



# New Jersey State Employees Deferred Compensation Plan (NJSEDCP)



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## Frequently Asked Questions on Roth Contributions

### **Q1. What are Roth contributions?**

Roth contributions are made on an after-tax basis. Roth contributions and any earnings on those contributions are tax-free upon distribution if the distribution is a “qualified distribution.” See Q19 below.

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

Traditional contributions are made on a before-tax basis, reducing your taxes at the time you make the contribution. Traditional pre-tax contributions, and any earnings on those contributions, are subject to ordinary taxes upon distribution.

Roth contributions are made on an after-tax basis so the amount you contribute is included in your W-2 in the year you make your contribution. Because you already paid income tax on your Roth contributions, a withdrawal of your Roth contributions is always 100% federal income tax free. You must meet a few basic requirements, however, before any distribution becomes “qualified”. Once your distribution is qualified, you can take Roth earnings from your account free from federal income tax.

### **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 2011 is \$16,500. You may also be eligible to make catch-up contributions. Your Plan offers two types of catch-up contributions. If you are age 50 or over as of December 31, 2011, you can contribute an extra \$5,500 for a total contribution amount of \$22,000 in 2011. 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 \$33,000 in 2011.

### **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 or Roth contributions is a personal decision based on your own situation and priorities. There are some questions you may want to consider:

- Do you expect your federal tax rate in retirement will 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 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; you are encouraged to consult your individual legal or tax advisor with any specific questions.

**Q8. Can anyone make Roth contributions?**

Yes. Any State employee can make Roth contributions to the NJSEDCP. There is no income limit on Roth contributions to the Plan.

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

No. You need only select an allocation percentage for your Roth contributions. You may do this online by logging into your account at [www.prudential.com/njsedcp](http://www.prudential.com/njsedcp). The contributions will be made to your existing NJSEDCP account.

If you do not have an existing NJSEDCP account, you may enroll and begin making Roth and/or pre-tax contributions at any time. Simply visit [www.prudential.com/njsedcp](http://www.prudential.com/njsedcp) or complete an enrollment form. Forms are available online, through your employer, or through your onsite NJSEDCP 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 the website listed above and log into your account.

**Q11. How do 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 in order 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 Plan also allows for higher contribution amounts (\$16,500 in 2011 versus \$5,000 in an IRA). Unlike 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. Can I convert my existing pre-tax money to Roth money?**

Yes. You may transfer pre-tax savings to after-tax Roth savings and pay current income taxes at the time you convert. Conversions are allowed once you terminate employment, you have died, or become disabled.

**Q17. Can I convert my existing rollover dollars to Roth money?**

Yes. If you have assets that you have rolled into your NJSEDCP account, those assets are available for distribution at any time. Therefore, you may convert those assets to Roth money.

**Q18. 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.

**Q19. When is a withdrawal of my Roth money a 'qualified distribution'?**

Any distribution from your Plan must first meet the requirements described above. For a withdrawal of Roth money to become a qualified distribution it must be made after a 5-taxable-year period of participation and made after you attain age 59½ or older, become disabled, or die. If your withdrawal of Roth money is a qualified distribution, the earnings on your Roth contributions are not taxed upon withdrawal. Your Roth contributions are not subject to tax upon withdrawal as they were made after-tax initially.

**Q20. What is a 5-taxable-year period of participation? How is it calculated?**

The 5-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.

**Q21. 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).



**Q22. 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.

**Q23. 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 your Roth money 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 from pre-tax contributions, as well as earnings on Roth contributions that are not qualified, are subject to ordinary income taxes. Withdrawals before age 59½ may also be subject to a 10% federal income tax penalty and plan restrictions. See plan information regarding limitations on withdrawals from your account.

Neither Prudential Financial nor any of its representatives are tax or legal advisors; we encourage you to consult your individual legal or tax advisor with any specific questions.

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