



STAFF REPORT ACTION REQUIRED

Management of the City's Long-Term Disability Benefits Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability

Date:	October 13, 2016
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

This report provides the results of the Auditor General's Phase Two review of the City Long Term Disability (LTD) benefits program, including the key findings and recommendations from the interim audit report. The interim report was submitted to the Audit Committee in July 2016 and it provided the results of our review of a sample of LTD benefits claim files administered by Manulife:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94773.pdf>

The Auditor General's 2015 Audit Work Plan included an audit of the City's management of LTD benefits. The audit was divided into two phases. Phase One, which focused on how City staff managed the LTD benefits was completed in October 2015, and the audit report was submitted to the Audit Committee in October 2015:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84556.pdf>

This Phase Two final report contains a total of 19 recommendations to help the City improve oversight and adopt a more proactive approach to managing the LTD benefits program. Of the 19 recommendations, nine are contained in an Interim report which has already been adopted by the Audit Committee in July 2016. The ten new recommendations in the final report are listed below.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Director, Pension, Payroll and Employee Benefits Division to review Manulife's Plan Document in administering the City's Long Term Disability (LTD) claims to ensure that the Plan Document provisions are consistent with the City's Collective Agreements and related policies. Where practices are deemed appropriate that are not consistent with the Collective Agreements, staff of Legal Services and Human Resources should be consulted to assess the financial impact and legality of continuing such practice.
2. City Council request the Director, Pension, Payroll and Employee Benefits Division to develop and implement appropriate processes and protocol for significant changes to Long Term Disability (LTD) benefit policy and the benefit administrator's Plan Document. Such processes and protocol should include adequate consultation with City Legal and other pertinent staff, documentation in accordance with the City's Records Retention By-Law, and appropriate City authorization prior to implementation by the benefits administrator.
3. City Council request the Director, Pension, Payroll and Employee Benefits Division to:
 - a. Undertake a detailed review of Long Term Disability (LTD) active claims from seasonal employees to ensure the benefit payments are calculated accurately and in accordance with the City's LTD Policy;
 - b. Consult with Human Resources and City Legal to determine the appropriate action and steps to immediately apply adjustments to future payments for claims where inaccurate payments are identified; and
 - c. Ensure City staff responsible for claim payment calculation have complete and correct understanding of how LTD pre-disability earnings should be calculated.
4. City Council request the Director, Pension, Payroll and Employee Benefits Division in consultation with City Legal and other pertinent staff, to assess the appropriateness and feasibility of recovering the overpayments from active claimants.
5. City Council request the Director, Pension, Payroll and Employee Benefits Division to:
 - a. Clarify the definition of 'totally disabled' in the Long Term Disability benefits policy and the effect of performing modified work during the qualifying period; and
 - b. Develop procedures and training to ensure City staff involved in managing the Long Term Disability benefits program have complete and correct understanding of the eligibility requirements.

6. City Council request the Director, Pension, Payroll and Employee Benefits Division to ensure City staff involved in managing the Long Term Disability benefits program timely complete the Plan Sponsor Statement, to avoid unnecessary delays in the adjudication process.
7. City Council request the Executive Director, Human Resources to review the City's current short term disability management program for early and pro-active intervention opportunities, to reduce the risk of employees progressing to Long Term Disability leave.
8. City Council request the Executive Director, Human Resources to review the existing return to work processes for employees on Long Term Disability leave with a view to improving the return to work success rate and turnaround time.
9. City Council request the Executive Director, Human Resources to consider increasing the contracted resources for Physician and Psychiatrist such that they can effectively and timely facilitate the return to work process for employees on Short Term Disability and Long Term Disability leaves.
10. City Council request the Executive Director, Human Resources to develop a tracking system to monitor the City's work search efforts for employees returning from Long Term Disability leave and identify improvement opportunities.

Financial Impact

Implementation of recommendations in the Phase Two report will likely result in immediate and future cost savings, including adjustments to LTD benefit payments to seasonal employees and recovering overpayments where appropriate and feasible.

ISSUE BACKGROUND

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

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

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

COMMENTS

Phase Two of the audit included a detailed review of a sample of LTD claim files administered by Manulife. In view of the pending contract award and the ensuing preparation of the new contract, we provided the results of the claim review findings and recommendations earlier through an interim report. The Phase Two interim report includes nine recommendations to improve the City's oversight and management of LTD benefits.

While the benefits administrator is responsible for claim adjudication and monitoring, City management is responsible for the oversight of the LTD benefits program. City staff need to undertake a more proactive management approach in overseeing the benefits administrator's processes as well as strengthening controls over early intervention and return to work processes. Our Phase Two final report provided ten additional recommendations to improve the City's oversight of the LTD benefits program.

Following the Phase One audit, management successfully negotiated changes to benefits plans with Locals 79 and 416, reducing the LTD benefits from 75 to 70 per cent of the employee's disability salary, and the salary threshold for employee returning to work from 75 to 66 2/3 per cent. This combined with the changes in non-union benefits plans, is estimated by staff to result in approximately \$5.8 million in savings over the next three years.

As a result of our Phase One and Phase Two audits, the City recovered approximately \$2 million in billing errors and duplicated HST charges from Manulife.

We also identified a \$600,000 overpayment to claimants from receipts of other income during Phase One, and a \$2.5 million potential overpayment to seasonal employees during Phase Two. Due to calculation errors, 11 employees received an annual LTD benefit payment substantially more than their pre-disability salary, on average earning \$10,500 or 64 per cent more per year on LTD benefits than when they were working. The maximum future loss if the existing seasonal employees remain on LTD leave until age 65 will be approximately \$430,000.

The audit report entitled "Management of the City's Long-Term Disability Benefits – Phase Two: A Proactive and Holistic Approach to Managing Employee Health and Disability" is attached as Appendix 1 along with a one page highlights. Management response to recommendations contained in the audit report is attached as Appendix 2. Management's response to recommendations in the Interim Report is attached as Appendix 3.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

- Appendix 1: Management of the City's Long-Term Disability Benefits – Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability
- Appendix 2: Management response to recommendations in the Auditor General's Report entitled "Management of the City's Long-Term Disability Benefits – Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability"
- Appendix 3: Management response to recommendations in the Auditor General's Report entitled "Management of the City's Long-Term Disability Benefits – Phase Two: Interim Report on the Approval and Monitoring of Claims"

AUDIT AT A GLANCE

BACKGROUND

The City of Toronto provides Long-Term Disability (LTD) coverage to its employees in accordance with Collective Agreements and City policies. Approximately 23,000 City employees are eligible for LTD coverage. Manulife is the City's current benefits administrator, and is responsible for adjudicating and monitoring claims, processing benefit payments and assessing employee return to work potential.

WHY THIS AUDIT MATTERS

The number of employees on LTD has risen steadily over the past decade. Benefit costs also increased by 67 per cent from \$26.6 million in 2010 to \$45.3 million by June 2016. To address rising costs and ensure a healthy and productive workforce, a proactive and holistic approach to managing the benefits program is crucial.

BY THE NUMBERS

- \$58 million annual cost by 2020
- 1,308 claims are active; 1 out of 17 eligible employees currently on LTD leave
- 59% of claims are Mental & Nervous Disorders or Musculoskeletal Disorders
- \$2 million in overcharges recovered
- \$3 million identified in potential overpayments
- Avoided \$430,000 in future overpayments to claimants
- 31 total recommendations over two phases of the audit

Management of the City's Long-Term Disability Benefits Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability

What we found

Findings resulting in direct savings or cost avoidance through strengthening of processes:

- The Phase One audit noted charges for services not specified in the contract. Phase Two revealed that HST charges were duplicated on certain services. The City has recovered a total of \$2 million from Manulife.
- Incorrect base salaries were used to determine LTD benefit payments, leading to overpayments of benefits totalling \$1.4 million as of August 2016, with an additional \$430,000 future costs over the life of the claims.
- Due to the calculation errors, 11 employees earned more from being on LTD leave than working, averaging \$10,500 or 64 per cent more per employee per year.
- A seasonal employee who became disabled two months after being laid off was approved for LTD benefits. Based on documentation available it was not clear whether the employee should have been eligible. The lifetime cost of this claim is estimated to be \$1.1 million.
- Following the Phase One audit management implemented changes to the benefit structure, which is estimated to result in \$5.8 million in savings over the next three years.

Need for Proactive Oversight of the Benefits Program

- There is currently no centralized effort by the City to address employees showing warning signs of health issues. Research has shown that early intervention is critical in assisting employees get the appropriate treatment, stay at or return to work sooner, and reduce the risk of permanent disability.
- The City needs to be more rigorous and proactive in its oversight of the administrator's services, including ensuring that claim management staff process and monitor claims in a timely manner, following up on claimants with delays, and communicating workplace concerns to the City.
- Of the 158 LTD cases referred by Manulife to the City for return to work, only 35 per cent was successful. On average it took approximately 190 days (6 months) to return an employee to work.

How Recommendations will Benefit the City

Implementation of the recommendations in this report will help the City to maintain a healthy workforce and reduce long term costs for the organization.

AUDITOR GENERAL'S REPORT

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

Phase Two:

**The Need for a Proactive and Holistic
Approach to Managing
Employee Health and Disability**

October 13, 2016

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EXECUTIVE SUMMARY

The City's LTD benefits program is self-insured

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

LTD annual benefit costs rose to \$45.3 million by June 2016

The number of employees on LTD has risen steadily over the past decade, from 806 in 2004 to 1,308 active claims as of June 30, 2016. Annual benefit costs also increased by 67 per cent from \$26.6 million in 2010 to \$45.3 million by June 2016, and is projected to reach \$58 million by 2020.

Effective oversight of the benefits program is critical

To address the rising costs and ensure a healthy and productive workforce, it is critical that the City adopt a more proactive and holistic approach to managing the benefits program.

Phase One focused on City management of LTD benefits

Our audit was divided into two phases. Phase One, which focused on City management of LTD benefits, was completed in 2015 and the audit report was submitted to the Audit Committee in October 2015:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84556.pdf>

Phase Two Interim Report focused on Manulife processes

Phase Two of the audit focused on the claim adjudication and monitoring processes by the benefits administrator, as well as other areas not included in Phase One. In June 2016, an interim Phase Two report was presented to the Audit Committee such that the audit recommendations could be taken into consideration in preparing the City's new five-year contract. The Phase Two interim report is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94773.pdf>

This final report includes all Phase Two findings

This Report contains all of our findings from Phase Two of the audit, including results from the interim report which are included in Section C. Management comments and action plans to interim findings are included as Appendix 3.

Manulife was found to be in overall compliance with the current contract

Based on the files we reviewed, Manulife as the current benefits administrator was in compliance with the major aspects of its contractual agreements with the City. However, our review identified a number of opportunities for improvement, which may require modifying terms of the contract.

The City needs to strengthen its oversight of the administrator's services

While the benefits administrator is responsible for claim adjudication and monitoring, City management has an important oversight role. Throughout our Phase One and Phase Two audits, we noted that in a number of areas, management has taken a hands-off approach, relying heavily on the benefits administrator to drive the City's benefits program.

Our key findings from Phase Two of the audit include:

Benefits Eligibility Criteria are not Consistently Defined

Manulife administers LTD benefits in accordance to its Plan Document

Manulife is responsible for assessing an employee's entitlement for LTD benefits, and administers the benefits plan in accordance with its Plan Document. This document is prepared by Manulife based on the City Collective Agreements and policies, and Manulife's own best practices in administering LTD benefits.

Manulife Plan Document is not consistent with the City Collective Agreements

Several provisions in the Plan Document are not consistent with the City's Collective Agreements or LTD policies. For instance, Manulife's Plan Document includes a general provision which extends City LTD benefits to laid-off employees three months after the lay-off. This provision is not included in the Collective Agreements. One particular claim identified in this situation is expected to cost the City a potential of \$1.1 million in benefit payments over the life of the claim.

Where there are inconsistencies between the City's Collective Agreements and Manulife's Plan Document, City staff managing the benefits program should assess whether it is appropriate to adopt the benefits administrator's practice and the potential financial impact on the City.

Overpayments Made to Seasonal Employees

Calculation and timing issues for seasonal employees

In general, employees in seasonal positions work approximately seven months per year. Of the 57 claims we reviewed, in 19 claims the employee's pre-disability earnings was determined by PPEB staff using the position's annualized salary. This created a situation where an employee could receive a full year's LTD entitlement while only working part year. Additionally, in 27 other cases incorrect pay periods were applied, resulting in inaccurate pre-disability earnings and hence LTD benefit entitlements.

11 employees earned more from being on LTD than when working

Due to the above, 11 employees received an annual LTD benefit payment substantially more than their pre-disability salary, on average earning \$10,500 or 64 per cent more per year on LTD benefits than when they were working.

