

Management of the City's Long-Term Disability Benefits, Phase Two

Re: AU7.1

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

Audit Committee Meeting
October 28, 2016

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Audit Timeline

- Phase One Report - October 2015
- Phase Two Interim Report - June 2016
- Phase Two Final Report - October 2016

Phase Two Audit Objective

To determine whether:

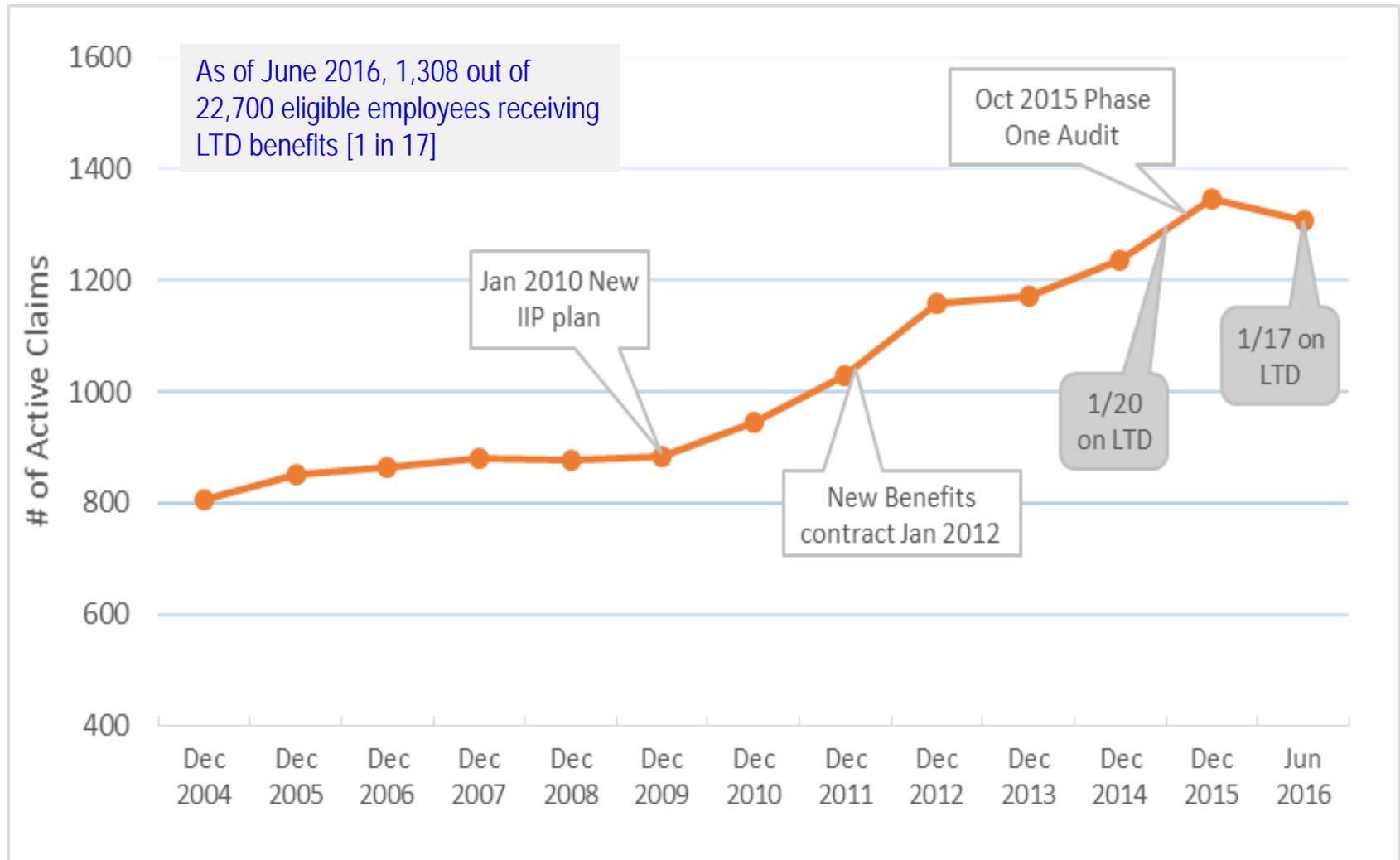
- LTD benefit fund is administered with due diligence

