

CANEX

ILY™ (Implied Longevity Yield™)

The financial benefit from a life annuity



“Annuities are an area which consumers find difficult to understand, but they are at the same time a crucial and too often neglected component of retirement income planning. The ILY is a major step forward. It is easy for consumers to understand and at the same time is technically elegant and therefore important for specialists as well.”

— Dr. J. Michael Orszag
Head of Research, Watson Wyatt LLP
and
Chairman of the research committee of the International
Network of Pension Regulators and Supervisors (INPRS)

“A major obstacle to financial planning for retirement products has been removed with the development of the ILY- the annuity industry needs to show consumers how best to use its products, and yield comparisons level the playing field between pay-out products and alternative investments.”

— William J. Atherton, FLMI, CLU (Canada),
former President, Ameritas Variable Life and North America Wood Logan,
Managing Director, The Atherton Group

The ILY measures the investment yield from a life annuity by answering the question: "If an investor does not annuitize today - but instead waits until later - what rate must be earned in the meantime to keep up with the life annuity?"

Why is the ILY concept important?

It is often difficult to explain the insurance benefits of an "income for life" to potential annuitants, especially in a low interest rate environment, when people are accustomed to thinking in terms of investment rates of return. The effective investment return from a lifetime annuity is unavailable since it depends on longevity - how long the annuitant will live, which is unknown. The ILY concept was introduced to help individuals compare returns from alternative investment products, such as mutual funds and bonds, to the implied yield from a lifetime annuity, which previously could not be done easily.

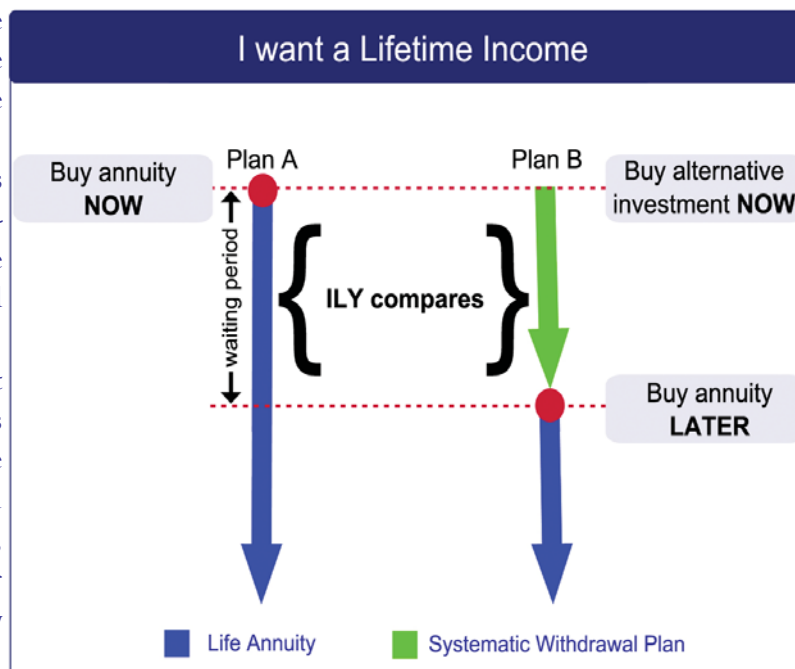
How is the ILY calculated?

The algorithm behind the ILY concept involves two prices: the annuity premium needed to purchase a given lifetime income NOW, and the annuity premium needed to purchase the exact same lifetime income LATER.

The ILY value is the yield required from the alternative investment to:

- Provide the same income as the life annuity during the waiting period.
- Have sufficient funds LATER, after the waiting period, to purchase a life annuity that will pay the same income.

If the alternative investment does not provide a return as high as the ILY and the annuitant is concerned about running out of funds, then the annuitant is better off purchasing an annuity NOW.



What are the benefits of knowing the ILY value?

- Provides a direct comparison of the income provided by a life annuity to other investments.
- Provides an intuitive explanation of the value of the lifetime income provided by an annuity.
- Provides a minimum return benchmark for a self annuitization scheme.
- Helps identify an optimal age for annuitization.
- Provides compliance information when selling annuities.

How do I calculate the ILY for various scenarios?

CANNEX has the capability to provide ILY calculations with most annuity surveys. By changing the parameters of the survey, the corresponding ILY will appear.

Who developed the ILY concept?

The ILY concept was developed by Moshe Milevsky, Finance Professor, York University and the Executive Director, The IFID Centre, a non-profit corporation that provides a forum for rigorous academic research in the field of personal finance and insurance.

How do I find out more?

Basic Information and Specific Calculations: <http://www.cannex.com>
 Mathematical Formulae and Research Papers: <http://www.ifid.ca>

ILY values are included with each CANNEX life annuity survey.

Use the ILY concept to help your client understand the benefits of lifetime annuitization.



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