

MORTGAGE INSURANCE

Just say no thank you to critical illness coverage



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Would you like critical illness insurance with that mortgage, Mr. and Mrs. Bank Customer?

We're not yet at the point where banks are posing this question like fast food restaurants asking if you want fries with that burger, but we're getting there. Right now, at least three banks offer critical illness mortgage insurance that is sold alongside that old standby, mortgage life insurance.

Wondering how to respond to your bank's sales pitch on mortgage critical illness coverage? The answer is the same as for mortgage life: No, thank you.

Critical illness insurance is an appealing product in today's world, where you're statistically much more likely to be sidelined with diseases such as cancer or heart disease than you are to die prematurely.

If you had critical illness mortgage insurance and you were diagnosed with these conditions, then your mortgage debt would be paid off. No matter if you get better quickly or remain off work for an

extended period, your mortgage is history.

As tempting as this sounds, it's just not a good value for the money you'll spend on premiums. If you really want critical illness coverage, then you're better off buying a separate policy for a specified amount, say \$50,000 or \$100,000.

Compare the cost of regular critical illness coverage and the mortgage variety sold by banks, and you'll find the banks have a price advantage.

Toronto-Dominion Bank, a powerhouse in selling mortgage critical illness, advertises a rate of 39 cents a month per \$1,000 of single coverage for people aged 41 to 45, which works out to \$468 a year on a \$100,000 mortgage.

According to the Kanetix.com website, a male of a similar age could get \$100,000 worth of critical illness coverage from an insurance company for between \$514 and \$609 and a female for between \$509 and \$590.

You pay less for critical illness mortgage insurance, but you also get less.

Typically, cancer, heart disease and stroke are the only conditions covered. These diseases account for about 85 per cent of critical illness insurance claims, but it's worth noting that critical illness policies from insurance companies usually list more than 20 conditions, including multiple sclerosis, Parkinson's disease, Alzheimer's

disease, Amyotrophic Lateral Sclerosis and kidney failure.

When you buy critical illness coverage from an insurance agent or company, you choose how much coverage you want and the term, say 10 years or until you're age 65. Mortgage critical illness works differently in that the amount of your coverage is tied to your outstanding mortgage balance. This means that as your mortgage balance shrinks over the years, so does the potential benefit of your insurance policy.

Yet your premiums remain the same over the years unless you request that they be recalibrated to reflect a significantly lowered mortgage balance. The point is, you have to stay on top of this or you'll end up paying stable premiums for declining coverage.

Then again, it's easier to get mortgage critical illness coverage than it is a policy from an insurer. TD's form has just five questions, whereas an insurance agent selling critical illness coverage will subject you to a long, detailed application form that could be supplemented with requests for blood and urine tests, depending on how much insurance you're looking for.

The insurance industry will tell you that more heavy-duty up-front screening means fewer rejections of claims, but that could just be propaganda. It does make sense, though.

On the face of it, mortgage criti-

cal illness coverage is cheaper but somewhat less all-encompassing. In the real world, though, the price advantage may not work in your favour.

For one thing, you could find mortgage critical illness bundled together with mortgage life insurance, as is the practice at TD. This would increase your premium costs substantially.

Another issue is that TD's mortgage critical illness coverage can only be bought for the exact amount of your outstanding mortgage balance — you can't just say you want to cover \$100,000 when you have a \$150,000 mortgage. If you live in a city like Vancouver or Toronto where real estate prices are high, then you could find yourself in a position of having to pay close to \$1,000 a year for your critical illness coverage.

A more economical plan is to just buy a \$50,000 or \$100,000 critical illness policy from an insurer, be it your bank's own insurance arm or a life and health insurance company. You could get a 10-year, \$50,000 policy — you won't face any premium increases over that period — for roughly \$310 to \$380.

No, your mortgage won't disappear if you become critically ill. But you will have affordable coverage that can carry your mortgage payments for a year or two, with money left over for other things.

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