

Consolidated Clause in Policy and Finance Committee Report 4, which was considered by City Council on July 25, 26 and 27, 2006.

29c**Harmonization of Sick Leave Plans for Management and Non-Union Employees**

City Council on July 25, 26 and 27, 2006, amended this Clause by:

- (1) *amending staff Recommendation (1) contained in the Recommendations Section of the report (March 6, 2006) from the City Manager and the Deputy City Manager and Chief Financial Officer, as contained in the Clause, by inserting the words “except for Councillors’ staff”, after the words “all Management and Non-Union employees”, so that Recommendation (1) now reads as follows:*

“(1) the Short-Term Disability plan outlined in this report (Appendix A - Harmonized Short-Term Disability Plan – Management and Non-Union Employees) be approved for all Management and Non-Union employees, except for Councillors’ staff, who have entitlement to a Sick Leave Plan or Short-Term Disability plan;”; and

- (2) *adding the following:*

“That City Council refer the issue of the implementation date of the ‘Harmonized Short-Term Disability Plan – Management and Non-Union Employees’ for Councillors’ staff back to the Employee and Labour Relations Committee for consideration.”

This Clause, as amended, was adopted by City Council.

Council also considered additional material, which is noted at the end of this Clause.

City Council on June 27, 28 and 29, 2006, postponed consideration of this Clause to its next regular meeting on July 25, 2006.

City Council on June 14, 2006, postponed consideration of this Clause to its next regular meeting on June 27, 2006.

City Council on May 23, 24 and 25, 2006, postponed consideration of this Clause to its special meeting on June 14, 2006.

The Policy and Finance Committee recommends that City Council adopt the recommendations of the Employee and Labour Relations Committee contained in the communication (May 10, 2006) from the Employee and Labour Relations Committee.

Recommendations:

The Employee and Labour Relations Committee recommended to the Policy and Finance Committee that City Council adopt the staff recommendations in the Recommendations Section of the report (March 6, 2006) from the City Manager and the Deputy City Manager and Chief Financial Officer subject to amending:

- (i) the first paragraph under the heading “Employees Absent from Work as of January 1st”, contained in Appendix A to read as follows:

“Employees will receive a ‘fresh bank’ of 130 days each January 1st. Unused days will not be carried over from year to year, and there is no payout of these days upon termination. Employees must be actively at work to receive their new bank. If an employee is not actively at work on January 1st, their bank will be refreshed once they have returned to work for a period of two (2) weeks.”;

- (ii) Recommendation (2) by adding “with an implementation date no earlier than January 1, 2008” after “notice period”, so that it now reads:

“(2) all Management and Non-Union employees be provided with a sufficient (12-month) notice period, with an implementation date no earlier than January 1, 2008, at the end of which they will be enrolled in the new Short-Term Disability plan (Appendix A – Harmonized Short-Term Disability Plan - Management and Non-Union Employees);”; and

- (iii) Recommendation (4) to read as follows:

“(4) that those employees currently in a Sick Leave Plan be enrolled in the new Short-Term Disability Plan (Appendix B – Harmonized Short-Term Disability Plan - Management and Non-Union Employees) on the implementation date following the notice period and in addition have their sick bank balances frozen. The sick bank balances can be used to top-up future Short-Term Disability plan payments or be held for payout upon the employee’s termination. The payout will be based upon the number of days and the service as at the date of implementation and the salary at termination. The remaining provisions of the payout still apply, based on the terms of the plan from the former municipality;”.

Background:

The Employee and Labour Relations Committee on May 10, 2006, considered the following reports:

- (i) (March 6, 2006) from the City Manager and the Deputy City Manager and Chief Financial Officer providing a supplementary report on the harmonization of the Sick Leave Plans for the Management and Non-Union employees of the City of Toronto.

Recommendations:

It is recommended that:

- (1) the Short-Term Disability plan outlined in this report (Appendix A – Harmonized Short-Term Disability Plan – Management and Non-Union Employees) be approved for all Management and Non-Union employees who have entitlement to a Sick Leave Plan or Short-Term Disability plan;
- (2) all Management and Non-Union employees be provided with a sufficient (12 month) notice period at the end of which they will be enrolled in the new Short-Term Disability plan (Appendix A – Harmonized Short Term Disability Plan - Management and Non-Union Employees);
- (3) those employees currently in a Short-Term Disability plan be enrolled in the new Short-Term Disability plan (Appendix A – Harmonized Short-Term Disability plan - Management and Non-Union Employees) on the implementation date following the notice period;
- (4) those employees currently in a Sick Leave Plan be enrolled in the new Short-Term Disability plan (Appendix A – Harmonized Short-Term Disability plan - Management and Non-Union Employees) on the implementation date following the notice period and in addition have their sick bank balances frozen. The sick bank balances can be used to top-up future Short-Term Disability plan payments or be held for payout upon the employee's termination. The payout will be based upon the number of days, the salary and the service as at the date of implementation. The remaining provisions of the payout still apply, based on the terms of the plan from the former municipality;
- (5) this policy supersede, replace and repeal any authorities, by-laws, policies and procedures of the seven former municipalities pertinent to Sick Leave Plans and Short-Term Disability plans other than those covered by collective agreements;
- (6) this policy be forwarded to each of the City's ABC's and that they be encouraged to implement the same policy for their Management and Non-Union employees; and
- (7) the appropriate City Officials be authorized to take the necessary action to give effect thereto; and

- (ii) (November 2, 2005) from the City Manager and the Deputy City Manager and Chief Financial Officer providing recommendations on the harmonization of the Sick Leave Plans for the Management and Non-Union employees of the City of Toronto.

