Employment Development Department
State of California

OCTOBER 2020 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 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 is to slow the spread of COVID-19 and to lower the number of infections in California. The COVID-19 and other closely related health issues attributable to this virus 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] changes the adequacy factor used in the statutory formula for calculating the worker contribution rate from 1.45 to 1.3 times the amount disbursed from the DI Fund in the California Unemployment Insurance Code (CUIC) Section 984 (a)(2)(A) effective July 1, 2019.

SB 83 also amends CUIC Section 3301(a)(1) to increase the PFL program's maximum duration from six weeks to eight weeks effective 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. As a result, starting on January 1, 2021, an increase in benefits paid is anticipated.

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 1, 2018. As a result, benefits increased for 2018, and higher benefit levels are anticipated through 2021, when the bill currently sunsets.

Typically, the basis for this forecast would be the June 2020 Labor Market Information Division's economic outlook, however a review of the actual data reflecting recent impacts of the COVID-19 pandemic suggest use of the California Department of Finance's April 2020 economic outlook, would be more appropriate. The economic outlook primarily impacts contributions to the DI fund. Higher projected unemployment rates correspond to lower taxable wages, thereby lowering projected contributions.

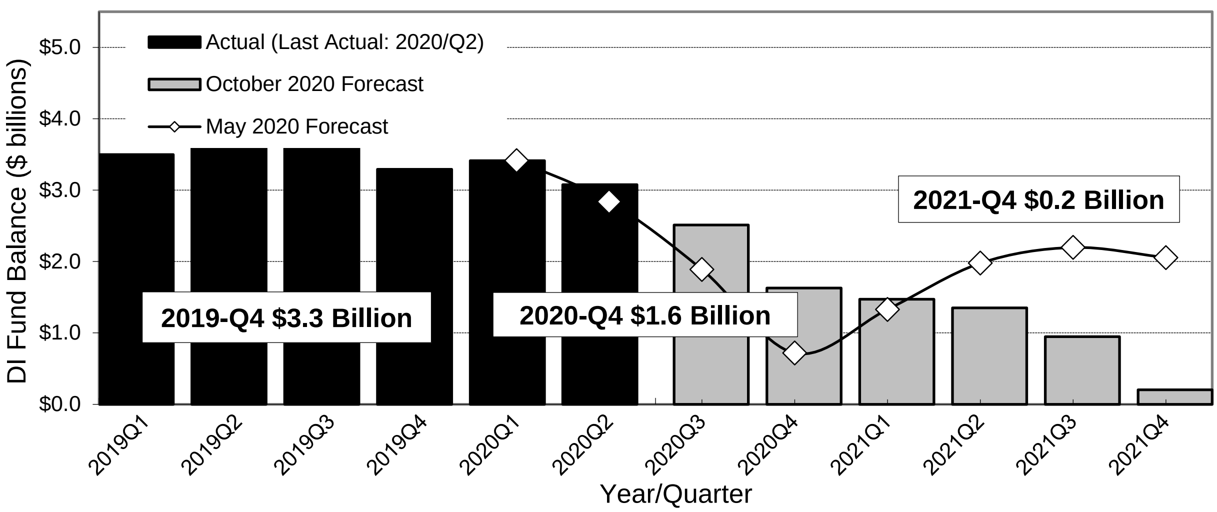
FUND BALANCE

The DI Fund balance was $3.3 billion at the end of 2019. The DI Fund balance is projected to be $1.6 billion at the end of 2020 and $0.2 billion at the end of 2021. The decrease in 2020 and 2021 year end fund balance is due to higher benefits paid, lower anticipated contributions due to a decrease in projected taxable wages, and a change in the contribution rate formula.

The following chart shows the actual and projected quarterly DI Fund balance from 2019 through 2021.

The DI Fund balance is projected to be $1.6 billion at the end of 2020.

DI Fund Balance 2019 - 2021



NET BENEFITS

Total SDI net benefits, including PFL, were $7.7 billion in 2019, and are projected to increase to $9.0 billion in 2020 and $10.0 billion in 2021.

Net benefits for PFL were $1.1 billion in 2019, and are projected to increase to $1.3 billion in 2020 and $1.9 billion in 2021.

