Employment
Development
Department
State of California

Gavin C. Newsom
Governor

Impact of Increasing the State Disability Insurance Wage Replacement Rate Effective January 1, 2018

A Report to the California Legislature

EMPLOYMENT DEVELOPMENT DEPARTMENT
March 1, 2021

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The Honorable Members of the California State Legislature
California State Senate and Assembly
State Capitol
Sacramento, CA 95814

Dear Member of the California State Legislature:

Assembly Bill (AB) 908 (Chapter 5, Statutes of 2016) requires the Employment Development Department (EDD) to issue a report on the impact of the State Disability Insurance (SDI) wage replacement rate increase. This letter summarizes that report.

The SDI program provides monetary benefits to covered workers unable to work due to a non-work-related illness, injury, or pregnancy (known as the Disability Insurance [DI] program), or who need to provide family care to an eligible family member, bond with a new child, or participate in a family member's qualifying military event (known as the Paid Family Leave [PFL] program). Effective January 1, 2018 through December 31, 2021, AB 908 increased the SDI wage replacement rate from 55 percent to 70 percent for low-wage earners and to 60 percent for mid- to high-wage earners. In addition to increased benefits, the bill sought to raise utilization of the program among low-income earners--viewed generally as an individual earning $40,000 annually or less. Pursuant to AB 908, the EDD prepared this report on the SDI program usage by income level, the projected costs, and impact to the DI Fund.

This report includes: (1) An executive summary highlighting key issues on program usage by income levels, and costs and impact to the DI Fund if the current wage replacement rate remains the same; (2) An overview of the SDI program and impact of recent legislation; (3) A description of the methodology used to identify program usage by income; (4) The impact of AB 908 by income level; and (5) A summary of the report's findings.

The EDD determined AB 908 increased overall program usage. If AB 908 is extended, the EDD projects the employee SDI contribution rate must remain above one percent for at least five consecutive years to maintain a sufficient DI Fund adequacy level.

This report will be sent to the Legislature, including specified committees, pursuant to statutory requirements. Copies of this report are also available to each legislative member upon request.

Sincerely,

Rita Saenz Director

EXECUTIVE SUMMARY

Section 2655.1 of the California Unemployment Insurance Code requires the EDD to report to the Legislature on utilization of paid family leave and disability insurance by income level, benefit costs, and contribution rates between January 1, 2017 and the latest available date in 2020. The report must also include projected costs and utilization for three years beginning January 1, 2022, assuming that the current higher wage replacement rates remain in effect. This report satisfies these requirements.

The current SDI wage replacement rate provides eligible workers a monetary weekly benefit calculated at 60 or 70 percent of the workers' highest quarterly wages divided by 13. According to the author of AB 908, the bill intended to make the SDI program more accessible by increasing DI and PFL benefits and utilization of the program by low-income families.

The EDD's data illustrates the effects of increasing the SDI wage replacement rate. Analysis of this data included considerations of claimants in six income brackets, from those earning less than $20,000 to those earning more than $100,000. The projections in this report consider potential future economic downturns and increases in PFL and DI usage related to other recent legislation, as well as the continuing impact of the COVID-19 global pandemic on California workers.

The EDD determined AB 908 increased SDI benefits utilization from 2018 through 2019, and projects benefits utilization will continue to increase through 2024. The DI utilization rate is projected to increase from 4 percent in 2019 to 4.6 percent in 2020. For PFL benefits, the utilization rate is projected to increase from 1.6 percent in 2019 to 1.9 percent in 2020. The EDD projects the total net SDI benefits paid will increase by approximately 10.5 percent in 2021, from $8.9 billion in 2020 to $10 billion in 2021. By 2024, the EDD projects the total SDI net benefits paid will increase to $10.6 billion.

The EDD used claimants' base period earnings to identify trends and levels by income. From 2017 to 2019, the DI claims paid for those earning less than $20,000 declined by approximately 6 percent, while claims paid to workers earning more than $100,000 increased by 23 percent. Claims for other income groups generally increased by approximately 5 to 16 percent. The PFL claims paid decreased by more than 6 percent for those earning less than $20,000, and increased by 33 percent for those earning more than $100,000, with other groups experiencing growth rates between 8 and 25 percent.

