April 2019

ED SLOTT'S IRA ADVISOR

Tax & Estate Planning For Your Retirement Savings

WHAT'S INSIDE?

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Understanding the RBD

One of the most misunderstood IRA concepts is something that will affect most IRA owners and participants in qualified plans – *the required beginning date (RBD)*. This is when they must take their first required minimum distribution (RMD). Despite the importance of this rule, both financial advisors and account owners alike continue to struggle with how the RBD is determined.

In addition, questions swirl regarding the ability to delay RMDs, who takes the RMD post-death, and how is the RMD calculated. Understanding and applying the basic RBD concept is imperative. While determining the RBD is a tall hurdle, once identified, all other rules will fall into place.

Determining the RBD

Money can neither stay in an IRA forever nor can it stay in a company plan. That's why the RBD exists. The date by which RMDs must begin is generally April 1 of the year following the year in which the IRA owner or qualified plan participant turns age 70½. Identifying the RBD can be accomplished in three easy steps:

Step 1: Identify the year the account owner turns 70½. Simply add six months to his actual birthday. The calendar year in which he turns 70½ is the starting point for determining the RBD.

Step 2: Forget about age – *it is no longer relevant for determining the RBD.* (Age will come back into the equation when we calculate the actual RMD amount.) Now that we know the calendar year a person turns 70½, everything else will be based off of that year.

Step 3: Identify April 1 of the year following the calendar year in which the account owner turns 70½ years old. This is his RBD.

That's it! Do not allow all the other distribution rules and concepts to confuse things. Once the RBD is determined, there is a foundation. Additional rules, such as the deadline for receipt, can be considered after the amount to be distributed. For example, for the first RMD, the IRS allows a few extra months to take the distribution. You have the calendar year you turn 70½, plus up to April 1 of the following year. All future RMDs must be taken in the respective calendar year by December 31.

If an account owner does delay taking his first RMD into the following year, he will be required to take two distributions in that calendar year – *his delayed first RMD by April 1 and his second RMD by the end of the year.* When delaying the first RMD, the account owner must be prepared to pay taxes on both RMDs in the same tax year.