

MAY 2007 DISABILITY INSURANCE (DI) FUND FORECAST

INTRODUCTION

This report provides the status of the Disability Insurance Fund and includes information on the current and projected fund balance, receipts, disbursements, and contribution rates.

The DI program provides benefits to workers who are unable to work due to non-work related illness, injury, or pregnancy. California, Rhode Island, New Jersey, New York, Hawaii, plus the Commonwealth of Puerto Rico, are the only states and territories that provide DI for their workforce.

The DI program includes the Paid Family Leave (PFL) program which allows California workers to take up to six weeks of paid leave each year to care for a seriously ill child, spouse, parent or domestic partner or to bond with a new child.

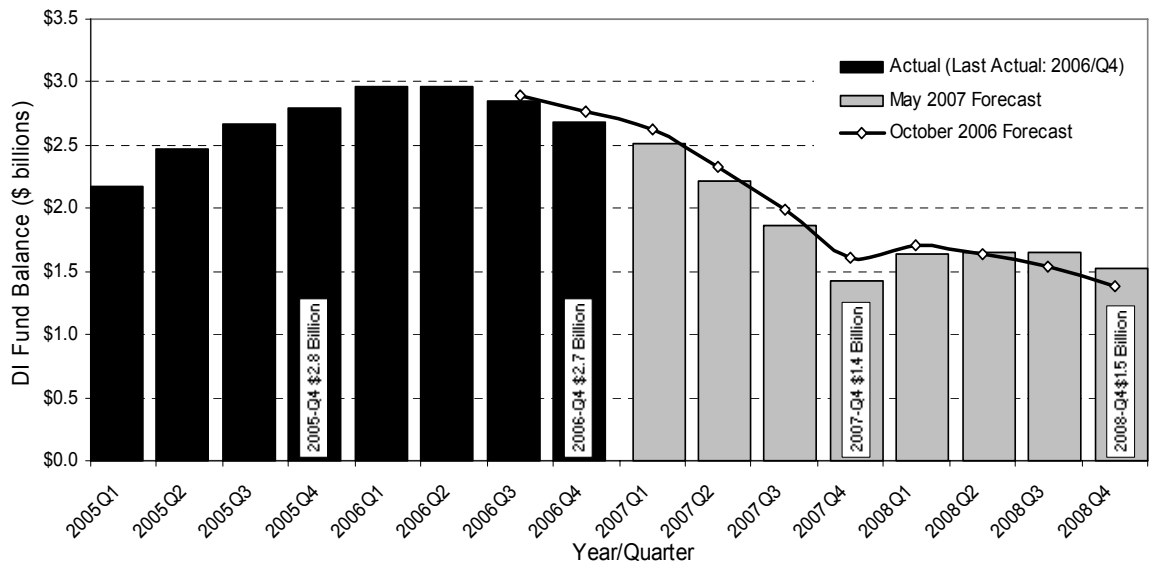
A DI Fund balance ranging from 25 percent to 50 percent of the prior 12 months of disbursements is generally considered adequate to maintain solvency through typical fluctuations in contributions and disbursements. The projected DI Fund adequacy rate of 33 percent for both 2007 and 2008 is within this range.

FUND BALANCE

The DI Fund balance was \$2.7 billion at the end of December 2006. The DI Fund balance is projected to be \$1.4 billion at the end of 2007, and \$1.5 billion at the end

of 2008. The following chart shows the actual and projected quarterly DI Fund balance from 2005 through 2008.

DI Fund Balance 2005 - 2008



The DI Fund balance is projected to be \$1.4 billion at the end of 2007.

NET BENEFITS

Total net benefits, including PFL, were \$3.9 billion for 2006 and are projected to increase to \$4.1 billion in 2007, and \$4.4 billion in 2008. The projected increases are primarily due to projected increases in the average weekly benefit amount.

