

MILLIMAN RESEARCH REPORT

Medicare Advantage organizations: Financial results for 2024

October 2025

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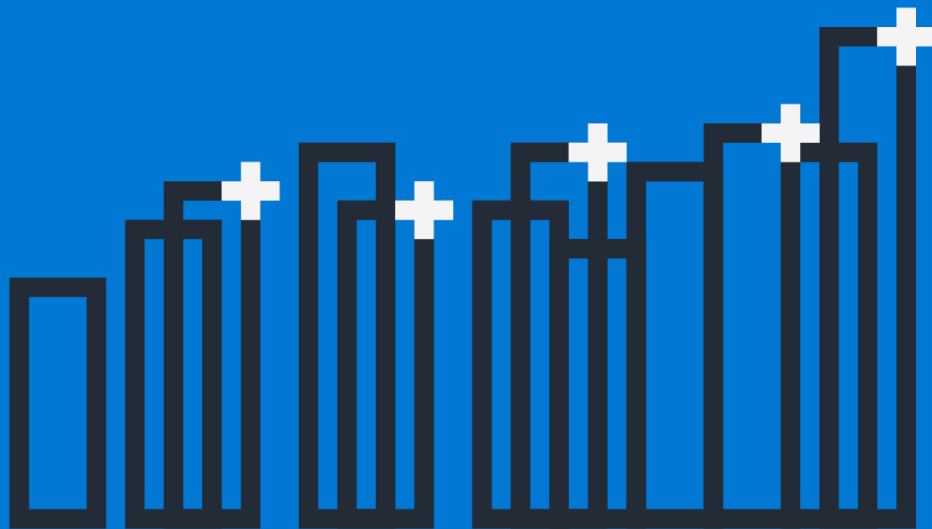


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Introduction

This report summarizes financial information reported by Medicare Advantage organizations (MAOs) for calendar year (CY) 2024. This report includes financials for Medicare Advantage plan experience reported under Title XVIII Medicare line of business on the National Association of Insurance Commissioners (NAIC) annual statement. This is the sixth annual update of this report. The prior editions addressed CY 2019 through CY 2023 experience and can be obtained from the [Milliman website](#). The methodology used to generate this year's report is substantially consistent with the prior year's report. The Introduction section in prior editions includes additional background on Medicare Advantage product and financing, which some readers new to Medicare Advantage may find useful.

Enrollment in Medicare Advantage (MA) continued to rise from 2024 to 2025. In 2024, 53%¹ of Medicare-eligible beneficiaries opted into this government-sponsored program in which private health plans provide benefits to Medicare beneficiaries as an alternative to traditional fee-for-service (FFS) Medicare. For the health plans examined in this report, the composite reported underwriting margin for MAOs was negative in 2024, representing a material decline from prior years. The lower reported financial experience is consistent with the higher trends and outlook presented by some of the leading national MA carriers during earnings calls in late 2024 and early 2025. The higher costs and slower revenue growth, in addition to increased volatility in Part D coverage due to star rating declines, have added pressure on profit margins for these health plans, with the Inflation Reduction Act (IRA) further contributing to these challenges. In response to these pressures, some carriers have either exited certain markets, indicated reduction to supplemental benefit offerings, or increased cost sharing on Medicare FFS benefits.

This report summarizes the CY 2024 experience for selected financial metrics of organizations reporting MA experience under the Title XVIII Medicare line of business on the NAIC annual statement. We compiled this information from the reported annual statements.² Individual reporting entities may be excluded from this report for the following reasons:

- Did not submit a health annual statement
- Reported less than \$10 million in annual Medicare (Title XVIII) revenue
- Otherwise omitted from the NAIC database of health annual statements utilized for this report

The primary purpose of this report is to provide reference and benchmarking information for certain key financial metrics used in the analysis of MAO financial performance. This report summarizes the financial results on a composite basis for all reporting MAOs.

- Appendix 1 provides additional detail and stratifications of the financial metrics presented in this report.
- Appendix 2 provides the methodology and assumptions used in developing the metrics presented in this report.

1. Ochieng, N., Freed, M., Fuglesten Biniek, J., Damico, A. & Neuman, T. (July 28, 2025). Medicare Advantage in 2024: Enrollment update and key trends. Kaiser Family Foundation. Retrieved August 25, 2025, from <https://www.kff.org/medicare/medicare-advantage-enrollment-update-and-key-trends/>.

2. National Association of Insurance Commissioners. Annual Statement Database delivered by S&P Global, Inc., all rights reserved.

Summary of CY 2024 financial results

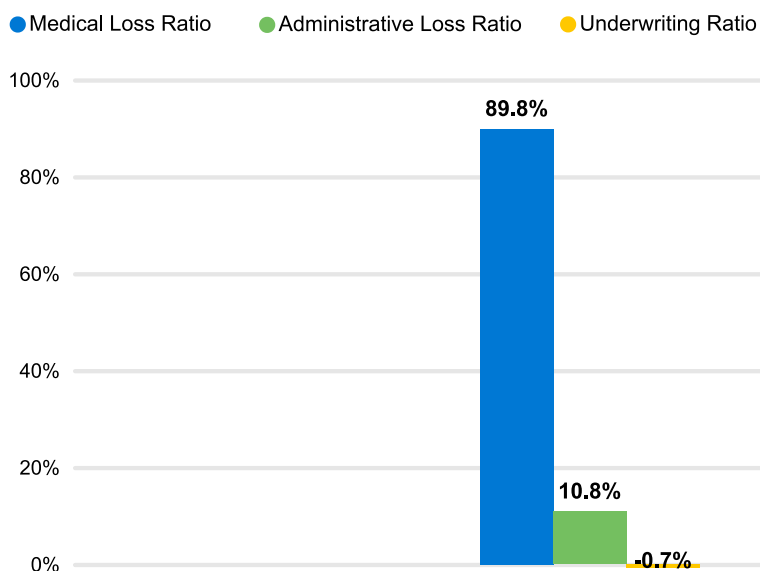
The CY 2024 financial information analyzed for this report comprises information for 435 reporting entities across 47 states, compared to 431 entities across the same 47 states from the prior year's report. Information from Alaska, Montana, and Wyoming is not represented, primarily because the reporting entities in these states were excluded based on the filtering criteria described above. Of these 435 reporting entities, we identified 81 entities as provider-sponsored health plans (PSHPs), based on publicly available parent organization information and their status as provider entities. From this shortlist of 81 entities, we excluded large national PSHPs (such as Kaiser), as financial reporting for these plans is not representative of the subset being targeted for comparison purposes. We analyzed the financial performance of PSHPs separately from the traditional MAOs to identify any significant differences between the two entity types. These findings are outlined in later sections of this report. We retrieved the annual statements from an online NAIC database.