The DI Fund balance has steadily decreased from 2017 through 2019, and further reductions are projected through 2024. The DI Fund balance is projected to significantly decrease from approximately $3.3 billion in 2019 to $1.6 billion in 2020. The significant decrease in 2020 is due to higher benefits paid, lower anticipated contributions due to a decrease in taxable wages, and a change in the contribution rate formula. 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 (See Appendix - October 2020 DI Fund Forecast).
Between 2017 and 2020, the DI Fund's adequacy rate is projected to decrease 40.6 percent to 17.5 percent, respectively.

If the current wage replacement rates are extended, the SDI contribution rate is projected to increase to the maximum rate of 1.5 percent for two consecutive years (2022 and 2023) and remain above 1.0 percent through 2025 to maintain an adequate DI Fund balance.

STATE DISABILITY INSURANCE PROGRAM OVERVIEW

The SDI program was created in 1946 to provide benefits to workers experiencing wage loss due to a non-work related injury or illness, or due to pregnancy or childbirth. In 2004, California was the first state in the nation to implement a PFL program that provides benefits to workers who need to take time off to care for a seriously ill family member, or to bond with a new child either from birth, adoption, or foster care placement. Effective January 1, 2021, the PFL scope was expanded to include employees taking time off work to assist a military family member under covered active duty or call to covered active duty.

Financing Structure

The SDI program is financed solely by worker contributions. The financing structure was designed to ensure the DI Fund's year-end fund balance meets a specified adequacy rate. A year-end fund balance between 25 and 50 percent of the previous year's total disbursements for the fund is considered an adequate reserve rate. The amount withheld from a worker's paycheck is determined annually using the SDI taxable wage ceiling and contribution rate.

The taxable wage ceiling is the maximum amount of wages earned by a worker that are subject to SDI contributions. Section 985 of the California Unemployment Insurance Code (CUIC) requires the taxable wage ceiling to be four times the maximum weekly benefit amount multiplied by 13 and divided by 55 percent. The maximum weekly benefit amount is adjusted annually to match the maximum benefit amount of the Workers' Compensation program, administered by the Department of Industrial Relations. In 2020, the maximum weekly benefit amount was $1,300 and all wages earned up to $122,909 were subject to SDI contributions. The maximum weekly benefit amount for 2021 is $1,357 and the taxable wage ceiling is $128,298.

A second component of the financing structure is the contribution rate, which is also determined by a statutory formula. The rate is applied to all wages up to the taxable wage ceiling to determine the required contribution amount. State law also provides that the contribution rate shall not be less than 0.1 percent and shall not exceed 1.5 percent. Depending on the condition of the DI Fund, the EDD Director has the statutory authority to raise or lower the contribution rate by 0.1 percent. For 2020, the employee contribution rate was set at 1.0 percent. Based on the taxable wage ceiling and contribution rate, the maximum worker contribution in 2020 was $1,229. For 2021, the contribution rate increased to 1.2 percent and the taxable wage ceiling increased to $128,298.

Additional details about the SDI financing structure can be found in the October 2020 DI Fund Forecast located in the Appendix section of this report.

Program Statistics

In 2020, the SDI program paid a weekly benefit amount ranging from $50 to $1,300 depending on the worker's earnings. As of June 2020, the average weekly benefit payment was approximately $664 for DI benefits and $721 for PFL benefits. The DI program pays benefits for a maximum duration of 52 weeks, while the PFL maximum duration is eight weeks effective July 1, 2020, pursuant to SB 83 (Committee on Budget and Fiscal Review, Chapter 24, Statutes of 2019).

Wage Replacement Rate

The EDD uses workers' wages earned in the prior 5 to 18 months, also known as the base period, to determine their weekly benefit amount (WBA). Pursuant to AB 908, for 2020, the WBA was determined as follows:

- If the claimant's highest quarterly earnings in their base period are less than $929, the WBA is $50.
- If the highest quarterly earnings are between $929 and $5,741.66, the WBA is calculated at 70 percent of the claimant's highest quarterly earnings in their base period.
- If the highest quarterly earnings are more than $5,741.66, the WBA is calculated at 60 percent of the claimant's highest quarterly earnings or at 23.3 percent of the state average weekly wage (SAWW), whichever amount is greater, but not to exceed $1,300.

