The case for... and against Moderation

A middle way

‘Everything in moderation’ would seem an excellent maxim by which to govern our lives. Great thinkers including Confucius, Buddha, Socrates, Muhammad and the Dalai Lama have preached the value of ‘The Middle Way’ or a middle path. So, what values constitute ‘moderation’? Consider the following: grace, balance between extremes (say between asceticism and covetous desire), righteousness, proper conduct, self-control, restraint, non-gluttony, modesty, non-authoritarian, humility, quietness, temperance: nothing wrong with any of those qualities – but on the other hand, nothing terribly exciting either. Not far enough

Confucius said that going too far was as bad as not going far enough. If we don’t test our abilities to some degree beyond that which is normal, comfortable or moderate, we run the risk of setting overly constrictive limits to ourselves and our societies on our ability to be imaginative, creative or innovative. Perhaps this ability is what enabled America to become the world’s most powerful state, and conversely was one of the most potent causes of the failure of Communism.

Exercising dietary control

An area where moderation is considered virtuous is dietary control. Eric Schlosser, in Fast Food Nation says that rather than indulging in junk food, our diet should be limited in scope, size, production, distribution, selection and profitability. Pigging out is considered to be very bad form indeed, an extreme type of human conduct, whereas careful, sensible and controlled dieting is considered to be moderate and therefore good. But what happens when we become calorie-counting zealots, eating nothing bad? In such a situation we become extremely self-controlling, which is not moderate at all!

Earning enough money

As a dentist, my earnings by comparison to City business-folk are very moderate. On the other hand, the same earnings by comparison to your average citizen of Bangladesh or Ethiopia or Chad are outrageously excessive. Do I need all that excess?

Extremism – or not?

At the other end of the spectrum from moderation lies extremism. One of the core characteristics underpinning an open, modern society is that it sets no preconceived parameters on our ability to enhance and cultivate our most humane aspirations. Mahatma Ghandi advocated non-violence, demanded that the Indian nation accept his creed, and was prepared to starve himself to death to achieve his objectives, which seems a rather extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself. Nelson Mandela, faced the death penalty because of his belief that, when circumstances demanded it, no extreme measure in itself.
A prosperous retirement

If you want to transfer your pension fund for even greater financial flexibility, perhaps you should consider an Income Drawdown Pension? Thomas Dickson explains what exactly it is and why it’s a good option.

Retiring NHS dentists receive a pension based on their final salary, but many will also have invested in a personal pension and must decide how the benefits will be paid. Currently, 25 per cent of the pension fund may be taken as a tax-free lump sum and the remainder as taxable income.

Most accept the default option of an annuity paid by the same pension provider, while some transfer their fund in pursuit of a higher annuity return. However, there’s still a further option: an Income Drawdown Plan (IDP), which provides significantly greater flexibility and merits consideration by those whose fund exceeds six figures.

Regular cash payments

With an IDP, you withdraw a regular income within limits set by HM Revenue & Customs, which you can vary according to your needs, while the remainder of your fund remains invested until you reach the age of 75. After this age, your pension will depend on the residual value of your fund and may be lower than a conventional annuity taken immediately on retirement.

The maximum permitted withdrawals are based on the calculations of the Government’s Actuary Department and recalculated every five years to reflect the remaining funds and current annuity rates. At age 75, you must buy an annuity or transfer to an Alternatively Secured Pension. These phased withdrawals allow annual income to include both the tax-free cash and the taxable income, provide improved death benefits and often reduce tax liabilities.

Who does it suit?

An IDP can be taken by anyone aged between 50 and 75 (55 from 2010), and may be suitable for you if:

- You expect your pension income to need to vary from year to year, for example if you continue to work as a locum you may be able to reduce your higher rate tax liability.
- You want your pension fund to benefit from potential growth while accepting that its value may fall rather than rise.
- You have other sources of income.
- You want to maximise the benefits for your family after your death.
- You want to maximise your present income, while retaining future security and some control over your pension assets.

The principal disadvantage of ID compared with a conventional annuity is reduced income security. For example, your fund may not perform as well as you anticipate and when you purchase an annuity, your income will be reduced. You also need to take into account that:

- Annuity rates vary. If you defer a purchase until the last moment, you will have to accept the rates available at that time.
- The charges for an IDP are higher than for a conventional annuity.
- Annuity rates depend on mortality rates, and those who die earlier cross subsidise those who live longer.

‘At the age of 75, you must buy an annuity or transfer to an Alternatively Secured Pension.’

- You need a regular income but not a tax-free lump sum.
- You are in good health – those in poor health may be better suited by an enhanced annuity.
- A large proportion of your expenditure is discretionary, on hobbies or holidays, for example.

Take your pick

If you decide an IDP is right for you, select your investments with care, relating the returns to the degree of risk you are prepared to accept. If you intend to withdraw income immediately, a proportion of the fund should be in cash deposits, since withdrawals from equity investments can have a disproportionately negative impact on the initial fund value. Once the cash fund has been exhausted, actual and predicted investment performance should determine the source of later withdrawals.

A number of providers offer IDPs, and your choice should take into account their relative financial strength, service levels and charging structures, and whether they offer large fund discounts and a fail-safe programme to automatically transfer funds into equities, particularly important in today’s turbulent economic climate. Other factors to consider are the internal SIPP bank interest rate, the number of external investment funds, and whether the trustees are in-house.

Once your plan is set up, your financial advisor should conduct an annual review to ensure your fund’s growth is keeping pace with the withdrawals and advise from which investments the withdrawals should be taken. He should also ensure the pattern of investment continues to reflect an acceptable balance of risk.

During retirement your circumstances may change, and ill health or other factors may influence your income requirements and call for a corresponding change in the way your income is funded. There are many occasions when the flexibility of an IDP can make all the difference.

About the author

Thomas Dickson, director of Essential Money Limited, has a wealth of experience providing financial advice to the dental industry. He is one of only 155 certified financial planners currently in the UK, and his expertise has gained him the prestigious Advanced Financial Planning Certificate from the Chartered Institute of Financial Planning Institute. For a free guide to your retirement options, call 0121 605 5060.