



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED
with Confidential Attachment**

**Management of the City's Long-Term Disability Benefits
Phase One: Improving City Management to Address
Growing Trends in Long-Term Disability Benefits**

Date:	October 6, 2015
To:	Audit Committee
From:	Auditor General
Wards:	All
Reason for Confidential Information:	The confidential attachment to this report pertains to labour relations or employee negotiations.
Reference Number:	

SUMMARY

The Auditor General's 2015 Audit Work Plan included an audit of the City's management of Long-Term Disability (LTD) benefits. The audit was divided into two phases. Phase One, which is the subject of this report, focused on City management of LTD benefits. Phase Two will focus on Manulife's compliance with contract requirements. Manulife is the current Benefits Carrier which administers LTD claims on the City's behalf.

The goal of the audit is to help ensure the benefit fund is administered with due diligence, and that the City LTD benefit program is integrated with best practices in early intervention, claims assessment and monitoring, as well as accommodating employees to return to work.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Director, Pension, Payroll and Employee Benefits Division, in consultation with the Executive Director, Human Resources Division, to review alternate ways of managing the City's Long-Term Disability benefit program, including a review of how the Toronto Police Service and the Toronto Transit Commission manage their respective Long-Term Disability benefit programs.
2. City Council request the City Manager to ensure contract documents are finalized by the parties within a reasonable time period after an award of the contract. Prior to City authorization, staff should ensure the contracts fully reflect the terms and conditions in the bid proposals, in particular the terms relating to bid prices.
3. City Council request the Director, Pension, Payroll and Employee Benefits Division, to strengthen management controls in the next Long-Term Disability Group Benefits contract. Steps to be taken should include but not be limited to:
 - a. Developing an administrative fee cost structure in the Request for Proposal (RFP) that would not inevitably provide an incentive for the Benefit Carrier to approve more Long-Term Disability claims,
 - b. Including appropriate clauses in the RFP to enable the Auditor General to conduct an audit of the Carrier's claims operation and adhere to relevant privacy and confidentiality legislation, and
 - c. Including a third-party audit clause in the RFP and the audit fee to be payable by the Benefits Carrier.
4. City Council request the Executive Director, Human Resources Division, to develop and track performance indicators for assessing and continuously improving the City's return to work process for employees in receipt of Long-Term Disability benefits.
5. City Council request the Director, Pension, Payroll and Employee Benefits Division, in consultation with the City Solicitor and the Executive Director, Human Resources Division, to review the current process to seek consent from Long-Term Disability claimants to facilitate employee return to work process.
6. City Council request the Executive Director, Human Resources Division, to explore ways to further enhance staff awareness and knowledge of early intervention and accommodation for employees with health issues, including an assessment of alternate training delivery methods.
7. City Council request the Director, Pension, Payroll and Employee Benefits Division, to review the amount of refund from Manulife in relation to the "Regular Medical Correspondence" charges since 2003 as part of the Long-Term Disability benefit administration agreement to ensure the refund amount is complete and accurate.

8. City Council request the Director, Pension, Payroll and Employee Benefits Division, to request supporting documents and cost breakdowns from Manulife for all “Other Charges” in the monthly billing statement for Long-Term Disability benefit administration services. Staff to recover charges paid by the City for which Manulife cannot provide supporting documents or reasonable cost breakdowns.
9. City Council request the Director, Pension, Payroll and Employee Benefits Division, to incorporate in the next Request for Proposal for Long-Term Disability benefit administration a requirement for the benefit carrier to provide supporting documents and cost breakdowns for all charges.
10. City Council request the Director, Pension, Payroll and Employee Benefits Division, to take steps to minimize overpayments to employees receiving Long-Term Disability benefits. Such steps should include but not be limited to:
 - a. Improving management oversight
 - b. Ensuring timely notification of the Benefit Carrier of employee changed status, and
 - c. Ensuring timely contacts with claimants to negotiate a payment plan to recover the overpayments.
11. City Council request the Director, Pension, Payroll and Employee Benefits Division, to explore ways to encourage better cooperation from Canada Pension Plan and Workplace Safety and Insurance Board in remitting benefit payments to City employees who are also receiving Long-Term Disability benefit payments.
12. City Council request the Director, Pension, Payroll and Employee Benefits Division, to ensure uncollectable Long-Term Disability overpayments are written off according to City procedures and reported to the appropriate Standing Committee.
13. City Council adopt the Confidential Recommendations contained in Confidential Attachment 1 to this report.
14. City Council authorize the public release of the Confidential Recommendations and information contained in Confidential Attachment 1 to this report at the discretion of the City Solicitor in consultation with the City Manager.

Financial Impact

As a result of the Phase One audit, the City and its agencies and corporations will recover approximately \$1.8 million in billing errors from Manulife. A refund in the amount of approximately \$508,000 was provided to the City in September 2015. The remaining refund is pending from Manulife.

The implementation of the recommendations in this report has the potential to further reduce administration and LTD benefit costs. The extent of the reduced costs is not determinable at this time.

ISSUE BACKGROUND

The City of Toronto provides extended health care, dental care and LTD coverage to its employees in accordance with collective agreements and City policies.

The City is self-insured. This means the City pays for the benefit claim costs. The City's current benefits administrator is Manulife, which acts as the City's 'agent' in processing City LTD claims under an Administrative Services Only (ASO) contract. Manulife acts on the City's behalf to ensure LTD claims are adequately assessed and paid. The City pays Manulife a fee for administrative services provided.

Since 2010 the City has experienced significant yearly increases in LTD claims. As of June 2015, 1,285 City employees were receiving LTD benefits. On average, one in 20 City employees is off work on LTD leave. As the number of LTD cases continued to climb, so did the benefit payment costs which rose by 50 per cent from \$28.4 million in 2010 to \$42.8 million in 2014.

COMMENTS

The City's current agreement with Manulife requires the execution of a confidentiality agreement by the City in order to review Manulife's claims operation. City staff are currently working with Manulife in finalizing the confidentiality agreement which will be part of the contract. As a result, we were not able to gain access to review Manulife records during the audit. In order to proceed, we divided the audit into two phases. Phase One of the audit focused on City management and oversight functions, and Phase Two will focus on Manulife's compliance with contract requirements.

In focusing on the City's management functions, we identified a number of opportunities that will reduce costs and improve future management of LTD benefits. Audit findings and recommendations are contained in the report entitled "Management of the City's Long-Term Disability Benefits – Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits.

The audit report is attached as Appendix 1. Management response to recommendations contained in the audit report is attached as Appendix 2.

Attachment 1 to this report contains confidential information pertaining to labour relations or employee negotiations. Management response to audit recommendations in Attachment 1 is also included in the Attachment.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

- Appendix 1: Management of the City's Long-Term Disability Benefits – Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits
- Appendix 2: Management response to recommendations in the Auditor General's Report entitled "Management of the City's Long-Term Disability Benefits – Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits"
- Attachment 1: Confidential Information
Management of the City's Long-Term Disability Benefits – Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits

AUDITOR GENERAL'S REPORT

**Management of the City's Long-Term
Disability Benefits**

**Phase One:
Improving City Management to
Address Growing Trends in Long-Term
Disability Benefits**

October 6, 2015

Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD
Auditor General



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EXECUTIVE SUMMARY

Manulife is the City's current LTD benefits administrator

The Auditor General's 2015 Audit Work Plan included an audit of the City's management of Long-Term Disability (LTD) benefits. Manulife is the City's current benefits administrator which acts as the City's "agent" in processing LTD claims under an Administrative Services Only (ASO) contract. The City pays for the benefit claim costs.

The City's current agreement with Manulife requires the execution of a confidentiality agreement by the City in order to review Manulife's claims operation. City staff are currently working with Manulife in finalizing the confidentiality agreement.

Phase One focused on City management of LTD benefits

As a result, we were unable to gain access to review Manulife records during the audit. In order to proceed, we divided the audit into two phases. Phase One, which is the subject of this report, focused on City management of the LTD benefits. Phase Two will focus on Manulife's compliance with contract requirements.

LTD benefit is part of an employee benefits package

This audit is not about whether employees should be entitled to LTD benefits. We appreciate that LTD benefits are part of an employee benefits package intended to provide income replacement in the event an employee is unable to work due to long-term illness or injury.

The audit goal is to assist the City in incorporating best practices

The goal of the audit is to help ensure the benefit fund is administered with due diligence, and that the City's LTD benefit program is integrated with best practices in early intervention, claim assessment and monitoring, as well as accommodating employees to return to work.

On average 1 in 20 employees is off work on LTD leave

Since 2010 the City has experienced significant yearly increases in LTD claims. As of June 2015, 1,285 City employees were receiving LTD benefits. On average, one in 20 City employees is off work on LTD leave.

Benefit payments rose by 50% over 5 years from 2010 to 2014

As the number of LTD cases continued to climb, so did the benefit payment costs which rose by 50 per cent from \$28.4 million in 2010 to \$42.8 million in 2014. The unfunded liability for LTD benefits, based on the most recent actuarial valuation, is approximately \$190 million.

TPS and TTC each has a lower LTD rate and better RTW success

In comparison, the City's two largest agencies, the Toronto Police Service (TPS) and the Toronto Transit Commission (TTC), each has a lower LTD active claim rate and better "return to work" (RTW) percentage than the City. As such, our audit report includes both agencies as examples for City staff to consider.

The key audit findings are briefly discussed in the following:

City and its agencies and corporations will recover approximately \$1.8 million of charges from Manulife

City has been paying for incorrect charges by Manulife since 2003

As a result of our audit, the City and its agencies and corporations will recover approximately \$1.8 million of charges from Manulife (net of tax rebates). In our review of a sample of Manulife's monthly billing statements, we noted that the City was charged for a service that was not consistent with Manulife's bid proposal. Manulife acknowledged the incorrect charges, and indicated that it would refund all the charges plus interest and taxes since 2003. According to Manulife, the error inadvertently occurred when it implemented a new billing system in 2003. To date Manulife has already refunded the City approximately \$508,000.

