Mortgage disability insurance helps if you're unable to work

By Satta Sarmah-Hightower | Posted on June 2, 2020

Your home is likely the biggest purchase you'll ever make, but homeowners insurance isn't the only way to protect this significant investment. Mortgage disability insurance offers additional coverage to help keep you in your home if you're disabled and can't work.

If you plan to purchase a home or are already a homeowner and don't yet have mortgage disability coverage, you might consider purchasing a standalone policy or adding it as a rider to your existing mortgage life insurance policy.

Here's what you need to know about mortgage disability insurance.

What is mortgage disability insurance?

Mortgage disability insurance helps with mortgage payments if you become disabled. A policy provides monthly income to cover your mortgage principal and interest payments if you were to become disabled and could no longer work. It's different from mortgage life insurance, which offers a death benefit to help your family pay for mortgage-related expenses after you die.

Mortgage disability is typically best for people who are in high-risk occupations, such as roofing or fishery, who have a greater likelihood of injury on the job.

"Mortgage disability insurance should be considered by homeowners who would have limited or no ability to pay their mortgage if they became unable to work due to sickness or injury," says Anthony Martin, CEO and owner of Choice Mutual, an independent insurance agency.

Mortgage disability insurance is connected to your mortgage, which is different from traditional long-term disability insurance. Long-term disability insurance pays a percentage of your salary, usually 50 to 60%.

Ideal candidates for mortgage disability insurance are:

- People in high-risk occupations
- People who don't have existing disability coverage through work
- People who can’t get traditional long-term disability coverage

"Since most of these policies are simplified or even guaranteed issue, people with health conditions can benefit from them, as well. If you work in a hard-to-insure occupation, such as restaurant service, then mortgage disability insurance may be your only option to protect yourself and your home," Anthony adds.

One thing to keep in mind with mortgage disability insurance is that once you're approved for a policy, there will be both a benefit period and an elimination period.

- **Benefit period** -- Your policy’s benefit period defines how long you’ll receive coverage. Benefit periods can last only a few months or until you reach retirement age. However, the longer the benefit period, the higher your premium.
- **Elimination period** -- The elimination period is a waiting period that can range from 30 to 90 days, depending on your policy. During this period, you won't have coverage. So, it's best to consider the elimination period when you're searching for a policy. At the very least, you should have savings sets aside to cover your mortgage until your insurance coverage kicks in. A longer elimination period typically means a lower premium.

How can you get mortgage disability insurance?

You can apply for a mortgage disability insurance policy through your mortgage lender after you close on your home. You also can get a policy by applying directly through an insurance provider or an independent insurance agency.

Most mortgage disability policies are either simplified or guaranteed issue. With simplified issue insurance, you answer a few questions about your health history. You don't have to undergo a medical exam. With guaranteed issue life insurance, you don't have to do either to qualify for a policy.

The underwriting requirements for these policies aren't as strict. That means you’ll likely pay a higher premium for mortgage disability insurance but get less coverage.

On the other hand, long-term disability insurance often requires a medical exam and questions about your health. Long-term disability can be cheaper, but you may have more trouble with eligibility based on your health history and employment.

"Minor health issues, such as high blood pressure, controlled diabetes or cholesterol, to name a few, are not going to prevent you from qualifying (for mortgage disability insurance)," Martin says. "Mortgage disability policies are more forgiving than traditional disability insurance when it comes to pre-existing health conditions and it is easier to get an approval."

What does mortgage disability insurance cost?

An insurance company will use your mortgage amount, health, age and occupation to determine your premium.

"Like most insurance products, the cost for each person will vary depending on a variety of factors. Most of the time, mortgage disability coverage is often less expensive than traditional disability insurance, but only because the benefits are extremely limited," Martin says. "Assuming you are in good health and comparing similar benefit amounts and lengths, you will pay more for a mortgage disability insurance policy than other disability insurance products."

One way to offset costs is to shop around and weigh all your options, Martin adds.

Martin suggests paying attention to the benefit and elimination periods when shopping for a policy. The average benefit period for long-term disability is [34.6 months], "so making sure that your mortgage disability policy lasts at least that long is important," he says.

How is mortgage disability insurance different from other types of insurance?

Unlike life insurance, mortgage disability insurance provides financial protection for your family while you're still alive. It also doesn't have as stringent an underwriting process as traditional life insurance, which makes it easier to qualify for a policy.

But the coverage it provides is narrower than other life or disability insurance products since it can only be used to cover your mortgage principal and interest payments. The coverage isn't meant for other everyday expenses or housing-related expenses like property taxes and utilities.

Another way it differs is that if you were to become disabled, your policy would issue payments directly to your lender to pay your mortgage -- not directly to you.

Mortgage disability insurance riders

Insurers allow you to customize a policy that works best for you. They do this by offering riders.

A rider is an add-on to your policy. These are common in life insurance, including long-term care coverage. The downside to riders is that they often increase the cost of your policy.

Here are types of riders:

- **Return of premium** -- This rider requires the insurance company to return your premiums at the end of your policy if you don’t file a claim. The return of premium is costly and can double your premiums.
- **Involuntary unemployment** -- The rider waives premiums for a period if you’re “involuntarily unemployed.” The longer you’re eligible for premium waivers, the more you can expect to pay for this rider.
- **Mortgage-related expenses** -- The rider helps you with costs that go beyond your mortgage payments, such as helping you with homeowners insurance and real estate taxes. This rider provides help for mortgage-related expenses -- not other costs. For instance, it won’t help you with credit card bills, auto insurance or other regular costs.

Pros and cons of mortgage disability insurance

Mortgage disability insurance comes with pros and cons.

Mortgage disability insurance can reduce the risk of losing your home if you become disabled and can no longer work for an extended period.

Coverage is usually available without a medical exam and/or medical questions. Also, policy payouts are tax-free as long as you don't deduct your monthly or annual insurance premium on your tax return.

However, mortgage disability insurance isn't as comprehensive as traditional long-term disability coverage. You pay higher premiums for less coverage for mortgage disability insurance.

Another disadvantage is mortgage disability coverage often decreases as you pay off your mortgage balance, even though you'll pay the same premium. Long-term disability insurance, which is mostly based on your income, doesn't have this condition.

Still, if you can't get an affordable long-term disability policy, mortgage disability insurance may be your next best option.

"An easier approval process and allowing high-risk occupations to apply are the main advantages of a mortgage disability plan. It is not a suitable replacement for long-term disability insurance, which has benefits that can be used to not only pay your mortgage but also any other living expenses," Martin says.

Your home is your biggest investment, so take steps to protect it. Whether you have difficulty getting long-term disability insurance or already have life insurance but want more coverage to protect your family now, mortgage disability insurance could provide the coverage you need to safeguard one of your most valuable possessions.