



OFFICE OF THE SECRETARY OF DEFENSE

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WASHINGTON, D.C. 20301-1800

COST ASSESSMENT AND
PROGRAM EVALUATION

January 29, 2010

Incorporating Change 3, September 2, 2011

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DEPUTY CHIEF MANAGEMENT OFFICER
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, NET ASSESSMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Directive-Type Memorandum (DTM) 09-007, "Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support"

References: See Attachment 1

Purpose. This DTM:

- Establishes business rules, required by Deputy Secretary of Defense Memorandum (Reference (a)), in accordance with the authority in Deputy Secretary of Defense Memorandum (Reference (b)), for use in estimating and comparing the full costs of military and DoD civilian manpower and contract support. The full costs of manpower include current and deferred compensation costs paid in cash and in-kind as well as non-compensation costs.
- Is effective immediately; it shall be converted to a new DoD Instruction. This DTM shall expire effective ~~September 1, 2011~~ *October 1, 2012*.

Applicability. This DTM applies to:

- OSD, the Military Departments, the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies,

the DoD Field Activities, and all other organizational entities within the Department of Defense (hereafter referred to collectively as the “DoD Components”).

- All appropriated fund activities.

Definitions. See Glossary.

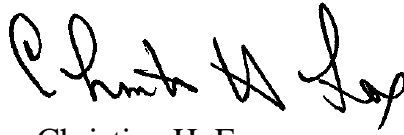
Policy. It is DoD policy that:

- Defense officials are aware of the full costs of manpower and have a thorough understanding of the implications of those costs to the Department of Defense and, on a broader scale, to the Federal Government when developing national security policies and making program commitments. Accordingly, the DoD Components shall use the business rules set forth in Attachment 2 of this DTM to estimate the full costs of the defense workforce in support of strategic planning, defense acquisition, and force structure decisions.
- Pursuant to Deputy Secretary of Defense Memorandum (Reference (c)), the DoD Components shall use the business rules in this DTM when performing an economic analysis in support of workforce decisions. This includes, but is not limited to, determining the workforce mix of new or expanding mission requirements that are not inherently governmental or exempt from private-sector performance. The DoD Components also shall use the business rules to decide whether to use DoD civilians to perform functions that are currently being performed by contractors but that could be performed by DoD civilians.

Responsibilities. See Attachment 3.

Procedures. Attachment 2 provides a list of cost elements and methodologies for estimating and comparing the full costs of military and civilian manpower and contract support. Attachment 4 provides the data sources and calculations for direct labor cost elements for military and DoD civilian personnel. Attachment 5 provides a list of the kinds of goods, services, and benefits that should be considered when developing non-labor cost estimates. Attachment 6 provides an example of a cost comparison.

Releasability. This DTM is approved for public release and is available on the Internet from the DoD Issuances Web Site at <http://www.dtic.mil/whs/directives>.

A handwritten signature in black ink, appearing to read "Christine H. Fox". The signature is written in a cursive style with a large initial "C".

Christine H. Fox
Director of Cost Assessment and
Program Evaluation

Attachments:
As stated

ATTACHMENT 1

REFERENCES

- (a) Deputy Secretary of Defense Memorandum, “In-Sourcing Contracted Services-Implementation Guidance,” May 28, 2009
- (b) Deputy Secretary of Defense Memorandum, “Program Decision Memorandum IV,” December 13, 2006
- (c) Deputy Secretary of Defense Memorandum, “Implementation of Section 324 of the National Defense Authorization Act for Fiscal Year 2008 (FY 2008 NDAA) - Guidelines and Procedures on In-Sourcing New and Contracted-Out Functions,” April 4, 2008
- (d) Office of Management and Budget Circular A-76, “Performance of Commercial Activities,” May 29, 2003
- (e) Sections 2461 and 2463 of title 10, United States Code
- (f) DoD Instruction 1100.22, “Guidance for Determining Workforce Mix,” September 7, 2006
- (g) Deputy Secretary of Defense Memorandum, “Monitoring Contract Performance in Contracts for Services,” August 22, 2008
- (h) Section 1431-1436 of title 50, United States Code
- (i) Public Law 85-608, “Defense Base Act,” August 16, 1941
- (j) Public Law 77-784, “War Hazards Compensation Act,” December 2, 1942
- (k) Title 49, United States Code
- (l) Tab D of Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense Publication, “Department of Defense FY 2009 Reimbursable Rates”¹
- (m) Chapters 84 and 89 of title 5, United States Code
- (n) DoD Instruction 3020.41, “Contractor Personnel Authorized to Accompany the U.S. Armed Forces,” October 3, 2005
- (o) DoD 7000.14-R, “DoD Financial Management Regulations,” as amended
- (p) Joint Publication 1-02, “Department of Defense Dictionary of Military and Associated Terms,” as amended

¹ Available at <http://www.defenselink.mil/comptroller/rates/fy2009.html>

ATTACHMENT 2

BUSINESS RULES FOR ESTIMATING AND COMPARING
THE FULL COSTS OF DoD MANPOWER AND SERVICE CONTRACTS

1. GENERAL. These business rules establish standard procedures for use across the Department of Defense for estimating and comparing the costs of different configurations of manpower (military and DoD civilian) and service contracts.

a. Manpower Costs. When answering questions about the costs of manpower for a specific unit, organization, function, mission, or defense acquisition program, analysts should report the full costs of both military and civilian DoD manpower. For example, the DoD Components should account for the full costs of manpower when developing independent cost estimates and analyses of alternatives for defense acquisition programs and when pricing units in the force structure. Manpower cost estimates normally address costs to the Department of Defense. However, in certain cases, analysts may be asked to report full manpower costs to the Federal Government. These business rules address both kinds of requests.

b. Workforce Mix Decisions. Four sources are particularly relevant to decisions on workforce mix: Reference (c); Office of Management and Budget Circular A-76 (Reference (d)); sections 2461 and 2463 of title 10, United States Code (U.S.C.) (Reference (e)); and DoD Instruction 1100.22 (Reference (f)). In all cases, if functions and/or activities are no longer required, they shall be terminated.

(1) New or Expanded Missions. As provided in Reference (c), if a manpower analysis shows that a new or expanded mission requirement is not inherently governmental or exempt from private-sector performance, the official responsible for the function(s) in question shall conduct a cost comparison using the business rules prescribed in this attachment to determine whether DoD civilian employees or a private-sector contractor would perform the function(s) at a lower cost. (See Reference (c) for steps to be taken based on the results of the cost comparison.)