Over \$2 million of payments to Manulife were approved without verification

No supporting documents or cost breakdowns were obtained by staff prior to payment approval

In addition to paying Manulife an administration fee, the City also pays for "other charges" such as rehabilitation assessments, medical assessments and lawyer fees. The costs of these "other charges" totaled over \$2 million since 2012. Supporting documents or cost breakdowns prior to payment approval were not obtained to verify the accuracy or reasonableness of the charges.

The contract has not been finalized three and a half years into the service delivery period

A formal contract document has not been executed

Although City Council awarded the contract to Manulife in May 2011, three and a half years into the service delivery period the City had not finalized a contract document with Manulife. Our review of a final draft of the contract in August 2015 noted certain inconsistencies from the bid proposal. While there is no indication that the parties intended to vary from the terms of the bid proposal, the inconsistencies could result in ambiguities potentially affecting the City's right to recover costs in a contract dispute situation, as well as potentially increasing future contract costs. Staff have arranged with Manulife to revise the final draft contract to address the discrepancies.

The current administrative fee cost structure needs to be re-assessed

Admin fee to Manulife is based on a percentage of total benefit payments to claimants

The current administrative fee paid to Manulife is based on 3.3 per cent of the claim payments to LTD recipients. This amounted to approximately \$1.4 million in administrative fees to Manulife in 2014. As the fee is based on a percentage of total benefit payments, the higher the benefit payment amount, the higher the fee paid to Manulife. While we have no indication of this being the case, the administrative fee structure may inevitably incent Manulife to approve more claims or to keep claims open longer.

Minimizing overpayments to claimants

Over \$600,000 overpayment balance as of August 2015

Acting as the City's agent, Manulife is responsible for issuing monthly benefit payments to approved claimants, and recovering overpayments from claimants. As of August 31, 2015, the overpayment balance was approximately \$660,000. While in some circumstances overpayments are unavoidable because of delays in receiving approvals for other types of disability benefits, timely notification to Manulife of employee status changes, and timely establishment of payment plans with claimants will minimize overpayments to claimants.

Conclusion

Since we could not gain access to review Manulife's records in Phase One, we were unable to obtain a complete picture of the claims assessment and monitoring processes carried out by Manulife. The Phase One audit focused on the City's management and oversight functions, and identified a number of improvement opportunities. The Phase Two audit will be undertaken once access to review Manulife's claims operation has been granted.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The Auditor General's Office (AGO) initiated a review of the management of the City's Long Term Disability (LTD) benefits program in April 2015, in accordance with the Auditor General's Audit Work Plan.

*Original 2013
audit was deferred
to 2015 Audit
Work Plan*

A review of the City's LTD benefits was originally included in the Auditor General's 2013 Audit Work Plan. The review was deferred in light of improvements being initiated in 2013 by City staff and the City's benefits administrator, The Manufacturers Life Insurance Company (Manulife).

*Manulife is
responsible for
assessing and
monitoring LTD
claims*

The City's Pension, Payroll and Employee Benefits Division (PPEB) is responsible for the oversight of the employee benefit program including LTD benefits. However, City staff are not involved in claim adjudication or monitoring processes. Manulife, acting as an agent for the City, is solely responsible for claim adjudication, ongoing monitoring, and issuing benefit payments to employees on the City's behalf.

Restrictive terms in the confidentiality agreement may inhibit the Auditor General from carrying out her duties

Our initial audit plan included an assessment of Manulife's claim adjudication and monitoring processes. In response to our access request, Manulife required that a confidentiality agreement be signed as contemplated under the City's agreement with Manulife. The terms of this agreement are being reviewed and discussed with Manulife to ensure that there are no restrictive terms or conditions that will inhibit the Auditor General from carrying out her responsibilities under the City of Toronto Act. Until the City signs the confidentiality agreement, the Auditor General will not be able to obtain access to Manulife's claim records.

City staff and Manulife are currently working to resolve the issues to provide the Auditor General with appropriate audit rights. Once resolved, the Auditor General will proceed with Phase Two of the audit.

Due to difficulties in gaining access to Manulife's records, the audit was divided into two phases

In order to proceed with the audit, we divided the audit into two separate phases. Phase One of the audit, which is the subject of this report, focuses on the City's management of LTD benefits. Once access to Manulife's LTD records has been secured, the Auditor General will complete Phase Two of the audit, which will focus on Manulife's compliance with the City contract and any remaining concerns not addressed in Phase One.

Phase One focused on the City's processes and management

The objective of the Phase One audit was to assess whether the City has adequate and effective controls to manage LTD benefits. We conducted a review of the following areas during the Phase One audit:

- LTD claim statistics
- City policies, procedures, guidelines, negotiated agreements, Request For Proposal (RFP) and contract agreements relating to LTD benefits
- City "return to work" processes
- Administrative fees paid to Manulife
- Overpayments to claimants

***Areas not assessed
in Phase One
audit***

The following areas were planned but could not be completed during Phase One:

- Manulife’s claim adjudication and ongoing monitoring processes
- Manulife’s processes to determine employee rehabilitation and “return to work” potential
- Verification of accurate benefit payments to employees
- Correlation between short-term disability and LTD leaves

Phase One covers the period from January 2014 to August 2015, except where trend analyses were conducted.

Audit methodology

The audit methodology includes:

- Review of relevant legislative and policy requirements and guidelines
- Review of literature and studies, and other municipal audit reports relating to LTD management
- Review of City-wide and divisional LTD benefits and rehabilitation information
- Review and analyses of data in Manulife’s monthly, quarterly, and annual trend reports provided to the City
- Meetings and interviews with staff of the following divisions:
 - Pension, Payroll and Employee Benefits Division
 - Human Resources Division, and
 - Legal Services Division

- Interviews and meetings with Manulife staff
- Review of related “return to work” information from Employee Health and Rehabilitation, Human Resources
- Benchmarking with other government agencies and organizations in the private sector
- Consultations with staff of the Toronto Police Service (TPS) and the Toronto Transit Commission (TTC) involved in managing LTD benefits.

Benchmarking

As part of the Phase One audit, we contacted a number of municipalities, provincial government offices and private sector organizations to obtain comparative information. Our benchmarking results are included in the audit report.

Due to sensitivity of LTD benefits information, certain agencies and private sector organizations were willing to share information with us, but the AGO did not have permission to disclose all information in the report.

Co-operation from other agencies and organizations

We included TPS and TTC as two examples. Although we have not completed a detailed review of these agencies’ benefits administration, our initial work has shown there are positive lessons that can be garnered from their approach to LTD benefits administration. We want to acknowledge the co-operation and assistance received from TPS and TTC staff.

We wish to also thank other agencies and private sector organizations for sharing their information with us, in particular staff of the British Columbia (BC) Public Service Agency.

Manulife was responsive to our enquiries

Manulife was responsive to our enquiries and cooperative throughout the Phase One audit process.

Compliance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AN OVERVIEW OF THE CITY'S LONG-TERM DISABILITY BENEFIT PROGRAM

City provides LTD coverage to its employees

Employee Health Benefit Costs Are Paid by the City

The City of Toronto provides extended health care, dental care and Long-Term Disability (LTD) coverage to its employees in accordance with collective agreements and City policies.

Manulife handles the City's employee health benefit claims on an ASO basis

The City is self-insured. This means the City pays for the benefit claim costs. The City's current benefits administrator is Manulife, which acts as the City's 'agent' in processing City LTD claims under an Administrative Services Only (ASO) contract. Manulife acts on the City's behalf to ensure LTD claims are adequately assessed and paid. The City pays Manulife a fee for administrative services provided.

Qualifying Conditions for LTD Benefits

To qualify for LTD benefits, an employee must:

- be eligible for LTD benefit coverage
- satisfy the LTD qualifying period
- meet the definition of disability

Approximately 23,000 City employees have LTD coverage

Approximately 23,000 City employees have LTD benefit coverage. These include all full-time permanent and temporary employees (both unionized and non-unionized), and elected officials. Most part-time City employees do not have LTD coverage except part-time employees working in the Long-Term Care Homes and Services Division.

Six-month continuous absence due to illness or injury

The term "qualifying period" refers to the requirement for a six-month continuous absence. To qualify for LTD benefits, an employee must be absent from work for six consecutive months (i.e. 26 weeks) due to illness or injury.

Medical information to show “wholly and continuously disabled”

In addition, employees must submit medical information to satisfy the definition of disability in the City’s LTD Guidelines:

“...an employee is totally disabled when he/she is wholly and continuously disabled due to illness or bodily injury and, as a result, is not physically or mentally fit to perform the essential duties of his/her normal occupation.”

LTD Benefit Income

The City pays for 100 per cent of the cost to provide LTD benefits to employees. City employees are not required to pay an insurance premium for LTD benefit coverage.

Employees are entitled to 75% of pre-disability salary

Employees granted LTD benefits are entitled to 75 per cent of their pre-disability earnings. There is no annual Cost of Living Adjustment (COLA) increase or salary adjustment for LTD income.

Employees can potentially receive LTD benefits until age 65

Once approved, employees can potentially receive LTD benefits until age 65 unless they return to work, retire, or pass away.

LTD income is subject to statutory deductions

LTD income is subject to income tax, Canada Pension Plan (CPP) and Employment Insurance (EI) deductions, and offset by other sources of income such as Workplace Safety & Insurance Board (WSIB) benefits and CPP disability payments. If an employee is in receipt of CPP disability payments, the LTD benefit payments are no longer subject to CPP deductions.