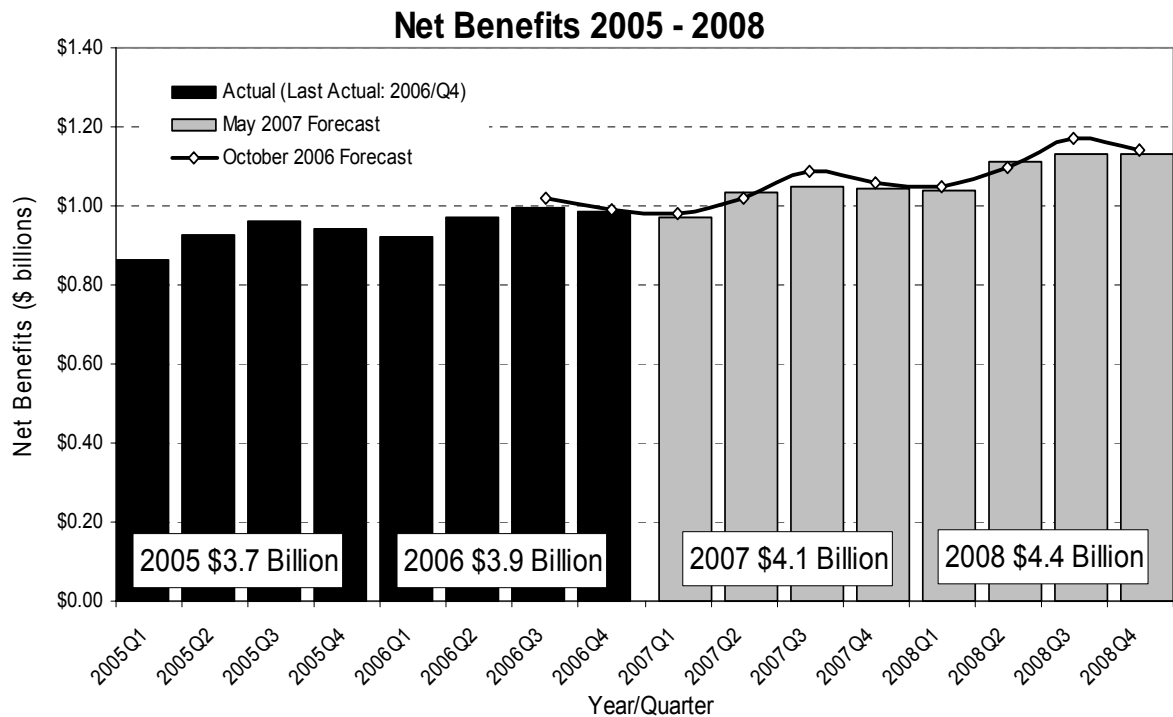
The maximum weekly benefit amount (MWBA) for 2007 is \$882. The MWBA is projected to increase to \$928 in 2008. The actual MWBA for 2008 will be included in the October 2007 DI Fund Forecast.

Net benefits for PFL were \$367.9 million in 2006 and are projected to be \$410.3 million in 2007, and \$465.8 million in 2008.

Net benefits account for a majority of disbursements from the DI Fund. The other disbursements are for administration costs.

The following chart shows actual and projected quarterly benefit payment data from 2005 through 2008, including PFL.

Net benefits are projected to be \$4.1 billion in 2007.



CONTRIBUTIONS

The DI contributions for 2006 were \$3.8 billion and are projected to decrease to \$2.9 billion in 2007, and then increase to \$4.6 billion in 2008.

The DI program taxes covered employees up to a ceiling set by Section 985 of the California Unemployment Insurance Code (CUIC). The taxable wage ceiling for 2007 is \$83,389 and is projected to increase to \$87,738 in 2008. The actual taxable wage ceiling for 2008 will be included in the October 2007 DI Fund Forecast.

The year-over decreases in DI contributions from 2005 to 2007 are primarily due to decreases in the DI contribution rate as follows: 1.08 percent in 2005, 0.8 percent in 2006, and 0.6 percent in 2007. The projected increase in DI contributions for 2008 is mainly due to a projected increase in the DI contribution rate to 0.9 percent.