(2) Conversion from Contractor to Government Performance - In-Sourcing. As provided in Reference (c), if a review shows that a function currently being performed under contract could be performed by DoD civilian employees, the official overseeing the function shall conduct a cost comparison using the business rules prescribed in this attachment to determine whether DoD civilian employees or a private-sector contractor would perform the function at a lower cost. (See Reference (c) for steps to be taken based on the results of the cost comparison.)

(3) Manpower Conversions - Military to DoD Civilian or DoD Civilian to Military. Military manpower may be converted to DoD civilian performance and DoD civilian manpower may be converted to military performance, as provided in Reference (f). Although cost is not the only factor in such decisions, analysts may be asked to estimate the cost impact of the conversions. In such cases, an analyst shall conduct a cost comparison using the business rules prescribed in this attachment to estimate the cost impact of converting a function from military to DoD civilian performance or from DoD civilian to military performance.

(4) Conversions From Government to Contractor Performance. The DoD Components are required to conduct public-private competitions in accordance with Reference (d), section 2461 of Reference (e), and other applicable laws and regulations in determining whether to convert a commercial activity performed by any civilian DoD personnel or by any number of military personnel to private-sector performance.

c. Program and Budget Submissions

(1) Policies and procedures for calculating DoD civilian and military manpower costs for programming and budgeting purposes are established through separate guidance issued by the Under Secretary of Defense (Comptroller) (USD(C)/Chief Financial Officer (CFO), Department of Defense, and the Director of Cost Assessment and Program Evaluation (DCAPE), as part of the annual integrated program and budget review process.

(2) The DoD composite rates, as published by the USD(C)/CFO, used to calculate manpower costs for program and budget submissions do not account for the full costs of military or DoD civilian personnel. For example, the outlays for compensation costs and for retirement and medical accrual accounts for active duty (AD) military personnel represent only a fraction of total Federal outlays. For this reason, composite rates should not be the only source of data used when answering questions about the cost of the defense workforce, making workforce-mix decisions, or determining the cost impact of manpower conversions.

2. BUSINESS RULES. The cost elements and methodologies described in this section are to be used when estimating workforce costs, as detailed in subparagraphs 1.b.(1) through 1.b.(3) of this attachment. The cost elements for DoD manpower are addressed separately from the cost elements for service contracts.

a. Cost Elements for DoD Manpower. Cost elements for DoD civilian and military manpower can be broken into two groups: direct and indirect costs.

(1) Direct Costs. Direct costs include labor and non-labor costs that are directly attributable to the function under review.

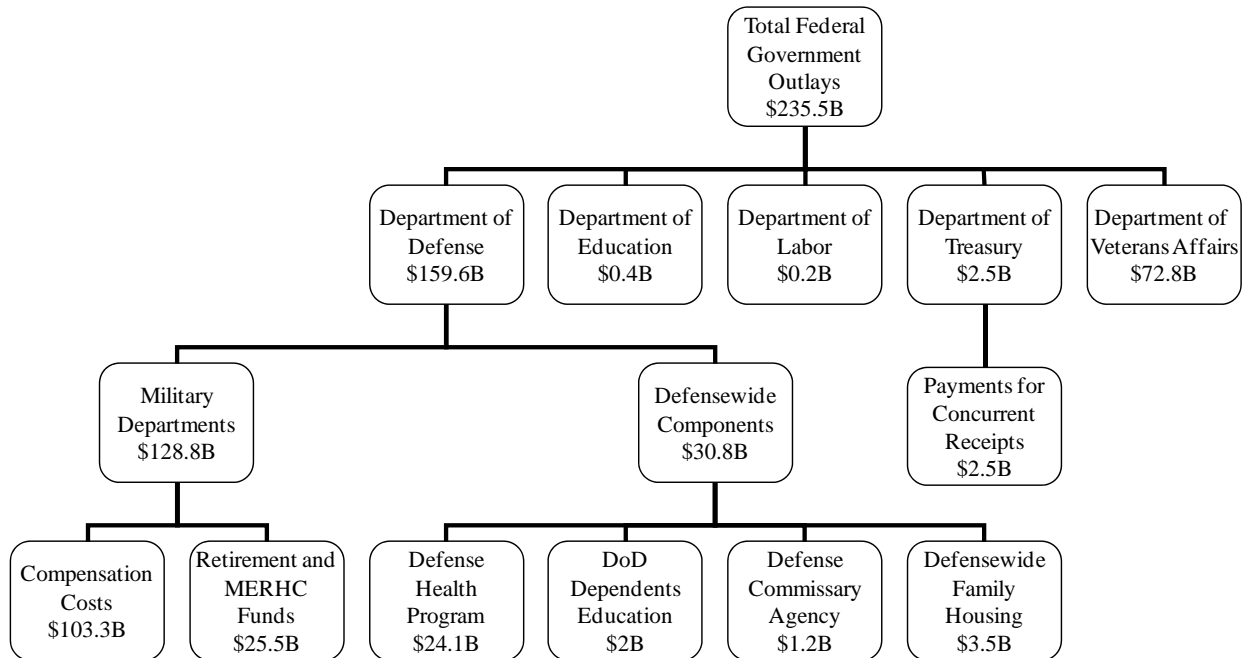
(a) Direct Labor Costs

1. Direct labor costs for military and DoD civilian manpower can be divided into two categories: costs paid by the Department of Defense and costs paid by other Federal agencies. Examples of military and DoD civilian personnel costs paid by other Federal agencies include payments for concurrent receipts (a form of deferred compensation for military personnel with disabilities), which are paid by the Department of the Treasury, and health benefits for civilian retirees, which are paid by the Office of Personnel Management. Figure 1 lists the typical outlays for military personnel (Active and Reserve Component) and for retirees paid by the Department of Defense and other Federal agencies.

