

1616 Rhode Island Avenue NW
Washington, DC 20036

Anthony H. Cordesman
Phone: 1.202.775.3270

Email: acordesman@gmail.com

Web version:
www.csis.org/burke/reports



The FY2016 Defense Budget and US Strategy: Key Trends and Data Points

Anthony H. Cordesman
acordesman@gmail.com

CSIS

CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

Burke Chair
In Strategy

March 6, 2015

Introduction

Every year, the Department of Defense, OMB, the CBO, and GAO provide a wide range of materials analyzing the President's proposed defense budget, and current trends in defense spending. These amount to thousands of pages and a wide variety of metrics, maps, charts, and other data.

This analysis highlights some of the key trends affecting the FY2016 defense budget using the metrics provided in official reporting as well as work from NGOs and academic sources. It is not intended as a comprehensive survey of strategy, programs, and budgets, and the reader should be aware that the Office of the Secretary of Defense, the military services, OMB, CBO, and GAO often use different reporting formats and definitions, that the Congress can sharply modify the President's budget request, and this analysis uses a mix of data based on budget authorization and budget outlays, constant and current dollars, and fiscal and calendar years. It also relies on summary metrics, and the reader should consult the referenced text for further details. In most cases, the added metrics and narrative provide substantial additional data and explanation.

**One Needs Caution in
Talking About the Crisis in
US Defense Spending: US
Defense Spending is Still a
Massive Share of the World
Total**

US Defense Spending as Share of World Total

In spite of recent US cuts in defense spending, the US continues to clearly dominate global military spending. IISS estimates the US share as 37.1% of world in declared spending in 2014, and 25.8% by PPP standards.

US dominance is clear using a wide range of different ways of different ways to portray and compare IISS and SIPIRI estimates of the US share of global military expenditures.

- NATO and other data show that key traditional partners like Britain (3.8%) and France (3.3%) have cut their share of world military spending faster than the US. German spending (2.7%) is not the main issue; it is Germany's "no purpose" overall force posture and strategy.
- Partners like Saudi Arabia (5%) have led increases in spending
- IISS estimates indicate that Russian spending (4.4%) remain limited in scope in spite of increases.
- China is the only major power that is making serious increases relatively to total US spending. IISS estimates as 8.0% of world in declared spending in 2014, and 9.8% by PPP standards.
- ***China (20.8%) , Saudi Arabia (27.%) , Russia (10.1%) and India (4.6%) lead the total of \$43.3 billion increases in declared defense spending in 2014.***

One key caveat is that the declared figures shown for key countries like China often use state-determined prices for procurement, construction, and services, and involve conscript forces. As a result, all of the estimates can sharply undercount the actual expenditures of countries like China, Russia and North Korea.

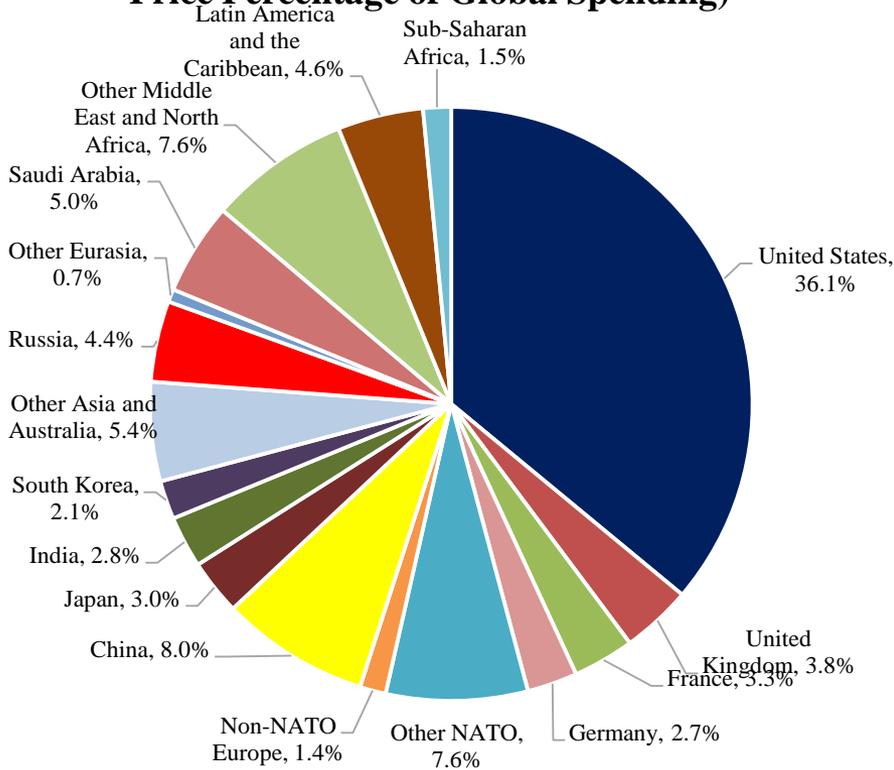
US Defense Spending as Share of World Total -II

The sheer scale of US spending relative to other nations raises key questions about the way in which the US have approached sizing defense spending, and making cuts in such spending.

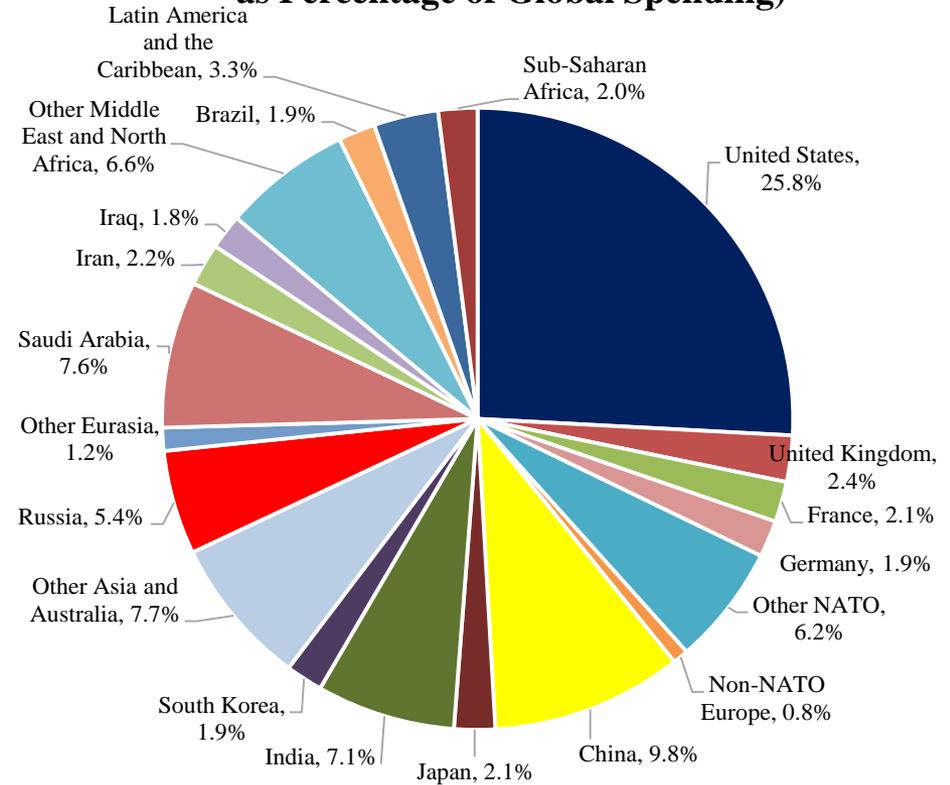
- The US has failed to make any major strategic choices in reallocating its spending.
- It has effectively focused on downsizing its existing spending regardless of its relevance in dealing with key threats and risks.
- As in the past, no major trade-offs have altered the service share or share of the active and reserve components.
- No effort has been made to tie spending to key missions or combatant commands, or to the force goals set forth in the FY2014 QDR.
- It has also down so with constantly shifting programs and annual cuts made on the basis of short term opportunity.
- CBO and GAO studies do not validate any DoD claims to greater efficiency on terms of major spending impacts.

US versus other Key Defense Budgets - I

Planned Defense Expenditures (Current Price Percentage of Global Spending)

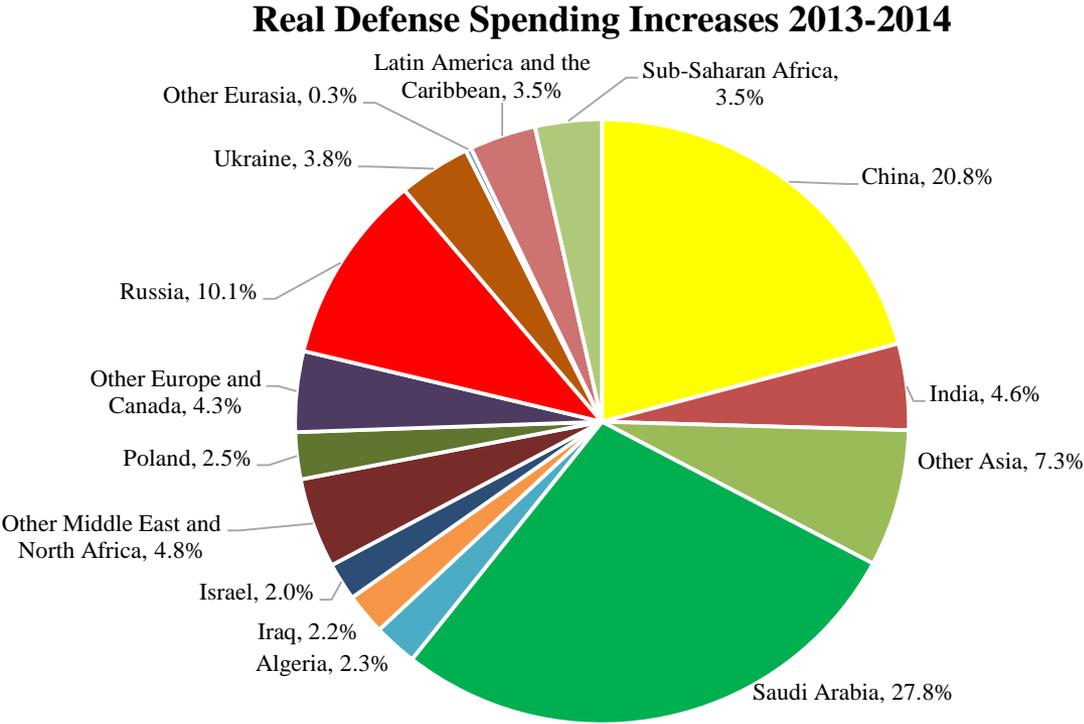


Planned Defense Expenditures (PPP Estimate as Percentage of Global Spending)



Adapted from IISS, The Military Balance, 2015, pp. 21-22

US versus other Key Defense Budgets -II

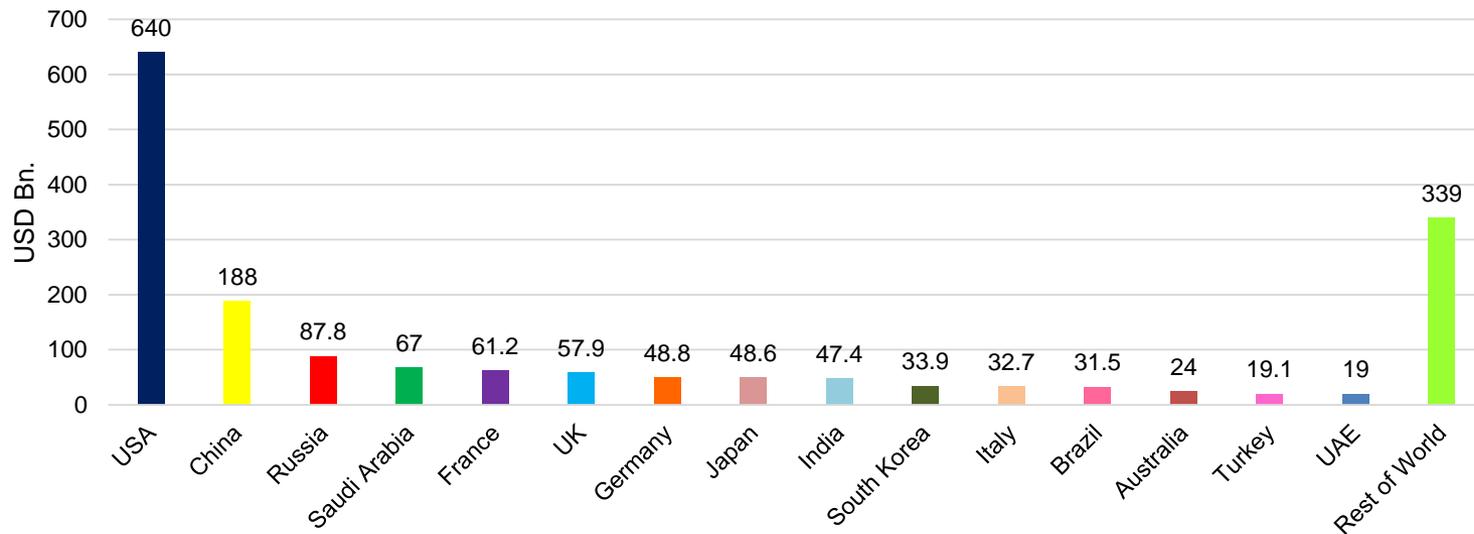


Adapted from IISS, The Military Balance, 2015, pp. 21-22

US Military Spending As a Share of Global Spending

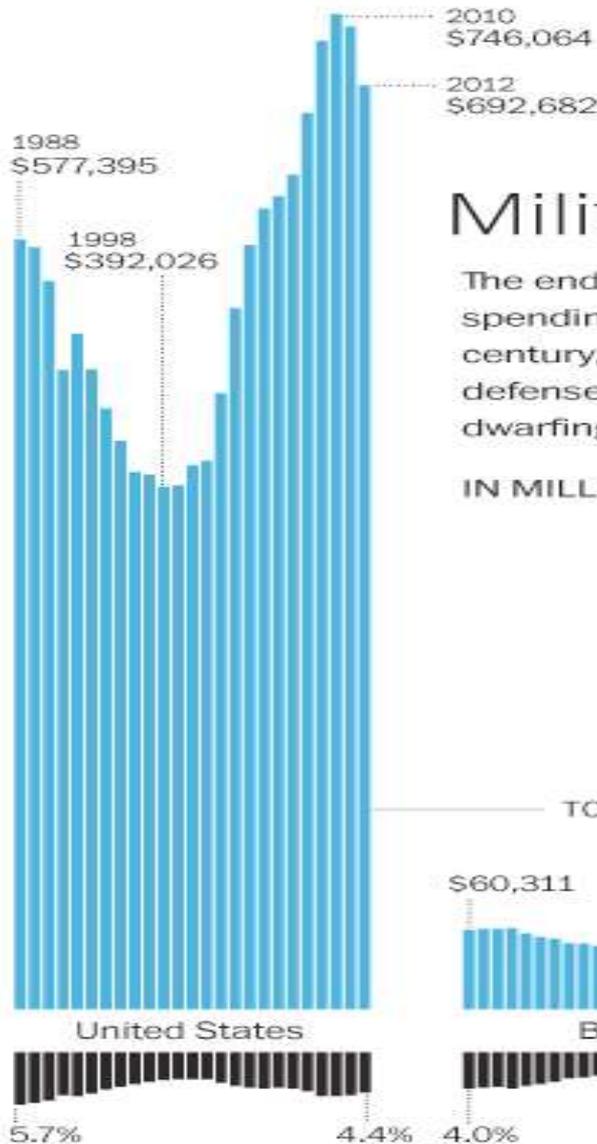
US Accounts for over 36% of Global Military Spending in 2013; Spends over 45% of total of top 15 countries with highest defense expenditures in 2013

Military Expenditures in 2013 (USD Bn.)



Perlo-Freeman, Sam and Carina Solmirano. "Trends in World Military Expenditure, 2013." *Stockholm International Peace Research Institute*. April 2014.
http://www.sipri.org/research/armaments/milex/milex_database

US vs. UK, France, Russia: 1988-2012



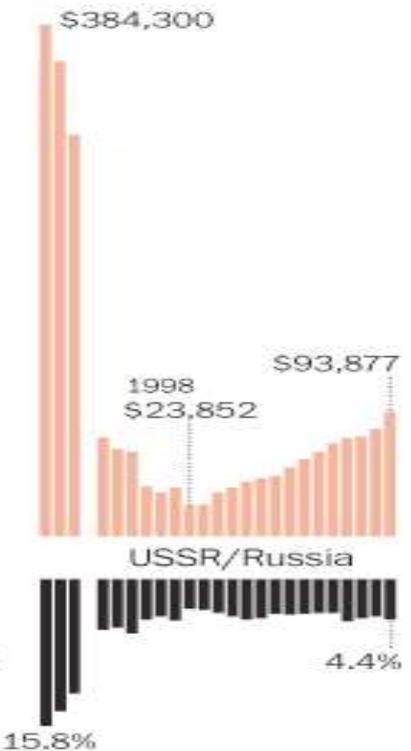
Military spending, 1988-2012

The end of the Cold War resulted in a temporary slackening of military spending for NATO nations and Russia. Since the turn of the 21st century, the United States has begun to pump more money into defense — driven in part by the wars in Iraq and Afghanistan — dwarfing Russia's steady buildup.

