OCTOBER 2021 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, disbursements, receipts, 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 currently allows California workers to take up to eight 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.

On March 19, 2020, in response to the global pandemic known as COVID-19, California's Governor issued an executive order for all individuals living in the state to stay at home, except as needed to maintain critical operations. The intent of this mandate was to slow the spread of COVID-19 and to lower the number of infections in California. The effects of COVID-19 have impacted the DI Fund.

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.

Senate Bill (SB) 83 [Chapter 24, Statutes of 2019], amended CUIC Section 3301(a)(1) to increase the PFL program's maximum duration from six weeks to eight weeks starting on July 1, 2020.

SB 1123 [Chapter 849, Statutes of 2018], expanded the scope of the PFL program as of January 1, 2021 to include time off to participate in a qualifying exigency related to the covered active duty or call to covered active duty of the individual's spouse, domestic partner, child or parent in the armed forces of the United States. The projected impact to the SDI Fund is negligible.

Assembly Bill (AB) 138 [Chapter 78, Statutes of 2021], extends the current SDI wage replacement rate sunset date from December 31, 2021 to December 31, 2022. The current SDI wage replacement rates are 70 percent for low-income earners, and to 60 percent for all other wage earners. As a result, higher benefit levels are anticipated through 2022.

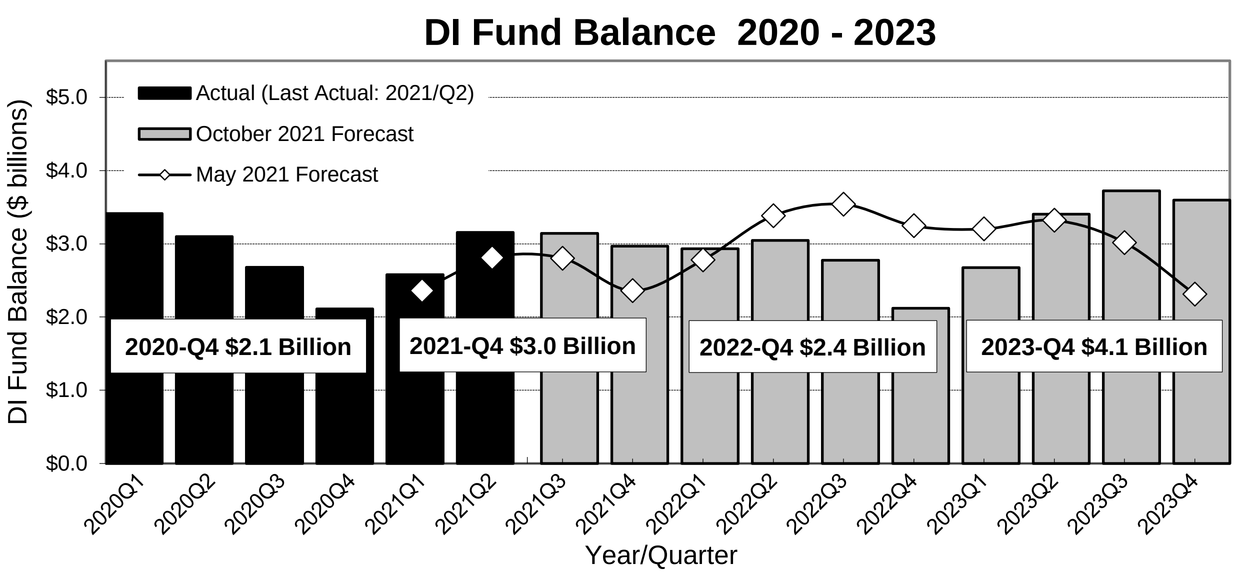
The basis for this forecast is the June 2021 Labor Market Information Division's economic outlook which primarily impacts DI covered employment, DI total wages, DI taxable wages, and net worker contributions.

FUND BALANCE

The DI Fund balance was $2.1 billion at the end of 2020. The DI Fund balance is projected to be $3.0 billion at the end of 2021, $2.4 billion at the end of 2022, and $4.1 billion at the end of 2023. The increase in the 2021 year end fund balance is due to lower projected benefits paid, higher contributions due to an increase in taxable wages related to a strong economic recovery, and the SDI contribution rate increasing from 1.0 percent in 2020 to 1.2 percent in 2021.

