EPISODE 151

[INTRODUCTION]

[00:00:30]

FT: Welcome back to So Money everyone. I'm your host Farnoosh Torabi. Thanks for joining me. My advice I think caters to, generally speaking, someone who is a young adult or a midlife professional looking to go from good to great with their financial life. They might have just paid off their student loans or they are looking to buy a home, they just got a job or a second job, they wanna be entrepreneurial. So that's kind of the psychographic.

That said, I think there are a lot of people out there that my advice doesn't reach, or perhaps I don't spend enough time giving specific advice to. So today I'm really excited to welcome a guest who is dedicating his financial advice and his financial mission to help, particularly, families that are in the military and especially those that are approaching retirement. Because as he has found, and as a member of the military, Doug Nordman, my guest, he has found that many military families and individuals are unprepared when it comes to retirement. So he is dedicating his work to teaching them how to do it. And he is someone who actually managed to retire at 41, which I don't care whether you're in the military, or you have a business, or you're a teacher, that in and of itself is exceptional.

So we are gonna go into, specifically on this show with Doug, lots of advice for military families, military individuals who are approaching retirement or are maybe far from retirement but wanna know what they can do now to make sure that they have secured themselves a safe and fruitful retirement. After a 20-year career with the U.S Navy's Submarine force Doug, as I said, retired at the early age of 41. He has published two books: "The Military Guide to Financial Independence and Retirement" and "The Military Financial Independence and Retirement Pocket Guide" shows military veterans how to achieve financial independence and retire on their terms. After a few years of research and tinkering with retirement plans, he discovered that the military offers retirees affordable healthcare. Did you know this? I had no idea! I'm a big fan of Doug.

Many takeaways from our interview: How military retirees can better prepare for retirement - yes! How much Doug personally saved so that he could retire in his early 40's. And how he manages to pay close to nothing for energy at his house. He lives in Hawaii, which by the way is one of the, if not the most expensive state when it comes to average utility bills annually. So to learn from him is very important.

So here we go. Here is Doug Nordman.

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[INTERVIEW]

FT: Doug Nordman, welcome to So Money. It's a pleasure to have you.

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DN: Aloha Farnoosh. Thanks for having me on the show.

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FT: Aloha, yes! You are in Hawaii.

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DN: I'm on the island of Oahu, it's right in the middle. Right near Honolulu.

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FT: You are the founder of The Military Guide. We had the pleasure of connecting last year at FinCon '14. What made you want to dedicate your career currently to helping the military?

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DN: Well part of it is paying it forward. When I was starting out in the military there was a lot I didn't know about finances, let alone my job. I got help from people who had been there and learned things that I needed to learn and they took care of me. And so once, now that I'm in retirement and having my own personal financial independence, I'm happy to pay that forward. It's also a very interesting topic, and frankly a lot of people in the military need to know more about it and we don't do a very good job of teaching ourselves.

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FT: And when you say "we", do you think it's the responsibility of the government really to help the military in terms of not just providing for them, but educating them. I mean, our country as a whole is very low on the financial literacy scale, but with the military, do you think there's a really big missed opportunity there?

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DN: I don't think it's the government's job to teach people in the military about personal finance. I think it's the military's job to teach people to be financially responsible. To stay out of debt, to be able to be a good person on a job, and have a good security clearance. But financial independence and personal finance I think is a personal responsibility and if you can figure out with the aid of a financial advisor or teaching yourself or having mentors or coaches or peers help you, however you do it, that's the real responsibility. And you're the person who's gonna do the best job on your own personal finances.

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FT: What do you find are some of the biggest issues facing military retirees and those that are approaching retirement?

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DN: It's surprising that there are so few people that retire from the military that are financially independent.

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FT: Is it surprising? Do you think - yea?

