



Reserve Forces Policy Board
Cost Methodology Project Final Report

Eliminating Major Gaps in DoD Data on the Fully-Burdened and Life-Cycle Cost of Military Personnel

Cost Elements should be Mandated by Policy

As approved by RFPB – 12 December 2012

Maj Gen Jimmy Stewart
Military Executive, Reserve Forces Policy Board



The Problem



The Problem

- The Fully-burdened and Life-Cycle Cost trends supporting the All Volunteer Force are unsustainable.
- The Secretary of Defense, senior officials, and think tanks have all underscored this problem.
- DOD does not know, use or track the “Fully Burdened” and “Life Cycle” costs of military personnel in decision-making.
- Thus, major decisions are uninformed on the real costs.



Unsustainable Cost Trends of the All Volunteer Force



- The all-in DOD costs of “taking care of people” now consumes over 50% of the total DOD budget (More than \$250 Billion).
- Costs outside DOD are in excess of another \$200 Billion. (Programs within the Departments of Veterans Affairs, Labor, Education and Treasury)
- Currently, senior DOD officials do not know or calculate the “fully burdened” or “life cycle” costs of the All Volunteer Force.
 - Without knowing all of these costs, it is extremely difficult to address required changes or determine the proper force structure (active, civilian, contractor, or reserve component member).
- Both Secretaries of Defense Leon Panetta and Robert Gates expressed significant concern about the “unsustainability” of cost growth in the personnel and benefits area, including deferred compensation.
 - They both recommended reforms to the DOD healthcare system where costs have gone from \$20B a year to \$52B a year and (without reforms) are projected to rise to \$70B a year for the over 9 million beneficiaries (5.5 million retirees and their dependents).
 - Military Retirement is a concern as well, since it costs the taxpayers over \$100B a year for 2.4 million retirees.



Secretary of Defense on Personnel Costs



Secretary of Defense
Leon Panetta
2011

“The fiscal reality facing us means that we also have to look at the growth in personnel costs, which are a major driver of budget growth and are, simply put, on an unsustainable course.”

“in order to build the force needed to defend the country under existing budget constraints, the escalating growth in personnel costs must be confronted. This is an area of the budget that has grown by nearly 90 percent since 2001.”

“growth in personnel costs must be addressed. If we fail to address it, then we won't be able to afford the training and equipment our troops need in order to succeed on the battlefield.”



Former Secretary of Defense
Robert Gates
2010

“This department simply cannot risk continuing down the same path where our investment priorities, bureaucratic habits and lax attitudes toward costs are increasingly divorced from the real threats of today, the growing perils of tomorrow and the nation's grim financial outlook.”

“My hope and expectation is that as a result of these changes over time, what had been a culture of endless money where cost is rarely a consideration will become a culture of savings and restraint.”



Fully Burdened Costs of the All Volunteer Force



Senior Official Quotes

Senior Official Views

- **Hon. Robert Hale, USD (Comptroller)** : "The cost of pay and benefits has risen more than 87 percent since 2001, 30 percent more than inflation."
- **Hon. Clifford Stanley, USD(Personnel & Readiness)** : Rising personnel costs could "dramatically affect the readiness of the department" by leaving less money to fund operations.
- **Gen. Ron Fogelman, former Chief of Staff, USAF**: "The all-volunteer force, as it exists today, for the size of the force, is just simply unaffordable."
- **Hon. Dennis McCarthy, former ASD (Reserve Affairs)**: "One of my main tasks...was to lead a "comprehensive review" of the Guard and Reserve. My main frustration...was that we couldn't get agreement on how to calculate the cost of personnel. We need an apples-to-apples methodology that accurately calculates the true cost of people in the AC and RC."



Fully Burdened Costs of the All Volunteer Force

Analysis from the Policy Community



Think Tank Views

- **Center for Strategic and Budgetary Assessment**, July 2012:
 - "Over the past decade, the cost per person in the active duty force increased by 46 percent."
 - "If personnel costs continue growing at that rate and the overall defense budget remains flat with inflation, military personnel costs will consume the entire defense budget by 2039."
- **Bipartisan Policy Center**, June 2012: DoD will soon spend more on health care and other benefits for former military personnel than on troops in uniform today.
- **Center for American Progress**, May 2012: "The all-volunteer force, in its current form, is unsustainable."
- **Congressional Budget Office**, 2012: Military compensation has outpaced inflation rates and private-sector wages by more than 25 percent the past decade.



RFPB Philosophy and Approach



Project Philosophy

WHY

- Senior decision-makers do not know what the “fully burdened” and “life cycle” costs of military personnel are, and thus, are not able to track relevant trends, do accurate comparisons, or seriously address adverse cost trends.
- The current DoD directive (DTM 09-007), and the DoDI to replace it (DoDI 7041.dd), does NOT include all the relevant cost factors.
- There appears to be “resistance” to identifying all the costs and allocating them appropriately.

WHAT THIS IS NOT

- An effort to argue for smaller AC forces or larger RC forces
- An effort to reform the pay, compensation, and benefits system
- An effort to challenge the rationale on the levels of the cash and non-cash elements currently supporting the All-Volunteer Force

WHAT THIS IS

- An effort to provide an independent, objective method to develop and present **repeatable data** for “fully burdened” and “life cycle” costs of military personnel, to track these trends over time, and to permit objective comparative analysis.



Secretary of Defense Charge to RFPB



On 5 September 2012, SECDEF met with the RFPB and asked us to provide advice and recommendations on four strategic topics:

- Best Ways to use the RC in the Future
- AC/RC Mix
- **Cost of a Strong Reserve**
- How to Achieve Savings in Reserve Components

Chairman established a Task Force led by the Hon. Grier Martin to draft recommendations in response to the Secretary of Defense.





What the RFPB Study Seeks to Address

Senior decision-makers do not know the full costs of active, guard or reserve forces, nor do they have an ability to track trends or do comparative analysis of costs when making crucial decisions.