Utilization

The utilization rate is the percentage of claims filed for DI or PFL benefits out of the total number of State Plan (SP) covered employees. The utilization rate does not consider workers covered by a Voluntary Plan, which allows employers to establish their own program that provides the same or better benefits than those offered under the State Plan program.

The table below illustrates the DI and PFL utilization rates from 2017 to 2019 and the forecasted (F) utilization rates for 2020 through 2025. Please note that the data for 2020 has not been finalized yet, and therefore is illustrated as forecasted data.

Year*	DI Claims Filed	Utilization Rate	PFL Claims Filed	Utilization Rate	SP Covered Employment
2017	689,141	3.93%	259,756	1.48%	17,553,909
2018	709,085	3.96%	284,218	1.59%	17,890,734
2019	731,431	4.02%	297,446	1.64%	18,173,371
2020F	723,000	4.64%	295,000	1.89%	15,570,000
2021F	724,000	4.62%	345,000	2.20%	15,675,000
2022F	729,000	4.53%	354,000	2.20%	16,102,000
2023F	730,000	4.34%	368,000	2.19%	16,821,000
2024F	732,000	4.21%	380,000	2.18%	17,395,000
2025F	742,000	4.15%	390,000	2.18%	17,888,000

**The SDI wage replacement increased to 60-70 percent on January 1, 2018 and is forecasted to return to 55 percent on January 1, 2022.*

The utilization rate is projected to increase from 4 percent in 2019 to 4.6 percent in 2020 for DI benefits, and from 1.6 percent in 2019 to 1.9 percent in 2020 for PFL benefits. However, this rate is projected to decrease to 4.2 percent and 2.2 percent for DI and PFL benefits, respectively, in 2025. These projections consider potential future economic downturns, increases in SDI usage related to recent statutory changes, and the continuing impact of the COVID-19 global pandemic on California workers.

KEY LEGISLATION IMPACTING THE PROGRAM

The following chaptered legislation and executive order have an impact on the DI Fund and were considered when estimating the impact of AB 908.

Senate Bill 83 (Committee on Budget and Fiscal Review, Chapter 24, Statutes of 2019) – PFL Expansion: Increased the PFL program's maximum duration from six weeks to eight weeks effective July 1, 2020. Additionally, SB 83 changed the formula used to calculate the DI contribution rate effective July 1, 2019. This legislation is anticipated to increase the PFL total benefits paid every year, and decrease worker contributions for the SDI program.

Senate Bill 1123 (Jackson, Chapter 849, Statutes of 2018) – Military Exigency: Expanded the scope of the PFL program to allow eligible workers to take time off work 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. This legislation was effective January 1, 2021, and is expected to increase PFL usage and total PFL benefits paid.

Executive Order N-25-20 – COVID-19: Signed by Governor Newsom on March 19, 2020, in response to the global COVID-19 pandemic, this order required all individuals living in the state to stay at home, except as needed to maintain critical operations. This Order waived the seven-day waiting period for all DI claims related to a COVID-19 diagnosis, resulting in an increase in claim filing and DI benefits paid in 2020.

Senate Bill 3 (Leno, Chapter 4, Statutes of 2016) – Minimum Wage Increase: Increased the California minimum wage, beginning in 2017. For employers that have 26 or more employees, the minimum wage increased to $10.50 per hour beginning January 1, 2017. The minimum wage will incrementally increase to $15 per hour in 2022. The increase of the minimum wage provides a complementary increase in the SDI benefits amount paid to low-wage earners and results in additional SDI benefits paid.

METHODOLOGY TO DETERMINE LEVELS, TRENDS, AND TO CALCULATE PROJECTED COSTS AND FUND IMPACT

This report uses a worker's base period wages to determine their income. The base period is the 5 to 18 months prior to the date on which the worker's claim is filed. This report also used the Department's October 2020 DI Fund Forecast as a baseline to project the impact of extending AB 908's wage replacement rates.

ANALYSIS OF IDENTIFIED LEVELS AND TRENDS BY INCOME LEVEL

Disability Insurance Levels and Trends

The table on the following page provides DI claims filed, claims paid, and total benefits authorized from 2017 through 2019. After the implementation of AB 908 on January 1, 2018, overall DI usage increased by approximately 2.6 percent in 2018 and by another 4.1 percent in 2019. The total DI benefits paid in 2018 increased by approximately 14.7 percent and by another 8 percent in 2019.