Recommendations:

It is recommended that:

- (1) the Sick Leave Plan outlined in Appendix A and described in this report be approved for all Management and Non-Union employees who have entitlement to a Sick Leave Plan or Short-Term Disability Plan;
- (2) this policy supersede, replace and repeal any authorities, by-laws, policies and procedures of the seven former municipalities pertinent to Sick Leave Plans other than those covered by collective agreements;
- (3) this policy be forwarded to each of the City's ABC's and that they be requested to implement the same policy for their management and non-union employees; and
- (4) the appropriate City Officials be authorized to take the necessary action to give effect thereto.

(Report dated March 6, 2006, addressed to the
Employee and Labour Relations Committee from the
City Manager and the Deputy City Manager and Chief Financial Officer)

Purpose:

This supplementary report provides recommendations on the harmonization of the Sick Leave Plans for the Management and Non-Union employees of the City of Toronto.

Financial Implications:

The sick leave liability for Management and Non-Union employees, as determined by actuaries, is \$52.2 million as at December 31, 2004 increasing to \$54 million as at December 31, 2005. The adoption of this report and implementation of the recommended new Short-Term Disability plan will contain this liability. The liability will continue to increase until the implementation date of the recommended Short-Term Disability plan; it will, however, diminish over time as eligible employees terminate or retire and payouts are made. The average annual pay-out has been \$3.2 million for this group of employees and is funded from the Employee Sick Leave Reserve.

Recommendations:

It is recommended that:

- (1) the Short-Term Disability plan outlined in this report (Appendix A – Harmonized Short-Term Disability Plan – Management and Non-Union Employees) be approved for all Management and Non-Union employees who have entitlement to a Sick Leave Plan or Short-Term Disability plan;
- (2) that all Management and Non-Union employees be provided with a sufficient (12-month) notice period at the end of which they will be enrolled in the new Short-Term Disability plan (Appendix A – Harmonized Short-Term Disability Plan – Management and Non-Union Employees);
- (3) that those employees currently in a Short-Term Disability plan be enrolled in the new Short-Term Disability plan (Appendix A – Harmonized Short-Term Disability plan - Management and Non-Union Employees) on the implementation date following the notice period;
- (4) that those employees currently in a Sick Leave Plan be enrolled in the new Short-Term Disability plan (Appendix A – Harmonized Short-Term Disability plan – Management and Non-Union Employees) on the implementation date following the notice period and in addition have their sick bank balances frozen. The sick bank balances can be used to top-up future Short-Term Disability plan payments or be held for payout upon the employee's termination. The payout will be based upon the number of days, the salary and the service as at the date of implementation. The remaining provisions of the payout still apply, based on the terms of the plan from the former municipality;
- (5) that this policy supersede, replace and repeal any authorities, by-laws, policies and procedures of the seven former municipalities pertinent to Sick Leave Plans and Short-Term Disability plans other than those covered by collective agreements;
- (6) that this policy be forwarded to each of the City's ABC's and that they be encouraged to implement the same policy for their Management and Non-Union employees; and
- (7) that the appropriate City Officials be authorized to take the necessary action to give effect thereto.

Background:

On November 9, 2005, the City Manager and Deputy City Manager and Chief Financial Officer submitted a report (November 2, 2005) to the Employee and Labour Relations Committee recommending a new harmonized Short-Term Disability plan for Management and Non-Union employees of the City of Toronto. This report contained a recommendation that all Management and Non-Union Employees be switched to a new harmonized Short-Term Disability plan which provides employees with up to six months of salary protection for each separate period of disability, without a payout provision upon termination. It further recommended that all employees who had eligibility to a Sick Leave Plan with a payout provision, would have their sick bank, salary and service frozen at the date of implementation of the new harmonized Short-Term Disability plan, for payout upon termination.

The Employee and Labour Relations Committee:

“deferred the report (November 2, 2005) from the City Manager and the Deputy City Manager and Chief Financial Officer to its next meeting to be held on January 18, 2006, in order to allow the Director of Pension, Payroll and Employee Benefits to meet with COTAPSAI as part of an advisory group, and submit a further report to the Committee.”

Both the January and February Employee and Labour Relations Committee meetings were cancelled.

Since this time, the Director of Pension, Payroll and Employee Benefits met with COTAPSAI as part of an Advisory Group on two occasions, distributed two corporate communications and invited all Management and Non-Union Employees to attend information sessions which were held at four Civic Centres. Over 500 employees attended the information sessions and in addition, the Pension, Payroll and Employee Benefits Division received over 70 e-mails from employees with questions and comments on the report dated November 2, 2005. A “Most Commonly Asked Questions and Answers” document was distributed to all Management and Non-Union employees on February 27, 2006.

This supplementary report provides information on the consultation process with COTAPSAI through an Advisory Group and Management and Non-Union employees. The feedback received during this process has been outlined in this report along with the applicable implications and costs. This supplementary report also contains staff recommendations for changes to the proposed new harmonized Short-Term Disability plan based on COTAPSAI and employee feedback.

We are recommending a twelve (12)-month period of notice for the implementation of the harmonized Short-Term Disability plan. Following Council approval, individual detailed communications will be sent out to each affected employee.

Comments:

The proposed Short-Term Disability plan provides income protection for up to six months per calendar year. The level of salary protection will be at 75 percent or 100 percent of an employee’s salary based on the employee’s years of service. There is no payout provision upon termination associated with this plan. All active full-time employees will be eligible for this benefit from their first day of employment. All temporary employees will be eligible for this benefit following the completion of six (6) months of continuous service. All part-time employees will be eligible for a pro-rated portion of this benefit, which is dependent on their hours worked in a calendar year, after the completion of six (6) months of aggregate service.

