STAFF REPORT
ACTION REQUIRED

Non-union Employees, Accountability Officers and Elected Officials Benefits Plan

Date:	May 29, 2012
To:	Employee & Labour Relations Committee Executive Committee
From:	City Manager
Wards:	All
Reference Number:	

SUMMARY

The purpose of this report is to provide recommendations regarding proposed changes to the benefits plan for non-union employees, accountability officers and elected officials. The proposed changes outlined in this report arise from staff's review of the benefits plan following the recently concluded collective bargaining with TCEU, Local 416 and CUPE, Local 79 and will result in an estimated savings of -5% in the non-union benefit plan.

The City continues to be committed to providing a fair and comprehensive benefits plan to its employees which is responsible to the taxpayers of Toronto. The recommended changes in this report assists the City in controlling the rising costs associated with these plans. The changes focus on the introduction of cost-effective ways of delivering benefits which includes provisions to encourage employees to make smarter healthcare consumerism choices.

RECOMMENDATIONS

The City Manager recommends that City Council approve the following:

1. The Benefits Plans be amended to generally reflect the changes made during the recent collective bargaining negotiations with CUPE Local 79 and TCEU Local 416 as follows:

(a) the active benefits plan for non-union employees, accountability officers and elected officials be amended as outlined in Appendix A, effective January 1, 2013
(b) the pre-65 benefits plan for non-grandparented non-union employees and accountability officers, be amended as outlined in Appendix A, for employees who retire on or after January 1, 2013.

2 The City Manager and Director of Pension, Payroll & Employee Benefits, in consultation with external benefits consultants, undertake a full review of the benefits plan for management/non-union employees, accountability officers and elected officials, to consider and develop recommendations for an alternative plan design that would provide comprehensive coverage to employees, including consideration of a flexible benefits plan, with an objective of reducing benefit costs while being financially sustainable to the City of Toronto.

The City Manager shall report to the Employee & Labour Relations Committee by no later than March 2013, on the results of this review with a potential implementation of a new plan design during the first quarter of 2014.

3. City Council authorize the appropriate City officials to take the necessary action to give effect to the foregoing recommendations.

Financial Impact

In 2011, the City spent approximately $206.0 Million to provide benefits (i.e., Health, Dental, Group Life Insurance and Long Term Disability) to employees and retirees of the City of Toronto. The cost to provide health and dental coverage for non-union employees, accountability officers and elected officials was approximately $22.5 Million. Benefit Plans are funded through divisional operating budgets.

The recommended changes, effective January 1, 2013, to the Active Benefit Plan for non-union employees, accountability officers and elected officials will result in an estimated savings of -5%, to be realized in 2013 with incremental savings in 2014 and 2015, totalling approximately $1.119 Million, as follows:

1. Active Employee Benefits Plan Provision Changes – Savings 2013 to 2015:
(Benefit Changes consistent with 2012 Collective Bargaining)

Benefit Type	New/Changes to Provision	Gross Expenditure
Drugs	Dispensing Fee Cap of $9.00	($309,000)
Physiotherapy	$2,000.00 maximum per person, per year	($327,000)
Orthopaedic Devices	One device every 2 years for persons over 18 years of age (for persons 18 and under, the entitlement remains one device per person per benefit year) and payment will be limited to the cost of the modification on the device.	($255,000)

Benefit Type	New/Changes to Provision	Gross Expenditure
Dental	One year lag on Ontario Dental Association (ODA) Fee Guide	($205,000)
Savings		**($1,096,000)**

2. Introduction of Health Care Spending Account (HCSA) in exchange for Benefit Offsets: Active Employee Benefits Plan Provision Changes – Savings 2013 to 2015

Benefit Type	New/Changes to Provision	Gross Expenditure
Health Care Spending Account	$50 for single and $100 for family coverage	$424,878
Paramedical Coverage	Eliminate the option for $800 for one (1) practitioner	($182,000)
Dental	Move from six to nine month Recall for routine exams only for adults	($266,000)
Savings		**($23,000)**

TOTAL SAVINGS		**($1,119,000)**

In addition, these changes will flow through to the Pre-65 Retiree Benefit Plan, for non-union employees and accountability officers who retire on or after January 1, 2013, and who are entitled to pre-65 retiree benefits as outlined in the City Policy. The liability with respect to post-retirement benefit plans for non-union employees as at December 31, 2011 is $204.1 Million. This change will result in an estimated reduction to this liability of $0.500 Million.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

ISSUE BACKGROUND

Benefit Plans are part of the total compensation package provided by the City of Toronto to its employees to attract and retain staff. Following amalgmation, the City provided benefits to its non-union employees and elected officials based on the provisions of the former municipalities. The level of coverage provided at that time varied significantly by municipality, however, the majority of benefit plans were traditional defined benefit plans, which provided coverage for Life Insurance, Long-Term Disability (LTD), Accidential Death & Dismemberment (AD&D), Health and Dental.

