



Changes to the California State Disability Insurance and Initial Reactions

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Moderated By: Michelle Landrum, CEBS, GBDS
Employee Benefits Consultant, IMA Financial

Los Angeles Chapter ISCEBS
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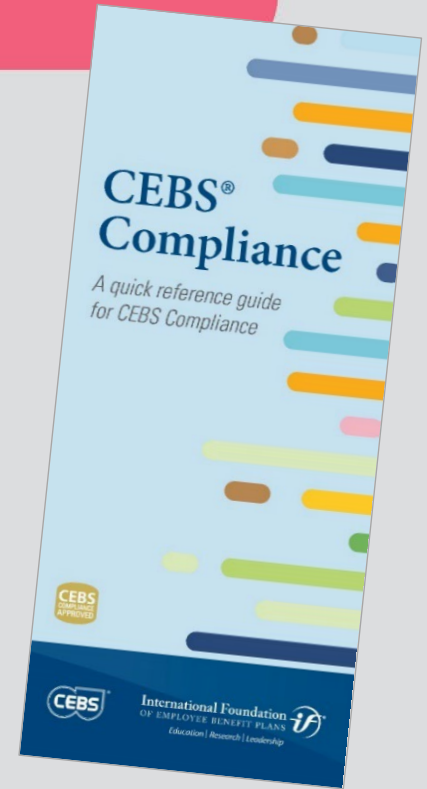
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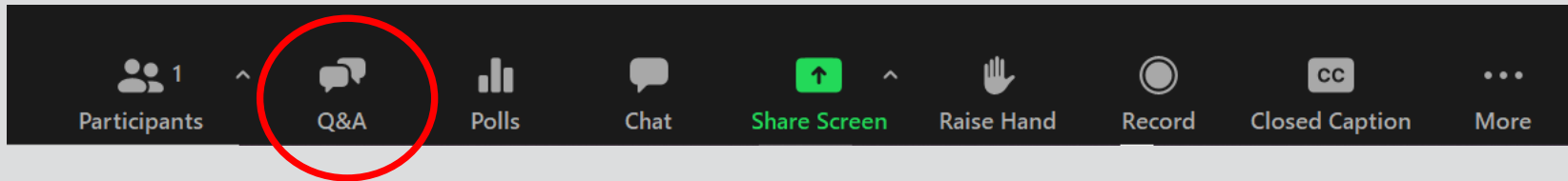


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Speaker Bio









Max Mayotte is the Chief Financial Officer for Innovative Care Systems, Incorporated, a firm that consults on California Voluntary Plans. In this role, he is responsible for assisting employers in meeting the regulatory requirements associated with having a Voluntary Plan and operating the Back Office Solution Services. Prior to this, Max was with KPMG, where he helped clients address information and regulatory risks and developed and conducted training to help participants gain a better understanding of how to identify and address these risks.

CA S/VDI Plan SB 951 Update



CA SDI Contribution Rates after SB 951

The EDD will announce the contribution rate for the following year in November

					
Year	Tax Wage Limit	Employee Contribution Rate	Max Employee Contribution	Replacement Rate	Maximum WBA
2025	None	1.0%	Unlimited	90/70%	1,620
2024	None	1.1%	Unlimited	70/60%	1,620
2023	153,164	0.9%	1,378.48	70/60%	1,620
2022	145,600	1.1%	1,604.60	60%	1,540
2021	128,298	1.2%	1,539.58	60%	1,357
2020	122,909	1.0%	1,229.09	60%	1,300
2019	118,371	1.0%	1,183.71	60%	1,252

Contributions vs Benefits



High Wage Earner who earns
\$600,000/year at a contribution rate of 1.0% will
contribute on average **\$6,000** or
\$500/month.

The maximum benefit for this higher wage earner will be same as
someone who earns **\$140,400** and contributes
\$1,544.

What can you buy for **\$500/month?**



CA SDI / VDI

What you have today



WAGE REPLACEMENT

Managed by EDD (state of California)



DISABILITY

unable to work due to injury, illness or pregnancy



PAID FAMILY LEAVE

1. **care** for a seriously ill child, parent, parent-in-law, grandparent, grandchild, sibling, spouse or registered domestic partner;
2. **bond** with a new child entering their life either by birth, adoption or foster care placement; or
3. participate in a qualifying event because a child, parent, spouse, or registered domestic partner's **military deployment** to a foreign country.

