OCTOBER 2018 DISABILITY INSURANCE (DI) FUND FORECAST

INTRODUCTION

This report provides the status of the DI Fund and includes information on the current and projected fund balance, receipts, disbursements, and contribution rates for the State Disability Insurance (SDI) program.

The DI program is a component of SDI and provides benefits to workers who are unable to work due to pregnancy or a non-work related illness or injury. California, Rhode Island, New Jersey, New York, and Hawaii are the only states, along with the Commonwealth of Puerto Rico, that provide DI for their workforce.

The SDI program includes the Paid Family Leave (PFL) program, which allows California workers to take up to six weeks of paid leave each year to care for a seriously ill child, spouse, parent, domestic partner, grandparent, grandchild, sibling, or parent-in-law, or to bond with a new child.

California's minimum wage has been increasing incrementally each year, from $10.00 in 2016 to $15.00 in 2022, causing a projected increase in DI net benefits paid. These benefits are estimated to be offset by additional net worker contributions, creating a minimal impact to the DI Fund.

Assembly Bill (AB) 908 [Chapter 5, Statutes of 2016], increases the SDI wage replacement rate from 55 percent to 70 percent for low-income earners, and to 60 percent for all other wage earners, effective January 2018. As a result, an increase in benefits is anticipated for 2018 through 2021, when the bill sunsets.

FUND BALANCE

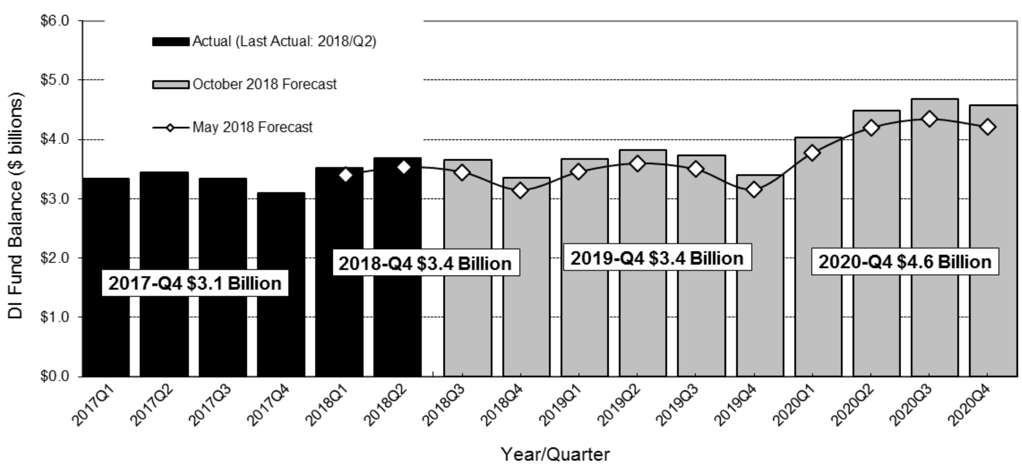
The DI Fund balance was $3.1 billion at the end of 2017. The DI Fund balance is projected to be $3.4 billion at the end of 2018, $3.4 billion at the end of 2019, and $4.6 billion at the end of 2020. These fund balance figures do not take into consideration the remaining balance of the 2012 UI Trust Fund loan of $308.2 million for payment of the interest due on advances to the UI Trust fund. As of June 30, 2017, $74.2 million was repaid, plus $1.2 million in interest.

The 2011 UI loan was repaid on June 30, 2016 plus $5.2 million in interest. The amounts from the two loans have not been held against the fund when calculating the DI Contribution rate or benefit receipts.

A DI Fund balance ranging from 25 percent to 50 percent of the prior 12 months of disbursements is generally considered adequate to maintain solvency through typical fluctuations in contributions and disbursements. The DI Fund adequacy rate was 49 percent for 2017, and is projected to be 47 percent in 2018, 43 percent for 2019, and 54 percent for 2020. The following chart shows the actual and projected quarterly DI Fund balance from 2017 through 2020.

The DI Fund balance is projected to be $3.4 billion at the end of 2018.

