



NJSEDCP

State Employees Deferred Compensation Plan

Your Future in Focus

Frequently Asked Questions on Roth Contributions

Q1. What are Roth contributions?

Roth contributions are contributions you make to the NJSEDCP on an **after-tax** basis. Roth contributions and any earnings on those contributions are federal income tax-free upon distribution if the distribution is a “qualified distribution.” See Q17 below for more information.

Q2. How are Roth contributions different from traditional pre-tax contributions?

Traditional contributions are made on a **pre-tax** basis, reducing your federal income taxes at the time you make the contribution. Traditional pre-tax contributions, and any earnings on those contributions, are subject to ordinary taxes when you withdraw your money from the Plan.

Roth contributions are made on an **after-tax** basis, so the amount you contribute is included in your W-2 as income in the year you make your contribution. Because you already paid income tax on your Roth contributions, withdrawals of your Roth contributions (and qualified withdrawals of any associated investment earnings) are 100% federal income tax-free. You must meet a few basic requirements, however, before any distribution of investment earnings becomes “qualified.” See Q17 below for more information.

Q3. Can I contribute both pre-tax and Roth contributions to the NJSEDCP?

Yes. You can choose to contribute pre-tax contributions, Roth contributions or a combination of both.

Q4. How much can I contribute to the Plan if I make pre-tax and Roth contributions?

The IRS limit applies to the combined contribution amount. The limit for 2018 is \$18,500. You may also be eligible to make catch-up contributions. Your Plan offers two types of catch-up contributions. If you will be age 50 or over by Dec. 31, 2018, you can contribute an extra \$6,000 for a total contribution amount of \$24,500 in 2018. Your Plan also offers a Special 457 Catch-up for participants who have not always maximized their annual contributions to the NJSEDCP. If eligible, your maximum annual contribution would be \$37,000 in 2018.

Q5. Can any or all of my catch-up contributions be Roth contributions?

Yes. You can choose to make your catch-up contributions as pre-tax contributions, Roth contributions or a combination of both.

Q6. Must I make Roth contributions?

No. The choice to make pre-tax or Roth contributions is voluntary. No changes will be made to your current election unless you choose to do so.



Q7. How do I decide which contribution type is better for me?

Choosing between pre-tax and Roth contributions is a personal decision based on your own situation and priorities. There are some questions you may want to consider, such as:

- Do you expect your federal tax rate in retirement to be higher than it is currently?
- Are you restricted from making Roth IRA contributions due to your income level?
- Do you want to minimize your taxable income during retirement?
- Do you want to leave tax-free money to your heirs?
- Can you afford to contribute the same amount into your account and pay taxes on that amount today?

If you answered “yes” to any of these questions, designating a portion of your contributions as Roth contributions may be beneficial. You are encouraged to consult your individual legal or tax advisor with any specific questions. Neither Prudential Financial nor any of its representatives are tax or legal advisors.

Q8. Can anyone make Roth contributions?

Yes. Any State employee can make Roth contributions to the NJSEDCP. While there is an income limit for employees contributing to a Roth IRA, there is no such limit for State employees making Roth contributions to the NJSEDCP.

Q9. Do I need to set up another account to make Roth contributions?

No. You need only select the percentage of your total contributions that you wish to designate as Roth contributions. You may do this online by logging in to your account at prudential.com/njsedcp. Your Roth contributions will be made to your existing NJSEDCP account.

If you do not yet have an NJSEDCP account, you may enroll and begin making Roth and/or pre-tax contributions at any time. Simply visit prudential.com/njsedcp or complete an enrollment form. Forms are available online, through your employer or through your on-site Prudential Retirement® Education Consultant.

Q10. Can I change my pre-tax contribution election to a Roth contribution election?

Yes. You simply need to designate future contributions to be Roth contributions. Simply visit prudential.com/njsedcp and log in to your account.

Q11. How can I keep track of my pre-tax and Roth contributions?

