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California Voluntary Plan Presentation

February 7, 2025

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Agenda

What we'll review today

- Welcome and Introductions
- California SDI Overview
- Voluntary Plan Overview
- Benefits
- Financial Risk
- Feasibility Studies
- Voluntary Plan Case Study
- Implementation Timeline
- Voluntary Plan Maintenance
- Questions

01

California SDI Overview

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California SDI Overview

California's Disability Insurance program (which includes PFL benefits) is funded by an employee tax. All California workers must participate in the SDI program through the Employment Development Department (EDD) unless their employer offers a California Voluntary Plan.

EDD Plan for 2023	EDD Plan for 2024	EDD Plan for 2025
Funding • Paid by employees • 0.9% on the first $153,164 wages paid (maximum withholding is $1,378.48) **Benefits** • 60-70% of earnings • Maximum weekly benefit is $1,620	**Funding** • Paid by employees • 1.1% on all taxable wages (no maximum withholding) **Benefits** • 60-70% of earnings • Maximum weekly benefit is $1,620	**Funding** • Paid by employees • 1.2% on all taxable wages (no maximum withholding) **Benefits** • 70-90% of earnings • Maximum weekly benefit is $1,681

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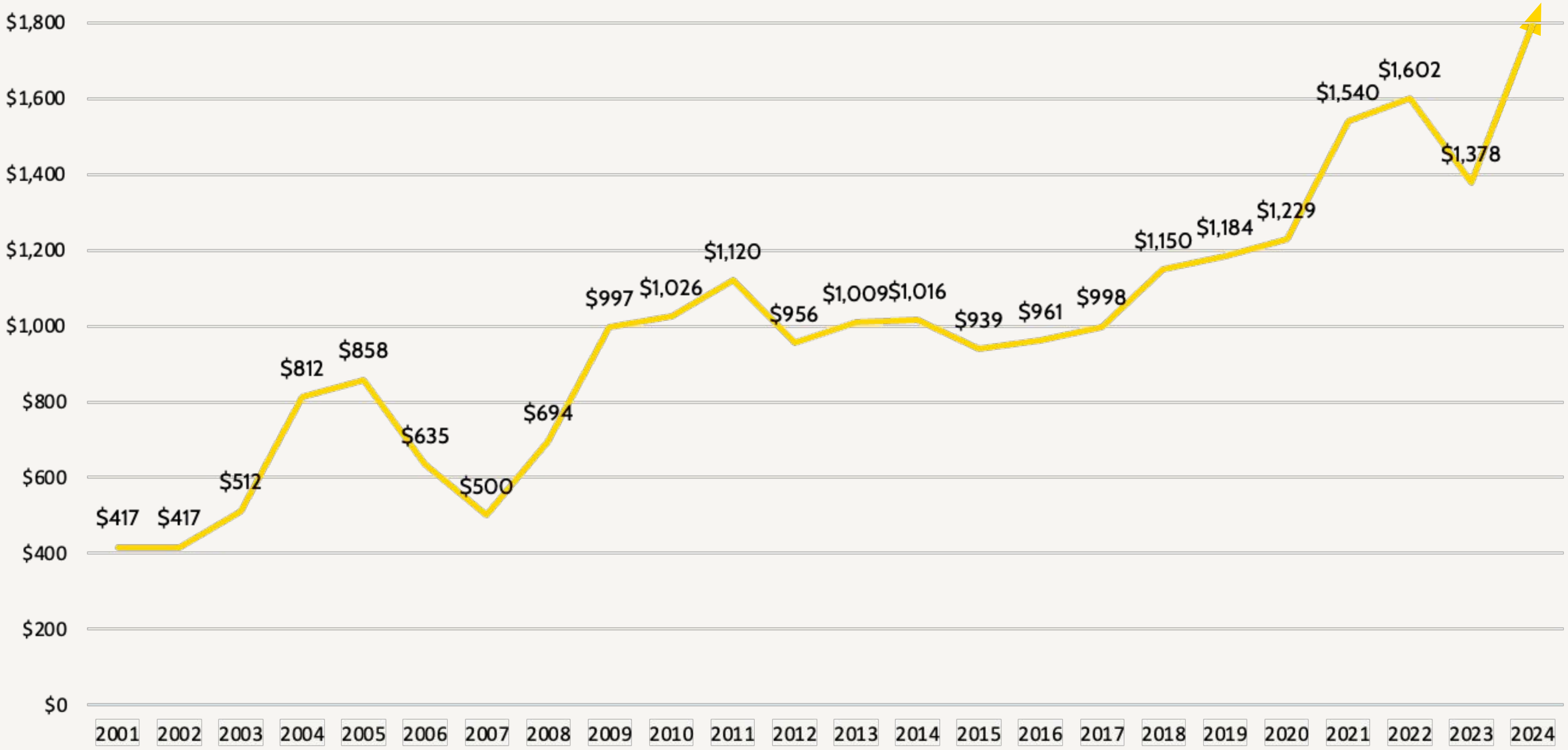
SDI cost



