

## Fully Burdened Costs in Army Planning and Programming

**PURPOSE:** Explain how the Army calculates and employs fully-burdened costs in Army planning, programming, and execution.

### BACKGROUND INFORMATION:

The Army has chosen to use Activity Based Costing (ABC) as a tool to assist in maximizing scarce resources<sup>1</sup>. ABC identifies the costs of the activities that the organization performs, and then assigns indirect costs to outputs. The Army implements ABC by grouping assigned resources into stand-alone functional packages (called Management Decision Packages or MDEPs) that describe a particular organization, program, or function including total resources allocated over a 9-year period<sup>2</sup>.

The Government Accountability Office (GAO) publishes standard terms, definitions, and classifications for government fiscal, budget, and program information<sup>3</sup>. “Fully-burdened costs” is not a term listed in this document.

The Financial Management Regulation<sup>4</sup> lists three terms similar to “fully-burdened costs”: full burdened cost of fuel, fully burdened unit cost of contractor acquired property, and fully-burdened composite rate of pay, allowances, taxes, and accruals. Each of these terms is limited in scope and specifically excludes costs addressed in Army programming and budgeting.

The Defense Acquisition University defines a “fully burdened labor rate” or “wrap rate”<sup>5</sup> which includes direct labor wages, overhead costs, and other costs necessary to convert the estimated contractor hours to contractor dollars.

The Department of Defense provides guidance for estimating the full costs of civilian, active duty military, and contractor manpower<sup>6</sup>. While this document lists the potential cost factors associated with manpower that should be considered in the decision-making process, it is intended for use in making workforce mix decisions and does not provide guidance on determining the costs of Reserve Soldiers. This document also makes no mention of developing costs for units.

---

<sup>1</sup> How the Army Runs (2011-2012) Paragraph 10-34b (<http://www.dtic.mil/docs/citations/ADA590723>)

<sup>2</sup> Ibid, Figure 9-6

<sup>3</sup> A Glossary of Terms Used in the Federal Budget Process (2005)

<sup>4</sup> DoD 7000.14-R

<sup>5</sup> Cite

<sup>6</sup> DoDI 7041.04 Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support (2013)

The Reserve Forces Policy Board (RFPB) provided a report to the Secretary of Defense<sup>7</sup>, asserting that the Department of Defense “does not know, use, or track the fully-burdened and life-cycle costs of its most expensive resource – its military personnel”. The RFPB extended the concept of “full” costs beyond the boundaries of DOD to include costs to the Departments of Education, Veterans Affairs, and Treasury.

The Army prepares its budget request for Army accounts and consequently focuses the predominance of its analytical effort into framing and understanding the impact of decisions upon Army budgets. It does not routinely consider factors outside the Army budget.

Use of a “fully-burdened cost” is rarely necessary or useful for decision-making and may delay or bias decisions inappropriately. The term “fully” suggests that there is no boundary to the costs included in the analysis. In reality, every analysis must be scoped to focus on the relevant factors. When two alternatives are compared, costs which are different between the two must be considered; however, costs which are fixed across the alternatives can be left out of the analysis.

Within the programming and budgeting phases, the MDEP architecture enables the Army to construct burdened costs to address any set of alternatives. For example, suppose the Army is considering adding a brigade combat team (BCT) and the choice is between an Infantry BCT and an Armor BCT. Relevant costs associated with this decision include differences in manpower costs caused by different numbers and grades of Soldiers, institutional training, OPTEMPO, and equipment. However, this cost information would not be articulated as a “cost per Soldier” because to do so would distort the information being presented.

It is routine (and appropriate) that when analyzing alternatives there is a robust discussion of what costs should be included and what costs are independent of the decision. Not only does this lead to improved cost estimates, but it leads to a better understanding of the factors bearing on the decision.

It is possible to generate a per-capita rate which attributes all programmed and budgeted Army costs to Soldiers; however, this figure’s main utility is in providing a high level view of costs. This number is not particularly useful for decision making, because it may include costs which are not variable with the number of Soldiers.

Confounding factors which often interfere with establishing a “fully burdened cost” include the fact that some costs are distributed across appropriations. For example, the Active Army programs the operations and maintenance resources for all basic training. However, the Army National Guard and Army Reserve provide supplementary manpower to these activities using funds which are programmed into reserve pay and allowance accounts. Unraveling the details

---

<sup>7</sup> Eliminating Major Gaps in DoD Data on the Fully-Burdened and Life-Cycle Cost of Military Personnel: Cost Elements Should be Mandated by Policy (2013)

of this relationship may be necessary when considering changes to the manner in which basic training is distributed, but would not inform decisions about BCT force structure.

Therefore, while the Army routinely utilizes burdened labor rates in order to facilitate workforce mix decisions, cost benefit analyses, and course of action analysis, the Army does not calculate a universal or “fully burdened” cost factor for use in all decision making.

**ARMY PERSPECTIVE:**

It is the position of the United States Army that when considering force structure and force mix, readiness levels required to fulfill operational demands are of equal or greater importance than cost. However, “burdened labor rate” is a useful tool for analyzing alternative courses of action during the planning phase of budget formulation. When the Army is faced with a specific set of alternatives, relative costs associated with each alternative must be considered even when cost is not the only factor.