

Minutes for September 30, 1965.

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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

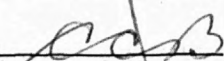
Chm. Martin



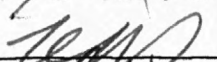
Gov. Robertson



Gov. Balderston



Gov. Shepardson



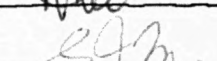
Gov. Mitchell



Gov. Daane



Gov. Maisel



Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, September 30, 1965. The Board met in the Board Room at  
10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Robertson  
Mr. Shepardson  
Mr. Mitchell  
Mr. Maisel

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Molony, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Johnson, Director, Division of  
Personnel Administration  
Mr. Kakalec, Controller  
Mr. Sprecher, Assistant Director,  
Division of Personnel Administration

Board Plan of Retirement System (Items 1 and 2). There had  
been distributed a memorandum from the Division of Personnel Adminis-  
tration dated September 29, 1965, describing certain increases in  
Civil Service retirement annuities authorized by Public Law 89-205,  
the provisions of which were to become effective December 1, 1965.  
The memorandum, a copy of which is attached as Item No. 1, recommended  
that the Board interpose no objection to incorporating the benefits  
of this Public Law into the Board Plan of the Retirement System of the  
Federal Reserve Banks and that it authorize the payment to the Retire-  
ment System of approximately \$420,000, estimated to be needed to fund  
annuity increases over the lifetime of the present annuitants and their  
eligible survivors. It was also recommended that the Board approve a

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payment of approximately \$2,000 to the Retirement System by the Federal Reserve Bank of Richmond to fund the cost of a similar benefit for the widow of Maurice P. Flagg. It was further recommended that the Board approve a budget overexpenditure in the appropriate account to fund the benefits.

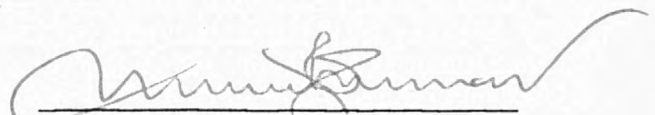
After discussion, the recommendations in the memorandum were approved unanimously. A copy of the letter sent to the Secretary of the Retirement System is attached as Item No. 2.

Employment practices at New York Reserve Bank (Item No. 3).  
Pursuant to the understanding at the meeting on September 14, 1965, there had been distributed a revised draft of reply to a letter from the Legal Department of the Congress of Racial Equality (CORE) relating to alleged discrimination in employment practices at the Federal Reserve Bank of New York.

In discussion, certain further changes in the draft reply were suggested, principally for the purpose of emphasis and tone. Unanimous approval then was given to a letter in the form attached as Item No. 3.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from George Smith, Laborer, Division of Administrative Services, requesting permission to work for a local tire company on a part-time basis.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEMItem No. 1  
9/30/65Date September 29, 1965.

## Office Correspondence

To Board of Governors  
From Division of Personnel AdministrationSubject: Annuity Adjustments --  
Board of Governors Plan of the Retirement System of the Federal Reserve Banks.

A recently approved Public Law provides for increases in Civil Service retirement annuities to persons already retired and to employees who retire on or before November 30, 1965, with annuities which commence on or before December 1, 1965. The annuities of approximately 750,000 Civil Service retirees presently on the rolls will be adjusted as a result of this Act. In addition, it is expected that a considerable number of Federal employees now eligible for retirement will retire before December 1, 1965, in order to qualify for the increase authorized by this Act.

In brief, the annuities of all persons who are entitled to receive a Civil Service annuity on the effective date of the Act will be increased on the following basis:

1. All annuities which commenced (or, if a survivor annuity is based on the spouse's annuity which commenced) on or before October 1, 1956, will be increased by 6.5 per cent of the annuity plus the increase in the cost of living as reflected in the Consumer Price Index from December 31, 1962, until the latest report of the Bureau of Labor Statistics (July 1965). This will be an additional 4.6 per cent for a total increase of 11.1 per cent.

2. All annuities which commenced after October 1, 1956, but not later than the effective date of this Act, will be increased by 1.5 per cent plus the same increase in the cost of living (4.6 per cent). This will result in a total increase of 6.1 per cent.