Estimated \$ 1.4 million overpayment to date

The potential combined overpayment on these claims to the end of August 2016 was estimated to be \$1.4 million. The maximum future loss if claimants remain on LTD until age 65 will be approximately \$430,000.

Early Intervention of Employees with Health Issues

Early intervention improves return to work success rate

Research has shown that early intervention of employees with health issues is crucial in a LTD benefits program. From the employee's perspective, this assists them in seeking appropriate treatment sooner, increases chances of remaining at or successfully returning to work, and allows them to maintain a productive and independent lifestyle. For the City, early intervention reduces the risk of permanently losing a productive member of the workforce, and ultimately decreases benefit costs for the organization.

In 2015, the City's Employee Health and Rehabilitation Section received over one thousand referrals related to non-occupational health issues. Of those referrals, 85 per cent were for employees on Short Term Disability (STD) leave or still at work and experiencing health related issues. The remaining 15 per cent of referrals were for employees returning to work from LTD leave.

Need to strengthen oversight of STD management process

Under the City's Attendance Management Program, management staff with each division are responsible for monitoring and addressing employees on STD. City does not have a central oversight of STD in place. The City needs to explore ways to strengthen its STD program such that it can increase the chances that employees with potential health issues may receive treatment and/or accommodation before progressing to LTD.

LTD Adjudication and Monitoring

Manulife adjudicates and monitors LTD claims for the City

In the interim report, we provided several recommendations with regards to the benefits administrator's claim adjudication and monitoring processes. These recommendations include ensuring that claim management staff process and monitor claims in a timely and consistent manner, following up on claimants with delays or unique circumstances, and improving communication of information with the appropriate City staff.

The City needs to strengthen its oversight of the administrator's services

Although many of the processes reviewed are the responsibility of the contracted benefits administrator, our view is that the City needs to be more rigorous in its oversight of the administrator's services, including timely assessment and follow-up of employees' return to work potential. In particular, in the files we reviewed, a number of City employees on LTD leave expressed work related issues such as discipline, harassment or bullying. Manulife does not communicate to City staff work related issues voiced by claimants during their interviews with Case Managers. As part of the return to work process, Manulife will identify work barriers and discuss the claimant's restrictions and accommodations needs with the City's Occupational Health and Safety staff.

Return to Work Processes

Low RTW success rate at the City

The City's return to work (RTW) rate is lower than other organizations. In 2015, about 35 per cent of RTW referrals from Manulife resulted in successful RTW.

The success of RTW efforts can be affected by many factors, such as the ability to accurately identify employees with RTW potential, specific circumstances of the employee's work restrictions, and the availability of alternate work opportunities. Some of the measures we recommend include collecting and monitoring RTW data, enhancing in-house health care specialist capabilities, and ensuring that claimants participate in rehabilitation or return to work attempts.

Cost Savings and Potential Loss Identified by the Audit

Audit identified cost savings

As a result of our Phase One and Phase Two reviews, the City recovered approximately \$2 million in billing errors and duplicated HST charges from Manulife.

We also identified a \$600,000 overpayment to claimants from receipts of other income and a \$2.5 million potential overpayment to seasonal employees. The maximum future loss if the existing active claimants remain on LTD leave until age 65 will be approximately \$430,000.

Summary of the cost savings and overpayments are outlined in the Table 1:

Table 1: Summary of Cost Savings and Potential Overpayment/Loss

Stage of Audit	Description	Cost Savings	Potential Overpayment/Loss
Phase One	Cost recovered from Manulife due to billing errors	\$1.8 million (already recovered)	-
	Overpayments resulting from receipts of other income	-	\$600,000 (partially recovered)
Phase Two Interim	Cost recovered from Manulife due to duplicated HST charges	\$240,000 (already recovered)	-
Phase Two Final	City staff accepted Manulife approval of benefits to an employee on lay off that was inconsistent with Collective Agreements	-	\$1.1 million (unlikely to be recoverable)
	Errors from seasonal employee calculations made by City staff	\$430,000 (future savings)	\$1.4 million (status of recovery to be determined)
Total		\$2.47 million	\$3.10 million

Additionally, following the Phase One audit, management implemented changes to reduce the LTD benefit for new claimants and salary threshold for employees returning to work which is estimated to result in \$5.8 million in savings over the next three years.

Conclusion

Recommendations to strengthen oversight of program

This report contains 19 recommendations to help improve the City’s oversight of LTD benefits program. A number of those recommendations will assist the City in taking a more proactive and direct ownership of the program, and ultimately result in a healthier workplace and reduced benefits costs.

BACKGROUND

An Overview of the City's Long Term Disability Benefits Program

The City's LTD program is self-insured

The City of Toronto provides extended health care, dental care and Long-Term Disability (LTD) coverage to its employees in accordance with Collective Agreements and City policies. The City's program is self-insured; this means the City pays for the benefit claim costs. City employees are not required to pay an insurance premium for coverage.

Manulife is the City's current LTD benefits administrator

The City’s current LTD benefits administrator is Manulife, which acts as the City’s ‘agent’ in processing City LTD claims under an Administrative Services Only (ASO) contract. The City pays for the benefit claim costs, as well as a fee to Manulife for administrative services provided.

New five year contract awarded to Manulife

In July 2016, Council approved the City to enter contract negotiations with Manulife for another five years, effective for the calendar years 2017 – 2021.

Manulife approves and monitors LTD claims

Manulife, as the current benefits administrator, is responsible for claims adjudication, ongoing monitoring, processing employee benefit payments, as well as assessing employee return to work potential.

The PPEB Division oversees the LTD program

The City's Pension, Payroll and Employee Benefits Division (PPEB) is responsible for the oversight of the employee benefits program which includes LTD benefits. However, City staff are not involved in claim adjudication or monitoring processes.

EH&R coordinates return to work process

The Employee Health and Rehabilitation Section (EH&R) within the City's Human Resources Division is responsible for coordinating the process of providing modified work to employees with return to work (RTW) potential, as identified by Manulife.

Approximately 23,000 City employees eligible for coverage

All full-time permanent and temporary employees (both unionized and non-unionized) and elected officials are eligible for LTD coverage. Most part-time City employees do not have coverage, except those working in the Long-Term Care Homes and Services Division. As of June 2016, approximately 23,000 City employees have LTD benefit coverage.

To qualify for LTD benefits, an employee must meet the definition of disability, and satisfy the LTD qualifying period.

Medical information must show that employee is "wholly and continuously disabled"

Employees must submit medical information showing that they satisfy the definition of disability in the City's LTD Guidelines, which state that "*an employee is totally disabled when he/she is wholly and continuously disabled due to illness or bodily injury and, as a result, is not physically or mentally fit to perform the essential duties of his/her normal occupation.*"

6-month continuous absence due to illness or injury

To satisfy the qualifying period, an employee must meet the definition of disability and absent from work for six consecutive months. In certain circumstances, employees may be able to perform modified duties and still satisfy the qualifying period requirement.

LTD Benefit Income

Employees entitled to 75% of pre-disability salary

Employees granted LTD benefits are entitled to 75 per cent of their pre-disability earnings. Benefits are offset by other sources of income, such as Workplace Safety & Insurance Board benefits and CPP disability payments. There is no annual Cost of Living Adjustment increase or salary adjustment for LTD income.

Benefits reduced to 70% for new claimants

As a result of the latest Collective Agreements negotiation, LTD benefits will be reduced to 70 per cent of pre-disability earnings effective March 2016 for union employees, and January 1, 2017 for non-union. This applies to new claimants only and does not affect employees already on LTD leave.

Employees can potentially receive LTD benefits until age 65

Employees who are approved for LTD benefits before age 63 can potentially receive LTD benefits until age 65 unless they return to work, retire, or pass away.

Employees who become disabled after age 63 may receive a benefit for a maximum of 18 months. The employee will not be eligible for LTD benefits beyond age 70.

Benefits are subject to statutory deductions

LTD income is subject to income tax, Canada Pension Plan and Employment Insurance deductions. If an employee is in receipt of CPP disability payments, the LTD benefit payments are no longer subject to CPP deductions.

Criteria for Returning Employees to Work

Initial 24 months RTW is assessed based on ability to return to "own occupation"

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

After 24 months RTW ability is assessed based on "any occupation"

Once the initial 24 month period expires, employees can be evaluated for "return to work" for positions other than their original occupation, i.e. "any occupation" period. The change from "own occupation" to "any occupation" is referred to as "Definition Change".

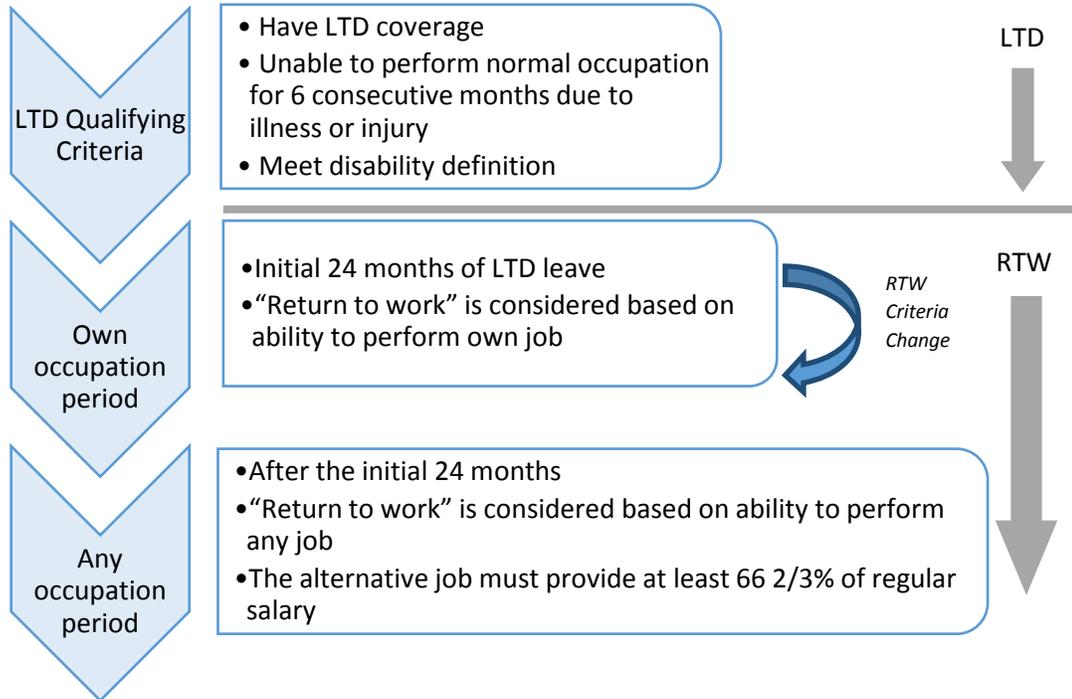
Currently, City policy stipulates that the alternate position must provide the employee a minimum of 75 per cent of his/her original salary and matches the employee's original job status, such as permanent to permanent, temporary to temporary.

Salary threshold reduced from 75% to 66 2/3% beginning 2016/2017

However, as part of the Collective Agreements negotiations this threshold will be reduced from 75 to 66 2/3 per cent of pre-disability salary, effective September 1, 2016 for union employees and January 1, 2017 for non-union.

Figure 1 illustrates the LTD qualifying and “return to work” (RTW) criteria:

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



Initiating a claim

LTD claim is initiated upon receipt of the application forms

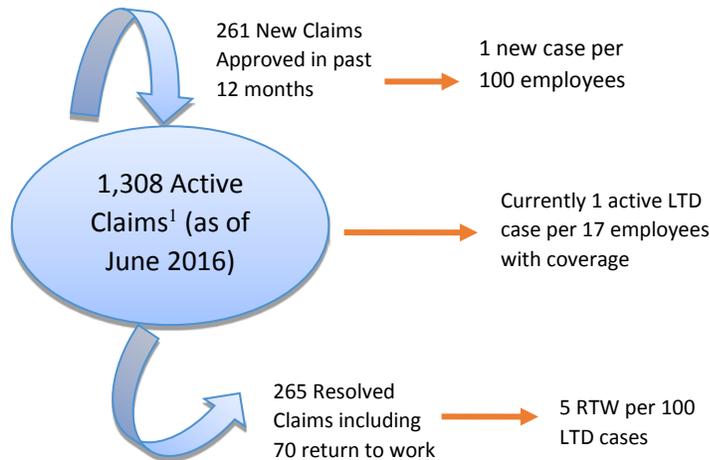
City employees applying for LTD benefits are required to submit to Manulife a Plan Member Statement and an Attending Physician Statement. Employees are asked to submit these forms at least six to eight weeks before the end of their qualifying period for applying for LTD benefits.