We compiled the financial data for the MAOs to produce outcomes of key financial metrics for various company groupings. We summarized the distribution of results to allow for user reference and benchmarking purposes. Unless otherwise stated, only companies with at least \$10 million in MA revenue were used in this analysis.

The primary financial metrics we analyzed for this report include the medical loss ratio (MLR), administrative loss ratio (ALR), underwriting (UW) ratio, and risk-based capital (RBC) ratio. The selected metrics focus primarily on the income statement, except for the RBC ratio, which is a capital (or solvency) measure. Appendix 2 of this report documents the methodology and formulas behind these metrics.

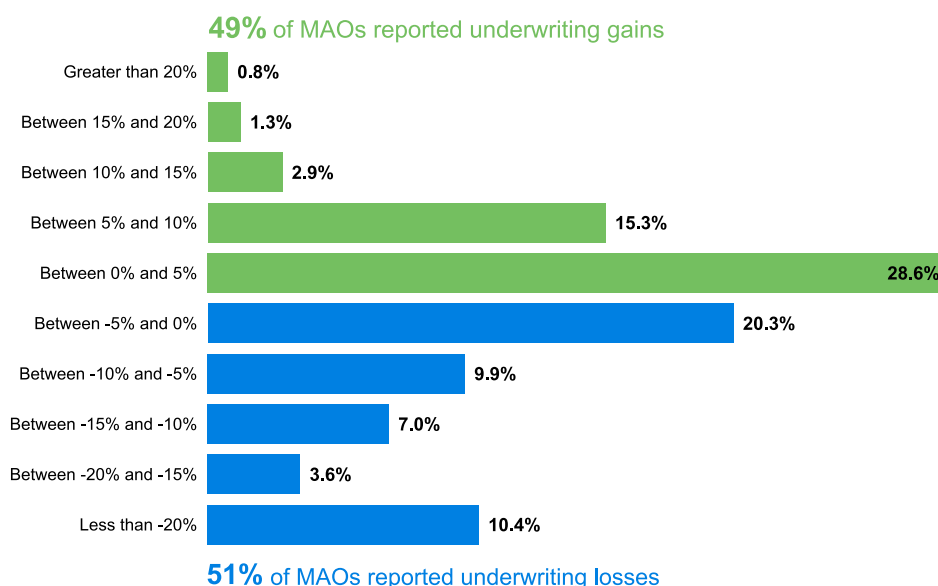
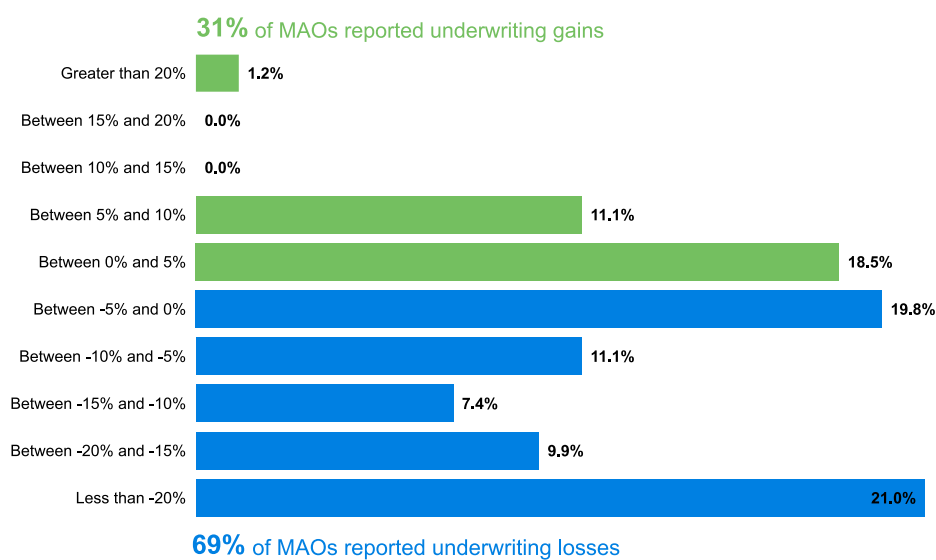
Figure 1 summarizes the composite CY 2024 financial results for the 435 companies meeting the criteria selected for this study. The total MA revenue base represents over \$423 billion, with underwriting losses of 0.7% (down from gains of 1.1% last year). The lower margins in CY 2024 are consistent with information delivered in earnings calls and industry reports of the MA market. MAOs have reported pressures on margins due to higher inpatient and outpatient utilization combined with competitive pressures around benefit offerings. In comparison, for CY 2024, the 81 PSHPs meeting the criteria selected for this study showed underwriting losses of 4.5% in aggregate compared to a 2.8% loss in CY 2023. Lack of scale, potential to attract a higher-acuity population, and conflicting incentives with the health system are likely some reasons why PSHPs tend to have higher loss ratios on average compared to non-PSHPs.

