Sticker Shock: Personal Financial Factors Leading New Medicare Beneficiaries to Choose Medicare Advantage over Traditional Medicare

When first enrolling in Medicare, beneficiaries learn a startling fact: Traditional Medicare (TM) is not comprehensive coverage. Nearly all Medicare beneficiaries seek additional coverage. Most Medicare beneficiaries have two choices: supplement TM by purchasing a Medigap plan to cover medical out-of-pocket (OOP) costs and a standalone Part D (PDP) plan for prescription drugs; or replace TM with a Medicare Advantage (MA) plan that includes Part D coverage (MA-PD).

With MA beneficiaries making up more than half of Medicare's enrollment, policymakers are considering structural reforms to TM and MA. A recent BRG white paper examined one underdiscussed dynamic in this debate: the financial decision new Medicare beneficiaries face when choosing between TM (including Medigap and PDP plans) and an MA-PD plan. To demonstrate this dynamic, we simulated the shopping experiences of three patient personae across five markets choosing between the most popular Medigap, PDP, and MA-PD plan in each market in 2025. Below are five takeaways from the paper.

1. Medigap premiums cause sticker shock.

Annual Medigap premiums varied from $1,872 to $3,900. Annual MA-PD premiums were $0 per year in all markets. (Annual PDP premiums were $0 in four markets and $664 in one market.) MA-PD premiums tend to remain $0 from year to year, but Medigap premiums rise each year, with anecdotal evidence suggesting they can double every ten years. With half of Medicare beneficiaries living on less than $36,000 per year, choosing the TM (Medigap + PDP) option would require a majority of beneficiaries to spend a significant percentage of their income on Medigap premiums (and in some cases PDP premiums) just to stay in TM.

Table 1. Most Popular Medicare Plan Premiums across Five Markets and Three Patient Personae, 2025

TM Premiums (Medigap + PDP)	MA-PD Premiums
$1,872–$4,564	$0

2. MA plans lowered expected OOP costs more often than Medigap + PDP plans.

In eleven out of fifteen scenarios, our shopper would minimize total costs by choosing an MA plan. "Healthy" Persona 1 fared better in MA-PD plans across all five markets, saving $3,239 annually on average. "Episodic" Persona 2 fared better in MA-PD plans in four out of five markets, saving $1,985 in those four markets on average. "Chronic" Persona 3 fared better in Medigap/PDP plans in three out of five markets, saving $560 in those three markets on average. In the other two markets, Persona 3 would have saved $1,640 on average by choosing the MA-PD plan.

Table 2. Total Annual OOP Costs by Persona, Averaged across Five Markets, 2025

Persona	Average Total Annual Costs (Premiums + OOP)		
	TM (Medigap + PDP)	MA-PD	MA-PD Savings
Healthy	$3,408	$169	$3,239
Episodic	$3,272	$1,781	$1,491
Chronic	$4,841	$4,521	$320

Notes: Healthy: minimal healthcare service use; Episodic: moderate healthcare service use around an inpatient episode of care; Chronic: extensive healthcare service use due to multiple chronic conditions.

3. Enrollees can expect MA plans to lower their total costs over time, even when accounting for high-cost years.

New Medicare enrollees may also evaluate TM and MA-PD for which option minimizes their total costs if they hit their plans' medical and drug OOP maximums. The typical Medicare beneficiary is unlikely to experience such a "catastrophic" plan year in any given year.[1] But shoppers in eleven out of fifteen scenarios would lower their total costs in a catastrophic year by choosing the TM option, with average extra spending in MA-PD plans ranging from $522 to $1,053 across personae.

Shoppers may find enrolling in MA-PD is still the better option because of the savings they can "bank" each year as a healthy, episodic, or chronic patient. Table 3 compares differences in MA-PD savings in typical years and extra spending in catastrophic years. For each healthy year, an enrollee would save enough to cover 6.2 years of extra spending in a catastrophic year. The "banked savings ratio" was 2.1 for episodic shoppers and 0.3 years for chronic shoppers, respectively.

1 Research shows the least costly 75% of TM beneficiaries accounted for only 16% of total TM spending in 2021; only 20% of Medicare beneficiaries incur Part A Costs in a given year.; and only 11% had a Part B drug administered in 2023.