- **Reason:** There is no permanent DoD-level policy on the subject. No process is in place to develop and update annual “Fully Burdened” or “Life Cycle” costs of individual military members for DoD Senior Leadership review.
- **Result:** Although individual cost studies have been conducted in the past, there is no DoD consensus or standardized process for use by all Services; they use different cost elements for AC/RC cost comparison and do not consider **all** costs.
- **Good News:** Temporary Directive-Type Memorandum (DTM) 09-007 provides a starting framework to move in the right direction. It includes many costing elements, but it does not provide the Services with **all** “Fully Burdened” and “Life Cycle” costing elements. Additionally, it does not include Reserve Component tables. The replacement DoD Instruction is being worked now by Cost Assessment Program Evaluation (CAPE) personnel, but it too lacks **all** costing elements and Reserve Component costing tables. This **shortfall could be rectified by issuing a new DoD policy on AC/RC Costing.**



Project Approach

Critical Considerations

- Foundation for analysis is to identify costs at the individual level
 - Need to know individual costs to be able to calculate unit costs
 - Enable Apples-to-Apples comparisons
 - Seek common Business Case Analysis Processes across the Services and Components
 - Have DoD follow the same requirement they impose on contractors to allocate all costs
 - Ensure all stakeholders are included and heard
- Identify and capture ‘lessons-learned’ from previous analysis
- Identify all individual “Fully Burdened” and “Life Cycle” costs
 - Identify all cost elements to include those covered by other agencies (Treasury, Education, VA, etc.)
 - Determine which are appropriate for consideration by DOD decision-makers
- Address Policy Concerns
 - Should DOD have an instruction in place to guide the Services on how to account for all “Fully Burdened” and “Life Cycle” costs with standardized accounting since today this does not exist?
 - What DoD organization should be required to institutionalize this analysis, formalize the process, and track and compare trends over time?



DOD Requires “Fully Burdened” and “Life Cycle” Costing in Other Areas



- DoD and Congress requires “all” costs to be included and considered in major acquisition decisions.
 - Mere “fly away” cost is deemed inadequate. DoD uses program acquisition unit cost and provides “life cycle” operating costs.
- DoD now uses “Fully Burdened Cost of Energy” (FBCE) calculations to assess long-term fuel costs in procurement decisions.
- **A similar approach should inform decisions about military personnel where the “all in” costs are just as significant.**



DoD Requires Contractors to Invoice the “Fully Burdened” Cost of Personnel



Direct/Contract Labor	\$	85,000
Other Direct Costs (ODC's)	\$	1,500
Fringe @ 30%	\$	25,500
Overhead @ 65%	\$	55,250
Subtotal	\$	167,250
G&A at 5%	\$	8,363
Total Contract Costs	\$	175,613
Fee @ 8%	\$	14,049
Total Price	\$	189,662
Wrap Rate		2.23

- **Wrap Rate**: The ratio of direct to total labor cost. Based on a fully-burdened labor rate at which a business, such as a consultancy, must bill out its direct labor units in order to cover its direct and indirect costs - wages, benefits, facilities, overhead, general and administrative costs, deferred compensation and the fee.
- DoD should apply the same standard to its own internal costing.

Notes:
The “Fully Burdened” Total Contract Cost is more than 106% higher than the paycheck cost.
Fringe applied on direct/contract labor base
Overhead applied on direct/contract labor base
G&A (General & Administrative) applied on costs through overhead (i.e. direct/contract labor, fringe, overhead, other direct costs)



Project Approach

Build a “Layer Cake” from the Bottom Up

A “Layer Cake” approach to ensure stakeholders are informed and heard

- Layer 1: Identify/Develop “Fully Burdened” and “Life Cycle” individual cost elements, alternatives, and recommendations
 - Review Previous Costing Studies
 - Gather Service/Reserve Component cost experts to compare current approaches & identify cost elements.
 - Quantify/refine cost elements by analysis of FY13 Budget Request
 - Draft recommendations
- Layer 2: Military Service vetting
- Layer 3: Office of the Secretary of Defense vetting
- Layer 4: Subject Matter Expert vetting, both internal and external

Report findings to Secretary of Defense following RFPB deliberations



Inconsistent Use of Cost Elements in Military Personnel Cost Analyses in DoD

- The RFPB project team convened 16 meetings of an informal working group of costing experts from across the Department in order to examine and compare current military personnel costing practices across Services and Components.
- Found that military personnel costing is neither complete nor consistent.

Cost Elements Used by Most Components

Basic Pay
Basic Allowance for Housing (BAH)
Basic Allowance for Subsistence (BAS)
Incentive Pays
Special Pays
Allowance - Uniform Clothing
Allowance - Station Allowance Overseas
Allowance - CONUS COLA
Subsistence in Kind
Family Subsistence Supplemental Allowance
Social Security and Medicare (Employer's Contribution)
Permanent Change of Station - All but Separation Travel
Retired Pay Accrual
Separation Payments
Education Assistance (e.g., portion of GI Bill)
Other Military Personnel Cost - Unemployment
Other Military Personnel Cost - Death Gratuities
Other Military Personnel Cost - Survivor Benefits
Other Military Personnel Cost - Other
Medicare -Elig Retiree Health Care Fund (MERHCF)

~ **\$130 Billion in FY 2013**

Cost Elements with Wide Variance in Use

Allowance - Family Separation
Allowance - Personal Money Allowance, Gen & Flag Offs
Permanent Change of Station - Separation Travel
Other Military Personnel Cost - Adoption
Other Military Personnel Cost - Partial Dislocation
Other Military Personnel Cost - Transport Subsidies
Family Housing Construction & Operation
Military Construction
Health Care
Discount Groceries / Commissary Cost
Child Day Care Facilities
Training
Recruitment Advertising, Etc.
DoDEA and Family Assistance
Child Education (Dept of Education Impact Aid)
Operations & Maintenance
Procurement