FIGURE 1: COMPOSITE CY 2024 FINANCIAL RESULTS



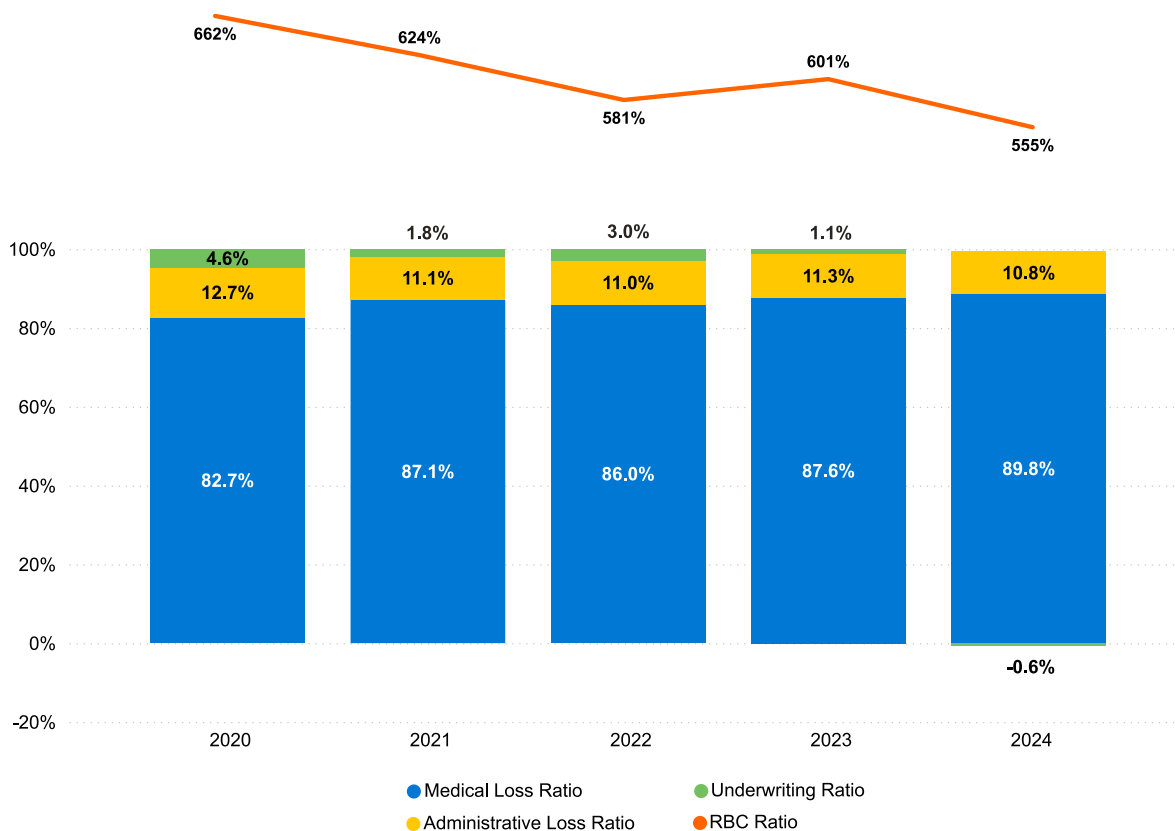
Note: Values have been rounded.

Figure 2 shows the distribution of MAOs (including PSHPs) within ranges of UW ratios specific to CY 2024, indicating that there were significantly more MAOs reporting losses (265 MAOs) compared to those reporting gains (170 MAOs), which is consistent with CY 2023 and differs from CY 2022, when there was a relatively even split. Approximately half of the MAOs reported an underwriting margin within a range of plus or minus 5%. Consistent with CY 2023, reported experience plans with larger membership have generally been more profitable compared to the smaller plans, as can be seen in Figure 9 of Appendix 1. The underwriting ratio distribution for plans with greater than \$1 billion in revenue is significantly different from the nationwide average, with 45% of those plans reporting gains. Figure 3 provides a view of the 81 PSHPs, which reflects a significantly different distribution, with roughly 30% of all PSHPs reporting gains. About 21% of the PSHPs are reporting losses of more than 20%.

FIGURE 2: CY 2024 UNDERWRITING RATIO DISTRIBUTION**FIGURE 3: CY 2024 UNDERWRITING RATIO DISTRIBUTION (PROVIDER-SPONSORED HEALTH PLANS ONLY)**

Over the past five years, aggregate MA revenue (in dollars) has grown by 77%. The growth has been primarily driven by a year-to-year increase in Centers for Medicare and Medicaid Services (CMS) benchmark revenue, enrollment growth in the MA market due to an increase in Medicare eligibles, and higher MA penetration rates, as well as an increase through CY 2022 of the star ratings of MAOs. However, the decrease in average star ratings—from 4.37 in CY 2022 to 4.07 in CY 2024—has somewhat offset these gains.³ Enrollment included in this report increased by 47% over the same five-year period, with a year-over-year increase of over 6% growth this past year, slightly down from a 7% growth in the prior year. Figure 4 summarizes the composite financial results for the most recent five-year period. The companies in each year's sample are not the same; however, the criteria used to select the companies are consistent from year to year.

FIGURE 4: FIVE-YEAR HISTORICAL FINANCIAL RESULTS



We note the following observations on the MA market over the most recent five years:

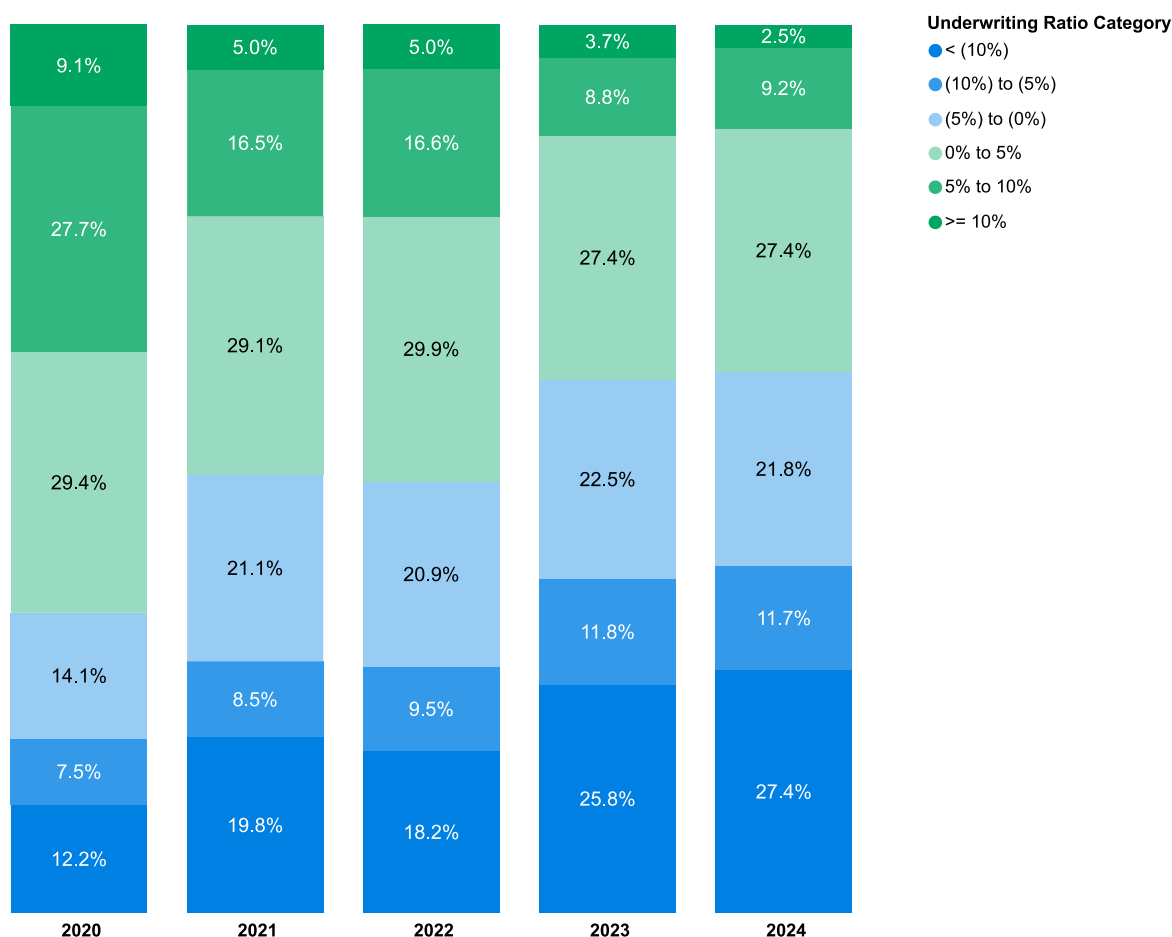
- The composite UW ratio is negative for CY 2024, making it the lowest margin we have seen.
- The aggregate ALR over the last four years has generally remained stable at approximately 11%, other than CY 2020, which was 12.7%. The ALR in CY 2020 was higher because it was the last year that included the Health Insurance Provider Fee (HIPF).
- RBC ratios have generally decreased over the last 5 years, with CY 2023 being the only exception.
- CY 2024 MLR is the highest we have seen in the MA market in the last 10 years. The MLRs from CY 2021 through CY 2023 were fairly consistent, while CY 2020 reflects a significantly lower MLR due to the impact of COVID.