Table 1 – Disability Insurance claims filed and paid from 2017 to 2019.

Year	Initial Claims Filed	Initial Claims Paid	% of Claims Paid	% Increase of Claims Paid	Total Benefits Authorized	% Increase of Benefits Paid
2017	686,366	624,793	91%		$5,447,714,059	
2018	687,157	641,006	93%	2.59%	$6,250,143,039	14.73%
2019	731,097	667,457	91%	4.13%	$6,749,685,945	7.99%

Table 2 displays the number of DI initial claims filed by income from 2017 to 2019. Note, the total claims for each year may vary from other tables due to the availability of income data.

Table 2 – DI Claims Filed by Income

Income	2017	2018	2019	% Change 2017 - 2019
Less than $20,000	153,994	173,243	173,454	12.64%
$20,000 to $39,999	197,666	202,239	207,550	5.00%
$40,000 to $59,999	120,506	126,381	133,520	10.80%
$60,000 to $79,999	67,157	72,513	77,706	15.71%
$80,000 to $99,999	39,656	42,888	46,059	16.15%
$100,000 and above	63,261	69,893	77,798	22.98%

From 2017 to 2019 the number of DI claims filed for all income groups increased, with the largest increase attributed to workers earning more than $100,000. While higher-earning workers experienced more growth from 2017 to 2019, those earning less than $20,000 filed 19,249 more claims in 2018 than 2017, a significant increase and more than the combined net growth of those earning between $20,000 and $99,999 (19,036 claims) during the same time period.

Not all claims filed for the DI program receive payment. Claims that do not meet the monetary or non-monetary eligibility criteria may not receive payment. Table 3 displays the DI claims which satisfied the program eligibility criteria and received payment from 2017 to 2019.

Table 3 – DI claims paid by income

Income	2017	2018	2019	% Change 2017 - 2019
Less than $20,000	143,165	138,626	134,810	-6.42%
$20,000 to $39,999	192,262	196,865	201,471	7.90%
$40,000 to $59,999	117,895	123,735	130,745	19.23%
$60,000 to $79,999	65,835	71,106	76,262	25.56%
$80,000 to $99,999	38,896	42,168	45,205	22.22%
$100,000 and above	61,953	68,506	76,221	33.18%

Following the implementation of AB 908, the number of claims paid to workers earning more than $20,000 increased, with the largest gains experienced by those earning more than $100,000. Although those earning less than $20,000 filed more claims in 2019 compared to 2018, the number of paid claims declined by 6.4 percent, from 143,165 to 134,810. Table 4 includes the latest available data for DI claims filed and paid in 2020.

Table 4 – Disability Insurance claims paid in 2020 by income

Income	Initial Claims Filed	Initial Claims Paid	Total Benefits Authorized
Less than $20,000	77,725	56,936	$200,786,413
$20,000 to $39,999	98,741	94,842	$493,960,296
$40,000 to $59,999	67,015	65,052	$489,690,190
$60,000 to $79,999	40,358	39,279	$397,937,862
$80,000 to $99,999	25,202	24,637	$311,659,702
$100,000 and above	45,529	44,465	$568,184,993
Total	**354,570**	**325,211**	**$2,462,219,457**

Paid Family Leave Levels and Trends

According to Table 5, after the implementation of AB 908, PFL usage increased by 9.7 percent in 2018 and by another 4 percent in 2019. Accordingly, overall usage in 2019 increased by approximately 13.4 percent from 2017. The total PFL benefits paid in 2018 increased by 24.4 percent and by another 8.2 percent in 2019.

Table 5 – Paid Family Leave claims filed and paid from 2017 to 2019

Year	PFL Initial Claims Filed	PFL Initial Claims Paid	% Increase of Claims Paid	Total PFL Benefits Authorized	% Increase of Benefits Paid
2017	259,751	245,381		$797,427,589	
2018	284,218	269,366	9.77%	$992,217,572	24.43%
2019	297,447	280,162	4.01%	$1,074,135,958	8.26%

Table 6 provides the total benefits paid by PFL claim type from 2017 through 2019. Data from 2020 was not included as it only covers a six-month period from January 1 to June 30, 2020.

