

The MRD Limbo Period (from Jan. 1 of the age-70½ year to the RBD)

The "limbo period" for minimum required distributions (MRD) begins on January 1 of the year the participant reaches age 70½ and ends on April 1 of the following year (the required beginning date, or RBD). [The RBD is later for certain individuals in certain plans. §§ 401(a)(9)(C).] What makes this interim time odd is that, technically, there is a minimum distribution required for the year in which the participant reaches age 70½. The IRS calls this "the first distribution calendar year," even though the law allows the participant to postpone that first MRD until April 1 of the year following the year he reaches age 70½. But, if the person dies during this time, he has died before his RBD.

Here are the special rules that apply during the limbo period:

In the year a person reaches age 70½, he cannot do a rollover to an IRA from a plan (or another IRA) until after he has taken the MRD from such plan (or other IRA). Similarly, he cannot convert a traditional IRA to a Roth IRA until he has taken the MRD from the traditional IRA; and if this MRD pushes him over the \$100,000 income limit, too bad -- he is ineligible to convert to a Roth. This is true even though, if it weren't for converting to a Roth (or doing some other form of rollover), the participant wouldn't actually be required to take any minimum distribution until April 1 of the following year. Treas. Reg. §§ 1.402(c)(2), A-, 1.408A-4 (Q & A 6).

Which set of distribution rules governs when a person dies during the limbo period? Here the rule is crystal clear. If the participant dies before the actual required beginning date, the distribution of benefits is governed by § 401(A)(9)(B)(ii), (iii) and (iv) -- i.e., the five year rule and its exceptions -- even though the participant may have already started taking MRDs. (The only exception would be certain irrevocable annuity elections.) So if a person dies the day before his RBD, without having taken any minimum distributions, those distributions are simply cancelled -- nobody has to take them. The first required post-death distribution will be the following calendar year (assuming there is a designated beneficiary who elects to use the life expectancy method).