3. Average member weighted star ratings by year for 2022 and 2024 were calculated from the following source: Centers for Medicare and Medicaid Services. (October 10, 2024). 2025 Medicare Advantage and Part D star ratings. Retrieved October 14, 2025, from <https://www.cms.gov/files/document/fact-sheet-2025-medicare-advantage-and-part-d-star-ratings.pdf>.

Please note that the MLR calculated throughout this report is the MLR formula as defined in Appendix 2 below. This is consistent with how MLR is reported on the statutory annual statement and not the formula used by CMS for MLR rebates that includes adjustments for credibility, quality improvement activities, taxes and fees, or Part D reinsurance amounts.

While Figure 4 illustrates the overall changes in the underwriting results over the last five years, it is also important to understand how the underwriting results have varied across MAOs. Figure 5 illustrates the distribution of underwriting results in the MA market for each calendar year.

FIGURE 5: DISTRIBUTION OF UNDERWRITING RESULTS BY YEAR



The composite UW ratio decreased in CY 2024 to (0.7%) and is the new five-year historical low after the previous historical low of 1.1% in CY 2023. The percentage of plans with a positive margin has decreased significantly compared to prior years. During 2020 and prior years, approximately 60% of the plans reported positive underwriting margins. This decreased to approximately 50% in CY 2021 and CY 2022 and is now at only 40% for both CY 2023 and CY 2024. The composite UW ratio reported by the MAOs in CY 2024 represents an aggregate underwriting loss of approximately \$2.8 billion in relation to the \$423 billion of revenue.

Administrative cost analysis

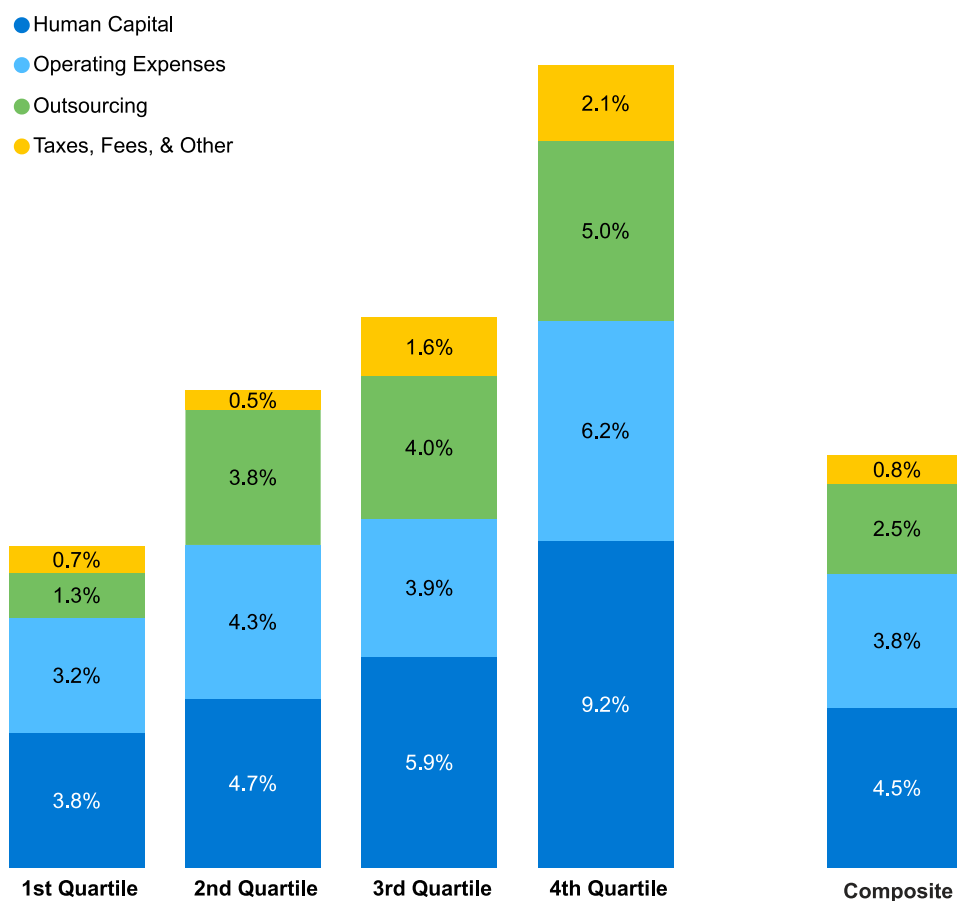
MEDICARE ADVANTAGE-FOCUSED MAOS

The results presented in this section of the report are limited to the 267 MAOs that are defined as MA-focused in the database used for this summary. The ALRs reported by the MA-focused MAOs were approximately 1% lower than the remaining 168 MAOs, which were defined as non-MA-focused. The 267 MA-focused MAOs account for over 76% of the MA revenue summarized for the purposes of this report, with an average ALR of 11.0%, the same as in the prior year. The following section summarizes the reported administrative costs for only the MA-focused MAOs to improve comparability, as organizations with broader lines of business may use differing administrative cost allocation methods that could affect direct comparisons.

SUMMARY OF RESULTS

The primary expense categories used in the Analysis of Operations by Line of Business page include the claim adjustment expenses (CAE) and general administrative expenses (GAE). The CAE and GAE categories are further stratified by additional subcategories of expenses in the Underwriting and Investment Exhibit Part 3 Analysis of Expenses page, which is the basis of the administrative expense categories illustrated below. Figure 6 summarizes the CY 2024 administrative expenses by quartile of ALR performance for the 267 companies with a MA focus. The administrative expenses are stratified by administrative cost categories.

