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## With their Employer-Sponsored Financial Wellness Platform, medZERO Aims to Make Healthcare More Affordable for All



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 CEOCFO Magazine

**"medZERO is an employer-sponsored financial wellness platform offering zero interest financing which enables employees to get care now and pay over time, ensuring medically related out of pocket costs are covered which leads to happier, healthier and more productive employees." Craig Froude**

**CEOCFO: *Mr. Froude, what is medZERO?***

**Mr. Froude:** medZERO, based in Portland, Ore., is a fintech company designed to make healthcare accessible, affordable and equitable. The employer-sponsored financial wellness platform offers zero interest financing enabling employees to get care now and pay over time, ensuring medically related out of pocket costs are covered which leads to happier, healthier and more productive employees.

**CEOCFO: *How does it work?***

**Mr. Froude:** Medical expenses continue to increase in the US and healthcare is becoming more and more unaffordable, even for those with good jobs and health insurance. We have created a platform that allows employees to have access to on demand funds for qualified medical expenses.

The average deductible for employees with health insurance is about \$3,200. This means the average family must pay \$3,200 before their health insurance kicks in and even then, insurance will only pay a portion of the total bill. Unfortunately, 60% of Americans cannot come up with \$1,000, much less \$3,200 cash, without borrowing or having to sell assets. This is a huge disconnect between the financial exposure and the actual assets that individuals have. So often people are forced to either defer care, even though they have "quality" health insurance, or they end up defaulting on their bills or borrowing from a high interest rate lending source.

Over 50 billion dollars were written off by hospitals last year as uncollectible and over 67% of all bankruptcies in the US are driven by medical debt.

**CEOCFO: *With your plan, would an employer have health insurance, and this would be in addition to it, or might this be instead of, or might that be both?***

**Mr. Froude:** We supplement the insurance that the employer offers. Because healthcare costs are increasing so dramatically, employers paid about \$22,000 per employee in 2021 just for their portion of healthcare premiums, according to the Kaiser Family Foundation. The problem is that because healthcare costs keep increasing, to make it affordable for the employers they also increase the employee responsibility – which is why deductibles and out of pocket expenses keep rising.

We would enable the employee to have access to interest free, no fee funds, enabling them to cover that \$3,200 and then repay that loan to medZERO over time through automatic payroll deductions. The employee does not have to worry about making the payments directly.

**CEOCFO: *What type of expenses do you cover?***

**Mr. Froude:** We cover any qualified medical expenses. Many people think about hospitals, but we also cover prescription optometry, dental, etc.

**CEOCFO: *How does it work? What is the business model?***

**Mr. Froude:** First, most employers have high deductible plans, so they are aware that many of their employees are struggling to repay or access the healthcare systems, because of the large out of pocket cost. We engage with the employer as an additional benefit they can offer their employees. Employers then communicate to employees that they have access to these on-demand funds. It is very simple. You would download the medZERO app, then we would communicate your spending limit. In most cases it is about \$2,500. We will typically lend up to 5% of an employee's annual salary. For example, if you are making \$50,000 you would have access to \$2,500 of funds from medZERO.

So, say you are at the doctor for a hip replacement, they might offer you a 5 percent discount for pre-payment of the patient's portion of the procedure expense. Instead of putting it on a high-interest credit card, you open the medZERO app, and we create what is called a virtual Mastercard. It is a one-time use Mastercard, for that expense only. It ensures that it is a qualified medical expense. Then the app asks, "How much would you like to borrow." You chose an amount, give the Mastercard number to the provider and voila, your provider gets paid right away. The payment plan, for that amount of money, would probably be 12 months with no interest and no fees which works out to \$43 per paycheck.

One of the other benefits that we have is, not only have you saved 5% up front on that by pre-paying, but in addition to that, we will take the dollars from your paycheck, and we will route those dollars through your Health Savings Account if you have one. An HSA is a tax advantaged vehicle, meaning that the dollars that go in there are pre-tax, not post-tax. The reality is that you are going to save whatever your tax rate is, 25 or even 30 percent. Therefore, you are saving another 30 percent on top of the 5 percent because you are using a Health Savings Account and using pre-tax dollars, as opposed to post-tax dollars. Furthermore, a traditional Visa, or some other credit program might charge as much as 22 percent.

**CEOCFO: *How long has medZERO been available?***

**Mr. Froude:** As a company, we have been around for a few years. The product was launched in December 2021, and we have about five customers already.

**CEOCFO: *Do you find that people are using the program just because they can, as opposed to needing it, and does it matter for you?***

**Mr. Froude:** There are probably 2 answers to that. Number one is because of the tax savings. The HSA is one of the most tax advantaged vehicles out there, employees can invest those dollars in a variety of different vehicles for savings, and there is no tax on withdrawals if you use it for a qualified medical expense.