~ **\$315 Billion in FY 2013**

Cost Elements Not Used

Veteran's Employment and Training
Treasury Contribution to Retirement
Treasury Contribution for Concurrent Receipt
Treasury Contribution to MERHCF
Treasury Contribution to Survivor Benefits
Veteran's Benefits (Cash and In-Kind)
DoD Research Development Test & Evaluation

~ **\$290 Billion in FY 2013**



Why it matters



FY 2013 Fully-Burdened Per-Capita Cost to the US Government

Omitting these costs ignores about 20% of compensation

Military Personnel Account Costs*
 DoD Defense Health Program
 DoD Dependent Education
 DoD & Service Family Housing
 DoD Commissary Agency
TOTAL DoD Compensation Costs

O&M (Less DoD Dependent Education)
 Procurement
 Military Construction
 RDTE & Other
TOTAL DoD Non-Compensation Costs

Dept of Defense Grand Total
 Dept of Education "Impact Aid"
 Dept of Treas - Concurrent Receipt
 Dept of Treas - MERHCF
 Dept of Treas - Mil Retirement
 Dept of Veteran Affairs
 Dept of Labor for Vet Education / Training

TOTAL COST TO US GOVERNMENT

	Active Component	Reserve Component
\$	84,808	\$ 26,033
\$	19,233	\$ 8,157
\$	2,034	\$ 33
\$	1,235	\$ -
\$	996	\$ 49
\$	108,307	\$ 34,272

\$	110,532	\$ 26,477
\$	71,601	\$ 3,771
\$	5,556	\$ 1,512
\$	34,348	\$ 34,348
\$	222,037	\$ 66,108

\$	330,343	\$ 100,380
\$	355	\$ 9
\$	4,514	\$ 747
\$	3,264	\$ 2,230
\$	39,800	\$ 13,638
\$	6,334	\$ 6,334
\$	12	\$ 12
\$	384,622	\$ 123,351



* Includes DoD contributions to MERHCF and Military Retirement Accrual



Reserves Have Significantly Less Overhead and Infrastructure Costs



The 837,400 RC members are 39% of the 2.2 million-member Total Force but account for...

- 26% of Medicare-Eligible Retiree Health Fund Contribution
- 26% of Military retirees drawing pay
- 21% of Defense Health Program costs
- 17% of Retirement Payout costs
- 16% of Military Personnel costs
- 15% of Military Construction costs
- 13% of Operation & Maintenance
- 9% of Concurrent Receipt of disability and retirement costs
- 3% of Commissary users
- 3% of Procurement costs
- 1% of DoD Dependent Education costs
- 0% of Family Housing costs



RFPB Recommendations



RFPB Interim Recommendations

Interim Report to SECDEF - June 2012



- Director of Cost Assessment and Program Evaluation (CAPE) should establish permanent DoD policy (DoD Instruction) that covers “Fully Burdened” and “Life Cycle” costs for individual military members of both the active and reserve components and report these costs in an appropriate annual report
 - Ensure current draft DoD Instruction 7041.01 includes RC Costing tables (RC costing tables should be informed by RFPB analysis)
 - Extend and revise DTM 09-007 until RC costing data is included or issue other interim AC/RC cost comparison guidance to support near-term AC/RC mix decision-making
 - Standardize costing elements across Services
 - Provide DoD Senior Leadership with costing data to track cost trends and utilize them in comparative analysis
 - Goal - capture “fully burdened” and “life cycle” costs to DoD and to Federal Government and ensure outside independent agencies verify these costs to include GAO and CBO
- Comptroller should update current DoD Financial Management Regulation (FMR) (DoD 7000.14R), Volume 11A, Chapter 6, Appendix I, to include guidance to develop Military Composite Standard Pay and Reimbursement rate tables for the Reserve Components



Summary of Recommendations

The Secretary of Defense should...



1. Establish DoD policy/guidance for computing fully-burdened Military Personnel Cost for the Total Force
2. Specify all the cost elements that must be included in cost studies
3. Identify mission support, Treasury contributions, and all other external costs that must be considered
4. Calculate and report cost element figures annually
5. Clarify the use of composite rates in studies
6. Develop a model to calculate and compare life-cycle costs



Recommendation #1



Establish DoD policy for Total Force Personnel Costing

Director of Cost Assessment and Program Evaluation (CAPE) should establish permanent DoD policy for calculating the “Fully Burdened” costs for individual members of both active and reserve components.

- In its “Interim Report” of April 2012, RFPB recommended that such a policy be established.
- CAPE leadership agrees with need to draft such a policy.
- Details of the content of policy, annual calculation and “Life Cycle” costs are addressed in the RFPB recommendations which follow.



Recommendation #2

Specify Cost Elements for Inclusion in Total Force Personnel Cost Studies



DoD Policy should require that any study conducted or contracted by the Services or other DoD component for the purpose of comparing the costs of active and reserve component personnel or forces include, at a minimum, the following cost factors:

- Personnel Account Costs
 - Basic Pay
 - Retired Pay Accrual
 - Allowances, Incentives & Special Pay
 - PCS Costs
 - Medicare-Eligible Retiree Health Fund Contribution
- DoD Healthcare Costs
- DoD & Dept. Ed. Dependent Education Costs
- DoD & Service Family Housing Costs
- DoD Commissary Costs
- Treasury Contribution for Concurrent Receipt
- Base Operations Support Costs



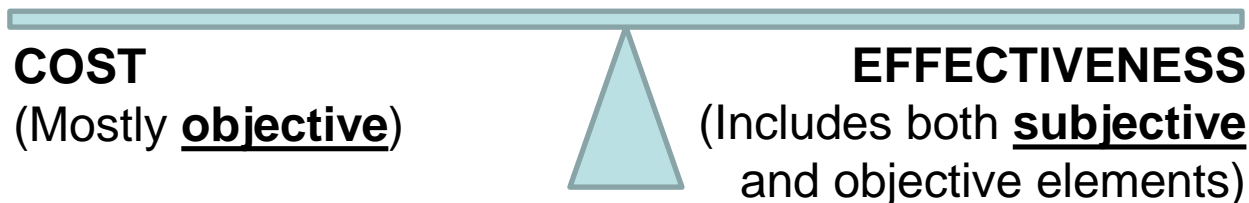
Cost and Non-Cost Factors in Force Structure Decisions



- Cost should not be the sole basis for determining force structure and the mix of active, reserve, defense civilian and contractor personnel.
- Other key factors include requirements, capability, capacity, risk and expectations of future demand such as:
 - Frequency
 - Duration
 - Speed of response
 - Readiness levels for given mission sets

These factors often require subjective calls based on professional military judgments.

