Minutes for July 28, 1959

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 M	
Gov. Szymczak		x
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson	x	
Gov. King		x

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, July 28, 1959. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Johnson, Director, Division of Personnel Administration

Mr. Hayes, President, Federal Reserve Bank of New York

Major medical insurance. At its meeting on July 14, 1959, the Board gave consideration to a request from the Federal Reserve Bank of New York for approval of major medical coverage in addition to that provided in the uniform Reserve Bank plan previously approved by the Board. With respect to non-hospital-confined psychiatric treatment, the uniform plan would provide only limited coverage, while under the existing major medical plan at the New York Bank those cases were covered to the same extent as any other illness. The New York Bank had requested that it be allowed to continue the existing coverage under the new plan, which would involve for that Bank additional premium cost amounting to about $2,450 a year, two-thirds of which, or about $1,635, would be payable by the Reserve Bank. Following the discussion at the July 14 meeting, a decision was deferred in order that President Hayes might have an opportunity to present the Reserve Bank's position to the Board personally.

1/ Withdrew from afternoon session at point indicated in minutes.

In reviewing the matter, Mr. Hayes said it was clear to the New York Bank that the uniform plan had such advantages in coverage and net cost to employees that there was no question of retaining the existing New York plan, which was paid for in full by the participants and covered only employees compensated at the rate of $5,000 per annum or higher. However, there was a problem involved in asking employees to forego benefits enjoyed under the current plan. As far as he knew, the problem was confined to the New York Bank, for no other Reserve Bank plan in existence was believed to offer coverage for psychiatric treatment comparable to that available with respect to physical ailments. The New York Bank had considered the possibility of offering employees a choice between the uniform plan and the same plan plus psychiatric coverage paid for in full by the participants, but concluded that such an approach would not be practical. It seemed clear that the vote of the employees would go strongly in favor of the uniform plan because of the cost factor.

Mr. Hayes said that the New York Bank considered the psychiatric coverage beneficial. Under the uniform plan, he pointed out, psychiatric treatment would be covered fully if the patient was confined to a general hospital, but in cases of mental illness it is more usual for the patient to be placed in a sanatarium in order to provide special treatment. In his opinion, the adverse view taken by the other Presidents reflected the fact that they had not had experience with a plan providing such coverage.

Aside from this, there was the question of not wishing to go substantially beyond prevailing practice in the field of major medical insurance. It was Mr. Hayes' feeling that some influence may have been exerted by the insurance advisers because they were apprehensive about the possibility of abuses and that further negotiations with the insurer under the uniform contract might be called for to obtain desirable benefits that the insurer was at first reluctant to include.

In further comments, Mr. Hayes repeated the view of the New York Bank that mental illnesses should be treated under a major medical insurance policy in the same manner as physical illnesses. He noted that under the existing New York plan, which had been in effect approximately three years, there had been 14 cases involving payments for psychiatric treatment.

In response to a question by Governor Balderston, Mr. Johnson commented that the insurer under the Board's major medical insurance policy had made a liberal interpretation of the term "hospital" in certain cases of mental illness.

Mr. Hayes acknowledged that there was room for administrative leeway in dealing with such cases but indicated that he would be reluctant to proceed in reliance upon flexibility on the part of the insurance company. He added that the New York Bank was anxious to poll its personnel with respect to major medical insurance and that the Bank therefore would like to have the Board's decision as promptly as possible.

In response to questions, Mr. Hayes stated that the possibility had not been explored of getting the insurer under the basic Reserve Bank plan to broaden the definition of a "hospital". In this connection, he repeated that in the view of the New York Bank equivalent coverage should be available for psychiatric treatment outside of institutions. Mr. Hayes estimated that such coverage would increase the premium cost only about 3 per cent, which would mean that the additional cost payable by the Reserve Banks might run around $9,000 annually.

Governor Robertson commented that expansion of the definition of a "hospital" in the uniform contract to include mental institutions presumably would cost somewhat less than the figure mentioned by Mr. Hayes.

At the conclusion of the discussion, Chairman Martin indicated to Mr. Hayes that the Board would give further consideration to the matter this afternoon.

The meeting then recessed and reconvened at 2:00 p.m. with the same attendance on the part of the members of the Board as at the morning session. From the staff Messrs. Sherman, Kenyon, and Johnson were present along with Messrs. Riefler, Assistant to the Chairman; Thomas, Economic Adviser to the Board; Young, Director, Division of Research and Statistics; Shay, Legislative Counsel; Noyes, Adviser, Williams, Associate Adviser, and Fisher, Economist, Division of Research and Statistics; and Solomon, Assistant General Counsel.