The City of Toronto currently provides a Sick Leave Plan for the majority of its employees. A Sick Leave Plan provides for 1.5 days to be placed in an employee’s bank for each month of unbroken service. During periods of disability, employees utilize this bank for salary protection prior to applying for Long-Term Disability benefits. A portion of the balance remaining in the employee’s bank at the time of termination is paid out if the employee has at least 10 years of service (seven if from former East York). This payout provision results in a liability which is reflected on the City of Toronto’s Financial Statements. The liability for Management and

Non-Union employees is approximately \$54 million as at December 31, 2005. This liability continues to grow as new staff are hired and salaries and service increase.

Staff have been directed by Council to eliminate or reduce this liability. Although implementing the proposed new harmonized Short-Term Disability plan will not eliminate the liability, it will assist in containing this liability by ensuring that no additional Management or Non-Union employees are provided with a sick payout upon termination and capping the payout to existing Management and Non-Union employees who have a vested entitlement to it, as of the date of implementation of the proposed new Short-Term Disability plan.

During our consultation with COTAPSAI and Management and Non-Union employees, concern was raised regarding the transition of employees who currently have entitlement to a Sick Leave Plan into the proposed new harmonized Short-Term Disability Plan with respect to a loss of potential sick leave payout upon termination. Staff have recommended that upon implementation, an employee's sick bank becomes "frozen". These frozen days can be used to top-up any shortfalls in the Short-Term Disability plan. The remaining days would be paid out upon termination, based on the policy, salary and service in place as of the date of implementation. Employees who do not have 10 years of service (seven years if from former East York) would not be entitled to a payout upon termination.

The rationale for this staff recommendation is that the intent of a sick leave plan is to provide salary protection when an employee is sick. The payout deals with any leftover days in a sick bank in accordance with the policy. In calculating the payout, it is based on an employee's salary, length of service and number of days in their bank. We cannot assume that all three of these factors will increase between now and when an employee terminates. Employees become ill and need to access their sick days which may result in a lesser payout upon termination. As a result, staff have recommended freezing all of these factors – days, salary and service as of the date of implementation.

During the consultation process, many issues were raised, some related to the entire process, but most specific to the sick leave payout provision. The significant issues can be summarized into six main issues/categories as follows:

(1) Implementing a Short-Term Disability Plan for Management and Non-Union Employees Only:

This was the number one issue raised consistently by COTAPSAI and employees who attended the information sessions and submitted written comments. Management and Non-Union employees feel that if this change is done, it should apply to all employees and not just Management and Non-Union employees. Employees feel that this is an issue of fairness and equity and want reassurance that this plan will also apply to unionized staff.

The following three issues relate specifically to the sick leave payout provision:

(2) Sick Leave Payout Provision – Salary Frozen at Implementation:

COTAPSAI and employees have raised a concern regarding freezing an employee's salary as at the date of implementation, for the purpose of a future sick leave bank

payout. Staff have recommended that upon implementation, an employee's sick bank becomes "frozen". These frozen days can be used to top-up any shortfalls in the Short-Term Disability plan. The remaining days would be paid out upon termination, based on the policy, salary and service in place as of the date of implementation.

Since the employee's salary will be capped as at the date of implementation, employees feel that this will result in a financial loss given that salaries typically increase on an annual basis.

We have reviewed the financial impact of allowing the sick leave payout based on the salary at the time of termination (instead of implementation). The cost is approximately \$9 million. As a result of the costs involved and the rationale for freezing the salary as at the date of implementation, we are not recommending this change.

(3) Sick Leave Payout Provision – Service Frozen at Implementation:

COTAPSAI and employees have raised a concern regarding freezing an employee's service as at the date of implementation.

The majority of the sick leave payout provisions from the former municipalities provide a payout of a sick bank upon termination based on years of service. For example, an employee with 10 years of service as of termination, would receive a payout of half of their bank up to a maximum of three months, while an employee with 25 years of service, would receive a payout of half their bank up to a maximum of six months. Given that staff are recommending freezing service as at the date of implementation, employees feel that this will result in a financial loss.

We have reviewed the financial impact of allowing the sick leave payout based on the service at the time of termination (instead of implementation). The cost is approximately \$7 million. As a result of the costs involved and the rationale for freezing service as at the date of implementation, we are not recommending this change.

In addition, there are a number of employees who will not be vested in their sick plans as at the date of implementation of the new harmonized Short-Term Disability plan because they do not meet the minimum service requirements (10 years of service, seven years if from former East York). As a result, they are not entitled to a payout of their sick bank upon termination.

These employees have raised the concern that the service should be looked at upon termination and not capped as at the date of implementation. In other words, these employees believe they should be given the opportunity to "grow into" their entitlement.

We have reviewed the financial impact of allowing the sick leave payout based on the service at the time of termination (instead of implementation) for this group of employees. The cost is approximately \$5.2 million. As a result of the costs involved and the rationale for freezing service as at the date of implementation, we are not recommending this change.

(4) Immediate Payout of Sick Leave Banks:

COTAPSAI and employees have requested that consideration be given to provide an immediate payout of the sick leave banks.

We have reviewed the financial impact of providing an immediate payout of the sick leave banks for Management and Non-Union employees and the cost is approximately \$62 million if all employees were to be paid out. As a result of this cost we are not recommending this change.

The following two issues relate specifically to the plan design of the proposed new Sick Leave Plan:

(5) Remove Occurrences:

COTAPSAI and employees have raised concerns regarding the occurrence based methodology outlined in the proposed new harmonized Short-Term Disability plan which provides for salary protection from the first day of absence for the first four occurrences in a calendar year, payment from the second day of absence for the fifth and sixth occurrence in a calendar year and payment from the third day of absence for the seventh or greater occurrences in a calendar year. Concern was raised that this would be punitive for employees with degenerative or chronic illnesses. In addition, it may result in employees remaining absent for longer periods of illnesses, given that they will not get paid from their first day of absence.

