A CLEAR EXPLANATION OF THE RBD

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SECURE Act regulations shoved the required beginning date (RBD) to the front of the stage. No longer can the RBD hide from the bright lights. What was once somewhat of a minor date in people's lives has blossomed into an important event with cascading impacts on generations of potential beneficiaries. Death in relation to the RBD now impacts whether required minimum distributions (RMDs) are required within the 10-year payout rule for beneficiaries. Additionally, and what has always been the case, the RBD defines when lifetime RMDs are to begin for the original account owner and whether or not beneficiaries need to take a year-of-death RMD.

Despite its importance, the RBD and its impact on both lifetime and post-death RMDs remains a confusing topic. Questions abound from both financial advisors and the public. To clarify the subject, I lean on two examples and introductory commentary to clearly explain the RBD:

The RBD is a definitive line in the sand: April 1 of the year after the year a person turns 72. It is NOT the year you turn 72. It is NOT the end of that year. There is nothing nebulous about it. April 1 of the year after the year you turn 72 is a clear black circle on the calendar. A person can either die before this precise date, or they can die on or after this date. And when they die decides if RMDs apply.

Example 1: Carol is proactive. She likes to get things done and off her to-do list. Carol turned 72 in January of this year. She knows that this year is her first RMD year and, if she chose, she could have delayed her first RMD until her RBD - April 1 of next year. But Carol never delays anything. She promptly took her IRA RMD after her birthday in January. Good job, Carol! Now it is autumn…and Carol gets hit by a bus and dies.

Question: What was that distribution Carol took back in January? She took a withdrawal in anticipation of reaching her RBD, but she never reached that date. In fact, since Carol died before her RBD, the distribution she took from her IRA in January was just a voluntary withdrawal that did not need to be taken. (But Carol didn't know that at the time.)

Example 2: Sam is oblivious. He does not pay attention to his finances and has never heard of an RMD or an RBD. Sam also turned 72 in January. Sam does not take a distribution from his IRA. By the end of 2022 Sam has still not taken any distributions. Now it is January of 2023 and Sam turns 73. Sam does not touch his IRA. Now it is late March in 2023 and Sam has an appointment with his financial advisor. The advisor tells Sam that since he turned 72 last January, he now needs to take two RMDs in 2023. Sam panics, has a heart attack, and dies right there in the advisor's office.

Questions: Does Sam have a missed RMD situation? Do Sam's IRA beneficiaries need to concern themselves with taking a year-of-death RMD? We do NOT have a missed RMD situation, and Sam's IRA beneficiaries do NOT have to worry about a year-of-death RMD. Like Carol in Example 1, Sam is considered to have died before his RBD. Since Sam never made it to that circled date on the calendar, RMDs never applied to his IRA.

The first RMD is taken in anticipation of reaching the RBD. However, one must then make it to the RBD to, in fact, officially initiate required minimum distributions.

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