IN MILLIONS OF 2014 U.S. DOLLARS



TOP THREE NATO MEMBER NATIONS



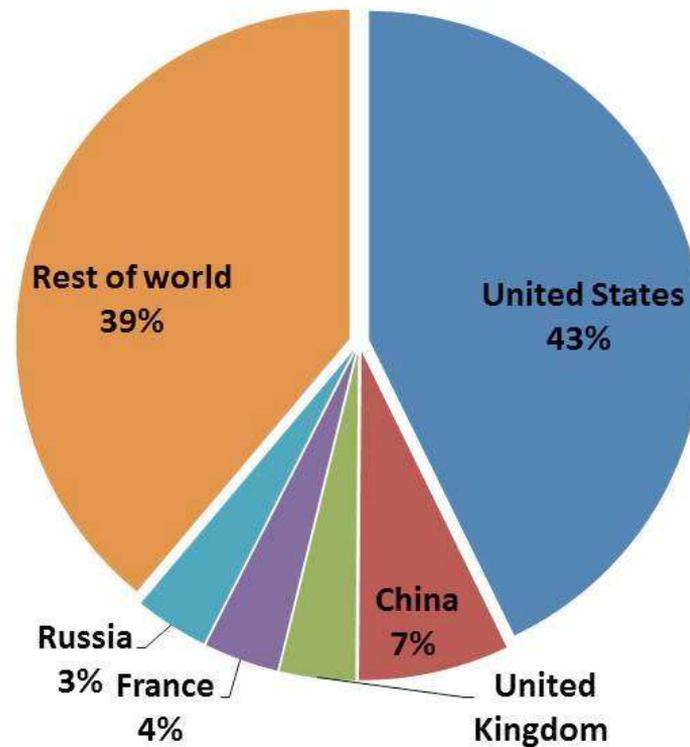
MILITARY SPENDING AS A SHARE OF GROSS DOMESTIC PRODUCT

Source: Stockholm International Peace Research Institute
Patterson Clark/The Washington Post

Source: Washington Post, 12.2.15 <http://www.washingtonpost.com/blogs/worldviews/wp/2015/02/11/chart-u-s-defense-spending-still-dwarfs-the-rest-of-the-world/>

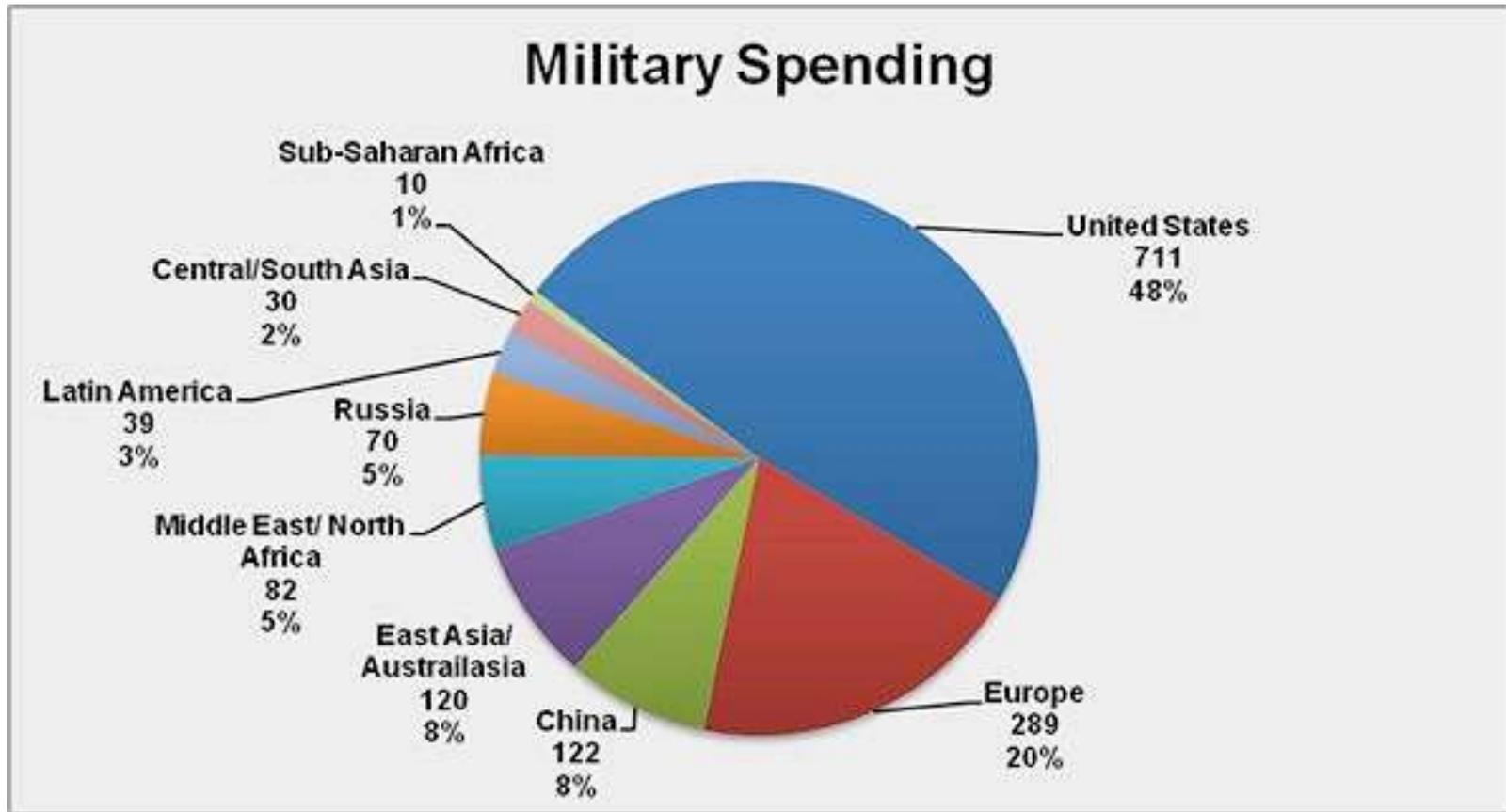
US Defense Spending Compared to World has Dropped Since 2011

Percent of global military expenditure



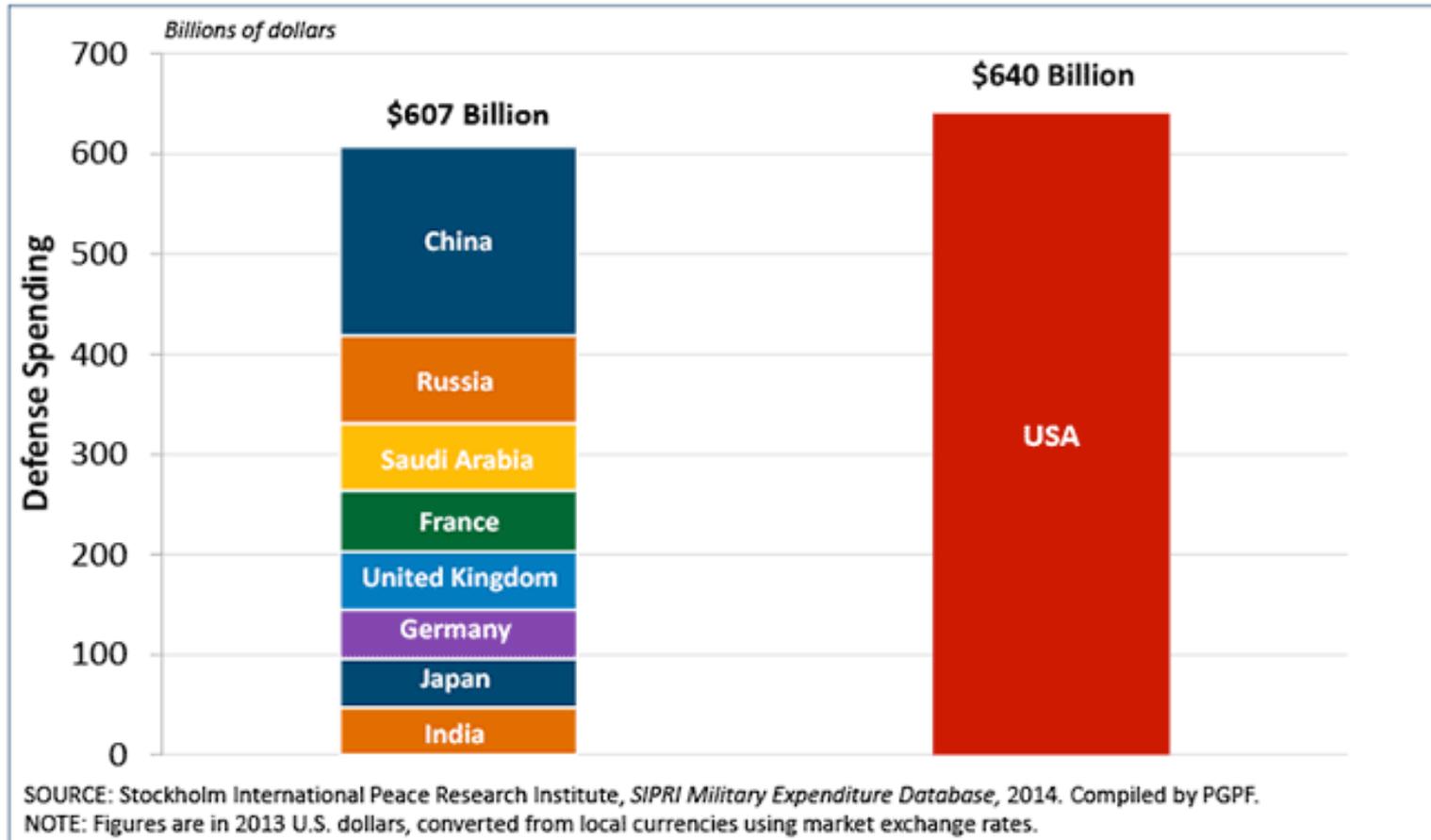
Howard Steven Friedman,, **5 Countries With the Highest Military Expenditure**, *Huffington Post*, Posted: 11/29/11 03:13 PM ET, http://www.huffingtonpost.com/howard-steven-friedman/military-spending-united-states_b_1118851.html, based on SIPRI data.

US Defense Spending Compared to World: 2014?



<http://nlsnewday.wordpress.com/2014/01/16/u-s-has-budget-unemployed-nothing/>

US Defense Spending has also Dropped Compared to Other Key Nations



©2014 Peter G. Peterson Foundation

PGPF.ORG

Peter G. Peterson Foundation, The U.S. spends more on defense than the next eight countries combined, April 13, 2014, http://pgpf.org/Chart-Archive/0053_defense-comparison.

***Yet, US Defense Spending
Experienced a Massive Drop
In the Burden It Placed on
the GDP and Total Federal
Spending During FY1950-
FY2016***

US Defense Spending Has Experienced a Massive Drop As a Percent of GDP and Other Federal Spending - I

While two long wars have created the impression the US is now spending far more on defense, in fact, Department of Defense outlays have recently been less than half the percentage of the US GDP they were during the peak of the Cold War, have been far lower than during the Reagan Presidency.

- *US defense spending dropped from 7.2% of the GDP in 1965 to 5.1% at the end of the Cold War, and 3.2% in FY2015. It is now projected to drop to 2.6% in 2025.*
- In spite of the Afghan and Iraq Wars, defense spending as a percent of GDP did not rise significantly as a share of total discretionary spending during 2000-2015, and all discretionary spending has dropped sharply since 1970.
- *The defense budget is projected to be only 3.1% of the GDP in FY2016, even if the President's request is fully funded at levels substantially higher than is called for in the Budget Control Act or Sequestration.*
- *In contrast, spending on Social Security and major health care programs rose from 2.4% of the GDP in 1965 to 6.5% at the end of the Cold War, and 10.0% in FY2015. They now projected to rise to to 11.9% in 2025.*
- *Major health care programs – not social security -- have been the key driver. They were negligible in 1965, but 2.3% in 1990, 5.1% in 2015, and are projected to be 6.2% in 2025 – well over twice the impact of the defense budget.*
- Recent defense cuts had almost no impact on the burden federal spending placed on the economy. It would take major cuts in entitlements like health to have that effect.

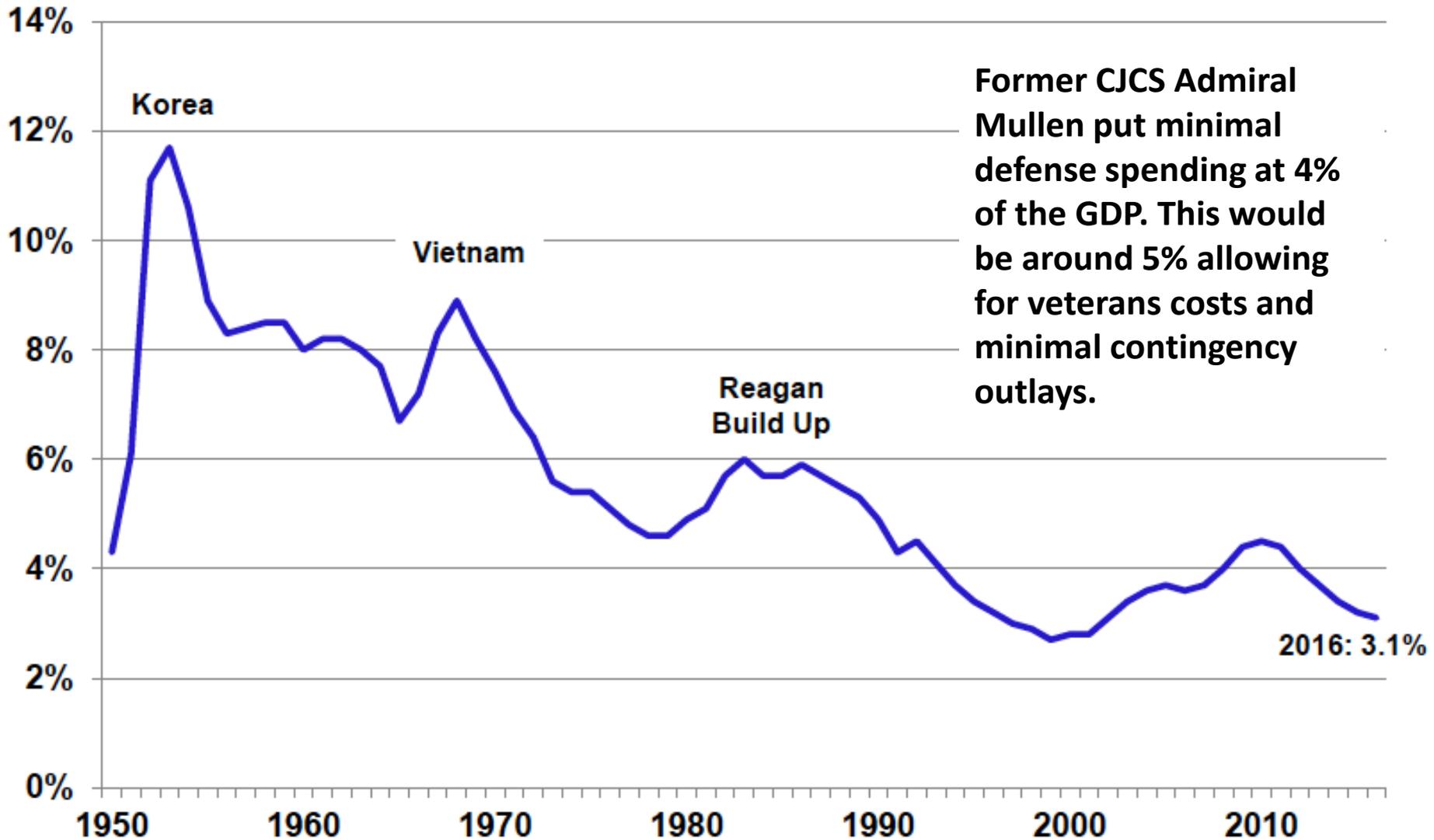
US Defense Spending Has Experienced a Massive Drop As a Percent of GDP and Other Federal Spending - II

Defense as a share of federal spending dropped from 57% in the Korean War to 43.4% in Vietnam to 26.8% at the peak of the Reagan build up. It will only be 14.3% if the President's FY2016 request is fully funded.

- Total non-defense discretionary spending experienced far smaller proportion of cuts as a percent of GDP, and the federal budget.

DoD Outlays as a Percentage of Gross Domestic Product

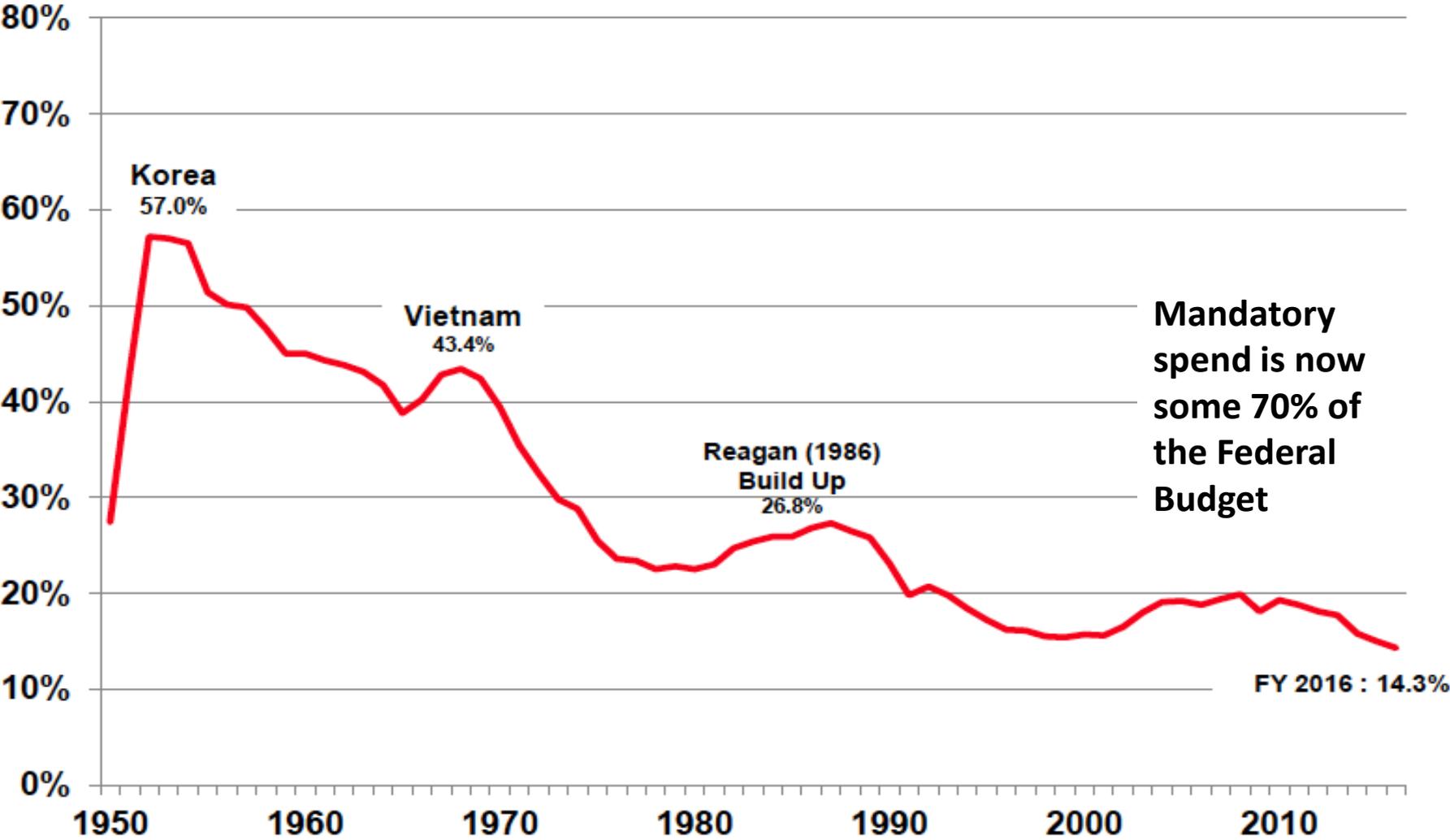
FY 1950 – FY 2016



Former CJCS Admiral Mullen put minimal defense spending at 4% of the GDP. This would be around 5% allowing for veterans costs and minimal contingency outlays.

DoD Outlays as a Percentage of Federal Spending

FY 1950 - FY 2016



Mandatory spend is now some 70% of the Federal Budget

FY 2016 : 14.3%

Rising Health and Social Security Costs Drive the Deficit: 1965-2025

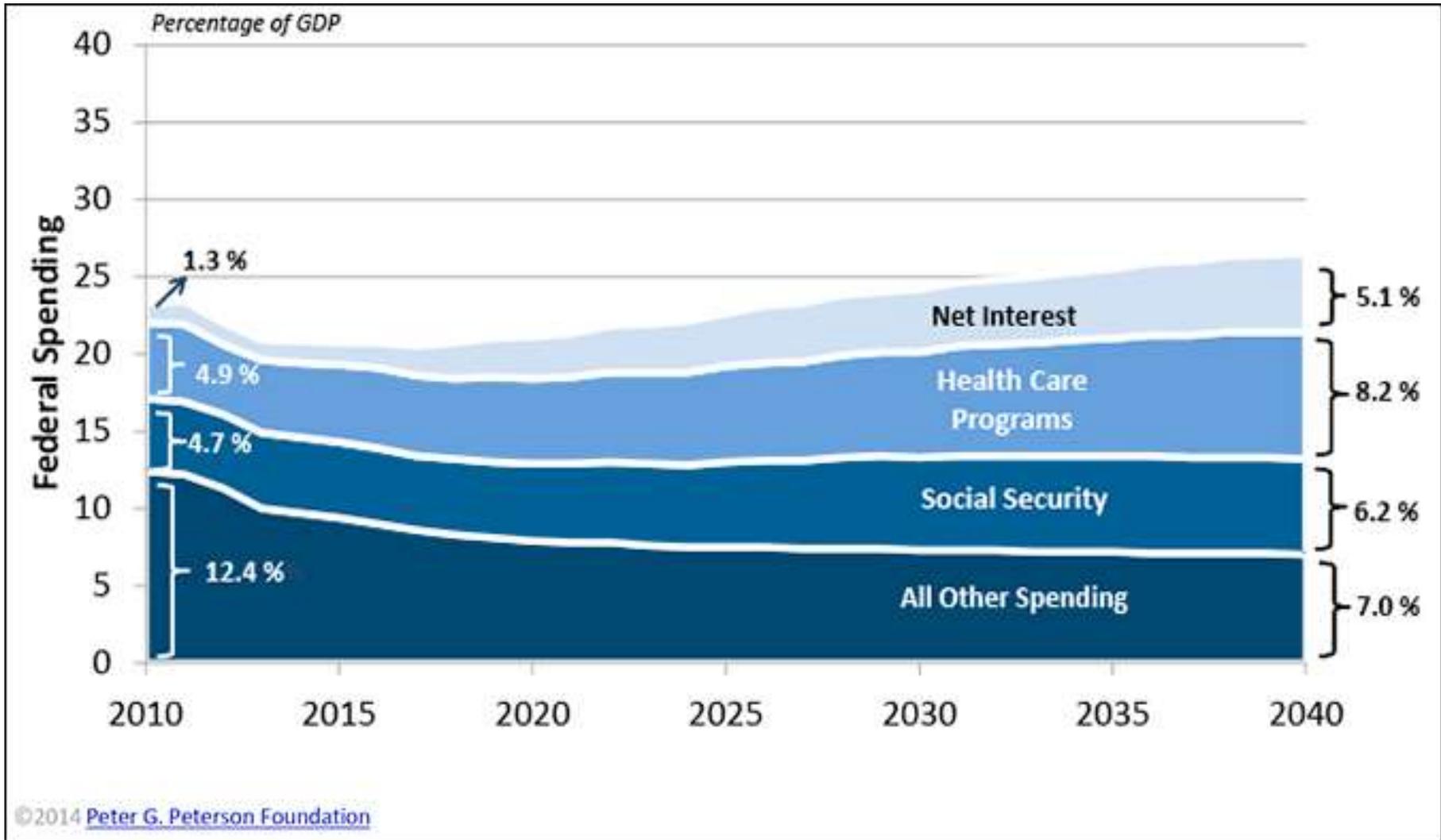
Spending and Revenues Projected in CBO's Baseline, Compared With Levels in 1965 and 1990

Percentage of Gross Domestic Product



Note: Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending. (Medicare spending is net of offsetting receipts.) Other mandatory spending is all mandatory spending other than that for major health care programs and Social Security.