Employees can apply for OMERS Disability Waiver

Employees are eligible to apply for the Ontario Municipal Employees Retirement System (OMERS) Disability Waiver. If the Disability Waiver is approved by OMERS, employees continue to accrue credited pension service with both the employee and employer contributions being waived.

Initial 24 months “return to work” is assessed based on ability to return to “own occupation”

Criteria for Returning LTD Recipients to Work

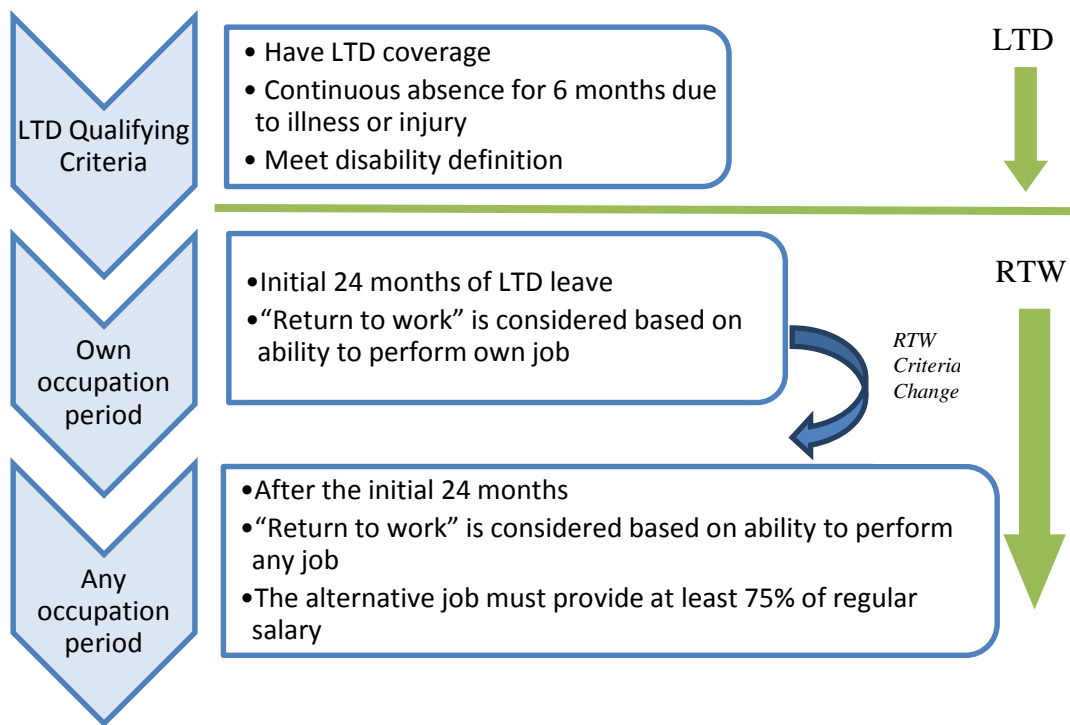
During the initial 24 months of LTD leave, Manulife evaluates the possibility of returning employees to their original positions through accommodations and modified work. This is known as the “**own occupation**” period in the LTD benefit plan.

*After 24 months
“return to work”
ability is assessed
based on “any
occupation”*

Once the initial 24 month period expires, employees can be evaluated for “return to work” for positions other than their original occupation, i.e. “**any occupation**” period. The change from “own occupation” to “any occupation” is referred to as “Definition Change”. Figure 1 illustrates the LTD qualifying and “return to work” (RTW) criteria.

City policy stipulates that the alternate position must provide the employee a minimum of 75 per cent of his/her original salary and matches the employee’s original job status, such as permanent to permanent, temporary to temporary.

Figure 1: Qualifying Criteria for LTD Benefits and Return to Work (RTW)



Delineation of Roles Between City Management and Manulife

*City PPEB
Division oversees
LTD benefit plan
administration*

The City Pension, Payroll and Employee Benefits (PPEB) Division is responsible for overseeing employee benefit plans including LTD benefits.

City HR Division coordinates the in-house RTW process

The City Human Resources (HR) Division has established a rehabilitation and RTW program. A team of health care professionals and consultants within HR's Employee Health and Rehabilitation Section is responsible for coordinating the process of providing accommodations and modified work to employees with RTW potential.

Manulife approves and monitors LTD claims and determines employee RTW potential

Manulife is the City's current benefits administrator responsible for adjudicating new LTD claim applications, on-going monitoring of claim status, processing employee benefit payments, as well as assessing employee RTW potential.

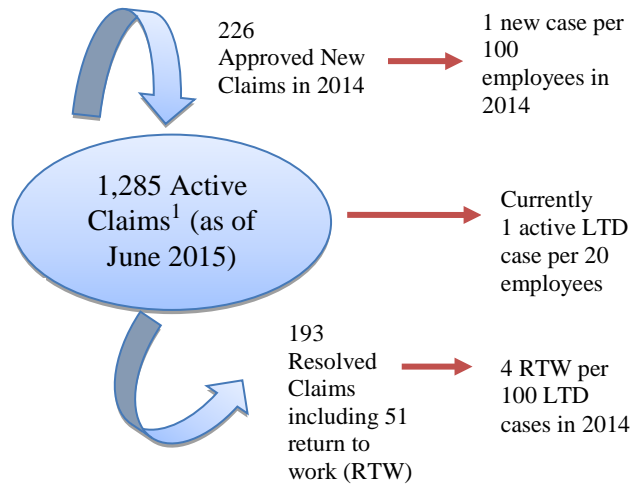
CURRENT STATE AND TREND ANALYSIS

City Employees Receiving LTD Benefits

Figure 2 shows the number of approved new claims, active claims and resolved claims in 2014/2015. Active claims are a result of incoming new claims and outgoing resolved claims. In general, a claim is resolved when a claimant reaches age 65, retires, passes away, or RTW.

Over 1,200 employees are on LTD leave

Figure 2: New Claims, Year-End Active Claims, and Resolved Claims in 2014/2015, City of Toronto



¹ LTD claims that were being appealed or litigated and the pending cases have been excluded from the number of active claims.

How the City Compares with its Largest Agencies

Each of the numbers in Figure 2 can be used for comparison as long as the size of the workforce is considered. Table 1 provides the comparative results of incidence rate (new claims), prevalence rate (existing active claims), and “return to work” percentage.

On average 1 in 20 City employees is off work on LTD leave

In order to gauge the impact of LTD on the workforce, we reviewed the number of active cases as a proportion of the workforce (i.e. prevalence rate). As of June 2015, on average 1 in 20 City employees is off work on LTD leave. This is based on 1,285 active LTD claims out of 23,215 employees with LTD coverage.

Benchmarking with TTC and TPS

The TTC and the TPS each has a significantly lower percentage of employees on LTD leave when compared with the City. TTC also has a higher RTW rate when compared with the City and the TPS.

A brief review of TPS and TTC benefit programs is provided in Section A.

Table 1: Long-Term Disability Claim Benchmarking Results, City of Toronto, Toronto Police Service (TPS), and Toronto Transit Commission (TTC), 2014 and 2015

	City	TPS	TTC
Incidence rate: Number of 2014 approved new claims per 100 employees	1%	0.1%	1%
Prevalence rate: Number of active claims per 100 employees as of June 2015	5.5%	0.8%	2.5%
Return to work (RTW) rate: Percentage of active LTD claimants returned to work in 2014	4%	8%	18%

City incidence rate is comparable with TTC

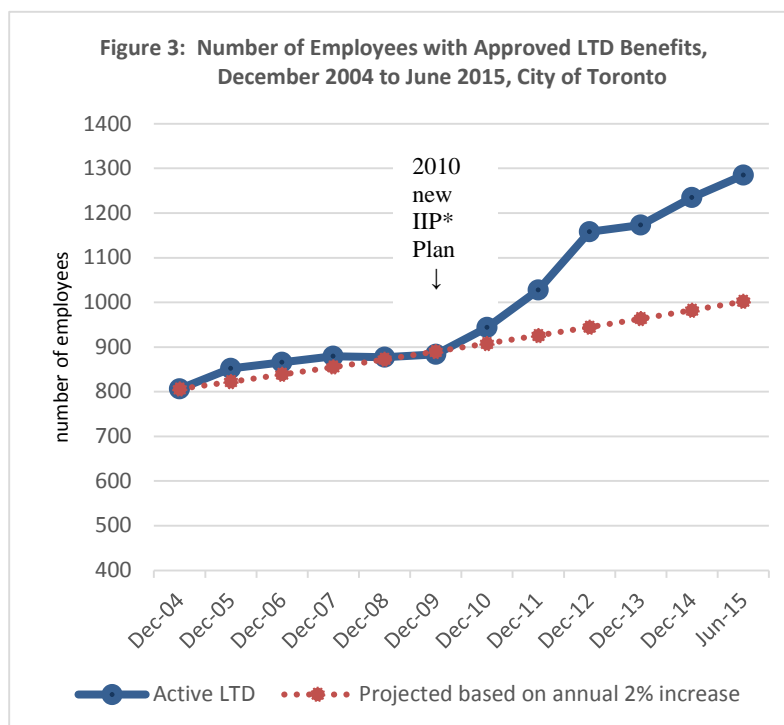
Based on the number of approved new claims in 2014, the City’s LTD incidence was approximately one new case per 100 employees. This is comparable with the TTC but significantly higher than the TPS incidence rate.

In comparison, the City’s LTD incidence rate is slightly lower than the BC Public Service Agency’s rate at 1.25 new cases per 100 employees.

Increasing Trend of LTD Cases in the City

In addition to having a high percentage of employees receiving LTD benefits, the rate of increase in the City’s active LTD cases in recent years is of concern. Over the past decade, the number of City employees in receipt of LTD benefits has increased by 60 per cent from 806 in 2004 to 1,285 as of June 2015. Figure 3 shows the increasing trend of LTD cases since 2004.

