

# MAY 2009 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, Hawaii, plus the Commonwealth of Puerto Rico, are the only states and territories 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 or domestic partner or to bond with a new child.

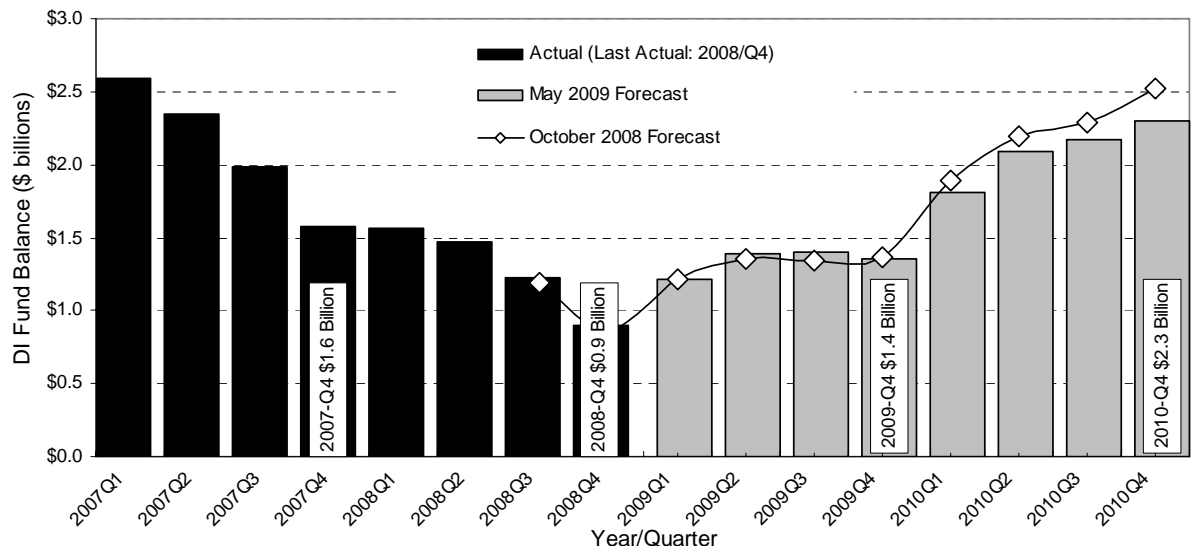
A DI Fund balance ranging from 25 percent to 50 percent of the prior 12 months of disbursements is generally considered adequate to maintain solvency through typical fluctuations in contributions and disbursements. The projected DI Fund adequacy rate is 27 percent for 2009 and 44 percent for 2010.

## FUND BALANCE

The DI Fund balance was \$0.9 billion at the end of December 2008. The DI Fund balance is projected to be \$1.4 billion at the end of 2009, and \$2.3 billion at the end

of 2010. The following chart shows the actual and projected quarterly DI Fund balance from 2007 through 2010.

DI Fund Balance 2007 - 2010



*The DI Fund balance is projected to be \$1.4 billion at the end of 2009.*

# NET BENEFITS

Total SDI net benefits, including PFL, were \$4.5 billion for 2008 and are projected to increase to \$4.8 billion in 2009, and \$5.0 billion in 2010. Net benefits for PFL were \$466.0 million in 2008 and are projected to be \$471.4 million in 2009, and \$494.0 million in 2010.

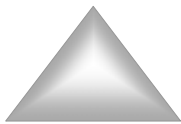
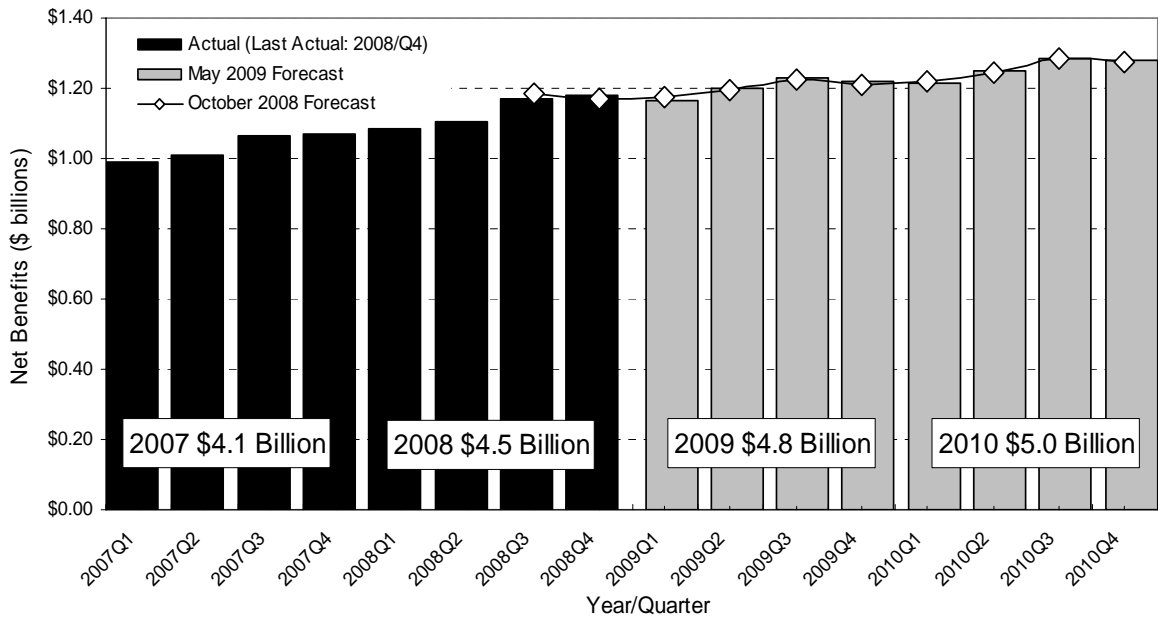
The projected increases are primarily due to projected increases in the average weekly benefit amount. The maximum weekly benefit amount (MWBA) for 2009 is \$959.