Several factors have contributed to a projected increase in net benefits, including legislative changes and the recent pandemic. Legislative changes include SB 83, which increases the PFL maximum duration from six weeks to eight weeks starting on July 1, 2020, and SB 1123 which provides for PFL military exigency claims effective January 1, 2021. Also contributing to the increases in net benefits are the projected increases in SDI claims paid and the average weekly benefit amount (AWBA), as a result of AB 908 which began in 2018. The AWBA is forecasted based on its ratio to the maximum weekly benefit amount (MWBA). The SDI AWBA was $626 in 2019, is projected to increase to $679 in 2020 and $719 in 2021.

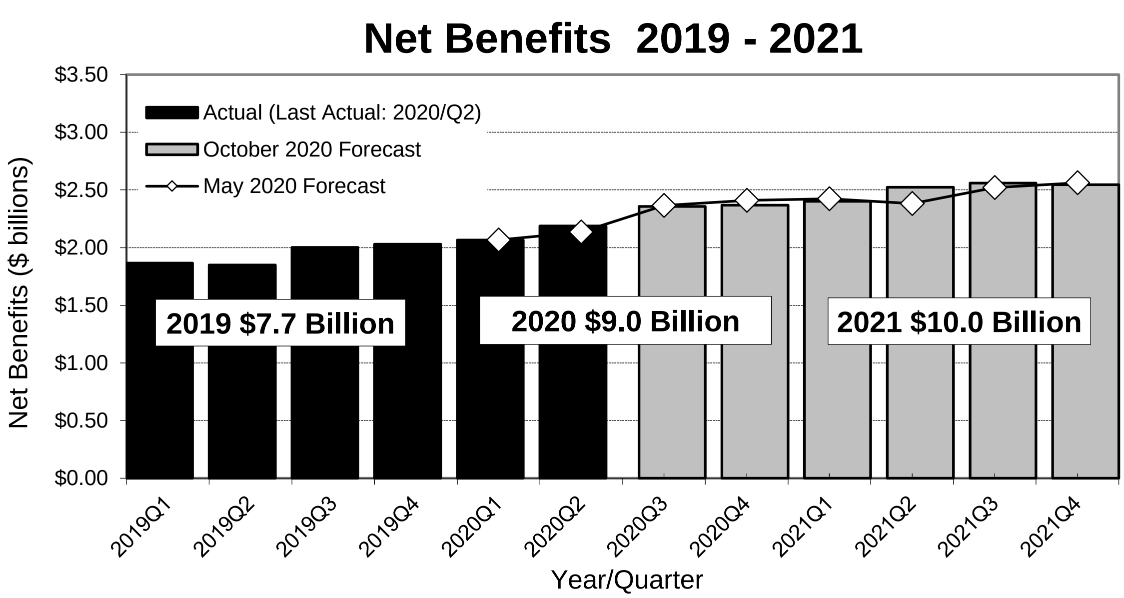
The increases are due to the increase in MWBA, as well as the projected impact of AB 908. The calculation of the MWBA is mandated by Sections 4453 (a) and 4653 of the California Labor Code (refer to page A2 of the Appendix – Weekly Benefit Amount for an explanation of the MWBA). The MWBA calculation is based on the Department of Labor's state average weekly wage data.

The MWBA was $1,252 in 2019, $1,300 in 2020 and $1,357 in 2021.

AB 908 is scheduled to sunset after December 31, 2021. The SDI and PFL wage replacement rates will revert to 55 percent from the current 60/70 percent. This will lower the estimated SDI and PFL net benefits paid in 2022 when compared to 2021.

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 2019 through 2021.

SDI net benefits are projected to be $9.0 billion in 2020.



