SECURE Act 2.0: Managing Roth 401(k) Catch-Up Requirements for "High Earners"

The **SECURE Act 2.0** introduces important compliance obligations for payroll management. Beginning in **tax year 2026**, any employee who is **age 50 or older** and classified as a **"High Earner"** must direct all **401(k) catch-up contributions** to a **Roth 401(k)**.

Core Compliance Rules & 2026 Limits

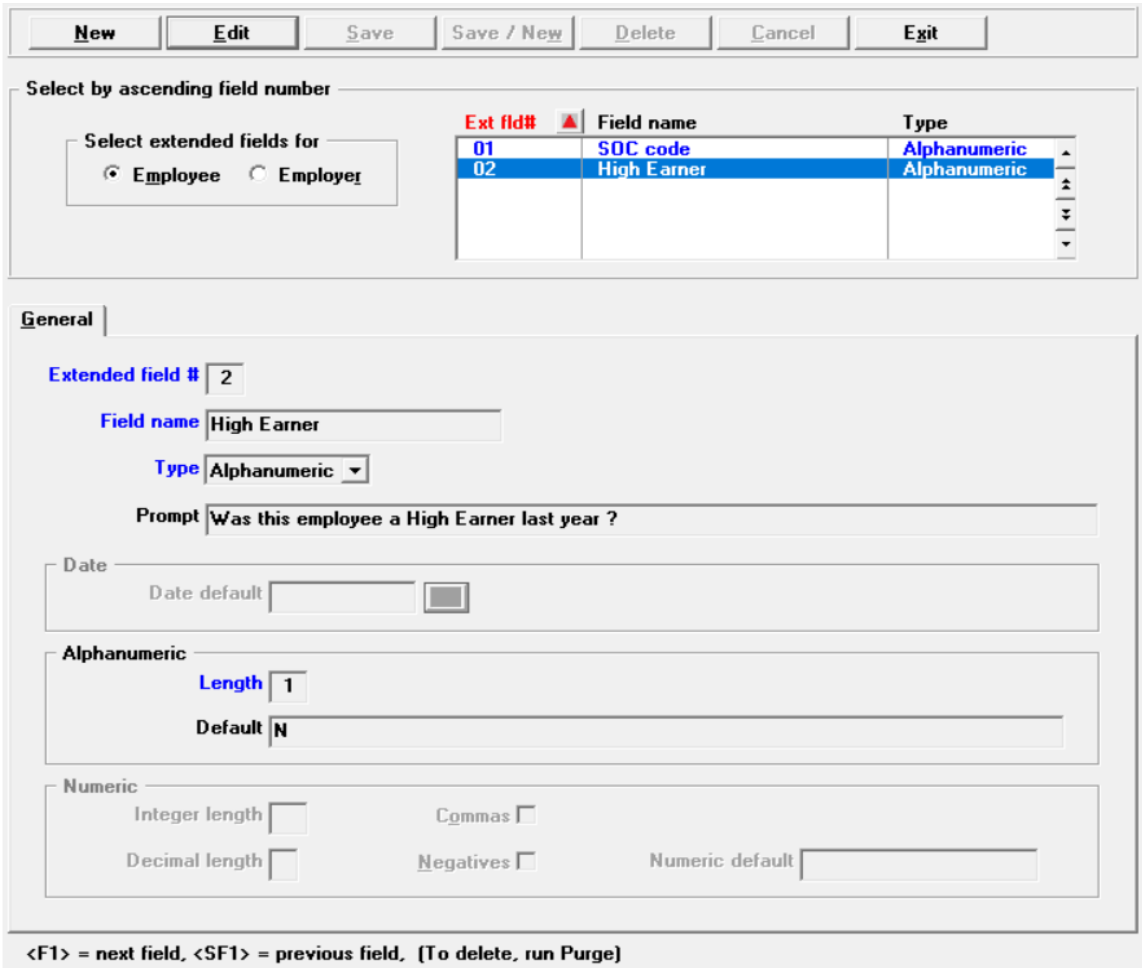
- **High Earner Threshold:** An employee whose prior-year (2025) wages exceeded **$150,000** in **Box 3 (Social Security wages)** of Form W-2.
- **The Roth Mandate:** Pre-tax catch-up contributions are prohibited for High Earners. If an employer does not offer a Roth 401(k) option, these employees are legally barred from making any catch-up contributions to the plan.
- **TY 2026 Contribution Limits:** These values adjust annually and are fully integrated into Passport's year-end Tax Table Updates:
    - **Base Limit:** $24,500.
    - **Standard Catch-Up (Ages 50–59 and 64+):** An additional $8,000 (Maximum total of **$32,500**).
    - **"Super" Catch-Up (Ages 60–63):** An additional $11,250 over the base limit (Maximum total of **$35,750**).

