

Key Points

- Medicare Advantage (MA) is a growing, multibillion dollar industry. With a rapidly aging population in the US, and therefore growing market for Medicare Advantage products, the MA sector has provided ample opportunity for investors seeking quick profits, be it through insurance plans, in-home health assessment companies, or brokerage and marketing firms.
- Private equity firms have found value in investing in the Medicare Advantage sector, as evidenced by their deal activity in this space from 2016-2023.
- Deal activity within the Medicare Advantage ecosystem reached a high in 2021, potentially buoyed by industry-friendly regulatory rollbacks for Medicare Advantage marketing that were implemented by the Centers for Medicare and Medicaid Services (CMS) under the Trump administration.
 - The majority of these investments have been in companies that operate within the senior insurance distribution market, such as insurance marketing and brokerage firms.
- Under the Biden administration, CMS has tightened Medicare marketing regulations, as well as proposed new rules regarding payment limits to brokers.
- Private equity dealmaking in Medicare Advantage has slowed since 2021, likely due to rising interest rates and the changing regulatory landscape. It remains to be seen how high interest rates and tightened regulations may slow down or even deter new investments over the next few years.
- While publicly traded mega-insurers appear to dominate the industry and bear much of the public and regulatory scrutiny around issues and scandals with Medicare Advantage, this report highlights how private equity-owned companies have been active participants within the Medicare Advantage ecosystem.
- Multiple private equity-owned and formerly private equity-owned Medicare Advantage companies have executed dividend recapitalizations, been involved in False Claims Act settlements, and come under scrutiny for their possible roles in the systemic problem of Medicare overpayments, which is costing taxpayers billions per year.
- Policymakers and regulators should continue to exercise vigilance over private equity's presence in the Medicare Advantage arena due to the risks that often accompany private equity ownership in healthcare. These include increased consolidation that can create anticompetitive issues and drive-up healthcare costs, business practices that cross the line into Medicare and Medicaid fraud, and highly indebted portfolio companies that engage in cost-cutting to meet their debt obligations, often at the expense of patients and workers.

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Introduction

Summary

Since the Medicare Modernization Act of 2003, private equity firms have capitalized on the profit opportunities that have come with the growth of Medicare Advantage (MA). Private equity investors have contributed to consolidation among MA plans by buying up and then selling smaller plans to mega-insurers, as well as acquiring marketing and brokerage companies that work to enroll Medicare beneficiaries into private plans. Firms have also acquired in-home health assessment and other types of companies that work to optimize risk scores so private Medicare Advantage plans can collect higher payments for their enrollees.

Multiple private equity-owned and formerly private equity-owned Medicare Advantage companies have executed dividend recapitalizations, been involved in False Claims Act settlements, and come under scrutiny for their possible roles in the systemic problem of Medicare overpayments, which is costing taxpayers billions per year.

Private equity deal activity within the Medicare Advantage ecosystem reached a high in 2021, potentially buoyed by industry-friendly regulatory rollbacks for Medicare Advantage marketing that took place during the Trump administration. The majority of the deals from 2019-2021 involved health insurance brokerage and marketing companies.

In the past three years, the Centers for Medicare and Medicaid services (CMS) has restored and issued new regulations regarding the marketing of Medicare Advantage plans. It has also proposed a new rule that if implemented, would limit payments to insurance brokers.

While the federal government is on the right course to address the biggest issues within the Medicare Advantage industry, more action is needed. In particular, federal and state agencies must have the tools and resources they need for robust enforcement of existing and future regulations, and agency leaders and staff must have the willpower to stand up to aggressive industry lobbying.

Regulators and lawmakers can also address private equity-specific issues in the Medicare Advantage sector through enhancing antitrust review of private equity deals, requiring joint liability for private equity owners and their portfolio companies, and limiting the extractive practice of dividend recapitalizations.



Background

What is Medicare Advantage?

Due to a rapidly aging population,¹ an increasing number of US residents are becoming eligible for Medicare coverage. This demographic trend creates higher demand for healthcare services, overall, and has also ushered in increased investor interest in the Medicare Advantage market.

Medicare Advantage is private Medicare coverage. While private Medicare plans have been around since the 1970s,² the Medicare Modernization Act of 2003 created greater financial incentives for private insurers to participate.³

Since then, Medicare Advantage enrollment has only increased. From 2007 to 2023, enrollment nearly quadrupled from 8 million to 31 million individuals. As of 2023, more than half (51 percent) of Medicare-eligible individuals are enrolled in Medicare Advantage versus traditional Medicare.⁴

How insurers profit from Medicare Advantage

Medicare Advantage plans have higher gross margins per enrollee than other types of private health insurance. In 2021, the average gross margin per enrollee in a MA plan was \$1,730 compared to \$745 for an enrollee in the individual private market.⁵

Insurers that offer Medicare Advantage plans receive a set rate per enrollee per year, with a bonus structure that distributes higher payments based on CMS quality ratings

and other factors.⁶ These bonus payments generate billions for the insurance industry. *KFF* reported in August 2023 that Medicare Advantage bonus payments would amount to at least \$12.8 billion in 2023, a 30 percent increase from 2022.⁷

The risk adjustment system built into the payment rate ensures a higher payment amount to the insurer for higher-risk enrollees. Therefore, specialized plans for individuals with chronic conditions or who are dually eligible for Medicare and Medicaid receive a higher rate per enrollee, making these dual-eligible and special needs plans attractive for some insurers to provide.⁸ It also means that insurers can game the risk adjustment system by colluding with providers or contracting with in-home health assessment companies to add more diagnostic codes to a patient's medical record in order to receive a higher payment.⁹ Also called "upcoding," this can cross the line into Medicare fraud if the added diagnoses are incorrect or exaggerated.

