

Implementation – Secure 2.0 Act – 401K Changes in Workday Payroll

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Abstract:

This article focusses on understanding the retirement benefit 401k changes requirement of Secure 2.0 Act (2026) and how we can architect the solution in Workday payroll using delivered concepts of lookup table, lookup calculation, Comparison Calculation, Arithmetic Calculation, and override calculation. This research outlines the concept of 401K, 401k Limit, Catch up Limit, Roth, and various calculation options in Workday to implement the same and other configurations to implement this ACT. This article proves the success of this design with a successful case study by implementing this design in the Retail industry with over forty thousand employees across all states in USA and concludes with the implementation strategy.

Keywords: Secure 2.0 ACT, ERP, Workday Payroll, Pre Tax Deductions, Post Tax Deductions, 401K, Roth, Limits.

Introduction

The SECURE 2.0 Act aims to help Americans better prepare for their financial future while strengthening the retirement system for both employers and employees. The key provisions from 2025 include mandatory auto-enrollment into new retirement plans, higher catch-up contribution limits for workers closer to retirement age, with the Saver's Match (a federal matching contribution) generally taking effect for taxable years beginning after Dec. 31, 2026.

What is the SECURE 2.0 Act?

The SECURE 2.0 Act is designed to enhance the retirement savings experience for working Americans. Some of its key elements focus on incentivizing people to save more and prioritize long-term goals.

What is in the SECURE 2.0 Act?

There are several key provisions to the SECURE 2.0 Act that impact retirement spenders and savers alike. A few stand out as having the largest impact on working Americans getting ready for retirement.

Expansion to automatic enrollment

The SECURE 2.0 Act requires employers who establish a new 401(k) or 403(b) plan after December 29, 2022, with automatic enrollment requirements generally applying beginning with the year 2025 plan, to automatically enroll all new employees. Employees must be enrolled at a rate of at least 3%, which would increase annually until they reach at least 10%. Workers have the option to opt out or choose a lower or higher deferral rate that fits their needs.

1. What is Workday Payroll?

Workday Payroll is a Cloud-Based payroll management solution which is designed to automate and streamline the payroll business process for organizations irrespective of sizes and categories of employees. It helps payroll businesses to effectively manage their employees' compensation, earnings and deductions configuration rules, tax deductions, tax compliance, payroll reporting, and payroll analytics in a single software solution platform. Workday Payroll offers real-time calculations, managing FLSA rules, delivered connectors with major vendors like ADP, Fidelity, seamless integrations between HR and Finance Systems. Workday Payroll also comes in with best user self-service experience interface, maintaining employee tax

elections, direct deposit information and pre built audit controls which make payroll administrator to administer the payroll activities effectively.

Retirement Savings Overview

Retirement savings plans are essential for employees to prepare for their financial future after they stop working. Here are key aspects of retirement savings plans:

Enrollment Process

- Employees can be enrolled in retirement savings plans through a designated process.
- Administrators can initiate open enrollment, change benefit elections, or manage passive events for employees.

Contribution Allocation

- Employees can allocate their contributions across multiple retirement savings plans.
- Contribution percentages must total 100% when distributing across different plans.
- Contributions can be specified as a percentage or a fixed amount, adhering to the minimum and maximum limits set by the plan.

Employer Contributions

- Employer contributions may be configured to match or supplement employee contributions, depending on the plan's rules.

Pre-Tax Deductions Overview

Pre-tax deductions are amounts taken from an employee's gross pay before taxes are calculated. These deductions reduce the employee's taxable income, which can lead to lower overall tax liability. Common examples include:

- **401(k) Contributions:** Employee contributions to retirement savings plans.
- **Health Care Benefits:** Employee contributions to health insurance plans.
- **Flexible Spending Accounts (FSAs):** Contributions to medical or dependent care expenses.

Key Points

- **Tax Benefits:** Pre-tax deductions, lower taxable income, potentially resulting in tax savings.
- **Eligibility:** Specific eligibility criteria may apply based on the employer's plan and IRS regulations.
- **Configuration:** Employers must set up pre-tax deductions correctly in payroll systems to ensure compliance with tax laws.

