

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 11, 1943, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. Szymczak
 Mr. Draper
 Mr. Evans

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman
 Mr. Smead, Chief of the Division of Bank Operations
 Mr. Leonard, Director of the Division of Personnel Administration
 Mr. Van Fossen, Assistant Chief of the Division of Bank Operations

Mr. Fleming, President of the Federal Reserve Bank of Cleveland, and Mr. Sproul, President of the Federal Reserve Bank of New York, as members of the special committee appointed by the Presidents to discuss with the Board of Governors the revision of the Retirement System of the Federal Reserve Banks as approved by the Presidents' Conference, and Mr. Hays, as chairman of the subcommittee of the Committee on Retirement of the Presidents' Conference, were present for the purpose of discussing with the Board the points presented in the letter addressed by the Board to Mr. Fleming as Chairman of the Presidents' Conference Committee on the Retirement System under date of July 30, 1943.

The representatives of the Federal Reserve Banks expressed the hope that the Board would, for substantially the following reasons, agree with the position taken by the Presidents' Conference that no specific limitation should be placed on the pension portion of the retirement allowance:

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1. The limitation of \$15,000 on the amount of the salary that could be credited under the revised rules and regulations and the extension from 10 to 20 years of the base period for the determination of the average annual salary would meet any criticism from outside the System that the retirement allowances were too liberal. If there were any criticism of the System, it would be with respect to the salaries paid to the highest officers and not because of the proposed retirement benefits.
2. The Federal Reserve retirement system, even with the changes proposed by the Presidents' Conference, would continue to be less liberal than approximately 80 per cent of the retirement systems of certain private concerns that had been studied.
3. In view of the fact that the Federal Reserve System had to compete with these concerns for manpower, the proposed retirement benefits could not be regarded as unreasonable.
4. The salary policy of the System had followed a middle course between the scales of salaries paid to Government employees and employees in private industry, and the retirement allowances should be determined on the same basis.
5. The proposed allowances were not materially out of line with the allowances permitted under Civil Service.
6. While the application of a limitation of \$3,750 per annum to the pension portion of the allowance would not affect many persons in the Federal Reserve Banks, the persons affected would be the higher-salaried men and they might be the ones the Banks would be most interested in trying to retain.
7. It was questionable whether a man who had served approximately 33 years should be denied any further pension benefits for longer service.
8. Unsatisfactory performance in the discharge of the responsibilities of the Federal Reserve Banks would be much more costly to the System than the higher retirement allowances.

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9. The Presidents were aware of the position of the Board that there should be a limitation on the maximum pension allowance and, in acting on the matter at the recent conference, had incorporated restricting provisions which might not otherwise have been approved.

The representatives of the Board stated that the position of the Board as set forth in its letter of July 30, 1943, with respect to such limitation was based on substantially the following considerations:

1. The increase in the creditable salary from \$12,000 to \$15,000 (to which the Board had been opposed for a long time and which it was approving now because of the general trend toward higher retirement allowances, including the trend toward greater liberality in Civil Service benefits) would add materially to the maximum retirement allowances that could be paid.
2. The number of cases that would be involved if a specific maximum limitation of the pension allowance were applied would be very small and, as these would be the higher-salaried officers of the Banks, they would be the cases that would be singled out in the event of criticism that the allowances were too liberal.
3. The public policy indicated by the recent ruling of the Treasury limiting the amounts of payments by corporations and others for the purpose of providing retirement allowances for employees that could be deducted for income tax purposes.
4. There is less need for retirement allowances in proportion to salaries for higher-paid employees than is the case for lower-paid personnel. (It was recognized, however, that this would be true to an increasingly smaller extent as income taxes were increased.)
5. The difference in the retirement allowance as proposed by the Presidents and that which would be payable under a limitation would not be large enough to attract or influence capable men to remain in the employ of the Federal Reserve Banks. In any event, the System could not be expected to compete for personnel on a salary or retirement basis with commercial banks or private industry.

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6. The System would be in a much stronger position if it were able at all times to demonstrate that it had maintained a conservative attitude on expenditures.
7. Because of the amount and source of the System's earnings at the present time, it should be particularly careful about expenditures of this kind.
8. The Government policy with respect to vacations and sick leave is more liberal than private industry, and the Federal Reserve Banks might consider liberalizing their own policies in this regard as a means of making Federal Reserve Bank employment more attractive.
9. For approximately the next 20 years, the maximum retirement allowance under Civil Service could not exceed 50 per cent of the average annual salary, and there were very few salaries in Government service above \$15,000.
10. While there might be justification for, and the Board would be willing to consider, waiving the limitation of one-fourth of average annual salary on the pension portion of the allowance, there should be a maximum limitation.

