STAFF REPORT
ACTION REQUIRED

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

<table>
<thead>
<tr>
<th>Date:</th>
<th>September 12, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>To:</td>
<td>Employee &amp; Labour Relations Committee</td>
</tr>
<tr>
<td>From:</td>
<td>City Manager</td>
</tr>
<tr>
<td>Wards:</td>
<td>All</td>
</tr>
<tr>
<td>Reference Number:</td>
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</table>

**SUMMARY**

This report summarizes the results of a comprehensive review of the City's benefits plan for non-union employees, accountability officers and elected officials and recommends changes to the plan focusing on cost effective ways of delivering benefits.

Employee benefits are an integral part of an employees' total compensation package. As such, the City is committed to providing a fair and comprehensive plan that is fiscally responsible to the taxpayers of Toronto while continuing to follow industry standards and best practices. Prior to 2009, benefit costs were escalating at a rate of 10% annually. Since that time, staff have made a concerted effort to contain benefit costs through administrative and plan design changes, including cost containment initiatives negotiated through the collective bargaining process. As a result of these efforts, health and dental benefit costs decreased by -7% in 2012 and are anticipated to decrease by an additional -6% in 2013.

The changes recommended in this report will further assist the City in continuing to control benefit costs while ensuring that the plan remains equitable and competitive as part of the total compensation package used to attract and retain diverse and highly skilled employees.

**RECOMMENDATIONS**

The City Manager recommends that:

1. City Council authorize staff to enter into agreements with pharmacists (persons issued a certificate of accreditation to operate a pharmacy pursuant to the Drug and
*Pharmacies Regulation Act*) selected based on criteria, including but not limited to those factors described in Appendix C, as determined by the Director of Pension, Payroll & Employee Benefits and the Executive Director of Human Resources in consultation with the City Solicitor’s Office for the purpose of implementing a Preferred Provider Network of pharmacists and to negotiate terms and conditions satisfactory to the City, with a focus on reducing the administrative costs associated with dispensing drugs, for implementation in 2014.

2. City Council direct the Director of Pension, Payroll and Employee Benefits to undertake discussions with the City’s benefits carrier, Manualife Financial, to identify and evaluate initiatives to further manage drug costs within the context of the existing traditional benefit plan and to report back to the Employee and Labour Relations Committee with recommendations in the first half of 2014.

**Financial Impact**

In 2012, the City spent approximately $32.6 million to provide benefits (i.e., Health, Dental, Group Life Insurance and Long Term Disability) to approximately 4,128 non-union employees, accountability officers and elected officials. The cost to provide this coverage for all employees and retirees (approximately 25,156 active employees and 9,637 retirees) was approximately $204.6 million or $5,900 per employee/retiree.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>2012 Benefit Costs, Broken Down by Benefit Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mgmt. (incl. Elected officials)</td>
</tr>
<tr>
<td>Health</td>
<td>$14.0</td>
</tr>
<tr>
<td>Dental</td>
<td>$7.9</td>
</tr>
<tr>
<td>LTD</td>
<td>$7.7</td>
</tr>
<tr>
<td>Life Premiums Insurance (GLI,ADD, LODD)</td>
<td>$3.0</td>
</tr>
<tr>
<td>Total</td>
<td>$32.6</td>
</tr>
</tbody>
</table>

*Eligible employees receive retiree benefits up to age 65 only. In addition, some employees who had access to lifetime retiree benefits from their former municipalities have been grandfathered for this benefit.*

In 2013, the cost of health and dental coverage for non-union employees, accountability officers and elected officials is estimated to decrease by approximately $1 million due to changes in the benefits plan that came into effect January 1, 2013 (as approved by City Council at its meeting held in July 2012).
The implementation of a Preferred Provider Network (PPN), in addition to potential enhanced Drug Plan Management initiatives, will assist the City in further managing and controlling these costs into the future.

