# Mortgage life insurance and personal life insurance

*Source: Great-West Life*

*https://www.greatwestlife.com/common/discover/protecting-what-matters/mortgage-insurance-vs-personal-life-insurance.html*

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## Which 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 to cover the balance (or a portion of the balance) of your mortgage. Mortgage life insurance is typically marketed towards new homeowners who may be concerned that an unexpected death or illness could leave their loved ones burdened by a large mortgage.

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

Mortgage life insurance should not be confused with mortgage loan insurance. If you buy a house with a down payment of less than 20% of the total purchase price, the institution lending you the money requires you to obtain mortgage loan insurance to protect against the risk of default. Mortgage life insurance, on the other hand, pays down or pays off the mortgage in the event the borrower dies.

## What is mortgage life insurance?

Mortgage life insurance is a type of coverage that can be purchased by a mortgage borrower. It is designed to pay off or pay down the mortgage if the borrower dies. The insurance money that becomes payable under the coverage is always applied to the mortgage balance. This can assist the borrower’s family in being able to stay in the family home, even if the primary income used to make the mortgage payments is no longer there.

Mortgage life insurance can be convenient to obtain at the bank when you’re arranging your mortgage, and in many cases, it may be easier to qualify for coverage than with personal life insurance. Mortgage life insurance also features an easy application process. Also, 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 funds you may receive from other insurance policies. For example, the money received 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 during which all premiums paid can be refunded if you decide to cancel your coverage. This lets a borrower buy coverage right away and have time to review the insurance certificate or talk with an advisor to determine what type of insurance may be best suited for his or her own financial situation.

## How is personal life insurance different?

Personal life insurance pays a benefit if the insured person dies 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, they could use the proceeds to pay for post-secondary tuition, to address credit card debt, or to cover 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 is not linked to your mortgage and will not end because your mortgage is paid off, or you have moved it to another financial institution. The amount of your mortgage life insurance is linked to the declining balance or your mortgage and will decrease over time, while your personal life insurance coverage will typically not decrease.

Personal life insurance can 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 over time 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. Meanwhile, a personal life insurance policy is unaffected by your mortgage ending, and can continue to provide 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 a personal life insurance policy, on the other hand, is typically a longer process that involves delving further into your medical history.

A financial security advisor can explain the differences between mortgage life insurance and personal life insurance in greater detail and help you understand which options make the most sense for your specific financial situation.

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