



STAFF REPORT ACTION REQUIRED

Management/Non-union Employees, Accountability Officers and Elected Officials Compensation and Benefits

Date:	March 31, 2016
To:	Employee & Labour Relations Committee Executive Committee
From:	City Manager
Wards:	All
Reference Number:	

SUMMARY

The purpose of this report is to provide recommendations regarding the general annual salary range increase for Management/Non-union employees and Accountability Officers and the proposed changes to the benefits plan for Management/Non-union employees, Accountability Officers and Elected Officials. The proposed changes outlined in this report arise from staff's review of the wage increases and benefits plan changes, following the recently concluded collective bargaining with TCEU, Local 416 and CUPE, Local 79.

RECOMMENDATIONS

The City Manager recommends that City Council approve the following:

1. That general annual salary range increases, representing cost of living adjustments, be implemented for Management/Non-union employees and Accountability Officers employed in the Toronto Public Service, as follows:

Effective Date	General Increase
January 1, 2016	1.25%
January 1, 2017	1.25%

2. The Active Benefits Plan for Management/Non-union employees, Accountability Officers and Elected Officials be amended, effective January 1, 2017, as outlined in Appendix A of this report.

3. The Pre-65 Retiree Benefit Plan for Management/Non-union employees and Accountability Officers be amended, where applicable, for employees who retire on or after January 1, 2017, as outlined in Appendix A of this report.
4. City Council authorize staff to transfer funding from the 2016 Approved Non-Program Expenditure budget to the respective 2016 Approved Operating Budget for City Programs, including Toronto Public Health, to provide the necessary funding to implement these recommendations for 2016 and instruct staff to prepare future year budgets accordingly.

FINANCIAL IMPACT

General Salary Range Increases

In 2015, the City paid approximately \$500 million in salaries for Management/Non-union employees, Accountability Officers and Elected Officials and approximately \$120 million in benefits (statutory and non-statutory benefits), for a total compensation cost of approximately \$620 million.

The recommended increase of 1.25% effective January 1, 2016 and 1.25% effective January 1, 2017 would result in the following incremental costs:

Salaries (in \$millions):

Salaries	Cost (Gross)	Rate Supported Budget	Tax Supported Budget	
		SWM & TW (Gross)	Other Divisions (Gross)	Cost (Net)* (Other Divisions)
		100% Recovered through the SWM & TW Rates		Net Impact:
1.25% Base Pay (January 1, 2016)	2016 - \$7.30	\$0.72	\$6.58	\$5.04
1.25% Base Pay (January 1, 2017)	2017 - \$7.40	\$0.72	\$6.68	\$5.11

Over the two years, the salary increases will result in overall incremental base wage costs totalling \$14.70 million gross.

For the tax supported budget there will be incremental base wage costs totalling \$13.26 million gross and \$10.15 million net. Within the rate supported budget there will be incremental base wage costs totalling \$1.44 million, which will be 100% recovered through the Solid Waste and Toronto Water rates.

Benefit Plans – Health, LTD and Sick Plan

In 2015, the City spent approximately \$229 million to provide benefits (i.e., Health, Dental, Group Life Insurance and Long Term Disability) to employees and retirees of the City of Toronto. The cost to provide health and dental coverage for Management/Non-union employees, Accountability Officers and Elected Officials was approximately \$23 Million. Benefit Plans are funded through divisional operating budgets.

The recommended changes, effective January 1, 2017, to the Active Benefit Plan for Management/Non-union employees, Accountability Officers and Elected Officials will result in an estimated savings of 4%, to be realized in 2017 with incremental savings in 2018 and 2019, totalling approximately \$0.9 Million, as follows:

1. Active Employee Benefits Plan Provision Changes, effective January 1, 2017 as follows: (Benefit Changes consistent with 2016 Collective Bargaining)

Benefit Type	New/Changes to Provision	Gross Savings (2017 to 2019)
Drugs	Mandatory generic drugs Non-generic drugs will be covered upon the insurer's approval of an application completed by the employee's physician confirming that the generic drug is not medically effective, or not medically tolerated	(\$230,000)
Orthotics	One device per person every two benefit years (for persons 18 and under, the entitlement shall not be limited to one pair of orthotic devices every two benefit years)	(\$660,000)
Savings		(\$890,000)

