



OFFICE OF THE SECRETARY OF DEFENSE
1800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-1800

COST ASSESSMENT AND
PROGRAM EVALUATION

MAR 15 2013

INFO MEMO

FOR: SECRETARY OF DEFENSE

DepSec Info _____

FROM: Christine H. Fox, Director, Cost Assessment and Program Evaluation

SUBJECT: Comments on the Final Reserve Forces Policy Board Report on Costs of Military Personnel

Your office asked me to comment on the Reserve Force Policy Board report titled “Eliminating Major Gaps in DoD Data on the Fully-Burdened and Life-Cycle Cost of Military Personnel.” I provide individual comments on each of the six recommendations below. My overall assessment is:

- The Board’s recommendations properly identify the need for a consistent set of policy and guidelines on costing military personnel. We need reasonable consistency and completeness in our estimates of costs as we think about adjustments in our force composition.
- The Board’s singular focus on cost, however, obscures the fact that cost is but one of many factors determining force structure and the mix within the Total Force. Many other factors—inherently governmental jobs, peacetime and wartime demands, deployment frequency and duration, speed of response, and unit readiness for specific mission sets—are of equal or greater importance. The report argues these factors are mostly subjective, whereas cost is objective. I disagree, since many of these factors can be quantified, such as the quantity of training days a unit requires to perform the mission. Those other factors often play the more important role in our decision calculus for Total Force mix.
- Some of the Board’s recommendations go too far—they effectively propose a single cost model for personnel costs that would be applied to all studies involving costs of personnel. We believe force-composition questions are varied enough to warrant different approaches for different questions.
- The Board’s report contains Active and Reserve personnel costs and comparison statistics. The Board’s methodology itself fails to estimate accurately fully-burdened costs. While I agree we need to consider the cost elements identified in the report, the Board’s attempt poorly allocates such costs between the two Components. This is not to fault them—allocation schemas for many of the cost elements are extremely complicated, as the Board itself recognized. Some of the

cost elements are fixed (e.g., certain Dept. of Treasury contributions), and any capitation of these costs oversimplifies the basis for these costs. We will make progress on fully-burdened costing over time; in the meantime, however, the Board's estimate of a reserve component service member costing one fifth to one third of an active service member now lingers in press reporting with no mention of the limitations of the Board's costing approach.

- I also believe cost per unit of output is a better metric. We care about effectiveness as well as cost. The only suggestion of output is near the end of the report. From the report, you can easily compute that the active member provides three times the years of active service as the reserve member. So, at one third the cost, I conclude—as I have from our own cost analysis—that a reserve member, when you use him or her, costs about the same as an active member.
- I have included more specific comments for your awareness at TAB A.

COORDINATION: NONE

Attachment:

As stated

Prepared by: Matthew J. Schaffer, 695-0528

Comments on individual Board Recommendations

Board Recommendation #1 – Establish DoD policy/guidance for computing fully-burdened Military Personnel Costs for the Total Force.

Partially concur. The Department has an established policy for estimating the “fully-burdened” cost of active military, civilians and contractor personnel in DTM 09-007. The main purpose of the DTM is to estimate costs of full-time manpower. The DTM does not distinguish between active and reserve component service members. CAPE will investigate the feasibility of updating the DTM and separately costing active and reserve members.

Board Recommendation #2 – Specify all of the cost elements that must be included in cost studies.

Partially concur. We believe the current DTM captures all necessary cost elements for cost studies for which the DTM is relevant—that is, those studies looking at alternatives for filling a full-time position. Some cost studies, such as evaluating combat-force-mix alternatives, would necessitate additional cost elements and a different cost model. So, the set of cost elements is dependent on the nature of the study. CAPE will work to develop guidance that recognizes different analytic needs, the appropriate means for estimating costs, and the set of cost elements that are required.

Board Recommendation #3 – Identify mission support, Treasury contributions, and all other external costs that must be considered.

Partially concur. We believe that the DTM already establishes the procedures to properly capture the relevant external costs such as Treasury contributions and Veterans costs for both military and civilian personnel. Other mission support costs such as procurement and RDT&E are considered costs associated with equipping and employing our people. These cost elements are not included in the DTM because the DTM is not intended to be used to answer such questions. The appropriate set of cost elements will ultimately depend on the question being asked. Cost elements such as procurement and RDT&E are relevant to questions about future force mixes and require a separate approach. CAPE will work to develop guidance that clarifies the appropriate cost tool and the necessary cost elements to capture.

Board Recommendation #4 – Calculate and report cost element figures annually.

Partially concur. Certain cost elements may not have a “standardized calculation” that can be reported annually. Different active-reserve mixes would allocate some cost elements differently. For example, allocation of Veterans’ costs to reserve component is clearly dependent on what portion of the reserve component is on active duty and for how long. CAPE will work with Comptroller to determine how best to provide guidance and report the necessary cost figures for studies.

Board Recommendation #5 – Clarify the use of composite rates in studies.

Concur. CAPE will work with Comptroller to make clear the annual guidance for cost studies.

Board Recommendation #6 – Develop a model to calculate and compare life-cycle costs.

Partially concur. No single model is optimal for all studies. Determining the best person (civilian or military) to fill a full-time seat at a command is a far different a question than determining the best mix (active or reserve) of combat forces. It is also not clear that life-cycle costs are necessary in all such studies. CAPE will work to develop necessary guidance, tool sets, cost elements, and models as needed.