

STATE CONTROLLER'S OFFICE  
PERSONNEL AND PAYROLL SERVICES DIVISION  
P.O. BOX 942850  
SACRAMENTO, CA 94250-5878

DATE: June 6, 2012

PAYROLL LETTER #12-008  
(CIVIL SERVICE ONLY)

TO: All Agencies in the Uniform State Payroll System

FROM: Lisa Crowe, Chief  
Personnel and Payroll Services Division (PPSD)

**RE: STATE DISABILITY INSURANCE (SDI) – SUBJECT GROSS WAGE BASE**

It was recently identified that the gross wage base used to compute the SDI withholding amount is not being calculated correctly. According to the Employment Development Department (EDD) Information Sheets DE 44 Revision. 36 (1 through 10) and DE 231EB Revision. 9 (8 through 10), the SDI taxable gross wage should not include pre-tax deductions made under a cafeteria plan which meets the requirements of Section 125 of the Internal Revenue Code, and Sections 1.125-1 and 1.125-2 under the Code of Federal Regulations. It has been determined that the state's Flex Elect program meets the definition of a cafeteria plan for purposes of the SDI program.

The State Controller's Office (SCO) is currently reviewing the EDD information and assessing the payroll system changes needed to exclude the pre-tax flex elect deductions for SDI benefit purposes. Every effort is being made to implement the payroll modifications in time for the June 2012 master payrolls with retroactive adjustments for the prior pay periods issued toward the latter part of the year.

A subsequent Payroll Letter will be issued providing additional information regarding the details surrounding the changes to the SDI payroll process, implementation date of the changes and the retroactive adjustment process and timeframe. In the meantime, if there are any questions, please contact John Ochoa at (916) 322-8115 or [JOchoa@sco.ca.gov](mailto:JOchoa@sco.ca.gov), or Maria Banuelos at (916)323-3932 or [mbanuelos@sco.ca.gov](mailto:mbanuelos@sco.ca.gov).

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