2. Direct labor costs for military and DoD civilian manpower can be divided into three subcategories: costs that are variable in the short run, costs that are fixed in the short run, and pay-as-you-go costs that are deferred. The full costs of manpower should not be confused with an individual's compensation costs. The full costs of manpower include current and deferred compensation costs paid in cash and in-kind as well as non-compensation costs.

a. Costs That Are Variable in the Short Run. These costs directly relate to, and are driven by, the size of the workforce. Examples include basic pay, allowances, and health care benefits. These costs vary annually in relation to the number of personnel in each pay status.

b. Costs That Are Fixed in the Short Run. These costs of benefits are not directly tied to or driven by the size of the workforce, but are adjusted over time if changes occur in the size of the workforce that are significant enough and of long enough duration to justify a change in the services provided. Examples include appropriated funds for commissaries and day-care centers. These costs change only if the workforce expands or contracts so significantly that the size or number of commissaries or day-care centers has to be altered in order to maintain the required levels of service for the populations served.

Figure 1. Outlays for Military Personnel and Retirees, Fiscal Year (FY) 2007

c. Pay-as-You-Go Costs That Are Deferred. These costs will be incurred in the future, including some but not all types of deferred compensation. Deferred compensation costs are funded in two ways. Some are fully funded, where future liabilities incurred by individuals on the payroll today are paid for in their entirety today (e.g., retirement pay). For every military member in an active or reserve status today, a payment is made into an accrual fund from which the military member's retirement pay will be drawn in the future. Deferred compensation of this type is considered to be a variable cost in the short run because changes made today in the size of the workforce trigger corresponding changes in the amount of money that must be paid into the accrual fund today. However, other types of deferred compensation are not fully funded. The non-Medicare-eligible retiree health benefit is a pay-as-you-go cost that is deferred. In this situation, the Department incurs liabilities today that it pays for in the future, when the services are actually provided (i.e., when an employee retires and collects his or her benefits). To account for these costs, the Department estimates notional accrual rates for deferred pay-as-you-go compensation (i.e., it estimates the amount that would have to be paid into an accrual fund today to cover the future liabilities incurred by personnel in the workforce today).

3. The taxonomy described in subparagraph 2.a.(1)(a)2. of this attachment results in six distinct categories of direct labor costs for military and DoD civilian personnel. Table 1 lists the direct cost elements for each of the six categories of direct labor costs for military and DoD civilian personnel incurred by the Department of

Defense and other Federal agencies. Attachment 4 provides the data sources and calculations for the cost elements addressed in Table 1.

(b) Direct Non-Labor Costs. Direct non-labor costs are the costs of goods (e.g., materials, supplies, equipment, facilities, and other items), services, and benefits that are used exclusively by an organization. Items that are rented and services that are contracted for by an organization fall into this cost category. For example, if an organization rents office space for its exclusive use, its monthly rental payments are a direct cost to that organization. If an office has its own copier, the costs of operating and maintaining the copier (including supply purchases and repair calls) are a direct cost to that office. (See Attachment 5 for a list of the kinds of goods, services, and benefits that should be considered when developing non-labor cost estimates.)

(2) Indirect Costs - General and Administrative (G&A) and Overhead Costs. Indirect costs for military and DoD civilian manpower are the costs of goods, services, and benefits that support more than one organization and thus are allocated across the organizations drawing on them rather than being borne by a single organization. If an organization produces or provides more than one product or service, indirect costs would include the fair share of the recurring costs of higher-level management (i.e., the fair share of the labor and non-labor costs of higher-level management) and the fair share of the recurring costs of shared professional support services performed externally to, but in support of, the organization (e.g., the fair share of the labor and non-labor costs of accounting, legal, human resources, budget, data processing, and base operating support). Indirect costs also include the fair share of the recurring costs of commonly shared goods (e.g., materials, supplies, equipment, facilities, and other related items), services, and benefits. For example, the fair share of the rent, utility costs, and cleaning expenses incurred by an agency would be an indirect cost to all of the organizations encompassed within that agency. Also, the fair share of the costs of equipment, such as a commonly shared copier, including supply and maintenance costs, would be an indirect cost to all of the offices using the copier. (See Attachment 5 for the kinds of goods, services, and benefits that should be considered when developing estimates of indirect costs.)

Table 1. Direct Labor Cost Elements for Military and DoD Civilian Personnel

| | Military | | Civilian | |
|------------------------------|---|---|--|--|
| | DoD | Other Federal Agency | DoD | Other Federal Agency |
| Variable Costs in Short Run | Basic pay Allowances and special pays Incentive pays Health benefit, active duty and dependents Social Security and Medicare Retired pay (accrual) Travel/PCS/transportation subsidy Education assistance Health benefit, retiree (>65 MERHCF accrual) Training costs (amortized over years of practice) Recruitment, advertising, etc. (amortized) | Concurrent receipt (Treasury) Military Retirement (Treasury) MERHCF (Treasury) Child education (Education) | Basic pay/locality pay Allowances and special pays Incentive/Performance awards Health benefit (government share of FEHBP) Social Security and Medicare Retired pay (government share) Travel/PCS/transportation subsidy/relocation bonus Education assistance Overtime/holiday/other pays Life insurance/worker's compensation benefits Recruiting, advertising, etc. (amortized) | |
| Fixed Costs in Short Run | Child development Family support services Discount groceries | | Child development | |
| Deferred Pay-As-You-Go Costs | Health benefit, retiree (<65 retiree and family) Health benefit, other (TAMP and CHCBP) Discount groceries, retiree Separation pay and travel Unemployment benefits Death gratuities Survivor benefits | VA benefits (Veterans Affairs) Employment training (Labor) | Severance health benefit Severance pay/incentive | Retirement benefit (CSRS unfunded) Health benefit Life insurance benefit |

b. Cost Elements for Service Contracts. The costs of service contracts are variable costs in the short run paid by the Department of Defense. The full costs of service contracts include the prices of the contracts plus any additional indirect costs.

(1) When estimating the full costs of a service contract, cost analysts for the requiring activity should begin with the negotiated price of the contract or, if the estimate is for a new or expanded mission requirement, an estimate of the price of the contract obtained through market research. Cost analysts should, where appropriate, take into account the inherent risk of cost growth after contract negotiation. Contractor rates for many services can be obtained from the General Services Administration (GSA) Advantage Web Site at <http://www.gsaadvantage.gov>. Hourly rates reported in the GSA schedule can be converted to annual rates using the Office of Management and Budget standard rate of 2,087 work-hours per year. The negotiated price of the contract includes direct costs (labor and non-labor) and indirect costs (i.e., overhead and G&A) borne by the contractor, plus an allowance for profit. When estimating the price of a service contract, cost analysts should consider all direct and indirect costs discussed in subparagraphs 2.a.(1) and 2.a.(2) of this attachment.

