



**Luiz Felix, PhD**  
Global Head of Asset Allocation at Santander Asset Management

## Goals-Based Investing (GBI): The retirement case

### Aligning portfolios with real-life goals

#### Introduction

This white paper is part of a series that examines how Santander Asset Management's (SAM) target-oriented frameworks operationalizes our solutions business. Each paper focuses on a specific dimension of our process, showing how clients' specific investment targets and constraints converge to robust portfolio construction. This white paper introduces our goals-based investing (GBI) framework and explains how it differs from traditional methods centered on risk and return alone. Our aim is simple: align every portfolio decision to a client's real-world goals, quantify progress with a clear probability-of-success metric, and update the plan as markets and life evolve. GBI reframes "risk" from volatility to the likelihood of falling short of a stated goal, drawing on well-documented behavioral and portfolio insights. In this issue we put those lenses into practice by defining goal-linked plans aiming at funding an investor's retirement and connecting them to suitable, investable portfolios using established portfolio-construction principles—keeping the focus on outcomes rather than benchmarks.

#### Reframing risk and outcomes: Designing portfolio construction around clients' goals

Clients' goals and financial priorities evolve through their life-cycle. When portfolios are built around life goals—a first home, kids' education, retirement income—the focus shifts from attempting to optimize traditional risk-return metrics to a single, concrete question: What raises or lowers the chance we actually get there? Through that lens, traditional metrics such as expected return and volatility remain important, but not in isolation—they're interpreted through their impact on the probability of reaching each goal. What matters is whether the investment mix, savings plan, and timing keep the investor on track for each goal with a clear, explainable level of confidence.

Where traditional approaches found in the financial literature treat "risk" as the volatility of the investor's portfolio, Goals-Based Investing (GBI) provides a well-documented framework that treats risk as the likelihood of not funding a stated goal on time and in full. This reframing shifts the conversation from "How volatile might the portfolio be?" to "What raises or lowers the probability of achieving this goal when it matters?"

Expected return and volatility remain important, but not in isolation—they're interpreted through their effect on each goal's probability of success, given the investor's risk tolerance, resources, and timeline. Progress is measured against a target confidence range rather than a market benchmark, and when the plan drifts, clear levers—contributions, timing, spending, or the portfolio's risk mix—are adjusted to bring it back on track.

This paradigm shift has practical implications for how advisors communicate with clients. In practice, each goal is defined by the investor's resources (today's assets and savings capacity), a target amount, an investment horizon, and a priority—is it an essential need or just an aspirational goal? For each goal, a target confidence range (the probability of success we aim to maintain) should be agreed upon between client and advisor, connecting the client's risk tolerance and risk capacity to that horizon to select an appropriate portfolio. Importantly, adopting GBI does not replace risk-based asset allocation; it adds a goals-first lens that remains consistent with optimal portfolio construction methods and focuses portfolio design on funding specific outcomes.