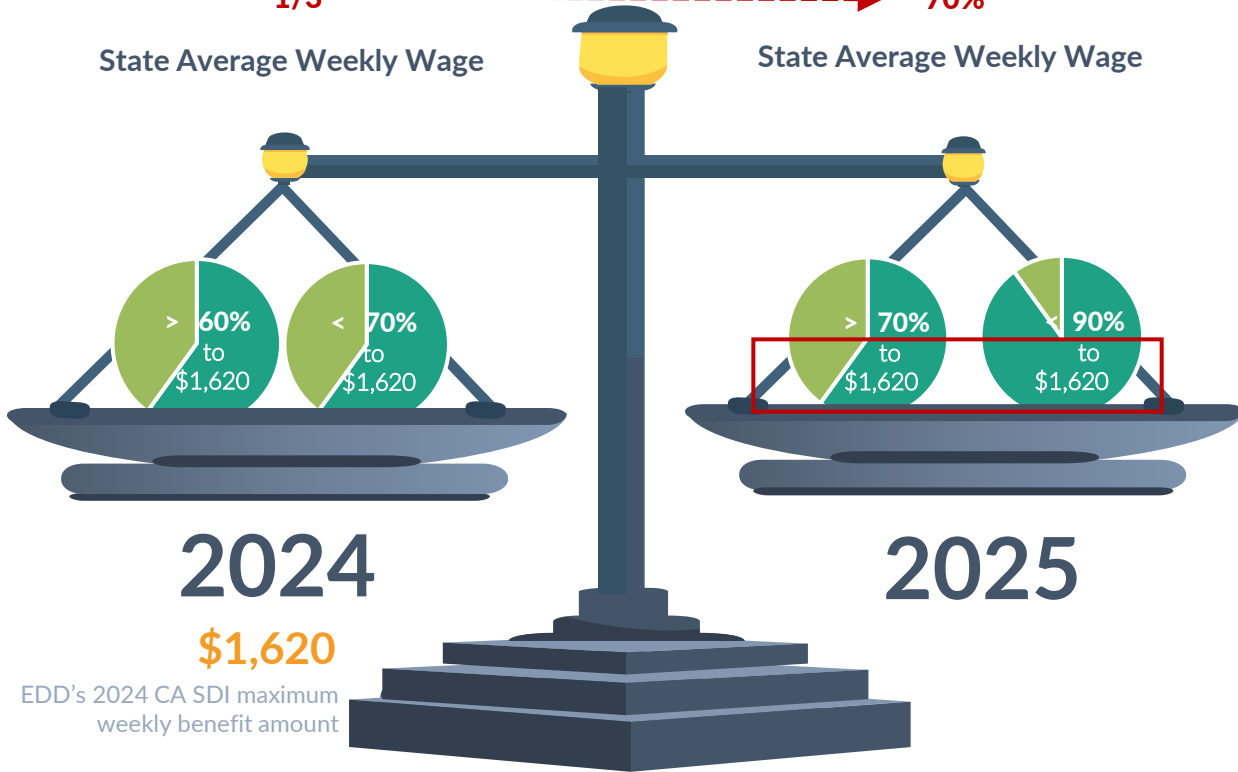
2024 vs 2025 Replacement Rate

2025 CA SDI Replacement Rate in 2024

1/3 → 70%

State Average Weekly Wage

State Average Weekly Wage



2024

\$1,620

EDD's 2024 CA SDI maximum weekly benefit amount

2025

2024 State Average Weekly Wage is to be \$1,642.

Individuals making less than

\$59,768

per year will be eligible for a

90% replacement rate.



CA VDI: Legal Alternative to CA SDI Program

Wage Replacement Only

Regulated by the Employment
Development Department



Governed by:



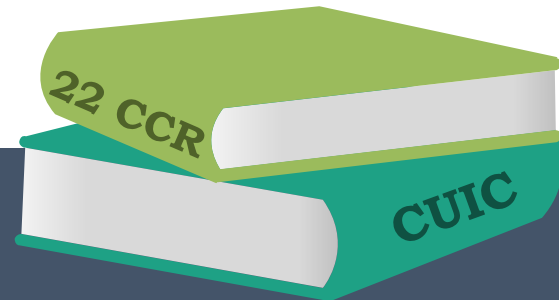
California Unemployment Insurance Code (CUIC)

Statutes created by the legislature



Title 22, California Code of Regulations (22 CCR)