Longer Term CBO Projection of Entitlement and Interest Impact on Growth in US Budget Spending by Major Category as % of GDP



Data: Congressional Budget Office, *The 2013 Long-Term Budget Outlook*, September 2013. Compiled by PGPF.

NOTE: Healthcare programs include Medicare, Medicaid, Children's Health Insurance Programs (CHIP), and the healthcare exchange subsidies. Outlays for Medicare are net of offsetting receipts, such as premium payments by Medicare beneficiaries. Source: *All of the projected future growth in the federal budget will come from entitlements and interest costs*, http://pgpf.org/Chart-Archive/0003_spending-growth-driver, February 4, 2014,

**US Defense Spending Has
Had a Marginal Impact on
the US Deficit and Debt**

**The Real Impact Has Come
from Rising Interest and
Entitlement Costs**

Deficit, Interest and Entitlement Pressures that Affect US Defense Spending

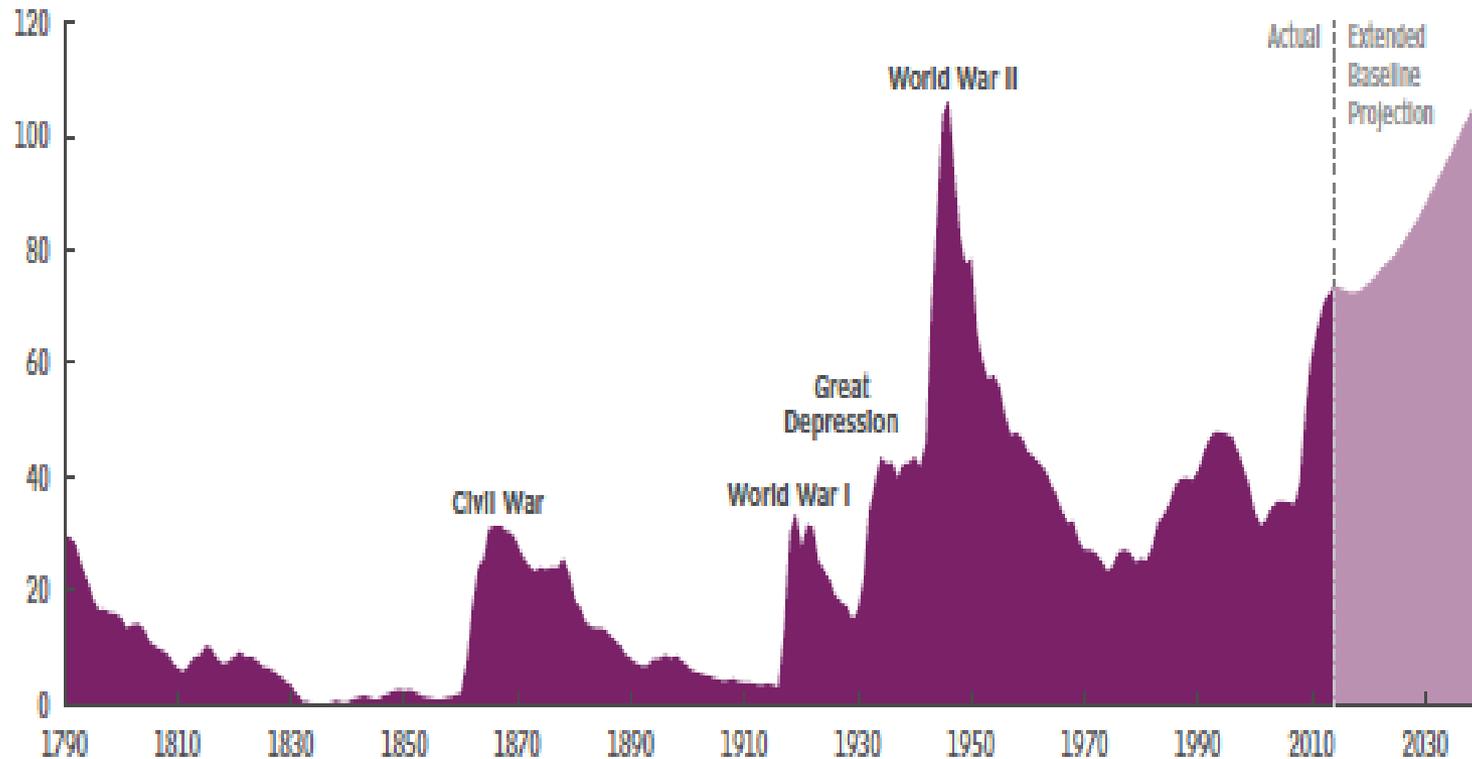
The most recent CBO estimates of the federal debt, and the deficit – the forces that triggered “sequestration” and the spending cuts called for by the Budget Control act – show they remain a critical issue.

At the same time, the metrics for total federal spending show that virtually all of the future pressure for federal spending comes from programs other than defense, and that it is the rising cost of entitlements – particularly health and payments to seniors – which drive the rising cost of federal spending.

Key Driver: Federal Debt Rising to World War II Levels

Federal Debt Held by the Public

Percentage of Gross Domestic Product

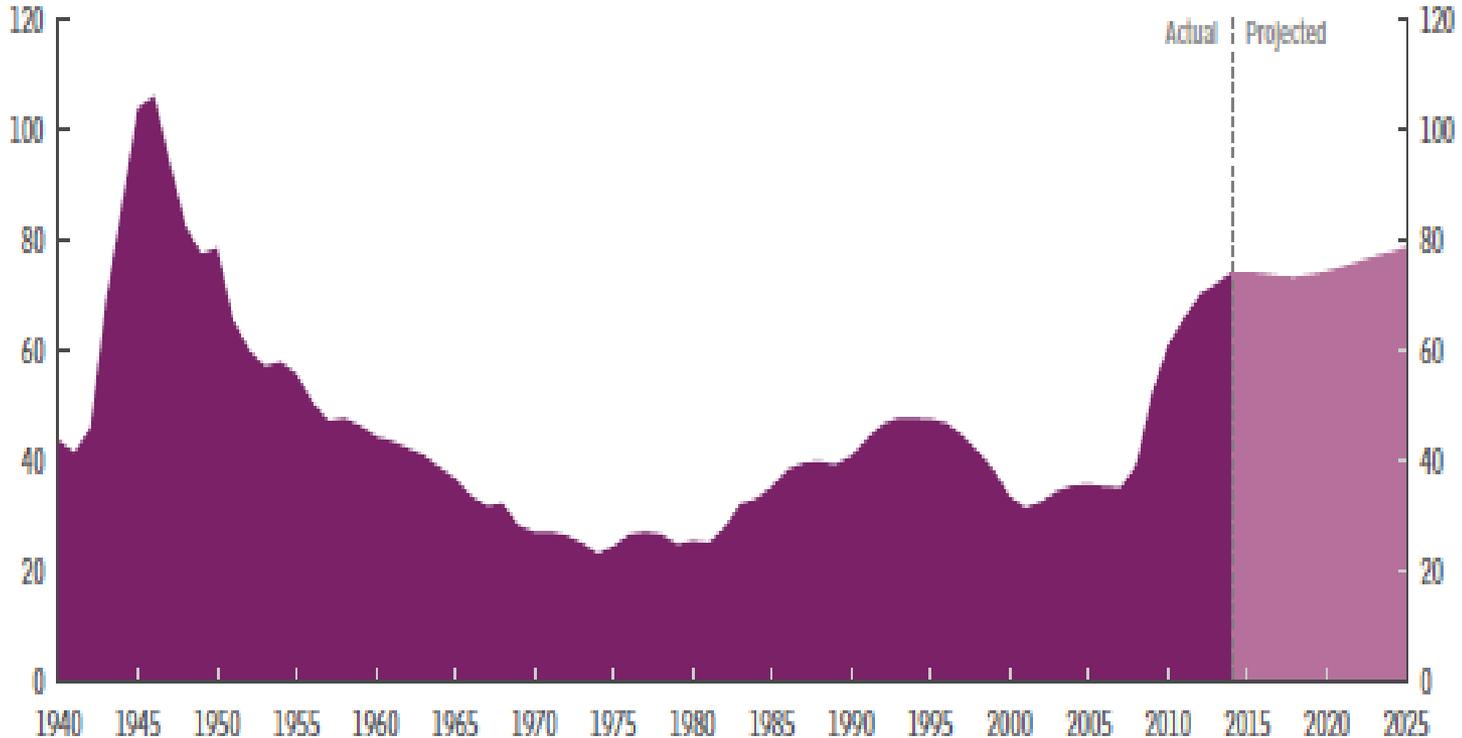


Source: Congressional Budget Office. For details about the sources of data used for past debt held by the public, see Congressional Budget Office, Historical Data on Federal Debt Held by the Public (July 2010), www.cbo.gov/publication/21728. Note: The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2024 and then extending the baseline concept for the rest of the long-term projection period. The long-term projections of debt do not reflect the economic effects of the policies underlying the extended baseline.

CBO Estimate of Federal Debt: 1940-2025

Federal Debt Held by the Public

Percentage of Gross Domestic Product

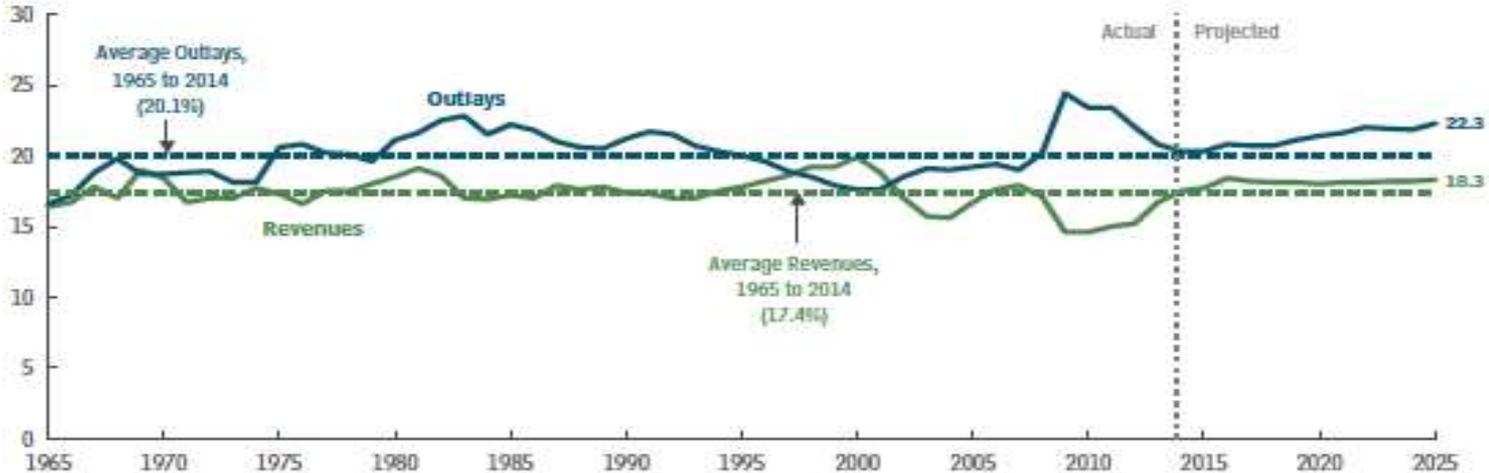


Source: Congressional Budget Office. For details about the sources of data used for past debt held by the public, see Congressional Budget Office, Historical Data on Federal Debt Held by the Public (July 2010), www.cbo.gov/publication/21728. Note: The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2024 and then extending the baseline concept for the rest of the long-term projection period. The long-term projections of debt do not reflect the economic effects of the policies underlying the extended baseline.

CBO Estimate of Federal Debt: 1940-2025

Total Revenues and Outlays

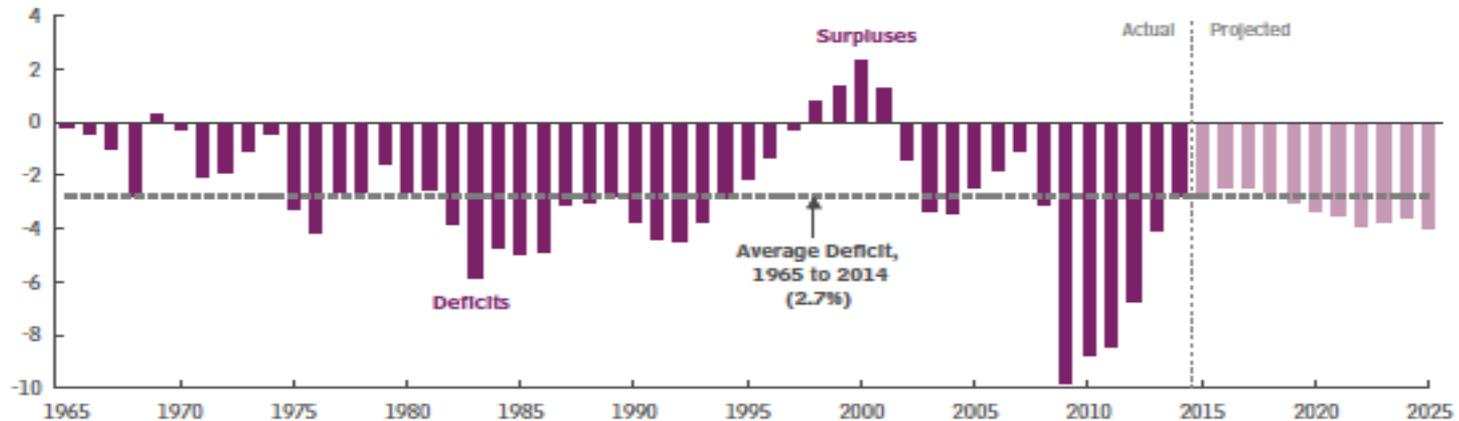
Percentage of Gross Domestic Product



Total Deficits or Surpluses

As percentages of gross domestic product, projected deficits in CBO's baseline hold steady through 2018 but then grow as mandatory spending and interest payments rise and revenues remain essentially flat.

Percentage of Gross Domestic Product



Mandatory vs. Discretionary Federal Spending: 1965-2025

Outlays, by Type of Spending

Percentage of Gross Domestic Product



Under current law, rising spending for Social Security and the major health care programs will boost mandatory outlays.

Total discretionary spending is projected to fall relative to GDP as funding grows modestly in nominal terms.

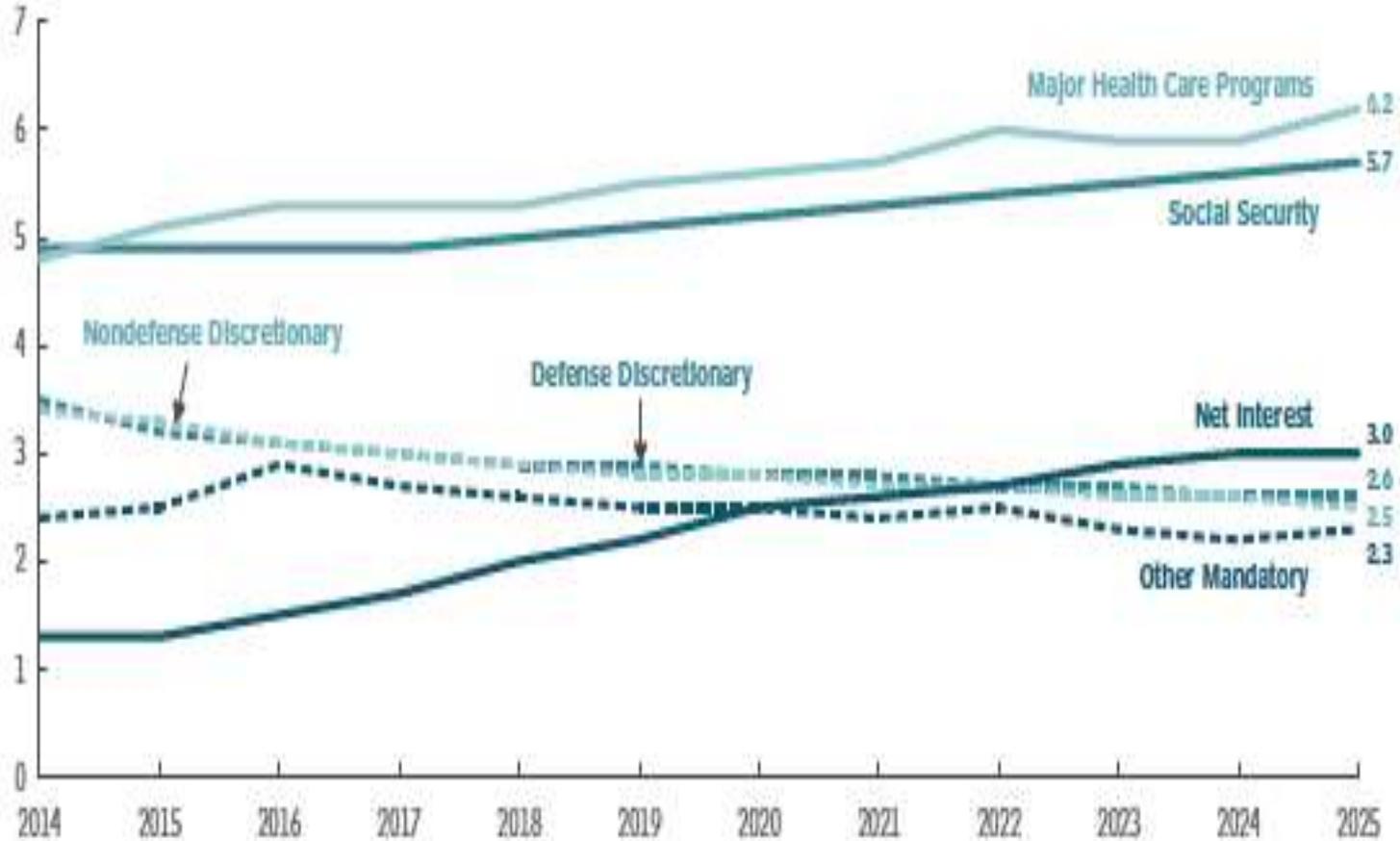
At the same time, higher interest rates and growing debt will push up net interest payments.

Source: Congressional Budget Office.