In 2022, the Government Accountability Office (GAO) issued a report on issues with Medicare Advantage. Citing an estimate from CMS that in 2021, "improper payments accounted for about 10 percent of total payments to [Medicare Advantage Organizations] and totaled about \$23 billion," the GAO voiced "significant concerns with CMS's oversight of the MA program."¹⁰ One former CMS employee told *NPR* in November 2022 that CMS had "failed to hold Medicare Advantage plans accountable" and expressed concerns about improper relationships

between the agency and the insurance industry it is supposed to regulate.¹¹

Agency transparency has even been a challenge for those seeking information about Medicare Advantage compliance. Recently, healthcare journalists reached a settlement in a Freedom of Information Act (FOIA) lawsuit in order to obtain audits from CMS that documented millions in overcharges by Medicare Advantage plans.¹²

Medicare Advantage overpayments have now become a highly publicized issue. In 2022, the *New York Times* reported on dozens of lawsuits and government investigations to argue that eight of the ten biggest Medicare Advantage insurers that offered MA plans had “exploited the program to inflate their profits by billions of dollars” via overbilling and Medicare fraud.¹³ Despite these widespread issues among many of the nation’s largest insurers, little government action has been taken. As explained in the article, “Congress gave [CMS] the power to reduce the insurers’ rates in response to evidence of systematic overbilling, but CMS has never chosen to do so.”¹⁴

The business of enrolling seniors in Medicare Advantage

Insurers have not been the only companies reaping profits from Medicare Advantage. The various players within the senior insurance distribution market, composed of brokerage firms, marketing companies, and independent agents, have much to gain from enrolling seniors in private Medicare plans.

Brokerage and marketing agencies provide the types of administrative, technology, and marketing support that licensed brokers need to facilitate enrollment of beneficiaries in Medicare Advantage plans. Both brokers and the agencies with which they work contract with multiple insurance companies and earn commissions and other types of payments when they enroll individuals in a particular plan. As the *Commonwealth Fund* explains, “[Independent agents and agencies] represent both plans and beneficiaries, with compensation tied exclusively to enrollments with contracted insurers. As a result, agents may find themselves choosing between their income and beneficiaries’ needs.”¹⁵

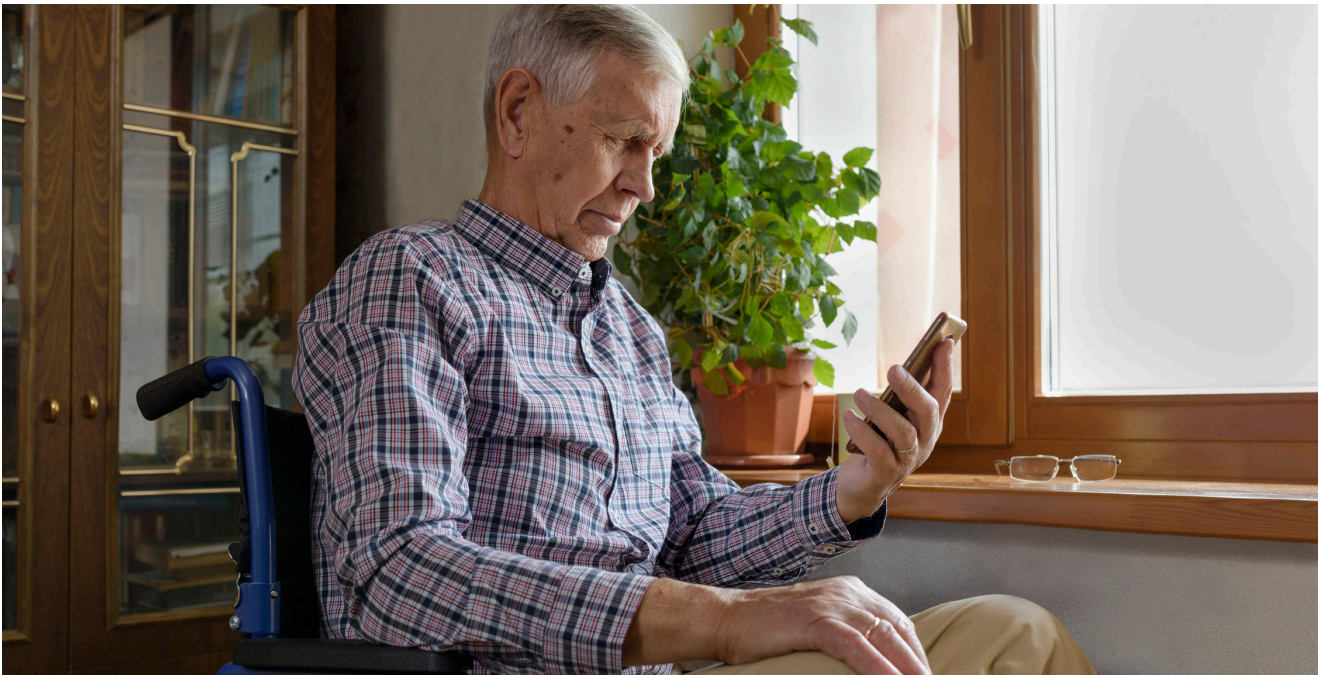
The Centers for Medicare and Medicaid Services (CMS) sets maximum broker commission payments, but



according to the Alliance for Community Health Plans, “there are no limits on creative add-on fees such as referral payments, marketing, administrative expenses, bonuses and incentives for completing a health risk assessment. As a result, brokers often collect more than double broker commission limits, totaling billions of dollars each year that could be used to enhance care or extend the Medicare Trust Fund.”¹⁶

