by 12% (\$147 PMPM) for Medicare Advantage compared to FFS Medicare.<sup>3</sup> The lower combined spending includes additional valuable benefits and lower cost-sharing for covered services Medicare Advantage beneficiaries receive, which are not available in FFS Medicare.

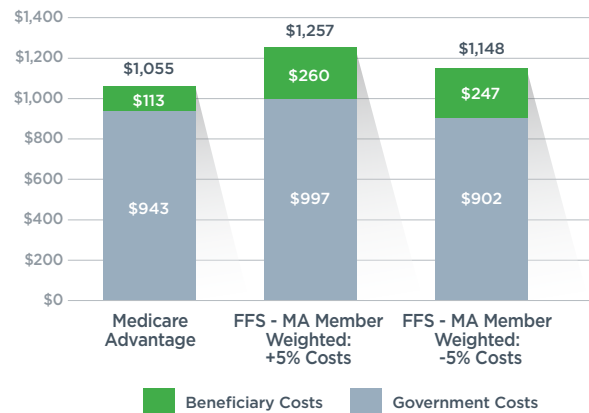
## Total Government and Beneficiary Spending, PMPM



## Sensitivity Analysis

There are some potential differences between the FFS Medicare and Medicare Advantage populations, such as unadjusted additional coding intensity and differing eligibility status, for which data was not available to perform a robust analysis and corresponding normalization. To account for the potential that there are unadjusted differences in the population, a sensitivity analysis was performed, adjusting the FFS comparator population costs by +/- 5%. This sensitivity analysis concludes that even if FFS costs were adjusted to be 5% lower, total program costs inclusive of government and beneficiary costs are lower for Medicare Advantage than FFS Medicare. More detail on these important considerations is available in the [full report](#).

## Government and Beneficiary Cost in Medicare Advantage vs. FFS Medicare in +/- 5% of FFS Cost Scenarios



3. MA beneficiaries are responsible for MA (Part C) and prescription drug (Part D) coverage premiums, physician office (Part B) deductible, and cost-sharing for hospital and physician office services (Parts A and B); Medicare FFS beneficiaries are responsible for prescription drug plan (PDP) premiums, physician office (Part B) deductible, and cost-sharing for hospital and physician office services (Parts A and B).

# Medicare Advantage Provides More Benefits and Lower Cost Sharing than FFS Medicare

## Choice of Coverage

Medicare Advantage offers beneficiaries multiple plan choices. Unlike FFS Medicare coverage that includes only a standard benefit, Medicare Advantage plan options vary based on levels of premiums, cost-sharing, coverage, and additional benefits. Providing coverage choices may more adequately meet a beneficiary's health needs than a one-size-fits-all coverage benefit. MA plans include provider networks and care management, which require members to use providers within the plan's network and may require prior authorization or other prerequisites before obtaining certain medical services.

## Affordable Coverage

Medicare Advantage has annual maximum out-of-pocket (MOOP) limits for their beneficiaries while FFS Medicare does not have annual limits.

- Notably, 89% of non-institutionalized FFS Medicare beneficiaries augmented their coverage with some form of supplemental coverage at an additional cost.<sup>4</sup>

In 2019, half of all Medicare beneficiaries had fixed annual incomes below \$29,650,<sup>5</sup> making supplemental Medigap coverage too expensive for many beneficiaries and Medicare Advantage as the only affordable coverage option. In 2020:

- A greater percentage of Medicare Advantage beneficiaries were low-income (51%) than FFS Medicare beneficiaries (44%).<sup>6</sup>
- Beneficiary out-of-pocket spending on premiums and cost-sharing was \$3,558 with MA- PD coverage, \$5,361 for FFS Medicare and Prescription Drug Plan (PDP) coverage, and \$5,992 for FFS with PDP and Medigap Plan G.<sup>7</sup>

## Enhanced Coverage

Most Medicare Advantage plans include prescription drug coverage whereas FFS Medicare beneficiaries need to purchase PDP coverage separately.

- Most MA-PD drug formularies have more generous drug coverage and lower cost sharing than those offered by standalone PDPs.

Medicare Advantage provides additional benefits and services that help beneficiaries maintain their health.

- Dental, vision, and hearing services, which are not covered by FFS Medicare, are often included in Medicare Advantage for no additional premium.
- Medicare Advantage offers supplemental benefits, and recent flexibilities enable health plans to address non-medical, social needs related to food, housing, and transportation, which are not covered by FFS Medicare.<sup>8</sup>

4. MedPAC. Health Care Spending and the Medicare Program. July 2020. Chart 3-2.

[http://www.medpac.gov/docs/default-source/data-book/july2020\\_databook\\_entirereport\\_sec.pdf?sfvrsn=0](http://www.medpac.gov/docs/default-source/data-book/july2020_databook_entirereport_sec.pdf?sfvrsn=0)

5. Kaiser Family Foundation. Medicare Beneficiaries' Financial Security Before the Coronavirus Pandemic. April 24, 2020.

[www.kff.org/medicare/issue-brief/medicare-beneficiaries-financial-security-before-the-coronavirus-pandemic/](http://www.kff.org/medicare/issue-brief/medicare-beneficiaries-financial-security-before-the-coronavirus-pandemic/)

6. Milliman. Average Annual Beneficiary Health Care Costs for Various Medicare Coverage Options. January 2021.

<https://www.milliman.com/en/insight/Average-annual-beneficiary-health-care-costs-for-various-Medicare-coverage-options-2021>

7. Milliman. Average Annual Beneficiary Health Care Costs for Various Medicare Coverage Options 2021. April 7, 2021.

<http://www.milliman.com/en/insight/Average-annual-beneficiary-health-care-costs-for-various-Medicare-coverage-options-2021>

8. Milliman. Overview of Medicare Advantage Supplemental Healthcare Benefit and Review of Contract Year 2021 Offerings. February 10, 2021.

<https://www.milliman.com/en/insight/overview-of-medicare-advantage-supplemental-healthcare-benefits>