Keenan & Associates

BRIEFING

APRIL | 2016

AB 908: EFFECTIVE JANUARY 1, 2018
INCREASE IN WAGE REPLACEMENT % FOR PFL OR SDI PROGRAMS

On April 11, 2016, Governor Brown signed into law AB 908, a bill which will raise the percentage of wage replacement an employee is entitled to when he or she takes a leave of absence from work covered by either California's Paid Family Leave (PFL) or State Disability Income (SDI) programs. Both programs are paid for by payroll taxes, so there will be no direct impact on employers from this change. As discussed below, the bill is anticipated to have an indirect impact on employers through increased utilization of leave benefits by employees.

Currently, a California worker can take six weeks of PFL to take care of a seriously ill family member or to bond with a newborn, newly adopted child or new foster child. During that time, the worker receives wage replacement of 55% of wages up to a maximum weekly benefit which is currently $1,104.00, adjusted every year based on the statewide average weekly wage. The SDI program is for individuals who are unable to work due to pregnancy, illness or injuries unrelated to their jobs. To be eligible for SDI, a worker must have his or her disability certified by a health care professional. Workers receiving SDI receive 55% of their wages up to the maximum benefit amount for up to 52 weeks. Most employees in California contribute to the Disability Insurance Fund to pay the cost of SDI and PFL benefits.

AB 908 will do the following, effective January 1, 2018:

- Increase the wage replacement rate for PFL and SDI benefits from 55% to:
  - ✓ $50/week for those making more than $929/quarter but less than 33% of the California average quarterly wage.
  - ✓ 70% of wages for those who make up to 33% of the California average quarterly wage.
  - ✓ Either 23.3% of the state average weekly wage or 60% of wages (whichever amount is higher) for those who make more than 33% of the California average quarterly wage.
- States that an individual's weekly benefit amount shall not exceed the maximum workers' compensation temporary disability indemnity weekly benefit amount established by the Department of Industrial Relations.
- Sunset the increase on January 1, 2022.
- Eliminate the one-week waiting period for PFL claims.
- Require the Employment Development Department (EDD) to report to the Legislature by March 1, 2021, on the utilization of SDI and PFL benefits based on income categories, the cost of the increased wage replacement rates, and on the SDI contribution rates.

- Require the EDD to perform a cost/benefit analysis of the one-week waiting period for SDI claims and report the results of that study to the Assembly Insurance Committee and the Senate Labor and Industrial Relations Committee.

The amount of payroll deduction funding both PFL and SDI is determined by EDD annually. It is likely that either the rate or the wage ceiling of the payroll deduction may increase under the new benefit formula. It is also likely that the legislature will enact legislation to make the increases in wage replacement rates permanent before the law's sunset date.

In terms of employer impact, this new law is intended to make it more likely that workers take more time to bond with a new child in the family. The law will have negligible impact on most California public schools, as most schools do not pay into the SDI program. Some charter schools do pay into the SDI program, and those schools will be affected.

Please contact your Keenan Account Manager for questions regarding this *Briefing*.