The Future of Medicare Advantage: How Private Equity and Key Investments Can Drive Change

*By **Erin Laviola** of LevinPro HC*



LevinPro HC · Irving Levin Associates, LLC - Publisher
www.levinassociates.com · 51 Locust Ave Suite 202 New Canaan, CT 06840 · (203) 846-6800

Introduction

The future of health care in the United States is value-based care. The 2030 deadline set by the Centers for Medicare & Medicaid Services (CMS) – to shift all Medicare and most Medicaid beneficiaries from fee-for-service models to value-based care plans – is fast approaching.

Medicare Advantage is playing a crucial role in this transition. It's the most high-profile system utilizing value-based care models on a large scale today. The substantial growth of Medicare Advantage in recent years, boosted by retiring Baby Boomers, has made it a valuable target for investment.

Levin Associates spoke with Jonathan Bluth, Managing Director at Brown Gibbons Lang & Company and Todd Zigrang, President of Health Capital Consultants about opportunities for private equity in this space. The theme that arose was that private equity could have the strongest impact on Medicare Advantage by focusing on third-party vendors vital to the program – especially health risk assessment businesses and technology companies offering AI and data analytics solutions that providers can use.

"There are substantial opportunities to improve delivery of care in Medicare Advantage," says Bluth, "with several innovative services and software businesses effectively documenting severity, identifying quality gaps, and routing the appropriate funding to the providers delivering the highest acuity services."

"Private equity is known for being a disruptor. That's its hallmark. But private equity's role in Medicare Advantage is a double-edged sword," Zigrang says. "While it can inject capital for efficiency and innovation, the focus must remain on patient outcomes, not solely profit margins, both for sustainability purposes and in order to navigate the evolving regulatory enforcement landscape."

What is Medicare Advantage?

Medicare Advantage is an alternative to traditional Medicare. Health care plans are approved by Medicare but run by private companies. Most Medicare Advantage plans include prescription drug coverage and extra benefits but in many cases, patients are required to use only doctors and hospitals that are within their plan's network.

CMS pays Medicare Advantage organizations a fixed monthly amount per beneficiary to provide health care. This can result in cost savings or losses for the plan provider depending on the amount of care each patient actually receives.

As explained by the U.S. Government Accountability Office (GAO), the system incentives cost-effective and efficient care but "CMS oversight of these organizations is designed to ensure that they do not respond to this incentive by inappropriately restricting beneficiaries' access to care."

How prominent is Medicare Advantage?

Zigrang points out that one major reason why private equity firms may be interested in getting more involved with the Medicare Advantage ecosystem is the opportunity for stable revenue.

A March 2025 report from the Medicare Payment Advisory Commission (MedPAC), an independent agency established to advise the U.S. Congress on issues affecting the Medicare program, says 54% of all eligible Medicare beneficiaries, or 33.6 million people, were enrolled in Medicare Advantage plans in 2024. Enrollment is expected to grow to two-thirds of all Medicare beneficiaries by 2034, according to the Congressional Budget Office.

"Medicare Advantage is an attractive target because there is less revenue volatility," explains Zigrang. "The program is increasingly covering more Americans as the Baby Boomers become Medicare eligible, which provides stable demographics and consistent healthcare needs."

It's estimated that more than 10,000 people in the U.S. become eligible for Medicare every day, and according to the Census Bureau, all Baby Boomers will be age 65 or older by 2030. The growing number of retirees also contributed to a 7% increase in Medicare Advantage enrollment between 2023 and 2024.

Why has Medicare Advantage faced scrutiny?

Medicare Advantage has attracted scrutiny as of late:

- MedPAC noted that "higher Medicare Advantage payments due to coding differences have been under scrutiny for more than a decade."
- The Office of Inspector General concluded in 2024 that "taxpayers fund billions of dollars in overpayments to Medicare Advantage companies each year based on unsupported diagnoses for Medicare Advantage enrollees."
- A 2022 GAO report said "the Medicare program, which includes Medicare Advantage, is on GAO's High Risk List," and that "improper payments accounted for about 10% of total payments to Medicare Advantage organizations" in 2021.

Here's what's going on: In a traditional fee-for-service model, payments are made after a patient receives medical care. Therefore, it is abundantly clear how the funding from CMS is being used.

By comparison, in Medicare Advantage plans, payments are made in advance, usually on a per member per month basis. Patients are evaluated and a risk score is created based on all possible diagnoses for that person. The insurer receives a payment based on the care that this patient could potentially need. It's a prediction.

Let's say that during a health risk assessment, a patient is identified as having high blood pressure. This could result in a higher payment from CMS to account for the expected additional cost to provide treatment for the high blood pressure. However, if this person never seeks treatment for the condition, then this could be viewed as an extra or over-payment.

Ok, so what does all of this mean for private equity?

Health risk assessments are a critical component of Medicare Advantage plans. Clinicians typically visit patients in their homes and collect information about their health, potential risks and daily activities. Bluth says he believes there is substantial opportunity for private equity to invest in companies that provide these health risk assessments.

