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WealthStyles

Protect more than just your mortgage! Mortgage insurance vs. term insurance

When Roberto bought his first house, he was 32, single, and with no dependants. When he got the mortgage from his bank, they offered him mortgage insurance to cover his mortgage balance in the event of his death. At first, Roberto declined. After all, he didn't have any dependants that would still be living in the house if anything happened to him.

But neither did he want to burden his family with having to sell the house to pay off the mortgage. So, Roberto purchased the mortgage insurance.

Then, as happens to all of us, life happened to Roberto. Over the next few years, Roberto got married, financed a new car, and started contributing more to his RRSPs.

When their two kids arrived, Roberto and Gabriela started putting money away to save for the kids' education. As the kids grew, Roberto needed to move their family into a bigger house.

Falling in love with a home in a neighborhood perfect for raising kids, Roberto and Gabriela had to refinance the original mortgage. Once again, the bank offered them mortgage insurance to cover the new mortgage.

But this time, with Roberto's additional debt and dependants they wondered if mortgage insurance was really the right choice.

As part of their research, Roberto and Gabriela consulted their financial advisor. They were a little confused when he suggested a personally owned term insurance policy as the better solution. After all, Roberto already had adequate life insurance, or so he thought.

Their advisor explained that even though Roberto

already had insurance coverage, they needed to protect their family from the additional debt load they were assuming. And personally owned term insurance would not only protect their family, but also offer some additional benefits.

Let’s examine the differences between mortgage and term insurance.

WHAT IS MORTGAGE INSURANCE?

Mortgage insurance is offered by most banks and lending institutions. They’ll offer it to you when you get a mortgage or refinance your existing one.

It’s an insurance policy that pays the balance of your mortgage to the lending institution if you, the person listed on the mortgage, passes away.

Mortgage insurance provides a life insurance amount equal to your remaining debt. As your mortgage decreases, so does the payout you receive.

The cost of the insurance is based on the mortgage amount and your age at the onset of the mortgage, and the payments remain constant through the life of the policy. Essentially, you’re paying the same monthly premiums for a reducing amount of coverage as you pay down your mortgage.

And mortgage insurance is great for the lender because they are listed as the beneficiary of your policy.

HOW DOES TERM INSURANCE COVER MY MORTGAGE?

Term life insurance provides protection for a specified period of time. A death benefit is paid to your beneficiary if you die while the policy is still in force.

When you purchase a term life policy, you are covered for the full amount of your mortgage, not just the outstanding balance, for the life of the policy. That means you have a constant level of coverage for the whole term.

It’s usually cheaper and you choose your beneficiaries. And the proceeds from your term insurance can be used in any way your beneficiary deems necessary – not just to repay the mortgage.

YOUR BEST OPTION

Buying a new home is the perfect time to purchase term insurance to protect your mortgage and your family. Based on its flexibility, coverage, and price, term insurance is a superior option to mortgage insurance.

Talk to your financial advisor about the benefits of term insurance, and how it can help you keep the house you worked so hard for.



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COMPARING MORTGAGE AND TERM INSURANCE

Take a look at the differences between protecting your mortgage with personally owned term insurance versus most lenders' mortgage insurance.

	Term Insurance	Mortgage Insurance
I pay the premiums so I own the policy, right?	**Yes.** You own the policy and you name your beneficiaries.	**No.** You're part of a group policy and the lender is the beneficiary.
Is the coverage flexible?	**Yes.** You choose the amount of coverage you want regardless of your mortgage balance. You can increase or decrease your coverage, renew your coverage and convert to permanent protection. If you renegotiate or pay down your mortgage, or sell your home, you can continue your coverage.	**No.** The lender will only insure you for the amount of your mortgage. You can't alter, renew or convert the policy. If you move your mortgage to another lender, you can't transfer your policy. Your coverage ends when the mortgage is paid off or ends.
Can my beneficiaries use the proceeds from the policy for something other than paying off the mortgage?	**Yes.** Upon death, the proceeds go directly to your beneficiary who then decides how to best use the money.	**No.** Upon death the benefit goes directly to the lender to pay off the mortgage.
Is the coverage guaranteed?	**Yes.** Your insurance and premiums are guaranteed for the life of the policy. Only you can cancel or make changes to your policy.	**No.** Your premium and benefits are not guaranteed. Your lender can make changes at any time.
I look after my health and don't smoke. Will that make a difference to my premiums?	**Yes.** The premiums you pay are based on your age, health and smoking status.	**No.** Since mortgage is usually provided in a group plan you pay the same premiums as everybody else.

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