Testimony on housing legislation. Chairman Martin had been asked to appear before the Housing Subcommittee of the Senate Banking and Currency Committee tomorrow to testify regarding the Presidential veto message on S. 57, an omnibus housing bill. There had been distributed prior to this meeting a draft of testimony proposed to be given by Chairman Martin at such time.

In reviewing the draft statement, Mr. Fisher said it was the thought of the staff to direct attention particularly to those parts of the bill that would have inflationary consequences in the sense of imposing additional strain on the capital markets. Since the provisions of the bill apparently would not impose a heavy budgetary burden in the fiscal years 1960 or 1961, one might say that from this standpoint the enactment of the bill would not be excessively inflationary. On the other hand, one could argue that the burden on the capital markets would be inflationary and that this was not the time to encourage further borrowing. He noted that the draft circulated to the Board included supplementary material, which might or might not be used in the Board's discretion, dealing in more detail with certain of the provisions of S. 57.

Governor Mills said that he thought the proposed statement was good and that he would favor having the optional material available for possible use but not including it in the statement.

At the instance of Governor Mills and other members of the Board, there followed discussion of the comments included in the testimony with regard to certain of the provisions of S. 57 and suggestions were made for modification in several respects. It was agreed to include as an attachment to the statement a schedule of minimum statutory downpayments, from 1950 to date, on new homes with mortgages insured by the Federal Housing Administration under section 203(b)(2) of the National Housing Act.

At the conclusion of the discussion, agreement was expressed with the content of the statement and it was understood that the optional material referred to by Mr. Fisher would be available to Chairman Martin on the date of his testimony but not included in the prepared statement. It was agreed that any further editorial comments would be sent direct to the appropriate members of the staff and that the testimony would be given in a final form satisfactory to Chairman Martin.

All of the members of the staff except Messrs. Sherman, Kenyon, Johnson, and Solomon then withdrew.

Major medical insurance. In accordance with the understanding at this morning's session, further consideration was given by the Board to the request of the Federal Reserve Bank of New York for approval of coverage for psychiatric treatment in addition to that provided in the uniform major medical plan previously approved by the Board for the Federal Reserve Banks.

Following discussion of the matter, it was the unanimous view of the Board members that it would not be desirable to provide coverage in the plan of any individual Federal Reserve Bank beyond the maximum benefits contemplated by the uniform contract. It was noted, however, that the insurer under the Board's major medical policy (the same company that was to act as insurer under the uniform plan of the Reserve Banks) had adopted administratively a rather liberal point of view with respect to the definition of a "hospital" in certain cases involving psychiatric care. Accordingly, the Board indicated that there would be no objection to negotiating with such company with a view to determining the possibility of writing into the Board and the Reserve Bank contracts a broadened definition of the term "hospital" that would parallel the interpretation made by the insurance company administratively. This, it was noted, would go part of the way toward meeting the request presented by Mr. Hayes and would tend to ease the transitional problem to which he had referred. In this connection, it was suggested that Mr. Johnson might negotiate with the insurance company on behalf of both the Board and the Reserve Banks to determine how far the company would be willing to go in this respect.

At the conclusion of the discussion, Governor Shepardson was requested to get in touch with Mr. Hayes and inform him of the Board's views.

> Secretary's Note: A copy of the letter sent to the Federal Reserve Bank of New York, with Governor Shepardson's approval, is attached as Item No. 1.

Atlanta examination report. At the meeting on July 9, 1959, Governor Mills was asked to review with President Bryan of the Federal Reserve Bank of Atlanta certain matters covered in the 1959 report of examination of that Bank; namely, the establishment of a twilight shift in the check collection department and the inadvertent disposition of a quantity of unissued United States savings bond stock.

Governor Mills reported that he sent a letter to President Bryan on the date of the Board discussion but that he had not as yet received a reply, presumably because Mr. Bryan had been on vacation.

Chairman Martin then withdrew from the meeting to keep another appointment. Messrs. Johnson and Solomon also withdrew at this point.