These regulatory loopholes not only benefit brokers, but also the largest insurers that have the deepest pockets to pay the most to brokers and marketing organizations. Gary Taylor, a managing director and senior equity analyst at TD Cowen told *Modern Healthcare* in November 2023 that “ ‘The plans are paying billions of dollars to brokers and [field marketing organizations] for administrative costs, marketing costs and these other things...It’s completely unregulated. Surely, some of that is going into the pockets of the brokers, which circumvents the whole point of having regulated commissions.’ ”¹⁷

The Medicare Open Enrollment period runs from Oct. 15 to Dec. 7 each year and is a time in which beneficiaries can sign up for new plans and switch coverage, including switching from traditional Medicare to Medicare Advantage.¹⁸ During Open Enrollment, beneficiaries are flooded with mailers, TV ads, and phone calls from various insurers, marketers and brokers competing to enroll them.¹⁹



Dual-eligible beneficiaries, on the other hand, are permitted to change their Medicare Advantage coverage once per quarter. This has resulted in the dual-eligible population being at the receiving end of aggressive marketing campaigns year-round.²⁰

The profit-fueled mission to enroll individuals in Medicare Advantage plans has incentivized widespread deceptive and predatory marketing practices.

CMS began seeing sizeable increases in consumer complaints about the marketing of private Medicare products around 2018. In 2018 there were 6,700 complaints recorded. In 2019, this number nearly doubled to 12,700 and then jumped again to 15,500 complaints in 2020.²¹ By 2021, the number of complaints more than doubled from the year prior, to approximately 40,000.^{22, 23}

These complaints led to growing scrutiny of the private Medicare marketing industry from state insurance commissioners, legislators, and other stakeholders, prompting an investigation by the Senate Committee on Finance, chaired by Senator Ron Wyden (D-OR). In November 2022 the Committee released a scathing report detailing their findings, analyzing the commonalities among the growing number of complaints from Medicare beneficiaries and raising alarm about the rise of deceptive and predatory marketing practices in Medicare Advantage.²⁴

As detailed in the report, the Senate investigation

“found evidence that some [third party marketing organizations (TPMOs)], brokers, and agents are cold calling seniors, enrolling seniors and people living with disabilities in plans without their consent, and enrolling seniors in plans that don’t meet their needs. Most troubling, it appears that vulnerable individuals with cognitive impairments and dual eligibility are being targeted.”²⁵

Other examples of documented issues in the report include the use of marketing materials that were made to look like official correspondence from federal agencies, as well as “the use of ‘Medicare’ in the naming and branding of marketing companies to suggest that a marketing company is representing the Medicare program.”²⁶ Some TPMOs also used misleading television advertisements with celebrities in order to get seniors to call a hotline and be connected to a broker.²⁷

The 2022 Senate report tied the massive spike in complaints to regulatory rollbacks of Medicare Advantage marketing rules and less oversight, overall, of the Medicare program during the Trump administration.²⁸ As will be explored in the next section, these regulatory rollbacks may have contributed to increased private equity investments in the Medicare Advantage marketing and brokerage space.

Drivers and deterrents of private equity investment in the Medicare Advantage ecosystem

Private equity firms have been investing in various types of companies within the Medicare Advantage sector for decades, including in Medicare Advantage plans themselves.

Following the Medicare Modernization Act of 2003, private equity firms have played a role in facilitating consolidation of early-stage Medicare Advantage carriers, especially ones focused on dually eligible²⁹ populations. These health plans may go public through an IPO or be sold to large, publicly traded insurance companies.³⁰

Although there are still private equity-owned Medicare Advantage plans (see Appendix A), the Medicare Advantage insurance market is highly concentrated, with publicly traded mega-insurers currently having the greatest market power. As of 2023, UnitedHealthcare had 29 percent of Medicare Advantage enrollment, Humana had 18 percent, BCBS plans had 14 percent, and CVS Health (which purchased Aetna in 2018) had 11 percent.³¹

As such, there are fewer opportunities for private equity firms to penetrate the insurance carrier market.

Instead, the primary opportunities for private equity investors in the Medicare Advantage sector today are in other types of companies that can profit from the growth of Medicare Advantage enrollment, such as health IT companies that specialize in data analysis, risk adjustment and outcomes monitoring (“insurtech” companies), managed care platforms, primary care services that contract with Medicare Advantage plans, in-home health assessment companies, and insurance marketing and brokerage firms. Since 2016, the majority of private equity investments in the Medicare Advantage sector have been in insurance marketing and brokerage companies.³²

See Appendix A for a list of select private equity-owned companies in the Medicare Advantage sector.

TABLE 1: SELECT LIST OF PRIVATE EQUITY-OWNED OR BACKED MEDICARE ADVANTAGE CARRIERS THAT HAVE GONE PUBLIC OR SOLD TO LARGE INSURERS.

Each of the listed companies had a dual-eligible focus or segment at the time of its sale.

MEDICARE ADVANTAGE CARRIER	FORMER PE INVESTORS	CURRENT STATUS
Alignment Healthcare	Durable Capital Partners, Fidelity Management & Research, T. Rowe Price, Warburg Pincus, General Atlantic, CRG, and Ascension Ventures	IPO in March 2021 (NASDAQ: ALHC)
HealthSun	Summit Partners	Sold to Anthem (NYSE: ANTM) in 2017
MMM Healthcare	Bain Capital, Summit Partners, The Straus Group	Sold to Anthem (NYSE: ANTM) in 2021
Aveta, Inc.	The Straus Group	Sold to UnitedHealth Group (NYSE: UNH)
Senior Whole Health	TA Associates, New Capital Partners, Flexpoint Partners, Council Capital, Noro-Moseley Partners, SSM Partners, Wellfleet Capital Partners	Sold to Magellan Health (NASDAQ: MGLN) in 2017

Drivers and deterrents of private equity investment in the Medicare Advantage ecosystem

There are multiple drivers behind private equity investment in the Medicare Advantage ecosystem, and especially within the Medicare Advantage brokerage and marketing subsector.