FIGURE 6: ADMINISTRATIVE LOSS RATIO BY QUARTILE OF ALR PERFORMANCE

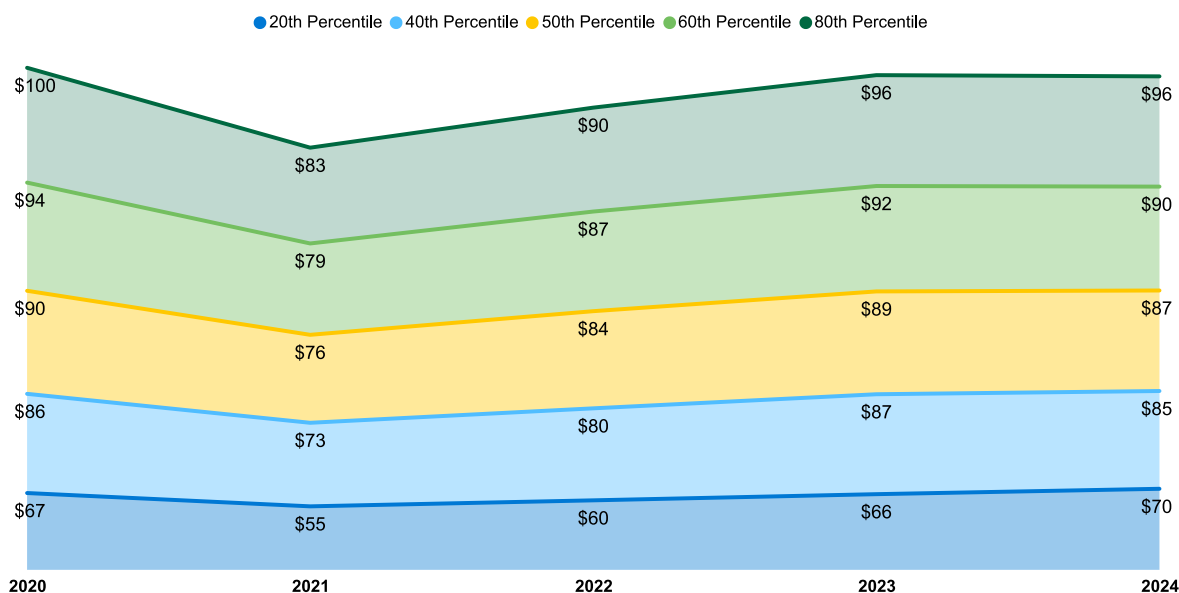


Note: Values have been rounded.

In composite, MAOs grouped in the fourth quartile have higher administrative loss ratios across all expense types compared to MAOs grouped in the first, second, and third quartiles.⁴ Between the third and fourth quartiles, human capital (costs related to salaries, wages, and other items specific to in-house staffing resources), operating expenses, and outsourcing account for most of the increase in administrative costs.

Figure 7 summarizes the administrative cost per member per month (PMPM) for the most recent five-year period for all 435 MAOs matching the inclusion criteria indicated in this report.

FIGURE 7: ADMINISTRATIVE COST PMPM BY YEAR



Note: Values have been rounded.

Figure 7 illustrates an overall slight decrease in the reported administrative cost on a PMPM basis from CY 2020 to CY 2024. We observed a significant decrease in the administrative cost PMPM from CY 2020 to CY 2021, likely due to the impact of the HIPF in 2020. The HIPF was repealed effective 2021 and beyond. Excluding CY 2020, the reported administrative cost PMPM shows a notable increase from 2021 to 2024. The median value shows an average annualized decrease of approximately 0.6% when measured from CY 2020 to CY 2024. However, when CY 2020 is excluded, the average annualized increase reflects a 4.6% increase. The percentiles illustrated are less sensitive to outliers and changes in reported administrative expense for the largest health plans, as they reflect the overall distribution of administrative expenses by plan, not accounting for plan enrollment.

The PMPM increase from CY 2021 to CY 2024 is mostly attributable to general inflationary trends, as well as changes in the membership covered by the MAOs in this study, such as the increase in the number of beneficiaries in special needs plans (SNPs), which have higher claim and administrative costs. The range of administrative cost PMPMs over the years is likely attributable to a combination of drivers, such as additional operating expenses to support care management, coding and star rating initiatives, increased prevalence of SNPs, which require more intensive member care coordination, and/or other enrollment changes that can affect the PMPMs.

4. A quartile is a cut point dividing the number of data points in a data set into four parts (or quarters) of roughly equal size.

Conclusion

Medicare Advantage remains popular and continued to grow in 2024. More than 53% of people eligible for Medicare in the United States enroll in MA.⁵ Following last year's pattern, MAOs are seeing increased pressure on their underwriting margins. As CMS payment rates have leveled off in 2024, member utilization for both inpatient and outpatient services have risen for many carriers, as frequently reported on earnings calls in 2024. Our analysis shows that approximately 40% of the total MAOs (including PSHPs) reported underwriting gains in CY 2024, similar to the prior year. Some smaller and medium-sized carriers have exited the market due to low enrollment or other challenges. MAOs offer popular coverage options for Medicare beneficiaries, and their financial results will help us understand the viability and the continued sustainability of private health insurers in the MA market.

Limitations and data reliance

We compiled the results contained in this report using data and information obtained from the statutory annual statements for MAOs filed with the respective state insurance regulators. We retrieved the annual statements from an online NAIC database on July 3, 2025. In addition to the limiting criteria used to select companies in this report, certain MAOs may be omitted from this report because of the timing of annual statement submissions or their exclusions from the online database.

Milliman developed certain models to estimate the values included in this correspondence. The intent of the models was to estimate the MAO financial results presented in this report. We reviewed the models, including their inputs, calculations, and outputs, for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP). The models rely on data and information as input to the models. We relied upon certain data and information for this purpose and accepted it without audit. To the extent that the data and information provided is not accurate or is not complete, the values provided in this correspondence may likewise be inaccurate or incomplete. Milliman's data and information reliance includes the NAIC annual statement database. The models, including all input, calculations, and output, may not be appropriate for any other purpose.

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The views expressed in this research paper are made by the authors and do not represent the opinions of Milliman, Inc. Other Milliman consultants may hold alternative views and reach different conclusions from those shown.

Qualifications

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Shyam Kolli and Greg Sgroso are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses in this report.