Similar to most public and private sector employers who manage benefit plans for a large number of employees, the City of Toronto provides health, dental and long-term disability coverage on an administrative services only (ASO) basis while life insurance coverage is insured through Manulife Financial. The cost of the City's active benefit plan is funded through the City's approved divisional operating budgets while retiree benefits are funded through the Employee Benefits Reserve which in turn is funded by contributions from the operating budget.

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

**DECISION HISTORY**

Following amalgamation in 1998, the City provided benefits to its non-union employees and elected officials based on the provisions of the former municipalities. The level of coverage provided at that time varied significantly by municipality, however, the majority of benefit plans were traditional defined benefit plans, which provided coverage for Life Insurance, Long-Term Disability (LTD), Accidental Death & Dismemberment (AD&D), Health and Dental.

In 2002, the City harmonized its benefits plan for non-union employees and elected officials. The harmonized benefits plan was approved by City Council in February 2002 and implemented following a period of notice on April 1, 2003. As part of this process, City Council directed that at the conclusion of each round of bargaining with the City's unions that the benefit coverage for non-union employees, retirees and elected officials be reviewed. Following is the link to the Council decision:


In 2003 and 2005, Council approved further amendments to the non-union employees' benefits plan after each round of bargaining with the City's unions. Following are the links to the Council decisions:


In July 2006, City Council approved the elimination of the Sick Pay Bank Plan for non-union employees and switched all non-union employees over to a new Short-term Disability Plan effective March 1, 2008. Following is the link to the Council decision:


At its meeting held on July 11, 12 and 13, 2012, City Council approved changes to the benefits plan for management/non-union employees, accountability officers and elected officials that were similar to the changes negotiated with TCEU, Local 416 and CUPE, Local 79 during the 2012 collective bargaining. In addition, Council requested the City
Manager and Director of Pension, Payroll and Employee Benefits, in consultation with
external benefits consultants, to undertake a full review of the benefits plan for
management/non-union employees, accountability officers and elected officials to consider
and develop recommendations for an alternative plan design that would provide
comprehensive coverage to employees, including consideration of a flexible benefits plan,
with an objective of reducing benefits costs while being financially sustainable to the City
of Toronto (re: EX21.17 "Non-union Employees, Accountability Officers and Elected
Official Benefits Plan").

Following is the link to the Council decision and staff report:

ISSUE BACKGROUND
Benefit plans are part of the total compensation package provided by the City of Toronto to
attract and retain a diverse and highly skilled staff. The City provides a comprehensive
benefits plan for its non-union employees, accountability officers and elected officials that
is comparable to other public sector employers and incorporates various cost containment
provisions. Similar to other public sector entities, Toronto's benefit plans are defined
benefit plans which are subject to inflationary increases, depending on general Canadian
health and dental increases. As a result, the costs related to the benefits plan generally
increase annually.

Prior to 2009, the benefit costs for all employees and retirees had been increasing at a rate
of approximately 10% per year. The benefit costs specific to the non-union employee
group had been rising at a rate of approximately 7%, while the rate for CUPE Local 79 had
been rising at approximately 13% and the rate for TCEU Local 416 had been rising at a
rate of approximately 9%. In each of the benefit plans, the costs were rising above the rate
of the Consumer Price Index (Toronto) which was 3.0% for 2012 largely due to increased
utilization, new and more expensive drugs and products coming onto the market, and
Provincial deregulation of previously covered services.

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

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

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

b) Further, the Blue Ribbon Panel Review in 2009 provided the following
recommendation:
“The City and its unions must restrain the growth of average compensation (including benefits) in future labour contract negotiations in line with the evolution of broad labour market averages and the City's fiscal health.”

