4. What are accumulation stages?

Most clients have specific needs and goals for the wealth they hope to accumulate. Thus, it is frequently necessary to take a snapshot of where your clients are on their wealth accumulation roadmap and compare that to their goals.

The first classification scheme for wealth accumulators relates accumulation progress to age.

The investor's age too is often (though sometimes mistakenly) used to determine their profile and time horizon (and sometimes even to allocate their assets). The basic idea is that some assets, such as equities, are more risky and will experience larger fluctuations over a given period, and are therefore more suitable for younger rather than older investors. An investor who does not expect to liquidate his/her portfolio for a number of years has a better chance of recovering from a market correction, whereas an investor who is close to retirement may prefer more stable assets and capital preservation.

The logic behind this hypothesis is that the longer the period between the initial investment and the moment the client needs cash, the more likely it is that the client can recoup a temporary reduction in wealth. The portfolio can therefore take account of higher risk (and returns).

This approach often takes the form of segmentation depending on the age-related wealth accumulation stage. There are four **accumulation stages**: seed-money formation, mid-life growth, pre-retirement consolidation, and retirement. Individuals are placed into one of the stages based on their age and their current level of wealth compared to the goals they are trying to achieve. The age ranges for each stage overlap because it takes longer for some people to move from stage to stage.

Looking at clients in terms of their accumulation stage provides insights into key investment decisions, including the return required to achieve their goals.

One drawback of using accumulation stages is that some people do not meet the definition and general characteristics of the group. For example, there are some people in their late 20s and early 30s who are very wealthy and fairly set for however they define retirement, and many people in their 50s who have accumulated little or no wealth (though note that these people may not have need for a wealth advisor).

4.1 Seed-money formation

The **seed-money formation stage** generally lasts from age 20 until age 35-40. The objective is to accumulate sufficient wealth (or "seed money") to create a base for future growth. The client has few investable assets at this stage, but has a lot of hope and plenty of future saving power.

This is perhaps the most important, yet most vulnerable stage. Because they have little wealth, clients may be easily swayed from their long-term objectives. They may think they will not be able to meet their goals, or be discouraged by the ups and downs of the market. Increasing family expenses and career uncertainty can make this stage even more difficult.

Clients in this stage should understand that they have the benefit of time, even though they may have a low income and difficulty saving. Saving a little bit on a regular basis will provide a good base for further growth.

4.2 Mid-life growth

The **mid-life growth stage** generally lasts from age 35-40 until age 55-60. At this point, clients have a good idea of their life goals. They are mature, and because they have likely started to think about the type of retirement they want, they tend to be more serious about saving for the future.

Because clients in this stage generally have higher salaries than during the seed-money formation stage, there is more money available for investments. They may have lower expenses also, given that most significant purchases have already been made and children may have left the home either to attend school or to live on their own.

These factors make it possible to accumulate wealth more quickly. The emphasis during this stage is to continue accumulating wealth with the focus on achieving long-term goals.

4.3 Pre-retirement consolidation

The **pre-retirement consolidation stage** generally lasts from age 55-60 to age 70. At this age, clients are usually preparing, both financially and psychologically, for the end of their working years. The focus is on impending retirement. At this stage, clients have a better idea of whether they have accumulated enough wealth to enjoy the retirement they envision. The amount they have accumulated influences not only the type of retirement they can look forward to, but also when they can retire.

In this stage, most of the capital formation (e.g., the investment portfolio, real estate or business) is complete. Expenses are generally stable or even declining, and children are likely on their own and financially independent. This stage is the last opportunity to build wealth for retirement.

4.4 Retirement

Many advisors do not associate retirement with accumulation, preferring to look at this life stage as a time when a client converts savings to income. However, many seniors continue to accumulate into retirement, particularly the early stages of retirement, and have a need to manage their investments accordingly.

5. What are life stages?

Another way of categorizing clients is by their **life stage**, which is a period of time in a client's life when there are few changes in how he or she lives, acts and thinks on a day-to-day basis. For example, the first phase of retirement, when a client is expected to enjoy good health and financial comfort, can be considered a life stage. However, that life stage will end if something happens to affect how the client lives his or her life.

Being aware of a client's life stage will provide you with valuable information about his or her wealth accumulation needs. For example, a client who recently became a parent or expects to become one soon will likely need advice about post-secondary education funding.

Table 1 contains a list of life stages relevant to wealth accumulators, along with some of the wealth accumulation issues associated with the life stage.

Life Stage	**Wealth Accumulation Issues**
Independence from parents	• capital purchases • lifestyle money • budgeting and credit constraints
Family build after marriage	• capital purchases • long-term savings • children's expenses • home purchase
Career evolution	• managing new assets • new capital purchases • long-term savings strategies
Family maturity	• medical and dental expenses • education expenses • housing changes (upsizing or downsizing) • lifestyle expenses (e.g., vacations, children's pursuits) • empty nest (changing income or priorities)
Pre-retirement	• increased savings • investment management changes • budget changes
Career change	• asset liquidation • managing new assets • changing priorities • budgeting issues
Health challenge or change	• change in priority • asset liquidation • budgeting
Single due to divorce or death	• change in goals • budgeting • asset liquidation

Retirement (this stage can be sub-divided into early, middle and late retirement)	• pursuing a desirable retirement lifestyle • ensuring sufficient savings • wealth conversion • creating a legacy

Table 1: Life stages and wealth accumulation issues

Closely related to life stages are life events or **life transitions**, which are events that move a client from one life stage to another, causing him or her to re-examine priorities or to reallocate wealth. Life transitions can be positive (receiving an inheritance) or negative (death of a spouse). Positive life transitions can allow someone to move rapidly through or even skip certain life stages. Negative life transitions may mean returning to an earlier life stage.