- The program is integrated with best practices in:
 - Prevention and early intervention
 - Claims assessment and monitoring
 - Accommodating employees to return to work

Financial Impact

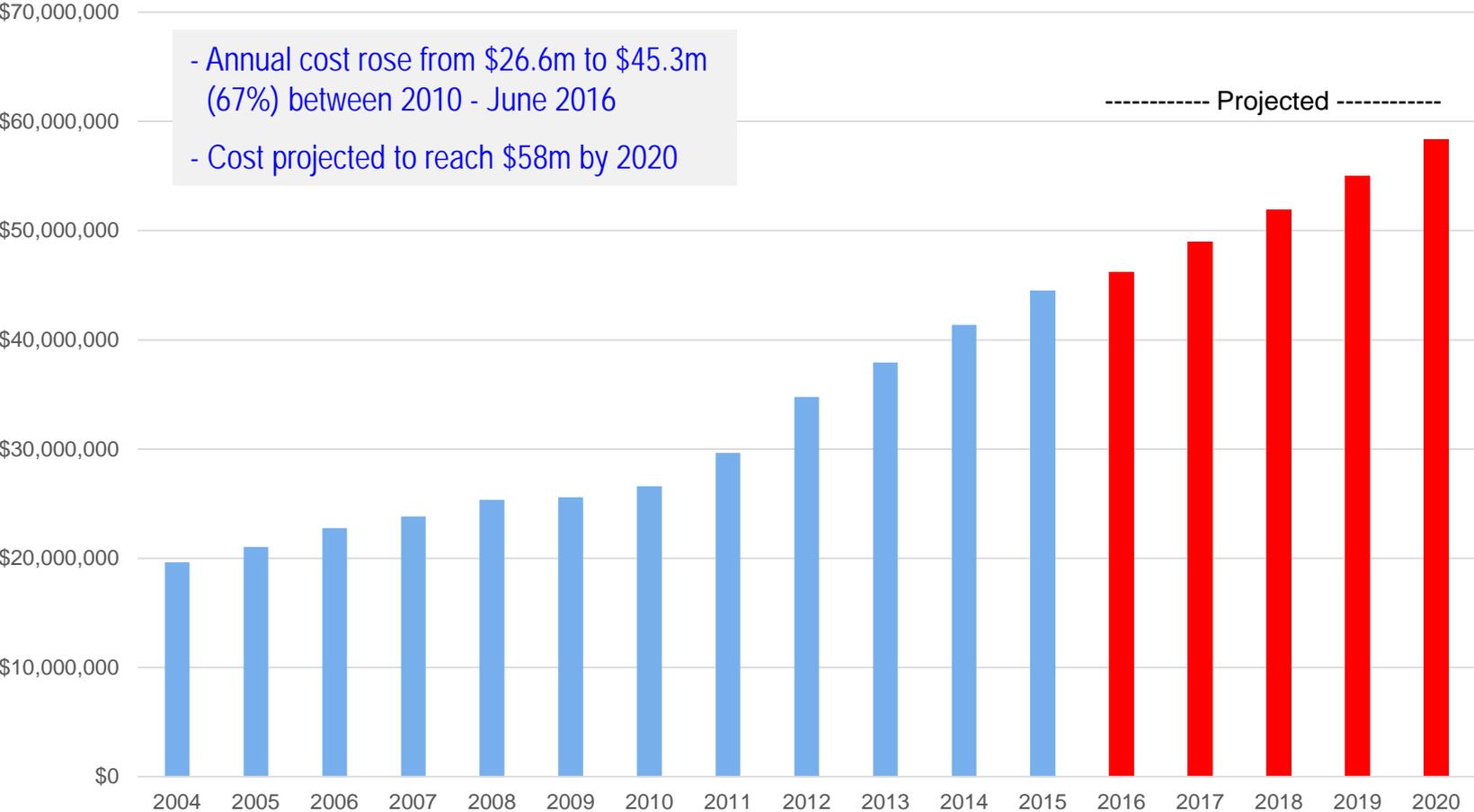
Phase	Description	One-time Recovery/ Avoidance	Recurring Savings (5- year total)	Potential Overpayment/ Loss
One	Recovery from billing errors	\$1.8 million	-	-
	Overpayments resulting from receipts of other income	-	-	\$600,000
	Plan changes after AG audit	-	\$9.7 million	-
Two interim	HST recovery from Manulife	\$240,000	-	-
Two	Approval of benefits to an employee on lay off	-	-	\$1.1 million
	Incorrect seasonal employee calculations -- overpayments	\$430,000	\$150,000	\$1.4 million
Total		\$2.5 million	\$9.9 million	\$3.1 million

