Here’s your comprehensive guide to retirement planning

New research by IESE Prof. Javier Estrada provides a 10-step framework to save for retirement. His paper was the 2025 recipient of the Journal Research Award by the *Retirement Management Journal*.



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How do you imagine your retirement years? For some, it may be lounging on the beach, reading a book and enjoying the salty breeze. For others, it may be traveling the globe,

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learning new languages and trying new foods. For others still, it may simply be staying put at home, enjoying the slow life with grandchildren or tending a garden.

Whatever your plan, it will undoubtedly take a good amount of money to sustain. And without a salary, your lifestyle will depend on funds from either public pensions or personal savings — often a mix of both. In Spain, as in many countries where longer life expectancy and low birth rates are straining public pension systems, economists recommend workers begin investing more in private savings in order to make ends meet during their final years.

In an article published in *Retirement Management Journal*, which received a 2025 Journal Research Award, IESE Prof. Javier Estrada provides a step-by-step guide for creating a retirement plan. It involves investing money to build a target portfolio over a long period of time. The sooner you begin that process, the more money you will have to draw upon further down the line. And it's not about choosing an arbitrary number; it's about clarifying what it will take to sustain the retirement lifestyle you want.

Start saving now

Planning for retirement can be one of the most important financial tasks of an individual's life, but many put it off because they're unsure of where to start or how much they need to save.

While there is no magic number, Estrada's paper breaks down 10 steps for individuals or financial advisers to use when preparing a retirement plan. This method emphasizes working backward:

- First, establish the type of lifestyle desired post-retirement.
- From there, determine how much it will cost to sustain that lifestyle and set a target retirement portfolio.
- Finally, make an investment plan for your remaining working years to meet that monetary goal.

It's important to keep in mind that a retirement plan is not a one-time exercise. It requires periodic reviews and adjustments based on market performance and personal changes. Using historical data and simulations to test the plan helps prepare for market downturns and unexpected expenses.

What's more, not all phases of retirement life will be the same. Early retirement years may

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involve more travel and expenses, while later years may require higher healthcare costs. Planning for these different phases can ensure financial stability throughout.

The following 10-step framework can be used by anyone looking to plan for their future retirement, regardless of how far along they are in their working years.

1. Estimate the number of years in retirement

A good starting point is estimating how long you will need your retirement savings to last. If no better information is available, financial planners often use 30 years as a default retirement period. This ensures you plan conservatively and do not outlive your savings.

2. Calculate the annual cost of your desired lifestyle

Once you estimate how long you expect to spend in retirement, the next step is to determine roughly how much money you will need to live on each year. This includes daily living expenses, healthcare costs, travel and leisure activities. Summarizing these costs in annual withdrawal amounts will help set a clear financial target. Retirement calculators like this one can help.

3. Determine the target bequest

Your target bequest will be the final withdrawal from your retirement portfolio. If you wish to leave an inheritance for your heirs or donate to charity, this should be factored into your retirement plan as well.

4. Choose an asset allocation for retirement

Asset allocation refers to how your investments are divided among stocks, bonds and any other asset class (including alternatives such as real estate and commodities like gold). During retirement, most planners recommend a more conservative mix to mitigate risk while still generating returns. Estimating the expected return of your portfolio in this phase is crucial for determining how much you need to save. Use an investment calculator to get an idea of your earning potential.

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5. Calculate the target retirement portfolio

Using the expected withdrawals (Step 2), the target bequest (Step 3) and the estimated investment returns (Step 4), calculate how large your retirement portfolio needs to be when you stop working.

6. Estimate the number of working years remaining

The length of your career directly impacts how much time you have to save for retirement. If no specific retirement age is set, financial planners often assume a 40-year working period.

7. Choose an asset allocation for the working years

Investments during your working years will typically follow a more aggressive strategy than in retirement. That's because it will take place over more years and will give you the flexibility of waiting for the market to fluctuate. A higher allocation to stocks can lead to greater growth over time, but your risk tolerance and financial goals should guide this decision.

8. Determine annual contributions to reach your goal

This step involves calculating how much you need to contribute to your retirement portfolio each year to reach your target. In theory, the earlier you start saving, the lower your required annual contributions will be. Having a set plan will help you keep track of where you need to be, monetarily speaking, at different points in time and give you room to make adjustments if you fall short. For example, individuals can decide to contribute more one year, set a more aggressive asset allocation or even retire later than planned.

9. Perform sensitivity analysis

Markets fluctuate and life delivers plenty of surprises. Sensitivity analysis helps to assess how

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changes in things like investment returns, inflation or lifespan can impact your plan. By testing different scenarios, you can determine how flexible your plan is and make adjustments as needed.

10. Evaluate the feasibility of the plan

The final step is testing your plan against historical data and simulations, which will ensure your strategy holds up under different market conditions. You should also set a maximum acceptable failure rate — that is, the likelihood of your plan not working out. For example, should a plan be implemented if history or simulations show that it would have failed in 10% of the cases considered? What is the failure rate beyond which the plan becomes unacceptable?



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