Outlays in Major Budget Categories: 1965-2025

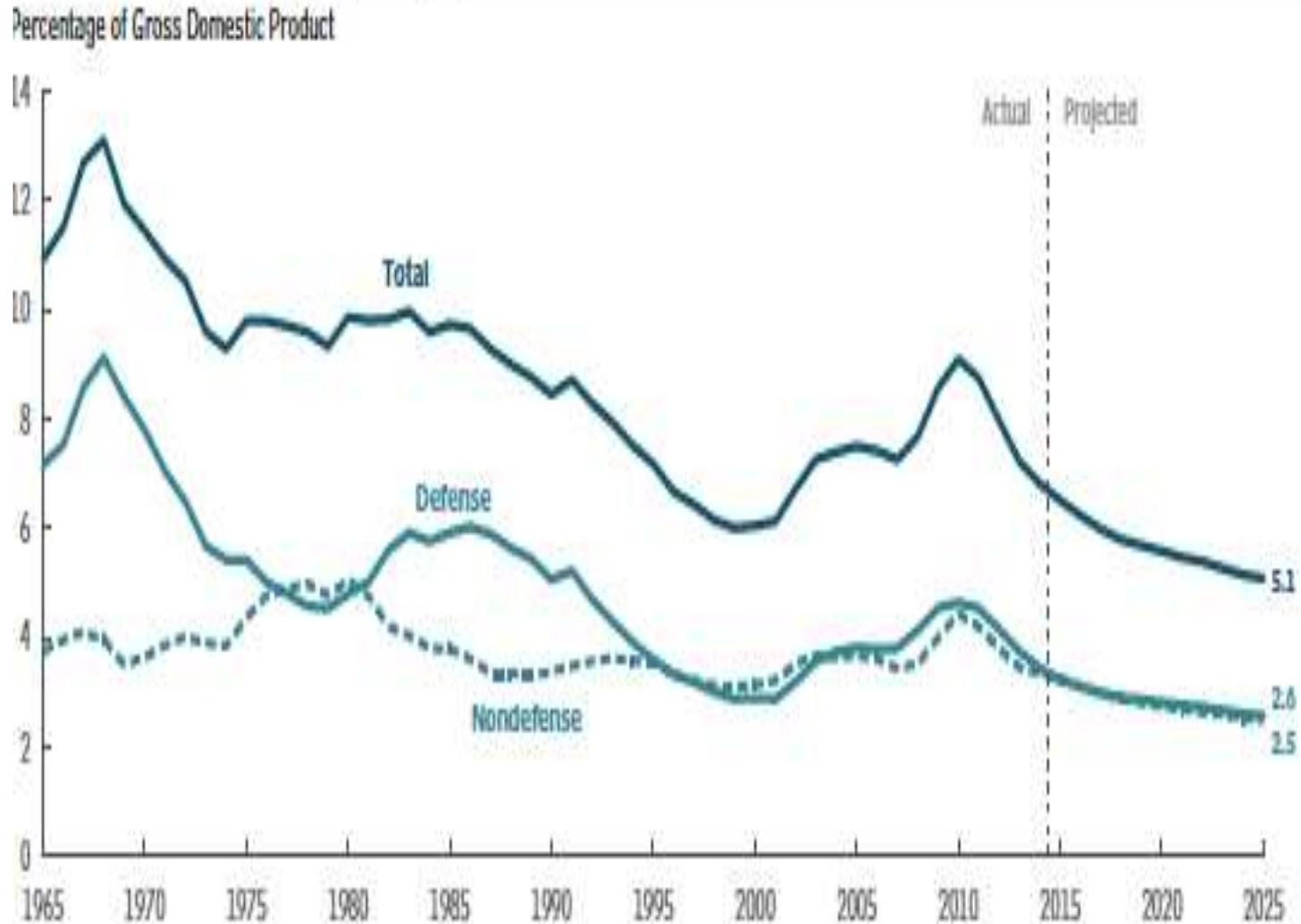
Projected Outlays in Major Budget Categories

Percentage of Gross Domestic Product



Note: Major health care programs consist of Medicare, Medicaid, the Children’s Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending. (Medicare spending is net of offsetting receipts.) Other mandatory spending is all mandatory spending other than that for major health care programs and Social Security.

Outlays in Discretionary Categories: 1965-2025



**Impact of Aging and Health
Care Costs Goes Far Beyond
Federal Health Care and
Social Security Spending**

Projected Cost Rises in Mandatory Health, Retirement, Poverty And Other Federal Programs: FY2014-FY2025

Billions of Dollars

	Actual,												Total	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
Social Security														
Old-Age and Survivors Insurance	703	738	772	817	873	931	994	1,058	1,124	1,195	1,269	1,347	4,387	10,379
Disability Insurance	142	145	149	154	159	165	171	180	189	198	208	216	798	1,788
Subtotal	845	883	921	971	1,032	1,096	1,165	1,237	1,313	1,392	1,476	1,564	5,185	12,167
Major Health Care Programs														
Medicare ²	600	622	668	681	699	772	826	886	986	1,021	1,052	1,175	3,645	8,765
Medicaid	301	335	360	384	405	428	452	477	503	530	558	588	2,029	4,686
Exchange subsidies and related spending ³	15	45	71	93	101	106	110	116	122	125	128	131	482	1,104
Children's Health Insurance Program	9	10	11	6	6	6	6	6	6	6	6	6	34	62
Subtotal ⁴	926	1,012	1,111	1,163	1,210	1,312	1,394	1,485	1,617	1,682	1,744	1,900	6,190	14,617
Income Security Programs														
Earned income, child, and other tax credits ⁵	86	87	89	90	91	75	76	77	78	79	80	82	420	816
Supplemental Nutrition Assistance Program	76	78	78	76	75	74	74	74	73	74	74	75	378	747
Supplemental Security Income	54	55	60	57	54	61	63	64	71	68	65	72	295	636
Unemployment compensation	44	35	36	37	39	42	46	49	51	54	57	60	200	472
Family support and foster care ⁶	31	31	32	32	32	33	33	33	34	34	34	35	162	331
Child nutrition	20	21	22	23	24	25	26	27	28	29	31	32	120	268
Subtotal	311	307	317	316	316	310	316	324	336	338	341	355	1,575	3,269
Federal Civilian and Military Retirement														
Civilian ⁶	100	97	99	102	105	108	112	116	120	124	128	132	526	1,145
Military	55	57	62	59	56	62	64	66	73	70	67	74	303	653
Other	8	7	6	6	7	7	8	9	9	9	9	9	34	79
Subtotal	164	160	167	167	168	178	184	191	202	203	204	215	863	1,878
Veterans' Programs⁷														
Income security	71	74	82	79	74	83	84	85	93	87	81	91	402	840
Other	16	25	20	16	16	18	18	19	21	21	21	23	88	195
Subtotal	87	99	102	95	91	100	103	105	114	109	103	114	490	1,035
Other Programs														
Agriculture	19	11	16	19	17	16	15	15	15	15	15	15	83	159
MERHCF	9	10	10	10	11	11	12	13	14	15	16	17	55	128
Deposit insurance	-14	-10	-10	-10	-9	-14	-16	-10	-12	-13	-14	-15	-59	-124
Fannie Mae and Freddie Mac ⁸	0	0	3	3	3	2	1	1	2	2	2	2	13	21
Higher education	-12	-3	-7	-4	-1	0	2	2	1	1	1	1	-10	-4
Other	38	61	62	69	68	68	64	64	64	64	65	69	329	655
Subtotal	40	69	73	87	89	83	78	84	84	84	84	89	411	835

Health & retirement, not poverty programs drive the entitlements and mandatory spending effort.

Poverty programs rise 14% during FY2014-FY2025.

Social Security rises 105% during FY2014-FY2025, and from 271% of poverty program in FY2014 to 440% in 2025.

Health care rises 105% during FY2014-FY2025, and from 298% of poverty program in FY2014 to 535% in 2025.

The US Faces Health and Aging Problems Require Solutions that Go Beyond Federal Programs and Federal Spending - I

The key issues affecting the federal budget are not shaped by defense spending, or by federal spending alone.

The rise in health care spending has outpaced the increase in Social Security spending and will become a steadily increasing burden in the future, but the problem is not federal, but an incredible rise in the total burden health care puts on the economy relative to the increase in life expectancy.

- *Total US health care spending now place roughly twice the burden on the US GDP as health spending by other developed countries.*
- *Its cost is far higher in per capita terms than in other countries (over twice), but does not produce any proportionate benefit in terms of added life expectancy. .*
- **In one survey, US healthcare ranked only 11th out of 11 developed countries, but had a per capita cost more that twice that of the highest-ranked country.**
- **The CBO estimates that excessive cost growth has been a major factor in the increase in health costs. It accounts for 22% today, and will account for nearly a third of all US spending on major health care programs by 2039.**
- **An aging America is also a major factor, however, and it should be noted that the metrics shown here only count federal spending. They do not address the fact that Social Security does not cover all older Americans and is not intended to fund an entire retirement. It does not address the steady the decline in private pension programs, 401K matching, and saving for old age.**

OECD and other estimates show that the steep rises in US health spending raise key questions as to the cost-benefits of total current US national spending, and offer far more potential for far more useful savings than can be obtained by cutting defense.

Changes in Medicare and the Affordable Care Act will not address the far broader societal problem in having medical costs rise from under 7% of the GDP to nearly 18% -- an incredible increase in the total burden on the economy.

The US Faces Health and Aging Problems Require Solutions that Go Beyond Federal Programs and Federal Spending - II

Similarly, addressing the cost of Social Security does not address the fact it is not a substitute for adequate private savings and/or a real national pension plan.

The most recent Social Security Administration data warn that:

- *51% of the workforce has no private pension coverage.*
- *34% of the workforce has no savings set aside specifically for retirement*
- *Some 10% of Americans 65 or above have no Social security coverage or retirement savings or benefits.*
- *Among elderly Social Security beneficiaries, 52% of married couples and 74% of unmarried persons receive 50% or more of their income from Social Security.*
- *Among elderly Social Security beneficiaries, 22% of married couples and about 47% of unmarried persons rely on Social Security for 90% or more of their income.*

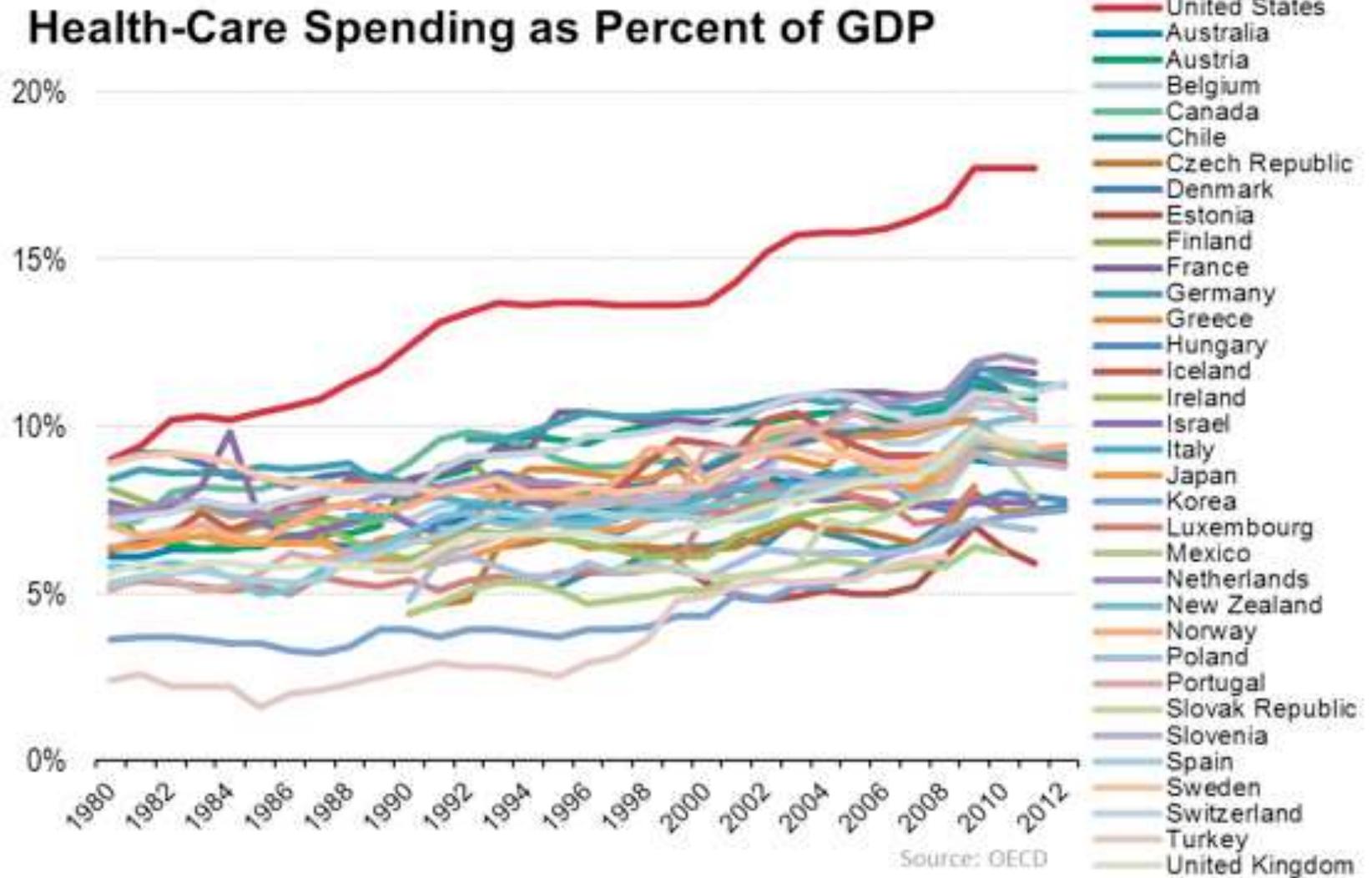
Estimates of the trends in pensions, employer retirement savings programs, and private retirement savings are often dated, differ sharply, and generally seem to be based on limited and uncertain sampling.

Many indicate, however, a major drop in pension coverage, rates of 401K and other employer matched retirement savings, and drops in private savings and assets over time and especially since the Great Recession.”

The cumulative pressure of an aging society that lives longer on both federal spending and the private sector can only be address by examining both the need for federal entitlement programs and the combined impact of employer programs and private savings.

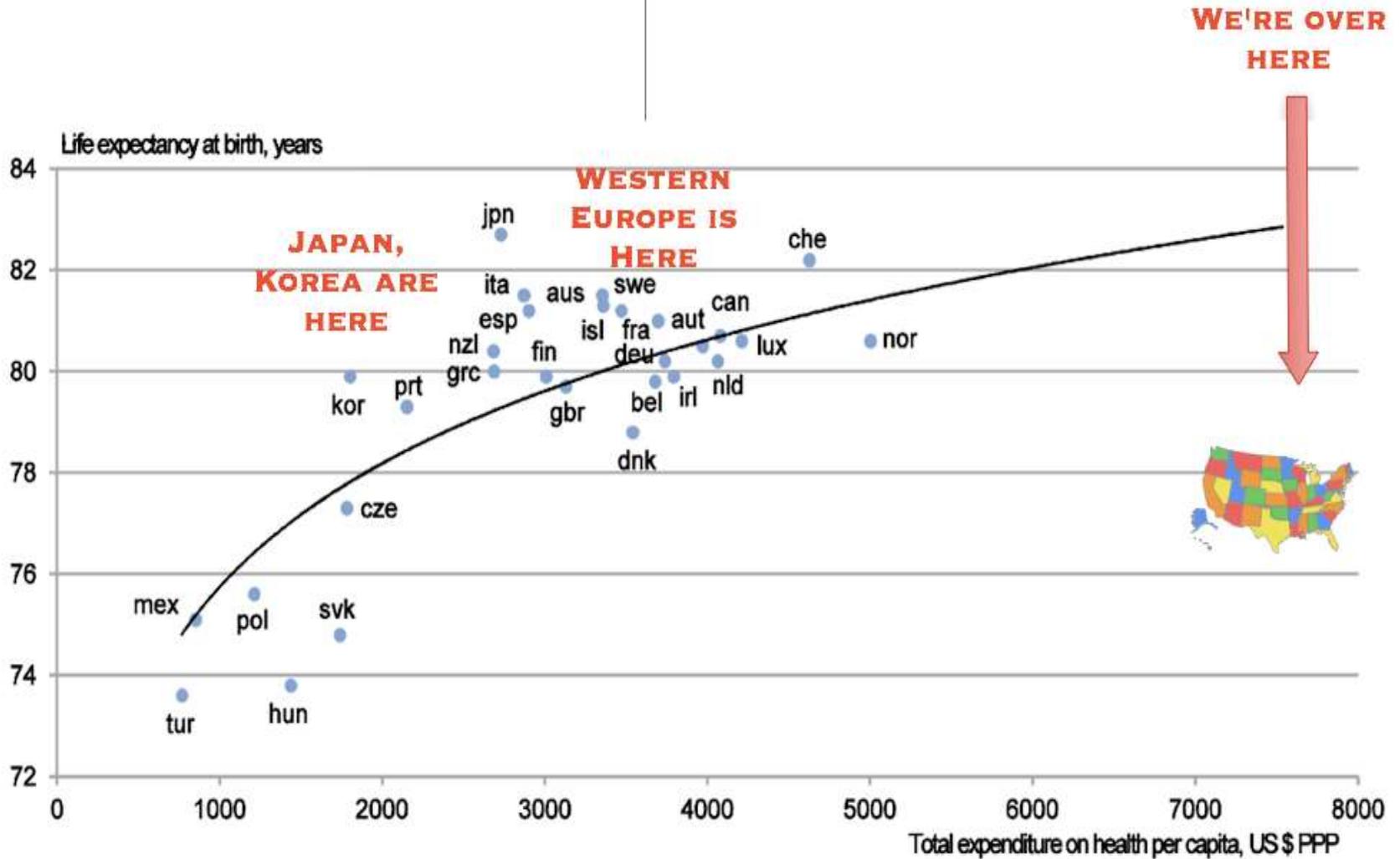
Unless these issues are resolved, the pressure on defense and other discretionary spending – as well as the federal debt and deficit – will continue to grow in spite of the state of the economy. National security spending is also too small a share of the GDP and current federal spending to address these issues.

US Health Care as Percent of GDP vs. Other Countries



Adapted from:
<http://blogs.wsj.com/economics/2013/07/23/u-s-health-spending-one-of-these-things-not-like-others/>

US Health Care : Cost vs. Life Expectancy Compared to Other Countries



Adapted m
 - <http://www.city-data.com/forum/united-kingdom/1504337-nhs-reforms-2.html>
 - [Google Search](#)

US Health Care Costs and Quality vs. Other Countries

	AUS	CAN	FRA	GER	NETH	NZ	NOR	SWE	SWIZ	UK	US
OVERALL RANKING (2013)	4	10	9	5	5	7	7	3	2	1	11
Quality Care	2	9	8	7	5	4	11	10	3	1	5
Effective Care	4	7	9	6	5	2	11	10	8	1	3
Safe Care	3	10	2	6	7	9	11	5	4	1	7
Coordinated Care	4	8	9	10	5	2	7	11	3	1	6
Patient-Centered Care	5	8	10	7	3	6	11	9	2	1	4
Access	8	9	11	2	4	7	6	4	2	1	9
Cost-Related Problem	9	5	10	4	8	6	3	1	7	1	11
Timeliness of Care	6	11	10	4	2	7	8	9	1	3	5
Efficiency	4	10	8	9	7	3	4	2	6	1	11
Equity	5	9	7	4	8	10	6	1	2	2	11
Healthy Lives	4	8	1	7	5	9	6	2	3	10	11
Health Expenditures/Capita, 2011**	\$3,800	\$4,522	\$4,118	\$4,495	\$5,099	\$3,182	\$5,669	\$3,925	\$5,643	\$3,405	\$8,508

Notes: * Includes ties. ** Expenditures shown in \$US PPP (purchasing power parity); Australian \$ data are from 2010.

Source: Calculated by The Commonwealth Fund based on 2011 International Health Policy Survey of Sicker Adults; 2012 International Health Policy Survey of Primary Care Physicians; 2013 International Health Policy Survey; Commonwealth Fund *National Scorecard 2011*; World Health Organization; and Organization for Economic Cooperation and Development, *OECD Health Data, 2013* (Paris: OECD, Nov. 2013).

Adapted from: <http://www.washingtonpost.com/news/to-your-health/wp/2014/06/16/once-again-u-s-has-most-expensive-least-effective-health-care-system-in-survey/>

CBO Estimate of Underlying Causes of Projected Growth in Federal Spending for Health Care Programs and Social Security

Under its extended baseline, the Congressional Budget Office (CBO) projects that the growth of federal noninterest spending as a share of gross domestic product (GDP) results entirely from projected increases in spending for a few large programs: Social Security, Medicare, Medicaid, and the insurance subsidies provided through the health insurance exchanges established under the Affordable Care Act (ACA). The major health care programs, which currently account for about half of total spending for those large programs, are responsible for more than two-thirds of the projected increase in spending for those programs over the next 25 years. (By contrast, under the assumptions that govern the extended baseline, total federal spending on everything other than those programs and net interest is projected to fall significantly as a percentage of GDP over the next 25 years.)

