WEALTH
MANAGEMENT
INC.

LIFE INSURANCE: MORTGAGE VS. PERSONAL

What is **mortgage insurance**? If you are buying a home or renewing an existing mortgage, you may be offered group insurance by your lender or broker. Your home is likely your most significant investment, so you need to ensure you protect your family from the debt associated with this investment should you pass away.

Mortgage Life Insurance

Mortgage life insurance is typically offered to new homeowners by the lender issuing the mortgage who may be concerned that an unexpected death or illness could leave their loved ones with a large mortgage to deal with.

Mortgage life insurance is different from **mortgage loan** insurance through Canada Mortgage and Housing Corporation (CMHC). If you buy a house with less than a 20% down payment, the lending institution requires you to get mortgage loan insurance to protect the lender against the risk of default. Mortgage life insurance pays down or pays off the remaining mortgage balance if the borrower dies. Similar insurance is offered for Disability or Critical Illness.

Mortgage life insurance is coverage that you can purchase as a mortgage borrower from your bank. It is designed to pay off only your mortgage balance at death. The insurance money payable under the coverage is always applied to the mortgage balance. This can help your family stay in their home, even if the primary income used to make the mortgage payments is no longer there.

Mortgage life insurance is convenient since you can get it when you're arranging your mortgage. It may be easier to qualify for coverage compared to personal life insurance and is typically an easy application process. Since mortgage life insurance is group insurance, this can result in lower premiums because the risk is spread out over a large group of people.

A benefit of having mortgage life insurance is that it ensures your mortgage debt is covered on a stand-alone basis, leaving any other money you might get through insurance from employer benefits, or a personal life insurance policy, available for non- mortgage expenses, such as utility bills or future education costs for your children.

Mortgage life insurance usually carries a 30-day "free look" period, where all premiums paid can be refunded if you cancel your coverage. This lets you buy coverage right away to provide interim coverage, and give you time to review your insurance needs in more detail with an advisor to determine what type of insurance may be best suited for your own for your own financial situation.

GOT QUESTIONS?

Contact DJB Wealth Management Inc. today - we can help you stay on the right path!

Connect with a Certified Financial Planner™ professional by phone at 905.684.9221 or email wealth@djb.com.

How Is Personal Life Insurance Different?

Personal life insurance pays out benefits to your beneficiaries or estate regardless of whether you have mortgage debt. With a personally owned policy, the homeowner typically owns the policy. Unlike mortgage life insurance funds, this money can be used however your beneficiaries, or estate, see fit. For example, the insurance proceeds could be used to pay for post-secondary tuition, credit card debt, or other living expenses.

Personal life insurance can be purchased for a term that is unrelated to the length of your mortgage. Your personal life insurance policy isn't linked to your mortgage and would not end because your mortgage is paid off, or you have moved it to another financial institution. In contrast, the amount of your mortgage life insurance coverage is linked to the declining balance of your mortgage and will go down over time while your personal life insurance coverage amount typically does not decrease.

Personal life insurance can work for you today and be flexible to meet your evolving needs. You may be able to make significant adjustments to a personal life insurance policy without heavy fees. Your family's personal situation and financial circumstances will change over time and personal life insurance can be more easily modified to meet these changes.

Main Differences

Mortgage life insurance covers only the remaining balance of your mortgage, which decreases as the mortgage is paid down. It is important to note that although the coverage amount decreases as you pay the mortgage down, the premium remains the same as when you sign up for the mortgage insurance Personal life insurance coverage, meanwhile, typically stays the same during the coverage term you select and is not linked to your mortgage balance.

Mortgage life insurance coverage ends when your home is paid off. However personal life insurance is unaffected by your mortgage ending and can keep providing you and your family with ongoing protection. Mortgage life insurance provided through a financial institution is typically quick and easy to arrange, and usually only requires answering a few health-related questions. Buying personal life insurance, on the other hand, typically takes longer and involves more details on your medical history.

Always review your insurance needs with your accountant, financial planner, or insurance specialist to ensure you have proper coverage.