Minutes for June 26, 1957

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x WM	
Gov. Szymczak	x MSS	
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson	x CCS	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 26, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Hackley, General Counsel
Mr. Sprecher, Assistant Director, Division of Personnel Administration

Assessment to cover Board's estimated expenses for second half of 1957. In a memorandum dated June 21, 1957, copies of which had been sent to the members of the Board, Mr. Johnson advised that approximately $3,566,000 would be needed to provide for the estimated expenses of the Board for the second half of the calendar year 1957. The memorandum recommended, therefore, that an assessment of three hundred twenty-two thousandths of one per cent (.00322) of the total paid-in capital and surplus (section 7 and section 13b) of the Federal Reserve Banks as of June 30, 1957, be levied upon the Banks. Based on an estimated capital and surplus of $1,108,000,000, the foregoing rate would produce a total of $3,567,760.

In discussing the matter, Mr. Johnson commented that the figure of $3,566,000 included approximately $725,000 which would be paid to the Retirement System of the Federal Reserve Banks for the purpose of funding certain benefits which were incorporated into the Board Plan following the adoption of amendments to the Civil Service Retirement System effective October 1, 1956. On a tentative basis, $1,500,000 had been provided for this purpose in the assessment for the first half of the calendar year 1957. However, the annual valuation of the Retirement System of the Federal Reserve Banks subsequently disclosed that a payment of approximately $2,225,000 would be necessary to fund the increased benefits.

At the conclusion of the discussion, the recommendation contained in Mr. Johnson's memorandum was approved unanimously, with the understanding that appropriate advice concerning the assessment would be sent to the Federal Reserve Banks by the Office of the Controller.

System meetings. A memorandum dated June 7, 1957, from Mr. Fauver, Assistant Secretary, which had been distributed to the members of the Board at Governor Shepardson's request, discussed certain questions that had been raised by the Board at various times relating to System meetings in which directors of the Federal Reserve Banks participate. With respect to the meetings of the Conference of Chairmen of the Federal Reserve Banks, the questions included whether to revert to the plan for holding two meetings each year, the timing of such meeting or meetings, and whether participation should be broadened to include the Chairmen of Federal Reserve Bank branches. With respect to the annual directors' day program for newly-appointed Reserve Bank and branch directors, the principal question was whether the program should be extended to two days, or at least expanded to the extent of including the evening of the day preceding the full-day meeting. Another question was whether to have a similar meeting for directors who had not yet attended a directors' day program or visited the Board's offices on official business.

In commenting on the matter, Governor Shepardson suggested that the Board discuss with the Reserve Bank Chairmen the desirability of holding two meetings of the Chairmen's Conference each year. If the reaction was favorable, one meeting might be scheduled early in the year, with the Chairmen of the Reserve Bank branches invited to attend. The program for this meeting might begin with a dinner in the evening, followed by a full day's program the next day. The second meeting, possibly early in the fall, would be for head office Chairmen and Deputy Chairmen only, would be of one day's duration, and would be devoted principally to System business of current interest to the Chairmen.

Turning to the meetings for newly-appointed directors, Governor Shepardson said that their value had now been well established and that he felt they should be continued on an annual basis. He saw some advantage in expanding the program so that it would begin in the evening and continue through the following day.

With regard to the possibility of a special directors' day for those directors who had not attended such a meeting previously, Governor Shepardson said it appeared that all of the persons in this group could be accommodated at a one-day meeting which might be held this fall.

In an ensuing discussion, a number of suggestions were made relating to program content for the meetings of the Chairmen's Conference and the meetings for new directors. While it was felt that it would be desirable for the Board to take the lead in formulating proposals with regard to the frequency, timing, and scope of these meetings, the Board was unanimously of the opinion that the Reserve Bank Chairmen should be given an opportunity to comment and make alternative suggestions before any definite plans were prepared.