Significant LTD case increases since 2010



*Illness or Injury Plan (IIP)

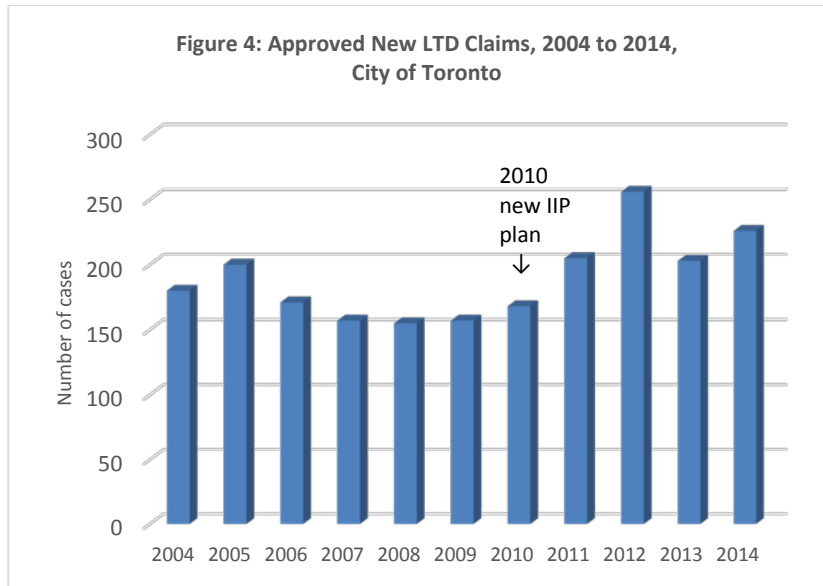
Prior to 2010, the year-to-year increase was less than two per cent per year. Starting 2010 the City experienced significant yearly increases in LTD cases. In particular, year-to-year increases between 2010 and 2012 were steeper averaging nine per cent per year. The dotted line in Figure 3 depicts the projected trend based on an average annual increase of two per cent. The solid line shows the actual number of employees receiving LTD benefits from December 2004 to June 2015.

Given the City’s aging workforce, a gradual increase in LTD cases would be expected. However, the pace and magnitude of the recent rises are cause for concern.

Increases are not due to a larger workforce

LTD case increases since 2010 are not due to a larger City workforce. The number of City employees with LTD benefit coverage remained almost the same between 23,000 and 24,000 over the past five years, while the number of employees off work on LTD leave increased significantly.

In addition to an aging workforce, recent increases in LTD cases appear to coincide with the full implementation of the City’s new Illness or Injury Plan (IIP) by 2010. Figure 4 shows the changes to approved new claims from 2004 to 2014.



Recent increases appear to coincide with the new sick day provision

The City’s new IIP (130 sick days) provision is in line with benefit provisions of other government agencies. The introduction of the new IIP addressed the City’s concern with its growing long-term liabilities by eliminating the sick bank payout at retirement for new employees. However, the introduction of the IIP might have inadvertently enabled more employees to attempt to qualify for LTD leave.

New IIP provides 130 sick days per year

Replacing the old Sick Pay Plan which provided employees up to 18 sick days per year, the new IIP provides employees up to 130 sick days (26 weeks) per year at either 75 per cent or 100 per cent salary coverage depending on years of service.

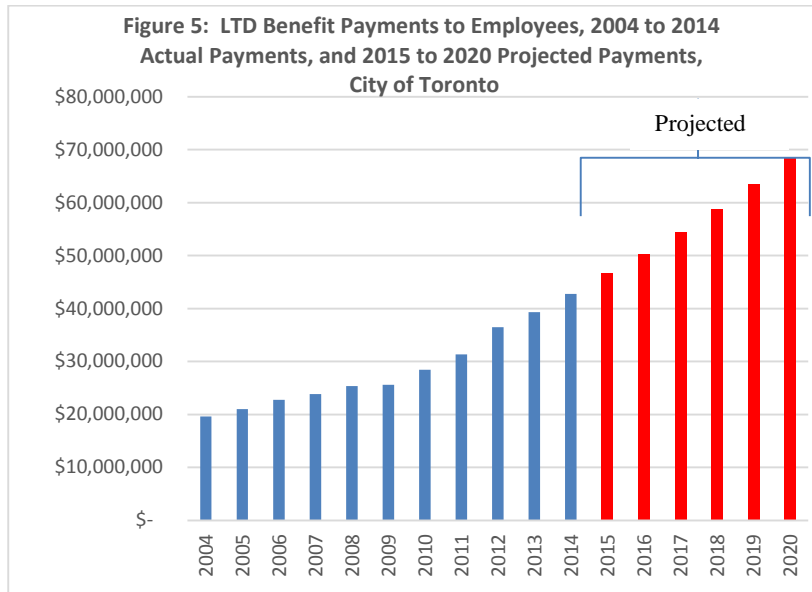
The entire LTD qualifying period can potentially be covered by the IIP salary coverage

To qualify for LTD, employees must be absent for six consecutive months. Under the old Sick Pay Plan, employees would need to use their saved sick days or vacation days to ensure salary continuation during the six-month LTD “qualifying period”. Whereas under the current IIP, employees can have either 75 per cent or 100 per cent salary coverage for the entire six-month “qualifying period” for LTD benefits.

Current Costs and Future Liability of LTD Benefits

Benefit payment rose to \$43 million in 2014

As the number of LTD cases continued to climb, benefit payments increased from \$19.7 million in 2004 to \$43 million in 2014. Benefit payments increased at an average rate of 11 per cent per year between 2010 and 2014. Based on the first six months of payment amount, the 2015 LTD benefit payment is projected to be over \$46 million. Using a conservative eight per cent annual increase, annual benefit payments will exceed \$68 million by 2020. Figure 5 shows actual and projected LTD benefit costs from 2004 to 2020.



Potential life-time benefit costs can be over \$1 million per claim

In 2014 the average annual net payment per LTD claimant was approximately \$30,000. Since the City is obligated to continue benefit payments until an employee returns to work, reaches the age of 65, or passes away, the life-time cost for a considerable number of claims could be over \$1 million per claim.

\$190 million unfunded liability for future LTD payments

The unfunded liability for LTD benefits, based on the most recent actuarial valuation, is approximately \$190 million for City employees. Unfunded liability estimates the amount of future payment obligations that exceed the present value of available fund.

Mental/nervous disorders and MSD account for nearly 60% of all diagnoses

Types of LTD Illnesses and Injuries

Table 2 lists the number and percentage of LTD claims by the top five diagnosis categories. Among the various diagnoses, “Mental and Nervous Disorders” and “Musculoskeletal Disorders” (MSD) account for 58 per cent of all active LTD claims.

Table 2: Percentage of LTD Claims, Top Five Diagnosis Categories, August 2015, City of Toronto

Diagnosis Category	Number of LTD Claims	% of Total Active LTD Claims
Mental & Nervous Disorders	456	36
Musculoskeletal Disorders	280	22
Brain & Nerves System	103	8
Benign/Malignant Neoplasms (e.g. benign tumors, cancers)	91	7
Cardiovascular System	77	6

The top five sub-diagnoses in the “Mental and Nervous Disorders” category are:

- Major Depressive Disorder (154 cases)
- Depression Unipolar Mood Disorder (57 cases)
- Generalized Anxiety Disorders (34 cases)
- Post-Traumatic Stress Disorder (24 cases)
- Alcohol/Substance Abuse/Dependence (19 cases)

The top five sub-diagnoses in the “Musculoskeletal Disorders” (MSD) category are:

- Osteoarthritis (53 cases)
- Musculoskeletal – Not Defined (34 cases)
- Lumbar Disc Degenerative Disease (24 cases)
- Cervical Disc Degenerative Disease (14 cases)
- Spinal Stenosis (12 cases)

Growing trend of mental illnesses in Canada

Mental illness is increasingly being recognized as a leading cause of disability in Canada. The Mental Health Commission of Canada estimated that 30 per cent of all LTD claims are caused by mental illnesses.

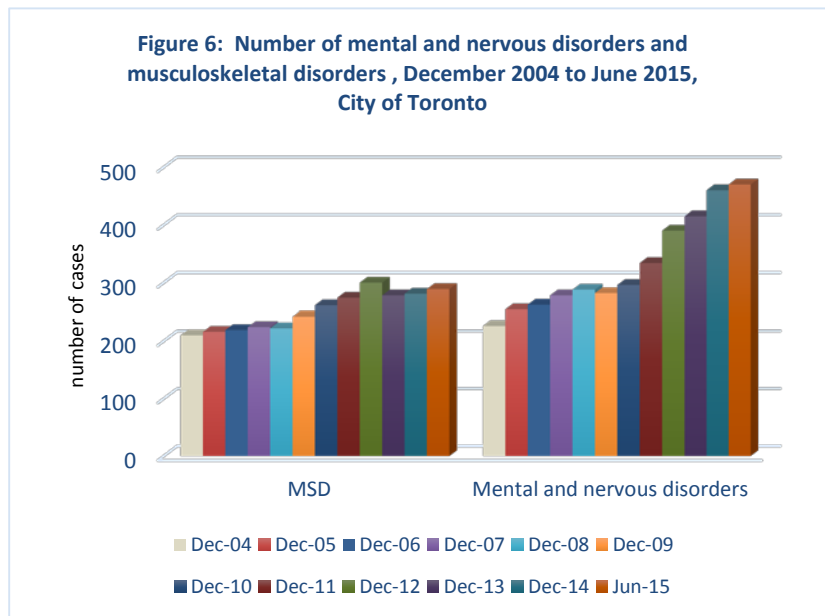
While LTD statistics in the City generally reflect the growing trend of mental and nervous disorders in Canada, the pace and magnitude of recent increases in this diagnosis category have been prominent.

