Abide by the fundamentals of retirement planning

The bumpy economy and volatile markets haven't made saving for retirement any easier. But, you've still got to keep saving for your golden years. And when doing so, everyone needs to abide by certain fundamentals.

Cash is king

Volatile markets aren't the only danger your retirement nest egg faces. In fact, *you* could present one of the biggest dangers — if you make early withdrawals from your IRA or take a 401(k) plan loan.

For example, in addition to being subject to income tax, traditional IRA withdrawals before age 59½ will likely be subject to a 10% early withdrawal penalty. A 401(k) loan won't create a tax liability, but, if you default on it, your outstanding balance will be treated as a distribution and trigger any attendant tax liabilities and penalties.

Perhaps more important, the amount that can continue to grow tax-deferred — tax-free in the case of a Roth account — will be reduced after a retirement plan withdrawal or loan, which can significantly shrink what you have at retirement.

To avoid having to tap into your retirement plan, maintain a cash reserve. The optimal amount will vary depending on your age, health, available credit and job situation. But generally you should have enough cash on hand to cover three to six months of living expenses.

Contributions count

While market volatility may make you leery of putting more into your retirement plan, for most people it's advantageous to do so. First, the power of a retirement plan is tax-deferred (or, in the case of Roth accounts, tax-free) growth. The more time funds have to grow, the larger your nest egg can become.

Second, when the value of stocks is low, you can buy more shares for the same amount of money. Assuming retirement is still at least several years away (so there's ample time for the market to recover), a down market can be a great time to buy.

Third, if your employer offers a match, at minimum you should contribute enough to get the maximum match. If you don't, it's essentially like turning down additional compensation.

Financial objectives change

Examine your investments to see whether the allocation percentages are in harmony with your current risk tolerance and financial objectives. Diversification (which offers not only some protection during market declines, but also higher potential returns over the long run) continues to be a critical investment strategy.

Because retirement plans are subject to annual contribution limits, many people also need to save for retirement outside these tax-advantaged accounts. Consider the tax consequences of investments that create realized capital gains or dividend distributions, because they'll affect your return on investment. And remember that timing can have a dramatic impact.

For instance, the top long-term capital gains rate of 20% is nearly 20 percentage points lower than the highest ordinary-income tax rate of 39.6% — and it generally applies to the sale of investments held for more than 12 months. Even if you're not subject to these top rates, paying tax at your long-term capital gains rate rather than your ordinary-income tax rate will provide substantial savings.

Insurance is integral

If you're like most Americans, your biggest asset is your ability to earn income. Disability insurance can help you protect that asset.

Although many employers offer short-term disability insurance, you may wish to obtain additional, long-term coverage. In computing the level of coverage to carry, plan so that monthly income (based on disability benefits and your current resources) equals at least 60% of your pretax salary.

Also evaluate whether you have adequate life insurance. The amount needed will depend on your current net worth, the lifestyle you want to provide for your family, and your personal circumstances and desires.

Time goes on

Just about everyone's retirement needs evolve. But that doesn't mean retirement planning itself changes drastically. Fundamentals such as these should help you get to where you want to go.