Aging US population

First, an aging population means there is an absolute increase in the number of Medicare-eligible individuals each year. As of 2020, 55.8 million people in the US were age 65 or older,³³ and this number is steadily rising. The 65-and-over group is projected to reach 80 million people, or 1 in 5 Americans, by 2040.³⁴

Growing enrollment in Medicare Advantage

On top of a growing consumer base for Medicare, an increasing number of individuals are choosing Medicare Advantage over traditional Medicare each year. In 2023 for the first time, the percentage of the Medicare-eligible population that has opted-in to private Medicare Advantage coverage is at 51 percent.³⁵ That means there are still millions of people who can be persuaded into switching from traditional Medicare to private plans, as well as millions of Medicare Advantage plan members who are ripe for marketing campaigns from competitors.

Demand for insurance marketing

Insurers have been intensely competing for Medicare Advantage enrollees in recent years,³⁶ which helps drive business for insurance brokerage and marketing firms and other third-party organizations that can help facilitate enrollment in MA plans. While the insurance carrier market is already heavily concentrated among publicly traded insurance giants,³⁷ insurance brokerage and marketing businesses offer a space for private equity investors to penetrate more easily.

Opportunities to gain market power through consolidation

In the insurance brokerage space, opportunities for creating value through consolidation are also attracting private equity interest.³⁸ Further, insurance brokerage firms are not capital intensive, tend to have free cash flow, and are subject to less regulation than insurance carriers.³⁹ Together these factors make it an attractive space for

investors to use the typical short-term, debt-funded buy-and-build private equity strategy to make quick, outsized profits.

Industry friendly regulations and regulatory loopholes

Industry friendly regulations and regulatory loopholes might also be driving private equity investments. Under the Trump administration, CMS rolled back multiple Medicare Advantage marketing regulations, with the combined effect of reducing restrictions placed on Medicare Advantage insurers and marketers and thereby lowering protections for consumers.⁴⁰ As discussed in the next section, these rollbacks coincided with a surge in private equity investment activity in brokerage and marketing companies specializing in privatized Medicare products such as Medicare Advantage plans.

In addition to these rollbacks, there are also loopholes that make it possible for brokers and agents to circumvent maximum commission rules, sometimes allowing for brokers to make twice as much as the set limit.⁴¹ Such loopholes may also play a role in incentivizing investors to acquire Medicare Advantage-specialized brokerage and marketing firms.

Changing regulations may deter or slow down new investments

While the regulatory landscape was relatively friendlier to the Medicare Advantage industry under the Trump administration, the Biden administration is cracking down. CMS has issued new Medicare marketing regulations,⁴² including a provision that requires review of all prospective television advertisements,⁴³ as well as a new audit process to help recover improper risk adjustment payments made to Medicare Advantage plans.⁴⁴ In November 2023, the administration also proposed a new rule that aims to address overcompensation and contract terms for agents, brokers, and third-party marketing organizations that have led to individuals being steered into plans that are not in their best interest.⁴⁵

The next section analyzes private equity deals in the Medicare Advantage sector since 2016 in the context of this changing regulatory landscape.

Overview of private equity deals in the Medicare Advantage Sector: 2016-2023⁴⁶

There were 80 private equity-backed growth investments, leveraged buyouts, and add-on acquisitions (where a private equity firm acquires a company through a platform it already owns) in the Medicare Advantage sector from 2016 to 2023. 45 deals (56.3%) were add-on acquisitions to platform companies. Integrity Marketing Group, which is currently minority owned by private equity firms HGGC, Harvest Partners, and Silver Lake Capital, accounted for 28 (62%) of add-on acquisitions during this time frame.

The busiest years for dealmaking were 2019 and 2021, with a lull in 2020 (possibly due to the pandemic). The busy dealmaking years correspond with the period in which Medicare marketing regulations had been dialed back.⁴⁷

Of the 49 deals identified from 2019-2021, 28 (57 percent) involved insurance brokerage and marketing companies.

Private equity dealmaking began to slow down in 2022, and 2023 has seen 66 percent fewer Medicare Advantage deals than in 2022, and 79 percent fewer deals than 2021. This decrease is likely due to rising interest rates that have made obtaining lending for debt-financed deals more challenging and has impacted private equity dealmaking across industries. It may also be related to the increased scrutiny of Medicare Advantage marketing practices followed by a tightening of marketing regulations that were finalized in April 2023⁴⁸ after the skyrocketing increase in complaints from consumers.⁴⁹

