

**The Global Business Imperative:
Sustainable Solutions for Prevention and Quality**

Thank you for that fine introduction. I'd also like to thank the World Health Care Congress for inviting me to speak about sustainable health care solutions – a topic that concerns everyone in this room on both a personal and professional level.

I think we can all agree that America triumphs when it comes to medical innovation ... winning most of the Nobel prizes in this field and developing revolutionary technologies and drugs that improve millions of lives every year.

We can also agree, though, that health care systems globally are facing cost and quality issues, with the U.S. facing the greatest challenge of all developed countries. Costs are way out of control, consuming more than 16 percent of the nation's GDP and growing at a rate double the consumer price index.

This increase might be acceptable IF it delivered commensurate outcomes. For being the world's greatest spender on health care, we are not getting proportionate returns on health – primarily due to a system that favors expensive treatments over cheaper, preventive care ... that has monumental problems in quality and safety ... and that undermines the efficiency of a free market.

Those maladies contribute to the alarming fact that 47 million Americans can't afford or won't buy health insurance. While this presents a moral issue that can't be ignored, it also adds to the growing burden of charity care.

Everyone is under pressure – you, us, government and consumers – as we struggle to absorb the growing impact of soaring costs on bottom lines and disposable income.

We urgently need consensus on the solutions – which is what this particular World Congress is all about ... what that “other” Congress on the Hill is trying to do ... and indeed why I am here today.

Sustainable solutions that address the issue of costs FIRST and access to insurance a close SECOND are global business imperatives. They are, in fact, critical to the competitive advantage of this nation and corporate America.

That brings me to three topics I'd like to cover today:

- First, the economic impact of health care on companies like Dow.
- Second, the issue of cost versus access, and the need for sweeping change through initiatives like Prevention and Quality.

- And third, Dow’s game-changing strategy for success, and a few solutions that are delivering results.

I will start by addressing the first point – the economic impact of health care on companies like Dow.

At Dow, people are our greatest asset and source of competitive advantage. More than 43,000 people in 61 countries are helping this company grow and prosper with products that enable human progress and drive value across industries – including health care.

Our people illustrate the power of what we at Dow call the Human Element, and while they don’t appear on a balance sheet, they do have the most significant impact on our bottom line. We need our people to stay in top form every day ... because good health equals higher performance and profitability.

It’s one reason why we offer highly competitive health care programs that enable our people to stay fit. Rising health care costs, however, are making it increasingly tough to deliver – despite our progress in keeping costs down.

When benchmarking with Kaiser Foundation data ... over a five-year period, we saw an average annual increase of 8.2 percent in the total cost of health insurance for each active employee. While this is below Kaiser’s national trend by roughly two points, it is still a jump of about \$2,300 per employee.

From 2005 to 2006, we saw a \$400 increase per employee ... and when you include Dow’s spending on retirees, costs go up even more. In total, we spent over \$300 million for active employees and retirees last year – which is equal to about 31 cents a share, or 25 percent of what we spend on Research and Development

When you factor in the indirect, hidden costs to productivity from chronic diseases like obesity, the economic impact multiplies by a factor of two to three. Absenteeism and presenteeism play a big role in pushing our costs up to \$700 million per year – the equivalent of around 375 MRI machines ... or now 70 percent of my Research and Development budget!

This is why, in the manufacturing sector, high health care costs are considered one of the Top 5 structural disadvantages of doing business in America ... right next to the price of energy, a broken tort system, excessive corporate taxes, and government over-regulation.

To compensate, many companies are increasing their prices, which makes this nation less competitive on the global stage. Others are increasing deductibles and co-pays, which means less disposable income to keep this economy going. Caps are being applied to retiree benefits ... and some companies have stopped offering insurance altogether. Still others, like Dow, are implementing innovative strategies to manage the impact – and I’ll come back to that in a moment.

The bottom line is that the situation is untenable for U.S. businesses and a nation already challenged by global competition and a slowing economy. We must stay low cost, and we must be able to grow and innovate in order to compete worldwide.

There really is no time to waste. It's not just an economic imperative to reduce costs, but with a swelling population of uninsured – many of them children – it is America's moral obligation to ensure affordable access to basic care as well.

Clearly, an extraordinary step change in health care is paramount.

This brings me to my second topic regarding the issue of cost versus access and the need for sweeping change. And here, I propose that we focus on addressing cost first, and access second, because once you make significant progress in reducing costs, you can open the door to more affordable health care. If you just attack the issue of access, you are still left with the core problem of spiraling costs.

Some progress is indeed being made in reducing cost, but not enough to see any major impact. What we need is monumental changes to our system, not incremental change ... and a combination of sustainable solutions that together slow, and even stop, rising costs.

I'd like to mention just a few solutions, starting with Prevention, which I believe is one of the best opportunities for long term impact. By shifting our current system from one that is focused on treating disease – which accounts for 95 percent of medical expenses – to one that prevents disease in the first place, we can start to deliver healthier outcomes at a much lower cost.

Quality improvements present another huge opportunity to cut costs. Medical errors are the eighth leading cause of death in U.S., costing billions of dollars each year, and inappropriate care comprises up to 30 percent of medical expenses. Initiatives that address those problems can reduce costly errors and waste.

Increased consumer accountability is also essential. The current mindset of “someone else pays” is the scourge of surging costs in public services like health care and education. In health care, that “someone else” is usually third-party payers – employers, government and insurance companies – who pay for more than 85 percent of health care.