Each claim is assigned to a Manulife’s Case Manager who reviews the application forms, the relevant contractual considerations, and the medical and functional information. Where needed, Case Managers can obtain additional support from supervisors, in-house specialists, and in-house Medical Consultants with Manulife who are licensed medical professionals.

Current State and Trend of Program

The number of active claims is a function of previous cases outstanding plus incoming new claims, less outgoing resolved claims including those where the claimant reaches age 65, retires, passes away, or returns to work (RTW). Figure 2 shows the number of approved new claims, active claims and resolved claims in 2015/16:

Figure 2: New Claims, Year-End Active Claims, and Resolved Claims in 2015/2016, City of Toronto



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

Over 1,300 employees are currently on LTD leave

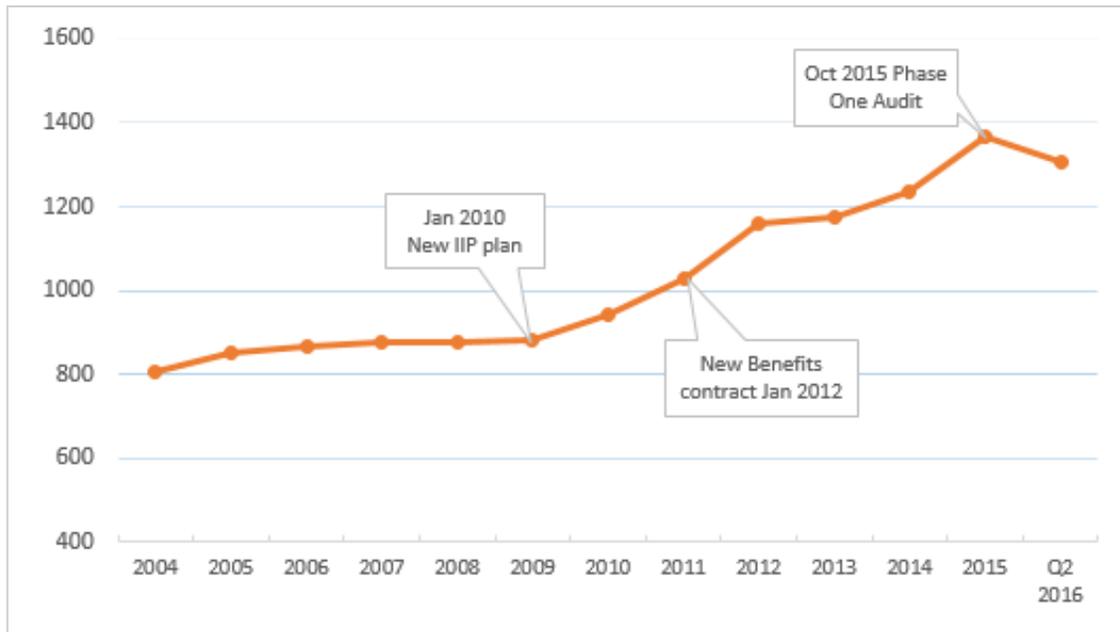
As of June 30, 2016, there were 1,308 active LTD claims. Out of the total workforce, about 1 in 17 employees entitled to LTD benefits was off work on LTD leave.¹ As indicated in the Phase One report, this has increased significantly over the past decade; in 2004, only 806 employees were on LTD leave.

Number of cases has grown significantly

Figure 3 shows the trend of approved LTD claim volume since 2004. The growth in LTD cases remained relatively stable from 2004 to 2009, averaging a below 2 per cent annual increase. From 2010, the City began to experience significant year over year increases. This appeared to coincide with the full implementation of the City's new Illness or Injury Plan.

¹ 1,308 active LTD cases out of 22,697 eligible employees, or 1 in 17.4.

**Figure 3: Number of employees with approved LTD benefits,
Dec 2004 to Q2 2016, City of Toronto**



Growth in LTD claims outpace the size of workforce

The increases were not proportionate to the growth in workforce because the number of employees eligible for LTD benefits remained relatively constant at around 23,000 over the past five years.

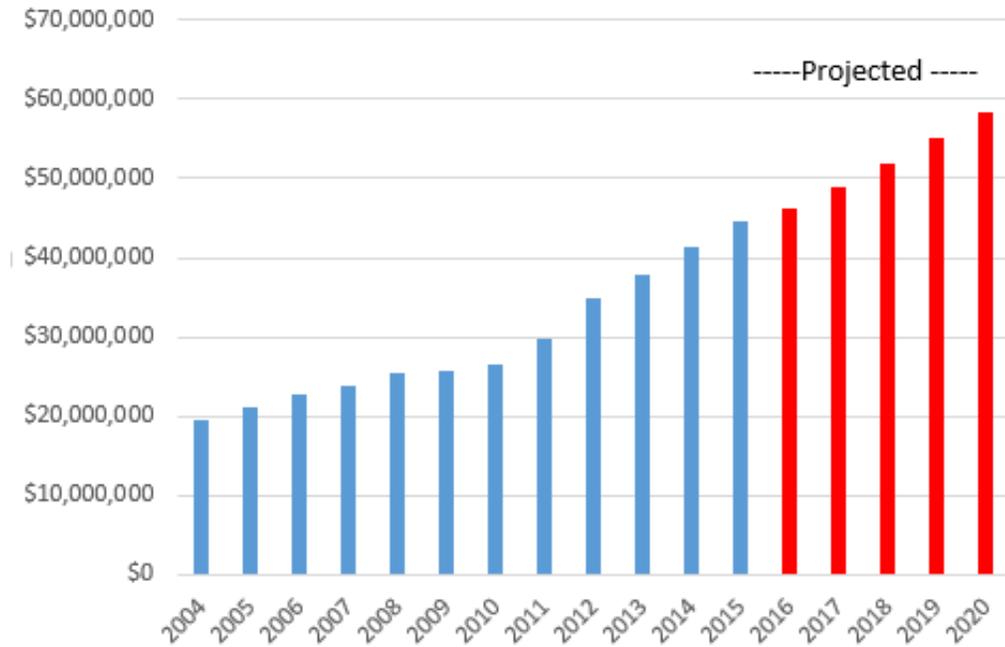
Increasing Cost of Benefits

LTD benefit costs were \$44.5 million in 2015

As the number of LTD cases continued to climb, so did the benefit payment costs, reaching \$44.5 million in 2015. In 2015, the LTD benefit costs were \$44.5 million.

Figure 4 shows actual and projected LTD benefit costs from 2004 to 2020:

Figure 4: City of Toronto LTD Benefit Payments to Employees, Actual and Projected (2016 to 2020)



Projected to grow to \$58 million by 2020

Benefit costs grew at an average of 11 per cent from 2010 to 2015; however, this trend is anticipated to decline due to the reduction in benefits for new claimants. Using a conservative projection of a 6 per cent annual growth moving forward, the annual costs for providing LTD benefits will potentially rise to \$58 million by 2020.

Breakdown of Growth

Increasing volume a function of incidence rate and duration

The LTD prevalence rate, i.e. number of LTD cases relative to the City's workforce is affected by two factors:

- Incidence Rate (rate at which new cases are approved); and
- Duration (average length of time an employee remains on LTD leave).

Duration can be further broken down into age (affecting length of time until retirement), and success of return to work efforts which is a joint effort between the City and the benefits administrator.

Table 2 provides a comparison of the City's incidence rate, return to work rate, and prevalence rate against the Toronto Transit Commission (TTC) and Toronto Police Service (TPS).

Table 2: Comparison of RTW Statistics Between the City and its Agencies

	City	TTC	TPS
Incidence rate: Number of approved new claims per 100 employees during 2015	1.1%	1%	0.18%
Return to work (RTW) rate: Percentage of active LTD claimants returned to work during 2015	3.8%	20%	11%
Prevalence rate: Number of active claims per 100 employees as of June 2016	5.8%	2.3%	0.85%

Incidence rate comparable with TTC but above TPS

Based on the number of approved new claims in 2015, City's LTD incidence was approximately one new case per 100 employees. This is comparable to the TTC, but significantly higher than that of the TPS.

Return to work rate below both TTC and TPS

The City's return to work rate in 2015 was 3.8 per 100 employees on LTD leave, which was significantly lower than both the TTC and TPS.

Higher prevalence rate as a result

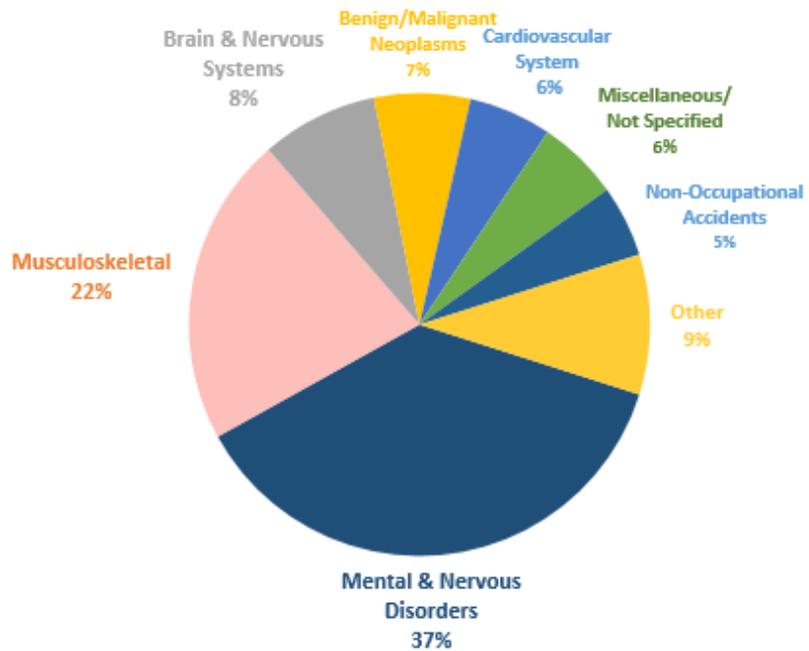
Relative to its comparator organizations, the City approves slightly more LTD applicants and at the same time returns significantly fewer claimants to work per year. As a result, the number of City employees on LTD leave relative to its workforce is higher than its comparators.

Composition of Claims

In terms of types of disability encountered, Mental and Nervous Disorder claims are becoming increasingly prevalent and is a driving factor behind the City's LTD trend. Figure 5 shows a breakdown of active LTD cases according to the type of disability diagnosed:

Mental/nervous disorders and musculoskeletal disorders make up the majority of claims

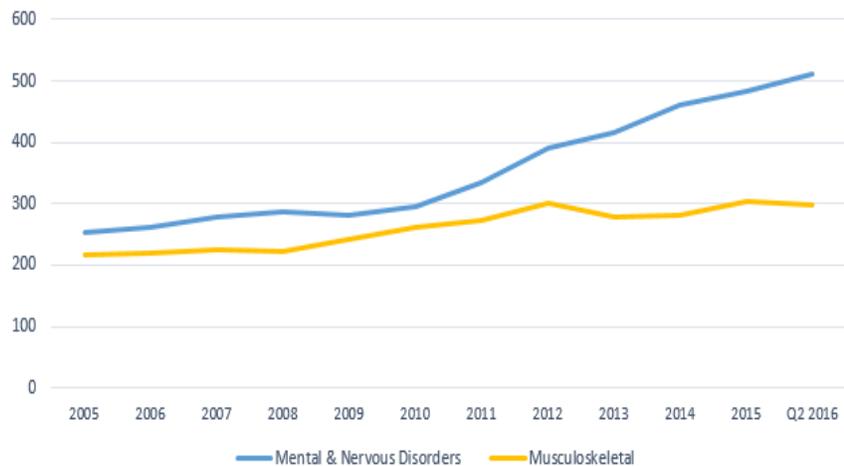
Figure 5: Percentage of LTD by Diagnosis, June 2016



Mental & Nervous Disorders and Musculoskeletal Disorders are the two largest types of diagnosis categories, and together account for about 59 per cent of all active LTD claims as of June 2016. Figure 6 shows the growth in volume of these two categories over the past decade.

Mental/ nervous disorders have grown much faster than all other categories

Figure 6: Number of Mental and Nervous Disorders and Musculoskeletal Disorders, 2004 to Q2 2016



The increase in Mental and Nervous Disorder claims has outpaced growth in all other categories, nearly doubling in volume over the past decade. In 2016 it accounted for 37 per cent of all active cases, up from 27 per cent in 2004. Most common diagnoses in this category include:

- Major Depressive Disorders (168 active cases);
- Unipolar Mood Disorders (52);
- Generalized Anxiety Disorders (35); and
- Post-Traumatic Stress Disorders (32).

The increasing trend of mental health related LTD claims could be a result of the disorders being increasingly de-stigmatized and recognized as a legitimate form of illness, allowing employees earlier and better access to the appropriate treatment. However, it also presents unique challenges to City staff in managing the benefits program.