FIGURE 1: PE-BACKED MEDICARE ADVANTAGE INVESTMENTS BY DEAL TYPE: 2016-2023

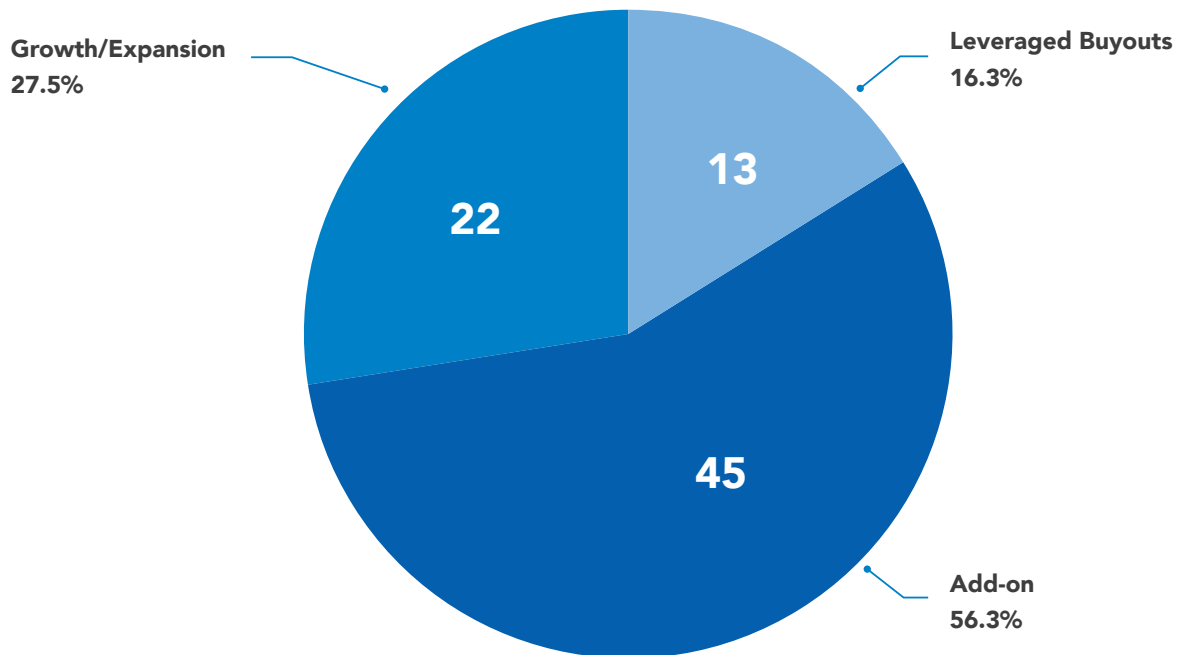
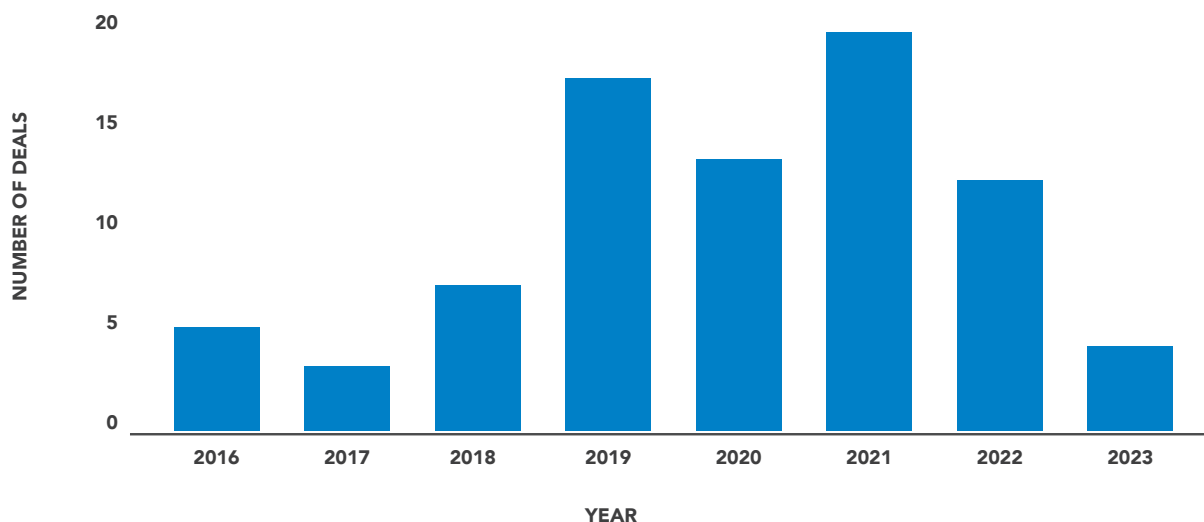


FIGURE 2: NUMBER OF PE-BACKED MEDICARE ADVANTAGE DEALS PER YEAR, 2016-2023



It remains to be seen whether private equity dealmaking in Medicare Advantage will bounce back to its peak levels in 2021, or if high interest rates and a new regulatory landscape will deter new investments.

Risks of private equity investments in Medicare Advantage companies

There are well-documented risks seen with private equity investments in the healthcare sector. Many of these risks stem from the common private equity strategy of pursuing outsized returns over relatively short periods of time – there are few ways to achieve such returns without impacting operations in ways that harm patients and workers.

There is substantial overlap between the profit-seeking behavior exhibited by private equity owners of healthcare companies and fraudulent activities targeted by the False Claims Act (FCA), which deals with instance of Medicare and Medicaid fraud. A number of private equity-owned portfolio companies have settled allegations of FCA violations in recent years,⁵⁰ including two of the companies—Medical Card System and Aveta, Inc. – that will be discussed in this report.

Private equity firms are also more likely to use debt to fund their investments, leading to unwieldy debt service obligations that can divert money away from operations.

Some private equity investors have even loaded debt onto their companies to pay themselves dividends, a process known as a dividend recapitalization. Dividend recapitalizations provide a way for firms to make a quick profit without investing in operating improvements of their portfolio company and can further increase debt service obligations and cost-cutting practices.⁵¹

And finally, private equity investment strategies can lead to anticompetitive concerns. The private equity buy-and-build roll up strategy that uses a platform company to buy up smaller companies often involves transactions that fall below the value threshold that requires antitrust review. As such, firms can quietly consolidate companies within a sector with little oversight, creating potential anticompetitive or even antitrust issues, with implications for quality and cost of patient care.

The next section of this report will examine three private equity-owned and one formerly private equity-owned company operating in the Medicare Advantage sector, highlighting some of the issues these companies have faced under their private equity-ownership.

See Appendix A for a longer list of select private equity-owned companies within the Medicare Advantage ecosystem.