3. A special group of survivor annuities payable to widows or widowers of employees who died before February 29, 1948, or who retired before April 1, 1948, will be increased 15 per cent or \$10 a month, whichever is the lesser.

In addition, whenever the cost of living, nationwide, rises by at least 3 per cent over the Consumer Price Index for the month (July 1965) used as the basis for the most recent cost-of-living annuity increase and remains at this increased level of 3 per cent for 3 consecutive months, an increase equal to the percentage rise in the Index will be granted automatically. Applying the provisions of this Act to the 169 annuitants and survivors on the Board Retirement Plan rolls as of September 15, 1965,

results in an annual cost to the Board of about \$40,000, with increases to annuitants and survivors ranging from as little as \$24 to as much as \$1,200 per year, broken down into dollar categories as follows:

<u>\$1 - 99</u>	<u>\$100-199</u>	<u>\$200-299</u>	<u>\$300-399</u>	<u>\$400-499</u>	<u>\$500 and over</u>	<u>Total</u>
<u>48</u>	<u>39</u>	<u>34</u>	<u>22</u>	<u>7</u>	<u>19</u>	<u>169</u>

The Act authorized the increases to Civil Service annuitants and survivors to be payable from present monies in the Civil Service Fund rather than through annual appropriations; and in such cases, it has been the practice of the Board to fund such liabilities for the future. The Retirement Office estimates that it will cost approximately \$420,000 to fund this increase for Board Plan annuitants and survivors presently on the rolls. In addition, while we are unable to estimate any funded amount, it is assumed there will be a more than normal number of retirements prior to December 1, 1965 (possibly 6 or 8), for those persons who by that time will have reached eligibility (30 years' service at age 55) and who would receive an 8.1 per cent (6.1% + 2.0%) but who as of this date have not yet made application for retirement. Some 30 Board Plan employees fall in this latter category of eligibility. Another 16 employees under the Civil Service Retirement System are eligible but no additional cost will be involved for the Board. Another funding will also be necessary when, and if, the cost-of-living Index reaches an additional 3 per cent increase over the July 1965 date.

#### Recommendation

It is recommended that the Board interpose no objection to incorporating the benefits of this Public Law into the Board Plan of Retirement of the Retirement System of the Federal Reserve Banks and authorize the payment to the Retirement System of approximately \$420,000 that it is estimated will be needed to fund the increases over the lifetime of the present annuitants and their eligible survivors. It is also recommended that the Board approve a payment (approximately \$2,000) to the Retirement System by the Federal Reserve Bank of Richmond to fund the cost of a similar benefit for the widow of Maurice P. Flagg.

As our payments were not anticipated and therefore not included in the 1965 budget and will be payable to the Retirement System of the Federal Reserve Banks prior to the end of this calendar year, it is further recommended that the Board approve an over-expenditure in the appropriate account to fund these benefits.

The attached proposed letter to the Secretary of the Retirement System of the Federal Reserve Banks reflects these recommendations.

Comments

The purpose of this legislation is to provide equitable adjustments in the annuities of Federal Civil Service retirees and survivors on the annuity rolls, to improve the existing cost of living principle by gearing it to a more sensitive monthly price index indicator, and to increase the survivorship protection of spouses of employees and future annuitants.

The difference in treatment between those retiring before and after October 1, 1956, is to close approximately one-half the lag in annuity improvements for the pre-1956 retirees as compared to improvements which have benefited the post-1956 retirees. Retirement amendments in 1956 improved the benefits of employees who retired thereafter on the average by over 20 per cent but did nothing to improve the lot of those who then were already on the annuity rolls. Consequently, the post-1956 retirees have received 10 per cent more in the form of increases than have the pre-1956 retirees. This then closes about one-half the gap created by the 1956 amendments, and leaves those retired on or before October 1956 about 10 per cent behind those retired after that date. The law also provides a slightly higher percentage increase for a group of elderly widows of employees or annuitants who died at a time when no survivor protection was afforded by the Civil Service law. This last provision applies to only two widows on the Board's retirement rolls.