To support such decision-making it is essential that DoD's cost-estimating methodology – the objective side of the equation – be as complete and consistent as possible.





Military Personnel Account Costs

- Composite Rate calculation in DoD Financial Management Regulation includes key minimum cost elements:
 - Basic Pay
 - Retired Pay Accrual
 - Allowances, Incentives, Special Pays
 - PCS Cost
 - Miscellaneous Expense
 - Medicare-Eligible Retiree Health Care (MERHC) Accrual
- FY'13 average Retired Pay Accrual: \$20.8 Billion.
 - \$12,834 per AC service member
 - \$ 3,419 per RC service member
- FY'13 PCS cost: \$ 4.9 Billion. (\$ 3,260 per AC service member)
- All of these elements are necessary – but not sufficient on their own – to fully capture the cost of personnel as these elements account for less than half of the total cost.

Military Personnel Costs must be fully included in future cost studies



DoD Health Care Costs

- FY'13 Defense Health Program: **\$32.5 Billion**
 - Plus \$8 Billion in Medical Personnel & \$7 Billion for MERHCF
- Serves more than **9.5 million beneficiaries**
 - Service members (1.7 million people)
 - Retirees (2.1 million people)
 - Family Members & Survivors (5.7 million people)
 - Active: 2.4 million / Retiree: 2.9 million / Survivors: .4 million
 - Approximately 26% of beneficiaries are Reserve Component
- RC uses the system less than AC & active retirees
- Current DoD estimate for per capita Active Duty health cost of \$10,563 excludes cost of health care for under-65, non-Medicare-eligible retirees. This cost should be captured and attributed.

DoD Health Care Costs must be fully included in future cost studies



DoD & Department of Education Dependent Education Costs



- FY'13 DoD Education Activity: **\$2.7 Billion**
- FY'13 Department of Education military "Impact Aid": \$505 million
- Reservists generally do not send dependent children to DoD schools
- Only reservists serving on active duty are counted for Impact Aid calculations
- RFPB staff estimates that RC accounts only for about 1% of DODEA costs

**DoD and Dept of Education Costs for dependent education
must be fully included in future cost studies**



DoD & Service Family Housing Costs

- FY'13 Total to build and operate: **\$1.65 Billion**
- Almost exclusively used by Active Component Personnel
- Reservists, not on active duty, do not qualify for on-base housing
- Few Reservists on active duty use on-base family housing

DoD and Service cost for building and operating must be fully included in future cost studies



DoD Commissary Costs

- FY'13 Cost to Operate over and above revenue income: **\$1.37 Billion**
- Only 3% of Commissary users are Reserve Component according to DoD Commissary Agency survey data.
 - Consistent with Food Marketing Institute study (May 2000) which estimated that 5% of commissary users were RC.
- The average American lives less than 6 miles from a supermarket.
- In contrast, 54% of RC units are located more than 20 miles away from a military commissary.

DoD Commissary Costs must be fully included in future cost studies



Base Operations Support Costs

- **FY'13 BOS for DoD: \$ 36 Billion**
 - Less than 12% is Reserve Component
 - AC: \$ 32 Billion. RC: \$ 4 Billion.
- Base Operations Support costs should be required to be included in cost studies.
 - Facilities Sustainment, Restoration, and Modernization (SRM)
 - Security and utilities
 - Base food service, transportation and communications
 - MWR Facilities
 - Chapels
 - Day care centers
 - DoD Dependent Schools
 - Family Housing
 - Barracks

Appropriate DoD and Service O&M Costs must be included in future cost studies



Recommendation #3

Identify Other Costs that must be Considered

DoD Policy should require that any study comparing the costs of active and reserve component personnel or forces consider the amounts, degree and methodology for possible inclusion of all or part of the annual contributions made by the US Treasury, Veterans costs, and the non-compensation costs of the Department of Defense.

- Complexity of Treasury Contributions requires expert study to determine which parts are attributable to active or reserve component force decisions
- Non-Compensation Costs such as O&M, Procurement, Military Construction and RDT&E will vary across Services, but still merit explicit DoD guidance for inclusion in future cost studies.



U.S. Treasury Contributions

- Concurrent Receipt of both Retired Pay and Veterans Disability
 - **\$ 6.95 Billion** in FY 13
 - Only about **9%** is attributable to Reserve recipients
- Medicare-Eligible Retiree Health Care Fund (MERHCF)
 - **\$6.44 Billion** in FY 13
 - Only about **29%** of actuarial liability is Reserve
- Military Retirement Fund
 - **\$ 67.18 Billion** in FY 13
 - Only about **17%** of payout is made to Reserve retirees
- While the Treasury contribution for Concurrent Receipt is a cost element that should be included in future cost studies, the other contributions should be considered. They involve unfunded liabilities due to existing retirees. Thus, an accurate attribution of such costs in force mix decisions requires more study.

Treasury Contributions for Concurrent Receipt should be included in cost studies. Others require further study.



Other DoD & Federal Costs

- These additional costs should be required to be considered in cost studies
 - DoD & Service Non-Compensation Costs
 - **Operations & Maintenance** (other than parts already required per recommendation #2)
 - **Procurement**
 - **Military Construction**
 - **RDT&E & Other** (e.g. Environmental Restoration, Drug Interdiction, BRAC, etc.)
 - Veterans Costs (Dept. of Veterans Affairs & Dept. of Labor)

Other DoD & Federal costs should be required to be considered in future Military Personnel cost studies



Recommendation #4

Calculate and Report All Cost Elements Annually

The Director, Cost Assessment and Program Evaluation (CAPE) or the Under Secretary of Defense (Comptroller) should calculate and publish all cost elements for Total Force military personnel cost studies on an annual basis, and provide guidance on their use in an appropriate memo or report.