CONTRIBUTIONS

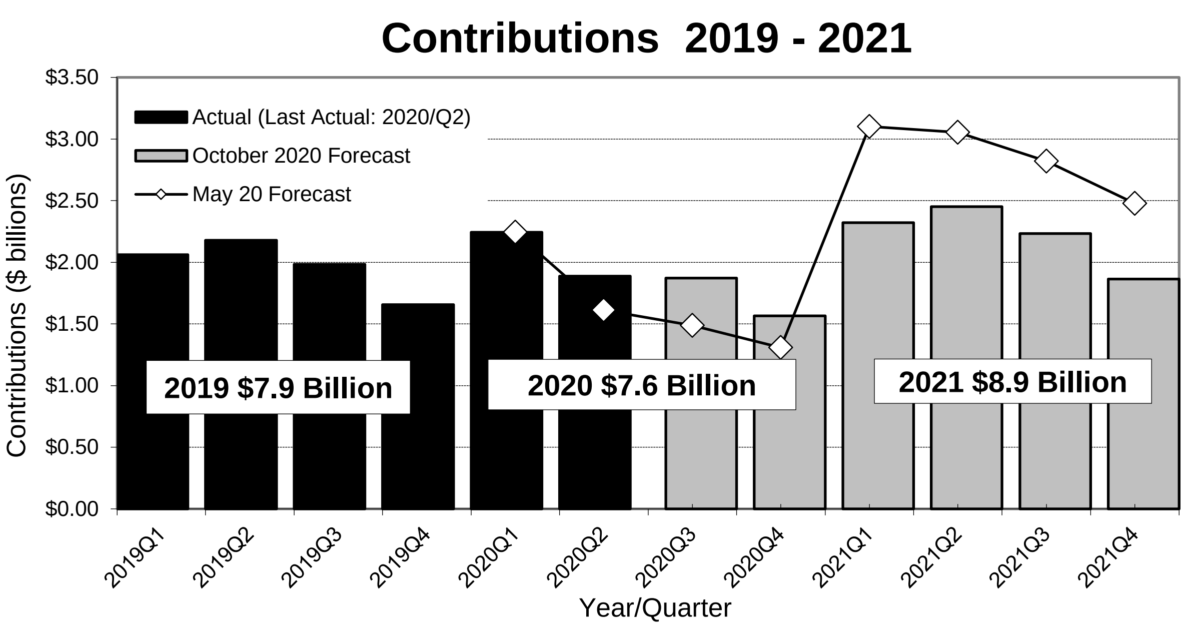
The SDI contributions were $7.9 billion in 2019, and are projected to be $7.6 billion in 2020 and $8.9 billion in 2021. The projected changes in SDI contributions are primarily due to the change in the adequacy factor used in the contribution rate calculation, increases in PFL benefits paid due to SB 83 and SB 1123, decreases in State Plan taxable wages, changes in taxable wage ceilings, and a projected decrease in covered employment.

The SDI contribution rate was 1.0 percent for both 2019 and 2020, and will increase to 1.2 percent in 2021. 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 $118,371 in 2019, $122,909 in 2020, and $128,298 in 2021.

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 2019 through 2021.

SDI contributions are projected to be $7.6 billion in 2020.



DISABILITY INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2020 – 2021
Table 1
(Dollars in millions)

	2019	2020 (F)	2021 (F)
FUND SUMMARY			
End of Calendar Year Fund Balance [1]	$3,294.1	**$1,631.4**	**$202.7**
FUND EVALUATION			
End of Calendar Year Fund Balance as a percent of Calendar Year Disbursements [2]	40.9%	**17.5%**	**2.0%**
RECEIPTS AND DISBURSEMENTS			
Receipts Less Disbursements	$181.8	**($1,662.6)**	**($1,428.7)**
Total Receipts[3]	$8,242.3	**$7,681.4**	**$8,961.2**
Net Worker Contributions	$7,878.8	**$7,567.9**	**$8,870.1**
Interest Income	$57.1	**$43.6**	**$9.1**
Other Receipts	$306.4	**$69.9**	**$82.0**
Total Disbursements[3]	$8,060.5	**$9,344.0**	**$10,390.0**
Net Benefits[4]	$7,743.5	**$8,980.3**	**$10,031.2**
Administration & Misc. Disbursements[5]	$317.0	**$363.7**	**$358.8**

(F) Forecast: Last actual data is through the second quarter of 2020. 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) 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. The remaining loan balance of $234 million plus an additional $5.4 million in interest were repaid on July 2019.

(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 CUIC Section 984(d).

(3) Typically, the basis for the projections in this fund forecast is the Labor Market Information Division's economic outlook; however, due to the sudden impact of the COVID-19 pandemic on California's Economy, the Department of Finance April 2020 economic forecast was used.