Table 6 – Paid Family Leave Benefits Authorized.

Year	Transitional Bonding (TB)	% TB Benefits Increase	Regular Bonding (RB)	% RB Benefits Increase	Care Claims	% Care Increase	Total	Total Increase
2017	$435,241,477		$281,469,093		$80,715,428		$797,427,589	
2018	$485,926,468	11.65%	$388,123,435	37.89%	$118,167,670	46.40%	$992,217,572	24.4%
2019	$521,744,244	7.37%	$425,854,530	9.72%	$126,537,182	7.08%	$1,074,135,958	8.26%

Overall the total PFL benefits paid increased by approximately 24.4 percent from 2017 to 2018 and by another 8.3 percent in 2019. The PFL benefits paid for transitional bonding claims increased by approximately 11.6 percent in 2018 and by another 7.3 percent in 2019, for a total increase of 19.8 percent from 2017. Transitional bonding claims are claims where the birth mother transitions from a DI claim for pregnancy to a PFL claim for bonding. For regular bonding benefits, the total amount paid increased by approximately 37.8 percent in 2018 and another 9.7 percent in 2019 for a total increase of 51.2 percent from 2017. For care claims, benefits paid increased by 46.4 percent in 2018 and by another 7 percent in 2019, for an approximate total increase of 56.7 percent. Table 7 provides the number of PFL claims paid by income from 2017 to 2019. Note, the total claims for each year may vary from other tables due to the availability of income data.

Table 7 – PFL Claims Filed by Income

Income	2017	2018	2019	% Change 2017 - 2019
Less than $20,000	49,317	60,442	47,751	-3.18%
$20,000 to $39,999	77,810	78,483	84,340	8.39%
$40,000 to $59,999	49,495	53,327	59,224	19.66%
$60,000 to $79,999	29,689	32,729	37,256	25.49%
$80,000 to $99,999	19,026	20,587	23,228	22.09%
$100,000 and above	34,414	38,650	45,648	32.64%

From 2017 to 2019, the number of PFL claims filed increased for those earning $20,000 or more, with the largest increase for those earning more than $100,000. Filed claims for workers earning less than $20,000 increased from 2017 to 2018, but declined from 2018 to 2019. Overall, the number of PFL claims filed increased from 2017 to 2019, following the implementation of AB 908. These changes may also be attributed to the increase of the SDI maximum WBA, the EDD’s PFL marketing efforts initiated since 2015, and changes in income distributions due to the rising minimum wage and fewer workers potentially earning less than $20,000.

Table 8 – PFL Claims Paid by Income

Income	2017	2018	2019	% Change 2017 - 2019
Less than $20,000	42,704	52,454	39,963	-6.42%
$20,000 to $39,999	74,548	75,523	80,434	7.90%
$40,000 to $59,999	47,784	51,774	56,974	19.23%
$60,000 to $79,999	28,761	31,928	36,113	25.56%
$80,000 to $99,999	18,463	20,112	22,565	22.22%
$100,000 and above	33,122	37,575	44,113	33.18%

The number of PFL claims paid from 2017 to 2019 increased for all income groups except those earning less than $20,000. Claims paid for those earning between $20,000 and $100,000 increased by approximately 8 to 33 percent. Table 9 below provides the total PFL benefits paid by income from 2017 through 2019.

Table 9 – Total PFL Benefits Paid by Income

Income	2017	2018	2019	% Change 2017 - 2019
Less than $20,000	$55,350,140	$99,765,114	$63,808,551	15.28%
$20,000 to $39,999	$158,227,054	$180,139,100	$196,720,410	24.33%
$40,000 to $59,999	$154,189,279	$187,581,086	$207,260,570	34.42%
$60,000 to $79,999	$128,362,089	$159,630,258	$179,356,458	39.73%
$80,000 to $99,999	$103,528,630	$124,348,226	$139,646,623	34.89%
$100,000 and above	$197,688,557	$240,609,780	$287,180,035	45.27%

In 2019, total PFL benefits paid to all income groups increased, with the largest increase experienced by higher earners. While all groups experienced consistent growth from 2017 to 2019, low wage earners experienced significant growth from 2017 to 2018, but the lowest level of wage earners' payments sharply declined from 2018 to 2019.

