Oct
12
2015

How Should I Insure My Mortgage?

By admin

Ron and Susan are arranging a mortgage and the banker asks if they'd like to include life insurance to pay it off on death. Sounds like a good idea, so they decide to take it. After filling out and signing a few more forms, they have it.

Or would your family be better off if they collected the insurance, and then decided whether or not to pay off the mortgage? Since a house without a mortgage isn't necessarily easier to sell than a house with a mortgage, having insurance that automatically pays off a mortgage reduces the cash flow options of the surviving family members without giving any real benefit in return.

What happens if you increase your present mortgage, or sell your present home to buy another with a higher mortgage? Or decide to switch banks? **You need new insurance. But what if you can't get it?** Whenever there is a change to your mortgage, you may have to re-qualify for bank mortgage insurance. Most banks offer the same premium rates for both smokers and non-smokers. Even though most people don't smoke, they will get to subsidize the insurance premiums for those that do.

The answer is to have a personal policy that is controlled by them rather than the bank. Benefits are paid to a beneficiary rather than the bank. And Ron and Susan only have to qualify for the insurance once, not every time they change their mortgage, switch banks or move to a new home.

A personal policy can be set up with a level death benefit instead of one that decreases. Let's say Ron and Susan start off with a $200,000 mortgage. A number of years later, they only owe $100,000 and one of them dies. The personal policy will pay out the full $200,000 to the survivor. After the mortgage is paid off, there's still $100,000 left to pay off other debts or to provide extra income.

The survivor may decide to not pay off the mortgage at all, but invest the life insurance proceeds instead and use the income to keep making the payments. Once the mortgage is paid off, the income continues and the house will be debt-free.

For about the same premium they would pay at the bank, Ron and Susan can each be insured for the full amount, or more, of the mortgage. That means that if one dies, the survivor will still have their coverage. They can decide at that time if they want to continue their protection. At the bank, they have no choice. The bank insurance only pays one benefit and the survivor cannot continue any coverage.

They can change homes, banks, or perhaps buy a cottage. With their personal policy already in place, they won't have to worry about qualifying for new coverage, likely at higher rates because of age.

Want mortgage life insurance you control?
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