We encourage people to not use the dollars in their HSA account if they don't need to, but let those dollars grow over time, and compound, so that when they retire, they will have enough money to afford healthcare in retirement. Fidelity believes you will need at least \$250,000 dollars to pay your medical expenses post retirement, so you should not be using those dollars now. It's better to let them grow. We would recommend, unless you are contributing the full amount, because there is a limit of what you can contribute to an HSA, you should use medZERO, regardless, because there are no fees and no interest, and you get that tax advantaged treatment, while letting your current HSA dollars grow.

Number two, we are finding, as we have rolled this out, people have been saying, "Oh my gosh, I have been putting off getting my knee fixed or repaired, because I could not afford the \$2,500 deductible." One mother told us her children needed dental work she could not afford until medZERO came in. Therefore, I think that we are both a smart financial plan for employees and employers, and a great benefit for employers to offer. At the same time, we fill a huge need, because we know that healthcare is becoming more unaffordable for many people.

**CEOCFO: *How do you get a foot in the door to talk with an employer?***

**Mr. Froude:** First off, our team has a tremendous amount of experience in the industry. I ran a company that was selling health and wellness benefits into large employers, so my customers were Microsoft, Dell, Kroger, Walmart and those types of large companies. medZERO is an employer-sponsored financial wellness platform that really benefits the entire healthcare ecosystem. It benefits the patient. It benefits the employer, because they can offer these high deductible health plans, without over burdening the employees with costs, and it helps the providers, because they get paid right up front. Everyone wins!

Employers want to provide unique benefits, especially in today's world, with the great resignation, and all the other recruiting challenges that employers have. medZERO is an attractive benefit offered in an easy-to-use app. Therefore, we both sell direct into these large employers throughout networks, and then we also work with insurance brokers and others who have large clients, who need to stand out to attract and retain the best employees.

**CEOCFO: *With interest rates being what they are today, how will you go forward should we get the increases that should be happening soon?***

**Mr. Froude:** Right now, the way we have structured this is that there is a small per employee, per month fee for everyone who has access to the program. On top of that, we charge about 7.65% on every dollar borrowed. The reason that we chose that 7.65% is that that is the about equivalent to the FICA tax that the employer would pay on every dollar of payroll that goes out to the employee. For any dollar that is routed through the HSA, the Health Savings Account, the employer does not pay that FICA tax. It a relatively inexpensive benefit that we can offer because we are able to offset the 7.65% direct tax savings.

In addition, as interest rates may fluctuate and increase slowly, we will be able to look at other programs that we can offer, such as a drug discount program, medical bill review, etc... We are looking at incentives for healthy activities, like health clubs, and we will be able to revenue share with those third-party partners, offering additional value to the employer and the employee, while at the same time not really being forced to increase prices.

**CEOCFO: *Would you tell us about your recent funding and how you will be using the money?***

**Mr. Froude:** We closed a round of about \$5.7 million through two Silicon Valley venture firms with support from angel investors. One is True Ventures, a large venture firm that has been around for more than 10 years. They manage about \$2.5 billion dollars and are focused on making seed investments in rapidly growing companies. We are happy to have them onboard because they understand the stage our company is at.

We also work with a group called Village Global. They are investors and their limited partners are some of the most well-known entrepreneurs in the world, such as Mark Zuckerberg, Mike Bloomberg and the Walton Family. Their benefit is that not only do they do mostly seed investing, but they have an incredible network that will help us as we grow the business. We are very excited about that as well.

We also have some angel investors that have been supportive of us. The money raised has been so far applied to building out our technology platform. We formally launched the program about 6 months ago. Next, we will be looking to enhance the platform, with partnerships and some other programs, as well as really looking at growing our sales and marketing team, so we can begin to broadly distribute the offering.

**CEOCFO: *How do you help employers roll out the program, explain the program, and convince people that it is not too good to be true?***

**Mr. Froude:** Most people, unless you deal with it all the time, do not really understand what a premium is, verses a deductible, verses co-insurance, verses out of pocket max. There are a lot of terms that are confusing. While we offer a financial platform, we also have a strong partnership with the employer to help educate the employees.

We have a variety of tools to help employers roll it out. We offer brochures, videos, or we will host a live town hall to help explain the benefits. All of these are tailored to the specific needs of the employer and their unique employees. Often, we prefer to be launched separate from the benefit programs, because there are so many decisions that an employee must make during that time, it can be overwhelming.

**CEOCFO: *Why is medZERO important?***

**Mr. Froude:** Healthcare is unfortunately becoming more and more unaffordable, even for people that have good jobs and are fully insured. The out-of-pocket costs are increasing dramatically, and that is puts people in a very challenging situation, often giving them only two choices. One is that they defer healthcare, which makes it worse for everyone, because their conditions and costs will increase, or they do go, but there no way that they can afford the final bill.

With medZERO, we give employees on demand access to funds, to pay their out-of-pocket medical expenses over time, at zero interest and zero fees. For anyone who has an HSA, those payments are pre-taxed, creating a savings of up to 30%, verses using any after tax cash. Therefore, we believe that this adds up to happier, healthier, and more productive employees.