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

As a result of these recommendations and a review of benefit cost trends by staff, numerous initiatives were undertaken to implement changes in the benefits plan for employees with a focus on reducing long-term liabilities and containing costs. Cost containment measures implemented from 2005 to 2009 include:

- Implementation of overall maximums (e.g., Private Duty Nursing Maximums)
- Reimbursement for Generic Drugs Only (unless Doctor indicates “no substitution”)
- Cap on mark-up of drug costs of 10% (consistent with the Ontario Drug Plan)
- Co-ordination of Benefits Requirements
- Implementing Reasonable and Customary Fee Schedules
- Elimination of Sick Pay Bank Plan (non-union employees, CUPE Local 79 and TCEU Local 416 with various grandparenting)
- Dental recall extended from 6 to 9 months

In addition to the above measures, further cost containment initiatives were negotiated through the 2012 collective bargaining process and implemented for CUPE Local 79 and TCEU Local 416 in 2012. These same changes were implemented for non-union employees, accountability officers and Elected Officials on January 1, 2013:

- Dispensing fee cap at $9.00
- Changes to paramedical benefits
- Maximum per year for physiotherapy
- One year lag Ontario Dental Association (ODA) fee guide (non-union employees, CUPE Local 79 and TCEU Local 416)

As a result of the 2012 negotiated cost containment measures, health and dental benefit costs decreased for all active groups with the exception of firefighters in 2012. Table 2 below reflects these changes to health and dental benefits:
Table 2
Impact of 2012 Cost Containment Initiatives for Active Employees
(Health and Dental Costs)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2012 vs 2011</th>
<th>Date Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($) millions</td>
<td>($) millions</td>
<td>(%)</td>
<td></td>
</tr>
<tr>
<td>*Mgmt. (incl. Elected Officials)</td>
<td>$22.1</td>
<td>$21.9</td>
<td>-1%</td>
<td>January 1, 2013</td>
</tr>
<tr>
<td>L79s</td>
<td>$72.8</td>
<td>$67.9</td>
<td>-7%</td>
<td>May 1, 2012</td>
</tr>
<tr>
<td>L416</td>
<td>$28.7</td>
<td>$24.6</td>
<td>-14%</td>
<td>March 1, 2012</td>
</tr>
<tr>
<td>**L3888 (Fire)</td>
<td>$16.0</td>
<td>$16.5</td>
<td>3%</td>
<td>July 19, 2013</td>
</tr>
<tr>
<td>Total</td>
<td>$139.6</td>
<td>$130.5</td>
<td>-7%</td>
<td></td>
</tr>
</tbody>
</table>

*Cost containment for non-union employees, accountability officers and elected officials were implemented on January 1, 2013 and are expected to result in an additional annual savings of $1 M not reflected in the above noted chart.

**As a result of an Arbitrator’s Award, some cost containment measures were implemented for Local 3888, effective July 19, 2013.

While the City’s health and dental costs decreased in 2012, the Canadian Industry Average reflects increases in health costs of 12% and increases in dental costs of 8% for 2012. Table 3 below illustrates that in comparison to the industry trend in 2012 for both health and dental costs, the City is doing extremely well.

Table 3
Annual Trend for City's Health & Dental (Active Only) in Comparison With the Canadian Industry Trend
The concerted effort over the last five (5) years to reduce benefit costs are also having a positive impact on the City's long term employee benefit liabilities. Table 4 below summarizes the most recent post-retirement benefit liabilities where there has been a 15% decrease between 2011 and 2012.

Table 4

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2011-2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-Retirement Benefits</td>
<td>$726</td>
<td>$857</td>
<td>($131)</td>
<td>-15.28%</td>
</tr>
</tbody>
</table>

The reduction to the post-retirement liability is a result of a number of factors including:

- a change in retirement scale based on a recent OMERS experience study which identified that employees are working longer
- reduced benefit costs for retirees due to reduced drug costs; reduced administrative fees due to a new benefits contract for years 2012 to 2016
- the recently negotiated cost containment changes with Local 416 and Local 79 and the similar changes that have been implemented in the management/non-union benefit plans

Most Recent Changes to Benefit Plan for Non-Union Employees, Accountability Officers and Elected Officials

As outlined above a number of cost containment measures were implemented for CUPE Local 79 and TCEU Local 416 following the last round of union negotiations in 2012. City Council approved cost containment measures for the management/non-union benefits plan similar to those negotiated with the unions, to be effective beginning January 1, 2013.

