

Which is better: Term life or mortgage insurance?

MADHAVI ACHARYA-TOM YEW
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You've just made the biggest purchase of your life: A new home for you and your family.

What's the best way to protect your investment if you die?

Insurance is the answer. But what kind: mortgage insurance or term life insurance?

There are important differences between the two that aren't well understood, mortgage experts say.

Mortgage insurance pays the balance of your mortgage to the bank if a person listed on the mortgage passes away.

"It pays the institution that lent you the money. It pays off that loan so the people who inherit your home are not going to be saddled with that debt," explains George Small, founder of Kanetix, a Canadian financial services website. "The last thing you want to do is leave that liability for someone else to worry about."

Sometimes referred to as creditor insurance, this policy can be purchased when you sign your mortgage papers. It's offered by the bank and typically involves answering a few basic health questions. The premiums can be added to your monthly mortgage payments.

But that convenience comes at a cost.

The most important thing to remember about mortgage insurance is that even though you are paying the premiums, you're not necessarily covered. These policies use post-claim underwriting, meaning that the insurance company will delve into your medical history after a claim is made.

If you have a health condition when you sign the papers — whether you and your doctor are aware of it or not — and it is not disclosed, your claim may later be denied.

That means, even though you have been paying the premiums, no benefits will be paid.

Assuming that's not an issue, there are other key differences between mortgage and term life insurance.

Since mortgage insurance benefits pay out only the amount left owing on your mortgage if you die, the amount of coverage declines as you pay down that balance every month.

You will also need to renew the policy every time you renew your mortgage. That could be every five years, if you choose a five-year term, as many Canadians do.

"What I tell people is that it's not guaranteed and your premium is probably going to go up because you're five years older, and you could have heart problems or diabetes," says Andre L'Ecuyer, a mortgage broker with Mortgage Agent in Petawawa.

"Then, on the opposite side, what happens with your mortgage is that it decreases as the years go by. What's wrong with this picture? You're paying more for something

that's not guaranteed, paying a higher premium and you're getting less."

Term life insurance is just that — an insurance policy that covers you for a set number of years, typically 10 to 30 years.

The premiums, and the amount that your beneficiaries receive if you die, will stay the same through the life of the policy.

That's another key difference: Your family receives the payout and decides what to do with it. "Some people view that as a benefit because the family may be looking at alternatives, rather than paying off the mortgage. They may have other high-cost debts they want to put the money to," Small says.

When purchasing term insurance, you may need a blood sample or urine sample upfront, and the insurance company may need to contact your doctor.

Depending on your age and health, the premiums on mortgage

life insurance can be much higher than for a term life insurance policy, according to a comparison on the Kanetix website.

For example, a couple where both partners are 30 would pay \$36 per month on mortgage insurance premiums, but they would pay \$24.53 a month on a 10-year term life policy.

The difference becomes more pronounced with age. Two 40-year-olds would pay \$80 per month for mortgage insurance but just \$36 for a term policy. Two 50-year-olds would pay \$160 for mortgage insurance, but only \$73.35 for term life.

Keep in mind that mortgage insurance is not portable. If you switch lenders, you'll need to take out a new policy.

"Term life insurance is more portable, because it's attached to you rather than your debt," Small says.

If you already have term insurance, you can consider boosting the amount of coverage to include your mortgage.