

X-9254

July 1, 1935

Dear Sir:

Recently the board of directors of one of the Federal reserve banks approved a plan for the curtailment of salary expenditures for the purpose of reducing the staff of the bank to operating requirements. In submitting the plan to the board of directors of the bank the executive committee stated that:

"Experience has demonstrated that giving an employee advance notice of the termination of his employment with salary for a stated period, during which period the employee remains at work, is not satisfactory either to the employee or to the bank. In the discussion of this situation, it developed that in some industries where it is necessary to release an employee who has served over a considerable period of time, the employee leaves his work at or about the time of notification but is given what in industry is called a 'dismissal wage', payable monthly for a stated term, this wage continuing for the period agreed upon even though the employee may find other employment before the expiration of the period.

"This procedure, it was believed, would bolster the morale of those employees who are not affected by the plan. It would also make it possible to reinstate capable employees should an increase in the volume of work occur during the period the 'dismissal wage' is being paid, making it necessary for us again to augment our forces. It is understood, of course, that in such case the 'dismissal wage' would cease upon an employee's being restored to the regular pay roll."

The plan as adopted by the Federal reserve bank incorporated a schedule of salary allowances which provided that the bank could

-2-

continue to pay an employee's salary at the current rate for a period up to a maximum of six months from the date of the termination of his employment by the bank. The maximum of six months was applicable only to employees who had had more than five years of service, and, for employees with service of five years or less, salary payments for periods of less than six months from date of termination of employment were provided, depending upon the length of service.

The plan was submitted to the Federal Reserve Board with the request that the Board approve the schedule of salary payments after termination of employment, contemplated in the plan. The request was considered by the Board in the light of the considerations advanced by the executive committee of the bank quoted above, and in the light of the action taken at the recent Governors' Conference which voted it to be the sense of the conference that the boards of directors of the Federal reserve banks should be permitted, in their discretion, to pay up to six months salary to officers or employees upon their involuntary separation from the service. The Board is in general agreement with the considerations which prompted the adoption of the plan by the Federal reserve bank referred to and has authorized all Federal reserve banks, upon appropriate affirmative action by the boards of directors of the respective banks, to pay salary at current rates for a period up to a maximum of six months to employees whose services are terminated by the bank, it being understood that the maximum of six months salary

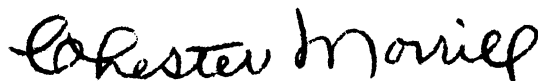
-3-

may be allowed only to employees who have served five years or more, and that the allowance for employees who have served less than five years may be for a lesser period bearing some reasonable relationship to the length of service, but that no allowance may be made to employees dismissed for cause.

The Federal Reserve Board feels that any action taken by the board of directors of a Federal reserve bank under the authority above referred to should be on the basis of a careful survey of the situation at the bank and with a view to the maintenance of a high degree of efficiency and economy in the operation of the bank, as well as a high degree of morale and loyalty among the employees.

It will be appreciated if you will present this letter at the next meeting of your board of directors and advise the Board of any action taken with regard thereto.

Very truly yours,



Chester Morrill,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.