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DN: I think so. When I started my retirement 13 years ago I was surprised to find very few people that had retired from the military that were ready to be financially independent. We have pension that has a cost of living allowance built into it and an inflation adjustment. And we also have access to cheap healthcare. Tricare is very low premium in retirement, compared to civilian healthcare plans. And so I would have expected to find more people that were financially independent by the time they retired from the military. Now only 1 out of every 6 people who joins the military actually sticks around for the 20 year retirement. But even so, there are very few people that retire out of the military and are financially independent. More than 80% of the people that actually retire from the military actually go on to get another job, to sort of bridge career after they retire from the military.

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FT: So why do you think that is though? What's the gap?

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DN: We have no reason to worry about financial independence while we're in the military. Many of our financial needs are taken care of and you're very busy. Whether you're working on your job or if you're a spouse or a family member, you're supporting your service member during their career. So you really don't have an appreciation for how much you can accomplish for financial independence while you're in uniform. It turns out the math is very straight forward: Financial independence is simple but still challenging and most families can achieve it within 10 to 15 years. If you can save at least 40% of your gross income for 10-20 years, by the time you leave the military at 20 years, you will definitely be financially independent because you'll have a pension. But even if you get out or join the reserves and your pension starts later, and you don't have that 20 year military pension with an inflation adjustment, just the savings that you'll have accumulated during that time you were in uniform, will still put you well on the road to financial independence.

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FT: So what is your angle, Doug, in getting these military vets - these retirees rather - to really understand how to get retirement-ready? What's your approach?

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DN: Well, first thing we talk about is the fact that they can achieve financial independence while they're in uniform, while they're still in the military. And also that they don't necessarily need to retire from the military to have that financial independence. They can do something less than the 20 years or they can go on the reserves or the national guard and get a pension at age 60. And the other thing about achieving financial independence while you're in the military is the new choices you get in your life. I try not to tell people that they should retire and never work again when they leave the military because we all wanna do something with the rest of our lives, and part of that may involve a bridge career. When you leave the service in your 30's or 40's or early 50's, you still may feel that you wanna go do a traditional bridge career after that, if you're interested in that.

But the point is that if you're financially independent when you leave the military then you do have choices. You have the option of working or devoting yourself to nonprofit or other activities, whatever you wanna do. It gives you a very powerful way to live your life. And while you're in the military, there are times when the services want you to re-enlist or to sign up for a new obligation and part of that they'll wave a large sum of bonus money at you to sign up for another obligation. And when that happens, if you're nearly financially independent, you can chose to sign the contract because you're enjoying your job and you're having fun at it and you feel fulfilled, not that you are worried about paying a truck loan or paying off your student loans. And so saving for financial independence while you're in the military gives you a lot of choices and a lot of flexibility in the rest of your life.

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FT: You retired at 41 though Dough. That's exceptional for anybody.

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DN: [Chuckles] Thank you.

FT: I don't care if you're in the military, if you had a business, if you were a teacher, 41 - I'm 35, so if I'm gonna retire in 6 years, first of all, what am I gonna do with my life?

[00:09:36]

DN: Oh you'll figure it out!

[00:09:38]

FT: I'll figure it out! But what ducks did you have in a row so that you could be done at 41?

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DN: It's based on a high savings rate, and we made plenty of mistakes. We got started in the 1980's when it was common to pay high expense ratios and sales charges on mutual funds. We chased active management and "hot performing funds" and all the typical mistakes of the 80's and 90's. But through all of that we had a high savings rate, and when you look at the math of reaching financial independence, it's based on that high savings rate.

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FT: Like 30%? 50%?

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DN: In our case we were usually at 50% or higher. My spouse was also on active duty for much of her career, so we were able to both save money and live on one paycheck.

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FT: Okay Doug, let's transition now to my So Money questions. I have a feeling you're gonna have some really great answers for us, starting with your money mantra. What is your number one financial philosophy?

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DN: Well mine is tracking your expenses because that helps you make better decisions on how you're spending your money, and eliminate waste, and it gives you better choices later on.

[00:10:44]

FT: Your greatest memory of money growing up. Where did you grow up?