In addition, for the first time, the City introduced a Health Care Spending Account (HCSA) into the management/non-union benefit design. A HCSA is a tax free account that is held by the benefits carrier and can be used for the reimbursement of medical expenses allowable under the Income Tax Act. The amount of the HCSA is $50 for single coverage and $100 for family coverage. The HCSA can be utilized to supplement any health care costs that are allowable under the Canada Revenue Agency guidelines.

These changes, which are detailed in Appendix A, will result in approximately $1.0 million in annual savings.

COMMENTS

In response to Council’s direction to undertake a full review of the benefits plan for non-union employees, accountability officers and elected officials and to consider an alternative plan design including consideration of a flexible benefits plan, with an objective of reducing benefits costs, the City retained Buck Consultants to survey the broader public sector and private sector and to identify alternative plan design options.
In addition, staff have reviewed the Conference Board of Canada’s Benefits Benchmark 2012 Report which confirms that the majority of employers surveyed in Canada (73%), continue to offer a more traditional fixed / defined benefit plan and not a flexible benefits plan. The report also indicates that Health Care Spending Accounts (HCSA) are now used by 56% of employers surveyed to supplement existing traditional benefit plans.

Table 5 below provides a summary of Buck's survey results and the Conference Board of Canada’s Benefits Benchmark information.

Table 5
Survey Results re: Type of Benefit Plans provided by Other Employers

<table>
<thead>
<tr>
<th>Sector</th>
<th>Type of Benefit Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Toronto</td>
<td>Provides traditional fixed/defined benefit plans</td>
</tr>
<tr>
<td>Federal Government (Treasury Board of Canada)</td>
<td>Provides traditional fixed/defined benefit plans.</td>
</tr>
<tr>
<td>Province of Ontario</td>
<td>Provides traditional fixed / defined benefits plan.</td>
</tr>
<tr>
<td>Universities (2 surveyed)</td>
<td>Provides traditional fixed/defined benefit plans.</td>
</tr>
<tr>
<td>City of Vancouver</td>
<td>Provides traditional benefit plans to unionized employee groups and flex benefits to exempt employees. Exempt employees switched to a flexible benefit plan since 1997.</td>
</tr>
<tr>
<td>City of Calgary</td>
<td>Provides a flexible benefit plan to all employees (since 2000). Employees have the option to choose from four (4) different levels of benefits annually, including a component of HCSA. The cost to the employee and the level of coverage varies depending on the package provided.</td>
</tr>
<tr>
<td>Banks</td>
<td>The Banks surveyed by Buck provide flexible benefit plans as an integral part of their total rewards and compensation strategies for employees including both monetary and non-monetary elements such as profit sharing, work/life balance, health and wellness programs, subsidized athletic and fitness fees, etc.</td>
</tr>
<tr>
<td>Other Private Sector</td>
<td>The 3 private sector organizations surveyed by Buck provide flexible benefit plans as part of their total rewards and compensation strategies.</td>
</tr>
</tbody>
</table>

In addition, the City continues to benchmark its benefit plans with the GTA and larger Ontario municipalities (e.g., Ottawa) including OMBI comparators. The results of the benchmark undertaking with OMBI comparators and GTA municipalities has confirmed
that all comparators continue to provide traditional fixed / defined benefit plans. The design of the benefit plans are all very similar to the City of Toronto's plans and none of them have introduced a flexible benefits plan design. Similar to Toronto, three (3) GTA municipalities / regional governments (Mississauga, Peel and Durham) have introduced Health Care Spending Accounts to supplement the benefits plan design. Table 6 below provides a summary of other Ontario Public Sector Organizations benchmarking results.