At the conclusion of the discussion, Chairman Martin suggested that Governor Shepardson be authorized to go forward with the development of tentative plans for the calendar year 1958 which could be presented to the Reserve Bank Chairmen at the meeting of the Chairmen's Conference later this year. This suggestion contemplated deferring a decision, pending discussion with the Chairmen, with respect to holding a special directors' day program for directors who had not attended such a meeting.

There was unanimous agreement with the procedure suggested by Chairman Martin.

<u>Retirement benefits for members of the Board's staff.</u> In a memorandum dated June 24, 1957, copies of which had been sent to the members of the Board, the Office of the Controller recommended that the Board authorize the (1) payment of $2,224,897 to the Retirement System of the Federal Reserve Banks on July 1, 1957, to fund the cost of increased retirement and survivor benefits incorporated into the Board Plan of the Retirement System effective October 1, 1956, following the enactment of Public Law 854, 84th Congress, amending the Civil Service Retirement Act; and (2) contribution to the Civil Service Retirement and Disability Fund, beginning with the first pay period in July 1957, of an amount equal to deductions (at present $6\frac{1}{2}$ per cent) from salaries of Board employees who are contributing members of the Fund.

These recommendations reflected the decision of the Board on August 8, 1956, to take no action to prevent the incorporation into the Board Plan of increased benefits available under the Civil Service Retirement System by virtue of the enactment of Public Law 854. The Board, however, had deferred authorizing payment to the Retirement System of the Federal Reserve Banks of the cost of funding the additional benefits. It had also deferred authorizing the contributions to the Civil Service Retirement System, provided by Public Law 854, covering members of the Board's staff who are members of that retirement system.

Governor Mills noted that although the gross benefit payable on service retirement under the Board Plan had been increased approximately 25 per cent, the portion of the benefit to be provided by the

Board's contributions had been increased almost 40 per cent because the portion provided by the members of the Plan had increased only 8 per cent. Following a discussion of this point, Governor Mills presented the question whether it might be charged that the Board, by completely funding the Board Plan, was unduly favoring its employees covered by such Plan when the Civil Service Retirement System is not fully funded. Theoretically, he said, the Board could contribute $6\frac{1}{2}$ per cent and the employee a like amount, and the Board could assume a moral obligation to see that the employee received the pension benefits agreed upon but not funded. In this connection, he emphasized that in his opinion the Board was doing the proper thing in funding the Board Plan; he was not challenging the propriety of funding the Board Plan but was raising a question whether at some future time the Board might be subjected to criticism from the standpoint that it had used funds in a manner not permissible for other agencies of the Government. In the event of such criticism, he felt that complete and specific answers must be available, and he did not think that such answers were available at present.

After Governor Vardaman indicated that he agreed with the point of view expressed by Governor Mills, there ensued a discussion of the practice of funding retirement systems. During this discussion, Chairman Martin and Governor Shepardson brought out that over a period of time theoretically there would be no increase in cost to the Board because of funding of the Board Plan, although from year to year there would be some variations.

Governor Robertson then suggested that the Board arrange to have the matter studied by a special committee with a view to making sure that the Board could justify the action if necessary. The committee, he suggested, could likewise study for the same purpose the changes proposed by the Special Joint Committee in the Bank Plan of the Retirement System of the Federal Reserve Banks. As persons who might be selected to serve on such a committee, he mentioned Messrs. Leslie R. Rounds, retired First Vice President of the Federal Reserve Bank of New York, Chester Morrill, retired Secretary of the Board of Governors, and George B. Vest, retired General Counsel of the Board.

Governor Mills said that he favored the idea of a committee study such as suggested by Governor Robertson, although it appeared to him that the Board had already "crossed the bridge" with respect to the Board Plan and that there was no alternative to approving the recommendation contained in the memorandum from the Controller's Office. Even if this recommendation were approved, however, he felt that a complete and exhaustive study would be desirable in order that the Board might be thoroughly informed and prepared to answer any question that might be raised.

Since Governor Robertson's suggestion contemplated that the committee would study also the proposed changes in the Bank Plan of the Retirement System, Chairman Martin turned to those proposals and stated reasons why, in his opinion, action on them should be expedited.