(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. Benefits increased in 2018, and higher benefit levels are anticipated through 2021, the bill's current sunset date.
Senate Bill (SB) 83 [Chapter 24, Statutes of 2019] amends 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. As a result, starting in 2021, an increase in benefits paid is anticipated.

(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 $6.5 million in 2021 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 2020 – 2021
Table 2

	2019	2020 (F)	2021 (F)
STATE PLAN CLAIMS DATA (1)			
First Claims Paid (FCP)	677,503	**665,000**	**667,000**
Weeks Paid per FCP	16.3	**17.4**	**17.5**
Weekly Benefit Amount			
Maximum/Minimum	$1,252/$50	$1,300/$50	$1,357/$50
Average	$626	**$679**	**$719**
COVERED EMPLOYMENT AND WAGES			
Total Average Covered Employment	18,827,378	**16,125,000**	**16,235,000**
Average Covered State Plan	18,173,371	**15,570,000**	**15,675,000**
Average Covered Voluntary Plan	654,007	**555,000**	**560,000**
Total Average Weekly Wage (2)	$1,138	**$1,290**	**$1,246**
Average State Plan Wage (2)	$1,032	**$1,165**	**$1,126**
Average Voluntary Plan Wage (2)	$4,093	**$4,782**	**$4,605**
Total Covered Wages	$1,118.7 (bil)	**$1,085.6** (bil)	**$1,055.7** (bil)
Covered State Plan Wages	$979.0 (bil)	**$947.1** (bil)	**$921.1** (bil)
Covered Voluntary Plan Wages	$139.7 (bil)	**$138.5** (bil)	**$134.6** (bil)
State Plan Taxable Wages	$786.2 (bil)	**$756.8** (bil)	**$739.2** (bil)
TAX RATE (CONTRIBUTION RATE)	1.00%	1.00%	1.20%
TAXABLE WAGE CEILING	$118,371	$122,909	$128,298
UNEMPLOYMENT RATE (Civilian)	4.0%	**18.0%**	**17.6%** (3)

(F) Forecast: Last actual data is through the second 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) Typically, the basis for the projections in this fund forecast is the Labor Market Information Division's economic outlook. However, due to the sudden and immense impact of the COVID-19 pandemic on the California Economy, the Department of Finance April 2020 economic forecast was used.

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

PAID FAMILY LEAVE
FORECAST FOR CALENDAR YEARS 2020 – 2021
Table 3

	2019	**2020 (F)**	**2021 (F)**
PAID FAMILY LEAVE CLAIMS DATA			
First Claims Paid (FCP)	279,916	**277,000**	**326,000**
Weeks Paid per FCP	5.5	**6.5**	**7.5**
Weekly Benefit Amount			
Maximum/Minimum	$1,252/$50	$1,300/$50	$1,357/$50
Average	$696	**$753**	**$776**
NET BENEFITS (1)	$1,058.2 (mil)	**$1,338.4 (mil)**	**$1,871.6** (mil)

(F) Forecast: Last actual data through the second quarter of 2020. Bolded numbers are estimates.

(1) Assembly Bill 908 [Chapter 5, Statutes of 2016], effective January 1, 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. Benefits increased in 2018, and higher benefit levels are anticipated through 2021, the bill's current sunset date.

Senate Bill (SB) 83 [Chapter 24 Statutes of 2019] amends 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. As a result, starting on January 1, 2021, an increase in benefits paid is anticipated

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 2020, 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 $1,229.09 (1.0 percent of $122,909 the taxable wage ceiling). However, if an employee works for more than one employer, the total withheld in 2020 may exceed $1,229.09. The employee would then be eligible for a refund of the amount exceeding $1,229.09. 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 2020, 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 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 $1,252 in 2019, $1,300 in 2020, and $1,357 in 2021.

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 2010 – 2021:

YEAR	MWBA	AWBA
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	$588
2019	$1,252	$626
2020	$1,300	$679 (E)
2021	$1,357	$719 (E)

(E) = Estimate

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 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.

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 $118,371 in 2019, $122,909 in 2020, and is $128,298 in 2021.

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