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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG 14 1974

ACTION

MEMORANDUM FOR THE PRESIDENT

THROUGH: Roy L. Ash

FROM: Paul H. O'Neill



SUBJECT: Physician Bonus Payments in DOD and HEW

Background. P.L. 93-274 authorizes bonuses of up to \$13,500 for uniformed physicians in DOD and HEW and requires your approval of implementing regulations. The Administration requested the 18-month experimental authority to test the effectiveness of increased compensation on the voluntary recruitment and retention of physicians without the draft. Both DOD and HEW now have fewer physicians than those authorized (DOD has 14% less and HEW 11% less), and these shortages are forecast to increase without a bonus. Bonuses will be weighted toward younger physicians, raising the current salary range from \$17,500-\$46,000 to \$31,000-\$48,500.

Options. DOD and HEW propose to pay substantial bonuses to senior and other non-shortage physicians, and we are prepared to concur in this proposal. Nevertheless, there is a need to retain some incentive in the bonus schedule. The options are:

Option 1: A schedule ranging from \$12,000 for a one-year commitment to \$13,500 for a four-year contract, with a \$500 annual differential for each additional year of commitment. (Favored by DOD and HEW.)

Option 2: A schedule ranging from \$10,000 for a one-year contract to \$13,500 for a four-year contract, with at least a \$1,000 annual differential for each additional year of commitment. (Favored by the Domestic Council and OMB.)

Arguments for Option 1. Defense and HEW believe that less than the maximum bonus levels will significantly weaken efforts to maintain a volunteer uniformed medical corps because (1) physicians view the bonus as a comparability pay raise rather than an experimental retention device and (2) young physicians in particular are reluctant to make long-term commitments and thus high bonuses must be offered for short (1-2 year) commitments in order to maintain authorized physician strengths.

Arguments for Option 2. The bonus decision will establish future salary floors and will create inflationary pressures for similar treatment of other Federal physicians and salaried physicians in the general economy. Larger annual differentials than those preferred by DOD and HEW are more likely to encourage physicians to commit for additional years of service. Such differentials will save an estimated \$14 million and are also more in keeping with the experimental intent of P.L. 93-274. If this option fails to retain enough physicians, Option 1 remains available.

Recommendation. We recommend that you approve Option 1 for the reasons stated above. (NSC, Timmons, Cole and Counsel's office concur.) **ETJ**

APPROVE SRG

DISAPPROVE _____

Attachment: Alternative Schedule

Approved reused Cole
Recommendation for Option
1

Attachment

Option 1

<u>Grade</u>	<u>Duration of Contract</u>			
	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>
0-3 and 0-4	\$12,000	\$12,500	\$13,000	\$13,500
0-5	\$11,500	\$12,000	\$12,500	\$13,000
0-6 (less than 20 years service)	\$11,000	\$11,300	\$11,600	\$12,000
0-6 (more than 20 years service)	\$10,000	\$10,300	\$10,600	\$11,000

Option 2

<u>Grade</u>	<u>Duration of Contract</u>			
	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>
0-3, 0-4, and 0-5	\$10,000	\$11,000	\$12,000	\$13,500
0-6	\$10,000	\$10,500	\$11,000	\$11,500