2. Long Term Disability (LTD) Plan – amend the provisions of the LTD plan, effective January 1, 2017, as follows:

Benefit Type	New/Changes to Provision	Gross Savings (2017 to 2019)
Long Term Disability	Benefit of 70% of basic salary for claims approved after ratification date In addition, the City will provide Notice to employees that effective January 1, 2017, the City will be amending the LTD plan document to provide a salary threshold (Means test) for employees returning to work at 662/3 of the pre-disability salary (currently at 75%).	(\$2,620,000)
Savings		(\$2,620,000)

3. Short-term Disability Plan - Implementation of Sick Occurrences and amend the Sick Pay Coverage, as follows:

Benefit Type	New/Changes to Provision	Gross Expenditure (2017 to 2019)
Sick Occurrences	On the 4 th and subsequent new absence in the same calendar year, the employee is paid from the second (2 nd) day of the absence. If the employee is hospitalized as an in-patient the absence shall not count as an occurrence.	(\$1,100,000)
Sick Pay Coverage	20 days @ 100% & 110 days @ 75% - up to 15 days carryover	(\$674,000)
Savings		(\$1,774,000)
TOTAL SAVINGS		(\$5,284,000)

In addition, the health changes will flow through to the Pre-65 Retiree Benefit Plan, for Management/Non-union employees and Accountability Officers who retire on or after January 1, 2017, and who are entitled to pre-65 retiree benefits as outlined in the City Policy.

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

ISSUE BACKGROUND

Annually, City Council approves the budgets for the City of Toronto that includes the compensation funding, as per the Council approved Management/Non-union employee Compensation Policy, for all Management/Non-union employees and Accountability Officers in the Toronto Public Service.

City Council has recently approved four-year collective agreements for CUPE Local 79 and TCEU Local 416 collective agreements including wage increases of 1.25% for each of 2016 and 2017.

Benefit Plans are part of the total compensation package provided by the City of Toronto to its employees to attract and retain staff. Following amalgamation, the City provided benefits to its Management/Non-union employees and Elected Officials based on the provisions of the former municipalities. The level of coverage provided at that time varied significantly by municipality, however, the majority of benefit plans were traditional defined benefit plans, which provided coverage for Life Insurance, Long-Term Disability (LTD), Accidental Death & Dismemberment (AD&D), Health and Dental.

In 2002, the City harmonized its benefit plans for non-union employees and elected officials. The harmonized benefit plan was approved by City Council in February 2002 and implemented following a period of notice on April 1, 2003. As part of this process, City Council directed that at the conclusion of each round of bargaining with the City's unions that the City review the benefit coverage for Management/Non-union employees, Retirees and Elected Officials to ensure that the benefits plan remained competitive. In 2003, 2005 and 2012, further amendments were made to the Management/Non-union employees, Accountability Officers and Elected Officials Benefits Plan after each round of bargaining with the City's unions. In addition, in July 2006 changes were also approved by City Council to end the Management/Non-union employee Sick Pay Bank Plan and switched all Management/Non-union employees to a new Short-term Disability Plan effective March 1, 2008.

COMMENTS

The provision of similar general annual salary increases as approved for unionized employees ensures that increases in unionized salaries do not result in salary compression challenges. In addition, it prevents differential treatment that negatively impacts morale. It ensures the City of Toronto remains competitive within the market place in order to retain and attract high performing professional and managerial employees at all levels of the organization.

The City of Toronto provides a comprehensive Benefits Plan for its Management/Non-union employees, Accountability Officers and Elected Officials that is comparable to other public sector employers and incorporates various cost containment provisions. The benefit plans are defined benefit plans which are subject to inflationary increases, depending on general Canadian health and dental increases. As a result, the costs related to the benefit plans increase annually.

The City spends over \$229 Million in benefit costs annually. Generally, benefit costs have been rising at a rate of approximately 7% per year. The health and dental benefit costs specific to the Management/Non-union employees, Accountability Officers and Elected Officials have been rising at a rate of approximately 7% in 2014 and again in 2015. In each of the benefit plans, the costs are rising above the rate of the Consumer Price Index (Toronto) which is 1.5% for 2015.

In the case of health and dental benefit costs for the Management/Non-union employees, Accountability Officers and Elected Officials the costs increased from \$21.5 million in 2014 to \$23 million in 2015, an increase of 7%. The following table provides a summary of the health and dental costs for the Management/Non-union employees, Accountability Officers and Elected Officials for 2013 to 2015:

Health and Dental Benefit Cost Trends – 2013 to 2015
Management/Non-union Employees, Accountability Officers & Elected Officials

	2015	% Increase 2014 to 2015	2014	2013	% Increase 2013 to 2014
Health	\$6.8	6.25%	\$6.4	\$5.8	10.31%
Drugs	\$8.0	6.67%	\$7.5	\$6.9	8.70%
Dental	\$8.2	7.90%	\$7.6	\$7.4	2.70%
Total	\$23.0	7.00%	\$21.5	\$20.1	7.00%

In addition, the City's active LTD claims and the associated costs have been increasing significantly such that in 2015 the number of active claims was 136 and the LTD costs were \$7.1 million for the Management/Non-union group.

