

THE PLAIN DEALER

MONDAY, JANUARY 26, 2004



ASK THE EXPERT

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Credentials: Certified financial planner, Certified public accountant, certified investment management analyst

Experience: 10 years in financial services, eight as a personal financial counselor

Assets under management: \$70 million

Consider allocating the fixed-income portion of your portfolio within your 401(k) rather than using tax-free municipal bonds. This is because the tax rates on dividends and capital gains were lowered last year to 15 percent.

Question: *My wife and I are inheriting \$350,000. We earn a combined \$105,000 and have two children: 11 and 5. We've been investing \$75 monthly for each since they were infants, for college educations at state schools. We have more than \$250,000 toward retirement (I'm 42; I've been saving since age 19). My first goal with the inheritance is college; the rest can be saved. Should I consider exchange-traded funds? What about tax-free municipal bonds? What tax consequences do I have to consider?*

Advice: To accomplish your first goal, I recommend using part of your inheritance to fully fund your children's education expenses using a 529 Plan - probably not Ohio's even though you'll lose a tax deduction. Your contributions will grow tax-free when distributions pay for qualifying education expenses. I recommend the University of Alaska College Savings Plan managed by T. Rowe Price. For more information on various state plans, visit the website: www.savingforcollege.com.

Second, I recommend you each contribute the maximum \$13,000 to your 401(k) this year. Dip into your inheritance for cash flow, if necessary, since this will be in a taxable account. This will move future dollars into retirement in the most tax efficient manner.

I like your idea of diversifying with exchange-traded funds to build up the large and mid-cap core areas of your portfolio. But consider allocating the fixed-income portion of your portfolio within your 401(k) rather than using tax-free municipal bonds. This is because the tax rates on dividends and capital gains were lowered last year to 15 percent. Lastly, avoid high turnover mutual funds in your taxable account