As a result of this feedback, staff are recommending changing the proposed new harmonized Short-Term Disability plan to remove the occurrence limitations. All absences, under the new Short-Term Disability plan will be paid without an 'elimination period' based upon the number of occurrences in the year.

(6) Ill Dependent Leave:

COTAPSAI and employees have raised concerns that the proposed new harmonized Short-Term Disability plan does not include a provision for absences as a result of caring for ill dependents. The City of Toronto currently has a policy to allow employees up to six (6) days of absences to care for ill dependents as outlined in a Human Resource Policy titled "Care for Ill Dependents".

As a result of this feedback, staff are recommending changing the proposed new harmonized Short-Term Disability plan to clearly provide for entitlement to the Care for Ill Dependents policy with absences paid through the proposed new harmonized Short-Term Disability plan.

Attached as Appendix A is the revised "Harmonized Short-Term Disability plan for Management and Non-Union Employees."

Staff have consulted with Human Resources and external legal counsel throughout this process.

Conclusion:

In a report dated November 2, 2005, to the Employee and Labour Relations Committee staff have recommended a harmonized Short-Term Disability plan for Management and Non-Union employees. Since this time, we have consulted with COTAPSAI and Management and Non-Union employees and are recommending changes to this Short-Term Disability plan which will provide protection for illnesses of up to six months without a pay-out provision. This will help the City contain its sick leave liabilities as well as provide employees with adequate protection for short-term illnesses.

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List of Attachments:

Appendix A – Harmonized Short-Term Disability Plan

Appendix A

Harmonized Short-Term Disability Plan
Management and Non-Union Employees

Policy Statement:

The City of Toronto provides a Short-Term Disability plan which provides protection against financial loss to employees who are absent from work due to short-term illnesses or non-compensable injuries for up to six months. This plan is supplemented by the City of Toronto's long-term disability plan which provides protection against long-term disability claims.

Eligibility:

All active full-time management and non-union employees will be eligible for this benefit from their first day of employment. All temporary management and non-union employees will be eligible for this benefit after the completion of six (6) months of continuous service. All part-time employees will be eligible for a pro-rated portion of this benefit, which is dependent on their hours worked in a calendar year, after the completion of six (6) months of aggregate service.

Ill Dependent Leave:

Employees will be eligible for Ill Dependent Leave in accordance with the "Care for Ill Dependents" policy. This policy provides for up to six days of ill dependent leave per year. Payment will be based on the income protection schedule listed below.

Harmonized Short-Term Disability Coverage:

The Short-Term Disability plan provides salary protection at 100 percent or 75 percent based on an employee’s years of service for up to twenty-six (26) weeks per illness or per calendar year. The salary protection is outlined as follows:

Length of Service	Maximum Number of Weeks Coverage at 100 percent Salary per calendar year	Maximum Number of Weeks Coverage at 75 percent of Salary per calendar year
Less than 6 months	0	0
6 months to less than 1 year	0	26
1 year to less than 2 years	2	24
2 years to less than 3 years	4	22
3 years to less than 4 years	6	20
4 years to less than 5 years	8	18
5 years to less than 6 years	10	16
6 years to less than 7 years	12	14
7 years to less than 8 years	16	10
8 years to less than 9 years	20	6
9 years to less than 10 years	24	2
10 years or more	26	0

*Please note that an employee cannot move up to the next level of entitlement during an absence. Should an employee qualify for the next level of entitlement during an absence, the new level of entitlement will become effective after the employee has returned to active employment for at least one (1) day.

Employees Absent from Work as of January 1:

Employees will receive a “fresh” bank of 130 days each January 1. Unused days will not be carried over from year to year, and there is no payout of these days upon termination. Employees must be actively at work to receive their new bank. If an employee is not actively at work on January 1, their bank will be refreshed once they have returned to work for a period of four (4) weeks.

The benefits outlined above are applicable to an overall maximum of twenty-six (26) weeks for each separate period of disability. Absences greater than twenty-six (26) weeks duration are intended to be covered under the City of Toronto’s Long-Term Disability plan and are subject to approval by the City's insurer. In no case shall the Short-Term Disability plan provide a greater period of protection than twenty-six (26) weeks per calendar year.

(Report dated November 2, 2005, addressed to the Employee and Labour Relations Committee from the City Manager and the Deputy City Manager and Chief Financial Officer entitled “Harmonization of Sick Leave Plans for Management and Non-Union Employees”)

Purpose:

This report provides recommendations on the harmonization of the Sick Leave Plans for the Management and Non-Union employees of the City of Toronto.

Financial Implications:

The sick leave liability for Management and Non-Union employees, as determined by actuaries, is \$52.2 million as at December 31, 2004. The adoption of this report and implementation of the recommended Sick Leave Plan will contain this liability. The liability will diminish over time as eligible employees terminate, retire or die and payouts are made. The average annual pay-out is \$3.2 million for this group of employees and is funded from the Employee Sick Leave Reserve.

Recommendations:

It is recommended that:

- (1) the Sick Leave Plan outlined in Appendix A and described in this report be approved for all Management and Non-Union employees who have entitlement to a Sick Leave Plan or Short-Term Disability Plan;
- (2) that this policy supersede, replace and repeal any authorities, by-laws, policies and procedures of the seven former municipalities pertinent to Sick Leave Plans other than those covered by collective agreements;
- (3) that this policy be forwarded to each of the City’s ABC’s and that they be requested to implement the same policy for their management and non-union employees; and
- (4) that the appropriate City Officials be authorized to take the necessary action to give effect thereto.