DI Fund Balance 2017 - 2020



NET BENEFITS

Total SDI net benefits, including PFL, were $6.0 billion in 2017, and are projected to increase to $6.9 billion in 2018, $7.6 billion in 2019, and $8.1 billion in 2020.

Net benefits for PFL were $779.1 million in 2017, and are projected to increase to $995.4 million in 2018, $1.1 billion in 2019, and $1.2 billion in 2020.

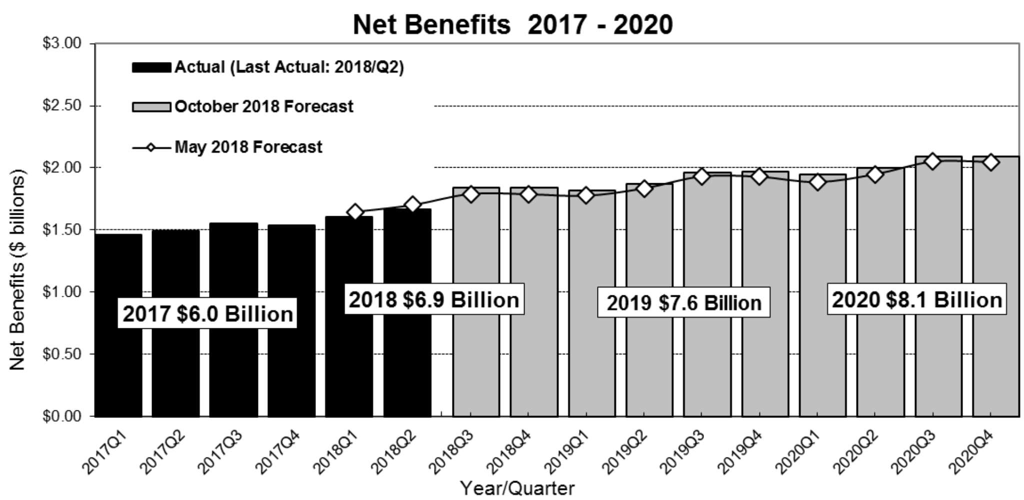
The projected increases in net benefits are primarily due to projected increases in SDI claims paid and the average weekly benefit amount (AWBA), as a result of AB 908 [Chapter 5, Statutes of 2016] beginning in 2018. The AWBA is forecasted based on its ratio to the maximum weekly benefit amount (MWBA). The AWBA was $540 in 2017, and is projected to increase to $586 in 2018, $625 in 2019 and $660 in 2020. The increases are due to the majority of claimants' wages increasing from year to year, as well as the projected impact of AB 908.

The calculation of the MWBA is mandated by sections 4453 (a) and 4653 of the California Labor Code (refer to page A2 of the Appendix – Weekly Benefit Amount for an explanation of the MWBA). The MWBA calculation is based on Department of Labor's state average weekly wage data.

The MWBA was $1,173 in 2017, $1,216 in 2018, $1,252 in 2019 and is projected to increase to $1,327 in 2020.

Net benefits account for the majority of disbursements from the DI Fund. The other disbursements are for administration costs. The following chart shows actual and projected quarterly SDI benefit payment data, including PFL, from 2017 through 2020.

SDI net benefits are projected to be $6.9 billion in 2018.



CONTRIBUTIONS

The SDI contributions were $6.2 billion in 2017, and are projected to be $7.4 billion in 2018, $7.8 billion in 2019, and $9.4 billion in 2020. The projected changes in SDI contributions are primarily due to the changes in the SDI contribution rate and the taxable wage ceiling over the next few years.