Mental and nervous disorders account for 36% of all claims

In 2004 mental and nervous disorders accounted for approximately 27 per cent of all City LTD cases. Since then, the number of mental and nervous disorders has steadily increased to approximately 36 per cent of all LTD claims in 2015.

When compared with musculoskeletal disorders, which is the second highest LTD diagnosis category, increases in mental and nervous disorders were more rapid in recent years (Figure 6). In particular, the number of mental and nervous disorders rose by 13 per cent from 2010 to 2011, and 17 per cent from 2011 to 2012.

Rapid rises in mental and nervous disorders since 2010



Percentage of Staff on LTD Leave by City Division

Table 3 lists the top five City divisions with LTD cases. A large number of LTD cases could be a result of a larger divisional workforce. Table 4 provides an analysis of LTD cases per 100 divisional employees to account for the size of the workforce. On average, 1 in 10 divisional employees in Table 4 are off work on LTD leave.

Five City divisions with large number of LTD cases

Table 3: LTD Cases by Top Five City Divisions, as of December 31, 2014

City Division	Number of LTD cases
Long-Term Care Homes and Services	170
Employment and Social Services	136
Parks, Forestry and Recreation	114
Fire Services	99
Solid Waste Management Services	87

Five City divisions with high percentage of LTD cases

Table 4: LTD Percentage by Top Five City Divisions, as of December 2014

Division	Number of Employees	Number of Active LTD Cases	% of Employees on LTD Leave
311 Toronto	116	15	13
Strategic Communications	42	5	12
Auditor General	27	3	11
Children's Services	691	68	10
Solid Waste Management Services	907	87	10

The Auditor General's 2016 CCM process will include an analysis of LTD leave

The scope of our Phase One audit did not include a detailed review of divisional management of LTD leave. However, beginning 2016 the Auditor General's Continuous Control Monitoring (CCM) process will include an analysis of divisional LTD cases and rates, and results will be reported to the Audit Committee.

AUDIT RESULTS

This section of the report provides details related to the issues identified in our audit work followed by specific recommendations.

A. Examples of Alternate LTD Benefit Administration

A.1. Toronto Police Service’s Active Claim Percentage is Significantly Lower Than the City

TPS operates an in-house medical staff team to handle the majority of its LTD claims

Similar to the City, Toronto Police Service (TPS) provides LTD benefits to the majority of employees on a self-insured basis. While the City has been using a third-party administrator (currently Manulife), the TPS has established an in-house team to administer the majority of LTD claims, including claim adjudication, ongoing monitoring and “return to work” processes. TPS percentage of employees on LTD leave (0.8%) is significantly lower than the City percentage (5.5%) (Table 1).

In-house model has been operating since 1996

There is no legislation requiring that LTD benefit claims have to be administered by a third-party. As long as employee personal and health information is protected, organizations have the option to hire a third-party or administer claims in-house. TPS has been operating an in-house program since 1996, according to staff.

LTD claims from full-time officers and civilians are assessed by an in-house medical team

Non-management full-time uniformed officers and civilians in TPS are eligible for LTD benefits through a Central Sick Leave Bank. LTD claims are handled by an in-house team consisting of contracted medical professionals and specialized staff.

Long-term disability benefit coverage for senior officers, part-time and temporary staff are provided by Manulife on a premium basis. Further details relating to TPS LTD benefit program are provided in Table 5.

Table 5: An Outline of the Toronto Police Service LTD Benefits Administration, 2015

Plan administration	Eligible members	Administrative staff	Salary Coverage	LTD Prevalence Rate (as of July 31, 2015)
In-house Under TPS Central Sick Leave Bank Covers 88% of employees	Full-time uniformed officers Full-time civilians	In-house program consisting of: - 2 part-time physicians - 1 part-time nurse - 1 Return-To-Work coordinator - 1 compensation /benefits analyst	75% of pre-disability gross salary 85% if approved for CPP disability benefits	64 active LTD claims out of 7,696 eligible members Average 0.8 case per 100 employees
Manulife (Premium basis, not ASO basis) Covers 12% of employees	Senior Officers Part-time temporary members	Manulife staff	Senior officers: 75% of basic monthly earnings up to \$8,000 or \$10,000 depending on gross salary Part-time and temporary: 75% of basic monthly earnings up to a maximum of \$2,000 per month	4 active LTD claims out of 388 eligible members Average 1.0 case per 100 employees

A healthy workforce and in-house administration may contribute to TPS's lower LTD rate

According to TPS staff, the Service's lower LTD rate is attributable to the following factors:

- Employees being relatively healthy and physically fit due to the physical demands of police work
- In-house LTD program ensures cases are managed by a dedicated team familiar with member cases
- Medical staff can initiate a return-to-work program for capable members during the short-term sick leave and LTD waiting period

The design of LTD policy and collective agreements are other contributing factors

In addition to the above, the design of the TPS LTD plan and collective agreement provisions may help reduce active LTD cases. For instance, its LTD policy dictates that members must take unreduced early retirement pension if receiving LTD benefits.

Furthermore, unlike the City, TPS uses a sick bank system where employees receive 1.5 days of sick leave credits for every month of full time equivalent hours. Members are required to exhaust all of their sick bank credits, vacation hours and accumulated lieu time hours before receiving LTD benefits.

A.2. Toronto Transit Commission Has a Lower Active Claim Rate and Better Return to Work Percentage When Compared to the City

TTC active claim rate is less than half of the City rate

Similar to the City, TTC currently contracts with Manulife to administer LTD claims on an ASO basis. However, the TTC active claim percentage (2.5%) is less than half of the City percentage (5.5%). TTC also has a significantly higher percentage (18%) of LTD claimants returning to work in 2014 when compared to the City's return to work percentage (4%). Benchmarking results are shown in Table 1.

TTC LTD salary coverage for unionized employees is capped at \$2,550 per month

Based on our review and discussions with staff, TTC's existing LTD benefit provisions for unionized employees could be a major contributor to its lower LTD rate. TTC's unionized employees are entitled to 60 per cent of salary coverage up to a maximum of \$2,550 per month. City unionized employees are entitled to 75 per cent of salary coverage without any maximum limit.

TTC manages its own RTW process from initial assessment to accommodation

Aside from differences in LTD salary coverage, TTC is also different from the City in that TTC staff actively manage the short-term disability and LTD return to work process from initial assessment of return to work potential to job accommodation. In contrast, the City contracts most of the return to work process to Manulife.

As part of our audit, we identified that both the TPS and TTC serve as good examples for the City in exploring different ways of managing LTD benefits. In our view, each organization has strengths and weaknesses and as such the relevance of their respective LTD management practices is worth further review by the City.

Recommendation:

- 1. City Council request the Director, Pension, Payroll and Employee Benefits Division, in consultation with the Executive Director, Human Resources Division, to review alternate ways of managing the City’s Long-Term Disability benefit program, including a review of how the Toronto Police Service and the Toronto Transit Commission manage their respective Long-Term Disability benefit programs.**

B. Strengthening Contract Requirements

Substantial Delays in Finalizing the Formal Agreement with Manulife

Contract with Manulife has not been finalized after 3.5 years of service delivery

In 2011 Manulife was selected as the winning bidder to administer employee benefits on behalf of the City for the period 2012 to 2016. Manulife, which was the previous incumbent provider, was responsible for administering approximately \$43 million of LTD benefit payments on behalf of the City in 2014. The City also paid Manulife approximately \$2.1 million in 2014 in administration fees and other charges.

Even though Manulife has been undertaking the work for three and a half years into the five-year term, a LTD contract with Manulife has not been executed. The City is expected to tender a new five-year employee benefits contract in early 2016.

In August 2015, staff advised that the LTD contract had been finalized and was ready for City authorization. Upon request, staff provided us a copy of a final draft of the contract.

Audit noted the terms in the finalized version varied from the bid proposal

During our review of the final draft, we noted that the terms governing Administrative Costs varied from the terms in Manulife’s bid proposal. While we have no indication that the parties intended to vary from the terms of the bid proposal, it is our opinion that the differences could potentially affect the City’s right to recover costs in a contract dispute situation and affect future costs that could be borne by the City going forward.

Finalized contract version to be revised to ensure consistency with the bid proposal

In light of the potential ramifications arising from the differences, we requested City officials to delay contract authorization. A meeting was subsequently held with staff to discuss our concerns. Staff have arranged with Manulife to revise the final draft contract to address the discrepancies.

City staff are preparing to issue a RFP for the next 5-year contract

Improvement Opportunities in the Next Request for Proposals

The City's current five-year contract period with Manulife expires in December 2016. City staff are currently in the process of developing a new Request for Proposal (RFP) for the next five-year contract.

In our review of the draft contract and related documents, we noted a number of opportunities to help strengthen the next RFP requirements:

B.1. Consider an Alternate Administrative Fee Cost Structure

Admin fee to Manulife is based on a percentage of total benefit payments to claimants

Under the current draft contract, the administrative fees paid to Manulife are calculated based on 3.3 per cent of total benefit payments to LTD claimants. This resulted in approximately \$1.4 million in administrative fees to Manulife in 2014.

Could inevitably provide an incentive for approving more claims

As the fee is based on a percentage of total benefit payments, the higher the benefit payment amount, the higher the Manulife fee. While we have no indication of this being the case, the administrative fee structure provides Manulife with an incentive to approve more claims or to keep claims open longer.

BC Public Service's last RFP used a fixed fee structure

PPEB staff indicated that the current fee structure is widely used by other municipalities. However, staff of the BC Public Service Agency advised that, based on similar concerns about fee incentives, its fee structure for the 2012 RFP was changed from a percentage of benefit payments to a fixed monthly fee. According to BC Public Service staff, the fixed monthly fee structure did not increase overall administrative costs.