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

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

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

- b) In addition, following the review by the Blue Ribbon Panel in 2009, they provided the following recommendation:

“The City and its unions must restrain the growth of average compensation (including benefits) in future labour contract negotiations in line with the evolution of broad labour market averages and the City's fiscal health.”

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

Changes Negotiated in the 2016 Collective Bargaining

In the recent 2016 round of negotiations, with TCEU, Local 416 and CUPE, Local 79, a number of benefit cost containment measures were negotiated and ratified in their new 2016-2019 collective agreements. As directed by City Council in February 2002 and consistent with the City's practice since that time, staff have reviewed the Benefits Plan for

Management/Non-union employees, Accountability Officers and Elected Officials and are bringing forward recommendations for cost containment as follows:

1. **Mandatory Generic Drugs** – The drug costs for the management/non-union benefit are approximately \$8 million and are rising at a rate of 7% per year. Drugs represent 35% of the current health and dental costs for the management/non-union group.

The current entitlement for drugs is a voluntary generic plan and where doctors indicate no substitutes, then reimbursement of the brand name drug is provided to employees.

With the implementation of a mandatory generic drug plan employees will only be provided with reimbursement up to the lowest cost generic drug, unless the following criteria apply:

Non-generic drugs will be covered if:

- there is no generic substitution; or
- generic drugs are the same cost to the City, or more expensive; or
- Upon the insurer's approval of an application completed by the employee's physician confirming that the generic drug is not medically effective, or not medically tolerated, such approval shall not be unreasonably withheld.

2. **Orthotic Devices** – employees are currently eligible for one (1) pair of orthotic devices, per person, per year. The costs are currently rising at a rate of 14% per year for the management/non-union group and the insurance carrier has advised that the industry is having a very difficult time administering this benefit. In order to address this issue and ensure the benefit is sustainable, it is recommended that the benefit be limited to once every two (2) years. For dependents under 18 years of age, the entitlement will remain at one (1) pair, per person, per year.
3. **Long Term Disability (LTD) Benefits** – the LTD active claims and costs have been increasing at a very high rate. In the case of the management/non-union group the active claims have increased from 96 in 2010 to 136 in 2015, an increase of approximately 42% over the 5 year period. In the same period the LTD costs for this group have increased from \$4 million in 2010 to \$7.1 million in 2015, an increase of approximately 75%. The City's current LTD plan provides benefit coverage at 75% of the pre-disability salary and in benchmarking other comparable public sector employers it is noted this is at the high end of benefit coverage.
4. **Short-Term Disability Plan** – the current short-term disability plan for management/non-union employees provides sick pay coverage at a rate of 100% or 75% for 130 days, depending on the employee's years of service, up to 10 years of service and then after 10 years of service the employee is paid up to 130 days at 100%. Currently the City is paying approximately \$13 million in sick pay for the management/non-union group and employees are taking an average of 6.34 days per year. In order to manage absenteeism and provide reasonable and sustainable

sick pay coverage, it is recommended the sick pay coverage be amended consistent with the changes made in the Illness or Injury plan with Local 416 and Local 79.

Based on the above review, it is recommended that the following benefit changes be implemented, effective January 1, 2017, to reduce the current benefit costs and help contain the future rising costs that are attributable to trend and inflationary factors:

Active Employee Benefits Plan Provision Changes – Effective January 1, 2017

Benefit Type	Current Provision	New/Changes to Provision
Drugs	No requirement for mandatory generic drugs	Mandatory generic drugs Non-generic drugs will be covered upon the insurer's approval of an application completed by the employee's physician confirming that the generic drug is not medically effective, or not medically tolerated
Orthotic Devices	One device per person per benefit year (for persons 18 and under, the entitlement shall not be limited to one pair of orthotic devices per benefit year)	One device per person every two benefit years (for persons 18 and under, the entitlement shall not be limited to one pair of orthotic devices every two benefit years)
Long-Term Disability (LTD)	Benefit of 75% of basic salary	Benefit of 70% of basic salary for claims approved after ratification date In addition, the City will provide Notice to employees that effective January 1, 2017, the City will be amending the LTD plan document to provide a salary threshold (Means test) for employees returning to work at 66 2/3 of the pre-disability salary (currently at 75%).
Short Term Disability Sick Plan	For first ten (10) years of service, combination of sick pay coverage at 100% and 75% of salary for 130 days. After ten (10) years of service, 130 days at 100% of salary.	1. Sick Occurrences - on the 4 th and subsequent new absence in the same calendar year, the employee is paid from the second (2 nd) day of the absence. If the employee is hospitalized as an in-patient the absence shall not count as an occurrence. 2. Sick Pay Coverage - will provide compensation for an absent employee for 20 days at 100% of salary and for 110 days at 75% of salary. If not used, the employee can carryover a one-time capped credit of up to 15 of the 20 days compensated at 100% of salary from one year to the next. These carryover days can then only be converted (at a 2 for 1 ratio, for total of 30 top-up credits), by the employee, to top up the compensation he or she receives during an absence in the subsequent year when he/she would otherwise be compensated at 75% of salary after 20 days.

The above noted changes for Drugs and Orthotic Devices would also flow through to the Pre-65 Retiree Benefit Plan, for Management/Non-union employees and Accountability Officers who retire on or after January 1, 2017, and who are entitled to Pre-65 retiree benefits as outlined in the City Policy.

Implementation Timing

When making changes to the terms and conditions of employment for non-unionized employees, it is important to provide a reasonable notice period in order to allow employees to adjust and make any necessary changes. In addition, staff in the Pension, Payroll & Employee Benefits Division require time to educate and communicate these changes to impacted employees. As a result, staff are recommending an implementation date of January 1, 2017. Staff have consulted with legal regarding this notice period.

Conclusion

The City continues to be committed to providing its employees with a fair and comprehensive compensation and benefits plan that is also responsible to the taxpayers of Toronto. The recommended changes in this report assist the City in controlling the rising costs associated with these plans. The changes focus on the introduction of cost-effective ways of delivering benefits.

Notwithstanding these changes, the City will continue to provide a fair and comprehensive compensation and benefits plan for its Management/Non-union employees, Accountability Officers and Elected Officials. These reasonable changes will continue to provide them with a benefits plan that is competitive when compared to other large private and public sector employers.

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SIGNATURE

Peter Wallace
City Manager

ATTACHMENTS

Appendix A - Active Employee Benefits Plan Provision Changes – Effective January 1, 2017

APPENDIX A

Active Employee Benefits Plan Provision Changes – Effective January 1, 2017

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Drugs	No requirement for mandatory generic drugs	Mandatory generic drugs Non-generic drugs will be covered upon the insurer's approval of an application completed by the employee's physician confirming that the generic drug is not medically effective, or not medically tolerated
Orthotic Devices	One device per person per benefit year (for persons 18 and under, the entitlement shall not be limited to one pair of orthotic devices per benefit year)	One device per person every two (2) benefit years (for persons 18 and under, the entitlement shall not be limited to one pair of orthotic devices every two (2) benefit years)
Long-Term Disability (LTD)	Benefit of 75% of basic pre-disability salary	Benefit of 70% of basic pre-disability salary for claims approved after ratification date In addition, the City will provide Notice to employees that effective January 1, 2017, the City will be amending the LTD plan document to provide a salary threshold (Means test) for employees returning to work at 662/3 of the pre-disability salary (currently at 75%).
Short Term Disability Sick Plan	For first ten (10) years of service, combination of sick pay coverage at 100% and 75% of salary for 130 days. After ten (10) years of service, 130 days at 100% of salary.	1. Sick Occurrences - on the 4 th and subsequent new absence in the same calendar year, the employee is paid from the second (2 nd) day of the absence. If the employee is hospitalized as an in-patient the absence shall not count as an occurrence. 2. Sick Pay Coverage - will provide compensation for an absent employee for 20 days at 100% of salary and for 110 days at 75% of salary. If not used, the employee can carryover a one-time capped credit of up to 15 of the 20 days compensated at 100% of salary from one year to the next. These carryover days can then only be converted (at a 2 for 1 ratio, for total of 30 top-up credits), by the employee, to top up the compensation he or she receives during an absence in the subsequent year when he/she would otherwise be compensated at 75% of salary after 20 days.

The above noted changes for Drugs and Orthotic Devices would also flow through to the Pre-65 Retiree Benefit Plan, for Management/Non-union employees and Accountability Officers who retire on or after January 1, 2017, and who are entitled to Pre-65 retiree benefits as outlined in the City Policy.