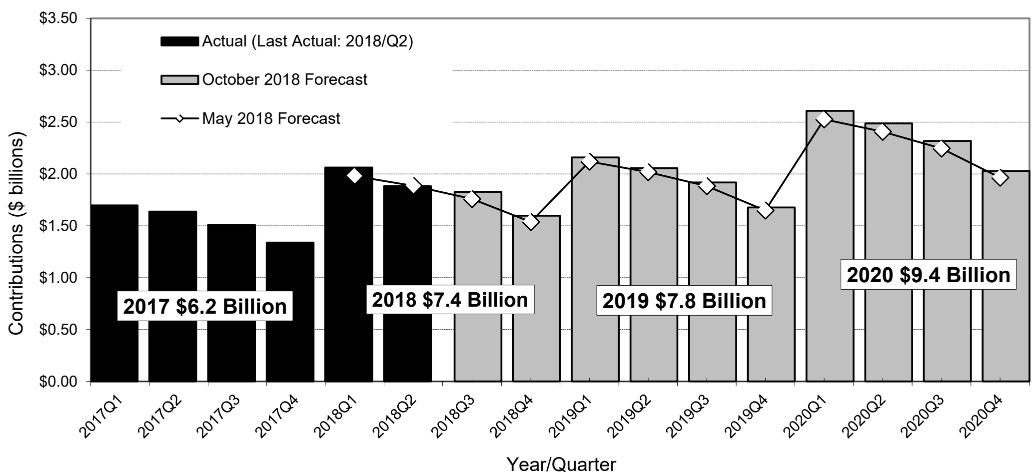
The SDI contribution rate was 0.9 percent for 2017, 1.0 percent in 2018, 1.0 percent in 2019 and is projected to increase to 1.1 percent in 2020. The statutory formula for calculating the SDI contribution rate helps to maintain an adequate DI Fund balance without having excess money in the fund (refer to page A4 of the Appendix – Tax Rate for an explanation of the SDI contribution rate).

The SDI program taxes covered employees up to a ceiling, which is calculated by the formula in Section 985 of the California Unemployment Insurance Code (CUIC). The taxable wage ceiling was $110,902 in 2017, $114,967 in 2018, $118,371 in 2019, and is projected to increase to $125,462 in 2020.

While contributions account for the majority of total receipts to the DI Fund, interest earnings, and other receipts also are included in the DI Fund balance (refer to page A1 in the Appendix under Total Receipts for an explanation of all receipts). The following chart shows the actual and projected quarterly contributions from 2017 through 2020.

SDI contributions are projected to be $7.4 billion in 2018.

Contributions 2017 - 2020



DISABILITY INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2018 – 2020
Table 1
(Dollars in millions)

	2017	2018 (F)	2019 (F)	2020 (F)
FUND SUMMARY				
End of Calendar Year Fund Balance (1)	$3,098.3	**$3,358.7**	**$3,398.6**	**$4,568.2**
FUND EVALUATION				
End of Calendar Year Fund Balance as a percent of Calendar Year Disbursements (2)	49.1%	**46.5%**	**43.0%**	**54.2%**
RECEIPTS AND DISBURSEMENTS				
Receipts Less Disbursements	($49.6)	**$260.4**	**$39.9**	**$1,169.7**
Total Receipts(3)	$6,263.8	**$7,484.7**	**$7,946.3**	**$9,600.8**
Net Worker Contributions	$6,181.1	**$7,366.3**	**$7,809.3**	**$9,439.4**
Interest Income	$27.1	**$51.3**	**$67.1**	**$76.9**
Other Receipts	$55.6	**$67.1**	**$69.9**	**$84.5**
Total Disbursements(3)	$6,313.4	**$7,224.4**	**$7,906.4**	**$8,431.1**
Net Benefits(4)	$6,038.4	**$6,943.1**	**$7,611.8**	**$8,132.3**
Administration & Misc. Disbursements(5)	$275.0	**$281.3**	**$294.6**	**$298.8**

(F) Forecast: Last actual data through the second quarter of 2018. Bolded numbers are estimates.

Table 1 includes information related to DI and PFL.

(1) Pursuant to Item 7100-011-0588 of the 2012 Budget Act, an additional loan of $308.2 million from the DI Fund was paid to the General Fund for the purpose of paying the interest owed as of September 30, 2012, for an outstanding loan from the Unemployment Insurance Trust Fund. This loan has no impact to the DI Contribution rate or benefit receipts. On June 30, 2017, $74.2 million was repaid, plus an additional $1.2 million in interest.

(2) The forecasted fund adequacy rates are subject to change in response to changes in the contribution rate that may occur according to the Director's discretion, as per section 984(d) of the CUIC.

(3) Based on the Labor Market Information Division economic outlook of June 2018.

