# How to Build a Retirement That Actually Fits Your Life

THE WALL STREET JOURNAL.

By Jason Zweig
June 26, 2026

The stock market will provide.

That seems to be the mantra of millions of people saving for retirement. And, with stocks still near record highs after several stumbles this year, you might feel the same way.

You shouldn't. The market doesn't always provide. To fund a sustainable retirement, you will have to provide.

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Most advice on this topic is backward, say Edward McQuarrie and William Bernstein, authors of a book to be published next March, "Retirement: How to Save Enough, Invest It Well, and Make Your Money Last."

Forget about saving rates and spending rules for a moment. To reach your goal, you have to know who you are and where you want to end up. Do you hate to spend? Are you afraid of dying broke? Are you comfortable with the thought of ending up the richest person in the graveyard? Then you should underspend without any shame.

On the other hand, does saving for tomorrow feel like deprivation today? If you have assets left over at the end of your days, would you feel you missed out on living life to the fullest? Then you're going to need everything to go your way, say McQuarrie and Bernstein.

McQuarrie is an emeritus business professor at Santa Clara University who has studied the returns on stocks and bonds back to the 18th century. Bernstein is a neurologist, investment adviser and financial historian. Both are retired, but their message is relevant for young investors, preretirees and retirees alike.

First, your future investment performance might not match what you'd expect from the past. The average 30-year return on U.S. stocks since the beginning of 1793 is about 6.2%. That's the real return, net of inflation.

That's an average, not a guarantee. Over the 30 years ended in early 1995, the annualized real return on stocks was only 4.3%. And across all 30-year periods, stocks have produced a real return of less than 4% annually about an eighth of the time, according to McQuarrie.

**Roger Thomas, AIF and ATFA**
Chief Wealth Officer
Kestrel Wealth Management
rthomas@kestrelwm.com

Schedule a meeting

Second, your spending needs in retirement aren't reliably predictable. Your good health might turn chronically bad; your money pit of a house might morph into a black hole; your successful children might boomerang back into your basement.

Finally, you don't know how long your retirement will last. You could live to 120 or get hit by a bus tomorrow. If you live longer than you expect, then you could run out of money if you haven't saved enough.

And "enough," say McQuarrie and Bernstein, is probably way more than you think. I asked them if there's a ratio of assets to spending that maximizes the odds of a secure retirement—even if stock returns stink or you turn out to be Methuselah.

If your investment portfolio is 50 times your annual spending, you can stop worrying about whether you'll run out of money, they both said.

That means $1 million is plenty if you can live on $20,000 a year. If you spend $200,000 a year, you'll need $10 million. Cut your spending, and your required savings will go down as well.

Meeting your goals takes a mix of discipline and luck. You can make it if you start young and take advantage of events.

It's easier to avoid raising your average spending in the first place than to cut it later. People adapt to spending; it becomes a habit that's hard to break.

Don't let keeping up with the Joneses become a jones in itself. "BMWs, fancy clothes and Birkin bags aren't lifestyle choices," says Bernstein. "They're IQ tests."

When you get a raise, a bonus, an inheritance or a windfall, keep your spending constant. Invest your newfound surplus in a low-cost, market-tracking index fund or diversified target-date retirement fund.

"Continuing to live as you did before, even as your means take a jump upward," is the best way to "turbocharge a program of retirement savings," write McQuarrie and Bernstein.

For younger people, your goal should be to save at least 20% of your earnings every year of your working life.

That big number demands a lot of discipline. You'll also need luck—the good fortune of getting several decades of robust market returns. Short of that, seek another kind of luck: finding your dream job.

"It's better to work at 80% of your optimal salary at a job you love than working at a higher-paying job that you hate," says Bernstein. "You're not going to get much less in Social Security out of it, and you can work and save until you're 70 instead of burning out and having to retire because of your psychiatric bills at age 55."

People closer to, or in, retirement have to think harder about making their money last, say McQuarrie and Bernstein. If what worries you is dying broke, you shouldn't look to live within your means. Live beneath them, say McQuarrie and Bernstein.

Don't let a financial planner lock you into withdrawing a fixed percentage of your assets each year to fund your retirement. Cutting your spending is the ultimate way to retain flexibility.

What if you want to use your retirement to live it up and catch up on the fun you missed out on when you were a working stiff? Then, warns McQuarrie, your goal shouldn't be to "come as close as possible to bouncing the check to the undertaker."

If you live longer than you expect or the markets return less than you expect, you'll end up bouncing all your checks.

The two authors' advice might seem obvious. But, if so, why are so many savers on a trajectory that will fall well short of funding a secure retirement?

For investors of all ages, a stock market near record highs should be a reminder that while the good times can roll, they can also roll away.

Write to Jason Zweig at jason.zweig@wsj.com