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THE WHITE HOUSE
WASHINGTON

September 16, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JIM CANNON
JIM LYNN

FROM:

JIM CONNOR 

SUBJECT:

Administration Position on Federal Role
in Health Professions Education

The President reviewed the recommendations submitted to him yesterday on the above subject and approved the following:

Capitation Subsidies

Option 1: Continue capitation for medical and dental schools that agree to participate in geographic and specialty distribution initiatives.

Student Assistance

Option 2: Consider a new income-related loan repayment program as part of a comprehensive review of Federal education loan programs in the context of developing the 1977 budget.

Please follow-up with appropriate action.

cc: Don Rumsfeld

MR. President

This just arrived.

HEW must testify
on Tuesday (tomorrow)
and would like an
indication of your
position first thing in
the morning.

Rich

THE WHITE HOUSE

WASHINGTON

ACTION

September 15, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM CANNON ~~W~~
SUBJECT: Administration Position on Federal
Role in Health Professions Education

This is to present for your decision the issue of the Federal role in the education of health professionals. The position of the Administration needs to be decided before HEW testifies tomorrow before the Senate. Attached at Tab A is a memorandum from Jim Lynn and at Tab B a memorandum from Secretary Mathews presenting the position of each.

ISSUE

The broad issue is how to approach the problems of geographic and specialty maldistribution of health professionals. The issue focuses in particular on the question: Should the Administration propose to continue Federal formula grant support (capitation) limited to medical and dental schools?

A related matter is also brought to your attention: Should the Administration propose a new student loan program for medical and dental students? This issue is not pressing and can await, if you so decide, further development of the specific proposals before a position is taken.

BACKGROUND

Your '76 budget proposes:

- an elimination of construction grants for medical schools
- a gradual four year phase-out of capitation grants
- an increase in special project grants
- an expansion of medical student scholarship assistance tied to repayment through Federal service

These are proposals which have been advocated by the Administration for the last three years. Congress has shown no inclination to accept this approach. On two previous occasions you have decided to maintain this Administration stance.

HEW argues that the only way the Administration can play a role in shaping the legislation currently moving on the Hill is to recognize that some capitation program will evolve and to work toward developing a compromise measure.

A. Capitation Issue

Should the Administration proposed to continue capitation grants but only for medical and dental schools?

- Administration would maintain position that capitation for pharmacists, veterinarians, optometrists and podiatrists should be phased out.

Arguments for Capitation

1. Capitation, as proposed by HEW, would be provided only to those medical and dental schools agreeing to the national goals of:
 - maintaining enrollment levels,
 - increasing output of primary health care skills,
 - improving a geographic distribution of graduates.
2. Restricting capitation to medical and dental schools would permit reductions in Federal funding while allowing targeting on those schools whose training is the longest, most expensive, and least responsive to normal market forces.
3. Capitation would help assure that tuition charges do not rise to levels that would discourage low and middle income students from seeking medical and dental careers.

Arguments for Maintaining Opposition to any Capitation

1. Health profession students should not be singled out for capitation grant subsidies not available in other fields of higher education, especially in view of health professionals' substantially higher career income prospects.

2. Capitation subsidies, as formula allocations, do not focus Federal assistance on program merit or financial need.
3. The proposed phase-out of capitation would only require tuition increases of \$400 annually over the next four years, if schools seek to replace the capitation reduction with tuition increases.
4. A limited Federal role is appropriate because -- while there is consensus on the existence of maldistribution -- there is no agreement on its extent or on the ways to address the problem.

B. Student Assistance Issue

Should the Administration propose a new loan program for medical and dental students? Such a loan program would be funded "off-the-budget." Loan repayment would be made over a 20-year period based upon professional income.

Arguments for a New Loan Program

1. Estimated total 4-year costs -- including living expenses -- to medical and dental students are between \$30,000 and \$40,000. Medical and dental students need additional sources of financing for these costs.
2. The current Federal guaranteed student loan program is inadequate not simply because the loan guarantee limit of \$10,000 is too low, but also because banks are unwilling to consistently make individual loans to students of \$30,000 to \$40,000. Repayment pressures may lead graduates into high paying specialties rather than primary care.

Arguments Against a New Loan Program

1. While an income-related loan program may be a good idea, the specifics of such a proposal should be fully worked out before the Administration makes a commitment to it.