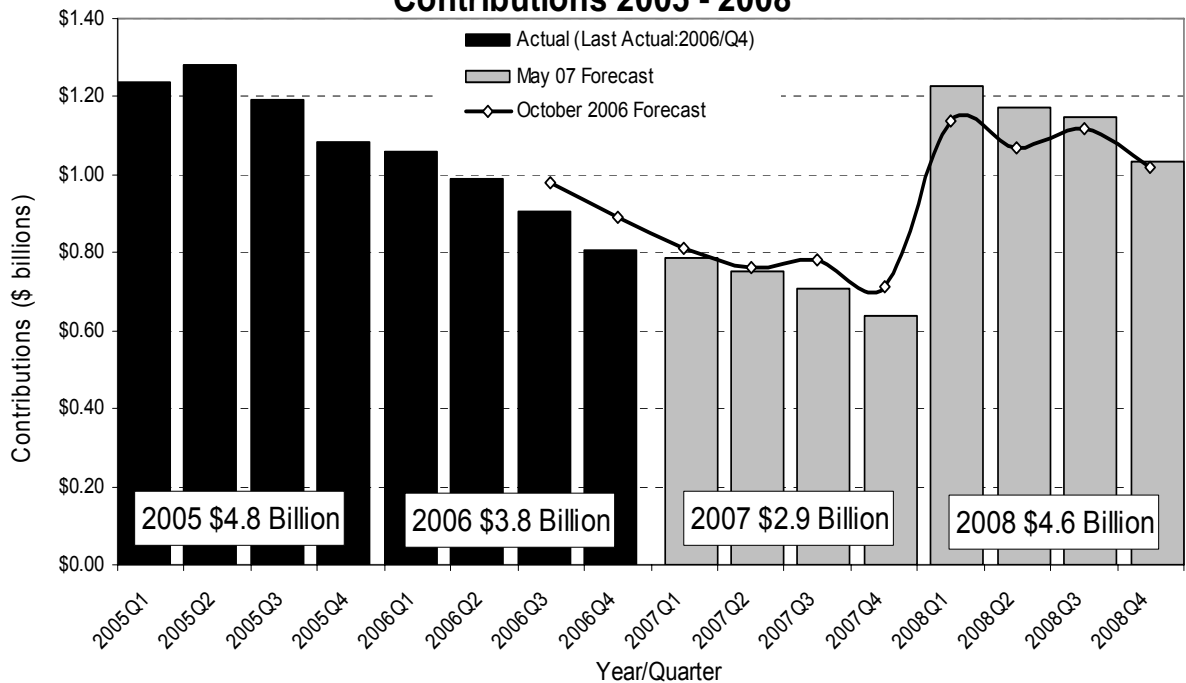
The statutory formula for calculating the DI contribution rate helps to maintain an adequate DI Fund balance. (Refer to page A3 of the Appendix for an explanation of the DI contribution rate.)

The actual DI contribution rate for 2008 will be included in the October 2007 Fund Forecast.

While contributions account for the majority of total receipts to the DI Fund, interest earnings, and other receipts are also included in the DI Fund balance. (Refer to page A1 in the Appendix for an explanation of other receipts.)

The following chart shows the actual and projected quarterly contributions from 2005 through 2008.

Contributions 2005 - 2008



DI contributions are projected to be \$2.9 billion in 2007.

DISABILITY INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2007 - 2008

Table 1
(Dollars in millions)

	2005	2006	2007(F)	2008(F)
FUND SUMMARY				
End of Calendar Year Fund Balance	\$2,796.2	\$2,678.0	\$1,425.9	\$1,525.4
September 30 Fund Balance	\$2,671.0	\$2,854.2	\$1,856.5	\$1,645.1
FUND EVALUATION				
End of Calendar Year Fund Balance as a percent of Calendar Year Disbursements	72.0%	66.0%	33.2%	33.0%
September 30 Fund Balance as a percent of year ending September 30 Disbursements	69.0%	71.0%	43.9%	36.2%
RECEIPTS AND DISBURSEMENTS				
Receipts Less Disbursements	\$1,026.2	(\$118.2)	(\$1,252.1)	\$99.4
Total Receipts	\$4,909.1	\$3,942.1	\$3,046.3	\$4,729.2
Net Worker Contributions	\$4,792.3	\$3,759.6	\$2,888.2	\$4,583.1
Interest Income	\$59.5	\$127.8	\$122.5	\$89.6
Other Receipts	\$57.2	\$54.7	\$35.6	\$56.5
Total Disbursements	\$3,882.9	\$4,060.3	\$4,298.4	\$4,629.8
Net Benefits	\$3,691.9	\$3,873.2	\$4,098.5	\$4,416.8
Administration	\$191.0	\$187.1	\$199.9	\$213.0

F) Forecast Last actual data through December 2006. Bolded numbers are estimates.

