

Minutes of the Board of Governors of the Federal Reserve System
on Friday, May 22, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Benner, Assistant Director, Division
of Examinations
Mr. Hill, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Minneapolis, and Kansas City on May 21, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Item circulated to the Board. The following item, which had been circulated to the Board and copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to the Chairman of the Senate Banking and Currency Committee regarding S. 1798, a bill to amend the Federal Deposit Insurance Act to eliminate the payment of premiums on deposits of trust funds by fiduciary banks in uninsured banks.

With reference to this it was pointed out that there seemed to be an inconsistency between the title of the proposed bill and the text with respect to the area circumscribed. It was understood that Mr. Hackley would call this to the attention of Mr. Coburn,

5/22/59

-2-

General Counsel, Federal Deposit Insurance Corporation, when he met with him this afternoon.

Messrs. Johnson, Director, Division of Personnel Administration, and Molony, Special Assistant to the Board, entered the room at this point.

"Questions and Answers" on Regulation U (Item No. 2). In connection with the amendments to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, which become effective June 15, 1959, a series of questions and answers illustrating the application of Regulation U had been revised to take account of the amendments so that if the Board desired they could be made available for such distribution as might seem appropriate.

Governor Balderston stated that the question before the Board was primarily a matter of procedure--whether the Board wished to restrict the distribution of the revised questions and answers to the supervisory authorities or make them available to the public and, if the latter course were decided upon, whether they should be distributed with the reprinted Regulations.

Question was raised as to whether the questions and answers might be published in the Federal Reserve Bulletin, but it was felt that distribution in pamphlet form would be more satisfactory.

5/22/59

-3-

Governor Robertson suggested that at this time the questions and answers might be sent to the Federal Reserve Banks and supervisory agencies with a request that after, say, three months of use, they submit any suggestions for change in order that the Board might have the benefit of such suggestions before distribution of the material to the public in pamphlet form.

Following a discussion of various alternatives, it was agreed that a draft of the questions and answers would be sent to the Reserve Banks today with a request that comments or suggestions be sent to reach the Board's offices not later than Thursday morning, May 28. The questions and answers, revised in the light of those comments, would then be reproduced and mailed to reach the Reserve Banks about June 4, which would permit distribution to member banks so as to reach them by Monday, June 8. The telegram sent to Presidents of all Federal Reserve Banks pursuant to this action is attached hereto as Item No. 2.

Messrs. Molony and Benner then withdrew from the meeting.

Major medical insurance. At the meeting on May 15, 1959, the Board requested the Division of Personnel Administration to submit material concerning the major medical insurance plan recommended by the Presidents' Conference Subcommittee on Personnel and the points on which difference of opinion was understood to exist, for consideration prior to the special meeting of the Board and the Presidents on May 26, 1959. A memorandum submitted by the Personnel Division under date of

5/22/59

-4-

May 20, 1959, included comparative information on the Board's program, the proposed Reserve Bank program, the plan for Federal employees recently submitted to the Congress, and plans currently favored by industry.

In reviewing the status of the program being considered by the Federal Reserve Banks, Mr. Johnson pointed out that historically their study of such insurance apparently started in 1955. The assignment was given to the Presidents' Conference Subcommittee on Personnel which initially worked with the Blue Cross organization of New York. Blue Cross suggested that it might be possible to work out with all Blue Cross organizations covering Federal Reserve Bank offices a uniform contract, including Blue Cross and Blue Shield as well as major medical insurance; however, at the September 30, 1957 meeting of the Presidents' Conference, the Subcommittee reported that such uniform coverage could not be worked out. The Subcommittee then obtained the assistance of Marsh and McLennan, insurance brokers, and with their guidance set up standards for Systemwide major medical insurance. Marsh and McLennan requested quotations from twelve companies on three plans; on the basis of the quotations from the eight submitting companies, the Presidents' Conference at a special meeting on January 27, 1959 considered a Subcommittee recommendation of a plan that would provide a \$10,000 lifetime maximum benefit, 80%-20% coinsurance, and a straight \$100 deductible, with Prudential

5/22/59

-5-

Insurance Company proposed as the underwriter. Prudential quoted an annual billing premium of \$460,792 which would be firm until August 1, 1959. Following a discussion of various features of the proposed program it was decided to table the report and certain suggestions made by President Hayes of the Federal Reserve Bank of New York until the February 10, 1959 meeting. On February 5 Mr. Hayes wrote to the other Presidents setting forth certain amendments to the Subcommittee's plan, and at the February 10 meeting the Presidents voted to adopt without change the recommendations of the Subcommittee as to coverage and benefits; however, six of the eleven members present were recorded as favoring (a) maximum coverage of \$10,000 per calendar year, (b) \$20,000 maximum lifetime coverage and objective reinstatement, and (c) variable deductions. The Presidents' Conference also adopted the proposal of the Subcommittee whereby the Banks would pay two-thirds of the premium.

