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California Makes Changes to its SDI Program

California's State Disability Insurance (SDI) Program has several upcoming changes, including:

- Beginning January 1, 2024, the wage ceiling for employee SDI payroll contributions is eliminated.
- Beginning January 1, 2025, the wage replacement rate for short-term disability benefits and paid family leave benefits is increased to 70-90% (from 60-70%) depending on income, up to a maximum weekly benefit.

Background

California's State Disability Insurance (SDI) program provides both short-term Disability Insurance (DI) and Paid Family Leave (PFL), which are temporary wage replacement benefits paid from the state to eligible employees who need to be absent from work for specified reasons.

- Under DI, after a 7-day waiting period, California employees who are unable to work because of a non-work-related illness, injury, or pregnancy may be eligible for up to 52 weeks of disability insurance benefits of 60-70% of wages (depending on income), up to a maximum weekly benefit ($1,620/week in 2023).
- Under PFL, California employees who need time off from work to care for a seriously ill family member, to bond with a new child, or to participate in a qualifying exigency related to covered active duty of the employee's family member, may be eligible for up to 8 weeks of paid family leave benefits of 60-70% of wages (depending on income), up to a maximum weekly benefit ($1,620/week in 2023).

This 60-70% wage replacement rate for DI/PFL benefits was scheduled to expire at the end of 2022 and revert back to 55% of wages (as it was in 2017).

Eligible employees pay for their participation in the DI and PFL programs by making payroll contributions to California's state disability insurance.

- In 2023, employees contribute 0.9% of pay up to a wage ceiling of $153,164; the maximum withholding from an employee is $1,378.48 in this year.

- In 2022, employees contributed 1.1% of pay up to a wage ceiling of $145,600; the maximum withholding from an employee was $1,601.60 in this year.

An employer that has applied to and received approval from California's Employment Development Department (EDD) may maintain a voluntary plan to provide short-term disability insurance and paid family leave to its employees, in lieu of its employees participating in the state program

New Developments

In September 2022, Governor Newsom signed Senate Bill 951 into law, which made three important changes to California's SDI Program.

First, SB 951 extended the 60-70% wage replacement rate for DI/PFL benefits through the end of 2024.

Second, beginning January 1, 2025, the wage replacement rate for DI/PFL benefits will increase to 70-90% of weekly wages, depending on the employee's income. This change will primarily affect lower paid employees whose weekly benefit is less than the maximum weekly benefit.

Finally, in order to fund this increase in DI/PFL benefits, the wage ceiling on employee SDI payroll contributions is eliminated, beginning January 1, 2024 (i.e., one year before the increase in DI/PFL benefits). This means all California wages will be subject to withholding for SDI payroll contributions, without regard to any wage ceiling or cap. This change will only affect employees who earn more than the existing wage cap on SDI payroll contributions ($153,164 in 2023).

It is important to note that these changes also apply to an employer that maintains a voluntary plan to provide short-term disability insurance and paid family leave to its employees in lieu of the state program. For example, the voluntary plan's benefits must be amended to match the increases to the state-provided DI and PFL benefits.