Financial Incentive to Return to Work

Payroll deductions are lower for many LTD claimants

Employees on long term disability receive 75 per cent (70 per cent for new claims) of their regular salary. However, this pay gap diminishes due to differences in payroll deductions. These include the OMERS disability waiver which allows claimants to continue to accumulate credited service without making regular contributions, stoppage of union dues during disability, and a potentially lower marginal tax rate.

Financial gap decreases between working and receiving LTD benefits

After factoring in the deductions, the net pay of an employee receiving LTD benefits can be marginally less than one working. Table 3 compares the net yearly pay for working full time against the old and new LTD benefits at different salary levels based on calculations provided by PPEB.

Table 3: Net Pay comparison between regular salary and LTD benefits*

Base Salary	Working	LTD @75% Pay		LTD @70% Pay	
	Net Pay	Net Benefit	Difference	Net Benefit	Difference
20,000	15,355	13,402	1,953	12,610	2,745
40,000	28,384	24,066	4,317	22,576	5,807
60,000	40,669	34,948	5,722	32,836	7,833
80,000	52,685	44,887	7,798	42,073	10,612
100,000	64,173	55,290	8,883	51,922	12,250
150,000	88,468	78,075	10,392	73,831	14,637

*Source: Calculations provided by Pension, Payroll and Employee Benefits.

Low financial incentive to return to work

From Table 3, for instance a current employee with a pre-disability salary of \$60,000 would earn an additional \$5,722 by returning to work. This translates to a 16 per cent increase. The majority of claimants (71 per cent) were in the \$40,000 to \$80,000 base salary range.

Most comparators use a lower rate, tiered structure or monthly cap

During the Phase One audit, the City of Toronto's benefits program was benchmarked against several comparator organizations. It was found that many of them use either a tiered or capping system which allows them to limit the amount of benefits paid out for each case, while avoiding excessively impacting those in a lower salary range.

Based on the 2001-2004 Collective Agreements the City of Toronto used to impose a cap on monthly benefits in the past. However, the provision appears to have been since removed.

Changes to LTD Benefits Plan will result in \$5.8M in savings

Subsequent to the conclusion of the Phase One audit, management successfully implemented changes to reduce the salary replacement structure as well as salary threshold for employees returning to work for both union and management plans. This is estimated to result in \$5.8 million in savings over the next three years.

Despite upcoming rate reduction, there is still potential room for review

Despite the steps already taken to manage the benefit cost, the City's LTD benefits pay is still comparatively more generous than its major agencies and a number of other cities.

The small pay difference between remaining on disability benefits and returning to work, in our view, may not provide a strong financial incentive for employees to return to work.

Providing sufficient support to LTD claimants while avoiding potentially unintended consequences is a difficult balance to maintain. While we do not advocate excessive cutting from purely a cost reduction standpoint, this is something City should be cognizant of in developing its long term financial and human resources planning.

Audit Timeline

***Phase One
focused on the
City's processes
and management***

The Auditor General's Office commenced an audit of the City LTD benefits administration in 2015. The audit was divided into two phases. Phase One focused on City management of LTD benefits, and the audit report was submitted to the Audit Committee in October 2015. The report is available at: <http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84556.pdf>

***Phase Two
focused on
administrator
processes***

In Phase Two of the audit, we reviewed the claim adjudication and monitoring processes by the benefits administrator, and other areas not included in Phase One.

***Interim report
was issued for
Phase Two***

While our Phase Two audit was underway, the City's five-year contract with Manulife was set to expire in December 2016. To facilitate the pending contract award and ensuing preparation of a new contract, observations and recommendations pertaining to the benefit administrator's claim adjudication and monitoring processes were issued in an interim audit report, which was presented to the Audit Committee in June 2016. The Phase Two interim report is available at: <http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94773.pdf>

***Current report
provides all
Phase Two
observations***

This report contains all of our findings and recommendations from Phase Two of the audit, including results from the interim report which are presented in Section C.

AUDIT RESULTS

A. Management Oversight of Program Outcomes and Basic Administrative Functions

A1. Ensuring Assessment of Eligibility is based on Collective Agreements and City Policies

Manulife determines LTD eligibility based on its Plan Document

Manulife assesses City employees' eligibility for LTD benefits according to the provisions of its Plan Document. This document is prepared by Manulife based on the City's Collective Agreements, City policies, and Manulife's own best practices in administering LTD benefits.

LTD claim approved for employee who became disabled after being laid off

Among the 40 active claims we reviewed, one of them was filed by a temporary employee whom according to Manulife's claim records, was laid off in October 2003 and then became disabled in January 2004. Although the employee became disabled more than two months after he/she had been laid off, Manulife approved LTD benefits for this claim.

Approval based on provision in Plan Document

Manulife explained that it was given direction by the City that the employee had LTD benefits coverage, and that the claim was approved in accordance with the three-month grace period provision in the "Continuation of Coverage" section of its Plan Document:

"A lay-off or leave of absence (other than for maternity), such employee may be covered for a maximum of 3 months following the date on which the lay-off or leave of absence commences."

Eligibility differs from Collective Agreement

This clause in Manulife's Plan Document is contrary to the City's Collective Agreements which clearly state that a person on lay-off is not entitled to any City benefits. For example, according to the Local 416 Collective Agreement:

"29.07 (a) During the period in which an employee is on layoff, such employee shall only be entitled to the right of recall and the right to participate in the job posting procedures subject to the period of recall outlined in clause 27.06.

29.07 (b) Benefits for an employee in layoff shall terminate at the end of the month in which the layoff occurs."

The three-month grace period is not included in any City LTD benefits related guidelines nor the benefits booklet distributed to employees.

Plan Document wording is ambiguous

Furthermore, the wording "may be covered" in the Plan Document implies that its application is subject to certain conditions or authorization. If this is intended to be a case-by-case application, it is not clear who, the City or Manulife, has the prerogative to determine under what circumstances the grace period will be granted.

This also leads to a potential risk that eligibility for LTD benefits are not always determined in an objective and consistent manner.

According to PPEB management, the clause has been in the LTD Plan Document since amalgamation. However, this should not preclude City staff from regular review and update of the Plan Document to ensure that it is consistent with the terms of the current Collective Agreements.

City supporting documentation was not retained

As the provision can have a significant cost impact on the City's benefits program, it is expected that the approval of such should have undergone proper due diligence and City authorization process.

City staff could not provide any documentation to support the City's agreement with this provision, and indicated that the claim has passed the City's record retention requirements.

Although the disability originated in 2004, the employee is still an active claimant and based on the City's Records Retention Schedule, documents relating to an employee's payroll and benefits should be kept for seven years after the employee's termination.

Life-time cost of the claim estimated at \$1 million

This claim has cost the City \$357,120 to date as of August 2016, with the life-time cost if the employee remains disabled until age 65 estimated at \$1,086,240. Other employees in a similar situation may also be affected.

We appreciate that it is prudent for Manulife to apply its best practices and industry standards in administering the City's LTD claims. However, where Manulife's practices are not consistent with the City's Collective Agreements, City staff managing the benefits program should assess whether it is appropriate to adopt the benefits administrator's practice and the potential financial impact on the City.

City should ensure consistency with the Collective Agreements

As the City is entering into a new 5-year contract with Manulife, it will be prudent for City staff to undertake a detailed review of provisions in Manulife's Plan Document to ensure they are consistent with City Collective Agreements, LTD benefits policies, and are in the best interest of the City.

Recommendations:

- 1. City Council request the Director, Pension, Payroll and Employee Benefits Division to review Manulife's Plan Document in administering the City's Long Term Disability (LTD) claims to ensure that the Plan Document provisions are consistent with the City's Collective Agreements and related policies. Where practices are deemed appropriate that are not consistent with the Collective Agreements, staff of Legal Services and Human Resources should be consulted to assess the financial impact and legality of continuing such practice.**
- 2. City Council request the Director, Pension, Payroll and Employee Benefits Division to develop and implement appropriate processes and protocol for significant changes to Long Term Disability (LTD) benefit policy and the benefit administrator's Plan Document. Such processes and protocol should include adequate consultation with City Legal and other pertinent staff, documentation in accordance with the City's Records Retention By-Law, and appropriate City authorization prior to implementation by the benefits administrator.**

A2. Overpayments to Seasonal Employees

In general, seasonal employees work 7 months per year

As part of the audit, we reviewed LTD benefit payments to 57 seasonal employees approved between 2000 and 2016. In general, employees in seasonal positions work approximately seven months per year. The LTD benefit payments for these employees, according to their Collective Agreements and City policies, should be based on their pre-disability earnings.

Overpayment as a result of annualized earnings

Of the 57 claims we reviewed, in 19 claims the employee's pre-disability earnings was determined by PPEB staff using the position's annualized salary.

Benefits calculated based on full year despite working part year

The annualized salary method calculates the amount the employee is expected to make as if they were to work a full consecutive year. For seasonal employees, it creates a situation where they receive a full year's LTD entitlement while only working part year.

Error was previously noted by management in 2005

The issue was noted by PPEB management in a 2005 review, which then implemented a formal procedure to base pre-disability earnings on the employee's actual earnings for the preceding 26 pay periods. It was not clear what the policy was prior to that time.

\$1.08 million in overpayments due to error or lack of clear policy

Despite the implementation of the formal procedure since 2006, the error continued in a small number of cases up to the time of our audit. In total we identified 12 cases approved prior to 2006 and 7 cases after 2006 in which the earnings were incorrectly calculated using annualized salary. These 19 cases resulted in the City paying \$1.08 million more in LTD benefits to date than if actual earnings were used as the basis for benefits calculation.

Overpayment as a result of applying incorrect pay periods

Timing errors resulted in approximately \$320,000 in overpayments

In addition, of the 57 claims reviewed, the actual earnings method was used for 38 of them. Twenty-seven (72 per cent) of those were found to contain timing errors caused by choosing an incorrect time period. These resulted in an inaccurate pre-disability earning and hence benefit entitlement. Overall the net effect was approximately \$320,000 in overpayments up to August 2016.

Overall impact of both calculation errors

11 employees earned on average 64% more from being on LTD than working

Combining the annualized calculation and timing issues discussed above, 11 employees were able to receive an annual LTD benefit payment substantially more than their pre-disability salary, on average earning \$10,500 or 64 per cent more per year on LTD benefits than when they were working.

Current and future loss could total \$1.8 million

The combined potential overpayment was approximately \$1.4 million from 16 active claimants and 30 inactive claimants. The maximum future loss if the existing active claimants remain on LTD until age 65 will be approximately \$430,000.

However, had the problem not been identified, the City is likely to continue the calculation error in future new claims from seasonal employees resulting in further overpayment in LTD benefits.

The City may not be able to recover all of the overpayment identified, particularly from claims that have already been closed. Management staff should take immediate action to correct the overpayments in existing active claims, and ensure staff have complete and correct understanding of pre-disability earnings calculations moving forward.

Recommendations:

- 3. City Council request the Director, Pension, Payroll and Employee Benefits Division to:**
 - a. Undertake a detailed review of Long Term Disability (LTD) active claims from seasonal employees to ensure the benefit payments are calculated accurately and in accordance with the City's LTD Policy;**
 - b. Consult with Human Resources and City Legal to determine the appropriate action and steps to immediately apply adjustments to future payments for claims where inaccurate payments are identified; and**
 - c. Ensure City staff responsible for claim payment calculation have complete and correct understanding of how LTD pre-disability earnings should be calculated.**
- 4. City Council request the Director, Pension, Payroll and Employee Benefits Division in consultation with City Legal and other pertinent staff, to assess the appropriateness and feasibility of recovering the overpayments from active claimants.**

A3. Ensure Consistent Application of Eligibility Requirements When Employees Participating in a Modified Work Program

Employees worked modified duties during qualifying period

Among the claims reviewed, we identified two active LTD claimants who participated in the City Modified Work Program during their six-month qualifying period for LTD benefits. These two employees were paid for modified work according to their regular hourly rate during the six months qualifying period. After the six-month modified work period, they started to receive LTD benefits.

On one hand, according to the Collective Agreements, the eligible employee will be paid the LTD benefit after six (6) continuous month absence from work on account of illness or injury. It does not specify cases where the employee is able to perform modified duties during this period.

Disability from normal occupation may not preclude modified duties

On the other hand, the Plan Document, City LTD Guidelines, and Group Benefits Program distributed to employees all appear to allow an employee to work modified duties while continuing to satisfy the qualifying period. However, none of the documents clarify whether the employees need to make up for the hours of modified work to the equivalence of 6 months of absence from work.

Unclear whether modified program affects qualifying period

Additionally, the LTD Guidelines states that "should an employee attempt to return to work and then works for more than three weeks during that time, he/she must restart the qualifying period." This appears to run contrary to the intent of the modified work allowance.