8. Ochieng, Kaiser Family Foundation, op. cit.

Appendix 1: Financial metrics and MAO characteristics

In addition to the figures illustrated in the body of this report, we analyzed the financial metrics stratified by certain MAO characteristics to understand the potential impact these characteristics have on the reported financial results. The figures in Appendix 1 illustrate the following financial metrics and MAO characteristics:

FINANCIAL METRICS

- Medical loss ratio
- Underwriting ratio
- Risk-based capital ratio
- Administrative loss ratio

MAO CHARACTERISTICS

- Annual Medicare revenue
- Annual Medicare revenue PMPM
- MAO type (Medicare Advantage-focused versus all other MAOs)
- Underwriting gain/loss

FIGURE 8: MEDICAL LOSS RATIO: CY 2024 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN \$ BILLIONS)	PERCENTILE					
				MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	435	423.3	89.8%	79.1%	84.4%	90.1%	97.3%	106.4%
ANNUAL	\$10 MILLION TO \$100 MILLION	169	6.8	90.8%	76.5%	80.5%	87.0%	99.5%	110.2%
REVENUE	\$100 MILLION TO \$500 MILLION	134	32.5	92.3%	81.1%	85.3%	92.1%	97.3%	107.8%
	\$500 MILLION TO \$1 BILLION	61	44.4	92.9%	84.2%	86.2%	89.8%	97.9%	104.2%
	MORE THAN \$1 BILLION	71	339.6	89.1%	84.3%	86.6%	89.6%	94.8%	99.4%
REVENUE	LESS THAN \$1,000	78	26.2	97.5%	83.6%	88.8%	6.5%	103.8%	114.2%
PMPM	\$1,000 to \$1,150	82	34.6	94.5%	82.0%	87.2%	93.6%	100.6%	111.1%
	\$1,150 to \$1,300	80	129.0	90.6%	81.3%	85.3%	90.4%	95.1%	103.8%
	MORE THAN \$1,300	195	233.5	87.8%	75.9%	81.3%	87.0%	92.2%	100.2%
BUSINESS	MEDICARE FOCUSED	267	321.5	88.6%	78.9%	83.9%	88.4%	94.9%	104.8%
FOCUS	ALL OTHERS	168	101.8	93.5%	79.8%	86.3%	92.5%	100.1%	108.5%
GAIN/(LOSS)	REPORTED A GAIN	170	244.1	86.7%	73.7%	79.9%	83.8%	86.7%	89.1%
POSITION	REPORTED A LOSS	265	179.2	94.0%	85.5%	90.4%	95.0%	101.7%	110.6%
PSHPs	PSHPs	81	30.6	92.3%	78.8%	84.2%	92.8%	101.9%	109.5%
	ALL OTHER MAOs	354	392.7	89.6%	79.3%	84.4%	89.2%	96.4%	104.4%

FIGURE 9: UNDERWRITING RATIO: CY 2024 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN \$ BILLIONS)	PERCENTILE					
				MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	435	423.31	-0.7%	-23.8%	-10.9%	-2.3%	1.8%	5.6%
ANNUAL	\$10 MILLION TO \$100 MILLION	169	6.79	-8.8%	-35.2%	-15.5%	-1.0%	2.9%	6.3%
REVENUE	\$100 MILLION TO \$500 MILLION	134	32.55	-6.1%	-23.4%	-11.9%	-4.7%	0.3%	4.9%
	\$500 MILLION TO \$1 BILLION	61	44.37	-4.8%	-19.0%	-8.3%	-1.4%	1.0%	4.4%
	MORE THAN \$1 BILLION	71	339.61	0.6%	-10.1%	-5.5%	-1.2%	2.9%	5.1%
REVENUE	LESS THAN \$1,000	78	26.18	-9.6%	-37.1%	-21.1%	-10.9%	-1.4%	0.8%
PMPM	\$1,000 to \$1,150	82	34.63	-6.8%	-36.7%	-16.7%	-7.0%	-1.0%	2.0%
	\$1,150 to \$1,300	80	129.05	-1.0%	-17.1%	-8.1%	-3.0%	0.9%	4.1%
	MORE THAN \$1,300	195	233.46	1.5%	-13.4%	-4.3%	0.5%	4.2%	7.0%
BUSINESS	MEDICARE FOCUSED	267	321.5	0.5%	-24.1%	-8.8%	-1.0%	2.1%	5.0%
FOCUS	ALL OTHERS	168	101.8	-4.4%	-21.5%	-11.8%	-4.5%	1.0%	6.4%
GAIN/(LOSS)	REPORTED A GAIN	170	244.1	3.4%	0.4%	0.9%	3.2%	5.6%	8.7%
POSITION	REPORTED A LOSS	265	179.2	-6.2%	-32.3%	-16.9%	-8.5%	-3.1%	-1.1%
PSHPs	PSHPs	81	30.6	-4.5%	-29.2%	-16.8%	-4.8%	0.8%	5.6%
	ALL OTHER MAOs	354	392.7	0.4%	-21.3%	-9.8%	-1.5%	2.0%	5.5%

FIGURE 10: RISK-BASED CAPITAL RATIO: CY 2024 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN \$ BILLIONS)	PERCENTILE					
				MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	435	423.31	555.1%	305.5%	359.9%	450.5%	623.8%	1012.7%
ANNUAL	\$10 MILLION TO \$100 MILLION	169	6.79	573.9%	322.2%	375.1%	506.0%	787.2%	1334.6%
REVENUE	\$100 MILLION TO \$500 MILLION	134	32.55	579.9%	302.8%	349.2%	411.6%	591.6%	897.3%
	\$500 MILLION TO \$1 BILLION	61	44.37	481.4%	278.9%	317.7%	390.6%	571.7%	804.6%
	MORE THAN \$1 BILLION	71	339.61	563.8%	307.1%	365.3%	453.1%	567.3%	796.4%
REVENUE	LESS THAN \$1,000	78	26.18	688.1%	318.4%	381.7%	460.0%	723.1%	1217.1%
PMPM	\$1,000 to \$1,150	82	34.63	656.9%	310.6%	352.1%	460.1%	697.1%	1139.1%
	\$1,150 to \$1,300	80	129.05	472.4%	328.0%	377.9%	509.5%	834.2%	1200.6%
	MORE THAN \$1,300	195	233.46	521.3%	301.2%	344.9%	432.0%	572.2%	807.3%
BUSINESS	MEDICARE FOCUSED	267	321.5	412.5%	308.0%	359.9%	439.1%	606.4%	929.9%
FOCUS	ALL OTHERS	168	101.8	626.8%	299.7%	359.8%	458.9%	705.5%	1124.8%
GAIN/(LOSS)	REPORTED A GAIN	170	244.1	470.8%	329.6%	380.0%	497.1%	774.2%	1344.2%
POSITION	REPORTED A LOSS	265	179.2	600.3%	301.0%	347.3%	412.1%	580.3%	926.4%
PSHPs	PSHPs	81	30.6	454.5%	306.3%	343.3%	417.6%	580.7%	820.9%
	ALL OTHER MAOs	354	392.7	566.1%	305.6%	364.9%	457.3%	646.8%	1048.0%

