

THE “REQUIRED BEGINNING DATE” VS. “FIRST RMD YEAR” CONFUSION

Wednesday, May 20, 2026

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Most of you are probably familiar with the concept of the “required beginning date” (RBD). The RBD is the deadline for taking the first required minimum distribution (RMD) from an IRA or workplace retirement plan. If you’re a traditional IRA owner, your RBD is April 1 of the year following the year you turn age 73 (if born between 1951 and 1959) or age 75 (if born after 1959). If you’re a retirement plan participant, your RBD is usually the same date. However, if you’re still working beyond the year you reach age 73 and you don’t own more than 5% of the sponsoring employer, you can usually delay your RMD until April 1 of the year following the year you eventually retire. This is called the “still-working exception.”

The RBD is also important in applying several other RMD rules. For example, if you’re an IRA beneficiary subject to the 10-year payout rule (a “non-eligible designated beneficiary”), you must take RMDs during years 1-9 of the 10-year period if the IRA owner died on or after his RBD. In addition, if you’re a beneficiary eligible to stretch RMDs over your life expectancy (an “eligible designated beneficiary”), you can instead elect the 10-year rule with no annual RMDs if the IRA owner died before his RBD.

However, although the RBD is often the date that dictates whether an RMD rule applies, it’s not always the deciding factor. For some retirement account rules, your “first RMD year” (usually the year you turn age 73) – not the RBD – is what counts. Here’s one common example that causes lots of confusion: Let’s say you retire in the year you turn age 73. If you want to roll over your 401(k) funds to an IRA in the year of retirement, do you have to take an RMD from the 401(k) before doing the rollover?

Since your RBD isn’t until April 1 of the year after your retirement year, you might think that you shouldn’t have to take an RMD if you do a rollover before that April 1. But this is one of those cases where the “first RMD year” controls – not the RBD. The first funds that are distributed out of the plan in your first RMD year (or any subsequent year) are considered part of the RMD. However, RMDs can never be rolled over. This means that if you want to roll over your 401(k) funds in the year you retire (or after) your age-73 year, you must first take your 401(k) RMD.

What if you don’t take the RMD first and instead roll it over? Then, you have an excess IRA contribution. But that’s usually not a problem. As long as the rolled-over amount, along with earnings or losses attributable to the excess (net income attributable, or “NIA”), are

withdrawn from the IRA by October 15 of the year after the year of the rollover, you won't have to pay a penalty.

One way to avoid having to take a 401(k) RMD in the year of retirement is to delay your rollover into the following year (no later than April 1). But then you'd have to take two RMDs in that following year – the year-of-retirement RMD and the following-year RMD – before rolling over the rest of your funds.

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