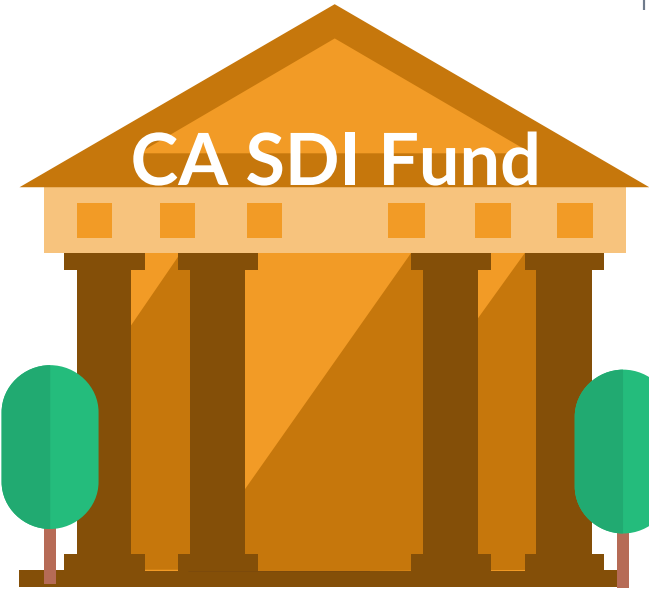
Administrative regulations promulgated as authorized by the California Unemployment Insurance Code



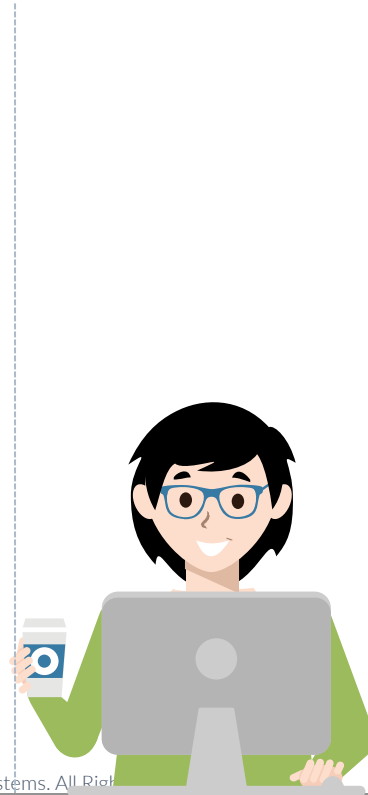
CA VDI is the same program as CA SDI, but **managed by the Employer with at least one better benefit**

Employee Contributions

The **Big Difference** Between: CA SDI vs CA VDI



Paycheck: "CA SDI Contributions"



Paycheck: "VPDI Contributions"

Feasibility Study

The study answers 2 questions

CA VDI Plan is a Self-insured Plan

The employer is responsible for covering any plan deficits

1 Can the proposed CA VDI Plan financially support itself at the minimum CA SDI level?

2 If the proposed CA VDI Plan can support the minimum requirements, what level of contributions or enhanced benefits can it support?



Any Co. CA VDI Plan Forecasted Financials

2025 CA SDI Contribution Rate of 1.0% and Benefits

Example 1

2025	
Match CA SDI Contributions with No Limit	
Annual Plan Contributions (1.0% with no taxable wage limit)	4,015,041
Benefit Expenses (Replacement rate: 70% - 90%)	
Disability Claims	1,509,984
PFL Claims	707,805
Total Benefit Expenses	2,217,789
Administrative Expenses	
Security Bond/Letter of Credit	20,075
TPA	139,243
State Assessment	562,106
Total Administrative Expenses	721,424
Annual Plan Surplus/(Deficit)	1,075,828

Background

- Contribution rate 1.0%
- No Taxable Wage Limit
- 204 (9%) of employees at 90%

Expenses

- Directly related to CA VDI Plan
- Three most common

Assessment

- Covers EDD's oversight costs
- Care for terminated employee with base period wages
 - Offset risk to CASDI
- Based off CA SDI Taxable Wages

Surplus/ Deficit

- **Surplus** returned to employees through reduced contributions or enhanced benefits
- **Deficits** are covered by the employer and paid back by **future Surplus**

CA VDI Employee Election

A **one-time** employee election is required to establish the CA VDI Plan

50% + 1 "Yes!"