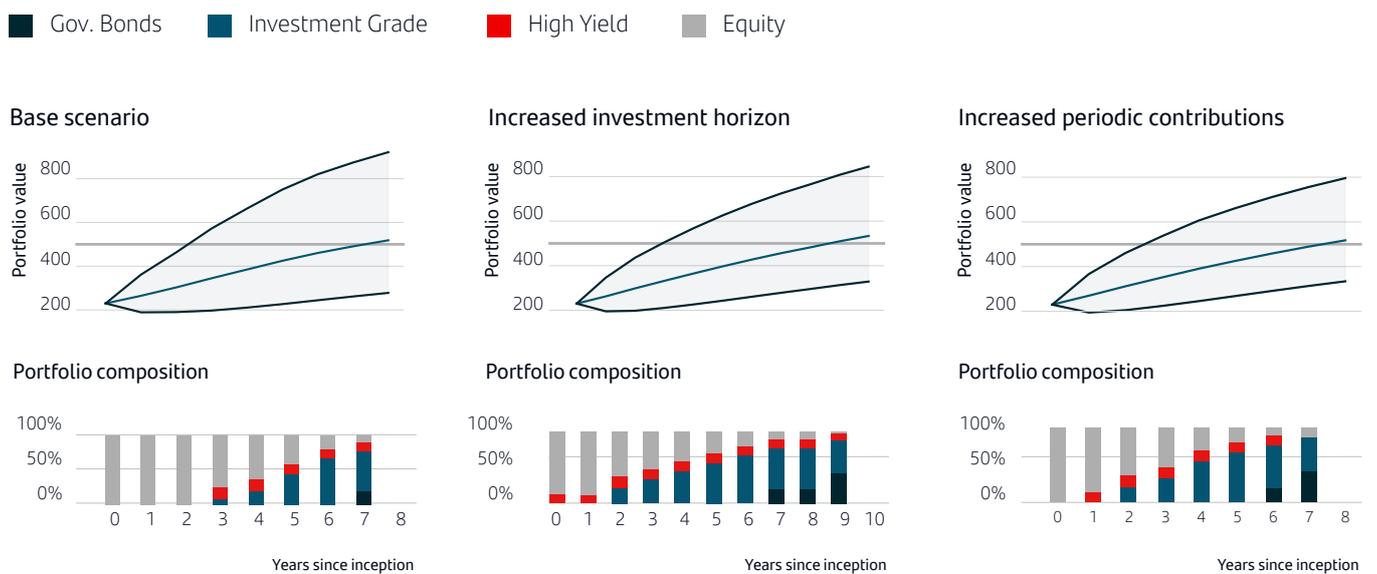
Progress reporting mirrors this simplicity: for each goal advisors shall show a clear probability of success and the few levers that would move it up or down—so conversations stay centered on outcomes, not headlines or benchmarks. At each review advisors shall also check if the portfolio is on track, and if not, contributions, timing, spending, or the portfolio's risk mix should be adjusted to restore the target confidence range and keep the plan aligned with what the investor is trying to fund.

Most households think about their money in terms of what it's for—retirement, a home, education—rather than as a single, uniform sum. GBI makes that natural framing explicit by structuring the portfolio into goal-linked accounts (sub-portfolios), each with a defined amount, time horizon, priority, and target confidence range. Essential goals receive first claim on resources and typically use tighter ranges; aspirational goals can accept wider ranges and more market risk without jeopardizing essentials. This structure surfaces and prioritizes goals, clarifies trade-offs, and keeps reviews simple: is each account on track; which lever would move it; what, if anything, should change? By turning market moves into goal context, it helps reduce common behavioral pitfalls (Inertia, Procrastination Bias, Loss Aversion). All goal-linked accounts roll up to a single, coherent portfolio and governance process—so clients see how their wealth funds what matters most.

Building on this structure, each goal-linked account relies on a few simple inputs: the time horizon, current resources, the target amount and the desired confidence range. Regular contributions play an important role—scheduled inflows add capital and spread purchases over time, which typically lifts the probability of success while reinforcing a saving habit tied to the goal. As circumstances evolve, advisors shall revisit these inputs and make the smallest practical adjustments to the portfolio composition and risk to keep each goal within its confidence range. A key implication of the GBI risk notion is that “lower risk” isn't always safer: when a goal is underfunded, cutting portfolio volatility can reduce the odds of success by lowering expected growth. Moderate increases in risk can improve the odds when needed; taken too far, however, higher risk eventually reduces the likelihood of reaching the goal. The advisor's role is to calibrate risk to what the goal requires and continuously monitor the portfolio to keep it there.