Note: All the data in Table 1 includes information related to DI and Paid Family Leave (PFL). Table 3 provides a display of data related only to PFL.

Components may not add to totals due to independent rounding.

DISABILITY INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2007 - 2008
Table 2

	2005	2006	2007(F)	2008(F)
STATE PLAN CLAIMS DATA ⁽¹⁾				
First Claims Paid (FCP)	650,797	653,478	658,000	664,000
Weeks Paid per FCP	14.6	14.4	14.5	14.8
Weekly Benefit Amount				
Maximum/Minimum	\$840/\$50	\$840/\$50	\$882/\$50	\$928/\$50 ⁽²⁾
Average	\$373	\$390	\$405	\$423
COVERED EMPLOYMENT AND WAGES				
Total Average Covered Employment	12,938,597	13,206,000	13,332,000	13,497,000
Average Covered State Plan ⁽³⁾	12,313,068	12,553,000	12,673,000	12,830,000
Average Covered Voluntary Plan	625,529	653,000	659,000	667,000
Total Average Weekly Wage ⁽⁴⁾	\$897	\$926	\$954	\$991
Average State Plan Wage ⁽⁴⁾	\$862	\$892	\$919	\$955
Average Voluntary Plan Wage ⁽⁴⁾	\$1,593	\$1,546	\$1,625	\$1,677
Total Covered Wages	\$605.9 (bil)	\$637.4 (bil)	\$663.6 (bil)	\$698.2 (bil)
Covered State Plan Wages	\$553.9 (bil)	\$584.7 (bil)	\$607.7 (bil)	\$639.9 (bil)
Covered Voluntary Plan Wages	\$52.0 (bil)	\$52.7 (bil)	\$55.9 (bil)	\$58.4 (bil)
State Plan Taxable Wages	\$444.9 (bil)	\$474.6 (bil)	\$485.3 (bil)	\$513.7 (bil)
TAX RATE	1.08% ⁽⁵⁾	0.80%	0.60%	0.90% ⁽⁶⁾
TAXABLE WAGE CEILING	\$79,418	\$79,418	\$83,389	\$87,738 ⁽⁷⁾
UNEMPLOYMENT RATE (Civilian)	5.4%	4.8%	5.0% ⁽⁸⁾	5.3% ⁽⁸⁾

(F) Forecast Last actual data for wages and employment is through the second quarter of 2006. Last actual data for other items is through the fourth quarter of 2006. Bolded numbers are estimates.

- (1) Information in this area does not include PFL. Table 3 provides a display of data related only to PFL.
- (2) The projected Maximum Weekly Benefit Amount (MWBA) for 2008 is based on estimated data as of the time this report was prepared. The actual MWBA for 2008 will be included in the October 2007 DI Fund Forecast.
- (3) Includes state employees covered by SDI. Beginning October 2005 state employees in specific bargaining units began paying SDI premiums and became eligible to receive benefits effective April 1, 2006.
- (4) The Average Weekly Wage is calculated using estimated Covered Wages divided by Average Covered Employment divided by 52.2 (weeks per year).
- (5) The 2005 tax rate of 1.08 percent included a calculated rate of 0.9 percent, plus 0.08 percent to cover the costs of the PFL program, plus 0.1 percent as allowed by Section 984(d) of the California Unemployment Insurance Code.
- (6) The projected tax rate of 0.9 percent for 2008 is based on estimated data as of the time this report was prepared. The actual calculation and announcement of the 2008 DI tax rate will be made in October 2007.
- (7) The projected Taxable Wage Ceiling for 2008 is based on estimated data as of the time this report was prepared. The actual Taxable Wage Ceiling for 2008 will be included in the October 2007 DI Fund Forecast.
- (8) Based on the Labor Market Information Division economic outlook of January 2007.