[00:10:49]

DN: I grew up outside of Pittsburg, Pennsylvania and I left as soon as I could. That's why I joined the navy!

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FT: [Laughs] And now you're in paradise.

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DN: Absolutely. Thank you for the navy for that, but we've been all over the world and by the time we got here we knew where we wanted to live.

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FT: So growing up in Pittsburg - I'm also party from Pennsylvania, I know Pittsburg well - what would you say was your initial education about money and what was your earliest money memory? What did it teach you? What was your perspective?

[00:11:18]

DN: I learned early on that money had power and most of that was because I didn't have any, so I didn't have the power. But when I grew up I was largely, blissfully ignorant about money, especially about investing. I was very good at saving, but I really had no idea how to spend well or how to invest.

[00:11:34]

FT: Can you give us an example of that? Take us really down to little Doug, little Doug in Pittsburg. A really vivid money memory that stands out that really captures that idea that money is power.

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DN: [Chuckles] I was one of those kids who used to hoard his money, to the point where I would even have them put in a drawer in an envelope, organized by the amount on the face of the dollar bill and by the serial number. And the reason I did that was because I hardly ever spent my money. I didn't wanna spend my money and waste that power or lose the opportunity to spend it on something else later on. When I started college with very low money skills, I was immediately spending my money, going out every Friday night, Saturday, spending the weekend drinking, going on trips. I really had no idea how to plan for a budget or limit my spending. If I saw something I wanted to spend my money on, I did.

And so while I was a kid of limited mobility and limited income, I generally held on to my money and saved it for a better opportunity. But when I got to college I was too busy with studying and partying and all the other things that go on at college, to really pay attention to how I was spending it. I managed to fritter away, what at that point to me was a lifetime of savings, in just a couple of years in college.

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FT: Along the way maybe you made a few failures. I know that you just said that you spent money - there was a period of time where you spent and you didn't even care, you just spent. What would you say is your biggest financial failure? What happened?

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DN: Well I'd say in terms of big money dollars, the biggest financial failure we had was when we had first moved to Hawaii and the real estate market was in a bubble, and this was 1990. And one of the things we tried to do at the time, we had just bought a house, but we had found a lovely house up on the North Shore and tried to buy that. And it turned out to be, at the time, far more house than we could afford. We also were actually considering driving to work everyday from the North Shore and back, which was 45 mins to an hour each way. And it was a ridiculously large sum of money that we were gonna borrow for a 95% mortgage. It was gonna be a combination of a VA loan, and all of our personal savings, and a second mortgage, and putting a tenant in at the downstairs living area.

And that process that we went through as we went through spending the money and starting down the process of closing down a house, we realized we had gotten in way over our head. So that cost us our deposit, that cost us our deposit and about $5,000 worth of money just to learn that lesson that we really had tried to get more real estate than we could afford. That was a big eye-opening experience to show us that maybe we needed to make the home we had work for us and stay close to work so we didn't buy into a big commute and didn't buy into a big lifestyle.

Now, we still live here on Oahu, so we see that home every couple of months when I drive up there in the North Shore. So it's a constant reminder on the money lesson we learned from trying to buy more house than we could really afford.

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FT: And I was just thinking as you were saying that, there have been so many guests on this show that has cited real estate as their greatest financial failure. All this time I'm like, "Maybe that's a book?" Not like they're saying anything - it doesn't shock us right? Cause it's very recent in our economic history is that financial collapse and that housing bubble crisis. But behaviourally, there is something very interesting there, that event the smartest people that I have on my show manage to goof up. Can you blame us? I mean, it was just one of those things like, "Who knew?"

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DN: Real estate will always go up, and your home is your castle. You deserve this. You earned a place to have a nice nest.

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FT: [Chuckles] Makes you wonder what other financial tenets are completely bonkers. It's a little scary to think, but thanks for sharing that. And I'm glad to know that you still managed to stay in Oahu despite that episode.

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DN: Well we managed to make it work because it was one of the most important things to us at that point, was staying in Hawaii and enjoying living here for the rest of our lives.