Governor Balderston supported the Chairman's view. Regarding the Board Plan, he agreed with Governor Mills that the "bridge had already been crossed" and that action should be taken on the recommendation now before the Board. Later, however, a committee such as suggested by Governor Robertson might be asked to set forth in question and answer form the reasons for the funding of the Board Plan. As to a committee analysis of the proposed changes in the Bank Plan, he noted that the matter had already been the subject of study by a committee representing the Reserve Bank presidents, the Reserve Bank directors, and the Retirement System, and that the committee's recommendations had been reviewed by Industrial Relations Counselors Service, Inc. Having had that advice, and with cases accumulating which involved the retirement rights of Reserve Bank personnel, it seemed to him that action should be taken also on the proposed changes in the Bank Plan.

The discussion then turned to the recommendations that had been submitted by Industrial Relations Counselors Service concerning retirement benefits for Board personnel, particularly the suggestion that all Board employees be placed under the Civil Service Retirement System. This suggestion had been considered by the Board at meetings last year in the light of an alternative suggestion by an *ad hoc* committee (Governors Szymczak and Shepardson) that the Board ultimately have as its one plan of retirement the Board Plan of the Retirement System of the Federal Reserve Banks. A decision on this recommendation of the *ad hoc* committee had been deferred by the Board pending study of the proposals of the Special Joint Committee relative to the Bank Plan.

In this connection, Chairman Martin said that he would oppose placing Board personnel under the Civil Service Retirement System, but that the Board should be sure that any differences between the Civil Service Retirement System and the Board Plan were justifiable and reasonable.

Governor Shepardson suggested that if the Board were to go ahead in its best judgment on the basis of thorough consideration of the information available to it, he doubted the necessity of making any brief in defense of the action unless and until the action was challenged. In the present circumstances, he would be prepared to approve the payment to fund the increased benefits under the Board Plan and let the action speak for itself.

Governor Vardaman expressed somewhat the same point of view, saying that if the Board was inclined to make the payment at this time, he would favor going ahead. He would not favor the retention of any group specifically for the purpose of preparing a defense of the action. Governor Vardaman then inquired about the possibility of having the figures submitted by the Actuary audited, but it was the opinion of the Board that such a step would not be necessary. It was brought out that the Actuary is highly regarded in his field and that in retaining him the Retirement System might be assumed to be obtaining competent professional services.

Following further discussion, the recommendations contained in the memorandum of June 24, 1957, from the Office of the Controller were approved unanimously.

Proposed changes in the Bank Plan of the Retirement System of the Federal Reserve Banks. The foregoing action with respect to retirement benefits applicable to Board personnel having been taken, discussion continued concerning the recommendations of the Special Joint Committee, as presented in that Committee's report of January 18, 1957, for changes in the Bank Plan of the Retirement System of the Federal Reserve Banks.

Chairman Martin inquired whether any real purpose would be served by further delay in acting on the recommendations. He pointed to the time that had elapsed since the report of the Special Joint Committee became available, the extent of the Board's discussions of the matter, the information presented by President Johns, Chairman of the Special Joint Committee, at meetings with the Board, and the other material that the Board had considered in this connection. He was convinced that a reasonably good job had been done in preparing the proposals and said that personally he was not so much concerned with technicalities as with the basic principles involved.

Governor Robertson then made a statement in which he said that, as opposed to the situation with respect to the payment for funding of benefits under the Board Plan, the "bridge had not yet been crossed" so far as the proposed changes in the Bank Plan were concerned. Therefore, he felt that the Board should be as sure of itself as possible before acting. For example, an erroneous conclusion on the part of the Special Joint Committee, later called to the Board's attention by Industrial