Highlighted Companies

GlobalHealth/Medical Card System

Current PE Owner: Kinderhook Industries

GlobalHealth is a health maintenance organization (HMO) offering Medicare Advantage and other types of plans in Oklahoma and Texas. Private equity firm Kinderhook Industries acquired it in February 2014 for an undisclosed amount.⁵²

In June 2021, GlobalHealth acquired a HMO based in Puerto Rico, Medical Card System (MCS).⁵³ Puerto Rico has the highest percent of Medicare Advantage enrollees in the US at 94 percent.⁵⁴ At the time of the acquisition, MCS had more than 185,000 Medicare Advantage members in Puerto Rico, and was the seventh largest dual-eligible health plan in the United States, according to Kinderhook Industry's press release announcing the acquisition.⁵⁵

Prior to being acquired by GlobalHealth, MCS was owned by private equity firms JLL Partners and Amulet Capital Partners, who purchased it in 2004 and extracted \$175 million via a dividend recapitalization in 2010.⁵⁶ **Dividend recapitalizations** are transactions by which private equity firms add debt to their portfolio companies' balance sheets in order to collect dividends for themselves. The added debt can place pressure on companies to cut costs and increase revenues in order to service the debt.

While under the ownership of JLL Partners and Amulet Capital Partners, MCS allegedly violated the False Claims Act and Anti-Kickback Statute. In 2022, the U.S. Attorney for the District of Puerto Rico and Office of the Inspector General (OIG) announced a settlement agreement in which MCS would pay \$4.2 million dollars for these alleged violations. According to press release announcing the settlement,

"MCS distributed 1,703 gift cards to administrative assistants of providers at an aggregate cost of \$42,575 to induce the assistants to refer, recommend, or arrange for enrollment of 1,646 new Medicare

beneficiaries to an MCS Medicare Advantage plan. Those new Medicare beneficiaries resulted in associated premium payments received by MCS Advantage for the new members."⁵⁷

MCS Advantage did not admit liability as part of the settlement agreement.

MMM Healthcare/Aveta, Inc.

Former PE owner: The Straus Group

MMM Healthcare is an insurer that offers Medicare Advantage plans in Puerto Rico. Private equity firm the Straus Group (TSG) acquired it for \$200 million in 2004,⁵⁸ and it became a subsidiary of parent corporation, Aveta Inc, which was also owned by TSG.⁵⁹ As of 2005, Daniel E. Straus, the controlling member of TSG, was the Chairman of Aveta's Board of Directors⁶⁰ and held a 30 percent stake in the company,⁶¹ as well as controlling stakes in multiple of its subsidiaries.⁶²

According to PitchBook, Aveta's owners executed three dividend recapitalizations in less than three years. Two of these were in 2010, resulting in an estimated \$460 million in new debt.⁶³ In March 2012, Aveta executed another \$550 million dividend recapitalization.⁶⁴ Later that year it was sold to Collaborative Care Holdings,⁶⁵ a subsidiary of UnitedHealth Group.⁶⁶ MMM Healthcare itself was not part of the sale, as the sale did not include all of Aveta's subsidiaries.

In 2011, an executive named Jorge Valdez who worked for two of Aveta's health plans, MMM Healthcare and PMC Medicare Choice, filed a whistleblower lawsuit alleging False Claims Act violations. Specifically, he alleged that the health plans had overcharged Medicare between \$300 and \$350 million per year from 2007 through 2010 through manipulation of risk scores.⁶⁷

At the time of the lawsuit, MMM Healthcare and PMC Medicare Choice, both still owned by Aveta, covered

197,000 elderly and special needs patients in Puerto Rico.⁶⁸ Although the suit was filed in 2011, it remained under seal until February 2014.⁶⁹

In its 2014 investigative piece on the whistleblower suit, the *Center for Public Integrity* reported that, “Aveta’s Puerto Rico health plans and MSO are now operated by InnoVaCare Health Solutions, according to the firm’s website. InnoVaCare has the same Fort Lee, N.J. office and phone number as Aveta. Several members of the Aveta board, including founding principal investor Daniel E. Straus, have been affiliated with both companies.”⁷⁰ According to PitchBook, InnoVaCare Health acquired MMM Healthcare “in approximately September 2015.” No press releases in 2014 or 2015 announcing the acquisition could be located online.⁷¹

Reflecting the complexity of MMM Healthcare’s ownership structure and its history, the whistleblower lawsuit came to have many defendants, including Aveta, Inc, InnoVaCare, Inc., MMM Healthcare, MMM Holdings, and UnitedHealth Group.⁷²

Valdez and Aveta, Inc. settled the FCA lawsuit in 2020.⁷³ Aveta, Inc. was a subsidiary of UnitedHealth Group (UNH) at the time,⁷⁴ and as of its last annual filing was still listed as a subsidiary with UNH.⁷⁵

InnoVaCare Health, which owned MMM Healthcare until 2021 when it sold it to Anthem,⁷⁶ is currently headquartered in Florida and is owned by Bain Capital and Summit Partners.⁷⁷

Matrix Medical Network

Current PE owner: Frazier Healthcare Partners

Current minority owner: Modivcare (Nasdaq: MODV)

Matrix Medical Network is an in-home health assessment company that contracts with insurers.⁷⁸ It is currently majority owned by private equity firm Frazier Healthcare Partners which acquired its 60 percent stake in a \$416 million leveraged buyout in 2016.⁷⁹ Modivcare, a publicly traded company that provides a range of support services and solutions to insurers, as well as non-emergency medical transportation (NEMT),⁸⁰ has a minority stake in Matrix.⁸¹