Modified work is a valuable component in assisting employees return to full productivity as soon as feasible. As such, we are not questioning whether the City should allow employees to participate in a Modified Work Program. We raise this point because it is important for the City to have clear, unambiguous policies in place and apply eligibility requirements consistently, so that employees contemplating early return to work opportunities are not dissuaded from doing so.

Recommendation:

- 5. City Council request the Director, Pension, Payroll and Employee Benefits Division, to:**
 - a. Clarify the definition of 'totally disabled' in the Long Term Disability benefits policy and the effect of performing modified work during the qualifying period; and**
 - b. Develop procedures and training to ensure City staff involved in managing the Long Term Disability benefits program have complete and correct understanding of the eligibility requirements.**

A4. Plan Sponsor Forms not submitted on time

LTD application forms should be submitted to Manulife prior to end of qualifying period

According to PPEB internal LTD guidelines, the LTD application forms should be submitted to Manulife at least 6 to 8 weeks before the end of the qualifying period to allow sufficient time to assess the claim.

Potential delay in adjudication process due to PSS not submitted timely

Our review of 40 LTD claims found instances where the Plan Sponsor Statement (PSS) was not submitted by the City to Manulife in a timely manner, potentially delaying the adjudication process.

This issue was also noted by Manulife, who stated in their 2013-2015 Trend Analysis Report to the City that in 2015 only "34.8% of claims were received prior to the Benefit Commencement Date".

Recommendation:

- 6. City Council request the Director, Pension, Payroll and Employee Benefits Division, to ensure City staff involved in managing the Long Term Disability benefits program timely complete the Plan Sponsor Statement, to avoid unnecessary delays in the adjudication process.**

B. Enhancing the City's Short Term Disability Management Program and Strategy

Early intervention should be part of overall strategy

Short Term Disability is a precursor to LTD leave. Research has shown that early intervention is critical in assisting employees in getting the appropriate treatment, allowing them to stay at work or return to work sooner, reducing the risk of long term or permanent disability, and ultimately decreasing disability benefit costs for the organization. Thus, early intervention, either during the short term disability period or when employees start to exhibit patterns of absenteeism, should be part of the City's overall employee health and LTD prevention strategy.

In 2015, the City's Employee Health and Rehabilitation Section received over one thousand referrals related to non-occupational health issues. Of those, 85 per cent were for employees off work due to illness on Short Term Disability (STD) or struggling in the workplace due to health reasons.

STD provides income protection for 130 days

The current STD plan provides eligible employees with an income protection for up to 130 sick days (26 weeks) per year. Based on the employee's years of service, the coverage level is either 100 percent or 75 percent of the salary.

New STD plan as of January 2017

Starting January 2017, the STD plan will provide income protection at 100 per cent of salary for 20 days and at 75 per cent for 110 days. If not used the employee can carryover a onetime capped credit of up to 15 days of the 20 days at 100 per cent of salary from one year to the next.

Divisional management is responsible for applying the AMP

To manage employee's absenteeism the City implemented an Attendance Management Program (AMP). Divisional management staff are responsible for consistent application of the Program. The AMP includes criteria to help managers identify when an employee's absenteeism may require closer attention.

Absenteeism can be categorized as non-culpable or culpable. Non-culpable absences include absenteeism from work due to illness or other non-work related injury. Culpable absenteeism would include the unwarranted use of the sick leave bank.

Referral of employees to EH&R is the responsibility of divisional management

The City's Employee Health and Rehabilitation (EH&R) team consists of nine Health Consultants who work with employees to assist with health issues so that they may remain at work with appropriate accommodations, or return to work if already on STD leave. Employees should be referred to EH&R under the AMP if their absences are above the divisional standard.

Inconsistent referral may result in City forgoing early intervention opportunities

If an employee with a potential health or disability issue is not referred to EH&R, the City cannot take steps to accommodate the employee or address the root cause of the absence, potentially foregoing an opportunity to intervene before the employee progresses to LTD leave.

No central oversight of AMP

There is currently no central oversight of the AMP to ensure consistent application of the program, nor is there any proactive or centralized effort to recognize employees showing warning signs of health issues.

TTC and TPS have more pro-active systems in place

In comparison, the Toronto Transit Commission (TTC) and the Toronto Police Services (TPS) use more pro-active approaches in their management of short term disability.

At TTC, Short Term Disability is monitored centrally by the Occupational Health and Claims Management unit. Employees who are absent for 15 days are referred to Disability Management Specialist for continuous monitoring of the claim.

At TPS, employees who are absent from work for more than 10 days are referred to the Medical Advisory Services team for early follow up and action.

Recommendation:

- 7. City Council request the Executive Director, Human Resources to review the City's current short term disability management program for early and pro-active intervention opportunities, to reduce the risk of employees progressing to Long Term Disability leave.**

C. Strengthening the LTD Adjudication and Monitoring Process

Note: Observations and recommendations under this section have been previously presented during the interim report in June 2016. The majority of items relate to processes performed by Manulife, the City's contracted benefits administrator.

During the Phase Two audit we selected 40 claims for detailed review. Based on our review, we noted that Manulife:

- Processed disability claims within 10 business days
- Ensured all the required forms are obtained, properly completed and retained on file for each claim
- Created an individualized case management plan for each claim with detailed interview notes
- Maintained regular contact with claimants
- Ensured claimants applied for CPP benefits
- Implemented a rehabilitation program for the purpose of returning claimants to work

Our review also identified a number of areas where the City may strengthen its oversight of the LTD benefits program. Our key findings are highlighted below:

C1. Strengthening the City's Oversight of Mental Health and Nervous Disorder Claims

Claim statistics is based on initial "primary diagnosis"

Manulife's system allows for primary, secondary and tertiary levels of diagnostic reporting to capture claimants' multiple conditions. Manulife provides aggregated statistical reports to the City on diagnostic categories. The statistical reports are generated from claimants' initial "primary diagnosis" data in Manulife's system.

According to data from Manulife, as of December 2015, mental health related claims accounted for 37 per cent of all City's LTD claims.

In our review of 40 claim files, we found eight claims where the claimant's primary diagnosis appears to have been changed during the LTD period.

Diagnostic records in the system are not always updated by Case Managers

Of these eight claims, the primary diagnosis of five claims appears to have been changed to mental health and nervous disorders. However, the system records were not updated. Manulife indicated that Case Managers use their judgment to decide whether it is necessary to update the system records when there is a change to primary diagnosis.

The percentage of mental health illness, based on current diagnosis, is likely to be higher than 37%

Based on our claim review findings, the percentage of mental health disorders, based on current diagnosis, is likely higher than 37 per cent which is based on the initial diagnosis. In response to our findings, Manulife indicated that it is an industry practice to provide diagnostic statistics and trend reports based only on the initial diagnosis.

In the City's most recent Request for Proposal (RFP), the benefits administrator is required to provide the City with annual trending reports. In our view, in addition to reports based on initial diagnosis, reports based on current diagnosis will be important to the City in gaining a full picture of its LTD benefits program and supporting the City in developing effective health and wellness strategies.

Interim Report Recommendation 1*:

City Council request the Treasurer to require the City's Long-Term Disability (LTD) Benefits Administrator to provide up-to-date diagnostic statistics and reports, in aggregate data, to the City reflecting claimants' initial and current primary diagnoses.

*Adopted by City Council July 12, 2016. Link: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

No requirement for the in-house Psychiatrist to review all mental disorder claims

Currently, Manulife has no requirement for a mental health disorder claim to be reviewed by an in-house Psychiatrist. Case Managers may refer claims to an in-house Psychiatrist at their discretion.

Manulife indicated that it has recently strengthened its monitoring of mental health related claims. We are not able to discuss details of the improved process because Manulife deems the information as proprietary.

Approval of mental health disorder claims does not require medical reports from specialists

Of the 40 sampled claims, we selected 15 mental health and nervous disorder claims for a detailed review. Of these claims, two were approved by Case Managers based solely on information from family physicians without any medical report from mental health specialists such as Psychiatrists or Psychologists.

In addition, of the five claims where the initial "primary diagnosis" appears to have been changed to mental health disorders during the LTD period, two did not have medical information from specialists to support the mental health illness claims.

Mental health disorders account for 37% of claims

Mental health illness is being recognized as a leading cause of disability in Canada. While LTD statistics in the City generally reflect the growing trend of mental health and nervous disorders in Canada, the pace and magnitude of recent increase in this diagnosis category have been prominent. The percentage of mental health related claims, based on initial diagnosis, has risen from 27 per cent of all City LTD cases in 2004 to 37 per cent by the end of 2015.

Specialist assessments may be helpful in facilitating return to work and identifying accommodation needs

We understand that family physicians can diagnose mental health disorders and prescribe treatment. However, in view of the rising trend in the City's mental health related claims, it may be prudent for the City to assess, within the framework of Human Rights and Privacy legislation, the feasibility and appropriateness of requiring its next LTD Benefits Administrator to obtain specialist assessments prior to or soon after the approval of this category of claims. The specialist assessments should be acquired for the purpose of facilitating claimants' return to work and identifying accommodation needs.

Interim Report Recommendation 2*:

City Council request the Treasurer to assess, within the framework of Human Rights and Privacy legislation, the feasibility and appropriateness of requiring the City's Long-Term Disability (LTD) Benefits Administrator to ensure all new mental and nervous disorder claims, and claims in which the diagnoses change to mental health and nervous disorders, are supported by medical reports from specialists (Psychiatrist or Psychologist) prior to or soon after the claim approval to assess claimants' return to work potential and accommodation needs.

*Adopted by City Council July 12, 2016. Link:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

C2. The City Should be Advised of Work Related Issues Associated with LTD Claims

Telephone interviews with a claimant's supervisor/manager is an important claim assessment step

In our discussion with Manulife, we were advised that starting early 2014, Case Managers have been required to conduct telephone interviews with a claimant's supervisor/manager as part of the claim assessment process. This enables Case Managers to obtain information about the claimant's essential duties, work environment and any work-related issues. Manulife indicated that the supervisor interviews were implemented for all City divisions except the Fire Services Division as per City direction.

Fire Services Division was excluded from the supervisor interview process

According to City staff, following consultation with Manulife, the City provided direction in July 2013 to implement the supervisor interviews for all City divisions. However, when the interviews were implemented, Manulife did not include the Fire Services Division. In response to our audit, City staff advised that this exception has now been corrected and the supervisor interviews are being conducted for all City divisions.

Telephone interviews with the claimants supervisor/manager were not conducted for many claims

Our review found that Case Managers did not always conduct telephone interviews with the claimant's supervisor/manager. Among the 40 claims reviewed, 18 were approved after early 2014 and should have records of Case Managers contacting the claimant's supervisory staff. Eight of these 18 files do not contain evidence that a supervisory interview was conducted. In three of these eight cases, Case Managers made attempts to reach supervisory staff but there was no follow up to complete an interview.

Interim Report Recommendation 3*:

City Council request the Treasurer to implement adequate steps to ensure that the City's Long-Term Disability (LTD) Benefits Administrator conducts telephone interviews with all LTD benefits claimants' supervisory staff as part of the claim adjudication process.

*Adopted by City Council July 12, 2016. Link:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

Work related stressors identified in a number of claims reviewed

Of the 40 LTD claims reviewed, we noted 10 where the claimants stated that they experienced work related issues such as discipline, harassment, or bullying. Eight of these ten claims are mental health and nervous disorder claims.

Some claimants said they had difficulties working with their managers

During telephone interviews with the Case Managers, some of these ten claimants indicated that they had difficulties working with their managers, were stressed at work, their opinions were not respected, or there was a workplace complaint placed against them. Some claimants used words such as "rough", "harassed" or "bullied" to describe their work experience.

Other claimants said they were stressed by the workload

Other claimants expressed that they were overwhelmed or stressed by the workload or the nature of work, or feared their jobs would become insignificant or redundant.

A number of references in the Case Managers' and a family physician's notes cause us concern:

- Feeling being targeted by co-workers
- Facing performance issues or work suspension at work
- City being a very difficult place to work
- Poisonous work environment
- Years of harassment and bullying.

Work-related issues should not diminish the validity of medical diagnoses

We are not questioning the approval of these claims as work-related issues should not in any way diminish the validity of medical diagnoses. Further, we do not know whether the claimants' expressed opinions were valid or not. We are concerned that the City, as an employer, may not be able to address the potential work-related issues if the relevant information is not communicated to appropriate City staff.

Manulife does not communicate to the City claimants' work related issues

Manulife does not communicate to City staff the work related issues voiced by claimants during their interviews with Case Managers. Based on our file reviews, Manulife communicates work related barriers with City staff when a Case Manager determines that a claimant is ready to return to work or when a Case Manager needs to assess a claimant's needs for accommodation. Manulife clarified that it does not share explicit details without the consent of the claimants.