Relations Counselors Service, would have resulted in an overpayment of approximately $6 million to the Retirement System by the Reserve Banks on account of accrued liability. He went on to say that it seemed doubtful whether anyone at the Board fully understood the Retirement System, that he did not pretend to be entirely familiar with the technical problems, and that his own views therefore might reflect sentiment rather than logic. In such circumstances, it was his thought that, before acting, the Board should be thoroughly indoctrinated in the plan by persons who would have no personal interest in the proposed changes, but who were intimately familiar with both the Federal Reserve and the Retirement System. If the matter should be voted upon today, he would vote against accepting the proposed changes, but perhaps he would feel differently if the Board ordered a study by persons such as Messrs. Rounds, Morrill, and Vest, and if they concluded that the proposed plan was sound in every respect. At present, it seemed to him that the proposals contained some fundamental errors with respect to the retirement benefits payable to higher-salaried personnel and that the plan might not go far enough in taking care of the lower-salaried employees. He expressed the opinion that there should definitely be ceilings on the pension provided from contributions by the Reserve Banks, noting that the salaries of the Reserve Bank Presidents had been increased about 40 per cent in the past few years and the retirement benefits now would be increased proportionately.

The views of Governor Robertson had been stated more fully in a memorandum which he distributed to the members of the Board under date of June 24, 1957. A copy thereof is attached to these minutes as Item No. 1.

Chairman Martin expressed a somewhat different point of view, stating that the equities of the proposals seemed to him to be a matter of fine judgment. He did not think that the members of the Board could become expert in this field without devoting full time to it, and he observed that even the views of acknowledged experts were changing constantly. The basic question, he felt, was not one of the equities involved, but one of whether the Federal Reserve System should conform to the Government pattern. He believed that in this instance all parties concerned had endeavored in good faith to promulgate a reasonable plan, with acceptable retirement benefits, and that the plan had been tailored in a reasonable way. He would not favor the use of retirement ceilings and he would not want to exaggerate the importance of the error mentioned by Governor Robertson, at least from the standpoint of the principle involved. The most important thing, he said, was whether the Federal Reserve Banks were to have a retirement system that would aid in recruiting and retaining top-quality personnel in the face of strong competitive pressures. He would be willing to delay action on this matter if he could see that a further delay would achieve anything or would bring about a better system. However, unless each member of the Board was going to study all the details of the Retirement System, he did not know of any procedure to follow other than to turn now to another committee. There had already been considerable delay with resulting irritation in some quarters, and to prolong the matter further might only create more irritation. In discussion, numerous questions had been raised and considered by the Board, and the record would be clear that the Board had reviewed the proposals carefully.

Governor Vardaman stated that his opposition in principle to "private" retirement systems within the Government was such that he would have to vote against the proposals of the Special Joint Committee despite any amount of further consideration and study that might be given to them.

Governor Mills said it was his feeling that the presentation of the matter had been superficial, and that he did not pretend to know whether or not the plan was completely appropriate. However, he would vote to accept the proposed changes because he did not think any plan could be developed that would be entirely satisfactory. He again expressed his strong feeling that the Board, if it accepted the proposals, should in some appropriate way inform the proper Congressional committees and be prepared to answer any questions that might be raised.

Governor Balderston said that the conclusions of Governor Mills reflected his own position. With regard to one of the points mentioned by Governor Robertson, he said that in raising the question of equity as between employees in various salary brackets he felt that Governor Robertson had not distinguished between the benefits paid and the source of funds. In his opinion, the element of fairness had to do solely with the first of those factors. If the benefits paid were related in some acceptable way to (1) compensation and (2) length of service, they would seem to him to be equitable as between classes of employees.

Governor Shepardson commented, with respect to the pensions that would be available to top Federal Reserve Bank personnel as a result of adoption of the proposed changes in the Bank Plan, that basically this seemed to raise the question whether the Reserve Bank Presidents should be compensated on a straight Government salary scale or whether their compensation should be fixed at rates that would enable the System to attract persons appropriately qualified for such positions. If the latter approach were accepted, and if the retirement plan was in appropriate alignment with the salary scale, it did not appear to him that approval of the increased retirement benefits that would now be available would be any more inappropriate than approval of the rates of compensation.