2. Congress and the Administration have generally opposed off-the-budget financing of Federal programs.
3. No current evidence supports a conclusion that there is a significant number of medical or dental students or applicants foregoing an education because of inability to obtain financing.
4. Federal scholarship student assistance should be tied to a service commitment. For other students who seek Federal support, but do not wish to commit themselves to meeting Federal objectives, assistance should be limited to Federal loan guarantees.
5. An income-related loan repayment program is a complex issue with implications for the Federal responsibility in higher education generally and therefore should not be considered apart from other HEW higher education loan proposals.

RECOMMENDATIONS

OMB is arguing that capitation should continue to be phased out and that the needs of medical students should be considered as part of the overall Federal approach to higher education student loan programs.

Secretary Mathews maintains that Congress will continue capitation programs and therefore if we persist in our current position, we will play no role in the eventual outcome which is likely to be an extension or expansion of the existing program.

I believe that given the history of Congressional action on the Administration's position we should seek the most effective use of capitation and therefore I recommend support of HEW's capitation proposal.

Action on the student assistance recommendations should await further development of specific elements of the various proposals.

DECISION

Capitation Subsidies

Option 1: Continue capitation for medical and dental schools that agree to participate in geographic and specialty distribution initiatives.

MC7 APPROVE _____ DISAPPROVE
(Cannon, Mathews,
Buchen)

Option 2: Phase-out capitation subsidies over a 4-year period. Meet geographic and specialty mal-distribution through special projects and scholarships.

_____ APPROVE MC7 DISAPPROVE
(Lynn, Friedersdorf,
Greenspan)

Student Assistance

Option 1: Establish a new off-the-budget loan program for medical and dental students.

_____ APPROVE MC7 DISAPPROVE
(Mathews)

Option 2: Consider a new income-related loan repayment program as part of a comprehensive review of Federal education loan programs in the context of developing the 1977 budget.

MC7 APPROVE _____ DISAPPROVE
(Cannon, Lynn, Buchen,
Friedersdorf, Greenspan)



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

SEP 15 1975

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JAMES T. LYNN

Ohlin

SUBJECT:

Administration Position
on Health Professions
Legislation

Background. Past health professions education legislation authorizes different types of Federal support for training health professionals. These include assistance to institutions through construction assistance, capitation grants, special project grants, and student assistance through loans and scholarships. The 1976 budget proposes an elimination of construction grants, a gradual phase-out of capitation grants over the next four years, an increase in special project grants and reliance on expanded student scholarship assistance requiring "repayment" through Federal service. Attachment A summarizes the funding pattern and levels for health professions training in recent years.

These proposals have been advocated for three years by the Administration. Some progress has been made in persuading the Congress that the major issue concerns geographic and specialty maldistribution rather than sheer numbers of health professionals, but Congress has shown no inclination to accept the Administration's proposals from either a substantive or a budgetary standpoint. The phase-out of capitation grants in particular has been strongly opposed. HEW believes that an opportunity exists to make progress toward our longer range goals by revising the current Administration's proposals.

On September 16, HEW will testify before the Senate on Federal authorization for health professions training. This memorandum seeks your guidance on two issues discussed below. Secretary Mathews has prepared a separate memorandum on this subject (Attachment B).

Capitation Grants. Should the Administration propose to continue Federal formula grant support (capitation) limited to medical and dental schools?

Arguments For Capitation:

- Capitation, as proposed by HEW, would be provided only to those medical and dental schools agreeing to address national priorities. They would be required to (a) maintain enrollment levels, (b) increase output of primary health care skills, and (c) improve geographic distribution of graduates. Capitation for all other schools (i.e., veterinary medicine, optometry, podiatry, and pharmacy) would continue to be phased out within three years.
- Medical and dental schools uniquely fulfill national needs in the training of physicians and dentists, the conduct of biomedical research, and the delivery of high quality patient care. Restricting capitation to these schools would permit Federal funding lower than that recently authorized by the House and would allow targeting on those schools whose training is the longest, most expensive, and least responsive to normal market forces.
- Capitation would provide medical and dental schools with some assurance of financial stability and continuity in an era of rising and unpredictable costs.
- Capitation would help assure that tuition charges do not rise to levels that would discourage low and middle income students from seeking medical and dental careers. Such discouragement could occur even if sizable loan and scholarship programs existed.
- Capitation would help assure that the education component of the schools is not subsidized or distorted by research and/or patient care.
- The Administration's health professions proposal will be taken seriously by the Congress only if it contains a conditional capitation provision.