The benefits payable to Civil Service annuitants and survivors are being paid from the Civil Service Fund rather than on a pay-as-you-go basis through annual appropriations of Congress. These benefits are of a permanent nature and cannot be reduced by future changes in the cost-of-living Index. In order that the Board may take advantage of earnings on invested funds at a rate which presently averages 4.35 per cent, it seems to the advantage of the Board to fund the payment at this time.

If the Board approves these recommendations, a notice of advice of annuity increase will be mailed to all Board Plan retirees and survivor annuitants in October, and a notice will also be sent immediately to all present eligible active employees of the Board advising of the terms of this legislation so that these employees may consider the effect on their own individual status prior to November 30, 1965.

  
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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
9/30/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 30, 1965.



Mrs. Valerie R. Frank,  
Secretary, Retirement System  
of the Federal Reserve Banks,  
Federal Reserve Bank of New York,  
New York, New York. 10045

Dear Mrs. Frank:

The Board of Governors interposes no objection to increasing the benefits under the Board Plan of the Retirement System of the Federal Reserve Banks in order to conform to the increased benefits provided for certain retirees and survivor annuitants of the Civil Service Retirement System by Public Law 89-205, effective December 1, 1965.

It will be appreciated if you will bill the Board for the amount the Actuary estimates necessary to fund the increases over the lifetime of the retirees and their eligible survivors. It is understood that this funding will approximate \$420,000 and will be paid by the Board just prior to December 28, 1965.

You will note from the enclosed copy of a letter to Edward A. Wayne, President, Federal Reserve Bank of Richmond, that the Bank has been authorized to pay to the Retirement System of the Federal Reserve Banks the sum of approximately \$2,000 necessary to fund the increased annuity of \$156 for Mrs. Maurice P. Flagg.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3  
9/30/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 1, 1965.



Mr. Stephen M. Nagler,  
CORE Legal Department,  
c/o Mr. George Schiffer,  
Attorney at Law,  
40 East 49th Street,  
New York, New York. 10017

Dear Mr. Nagler:

Reference is made to your letter dated July 30, 1965, to Chairman Martin regarding your recent meetings with officers of the Federal Reserve Bank of New York for the purpose of discussing the Bank's employment practices, and to the copy of "CORE and NAACP Demands on the Federal Reserve Bank of New York," enclosed therewith. Your letter alleges, in substance, that the Bank does not provide equal employment opportunities for certain minority groups and that your discussions with the Bank have been unsatisfactory and requests that Chairman Martin or his representative participate in future discussions.

The responsibility for conducting the affairs of a Federal Reserve Bank is vested by law in its Board of Directors. Accordingly, the Board of Directors of a Federal Reserve Bank has primary responsibility for its employment practices. The Board of Governors of the Federal Reserve System, however, exercises general supervision over the Federal Reserve Banks and, in exercising its supervisory authority, has kept itself informed with respect to the employment practices of the Federal Reserve Bank of New York. From the record of the Bank's relationship with the New York State Commission on Human Rights over a twenty-year period, and a review of the employment policies and procedures in effect at the Bank, the Board of Governors is of the opinion that the Bank has provided equal employment opportunities for minority groups. Indeed, quite apart from all applicable requirements of the law, the Board is satisfied that over the years the Bank has sought in good faith to promote equal employment opportunities.

If there are individual cases where an employee or an applicant believes that he has been unlawfully discriminated against, duly constituted procedures exist for the adjudication of such claims. As you are aware, the provisions of Title VII of the Civil Rights Act



Mr. Stephen M. Nagler

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of 1964 became effective with respect to the Federal Reserve Bank on July 2, 1965, and the provisions of the New York State Law Against Discrimination, with which the Bank has voluntarily complied since its enactment on July 1, 1945, now apply to the Bank.

With respect to the demands made by you on the Federal Reserve Bank of New York, which involve matters of managerial judgment, the Directors of the Bank were informed of, and concurred in, the positions taken by the Bank in its discussions with CORE and NAACP. The Board of Governors has confidence in the capability of the officers and Directors to manage the Bank and to make decisions in conformance with sound public policy with respect to such matters. Accordingly, it is the view of the Board that it would be inappropriate for the Chairman or his representative to participate in future discussions between CORE and NAACP and the Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.