The following chart shows the actual and projected quarterly DI Fund balance from 2020 through 2023.

The DI Fund balance is projected to be $3.0 billion at the end of 2021.



NET BENEFITS

Total SDI net benefits, including PFL, were $8.5 billion in 2020, and are projected to increase to $8.7 billion in 2021, $10.3 billion in 2022, and $9.6 billion in 2023.

Net benefits for PFL were $1.2 billion in 2020, and are projected to increase to $1.5 billion in 2021, $1.8 billion in 2022, and $1.6 billion in 2023.

Several factors have contributed to a projected increase in net benefits, including legislative changes and the recent pandemic. Legislative changes include SB 83, which increased the PFL maximum duration from six weeks to eight weeks starting on July 1, 2020, and AB 138, which extends the current SDI wage replacement rates through December 31, 2022. Also contributing to the increases in net benefits are the projected increases in the average weekly benefit amount (AWBA). The AWBA is forecasted based on its ratio to the maximum weekly benefit amount (MWBA). The SDI AWBA was $678 in 2020, and is projected to increase to $709 in 2021, $807 in 2022, and decrease to $749 in 2023.

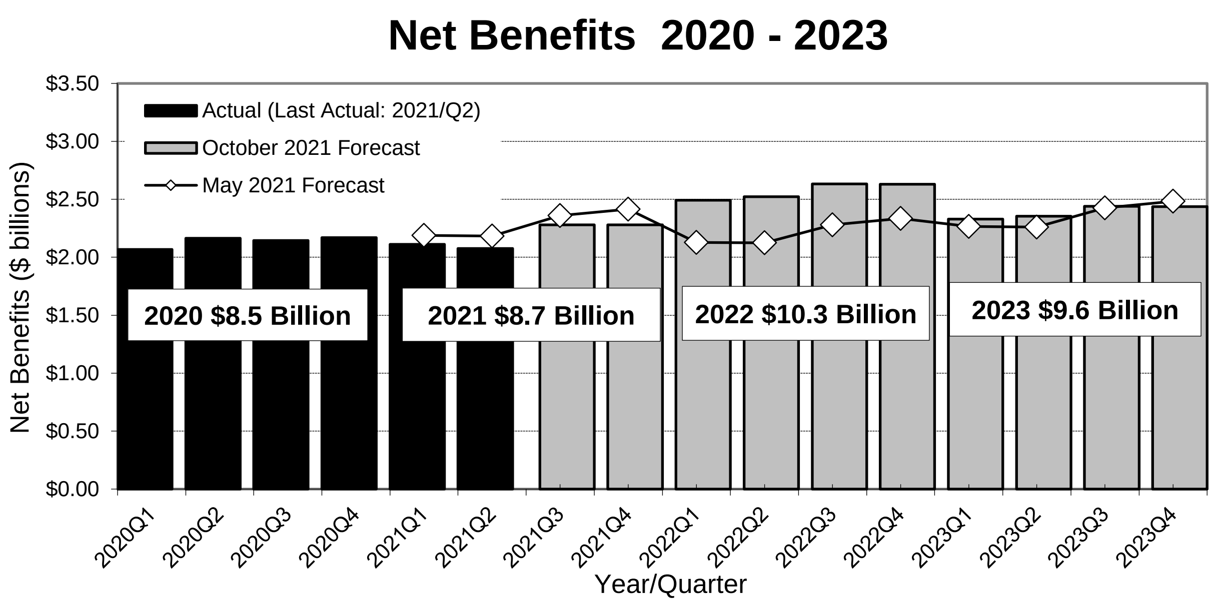
The calculation of the MWBA is mandated by Sections 4453 (a) and 4653 of the California Labor Code (refer to page A2 of the Appendix – Weekly Benefit Amount for an explanation of the MWBA). The MWBA calculation is based on the Department of Labor's state average weekly wage data.

The MWBA was $1,300 in 2020, $1,357 in 2021, $1540 for 2022, and is projected to increase to $1,547 in 2023.