B.2. Incorporate Explicit Audit Clauses in the Next RFP to Enable the Auditor General to Undertake an Audit

We have previously discussed the complications in accessing Manulife records for audit purposes based on the terms of the City's draft contract. This is because when a service is contracted out under an ASO agreement it precludes the Auditor General from auditing the service utilizing her authority under the City of Toronto Act, 2006 to compel the provision of records. The Auditor General is only mandated to exercise that authority when auditing City services and agencies.

An explicit audit clause to enable an audit conducted by the Auditor General

Given that Manulife is the City's agent and the City is responsible to pay LTD claims based on Manulife decision, an explicit clause should be included in the next RFP to enable the Auditor General to undertake an audit of a Benefits Carrier's claims operation. This will help ensure due diligence is being undertaken on the City's behalf, and compliance with RFP requirements.

Auditor General has a duty of confidentiality under the Act

Under the City of Toronto Act, the Auditor General has a "Duty of confidentiality":

181.(1) The Auditor General and every person acting under the instructions of the Auditor General shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her duties under this Part.

B.3. Incorporate an Audit Clause for Third-Party Audits in the Next RFP

TTC included in the last joint RFP a specific third-party audit requirement

In the 2010 joint RFP, TTC included a specific mandatory requirement for the Benefit Carrier to engage a third-party firm to audit the Carrier's administration of TTC's LTD claims. The TTC RFP clauses specified that the fee for the third-party audit was to be paid by the Carrier and included in the ASO fees. As a result of this mandatory requirement, Manulife's administration of TTC claims was audited by a third-party firm in 2014.

The City did not have a third-party audit requirement in the last joint RFP. The City has not engaged a third-party auditor with respect to LTD claims. In our view, such a carrier-funded audit requirement is beneficial in ensuring contract compliance as well as funding for a third-party audit.

Recommendations:

- 2. City Council request the City Manager to ensure contract documents are finalized by the parties within a reasonable time period after an award of the contract. Prior to City authorization, staff should ensure the contracts fully reflect the terms and conditions in the bid proposals, in particular the terms relating to bid prices.**
- 3. City Council request the Director, Pension, Payroll and Employee Benefits Division, to strengthen management controls in the next Long-Term Disability Group Benefits contract. Steps to be taken should include but not be limited to:**
 - a. Developing an administrative fee cost structure in the Request for Proposal (RFP) that would not inevitably provide an incentive for the Benefit Carrier to approve more Long-Term Disability claims,**
 - b. Including appropriate clauses in the RFP to enable the Auditor General to conduct an audit of the Carrier's claims operation and adhere to relevant privacy and confidentiality legislation, and**
 - c. Including a third-party audit clause in the RFP and the audit fee to be payable by the Benefits Carrier.**

C. Return to Work Processes

The City as an employer has a legal obligation to accommodate employees in accordance with the Ontario Human Rights Code, the Accessibility for Ontarians with Disabilities Act (AODA), and the City Human Rights and Anti-Harassment/Discrimination Policy. Under AODA, employers must establish documented accommodation plans for individual employees.

Manulife is responsible for assessing employees rehabilitation and return to work potential

As part of the current ASO agreement with the City, Manulife is responsible for determining City employee rehabilitation and return to work potential based on Manulife in-house and/or external health assessments. Manulife then refers potential cases to the City Employee Health and Rehabilitation (Employee Health) to facilitate the return to work (RTW) process. This may include working with employees, health care professionals, and divisional management staff to develop an accommodation plan concerning modified duties or specialized work equipment.

With a staff complement of ten Health Consultants, the City Employee Health provides a range of services including confidential health counseling, employment pre-placement evaluations, primary care and emergency aid, referrals under the attendance management program, as well as RTW accommodation.

Estimated \$0.5 million for return to work services and staff resources

Based on Manulife's 2014 rehabilitation service charges and an allocated portion of City resources, the City spent at least \$500,000 in 2014 for rehabilitation services and return to work facilitation.

Manulife reported 51 employees return to work in 2014

Since we did not have access to Manulife's claims operation, we could not confirm the number of rehabilitation or RTW assessments conducted by Manulife in 2014. However, according to Manulife, 51 City employees returned to work in 2014.

Due to the restrictions on accessing records, the Auditor General was only able to engage in a limited review of the City's RTW facilitation processes. Based on the review we noted a number of areas where further improvement may be possible, and these areas are outlined below. A more extensive audit of the RTW process will be undertaken in Phase Two, once access to claims data has been granted.

C.1. Develop and Track Performance Indicators

An effective return to work program can significantly shorten lost work periods

According to the Ontario Medical Association, employees who are presented with modified RTW opportunities prior to complete recovery are twice as likely to return to work as those given no opportunity. In other words, an effective RTW program can reduce the number of work days lost by half, according to the Ontario Medical Association.

Performance indicators for the City's RTW process have not been developed

According to staff, Employee Health monitored 182 LTD cases for potential RTW in 2014. Of these Employee Health received 72 referrals from Manulife for RTW planning and accommodation. Although Employee Health reviews and evaluates RTW outcomes and barriers, it has not developed performance indicators or undertaken detailed analyses. Management staff indicated that they have been working on improving data tracking.

Performance indicators measuring the RTW success rate and duration of time required for employees to fully return to work would provide useful information to gauge and continuously improve the RTW process. As well, tracking and analyses of individual case information may help identify common factors affecting the City RTW success.

Understand how TTC and TPS strategize their RTW programs may be helpful

It is noteworthy that TTC and TPS are realizing much higher RTW rates. As such, information on strategies being utilized by these Agencies may be helpful to the City.

C.2. Review Current Process to Seek Employee Consent

Exchange of employee personal health information requires employee written consent

Under the Personal Health Information Protection Act, employee personal health information must be protected. Personal information concerning an employee's disability cannot be released without the prior written consent of the individual employee.

Mandatory Member Statement consent

In order for Manulife to adjudicate LTD claims, employees must provide their consent in the "Member Statement" during the initial LTD benefit application process.

Additional employee consent to facilitate RTW process

In addition to the Member Statement consent, employees who submitted their claims prior to May 2015 will be asked to sign a consent form entitled "Authorization to Release Information", also known as the 3-way consent, when their cases are referred by Manulife to Employee Health for RTW potential.

For claims submitted after April 2015, employees are requested to sign a consent form entitled "Consent to Release or Share Information". This consent form is provided to employees during the initial application process in addition to the Member Statement consent.

The purposes and timing of these consent forms are outlined in Table 6.

Table 6: Outline of Existing Consent Forms Used By the City for Long-Term Disability Benefit Application and Return to Work, 2015

Consent Form Title	When Claimants are Asked to Sign	General Description of the Consent	Mandatory
Member Statement	Initial benefits application process	Authorize collection, use and disclosure of health and personal information among Manulife, employer and health care providers	Yes
Authorization to Release Information (3-way consent) (Effective until April 2015)	During initial RTW process	Authorize the exchange of health and personal information between Manulife, health care providers, and Employee Health for the purpose of facilitating RTW	No
Consent to Release or Share Information (Effective since May 2015)	Initial benefits application process	Authorize Manulife to release information to Employee Health for the purpose of clarifying medication information relevant to RTW	No

70% of claimants did not sign the optional 3-way consent

Among the existing consent forms, only the initial Member Statement consent is mandatory for employees to provide. The other two consents are optional. Our review of Manulife’s monthly rehabilitation report from May to December 2014 found that approximately 70 per cent of claimants did not sign the optional 3-way consent form.

Without employee consent, health consultants may not have specific health information to develop an effective accommodation plan

We understand from City staff and Manulife that the two optional consent forms were developed to enable Employee Health consultants to acquire the necessary information to facilitate individual employee’s RTW processes. However, as these consents are optional, when employees refuse to provide consent, Manulife cannot share specific employee health information with Employee Health consultants. This, in some cases, may make it difficult to develop an effective accommodation plan for employees, and consequently delay or impact the return to work success.

Other agencies include all consent requirements in the initial application process

A number of government agencies we consulted do not require multiple employee consents. These agencies ensure the initial application consent includes all necessary conditions and clauses that meet the needs of all parties involved in the entire LTD benefit management process including return to work.

C.3. Enhance Staff Awareness and Knowledge of Early Intervention and Accommodation

The rising number of LTD cases in the City and the City’s legal obligation for providing employee accommodation make it important to ensure management staff have the necessary knowledge and training regarding employee health issues and accommodation.

City HR offers a range of training and resources for employee health and accommodation

The City Human Resources (HR) Division offers various employee health related training and resources including:

- Policies and guidelines posted on the Intranet (e.g. Musculoskeletal Disorders Policy, Workplace Mental Health Policy, Accommodation Guidelines)
- Intranet site and resources to support the City’s Mental Health Policy and Strategy
- Referrals to the City’s Employee Assistance Program and Employee Health
- In class training courses, and
- New manager mandatory in class training.

Table 7 lists three courses identified by HR as critical training courses for managing staff. The course attendance percentages in Table 7 are based on Employee Health data.

Table 7: Attendance at Critical Training Courses for Managing Staff, 2015, City of Toronto

Course Title	Mandatory Attendance	Attendance Records
Attendance Management	Yes	Since 2008, over 95% of management staff with direct staff report have received this training
Managing and Assisting the Troubled Employee	No	Since 2012, 16.5% of management staff with direct staff report have attended this training
Managing and Assisting the Employee with Health Issues	No	Since 2012, 20.5% of management staff with direct staff report have attended this training

Since 2012, only a small percentage of management staff have attended the two optional training courses. To further increase management's awareness and knowledge of employee health issues, it may be necessary to explore alternate learning models. Our review found a number of government agencies use a mix of delivery methods such as e-learning and newsletters to supplement in-class training.