The MWBA is projected to increase to \$996 in 2010.

Net benefits account for a 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 2007 through 2010.

**Net Benefits 2007 - 2010**



*Net benefits are projected to be \$4.8 billion in 2009.*

## CONTRIBUTIONS

The SDI contributions for 2008 were \$4.1 billion and are projected to increase to \$5.4 billion in 2009, and \$6.1 billion in 2010.

The SDI program taxes covered employees up to a ceiling set by Section 985 of the California Unemployment Insurance Code (CUIC). The taxable wage ceiling increased from \$86,698 in 2008 to \$90,669 in 2009. The taxable wage ceiling is projected to increase to \$94,167 in 2010.

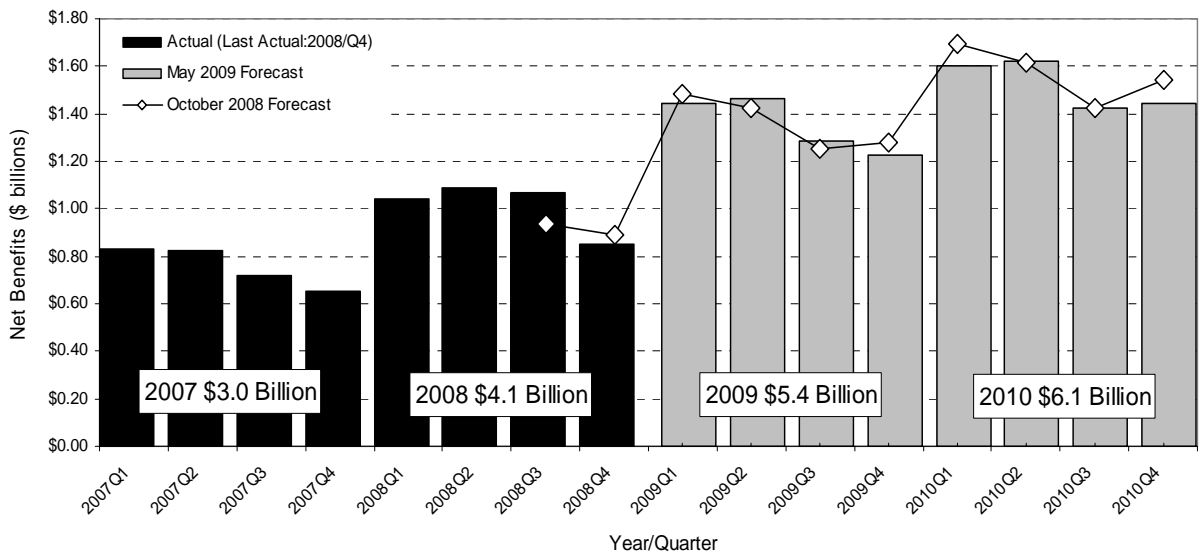
The increases in SDI contributions for 2009 and 2010 are mainly due to an increase in the SDI contribution rate from 0.8 percent in 2008 to 1.1 percent in 2009. The SDI contribution rate is projected to increase to 1.2 percent in 2010.

The statutory formula for calculating the SDI contribution rate helps to maintain an adequate DI Fund balance. (Refer to page A4 of the Appendix - Tax Rate for an explanation of the SDI contribution rate.)

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 - Total Receipts for an explanation of all receipts.)

The following chart shows the actual and projected quarterly contributions from 2007 through 2010.

