

ASK THE EXPERTS

Consider pros, cons of mortgage disability policies

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Q. My friend recently bought her first condo. She is single and looking for some type of mortgage insurance in case she becomes disabled. Is there such a thing, and what are the pros and cons of getting it?

A. We asked Glenn D. Woody, a fee-only certified financial planner in Costa Mesa, to answer this question.



Glenn Woody

Yes, there is mortgage disability-income insurance available. Such a policy aims to provide you with the funds to pay your mortgage payment for a specified period of time.

The amount of coverage is flexible, and the length of time the insurance payments will continue is usually from two to five years.

Usually the policyholder must be disabled for 30 to 90 days before payments start. The cost depends on your age, your sex and which of these various coverage options you choose.

Such coverage is like mortgage life insurance, which is designed to pay off the balance on your mortgage in the event of your death. For a single person without children, disability coverage might be more important than life-insurance coverage.

Whether you should buy coverage is another question. The possibility of becoming disabled is high enough to warrant serious consideration. Here is the risk at various ages of becoming disabled for more than 30 days before age 65, according to the 1985 Commissioner's Disability Income Table:

20	77%	40	69%
30	75%	45	64%
35	72%	50	58%

The first consideration in deciding whether to buy this insurance is how severely a disability and loss of income will affect your ability to pay your mortgage and maintain your home. Factors to be considered are whether your family has enough other income and whether there are other assets, such as savings and investments, that could cover bills.

But while it might be better to have the mortgage disability-income insurance than nothing, what about all the other bills? Car payments, food, clothing, utilities, credit cards and other expenses will continue.

Having a policy designed to pay only the mortgage payment might be like having only half a parachute. It might be better to buy disability-income insurance to provide the amount to fit your whole picture without tying it directly to the mortgage payment.

You also must be aware of other disability coverage you have. Does your employer provide such coverage? Are you covered by state disability insurance?

In fact, most policies have a clause that essentially says, "Benefits payable under this policy may be reduced because of other valid coverage." Insurance companies don't want you to be so financially comfortable during your disability that you are not eager to get off disability and return to work.

Questions? E-mail yourmoney@ocregister.com.