Note: Components may not add to totals due to independent rounding.
(bil) = Amount in billions.

PAID FAMILY LEAVE
FORECAST FOR CALENDAR YEARS 2007 - 2008
Table 3

	2005	2006	2007(F)	2008(F)
PAID FAMILY LEAVE CLAIMS DATA				
First Claims Paid (FCP)	147,342	160,705	176,000	191,000
Weeks Paid per FCP	5.4	5.3	5.3	5.3
Weekly Benefit Amount				
Maximum/Minimum	\$840/\$50	\$840/\$50	\$882/\$50	\$928/\$50 ⁽¹⁾
Average	\$422	\$436	\$445	\$464
NET BENEFITS	\$329.4 (mil)	\$367.9 (mil)	\$410.3 (mil)	\$465.8 (mil)

(F) Forecast Last actual data through December 2006. Bolded numbers are estimates.

(1) The projected MWBA for 2008 is based on estimated data as of the time this report was prepared. The actual MWBA for 2008 will be included in the October 2007 DI Fund Forecast.

Note: Components may not add to totals due to independent rounding.

(mil) = Amount in millions

A P P E N D I X

DISABILITY INSURANCE (DI) DEFINITIONS

The following definitions are informational only and arranged in order of their appearance in Tables 1 and 2. The law is the California Unemployment Insurance Code (CUIC). Interpretations of the law are contained in opinions of the Attorney General, administrative and court decisions, and Title 22 of the California Code of Regulations.

TOTAL RECEIPTS

Net Worker Contributions:

This amount represents total worker contributions, less refunds. For example, in 2007, total worker contributions are the amount collected as a result of employers withholding 0.6 percent of all wages for each employee, up to a maximum of \$500.33 (0.6 percent of \$83,389, the taxable wage ceiling). However, if an employee worked for more than one employer, the total withheld in 2007 may exceed \$500.33. The employee would then be eligible for a refund of the amount exceeding \$500.33. Refunds are claimed as a credit on the California personal income tax return. Individuals not required to file personal income tax returns may file for refunds with the Employment Development Department.

Interest Income:

This is interest earned on the State Treasurer's investment of DI funds. At any given time, about 99 percent of the DI Fund is invested. The total amount earned by such investments constitutes interest income.

Other Receipts:

Receipts from Voluntary Plan assessments constitute the largest portion of "Other Receipts." A Voluntary Plan is an approved private plan. It may be substituted for the State Plan if the Voluntary Plan matches the State Plan's benefits, provides at least one greater benefit, and costs the employee no more than the State Plan. Employers and employee groups may establish Voluntary Plans with mutual consent of the employer and a majority of the employees. The Voluntary Plan assessment rate is 14 percent of the DI State Plan contribution rate. In 2007, with the State Plan tax rate at 0.6 percent, Voluntary Plan employers were assessed 0.00084 (14 percent of 0.006) of taxable wages. These assessments are used to reimburse the Disability Fund for the amounts paid for administrative costs arising out of voluntary plan oversight. "Other Receipts" also includes reverted checks.

TOTAL DISBURSEMENTS

Net Benefits:

This is the amount of benefits paid to claimants, less the amount of cancellations, refunds, or liens. Total benefits may be reduced for various reasons, including: death of claimants;

repayment by claimants of benefits erroneously claimed; repayments to the DI Fund by other programs; and benefit checks not cashed.

Administration:

All disbursements from the DI Fund that are not benefit payments fall into the administration category. This includes disbursements for salaries, equipment, supplies, rent, and utilities.

STATE PLAN CLAIMS DATA

First Claims Paid:

These are the first benefit payments mailed to each claimant who has fulfilled non-monetary, monetary, and medical requirements and who has filed a claim certifying to the onset of a disability.

Weeks Paid Per First Claims Paid:

The average number of weeks that benefits are paid for each first claim paid.