Because life transitions can be unexpected, the date of the move to a new life stage may not always be known. However, most life stages can be planned for ahead of time. Table 2 lists some of the most common life transitions and associated wealth accumulation issues.

Life Transitions	**Wealth Accumulation Issues**
Death of a spouse	• wills, probate • insurance policies • employment issues • inheritance • burial and final expenses • financial planning for remaining spouse • disposal of assets • loss of income • change in financial situation
Critical illness	• income replacement • insurance issues • asset management • health care costs • change in work situation
Divorce	• inventory of assets • disposal of assets • managing settlements • day-to-day financial management concerns • tax implications • income changes
Job transfer	• income changes • moving expenses • standard of living changes • insurance changes
Job promotion	• income changes • managing new assets • reworking financial plan • insurance changes • tax planning
Financial setback	• income changes • asset liquidation • change in priorities

Financial windfall	• managing assets • change in priorities • capital purchases • client education

Table 2: Life transitions and wealth accumulation issues

The life stage approach differs from the accumulation stage approach in three ways:

- Life stages are not always age related. For example, the family-build life stage can apply to individuals in their 40s and 50s (not just those in their 20s and 30s) and retirement can affect a couple in their 40s who are finished with traditional work.
- Life stages are more specific as compared with the broad accumulation stages described earlier.
- The life stage approach focuses on where clients see themselves in relation to their life and the demands placed on them. It fits well into the wealth management approach because it describes a client's emotional journey as he or she uses wealth to achieve life goals.

There are always exceptions to the rule

The three fictional vignettes that follow provide a glimpse into the lives of three individuals who fall outside of the generic classification schemes described in this chapter.

Retired at 40

Not all Gen Xers are in the family and career-building life stage. Allan Gee recently celebrated his 40th birthday by selling his manufacturing company and retiring from the day-to-day workforce. "I feel fortunate to have the choices in my life," he says. "I can now take the money that I have earned and use it to live the kind of life that I always dreamed of."

Allan is one of a growing number of people in their 20s, 30s and 40s who have created wealth at an early age. According to the World Wealth Report 2014 published by Cap Gemini and RBC Wealth Management, 35.5% of the world's millionaires are under 40.

Does he intend to live a life of luxury and never work again? "Not a chance," he says. "I just want the opportunity to create something new and different. I am going to take some time and then work on what I want to do next. That's the good thing about being my age and having all the time in the world to lead many kinds of lives."

Still working at 70

Retirement doesn't always mean not working. Dick Charles retired as a chartered accountant five years ago and is now the head starter at a golf course. He works five days a week helping the many golfers who play the course. "I also get time each afternoon to play a few holes," he says.

Some of Dick's friends don't understand why he continues to work. "They tell me that retirement should be a time for rest and relaxation," he laughs. "I tell them that I think that I have died and gone to heaven! I get my golf for free, I get to talk to people and I stay active every day. What else could I want?"

Dick is like many seniors that have ignored 65 as a passage into old age and will continue to work for as long as possible.

"The day I quit," says Dick, "will likely be the day I die. Just because I'm 70 doesn't mean that I have to stop living!"

Retired… and building a family

Mary Leblanc was widowed when she was just 30, raising two young children on her own. Today, she is in her early 40s and last year married Alan, who recently retired from his job as an executive of a company. Allan is in his late 50s and is now a stepfather to Mary's two teenaged children. To add to his excitement, Mary recently announced that she is pregnant.

"This isn't how I envisaged my retirement," he laughs. "Actually, I think that this will be a lot better because I can be a house-husband and help Mary raise the family."

Allan's retirement life of playing golf and travelling the world has been replaced by making lunches, running a shuttle service for his stepdaughters and, soon, changing diapers.

"I think that this will keep me young for a long time," he says. "I can hardly wait to show my kids new things and to share my experiences with them. They are also going to teach me a thing or two!"

Clients are most likely to contact you when there has been a change in their life or financial situation. For example, a young couple with a new baby may notice life insurance ads and contact you to discuss insurance, or a person who has inherited money may need advice on how to invest it. In these cases, the client will benefit more from contacting you *before* the transition, when there may still be time to put plans in place to help ease the change.

Life transitions move financial issues to the forefront, changing them from a thought in the client's subconscious to a need that must be met. For a maturing client, life changes seem to occur with increasing frequency (e.g., changes in health, workplace, and relationships between spouse or children). When a client experiences a life event, it presents an opportunity to create new plans and goals based on the new reality.