### Illustrative GBI scenario: Small levers that reshape risk for a home-purchase goal

Source: Santander Asset Management





To illustrate how small, transparent choices can reshape outcomes under a goals-based framework, we model a household investing toward a home-purchase goal. The base plan targets €500 000 in eight years, starting from €230 000 and saving €650 per month. Two simple variations demonstrate the effect of adjusting key levers: extending the horizon to ten years, and increasing monthly contributions to €1100. All three projected paths reach the goal, yet the portfolio journeys differ markedly. In the illustrative base case, the strategy requires a 100 % equity allocation for the first three years to stay within its confidence range. By lengthening the horizon or saving more, the plan achieves the same outcome with substantially lower risk—beginning instead with an 80 % equity / 20 % high-yield mix that progressively shifts toward investment-grade bonds and cash. Median projected wealth with 5th–95th percentile bands shows a visibly tighter dispersion under the two alternative scenarios. This simple comparison shows how adjusting time or savings can “de-risk” a plan without compromising its objectives, keeping the conversation anchored on progress toward the goal rather than short-term market performance.

## Retirement income as an essential goal: Building floors, preserving flexibility, and adapting dynamically

Retirement differs from other financial goals in both scale and certainty. Unlike a single, discrete purchase, such as the home purchase exemplified above, retirement is an open-ended consumption problem. It requires generating a sustained stream of income to preserve living standards for an uncertain number of years. For this reason, replacement income should be framed as an essential goal within a goals-based investing (GBI) approach: it is not merely desirable, it is the floor that supports an individual’s standard of living. The GBI perspective changes the central advisory question. Instead of asking “what portfolio volatility can you tolerate?”, the advisor asks “what probability level of sustaining essential income do you require?” and then maps that probability to portfolio design, contribution rules and operational levers.

Paradoxically, this essential goal is often under-protected in practice because a cluster of behavioral frictions pushes households to delay or under-fund longevity insurance. Present bias and procrastination make saving and annuitization feel like immediate costs to be deferred; inertia and status-quo bias keep many households at default contribution and allocation settings; limited financial literacy discourages active decisions; and framing effects combined with loss aversion help explain the persistent “annuity puzzle” — the tendency to under-purchase lifetime income despite clear insurance benefits. Goals-based framing, together with implementation features such as sensible defaults, auto-escalation of contributions and periodic reviews, addresses these frictions by turning insurance choices into explicit, named goals rather than abstract return decisions.

Operationalizing retirement in GBI therefore begins by translating a desired lifestyle into a concrete income target (for example, replacing 60–80% of pre-retirement pay) and partitioning that target into essential and discretionary components. The essential component— housing, healthcare, basic living costs— should be assigned a tight confidence band (often 80–90%, agreed jointly by client and advisor) and be funded primarily by income-oriented, low-volatility assets and, where appropriate, guaranteed instruments. The discretionary component—travel, gifts, inheritance, luxury spending—can accept a wider confidence band (e.g., 60–75%) and be financed from a growth sleeve sized to capture upside while accepting more market risk. This division creates two operational “accounts” that roll up into a single plan and make trade-offs explicit for both advisor and client.

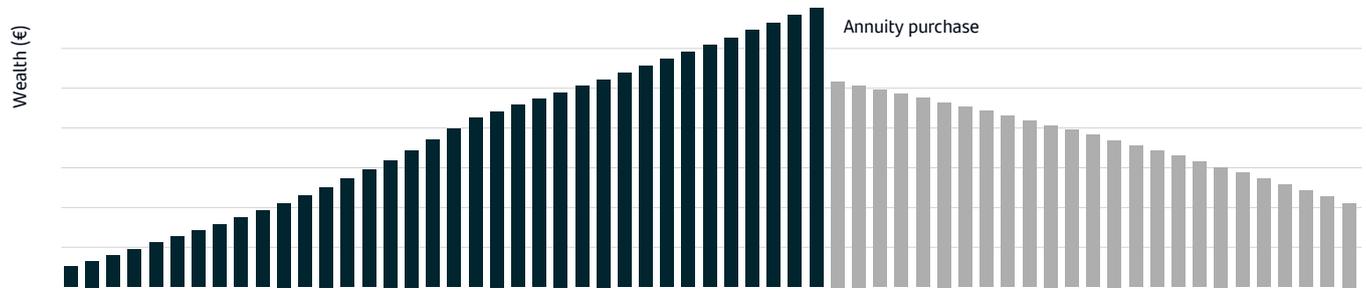
Time matters. Sequence-of-returns risk is largest at and into retirement: early negative returns that coincide with withdrawals can permanently impair lifetime income. Consequently, calibrating risk near retirement and embedding explicit spending-guardrails (rules that reduce discretionary withdrawals if funding ratios fall) typically matter more than chasing small increases in expected returns. Younger savers retain time to recover and therefore greater risk capacity; those nearing or in retirement have fewer levers and are more vulnerable to drawdowns. Empirical planning data show that plans designated “on track” are generally resilient through large drawdowns, whereas plans that are already “at risk” suffer outsized declines in probability of success. For those clients, modest levers—short delays to retirement, small contribution increases, or temporary spending reductions—are often sufficient to restore an on-track plan without wholesale portfolio changes.