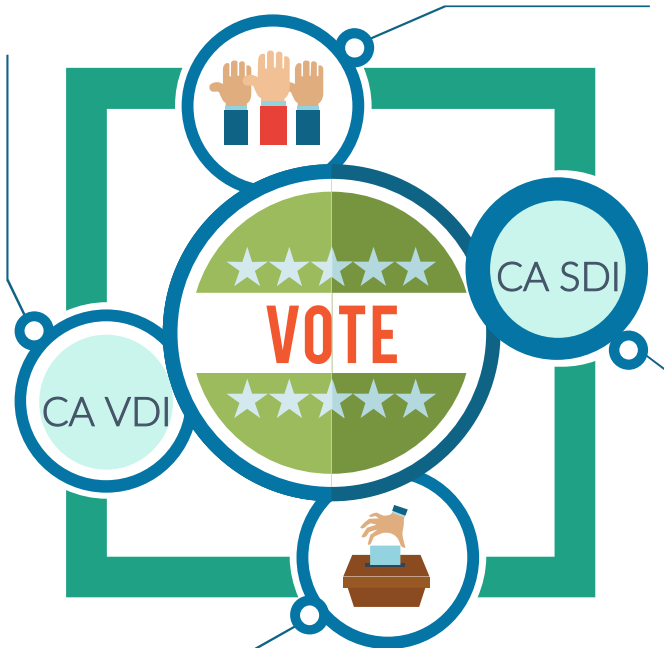
CA VDI Plan Established

Employees must elect between CA SDI and CA VDI, but defaulted in CA SDI if no election is made.

85% "Yes!"

Automatic coverage

All employees are defaulted into CA VDI Plan, even if an employee voted no or failed to vote



"No"

Employees who do not vote are considered "no" votes

Employees may still opt out of CA VDI

Employees may provide written notice to opt out of the CA VDI Plan and participate in CA SDI Plan

Employees may opt/in out on a quarterly basis

Any Co. CA VDI Plan Forecasted Financials

Reduced Contribution Rate of 0.9% (10% Reduction from the 2025 CA SDI Contribution Rate)

Example 2

2025		Reduced Contribution of 0.9%, with No Limit
Annual Plan Contributions (0.9% no taxable wage limit)	Decreased from 4,015,041 \$402K savings to employees	→ 3,613,537
Benefit Expenses (Replacement rate: 70% - 90%)		
Disability Claims		1,509,984
PFL Claims		707,805
Total Benefit Expenses		2,217,789
Administrative Expenses		
Security Bond/Letter of Credit	Stays the same	→ 20,075
TPA	Stays the same	→ 139,243
State Assessment	Stays the same	→ 562,106
Total Administrative Expenses		721,424
Annual Plan Surplus/(Deficit)		674,324

Background

- Contribution rate 0.9%
- No Taxable Wage Limit

Expenses

- Directly related to CA VDI Plan
- Three most common

Any Co. CA VDI Plan Forecasted Financials

Reduced Contribution Rate, 0.9% (10% Reduction from the CA SDI Rate) and \$153K Taxable Wage Ceiling

Example 3

2025	
Reduced Contribution and \$153K Taxable Limit	
Annual Plan Contributions <small>0.9%, \$153K taxable wage limit</small>	Decreased from 3,613,537 → 2,994,042 \$619K savings to employees making more than \$153K
Benefit Expenses <small>(Replacement rate: 70% - 90%)</small>	
Disability Claims	1,509,984
PFL Claims	707,805
Total Benefit Expenses	2,217,789
Administrative Expenses	
Security Bond/Letter of Credit	Stays the same → 20,075
TPA	Stays the same → 139,243
State Assessment	Stays the same → 562,106
Total Administrative Expenses	721,424
Annual Plan Surplus/(Deficit)	54,829

Background

- Contribution rate 0.9%
- \$153K Taxable Wage Limit

Annual Employee Contributions

Annual Cost Comparisons

In 2023 your SDI cost is...

In 2024 your SDI cost will **increase to...**

If VDI is approved your cost will be



If your annual earnings are...	2023 SDI Contribution: 0.9% Maximum: \$1,378.48	2024 SDI Contribution: 1.1% Maximum: unlimited	Proposed 2024 VDI Contribution: 0.9% Maximum: \$1,800	2024 Annual VDI Savings	2024 Affected Employees
\$200,000	\$1,378.48	\$2,200.00	\$1,800.00	\$400.00	76 (15%)
\$300,000	\$1,378.48	\$3,300.00	\$1,800.00	\$1,500.00	32 (6%)
\$400,000	\$1,378.48	\$4,400.00	\$1,800.00	\$2,600.00	67 (13%)
\$500,000	\$1,378.48	\$5,500.00	\$1,800.00	\$3,700.00	9 (2%)