Recommendations:

- 4. City Council request the Executive Director, Human Resources Division, to develop and track performance indicators for assessing and continuously improving the City's return to work process for employees in receipt of Long-Term Disability benefits.**
- 5. City Council request the Director, Pension, Payroll and Employee Benefits Division, in consultation with the City Solicitor and the Executive Director, Human Resources Division, to review the current process to seek consent from Long-Term Disability claimants to facilitate employee return to work process.**
- 6. City Council request the Executive Director, Human Resources Division, to explore ways to further enhance staff awareness and knowledge of early intervention and accommodation for employees with health issues, including an assessment of alternate training delivery methods.**

D. Administration Costs

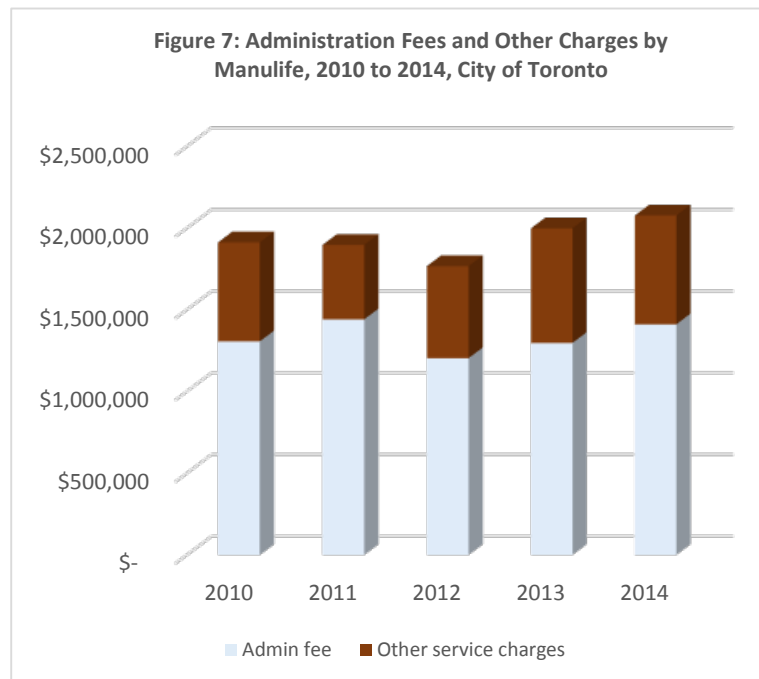
In addition to administration fee, City pays for other charges

In response to the last joint RFP, Manulife reduced the LTD benefits administration fee rate from previously 4.6 per cent of claim payments to 3.3 per cent for the current contract period. In addition to the administration fee, the City pays Manulife for other services such as rehabilitation assessments, consultative medical assessments, and lawyer fees at either specified rates or actual costs plus a percentage of service charge.

City staff approve Manulife monthly statements for payment

All Manulife fees and charges are outlined in monthly ASO Statements to the City. The City PPEB Division staff review and approve the monthly statements for payment. In 2014 the City paid approximately \$2.1 million to Manulife comprised of \$1.4 million in administration fees and nearly \$0.7 million for other service charges.

Figure 7 shows the relative changes to the yearly administration fee and other service charges from 2010 to 2014.



Currently five City agencies and corporations are included in the City's benefits administration umbrella. These five agencies and corporations are:

- The Board of Governors of Exhibition Place
- Sony Centre for the Performing Arts
- Toronto Zoo
- Toronto Public Library
- Community Centers and Arenas

In our review of the City payment approval process, we noted two significant issues:

D.1. Refund for Incorrect Charges Since 2003

As a result of the audit, the City and its agencies and corporations will receive a refund from Manulife in the amount of approximately \$1.9 million for charges billed since 2003.

City has been charged for “Regular Medical Correspondence” costs since 2003

In reviewing a sample of Manulife ASO monthly statements, we noted the City was regularly charged for “Regular Medical Correspondence”, which is not a specified service for additional charges based on the draft contract and the bid proposal.

Billing error dated back to January 2003

Manulife acknowledged the error and confirmed that the City should not have been charged for “Regular Medical Correspondence”. According to Manulife, the error inadvertently occurred when it implemented a new billing system effective January 1, 2003. The charges for “Regular Medical Correspondence” are regular charges for most clients and therefore the invoice code was included as a default in the billing system.

Manulife will refund the City and its agencies and corporations approximately \$1.9 million

Manulife agreed to refund all the “Regular Medical Correspondence” charges plus interest and taxes since 2003. These, according to Manulife’s review of billing records, amount to a refund of approximately \$1.9 million to the City and its agencies and corporations. A detailed breakdown by the City and its agencies and corporations was not available at the time of writing.

Total cost recovery will be approximately \$1.8 million net of tax rebate

Since the City receives a tax rebate, a portion of the refunded taxes from Manulife will need to be remitted to the Canada Revenue Agency. The total cost recovery net of tax rebate is estimated to be approximately \$1.8 million.

Manulife has already refunded approximately \$508,000

To date, City staff advised that a refund in the amount of \$507,980 was received from Manulife in September 2015. Manulife indicated that the remaining amount of the refund will be credited to the City and its agencies and corporations in the following months.

We have confirmed that TTC was not charged for this particular cost, and the charge is not relevant to TPS as its Manulife LTD contract is on a premium basis.

D.2. Obtain Supporting Documents and Cost Breakdowns for Monthly Charges

No supporting documents or cost breakdowns were obtained prior to payment approval

In approving payment for Manulife's monthly ASO Statements, PPEB staff did not obtain supporting documents such as invoices or cost breakdowns. Staff therefore could not verify charges were consistent with the contract, nor could staff determine the accuracy or reasonableness of the charges. The costs of other charges totaled over \$2 million since 2012.

As part of our audit, we requested supporting documents and detailed cost breakdowns for two monthly statements from Manulife, and to date have not been provided with the documentation.

TTC and another government agency obtained detailed supporting documents

TTC also has an ASO contract with Manulife for its LTD benefits administration. TTC staff however obtained from Manulife a detailed breakdown of each service charge and related supporting documents. The BC Public Service Agency also indicated they require their ASO Carrier to provide invoices and other cost details for all charges.

Recommendations:

- 7. City Council request the Director, Pension, Payroll and Employee Benefits Division, to review the amount of refund from Manulife in relation to the "Regular Medical Correspondence" charges since 2003 as part of the Long-Term Disability benefit administration agreement to ensure the refund amount is complete and accurate.**
- 8. City Council request the Director, Pension, Payroll and Employee Benefits Division, to request supporting documents and cost breakdowns from Manulife for all "Other Charges" in the monthly billing statement for Long-Term Disability benefit administration services. Staff to recover charges paid by the City for which Manulife cannot provide supporting documents or reasonable cost breakdowns.**

- 9. City Council request the Director, Pension, Payroll and Employee Benefits Division, to incorporate in the next Request for Proposal for Long-Term Disability benefit administration a requirement for the benefit carrier to provide supporting documents and cost breakdowns for all charges.**

E. Overpayments To Claimants

E.1. Overpayments Resulting from Receipts of Other Income

Over \$600,000 overpayment balance as of August 2015

As the City's ASO agent, Manulife is responsible for issuing monthly benefit payments to approved claimants, and recovering overpayments from claimants. As of August 31, 2015, the overpayment balance was approximately \$660,000 from 68 claimants.

Benefits from other sources are clawed back from LTD benefit payments

City employees can apply for disability benefits from other government agencies. If an employee receives other benefits such as Canada Pension Plan (CPP) Disability Benefits, Workplace Safety and Insurance Board (WSIB) benefits, pensions or severances, these benefits should be deducted from the City's monthly LTD benefit payments.

Manulife indicates it has put in place steps to minimize overpayment

During the claim approval process, Manulife requires a claimant to authorize CPP and WSIB to notify Manulife of its approval of benefits and to send benefit payments directly to Manulife rather than the claimant. This is an important control put in place by Manulife to minimize overpayments.

Overpayments can still occur without other agency cooperation

According to Manulife staff, despite the employee authorization to CPP and WSIB, in some instances CPP or WSIB staff continue to send benefit payments directly to claimants who may not notify Manulife of receiving such benefit payments.

Certain overpayments are unavoidable

In addition, in some circumstances overpayments are unavoidable because of delays in receiving CPP or WSIB approval for benefits. The delays in receiving CPP or WSIB can take months or years. Under these circumstances, Manulife needs to make LTD benefit adjustments retroactively.

E.2. Overpayment Resulting from Delays in Notifying Benefits Administrator

Three deceased claimants continued to receive LTD benefits

LTD benefits should cease when a claimant passes away. Based on our review of active LTD claimants as of June 30, 2015, we identified that three deceased City employees continued to receive LTD benefits because PPEB staff did not notify Manulife of the changed status.

The overpayment amount for the three employees was \$8,836. LTD benefits to these three employees have since been discontinued. As of July 31, 2015 the overpayments have not been recovered. The concern was raised to PPEB staff during the audit and in June 2015 PPEB advised that they have since changed their internal process to avoid this from recurring in the future.

E.3. Improve Payment Recovery Process

Where needed, Manulife will negotiate a repayment plan with the claimant

When recovering overpayments, if a claimant is unable to pay back the entire amount, Manulife, in consultation with the City will negotiate a repayment plan. The repayment plan may include a lump sum payment, postdated cheques or a deduction from future payments. If Manulife cannot reach the claimant the matter is then forwarded to the City for further actions through grievances or the legal process.

Two overpayments have been outstanding for at least 6 months

Early identification of overpayments and establishment of repayment plans increase chances of recovery. Our review of 46 open claim overpayments noted two overpayments that have been outstanding for at least six months, and three have been outstanding for at least three months. In certain cases, Manulife has not been able to establish an agreed recovery plan with the claimants.

13 closed claims have no recovery actions for at least 24 months

In addition, among the 30 overpayments from closed claims (i.e. passed away or terminated employees), 13 have no recovery action for more than 24 months. The overpayments for these 13 accounts total \$196,872.