On the matter of equity as between Reserve Bank employees drawing lower and higher salaries, Governor Shepardson said it had been demonstrated to his satisfaction from material presented to the Board that, as far as the contributions made by the Reserve Banks were concerned, the principle for which Governor Robertson had argued was handled satisfactorily in the proposed plan.

Governor Szymczak concurred in the view expressed by Chairman Martin that no individual could hope to become an expert in this field unless he devoted all of his time to it. He favored acceptance of the proposals of the Special Joint Committee and would be willing to vote now. However, he felt that it would be helpful if a committee were appointed to prepare two kinds of papers, one dealing with policy questions involved in basic decisions with respect to the Retirement System and the other dealing with technical considerations. Such papers, he said, would be useful in explaining questions concerning the Retirement System, particularly if the material could be put in easily understandable terms.

Chairman Martin then suggested that Governor Szymczak draw up for the Board's consideration proposed terms of reference for a committee study of the kind he had mentioned.

Governor Mills concurred in the usefulness of such a study. In this connection, he mentioned current Congressional consideration of a proposed retirement plan for policemen and firemen in the District of Columbia and suggested that the issues developed during that discussion would be worthy of exploration.

Governor Vardaman indicated that he would not object to a study along such lines.

Thereupon, it was agreed to advise the Chairman of the Board of Trustees of the Retirement System of the Federal Reserve Banks that the Board would be prepared to give favorable consideration to amendments to the Rules and Regulations of the Retirement System which would place in effect the recommendations contained in the report of the Special Joint Committee dated January 18, 1957, as modified by the suggestion contained in paragraph numbered 5 of the letter addressed to the Board by Industrial Relations Counselors Service, Inc., under date of May 15, 1957. On this action, Governors Vardaman and Robertson voted "no" for the reasons they had stated.

The members of the staff then withdrew from the meeting and the Board went into executive session.

Actions taken in the executive session. Following the meeting, the Chairman informed the Secretary's Office that during the executive session the Board took the following actions by unanimous votes:

1. The Board vested in Governor Shepardson for the year beginning August 1, 1957, the direction of its internal affairs that are of a managerial nature. This means that the directors of divisions will continue to take up with him matters pertaining to Board personnel, budget, and housekeeping. The Board as a whole will continue to keep in touch with the operating problems of the staff and will determine questions of policy. This designation includes authorization to approve travel requests in accordance with the official travel regulations of the Board, as amended August 6, 1956. The action also continued the authorization conferred by the Board on Governor Shepardson at its meeting on August 6, 1956, to approve on behalf of the Board (1) all proposed personnel actions relating to members of the Board's staff other than the Assistant to the Board, the Assistant to the Chairman, the Economic Adviser to the Board, the Legislative Counsel, the Special

Assistant to the Board, and the directors and assistant directors of the various divisions of the staff; and (2) the proposed appointment of examiners, assistant examiners, and other examiners of the Federal Reserve Banks, with the understanding that all such approvals would continue to be entered in the minutes as of the date of approval.

2. The Board reviewed plans for a proposed visit to Russia of a group headed by Governor Robertson and including Messrs. Carpenter, Hexter, Leonard, and Ralph A. Young of the Board's staff, Mr. Robert V. Roosa of the Federal Reserve Bank of New York, and Professor Gregory Grossman of the University of California, Berkeley, California, and unanimously approved the proposed visit, assuming the necessary arrangements could be completed.

3. The Board authorized Governor Szymczak to consider the appointment of a committee to review the problems raised during the discussion earlier in this meeting of the Retirement System of the Federal Reserve Banks, with a view to having such a committee prepare an explanation in nontechnical language of the retirement plans applicable to Board and Reserve Bank employees, along with a discussion of policies involved in System retirement plans.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on June 25, 1957, the following actions regarding the Board's staff:

Salary increase

Ruth Jean Myers, from $3,415 to $3,670 per annum, effective June 30, 1957, with a change in title from Clerk to Utility Clerk in the Division of Administrative Services.