Assistance to Banco de Guatemala. With reference to the discussion at the meeting on July 15, 1959, relating to the assignment of Mr. Ralph E. Holben to serve as an adviser to Banco de Guatemala, Governor Shepardson recalled that the recommended arrangements had been approved by the Board subject to certain checks being made by the Division of Personnel Administration with respect to Mr. Holben. It had since been ascertained, he said, that Mr. Holben had full security clearance and also that his credentials and background were of the caliber that would be expected in the case of a person from the Federal Reserve System being considered for an assignment of the character to be undertaken in Guatemala.

Change in Board's staff. Following reference by Governor Shepardson to earlier informal discussions by the Board, unanimous approval was given to the appointment of Clarke L. Fauver, Assistant Secretary of the Board, as Assistant to the Board, in the Board Members' Offices, effective September 1, 1959, with annual salary at the rate of $14,000. This action contemplated that Mr. Fauver, in addition to assisting Mr. Molony, Assistant to the Board, in the latter's duties, would continue to have responsibility for handling official visitors and visiting delegations to the Board's offices and that he would also continue to handle staff responsibilities in connection with the appointment of directors at the Federal Reserve Banks and branches.

Inclusion of statement in Bulletin. After discussion on the basis of comments by Governor Shepardson, the Board approved including in the August 1959 issue of the Federal Reserve Bulletin the joint statement relating to the Treasury-Federal Reserve study of the Government securities market which was presented in connection with the Secretary of the Treasury's appearance before the Joint Economic Committee on July 24, 1959. It was understood that the inclusion of this material in the Bulletin would result in an overexpenditure in the authorized budget account for printing of the Federal Reserve Bulletin. The possibility of eliminating other material scheduled for inclusion in the August issue of the Bulletin was mentioned, and it was understood that Governor Shepardson would explore this possibility further.

Temporary assignment of Mr. Clay. Governor Shepardson referred to proposed arrangements under which Mr. George H. Clay, Vice President and General Counsel of the Federal Reserve Bank of Kansas City, would be made available to the Board to assist the Legal Division for a period of from six weeks to two months beginning on or about August 17, 1959. The arrangements contemplated that Mr. Clay's salary would continue to be paid by the Kansas City Reserve Bank for the period of this assignment but that the Board would reimburse the Reserve Bank for travel and other official expenses, including living accommodations in Washington.

It was indicated that there would be no objection to the arrangements outlined by Governor Shepardson.

The meeting then adjourned.

Secretary

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

Item No. 1
7/28/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 7, 1959

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

The Board of Governors has considered the request contained in your letter of June 15, 1959, for approval of an arrangement which would permit the major medical insurance plan applicable to the Federal Reserve Bank of New York to provide for full coverage of non-hospital confined psychiatric treatment, which would represent an addition to the benefits provided for such treatment under the plan approved for all Federal Reserve Banks.

In considering this request it is recognized that, with respect to your Bank, there are problems arising from the provisions of the System plan differing from your present plan; however, it is noted that it was the opinion of the other Reserve Bank Presidents, as stated in the Minutes of the Conference of Presidents on February 10, 1959, that "out-of-hospital psychiatric care is an area in which the opportunity for extravagant use or abuse is greatest with consequent danger that costs may get out of hand. There was full recognition of the fact that personal expenses due to psychiatric care can be burdensome and even disastrous in particular cases. Nevertheless, it was felt that, at least at this time, it would not be prudent to undertake to offer full insurance coverage of out-of-hospital psychiatric care."

It was also noted that Marsh and McLennan, the firm retained by the System as advisor on the major medical program, recommended that the benefits for out-of-hospital psychiatric treatment be restricted to 50 per cent coverage, in view of the adverse experience which was developing in such cases. Marsh and McLennan advised that many of the insurance companies were making such restricted provisions an integral part of their major medical policies and that there is a tendency toward tightening existing major medical contracts with respect to out-of-hospital psychiatric treatment. Other information sources experienced in the major medical field, without exception, support these views.

In view of these opinions, the Board believes that there is not sufficient justification for deviation from the major medical plan as presented by the Presidents' Conference and, therefore, reaffirms its understanding that all Federal Reserve Banks will keep their programs within the maximum benefits provided under the approved System plan.

However, there would be no objection to the System obtaining from the insurer a broadening of the definition of "hospital" with respect to in-patient psychiatric treatment. Inasmuch as the Board is at present discussing this with the insurer in connection with the Board's major medical program, it will be glad to make available to the System the benefit of its experience after these negotiations are completed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.