Background:

City Council on October 1, 2 and 3, 2002 adopted the following motion:

- “(1) the report (August 27, 2002) from the City Auditor be referred to the Policy and Finance Committee, with the request that the Chief Administrative Officer consider the findings of the report and report to the Policy and Finance and Audit Committees in three months on a policy to reduce sick leave benefit liability for non-union staff and the City’s Agencies, Boards and Commissions;

- (2) the report (August 27, 2002) from the City Auditor be forwarded to Administration Committee for information.”

Throughout 2003 information was presented to the Personnel Sub-Committee where a further review and information was requested. Staff continued to review and research alternatives related to the Sick Leave Plan for all City employees.

City Council on January 17, 28 and 29, 2004 adopted the following motion:

“The Audit Committee report having requested:

- (2) the Chief Administrative Officer to review the sick leave bank policy of ABCs, community centres and arenas with a view to implementing a method of disengaging this policy in order to reduce the City’s long-term unfunded liability.”

A confidential staff report related to the sick leave liability was submitted to the Employee and Labour Relations Committee on June 4.

The Employee and Labour Relations Committee on June 4, 2004 adopted the following motion:

“The Employee and Labour Relations Committee deferred this matter and requested the Commissioner of Corporate Services and Chief Financial Officer and Treasurer to submit a further report to the Committee on the financial and labour relations implications related to the issue.”

In April 2003, following a 12-month period of notice, the City of Toronto harmonized the benefit plans for Management and Non-Union employees. This resulted in the implementation of harmonized benefit plans which includes the following components:

- (i) Health Coverage;
- (ii) Dental Coverage;
- (iii) Long-term Disability Coverage;
- (iv) Life Insurance Coverage; and
- (v) Accidental Death and Dismemberment Coverage.

The Sick Leave Plans for non-union employees were not addressed during this harmonization process and continue to be based on the provisions in place in the former municipalities. The majority of new non-union employees are hired with a Sick Leave Plan of 1.5 days per month which includes a pay-out provision for employees with 10 years of service or more.

A small number of employees who came from previous municipalities that provided Short-Term Disability Plans (Etobicoke, East York, York, Scarborough), rather than a Sick Leave Plan, do not have access to a sick bank and instead continue to be provided with Short-Term Disability benefits based on the policies in place from their former municipalities. Short-Term Disability Plans differ from Sick Leave Plans in that they are income protection plans designed to provide employees with protection against financial loss due to short-term illnesses or injuries. Unlike

Sick Leave Plans, there is no cash value to these plans upon termination, retirement or death and therefore no requirement to fund for future liabilities.

There are approximately 3,900 management and non-union employees, 90 percent of which participate in a Sick Leave Plan and 7 percent in a Short-Term Disability Plan. The remaining 3 percent are part-time or temporary employees who are not eligible for the Sick Leave/Short-Term Disability Plans.

Benefit Liability:

Unlike the existing Sick Leave Plans provided to the majority of City employees, Short-Term Disability Plans do not provide a cash pay-out upon termination, retirement or death and therefore there is no requirement to fund for future liabilities or record this liability on the City's Financial Statements. The existing plans allow for a portion of the balance of an employee's sick bank to be paid out at the time of termination, retirement or death if they have at least 10 years of service (seven years if from former East York). As a result of this, the City's liabilities continue to grow. The sick leave liability based on the existing plans provided to all City employees as at December 31, 2004, is approximately \$200 million. The liability associated with Management/Non-Union employees is approximately \$52.2 million as at December 31, 2004. In addition to this, as new employees are hired and provided with a Sick Leave Plan, this liability continues to grow.

In order to determine the adequacy of the Employee Benefit Reserve Funds and identify the City of Toronto's obligations with respect to Post-Employment, Post-Retirement, Sick Leave and WSIB, a benefits valuation is prepared by external actuaries and the financial implications are reported on the City of Toronto's Financial Statements. This valuation has been updated as of December 31, 2002, and will continue to be updated every three years. In addition to the full valuation performed every three years, an annual update is prepared for the purpose of reporting the liabilities in the City's financial statements. The liability as of December 31, 2004, for the City and its ABCs (not including the TTC) as outlined in the Benefit Valuation Report is approximately \$1.8 billion and includes the above noted Sick Leave liability amounts.

The City has made progress limiting future increases to the liability related to post retirement benefits. During 2000-2002, the City ceased providing all post-65 retiree benefit plans for its employees with the exception of some grandparenting arrangements. This was accomplished through collective bargaining with Local 79 and as a result of arbitrated awards with Local 416 and firefighters in 2000 and 2001. A Council adopted policy in 2002 introduced a harmonized benefit plan for management and non-union employees with retiree benefits to age 65 only. Fifty-eight percent (58 percent), or \$986M, of the \$1.8B liability is attributable to post retirement benefits.

Comments:

This report provides recommendations on implementing a harmonized Short-Term Disability Plan for Management and Non-Union employees. It is recommended that this harmonized plan be a Short-Term Disability Plan which will provide employees with up to six months of salary protection for each separate period of disability. The level of salary protection will be at 75 percent or 100 percent of an employee's salary based on the employee's years of service. If

an employee continues to be absent due to disability for over six months, they are eligible to apply for Long-term Disability benefits through the City's Insurer. The details of this recommended Short-Term Disability Plan are attached as Appendix A.

Implementing the recommended Short-Term Disability Plan without a pay-out provision will not immediately reduce this liability. However, it will assist in containing this liability by ensuring that no additional Management or Non-Union employees are provided with this benefit and therefore in time the liability associated with providing this benefit will begin to decline.