Mr. Johnson stated that, while the Board had not yet received a definite proposal from the Conference of Presidents as to the plan the Conference had agreed upon, he understood that at the joint meeting with the Board on May 26 the Presidents would request approval of substantially the Subcommittee recommendations as modified along the lines indicated in the foregoing paragraph. He then proceeded to discuss the several approaches to major medical insurance and the various features individually.

5/22/59

-6-

In the area in which differences appeared, i.e., maximum coverage per calendar year, maximum lifetime coverage and objective reinstatement, and variable deductions, Mr. Johnson stated that based on advice from Marsh and McLennan the Subcommittee's recommendation of \$10,000 lifetime maximum with right of reinstatement was thought to be adequate for this type of insurance and that it was the belief of the Personnel Division that either the \$100 or variable deduction was acceptable. Marsh and McLennan advised the current trend was toward the variable deduction, although the straight deduction was more easily administered. With respect to the sharing of cost, it was the opinion of the Personnel Division that the trend was toward payment of two-thirds by the employer and it would appear that the desire of the Federal Reserve Banks to apply the same fractional absorption of cost as they absorb for basic hospitalization would be progressive with the trend toward larger absorption of the cost by employers. He noted, however, that current proposals being discussed for Federal employees contemplated a 50/50 sharing of the costs between employer and employee, this being higher than earlier proposals that the employer should pay one-third and employees two-thirds of the cost if such coverage were made available for Government.

5/22/59

-7-

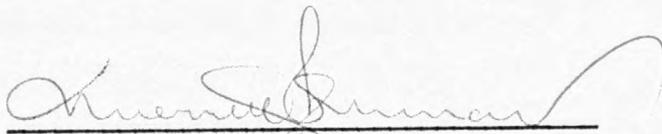
Following a brief discussion, it was understood that the Board would listen to the presentation of the views of the Presidents' Conference at the joint meeting on May 26, after which it would give consideration to whatever specific proposals might be submitted with respect to a major medical insurance program for the Federal Reserve Banks.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated May 15, 1959, from Mr. Johnson, Director, Division of Personnel Administration, recommending the appointment of Jeanne Chambers as Clerk-Stenographer in that Division, with basic annual salary at the rate of \$3,755, effective the date she assumes her duties.

Memorandum dated May 19, 1959, from Mr. Noyes, Adviser, Division of Research and Statistics, recommending that permission be granted to James C. Byrnes, Economist in that Division, to accept part-time employment as statistical consultant on a specific survey project to be undertaken by the National Association of Rural Electric Cooperatives.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
5/22/59

OFFICE OF THE VICE CHAIRMAN

May 22, 1959.

The Honorable A. Willis Robertson,
Chairman, Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of April 28, 1959, requesting a report on a bill, S.1798 "To amend the Federal Deposit Insurance Act to eliminate the payment of premiums on deposits of trust funds by fiduciary banks in uninsured banks."

The Board understands that the purpose of this legislation is to correct a situation existing because of present law under which member banks of the Federal Deposit Insurance Corporation which deposit in uninsured banks funds held by them in a fiduciary capacity must consider such funds as part of their deposits for FDIC assessment purposes, and pay to the Corporation premiums thereon, although losses of such funds arising from failure of the depository uninsured bank would normally not be paid at the time of its failure.

While the provisions of the bill would not directly affect the functions and responsibilities of the Federal Reserve System, the Board has no objection to its favorable consideration.

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,
Vice Chairman.

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

May 22, 1959.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Supplementing wire of May 6, 1959, it is now expected that reprinted Regulations T and U will be shipped on May 27 or 28 to reach you early in the week beginning June 1.

With respect to "Questions and Answers" on Regulation U, copies will be sent to you today with request that they be reviewed by staff members and comments or suggestions be sent to reach the Board's offices not later than Thursday morning, May 28. These will then be reproduced and supply shipped to you as soon as possible, probably reaching your Bank about June 4. It will be noted that Questions and Answers are similar to those discussed at conferences of examiners, except for portions applicable to amendments to become effective June 15.

Should your staff review of Questions and Answers suggest a significant modification of number of copies requested in your recent wire, please include that information at time of advice whether you have suggestions concerning this document.

(Signed) Merritt Sherman

SHERMAN