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TheStar.com – Business Perils of a mortgage life policy

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Insurance attached to your home loan can be a poor deal, Ellen Roseman explains

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You're buying a house and taking out a big loan to pay for it. Now, the bank is asking whether you want life insurance.

Reluctant to leave an unpaid debt when you die, you say yes. Within minutes, your application is approved and the cost is added to your mortgage payments.

For lenders, life insurance is an easy sell. They suggest it at a time when you're vulnerable and have yet to do any comparison shopping.

And they make you sign a waiver form if you say no, agreeing not to hold the lender responsible if something bad happens to you.

Most people don't realize that the life insurance sold by mortgage lenders is different from the policies sold by life insurance agents and brokers.

It sounds like a great deal at the time, but mortgage life insurance can be more expensive than insurance sold separately.

Suppose you're taking out a \$250,000 mortgage at the Royal Bank of Canada. You're 49 years old and your spouse is 45.

If you opt for the RBC Insurance HomeProtector plan, you'll pay a monthly premium of \$153.90 – or \$1,846.80 a year.

Before you sign up, you should shop around. You can do it at www.getterm.cc, a website that offers comprehensive term life insurance quotes for Canadians.

You put in your postal code, age, health and smoking status and the amount of coverage you want. Then, you can compare premiums among 30 to 50 life insurance companies.

For a \$250,000 life insurance policy with an initial term of 10 years, the premiums range from \$390 to \$792.50 a year. For a \$250,000 policy with an initial term of 20 years, premiums range from \$710 to \$2,150 a year.

In both cases (10-year and 20-year terms), nearly all of the companies charge less than RBC's Home Protector.

The website is run by Compulife Software Inc., which also supplies quotes to life insurance brokers.

Consumers can get the names of three agents near them where they can buy policies.

"You buy life insurance to replace the financial value of the person who died. It's related to income, not debt," says Compulife president Bob Barney.

If you have an insured mortgage, your loan will be paid off if you die. But the mortgage payments are typically only one-third of your income. (Banks won't lend you more than that.)

This means your family still has to replace the other two-thirds of your income. You need enough life insurance to cover all your financial obligations to your dependents (including post-secondary education costs).

Compulife has an income replacement calculator at its website, so you can figure out how much coverage you need without relying on a life insurance agent.

There are other key differences between mortgage life insurance sold by banks and term life policies sold by insurance agents and brokers:

❑ **Underwriting:** The group insurance offered by banks is a one-size-fits-all product. Smokers and non-smokers are lumped together in the same age category. Individual insurance is based on the client's own medical condition. "If you're a slightly overweight smoker, you may be better off with the bank," says Andrew Rickard, a financial writer who used to work as an insurance adviser.

❑ **Portability:** If you change banks when your mortgage is up for renewal, you will have to reapply for coverage at the new lender. This means submitting new medical evidence and paying rates based on your current age. Suppose you have been diagnosed with diabetes since you took out your mortgage. Your new mortgage lender may not want to insure you.

❑ **Level premiums:** You may pay \$100 a month for the bank's mortgage insurance, but the amount owing on your loan goes down with each payment. Why pay a fixed amount for reducing coverage? With an individual life insurance policy, the face value stays the

same for as long as the policy is in force. However, the cost of term insurance goes up when you renew it.

★Expiry: The mortgage insurance you buy through a bank terminates when the mortgage is paid off. And you may be cut off when you reach a certain age, generally 70 years old. An individual policy can be held for as long as you want. If you have a term life policy to cover your mortgage, you can convert it into a whole life or permanent policy to cover taxes on your estate after you die.

★Beneficiaries: With an individual policy, you name your own beneficiaries. Your loved ones can decide what to do with the life insurance proceeds, either paying off the mortgage or using the money for something else. With group creditor insurance, the bank is the beneficiary and collects the proceeds when you die.

"The banks offer convenience, but individual insurance offers portability and flexibility. That's a better deal, never mind the price," Rickard says.

If you deal with a mortgage broker, you can buy another type of life insurance.

The Mortgage Protection Plan insures more than 100,000 people for life insurance and more than 40,000 for disability insurance. The policies are underwritten by Manulife Financial.

"Our life insurance is portable, unlike that offered by the banks," says Tina Bellavia, vice-president and product manager of the Mortgage Protection Plan.

The plan, which has level premiums, starts out being slightly more expensive than term life. But it's 33 per cent cheaper per dollar of coverage over a 25-year mortgage term, the company says.