AB 908 is scheduled to sunset after December 31, 2022. SDI and PFL wage replacement rates will then revert to 55 percent from the current 60/70 percent. This will lower the estimated SDI and PFL net benefits paid in 2023.

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 2020 through 2023.

SDI net benefits are projected to be $8.7 billion in 2021.



CONTRIBUTIONS

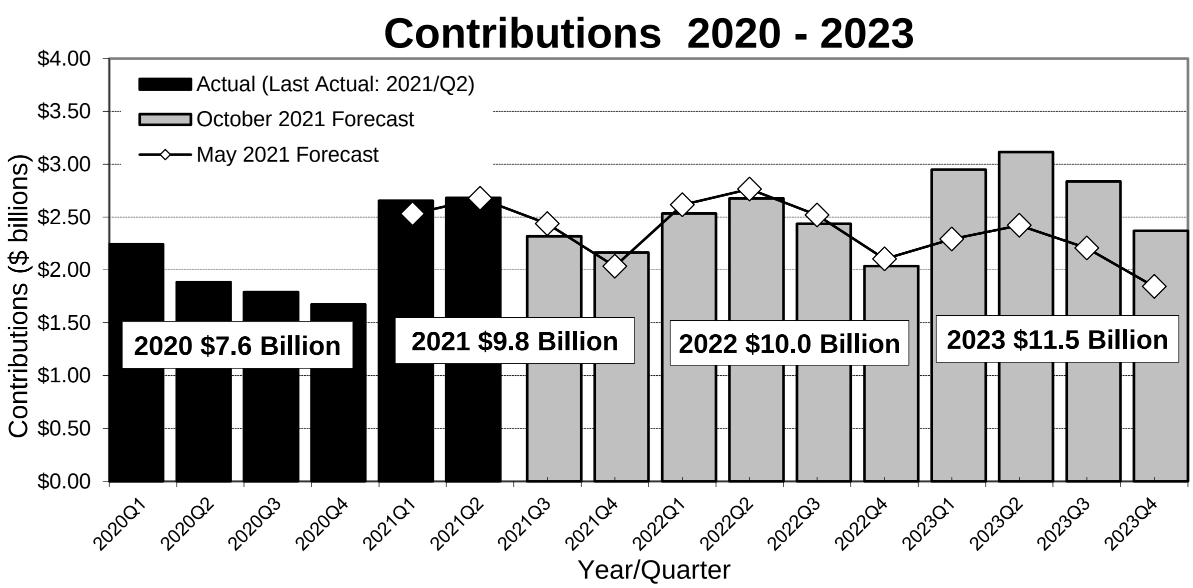
The SDI contributions were $7.6 billion in 2020, and are projected to increase to $9.8 billion in 2021, $10.0 billion in 2022, and $11.5 billion in 2023. The projected changes in SDI contributions are primarily due to the increase in State Plan taxable wages, changes in taxable wage ceilings, projected increase in covered employment, and fluctuations in the calculated and projected SDI contribution rate.

The SDI contribution rate was 1.0 percent in 2020, increased to 1.2 percent in 2021, decreased to 1.1 percent in 2022, and is projected to increase to 1.2 percent in 2023. 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 cover eligible employees up to a ceiling, which is calculated by the formula in CUIC Section 985. The taxable wage ceiling was $122,909 in 2020, $128,298 in 2021, $145,600 in 2022, and is projected to be $146,262 in 2023.

While contributions account for the majority of total receipts to the DI Fund, interest earnings, and other receipts are also 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 2020 through 2023.

SDI contributions are projected to be $9.8 billion in 2021.



DISABILITY INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2021 – 2023
Table 1
(Dollars in millions)