Important Considerations

- Review the **IRS limits** for contributions to ensure compliance.
- Consult with legal counsel regarding specific plan documents and configurations.
- Changes in tax laws, such as those from the Secure 2.0 Act, may affect pre-tax deduction options.

Post-Tax Deductions Overview

Post-tax deductions are amounts deducted from an employee's paycheck after taxes have been calculated. These deductions are taken from the employee's net pay and can include contributions to various benefits, such as health care plans or retirement savings accounts like a 401(k) Roth.

Key Points:

- **Health Care Contributions:** Employees may have post-tax contributions for health care benefits, which are deducted from their pay after tax calculations.
- **401(k) Roth Contributions:** Employees can elect to contribute a portion of their salary to a 401(k) Roth plan, which is also considered a post-tax deduction.
- **Impact on Pay History:** It is important for payroll systems to accurately label these deductions in reports to avoid confusion with pre-tax deductions.

Considerations:

- Ensure compliance with IRS limits for contributions.
- Review any recent tax code amendments that may affect deduction configurations.

Secure 2.0 ACT - 2026 Changes

The SECURE Act 2.0 is a significant update to the original SECURE Act, aimed at enhancing retirement savings and security. It introduces new rules that took effect on January 1, 2026, including:

Catch-up Contributions: Higher earners (those earning over \$150,000 in FICA wages) can only make catch-up contributions like Roth (after-tax) dollars, not pre-tax.

Flexibility for Roth Accounts: More flexibility is provided for Roth accounts and emergency withdrawals

Auto-Enrollment: The Act mandates auto-enrollment for new retirement plans, promoting savings for small businesses.

Increased Tax Credits: Tax credits for new retirement plans have been doubled, providing significant financial support for small businesses.

These changes are designed to help Americans save more for retirement and improve overall retirement security.

Live Case Study

One of the Top Retail Company in USA having more than forty thousand employees across fifty states of USA is processing payroll in their organizations using Workday ERP and we have employees who are enrolled in 401k and Roth. With this new act, we need to identify the employees who had more than \$150K OASDI wages in the previous year and move the Catch-up amount to the Roth automatically even if the employees have not enrolled in ROTH.

Solution Design

This architecture model is based on Workday features of Deductions, Limit, configuration, Calculation Overrides, Memo Earnings

Solution Model Steps

The solution is based on the existing configuration wherein the 401k actual deduction and catch-up limit in the same deduction

OASDI Wages

OASDI stands for Old-Age, Survivors, and Disability Insurance, which is a part of the Social Security program in the United States. OASDI wages refer to the earnings that are subject to OASDI tax, which funds these benefits.

Key Points:

- **Taxable Wages:** OASDI wages include earnings from various sources, such as regular wages, tips, and other compensation that are subject to OASDI tax.
- **Thresholds:** There are specific thresholds for OASDI taxable wages. For example, wages exceeding \$145,000 in the preceding year may affect eligibility for certain deductions or contributions.
- **Reporting:** Employers must report OASDI wages accurately to ensure compliance with tax regulations and to avoid issues with tax filings.

Importance:

Accurate tracking and reporting of OASDI wages are crucial for both employees and employers to ensure proper benefits and tax obligations are met.

Step 1: Get the Preceding Year YTD OASDI Wages using the delivered “Value Comparison Calculation”

View Value Comparison Calculation (Workday Owned) Preceding Year YTD OASDI Subject Wages > Catch-Up Threshold

Name: Preceding Year YTD OASDI Subject Wages > Catch-Up Threshold
 Category: Payroll
 Comment: Returns True when the Preceding Year OASDI Subject wages are greater than the IRS Catch-Up Threshold amount.