During the consideration of these points, Mr. Rounds, chairman of the retirement committee, joined the meeting and participated in the discussion.

In response to a request, Mr. Hays stated that under the proposal of the Presidents the maximum pension would be limited to approximately \$4,500 after 40 years' service with an average creditable salary of \$15,000 over a period of 20 years. It was agreed that if the Board should adopt a specific limitation of \$3,750 per annum on the pension portion of the allowance the point at issue would be the difference between these two amounts.

Mr. Fleming stated that the Board's letter of July 30, 1943, raised two other questions, (1) the membership of the retirement and

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investment committees and (2) whether the rules with respect to the disability benefit should provide that this benefit should not be less than would be available under the present rules for service rendered prior to the adoption of the change.

On the first question, Mr. Sproul stated that the opinion had been expressed at the Presidents' Conference that it might be desirable to make it possible for any individual in the Federal Reserve System to serve as a member of these committees, regardless of whether he was a member of the Board of Trustees, or for someone to be brought in from the outside if it were determined that someone with qualifications not available within the Federal Reserve System should serve as a member of one of the committees. He also said that, while it was not expected that a need for bringing in someone from outside the System would develop, the matter was left open in deference to that opinion.

It was stated that the assumption referred to in the Board's letter of July 30, 1943, would not limit membership on the retirement and investment committees to actual members of the Board of Trustees but only to those who were eligible for membership on that Board, and the opinion was expressed that if the services of someone with special qualifications were desired from outside the System he should not be given membership on the retirement or investment committees but should be employed on whatever basis appeared to be justified.

Messrs. Sproul and Fleming indicated that this arrangement would be satisfactory to them and that they would undertake to get the approval of the remaining Presidents of the Federal Reserve Banks. They also

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expressed themselves as being in agreement with the suggestion that the revised rules should contain a provision that the disability benefit should not be less than would be provided under the present rules for service rendered prior to the adoption of the change.

Thereupon Messrs. Sproul, Fleming, Rounds, and Hays withdrew from the meeting, and the question of limiting the pension portion of the retirement allowance was discussed.

At the conclusion of the discussion, it was understood that Mr. Morrill would inform Mr. Fleming by telephone, which would be confirmed by wire, that the Board was willing to waive the position stated in the fifth paragraph of its letter of July 30, 1943, that the pension portion of retirement allowances should be limited to not to exceed one-fourth of final average salary but that the pension (except for the portion of the pension in excess of $3/4$ of 1 per cent of average annual salary payable for prior service) should be limited to not to exceed \$3,750 per annum on a cash-refund basis and that, therefore, with the understanding that the revised rules and regulations would include this limitation, the Board would approve the other changes proposed by the Presidents' Conference if they were adopted by the Board of Trustees, it being also understood that the other points raised in the Board's letter of July 30 remained unchanged.

At this point Messrs. Smead, Leonard, and Van Fossen withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 10, 1943, were approved unanimously.

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Letter to the "First National Bank of Valley City", Valley City, North Dakota, reading as follows:

"This refers to the resolution adopted on March 31, 1943, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act, except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"Under section 8(e) of Regulation W, remodeling or rehabilitation projects are designated as being for 'defense housing' pursuant to a procedure established by the Administrator of the National Housing Agency. The Administrator recently issued NHA General Order No. 60-4A to replace Order No. 60-4 which previously governed this procedure. The only change made by the new Order is to incorporate a paragraph relating to the repair or replacement of heating equipment during the spring and summer months.

"Through inadvertence, the National Housing Agency did not notify the Board of the issuance of the new Order at the time of the effective date, June 4, 1943, and it has just recently come to our attention. In so far as the Federal Reserve Banks are concerned, however, the Order makes no change

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"in procedure since the Federal Reserve Banks were advised of the position taken with respect to this matter in the Board's letter of April 14, 1943, S-635.

"It is understood that the National Housing Agency is making a wide distribution of the new Order, so that it will not be necessary for the Federal Reserve Banks to take any steps to inform Registrants.

"We are sending to you with this letter one copy of Order No. 60-4A and are sending under separate cover as many copies of the new Order as were requested by your Bank and its branches at the time the original Order was adopted. If you find that you need more, we shall be glad to arrange to send you an additional supply."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. Cullen

Chairman.