In 2002, the City harmonized its benefit plans for non-union employees and elected officials. The harmonized benefit plan was approved by City Council in February 2002 and implemented following a period of notice on April 1, 2003. As part of this process, City Council directed that at the conclusion of each round of bargaining with the City's unions that the City review the benefit coverage for non-union employees, retirees and elected officials to ensure that the benefits plan remained competitive. In 2003 and 2005, further amendments were made to the non-union employees Benefits Plan after each round of bargaining with the City's unions. In addition, in July 2006 changes were also approved by City Council to end the non-union employee Sick Pay Bank Plan and switch all non-union employees over to a new Short-term Disability Plan effective March 1, 2008.

COMMENTS

The City of Toronto provides a comprehensive Benefits Plan for its non-union employees, accountabilty officers and elected officials that is comparable to other public sector employers and incorporates various cost containment provisions. The benefit plans are defined benefit plans which are subject to inflationary increases, depending on general Canadian health and dental increases. As a result, the costs related to the benefit plans increase annually. At the City's request, Manulife Financial, the City’s benefits provider, compared the City's benefits plan to their other large public and private sector employer clients that have 5000 or more employees and advised that in general, the City's benefits plan is amongst the top quartile.

The City spends over $200.0 Million in benefit costs annually. Generally, benefit costs have been rising at a rate of approximately 10% per year. The benefit costs specific to the non-union employee group has been rising at a rate of approximately 7%, while the rate for CUPE Local 79 has been rising at approximately 13% and the rate for TCEU Local 416 has been rising at a rate of approximately 9%. In each of the benefit plans, the costs are rising above the rate of the Consumer Price Index (Toronto) which is 3.0% for 2012.

The rising cost of benefits has been identified as an area of concern for the City and the subject of two (2) separate recommendations:

a) In 2007, following a review of the City's Benefits Plans, the Auditor General provided the following recommendation:

   “The Director, Pension, Payroll and Employee Benefits, continue to review cost containment initiatives for the purpose of identifying potential cost reduction opportunities related to employee and retiree benefit costs. The review should include the use of drug dispensing fee caps as well as the potential for deductible and co-insurance provisions.”

b) In addition, following the review by the Blue Ribbon Panel in 2009, they provided the following recommendation:

   “The City and its unions must restrain the growth of average compensation (including benefits) in future labour contract negotiations in line with the evolution of broad labour market averages and the City's fiscal health.”

> "The fastest growing component of compensation has been benefit costs, reflecting challenges in funding pension plans and health insurance benefits. Finding creative ways to manage and control rising benefit costs and more cost-effective ways of delivering benefits will be an important priority for the City's human resource managers in coming years."

In addition to these recommendations, staff in the Pension, Payroll & Employee Benefits Division (PPEB) routinely review benefit costs, trends, industry standards and external cost drivers and determined that measures needed to be taken to contain the rising cost of benefits and to implement smarter health-care consumerism provisions. As a result, staff have made a concerted effort to implement changes in the benefit plans with a focus on containing liabilities and lowering costs. As a result, since amalgamation a number of initiatives have been implemented in the non-union plan to control employee benefit costs including:

- Consolidation of the administration of benefit plans to one carrier
- Implementation of overall maximums (e.g., Private Duty Nursing Maximums)
- Reimbursement for Generic Drugs Only
- Cap on mark-up of drug costs of 10% (consistent with the Ontario Drug Plan)
- Co-ordination of Benefits Requirements
- Implementing Reasonable & Customary Fee Schedules
- Elimination of Sick Leave Plan

<u>2012 Collective Bargaining</u>

In the recent 2012 round of negotiations, with TCEU Local 416 and CUPE Local 79, a number of benefit cost containment measures were negotiated and ratified in their new 2012-2015 collective agreements. As directed by City Council in February 2002 and consistent with the City's practice since that time, staff have reviewed the Benefits Plan for non-union employees, accountability officers and elected officials and are bringing forward recommendations for cost containment as follows:

1. Paramedical Services – the services within this group (e.g., massage, chiropractor etc.) are among the top 5 cost drivers in the benefit plans for each of the employee groups, including management/non-union. These costs have been rising at a rate of 15% to 20% per year since 2005. The current entitlement for paramedical services is $500 per person, per practitioner, per benefit year. However, a significant contributor to the rising costs is the option for employees to select one (1) of the paramedical services to have entitlement up to $800 and delete one (1) of the other services (usually a service that they do not have any need to utilize).

   For example, there are 6 paramedical services - Psychologist, Chiropractor, Osteopath, Podiatrist/Chiropodist, Speech Therapist and Masseur. Employees and their dependents have entitlement of $500 for each service, total of $3,000.

Employees and dependents rarely have a need to utilize all 6 services. However, many utilize at least one service up to the maximum (e.g. massage therapy). With the current provision, employees (and dependents) can elect to use one service up to $800 (60% increase in costs) and delete one of service (e.g. speech therapy), which they don't have a need for and would not have experienced any costs for. Employees (and their dependents) will continue to have $500 for the four remaining services, totalling $2,800.

Therefore, allowing employees (and dependents) to increase the entitlement for the one service they utilize to the maximum, increases the City costs by up to 60% for those employees (and dependents).