FIGURE 11: ADMINISTRATIVE LOSS RATIO: CY 2024 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN \$ BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	435	423.31	10.8%	8.7%	11.2%	13.7%	16.2%	22.4%
ANNUAL	\$10 MILLION TO \$100 MILLION	169	6.79	18.0%	10.1%	13.4%	15.6%	21.0%	31.4%
REVENUE	\$100 MILLION TO \$500 MILLION	134	32.55	13.8%	9.6%	11.4%	13.1%	16.7%	19.8%
	\$500 MILLION TO \$1 BILLION	61	44.37	11.9%	7.8%	10.0%	11.9%	14.1%	15.8%
	MORE THAN \$1 BILLION	71	339.61	10.3%	7.4%	9.4%	11.3%	12.4%	13.8%
REVENUE	LESS THAN \$1,000	78	26.18	12.1%	9.3%	11.1%	14.9%	17.0%	25.4%
PMPM	\$1,000 to \$1,150	82	34.63	12.4%	10.7%	11.5%	14.7%	16.4%	22.5%
	\$1,150 to \$1,300	80	129.05	10.5%	8.7%	10.8%	12.8%	15.6%	19.5%
	MORE THAN \$1,300	195	233.46	10.7%	8.4%	11.0%	13.0%	16.1%	21.8%
BUSINESS	MEDICARE FOCUSED	267	321.5	10.8%	9.4%	11.5%	14.7%	16.7%	22.9%
FOCUS	ALL OTHERS	168	101.8	10.9%	8.3%	10.5%	12.2%	15.4%	19.1%
GAIN/(LOSS)	REPORTED A GAIN	170	244.1	9.9%	8.0%	9.7%	12.9%	15.6%	17.1%
POSITION	REPORTED A LOSS	265	179.2	12.2%	9.9%	11.4%	14.2%	17.7%	24.6%
PSHPs	PSHPs	81	30.6	12.2%	9.7%	10.9%	13.2%	16.5%	21.3%
	ALL OTHER MAOs	354	392.7	10.7%	8.6%	11.3%	13.8%	16.1%	22.4%

Appendix 2: Definition of financial metrics

The financial metrics calculated for the purposes of this report include medical loss ratio (MLR), administrative loss ratio (ALR), underwriting ratio (UW ratio), risk-based capital (RBC) ratio, and administrative cost PMPM. These selected metrics focus primarily on the income statement values of the financial statement except for the RBC ratio, which is a capital (or solvency) measure.

The financial metrics selected encompass five of the primary measures used by MAOs, regulators, and other stakeholders to evaluate the financial performance of an MAO. The metrics are defined in greater detail below.

MEDICAL LOSS RATIO (MLR)

MLR is a common financial metric used to report and benchmark the financial performance of a MAO. The MLR represents the proportion of revenue used by the MAO to fund claim expenses. The MLR is stated as a percentage, with claim expense in the numerator and revenue in the denominator.

In terms of the statutory annual statement, the MLR was defined as follows:

MLR =	(TOTAL HOSPITAL AND MEDICAL EXPENSES + INCREASE IN RESERVES FOR A&H CONTRACTS) ÷ TOTAL REVENUE
	TOTAL HOSPITAL AND MEDICAL EXPENSES: TITLE XVIII—MEDICARE (P.7, L.17, C.7)
WHERE:	INCREASE IN RESERVES FOR ACCIDENT AND HEALTH (A&H) CONTRACTS: TITLE XVIII—MEDICARE (P.7, L.21, C.7)
	TOTAL REVENUE: TITLE XVIII—MEDICARE (P.7, L.7, C.7)

As noted previously, the MA Part D program includes prospective payments for Low-Income Cost-Sharing Subsidy (LICS), Coverage Gap Discount Program (CGDP), and federal reinsurance. MAOs are not at risk for these programs. Neither the prospective payments nor the annual true-ups should be reported as revenue. The Part D program also includes a risk corridor program, where the MAOs and CMS share in favorable or unfavorable prescription drug experience relative to a bid target. The risk corridor payments or receivables should be included in revenue.

Actuaries and financial analysts use the MLR as a measure of premium adequacy. The target loss ratios (the claim cost included in the premium or capitation rate) vary by state and populations enrolled. Additionally, there may be reporting differences among MAOs as to what is classified as medical expense versus administrative expense.

As previously noted, the definition of MLR for the purposes of this report may not be consistent with other definitions.

UNDERWRITING RATIO

The UW ratio is the sum of the MLR and the ALR (defined below) subtracted from 100%. A positive UW ratio indicates an underwriting gain, while a negative UW ratio indicates a loss. This financial metric is used to report and benchmark the financial performance of an MAO in consideration of both medical and administrative expenses. The UW ratio represents the funding available after accounting for medical and administrative expenses. The UW ratio is stated as a percentage, with total underwriting gain or loss in the numerator and revenue in the denominator.

In terms of the statutory annual statement, the UW ratio was defined as follows:

UW RATIO =	NET UNDERWRITING GAIN OR (LOSS) ÷ TOTAL REVENUE
	NET UNDERWRITING GAIN OR (LOSS): TITLE XVIII—MEDICARE (P.7, L.24, C.7)
WHERE:	TOTAL REVENUE: TITLE XVIII—MEDICARE (P.7, L.7, C.7)

The UW ratio is focused on the income from operations and excludes consideration of investment income and income taxes. The UW ratio requires interpretation and considerations similar in nature to the MLR and ALR metrics.

RISK-BASED CAPITAL RATIO (RBC RATIO)

The RBC ratio is a financial metric used by many insurance regulators to monitor the financial health or solvency of MAOs. The RBC ratio represents the proportion of the required minimum capital that is held by the MAO as of a specific date (the end of the financial reporting period). The RBC ratio is stated as a percentage or a ratio, with total adjusted capital (TAC) in the numerator and authorized control level (ACL) in the denominator.