## GBI lifecycle for retirement: securing essential income and tapering risk over time

Source: Santander Asset Management

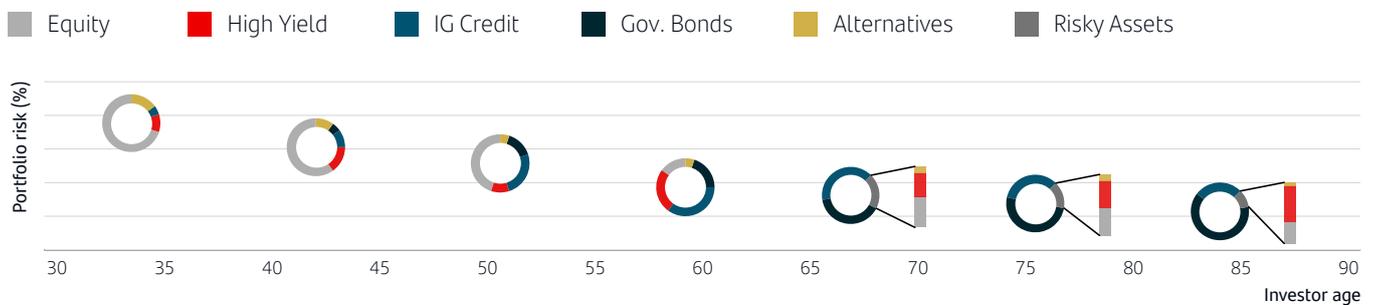
### Accumulated wealth and decumulation plan



### Portfolio cashflows during accumulation and retirement



### Dynamic portfolio allocation



A robust GBI retirement program therefore blends three elements. First, it preserves liquidity and a defensive allocation to fund early withdrawals without realizing deep losses. Second, it retains a growth sleeve to preserve long-term purchasing power and to fund discretionary upside. Third, it uses guarantees — most obviously partial annuitization — to hedge extreme longevity risk. Partial annuitization at or near retirement converts a portion of accumulated wealth into a durable income stream, reducing the probability of outliving one's resources while leaving a flexible invested sleeve to capture upside. In practice, the plan evolves through two distinct phases: a growth-seeking accumulation phase in which contributions and compounding drive wealth toward the income target and risk is calibrated to the probability of success; and an income-seeking decumulation phase in which withdrawals are governed by dynamic guardrails that adjust spending and risk to keep each goal within its confidence range. If markets perform unexpectedly well, the plan can lock in gains and raise the floor; if markets perform poorly, temporary reductions in discretionary spending, modest portfolio re-calibration, or short retirement deferrals can preserve the essential goal.



## Conclusion and implications

Goals-Based Investing organizes portfolio decisions around what clients are actually trying to achieve. By measuring progress with a clear probability-of-success metric and using a small set of practical levers—contributions, timing, spending rules and portfolio risk—the GBI approach keeps conversations focused, disciplined, and adaptable through market cycles. It reframes risk from short-term volatility to the more relevant likelihood of shortfall while remaining consistent with established portfolio-construction principles. Applied to retirement, GBI separates an essential income floor (housing, healthcare, basic living costs) from discretionary spending, matches each sleeve to an appropriate confidence band and asset mix, and uses tools such as spending guardrails and partial annuitization to reduce sequence and longevity risk. The result is a plan that is easier to understand, easier to stick with, and better aligned with real-world outcomes—whether funding a near-term purchase or delivering reliable retirement income.