- Will provide updated and consistent numbers for the Services and other DoD components to use in costing studies.
- Demonstrates DoD commitment to tracking costs in an increasingly budget-constrained environment



Recommendation #5

Clarify Use of Composite Rates in Studies

The Under Secretary of Defense (Comptroller) should modify the annual memo on “Military Personnel Composite Standard Pay and Reimbursement Rates” to eliminate the directive to use such rates “when determining the cost of military personnel for budget/management studies.”

- DTM 09-007 correctly states:
 - “The DoD composite rates... do not account for the full costs of military personnel”
 - “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.”
- If the Composite Rates are intended narrowly to be used to calculate the labor cost for the preparation of documents such as reports, studies or budget submissions, the annual memo should say this more clearly.



Recommendation #6

Develop a model to calculate and compare “life-cycle” costs

The Director, Cost Assessment and Program Evaluation (CAPE) should develop a model to calculate and compare the “life cycle” costs to the federal government of active and reserve component personnel.

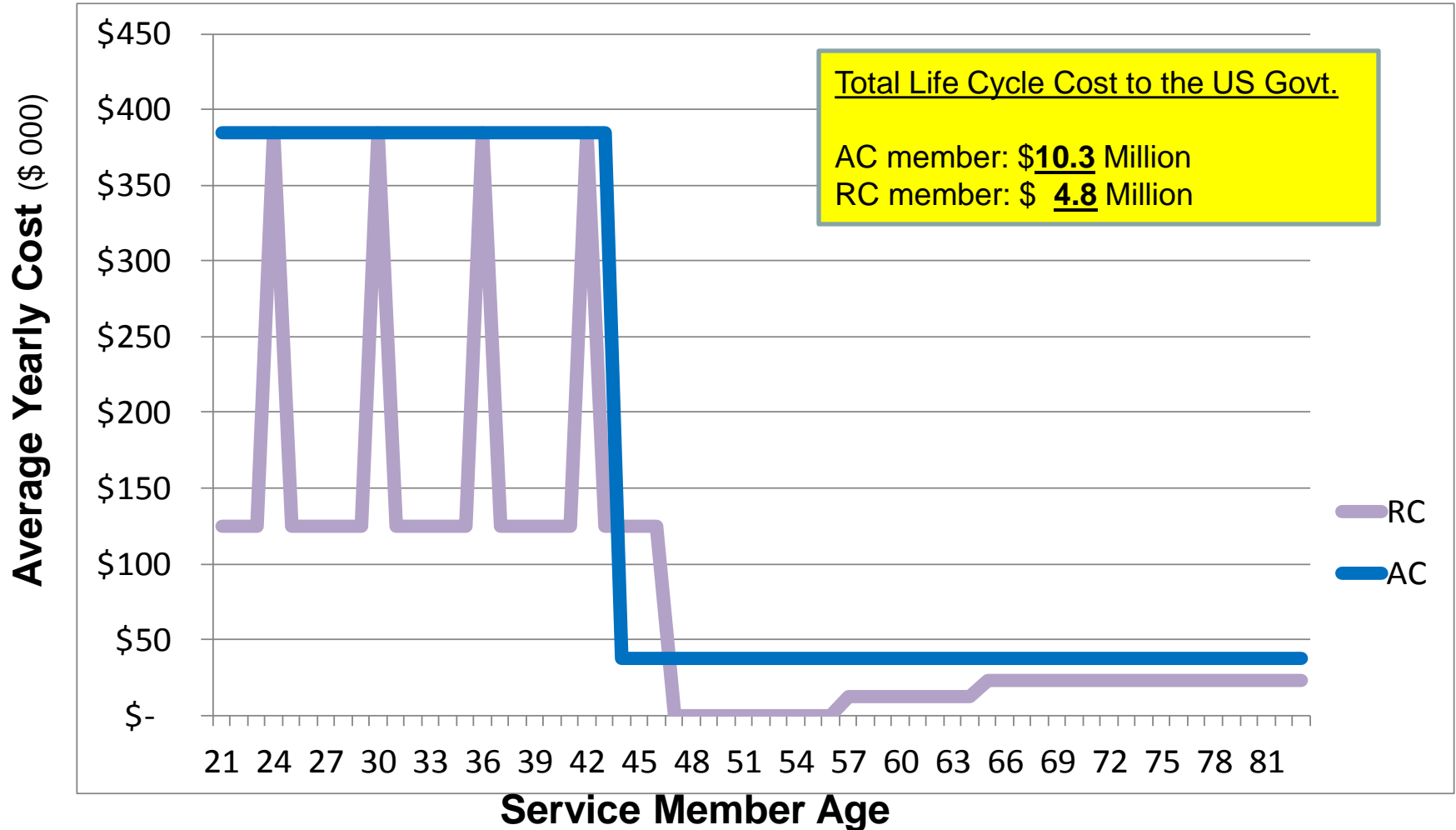
- **DoD Model Development should include study of two key examples:**
 - “Cost of the Reserve Components” by Jennifer Buck, 2008
 - Air Forces Reserve’s “Individual Cost Assessment Model” (ICAM)
- **Long-term Costs of Active and Reserve Component forces are very different.**
 - RC Retirement is paid at a lower amount for a shorter period of time
 - RC Retiree Health Care costs are much lower than AC Retirees
 - “The DoD composite rates... do not account for the full costs of military personnel”
- **Leveraging previous “life-cycle” cost methodologies suggests that:**
 - The life-cycle cost of RC service member is less than half that of AC counterpart.