Weekly Benefit Amount:

This is the amount payable per week for the period of a disability. From 1984 through 1989, the minimum and maximum amounts were \$50 and \$224, respectively. The maximum was increased to \$266 in 1990, \$336 in 1991, \$490 in 2000, \$602 in 2003, \$728 in 2004, and \$840 in 2005 and 2006. Beginning January 2007 and thereafter, the maximum weekly benefit amount is increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year. The maximum weekly benefit amount is \$882 in 2007.

The following table compares the MWBA and AWBA for CY 2000 – 2008:

YEAR	MWBA	AWBA
2000	490	269
2001	490	293
2002	490	303
2003	602	319
2004	728	345
2005	840	373
2006	840	390
2007	882	405 (E)
2008	928 (E)	423 (E)

(E) = Estimate

A table in Section 2655 (a) of the CUIC is used for calculating a claimant's weekly benefit amount (WBA) if the base period high quarter wages (HQW) do not exceed \$1,749.20. If the HQW exceeds \$1,749.20, the WBA is equal to 55 percent of the HQW divided by 13; not exceeding the maximum benefit amount, or $((HQW \times .55)/13)$.

COVERED EMPLOYMENT AND WAGES

Total Average Covered Employment:

Employers count the number of employees on their payrolls during the week which includes the 12th day of the month. Quarterly and annual averages are taken from these counts.

Total Average Weekly Wage:

To derive the average weekly wage, total wages are divided by covered employment, and the result is then divided by the number of 5-day work weeks in the period. The number of work weeks varies from 12.8 to 13.2 in a quarter and from 52.0 to 52.4 in a year.

Total Covered Wages:

Covered wages are wages earned by employees subject to the DI provisions defined in Part 2 of the CUIC. Total covered wages include tips, commissions, bonuses, and the reasonable cash value of all remuneration payable to an employee in any medium other than cash.

State Plan Taxable Wages:

That portion of covered wages from which DI contributions are taken.

Tax Rate:

The rate at which workers' contributions are determined.

The statutory formula for calculating the DI Contribution rate considers fund conditions and cost rate with a year-ending date of September 30 as follows:

$$\frac{1.45 \times \text{Disbursements} - \text{Fund Balance}}{\text{State Plan Taxable Wages}}$$

An ad hoc Advisory Committee, comprised of labor and employer representatives, worked with the Department and independent actuaries to develop this experience-based contribution formula to maintain a prudent reserve, reflect benefit costs, and avoid excessive volatility and instability.

The rate of worker contributions shall not exceed 1.5 percent or be less than 0.1 percent. The rate of worker contributions shall not decrease from the rate in the previous year by more than two-tenths of one percent. The Director may, at his or her discretion, increase or decrease, by not to exceed 0.1 percent, the rate of worker contributions determined by the above formula. However, with the passage of Senate Bill 727 (Chapter 797, Statutes

of 2003), the Director's discretion to decrease the calculated DI contribution rate was suspended for CYs 2004, 2005 and 2006.

Senate Bill 1661 (Chapter 901, Statutes of 2002) created, within the Disability Insurance program, the Paid Family Leave (PFL) program. The PFL program provides up to six weeks of wage replacement benefits to workers who take time off work to care for a seriously ill child, spouse, parent or domestic partner, or to bond with a new child. To cover the initial costs of this program, 0.08 percent was added to the DI contribution rate for calendar years 2004 and 2005.

Taxable Wage Ceiling:

This is the upper limit of wages in a calendar year subject to DI contributions. Section 985 of the CUIIC requires the taxable wage ceiling to be four times the MWBA multiplied by 13 and divided by 55 percent: $((4 \times \text{MWBA} \times 13) / .55)$.

From 1991 through 1999, the taxable wage ceiling was \$31,767. From 2000 through 2002, the taxable wage ceiling was \$46,327. The taxable wage ceiling increased to \$56,916 in 2003, to \$68,829 in 2004, and to \$79,418 in 2005 and 2006. The taxable wage ceiling is \$83,389 in 2007.

Unemployment Rate (Civilian):

The number of unemployed persons in California expressed as a percentage of the total number of persons in the California civilian labor force.