**Contributions 2007 - 2010**



*SDI contributions are projected to be \$5.4 billion in 2009.*

DISABILITY INSURANCE FUND  
FORECAST FOR CALENDAR YEARS 2009 - 2010

Table 1  
(Dollars in millions)

	2007	2008	2009(F)	2010(F)
<b>FUND SUMMARY</b>				
End of Calendar Year Fund Balance	\$1,570.6	\$894.3	<b>\$1,357.9</b>	<b>\$2,304.1</b>
<b>FUND EVALUATION</b>				
End of Calendar Year Fund Balance as a percent of Calendar Year Disbursements	36.4%	18.9%	<b>27.0%</b>	<b>43.7%</b>
<b>RECEIPTS AND DISBURSEMENTS</b>				
Receipts Less Disbursements	(\$1,107.2)	(\$676.3)	<b>\$463.6</b>	<b>\$946.1</b>
Total Receipts	\$3,212.9	\$4,068.9	<b>\$5,511.2</b>	<b>\$6,217.0</b>
Net Worker Contributions	\$3,034.4	\$3,947.7	<b>\$5,412.5</b>	<b>\$6,098.1</b>
Interest Income	\$136.9	\$63.4	<b>\$21.3</b>	<b>\$31.7</b>
Other Receipts	\$41.6	\$57.8	<b>\$77.4</b>	<b>\$87.2</b>
Total Disbursements	\$4,320.1	\$4,745.2	<b>\$5,047.6</b>	<b>\$5,270.9</b>
Net Benefits	\$4,133.6	\$4,538.1	<b>\$4,815.7</b>	<b>\$5,031.3</b>
Administration	\$185.9	\$206.1	<b>\$231.9</b>	<b>\$239.6</b>
Miscellaneous Disbursements	\$0.6	\$1.0	<b>\$0.0</b>	<b>\$0.0</b>

**F) Forecast** Last actual data through the fourth quarter of 2008. Bolded numbers are estimates.

Note: The data in Table 1 includes information related to DI and Paid Family Leave (PFL).  
Table 3 provides a display of data related only to PFL.

Components may not add to totals due to independent rounding.

DISABILITY INSURANCE FUND  
FORECAST FOR CALENDAR YEARS 2009- 2010  
Table 2

	2007	2008	2009(F)	2010(F)
<b>STATE PLAN CLAIMS DATA <sup>(1)</sup></b>				
First Claims Paid (FCP)	671,285	678,567	<b>677,000</b>	<b>684,200</b>
Weeks Paid per FCP	14.4	14.9	<b>15.0</b>	<b>15.2</b>
<b>Weekly Benefit Amount</b>				
Maximum/Minimum	\$882/\$50	\$917/\$50	\$959/\$50	<b>\$996/\$50</b>
Average	\$405	\$421	<b>\$442</b>	<b>\$464</b>
<b>COVERED EMPLOYMENT AND WAGES</b>				
Total Average Covered Employment	13,329,105	<b>13,126,000</b>	<b>13,089,000</b>	<b>13,136,000</b>
Average Covered State Plan <sup>(2)</sup>	12,723,302	<b>12,518,000</b>	<b>12,478,000</b>	<b>12,523,000</b>
Average Covered Voluntary Plan	605,803	<b>608,000</b>	<b>611,000</b>	<b>613,000</b>
<b>Total Average Weekly Wage <sup>(3)</sup></b>				
Average State Plan Wage <sup>(3)</sup>	\$986	<b>\$977</b>	<b>\$957</b>	<b>\$983</b>
Average Voluntary Plan Wage <sup>(3)</sup>	\$950	<b>\$940</b>	<b>\$921</b>	<b>\$946</b>
Average Voluntary Plan Wage <sup>(3)</sup>	\$1,758	<b>\$1,744</b>	<b>\$1,697</b>	<b>\$1,742</b>
<b>Total Covered Wages</b>				
Covered State Plan Wages	\$686.3 (bil)	<b>\$669.5 (bil)</b>	<b>\$654.2 (bil)</b>	<b>\$674.0 (bil)</b>
Covered Voluntary Plan Wages	\$630.7 (bil)	<b>\$614.2 (bil)</b>	<b>\$600.1 (bil)</b>	<b>\$618.3 (bil)</b>
Covered Voluntary Plan Wages	\$55.6 (bil)	<b>\$55.4 (bil)</b>	<b>\$54.1 (bil)</b>	<b>\$55.7 (bil)</b>
State Plan Taxable Wages	\$495.9 (bil)	<b>\$493.8 (bil)</b>	<b>\$484.0 (bil)</b>	<b>\$500.5 (bil)</b>
<b>TAX RATE</b>	0.6%	0.8%	1.1%	<b>1.2%</b> <sup>(4)</sup>
<b>TAXABLE WAGE CEILING</b>	\$83,389	\$86,698	\$90,669	<b>\$94,167</b> <sup>(5)</sup>
<b>UNEMPLOYMENT RATE (Civilian)</b>	5.4%	7.2%	<b>9.4%</b> <sup>(6)</sup>	<b>9.6%</b> <sup>(6)</sup>