From 2011 to 2014,⁸² private equity firm Welsh, Carson, Anderson & Stowe (WCAS) owned Matrix. The press release announcing the acquisition in September 2011 called Matrix “the leading provider of risk-adjustment medical assessment services to Medicare Advantage” and touted that Matrix had “pioneered the use of prospective medical assessments for risk adjustment purposes.”⁸³

The in-home health assessment business model developed alongside the growth of Medicare Advantage to help insurers increase their reimbursements through higher risk scores. Insurers contract with these companies in order to identify medical conditions for an enrollee that could raise the individual’s risk score, and therefore increase the reimbursement to the plan. The risk adjustment score is based on expected, rather than actual, costs to the plan.⁸⁴

The in-home visits are for assessment and screening purposes only, and treatment is not provided for existing or new diagnoses. Many health plans advertise these types of visits as a free benefit. As reported by the *Center for Public Integrity*, some individuals enjoy the attention of a home visit, while others become suspicious and annoyed.⁸⁵

Risk adjustment gaming has been a major issue with Medicare Advantage, and companies like Matrix play a role in helping insurers legally game the risk adjustment system.

Some companies even cross the line into fraud, resulting in billions of dollars of government overpayments. While Matrix Medical Network has not been named a defendant in any False Claims Act (FCA) lawsuits, its owners have settled past FCA claims. ModivCare recently agreed to pay \$3.75 million to resolve False Claims Act allegations for its NEMT business segment,⁸⁶ and one of Frazier Healthcare Partners’ portfolio companies in the dental industry reached an \$8.5 million settlement in 2019 for alleged FCA violations.⁸⁷

The burgeoning cottage industry of in-home health assessment companies faced scrutiny in 2014, and CMS even proposed banning these types of home visits paid for by insurers.⁸⁸ However, regulators caved under industry pressure,⁸⁹ and today the industry continues to be an

important part of the Medicare Advantage ecosystem. However, as federal regulators ramp up their attention to fraud and waste in the Medicare Advantage sector,⁹⁰ investors may be feeling bearish about the in-home assessment industry.

In its August and November 2023 investor presentations, Modivcare highlighted the “unrealized Value for Future Monetization of Matrix Equity Investment,”^{91, 92} suggesting it may be selling its stake soon.

Integrity Marketing Group

Current PE investors: HGGC, Harvest Partners, Silver Lake

Integrity Marketing Group is an insurance brokerage and marketing firm which is majority owned by its founders, management, and employees.⁹³ However, it also has multiple private equity minority investors that have helped fund its ravenous acquisition activity. Harvest Partners is its largest private equity investor, followed by private equity firm HGGC. Silver Lake also became a minority investor in 2021 through a \$1.2 billion strategic investment.⁹⁴

According to HGGC’s website, Integrity “is the nation’s leading independent marketer and distributor of life and health insurance products focused on serving Americans. Integrity serves nearly 5 million clients by helping more than 300 insurance carrier partners place almost \$3 billion in premium annually.”⁹⁵ Much of its business is specialized in the senior insurance market, including health and life insurance.⁹⁶ The company reportedly works with 275,000 independent agents throughout the US.⁹⁷

Integrity received its first private equity growth equity investment in 2016 from HGGC.⁹⁸ The next few years saw a flurry of acquisition activity, and by July 2018 Integrity Marketing Group had already made 12 add-on acquisitions, reportedly tripling its revenue.⁹⁹ According to PitchBook, Integrity Marketing Group has made 28 add-on acquisitions since 2016 of agencies that sell Medicare Advantage plans, and nearly 150 total add-ons including insurance agencies and brokerages that do not deal in Medicare Advantage offerings.¹⁰⁰ These acquisitions have primarily been sponsored by HGGC, Harvest Partners, Silver Lake, and GIC, a Singapore sovereign wealth fund.¹⁰¹

One of Integrity’s add-ons included Family First Life, which it acquired for an undisclosed amount in 2019.¹⁰² In 2021, Family First received a cease and desist letter from the Federal Trade Commission (FTC) based on the FTC’s conclusion that it was unlawfully misrepresenting how much income agents would make with the company.¹⁰³

The sheer number and pace of Integrity’s acquisitions warrants further scrutiny. As discussed in a previous section of the report, consolidation within the Medicare Advantage industry has given a leg up to large publicly traded insurers since they have deeper pockets for paying bonuses to brokerage firms. Smaller and nonprofit health plans have been losing out to the big insurers who can pay more for aggressive marketing campaigns, not just by losing out on new customers, but also by losing existing customers to the big insurers who can pay brokers more.^{104, 105}

Consolidation within the brokerage industry may not only contribute to anticompetitive impacts such as higher broker payments and marketing costs for Medicare Advantage insurance plans (which are in turn subsidized by taxpayer dollars), but it could push out smaller agencies and insurers who cannot pay to compete in an ecosystem of highly consolidated and well-resourced companies.

Conclusion & Policy Solutions



Medicare Advantage is a growing, multibillion dollar industry. With a rapidly aging population in the US, and therefore growing market for Medicare Advantage products, the MA sector has provided ample opportunity for investors seeking quick profits, be it through insurance plans, in-home health assessment companies, or brokerage and marketing firms. Private equity firms have found value in investing in the Medicare Advantage sector, as evidenced by their deal activity in this space from 2016-2023.

While publicly traded mega-insurers appear to dominate the industry and bear much of the public and regulatory scrutiny around issues and scandals with Medicare Advantage, this report highlights how private equity-owned companies have been active participants within the Medicare Advantage ecosystem. Private equity investors have contributed to consolidation among MA plans by selling smaller plans to mega-insurers, as well as acquired marketing and brokerage companies that enroll Medicare beneficiaries into private plans. Firms have also acquired in-home health assessment and other types of companies that work to optimize risk scores so private Medicare Advantage plans can collect higher payments.

