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March 2, 1933.

Mr. John U. Calkins,
Chairman, Governors' Conference,
c/o Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Calkins:

The Federal Reserve Board has been informed of the action taken by the Governors' Conference during its meetings on November 15 and 16, 1932, at Washington as follows:

> "After a general discussion of the urgent need of some sort of benefit for officers and employees of the Federal Reserve system, it was
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> "VOTED that it is the sense of the conference that the report of this committee dated February 11, 1932, as well as the supplementary report dated November 7, 1932, be approved by this conference, and that the report be resubmitted formally to the Federal Reserve Board with the request that the Federal Reserve Board advise the conference which form of organization outlined in the plan submitted to the Board in the committee's memorandum of February 11, 1932, it would approve and support."

Since then the Board has also been informed of actions taken by the boards of directors of the Federal Reserve Banks of New York and Richmond looking to the establishment of pension plans for those banks if and when approved by the Federal Reserve Board.

The supplementary report of November 7, 1932, of the Pension Committee referred to in the action of the Governors' Conference above quoted contains a recommendation that the Federal

Reserve Board authorize the inauguration of a general retirement plan for the Federal reserve system and that the operation of such a plan be provided for under one of the following possible forms of organization:

(1) A corporation organized by Special Act of Congress; or

(2) A retirement corporation organized under the amendment to the insurance laws of the State of New York; or

(3) A corporation organized under the laws of the District of Columbia; or

(4) A board of trustees to be appointed by the Federal reserve banks, or otherwise, under the supervision of the Federal Reserve Board without incorporation; or

(5) The purchase of retirement annuity insurance from the company or companies with which the Federal reserve banks now carry their group life insurance, to be supplementary to such group life insurance.

In this connection the committee said that it felt that "incorporation under a special act of Congress would provide the most acceptable form of administration of the plan, yet as such a course apparently will still involve delays of a character and duration impossible to foresee in advance, it recommends as an alternative one of the other forms of organization listed". The committee added "that the adoption of any form of organization is preferable to leaving the Federal Reserve System and its officers and employees wholly without the benefit or protection of any pension or retirement plan whatsoever".

The Board feels that the establishment of a pension system by the Federal reserve banks would be desirable and after giving very careful consideration to the request of the Governors' Conference and the recommendations of the committee, is disposed, for the reasons hereinafter set forth, to favor the procurement from an insurance company or companies of retirement annuities for the personnel of the Federal reserve banks, if obtainable under satisfactory conditions and limitations at a reasonable cost.

The five forms of organization for providing pensions which were suggested by the committee may be divided broadly into two classes: (a) newly created organizations, which would be financed and administered by the Federal reserve banks, solely for the purpose of providing the pensions contemplated; (b) existing life insurance companies, with which arrangements or agreements might be made for purchasing retirement annuities under plans supplementary to the existing group life insurance policies.

The most important consideration in connection with any pension or retirement plan is the definite assurance that at a reasonable cost, determined as closely as possible in advance, the annuities provided thereby will be paid to the beneficiaries when they become due.

The administration of any plan included in class (a), whether it be through a corporation or a board of trustees without incorporation, would necessitate the setting up by the Federal reserve banks of a new organization which would require the employment of persons having special training and experience in the administration of pension or retirement plans. Such persons probably could be obtained only from existing organizations and, no doubt, if they were persons of the requisite qualifications, special inducements must be offered to cause them to leave their existing connections. Of course, incidental personnel and office space, together with various other operating expenses, must also be arranged for by the Federal reserve banks, directly or indirectly. The administration of the investments of such a fund would require special attention, apart from the ordinary operations of the Federal reserve banks and the burden of the attendant risks would be concentrated upon a comparatively limited fund, instead of being spread, as in the case of a large insurance company or group of such companies, over a wider field of activity.

Of necessity, the exact cost of such a plan could only be estimated and could not be determined in advance. If the annual outlays should prove to be unexpectedly large because of any miscalculation on the part of the actuaries employed, or unanticipated losses in connection with the investments selected, or excessive expenditures or inexperience or inefficiency of the new organization, it might be necessary to increase the contributions required of the banks or the periodical deductions made from the compensation of the persons covered by the plan to amounts substantially greater than those first estimated. In such event the results would be unfortunate and very likely provoke criticism on the part of the employees which, whether justified or not, would be disturbing and might seriously affect their morale.