Arguments Against Capitation:

- The taxpaying public should not continue to single out health profession students for capitation grant subsidies not available in other fields of higher education, especially in view of health professionals' substantially higher career income prospects.
- Capitation subsidies, as formula allocations, do not focus Federal assistance on program merit or financial need.
- The proposed phase-out of capitation would only require tuition increases of \$400 annually over the next four years, if schools seek to replace the capitation reduction with tuition increases.
- There is already ample pressure on the schools to maintain enrollments and there appears to be a more than adequate supply of qualified students willing to pay higher tuitions. The Federal Government would assist students through scholarships in return for Federal service commitments.
- Rather than imposing the same conditions on every recipient school through capitation grants, an appropriate Federal means of addressing maldistribution is through a combination of (1) special projects funding demonstrating different ways of addressing maldistribution, (2) scholarships tied to future service commitments in underserved areas, and (3) other activities not a part of health professions programs, per se. Other Federal activities include the National Health Service Corps, migrant health, Health Maintenance Organizations, etc.
- A limited Federal role is appropriate because--while there is consensus on the existence of maldistribution--there is no agreement on its extent or on the ways to address the problem.
- A Federal commitment to provide institutional operating support for medical and dental schools is an undesirable precedent. These schools are not markedly unique from other institutions of advanced training (even other institutions within the health professions that conduct research, deliver services, and train professionals) to warrant such treatment.

Student Assistance. Should the Administration propose a new loan program for medical and dental students? Such a loan program would be funded "off-the-budget." Loan repayment would be made over a 20-year period based upon professional income.

Arguments For A New Loan Program:

- Estimated total 4-year costs--including living expenses--to medical and dental students are between \$30,000 and \$40,000. Medical and dental students need additional sources of financing for these costs.
- The current Federal guaranteed student loan program is inadequate not simply because the loan guarantee limit of \$10,000 is too low, but also because (a) banks are unwilling to consistently make individual loans to students of \$30,000 to \$40,000, and (b) students are required to repay over a ten-year period beginning one year after training. Repayment pressures may lead graduates into high paying specialties rather than primary care.
- A demonstration program limited to medical and dental students would allow the flexibility of testing the acceptability of this mechanism as a means of financing higher education generally.

Arguments Against A New Loan Program:

- While an income-related loan program may be a good idea, the specifics of such a proposal should be fully worked out before the Administration makes a commitment to it.
- Congress and the Administration have generally opposed off-the-budget financing of Federal programs.
- Some medical and dental students may have high education costs that they have difficulty financing. Nevertheless, no current evidence supports a conclusion that there is a significant number of medical or dental students or applicants foregoing an education because of inability to obtain financing.

- Given a Federal need for physicians to provide services in Defense, VA, and HEW direct health delivery programs, Federal scholarship student assistance should be tied to a service commitment. For other students who seek Federal support, but do not wish to commit themselves to meeting Federal objectives, assistance should be limited to Federal loan guarantees. The Administration's proposal would amend the Higher Education Act to increase the Federal loan guarantee to \$25,000.
- An income-related loan repayment program is a complex issue with implications for the Federal responsibility in higher education generally. Such a program just for medical and dental students does not seem warranted and would be contrary to Administration efforts to simplify and consolidate higher education student assistance programs. It should not be considered apart from other HEW higher education loan proposals.

Decisions:

Capitation Subsidies:

- ☐ Option 1: Continue capitation for medical and dental schools that agree to participate in geographic and specialty distribution initiatives. (Secretary Mathews)
- ☐ Option 2: Phase-out capitation subsidies over a 4-year period. Meet geographic and specialty maldistribution through special projects and scholarships. (OMB)

Student Assistance:

- ☐ Option 1: Establish a new off-the-budget loan program for medical and dental students. (Secretary Mathews)
- ☐ Option 2: Consider a new income-related loan repayment program as part of a comprehensive review of Federal education loan programs in the context of developing the 1977 budget. (OMB)

Attachments

September 13, 1975

Health Professions Funding
(In millions of dollars)