(2) Beyond the contract price, the full cost of a service contract includes the costs of goods, services, and benefits provided in-kind to contractors or reimbursed to contractors by the Department of Defense, plus the costs of services performed by the Department in support of the contract.

(a) Goods, services, and benefits discussed in subparagraphs 2.a.(1) and 2.a.(2) of this attachment that are provided to contractors by the Department of Defense should be identified when estimating the full costs of a service contract, since these are common costs. Included in this category are the costs of any goods that are provided to the contractor as Government-furnished property. The estimate also should include the fair share of the costs of any higher-level management and professional support that would be provided by the Department of Defense under the terms of the service contract. In addition, if the contract calls for the Department to provide services or benefits, these costs should be identified since they are common costs. (See Attachment 5 for the kinds of goods, services, and benefits that should be considered when estimating the full costs of a service contract.)

(b) The costs incurred by the Department of Defense for contract administration and oversight, including the costs of the contracting officer (CO), contracting officer's representative (COR), and supplies, equipment, transportation, etc., as set forth in Deputy Secretary of Defense Memorandum (Reference (g)), should be included in the estimate of the full costs of a service contract.

(c) Finally, an estimate of the full cost of a service contract should include expenses that are incurred by the Department of Defense including, but not

limited to, those contained in section 1431-1436 of title 50, U.S.C. (Reference (h)) and, if known, other indemnification costs.

1. When military or DoD civilian personnel perform a function, their actions are covered by sovereign immunity. However, when a contractor performs a function, the contractor can be sued. To the extent the Government must indemnify or reimburse the contractor or its insurer, the Department of Defense incurs additional expenses and contingent liabilities that would not have to be paid if military or DoD civilian personnel performed the work. If the Department of Defense does not agree to pay these additional costs, the price of the contract would have to be increased to cover the contractor's liability.

2. Examples of expenses that are incurred include: reimbursements to the contractor or its insurance company under standard Federal contract clauses regarding liability to third parties; reimbursements to a contractor for payments the contractor, its insurance company, or the Department of Labor make pursuant to Public Laws 85-608 and 77-784 (References (i) and (j)); reimbursements the Department of Defense is obligated to make with respect to publicly sponsored insurance (e.g., air carrier insurance sponsored by the Federal Aviation Administration pursuant to title 49, U.S.C. (Reference (k))); and the value of the authorization and consent to infringe privately held patents with freedom from monetary damages and injunctive relief that would otherwise prevent a contractor from performing the function.

3. These costs are not common costs because they would not be incurred if Government personnel performed the work. If practical and if data are available, the DoD Components should incorporate these costs into their estimates.

3. METHODOLOGY

a. Manpower Costs. Manpower costs discussed in paragraph 2.a. of this attachment can be accounted for in four ways, each applicable in different situations. (See Attachment 6 for an example.) If analysis is required beyond the current year, future-year costs should be inflated at rates consistent with the President's Budget updates.

(1) Base Pay with Locality Adjustments and Allowances. Base pay is the amount payable to each military member or civilian employee each pay period, as determined by pay plan or general schedule (GS) table, plus locality adjustments and allowances. Analysts should use organizational information and judgment when selecting the base pay of a National Security Personnel System or Defense Civilian Intelligence Personnel System employee by cross-walking to GS table equivalency. Base pay, with locality adjustments and basic housing allowances, may be used as a reference

point when comparing costs across types of personnel (e.g., military and DoD civilian) and across different organizations (e.g., the DoD Components and other Federal agencies).

(2) Programmed Amount. The programmed amount is the amount commonly used in budgeting and programming deliberations and reported in the President's Budget Future Years Defense Program. For military personnel, the programmed amount is normally the annual DoD Composite Rate, which includes an average base pay, basic allowance for housing (BAH), basic allowance for subsistence (BAS), incentive and specialty pays, permanent change of station (PCS) expenses, the DoD contribution to medical health care coverage and to the Medicare-Eligible Retiree Health Care Fund (MERHCF), and the DoD contribution to the retired pay accrual account listed in Attachment 4. For civilian personnel, the programmed amount includes base pay, adjusted for locality (listed in Attachment 4), plus the Civilian Personnel Fringe Benefit rate (published in Tab D of USD(C)/CFO publication (Reference (1))). This rate varies by Military Service and DoD Component. It includes miscellaneous fringe benefits and DoD contributions to the Federal Employees Retirement System (FERS); Federal Employees Health Benefits Program (FEHBP); Federal Employees Group Life Insurance (FEGLI); Old Age, Survivors, and Disability Insurance (OASDI); and Medicare.

(3) Full Cost to the Department of Defense. Full cost to the Department of Defense is determined by adding the programmed amount to the costs of additional benefits that are borne by the Department as a result of employing military or DoD civilian personnel (e.g., subsidized groceries, child development and family support services, family housing subsidies, education assistance, training, and advertising and recruiting). These additional benefits borne by the Department are listed in Attachment 4.

(4) Full Cost to the Federal Government. Full cost to the Federal Government is determined by adding the full cost to the Department of Defense to the additional costs that are borne by other Federal agencies as a result of the Department employing military or DoD civilian personnel. For military personnel, the additional costs that must be taken into account include Department of the Treasury contributions toward payments for concurrent receipts; Department of Education contributions to the Impact Aid Program; Department of Labor contributions for the training and employment of veterans; and the full costs of the Department of Veterans Affairs. (See Attachment 4 for specifics.) For civilian personnel, costs that must be taken into account include Department of the Treasury contributions to the unfunded portion of the civilian retirement fund and to the annuitant health and life insurance benefits listed in Attachment 4.

b. Manpower Conversions - Military to DoD Civilian or DoD Civilian to Military.

