Mortgage insurance vs. Life insurance: What meets your needs?

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Which of your needs are met by each product?

If you're buying a home or renewing an existing mortgage, you may be offered group insurance by your lender or broker. You put a lot of money towards your home, so it's worth taking steps now to protect your investment.

Mortgage life insurance is typically marketed towards new homeowners who may be concerned that an unexpected death or illness could leave their loved ones with a large mortgage.

Personal life insurance can perform a similar function for you, but isn't tied to just covering your mortgage. It's designed to provide your beneficiaries with money in the event of your death. Its flexibility allows your beneficiaries to use the money for whatever purpose they wish. It's an individual insurance product.

Mortgage life insurance is different from mortgage loan insurance. If you buy a house with a 20% down payment, the lending institution requires you to get mortgage loan insurance to protect against the risk of default. Mortgage life insurance, on the other hand, pays down or pays off the mortgage if the borrower dies.

What is mortgage life insurance?

Mortgage life insurance is coverage that you can purchase as a mortgage borrower. It's designed to pay off or pay down the mortgage if you die. 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 can be convenient to get at the bank when you're arranging your mortgage. It may be easier to qualify for coverage than with personal life insurance. Mortgage life insurance also features 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 as part of your overall financial plan is that it can free up money you may get from other insurance policies. For example, the money you get through insurance from employer benefits or a personal life insurance policy could go towards expenses other than the mortgage, such as utility bills or university tuition for children.

Mortgage life insurance usually carries a 30-day "free look" period when all premiums paid can be refunded if you cancel your coverage. This lets you buy coverage right away and have time to review the insurance certificate. It also allows you to talk with an advisor to determine what type of insurance may be best suited for your own financial situation.

How is personal life insurance different?

Personal life insurance pays money if you die while covered under the policy. With personal life insurance the homeowner typically owns the policy. Unlike mortgage life insurance benefits, this money can be used however your beneficiary or beneficiaries see fit.

For example, your family or other beneficiaries could use the proceeds 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 won't end because your mortgage is paid off, or you've moved it to another financial institution. The amount of your mortgage life insurance is linked to the declining balance of your mortgage and will go down over time, while your personal life insurance coverage typically won't decrease.

Personal life insurance can work for you today and also be flexible to your changing needs. You may be able to make significant adjustments to a personal life insurance policy without heavy fees. It's possible your family's financial situation will change as you have children (or they grow up), and personal life insurance can more easily handle these new financial realities.

Main differences

Mortgage life insurance covers the balance of your mortgage, which decreases as the mortgage is paid down. Personal life insurance coverage, meanwhile, typically stays the same and isn't linked to your mortgage.

Mortgage life insurance coverage ends when your home is paid off. A personal life insurance policy is unaffected by your mortgage ending, and can keep providing you and your family with protection in the years that follow. 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 delving into your medical history.