Table 3. Comparison of Savings and Extra Spending in Regular and Catastrophic Years, 2025

Persona	Average Savings: Typical MA-PD Year	Average Extra Spending: Catastrophic MA-PD Year	Banked Savings Ratio*
Healthy	$3,239	$522	6.2 years
Episodic	$1,491	$709	2.1 years
Chronic	$320	$1,053	0.3 years

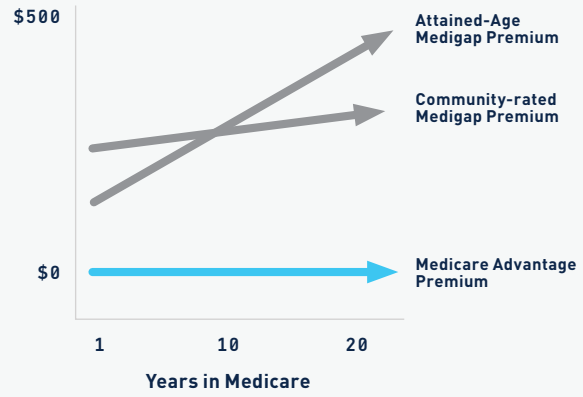
* The banked savings ratio compares the average savings in a typical MA-PD year to the average extra spending in a catastrophic MA-PD year. For example, a Healthy beneficiary will save enough money in one year by choosing MA-PD to cover 6.2 years of extra spending in a catastrophic year.

4. Stable premiums and supplemental benefits also lower MA-PD enrollees' costs, though they must weigh pros and cons of care management.

$0 MA-PD Premiums vs. Medigap Premium Increases. $0 premium MA-PD plans tend to maintain $0 premiums from year to year. Medigap premiums rise. Anecdotal evidence suggests attained-age rated Medigap policies may go up 5 to 8 percent per year, meaning these Medigap premiums could double every ten years or so.

Supplemental Benefits. Most MA plans offer supplemental benefits that go beyond what TM covers. Our analysis found MA beneficiaries would have had to spend between $283 and $864 on standalone dental premiums to find a plan with the same or similar annual maximum benefit as their MA-PD plan. A Kaiser Family Foundation analysis found enrolling in an MA plan allowed enrollees requiring dental and vision care to save $226 and $48, respectively, in 2018.[2] (The same study found enrollees who required hearing care saved $222, though the findings were not significant.)

Premium Gap Between Medicare Advantage and Medigap Premiums Rises over Time*



* Graphic illustrates how beneficiary would budget for future premiums based on historical trends.

Care Management, Prior Authorization, and Network Restrictions. MA plans coordinate patient care, develop personalized care plans, improve medication adherence, and aim to reduce unnecessary hospital readmissions to improve patient experience and care quality while lowering costs. Most MA plans use prior authorization and other utilization management tools to limit unnecessary care. Prior authorization rules require healthcare providers to get approval from the MA plan before a patient can receive certain treatments, tests, or procedures. Moreover, many MA-PD plans are health maintenance organizations (HMOs). Medicare enrollees who would prefer to avoid dealing with prior authorization and wish to see any doctor they like may prefer the TM, at the risk of potentially receiving more fragmented, uncoordinated care.

5. Future Medicare reforms should account for the financial factors driving Medicare beneficiaries to opt for MA-PD over TM.

Our paper highlights financial factors driving beneficiaries to prefer MA-PD to TM in a majority of scenarios examined. TM on its own is not comprehensive coverage, and Medigap plans charge high premiums that rise each year, which could explain why Medigap enrollees are more likely to be White, have higher incomes, and report better health than other TM enrollees. Low-income beneficiaries may qualify for Medicaid, Medicare Savings Programs, and the Extra Help program to provide additional overage at low or no cost, but future reforms to Medicare should account for the fact that Medicare enrollees today often find MA offers a better deal than TM.

2 Freed, M., J. Cubanski, N. Sroczynski, N. Ochieng, & T. Neuman, *Dental, Hearing, and Vision Costs and Coverage Among Medicare Beneficiaries in Traditional Medicare and Medicare Advantage*, KFF (September 21, 2021).