PROJECTED COSTS AND FUND IMPACT TO EXTENDING AB 908

The 60 to 70 percent SDI wage replacement rate established by AB 908 is set to expire on December 31, 2021. This section projects the costs and fund impact of extending AB 908's wage replacement rate indefinitely. Table 10 provides the projected SDI benefits paid, which includes both DI and PFL, with and without an extension of AB 908.

Table 10 – Projected SDI Net Benefits Paid

Year	AB 908 Sunsets	AB 908 Extended	Variance
2020	$8,980,329,640	$8,980,329,640	$0
2021	$10,031,181,880	$10,031,181,880	$0
2022	$9,410,214,644	$10,206,654,582	$796,439,938
2023	$9,866,123,670	$10,703,678,166	$837,554,496
2024	$10,178,758,379	$11,044,697,064	$865,938,685
2025	$10,619,817,920	$11,524,170,738	$904,352,818

The EDD estimates an increase in SDI benefits paid from 2020 to 2024, whether the wage replacement rates sunset or not. If AB 908 is extended, workers would receive an additional $796 million, $837 million, $865 million, and $904 million in SDI payments from 2022 through 2025. The following table provides the projected DI Fund balance for 2017 through 2025 if AB 908 is extended.

Table 11 – Projected SDI net benefits paid with AB 908 extension.

Year	Fund Adequacy	Contribution Rate	Net Worker Contributions	Fund Balance
2017	49.10%	0.90%	$6,161,098,112	3,098,334,215,
2018	46.40%	1.00%	$7,344,912,482	$3,346,375,185
2019	40.90%	1.00%	$7,878,784,201	$3,294,082,323
2020F	17.50%	1.00%	$7,567,849,070	$1,631,434,835
2021F	2.00%	1.20%	$8,870,106,913	$202,685,462
2022F	13.20%	1.50%	$11,616,734,371	$1,391,562,541
2023F	28.50%	1.50%	$12,658,671,976	$3,144,622,834
2024F	31.60%	1.30%	$11,693,670,457	$3,591,107,981
2025F	27.80%	1.20%	$11,432,252,567	$3,296,940,986

F=Forecast

With a year-end fund balance of $3.3 billion in 2018, the adequacy rate was 46.4 percent. For 2019, the fund balance was $3.3 billion with an adequacy rate of 40.9 percent. The projected year-end fund balance for 2020 dropped significantly to $1.6 billion with an estimated adequacy rate of 17.5 percent. Based on the statutory formula, the employee contribution rate for 2021 increased to 1.2 percent. The significant projected decrease in the year end fund balance in 2020 and 2021 is due to higher benefits paid, lower anticipated contributions due to a decrease in taxable wages, and a change in the contribution rate formula. Tables 11, 12, and 13, provide key financial data comparing the impacts of extending the current wage replacement rates versus allowing them to expire.

Table 12 – DI Fund Forecast - October 2020

CY	AB 908 Sunset DI Fund Adequacy	AB 908 Sunsets DI Fund Balance	AB 908 Extended DI Fund Adequacy	AB 908 Extended DI Fund Balance	Adequacy Variance	Fund Variance
2017	49.10%	$3,098,334,215	49.10%	$3,098,334,215	0.00%	$0
2018	46.40%	$3,346,375,185	46.40%	$3,346,375,185	0.00%	$0
2019	40.90%	$3,294,082,323	40.90%	$3,294,082,323	0.00%	$0
2020F	17.50%	$1,631,434,835	17.50%	$1,631,434,835	0.00%	$0
2021F	2.00%	$202,685,462	2.00%	$202,685,462	0.00%	$0
2022F	22.50%	$2,189,991,138	13.20%	$1,391,562,541	-9.30%	($798,428,597)
2023F	38.60%	$3,934,087,873	28.50%	$3,144,622,834	-10.10%	($789,465,040)
2024F	41.30%	$4,343,739,952	31.60%	$3,591,107,981	-9.70%	($752,631,971)
2025F	27.70%	$3,033,106,719	27.80%	$3,296,940,986	0.10%	$263,834,267

F=Forecast

Table 12 shows the DI Fund adequacy rate has dropped to 17.5 percent in 2020 and two percent in 2021. This significant drop, as mentioned earlier, is due to the employee contribution rate remaining at one percent in 2020, the decrease in taxable wages, and the change in the contribution rate formula. If the AB 908 provision sunsets effective January 1, 2022, the DI Fund adequacy will continue to increase from an estimated rate of 22.5 percent in 2022 to 41.3 percent in 2024. Additionally, Table 10 shows that if the AB 908 wage replacement rate continues, the DI Fund adequacy will continue to vary by approximately negative 10 percent from 2022 through 2024. However, by 2025, the fund adequacy will increase by 0.1 percent.