Passing from these general considerations, which are applicable to all of the first four forms of organization included in class (a), to the particular considerations applicable to a corporation created by special act of Congress to administer a retirement plan, it is apparent from a review of the history of the efforts which have been made in the past to obtain such legislation and the repeated delays encountered in connection therewith, together with the fact that the attention of Congress for some time to come will no doubt be directed to matters of greater interest and concern to it, that the development of the project would be subjected to indefinite further delays.

With respect to the formation of a corporation organized under the laws of the State of New York, it appears that the New York statute authorizing a retirement corporation (Chapter 501 of the Acts of 1926) provides that such a corporation may be formed by "any person, firm, or corporation", by "corporations having business interests in common by reason of stock ownership", and by "any organization". It seems clear that the twelve Federal reserve banks are not corporations having business interests in common by reason of stock ownership, and the Board's counsel feels that it is doubtful, to say the least, whether even though acting jointly they could properly be regarded as an "organization" within the meaning of the statute. Such a corporation, of course, would be subject to regulation under State law and to the supervision of the State officials administering the law, which at some time in the future might become impractical or burdensome from the standpoint of the Federal reserve banks, and, as a matter of general policy, it would seem inadvisable, when unnecessary to do so, for the Federal reserve banks, created by Federal law and for Federal purposes, to subject their internal operations and their relationships with their employees, even in an indirect manner, to such uncertainties. The latter considerations would apply also to a corporation organized under the laws of the District of Columbia.

The fifth suggestion of the committee, which constitutes class (b) above mentioned, is confined to the purchase of retirement or annuity insurance from a life insurance company or a group of such companies. This, apparently, would avoid most, if not all, of the objections to the other plans. Under an arrangement of this kind the beneficiaries would receive the annuities provided by the plan at a cost to them and the Federal reserve banks which would be worked out and determined definitely in advance. Upon the payment of the agreed premiums all the risks would be assumed by the insurance companies and there would be no further liability on the part of either the banks or their employees. It is of interest, in this connection, to note that, according to a recent newspaper report, a large industrial concern in the Middle West, which had maintained a retirement fund within its own organization, substituted an arrangement with a large life insurance company, by which the retirement benefits would be purchased from the insurance company.

It does not appear whether the Pension Committee has recently canvassed the possibilities of negotiating such an arrangement, and the Board feels that the committee should be instructed to do so.

It would seem that negotiations on behalf of the twelve Federal reserve banks collectively might result in more advantageous terms than would be obtained if negotiations on behalf of any Federal reserve bank were conducted separately. As a basis for such negotiations it would seem that a detailed description of the plan worked out by the committee should be submitted to the insurance companies, and that it should consider the feasibility of obtaining competitive bids before entering into a final contract. Such companies should include only those with adequate resources and financial responsibility together with satisfactory experience in providing retirement annuities for employees of other large corporations. Under such a plan the employees of each Federal reserve bank should be required to pay a certain reasonable proportion of the total premiums paid by the bank for the insurance, which should be based of course on the number, age, and compensation of its employees. The benefits of the plan should be limited to the personnel of the twelve Federal reserve banks, and its operation should be confined to reasonable maximum salary rates and retirement annuities.

As indicated by the committee's report, in such negotiations consideration should be given to the feasibility of combining the proposed annuities with, or making them supplementary to, the present group life insurance plans of the Federal reserve banks.

While bills have been introduced in Congress in past years to provide for the establishment of retirement funds or corporations for this purpose for the Federal reserve system, these bills contemplated the inclusion not only of employees of the Federal reserve banks, but also those of the Federal Reserve Board and in most instances those of member banks, and contained other features which met with objection on their respective merits. The proposals considered by Congress, therefore, did not have in view the alternative possibility of retirement annuities being purchased from insurance companies for the benefit solely of the personnel of the Federal reserve banks. Consequently, the fact that the proposals considered by Congress were not finally enacted is not regarded by the Board's counsel as limiting the authority of the Federal reserve banks under existing law to enter into such a plan under the conditions and limitations suggested above. It is the opinion of the Board's counsel that the legal authority for such action is well established by court decisions in connection with other corporations, including banking institutions, and that the principles involved are equally applicable to the Federal reserve banks.

When the Pension Committee has inquired fully into the possibilities of proceeding along the lines suggested as to insurance companies and has formulated its views with respect to them, the Board will be pleased to give prompt consideration to its report. If the committee should find that there is a reasonable prospect of obtaining retirement annuities on a satisfactory basis from responsible insurance companies, there should be attached to the report a detailed description of the plan in the form in which the committee would submit it to the companies as a basis for bids.

Very truly yours,

(Signed) Chester Morrill
Secretary.