Three factors underlie the projected increase in federal spending for the major health care programs and Social Security relative to the size of the economy:

- The aging of the U.S. population, which will increase the share of the population receiving benefits from those programs and also affect the average age (and thus the average health care costs) of beneficiaries;
- The effects of excess cost growth—that is, the extent to which health care costs per beneficiary, adjusted for demographic changes, grow faster than potential GDP per capita; and
- The continuing expansion of Medicaid under the ACA and the growth in subsidies for health insurance purchased through the exchanges created under that law.

CBO calculated the share of the projected growth in federal spending for the major health care programs and Social Security that could be attributed to each of those factors. (Aging is the only one that affects CBO's projections for Social Security.) The agency compared the outlays projected for those programs under the extended baseline with the outlays that would occur under three alternative paths: one that included aging of the population but no excess cost growth and no expansion of Medicaid or the exchange subsidies, one that included excess cost growth but no aging of the population and no expansion of Medicaid or the exchange subsidies, and one that included both aging and excess cost growth but no expansion of Medicaid or the exchange subsidies.

The ways in which aging of the population and excess cost growth interact accentuate those factors' individual effects. For example, as aging increases the number of Medicare beneficiaries and elderly Medicaid beneficiaries, rising health care spending per person has a greater impact on federal health care spending. Likewise, when per-person health care costs are rising, the increasing number of beneficiaries has greater budgetary consequences. That interaction effect can be identified separately—or, as in CBO's analysis, it can be allocated in proportion to the shares of projected growth that are attributable to the two factors: aging and excess cost growth. The aging of the population and excess cost growth also affect the budgetary impact of the expansion of Medicaid and the exchange subsidies, but in different directions: Excess cost growth increases the effect of that expansion on federal health care spending, but aging decreases the effect by reducing the share of the population that is under the age of 65 and therefore potentially eligible for the expanded federal benefits.

CBO Estimate of Causes of Rise in Health Costs and Social Security

	Percentage of Projected Growth Through	
	2024	2039
Major Health Care Programs and Social Security		
Aging	43	55
Excess Cost Growth	13	24
Expansion of Medicaid and Exchange Subsidies	44	21
Major Health Care Programs		
Aging	21	39
Excess Cost Growth	17	33
Expansion of Medicaid and Exchange Subsidies	62	28

According to CBO’s calculations, the aging of the population accounts for 55 percent of the projected growth in federal spending for the major health care programs and Social Security as a share of GDP through 2039. Excess cost growth accounts for 24 percent, and the expansion of Medicaid and exchange subsidies accounts for the remaining 21 percent.

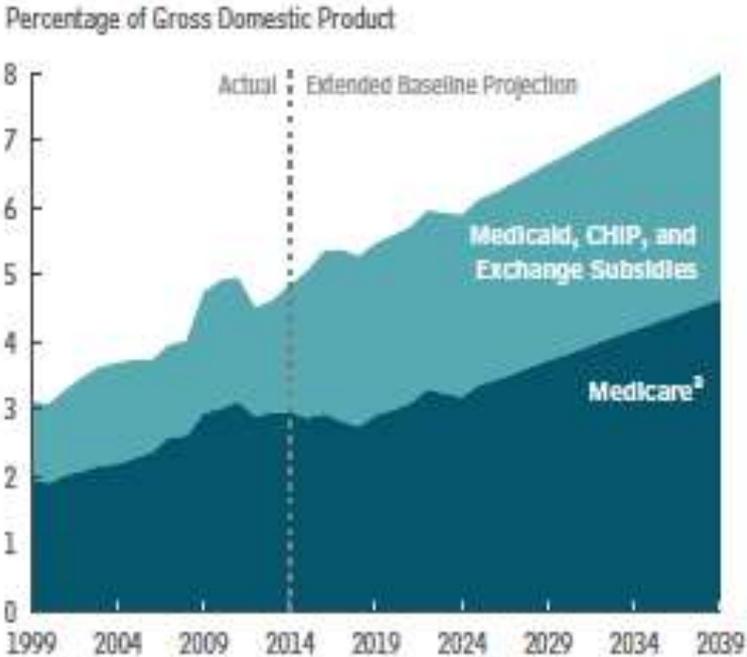
For the major health care programs alone, the relative impact of the population’s aging is smaller and the significance of factors related to health care is greater. Through 2039, aging accounts for 39 percent of projected growth in federal spending for those programs as a share of GDP, excess cost growth accounts for 33 percent, and the expansion of Medicaid and the exchange subsidies together account for 28 percent.

Total federal spending for those programs would increase from 4.8 percent of GDP in 2014 to 8.0 percent in 2039 under current law, CBO projects. Of that rise of 3.1 percentage points, aging would contribute 1.2 percentage points; excess cost growth, 1.0 percentage point; and the expansion of Medicaid and the exchange subsidies, 0.9 percentage points.

Under the assumptions of the extended baseline, the relative importance of those three factors would shift over the longer term. The age profile of the population is expected to change less rapidly after 2039, so aging would account for less of the growth in spending for federal programs. The expansion of Medicaid and the exchange subsidies also would account for less of the growth in spending once it took full effect. Thus, after 2039, excess cost growth in the major health care programs would be the primary driver of the total projected growth in spending for those programs and Social Security as a percentage of GDP.

Projected Impact on US GDP of Increase in Federal Health Spending and Social Security

Federal Spending on the Major Health Care Programs, by Category



Spending for Social Security

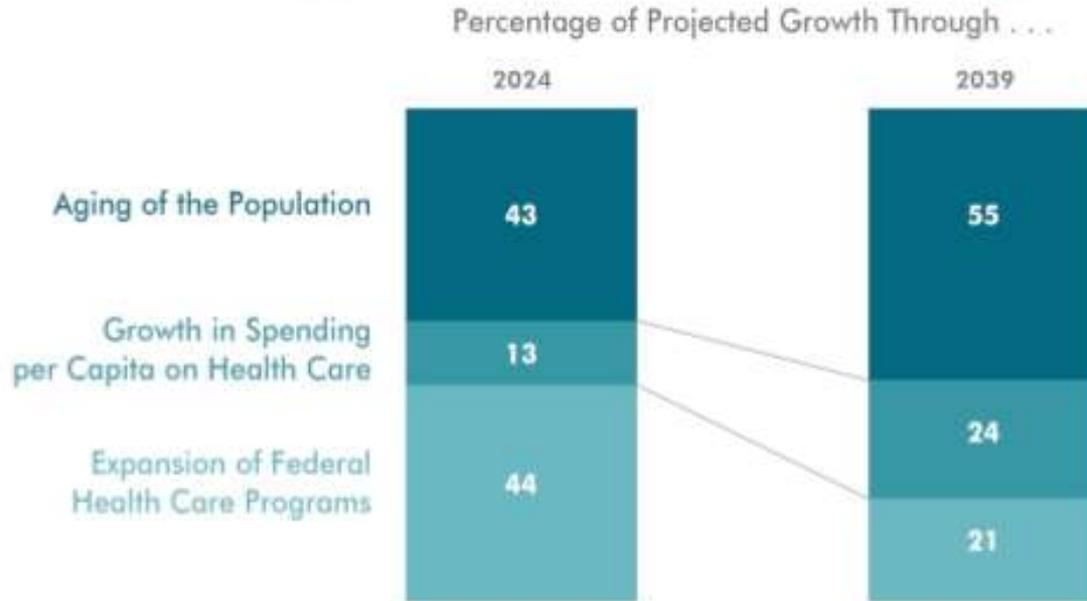


Source: Congressional Budget Office.

Aging is a Key Factor - I

CBO

Causes of Projected Growth in Federal Spending for Social Security and Major Health Care Programs



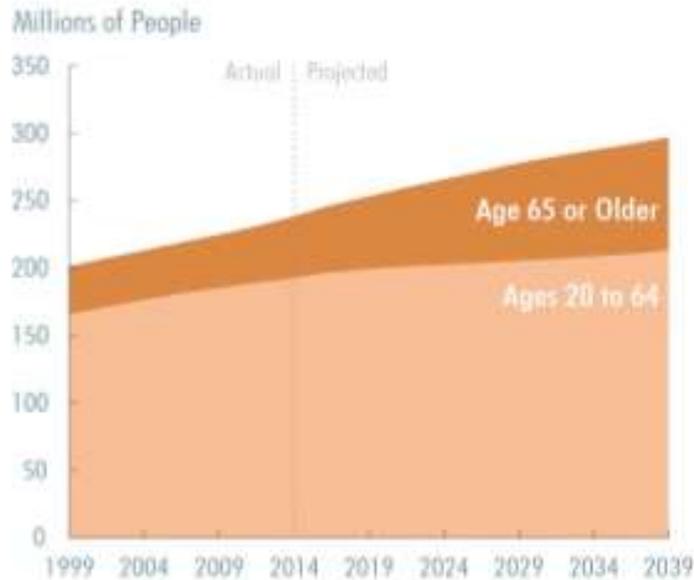
The aging of the U.S. population will increase the share of the population receiving benefits and also affect the average age (and thus the average health care costs) of beneficiaries. Health care costs per beneficiary, adjusted for demographic changes, will grow faster than economic output per capita, CBO projects, as they have historically. Medicaid will continue to expand under the Affordable Care Act and subsidies for health insurance purchased through the exchanges created under that law will grow, CBO estimates.

6

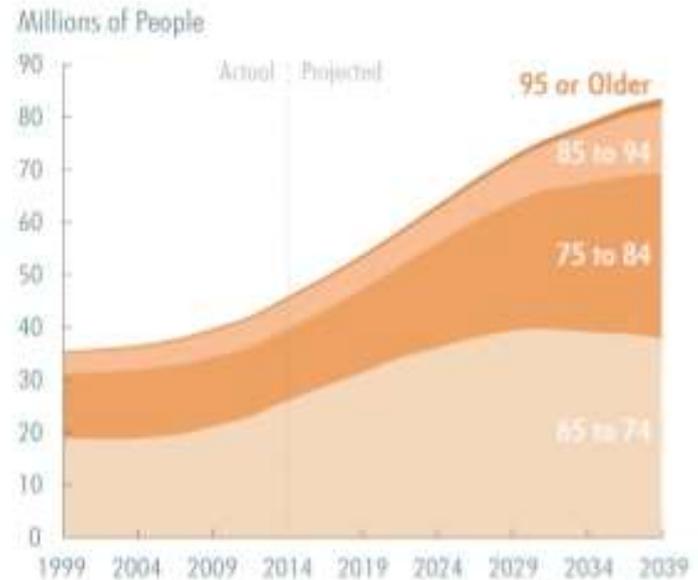
Aging is a Key Factor - II

Changes in Population, by Age Group

Population Age 65 or Older
Relative to the Population Ages 20 to 64



Number of People Age 65 or Older,
by Age Group



The number of people age 65 or older will increase by about 80 percent between now and 2039, CBO projects. As more members of the baby-boom generation reach retirement age and as longer life spans lead to longer retirements, a significantly larger share of the population will receive benefits from Social Security and Medicare. The aging of the population will cause the total amount of those benefits scheduled to be paid under current law to grow faster than the economy.

Some Warnings Are Clear: Social Security is Being Treated as an Entire Retirement, Pension Plan, and Safety Net by Far Too Many Americans

Social Security is the major source of income for most of the *(legal citizen)* elderly.

- *Nine out of ten individuals age 65 and older receive Social Security benefits (which means 10% have not benefits).*
- Social Security benefits represent about 38% of the income of the elderly.
- *Among elderly Social Security beneficiaries, 52% of married couples and 74% of unmarried persons receive 50% or more of their income from Social Security.*
- *Among elderly Social Security beneficiaries, 22% of married couples and about 47% of unmarried persons rely on Social Security for 90% or more of their income.*

Social Security provides more than just retirement benefits.

Retired workers and their dependents account for 74% of total benefits paid in December 2013.

Disabled workers and their dependents account for 16% of total benefits paid in December 2013.

About 90 percent of workers age 21-64 in covered employment in 2013 and their families have protection in the event of a long-term disability. Just over 1 in 4 of today's 20 year-olds will become disabled before reaching age 67.

68% of the private sector workforce has no long-term disability insurance.

Survivors of deceased workers account for 10% of total benefits paid in December 2013.

About one in eight of today's 20 year-olds will die before reaching age 67.

About 96% of persons aged 20-49 who worked in covered employment in 2013 have survivors insurance protection for their young children and the surviving spouse caring for the children.

An estimated 165 million workers are covered under Social Security.

51% of the workforce has no private pension coverage.

34% of the workforce has no savings set aside specifically for retirement.

In 1940, the life expectancy of a 65-year-old was almost 14 years; today it is about 20 years.

By 2033, the number of older Americans will increase from 46.6 million today to over 77 million.

There are currently 2.8 workers for each Social Security beneficiary. By 2033, there will be 2.1 workers for each beneficiary.

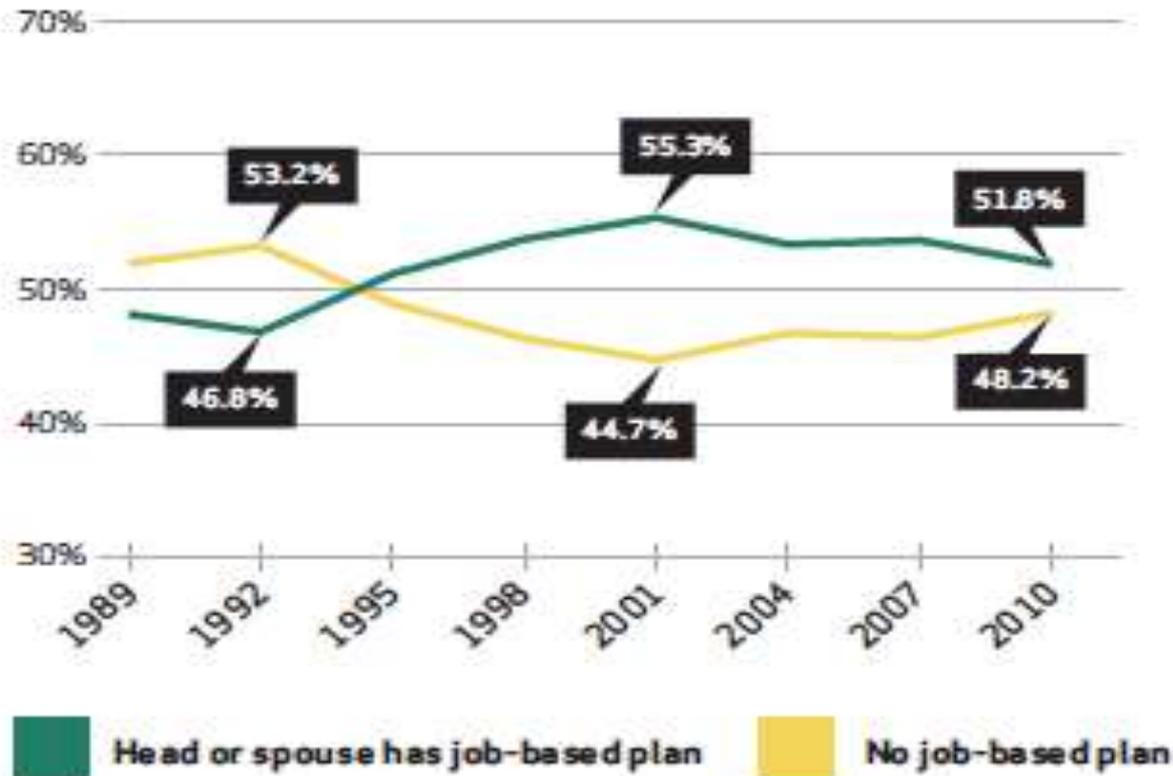
Some Warnings Are Clear: Center for Retirement Research at Boston College Warns About Lack of Retirement Savings for Many Americans

- **In 1979, almost two in five private sector workers had a defined-benefit pension that would pay out a check until they died. Today only 14 percent do. Almost one in three, by contrast, must make do with a retirement savings account alone to supplement their Social Security check.**
- **On average, a typical working family in the anteroom of retirement — headed by somebody 55 to 64 years old — has only about \$104,000 in retirement savings, according to the Federal Reserve’s Survey of Consumer Finances.**
- **The Center for Retirement Research at Boston College estimates that more than half of all American households will not have enough retirement income to maintain the living standards they were accustomed to before retirement, even if the members of the household work until 65, two years longer than the average retirement age today.**
- **Using a different, more complex model, the Employment Benefit Research Institute calculates that 83 percent of baby boomers and Generation Xers in the bottom fourth of the income distribution will eventually run short of money.**
- **Higher up on the income scale, people also face challenges: More than a quarter of those with incomes between the middle of the income distribution and the 75th percentile will probably run short.**

**Estimates of a Retirement Crisis Differ Sharply,
but the Following Charts are a Clear Warning
that a Basic Societal problem is Involved**

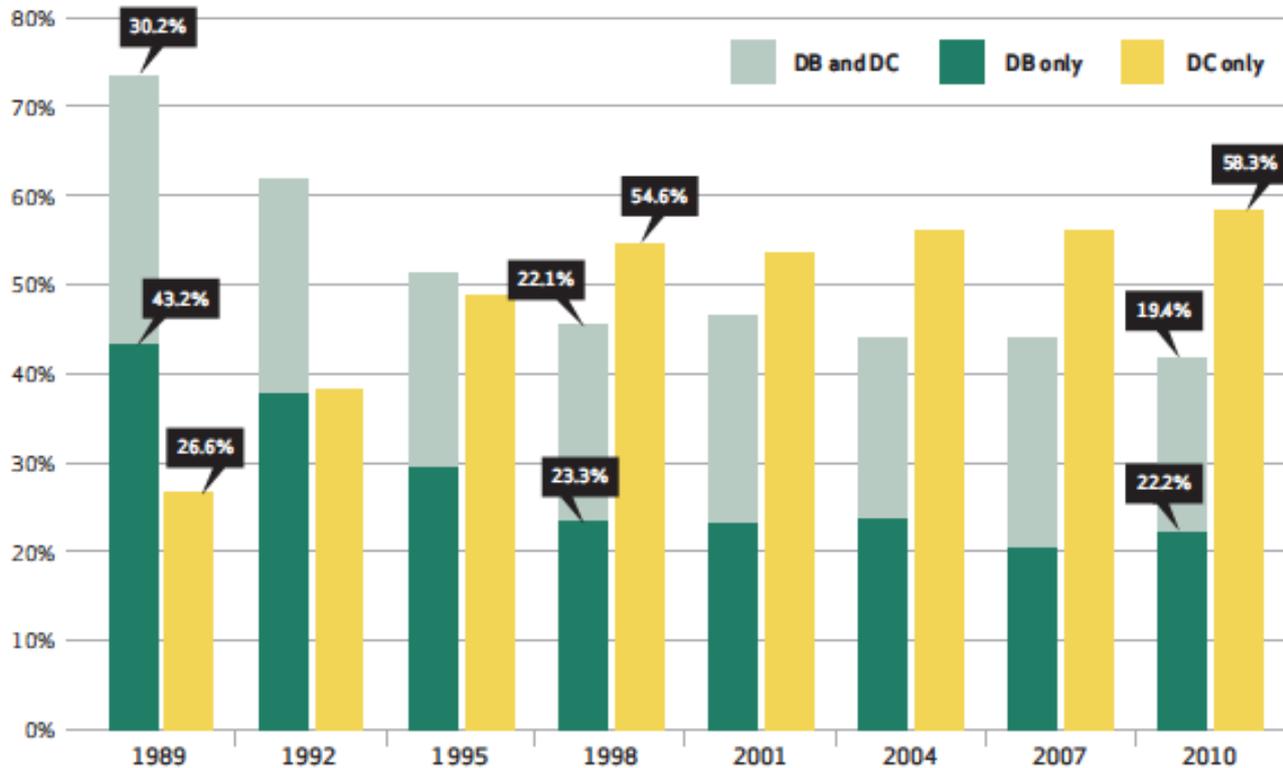
Low Level of US Retirement Savings: Only 52 Percent of Working-Age Households Participate in Workplace Retirement Plans

Employer-sponsored retirement plan coverage among households with heads age 25-64, 1989-2010