Calculation Usage

1st Operand	Operator	2nd Operand
Preceding Year YTD OASDI Subject Wages [USA]	greater than	United States Elective Deferral Catch-Up Contribution Roth Threshold under IRC 414(v)

Figure 1: Value Comparison Calculation

Step 2: Create a conditional calculation to check the limit based on Preceding Year YTD OASDI Wages

View Conditional Calculation PY CC Preceding Year YTD FICA Wages 150K > then use pre-tax contribution limit

Name: PY CC Preceding Year YTD FICA Wages 150K > then use pre-tax contribution limit
 Category: Payroll

Calculation Usage

Calculation Condition	Order	Condition	Result
...	a	Preceding Year YTD OASDI Subject Wages > Catch-Up Threshold	Elective Deferral Annual Limit for 401(k), 403(b), 457(b) and 408(k) SEP Plans

Default Response: 401k Annual Limit (including catch-up if worker over 50 years of age)

Figure 2: Conditional Calculation

Step 3: Map the new conditional calculation from Step 2 in the limit section of 401K Deduction

View Deduction 401(k) Contribution

Name: 401(k) Contribution
 Code: 401k
 Default Payslip Name: 401K Contribution
 Category: Payroll
 Current Status: Active

Effective Dated Non-Effective Dated

Click here to sort	Effective Dated Details
12/28/2025	Effective Date: 12/28/2025
01/01/2000	Criteria
	Worker Eligibility 2 items
	Worker Eligibility
	Payroll Input Exists for Pay Component
	Benefits: Benefit Plan Percentage Exists (and <= 0)

Calculation **Base (unprorated) * Percent**

Calculation Proration

Prorate Using Annual Working Days

Retro Calculation

Recalculate during Retro **No**

Related Calculations 2 items

Related Calculation	Default Calculation	Override Calculation	Input Allowed?	Aggregate	Results	
					Do Not Store / Do Not Store if Zero	Display
Base (unprorated)		401k Wages (-) Exec Retirement	Yes	No	<input type="radio"/> Do Not Store <input type="radio"/> Do Not Store if Zero	<input checked="" type="radio"/>
Percent		Benefits: Benefit Plan Percentage	Yes	No	<input type="radio"/> Do Not Store <input type="radio"/> Do Not Store if Zero	<input checked="" type="radio"/>

▼ **Limits**

Limits 2 items

Value	Balance Period	Based On
PY CC Preceding Year YTD FICA Wages 150K > then use pre-tax contribution limit	YTD - Current Calendar Year (based on Payment Date)	401(k) and Roth
401k Annual Limit (including catch-up if worker over 50 years of age)	YTD - Current Calendar Year (based on Payment Date)	401(k) and Roth

Figure 3: Earnings and Limit Calculation

Step 4: Create a new Memo Earnings to move the spill over of 401K catch to Roth. This new memo will validate the age and preceding YTD OASDI amount.

View Earning
401(k) Spillover to Roth [USA]
⋮
🏠

Name 401(k) Spillover to Roth

Code 401KSO

Category Payroll

Country United States of America

Current Status Active

Effective Dated
Non-Effective Dated

12/28/2025

Effective Dated Details

Effective Date 12/28/2025

▼ **Criteria**

Worker Eligibility 2 items

Worker Eligibility

401k Wages (-) Exec Retirement <= 0

Benefits: Benefit Plan Percentage Exists (and <= 0)

Worker Age >=50 and Preceding Year YTD OASDI Subject Wages > Catch-Up Threshold

Payroll Input (Onetime or Ongoing) Exists for Pay Component (Sub Period)

Calculation Details

Calculation

Calculation **401K_Spill_Over or 0** Input Amount Allowed? Yes

Retro Calculation

Do Not Recalculate During Retro No

Related Calculations 2 items

Related Calculation	Default Calculation	Override Calculation	Input Allowed?
Base (unprorated)		401k Wages (-) Exec Retirement	No
Percent		Benefits: Benefit Plan Percentage	No