(4) Assembly Bill 908 [Chapter 5, Statutes of 2016], effective January 2018, increases the SDI wage replacement rate from 55 percent to 70 percent for low-income earners, and 55 percent to 60 percent for all other wage earners. As a result, an increase in benefits is anticipated for 2018 through 2021, the bill's sunset date.

(5) Senate Bill 84 [Chapter 50, Statutes of 2017], requires all funds that contribute to retirement contributions to repay interest and principal on the Surplus Money Investment Fund loan. Payments of $3 million in 2019 and $3.2 million in 2020 will be appropriated from the DI Fund for repayment of the cash loan funding the supplemental pension payment.

Note: Components may not add to totals due to independent rounding.

DISABILITY INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2018 – 2020
Table 2

	2017	2018 (F)	2019 (F)	2020 (F)
STATE PLAN CLAIMS DATA (1)				
First Claims Paid (FCP)	632,755	**651,000**	**671,000**	**680,000**
Weeks Paid per FCP	16.2	**16.3**	**16.2**	**16.2**
Weekly Benefit Amount				
Maximum/Minimum	$1,173/$50	$1,216/$50	$1,252/$50	**$1,327/$50**
Average	$540	**$586**	**$625**	**$660**
COVERED EMPLOYMENT AND WAGES				
Total Average Covered Employment	18,178,409	**18,504,900**	**18,838,100**	**19,058,500**
Average Covered State Plan	17,553,909	**17,872,000**	**18,191,000**	**18,403,000**
Average Covered Voluntary Plan	624,500	**632,900**	**647,100**	**655,500**
Total Average Weekly Wage (2)	$1,044	**$1,090**	**$1,116**	**$1,143**
Average State Plan Wage (2)	$958	**$998**	**$1,023**	**$1,047**
Average Voluntary Plan Wage (2)	$3,480	**$3,680**	**$3,752**	**$3,837**
Total Covered Wages	$990.4 (bil)	**$1,053.1** (bil)	**$1,097.7** (bil)	**$1,137.1** (bil)
Covered State Plan Wages	$878.0 (bil)	**$931.5** (bil)	**$971.0** (bil)	**$1,005.8** (bil)
Covered Voluntary Plan Wages	$113.4 (bil)	**$121.6** (bil)	**$126.7** (bil)	**$131.3** (bil)
State Plan Taxable Wages	$623.3 (bil)	**$670.8** (bil)	**$704.5** (bil)	**$774.1** (bil)
TAX RATE (Contribution Rate)	0.90%	1.00%	1.00%	**1.10%** (3)
TAXABLE WAGE CEILING	$110,902	$114,967	$118,371	**$125,462** (4)
UNEMPLOYMENT RATE (Civilian)	4.8%	**4.2%**	**3.9%** (5)	**4.0%** (5)

(F) Forecast: Last actual data for employment is through the first quarter of 2018. Last actual data for other items is through the second quarter of 2018. Bolded numbers are estimates.

(1) Information in this area does not include PFL. Table 3 provides a display of data related only to PFL.

(2) The Average Weekly Wage is calculated using estimated Covered Wages divided by Average Covered Employment divided by 52.2 (weeks per year).

(3) The projected tax rate of 1.1 percent for 2020 is based on estimated data as of the time this report was prepared. The actual calculation and announcement of the 2020 DI tax rate will be made in October 2019.

(4) The projected Taxable Wage Ceiling for 2020 is based on estimated data as of the time this report was prepared. The actual Taxable Wage Ceiling for 2020 will be included in the October 2019 DI Fund Forecast.

(5) Based on the Labor Market Information Division economic outlook of June 2018.

Note: Components may not add to totals due to independent rounding.
(bil) = Amount in billions.

PAID FAMILY LEAVE
FORECAST FOR CALENDAR YEARS 2018 – 2020
Table 3

	2017	2018 (F)	2019 (F)	2020 (F)
PAID FAMILY LEAVE CLAIMS DATA				
First Claims Paid (FCP)	244,853	**279,000**	**292,000**	**296,000**
Weeks Paid per FCP	5.4	**5.5**	**5.5**	**5.5**
Weekly Benefit Amount				
Maximum/Minimum	$1,173/$50	$1,216/$50	$1,252/$50	**$1,327/$50**
Average	$599	**$661**	**$695**	**$734**
NET BENEFITS (1)	$779.1 (mil)	**$995.4** (mil)	**$1,095.8** (mil)	**$1,171.8** (mil)

(F) Forecast: Last actual data through the second quarter of 2018. Bolded numbers are estimates.