Not all work related barriers can be discussed with City staff

As part of the return to work process, Manulife will identify work barriers and discuss the claimant's restrictions and accommodation needs with the City's Occupational Health and Safety staff. Unless a claimant is willing to disclose information about their work situation, the City may not be aware of all return to work barriers.

The City has established Human Rights and Anti-Harassment/Discrimination Policies and Procedures, and has a Human Rights Office to investigate employee harassment and discrimination complaints. However, City employees may not be aware of the Human Rights Office or may choose not to file a complaint.

The City as an employer should address workplace related issues

The City, as an employer, should investigate and address reported workplace related issues. Under the current process, the City may not know the LTD claims that could be associated with work-related stressors. Consequently, the City cannot take appropriate steps to accommodate the employees or address the harassment or discrimination issues in the workplace.

Addressing work related issues may facilitate return to work process

In addition, if City staff can adequately address the workplace related issues, it may facilitate a claimant's return to work process. In one of the claims we reviewed, the claimant, after having cancelled several return to work meetings, agreed to attend a return to work meeting after learning that the claimant would be reporting to a different supervisor.

With regard to areas of early intervention and return to work, we will be providing further observations and recommended changes in our full audit report to be issued in October this year.

Interim Report Recommendation 4*:

City Council request the Treasurer to develop a process whereby the appropriate City staff are informed by the City's Long-Term Disability (LTD) Benefits Administrator of workplace related issues associated with LTD claims and return to work. The workplace related issues should be communicated in a manner that complies with applicable privacy legislation and in a timely manner allowing the appropriate City staff to adequately address the issues and accommodate LTD claimants' needs for returning to work.

*Adopted by City Council July 12, 2016. Link:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

C3. Addressing Return to Work Delays Caused by Claimants' Non-Participation

City's return to work rate was 4% in 2014, compared to 18% for TTC

The City's return to work rate was considerably lower than the rates of the Toronto Police Service (TPS) and the Toronto Transit Commission (TTC). In our Phase One audit report, we highlighted that the City's 2014 return to work rate was four per cent of active claims, compared to eight per cent for the TPS and 18 per cent for the TTC.

Manulife also administers LTD claims for TTC

Similar to the City, the TTC currently contracts with Manulife to administer LTD claims on an ASO basis. The TPS provides LTD benefits to the majority of its employees through a central sick bank system that is managed and administered by an in-house program. In 2015, TTC's unionized employees were entitled to 60 per cent of salary coverage up to a maximum of \$2,550 per month. In comparison, City employees were entitled to 75 per cent of salary coverage without any maximum limit in 2015.

Rehabilitation services ensure safe return to work

An objective of Manulife's case management is to help claimants return to work in a safe and timely manner. Manulife uses rehabilitation programs to improve claimants' functional capacities and work readiness.

When a Case Manager determines that a claimant is ready for rehabilitation intervention, the Case Manager refers the claim to Manulife's National Rehabilitation Services (NRS). The NRS reviews claims to identify rehabilitation potential and works with the employee, Case Manager and City health consultants to design a return to work plan.

Rehabilitation programs were delayed or cancelled by claimants

Of the 40 claims reviewed, 27 were referred for rehabilitation. In six of these 27 claims, the rehabilitation programs were delayed or cancelled by the claimants. A summary of two cases is provided below.

Both cases exhibit a similar sequence of events where the Case Managers, based on recommendations from either in-house specialists/medical doctors or claimants' physicians, scheduled a rehabilitation or return to work meeting with claimants, followed by claimants cancelling, refusing to attend, or not showing up at the scheduled meetings.

Common reasons cited by claimants included health condition, awaiting appointments with the claimant's own doctor, or not ready for rehabilitation or return to work. In our view, Case Managers did not obtain medical support in a timely manner to support an effective and safe return to work plan. In both cases, there were multiple cancellations and re-scheduling of rehabilitation or return to work meetings, stretching from several months to over a year.

According to Manulife, it validated that these claims are medically and contractually supported for the duration of the LTD claims.

No guidelines to ensure timely and consistent return to work

Manulife indicated that Case Managers are well trained and experienced staff who use their expertise and discretion in handling claimant delays or cancellations. According to Manulife, they provide a "full documented guideline" for their Rehabilitation Specialists and Case Managers.

We recognize that certain situations need to be handled on a case-by-case basis considering claimants' unique circumstances. However, we believe that criteria, such as a recommended length of time for scheduling rehabilitation interventions or return to work meetings, can help ensure the return to work process is handled in a timely, consistent and effective manner. Neither the current contract nor the RFP contain specific requirements for claimants' timely participation in rehabilitation or return to work programs.

Interim Report Recommendation 5*:

City Council request the Treasurer to review the need and consider incorporating into the new five-year contract with the City's Long-Term Disability (LTD) Benefits Administrator requirements to develop and implement specific criteria to help ensure:

- a. LTD benefits claimants' timely participation in rehabilitation programs; and**
- b. Case Managers undertake timely return to work actions during claim management process.**

*Adopted by City Council July 12, 2016. Link:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

C4. Delays in Claim Management Actions

In our review of 40 active LTD claims, we found that in two claims there appear to be delays in Case Managers' actions to obtain medical updates to support the continuation of LTD benefits. A summary of these two cases are provided below.

In one case, Case Manager received an updated medical report from the claimant's attending physician indicating a need for re-evaluating the claimant's health condition in four to six months. Instead of obtaining a medical update from the physician within the suggested timeframe, Case Manager requested a medical update from the physician five months after the six-month timeframe for physician re-evaluation.

In another case, the in-house medical consultant recommended the claimant to participate in a rehabilitation program to support return to work. The claimant declined to participate in the program stating that there was a medical concern requiring surgery. For six months there was no medical evidence to support the claimant's statement. The Case Manager subsequently requested a medical update.

Delays in obtaining medical support

In the same case, a similar sequence of events took place several months afterward. There was a delay in the Case Manager's actions to follow up on Manulife in-house physician's recommendation to try modified duty and a delay in obtaining medical update to substantiate the claimant's assertion. It took more than a year for the Case Manager to obtain a medical update to support the continuation of LTD benefits.

In our view, if a claimant refuses to participate in a rehabilitation or a return to work program, it is important to obtain timely medical support to determine how the employee's medical condition will affect his/her ability to return to work.

According to Manulife, it validated that these claims are medically and contractually supported for the duration of the LTD claim.

C5. Delays in Other Claim Management Actions

Case Managers maintained frequent contact with claimants

Although Manulife does not have a prescribed policy on the frequency of contacts with claimants, our sample review found that Case Managers in general maintained frequent contacts with claimants throughout the course of the benefits period.

Manulife has a prescribed contact reply guideline

Manulife has a documented guideline regarding contact reply period. The guideline stipulates that if a claimant cannot be reached or the requested information is not received within a prescribed period, Manulife may suspend the LTD benefits. The guideline also allows Case Managers to use their discretion to determine whether to continue, suspend or terminate a claim.

In our review of the sampled claims, we noted significant delays in case management actions in following case:

Case Manager unable to reach claimant

For over five months, the Case Manager was unable to reach the claimant. No action was taken by the Case Manager to advise the claimant of potential suspension of benefits. After a time period doubling Manulife's prescribed period for reply, the Case Manager sent a written notice to the claimant advising a possible benefits suspension if the claimant did not call back by a certain date. Claimant called the Case Manager and the LTD benefits continued.

According to Manulife, it validated that this claim is medically and contractually supported for the duration of the LTD claim.

Delay in referring claimant to rehabilitation service

When a Case Manager determines that a claimant is ready for rehabilitation intervention, the Case Manager should refer the claim to Manulife's National Rehabilitation Services (NRS) to identify rehabilitation potential and design a return to work plan. In one of the sampled cases, we noted that the Case Manager waited for over three months to refer a claimant, who had completed a functional assessment, to the NRS for setting up a rehabilitation program.

According to Manulife, it validated that this claim is medically and contractually supported for the duration of the LTD claim.

No specific requirements in contract or RFPs pertaining to timely claim management

The City's current contract with Manulife does not contain specific provisions pertaining to the timeliness of claim management. In the previous and the most recent RFPs, the benefits administrator is required to "ensure timely and effective administration of the LTD Benefits Plans." However, there are no specific provision defining timeliness or effectiveness. In our view, the City can enhance its oversight of LTD claim management by incorporating specific performance measures in the next contract.

Interim Report Recommendation 6*:

City Council request the Treasurer to review the need and consider incorporating into the new five-year contract with the City's Long-Term Disability (LTD) Benefits Administrator performance measures pertaining to:

- a. Acquiring timely medical updates to support continuation of LTD benefits;**
- b. Timely claim management actions to address claimants' delays in responding to the Administrator's contact; and**
- c. Timely claim management actions in arranging for rehabilitation activities for claimants.**

*Adopted by City Council July 12, 2016. Link: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

C6. The City Should Request Internal Audit Results

Internal audit results are not provided to the City

Manulife has an internal audit process to review a random selection of claims on an ongoing basis. However, it does not provide City staff with the results of such audits because, according to Manulife, they are internal documents and City staff have not requested the information.

City staff should request internal audit results

Under the previous and the most recent RFPs, the benefits administrator is required to ensure that the City's reporting requirements and needs are met and provide the information in formats satisfactory to the City. As such, the City should require the next LTD benefits administrator to provide the internal audit results.

Interim Report Recommendation 7*:

City Council request the Treasurer to review the need and consider incorporating into the new five-year contract with the City's Long-Term Disability (LTD) Benefits Administrator a requirement to provide the City with internal audit results if available. These internal audit results should be reviewed by the appropriate City staff to ensure ongoing compliance with contractual requirements.

*Adopted by City Council July 12, 2016. Link:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

C7. Confirming Physicians' License Status

Attending physician statement must be completed by a licensed physician

When applying for LTD benefits, an employee is required to submit a set of application forms including an Initial Attending Physician's Statement (IAPS) to Manulife. The IAPS provides medical evidence to support the disability claim and must be completed by a licensed physician. Case Managers review the application forms, the IAPS, and other medical information if provided, as part of the claim adjudication process.

No requirement to verify a physician's active license status

Our review of Manulife's processes noted that it does not require Case Managers to verify physicians' active license status during a claim assessment.

The CPSO maintains a public register of every physician in Ontario

The College of Physicians and Surgeons of Ontario (CPSO) maintains a public register that includes information about every doctor licensed to practice medicine in Ontario. Every physician in Ontario is required to register with the College. The public register contains information of allegations of professional misconduct or incompetence, and results from Discipline Committee Hearings.

Our review of 40 active LTD claims found one case where the attending physician's license was suspended and another case where the physician's license was revoked. For the case where the license was suspended, it is alleged that the physician failed to maintain the standard of practice of the profession in his care of patients, including the physician's conduct with respect to charting. For the case where the license was revoked, in the course of the investigation it was found that the physician failed to meet the standard of practice of the profession and lacked knowledge and judgment in the care and treatment of patients.

***Diagnoses from
the two
physicians might
not be accurate
or credible***

Although Manulife did not receive medical reports from the two physicians after their licenses had been suspended, based on the reasons for suspensions, there is a possibility that the physicians' diagnoses and assessments previously submitted might not be credible. Given that we reviewed only 40 claims, Manulife might have accepted other claims based on medical information provided by these two physicians. According to Manulife, there were no other LTD claims that were medically supported by the two physicians.

Among the over 1,300 active claims and attending physicians, there could be other physicians whose licenses are no longer active.

A requirement to verify physicians' license status is not contained in the City's current contract with Manulife or RFP requirements.

Interim Report Recommendation 8*:

City Council request the Treasurer to require the City's Long-Term Disability (LTD) Benefits Administrator to take steps to ensure all active claims are supported by medical information provided by physicians who are licensed to practice medicine in Ontario. Such steps should include but not be limited to:

- a. Review all active claims and the license status of the physicians and specialists, including the two claims supported by the physicians whose licenses had either been suspended or revoked; and**
- b. Implement a process to verify physicians' license status during the initial claim assessment. The license verification process should also be conducted on all active claims at least on an annual basis.**

*Adopted by City Council July 12, 2016. Link:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

C8. Refund for Duplicated Taxes Since 2003

City recovered \$1.8 million from Manulife as a result of Phase One audit

In reviewing a sample of Manulife monthly billing statements in our Phase One audit, we noted that the City was overcharged for services that were not specified in the contract and bid proposal. As a result, Manulife agreed to refund the City and its agencies and corporations approximately \$1.9 million. The total cost recovery net of tax rebate was approximately \$1.8 million.

City has been charged HST twice

One of the audit recommendations from Phase One was to request Manulife to provide the City with supporting documentation such as invoices. In response to our audit recommendation, Manulife provided invoices to City staff to support the monthly billing statements. In reviewing the invoices and monthly statements, we noted that the HST charges for certain external services were embedded in the invoices and in the monthly statements. Consequently, the City was charged duplicated HST on those services.