Table 13 - DI Fund Forecast October 2020 - AB 908 Sunsets (Current Law)

CY	Fund Adequacy	Contribution Rate	Net Worker Contributions	Fund Balance
2017	49.1%	0.9%	$6,161,098,112	$3,098,334,215
2018	46.4%	1.0%	$7,344,912,482	$3,346,375,185
2019	40.9%	1.0%	$7,878,784,201	$3,294,082,323
2020F	17.5%	1.0%	$7,567,849,070	$1,631,434,835
2021F	2.0%	1.2%	$8,870,106,913	$202,685,462
2022F	22.5%	1.5%	$11,616,734,371	$2,189,991,138
2023F	38.6%	1.4%	$11,814,760,509	$3,934,087,873
2024F	41.3%	1.2%	$10,794,157,345	$4,343,739,952
2025F	27.7%	1.0%	$9,526,877,142	$3,033,106,719

F=Forecast

Table 13 illustrates the DI Fund adequacy rate drop in 2025 due to the projected decrease in the employee DI contribution rate of 1 percent compared to a contribution rate of 1.2 percent in 2024. Table 11 also illustrates that even with the maximum SDI employee contribution rate of 1.5 percent in 2022, the DI Fund adequacy rate is estimated at 13.2 percent. This assumes the wage replacement rate remains in effect in 2022, versus a DI Fund adequacy rate of 22.5 percent if AB 908 provisions sunset.

If AB 908 is extended, table 11 estimates that workers will contribute $843 million, $899 million, and $1.9 billion in additional SDI contributions in 2023, 2024, and 2025, respectively. During the same years, workers would receive an additional $837 million, $865 million, and $904 million in SDI benefits.

Administrative Costs
If the AB 908 provisions sunset in 2022, the EDD estimates a one-time cost of $139,276 to make system changes and updates to forms, website, brochures, and manuals accordingly. For system programming changes, the EDD estimates a one-time cost of $516,990 and a nine-month time lapse to implement the SDI wage replacement rate reversal to 55 percent. The total administrative cost of allowing AB 908 to sunset is $656,266.

SUMMARY OF THE REPORT'S FINDINGS

After increasing the SDI wage replacement rate from 55 percent to 60 and 70 percent, the utilization of the program increased from 2017 to 2019, and it is forecasted to continue increasing through 2024. Overall, high-income workers used the DI and PFL programs at greater rates than lower-income workers. . Although the original intent of AB908 sought to increase benefits and utilization among low-wage earners and was successful in doing so, the lowest threshold of low-wage earners (less than $20,000 annually) actually saw a reduction in utilization rates of the program during the period under review. It should be acknowledged that it is not possible to definitively tie utilization trends to the higher wage replacement rate alone. Utilization is impacted by many factors, including marketing and outreach, economic conditions, the state's minimum wage, and demographic trends, to name a few.

If the AB 908 wage replacement rate sunsets in 2022, the DI Fund will remain solvent through 2025 with the employee contribution rate decreasing from 1.5 percent in 2022 to 1 percent in 2025. However, should the AB 908 wage replacement rate remain in effect indefinitely, forecasted data shows the contribution rate will increase to the maximum rate of 1.5 percent for two consecutive years (2022 and 2023) and remain above 1.0 percent through 2025. Additionally, even with a contribution rate of 1.2 percent in 2025, which brings the net worker contributions to approximately $11.4 billion, the DI Fund adequacy rate of 27.8 percent is only slightly above the recommended adequacy rate of 25 percent.