**(F) Forecast** Last actual data for wages and employment is through the second quarter of 2008. Last actual data for other items is through the fourth quarter of 2008. 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) Includes state employees covered by SDI. Beginning October 2005 state employees in specific bargaining units began paying SDI premiums and became eligible to receive benefits effective April 1, 2006.
- (3) The Average Weekly Wage is calculated using estimated Covered Wages divided by Average Covered Employment divided by 52.2 (weeks per year).
- (4) The projected calculated tax rate of 1.2 percent for 2010 is based on estimated data as of the time this report was prepared. The actual calculation and announcement of the 2010 DI tax rate will be made in October 2009.
- (5) The projected Taxable Wage Ceiling for 2010 is based on estimated data as of the time this report was prepared. The actual Taxable Wage Ceiling for 2010 will be included in the October 2009 DI Fund Forecast.
- (6) Based on the Labor Market Information Division economic outlook of January 2009.

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

PAID FAMILY LEAVE  
FORECAST FOR CALENDAR YEARS 2009 - 2010  
Table 3

	2007	2008	2009(F)	2010(F)
<b>PAID FAMILY LEAVE CLAIMS DATA</b>				
First Claims Paid (FCP)	173,845	190,230	<b>186,500</b>	<b>186,000</b>
Weeks Paid per FCP	5.4	5.4	<b>5.4</b>	<b>5.4</b>
Weekly Benefit Amount				
Maximum/Minimum	\$882/\$50	\$917/\$50	\$959/\$50	<b>\$996/\$50</b>
Average	\$451	\$464	<b>\$479</b>	<b>\$503</b>
<b>NET BENEFITS</b>	\$412.1 (mil)	\$466.0 (mil)	<b>\$471.4 (mil)</b>	<b>\$493.9 (mil)</b>

**(F) Forecast** Last actual data through the fourth quarter of 2008. Bolded numbers are estimates.

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). 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

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#### ***Net Worker Contributions:***

This amount represents total worker contributions, less refunds. For example, in 2008, total worker contributions are the amount collected as a result of employers withholding 0.8 percent of all wages for each employee, up to a maximum of \$693.58 (0.8 percent of \$86,698, the taxable wage ceiling). However, if an employee worked for more than one employer, the total withheld in 2008 may exceed \$693.58. The employee would then be eligible for a refund of the amount exceeding \$693.58. 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 SDI State Plan contribution rate. In 2008, with the State Plan tax rate at 0.8 percent, Voluntary Plan employers were assessed 0.00112 (14 percent of 0.008) 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

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### ***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:***

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:***

All miscellaneous adjustments such as Victims Compensation Board payments, 21<sup>st</sup> Century costs, surcharge fees from the Board of Control Claims and Generally Accepted Accounting Principles (GAAP) reporting costs.

## STATE PLAN CLAIMS DATA

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### ***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 increased from \$917 in 2008 to \$959 in 2009.



The following table compares the MWBA and AWBA for CY 2002 – 2010:

YEAR	MWBA	AWBA
2002	\$490	\$303
2003	\$602	\$320
2004	\$728	\$345
2005	\$840	\$373
2006	\$840	\$390
2007	\$882	\$405
2008	\$917	\$421
2009	\$959	\$442 (E)
2010	\$996 (E)	\$464 (E)

(E) = Estimate

A table in Section 2655 (a) of the CUIIC 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  $((HQW \times .55)/13)$ .

## **COVERED EMPLOYMENT AND WAGES**

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### ***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 52.0 to 52.4 in a year.

### ***Total Covered Wages:***

Covered wages are wages earned by employees subject to the SDI provisions defined in Part 2 of the CUIIC. 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 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.

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. 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 CUIIC requires the taxable wage ceiling to be four times the MWBA multiplied by 13 and divided by 55 percent:  $((4 \times \text{MWBA} \times 13) / .55)$ .

From 1991 through 1999, the taxable wage ceiling was \$31,767. From 2000 through 2002, the taxable wage ceiling was \$46,327. The taxable wage ceiling increased to \$56,916 in 2003, to \$68,829 in 2004, and to \$79,418 in 2005 and 2006. The taxable wage ceiling was \$83,389 for 2007, \$86,698 for 2008, and \$90,669 for 2009.

**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.