Steady Decline in Pensions (DB) and Growing Reliance on 401Ks (DC)

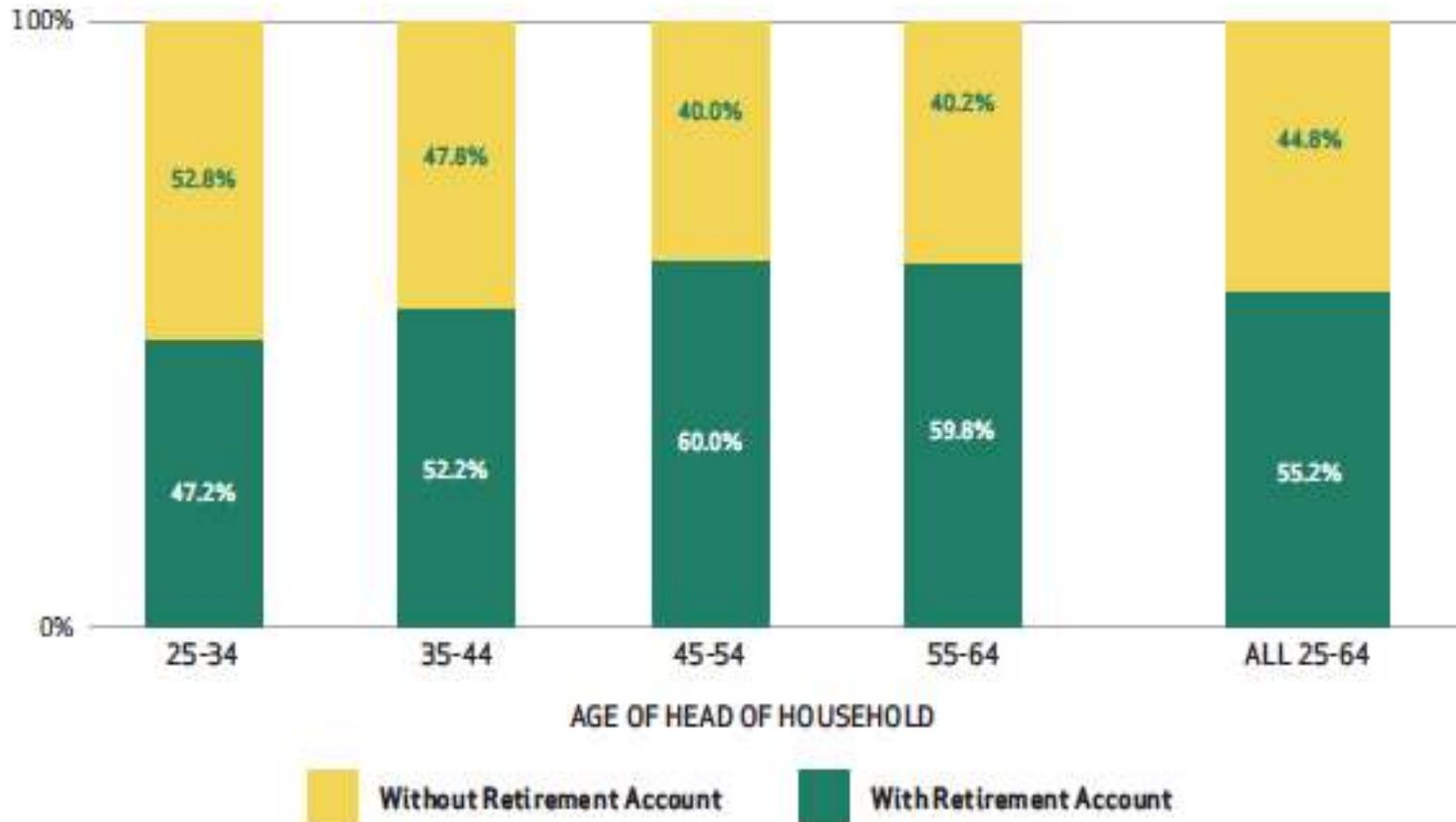
DB and DC plan participation among households covered by an employer-sponsored retirement plan, 1989-2010



Source: Author's analysis of 2010 SCF. Universe is households with heads age 25-64 in which the head or spouse is covered by a retirement plan through their current job.

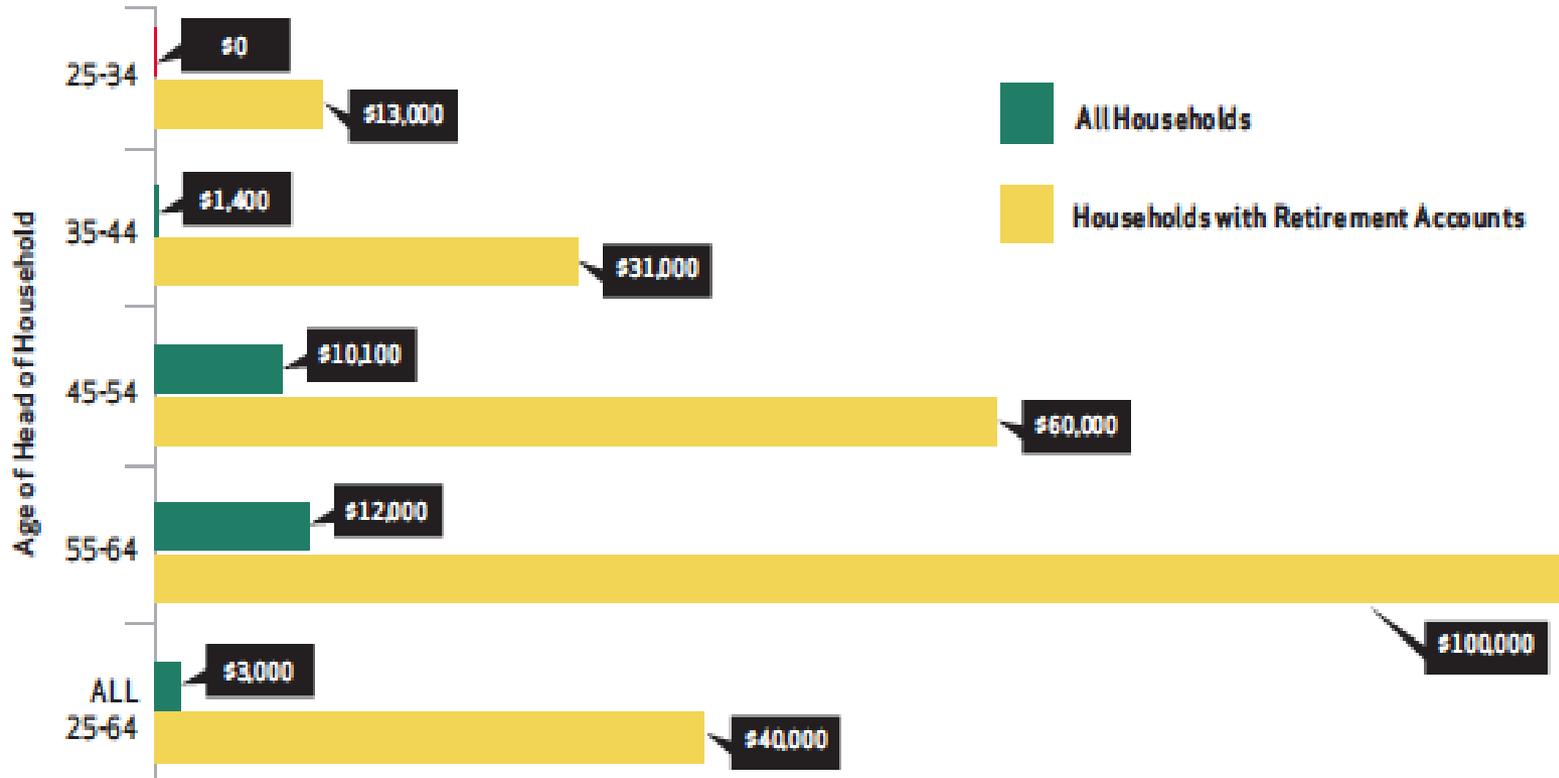
Nearly 45 Percent of All Working-Age Households Do Not Own Assets in a Retirement Account

Household retirement account ownership by age of head of household, 2010



Typical Working-Age Household Has Only \$3,000 Retirement Account Assets; Typical Near-Retirement Household Has Only \$12,000

Median retirement account balances, households with retirement accounts vs. all households, 2010



Source: Author's analysis of 2010 SCF.

**The Past and Future Cost
Impact of the “Longest
Wars” Is Uncertain and Does
Remain an Issue**

At the Same Time, the Cost Impacts of the “Longest Wars” Are Uncertain and Do Remain an Issue

The short-term direct costs of the Afghan and Iraqi Wars placed a surprisingly small burden on the US GDP and total federal spending.

- Defense spending in direct budget outlays did rise. Total defense spending peaked in FY2008 at \$760.1 billion in constant FY2016 dollars at during the height of the Afghan-Iraq conflicts.
- This compared with peaks of \$663.0 billion in Korea, \$566.3 billion in Vietnam, and \$615.9 billion during the Reagan build-up.
- However, the impact in the defense share of the GDP and Federal spending was very limited.

Much does depend, however, on how one estimates the total cost of the Afghan and Iraq conflicts.

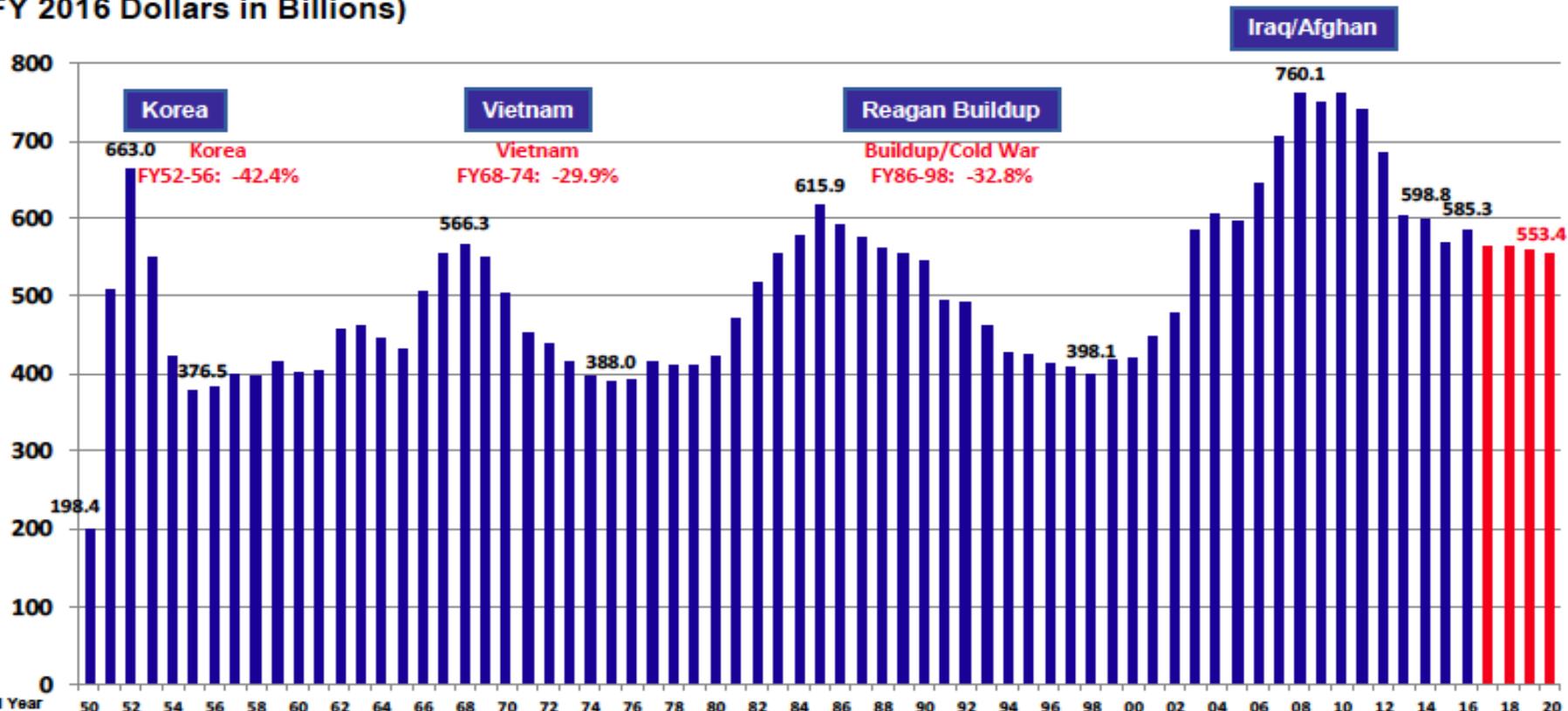
- ***CBO and Congressional research Service estimates put the total cost of both wars from FY2001 to FY2015 at \$1.609 to \$1,649 trillion, and as peaking at around 1% of the GDP.***
- These estimates are based on OCO spending. The Administration and the Congress have never reported any figures on the total costs of either war, or shown any indication of a concern over public accountability.
- It is clear that the OCO account has been used as a DoD slush fund for expenditures that have had nothing to do with either conflict.

Outside academic estimates put the total costs – including medical payments through the life of wounded veterans over the next 40 years – at \$4 to \$6 trillion.

Total Budget Trends

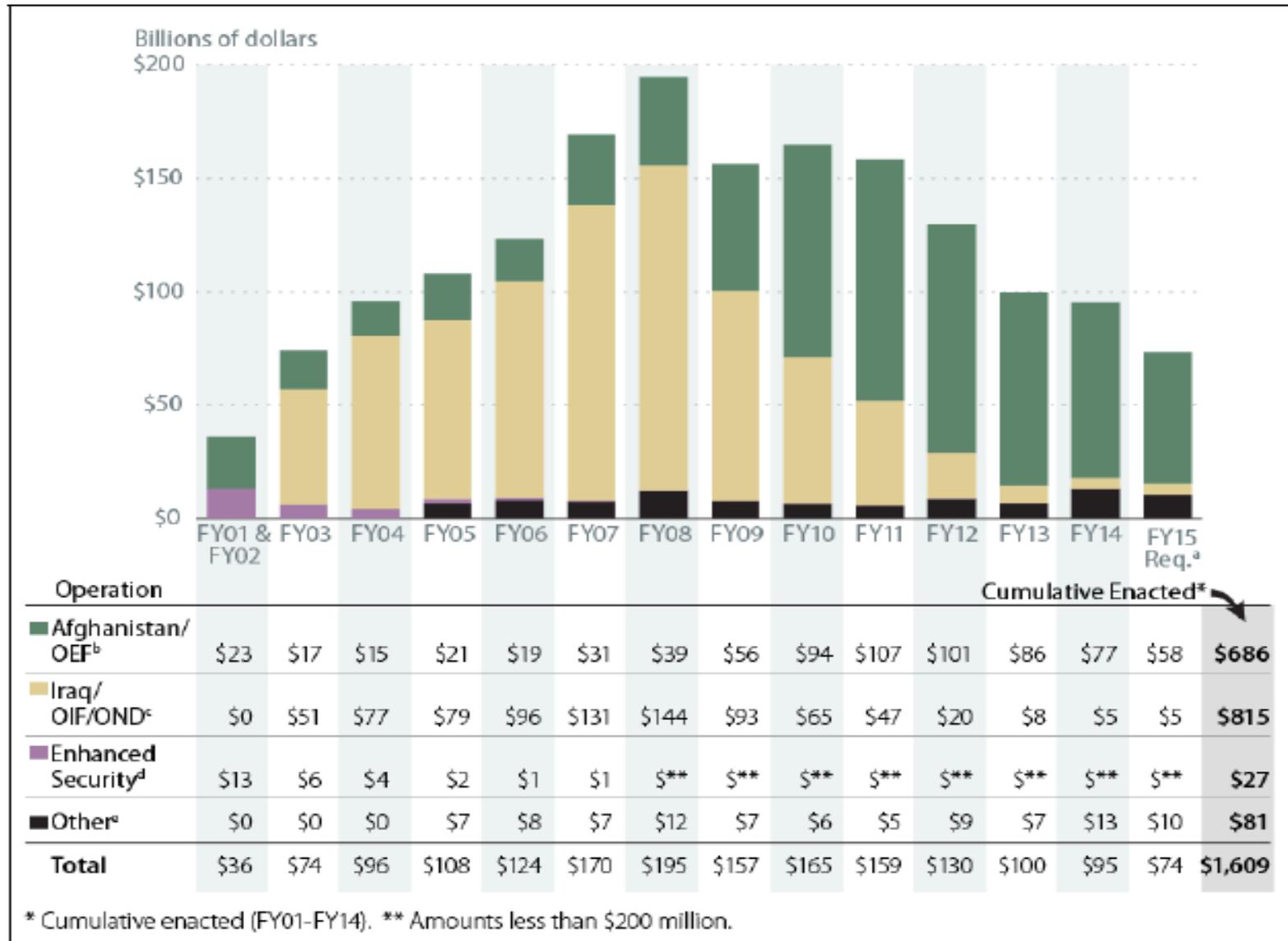
(Including supplemental and OCO funding)

(FY 2016 Dollars in Billions)



Projections (red bars) assume FYDP plus \$26.7 billion annual placeholders for OCO in years beyond FY 2016

The Uncertain Cost of Wars: CRS Estimate: FY2001-FY2015



The Uncertain Cost of Wars: CBO Estimate: 2001-2015

Estimated Budget Authority Provided for U.S. Operations in Afghanistan and Iraq and Related Activities for Fiscal Years 2001 to 2015

Billions of Dollars

	2001-	2002	2003	2004	2005	2006	2007 ^a	2008	2009	2010	2011	2012	2013 ^a	2014	2015	Total, 2001- 2015
Military Operations and Other Defense Activities^b																
Iraq ^c	369	133	90	59	42	10	3	1	4	710						
Afghanistan	80	29	38	87	98	89	65	74	51	611						
Other ^d	81	13	13	5	6	6	10	6	4	143						
Subtotal	530	175	140	151	146	104	78	81	59	1,465						
Indigenous Security Forces^e																
Iraq	19	3	1	1	2	0	0	0	2	27						
Afghanistan	11	3	6	9	12	11	4	5	3	64						
Subtotal	30	6	7	10	13	11	4	5	5	91						
Diplomatic Operations and Foreign Aid^f																
Iraq	25	3	2	2	0	4	4	2	1	43						
Afghanistan	5	1	5	2	0	5	5	1	3	27						
Other	7	*	1	*	0	2	2	3	5	20						
Subtotal	37	5	7	4	0	11	11	7	9	90						
Other Services and Activities^g																
Iraq	1	1	*	0	0	0	0	0	0	2						
Afghanistan	*	*	*	0	0	0	0	0	0	*						
Other	*	*	*	0	0	0	0	0	0	1						
Subtotal	1	2	*	0	0	0	0	0	0	3						
Total	598	187	154	165	159	127	93	92	74	1,649						

Note: * = between zero and \$500 million.

a. Amounts for 2013 are net of reductions implemented in response to the Administration's sequestration order of March 1, 2013.

b. CBO estimated the funding provided for operations in Afghanistan and Iraq using information in budget justification materials from the Department of Defense and in the department's monthly reports on its obligations. Some allocations for prior years have been adjusted to reflect more recent information.

c. Includes funding for military operations against the Islamic State in Iraq and Syria.

d. Includes Operation Noble Eagle (homeland security missions, such as combat air patrols, in the United States), additional personnel and restructuring efforts for Army and Marine Corps units, classified activities not funded by appropriations for the Iraq Freedom Fund, the European Reassurance Initiative, and improvements to military readiness. (From 2005 through 2015, funding for Operation Noble Eagle has been intermingled with regular appropriations for the Department of Defense; that funding is not included in this table.)