When comparing the costs of military and DoD civilian manpower, as discussed in paragraph 1.a. and subparagraph 1.b.(3) of this attachment, all cost elements in subparagraph 3.a.(3) of this attachment should be considered in determining the full costs to the Department of Defense and all costs elements in subparagraph 3.a.(4) of this attachment should be considered in determining the full costs to the Federal Government. The direct non-labor costs and the indirect costs addressed in subparagraphs 2.a.(1)(b) and 2.a.(2) of this attachment, respectively, should also be reviewed. Direct non-labor costs and indirect costs that are common costs may be excluded from both estimates provided the cost comparison is for an equal number of DoD civilian and military personnel. Where the number of military and DoD civilian personnel differ, adjustments must be made to the estimates to account for the difference in indirect costs that result from the difference in the number of military and DoD civilian personnel.

c. Cost Comparisons of DoD Manpower and Service Contracts. When comparing the costs of DoD manpower and service contracts, as discussed in paragraph 2.b. of this attachment, the methodology will vary depending on whether or not the work is performed at a DoD installation or some other location, and whether the Department of Defense will provide any or all of the goods, services, and benefits that are required to perform the function. When developing cost estimates for DoD manpower and service contracts, the full costs to the Department are considered and only common costs are excluded. These rules apply:

(1) Cost Estimates for Services Performed at a Government Site. The full cost of a service contract includes the price of the contract, as discussed in subparagraphs 1.b.(1) and 1.b.(2) of this attachment. In addition, the costs of goods, services, and benefits discussed in subparagraph 2.b.(2) of this attachment must also be reviewed. If a function is performed on Government property, the costs of goods, services, and benefits that are common costs may be excluded from both estimates provided the number of Government and contractor personnel is equivalent. Where the number of Government and contractor personnel differs, adjustments must be made to the estimates to account for the difference in the number of Government and contractor personnel. When estimating the full cost of DoD manpower, all of the cost elements in subparagraphs 2.b.(2) and 3.c.(3) of this attachment should be considered and only common costs excluded.

(2) Cost Estimates for Services Performed Off Site. The full cost of a service contract includes the price of the contract, as discussed in subparagraph 2.b.(1) of this attachment, plus any additional expenses the Government incurs for goods, services, or benefits addressed in subparagraph 2.b.(2) of this attachment that would not be incurred if Government personnel performed the work. When estimating these costs, analysts must carefully consider the scope of the function to be performed and whether the Department of Defense is providing any of the direct or indirect support services or is

continuing to perform a portion of the direct labor. For example, military personnel in combat service support units provide their own security. However, when a contractor provides the support service, the Department might have to provide the security. In such cases, the cost of the security is not a common cost but is an additional expense that must be factored into the cost of the service contract. Also, if a contractor is performing a function at a location that is not owned either by the contractor or the Department of Defense, the Department might have to provide additional services and benefits (e.g., medical care, housing). These costs must be carefully considered. If the contractor is performing the work at one of its facilities, all indirect costs addressed in subparagraph 2.b.(2) of this attachment should be considered and only common costs excluded. When estimating the full cost of DoD manpower, all of the cost elements in subparagraphs 2.b.(2) and 3.c.(3) of this attachment should be considered and only common costs excluded.

(3) Miscellaneous Costs

(a) Any other significant costs associated with converting from contract to Government performance, as discussed in paragraph 2.b. of this attachment, that are not common costs should be included in the cost estimate. Such costs might include a phase-in or transition plan, training costs, relocation costs (for Federal civilians only), or other costs not common to both alternatives.

(b) Reference (e) prohibits contractors from receiving an advantage for proposals that reduce costs to the Department of Defense in a public-private competition by: not making an employer-sponsored health insurance plan, health savings account, or medical savings account available to workers who would be employed to perform the function under the contract; offering to such workers an employer-sponsored health benefits plan that requires the employer to contribute less toward the premium or subscription share than the amount that the Department of Defense pays for health benefits for civilian employees pursuant to chapter 89 of title 5, U.S.C., (Reference (m)); or offering such workers a retirement benefit that, in any year, costs less than the annual retirement cost element applicable to DoD civilian employees pursuant to chapter 84 of Reference (m). Where possible and appropriate, cost analysts should make adjustments to the full costs of a service contract by adding an amount equivalent to the amount borne by the Government (as listed in Attachment 4) to the contract's cost.

ATTACHMENT 3

RESPONSIBILITIES

1. DCAPE. In addition to the responsibilities in sections 4, 5, and 6 of this attachment, the DCAPE shall oversee compliance with this DTM and use of the cost model (once developed), to estimate the full costs of manpower for acquisition systems and for analyses undertaken in support of program and budget reviews.

2. USD(C)/CFO. In addition to the responsibilities in sections 4, 5, and 6 of this attachment, the USD(C)/CFO shall incorporate into a DoD Instruction the business rules in this DTM for use in estimating and comparing the full costs of military and DoD civilian manpower and contract support.

3. UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS (USD(AT&L)). In accordance with Reference (b), the USD(AT&L), in addition to the responsibilities in section 6 of this attachment, shall establish policy for the award or renewal of service contracts.

4. DCAPE AND USD(C)/CFO. The DCAPE and the USD(C)/CFO shall continue to issue separate guidance for developing DoD civilian and military personnel costs for program and budget submissions.

5. DCAPE, USD(C)/CFO, AND UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS (USD(P&R)). The DCAPE, the USD(C)/CFO, and the USD(P&R), in addition to the responsibilities in section 6 of this attachment, shall, within 1 year of publication of this DTM, develop a cost model for DoD-wide application that employs the business rules set forth in Attachment 2.

6. HEADS OF THE DoD AND OSD COMPONENTS. The Heads of the DoD and OSD Components shall use the business rules set forth in Attachment 2 of this DTM:
 - a. To estimate the full costs of the defense workforce in support of strategic planning, defense acquisition, and force structure decisions.

b. When performing an economic analysis in support of workforce decisions. This includes, but is not limited to, determining the workforce mix of new or expanding mission requirements that are not inherently governmental or exempt from private-sector performance.

c. To decide whether to use DoD civilians to perform functions that are currently being performed by contractors but that could be performed by DoD civilians.

7. SECRETARIES OF THE MILITARY DEPARTMENTS. As the information is updated, the Secretaries of the Military Departments shall, in addition to the responsibilities in section 6 of this attachment, provide the USD(C)/CFO with pay data, by military occupation, for use in annual updates of the cost model.