At SAM, we have invested in the analytics, multi-asset design and implementation tools needed to operationalize goals-based solutions at scale. Retirement solutions sit at the center of our multi-asset thinking: we combine income-oriented building blocks, dynamic allocation policies and behavioral implementation features (defaults, auto-escalation, review cadences) to protect essential outcomes while preserving upside. The simplified examples in this paper illustrate the framework; reality is always more complex: real clients require richer assumptions, tailored modeling, and bespoke strategies. Our work focuses on turning that complexity into understandable, client-facing plans that deliver measurable probabilities of success and practical, low-friction levers for advisors and clients to act on.

## Important Legal Notice

This report has been prepared by Santander Asset Management (hereinafter "SAM"). SAM is the functional name of the asset management business conducted by the legal entity SAM Investment Holdings S.L. and its branches, subsidiaries and representative offices.

This document contains economic forecasts and information gathered from several sources. The information contained in this document may have also been gathered from third parties. All these sources are believed to be reliable, although the accuracy, completeness or update of this information is not guaranteed, either implicitly or explicitly, and is subject to change without notice. Any opinions included in this document may not be considered as irrefutable and could differ or be, in any way, inconsistent or contrary to opinions expressed, either verbally or in writing, advices, or investment decisions taken by other areas of SAM.

This report is not intended to be and should not be construed in relation to a specific investment objective. This report is published solely for informational purposes. This report does not constitute an investment advice, an offer or solicitation to purchase or sell assets, services, financial contracts or other type of contracts, or other investment products of any type (collectively, the "Financial Assets"), and should not be relied upon as the sole basis for evaluating or assessing Financial Assets. Likewise, the distribution of this report to a client, or to a third party, should not be regarded as a provision or an offer of investment advisory services.

SAM makes no warranty in connection with any market forecasts or opinions, or with the Financial Assets mentioned in this report, including with regard to their current or future performance. The past or present performance of any markets or Financial Assets may not be an indicator of such markets or Financial Assets future performance. The Financial Assets described in this report may not be eligible for sale or distribution in certain jurisdictions or to certain categories or types of investors.

Except as otherwise expressly provided for in the legal documents of a specific Financial Assets, the Investment Products are not, and will not be, insured or guaranteed by any governmental entity, including the Federal Deposit Insurance Corporation. They are not an obligation of, or guaranteed by, Santander, and may be subject to investment risks including, but not limited to, market and currency exchange risks, credit risk, issuer and counterparty risk, liquidity risk, and possible loss of the principal invested. In connection with the Financial Advisors, investors are recommended to consult their financial, legal, tax and other advisers as such investors deem necessary to determine whether the Financial Assets are suitable based on such investors particular circumstances and financial situation. Santander, their respective directors, officers, attorneys, employees or agents assume no liability of any type for any loss or damage relating to or arising out of the use or reliance of all or any part of this report.

Past performance does not predict future returns. The returns may increase or decrease as a result of currency fluctuations relative to the respective investors' domestic currency. Any reference to taxation should be understood as depending on the personal circumstances of each investor and which may change in the future. Costs incurred for purchasing, holding or selling Financial Assets may reduce returns and are not reflected in this report.

This report may not be reproduced in whole or in part, or further distributed, published or referred to in any manner whatsoever to any person, nor may the information or opinions contained therein be referred to without, in each case, the prior written consent of SAM.

Any third-party material (including logos, and trademarks), whether literary (articles/ studies/ reports, etc. or excerpts thereof) or artistic (photos/graphs/drawings, etc.), included in this report is registered in the name of its respective owner and only reproduced in accordance with honest industry and commercial practices.