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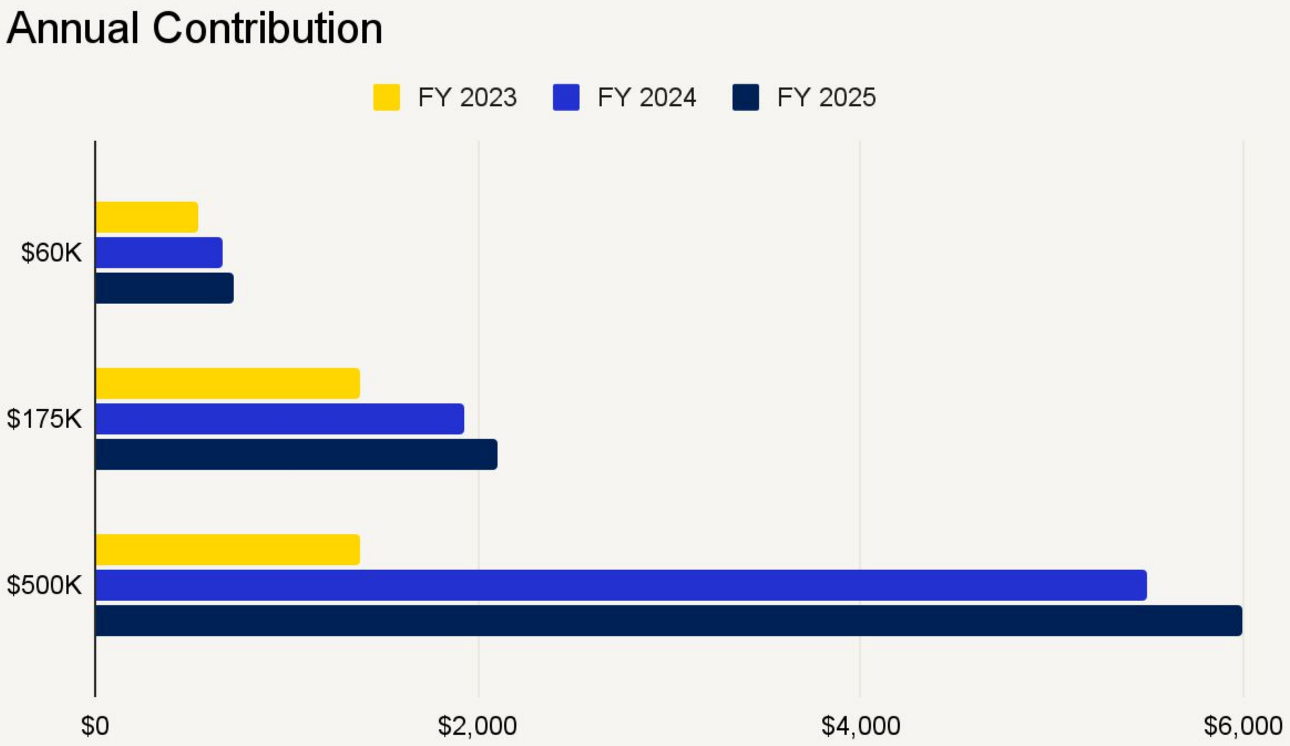
From partial to full-year contributions

In the past, higher-wage earners only contributed to California's SDI up to a set wage ceiling. **Once they hit that cap, their contributions stopped for the year,** while lower-wage earners contributed year-round.

But as of 2024, the wage ceiling has been eliminated, meaning **all employees—regardless of income—now contribute on every dollar earned, all year long.**

Individual Cost Impact Examples



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Voluntary Plan Overview

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What is a Voluntary Plan?

A Voluntary Plan (VP) allows employers to create a private, self-insured plan for their California employees, providing a better employee experience with the potential for more flexibility and enhanced benefits.

Voluntary Plan Requirements:

- Plan cannot charge employees more than SDI
- The plan must pay at least what SDI would pay
- The plan must provide at least one right or benefit greater than SDI.
- Plan assets belong to the participants
- Plan must be "secured"
- Employees can choose not to participate
- The majority of CA employees must approve (voting process)

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Voluntary Plan Benefits

Why consider a Voluntary Plan?

Improved filing experience

Reduced employee cost, increased benefits, or both

Potential savings to the employer

No cost to the employer

The SDI rate remains high at 1.2% and no taxable wage ceiling is in place

Larkin white glove service

Improved filing experience

Escaping EDD traffic jams and bureaucracy can de-stress the filing process for employees.