Step-by-Step PBS Payroll System Setup

Follow these steps to configure your PBS Payroll system for compliance.

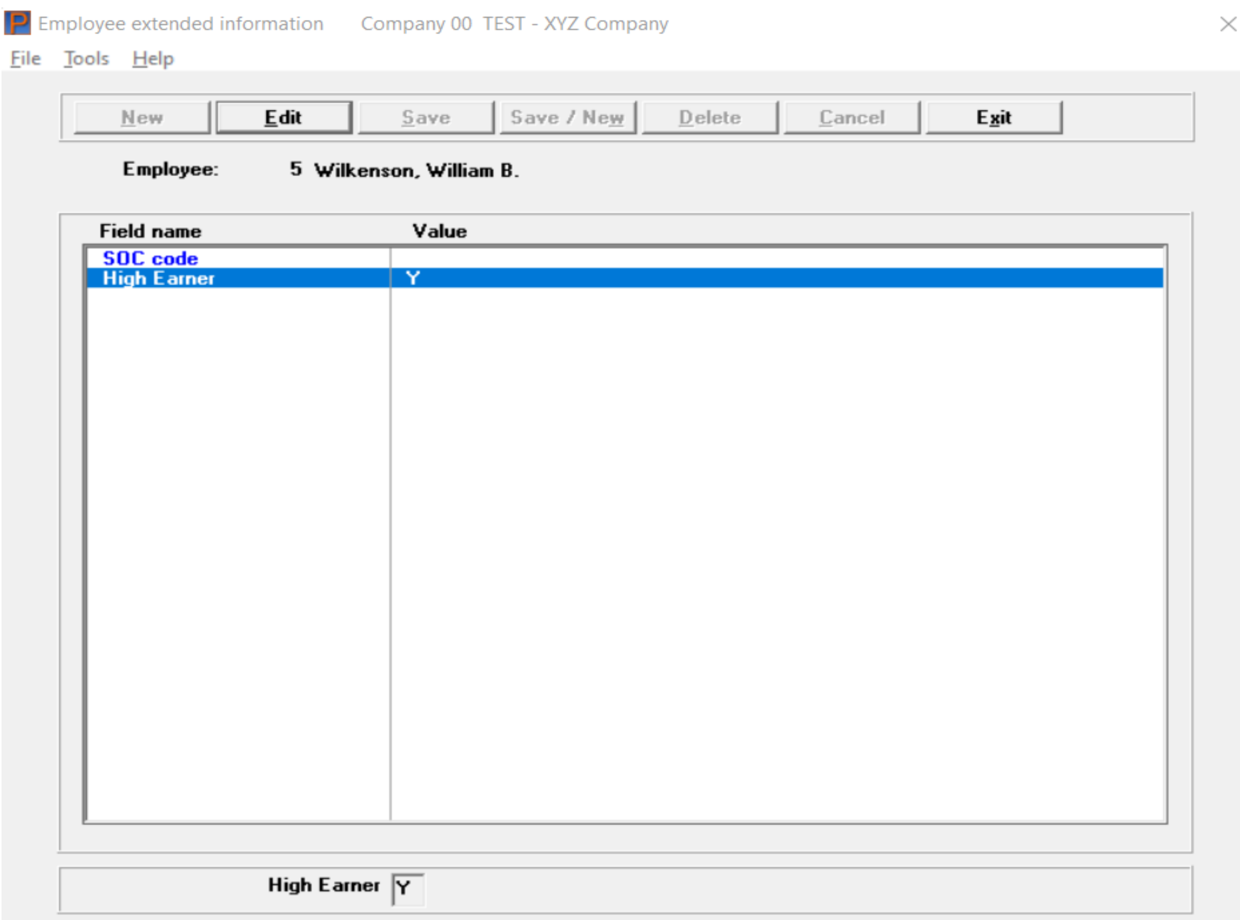
Step 1: Define the "High Earner" Extended Field

1. In Payroll, navigate to **Define extended field > Enter**.
2. Create a new field assigned to the **Employee**.
3. Configure the field with these exact specifications:
    - **Extended Field Number:** Unimportant (any available number).
    - **Field Name:** High Earner *(Must match exactly)*.
    - **Type:** Alphanumeric.
    - **Prompt:** Was this employee a High Earner last year? *(Optional, serves as a reminder)*.
    - **Length:** 1.
    - **Default Value:** N.
4. **Save** the record.