ATTACHMENT 4

COST ELEMENTS AND DATA SOURCES

Table 2. Military Cost Elements and Data Sources*

| Military Cost Elements | Data Source | Web Link to Data Source (if applicable) | Load Factors to Use in Pre-Cost-Model |
|---|---|---|---|
| Basic Pay | DoD Composite Rate** | http://www.defenselink.mil/comptroller/rates/fy2009/2009_k.pdf | Annual DoD Composite Rate |
| Basic Allowance for Housing (BAH) | | | |
| Basic Allowance for Subsistence (BAS) | | | |
| Incentive Pays | | | |
| Special Pay - Board Certification | | | |
| Special Pay - Incentive | | | |
| Special Pay - Multi-Year | | | |
| Special Pay - Other | | | |
| Allowance - Uniform Clothing | | | |
| Allowance - Station Allowance Overseas | | | |
| Allowance - CONUS COLA | | | |
| Allowance - Family Separation | | | |
| Allowance - Personal Money Allowance, General and Flag Officers | | | |
| Subsistence In Kind | | | |
| Family Subsistence Supplemental Allowance | | | |
| Social Security and Medicare (Employer's Contribution) | | | |
| Permanent Change of Station - All but Separation Travel | | | |
| Permanent Change of Station - Separation Travel | | | |
| Retired Pay Accrual | | | |
| Separation Payments | | | |
| Education Assistance (e.g., portion of GI Bill) | | | |
| Other Military Personnel Costs - Adoption | | | |
| Other Military Personnel Costs - Partial Dislocation | | | |
| Other Military Personnel Costs - Transportation Subsidies | | | |
| Other Military Personnel Costs - Unemployment Benefits | | | |
| Other Military Personnel Costs - Death Gratuities | | | |
| Other Military Personnel Costs - Survivor Benefits | | | |
| Other Military Personnel Costs - Other | | | |
| Medicare-Eligible Retiree Health Care Fund (MERHCF) | | | |
| Health Care (AD and AD FM) | Acceleration Factor from OSD Composite Rates | http://www.defenselink.mil/comptroller/rates/fy2009/2009_k.pdf | Acceleration factor of \$8,672 in FY09 |
| Education Assistance | O-1: Service BA-3, Line Number 333 (Army), 3C3L (Navy), 3C2F (Marine Corps), 033C (Air Force) (divided by ES) | http://www.defenselink.mil/comptroller/budget.html (O-1) | \$395 (Army); \$496 (Navy); \$261 (Marine Corps); \$628 (Air Force) |

* Analysts should ensure they are using the most current versions of the applicable data sources. If analysis is required beyond the current year, future year costs should be inflated at rates consistent with the President's Budget updates.

** This is subject to change when the costing model is built. Organizations will be responsible for providing the contractor with service-level detailed data on these various cost factors.

Table 2. Military Cost Elements and Data Sources, Continued*

| Military Cost Elements | Data Source | Web Link to Data Source (if applicable) | Load Factors to Use in Pre-Cost-Model |
|---|---|---|---|
| Discount Groceries | DeCA Budget Justification, Appropriated Funds (divided by AD-equivalents and retirees) | http://www.defenselink.mil/comptroller/defbudget/fy2009/budget_justification/pdfs/06_Defense_Working_Capital_Fund/DeCA_FY_2009_PB.pdf | \$322 |
| Child Development (Day Care Facilities) | FYDP by PE (divided by total military and DoD civilian personnel) | | \$312 |
| Training | O-1: Service BA-3, AGSAG 311/312/313/314/321/322/323/324 (Army), 3A1J/3A2J/3A3/3B1K/3B2K/3B3K/3B4K (Navy), 3A1C/3A2C/3B1D/3B2D/3B3D/3B4D (Marine Corps), 031A/031B/031D/032A/032B/032C/032D (Air Force) (divided by ES) | http://www.defenselink.mil/comptroller/budget.html (O-1) | \$4,234 (Army); \$4,746 (Navy); \$1,960 (Marine Corps); \$5,060 (Air Force) |
| Recruitment, Advertising, Etc. | O-1: Service BA-3, AGSAG 331/332/335 (Army), 3C1L/3C5L (Navy), 3C1F/3C3F (Marine Corps), 033A/033B/033E (Air Force) (divided by ES) | http://www.defenselink.mil/comptroller/budget.html (O-1) | \$1,523 (Army); \$1,170 (Navy); \$1,412 (Marine Corps); \$629 (Air Force) |
| DoDEA and Family Assistance | DoDEA Budget Justification, Appropriated Funds (divided by AD-equivalents) | http://www.defenselink.mil/comptroller/defbudget/fy2009/budget_justification/pdfs/01_Operation_and_Maintenance/O_M_VOL_1_PARTS/DoDDE%20FY%202009%20PB%20OP-5.pdf | \$1,519 |
| Manpower Management | Need Services Input** | Need Services Input** | Need Services Input** |
| Other Personnel Support | Need Services Input** | Need Services Input** | Need Services Input** |
| Child Education (Impact Aid) | OMB budget documents (divided by AD equivalents) | http://www.ed.gov/about/overview/budget/budget09/summary/09summary.pdf | \$928 |
| Veterans' Employment and Training | OMB budget documents (divided by number of veterans) | http://www.whitehouse.gov/omb/budget/fy2009/pdf/budget/labor.pdf | \$9 |
| Treasury Contribution to Retirement | OMB budget documents (divided by number of AD equivalents and retirees receiving retirement pay) | http://www.gpoaccess.gov/usbudget/fy09/pdf/appendix/civ.pdf | \$7,119 |
| Treasury Contribution for Concurrent Receipts | OMB budget documents (divided by number of qualified military retirees receiving disability pay) | http://www.gpoaccess.gov/usbudget/fy09/pdf/appendix/civ.pdf | \$1,236 |
| Treasury Contribution to MERHCF | OMB budget documents (divided by number of AD equivalents and retirees receiving retirement pay) | http://www.gpoaccess.gov/usbudget/fy09/pdf/appendix/civ.pdf | \$8,675 |
| Veterans' Benefits (Cash and In-Kind) | OMB budget documents (divided by number of veterans) | http://www1.va.gov/vetdata/docs/4X6_summary08_sharepoint.pdf | \$3,367 |

* Analysts should ensure they are using the most current versions of the applicable data sources. If analysis is required beyond the current year, future year costs should be inflated at rates consistent with the President's Budget updates.

** This is subject to change when the costing model is built. Organizations will be responsible for providing the contractor with service-level detailed data on these various cost factors.