Acceptance of resignation

Stan G. Monsted, Assistant Federal Reserve Examiner, Division of Examinations, effective August 14, 1957.

Governor Shepardson approved today on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions regarding the Board's staff:

Appointment

Mary Jane Haymaker as Clerk-Stenographer in the Division of Personnel Administration, with basic salary at the rate of $3,670 per annum, effective the date she assumes her duties.

Transfer and salary increase

Mary J. Katinas, from the position of Secretary in the Division of International Finance to the position of Secretary in the Division of Research and Statistics, with an increase in basic salary from $4,075 to $4,215 per annum, effective the date she assumes her new duties.

Salary increase

William Hyde, Sergeant (Guard Force), Division of Administrative Services, from $4,010 to $4,095 per annum, effective June 30, 1957.

Leave without pay

Helen L. Sweeney, Clerk, Division of Administrative Services, beginning June 19, 1957, pending action by the Civil Service Retirement System on Miss Sweeney's application for disability retirement.

Letter to the Federal Reserve Bank of Richmond, of which a copy is attached hereto as Item No. 2, approving the appointment of Norman F. Robinson and John F. Yancey as examiners.

Assistant Secretary

June 24, 1957

Item No. 1
6/26/57

Memorandum:

To Board of Governors

From Governor Robertson

This is written in the light of the discussion of the retirement system with Mr. Johns last Thursday. As Board members know, I have had two principal questions regarding the proposed changes: First, are the benefits that would be provided with Reserve Bank funds for lower-salaried employees as large as they should be, proportionately, compared with the benefits that would be provided for higher-salaried employees? Second, should not there be an effective ceiling on the Bank-provided pensions for high-salaried officers?

1. Equity Between Low- and High-Salaried Employees

The discussion made it clear that all agree that the Reserve Banks would be putting out much less to buy pensions for low-salaried employees, in proportion to final average salary, than for high-salaried employees. (That also is true under the existing plan.) As Mr. Johns suggested, this is because such a large part of the total retirement allowance for the low-salaried employee comes from Social Security, for which the employee pays as much as the Bank. The real question is whether the proposal before the Board gives a proper balance in the treatment of different salary-level employees, recognizing the existence of Social Security.

Mr. Johns and Mr. Sprecher stated that it takes $10.31 of reserves to produce a pension of $1 a year at age 65. Using that figure, the

$4,200 retiree with 30 years service, whose Bank-provided pension would be $945, would need a reserve of $9,743, or 232 per cent of final average salary. For the 30-year employee with final average salary of $20,000, whose Bank-provided pension would be about $8,055, the reserve to be set up from Bank funds would be about $83,047, or 415 per cent of his salary.

I do not know how "equity" in this field can be determined except as a matter of judgment. However, it is apparent that because of Social Security the costs to Reserve Banks for pension for low-salaried employees (and I understand from the IRCS report that the majority receive less than $4,200) are much less per dollar of salary than for high-pay personnel.

Also, this largely explains why the costs of the proposed Bank Plan are expected to be slightly under 13 per cent of pay roll, while as Mr. Johns pointed out, the costs of the Board Plan are slightly under 14 per cent of pay roll.

2. Ceiling

Mr. Johns said that he felt the need for a ceiling must be decided by the Board and that the decision should be on the basis of public relations and Congressional relations. His personal belief was that if straight-line pension benefits were too high or too low for some individuals, that result was a reflection of errors in the salaries that had been paid the particular persons. The latter is rather a specious argument against a ceiling, especially when we consider the nature of the Reserve Banks. It is still almost universally recognized that the upper-level salaries in the Reserve Banks have to be related to the fact that the Reserve Banks are Government to a degree. The same reasoning would apply to pension benefits.