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FT: It's nice that you found a partner that not only believes in your - who you share these financial principles with, but also has similar goals in terms of where you wanna retire and live and spend your days.

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DN: Absolutely. And it takes a lot of communication, and it takes finding the right person and marrying the right person, but also taking the time to find out what's important to both of you. You may not realize, when you get married, what your priorities really are and part of our priority change when we got married is when we started a family. You know how that is! You have a child and suddenly your whole priority system changes around and you're much more oriented towards family and the time you spend with that person and being where they are and being responsible.

[00:16:28]

FT: It's a little predictable actually. It's like, "Oh actually the suburbs sounds great!"

[00:16:32]

DN: [Laughs] I'm never moving to the suburbs [Laughs]

[00:16:36]

FT: Well I didn't think we were either, but it might be in our future.

DN: Yeah that's typical.

FT: Yeah. Well, how about a habit Doug? Something that you do habitually, a financial practice that you are very conscious about, that you either do daily or at least once a week to help you with your financial planning?

[00:16:55]

DN: We started tracking our expenses back in the early 80's and we kept doing that all along and that's the longest duration habit we have that's probably the one that we practice the most, is keeping track of expenses. Even now when we have enough, in fact we probably have more than enough, we still track the large purchases and we still look at our expenses just to make sure that nothing has crept up on us that we don't wanna spend the money on. So I don't mind paying extra for good internet net bandwidth and I don't mind paying a little extra for good food for example for shopping at the grocery store, but we still track our expenses and pay attention to when we bought something and how long it lasts and how well it performs.

Some of the things too that we do to save money are not what people would regard as normal habits. After I retired I got very interested in photovoltaic power and we ended up building our own photovoltaic solar power system on our roof. And so our electric bills here in Hawaii are only $17-$18 per month.

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FT: What is this? Photo...?

[00:18:00]

DN: Photovoltaic, solar power.

[00:18:02]

FT: Photovoltaic solar power.

DN: Solar panels.

FT: Solar panels.

[00:18:05]

DN: And so they generate most of the electricity that we use, and our electric bill is - the average electric bill in Hawaii is approaching $200 a month.

FT: Wow.

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DN: Oh yeah, it's expensive to generate electricity on a tiny little island in the Pacific, and most of it comes from oil and some of it comes from natural gas and coal. And now Hawaii is the nation's largest per capita generator of solar power cause it's actually cheap to go out and buy a photovoltaic system, or rent one, and generate some of your own power. And so our electric bill is very low, but I also enjoyed the engineering of putting up a photovoltaic array and figuring it all out and putting it all together. So that was a good hobby and it also happens to generate some income.

[00:18:46]

FT: Photovoltaic solar panels. Can you get that at Home Depot?

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DN: You can actually. I'm surprised! Well, 10 years ago it was a completely different situation, but nowadays you can go down to Home Depot and buy a solar panel to put on your house. You can even buy a cell phone case that's got a solar panel in it that you can use to recharge your phone.

[00:19:08]

FT: Speaking of, my phone just died of battery loss so I'm gonna put that on my to-do list. Alright Doug, you've been a lot of fun. Let's do some So Money Fill in the Blanks. Ready?

[00:19:19]

DN: I am ready!

[00:19:21]

FT: If I won the lottery tomorrow, let's say you won $100 million, the first thing I would do is _____.

[00:19:28]

DN: [Laughs] Well, as soon as I've paid my taxes, I'd go out and hire a personal chef and a personal grocery shopper so that I don't have to.

[00:19:35]

FT: Maybe it's the same person? The chef is the grocery shopper.

[00:19:38]

DN: At $100 million, I don't care how many people it takes!

[00:19:41]

FT: [Laughs] Well hopefully, I'm sure you'll have money leftover.

DN: I hope so!

[00:19:46]

FT: The one thing that I spend on that makes my life easier or better is _____.