Table 3. Civilian Cost Elements and Data Sources*

| Civilian Cost Elements | Data Source | Web Link to Data Source (if applicable) | Load Factors to Use in Pre-Cost-Model |
|--|---|---|---|
| Basic Pay/Locality Pay/COLA/Title 38 Special Salary Rates | GS Pay Schedule with Locality Adjustments | GS Pay Schedule with Locality Adjustments | GS Pay Schedule |
| Title 38 Medical Premium Pay | OP-8 budget documents | OC11 (other) load factor | 3.02% |
| Overtime/Holiday/Other Pays | OP-8 budget documents | OC11 (other) load factor | |
| Incentive/Performance Awards | OP-8 budget documents | OC11 (other) load factor | |
| Retention Allowance | OP-8 budget documents | OC12 load factor | 28.59% |
| Social Security & Medicare (employer's contribution) | OP-8 budget documents | OC12 load factor | |
| Recruitment/Relocation Bonuses | OP-8 budget documents | OC12 load factor | |
| Health Care (employer's share FEHBP) | OP-8 budget documents | OC12 load factor | |
| PCS | OP-8 budget documents | OC12 load factor | |
| Federal Employee Group Life Insurance (FEGLI) | OP-8 budget documents | OC12 load factor | |
| Transportation Subsidies | OP-8 budget documents | OC12 load factor | |
| Worker's Compensation Payments | OP-8 budget documents | OC12 load factor | |
| Retirement Accrual (employer's contribution) | OP-8 budget documents | OC12 load factor | |
| Federal Retirement Thrift Investment Board payments (TSP matching) | OP-8 budget documents | OC12 load factor | |
| Unemployment Insurance Payments (FUTA) | OP-8 budget documents | OC12 load factor | |
| Severance Pay/Separation Incentive | OP-8 budget documents | OC13 load factor | 0.15% |
| Severance Health Benefit | OP-8 budget documents | OC13 load factor | |
| Discount Groceries (OCONUS only) | DeCA Budget Justification, Appropriated Funds (divided by AD-equivalents and retirees) | http://www.defenselink.mil/comptroller/defbudget/fy2009/budget_justification/pdfs/06_Defense_Working_Capital_Fund/DeCA_FY_2009_PB.pdf | \$322 |
| Recruitment, Advertising, Etc. | Service budgets for recruiting and advertising (divided by civilian ES) | Need Services to provide annual input | Need Services and Agencies to provide annual input |
| Training | O-1: Service BA-3, AGSAG 334 (Army), 3C4L (Navy, Marine Corps), 033D (Air Force) (divided by civilian ES) | http://www.defenselink.mil/comptroller/budget.html (O-1) | \$835 (Army); \$430 (Navy); \$430 (Marine Corps); \$839 (Air Force) |
| Unfunded Civilian Retirement | OMB budget documents (divided by federal gov civilians and annuitants) | http://www.gpoaccess.gov/usbudget/fy09/pdf/appendix/opm.pdf | 10% |
| Postretirement Health Benefit (government's share FEHBP) | OMB budget documents (divided by annuitants) | http://www.gpoaccess.gov/usbudget/fy09/pdf/appendix/opm.pdf | |
| Postretirement Life Insurance (government's share FEGLI) | OMB budget documents (divided by FEGLI recipients) | http://www.gpoaccess.gov/usbudget/fy09/pdf/appendix/opm.pdf | |

* Analysts should ensure they are using the most current versions of the applicable data sources. If analysis is required beyond the current year, future year costs should be inflated at rates consistent with the President's Budget updates.

ATTACHMENT 5

LIST OF GOODS, SERVICES, AND BENEFITS

The list of goods, services, and benefits presented in this attachment is not all inclusive, but should be used as starting point when developing cost estimates. Depending on the activity under review, the costs associated with individual items could be either direct or indirect.

- a. Costs of capital assets valued at \$25,000 or more, plus the costs of depreciation, maintenance, and repair.
- b. Cleaning services.
- c. Contract administration and oversight, including the costs of the CO, COR, and supplies, equipment, transportation, etc., as set forth in Reference (g).
- d. Costs for maintenance and repair of equipment. (The DoD Components should not include in cost estimates depreciation costs for items valued at less than \$25,000.)
- e. Costs of maintenance and repair of facilities.
- f. Costs of registration and penalty fees.
- g. Insurance, including (but not limited to) the costs of casualty and liability insurance.
- h. The costs of raw materials, parts, and subassemblies, plus any material-related costs (e.g., transportation, handling, and delay costs and normal allowances for scrap and spoilage).
- i. Office equipment and supplies, including but not limited to the costs of chairs, desks, tables, overhead projectors, cabinets, fax machines, and copy machines.
- j. Printing.
- k. Rent for leased assets, including but not limited to the costs for the use, operation, and maintenance of land, building space, and machinery.
- l. Security.

m. Support services and benefits, including but not limited to the costs of higher-level management and professional support services (e.g., accounting, legal, human resources, budget, data processing, and base operation support). For military and civilian personnel, this also could include subsidized groceries, child development and family support services, family housing subsidies, training, and recruiting. For contractor personnel at overseas or remote locations, this could include Government-furnished support (e.g., transportation, training, and housing) as well as access to Government benefits and services (e.g., subsidized groceries, child education and development services). It could also include mail service; morale, welfare, and recreation services; exchange privileges; and medical care in austere or non-permissive environments, as provided by DoD Instruction 3020.41 (Reference (n)). It could also include special training, including training for contractor personnel who support contingency operations, as provided by Reference (n).

n. Travel.

o. Utilities, including (but not limited to) the costs of telephone services, electricity, water, and sewage disposal.

ATTACHMENT 6COST COMPARISON EXAMPLE

1. GENERAL. This attachment provides an example of a cost comparison for a Department of the Army Operations Research Analyst position in the Washington, D.C., metropolitan area. For this example, assume military and DoD civilians work at a Government site.

Table 4. Sample Cost Comparison

| Type of Personnel | Base Pay with Locality and BAH | Programmed Amount | Full Cost to Department of Defense | Full Cost to Government |
|-----------------------------------|--------------------------------|-------------------|------------------------------------|-------------------------|
| Military O-5, 20 Years of Service | \$121,848 | \$155,631 | \$210,968 | \$264,548 |
| Civilian GS-14, Step 5 | \$111,104 | \$143,435 | \$157,239 | \$168,349 |
| Contractor (Government site) | N/A | \$218,592 | \$218,592 | \$218,592 |
| Contractor (contractor site) | N/A | \$268,555 | \$268,555 | \$268,555 |

2. BASE PAY WITH LOCALITY AND BAH. This column applies to military and civilian personnel only. For military personnel, the amount shown in Table 4 represents base pay plus the Washington, D.C., BAH. For civilian personnel, the figure depicted in Table 4 is the salary level from the GS pay schedule for an employee in the national capital region. For overseas sites, civilian personnel costs do not include locality pay but should include the living quarters allowance set by the Department of State as well as a cost of living allowance.

