Protect MORE THAN JUST YOUR MORTGAGE

MORTGAGE INSURANCE VS. TERM INSURANCE

Roberto, 32, single with no dependants is buying his first house. The bank offers him mortgage insurance to cover his mortgage balance in the event of his death, which at first Roberto declines. After all, he doesn't have any dependants if anything happens to him. He reconsiders and decides he doesn't want to burden his family with selling the house to pay off the mortgage. So, Roberto decides to purchase mortgage insurance.

Over the next few years, Roberto gets married, finances a new car and contributes to his Registered Retirement Savings Plan (RRSP). After their two children arrive, Roberto and Gabriela put money away to save for their education. As the children grow, they decide to move their family into a bigger house. They fall in love with a house in a neighbourhood that is perfect for raising children, and need to refinance the original mortgage. Once again, the bank offers them mortgage insurance to cover the new mortgage. But this time, with their additional debt and dependants, they wonder if mortgage insurance is really the right choice. As part of their research, Roberto and Gabriela consult their advisor. They are a little confused when he suggests a personally owned term insurance policy as a better solution. After all, Roberto already has adequate life insurance, or so he thought.

Their advisor explains that although Roberto has insurance coverage, they should protect their family from the additional debt load they would assume. Personally owned term insurance not only protects their family, but also offers 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, pass 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 it is 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.

Also, 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 advisor about the benefits of term insurance, and how it can help your family keep the house you worked so hard for. •

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 insurance is usually provided in a group plan, you pay the same premiums as everybody else.

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