Faster claims processing

- The EDD answers fewer than 40% of calls received
- Through a VP claims are processed directly through the employer or third-party administrator

Convenient payment options

- Employees can speak to actual people who answer the phone
- Employees receive funds via regular payroll, or through direct deposit

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Reduced employee cost, boosted benefits

Increased flexibility in plan structures can lead to a better cost/benefit ratio.

Reduced employee costs

- Contribution rates can be set lower than SDI
- VP allows employers to maintain a wage cap
- High wage employees don't have to contribute through full calendar year

Increased benefits

- Payouts can be structured to provide higher weekly benefits
- Any surplus can be reinvested into the plan to boost employee payouts

Large potential savings for employers

Voluntary plans help you align your plan structure to organizational goals, with high ROI potential.

Potential savings

- Eliminate supplemental leave costs by replacing Short Term Disability or salary continuation pay with Voluntary Plan benefits
- Reduce employer expenses as Voluntary Plan payouts are fully employee-funded

No costs

- Employee contributions cover both benefit payouts and all administrative expenses—including third-party administration fees

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Financial Risks

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What are the Financial Risks?

The plan's costs could be greater than the contributions made by employees.

If a Voluntary Plan's costs exceed employee contributions, the employer must subsidize the Plan or "lend" the plan money.

Larkin mitigates the client's risk through transparency and conservative forecasting.

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How does a taxable wage ceiling impact Financial Risk?

Every Voluntary Plan is required to pay state assessments, a tax that is based on the SDI taxable wages paid to each employee.

Alexis makes $3M / year

State assessment for Alexis:

$5,040

-

Alexis' company sets rate at:

$2,000

=

$3,040 deficit

That Alexis' company must cover

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Voluntary Plan Case Study

What Mattered Most to this Company?

Enhanced Employee Benefits	Offering superior benefits compared to the state, with additional enhancements over time.
Lower Employee Contributions	Setting a reduced rate that minimizes the deduction from employees' weekly pay.
Simplified Payment Experience	Streamlining the process to bypass interactions with the EDD, known for limited phone response.
Cost Savings for the Employee and Employer	Utilizing employee contributions to offset administrative costs and payouts enables us to provide greater benefits.

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The Results Speak for Themselves

Cumulative benefits over lifetime of voluntary plan.

$30M

Generated about $30M in savings vs. the California state plan

$6M

In Surplus

$24M

Spent it on Higher Employee Benefits and/or Reducing Contributions

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The Keys Behind Their Success

Higher Benefits for Employees in Need

Offering a $3,000 weekly benefit, significantly more than the state's $1,681.

Reduced Employee Contribution

A low contribution rate of 0.65%, less than state requirements.

Company Savings on Benefit Costs

Employee contributions fully cover their claims, removing the financial burden from the employer.

Comprehensive Coverage of Administrative Costs

The plan absorbs all administrative expenses, assessments, and security, sparing the company from any out-of-pocket costs.

Enhanced Benefits with Fiscal Surplus

Achieving a larger benefit payout while generating a $6 million surplus for the plan by 2024.

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Implementation Timeline

Implementation Timeline

01
Get employee engagement:

Larkin takes care of:
- Determine plan design.
- Develop employee-facing communications.
- Conduct employee presentations.

Your team:
- Host voting survey for CA employees.

02
Set up financials:

Larkin takes care of:
- Create payroll and banking workflows.
- Provide guidance to keep your finances in compliance with CA laws.

Your team:
- Set up payroll tax codes and bank accounts to support the new plan.

03
Get into compliance:

Larkin takes care of:
- Draft plan legal texts.
- Submit the application to the EDD.
- Get approved!

Your team:
- Post Larkin drafted announcements and make employee facing documents available.

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Voluntary Plan Maintenance

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VP Maintenance

Security

Larkin will evaluate the amount of security each year as a function of the change in the formula and any change in the client's expected taxable wages for the following year.

If another form of security is utilized, Larkin will provide instructions.

Financial Compliance

The EDD requires an Annual Report of Self-Insured Voluntary Plan Transactions (DE 2568V) be submitted by February 15 of the following year. As the client's TPA, Compliance Services will prepare the form and once reviewed by the client will submit it to the EDD.

Disability Management Report

The Account Management, Analytics, and Compliance Services teams will partner to deliver the DMR to clients. This is an opportunity to review a year's worth of data with the client and assess if any changes to the VP are appropriate.

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Contacts

Current clients

Reach out to Client Success Manager.
If you aren't sure who to reach out to, email us at client_success@thelarkincompany.com

Prospects

Reach out to sales@thelarkincompany.com

Questions?

Thank you