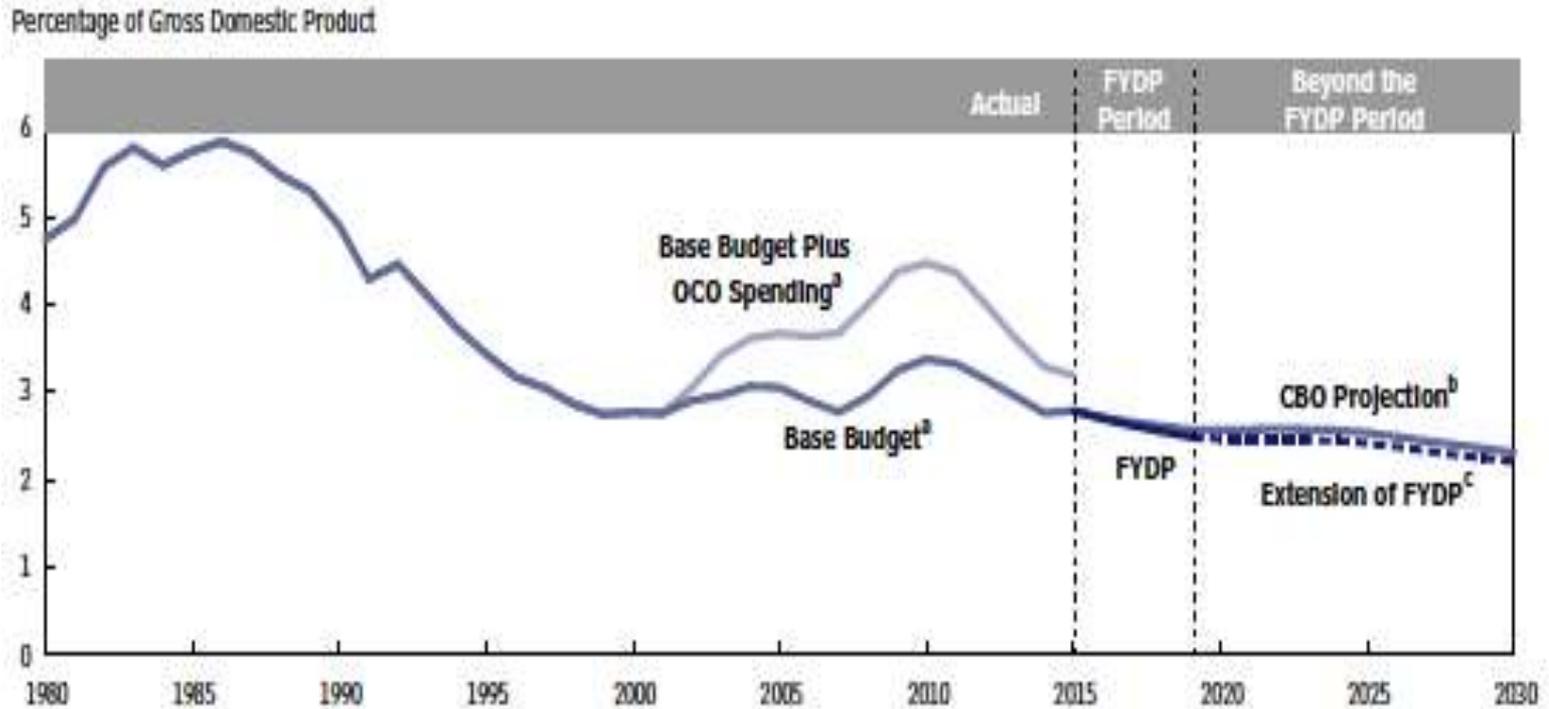
e. Funding for indigenous security forces is used to train and equip military and police units in Afghanistan and Iraq. That funding was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004 and in accounts for defense (budget function 050) starting in 2005.

f. In 2010 and 2011, most funding for diplomatic operations in, and foreign aid to, countries helping the United States fight terrorism was provided in regular appropriations and cannot be isolated.

g. Includes funding for some veterans' benefits and services and for certain activities of the Department of Justice. Excludes about \$34 billion in spending by the Department of Veterans Affairs for the incremental costs of medical care, disability compensation, and survivors' benefits for veterans of operations in Afghanistan and Iraq and of the war on terrorism. That amount is based on CBO's estimates of spending from regular appropriations for the Department of Veterans Affairs and was not explicitly appropriated for war-related expenses.

Funding to date for military operations and other defense activities has totaled almost \$1.5 trillion, most of which has gone to the Department of Defense (DoD)...DoD reports that in fiscal year 2014, obligations for operations in Afghanistan and Iraq and related activities averaged \$5 billion per month. That monthly average is about \$1.8 billion less than the amount reported for 2013. Operation Enduring Freedom (in and around Afghanistan) accounted for almost all of those obligations in 2014. Because most appropriations for operations in Afghanistan and Iraq and related activities appear in the same budget accounts as appropriations for DoD's other functions, it is impossible to determine precisely how much has been spent on those activities alone. The Congressional Budget Office estimates that the \$1.5 trillion appropriated between 2001 and 2015 for military operations and other defense activities in Afghanistan and Iraq and for indigenous security forces in those two countries has resulted in outlays of about \$1.4 trillion through 2014; about \$95 billion of that was spent in 2014. Of the \$90 billion appropriated for international affairs activities related to the war efforts over the 2001–2015 period, about \$68 billion was spent by the end of 2014, CBO estimates, with \$8 billion of that spending occurring in 2014. In total, outlays for all activities related to the operations in Afghanistan and Iraq amounted to about \$103 billion last year. On the basis of sums appropriated for 2015, CBO estimates that outlays will total about \$80 billion this year.

CBO Estimate of Cost of Wars (OCO) as Percent of GDP



Source: Congressional Budget Office.

Notes: For this figure, estimates describe outlays (as opposed to total obligational authority, which is depicted in the other figures). DoD = Department of Defense; FYDP = Future Years Defense Program; OCO = overseas contingency operations; FYDP period = 2015 through 2019, the period for which DoD's plans are fully specified.

- a. Base-budget data include supplemental and emergency funding before 2002. For 2002 to 2015, supplemental and emergency spending for overseas contingency operations, such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. No OCO funding is shown for 2016 and later.
- b. The CBO projection of the base budget incorporates costs that are consistent with DoD's historical experience.
- c. For the extension of the FYDP from 2020 to 2030, CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with CBO's projections of price and compensation trends in the overall economy when the department's estimates are not available.

The Uncertain Cost of Wars: Bilmes Estimate of \$4 to \$6 Trillion

The Iraq and Afghanistan conflicts, taken together, will be the most expensive wars in US history – totaling somewhere between \$4 to \$6 trillion. This includes long-term medical care and disability compensation for service members, veterans and families, military replenishment and social and economic costs. The largest portion of that bill is yet to be paid. Since 2001, the US has expanded the quality, quantity, availability and eligibility of benefits for military personnel and veterans. This has led to unprecedented growth in the Department of Veterans Affairs and the Department of Defense budgets. These benefits will increase further over the next 40 years. Additional funds are committed to replacing large quantities of basic equipment used in the wars and to support ongoing diplomatic presence and military assistance in the Iraq and Afghanistan region. The large sums borrowed to finance operations in Iraq and Afghanistan will also impose substantial long-term debt servicing costs. As a consequence of these wartime spending choices, the United States will face constraints in funding investments in personnel and diplomacy, research and development and new military initiatives. The legacy of decisions taken during the Iraq and Afghanistan wars will dominate future federal budgets for decades to come.

The Uncertain Cost of Wars: Crawford Estimate of \$4.5 Trillion and Counting

FY2001-FY2014 Costs	\$billions
1. Total DOD (Afghanistan, Iraq, Operation Noble Eagle (ONE))	1,485.6
2. State and US AID (Afghanistan, Iraq, and Pakistan)	105.1
3. Estimated additions to the Pentagon base	836.1
4. Total medical and disability for veterans	160.4
5. Additions to Homeland Security	471.6
6. Interest on Pentagon War Appropriations	315.7
Subtotal FY2001-FY2014 Costs	3,374.5
Estimates of Future Spending	
Pentagon and State/USAID (Afghanistan, Iraq, Pakistan, and ONE) FY2015 ⁴⁴	79.4
Future Veterans' costs for medical and disability, FY2015-2054	1,000
Subtotal Future War-related Spending	1079.4
Total Costs to Date and Estimated Future Federal Budget Costs	4, 453.9
<i>Cumulative Interest through 2054 on war appropriations through FY2013⁴⁵</i>	<i>>7,900</i>

Professor Neta C. Crawford, **U.S. Costs of Wars Through 2014: \$4.4 Trillion And Counting Summary Of, Costs for The U.S. Wars in Iraq, Afghanistan and Pakistan**, Boston University, 25 June 2014, <http://costsofwar.org/sites/default/files/articles/20/attachments/Costs%20of%20War%20Summary%20Crawford%20June%202014.pdf>.

Uncertain Trends in FY2016 Defense Budget Request:

Too Much Strategic rhetoric and too little strategic substance. Everything is “budget”, with no clear “plan or program.”

Key Trends in FY2016 Defense Budget Request - I

The President's proposed FY2016 defense budget and FY2017-FY2020 program puts OCO spending at \$57 billion in FY2016 versus a peak of \$162 billion at the height of both wars. Total defense spending would range from \$585 to \$597 billion, and baseline (non OCO) spending would range from \$534 to \$570 billion.

The President's FY2016 request is substantially higher than the level called for in the Budget Control Act during FY2016-FY2020, but is at the minimum level required to fund the forces needed in the Strategic Choices and Management Review, and substantially lower than in the program the President proposed in FY2013 and FY2014.

Too Much Strategic rhetoric and too little strategic substance. Everything is “budget”, with no clear “plan or “program.”

- The budget justification documents indicate that the FY2016 request is “guided” by the 2014 QDR, but provides no useful details to show what this means beyond mentioning some procurement programs, and stating that the FY2016 force levels will be “sufficient to execute the strategy.”
- The baseline program is estimated to be the absolute minimum needed to fund the program called for in the Strategic Choices and Management Review, and seems to be substantially below the level needed for a real world funding of the force level called for in the 2014 QDR.
- The budget discussion of the FY2016-FY2020 program generally fails to describe specific goals for the period, to provide meaningful tangible examples, and to show how the program will address any major perceived threat or mission

Money is uncertain and funding levels and the Budget Control Act (BCA) remain a critical issue

As the DoD budget request notes, “The Department’s fiscal environment remains uncertain. Beginning in Fiscal Year (FY) 2013, the Department began a \$487 billion, 10-year reduction in spending, compared to the projections in the FY 2012 budget, to adhere to spending limits established by the Budget Control Act (BCA) of 2011.

The subsequent failure of the Joint committee on Deficit Reduction resulted in a sequestration mechanism that triggered annual reductions to the discretionary caps established in the BCA. In FY 2013, as a result of sequestration, the DoD base budget was reduced by \$30 billion from the original base budget request. The Bipartisan Budget Act of 2013 amended the BCA to provide modest relief from sequestration in FY 2014 and 2015 but, unless Congress acts, annual sequestration cuts are set to begin once more in FY 2016.” ***To protect the nation’s security interests while maintaining the national security imperative of deficit reduction, the President’s Budget proposes a Defense budget approximately \$36 billion above the sequestration level in FY 2016, and about \$155 billion above estimated sequestration levels over a 5-year period, to provide a balanced and responsible path forward. The base budget request is approximately \$38.2 billion above the Department’s FY 2015 enacted appropriations.”***

Key Trends in FY2016 Defense Budget Request II

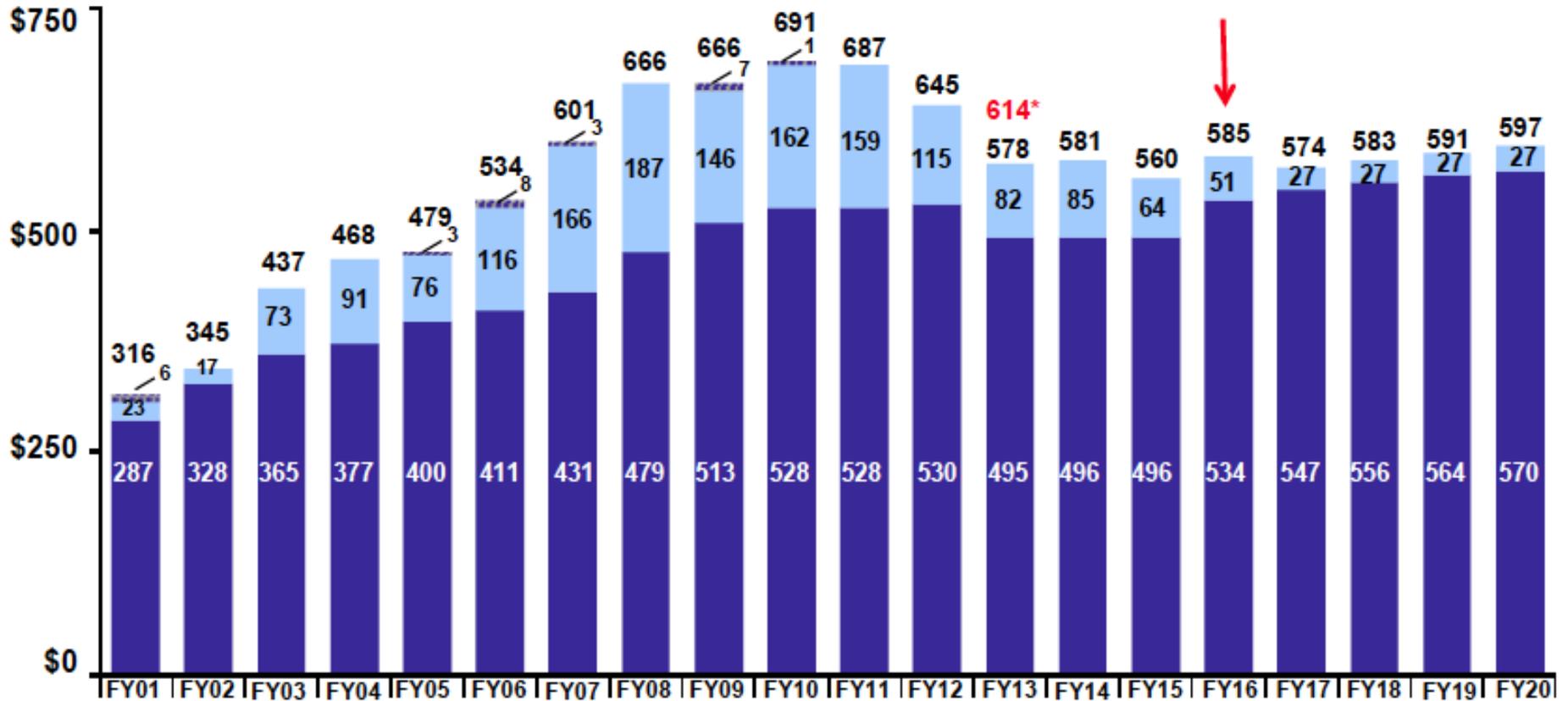
But,

- *There is no real OCO budget – only a \$27 billion set of annual placeholders in FY2017-FY2020, and a \$57 billion figure for FY2016 that is not justified in detail in the unclassified budget requests and seems to continue the use of the OCO account as a slush fund.*
- *The projected baseline spending program for FY2016-FY2020 is far lower than the President requested in FY2013 and FY2014, and the gap between them on FY2020 is roughly twice the size of the projected impact of the BCA (Sequestration) cuts for that year.*

No allowance is made for cost escalation, and CBO estimates indicate that the Department has systematically under-costed the real price of its proposed five year defense programs (FYDPs) at levels roughly equal to the full impact of sequestration.

- The Department of Defense does not address a key issue raised by the CBO. The Department has consistently underestimated its real spending needs in projecting its baseline budget. The CBO estimates that funding the program that the Department proposes would actually cost substantially more than the Department plans, and a failure to provide the added funds would have roughly the same impact on US forces as the estimate of the impact of the Budget Control act as shown in DoD projections.

US DoD FY2016 Budget Request: BA 2001-2020



* Reflects FY 2013 Enacted level excluding Sequestration

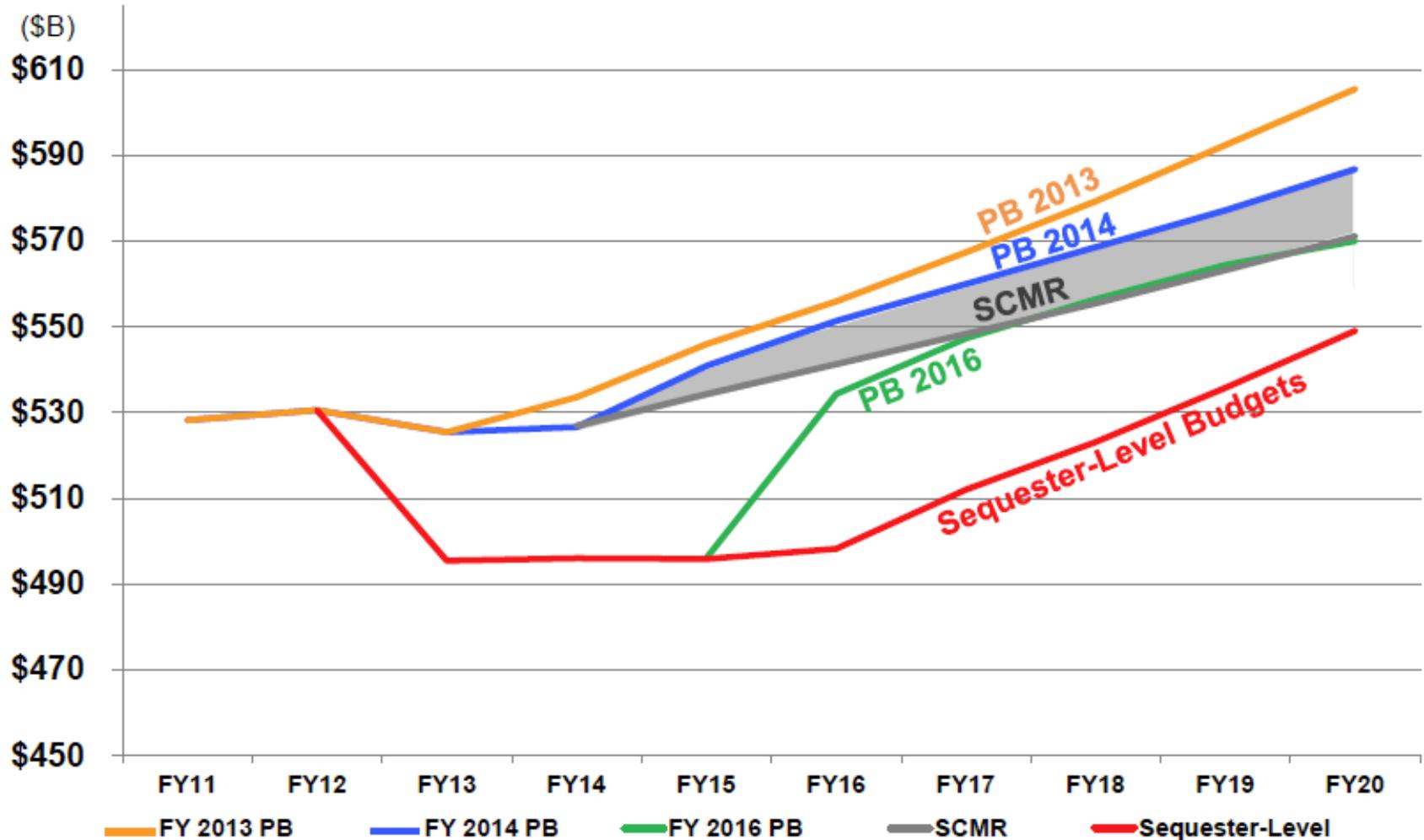
Numbers may not add due to rounding

DoD Topline, FY 2001 – FY 2020

(Current Dollars in Billions)