"What private equity does best in health care is taking a good clinical model and figuring out how to scale it nationally," Bluth says. "We need that in the context of Medicare Advantage, to be able to take patients who have high-acuity conditions that merit the premium payments, but then help them manage the spend and take the waste out."

Bluth argues that with private equity investment, more could be done to ensure that beneficiaries actually receive treatment. For example, if a health risk assessment identifies that a patient is at higher risk of diabetes, they should be automatically referred to a specialist.

"The criticism levied against these annual wellness visit health risk assessment companies is that their documentation is often based on insufficient evidence or poor quality claims data. Many of these companies do not have a continuity of care that allows them to schedule a visit to diagnose and initiate treatment for what they identify," Bluth explains.

"We need innovation in these annual wellness visits, like embedding mid-level practitioners into physicians' offices to foster compliant documentation, close quality measure gaps, and figure out more consistent ways to schedule diagnostics and follow-up specialist visits," continues Bluth. "There is still a huge opportunity for innovation and investment here, because if health risk assessment companies can deliver better quality coding and documentation, Medicare Advantage enables the right payments to be routed to the pro-

viders who need them the most."

Examples of deals involving health risk assessment companies, listed on LevinPro HC's proprietary database which tracks the sector, include:

- Private equity firm **Epilog Partners** acquired **Care Connectors Medical Group** in 2024. The financial terms were not disclosed.
- **CVS Health** acquired **Signify Health**, backed by private equity firm **New Mountain Capital**, for $8 billion in a deal announced in 2022.
- Private equity firm **Rubicon Founders** acquired a majority stake in **U.S. Medical Management, LLC**, later renamed **HarmonyCares**, in 2021. The financial terms were not disclosed.
- **Quest Diagnostics** acquired **Mobile Medical Examination Service** (MedXM) for $142 million in 2018.
- Private equity firm **Frazier Healthcare Partners**, acquired a majority stake in **Matrix Medical Network** for $418 million in 2016. Matrix is still part of Frazier's portfolio today.

What other opportunities are there for private equity in Medicare Advantage?

In addition to investments in provider groups, Bluth and Zigrang agree that private equity investors could be successful in targeting health technology companies and other third-party vendors that support Medicare Advantage plans.

"There are Insurtech companies, which look into the use of AI and other data analytics to support insurance plans," Zigrang offers as an example. (For more on how AI is shaping private equity investment in health care, see Levin Associates' whitepaper here).

"Private equity could invest more in the companies that provide software as services to help with documenting and stratifying the acuity of the population," Bluth says. "Medicare Advantage risk-sharing encourages providers to deploy analytics to identify cost outliers and route additional services to the populations that need them. Tools that identify quality measure gaps within specific patient populations or providers are becoming increasingly accurate and actionable."

Examples of deals involving tech companies, listed on LevinPro HC's proprietary database, include:

- Data platform **Innovaccer**, a portfolio company of **OMERS Private Equity**, has been expanding with support from venture capital and private equity investment. Innovaccer announced three acquisitions in 12 months: Cured in January 2024, Pharmacy Quality Solutions in March 2024, and Humbi AI in January 2025.

- **Cedar Gate Technologies**, a tech platform supporting value-based care providers, is owned by private equity firm **GTCR** and has expanded by acquiring software companies. Cedar Gate announced deals to acquire Enli Health Intelligence in January 2021, Deerwalk in December 2020, and Citra Health Solutions in June 2020.

Meanwhile, there appears to be fewer opportunities for private equity to invest directly in the Medicare Advantage insurance plans themselves due to consolidation. According to MedPAC, nearly 60% of the program's beneficiaries are enrolled in plans offered by three insurers:

- UnitedHealth Group says it serves 4.7 million people in value-based care models, including 80% of its Medicare Advantage members.
- Humana says 70% of its individual Medicare Advantage members are in value-based care plans.
- CVS Health, through its subsidiary **Aetna**, says more than 80% of its Medicare Advantage spending is with value-based care provider partners.

What are your predictions for Medicare Advantage and private equity?

Zigrang cautions that concerns about reimbursements could be a potential deterrent to investment, especially as healthcare costs rise. CMS reduced reimbursement rates for Medicare physicians by 3.37% in 2024, as reported by the Cancer Network.

That said, Zigrang says he is optimistic that private equity firms will be looking for more opportunities to invest in the Medicare Advantage ecosystem. Politics could be a motivating factor.

"The Trump administration was friendly to Medicare Advantage during his first term," says Zigrang. "And it doesn't hurt that Dr. Mehmet Oz, who was nominated to lead CMS, has previously said he's in favor of expanding Medicare Advantage."

Bluth adds that he expects a decrease in so-called "healthcare tourist investors." By that, he means private equity funds that have "dabbled" in health care but aren't specialists or experts in health care.

"I think we'll see fewer generalist private equity firms investing in Medicare Advantage businesses, but the folks who are truly committed to investing in transformative care innovation will thrive," Bluth predicts. "I think we're in the midst of a really exciting cycle in health care, and I think there's a massive opportunity to grow and scale these businesses."

Erin Laviola is a writer for Levin Associates.

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