[00:19:49]

DN: I would say that the one thing that we indulge ourselves on is just buying the kind of food we wanna eat. And it sounds like a horrible change of pace because you're not doing it from a coupon, you're not shopping for bargains, but for us that has the biggest difference in our life. And the other indulgence, I know that everyone has said this so I'll make it number two on my list, but the other indulgence is a house cleaner.

[00:20:14]

FT: I agree with that. You know I do.

[00:20:17]

DN: I can get a heck of a lot of other stuff done while the house cleaner's doing what they gotta do, and I enjoy it a lot more.

[00:20:22]

FT: For sure. My biggest guilty pleasure that I spend a lot of money on is _____.

[00:20:27]

DN: That has turned out to be Amazon eBooks, Kindle books. And I am a sucker for the 99 cents or the $1.99 action adventure, or suspense, or mystery novel, and I've actually joined a number of booklists where they send you an email couple times a week and tell you about the latest $1.99 or 99 cent bargain books to read.

[00:20:51]

FT: That's great!

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DN: Oh it's very easy to do, right? One-click purchasing and you got it!

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FT: It's a little too easy.

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DN: [Laughs] Too easy, yes.

[00:20:58]

FT: What are you reading right now?

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DN: Right now I'm reading a mystery suspense thriller called "Red Sparrow" and it's about two spies, one's Russian and one's American, and they're both trying to target the other and subvert them into becoming double agents. And they don't realize that each has that mission for the other.

[00:21:17]

FT: I'll wait for the movie.

[00:21:19]

DN: I think it will. There will be one.

[00:21:21]

FT: It sounds like it's a series.

DN: [Both laugh] They usually are.

[00:21:24]

FT: One thing I wish I had known about money growing up is _____.

[00:21:28]

DN: How to invest. I managed to get all the way to college and after that before I really learned how to invest. To some extent, getting married helped me get my financial act together and settle down and learn how to save and learn how to invest what I'd saved.

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FT: When I donate money I like to give to _____ because _____.

[00:21:46]

DN: Well, all the royalties on my book go to military charities and I did that to help write the book and make sure that people understood that I wasn't trying to profit off of them. So that's one place where our money goes, is to military charities. Personally we donate to a homeless shelter, a food kitchen, and a group called AccessSurf, and AccessSurf is near and dear to my heart. They help people who are not able to go surfing on their own, to go surfing. These are people that may have lost the use of a limb or that are suffering from a disease like Multiple Sclerosis, or even people that just don't know how to surf and have never tried it and are terrified of the water and need a special board or special help. And I get to watch them once a month, every Saturday morning while I go out surfing myself, watch them set up the gear on the beach and take people out to the water. And to see the expressions on their faces, the happy people learning to surf - kids, adults of all ages - is very powerful.

[00:22:45]

FT: That's awesome. I've never surfed!

[00:22:47]

DN: Next time you're out here.

[00:22:50]

FT: Yeah, the first time you mean I'm out there! [Laughs]

DN: Okay. Well I wouldn't go standup paddle-boarding on the East River, but you can go out to the coast of New Jersey.

[00:22:57]

FT: No, I wouldn't even like, I don't even like to drive over the East River!

[00:23:01]

DN: [Laughs]

FT: That's how bad it is. Last but not least Doug, I'm So Money because ____.

[00:23:07]

DN: Because I'm financially independent, and I have choices.

[00:23:11]

FT: Yes you do. My goodness, retiring at age 41 and dedicating your life now to teaching veterans and military families about how to be financially independent, donating all the proceeds to military charities, the list goes on about why you are So Money and I'm honored to have you on the show. I think that there should be more Doug Nordman's out there and I'm just glad that we have you as our leader and thank you very, very much. Hope to have you back again with lots of updates hopefully with your work and enjoy Hawaii!

[00:23:46]

DN: Thanks Farnoosh. I am, I really am. I'd love to be back someday, and I enjoy listening to the other guests you have on the show.

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FT: Thank you so much.

[END]