Other Public Sector Employers:

Staff have contacted other Public Sector employers who switched from a Sick Leave Plan to a Short-Term Disability Plan in order to provide information on the process that they followed. The following Public Sector employers were contacted:

- (i) Province of Ontario;
- (ii) City of Brampton;
- (iii) City of Edmonton;
- (iv) City of Hamilton;
- (v) City of Mississauga;
- (vi) City of Ottawa;
- (vii) City of Vancouver;
- (viii) City of Winnipeg;
- (ix) Region of Halton;
- (x) Region of Peel; and
- (xi) Region of York.

The Province of Ontario, City of Ottawa, and Regions of Halton and Peel all switched to Short-Term Disability Plans during the 1970's and therefore were not able to provide information on the process they followed. York Region, City of Hamilton and City of Mississauga switched plans more recently and provided the following information:

York Region:

- (a) Switched all employees from a Sick Leave Plan (with pay-out provision) to a Short-Term Disability Plan (without pay-out provisions) in 2000.
- (b) Did not grandparent any employees.
- (c) Paid out sick bank balances based on their policy provisions to those employees requesting payment. Approximately 90 percent of employees requested an immediate payout with the remaining 10 percent deferring the payout to their termination.

City of Hamilton:

- (a) Switched all employees from a Sick Leave Plan (with pay-out provision) to a Short-Term Disability Plan (without pay-out provisions) in 1982.
- (b) Did not grandparent any employees.

- (c) Employees did not lose their entitlement to pay-outs. Instead the amounts left in an employee's sick bank can be used to top-up their short-term disability benefits or will be paid out upon termination/retirement.

City of Mississauga:

- (a) Switched some employees from a Sick Leave Plan (with pay-out provision) to a Short-Term Disability Plan (without pay-out provisions) in 1985.
- (b) Grandparented all employees.
- (c) Provided each employee with a choice of maintaining their Sick Leave Plan or switching to the new Short-Term Disability Plan. If an employee chose to switch plans, they were paid out full entitlement based on their policy provisions.

It is apparent that the trend has been to migrate to a Short-Term Disability Plan away from a Sick Leave Plan. Only a small number of public sector employers that were surveyed continue to offer Sick Leave Plans.

Short-Term Disability Plans differ from Sick Leave Plans in that they are income protection plans designed to provide employees with protection against financial loss due to short-term disabilities. Unlike Sick Leave Plans, there is no cash value to these plans upon termination, retirement or death. Because of this, there is no requirement to fund for future liabilities.

The City of Toronto's Sick Leave Plans provide for 1.5 days to be placed in an employee's bank for each month of unbroken service. During periods of illness or disability, employees utilize this bank for salary continuation. A portion of the balance remaining in the employee's bank at the time of termination, retirement or death, is paid out if the employee has at least 10 years of service (7 years if former East York).

A Sick Leave Plan without a payout provision is not viable for the following reasons. Sick Leave Plans, as opposed to Short-Term Disability Plans, may not provide employees with the protection necessary to ensure salary continuance during periods of total disability. This is because an employee's salary continuation when sick is dependent upon the number of days in their sick bank. The number of days in an employee's sick bank is entirely dependent on length of service. An employee with less than seven years of service, who has never used any sick time, still would not have any level of salary continuation to bridge them entirely to the time when LTD benefits would be payable. The intent of an STD plan is to provide employees with income protection against financial loss during short-term illness.

New Short-Term Disability Plan:

It is recommended that all employees switch to the new Short-Term Disability Plan after providing a sufficient period of notice. The employee's sick bank balances as at the effective date, will be frozen. The days can then be used to top up STD payments to 100 percent of salary. Pay-out of the days will only be made at termination, using the salary and length of service at date of implementation. The pay-out will be based on the former policy in place at the date of implementation, i.e., from the former municipality, as well as the entitlement in place at the date of implementation (i.e., length of service). Employees who have less than 10 years of service (7 years if from former East York) as of the date of implementation will not be entitled to any

pay-out of their sick bank upon termination. There are approximately 1100 employees in this category.

We are not recommending an option be made available to employees to cash out their bank balances. The cost to the City to allow this option based on the current pay-out provisions and assuming all eligible employees cashed out, is approximately \$62M. Although this would immediately reduce the liability, the City would be required to fund the payments.

In addition, it is recommended that the new Short-Term Disability Plan be implemented following a 12 month period of notice. This period of notice is necessary given that this is a fundamental change to an employee's benefit plan. During this time, staff will communicate the new Short-Term Disability Plan extensively to employees.

A small number of employees from former East York, Etobicoke, Scarborough and York are currently enrolled in Short-Term Disability Plans. The provisions of these plans differ based on former municipality. All of these Short-Term Disability Plans provide for a period of salary continuation for up to 26 weeks for each separate period of disability. However, the level of coverage varies (from 66 2/3 percent of salary to 100 percent of salary based on former municipality and years of service). Attached as Appendix B is a chart illustrating the main features of all the sick leave and Short-Term Disability Plans from each of the former municipalities.

It is recommended that all of the existing Short-Term Disability plans cease following a 12-month period of notice. Instead, these employees will be provided with the benefits in the new Short-Term Disability Plan which will provide an equitable amount of coverage for all management/non-union employees, regardless of former municipality. The new plan is comparable to the existing STD plans.

In addition the new Short-Term Disability Plan would include features that reduce the costs to the City of frequent incidental sick day usage. The new plan will provide salary protection for short-term absences of up to 26 weeks for each separate period of disability. However, coverage will begin as follows:

Elimination Period:

Occurrence Per Calendar Year	Payments Commence
First four (4) Occurrences	First (1) Day of Absence
Fifth (5 th) and Sixth (6 th) Occurrence	Second (2) Day of Absence
Seventh (7 th) and Greater	Third (3)Day of Absence

This is consistent with most of the existing Short-Term Disability Plans currently in place for employees who are covered by STD plans from former municipalities. Under the City's existing Attendance Management program, employees' attendance is reviewed on a regular basis. It is monitored and reported based on days absent. Additional reporting based on occurrences rather than days will be required in order to implement a harmonized STD plan for all non-union employees.