Program	1974	1975	1976		Change
	Actual	Actual	President's Budget	HEW Proposal	
Capitation:					
Medical and Dental					
Schools	153	123	96	118	+22
Other Health Profes-					
sions Schools	33	27	5	11	+ 6
Construction:					
Grants/Interest					
Subsidies	96	96	2	7	+ 5
Special Projects:					
Categorical	174	147	145	98	-47
Financial Distress	15	5	5	5	--
Start-up	6	5	3	6	+ 3
D.C. Medical/Dental					
Schools	--	8	--	--	--
Student Assistance:					
Health Professions Loans	36	36	20	30	+10
National Health Service					
Corps Scholarships	3	23	23	25	+ 2
Shortage Area Scholarships	2	--	--	--	--
Loan Repayment	1	3	6	--	- 6
General Scholarships	15	7	4	4	--
Income-Related Loans	--	--	--	2	+ 2
Program Management:					
Graduate Medical Educa-					
tion Commission	--	--	--	1	+ 1
Health Professions					
Data Analyses	--	--	--	2	+ 2
Subtotal	534	480	309	309	
Nurse Training Activities	122	121	34	34	
Program Management*	49	47	52	52	
Total	705	648	395	395	

*Includes all program direction costs for the Health Resources Administration.

B



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

September 13, 1975

MEMORANDUM FOR THE PRESIDENT

FROM : David Mathews

SUBJECT: Health Professions Education Legislation

OMB is placing before you a decision memorandum on the Department's request for reconsideration of the Administration's position on health professions education legislation. Given the importance I attach to this subject, I wish to add my own views from the perspective of my personal experience as well as that of the Department.

While the debate over this issue in the past three years has produced heightened Congressional understanding of the maldistribution problems to which the Administration proposals drew attention, the proposals themselves have not been and will not be accepted by the Congress, in part because they do not adequately deal with those problems. If we persist in our current position, the Administration will play no role in the Congressional outcome which the Department assesses to be either extension of existing law or a variant of one of the Congressionally-drafted bills.

I doubt anyone in the Administration would welcome either result. Both possibilities may necessitate a veto on your part with a strong potential for being overridden, particularly in light of the two recent overrides of HEW bills (including nurse training). I find continuation toward these results particularly unfortunate, since I believe the Department's recommended alternative would make real progress on agreed objectives and has a good chance to form the basis of a compromise bill.

The Administration's position to phase capitation down or out has a rationale in fiscal necessities, the general Federal approach to student assistance, and the high incomes of many in the health professions. While conceptually pure, these reasons take an excessively narrow view of the complex and nationally important health research, patient care and education institutions called medical schools. In addition, these reasons give inadequate recognition to:

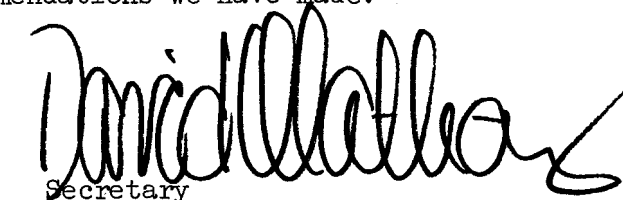
- the important national problems which must be addressed,
- the practical needs for transition time in moving to new objectives in large institutions whose problems were largely created by the Federal government, and
- the underlying political realities.

It has been the Federal government which stimulated medical schools to embark into health research and patient care, thus creating enormously complex institutions and influencing priorities in ways that now prove troublesome in fulfilling their educational purposes in a manner consistent with national health needs. Our problems with geographic and specialty maldistribution of health professionals start in these complex institutions and must be addressed there with enough force to make some difference in the outcome. At the same time, we need to approach these institutions with enough sensitivity about the difficulties of change to avoid the sharp shocks that can produce unintended and undesirable consequences. I believe the Department's proposal strikes just such an appropriate balance.

I find OMB's concentration on the conceptual evils of capitation to contradict political reality and to undervalue the real changes in the use and nature of capitation contained in our proposal. It is quite clear that the Congress will maintain capitation. Our recommended approach takes that fact and makes use of it to fashion a new tool to answer serious national problems in rural health and insufficient primary care professionals. This approach gives you the opportunity for a positive and needed initiative in the health field within the framework of the budget you have approved. Without it, Congress will go its own way, leaving us in a negative posture with the problems either inadequately or inappropriately addressed.

Finally, I respectfully disagree with the OMB arguments that our current proposals would produce minor consequences in the medical schools, and that these schools are or should be indistinguishable from other graduate education. The rapidly escalating costs are such that the added burden on tuition from declining capitation when combined with other factors may indeed restrict access to the middle class. Further, I don't find it excessively difficult to distinguish medical education with its high cost and heavy Federal involvement in the institutions from other graduate education.

I urge you to consider favorably the recommendations we have made.


Secretary