

Roth Contributions Q&As

I've always been told that one advantage of my Thrift or Savings Plan contributions is that they can be made on a before-tax basis. Why should I consider Roth contributions, which are made on an after-tax basis?

Before-tax contributions are still advantageous because they reduce your current taxes. With the addition of Roth contributions, you have greater flexibility in managing your taxes both now and in retirement:

- Before-tax contributions reduce your taxable income now (the year contributions are made), but you pay taxes on the contributions and earnings when they're distributed to you at retirement.
- Roth contributions don't reduce your taxable income now, but the contributions and earnings are tax free at retirement (provided that you withdraw them when you're at least age 59½ and your Roth account is at least five years old).

How do I know if Roth contributions are right for me?

It will depend on your situation. The resources PSEG has provided, including this list of questions and answers and similar content on the *Your Benefits Resources* website, may help you better understand which contributions are right for you. Additionally, the site also has a modeling tool to help you compare the before-tax 401(k) and Roth 401(k). The important thing is to begin or continue saving for your retirement.

If I make Roth contributions to the Thrift or Savings Plan, can I also make contributions to a Roth individual retirement account (IRA)?

You can contribute to a Roth IRA and make Roth contributions to your Thrift or Savings Plan if you wish. Keep in mind that your contributions to a Roth IRA are limited based on your income and tax-filing status. Roth contributions aren't subject to these limits.

I've heard that you can withdraw money tax free from a Roth IRA for a first-time home purchase. Does that apply to Roth contributions to the Thrift and Savings Plans as well?

No. But your plan allows you to request a hardship withdrawal to help you buy a home for the first time.

I've heard that you can't make a Roth IRA contribution if you earn more than a certain amount. Is the same true for Roth contributions?

No. Roth contributions are not subject to the same income limits as Roth IRA contributions. However, Roth contributions are combined with pre-tax contributions to meet the annual contribution limit, which in 2007 is \$15,500, \$20,500 for those 50 or older.

Roth IRAs aren't subject to minimum distribution requirements at age 70½. What about Roth contributions? Roth contributions are subject to minimum distributions at age 70½. However, if Roth money is rolled into a Roth IRA before it's required to be distributed from the Thrift or Savings Plan, it will not be subject to minimum distribution requirements.

Can I withdraw Roth money for a hardship withdrawal?

Yes, you can use Roth money for the hardship withdrawals as allowed by the Thrift or Savings Plan. Remember, though, that your Roth earnings may be taxable when they're paid to you if you're not age 59½ and your Roth 401(k) account is not five years old.

Do I have to be age 59½ in order to receive a qualified payment?

Yes, the qualified status of a Roth distribution is based on a combination of age 59½ and the account being

five years old. So, a participant who is age 60 with a three-year-old account would not qualify for a Roth distribution payment. **Note:** A Roth distribution payment can also be qualified if it's made on account of the participant's death or disability—regardless of age.

Can I make Roth catch-up contributions? What's the limit?

Yes, you can make Roth catch-up contributions. The combination of your before-tax and Roth contributions are subject to the annual limit on catch-up contributions which, in 2007, is \$5,000.

Can I borrow Roth money from my plan?

Yes, Roth money is included in the amount available to you for a loan. See *Your Benefits Resources* for more information.

If I leave PSEG, can I roll over Roth money?

You can roll over Roth money into a Roth IRA. You may be able to roll over Roth money into your new employer's plan if it offers a Roth account; check with your new employer.

Is it true that Roth contributions won't be available after 2010?

Unless the federal law providing for Roth contributions is made permanent, it will end at that time. But this only means that there won't be Roth **contributions** after 2010. Your Roth contributions from 2006 through 2010, and associated earnings, will still receive the special tax treatment.

What's the difference between Roth and after-tax contributions?

The main difference is that Roth contributions **and earnings** can be distributed tax free if the Roth distribution is qualified. The earnings in a regular after-tax account are taxable when they're paid to you.

In addition, prior to age 59 ½ Roth contributions can only be withdrawn for a hardship, whereas regular after-tax contributions may also be available for non-hardship withdrawals. (See the **Benefits Manual** section of *Your Benefits Resources* for the types of withdrawals available.) Roth contributions are subject to an annual contribution limit of \$15,500 for 2007, (\$20,500 for those age 50 or above), while after-tax contributions are subject only to the plan limit of \$45,000 or 50% of your base pay, whichever is less.

Are matching contributions on the Roth tax free?

No. Company contributions will continue to be made with before-tax dollars and will be taxable (along with the associated earnings) when they're paid to you.

How will I know what my taxes will be in retirement?

You can't know for sure, but here are some things to consider:

You may see a **decrease** in the amount of taxes you'll pay in retirement. This could occur if your total, annual, taxable income at retirement is less than it is now. One reason some people expect a decrease is that part of their retirement income includes Social Security, which isn't fully taxable.

On the other hand, you may see taxes **stay the same or increase** during retirement. This could occur if you continue working during retirement while drawing on your retirement savings. Also under current rules, a portion of Social Security payments will be taxable if you work during retirement. Also, some people believe that in general, future tax rates will increase. Any or all of these factors could lead to your tax burden being the same or higher during your retirement.

And last, are you thinking of spending your retirement in a different state? State income tax rates vary a lot, so keep that in mind when thinking about your future tax situation.

Can I roll my existing before-tax contributions into a Roth account?

No. You can't convert your before-tax contributions into Roth contributions.

What if I can't decide which is best for me?

The important thing is to save in the Thrift or Savings Plan. Whether before-tax contributions, after-tax contributions, Roth contributions, or a combination of all, participating in the plan and saving for your retirement is the key. Additionally, due to specific tax considerations associated with Roth contributions, you may want to consult a tax advisor or financial planner for more detailed guidance.

What's the difference between before-tax, after-tax and Roth contributions?

Before-tax, after-tax, and Roth contributions are similar in many ways—but they differ in when taxes are payable. The chart below compares the different types of contributions.

Activity	Before-Tax	After-Tax	Roth
Contributions	Before tax —You don't pay income taxes on contributions made on a before-tax basis, but the contributions will be taxed when you withdraw them.	After tax —You pay income taxes on the money you contribute before it comes out of your paycheck. You don't pay taxes on the contributions when you withdraw them.	After tax —You pay income taxes on the money you contribute before it comes out of your paycheck. Then, you don't pay taxes on the contributions when you withdraw them.

Activity	Before-Tax	After-Tax	Roth
Contribution Limits	\$15,500 in 2007 (combined with Roth contributions). Contribution % limit is 50% of pay (combined with after-tax and Roth contributions).	You cannot contribute more than \$45,000 or 50% of your pay including all types of contributions.	\$15,500 in 2007 (combined with before-tax contributions). Contribution % limit is 50% of pay (combined with after-tax and before-tax contributions).
Catch-up Contribution Limits (for employees who will be age 50 or older)	\$5,000 in 2007 (combined with Roth contributions).	Not applicable	\$5,000 in 2007 (combined with before-tax catch-up contributions).

Earnings	Taxed when withdrawn.	Taxed when withdrawn.	Not taxed if account is at least five years old and payment is on account of attainment of at least age 59½, death, or disability.
Company Match	The match and any earnings associated with that match will be taxable at retirement.	The match and any earnings associated with that match will be taxable at retirement.	The match and any earnings associated with that match will be taxable at retirement.

Where can I get more information?

For more information, click on the Publications tab at the top of *Your Benefits Desktop* and go to Roth 401(k) information.