The most common utilized services, over $500, are massage and chiropractor services.

2. Drugs – Currently drugs represent 35% of the total health and dental costs and there are presently no requirements for any out-of-pocket expenses or dispensing fee caps to help contain the rising costs. In benchmarking other comparable public sector employers, it is noted that many have implemented cost containment measures including dispensing fee caps and/or cost sharing arrangements.

3. Physiotherapist – The physiotherapy costs for the management/ non-union group are rising at a rate of 18% per year. There is currently no per visit maximum (other than reasonable and customary limits through the insurance carrier) or any annual or lifetime maximum to help contain these rising costs. The services are subject to a high possibility of fraud and misuse.

4. Orthopaedic Devices – employees are currently eligible for one (1) pair of orthopaedic shoes, per person, per year. The costs are currently rising at a rate of 33% per year and the insurance carrier has advised that the industry is having a very difficult time administering this benefit because of the increase in companies manufacturing off the shelf shoes which they are categorizing as orthopaedic shoes (e.g., running shoes). In order to address this issue and ensure the benefit is serving its intended purpose, it is recommended that only shoes with a custom modification be eligible.

5. Dental – Currently dental services represent 36% of the total health and dental costs for the management/non-union group. Within the basic dental services provision there is currently 100% reimbursement and no measures to help contain the rising costs. The dental costs are rising at a current rate of 7% per year.

6. Health Care Spending Account (HCSA) – Currently non-union employees, accountability officers and elected officials do not have a HCSA. Staff are recommending inclusion of a HCSA of $50 for single coverage and $100 for family coverage. A HCSA is a tax-free amount that would be available to each employee through the benefits carrier, to provide for medical expenses that are allowable under the Income Tax Act (ITA). It could be used towards a variety of benefit

costs including expenses related to vision care, paramedical services, dental services, etc. A HCSA provides flexibility to employees depending on specific needs and is a more cost effective and sustainable method of providing benefits to employees.

Since the HCSA is a fixed amount, it is not subject to inflationary and trend cost increases that occur in the defined benefit plans. The introduction of a HCSA into the City's benefit plan design is part of a long-term strategy to manage and control the rising benefit costs and to find more cost-effective ways of providing benefits.

Based on the above review, it is recommended that the following benefit changes be implemented, effective January 1, 2013, to reduce the current benefit costs and help contain the future rising costs that are attributable to trend and inflationary factors:

Active Employee Benefits Plan Provision Changes – Effective January 1, 2013

Benefit Type	Old Provision	New/Changes to Provision
Drugs	No Dispensing Fee Cap	Dispensing Fee Cap of $9.00
Physiotherapy	Unlimited coverage	$2,000.00 maximum per person, per year
Orthopaedic Devices	One device every year	One device every 2 years for persons over 18 years of age (for persons 18 and under, the entitlement remains one device per person per benefit year) and payment will be limited to the cost of the modification on the device.
Dental	Current Ontario Dental Association (ODA) Fee Guide	One year lag on Ontario Dental Association (ODA) Fee Guide
Health Care Spending Account (HCSA)	No HCSA	HCSA of $50 for single coverage and $100 for family coverage
Paramedical Coverage	$500 per practitioner, per person, per benefit year for 6 services (i.e., Psychologist, Chiropractor, Osteopath, Podiatrist/Chiropodist, Speech Therapist, Masseur) = $3000 OR $800 for one practitioner, plus $500 for four (4) practitioners = $2800	Eliminate the option for $800 for one (1) practitioner
Routine Dental Exams	Currently the recall period of adults is 6 months	Move the recall period for routine exams for adults to 9 months

The above noted changes would also flow through to the Pre-65Retiree Benefit Plan, for non-grandparented non-union employees and accountability officers who retire on or after January 1, 2013, and who are entitled to pre-65 retiree benefits as outlined in the City Policy.

Implementation Timing

When making changes to the terms and conditions of employment for non-unionized employees, it is important to provide a reasonable notice period in order to allow employees to adjust and make any necessary changes. In addition, staff in the Pension, Payroll & Employee Benefits Division require time to educate and communicate these changes to impacted employees. As a result, staff are recommending an implementation date of January 1, 2013. Staff have consulted with legal regarding this notice period.

Conclusion:

The recommended changes in this report assist the City in controlling benefit costs and are consistent with the changes made to unionized employees as part of the recently concluded collective bargaining process. The changes focus on the introduction of cost-effective ways of delivering benefits.

Notwithstanding these changes, the City will continue to provide a fair and comprehensive benefits plan for its non-union employees, accountability officers and elected officials. These changes will allow employees to make choices to minimize their out-of-pocket expenses and will continue to provide them with a benefits plan that is competitive when compared to other large public sector employers.

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SIGNATURE

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Joseph P. Pennachetti
City Manager

ATTACHMENTS

Appendix A - Active Employee Benefits Plan Provision Changes – Effective January 1, 2013

APPENDIX A

Active Employee Benefits Plan Provision Changes – Effective January 1, 2013

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Drugs	No Dispensing Fee Cap	Dispensing Fee Cap of $9.00
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