3. PROGRAMMED AMOUNT. This column applies to military, civilian, and contractor personnel. For military personnel, the figure in Table 4 is the Annual DoD Composite Rate, which includes average base pay, BAH, BAS, incentive and specialty pays, PCS costs, Department of the Treasury contributions into MERHCF, retired pay accrual, and miscellaneous costs. For civilian personnel, the figure shown represents base pay plus the Army's civilian fringe-benefit rate of 29.1 percent (see Reference (1)), which includes miscellaneous fringe benefits and the employer's contribution to FERS/CSRS, FEHBP, FEGLI, OASDI, and Medicare. For contractors, the figures shown are the costs of the contract, which may vary depending on the location of the

work site. This example includes two rates. Both are from the GSA Federal Services Schedule at <http://www.gsaadvantage.gov>. One is for a Lead Operations Research Analyst billet at a Government site; the other is for an identical billet at a contractor site. Rates are provided per hour; conversions to an annual rate were made by multiplying the hourly rate by 2,087 (the number of annual work-hours assumed in DoD work-year calculations in accordance with DoD 7000.14-R (Reference (o))).

4. FULL COST TO DEPARTMENT OF DEFENSE. This column applies to military, civilian, and contractor personnel. For military personnel, the amount shown represents the “Programmed Amount” plus costs for recruitment and advertising, training, subsidized groceries, education assistance, child development, and other costs that are incurred through the provision of nonmonetary benefits to military members. For civilian personnel, the figure provided in the table is the “Programmed Amount” plus costs for recruitment and advertising, training, and child development. In overseas sites, civilian personnel costs also should include costs for subsidized education and commissary privileges, where available. For contractors, the figures represent the total cost of the contract, which may vary depending on the location of the contract site, plus any additional expenses the Government incurs for goods, services, or benefits that would not be entailed if Government personnel performed the function (e.g., indemnification).

5. FULL COST TO FEDERAL GOVERNMENT. This column applies to military, civilian, and contractor personnel.

a. For military personnel, the estimate of full Government costs is based on several sets of assumptions on how to apportion non-DoD costs at an individual level. (See subparagraph 4.a.(3) of Attachment 2.) In Table 4, the full cost to the Federal Government is calculated by adding to the “Full Cost to DoD” the amounts attributable to:

(1) Contributions by the Department of Education for impact aid (total contributions divided by military end strength).

(2) Contributions by the Department of Labor for the training and employment of veterans (total contributions divided by military end strength).

(3) Contributions by the Department of the Treasury into the MERHCF and the Military Retirement Fund (total contributions divided by the number of AD equivalents). The conversion of the number of Reserve and National Guard (R/NG) billets to AD equivalents was accomplished by multiplying the total number of AD billets by the ratio of the part-time MERHCF rate to the full-time MERHCF rate. The part-time

MERHCF rate is a notional normal rate that accounts for the relative medical costs accrued from R/NG to AD members.

(4) Contributions by the Department of Veterans Affairs (total contributions divided by the number of AD equivalents). The conversion of the number of R/NG billets to AD equivalents was accomplished by multiplying the total number of AD billets by the ratio of part-time (R/NG) Service-commitment days (37 days) to full-time (AD) service-commitment days (365 days).

b. For civilian personnel, the full cost to the Federal Government equals the “Full Cost to DoD” plus the “Unfunded Retirement Rate” of 10 percent of base pay, published in Reference (1). For contractors, full costs to the Government represent the total cost of the contract, which may vary depending on the location of the contract site, plus any additional expenses the Government incurs for goods, services, or other benefits that would not be incurred if Government personnel performed the function (e.g., indemnification).

GLOSSARY

PART I. ACRONYMS AND ABBREVIATIONS

| | |
|------------|---|
| AD | active duty |
| BAH | basic allowance for housing |
| BAS | basic allowance for subsistence |
| CO | contracting officer |
| COR | contracting officer's representative |
| CHCBP | Continued Health Care Benefit Program |
| CSRS | Civil Service Retirement System |
| DCAPE | Director of Cost Assessment and Program Evaluation |
| DTM | Directive-Type Memorandum |
| FEGLI | Federal Employees Group Life Insurance |
| FEHBP | Federal Employees Health Benefits Program |
| FERS | Federal Employees Retirement System |
| G&A | general and administrative |
| GS | General Schedule |
| GSA | General Services Administration |
| MERHCF | Medicare-Eligible Retiree Health Care Fund |
| OASDI | Old Age, Survivors, and Disability Insurance |
| PCS | permanent change of station |
| R/NG | Reserve and National Guard |
| TAMP | Transitional Assistance Management Program |
| U.S.C. | United States Code |
| USD(AT&L) | Under Secretary of Defense for Acquisition, Technology, and Logistics |
| USD(C)/CFO | Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense |
| USD(P&R) | Under Secretary of Defense for Personnel and Readiness |

PART II. DEFINITIONS

Unless otherwise noted, these terms and their definitions are for the purpose of this DTM.

commercial activity. A recurring service that could be performed by the private sector.

common costs. Costs that are borne by the Department of Defense regardless of the provider (military, DoD civilian, or private-sector contractor). Examples of common costs include Government-furnished property and security clearances.

cost element. One of many cost items that make up a cost estimate.

cost estimate. A general calculation or approximate computation of the probable cost of the performance of a specific function, service, or mission.

defense workforce. All military, DoD civilian, and contractor personnel who perform defense missions or provide services in support of a defense mission.

direct costs. Costs that are related directly to the production of a specific good or the performance of a specific service.

Government-furnished property. Facilities, equipment, material, supplies, or other related items or services provided by the Government for use by all prospective providers of a support service.

indirect costs. Costs that are not directly related to the production of a specific good or service, but instead are associated with the production of a variety of goods and services. For example, the cost of the administration of a large company is an indirect cost that must be spread over the products or services that are produced by the company.

manpower. A standard measure of recurring work (labor or service) that equates to 1 year of full-time support needed to accomplish a discrete set of duties at a required level of performance, working at a normal rate (operating tempo) under specified working conditions.

national capital region. Defined in Joint Publication 1-02 (Reference (p)).