The chart below outlines the impact of this recommendation for management and non-union employees.

	Number of Employees	Impact
Employees with Sick Leave Plan from former Metro, North York and Toronto	3,472	Change to New Plan (Appendix A)
Employees with Short-Term Disability Plan from former Etobicoke, East York, York and Scarborough	260	Change to New Plan (Appendix A)

Staff have consulted with Human Resources and external legal counsel in the preparation of this report.

Conclusions:

The corporate benefit plans provided to Management and Non-Union employees were harmonized on April 1, 2003. Sick Leave Plans were not addressed at that time and continue to be based on the plans in place based on former municipalities. In addition, most new hires are provided with a Sick Leave Plan with a pay-out provision upon retirement, termination or death. This has resulted in the continued growth of the sick leave liability.

Staff are now recommending harmonizing the Sick Leave Plans for management/non-union employees to provide employees with a Short-Term Disability Plan which will provide protection for illnesses of up to six months without a pay-out provision. This will help the City contain its sick leave liabilities as well as provide employees with adequate protection for short-term illnesses.

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List of Attachments:

Appendix A – Harmonized Short-Term Disability Plan
[Appendix B](#) – Sick Leave Plan Harmonization

Appendix A

Harmonized Short-Term Disability Plan Management and Non-Union Employees

Policy Statement:

The City of Toronto provides a Short-Term Disability Plan which provides protection against financial loss to employees who are absent from work due to short-term illnesses or non-compensable injuries for up to 6 months. This plan is supplemented by the City of Toronto's long-term disability plan which provides protection against long-term disability claims.

Eligibility:

All active full-time management and non-union employees will be eligible for this benefit from their first day of employment. The cost of this benefit is paid for in full by the City. All temporary management and non-union employees will be eligible for this benefit after the completion of six (6) months of continuous service. Part-time employees are not entitled to this coverage.

Harmonized Short-term Disability Coverage:

The Short-Term Disability Plan provides salary protection at 100 percent or 75 percent based on an employee's years of service for up to twenty-six (26) weeks per illness or per calendar year. The salary protection is outlined as follows:

Length of Service	Maximum Number of Weeks Coverage at 100 percent Salary per calendar year	Maximum Number of Weeks Coverage at 75 percent of Salary per calendar year
	0	0
6 months to less than 1 year	0	26
1 year to less than 2 years	2	24
2 years to less than 3 years	4	22
3 years to less than 4 years	6	20
4 years to less than 5 years	8	18
5 years to less than 6 years	10	16
6 years to less than 7 years	12	14
7 years to less than 8 years	16	10
8 years to less than 9 years	20	6
9 years to less than 10 years	24	2
10 years of more	26	0

*Please note that an employee cannot move up to the next level of entitlement during an absence. Should an employee qualify for the next level of entitlement during an absence, the new level of entitlement will become effective after the employee has returned to active employment for at least one (1) day.

The benefits outlined above are applicable to an overall maximum of twenty-six (26) weeks for each separate period of disability. Absences greater than twenty-six (26) weeks duration are intended to be covered under the City of Toronto's long-term disability plan and are subject to approval by the City's insurer. In no case shall the Short-Term Disability Plan provide a greater period of protection than twenty-six (26) weeks per illness or per calendar year.

A disability claim which starts in one calendar year and carries forward into a subsequent year will be considered the same claim. An employee who is receiving 75 percent of pay for that claim will continue to receive 75 percent for the duration of the disability. Entitlement to the 100 percent salary protection will not apply to the continuation of that disability.

Occurrences:

- (a) For the first four (4) occurrences during a calendar year, benefits will be payable from the first day of absence.
- (b) For the fifth (5) and sixth (6) occurrences during a calendar year, benefits will be payable from the second day of absence.
- (c) For the seventh (7) or greater occurrences during a calendar year, benefits will be payable from the third day of absence.

The Policy and Finance Committee also considered a communication dated May 10, 2006, from Ann Dembinski, President, CUPE Local 79, respecting this matter.

(Copies of Appendix B, were forwarded to all Members of Council with the May 16, 2006, agenda of the Policy and Finance Committee and copies are also on file in the office of the City Clerk, City Hall).

City Council – July 25, 26 and 27, 2006

Council also considered the following:

Communications:

- *(July 13, 2006) from the Employee and Labour Relations Committee [Communication 6(a)]:*

*Subject: Sick Leave Plan – Financial Impact of Extending Implementation Date
(For Consideration with Clause 29c of Report 4 of the Policy and Finance Committee)*

Action taken by the Committee:

The Employee and Labour Relations Committee forwarded the report (July 5, 2006) from the City Manager and Deputy City Manager and Chief Financial Officer to City Council for consideration with Clause 29c of Report 4 of the Policy and Finance Committee headed “Harmonization of Sick Leave Plans for Management and Non-Union Employees.”

Background:

The Employee and Labour Relations Committee on July 13, 2006, considered a report (July 5, 2006) from the City Manager and the Deputy City Manager and Chief Financial Officer providing information on the on the financial impact of extending the implementation date of the proposed new Short Term Disability Plan for Councillors’ staff from January 1, 2008, to February 1, 2008, March 1, 2008 or June 1, 2008.

Recommendation:

It is recommended that this report be received for information.

Attachment

(Report dated July 5, 2006, addressed to the Employee and Labour Relations Committee from the City Manager and the Deputy City Manager and Chief Financial Officer)

Purpose:

The purpose of this report is to provide information on the financial impact of extending the implementation date of the proposed new Short Term Disability Plan for Councillor's staff from January 1, 2008 to February 1, 2008, March 1, 2008 or June 1, 2008.