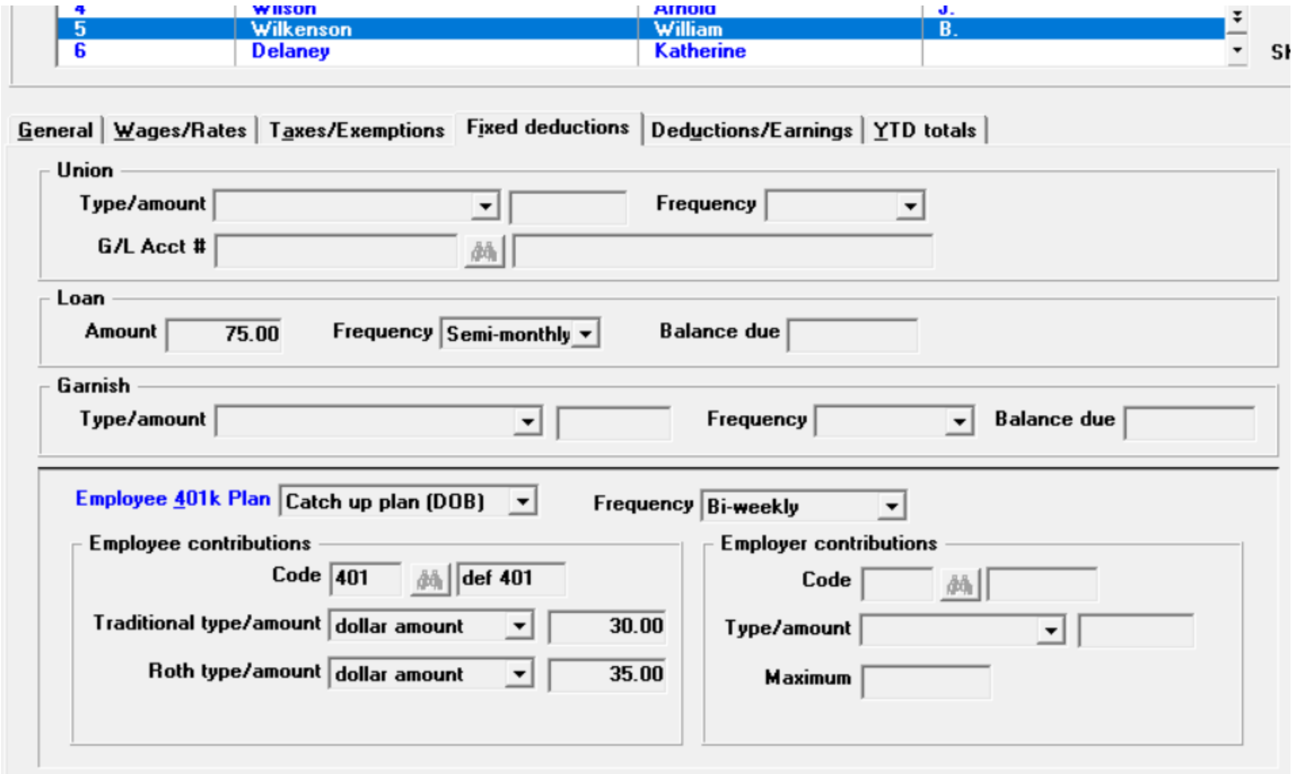
Step 2: Assign High Earner Status to Employees

1. Navigate to **PR > Employees > Enter** and select an employee eligible for catch-up contributions.
2. Verify they have a **Birth date** entered, showing they are 50 or older.
3. Press **<F5>** to open the **Employee extended information** screen.
4. Edit the record and assign a High Earner value of **Y**.