Number of approved LTD claims, 2004 -2016



Current State and Trend Analysis

City of Toronto LTD benefit payments to employees
2004 to 2020 actual and projected



LTD Statistics Comparison

	City	TPS	TTC
Incidence rate: Number of 2015 approved new claims per 100 employees	1.1%	0.18%	1%
Return to work (RTW) rate: Percentage of active LTD claimants returned to work in 2015	3.8%	11%	20%
Prevalence rate: Number of active claims per 100 employees as of June 2016	5.8% (1/17)	0.85% (1/120)	2.3% (1/50)

Phase Two - Key Findings

1. More rigorous oversight of benefits administrator's functions
2. Ensure adequate basic administrative functions by City staff
3. Effective early intervention and return to work process

1. More rigorous oversight of benefit administrator's functions

Certain provisions in the Plan Document not consistent with City Collective Agreements or policies

- Manulife assesses eligibility according to its Plan Document
- One employee disabled two months after laid off was approved by Manulife for LTD benefits
 - The claim was approved based on a provision in the Plan Document. However, this provision is contrary to the Collective Agreements and is not included in any LTD related guidelines
- Cost of benefits will be up to \$1.1 million over the life of the claim

1. More Rigorous Oversight of benefit administrator's functions (cont'd)

LTD Adjudication and Monitoring

- Manulife was in compliance with the major aspects of its contractual agreements with the City
- More rigorous and proactive oversight of the administrator's services, including
 - Ensuring case managers process and monitor claims in a timely and consistent manner.
 - Assessing and timely follow up of employees' return to work potential
 - Communicating workplace concerns to the City