Financial Implications:

Extending the implementation of the proposed new Short Term Disability Plan for Management and Non-Union Employees from January 1, 2008 would have the following financial impact:

<i>Revised Implementation Date</i>	<i>Cost</i>	
	<i>Council Staff Only</i>	<i>All Management and Non-Union Staff</i>
<i>February 1, 2008</i>	<i>\$9,775</i>	<i>\$233,460</i>
<i>March 1, 2008</i>	<i>\$17,734</i>	<i>\$421,649</i>
<i>June 1, 2008</i>	<i>\$60,136</i>	<i>\$1,258,009</i>

Recommendation:

It is recommended that this report be received for information.

Background:

On May 10, 2006 the Employee and Labour Relations Committee received a report titled “Harmonization of Sick Leave Plans for Management and Non-Union Employees.”

The Employee and Labour Relations Committee recommended to the Policy and Finance Committee that City Council adopt the staff recommendations in the Recommendations Section of the report (March 6, 2006) from the City Manager and the Deputy City Manager and Chief Financial Officer subject to amending:

- (i) *the first paragraph under the heading “Employees Absent from Work as of January 1st”, contained in Appendix A to read as follows:*

“Employees will receive a “fresh” bank of 130 days each January 1st. Unused days will not be carried over from year to year, and there is no payout of these days upon termination. Employees must be actively at work to receive their new bank. If an employee is not actively at work on January 1st, their bank will be refreshed once they have returned to work for a period of two (2) weeks”;

- (ii) *Recommendation (2) by adding “with an implementation date no earlier than January 1, 2008” after “notice period”, so that it now reads:*

“(2) all Management and Non-Union employees be provided with a sufficient (12 month) notice period, with an implementation date no earlier than January 1, 2008, at the end of which they will be enrolled in the new Short Term Disability plan (Appendix A – Harmonized Short Term Disability Plan – Management and Non-Union Employees:”; and

(iii) *Recommendation (4) to read as follows:*

“(4) that those employees currently in a Sick Leave Plan be enrolled in the new Short Term Disability Plan (Appendix B – Harmonized Short Term Disability Plan - Management and Non-Union Employees) on the implementation date following the notice period and in addition have their sick bank balances frozen. The sick bank balances can be used to top-up future Short Term Disability plan payments or be held for payout upon the employee’s termination. The payout will be based upon the number of days and the service as at the date of implementation and the salary at termination. The remaining provisions of the payout still apply, based on the terms of the plan from the former municipality.”

On June 19, 2006 the Employee and Labour Relations Committee received a report titled “Conditions of Employment – Council Staff.” The Employee and Labour Relations Committee:

- (1) postponed consideration of the report (April 20, 2006) from the City Clerk to the next meeting of the Employee and Labour Relations Committee to be held on July 13, 2006; and*
- (2) requested the Director of Pension, Payroll and Employee Benefits to submit a report to the next meeting of the Employee and Labour Relations Committee on the financial impact of extending the implementation date of the new Short Term Disability Plan for Councillors’ staff from January 1, 2008, to February 1, 2008, March 1, 2008, or June 1, 2008.*

Comments:

Council staff’s compensation and benefit coverage is the same as that provided to all Management and Non-Union Employees at the City of Toronto. The cost of extending the implementation date for Council staff as requested is outlined in the chart below:

<i>Implementation Date</i>	<i>Cost</i>
<i>February 1, 2008</i>	<i>\$9,775</i>
<i>March 1, 2008</i>	<i>\$17,734</i>
<i>June 1, 2008</i>	<i>\$60,136</i>

However, it is inappropriate to extend the date only for a select group of City employees. In order to treat employees fairly and equitably, the implementation date, if changed, should be changed for all management and non-union employees. The financial impact of this change is outlined below:

<i>Implementation Date</i>	<i>Cost</i>
<i>February 1, 2008</i>	<i>\$233,460</i>
<i>March 1, 2008</i>	<i>\$421,649</i>
<i>June 1, 2008</i>	<i>\$1,258,009</i>

The costs identified in the charts above include the following factors:

- 1. Employees will continue to accrue sick days which will be placed in their banks for future usage/payout*
- 2. Employees' service will continue to accrue resulting in some employees who have less than 10 years of service who are not yet vested, to become vested and therefore entitled to a future payout*
- 3. Employees who do not yet have the maximum payout amount may move up the service level to achieve a higher amount of future payout*

The report dated April 20, 2006 from the City Clerk titled Conditions of Employment - Council Staff included a recommendation that the current conditions of employment for Council staff be amended to reclassify the Council group of employees as a unique, separate sub-group of the non-union group of employees for the purposes of payroll and human resource administration, and that the staff contracts reflect these approved changes. Currently these employees are entitled to the pension and benefit plans provided to management and non-union employees. These include not only the sick leave plan but also pension, benefits (including extended health care, dental plan, group life insurance), long term disability, designated holidays, vacation, floating holidays, pregnancy and parental leave, and tuition reimbursement. In the future, providing Council staff with a different package of benefits can be reviewed.

Conclusion:

Staff have recommended a harmonized Short Term Disability plan for Management and Non-Union Employees to be implemented following a 12 month notice period with an implementation date of January 1, 2008. Council staff are provided with the same benefit plans as other Management and Non-Union employees at the City of Toronto. Changing this implementation date would result in additional costs to the City of Toronto. Staff are recommending that if the implementation date is changed, that it be changed for all management and non-union employees in order to treat all employees fairly and equitably.

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- (July 24, 2006) from the Executive Director, City of Toronto Administrative, Professional, Supervisory Association, Incorporated (COTAPSAI) [Communication 6(b)].*