It may be that we do not now have any sufficiently high-salaried, long-service Reserve Bank officers who under the proposed plan would receive a $45,000 pension. That, however, is not a valid argument for omitting a proper ceiling at this time. As we all know, the retirement system cannot be amended in a way which will reduce the then accrued benefits of existing active or retired members or which will reduce the then accumulated reserves held therefor. It seems obvious that we should not now freeze into the plan a procedure that would permit pensions of 75 per cent of System salaries in the $35,000 to $60,000 bracket, and we certainly should not wait to adopt an effective ceiling until we are confronted with an actual case.

The tentative suggestion that I made was for a sliding-scale ceiling that would begin on salaries above $15,000 and which would gradually reduce the percentage of pension and Social Security to 50 per cent of final average salary at $40,000 and above. Mr. Johns suggested that only one-half of Social Security be considered under such a ceiling, and that is a reasonable suggestion which I do not oppose. Mr. Johns also suggested that he would prefer a flat dollar ceiling. In my opinion, a flat cut-off necessarily produces greater inequities between persons near the cut-off than does a graduated ceiling, which is just as easy to administer and explain. The following table shows how the ceiling I suggested would work, and it should be noted that it has been modified to incorporate Mr.

Johns' suggestion that only half the Social Security benefit be subjected to the ceiling.

Final Average Salary		Maximum Pension and One-half of Social Security Benefit	Dollar Limits That Would Result
Up to	$15,000	75%	11,250
Above 15,000 but not over	16,000	74%	11,840
	17,000	73%	12,410
	18,000	72%	12,960
	19,000	71%	13,490
	20,000	70%	14,000
	25,000	65%	16,250
	30,000	60%	18,000
	35,000	55%	19,250
All over	40,000	50%	20,000 (or more)

I do not see how anyone could feel that ceilings such as these would place severe limitations on high-salaried, long-service officers. I have been unable to find any case where the proposed ceiling would be less than the pension permitted under the retirement plan now in effect - in every example given us by the retirement office, it would permit a substantial increase in the already generous benefits. However, if such a ceiling were adopted I would suggest that there be a proviso that in no case would the limitation be applied in a manner to reduce the pension to which a person would be entitled under the present plan.

It is my strong belief that the System would be vulnerable if it adopted the proposed plan without either a graduated ceiling such as I have suggested or a flat dollar limitation such as Mr. Johns stated he would prefer.

In considering any ceiling it should be remembered that, in addition to the pension subjected to ceiling, all retirees would receive the full benefit of annuities purchased with their own deposits, as well as the half of social security benefits not subject to the ceiling. In the case of higher-salaried employees, these annuities provided by employee deposits would amount to several thousand dollars even for some of the Presidents who have had relatively short service with the System. (The Board may be interested to know that the employee may purchase an annuity from the retirement system for about 25 per cent less than he could buy it outside.)

In addition to the foregoing principal points discussed Thursday, Mr. Johns mentioned the IRCS comment in its letter of May 15 regarding the vesting privilege. Personally, I am inclined to let the vesting privilege remain unchanged. Mr. Johns made it clear that all employees who leave the System after ten years service (including those whose salaries are under $4,200 and who in the future will make no contributions) would be entitled to vesting of the reserves provided out of Bank contributions.

In conclusion let me say that this (and perhaps, any) retirement plan is very complicated and difficult for one who is inexpert in the field to understand. We have had our attention called to one $6,000,000 mistake, and I assume there are no more. But only an expert could be sure. It seems to me the Board should employ an expert to review the plan and advise it before giving its approval to a plan which, if approved, would be difficult to alter if rights had become vested. Before altering the existing retirement plan (which is admittedly good), we should be sure the changes can be justified. You will recall that IRCS - the experts used by the System Committee - said in its report: "... there is still room for considerable difference of opinion about the extent to which, and the rapidity with which, <u>so excellent a program as that of the banks</u> should be amended." (Underlining mine)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
6/26/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1957

Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the requests contained in your letters of June 17, 1957, the Board approves the appointment of Norman F. Robinson and John F. Yancey as examiners for the Federal Reserve Bank of Richmond, effective July 1, 1957.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.