(1) Assembly Bill 908 [Chapter 5, Statutes of 2016], effective January 2018, increases the SDI wage replacement rate from 55 percent to 70 percent for low-income earners, and 55 percent to 60 percent for all other wage earners. As a result, an increase in benefits is anticipated for 2018 and beyond.

Table 3 provides a display of data related only to PFL.

Note: Components may not add to totals due to independent rounding.
(mil) = Amount in millions

A P P E N D I X

STATE DISABILITY INSURANCE (SDI) DEFINITIONS

The following definitions are informational only and arranged in order of their appearance in Tables 1 and 2. The law is the California Unemployment Insurance Code (CUIC) and the California Labor Code. Interpretations of the law are contained in opinions of the Attorney General, administrative and court decisions, and Title 22 of the California Code of Regulations.

TOTAL RECEIPTS

Net Worker Contributions:

This amount represents total worker contributions, less refunds. For example, in 2018, total worker contributions are the amount collected as a result of employers withholding 1.0 percent of all wages for each employee, up to a maximum of $1,149.67 (1.0 percent of $114,967 the taxable wage ceiling). However, if an employee works for more than one employer, the total withheld in 2018 may exceed $1,149.67. The employee would then be eligible for a refund of the amount exceeding $1,149.67. Refunds are claimed as a credit on the California personal income tax return. Individuals not required to file personal income tax returns may file for refunds with the Employment Development Department.

Interest Income:

This is interest earned on the State Treasurer's investment of DI funds. At any given time, about 99 percent of the DI Fund is invested. The total amount earned by such investments constitutes interest income.

Other Receipts:

Receipts from Voluntary Plan assessments constitute the largest portion of "Other Receipts." A Voluntary Plan is an approved private plan. It may be substituted for the State Plan if the Voluntary Plan matches the State Plan's benefits, provides at least one greater benefit, and costs the employee no more than the State Plan. Employers and employee groups may establish Voluntary Plans with mutual consent of the employer and a majority of the employees. The Voluntary Plan assessment rate is 14 percent of the DI State Plan contribution rate. In 2018, with the State Plan tax rate at 1.0 percent, Voluntary Plan employers are assessed 0.00140 (14 percent of 0.01) of taxable wages. These assessments are used to reimburse the Disability Fund for the amounts paid for administrative costs arising out of voluntary plan oversight. "Other Receipts" also includes reverted checks, which are monies that were not cashed by the claimant and are deposited back into the Fund.

TOTAL DISBURSEMENTS

***Net Benefits*:**

This is the amount of benefits paid to claimants, less the amount of cancellations, refunds, or liens. Total benefits may be reduced for various reasons, including: death of claimants; repayment by claimants of benefits erroneously claimed; repayments to the DI Fund by other programs; and benefit checks not cashed.

Administration and Miscellaneous Disbursements:

All disbursements from the DI Fund that are not benefit payments fall into the administration category. This includes disbursements for salaries, equipment, supplies, rent, and utilities. Miscellaneous disbursements include Prorata, Victims Compensation Board payments, surcharge fees from the Board of Control Claims and Generally Accepted Accounting Principles (GAAP) reporting costs.

STATE PLAN CLAIMS DATA

First Claims Paid:

These are the first benefit payments mailed to each claimant who has fulfilled non-monetary, monetary, and medical requirements and who has filed a claim certifying the onset of a disability.

Weeks Paid Per First Claims Paid:

The average number of weeks that benefits are paid for each first claim paid.

Weekly Benefit Amount:

This is the amount payable per week for the period of a disability. The maximum weekly benefit amount (MWBA) increases by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year. The MWBA was $1,173 in 2017, $1,216 in 2018, $1,252 in 2019, and is projected to increase to $1,327 in 2020.

