Date of Hearing: August 3, 2022

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Chris Holden, Chair
SB 951 (Durazo) – As Amended June 14, 2022

Policy Committee: Insurance Vote: 8 - 3

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill revises the formula for computing State Disability Insurance (SDI) and Paid Family Leave (PFL) benefits.

Specifically, this bill:

1) Repeals the taxable wage ceiling for calculating benefits, thereby making all wages taxable for purposes of computing SDI worker contributions.

2) Extends, for two additional years, the existing wage replacement rates for SDI and PFL, otherwise set to sunset on January 1, 2023.

3) Revises, beginning January 1, 2025, the wage replacement rates as follows:

   a) $50, when the amount of wages paid to the individual is less than $722.50.

   b) 90% wage replacement, when the amount of wages paid is $722.50 or more, but 70% or less than the state average quarterly wage.

   c) 70% wage replacement, when the amount of wages paid is more than 70% of the state average quarterly wage.

4) Specifies the wage replacement shall not exceed the maximum workers' compensation temporary disability indemnity weekly benefit amount established by the Department of Industrial Relations, or 63% of the state average weekly wage.

FISCAL EFFECT:

1) One-time costs of approximately $8.4 million to the Employment Development Department (EDD) to reprogram informational technology (IT) systems to administer SDI and PFL pursuant to this bill's provisions. Due to the complexity of EDD's legacy IT systems, EDD notes it cannot adjust the taxable wage ceiling until October 1, 2023, despite this provision taking effect January 1, 2023, but EDD can make the other requested programmatic changes by the 2025 deadline. Additionally, ongoing costs of $400,000 to EDD for staffing and maintenance of IT systems, with additional staffing costs if the new wage replacement rates result in an increase of claims. (Unemployment Compensation Disability Fund (UCDF))

2) Additional benefit payments of approximately $3 billion in 2025, $3.8 billion in 2026, $3.9 billion in 2027 and growing to $4.2 billion in 2030 from the UCDF. Removing the taxable wage ceiling used to calculate worker contribution rates would result in higher wage earners contributing more funds to the UCDF; however, as noted above, EDD cannot adjust the taxable wage ceiling until October 1, 2023.

   According to EDD, extending existing wage replacement rates to January 1, 2025, would increase the worker contribution rate by 0.1%, followed by no change in 2024. As a result of additional worker contributions in 2023 and 2024, the worker contribution rate would decrease by 0.2% in 2025, just as the new wage replacement rates begin. Thus, from 2027 to 2030, all workers would contribute an additional 0.1% to 0.2% per year. While removing the taxable wage ceiling would initially result in a higher UCDF balance, additional contributions from higher-income workers would not offset the additional benefit payments over time.

COMMENTS:

1) **Purpose.** According to the author:

   > Almost all private sector employees in California contribute to the Disability Insurance Fund, which provides wage replacement for workers through the SDI and PFL programs. However, middle- and high-wage workers are for more likely to use these benefits than lower-wage workers, who are more likely to be women, born outside the United States, or to identify as Black or Latinx.

   This bill is co-sponsored by California Work & Family Coalition, First 5 California, Legal Aid at Work and Unite-LA and supported by a large coalition of labor organizations and groups advocating for women, children and families.

2) **SDI and PFL.** The SDI program was enacted in 1946 to provide monetary benefits to workers unable to work due to non-work related illness, injury or pregnancy. According to EDD, for fiscal year (FY) 2020-21, there were a total of 639,744 SDI claims paid, with a benefit total of over $7.1 billion and average weekly benefit amount of $697 for approximately 16.5 weeks.

   PFL was enacted in 2002 as an expansion of the SDI program to extend disability compensation to individuals who take time off work to care for a seriously ill child, spouse, parent or domestic partner, or to bond with a new minor child. According to EDD, for FY 2020-21, there were a total of 266,607 PFL claims paid, with a benefit total of nearly $1.4 billion and average weekly benefit amount of $774 for approximately 6.7 weeks.

   AB 908 (Gomez), Chapter 5, Statutes of 2016, increased the wage replacement rate across the board for SDI and PFL and provided a higher wage replacement rate of 70% for low-income workers. These changes were due to sunset on January 1, 2022, but were extended to January 1, 2023, under AB 138 (Committee on Budget), Chapter 78, Statutes of 2021. This bill extends these changes for two more years, until January 1, 2025, when wage replacement rates will further increase to provide 90% wage replacement for low-income workers. The 90% rate would fulfil a recommendation from Governor Newsom's "Master Plan for Early Learning and Care: California for All Kids."

5) **Funding SDI and PFL.** The SDI program (which includes the PFL program) is financed solely by worker contributions through an employee payroll deduction. The amount withheld from a worker's paycheck, up to 1.5%, is determined annually by EDD using the SDI taxable wage ceiling and contribution rate. The taxable wage ceiling in 2022 is $145,600 and projected to be $146,262 in 2023. This bill repeals the taxable wage ceiling for calculating benefits.

3) **Related Legislation.** SB 1058 (Durazo) requires EDD to collect and publish demographic data, including race and ethnicity, for individuals claiming SDI and PFL benefits. SB 1058 is pending hearing by this committee.

4) **Prior Legislation.** AB 123 (Gonzalez), of this legislative session, would have revised the SDI and PFL formulas to provide a phased-in approach beginning with a 65-75% wage replacement for claims after January 1, 2023, growing to either 70% or 90%, depending on earned wages, after January 1, 2025. AB 123 was vetoed by the Governor, who stated:

> This bill would create significant new costs not included in the 2021 Budget Act and would result in higher disability contributions paid by employees. I look forward to continued partnership with the Legislature to ensure that workers have true access to programs providing family leave.

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