**Table 6**

**Survey Results re: Type of Benefit Plans provided by Other Ontario Public Sector Organizations – Non-Union Employee Groups**

<table>
<thead>
<tr>
<th>Public Sector Organization</th>
<th>Type of Benefit Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Toronto</td>
<td>Traditional Fixed/Defined Benefit Plan</td>
</tr>
<tr>
<td>City of Ottawa</td>
<td>Traditional Fixed/Defined Benefit Plan</td>
</tr>
<tr>
<td>City of Mississauga</td>
<td>Traditional Fixed/Defined Benefit Plan including a $500 HCSA</td>
</tr>
<tr>
<td>City of Hamilton</td>
<td>Traditional Fixed/Defined Benefit Plan</td>
</tr>
<tr>
<td>City of Brampton</td>
<td>Traditional Fixed/Defined Benefit Plan</td>
</tr>
<tr>
<td>Halton Region</td>
<td>Traditional Fixed/Defined Benefit Plan</td>
</tr>
<tr>
<td>York Region</td>
<td>Traditional Fixed/Defined Benefit Plan</td>
</tr>
<tr>
<td>Durham Region</td>
<td>Traditional Fixed/Defined Benefit Plan including a $500 HCSA for non-union employees and a $1,500 HCSA for Senior Management</td>
</tr>
<tr>
<td>Peel Region</td>
<td>Traditional Fixed/Defined Benefit Plan including a $750 HCSA</td>
</tr>
</tbody>
</table>

The research undertaken by Buck Consultants and staff confirms that the vast majority of public and private sector employers continue to provide traditional defined benefit plans for their employees. The rationale for not moving towards flexible benefit plans may be that traditional plans are simpler, easier to understand and communicate, have lower administration costs, more evenly distribute risk and better align with an employer’s benefits philosophy.

**Feasibility of Moving to a Flexible Benefits Plan for Non-Union Employees, Accountability Officers and Elected Officials**

Retaining and recruiting a diverse group of qualified and highly skilled employees contributes to the City's overall success in delivering quality, efficient and effective programs and services to Toronto's residents, businesses and visitors. Given the highly competitive job market, coupled with the fact that the City's workforce is getting older while the number of new employees entering the workforce in future years is expected to dwindle, employers across Canada are challenged in terms of attracting and retaining qualified staff.

In recruiting and retaining qualified management/non-union employees, the City competes against other GTA, Ontario and Canadian municipalities for qualified candidates and must...
ensure that its benefit and compensation packages remain competitive. At present, all GTA and Ontario municipalities, and the vast majority of Canadian municipalities, have traditional benefit plans and are not considering a move to flexible benefit plans in the near future. The Conference Board of Canada survey indicates that 73% of organizations continue to offer traditional benefit plans, due to a number of reasons including the high cost and complexity of flexible benefit plans. Where municipalities are making changes to their traditional plans, they are adding health care spending accounts, to their existing plans.

It is therefore important that any changes to the City's benefit plans be considered and evaluated as part of the City's total employee compensation program and that the implications of adopting such changes are considered in the contest of the City’s employment relationship. In order to ensure that the City continues to be competitive in terms of retaining and attracting qualified staff, any changes to the City's benefit plans, including moving to a flexible benefits plan for management employees, must be considered as part of the City's total compensation program and cannot be considered in isolation. Additionally, a transition to a flexible benefits plan will require significant adjustments to benefit coverage levels to ensure that the cost of the program remains fiscally sustainable and may require the City to provide advance notice of the implementation of any change to existing employees. Under a flexible plan employees will be making choices based on their own individual needs. The design of the plan is critical in ensuring that costs are controlled and the desired financial objectives are achieved. As a result, the only way to achieve savings through a flexible benefits plan would be to cut-back the level of benefits which would impact the overall competitiveness of the plan and result in inequities between non-union and unionized staff.

Given the issues identified above, staff are recommending that the City retain its traditional benefits plan for non-union employees, accountability officers and elected officials. However, the Executive Director of Human Resources will continue to work with the Director of Pension, Payroll & Employee Benefits to assess and develop a long-term total compensation strategy, including benefits which are fair, affordable, competitive and addresses the unique needs of the changing demographics.

**Recommended Changes to the City's Benefit Plan for Non-Union Employees, Accountability Officers and Elected Officials**

The recent cost containment initiatives that have been negotiated and implemented over the last few years, in addition to previously implemented changes, are helping achieve the City’s objectives of containing annual benefit costs and reducing long term employee benefit liabilities. In an effort to continue to control and enhance the management of these costs, staff continually work with industry experts and the City's benefits carrier to identify and understand trends, best practices and opportunities to improve.