View Conditional Calculation 401K_Spill_Over or 0

Name 401K_Spill_Over or 0

Category Payroll

Calculation Usage

Conditional Calculations 1 item

Calculation Condition	Order	Condition	Result
...	a	401k_SpillOver < 0	0

Default Response PY AC Assumed 401K Contribution - Actual 401K Contribution

View Arithmetic Calculation PY AC Assumed 401K Contribution - Actual 401K Contribution

Name PY AC Assumed 401K Contribution - Actual 401K Contribution

Category Payroll

Calculation Usage

1 item

1st Operand	Operator	2nd Operand
Benefits: Base (unprorated) * Percent OR Flat Amount	Subtract	401(k) Contribution

Figure 4: 401k Spill Over Earnings

Step 5: Update the existing Roth Deduction calculation by adding the Memo Earnings

View Deduction
Roth Contribution
⋮
10/19/25

Name Roth Contribution

Code Roth

Default Payslip Name Roth Contribution

Category Payroll

Current Status Active

Effective Dated
Non-Effective Dated

Click here to sort

12/28/2025

09/18/2022

Effective Dated Details

Effective Date 12/28/2025

▼ **Criteria**

Worker Eligibility 3 items

Worker Eligibility

Payroll Input Exists for Pay Component

Benefits: Benefit Plan Percentage Exists (and <= 0)

PY VCC 401K Spillover <= 0

View Value Comparison Calculation
PY VCC 401K Spillover <= 0
⋮

Name PY VCC 401K Spillover <= 0

Category Payroll

Calculation
Usage

Calculation 1 item

1st Operand	Operator	2nd Operand
401(k) Spillover to Roth [USA]	not equal to	0

Calculation Details

Calculation
 Calculation **PY AC Benefit Plan Percentage + Spillover** Input Amount Allowed? **Yes**

Calculation Proration
 Prorate Using Annual Working Days

Retro Calculation
 Recalculate during Retro **No**

Related Calculations 4 items

Related Calculation	Default Calculation	Override Calculation	Input Allowed?	Aggregate	Do Not Store / Do Not Store if Zero
Base (unprorated)		401k Wages (-) Exec Retirement	No	No	<input type="radio"/> Do Not Store <input type="radio"/> Do Not Store if Zero
Percent		Benefits: Benefit Plan Percentage	No	No	<input type="radio"/> Do Not Store <input type="radio"/> Do Not Store if Zero
Spillover Roth Percentage		401(k) Spillover to Roth [USA] - Percent	No	No	<input type="radio"/> Do Not Store <input type="radio"/> Do Not Store if Zero
Spillover to Roth Amount		401(k) Spillover to Roth [USA]	No	No	<input type="radio"/> Do Not Store <input type="radio"/> Do Not Store if Zero

Figure 5: Roth Deduction calculation

Implementation Methodology

The Implementation Methodology requires building of Value Comparison Calculation, Arithmetic Calculation and updating of earnings and deductions. The existing 401k deduction limit must be updated to eliminate the catch up based on age and preceding ytd OASDI wages. New memo earnings to calculate the catch up for the employees who are greater than 50 and preceding ytd OASDI wages > \$150K. Update the existing Roth deduction by including the amount from newly created memo earnings.

Case Study Outcome:

This model has been successfully implemented to process more than Forty thousand employees across all states in USA. This design has successfully processed the 401k changes and the automation of ROTH enrollment based on Secure 2.0 Act 2026 changes accordingly and the payroll was processed successfully.

CONCLUSION

Organizations always need to implement any ACT signed by US Government as per the requirement otherwise results in Legal and Penalty clause. As a payroll SME or user, they should know how the calculation can be configured effectively/quickly. Workday Payroll is having very flexible/efficient solution to manage this Secure 2.0 2026 changes by means of configuration. Also, handling of all retirement benefits and rules based on limits configuration for various period types, various payroll types make Workday Payroll the one of the best solutions. Workday Payroll also eliminates any manual updated to limits or age rules as the provider updated all the desired rates, limits, and minimum wages every week to have the calculation accurate while

processing payroll. With the combination of the above-mentioned solution model, the Secure 2.0 Act 2026 changes was successfully implemented on time.

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