Roth contributions will be tracked separately both on your paycheck and in your account at Prudential Retirement. Roth contributions will be listed as a separate “source” of money on the participant website and on your quarterly statement.

Q12. Are there different investment options for Roth contributions?

No. Roth contributions are being added as a source of money within the Plan. The same investments will be available for Roth contributions, and your existing investment direction will apply to any Roth contributions you make—unless you make a change.

Q13. How are Roth contributions to the NJSEDCP different from a Roth IRA?

The premise of contributing after-tax money now to receive tax-free withdrawals at retirement is the same. However, the ability to make Roth contributions to the Plan does not have any income restrictions (as do Roth IRAs). The NJSEDCP also allows for higher contribution amounts (\$18,500 in 2018, versus \$5,500 in an IRA). Unlike Roth IRAs, Roth contributions held under the Plan are subject to minimum distribution rules beginning at age 70½ or separation from service, whichever is later.

Q14. Can I roll my Roth IRA into the NJSEDCP?

No. The law does not allow Roth IRAs to be rolled into the Plan.

Q15. Can I make Roth contributions to the NJSEDCP and to a Roth IRA?

Making Roth contributions to the Plan does not impact your eligibility to make Roth IRA contributions. Based on your income, however, you may not be able to contribute to a Roth IRA.

Q16. Are there withdrawal restrictions on Roth money?

Withdrawals of Roth contributions and earnings are subject to the same Plan distribution rules as pre-tax contributions and earnings. You may take a distribution when one of the following events occurs:

- Your employment with the State ends.
- You become permanently disabled.
- Your death (your beneficiary is entitled to your account balance when you die).

If the withdrawal of your Roth money is a “qualified distribution,” the withdrawal will not be taxable. See Q17 for more information.

Q17. When is a withdrawal of my Roth money a “qualified distribution?”

Any distribution from the NJSEDCP must first meet the requirements described above. For a withdrawal of Roth money to become a qualified distribution, it must be made after a five-taxable-year period of participation and after you attain age 59½ or older, become disabled or die. If your withdrawal of Roth money is a qualified distribution, like your Roth contributions, the earnings on your Roth contributions are not taxed upon withdrawal.

Q18. What is a five-taxable-year period of participation? How is it calculated?

The five-taxable-year period of participation begins on the first day of the calendar year in which you make your first Roth contribution to the Plan and ends when five consecutive calendar years have passed.

Q19. What if I take a distribution of my Roth money before it is “qualified?”

If you do not do a rollover to a Roth IRA or to an employer plan that accepts Roth contributions, you will be taxed on the earnings portion of the distribution. The contribution portion of the nonqualified distribution is not taxed. The contribution portion of the distribution is determined by multiplying the amount of the nonqualified distribution by the ratio of your Roth contributions to your total Roth money. For example, if you take a nonqualified distribution of \$5,000 of your Roth money when your total Roth money consists of \$9,400 of Roth contributions and \$600 of earnings, your distribution will consist of \$4,700 of Roth contributions (that are not taxable) and \$300 of earnings (that are taxable).

Q20. Are minimum distributions required for my Roth money?

Yes. Roth money in the Plan is subject to minimum distribution rules at age 70½ or separation from service, whichever is later.

Q21. What happens to my Roth money if I separate from service?

If you separate from service, the same options apply to both your Roth and pre-tax money. With your Roth money, you can:

- Leave it in the Plan (subject to the Plan’s minimum cash-out and minimum distribution rules).
- Take a full or partial lump-sum distribution.
- Roll over your Roth money to a Roth IRA.
- Roll over your Roth money to an employer plan that accepts Roth contributions.



Amounts withdrawn, except for qualified withdrawals from a Roth 401(k), are generally taxed at ordinary income tax rates. Amounts withdrawn before age 59½ may be subject to a 10% federal income tax penalty, applicable taxes and plan restrictions. Neither Prudential Financial nor any of its affiliates provide tax or legal advice—for which you should consult your qualified professional.

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