

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.