The NAIC prescribes a specific formula to develop both the TAC and the ACL. Further, the MAO is subjected to various action levels based on the resulting RBC ratio, as follows:

- Company action level (TAC is between 150% and 200% of the ACL RBC)
- Regulatory action level (TAC is between 100% and 150% of the ACL RBC)
- Authorized control level (TAC is between 70% and 100% of the ACL RBC)
- Mandatory control level (TAC is less than 70% of the ACL RBC)

In terms of the statutory annual statement, the RBC ratio was defined as follows:

$$\text{RBC RATIO} = \frac{\text{TOTAL ADJUSTED CAPITAL}}{\text{AUTHORIZED CONTROL LEVEL}}$$

WHERE:

TOTAL ADJUSTED CAPITAL: TOTAL ADJUSTED CAPITAL—CURRENT YEAR (P.28, L.14, C.1)

AUTHORIZED CONTROL LEVEL: AUTHORIZED CONTROL LEVEL—CURRENT YEAR (P.28, L.15, C.1)

Note: The RBC ratio is not unique to the MA line of business, as it is calculated at the company level. Therefore, companies reporting non-Medicare business will reflect composite RBC ratios for all lines of business within the reported legal entity.

ADMINISTRATIVE LOSS RATIO (ALR)

ALR is also a common financial metric used to report and benchmark the financial performance of an MAO. The ALR represents the proportion of revenue that was used by the MAO to fund administrative expenses. The ALR is stated as a percentage, with administrative expense in the numerator and revenue in the denominator.

In terms of the statutory annual statement, the ALR was defined as follows:

$$\text{ALR} = \frac{\text{CLAIM ADJUSTMENT EXPENSES} + \text{GENERAL ADMINISTRATIVE EXPENSES}}{\text{TOTAL REVENUE}}$$

WHERE:

CLAIM ADJUSTMENT EXPENSES: TITLE XVIII—MEDICARE (P.7, L.19, C.7)

GENERAL ADMINISTRATIVE EXPENSES: TITLE XVIII—MEDICARE (P.7, L.20, C.7)

TOTAL REVENUE: TITLE XVIII—MEDICARE (P.7, L.7, C.7)

The ALR requires interpretation and considerations similar in nature to the MLR metric outlined above, most notably impacted by the state and federal taxes levied on MAOs across the different states.

ADMINISTRATIVE COST PMPM

The administrative cost PMPM is the second metric for analyzing administrative expenses because of the fixed cost nature of certain components of the administrative expense. The administrative cost PMPM was defined as follows:

$$\text{ADMIN PMPM} = \frac{\text{CLAIM ADJUSTMENT EXPENSES} + \text{GENERAL ADMINISTRATIVE EXPENSES}}{\text{CURRENT YEAR MEMBER MONTHS}}$$

WHERE:

CLAIM ADJUSTMENT EXPENSES: TITLE XVIII—MEDICARE (P.7, L.19, C.7)

GENERAL ADMINISTRATIVE EXPENSES: TITLE XVIII—MEDICARE (P.7, L.20, C.7)

CURRENT YEAR MEMBER MONTHS: TITLE XVIII—MEDICARE (P.30 GT, L.6, C.8)

ADMINISTRATIVE EXPENSE CATEGORIES

The administrative expenses reported on the Underwriting and Investment Exhibit Part 3 Analysis of Expenses page are categorized into 25 specific line items. We grouped these line items into five administrative expense categories to better illustrate the components of administrative cost incurred by the MAOs. The subcategories were selected to be intuitive groupings, as well as meaningful with respect to their relative magnitudes. The following descriptions outline each administrative expense category:

- Human capital: Administrative costs associated with the employment of MAO staff.
- Outsourcing: Administrative costs associated with functions outsourced to a third party.
- Operating expenses: Administrative costs associated with the day-to-day costs of running the MAO.
- Taxes and fees: Administrative costs associated with taxes and fees incurred by the MAO. We assigned payroll taxes to the human capital category. We assigned real estate taxes to the operating expenses category.
- Other expenses: Administrative costs for aggregate write-ins.

FIGURE 12: ADMINISTRATIVE CATEGORY DEFINITION

ADMINISTRATIVE EXPENSE BREAKDOWN		U&I EXHIBIT PART 3 EXPENSES (COLUMNS 3-4)
HUMAN CAPITAL	SALARIES, WAGES, AND OTHER BENEFITS	LINE 2
	BOARDS, BUREAUS, AND ASSOCIATION FEES	LINE 15
	INSURANCE, EXCEPT ON REAL ESTATE	LINE 16
	PAYROLL TAXES	LINE 23 .4
OUTSOURCING	AUDITING, ACTUARIAL, AND OTHER CONSULTING SERVICES	LINE 6
	OUTSOURCED SERVICES INCLUDING EDP, CLAIMS, AND OTHER SERVICES	LINE 14
OPERATING EXPENSES	RENT	LINE 1
	COMMISSIONS	LINE 3
	LEGAL FEES AND EXPENSES	LINE 4
	CERTIFICATIONS AND ACCREDITATION FEES	LINE 5
	TRAVELING EXPENSES	LINE 7
	MARKETING AND ADVERTISING	LINE 8
	POSTAGE, EXPRESS, AND TELEPHONE	LINE 9
	PRINTING AND OFFICE SUPPLIES	LINE 10
	OCCUPANCY, DEPRECIATION, AND AMORTIZATION	LINE 11
	EQUIPMENT	LINE 12
	COST OR DEPRECIATION OF EDP EQUIPMENT AND SOFTWARE	LINE 13
	COLLECTION AND BANK SERVICE CHARGES	LINE 17
	GROUP SERVICE AND ADMINISTRATION FEES	LINE 18
	REAL ESTATE EXPENSES	LINE 21
	REAL ESTATE TAXES	LINE 22
	INVESTMENT EXPENSES NOT INCLUDED ELSEWHERE	LINE 24

ADMINISTRATIVE EXPENSE BREAKDOWN		U&I EXHIBIT PART 3 EXPENSES (COLUMNS 3-4)
TAXES AND FEES	STATE AND LOCAL INSURANCE TAXES	LINE 23 .1
	STATE PREMIUM TAXES	LINE 23 .2
	REGULATORY AUTHORITY LICENSES AND FEES	LINE 23 .3
	OTHER (EXCLUDING FEDERAL INCOME AND REAL ESTATE TAXES)	LINE 23 .5
OTHER	AGGREGATE WRITE-INS FOR EXPENSES	LINE 25
EXCLUDED	REIMBURSEMENTS BY UNINSURED PLANS	LINE 19
	REIMBURSEMENTS FROM FISCAL INTERMEDIARIES	LINE 20

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Acknowledgments

The authors further acknowledge Chris Pettit, FSA, MAAA, principal and consulting actuary, and Luis Maldonado, FSA, MAAA, principal and consulting actuary, at Milliman, for their peer review and comments during the writing of this report.

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