Per section 4453(a) of the California Labor Code reads: …the limits specified in this paragraph shall be increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year. (The) “state average weekly wage” means the average weekly wage paid by employers to employees covered by unemployment insurance as reported by the United States Department of Labor for California for the 12 months ending March 31 of the calendar year preceding the year in which the injury occurred.

The following table compares the MWBA and the average weekly benefit amount (AWBA) for CY 2009 – 2020:

YEAR	MWBA	AWBA
2009	$959	$443
2010	$987	$447
2011	$987	$446
2012	$1,011	$455
2013	$1,067	$473
2014	$1,075	$483
2015	$1,104	$493
2016	$1,129	$513
2017	$1,173	$540
2018	$1,216	$586 (E)
2019	$1,252	$625 (E)
2020	$1,327 (E)	$660 (E)

(E) = Estimate

For periods of disability commencing on and after January 1, 2000, but before January 1, 2018, a table in Section 2655 (a) of the CUIC is used for calculating a claimant’s weekly benefit amount (WBA) if the base period high quarter wages (HQW) do not exceed $1,749.20. If the HQW exceeds $1,749.20, the WBA is equal to 55 percent of the HQW divided by 13; not exceeding the maximum benefit amount, or ((HQW x .55)/13).

For periods of disability commencing on and after January 1, 2018, but before January 1, 2022, a claimant’s WBA is fifty dollars ($50) if the base period HQW is less than $929. If the HQW is $929 or more and is less than one-third of the state average quarterly wage, the WBA is equal to 70 percent of the HQW divided by 13, or ((HQW x .70)/13). If the HQW is one-third of the state average quarterly wage or more, the WBA is either 23.3 percent of the state average weekly wage or 60 percent of the HQW divided by 13, or ((HQW x .60)/13), whichever amount is higher.

COVERED EMPLOYMENT AND WAGES

Total Average Covered Employment:

Employers count the number of employees on their payrolls during the week which includes the 12th day of the month. Quarterly and annual averages are taken from these counts.

Total Average Weekly Wage:

To derive the average weekly wage, total wages are divided by covered employment, and the result is then divided by the number of 5-day work weeks in the period. The number of work weeks varies from 12.8 to 13.2 in a quarter and from 52.1 to 52.3 in a year.

Total Covered Wages:

Covered wages are wages earned by employees subject to the SDI provisions defined in Part 2 of the CUIC. Total covered wages include tips, commissions, bonuses, and the reasonable cash value of all remuneration payable to an employee in any medium other than cash.

State Plan Taxable Wages:

The portion of covered wages from which SDI contributions are taken.

Tax Rate:

The rate at which workers' contributions are determined.

The statutory formula in Section 984(a)(2) of the CUIC for calculating the SDI Contribution rate considers fund conditions and cost rate with a year-ending date of September 30 as follows:

$$\frac{1.45 \times \text{Disbursements} - \text{Fund Balance}}{\text{State Plan Taxable Wages}}$$

An ad hoc Advisory Committee, comprised of labor and employer representatives, worked with the Department and independent actuaries to develop this experience-based contribution formula to maintain a prudent reserve, reflect benefit costs, and avoid excessive volatility and instability.

Based on section 984(a)(3) of the CUIC, the rate of worker contributions shall not exceed 1.5 percent or be less than 0.1 percent. The rate of worker contributions shall not decrease from the rate in the previous year by more than two-tenths of one percent. Per section 984(d) of the CUIC, the Director may, at his or her discretion, increase or decrease, by not to exceed 0.1 percent, the rate of worker contributions determined by the above formula.

Taxable Wage Ceiling:

This is the upper limit of wages in a calendar year subject to SDI contributions. Section 985 of the CUIC requires the taxable wage ceiling to be four times the MWBA multiplied by 13 and divided by 55 percent: ((4 x MWBA x 13) / .55).

The taxable wage ceiling was $110,902 in 2017, $114,967 in 2018, and $118,371 in 2019. The taxable wage ceiling is projected to be $125,462 in 2020.

Unemployment Rate (Civilian):

The number of unemployed persons in California expressed as a percentage of the total number of persons in the California civilian labor force.

The DI Fund Forecast report can be accessed at the following website:
http://www.edd.ca.gov/About_EDD/Quick_Statistics_Overview.htm