By law: VDI can **never cost more or pay less** than SDI

By law: you must participate in either VDI or SDI and **cannot waive** coverage

Any Co. CA VDI Plan Contribution Comparison 20

Two entities with 0.9% contribution rate and \$200K taxable wage limit (\$1,800 contributions limit)

Example #9

	Entity Avg. \$213K	Entity Avg. \$215K
	1 (1%) EE at 90% replacement rate	60 (13%) EEs at 90% Replacement Rate
Annual Plan Contributions	\$0.9% Contribution rate, \$200K Limit	
	725,304	627,622
		Fewer employees earn more than \$200K, and has more/extreme outliers
Benefit Expenses (Replacement rate: 70% - 90%)		
Disability Claims (35.80/1000)	475,099	430,110
PFL Claims (16.02/1000)	98,580	88,500
Total Benefit Expenses	559,396	518,610
Administrative Expenses		
TPA (3.25/PEPM) and Security	45,885	46,100
State Assessment	127,681	128,685
Total Administrative Expenses	173,566	174,785
Annual Plan Surplus/(Deficit)	(25,941)	Employer Cost (65,773)

Advantages

Enhance benefits using employee contributions

Design CA VDI Plan to complement & align with existing disability plans and paid leave policies such as:

- salary continuation
- paid parental leave
 - family time off
 - unlimited PTO
 - LTD



Workers Comp is an offset to CA SDI and VDI

Improve employee experience

1. Professionally manage claims
2. Reduce conversion to LTD claims

Manage Employee Contributions

1. Reduce or waive
2. Refund excess to employees*
3. Apply excess to purchase new or current employee paid benefits*

*Requires employee vote

Disadvantages

Administrative Duties

The employer is required to perform or change some administrative items:

1. Conduct an employee vote (one time only)
2. Minor change to payroll reporting
3. Establish CA VDI bank account(s) & reconciliation process
4. Establish a security deposit held by California
5. Pay quarterly assessment to California
6. Subject to audit conducted by the state of California
 - Financial
 - Claims

Self Insured

The employer is financially responsible to lend the Plan funds if the Plan expenses exceed Plan income





Prepare annual Security Review

VOLUNTARY DISABILITY & PAID FAMILY LEAVE BENEFIT PLAN
FOR CALIFORNIA EMPLOYEES OF
Sample Employer VP# 99-0001

Draft CA VDI Plan document amendments to comply with new legislation



Represent CA VDI Plan at hearings

ICS Services

Ongoing Maintenance

Prepare & analyze the Annual Report of Self-Insured Voluntary Plan Transactions



Assist with EDD CA VDI Audits

Financial Reporting Title 22

California Code of Regulations, Title 22, section 3261-1 Maintenance of Excess Employee Contributions by Voluntary Plans

a) All employee contributions received by an employer under an approved voluntary plan and income arising from the employee contributions are trust funds. **These funds are not part of the employer's assets and must be identified as an asset belonging to the employees covered under the voluntary plan. The employee trust funds shall be maintained in a financial institution as defined in § 4981(a)(2) of the California Financial Code**, in an account opened in the name of the voluntary plan employer; the account must show the monies deposited as, "Employee CUIC 3261 Trust Monies." The term financial institution means a depository institution that can be any one of the following:

- (1) Any insured bank as defined in § 3 of the Federal Deposit Insurance Act (12 U.S.C. § 1811 et seq.) or any bank which is eligible to make application to become an insured bank under § 5 of the act.
- (2) A mutual savings bank as defined in § 3 of the Federal Deposit Insurance Act (12 U.S.C. § 1811 et seq.) or any bank which is eligible to make application to become an insured bank under § 5 of the act.
- (3) A savings bank as defined in § 3 of the Federal Deposit Insurance Act (12 U.S.C. § 1811 et seq.) or any bank which is eligible to make application to become an insured bank under § 5 of the act.
- (4) An insured credit union as defined in § 101 of the Federal Credit Union Act (12 U.S.C. § 1751 et seq.) or any credit union which is eligible to make applications to become an insured credit union pursuant to § 201 of that act.
- (5) Any member as defined in § 2 of the Federal Home Loan Bank Act (12 U.S.C. § 1421 et seq.).
- (6) Any savings association as defined in § 3 of the Federal Deposit Insurance Act (12 U.S.C. § 1811, et seq.) which is an insured depository institution as defined in the act or is eligible to apply to become an insured depository institution under the act.