Notional AC/RC

Fully Burdened / Life Cycle

Cost Illustration based on work by Jennifer Buck





US Air Force Reserve's

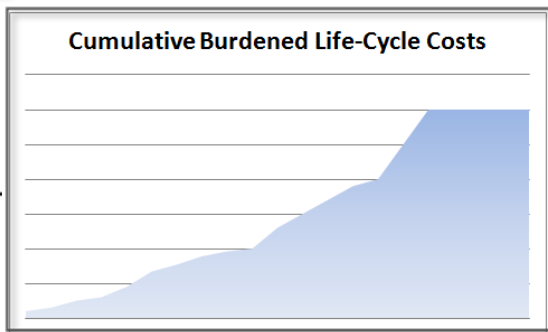
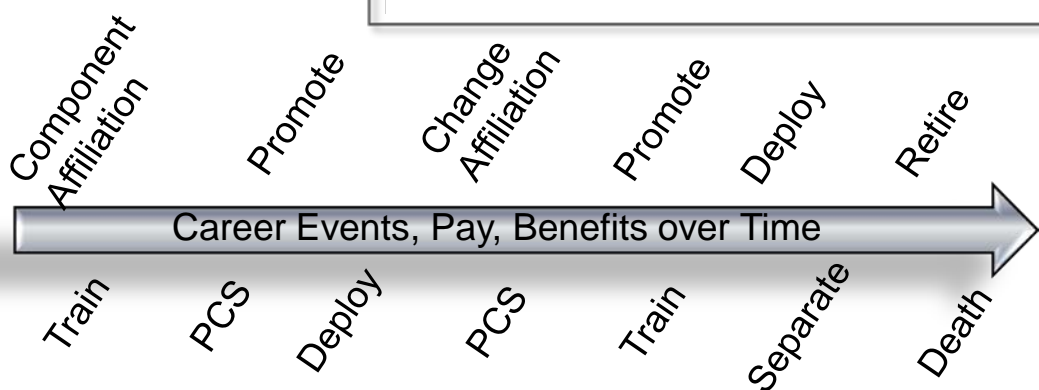
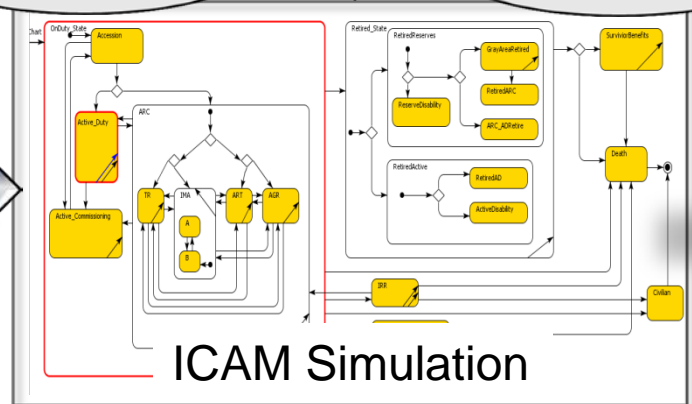
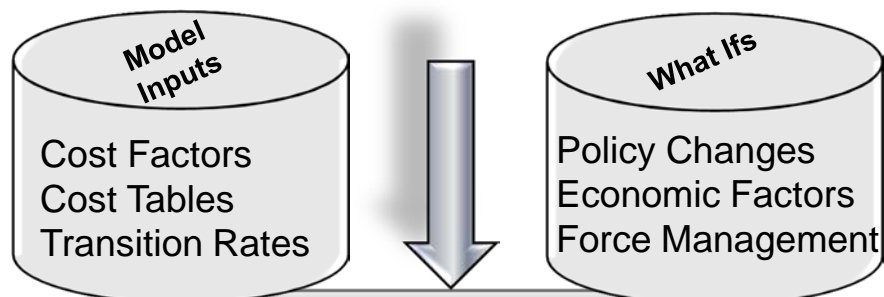
"Individual Cost Assessment Model"

An exemplary "Life-Cycle" costing tool DoD should study



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Source: AFRC/A9A, 9/28/12



AC/RC Retiree Pay Illustration

Total Cost Differences after 20-year Career

(Extrapolated based on FY2010 data, not discounted for accruals, not inflated)

Non-Disabled Military Retirees Retired

	Monthly Pay (Avg. Gross)	Age at Retirement*	Years to Life Expectancy	Total Retirement Pay	Percent of AC
AC O-5	\$4,356	43	40.5	\$2,117,016	29%
RC O-5	\$2,074	60	24.8	\$617,222	
AC E-7	\$2,088	40	38.8	\$972,173	26%
RC E-7**	\$1,005	60	21	\$253,260	

*Longevity is based on military specific tables that assume an entry age of 23 for commissioned officers and warrant officers and an entry age of 20 for enlisted members.

** Average enlisted AC service member retires at E-7 while the average RC service member retires as an E-6 at a lifetime cost of \$173,376.

The RC officer draws less than 1/2 the monthly pay for less than 2/3 the duration.

The RC enlisted member draws less than 1/2 the monthly pay for almost 1/2 the duration.

Source: DoD Office of the Actuary. (May 2011). *Statistical Report on the Military Retirement System Fiscal Year 2010*.



AC/RC Retiree Health Cost Illustration

Total Cost Differences after 20-year Career



(Extrapolated based on FY2010 data, not discounted for accruals, not inflated)

Defense Health Program Beneficiaries

Active Duty	1,682,908
Active Duty Family Members	2,377,162
CHAMPUS Retirees	1,066,430
CHAMPUS Family Members	2,261,027
Medicare-Active Duty Family	8,241
Medicare-Guard/Reserve Family members	2,318
Medicare-Retirees	1,039,209
Medicare-Retiree Family Members	673,757
Medicare-Inactive Guard/Reserve	14
Medicare-Survivors	462,586
Medicare-other	1,957
TOTAL Beneficiaries	9,575,609

Defense Health Program Costs

DHP O&M, RDTE & Procurement	\$ 32.5	B
MERHFC Contributions	\$ 6.7	B
DHP Mil Personnel	\$ 8.4	B
DHP MilCon	\$ 1.0	B
Total Health Care Costs	\$ 48.6	B

