

# Changes in California's State Disability Insurance: Should Your Organization Consider a Voluntary Option?

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If you're a high-wage earner in California, you might notice a larger portion of your wages are being withheld for disability insurance this year compared to last.

This is thanks to California Bill, SB 951 eliminating the taxable wage base limit for State Disability Insurance (SDI) contributions, which means employees must now pay SDI tax on all taxable wages.

While both employers and employees are accustomed to SDI contribution rates and wage limits changing each year—the 2023 wage cap was \$153,164—the removal of a wage cap is new for 2024.

Some California employers are considering offering a private or voluntary disability insurance (VDI) option to enhance the benefit and save their employees money. But how do you determine if it's right for your organization?

## What Are My Other Disability Insurance Options?

Instead of participating in California's SDI program, employers can apply to California's [Employee Development Department](#) for VDI—a voluntary short-term disability and family leave plan. This provides short-term wage replacement disability insurance and family leave benefits similar to SDI.

With this option, employers can design a private plan that enhances benefits and improves the employee short-term disability (STD) option while capping contributions for higher-wage earners.

## Who Is This Plan Right For?

Not all disability carriers in California offer this type of VDI plan yet, but those that do usually offer it as a self-insured option. This means, like self-funding a medical plan, the employer assumes the claims and experience risk.

This type of plan could make sense for organizations that have:

- A significant number of California-based employees (while every carrier has different requirements, many prefer a 500+ employee group).
- A large segment of high-wage earners (organizations in law, finance or technology might be good candidates).
- Low disability incidence and duration experience.

Many carriers will also require employers to have long-term disability insurance (LTD) or another line of coverage before adding a VDI plan. This requirement helps streamline administration and maintains a positive employee experience.

## What to Consider Before Implementing a Voluntary Disability Insurance Plan

There are several factors to consider when deciding whether to offer a VDI plan.

### *Basic Requirements*

First, the VDI plan must be offered to all eligible California employees. It must provide better benefits in at least one area compared to the SDI plan and cannot cost employees more than SDI. To offer a VDI plan, you must obtain written approval from the majority of your employees.

#### *Setup and Enrollment*

By law, VDI can never cost more or pay less in benefits than SDI. Employees cannot waive coverage; they must participate in either the VDI plan or SDI. While employees can reject the VDI plan and choose SDI coverage, they can opt in or out of VDI on a quarterly basis. If employees choose the VDI plan, they must be provided with a written document outlining their benefits.

#### *Cost and Administration*

When offering a self-insured VDI plan, the employer assumes the risk and funds all claims. If the plan runs at a deficit, your organization is financially responsible for covering claims and expenses. Administrative fees for running the plan will include a security bond/letter of credit, a state assessment fee (paid quarterly) and the TPA or carrier administrative fees.

On a go-forward basis, the VDI plan must be updated to match any increase in benefits made to SDI by the state due to new legislation or approved regulations. Additionally, the plan is subject to state-run financial and claims audits.

Your organization will also need to establish a separate bank account and reconciliation process, which may result in minor changes to payroll reporting.

#### **How to Decide if It's Right for Your Organization**

Partnering with a benefits consultant and disability carrier that offers VDI can help you conduct a feasibility study and determine if a VDI plan is right for your organization.

Many employers didn't want to be first in line to implement this new plan at the beginning of the year. However, interest is slowly growing among certain California employers. And as more high-earning employees notice SDI deductions from their wages, we expect even more employers will consider privatized California disability. ■

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