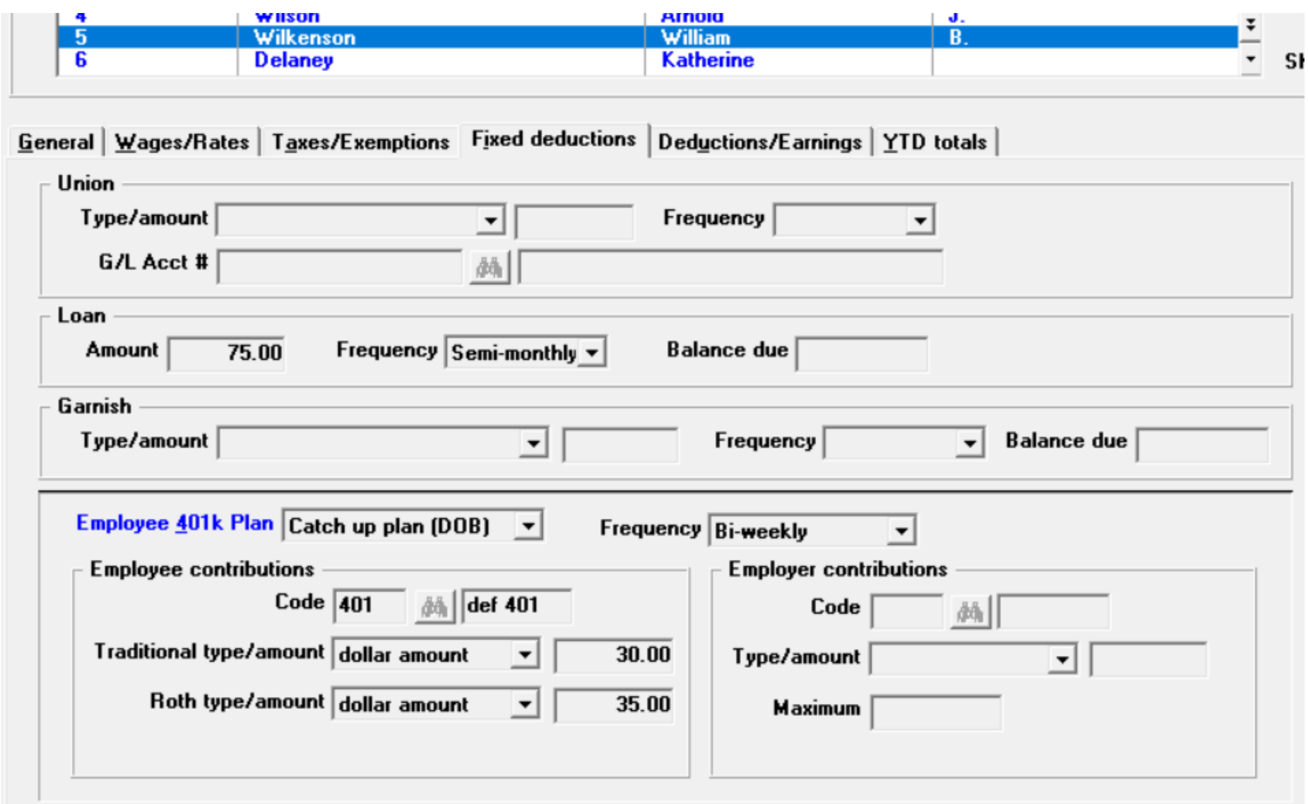


Step 3: Configure Fixed Deductions & Automatic Spillover

1. Navigate to the employee's **Fixed deductions** tab.
2. Set the **Employee 401k Plan** field to **Catch up plan (DOB)**.
3. Ensure the **401(k) Frequency** matches or is greater than the employee's standard pay period frequency.
4. Set up the per-pay-period **Employee contributions** for both **Traditional** and **Roth** amounts.



PBS Automated Transition: You do not need to manually time the switch. When an employee's Traditional contributions eclipse the baseline cutoff, PBS automatically transitions the spillover amount to make Roth contributions instead. Once the age-based Catch-up limit is reached, withholding automatically ceases for the current payroll year.



Tracking Balances in the Deductions Register

Every time you process Payroll, review your **Deductions Register** to monitor the exact Traditional and Roth breakdowns and coordinate your plan deposits accordingly.

System Behavior Example

Before processing payroll, Mr. Wilkenson's 401(k) contributions totaled **$24,480 YTD**—placing him exactly **$20 below** the base limit. His recurring deductions are configured for a **$30 Traditional** amount and a **$35 Roth** amount.

- **PBS Processing:** Because he is a designated High Earner set up for a Catch-up plan, PBS routes only **$20** to his Traditional 401(k) to perfectly fulfill the base limit.
- **The Spillover:** The remaining **$10** from the scheduled Traditional deduction automatically rolls into the Roth plan. Combined with his regular **$35** Roth deduction, his final payroll output calculates to a **$20 Traditional** contribution and a **$45 Roth** contribution.
- **Next Pay Period:** Because the traditional baseline is fully met, the next run will automatically generate a **$0 Traditional** deduction and a full **$65 Roth** deduction.

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                                  D E D U C T I O N S   R E G I S T E R

For department: 0000
For the pay period ending 07/29/26
Check types:  R = regular   V = vacation  B = bonus/separate suppl earning   C = commission

          Frequencies used on this run:  This pay period: All
          Vacation check 1: None   Vacation check 2: None   Vacation check 3: None   Vacation check 4: None

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Emp-#  Soc-sec-#  --Type--    Union     ------------Permanent deductions------------      --------Temporary deductions-------
Name              emp chk     Loan       D/E-1    D/E-2    D/E-3    D/E-4    D/E-5            TD/E-1   TD/E-2   TD/E-3
                              Garn       D/E-6    D/E-7    D/E-8    D/E-9                     TD/E-4   TD/E-5   TD/E-6
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6      678-91-2345  H   R        .00      20.00
Delaney, Katherine                       b1
                                 .00
         Traditional 401k:     20.00
       Total deductions:       20.00


5      567-89-1234  H   R        .00
Wilkenson, William B.
                                 .00
         Traditional 401k:     20.00       Roth 401k:      45.00
       Total deductions:         .00
```