Cost Per Beneficiary \$ 5,082

Cost Per CHAMPUS Retiree
(age <65) + 2.12 Dependents \$ 15,857

Cost Per MEDICARE-Eligible Retiree
(age 65+) + 0.65 Dependents \$ 8,377

Comparative AC/RC Retiree "Life Cycle" Healthcare Costs

	Age at Retirement	Years to Life Expectancy	Years at \$15,587 CHAMPUS Rate	Years at \$8,377 Medicare-Eligible Rate	Health Care Cost TOTAL
AC O-5	43	40.5	21	19.5	\$496,349
RC O-5	60	24.8	4	20.8	\$237,670
AC E-7	40	38.8	24	14.8	\$504,548
RC E-7	60	21	4	17	\$205,837

Younger AC retirees have more dependents and use the health care system longer

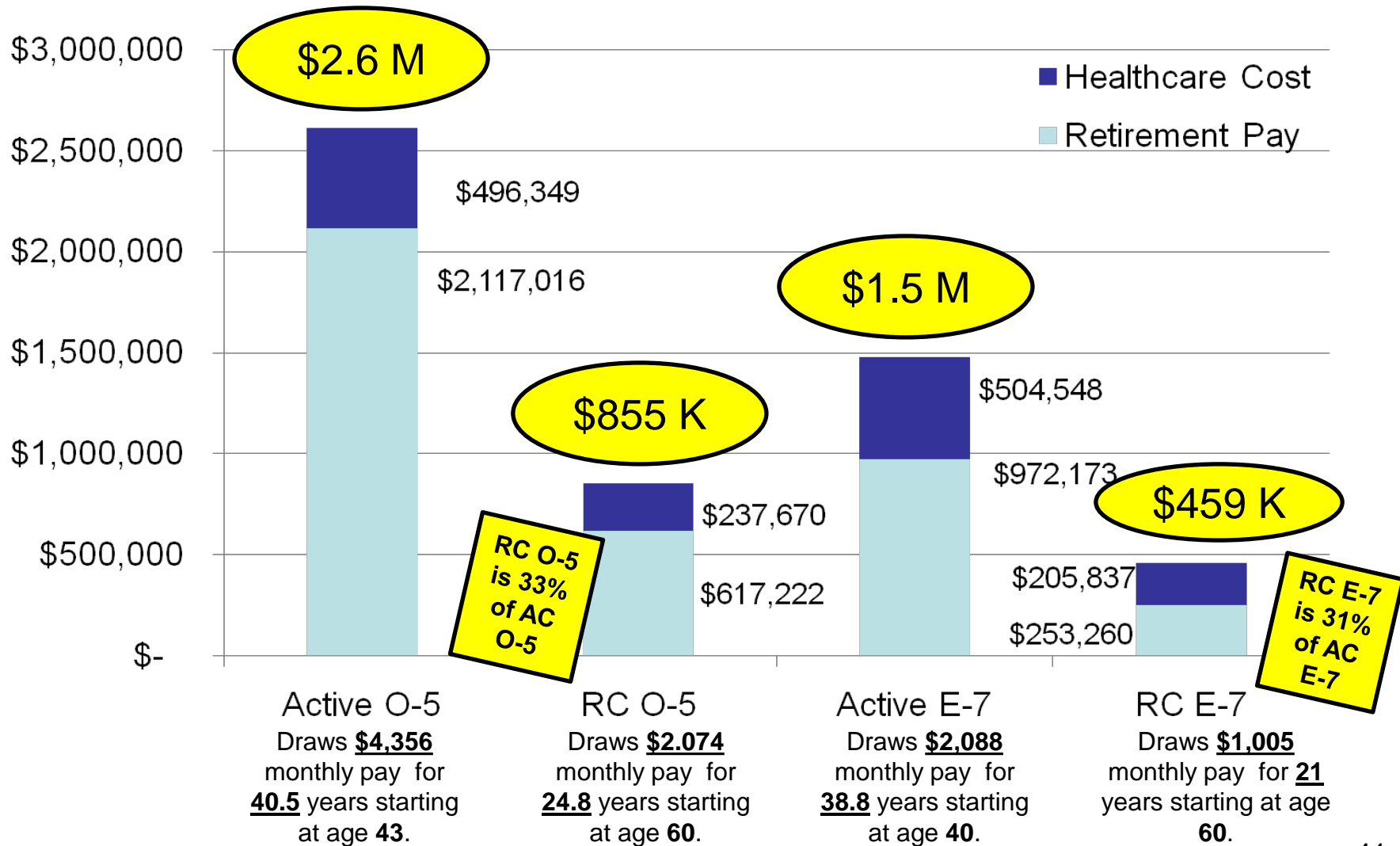
Sources: Defense Health Program Fiscal Year 2013 Budget Estimates – Appropriation Highlights and Medical Workload Data. DoD Office of the Actuary. (May 2011). *Statistical Report on the Military Retirement System Fiscal Year 2010*

RC Retiree's Total Healthcare cost is less than half that of AC Retiree



AC & RC Retiree Total Cost of Pay and Healthcare to Life Expectancy

(Extrapolated based on FY2010 data, not discounted for accruals, not inflated)





Questions?