Consequently, people are less prudent with their spending ... and so are many providers – requesting, for example, expensive tests and treatments that are not always necessary. People who pay their own way, however, are more conservative with their money and demand quality outcomes. As Milton Friedman, the noted economist said, “nobody spends somebody else's money as wisely or as frugally as he spends his own.” Giving consumers a bigger personal stake in spending will prompt them to seek more cost-effective treatments, which should help contain costs and improve quality.

Consumers will require, however, access to pricing and quality information to make informed choices about plans and providers. They need to be able to shop around for the best value, just like they do for home and car insurance. Such transparency, combined

with a stronger consumer voice, should also encourage competition and a free-market system that does what free markets do: drive prices down and quality up.

Public policies that address all the things I just mentioned can speed up the transition to a new system ... such as government health programs that offer 100% coverage for designated health screenings, or that connect quality initiatives to reimbursement.

That said, there are some proposals that basically divorce employers from the health care process, but I contend – as do many of my colleagues – that employers must stay engaged at some level, especially when we are paying into the system. We need to know that we are getting high returns for our health investment dollars ... and we bring a lot to the table, in the form of buying power and experience. When you consider that the chemical industry has improved productivity by 94% since 1987, then surely the health care industry can do the same ... and we can help.

Innovative technologies, of course, will play a key role in improving virtually every aspect of health care. Secure Electronic Health Records, web-based medical libraries and more will lift the healthcare industry out of the past in ways that dramatically improve efficiency and quality.

And last but not least, we need stronger public health efforts and research to identify evidence-based, best practices that everyone – including Dow – can leverage with confidence into their own health strategies.

And that leads to my third and final topic ... Dow's game-changing strategy for success, along with a few solutions that are delivering results. Our strategy not only raises the bar on healthy outcomes for our people, but also reaches out to communities and society ... and features four pillars of success surrounded by tough goals and metrics to gauge our progress.

Our top priorities are Prevention and Quality ... which offer the best opportunities for long-term impact.

One key goal, in fact, is to reduce the health risk of Dow people by 10 percent over the next 10 years. We projected that every 1 percent reduction in risk in U.S. employees will save around \$62 million in direct costs over 10 years – which can double when we add in the savings from indirect costs.

By keeping our U.S. health care costs at the lower end of the inflation trend, we could save Dow as much as seven cents a share in earnings (or more than \$50 million in 2008), and we are well on our way to delivering those savings.

We are, for example, investing in site and community prevention programs worldwide that focus on nutrition, fitness, lifestyle improvements, smoking cessation, and stress reduction.

In addition, we continue to strengthen our prevention-based benefits program – covering many services at 100%. And, we are starting to collaborate closely with providers to drive quality, safety, and faster recovery times for our employees.

We are also helping employees manage their own care and reduce out-of-pocket expenses. They can, for example, choose from several health plan options, and use a mail-in prescription service to further reduce costs. Recently, they started using an electronic personal health record tool that keeps all of their health information in one secure place.

Equally important, we are setting the tone at the top, and I am no exception. Over the past few years, I suddenly found myself 30 pounds heavier, even though I am a pretty active guy and regularly play basketball – my favorite sport. It wasn't easy, but I stuck to a strong diet and exercise program that has enabled me to drop 25 pounds over the past year ... with just a few more to go!

Much to the dismay of my leadership team, I have even more energy at the office, and I'm sure they will start putting donuts in front of me before too long to slow me down. But the point is this: if I had continued with that lifestyle, I could have become another extra cost burden to the health system. Instead, by eating right, I am saving money and feel a heck of a lot better – which underscores the power of Prevention.

To that end, we are funding Prevention programs in our communities – from walking trails to community centers. We are also collaborating with others in a major obesity study, and to address a variety of other issues such as global pandemics.

We are seeing great results too ... for our top three risk factors globally, we saw a 14 percent reduction in high risk people and a 4 percent increase in low risk people. Over 85 percent of employees globally are participating in health assessments ... employee satisfaction scores related to health are up ... and quality alerts about care are down.

Equally important, we are delivering sustainable solutions on a broader scale, as part of our 2015 Sustainability Goals. One of my favorite examples is the work we are doing to provide clean drinking water to the 1.2 billion people around the world who go without. Many people get sick from drinking contaminated water, and 6,000 die each day from waterborne diseases.

While Dow can't solve this health problem alone, we are making a difference through technologies that enable clean water and better health, and by forming partnerships with groups like the Blue Planet Run Foundation to raise awareness. This run, in fact, is scheduled to kick off on June 1 in New York City – so keep your eyes peeled.

Those are just a few examples of how Dow is changing the game in the way we approach health – not by any single action, but by tackling the problem on a number of fronts.

Now, in closing, let me turn the tables for a moment and ask – what are YOU doing to make a difference?

Are you reducing costs through prevention, quality, and transparency?

Do you have a well-defined health strategy to drive significant change?

Are you encouraging consumer accountability and free-market competition?

Are you using I.T. solutions to minimize errors and maximize efficiencies?

And finally, are you collaborating with other organizations – including those in other countries – to brainstorm new ideas, enact public policies and leverage best practices that get more value from every health care dollar?

If you said “no” to any of those, then I urge you to reconsider, because the current system is not sustainable for Corporate America, this country and the world.

Major change is critical to future progress and competitive advantage. It is essential to making health care more affordable and accessible to all. It is vital to innovation and growth in virtually every industry, including health care. And, it is our moral obligation – all of ours – to promote good health – one of the most highly held values across cultures. And we at Dow stand beside YOU to make it happen.

Together, we can deliver sustainable solutions that make this country – and the world – a healthier place for generations to come.

Thank you for your time.