An income annuity is a contract that can pay a guaranteed amount of income over the course of a lifetime. Generally, the longer you wait, the higher your monthly income will be. The Implied Longevity Yield (ILY) from an income annuity can be compared to the yield from other investments and therefore provides you a perspective on whether you should buy an income annuity now or wait.

What is the Cost of Waiting to Buy an Income Guarantee?
The Implied Longevity Yield (ILY) is a measurement that tells you what yield (or return) you would need to receive from an alternative investment in order to keep up with the income generating capability of an income annuity. If you want lifetime income but are hesitant about buying a life annuity now, then the ILY can help quantify the cost of delaying the purchase over the “waiting period”.

How is ILY Calculated?
Using the annuity details entered, this analysis a) ages the annuitant(s) by the waiting period, b) reduces the certain / guarantee period by the waiting period and c) recalculates the amount of premium required to produce the same level of income at the older age. The ILY is the yield that the initial premium would need to earn in order to generate the same cash flow provided by the income annuity during the waiting period and still be left with sufficient funds to buy an income annuity later.
**Implied Longevity Yield (ILY)**

*Why Does an Income Annuity Often Compare Favorably Against Other Investments?*

Insurance companies that sell life annuities pool the funds of a large number of annuitants. Some will die before others and their remaining principal is returned to the pool for the benefit of the annuitants that are still alive. As a result, all annuitants may receive more income while they are alive.

If the ILY is somewhat larger than the guaranteed return you could receive from another investment, you may benefit by buying the income annuity now as opposed to waiting. Also, the older you are, the harder it may be to find an alternative investment that matches the ILY from an income annuity.

The higher the ILY, the greater the benefit from annuitizing now as opposed to waiting. The older the annuitant, the higher the rate of return that must be earned from an alternative investment to match the yield from a life annuity. By comparing the ILY to the return from an alternative investment with similar levels of guarantees over the waiting period, you can quantify the additional return received from the pooling effect received with a life annuity.

*Limitations of the ILY and What It Is Not*

The ILY is not an internal rate of return (IRR). Standard IRR calculations require knowing the number of years that payments will be made. With a life annuity this is not known since payments continue for the life of the annuitant.

The ILY is not the only factor to consider when purchasing a life annuity. There are a number of trade-offs to consider which is why many people seek financial advice when transitioning to retirement. When addressing a variety of uncertainties that include inflation, healthcare cost, and the time horizon of your plan, decisions often result in purchasing both insured and non-insured products. A good financial advisor will help determine the optimal mix of products that make sense for you.

*The Academic Basis of the ILY*

The ILY concept was developed by Moshe Milevsky, Finance Professor, York University and Executive Director, The IFID Centre, a non-profit corporation that provides a forum for rigorous academic research in the field of finance and insurance. Moshe Milevsky’s academic paper on ILYs can be found at: [http://www.ifid.ca/pdf_workingpapers/WP_2004Sept15.pdf](http://www.ifid.ca/pdf_workingpapers/WP_2004Sept15.pdf)

*For more information about the Implied Longevity Yield and other analysis,* please contact us at (800) 387-1269 and a representative can assist you.