Total cost recovery from duplicated tax charges will be approximately \$240,000

Manulife acknowledged the error. Manulife advised that they have completed a review of all charges to the City dating back to 2003 and as a result would refund the City and its agencies and corporations approximately \$240,000 for overpaid taxes, administration fee and interest. City staff have validated the amount of the refund.

Total cost recovery to date amounted to \$2 million

Combining the most recent \$240,000 refund and the \$1.8 million billing error identified in our Phase One audit, the City will recover approximately \$2 million from Manulife as a result of our audit.

Interim Report Recommendation 9*:

City Council request the Treasurer to ensure the amount of refund received from Manulife in relation to extra tax and administration fee charges for Long-Term Disability benefits administration is complete and accurate.

*Adopted by City Council July 12, 2016. Link: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.12>

D. Management and Resources of Return to Work Processes

D1. Improving Return to Work Potential

Case Managers refer LTD cases with RTW potential to the City

After a claim has been approved, Manulife Case Managers continue to monitor active LTD claims for rehabilitation and return to work potential, using in-house and/or external health assessments. Cases with potential are referred to the City Health Consultants to design a plan to bring the employee back to work.

An optional consent form was previously required to obtain RTW assessment information

When conducting a return to work assessment, the Case Manager may request specialists to complete a Functional Abilities Evaluation (FAE) Form or a Behavioral Cognitive FAE form to facilitate return to work planning. If there is a signed three-way consent form on file, Manulife will release the above forms to the City Health Consultant. If there is no signed consent, Manulife provides the Health Consultant recommended restrictions and limitations in a Return to Work Form.

New consent statement was developed following Phase One

We understand that following our Phase One audit, City staff have developed a new consent statement that will allow the City's Health Consultants to play a more active role in the return to work process. In order for City Health Consultants and specialists to effectively facilitate the RTW process, it is critical that the City ensures the new consent process provides access to sufficient health information.

35% of the RTW referrals resulted in successful return to work in 2015

In 2015, Manulife referred 158 LTD cases to EH&R for potential return to work. We conducted a review and analyses of the referral status of the cases that were actioned and closed by EH&R and found that 35 per cent of the referrals resulted in successful return to work. While individual cases may vary in circumstance and are affected by a variety of reasons, the low success rate is likely one of the contributing factors to the City's overall low RTW rate. Table 4 shows the breakdown of referral case outcomes:

Table 4: Breakdown of Resolved RTW Referrals in 2015

Referral Status	Number of Cases	% of Total
Employee returned to work	55	35
Employee approved for LTD	45	28
Employee totally disabled from any occupation	15	9
Employee remains off work	12	8
Employee referred to other source for further action	3	2
Employee was terminated, resigned, retired, or reached max benefit period	20	13
Opened	8	5
Total number of referrals	158	100

It took on average 6 months to return an employee to work

We also noted that on average it took approximately 190 days (six months) to return an employee to work. We understand that each case is different; however, the average number of days to close a case varied widely from 101 days to 290 days among staff.

Recommendation:

- 8. City Council request the Executive Director, Human Resources, to review the existing return to work processes for employees on Long Term Disability leave with a view to improving the return to work success rate and turnaround time.**

D2. Enhance Existing Contracted Physician and Psychiatrist Resources

City contracted Physician & Psychiatrist play a significant role in the RTW process

The City contracts the services of an Occupational Health Physician and a Psychiatrist on a part-time basis. According to staff, both play a significant role in the return to work process. Their responsibilities include:

- assessing the health status of employees to determine fitness for work;
- clarifying restrictions and limitations; and
- identifying suitable workplace accommodations.

Contracted specialists are available only small number of hours

However, the Occupational Health Physician is only available four hours a week and the Psychiatrist is only available seven hours a month. There is generally a waiting period to see them.

In comparison, TPS has two part-time Physicians (equivalent to one full time FTE) and TTC has one Occupational Physician for two days a week and one Occupational Psychiatrist for two days a week.

Need for increased in-house Physician and Psychiatrist resources

As noted earlier, the City's two most prevalent categories of LTD cases are Mental & Nervous Disorders and Musculoskeletal Disorders. Given the City's large workforce, increasing LTD cases and significant costs associated with each claim, the City should consider increasing the in-house Physician and Psychiatrist resources.

Cost increases may be offset by savings in benefits cost

Ultimately, the associated cost increases may be offset by cost reductions through better success in RTW efforts and prevention of LTD cases.

Recommendation:

- 9. City Council request the Executive Director, Human Resources, to consider increasing the contracted resources for Physician and Psychiatrist such that they can effectively and timely facilitate the return to work process for employees on Short Term Disability and Long Term Disability leaves.**

D3. Improving the Alternate Work Search Process

The City's Disability Management group works with employees with RTW barriers

According to EH&R, after an employee's long term absence, on occasion there could be workplace barriers in accepting an employee back to work. These barriers include lack of transferrable skills, and changes in a division's operational needs. Those cases are referred to the Disability Management group to work with employees and their home divisions to find suitable alternate work.

Alternate Work Search efforts are not monitored or tracked

Although difficult to quantify at this time, the change in salary threshold for employees returning to work (after the two years "own occupation" period) is expected to result in increased alternate return to work opportunities. Currently the number of cases that require 'Alternate Work Search' and its success rate are not being tracked, making it difficult to gauge the success of the City's work search efforts and improvement opportunities.

Recommendation:

- 10. City Council request the Executive Director, Human Resources, to develop a tracking system to monitor the City's work search efforts for employees returning from Long Term Disability leave and identify improvement opportunities.**

CONCLUSION

19 recommendations to help strengthen management and oversight of the LTD program

This report provides our findings and recommendations from the Phase Two audit of the City's LTD benefits program. The audit provides 19 recommendations relating to basic administrative functions, the benefits administrator's adjudication and monitoring process, and the City's end-to-end efforts from short term disability management to employees returning to work. Implementation of the recommended changes will help strengthen the City's management and oversight of the program. Our recommendations pertaining to calculation of LTD benefit payments to seasonal employees should be addressed by management immediately.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

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

The audit was divided into two phases

The City's current LTD benefits administrator is The Manufacturers Life Insurance Company (Manulife).

Due to confidentiality concerns raised by Manulife at the time, the audit was divided into two phases. Phase One focused on the City's management of LTD benefits.

Phase Two focused on Manulife's Processes

The objective of Phase Two of the audit, which is the subject of this report, was to assess Manulife's compliance with the contract regarding administration of the LTD program, the adequacy of City oversight, and any remaining areas not addressed in Phase One.

Files active as of end of 2015 were reviewed

Where claim files were reviewed, the scope included LTD claims active as of December 31, 2015.

Audit Methodology

Our methodology for Phase Two included the following:

- Visiting Manulife premises to review a sample of claim files maintained onsite followed by discussions and consultations with Manulife staff;
- Analyzing relevant legislative and policy requirements and guidelines;
- Assessing data in Manulife's monthly, quarterly, and annual trend reports provided to the City;
- Interviewing relevant staff in the Pension, Payroll and Employee Benefits and Human Resources Divisions;
- Consulting staff from the Toronto Police Service and the Toronto Transit Commission on their respective LTD programs.

Claims were stratified then manually selected for review

Due to the complexity of LTD claims we could only review a limited number of claim files. To ensure an appropriate mix of claims reviewed, the following sampling technique was used:

- The sample size of 40 was stratified based on the prevalence of diagnosis categories (e.g. Mental/Nervous Disorders) amongst the total population;
- Within each category, samples were selected based on an assessment of risk factors.

As the sample was not selected at random, it is not statistically representative of the population of LTD claims.

TTC and TPS were consulted

During the course of the audit, staff managing the LTD benefits of the Toronto Transit Commission (TTC) and Toronto Police Service (TPS) were consulted. We wish to thank them for their assistance and sharing of information.

Manulife was responsive and cooperative

We wish to thank Manulife for their cooperation throughout the course of our audit, in particular, those staff members who assisted us in our review of claim files and internal controls.

Compliance with generally accepted government auditing standards

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

APPENDIX 2

**Management’s Response to the Auditor General’s Review of
Management of the City’s Long-Term Disability Benefits
Phase Two: Final Report on The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability**

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
1.	City Council request the Director, Pension, Payroll and Employee Benefits Division to review Manulife’s Plan Document in administering the City’s Long Term Disability (LTD) claims to ensure that the Plan Document provisions are consistent with the City’s Collective Agreements and related policies. Where practices are deemed appropriate that are not consistent with the Collective Agreements, staff of Legal Services and Human Resources should be consulted to assess the financial impact and legality of continuing such practice.	X			<p>Q3, 2017</p> <p>The Director of Pension, Payroll & Employee Benefits, in consultation with Employee & Labour Relations, Occupational Health & Safety and Legal Services will:</p> <ol style="list-style-type: none"> 1. Undertake a review of the policies, collective agreements and LTD Plan Document to identify where provisions are not aligned and where there are inconsistencies. 2. For inconsistencies, determine which actions (if any) to be taken to address the identified issues.
2.	City Council request the Director, Pension, Payroll and Employee Benefits Division to develop and implement appropriate processes and protocol for significant changes to Long-Term Disability (LTD) benefit policy and the benefit administrator's Plan Document. Such processes and protocol should include adequate consultation with City Legal and other pertinent staff, documentation in accordance with the City's Records Retention By-Law, and appropriate City authorization prior to implementation by the benefits administrator.	X			<p>Q2, 2017</p> <p>The Director of Pension, Payroll & Employee Benefits, in consultation with Employee & Labour Relations and Legal Services, will develop a protocol and process to be followed when considering changes to the LTD policy and/or processes. Such protocol will include: proper documentation of the issues and the recommended changes; the appropriate approval process; and the appropriate record retention of the documentation in accordance with the City retention by-laws.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
3.	<p>City Council request the Director, Pension, Payroll and Employee Benefits Division to:</p> <p>a. Undertake a detailed review of Long Term Disability (LTD) active claims from seasonal employees to ensure the benefit payments are calculated accurately and in accordance with the City's LTD Policy;</p> <p>b. Consult with Human Resources and City Legal to determine the appropriate action and steps to immediately apply adjustments to future payments for claims where inaccurate payments are identified; and</p> <p>c. Ensure City staff responsible for claim payment calculation have complete and correct understanding of how LTD pre-disability earnings should be calculated.</p>	X			<p>a) & b) Q2, 2017 The Director of Pension, Payroll & Employee Benefits, in consultation with Employee & Labour Relations and Legal Services, will:</p> <ol style="list-style-type: none"> 1. Undertake a review of all LTD claims for seasonal employees to determine if the payments are accurate; 2. Determine the appropriate action to be taken in each claim (both Closed and Active claims) <p>c) Completed: The Manager of Benefits & Employee Services has:</p> <ol style="list-style-type: none"> 1. In May 2016, hired a Supervisor, LTD Claims Administration to provide oversight and ensure appropriate business processes are in place and followed. 2. Provided training to all staff to ensure they understand the policy and are reporting the pre-disability salaries accurately; 3. Implemented a peer review of each LTD Employer's Statement Form prior to submitting the form to Manulife, to ensure its accuracy.
4.	<p>City Council request the Director, Pension, Payroll and Employee Benefits Division in consultation with City Legal and other pertinent staff, to assess the appropriateness and feasibility of recovering the overpayments from active claimants.</p>	X			<p>Q2, 2017 The Director of Pension, Payroll & Employee Benefits, in consultation with Employee & Labour Relations and Legal Services, will determine, based on the action coming out of Recommendation # 3, the appropriate action to taken, if any, to recover any overpayments.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
5.	<p>City Council request the Director, Pension, Payroll and Employee Benefits Division to:</p> <p>a. Clarify the definition of 'totally disabled' in the Long Term Disability benefits policy and the effect of performing modified work during the qualifying period; and</p> <p>b. Develop procedures and/or training to ensure City staff involved in managing the Long Term Disability benefits program have complete and correct understanding of the eligibility requirements.</p>	X			<p>a) Completed: The Director, Pension, Payroll & Employee Benefits met with Manulife representatives to review the policy and all parties have a clear understanding of the requirements and "total disability" definition when an employee is performing modified duties during the qualifying period.</p> <p>b) Q1, 2017</p> <ol style="list-style-type: none"> 1. The Director, Pension, Payroll & Employee Benefits, in consultation with the Director Occupational Health & Safety, will review the current City LTD guidelines and ensure the guidelines are aligned with the LTD policy. 2. The Manager, Benefits & Employee Services will develop a procedures document for managing the eligibility requirements and ensure all applicable staff are provided training.

