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

Audit Committee Meeting
October 23, 2015

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Auditor General

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Director

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Senior Audit Manager
Background

➢ LTD Audit Originally included in 2013 Audit Work Plan

➢ Deferred in light of improvements being initiated by staff and Manulife

➢ Audit was included in AG’s February 2015 Audit Work Plan
Audit Goal

To help ensure the benefit fund is:

- administered with **due diligence**, and
- the City’s LTD benefit program is **integrated with best practices**, including **prevention, early intervention, claims assessment and monitoring**, as well as **accommodating employees** to return to work.

**Phase One**
Focused on City Management of LTD Benefits
Current Report to Audit Committee

**Phase Two**
Manulife Claims Operation
Will commence when access to Manulife records is granted
Audit Scope

Short Term Illness
(up to 6 months)
[LTD qualifying period]

Early Intervention

Long Term Disability

Audit

Prevention
Overview of Phase One

Audit Objective
To assess whether the City has adequate and effective controls in managing LTD benefits

Recommendations

- 12 recommendations – Public Report
- 4 recommendations – Confidential Attachment

Management has agreed with all recommendations
Current State and Trend Analysis

Number of Employees with Approved LTD Benefits, December 2004 to June 2015, City of Toronto

June 2015, 1,285 employees receiving LTD benefits out of 23,215 employees with LTD benefit coverage [1 in 20]

Benefit payment costs rose by 50% from $28.4 million in 2010 to $42.8 million in 2014
Current State and Trend Analysis

LTD Benefit Payments to Employees, 2004 to 2014 Actual Payments, and 2015 to 2020 Projected Payments, City of Toronto

Projected
Key Stakeholders LTD Benefits Administration

ASO Contract
- Processes LTD claims
- Adjudicates claims
- Assesses RTW potential

3.3% admin fee + expenses

Manulife Claims Administration

City Divisions

Employee on LTD

75% pay up to age 65 yrs if qualify

Attending Physicians

Human Resources (including health consultants)

City Administration of Benefits (PPEB)
Qualifying and Return To Work Criteria

**Short Term Illness**

LTD Qualifying Criteria
- Have LTD coverage
- Continuous absence for 6 months due to illness or injury
- Meet disability definition

Own occupation period
- Initial 24 months of LTD leave
- “Return to work” is considered based on ability to perform own job

Any occupation period
- After the initial 24 months
- “Return to work” is considered based on ability to perform any job
- The alternative job must provide at least 75% of regular salary
Current State

1,285 Active Claims
(as of June 2015)

Incoming New Approved Claims
225 New Claims in 2014

193 Resolved Claims Including 51 RTW
## Incidence rate:
Number of 2014 approved new claims per 100 employees

<table>
<thead>
<tr>
<th></th>
<th>City</th>
<th>TPS</th>
<th>TTC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incidence rate:</td>
<td>1%</td>
<td>0.1%</td>
<td>1%</td>
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</table>

## Prevalence rate:
Number of active claims per 100 employees as of June 2015

<table>
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<th>City</th>
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<tbody>
<tr>
<td>Prevalence rate:</td>
<td>5.5%</td>
<td>0.8%</td>
<td>2.5%</td>
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## Return to work (RTW) rate:
Percentage of active LTD claimants returned to work in 2014

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<tr>
<td>Return to work (RTW) rate:</td>
<td>4%</td>
<td>8%</td>
<td>18%</td>
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Going Forward …

Immediate – Improving Internal Controls

Short-term – Contract Improvements

Long-term - Benefit Plan and Integrated Approach
Immediate – Improving Internal Controls

Ensure Adequate Payment Approval Process

- Charges were not verified before payment
  - City had been paying for an incorrect charge since 2003
  - Manulife agreed to refund $1.9 million (including interest and taxes)
- Supporting documentation or cost breakdowns not obtained for over $2 million of charges
## Refund from Manulife

<table>
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<th>Fees</th>
<th>Interest</th>
<th>Taxes</th>
<th>Refund</th>
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<td>$1,439,582</td>
<td>$220,139</td>
<td>$197,238</td>
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<tr>
<td>Toronto Public Library</td>
<td>$50,625</td>
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<td>Toronto Zoo</td>
<td>$8,845</td>
<td>$1,353</td>
<td>$1,231</td>
<td>$11,429</td>
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<tr>
<td>Community Centres and Arenas</td>
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<td>$481</td>
<td>$470</td>
<td>$4,098</td>
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<td>The Board of Governors of Exhibition Place</td>
<td>$2,806</td>
<td>$429</td>
<td>$384</td>
<td>$3,620</td>
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<tr>
<td>Total</td>
<td>$1,505,005</td>
<td>$230,143</td>
<td>$206,198</td>
<td>$1,941,346</td>
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</table>
Immediate – Improving Internal Controls

Minimize Overpayments to Claimants

- Over $600,000 overpayment balance as of August 2015 from 68 claimants
- Delays in notifying Manulife of employee changed status
- Delays in establishing recovery plans with claimants
- Seek better cooperation from CPP and WSIB to identify other sources of benefits
Short Term – Contract Improvements

**Strengthen Contract and RFP Requirements**

- Substantial delays in finalizing the formal agreement with Manulife
- Explore other options for admin fee cost structure
- No explicit audit clause to enable the AG to undertake an audit
- City has not had a third-party audit
Long-term - Benefit Plan and Integrated Approach

An end-to-end review to be included in Phase Two

Enhance the City “return to work” processes

- Has not developed or tracked performance indicators
- Enhance staff awareness and knowledge of prevention, early intervention and accommodation
NEXT STEPS

- Audit Committee and City Council

- Auditor General’s Office
  - Phase Two Results - Mid 2016
  - Phase One Follow-up Results - Mid 2017

- City – Action plan