Maj Gen Jimmy Stewart, USAFR
Military Executive, Reserve Forces Policy Board



APPENDIX SLIDES

(BACK-UPS)



The FY'13 Federal Budget Request

<u>The DoD Budget</u>	<u>\$ Billions</u>
O&M (less DODEA & DeCA)	\$169.8
Military Personnel	\$135.1
Procurement	\$98.8
RDTE & Other	\$74.7
Defense Health Program	\$32.5
Military Construction	\$8.7
DoD Dependent Education (DODEA)	\$2.7
Family Housing (Construction & Ops)	\$1.7
Defense Commissary Agency (DeCA)	<u>\$1.4</u>
DOD TOTAL	\$525.4
<u>Other Federal Agencies</u>	
Dept of Veteran Affairs (Total Budget)	\$140.3
Dept of Labor (Veteran Ed & Tng Svc)	\$0.3
Dept of Education (Impact Aid)	\$0.5
Dept of Treasury (Concurrent Receipt)	\$7.0
Dept of Treasury (MERHCF)	\$6.4
Dept of Treasury (Military Retirement Fund)	<u>\$67.2</u>
OTHER FEDERAL AGENCY TOTAL	\$221.7



AC & RC Total and Per Capita Cost to DoD

Based on FY13 DoD Base Budget Request (Green Book)



(\$ Million)	DOD TOTAL	ACTIVE COMPONENT ACCOUNTS					TOTAL AC	RESERVE COMPONENT ACCOUNTS						TOTAL RC	RC% of DOD Total	
		Def-Wide	Army	Navy	USMC	USAF		USAR	USNR	USMCR	USAFR	ARNG	ANG			
Military Personnel	135,112		42,624	28,274	13,155	29,260	113,312	4,942	2,040	746	1,885	8,850	3,337	21,800	16%	
O&M (less DODDEA)	169,854	29,248	36,609	41,607	5,983	35,435	148,882	3,162	1,247	272	3,167	7,109	6,016	20,972	13%	
Military Construction	8,690	3,655	1,923	1,702		388	7,668	306	50		11	614	42	1,022	15%	
Family Housing	1,651	54	535	480		582	1,651	0	0	0	0	0	0	0	0%	
OMDW RC Adjustment							-1,200							1,200		
MILCON DW RC Adj.							-244							244		
Defense Health Program	32,529						25,698							6,831	21%	
DoD Dependent Ed	2,745						2,718							27	1%	
DoD Commissary Agency	1,372						1,330							41	3%	
TOTAL	\$ 351,952						\$ 299,814							\$ 52,138	15%	
Procurement	98,823	4,377	15,884	40,636	1,604	33,166	95,666	660	120	19	332	1,710	317	3,158	3%	
TOTAL w/Procurement	\$ 450,776						\$ 395,480							\$ 55,296	12%	
RDTE & Other	74,654						45,892							28,763	39%	
TOTAL DOD Appropriation	\$ 525,430						\$ 441,372							\$ 84,058	16%	
<i>End Strength Base Budget 2013</i>			502,400	322,700	182,100	328,900	1,336,100	205,000	62,500	39,600	70,500	358,200	101,600	837,400	39%	
			% of DoD Budget Allocated													
Cost (\$) - Per Capita			67%				\$ 224,395				AC/RC 3.6	RC/AC 28%		\$ 62,262		
Cost (\$) - Per Capita with Procurement			86%				\$ 295,996				4.5	22%		\$ 66,033		
Cost (\$) - Per Capita with Every DoD Cost Allocated			100%				\$ 330,343				3.3	30%		\$ 100,380		



Recent and Ongoing Cost Studies



Date	Org	Title	Finding
May 2007	RAND/OSD-RA	Unpublished study reported to CNGR	NG BCT costs 28% of AC (not deployed) and 136% in a 1:5 rotation
May 2007	OUSD-C	Testimony to CNGR	RC Service member costs 28-29% of AC member
June 2007	GAO	Estimate of Total Compensation	RC annual compensation (\$19k) is 15% of AC (\$126k)
Jan 2008	CNGR	Transforming the National Guard and Reserves into a 21 st Century Operational Force	RC per capita costs 23% of AC
2008	Falcon Books	"The Cost of the Reserves" by J. Buck in <i>The New Guard and Reserve</i>	RC member costs 58% of AC per deployment in life cycle model
April 2011	OSD-RA	Comprehensive Review of the Future Role of the Reserve Component	DoD needs a common costing methodology for the Total Force
2011	RAND	<i>Reshaping the Army's Active and Reserve Components</i>	RC BCT cost savings unlikely
Ongoing	OSD-CAPE	AC & RC Unit Costs per NDAA 2012	TBD
Ongoing	IDA / OSD-RA	<i>Analyzing the Costs of Alternative Army Active/Reserve Force Mixes</i>	RC provides a more affordable force structure
Ongoing	RAND	<i>Air Force Active/Reserve Mix</i>	AC cost-per-flying-hour generally lower than RC
Ongoing	RAND	<i>Reassessing the Army AC/RC Force Mix</i>	Army RC unit averages 29% of AC. Current policy / usage requires 2 RC units to match 1 AC unit capacity.



Notional AC/RC Fully Burdened / Life Cycle Cost Illustration Assumptions



- 20-year period of demand for 1:3 AC & 1:5 RC rotations
- AC annual cost: \$385 K
- RC annual cost: \$125 K
- RC costs same as AC for each of four mobilization/deployment years
- Career length: AC=22 years, RC=25 years
- Deployments completed: AC=7, RC=4
- AC retiree costs: \$27 K in retired pay, \$10K in DoD-provided healthcare
- RC retiree draws no retired pay until age 57 (age 60 minus 36 months credit for 4 x 9-month deployments)
- RC retiree costs: \$13 K in retired pay. At age 65 add \$10 K in healthcare (Medicare)
- Life Expectancy for both: Age 83



Selected Officials & Experts Consulted

- USD (P&R)
- USD (C)
- Director, CAPE
- CSA
- VCSAF
- ASD(RA)
- ASA (M&RA)
- ASN (M&RA)
- SAF/MR
- Chief, NGB
- Director, ARNG
- Chief, USAR
- Commander, Marine Forces Res.
- Chief, USNR
- Director, ANG
- Chief, USAFR
- ACJCS/NG&RM
- Deputy Director, Joint Staff J8
- Deputy Director, DOD Office of the Actuary
- Government Accountability Office
- Congressional Budget Office
- Center for Strategic & Budgetary Assessments
- Dr. John Winkler, RAND
- Ms. Jennifer Buck, Former Director Resources, OASD-RA

More than **100** meetings with senior officials and experts inside and outside the Department of Defense.