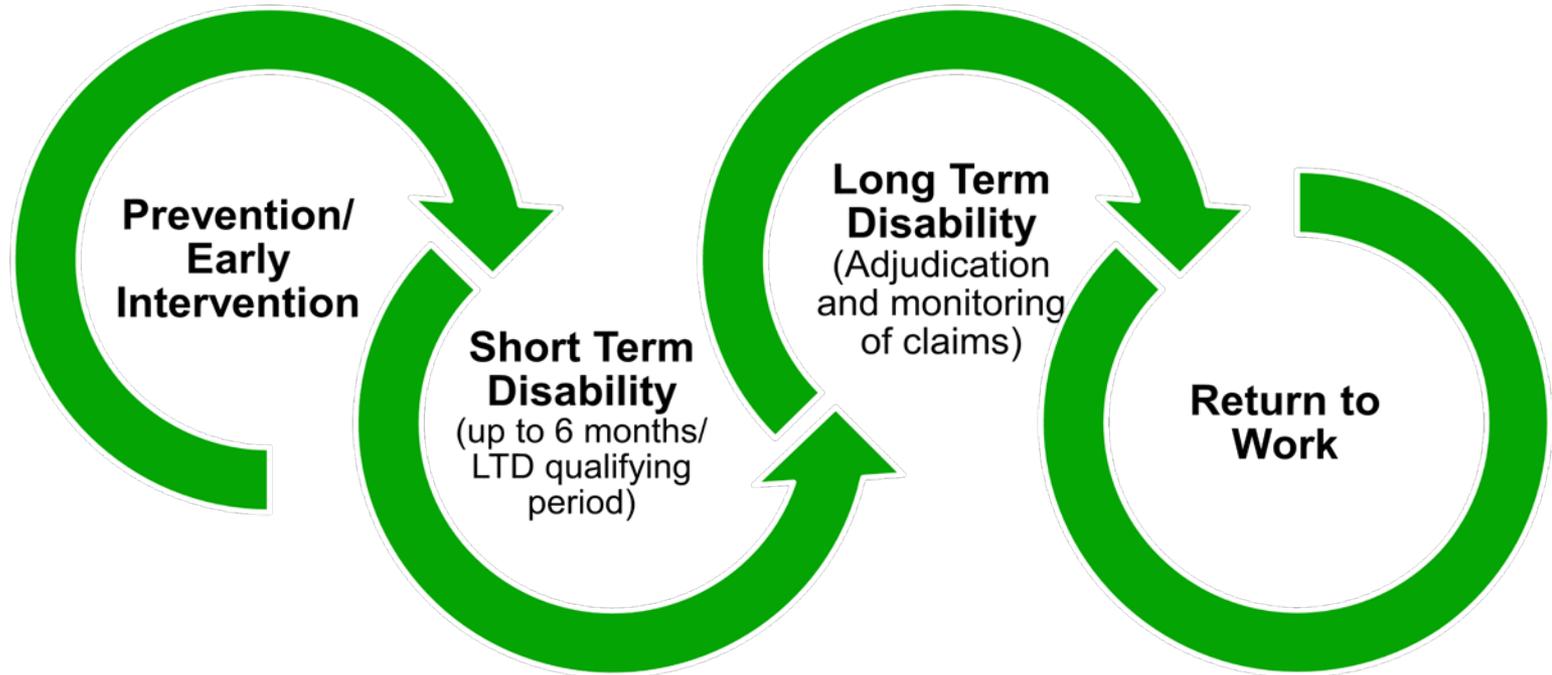
2. Ensure adequate basic administrative functions by City staff

Overpayments Made to Seasonal Employees

- Incorrect base salaries were used to determine LTD benefit payments to seasonal employees
- Of 57 claims reviewed, 46 were incorrectly calculated
- \$1.8 million lifetime overpayment, \$430,000 of which may be avoidable if corrected
- 11 employees earned more on LTD leave than working, averaging \$10,500 or 64% extra per year

3. Early Intervention and Return to Work

Critical Processes in Managing Long Term Disability



3. Early Intervention and Return to Work (cont'd)

Early Intervention of Employees with Health Issues

- Strengthen oversight of Short Term Disability (STD) management processes
- Ensuring employees with potential health issues receive early treatment or accommodation before progressing into LTD
- No central oversight of the Attendance Management Program to ensure consistent application

3. Early Intervention and Return to Work (cont'd)

Delays in returning to work

- City's RTW rate is significantly lower than TTC and TPS – 4% vs. 20% and 11%
- Instances of claimants' non-participation in rehabilitation process
 - Based on our sample review, a number of RTW cases were delayed or cancelled by the claimants

3. Early Intervention and Return to Work (cont'd)

Improving return to work potential

- 35% of LTD cases referred to the City for return to work were successful (2015 data)
- Average 190 days (6 months) to return an employee to work
- Enhancing existing contracted physician/psychiatrist resources
- Cases that require 'Alternate Work Search' and its success rate are not being tracked

Conclusion

- 31 recommendations made over two audit phases
- \$2 million recovered, almost \$10 million over 5 years and identify issues to prevent future losses
- Implementation of the recommendations will enable the City to:
 - Take a more proactive and direct ownership of the program
 - Result in a healthier workplace
 - Reduce long term benefits costs
- Management has agreed with all recommendations

Next Steps

- Management has already begun implementation of recommendations from Phase One
- The Auditor General's Office will verify whether the recommendations have been fully implemented during its 2017 annual follow-up process

Questions??