Uncollectable overpayments should be reported as write-offs

If all attempts to recover an overpayment have been exhausted, the overpayment should be considered uncollectible and “written off” in accordance with the City write-off process. PPEB currently does not have a write off policy and as a result uncollectable overpayments are not reported.

Recommendations:

- 10. City Council request the Director, Pension, Payroll and Employee Benefits Division, to take steps to minimize overpayments to employees receiving Long-Term Disability benefits. Such steps should include but not be limited to:
 - a. Improving management oversight**
 - b. Ensuring timely notification of the Benefit Carrier of employee changed status, and**
 - c. Ensuring timely contacts with claimants to negotiate a payment plan to recover the overpayments.****
- 11. City Council request the Director, Pension, Payroll and Employee Benefits Division, to explore ways to encourage better cooperation from Canada Pension Plan and Workplace Safety and Insurance Board in remitting benefit payments to City employees who are also receiving Long-Term Disability benefit payments.**
- 12. City Council request the Director, Pension, Payroll and Employee Benefits Division, to ensure uncollectable Long-Term Disability overpayments are written off according to City procedures and reported to the appropriate Standing Committee.**

CONCLUSION

Twelve recommendations to improve the City's management of LTD benefits

This is the Auditor General's first audit of the City's management of LTD benefits. This audit report contains 12 recommendations to help improve the City's management of LTD benefits through strengthening the next RFP requirements, improved "return to work" process, payment verification, and overpayment recovery.

Since we could not gain access to review Manulife's records in Phase One, we were not able to conduct an end-to-end assessment of Manulife's claim assessment and monitoring processes. We will conduct Phase Two audit once we have been granted access to review Manulife's claims operation.

**Management's Response to the Auditor General's Report
Management of the City's Long-Term Disability Benefits
Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits**

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
1.	<p>City Council request the Director, Pension, Payroll and Employee Benefits Division, in consultation with the Executive Director, Human Resources Division, to review alternate ways of managing the City's Long-Term Disability benefit program, including a review of how the Toronto Police Service and the Toronto Transit Commission manage their respective Long-Term Disability benefit programs.</p>	X			<p>1. 2015 Q4 – The Director of PPEB and Executive Director of Human Resources will meet with TTC and TPSB for an in-depth review of their respective LTD processes and disability management models.</p> <p>2. 2015 Q4/2016 Q1 – The Director of PPEB and Executive Director of Human Resources will meet with other municipalities and public sector employers with ASO LTD plans to have a dialogue of best practices and areas of concern.</p> <p>3. 2016 Q2/Q3 – The Director of PPEB will document the pros and cons of the alternate ways of Managing the City's LTD program for consideration with Human Resources, Legal Services and the City Manager.</p>
2.	<p>City Council request the City Manager to ensure contract documents are finalized by the parties within a reasonable time period after an award of the contract. Prior to City authorization, staff should ensure the contracts fully reflect the terms and conditions in the bid proposals, in particular the terms relating to bid prices.</p>	X			<p>2017 Q1 – for the next contract period commencing January 2017, the Director of PPEB will work with Legal Services to prioritize and finalize future formal contracts in a reasonable time period, based on acceptable standards and complexities, and will continue to ensure the contracts reflect the terms and conditions of the bid proposal.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
3.	<p>City Council request the Director, Pension, Payroll and Employee Benefits Division, to strengthen management controls in the next Long-Term Disability Group Benefits contract. Steps to be taken should include but not be limited to:</p> <p>a. Developing an administrative fee cost structure in the Request for Proposal (RFP) that would not inevitably provide an incentive for the Benefit Carrier to approve more Long-Term Disability claims,</p> <p>b. Including appropriate clauses in the RFP to enable the Auditor General to conduct an audit of the Carrier's claims operation and adhere to relevant privacy and confidentiality legislation, and</p> <p>c. Including a third-party audit clause in the RFP and the audit fee to be payable by the Benefits Carrier.</p>	X			<p>(a) 2015, Q4 - The Director of PPEB will examine additional pricing options within the next RFP and consider a flat administrative fee annually, or blended pricing option.</p> <p>b) 2015, Q4 – The Director of PPEB and Legal Services will work with the Auditor General to include appropriate clauses to address the confidentiality requirement to the satisfaction of all parties and ensure that the Auditor General can fulfill her statutory responsibilities.</p> <p>c) 2015, Q4 – The Director of PPEB will include in the next Benefits Carrier RFP a clause in the RFP to include a third-party audit for the City and the audit fee to be payable by the benefits carrier in the same manner as was done for the TTC.</p>
4.	<p>City Council request the Executive Director, Human Resources Division, to develop and track performance indicators for assessing and continuously improving the City's return to work process for employees in receipt of Long-Term Disability benefits.</p>	X			<p>1. 2016 Q3/Q4 - A submission has been made in the 2016 Capital budget for funds to allow for the further development of the Web – based Quatro Safety disability management system to add modules for non-occupational injury and illness. This will allow for improved tracking of performance measures.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
5.	City Council request the Director, Pension, Payroll and Employee Benefits Division, in consultation with the City Solicitor and the Executive Director, Human Resources Division, to review the current process to seek consent from Long-Term Disability claimants to facilitate employee return to work process.	X			<p>1. Effective May 2015 – To improve the efficiency of the RTW process, PPEB has included the Consent form in the initial application package and requested the form completed at the beginning of the process. (It was previously sent to the employee at the time the employee was determined to be fit to RTW).</p> <p>2. 2016, Q3 - The Director of PPEB, in consultation with Executive Director of Human Resources and Legal Services, will review opportunities to revise the consent process and consider opportunities to receive medical information in a timely manner and improve the efficiency of the return to work process.</p>
6.	City Council request the Executive Director, Human Resources Division, to explore ways to further enhance staff awareness and knowledge of early intervention and accommodation for employees with health issues, including an assessment of alternate training delivery methods.	X			<p>1. 2016, Q3/Q4 - Development of improved procedure guides and “tool kit “ information for supervisors to support them in managing accommodation requirements and employees with health issues</p>
7.	City Council request the Director, Pension, Payroll and Employee Benefits Division, to review the amount of refund from Manulife in relation to the “Regular Medical Correspondence” charges since 2003 as part of the Long-Term Disability benefit administration agreement to ensure the refund amount is complete and accurate.	X			<p>1. 2015, Q3/Q4 – The Director of PPEB will work with Manulife to obtain a full breakdown of the \$1.93 million refund to ensure the amount includes all agencies and has been calculated accurately.</p> <p>In is anticipated the refunds will be resolved by November 2015.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
8.	City Council request the Director, Pension, Payroll and Employee Benefits Division, to request supporting documents and cost breakdowns from Manulife for all “Other Charges” in the monthly billing statement for Long-Term Disability benefit administration services. Staff to recover charges paid by the City for which Manulife cannot provide supporting documents or reasonable cost breakdowns.	X			1. 2015, Q4/2016 Q1 – The Director of PPEB is currently working with Manulife for a more detailed explanation of "other charges" in the monthly invoice and hope to have the matter resolved by January 2016.
9.	City Council request the Director, Pension, Payroll and Employee Benefits Division, to incorporate in the next Request for Proposal for Long-Term Disability benefit administration a requirement for the benefit carrier to provide supporting documents and cost breakdowns for all charges.	X			1. 2015, Q4 - The Director of PPEB will include in the next Benefits Carrier RFP a requirement to provide supporting documents and cost breakdowns for all charges.

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
10.	<p>City Council request the Director, Pension, Payroll and Employee Benefits Division, to take steps to minimize overpayments to employees receiving Long-Term Disability benefits. Such steps should include but not be limited to:</p> <p>a. Improving management oversight</p> <p>b. Ensuring timely notification of the Benefit Carrier of employee changed status, and</p> <p>c. Ensuring timely contacts with claimants to negotiate a payment plan to recover the overpayments.</p>	X			<p>1. 2015, Q1 to Q4 – The Director of PPEB has been working with Legal Services, Director, Employee & Labour Relations and with Manulife to refine the overpayment collection process further by:</p> <ul style="list-style-type: none"> • Reduction of notification to one letter • Application of full recovery until zero balance realised • Review of current LTD communication templates and benefits booklets to determine what if any language modification required • Management Grievance requirement • Improving speed for small claims filings for outstanding amounts not recoverable from LTD benefit or City wages <p>(a) 2015, Q4/2016 Q1 – The Director of PPEB will continue to refine the process and improve the oversight of the overpayment collection process.</p> <p>(b) 2015, Q4 – The Director of PPEB will review and refine its internal business process to ensure there is timely notification to the Carrier of any changes in the employee's status.</p> <p>(c) 2015, Q4/2016 Q1 – The Director of PPEB will continue to refine the process to ensure there is more timely contact with employees to facilitate the overpayment collection process.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
11.	City Council request the Director, Pension, Payroll and Employee Benefits Division, to explore ways to encourage better cooperation from Canada Pension Plan and Workplace Safety and Insurance Board in remitting benefit payments to City employees who are also receiving Long-Term Disability benefit payments.	X			1. 2016, Q1 - The Director of PPEB will write to representatives at the WSIB and CPP to request their cooperation to ensure that when City employee disability amounts are reviewed, the benefit payments are properly directed to the benefits carrier in a timely manner, and also to request whether a process could be implemented between the two organizations and the benefits carrier to regularly advise details of employees and amounts that are in process, but not yet adjudicated.
12.	City Council request the Director, Pension, Payroll and Employee Benefits Division, to ensure uncollectable Long-Term Disability overpayments are written off according to City procedures and reported to the appropriate Standing Committee.	X			1. 2016, Q2 – The Director of PPEB, in consultation with Legal Services, will complete a review to determine those overpayments that are uncollectable and include those amounts in the Treasurer's annual write-off report to the Government Management Committee.