The largest cost driver under the City’s benefits plan is the drug cost which represents 35% of the total costs for the non-union employees, elected officials and accountability officers benefits plan. Drug costs have been contained over the past few years as a result of the expiry of patents for a number of highly prescribed brand-name drugs and the
implementation of generic drug pricing control legislation in Ontario. However, the emergence of specialty/biologic drugs will likely counteract these drug savings over the next few years. Biologic drugs are therapeutic agents used to increase or optimize immune responses. They are derived from natural sources – human, animal or microorganism and produced using cutting edge technology. They are therefore much more expensive to produce and are used to treat many chronic conditions (e.g. arthritis, cancer, auto immune disorders). Biologic drugs can cost as much as $20,000 - $50,000 per claim. Express Scripts Canada (ESI), one of Canada's largest providers of health benefits management services, has reported that biologic drugs are expected to account for 33% of total drug costs by 2014.

There are actions that the City can take to assist with the ongoing management of the drug component on the benefit plans. These include the following:

a) Preferred Provider Networks (PPN) Implemented on a Voluntary Basis:

Through this report, staff are seeking authority to enter into agreements with pharmacies (persons issued a certificate of accreditation to operate a pharmacy pursuant to the Drug and Pharmacies Regulation Act), who agree to pre-determined criteria established by the Director of Pension, Payroll & Employee Benefits and the Executive Director of Human Resources, in consultation with City Legal.

A PPN is a network of pharmacies for which employees/retirees could voluntarily go to for the dispensing of drugs covered under the City of Toronto benefit plans. The City would actively encourage employees and retirees to get their prescription drugs dispensed through these pharmacies, through various newsletters and information posted on the City’s intranet site. There would be no negative impact to employees in utilizing the PPN.

In order to join the City’s PPN, pharmacies would agree to pre-established criteria determined by the City aimed at reducing the costs associated with dispensing drugs to City employees and retirees. Examples of this criteria would include dispensing fee maximums, mark-up on ingredient cost maximums, limiting the dispensing of maintenance drugs to a 3 month cycle etc. The key criteria to be included in the PPN are outlined in Appendix C attached.

Employees and retirees would utilize the PPN on a voluntary basis. However, the City would strongly encourage staff to utilize the PPN's as they are a cost effective way to achieve savings within the benefit plans while not impacting the coverage provided to employees and retirees.

PPN’s have been used as a strategy to assist in controlling health related costs in the United States for many years and are becoming more prevalent in Canada. Staff cannot accurately predict the cost savings of implementing a PPN at this time, given that savings will be contingent on the size of the PPN and the number of employees and retirees who utilize it. However, staff believe that a PPN has the potential to save up to 5% of total drug costs.
b) **Drug Plan Management Initiatives:**
Given the high cost associated with drug plans, many plan sponsors have worked with their benefits providers to implement various drug plan management initiatives, targeted at controlling the rising cost of drugs, while continuing to provide adequate protection to employees.

There are many drug plan management strategies utilized today by plan sponsors to ensure a balanced approach to providing drug coverage. The best approach is one which fits the organization’s philosophy and overall benefits strategy. Staff are recommending that they work with the City's benefits provider to identify drug plan management initiatives for consideration by the Employee & Labour Relations Committee in March 2014.

In addition to reviewing drug plan management strategies, staff will be reviewing the administrative practices and standards of the City's benefits policies with Manulife Financial to ensure that the plans remain in-line with current industry standards and Manulife's best practice guidelines. The City implemented Manulife Financial in 2000 and since that time there have been many changes in healthcare with new products on the market. Adjustments to the plans and/or administrative guidelines will be made where allowable and appropriate.

**Recommendations**

In order to ensure that the City's benefits plan remains competitive with other Ontario municipalities and OMBI comparators and remains equitable with unionized employees, the City should retain its traditional fixed/defined benefit plan design.

Staff are recommending changes which focus on cost effective ways of delivering benefits.