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
6.	<p>City Council request the Director, Pension, Payroll and Employee Benefits Division, to ensure City staff involved in managing the Long Term Disability benefits program timely complete the Plan Sponsor Statement, to avoid unnecessary delays in the adjudication process.</p>	X			<p>Q3/Q4, 2016, In-Progress:</p> <ol style="list-style-type: none"> 1. The Manager, Benefits & Employee Services has amended the business processes to ensure employee who are off sick are identified in a timely manner. 2. In May 2016, hired a Supervisor, LTD Claims Administration to provide oversight and supervision of staff, including monitoring the work volumes and assigning resources as required to ensure timely completion of Plan Sponsor Statements.

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
7.	City Council request the Executive Director, Human Resources to review the City's current short term disability management program for early and proactive intervention opportunities, to reduce the risk of employees progressing to Long Term Disability leave.	X		More detailed information is required to evaluate and Manage the City's return-to-work efforts and accommodation for employees with non-occupational illnesses and injuries. This information will provide performance measures on early intervention efforts that will inform program requirements as well as identify opportunities for improvement.	<p>Completed: Q3 2016 A business case has been submitted by Human Resources for 2017 Capital funding to configure a Quatro Safety module for systems information to support improved case management of short term non-occupational illness and injury.</p> <p>Q3 - Q4 2016: End to end business process review of early intervention efforts is under development with seed funding (approved 2016 capital) to capitalize on system capability. Improved documentation, tracking & integration of early intervention actions among, Divisions, Disability Management Consultants and Employee Health and Rehabilitation to support accommodation and return to work.</p>
8.	City Council request the Executive Director, Human Resources, to review the existing return to work processes for employees on Long Term Disability leave with a view to improving the return to work success rate and turnaround time.	X			<p>Q3 – Q4 2016</p> <p>Comprehensive business process review is underway for the management of non-occupational illnesses and injury. Part of that BPR includes improved documentation, tracking and integration of actions among Disability Management Consultants, Employee Health and Rehabilitation as well as other specialists.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
9.	City Council request the Executive Director, Human Resources, to consider increasing the contracted resources for Physician and Psychiatrist such that they can effectively and timely facilitate the return to work process for employees on Short Term Disability and Long Term Disability leaves.	X			<p>Q2 – Q3 2017</p> <p>Review the funding for contracted medical rehab services to assist with early intervention and return to work from STD and LTD</p>
10.	City Council request the Executive Director, Human Resources, to develop a tracking system to monitor the City's work search efforts for employees returning from Long Term Disability leave and identify improvement opportunities.	X			<p>Completed: Q3 2016</p> <p>A business case has been submitted for 2017 Capital funding to configure a Quatro Safety module for systems information to support improved case management of short term non-occupational illness and injury.</p> <p>Q3 2017</p> <p>The new Quatro module will improve the tracking and integration of all efforts and outcomes for all return to efforts (STD & LTD) among Divisions, Disability Management, Consultants and Employee Health and Rehab.</p>

**Management’s Response to the Auditor General’s Review of
Management of the City's Long-Term Disability Benefits
Phase Two: Interim Report on the Approval and Monitoring of Claims**

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
1.	<p>City Council request the Treasurer to require the City's Long-Term Disability (LTD) Benefits Administrator to provide up-to-date diagnostic statistics and reports, in aggregate data, to the City reflecting claimants' initial and current primary diagnoses.</p>	<p align="center">X</p>			<p>Q3/Q4 2016 The Director, Pension, Payroll & Employee Benefits will meet with the Benefits Administrator to:</p> <ul style="list-style-type: none"> - Ensure that, where the initial condition has completely resolved and there is a new condition that has emerged as the primary diagnosis, the Benefits Administrator updates the claim records in their system; and - Establish a reporting process where the City is provided with reporting on the aggregate diagnostic trends for the initial and current primary diagnosis on an annual basis.

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2.	<p>City Council request the Treasurer to assess, within the framework of Human Rights and Privacy legislation, the feasibility and appropriateness of requiring the City's Long-Term Disability (LTD) Benefits Administrator to ensure all new mental and nervous disorder claims, and claims in which the diagnoses change to mental health and nervous disorders, are supported by medical reports from specialists (Psychiatrist or Psychologist) prior to or soon after the claim approval to assess claimants' return to work potential and accommodation needs.</p>	X		<ul style="list-style-type: none"> • This recommendation will require consideration as to the impacts of delays in initial decisions and claim payments. • The current agreement with the City of Toronto and Manulife does not contemplate a secondary review by specialists for approval on all mental health claims. Will have to consider whether the current model poses sufficient risk to warrant this policy change and consider the potential cost impacts of such a change. • This recommendation will need to be considered in the context of the provisions of Ontario's <i>Human Rights Code</i> and other provincial and federal legislation. 	<p>Q4, 2016</p> <p>The Director, Pension, Payroll & Employee Benefits, in consultation with the Director of Occupational Health & Safety and Legal Services, will meet with the Benefits Administrator to assess the feasibility, appropriateness and impacts of requiring a specialist report prior to or soon after any claim approval.</p>
3.	<p>City Council request the Treasurer to implement adequate steps to ensure that the City's Long-Term Disability (LTD) Benefits Administrator conducts telephone interviews with all LTD benefits claimants' supervisory staff as part of the claim adjudication process.</p>	X			<p>Completed, June 2016</p> <p>Manulife has indicated that the Case Manager is now required to conduct telephone interviews with the appropriate Fire Services Division management staff at the onset of the LTD claim assessment.</p> <p>The Director, Pension, Payroll & Employee Benefits will meet with Manulife to confirm processes are in place to ensure telephone interviews are conducted with all LTD benefits claimants' supervisory staff as part of the claim adjudication process.</p>

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4.	<p>City Council request the Treasurer to develop a process whereby the appropriate City staff are informed by the City's Long-Term Disability (LTD) Benefits Administrator of workplace related issues associated with LTD claims and return to work. The workplace related issues should be communicated in a manner that complies with applicable privacy legislation and in a timely manner allowing the appropriate City staff to adequately address the issues and accommodate LTD claimants' needs for returning to work.</p>	X		<ul style="list-style-type: none"> • Work related concerns that impact return to work ("RTW") are typically addressed as part of the RTW process. If the only RTW barriers present in a claim are employment issues that do not translate into restrictions and limitations (i.e. there is no disability), a claim would likely be denied. • There is a process currently in place where Manulife will involve both the City's Employee Health Consultant and Division Manager to inform all parties about any issues impacting return to work in order and to ensure the City has the opportunity to accommodate a Plan Members needs for returning to work. • Changes to the form of the consent submitted by employees, which have been secured through the most recent round of collective bargaining, may facilitate increased sharing of such information 	<p>Q4, 2016</p> <p>The Director, Pension, Payroll & Employee Benefits, in consultation with the Director of Occupational Health & Safety, will meet with the Benefits Administrator to:</p> <ul style="list-style-type: none"> - discuss a process where, in appropriate circumstances, Case Managers will provide referral information to Plan Members regarding the City's Human Rights Office to raise issues relating to work related harassment or discrimination complaints, when these issues are raised during the Disability evaluation or case management process. - continue to work through the collective bargaining process to implement a revised Consent form to facilitate the timely exchange of information to enhance the claims management process.

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					<ul style="list-style-type: none"> - review the current Rehabilitation and Return to Work practices guidelines and policies to ensure they are optimal and consistent with industry best practices, and to ensure they are well understood by all parties. Where appropriate, consider changes to the LTD Plan, contract and policies to ensure they are aligned with industry best practices. - discuss the introduction of mechanisms to further facilitate, in a manner consistent with the employee's consent submitted as part of the application for LTD benefits, the sharing of appropriate information with City management in order to facilitate the employee's quick and safe return to work and to permit group benefits plan administration, audit, and the assessment, investigation and management of my claim, including independent medical assessments.

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5.	<p>City Council request the Treasurer to review the need and consider incorporating into the new five-year contract with the City's Long-Term Disability (LTD) Benefits Administrator requirements to develop and implement specific criteria to help ensure:</p> <p>a. LTD benefits claimants' timely participation in rehabilitation programs; and</p> <p>b. Case Managers undertake timely return to work actions during claim management process.</p>	X		<ul style="list-style-type: none"> Manulife currently has established guidelines in place to address compliance in rehabilitation programs. 	<p>Q3/Q4, 2016</p> <p>The Director, Pension, Payroll & Employee Benefits will meet with the Benefits Administrator to review the current Rehabilitation and Return to Work practices guidelines and policies to ensure they are optimal, consistent with industry best practices, and that Case Managers:</p> <p>a) follow standards and escalations processes where suggested rehabilitation cannot be completed, and</p> <p>b) follow standards and timelines for return to work actions.</p> <p>The Director, Pension, Payroll & Employee Benefits and Director, Occupational Health & Safety will continue discussions that commenced in October 2015 to review the Rehabilitation policies and procedures, and conduct regular meetings to review active and potential rehabilitation claims to discuss RTW potential, job search opportunities and other known barriers to progressing case management plans.</p>

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6.	<p>City Council request the Treasurer to review the need and consider incorporating into the new five-year contract with the City's Long-Term Disability (LTD) Benefits Administrator performance measures pertaining to:</p> <p>a. Acquiring timely medical updates to support continuation of LTD benefits;</p> <p>b. Timely claim management actions to address claimants' delays in responding to the Administrator's contact; and</p> <p>c. Timely claim management actions in arranging for rehabilitation activities for claimants.</p>	X		<p>It is not always reasonable or appropriate to follow a prescribed approach to obtaining medical updates or to address claimants' delays in responding to the Administrator and this will need to be considered when developing performance measures.</p> <p>At present the City has issued an RFP for the provision of these services to which the industry has responded. A report is being made to Council in June recommending the appointment of a Benefits Administrator, pursuant to that process. To the extent that the process, as it exists, permits the implementation of this recommendation, City staff will meet and consult with the successful proponent, following Council approval.</p>	<p>Q3/Q4, 2016</p> <p>The Director, Pension, Payroll & Employee Benefits, in consultation with the Director, Occupational Health & Safety, will meet with the Benefits Administrator, secured through the City's RFP process, to document:</p> <p>a. processes and timelines for providing medical updates to support continuation of LTD benefits.</p> <p>b. processes and timelines for actions where claimants delay in responding to contacts, and</p> <p>c. processes and timelines for arranging rehabilitation activities</p>

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7.	<p>City Council request the Treasurer to review the need and consider incorporating into the new five-year contract with the City's Long-Term Disability (LTD) Benefits Administrator a requirement to provide the City with internal audit results if available. These internal audit results should be reviewed by the appropriate City staff to ensure ongoing compliance with contractual requirements.</p>	X			<p>Q3/Q4, 2016 The Director, Pension, Payroll & Employee Benefits will meet with the Benefits Administrator to determine whether internal audit results are collected, (or might be collected), in a manner that would allow the Benefits Administrator to segregate and share City of Toronto results and, if so, whether the sharing of results necessitates contractual changes.</p>

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8.	<p>City Council request the Treasurer to require the City's Long-Term Disability (LTD) Benefits Administrator to take steps to ensure all active claims are supported by medical information provided by physicians who are licensed to practise medicine in Ontario. Such steps should include but not be limited to:</p> <p>a. Review all active claims and the license status of the physicians and specialists, including the two claims supported by the physicians whose licenses had either been suspended or revoked; and</p> <p>b. Implement a process to verify physicians' license status during the initial claim assessment. The license verification process should also be conducted on all active claims at least on an annual basis.</p>	X			<p>Manulife has advised the Director, Pension, Payroll & Employee Benefits that they have completed a review of the claims and documentation from the 2 physicians in question and that the status of their license subsequent to their diagnoses, did not have an impact on the initial or ongoing decisions on these claims. In both cases, there was no medical information provided after the change in status to their license, and in both cases, there were multiple physicians and healthcare providers involved in the Plan Members care.</p> <p>a) Q3 2016 The Director, Pension, Payroll & Employee Benefits will confirm that Manulife has reviewed the entire active block of claims to consider license status of all physicians and specialists.</p> <p>b) Q3 2016. The Director, Pension, Payroll & Employee Benefits will confirm that the Benefits Administrator has implemented a process to verify license status during the initial claim assessment, as well as a review on an annual basis.</p>

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9.	<p>City Council request the Treasurer to ensure the amount of refund received from Manulife in relation to extra tax and administration fee charges for Long-Term Disability benefits administration is complete and accurate.</p>	X			<p>Q3 2016 Manulife has completed a review of the charges back to January 2003 and have provided the City with information indicating there is an overpayment of approximately \$240,000</p> <p>This information is currently being reviewed by Accounting Services to ensure the amount is complete and accurate.</p> <p>It is anticipated this matter will be resolved and a credit provided to the City by September 1, 2016.</p>