While private equity deal activity in the Medicare Advantage sector has slowed since 2021, likely due to a mix of factors including rising interest rates that impede deal-making, regulatory changes, and increased scrutiny over the sector as a whole, it is important for policymakers and regulators to exercise vigilance over private equity's presence in the Medicare Advantage arena due to the risks that have sometimes accompanied private equity ownership in healthcare. These include increased consolidation that can create anticompetitive issues and drive-up healthcare costs, business practices that cross the line into Medicare and Medicaid fraud, and highly indebted portfolio companies that engage in cost-cutting to meet their debt obligations, often at the expense of patients and workers.

On top of private equity-specific issues, regulatory rollbacks and loopholes, coupled with poor enforcement of existing regulations, have enhanced profit-making opportunities for private equity-owned and non-PE-owned Medicare Advantage companies alike, often in ways that have harmed Medicare Advantage beneficiaries and taxpayers. These include fraudulent and deceptive

marketing, robocalls and telemarketer harassment, Medicare overbilling and fraud, and overpayments to brokers and agents via regulatory loopholes.

The good news is that the federal government is paying attention. Led by Senator Wyden (D-OR), the Senate Finance Committee has kept up the momentum in its scrutiny of Medicare Advantage plans and marketing issues by holding a Senate hearing on these issues in October 2023.¹⁰⁶ Dozens of legislators, led by Reps. Jayapal, DeLauro, and Schakowsky, also called on the president, CMS, and Department of Health & Human Services in February 2023 to address issues with the Medicare Advantage program.¹⁰⁷

Increased scrutiny has led to government action. Under the Biden administration, CMS issued and implemented new rules to more effectively regulate Medicare Advantage plans, brokers, and marketers, including:

- Requiring CMS review of all prospective television advertisements.¹⁰⁸
- Requiring insurance companies to have greater oversight over the third parties with which they contract.¹⁰⁹
- Requiring that the relevant insurer must be identified in the advertisement of specific plans.¹¹⁰
- Prohibiting the marketing of plan benefits in areas where those benefits are not available.¹¹¹
- Updating the audit process to help recover improper risk adjustment payments made to Medicare Advantage plans.¹¹²

And, in November 2023, CMS proposed a new rule that aims to address overcompensation and contract terms for agents, brokers, and third-party marketing organizations that have led to individuals being steered into plans that are not in their best interest.¹¹³ If implemented, this rule could also address anticompetitive concerns regarding mega-insurers having the leg up with brokerage firms due to their deeper pockets.¹¹⁴

The bad news is that many of these new and potential regulatory improvements are tied to CMS rule changes, which can be rolled-back under a new presidential

administration that is more vulnerable to industry lobbying and pressure. In addition, these rules changes do not come with a guarantee of robust enforcement, which requires substantial funding and human resources at CMS and other federal and state agencies tasked with monitoring and enforcing the rules.

The regulatory improvements under the Biden administration are a critical step forward, but sufficient funding for robust enforcement is needed to protect Medicare Advantage beneficiaries, taxpayers, and other stakeholders impacted by troubling and even illegal business practices that have proliferated in recent years.

In addition to the policy changes being proposed and implemented under the Biden administration, PESP has private equity-specific recommendations that address some of the common issues seen with private equity investments in healthcare companies:

1. Prohibit or Limit Dividend Recapitalizations

– Require private equity and other corporate owners to refrain from indebting newly acquired companies in order to pay shareholder dividends. To the extent dividend capitalization is allowed, limit dividends to a percentage of profits.

2. Joint Liability for Portfolio Companies – Require joint and several liability for private equity owners and portfolio companies. This would mean that if portfolio companies were sued for violations of the False Claims Act or other alleged illegal behaviors, the private equity owner could be held liable as well.

3. Greater Antitrust Enforcement - Because private equity rollups and mergers typically fall under the radar of antitrust regulation,¹¹⁵ the Federal Trade Commission (FTC) and the Department of Justice (DoJ) should scrutinize healthcare deals involving private equity firm owners even if individual deals do not meet the typical threshold to trigger FTC review.

Appendix A – select list of PE-owned companies within the Medicare Advantage sector

COMPANY	DESCRIPTION	PE FIRM(S)	NUMBER OF EMPLOYEES
Integrity Marketing Group	insurance brokerage and marketing group	Minority owned by Harvest Partners, HGGC, Silver Lake	5,000
AmeriLife Group	health insurance distribution and marketing	Genstar Capital, Thomas H. Lee Partners	1,800
Benefytt Technologies	health insurance distribution platform and marketing group	Madison Dearborn Partners	855
InnovaCare Health	value-based provider and payer organization	Bain Capital, Ergo Partners, Summit Partners	259
The Hilb Group	insurance brokerage and marketing group	Carlyle Group	2,000
AllyAlign Health	offers Medicare Advantage plans for senior living communities	New Enterprise Associates, Heritage Group, Health Enterprise Partners, Oak HC/FT, Town Hall Ventures, Link-age, Lorient Capital Management	149
Matrix Medical Network	partners with Medicare Advantage plans to conduct in-home health assessments for plan members	Frazier Healthcare Partners, ModivCare	5,000
Global Health	Health Maintenance Organization (HMO) that offers group health plans, including Medicare Advantage plans; owns Medical Card System, which offers Medicare Advantage plans in Puerto Rico	Kinderhook Industries	120
Spring Venture Group	insurance brokerage and marketing group specializing in digital direct-to-consumer sales	Corsair Capital, Five Elms Capital	1,227
Palm Medical Centers	Primary care provider focused on value-based care and Medicare population	MBF Healthcare Partners	500
Better Health Group	Value-based primary health physician group that partners with Medicare Advantage plans	Kinderhook Industries	400

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