Staff are recommending:

- A Preferred Provider Network of Pharmacies (PPN) be implemented to achieve savings in the drug component of the benefits plan;

- Various drug plan management initiatives be reviewed and evaluated with the City’s benefits carrier and that recommendations be brought forward for consideration by the Employee and Labour Relations Committee in 2014.

**CONCLUSION**

The recommendations in this report will assist the City in continuing to control benefit costs while ensuring that the benefits plan, as an integral part of the City’s overall total compensation package remains competitive and equitable. The recommendations focus on the introduction of cost-effective ways of delivering benefits.

Notwithstanding these changes, the City will continue to provide a fair and comprehensive benefits plan for its non-union employees, accountability officers and elected officials that is competitive when compared to other large public sector employers.
CONTACT
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Director, Pension, Payroll & Employee Benefits
Tel. (416)397-4143
cchiovit@toronto.ca

SIGNATURE

_______________________________
Joseph P. Pennachetti
City Manager

ATTACHMENTS

Appendix B - Glossary of Benefit Terms
Appendix C - Key Criteria to be utilized for establishing a Preferred Provider Network (PPN)
APPENDIX A

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

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

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

Glossary of Benefit Terms

Administrative Services Only (ASO)
An arrangement where organizations outsource the administrative functions of their benefits program to a third party. The organization retains the financial risk and responsibility for the cost of the claims.

Biologic Drugs
Therapeutic agents used to increase or optimize immune responses. Derived from natural sources – human, animal or microorganism and produced using cutting edge technology.

Drug Plan Management
Initiatives introduced to manage/contain rising drug costs within the benefit plan, e.g. tiered formularies, prior authorizations, etc.

Flexible Benefit Plans
Flexible Benefit Plans require employees to annually select a package of benefits from a menu of choices provided by the employer. Employees receive credits to purchase the benefits of most value to them. Some flexible benefit plans provide a core set of benefits and provide options for employees to purchase additional levels of coverage. Depending on the coverage selected, employees may be required to contribute to the cost of purchasing the coverage.

Health Care Spending Account (HCSA)
A HCSA is an account is a tax free amount that is retained by the benefits carrier and can be used for the reimbursement of medical expenses allowable under the Income Tax Act.

Preferred Provider Network
Group of health care providers who agree to charge a pre-negotiated fee to employees/retirees for the dispensing of drugs.

Total Compensation Package
Includes compensation, benefits, pensions and any other monetary related packages provided by an organization (including profit sharing, annual bonus etc.)

Total Rewards
Includes five key elements – compensation, benefits, work-life, performance/recognition and development/career opportunities. Utilized to attract retain and motivate employees.
APPENDIX C

Key Criteria for Establishing a Preferred Provider Network (PPN)

<table>
<thead>
<tr>
<th>Component of Plan</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dispensing Fee Cost</td>
<td>Best available fee up to the lesser of the Ontario Drug Benefit Maximum</td>
</tr>
<tr>
<td></td>
<td>(ODB) allowable or $9.00</td>
</tr>
<tr>
<td>Drug Ingredient Mark-Up</td>
<td>Best available mark-up fee up to the lesser of the Ontario Drug Benefit</td>
</tr>
<tr>
<td></td>
<td>Maximum or 10%</td>
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<tr>
<td>Generic Drugs</td>
<td>Lowest cost equivalent drug alternative (full interchangeability)</td>
</tr>
<tr>
<td>Maintenance Drugs</td>
<td>To be dispensed on a 3 month supply basis</td>
</tr>
<tr>
<td>Case Management and Patient Support (with employees</td>
<td>• Assist and oversee compliance of drug therapy</td>
</tr>
<tr>
<td>approval)</td>
<td>• One on one counselling with respect to side effects and management</td>
</tr>
<tr>
<td></td>
<td>thereof</td>
</tr>
<tr>
<td></td>
<td>• Related health and wellness clinics, health risk assessment tool etc.</td>
</tr>
<tr>
<td></td>
<td>• Provision of other related services; e.g. mail order</td>
</tr>
</tbody>
</table>