The good and bad of the Roth IRA on its 20th birthday

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It's got lots of fans, but there's room for improvement

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What to know about Roth IRAs.

Exactly 20 years ago, retirement savers got a new tool for putting away money — the Roth individual retirement account.

The Roth IRA was officially signed into legislation in 1997 under the Taxpayer Relief Act of 1997, but it wasn't until 1998 that people were allowed to establish and contribute to the plan, which invests after-tax dollars that eventually are withdrawn tax-free. Many advisers say it is the "best" retirement savings vehicle out there, what with its tax and withdrawal advantages.

Here's what they said:

What makes Roth IRAs so great:

Tax-free withdrawals: "The biggest benefit is no matter how much that money grows, it will be tax-free when you pull it out after 59 ½ years old," said Darin Shebesta, a financial adviser and vice president at Jackson/Roskelley Wealth Advisors in Scottsdale, Ariz. "It brings certainty because they know 'I have $100,000 in my Roth, that is mine,' versus if they have $100,000 in a traditional because Uncle Sam has to get his hand on it."

An emergency fund: “One of the benefits of a Roth IRA is if you’re in an absolute emergency, you can certainly take those contributions out tax-free and penalty-free,” said Roger Ma, a financial adviser and founder of advisory firm lifelaidout in New York. After five years, savers can take out the exact amount of their contributions, but not the earnings on the principal, for a medical emergency (you lost your job and are paying medical insurance premiums, for example), qualified education expenses or up to $10,000 for first time homebuyers.

Medicare: “If you think you’ll be in the same tax bracket now or you don’t, my advice is make it a Roth. The distribution in retirement doesn’t count toward the Medicare threshold,” said Mark Smith, president of Vision Wealth Planning in Glen Allen, Va. Modified adjusted gross income does not include Roth IRA distributions for Medicare.

The promise for younger savers: “I like the Roth for young people for retirement as long as they are already maxing out their 401(k) plans with their employers,” said Sallie Mullins Thompson, a financial adviser and certified public accountant in New York. That’s because of the flexibility. Ten years into it, if they need the money for child education, the money can be used for that, she said. You don’t have to wait until 59 ½ years old to pull it out if you need it.

Inheritances: “As an estate planning tool, Roth IRA accounts provide tax-free inheritances,” said Hank Mulvihill, a financial adviser and director at Smith Anglin Financial. Spouses who receive Roth IRAs as part of an inheritance can roll it over into their accounts, and they will be tax-free after 59 ½ years old and the five-year holding was met, according to Charles Schwab & Co. Children and grandchildren will be required to take minimum distributions, but the money will still come out tax-free, he said.

How to improve Roth IRAs:

Contribution and income limits: “All the IRA limits should be raised and the Roth IRA gets particularly attacked by the income limits,” Mulvihill said. Instead, he suggests a phase-out or just eliminating income limits altogether. Roth IRA contribution limits are $5,500, or $6,500 for people 50 and older, in 2018, according to the IRS. For people who are married filing jointly and make between $189,000 and $199,000, the contribution limit is reduced, and for people who make above that, they can not contribute at all. For single, head of household or married filing separately, the income limits are $120,000 to $135,000 for a reduced limit, or nothing for those who earn more than $135,000. “What is so bad about essentially putting it in a cash account with growth protection?” asked, referring to the Roth IRA.

Changing back the recharacterization changes: Starting this year, retirement savers won’t be able to undo conversions to Roth IRAs, known as a recharacterization. Now, once a conversion is made, it is final. “The way it was provided was a very good planning tool for people who wanted to convert all or part of a traditional IRA,” said Smith, especially if they didn’t know what their total taxable income was going to be by Dec. 31. In that scenario, the longer they were able to wait, the better it would be to figure out how much of a conversion they wanted to do. “It provided the ability to fine tune the exact amount and then undo the part they didn’t want to convert.”