MetLife among best for annuities

Dear Mr. Berko: My broker has recommended that I invest $100,000 of the $205,000 I recently got because a mortgagee paid off his balance 10 years sooner than I expected. I sold him my house in 2001 and took back a 5 percent 15-year mortgage.

I was going to put the $205,000 in a 5 percent certificate of deposit and my broker suggested that I invest half of the amount in a MetLife variable annuity that also pays 5 percent plus possible growth in value. But I've heard so much bad news and read so many bad articles about annuities that I'm afraid to buy one. Please tell me why there is so much negative publicity about these annuities.

My broker (I trust him and he's not pushy like some brokers are) tells me that I can reinvest the 5 percent income and don't have to take a check for interest, as I had to do with the mortgage. And that's fine because we won't need the money for like 10 to 12 years. — *H.G., Joliet*

Dear H.G.: Yes, the annuity business is getting a lot of bad press, and much of it is deserved. Many so-called financial experts, especially those with fancy initials after their names — CAA (certified annuity adviser) or CSFA (certified senior financial adviser) or CIS (chartered income specialist) and myriad other ridiculous designations — sell annuities that have the highest commission payout to the salesman, but the annual expenses plus contract clauses and poor performance really sock it to the client.

These annuities, like rotten apples, spoil the barrel. The salesman receives a 12 percent to 15 percent commission when you buy their product. The annuity company charges its clients as much as 4 percent to 7 percent per year for expenses and management fees, the selling broker gets a continuing annual fee (as much as 1 percent) for every year you own that annuity, and the annuities' mutual funds contain some of worst-managed and cheapest funds in the business.

The early exit penalties are enormous and never seem to disappear, the small print clauses in the annuity contracts harm the client, the issuing insurance company is poorly rated, the issuing company takes weeks to send requested checks (sometimes you have to ring three or four times), the issuing company won't respond in a timely manner to address or name changes, the statements are difficult to read and those policies are designed so that clients can never get their original investments back.

So when considering an annuity, stay with well-known names. Equitable, the Hartford, MetLife, Prudential, ING, Ohio National, Allianz, New York Life, Phoenix, Mass Mutual, Lincoln Benefit, Jefferson Pilot, TransAmerica, Mutual of New York and SunAmerica are among the best. And MetLife, in our opinion, is one of the "best of the best."

So I strongly recommend that you follow your broker's advice because the MetLife may be one of the best long-term investments you will own.

Certainly you know that MetLife is among the better-rated insurers. It has excellent mutual funds from which to chose, its fees are quite reasonable, its back office people are superb and MetLife's statements are easy to read. When you purchase a MetLife variable annuity, you can elect to receive a 6 percent bonus (invest $100,000 and MET will add $6,000 to your $100,000 for a .60 basis point annual fee) with a guaranteed 5 percent annual income payout on $106,000, or $5,300 a year.

If a year from now the market grows your annuity to $120,000, MetLife will pay you 5 percent of $120,000. If three years from now your policy grows to $140,000, the MET guarantees you 5 percent of $140,000, or $7,000 income a year. It can never be less. I don't know of another variable policy with that provision and I'm delighted your broker has recommended MetLife to you.

Of course, you can get all your money back; every red cent, silver quarter and green dollar. If your MetLife variable is worth $1,000 or $5,000 or $18,000 because of a catastrophic year, MetLife, on the 10th anniversary of the policy, will cut you a check for your initial investment and they'll do it lickety-split. So unlike many other annuities, you don't have to annuitize (take a monthly, quarterly or annual income) to get whole again. But hell's bells, I really doubt that will happen.

Frankly, by 2016 I think the Standard & Poor's could reach 20,000 — and that's not even a stretch considering that the S&P has averaged 10.4 percent since 1926. And that 10.4 percent return includes the Depression, a world war, Korea, the Cuban missile crisis, the Cold War, Vietnam, several recessions, riots, oil at $65 a barrel, the 1987 market crash, the tech and dot-com collapse and the Enron, Global Crossing, MCI and Adelphia scandals. So give your broker a gold star because his MetLife variable annuity recommendation is one of the best on the Street. Buy it, sit back and let MetLife take the worry and the risk while you take the guarantee. - *Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@adelphia.net. 04/30/06*