An insured voluntary plan employer shall only transmit to the admitted disability insurer voluntary plan trust funds, including earned interest or income, in amounts necessary to pay the premiums charged by the admitted disability insurer. Any accumulated excess employee contributions over and above the net cost of premiums, after premium dividends or experience rate credit shall be maintained in a depository institution.

b) **All employee contributions received by an employer under an approved voluntary plan shall be deposited in the account described in Section 3261-1 (a) by the same date that employee federal personal income tax withholdings are due.**

CA VDI Plan Bank Accounts & Financials

Separate bank account must be established for each CA VDI Plan & The financials are subject to audit by EDD



\$ Accounting for Financials

No specific rules for accounting
Accrual vs Cash vs Modified

✓ Employee Contributions

Employee **CA SDI** contributions are remitted to the state of CA (not recorded in CA VDI plan financials).

&

Employee **CA VDI** contributions are recorded as receivables until deposited in CA VDI bank account. (Assets)

✓ CA VDI Expenses

Disability and PFL Benefits, TPA (including back office) fees, and assessments are recorded as payables until withdrawn from the bank account. (Liabilities)

Employer Financial/ GL Activities

Employer GL is not subject to EDD audits

The payroll/ vendor must be notified and set up to track whether employees are participating in VDI vs SDI

The payroll system/ vendor will set up an account to capture employee VDI contributions & recorded in GL (Liability)

The VDI liability accounts are cleared when the employee contributions are deposited in the VDI trust account.

VDI Plan expenses are receivables/ contra liabilities in GL: disability and PFL benefits, TPA (inc. back office) fees, security costs, assessments.

VDI receivables/ contra liabilities are cleared when the expense amounts are withdrawn from the VDI trust account



Dissolution of CA VDI Plan

Doesn't meet expectations

- Minimum of one year
- Loans to plan are forgiven
- Surplus is surrendered to EDD
- 30 days advanced notice to withdraw on anniversary or when EDD makes a change





Questions



ICS

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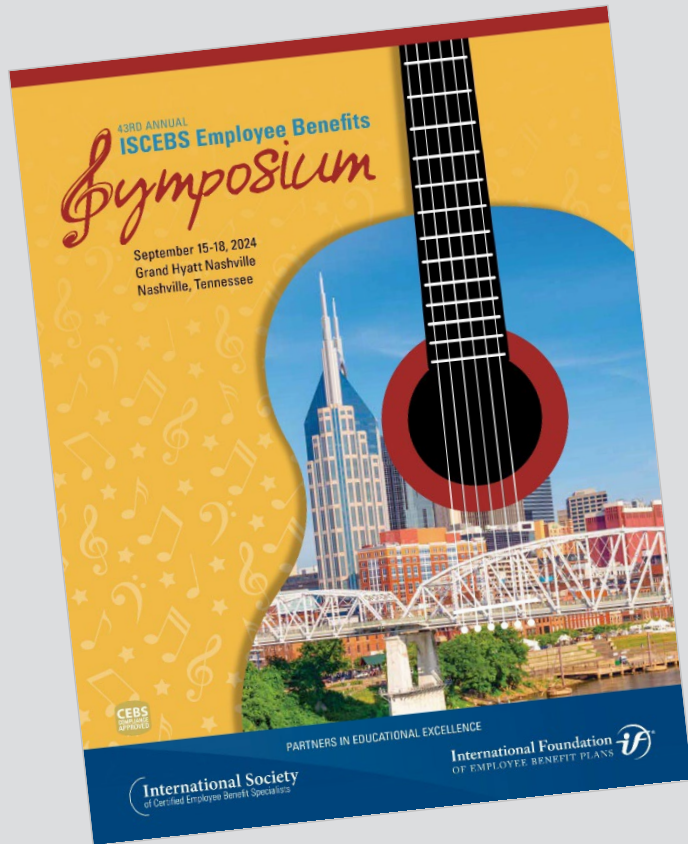
- Navigating the Latest Leave and Accommodation Laws
 - Thursday, May 23rd, 10:00 AM – 11:00 AM PDT
 - Presented by Abigail O’Connell, Senior Counsel at Sun Life
 - Virtual Webinar – ***No cost to attend!***
- Non-Qualified Retirement Plans
 - Wednesday, June 5th, 9:00 AM – 10:00 AM PDT
 - Presented by OneDigital
 - Virtual Webinar – ***No cost to attend!***
- Benefits Basics Workshop
 - Thursday, July 25th, 9:00 AM – 3:30 PM PDT
 - Employee Benefits & Retirement Experts
 - In-person, Pasadena – *\$45 ISCEBS Member, \$90 Non-Member*
- Summer Happy Hour



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