

# COMPLIANCE ALERT

## Changes to California’s State Disability Insurance Program Go into Effect in 2024

December 15, 2023

### Action Required:

- Employers should ensure their payroll systems are updated for 2024 SDI deductions in California.
- Employers may also want to communicate these changes to their employees ahead of the January 1, 2024 effective date.

Under California’s recently enacted [SB 951](#), effective January 1, 2024, the contribution limit (or wage cap) applicable to California’s state disability insurance (SDI) tax will be removed, resulting in SDI tax on all employees’ taxable wages. California’s SDI program provides both short-term disability and family leave benefits to covered employees.

### How Does this Development Change the Law?

Under California’s current SDI program, taxes paid by employees are used to fund the SDI benefits. For 2023, the contribution rate is 0.9% on each employee’s annual wages up to the wage cap of \$153,164 for a maximum contribution of \$1,378.48 (this information is updated each year on the CA Employment Development Department (EDD) website, available [here](#)).

Under the SDI program set to take effect on January 1, 2024, the wage ceiling will be eliminated, and as a result, all California wages will be subject to this tax (which will go up from 0.9% to 1.1% in 2024). As a result of this change (elimination of the wage cap), employees earning more than \$153,164 will see a greater amount withheld.

Here are some examples:

California Wages	SDI Taxes Withheld: 2023	SDI Taxes Withheld: 2024
\$75,000	\$675 (\$75,000*0.9%)	\$825 (\$75,000*1.1%)
\$250,000	\$1,378.48 (\$153,164*0.9%)	<b>\$2,750</b> (\$250,000*1.1%)
\$500,000	\$1,378.48 (\$153,164*0.9%)	<b>\$5,500</b> (\$500,000*1.1%)

### Can Our Organization Establish a Private Insurance Plan or Voluntary Plan in Lieu of the State SDI Program?

Yes. As an alternative to participating in California’s SDI program, employers can apply to the EDD for approval of a [voluntary short-term disability plan](#). A voluntary plan can be self-insured or provided by a third-party insurance carrier.

All voluntary SDI plans must, among other requirements:

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- Offer the same benefits to employees as California SDI;
- Provide at least one benefit that is better than those available under California SDI;
- Not cost employees more than California SDI;
- Be updated to match any increase in benefits that the California SDI program implements from legislation or approved regulations; and
- Obtain written approval of the voluntary plan from the majority of employees eligible for coverage.

In light of the increase in California SDI taxes that will apply starting in 2024 to employees earning more than the current SDI wage cap, employers may want to evaluate if a voluntary plan can lower costs. For many employers, however, the state's legal requirements for such voluntary plans will make this option too high of a hurdle to jump.

## What Should Employers and Plan Sponsors Do Next?

Employers and plan sponsors should ensure that their payroll system is updated for 2024 SDI deductions in California. Additionally, HR and Benefits departments may want to proactively communicate these changes to employees in advance of the January 1, 2024 effective date.

**If you have any additional questions, please call your Corporate Synergies Account Manager or 866.CSG.1719.**