APPENDIX

Disability Insurance (DI) and Paid Family Leave (PFL) Programs October 2020 DI Fund Forecast - AB 908 Continues

Scenario: AB 908 continues past December 31, 2021 resulting in State Disability Insurance (DI/PFL) wage replacement rates remaining at 70% and 60%. [1-7]

DI Net Worker Contributions

	2020	2021	2022	2023	2024	2025
Current Law [1,2,3,4,6]	$7,567,849,070	$8,870,106,913	$11,616,734,371	$11,814,760,509	$10,794,157,345	$9,526,877,142
Scenario [1,3,4,5,6,7]	$7,567,849,070	$8,870,106,913	$11,616,734,371	$12,658,671,976	$11,693,670,457	$11,432,252,567
Variance	$0	$0	$0	$843,911,467	$899,513,112	$1,905,375,425

DI / PFL Net Benefits

	2020	2021	2022	2023	2024	2025
Current Law [1,2,3,4,6]	$8,980,329,640	$10,031,181,880	$9,410,214,644	$9,866,123,670	$10,178,758,379	$10,619,817,920
Scenario [1,3,4,5,6,7]	$8,980,329,640	$10,031,181,880	$10,206,654,582	$10,703,678,166	$11,044,697,064	$11,524,170,738
	$0	$0	$796,439,937	$837,554,496	$865,938,685	$904,352,818

DI Fund Balance

	2020	2021	2022	2023	2024	2025
Current Law [1,2,3,4,6]	$1,631,434,835	$202,685,462	$2,189,991,138	$3,934,087,873	$4,343,739,952	$3,033,106,719
Scenario [1,3,4,5,6,7]	$1,631,434,835	$202,685,462	$1,391,562,541	$3,144,622,834	$3,591,107,981	$3,296,940,986
	$0	$0	($798,428,597)	($789,465,040)	($752,631,971)	$263,834,267

DI Contribution Rate

	2020	2021	2022	2023	2024	2025
Current Law [1,2,3,4,6,7]	1.0%	1.2%	1.5%	1.4%	1.2%	1.0%
Scenario [1,3,4,5,6,7]	1.0%	1.2%	1.5%	1.5%	1.3%	1.2%
	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%

DI Adequacy Rate

	2020	2021	2022	2023	2024	2025
Current Law [1,2,3,4,6]	17.5%	2.0%	22.5%	38.6%	41.3%	27.7%
Scenario [1,3,4,5,6,7]	17.5%	2.0%	13.2%	28.5%	31.6%	27.8%
	0.0%	0.0%	-9.3%	-10.1%	-9.8%	0.1%

Taxable Wage Ceiling

	2020	2021	2022	2023	2024	2025
Current Law [1,2,3,4,6]	$122,909	$128,298	$129,244	$134,349	$137,375	$141,062
Scenario [1,3,4,5,6,7]	$122,909	$128,298	$129,244	$134,349	$137,375	$141,062
	$0	$0	$0	$0	$0	$0

Maximum Yearly Contribution Per Covered Employee

	2020	2021	2022	2023	2024	2025
Current Law [1,2,3,4,6]	$1,229	$1,540	$1,939	$1,881	$1,649	$1,411
Scenario [1,3,4,5,6,7]	$1,229	$1,540	$1,939	$2,015	$1,786	$1,693
	$0	$0	$0	$134	$137	$282

Notes and Assumptions:

[1] Current Law and Scenario projections are based on data from the October 2020 DI Fund Forecast

[2] Current Law assumes AB 908 (wage replacement rate increase from 55% to 60 and 70% for high and low income workers) sunsets after December 31, 2021.

[3] Current Law and Scenario reflect a severe recession beginning in 2020 due to the economic impacts of Covid 19.

[4] Current Law and Scenario increase the maximum PFL duration from 6 to 8 weeks for bonding and care claims as of July 1, 2020. Military exigency claims beginning January 1, 2021.

[5] Scenario assumes AB 908 continues past the current sunset date of December 31, 2021, keeping wage replacement rates at 70% and 60%.

[6] Current Law and Scenario assumes the Director will use his/her discretion to increase/decrease the DI Contribution Rate to even out any significant swings resulting from the impact to the natural rate calculation, to address the initial anticipated increase in legislative changes to benefit payments and to minimize year-to-year impacts on employees in the initial years after implementation (this resulted in a discretionary increase for 2020 and may be used in future years as the need arises).

[7] An adequacy rate ranging from 25% to 50% is generally considered adequate to maintain solvency through typical fluctuations in contributions and disbursements.

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