	2020	2021 (F)	2022 (F)	2023 (F)
FUND SUMMARY				
End of Calendar Year Fund Balance (1)	$2,113.1	**$2,965.7**	**$2,404.9**	**$4,111.9**
FUND EVALUATION				
End of Calendar Year Fund Balance as a percent of Calendar Year Disbursements (1)	23.7%	**32.7%**	**22.6%**	**41.5%**
RECEIPTS AND DISBURSEMENTS				
Receipts Less Disbursements	($1,181.1)	**$852.7**	**($560.8)**	**$1,706.9**
Total Receipts(2)	$7,746.9	**$9,926.6**	**$10,062.8**	**$11,608.5**
Net Worker Contributions	$7,596.3	**$9,820.1**	**$9,969.0**	**$11,499.7**
Interest Income	$37.9	**$8.7**	**$6.2**	**$6.8**
Other Receipts	$112.7	**$97.8**	**$87.6**	**$102.0**
Total Disbursements(3)	$8,928.0	**$9,073.9**	**$10,623.6**	**$9,901.6**
Net Benefits(3)	$8,544.2	**$8,744.6**	**$10,276.6**	**$9,561.8**
Administration & Misc. Disbursements(4)	$383.8	**$329.3**	**$347.0**	**$339.8**

(F) Forecast: Last actual data is through the second quarter of 2021. Bolded numbers are estimates and components may not add to totals due to independent rounding.

Table 1 includes information related to DI and PFL.

(1) The forecasted fund balance and 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 CUIC Section 984(d).

(2) The Labor Market Information Division's June 2021 economic forecast was used as the basis for this forecast.

(3) AB 908 [Chapter 5, Statutes of 2016], effective January 2018 through December 2021, increased the SDI wage replacement rate from 55 percent to 70 percent for low-income earners, and to 60 percent for all other wage earners. AB 138 [Chapter 78, Statutes of 2021], extends AB 908 through December 2022. SB 83 [Chapter 24, Statutes of 2019] amended CUIC Section 3301(a)(1) to increase the PFL program's maximum duration from six weeks to eight weeks starting on July 1, 2020. SB 1123 [Chapter 849, Statutes of 2018], expands the scope of the PFL program to include time off to participate in a qualifying exigency related to the covered active duty or call to covered active duty of the individual's spouse, domestic partner, child or parent in the armed forces of the United States.

(4) SB 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 $6.5 million in 2021, 2022, and 2023 will be appropriated from the DI Fund for repayment of the cash loan funding the supplemental pension payment.

DISABILITY INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2021 – 2023
Table 2

	2020	2021 (F)	2022 (F)	2023 (F)
STATE PLAN CLAIMS DATA (1)				
First Claims Paid (FCP)	655,875	**646,000**	**661,000**	**667,000**
Weeks Paid per FCP	17.0	**16.4**	**16.5**	**16.5**
Weekly Benefit Amount				
Maximum/Minimum	$1,300/$50	$1,357/$50	$1,540/$50	**$1,547/$50**
Average	$678	**$709**	**$807**	**$749**
COVERED EMPLOYMENT AND WAGES				
Total Average Covered Employment	15,661,880	**17,873,000**	**18,662,000**	**19,103,000**
Average Covered State Plan	15,111,828	**17,252,000**	**18,013,000**	**18,439,000**
Average Covered Voluntary Plan	550,052	**621,000**	**648,000**	**664,000**
Total Average Weekly Wage (2)	$1,420	**$1,296**	**$1,326**	**$1,368**
Average State Plan Wage (2)	$1,274	**$1,172**	**$1,206**	**$1,244**
Average Voluntary Plan Wage (2)	$5,428	**$4,737**	**$4,667**	**$4,812**
Total Covered Wages	$1,160.8 (bil)	**$1,209.1** (bil)	**$1,291.4** (bil)	**$1,364.4** (bil)
Covered State Plan Wages	$1,004.9 (bil)	**$1,055.5** (bil)	**$1,133.5** (bil)	**$1,197.6** (bil)
Covered Voluntary Plan Wages	$155.8 (bil)	**$153.6** (bil)	**$157.9** (bil)	**$166.8** (bil)
State Plan Taxable Wages	$785.8 (bil)	**$818.3** (bil)	**$906.3** (bil)	**$958.3** (bil)
TAX RATE (CONTRIBUTION RATE)	1.00%	1.20%	1.10%	**1.20%**
TAXABLE WAGE CEILING	$122,909	$128,298	$145,600	**$146,262**
UNEMPLOYMENT RATE (Civilian)	10.2%	**7.4%**	**5.5%** (3)	**4.5%** (3)

(F) Forecast: Last actual data is through the fourth quarter of 2020. 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 basis for the projections in this fund forecast is the Labor Market Information Division’s economic outlook.

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

PAID FAMILY LEAVE
FORECAST FOR CALENDAR YEARS 2021 – 2023
Table 3

	2020	2021 (F)	2022 (F)	2023 (F)
PAID FAMILY LEAVE CLAIMS DATA				
First Claims Paid (FCP)	268,511	**270,000**	**282,000**	**289,000**
Weeks Paid per FCP	6.0	**7.0**	**7.0**	**7.0**
Weekly Benefit Amount				
Maximum/Minimum	$1,300/$50	$1,357/$50	$1,540/$50	**$1,547/$50**
Average	$748	**$792**	**$898**	**$790**
NET BENEFITS (1)	$1,190.9 (mil)	**$1,474.7** (mil)	**$1,752.9** (mil)	**$1,578.2** (mil)

(F) Forecast: Last actual data through the second quarter of 2021. Bolded numbers are estimates.

(1) AB 908 [Chapter 5, Statutes of 2016], effective January 1, 2018, increased the SDI wage replacement rate from 55 percent to 70 percent for low-income earners, and to 60 percent for all other wage earners. Benefits increased in 2018, and higher benefit levels are anticipated through 2022, the current sunset date. SB 83 [Chapter 24, Statutes of 2019] amended CUIC Section 3301(a)(1) to increase the PFL program's maximum duration from six weeks to eight weeks starting on July 1, 2020.

SB 1123 [Chapter 849, Statutes of 2018], expands the scope of the PFL program as of January 1, 2021 to include time off to participate in a qualifying exigency related to the covered active duty or call to covered active duty of the individual's spouse, domestic partner, child or parent in the armed forces of the United States. The impact to the SDI Fund is negligible.

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 2021, total worker contributions are the amount collected as a result of employers withholding 1.2 percent of all wages for each employee, up to a maximum of $1,539.58 (1.2 percent of $128,298 the taxable wage ceiling). However, if an employee works for more than one employer, the total withheld in 2021 may exceed $1,539.58. The employee would then be eligible for a refund of the amount exceeding $1,539.58. 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 2021, with the State Plan tax rate at 1.2 percent, Voluntary Plan employers are assessed 0.00168 (14 percent of 0.012) of taxable wages. These assessments are used to reimburse the Disability Insurance 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 Pro Rata, Victims Compensation Board payments, surcharge fees from the Board of Control Claims and Generally Accepted Accounting Principles (GAAP) reporting costs. Miscellaneous disbursements also includes SB 84 which requires all funds that contribute to retirement contributions to repay interest and principal on the Surplus Money Investment Fund loan.

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 $1,300 in 2020, $1,357 in 2021, $1,540 in 2022, and is projected to be $1,547 in 2023.

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 calendar years 2012 – 2023:

YEAR	MWBA	AWBA
2013	$1,067	$473
2014	$1,075	$483
2015	$1,104	$493
2016	$1,129	$513
2017	$1,173	$540
2018	$1,216	$588
2019	$1,252	$626
2020	$1,300	$678
2021	$1,357	$709 (E)
2022	$1,540	$807 (E)
2023	$1,547 (E)	$749 (E)

(E) = Estimate

For periods of disability commencing on and after January 1, 2018, but before January 1, 2023, a claimant's weekly benefit amount (WBA) is fifty dollars ($50) if the base period high quarter wage (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.

For periods of disability commencing on and after January 1, 2023, a table in Section 2655 (a) of the CUIC is used for calculating a claimant's WBA if the base period HQW does 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), 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.

Senate Bill (SB) 83 [Chapter 24, Statutes of 2019] changes the factor used in the statutory formula for worker contributions from 1.45 to 1.3 times the amount disbursed from the Disability Insurance Fund in the California Unemployment Insurance Code (CUIC) Section 984 (a)(2)(A) effective July 1, 2019.

The statutory formula for calculating the SDI Contribution rate considers fund conditions and cost rate with a year-ending date of September 30 as follows:

$$\frac{1.30 \times \text{Disbursements} - \text{Fund Balance}}{\text{State Plan Taxable Wages}}$$

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 $122,909 in 2020, $128,298 in 2021, $145,600 in 2022 and is projected to be $146,262, in 2023.

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