■ Base Budget ■ OCO ■ Other

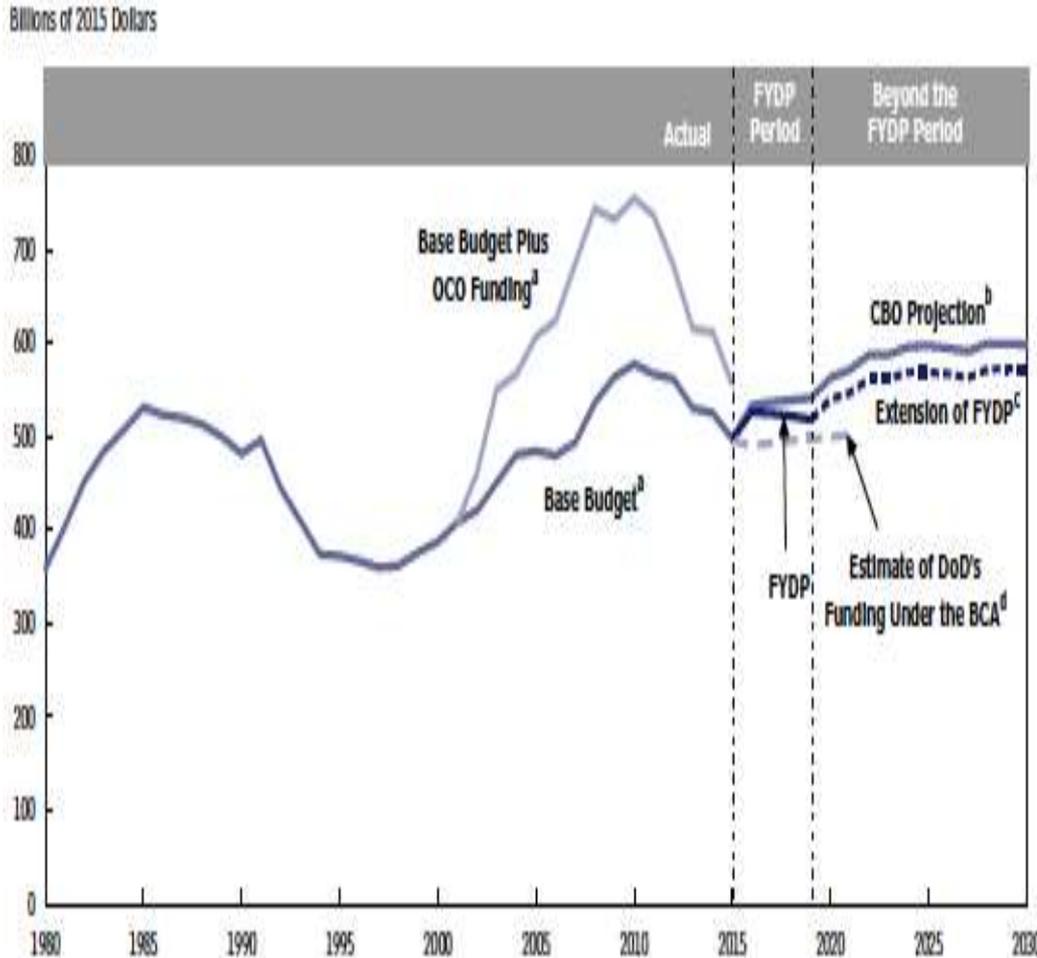
Steadily Declining **Baseline** FYDP Requests, But Well Above Sequestration: FY2013-FY2016



SCMR = Strategic Choices and Management Review

CBO Estimate of Real Cost of Defense vs. DoD Budget Proposal

Estimates Warns That Cost Escalation May Do As Much Harm as BCA (Sequestration)



Under the CBO projection, the real cost of the plans would start at \$497 billion in 2015, jump to \$533 billion in 2016, and continue growing thereafter, reaching \$541 billion in 2019 and \$598 billion in 2030. The average annual growth rate of the cost from 2015 to 2030 would be 1.2 percent, resulting in a 20 percent increase over the next decade and a half. CBO projects that the two largest parts of DoD's budget would increase by different amounts and with very different profiles over that period:

Operation and support (O&S)—which includes compensation for the department's military and civilian employees, military health care, and various other operation and maintenance activities—accounts for about two-thirds of the cost to implement DoD's plans in 2015. CBO projects that those costs would rise fairly steadily between 2015 and 2030, with average growth of 1.1 percent a year in real terms and cumulative growth of 18 percent. That growth would occur despite a 6 percent decrease in the size of the military.

Acquisition—which includes research, development, test, and evaluation as well as procurement of weapon systems, munitions, and other equipment—accounts for about one-third of the cost to implement DoD's plans in 2015. CBO projects that those costs would jump by 42 percent in real terms between 2015 and 2022 but then trend downward through 2030. Costs in 2030 would be 22 percent higher than in 2015. According to the CBO projection, the average real cost of DoD's base-budget plans from 2015 through 2019 would exceed average spending for DoD from 1980 to 2014 by \$64 billion a year. Moreover, the average real cost of DoD's plans from 2015 through 2030 would exceed the 1980–2014 average by \$105 billion a year.

FY 2016 PB Request is Guided by the 2014 QDR Strategy

The FY 2016 PB Request is shaped by the three pillars of the 2014 QDR strategy...

- Protect the homeland
- Build security globally
- Project power and win decisively

...and reflects the five key Priorities: Rebalance to the Asia-Pacific

Maintain a strong commitment to security and stability in Europe and the Middle East

- Sustain a global approach to countering violent extremists
- Prioritize and protect key investments in technology
- Reinvigorate efforts to build innovative partnerships

2014 QDR Strategy bends, but does not break, at PB 2016 levels Obtaining PB 2016 funding levels is essential to executing the defense strategy

FY2016 Homeland Defense Priorities

The Budget supports the Department's efforts to protect the homeland by making investments to deter and defeat threats to the Nation and to mitigate the effects of potential attacks. The Budget continues investment in missile defense, nuclear modernization, space security, and cyber capabilities, and sustains the capacity to protect U.S. airspace and shores. This includes:

- Strengthening our nation's nuclear deterrent by modernizing essential nuclear delivery systems, improving personnel management and safety procedures, and making technology improvements - in collaboration with the Department of Energy - to nuclear weapons and supporting infrastructure as identified in the Nuclear Enterprise Review.
- Making targeted investments in missile defense such as defensive interceptors, discrimination capabilities, and sensors.
- Supporting a variety of measures to help assure the use of the space domain, including development of capabilities to defend and enhance the resilience of U.S. space systems.
- Advancing U.S. technological superiority by investing \$12 billion in science and technology in areas such as quantum information science, cognitive neuroscience, nanoscience, synthetic biology, autonomy, cybersecurity, and countering weapons of mass destruction, among other investments.
- Continuing to invest in new and expanded cyber capabilities and forces to operate and defend DoD's networks, enhance its ability to conduct cyberspace operations, support military operations worldwide, and counter cyber-attacks against the United States.

Projected FY2016 Force Levels

- Force structure assessed sufficient to execute the strategy
- Major elements include:
 - 14 SSBNs, 450 ICBMs
 - 96 Operational Bombers (154 total)
 - 304 Ship Navy with 11 Carriers
 - 49 Tactical fighter squadrons
 - 980k Army Total End Strength (by FY 2018)
 - 221k Marine Corps Total End Strength (by FY 2017)



**FY2016 Baseline Trends:
Programming and “Reform”
Consist of Cutting the
Existing Budget Without
clear Strategic or Mission
Priorities**

FY2016 Baseline Trends: Programming and “Reform” Consist of Cutting the Existing Budget Without clear Strategic or Mission Priorities - I

The adjustments made in FY2016 are the equivalent of telling a barber to “take a little off of the top.” They do not reflect clear strategic or mission priorities except to push the army and Marine Corps back towards prewar force levels. “Reform” consists largely of selected budget, force, and procurement cuts, not real improvements in overall efficiency,

The FY2016 request would continue to raise procurement spending in the coming five years, but leave other major categories of spending relatively level. This reverse the trend during FY2000-FY20014, when acquisition costs rose 2%%, but military personnel costs rose 46% and O&M rose 34%.

- Basic pay only rose 18%. Tricare and retirement costs rose 26%.
- 33% of the rise in O&M costs came from the Defense Health Program.

The Department warns that the request forces “difficult trade-offs” because of the limited funds, but does not specify them in detail.

FY2016 Baseline Trends: Programming and “Reform” Consist of Cutting the Existing Budget Without clear Strategic or Mission Priorities - II

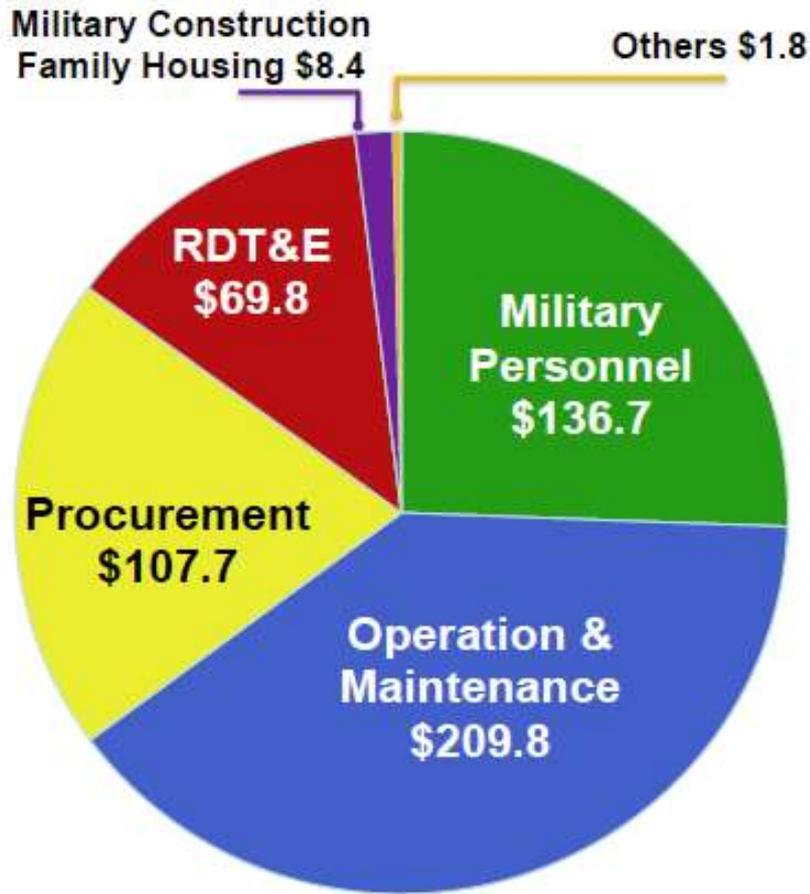
It provides a list of “reforms” that seem to be largely budget cuts, and resubmits FY2015 proposals that are largely budget cuts or deferrals. These include a number of cuts in compensation.

Substantial modernization will still take place, along with investments in nuclear weapons, ICBM operations, and space capabilities.

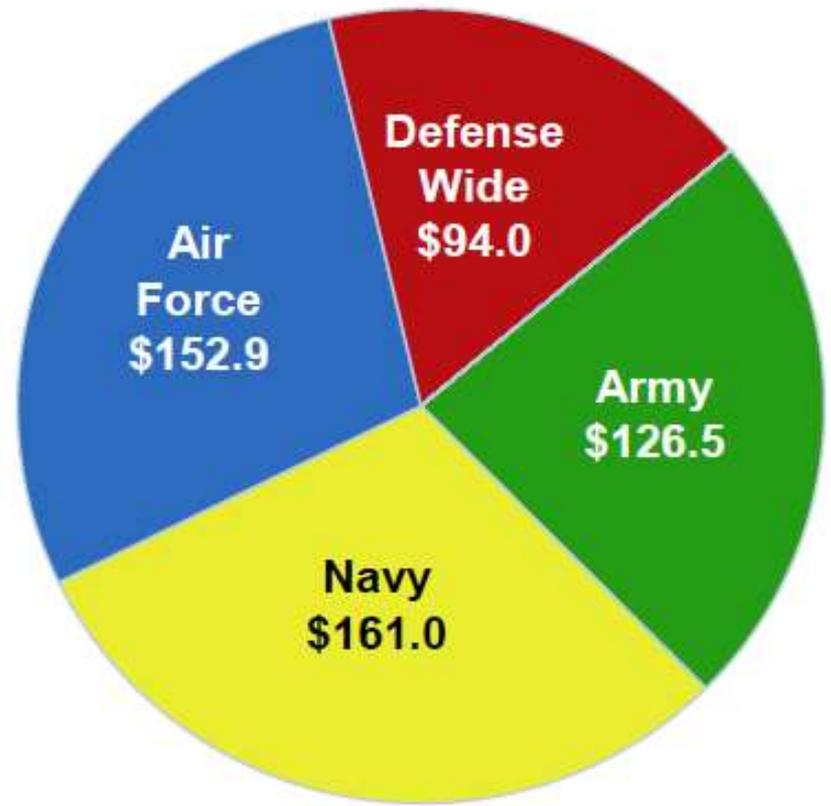
Reference is made to, “Sustain the path to full spectrum readiness,” but it is far from clear what this means or when improvements will actually take place. Full flight readiness for the USAF seems to be deferred to FY2023.

Breakout of FY2016 Baseline Spending in BA

Base Budget



Budget By Military Department



Budget Request: \$534.2 billion

FY2015-FY2016 Trend in Baseline by Category & Service

By Appropriation Title	FY 2015	FY 2016	Dollar Change
Military Personnel	135.0	136.7	+1.8
Operation and Maintenance	195.4	209.8	+14.5
Procurement	93.6	107.7	+14.1
RDT&E	63.5	69.8	+6.3
Military Construction/Family Housing	6.6	8.4	+1.9
Other	2.1	1.8	-0.3
TOTAL	496.1	534.3	+38.2

Numbers may not add due to rounding

By Military Department	FY 2015	FY 2016	Dollar Change
Army	119.5	126.5	+7.0
Navy	149.2	161.0	+11.8
Air Force	136.9	152.9	+16.0
Defense Wide	90.6	94.0	+3.4
TOTAL	496.1	534.3	+38.2

Numbers may not add due to rounding

Base Budget Request: \$534.3 Billion

Limited Resources Force Difficult Trade-Offs

- The U.S. Military remains deeply engaged around the world
 - Currently responding to three emergent geopolitical challenges: Russian activities in the Ukraine; rise of ISIL; Ebola
- The Department must address both current and emerging challenges
 - Cyber attacks
 - Rising China
 - Threats to space assets
- Achieving the right balance among capacity, capability, and readiness is increasingly difficult
 - The Joint Force faces severe deployment demands without full reset from war
 - U.S. technological edge is eroding
 - Recovering full spectrum readiness remains a challenge
 - Congressional opposition to Departmental reforms complicates our efforts
 - Uncertainty over future resource levels overhangs all program decisions

Can support 2014 QDR strategy, unless sequester-level cuts return in FY 2016 or our proposed efficiencies and reforms are not accepted

FY2016 Defense “Reforms”

Directs investments towards a ready, technologically superior force by continuing to reduce force structure.

- Following the elimination of excess infrastructure in Europe, proceeds with a round of Base Realignment and Closure to consolidate defense facilities in the United States.
- Retires aging aircraft and realigns force structure to allow for critical investments in new weapons systems and platforms, as well as more ready forces, that are critical to meeting the challenges of the future.
- Continues to pursue a 20 percent reduction to operating costs of management headquarters.
- Modernizes health care delivery and incentives.

The defense strategy depends on investing every dollar where it will have the greatest effect. To direct investments towards a ready, technologically superior force, the military must shed unnecessary force structure and infrastructure to prepare the Department for the future. The Budget reduces overhead and waste by:

- Retiring less capable, single-mission, or vulnerable weapons systems, such as the A-10 Thunderbolt aircraft, and focusing limited funding on the most capable, versatile, and survivable systems to accomplish assigned missions.
- Eliminating excess infrastructure and facilities to include requesting authority to initiate a new round of Base Realignment and Closure (BRAC) in FY 2017.
- Continuing last year’s efforts to reduce management headquarters operating costs from the FY 2014 level by 20 percent by FY 2019.
- Continuing to pursue acquisition reform through an additional Better Buying Power initiative that focuses on achieving dominant capabilities through technical excellence.
- Slowing growth in basic pay and housing allowances, consolidating TRICARE health plans, and reducing the commissary subsidy

Resubmit FY2015 Proposed Cuts

- Army aviation restructure
- Navy Cruiser/LSD phased modernization program
- Air Force A-10 divestiture
- Base Realignment and Closure
- Compensation Reforms



**FY2016 Impact on Each
Service of Only Getting BCA
(Sequestration) Funding:
Mostly Dollar Data, Not
Impact or Risk Assessments**

FY2016 Impact on Each Service of Only Getting BCA (Sequestration) Funding: Mostly Dollar Data, Not Impact or Risk Assessments

OSD never explains the overall impact of sequestration in terms of specific details and metrics. It does not provide any explanation of the steady cut in the project FYDP since the President's FY2013 budget request, or the risk inherent in funding the absolute bottom of the projected cost of the FY2016-FY2020 FYDP estimated to meet the needs of the Strategic Choices and Management Review, much less whatever forces the 2014 QDR can actually be "guesstimated" to require.

There is no meaningful attempt to project outyear trends and impacts beyond dollars, and sometimes total military personnel.

Each service focuses on showing the budget impact by service, but provides a different set of arguments against cutting spending to the Budget Control Act Level – often focusing more on the size of the projected budget cut than its impact.

- The Army notes that only 9 of 30 brigade combat teams would be ready for rapid deployment, and major further personnel cuts would be needed.
- The Navy emphasizes across-the-board budget cuts, and impacts on USN and USMC personnel strength.
- The Air Force emphasizes serious readiness issues, force cuts, modernization cuts and delays, and loss of global reach.

There is no indication as to whether the level funded in the President's FY2016 request is adequate.

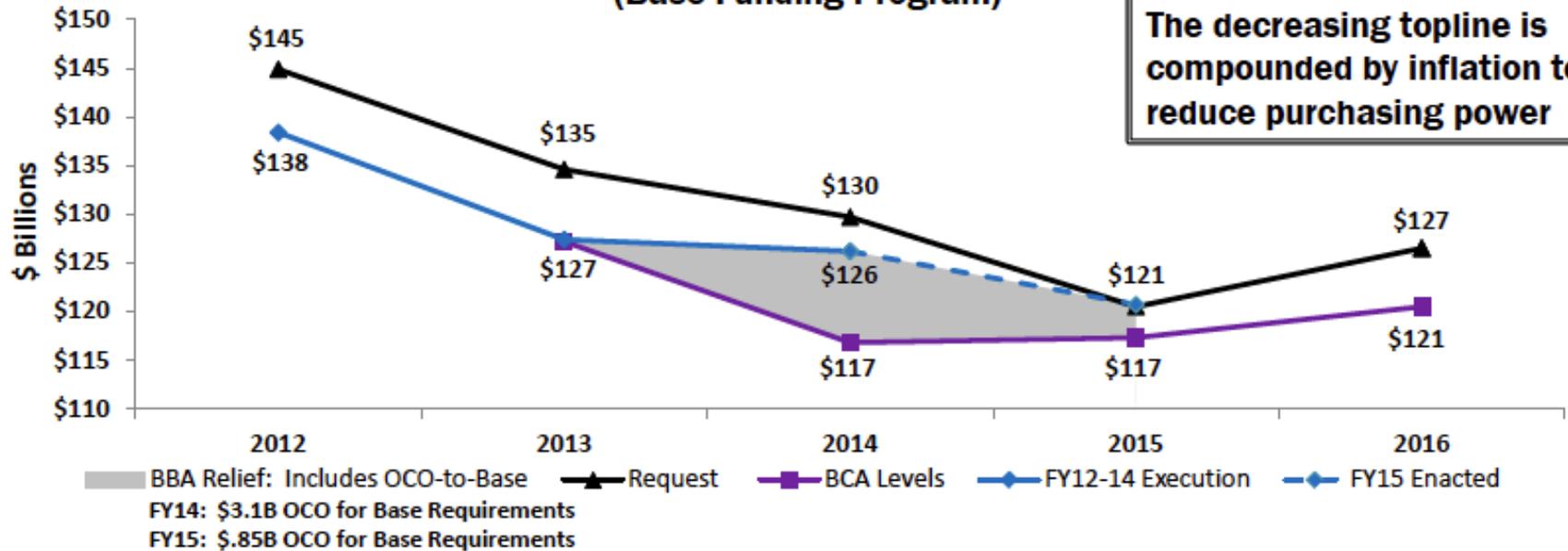
There is an urgent need to provide consistent formats and data, focus on the numbers, and look beyond the coming fiscal year and address impact on the program over time.

Impact of Sequestration on Army - I



Army Topline

(Base Funding Program)



At FY16 PB Levels

- ❖ Transitions from Tiered Readiness resourcing to more balanced Total Readiness across the Force
- ❖ Balanced, rotationally focused, and surge ready force to meet combatant command demands
- ❖ Sustains a planned drawdown of the Active Component to 475K
- ❖ Prioritizes modernization of Apache, Black Hawk and Chinook helicopter fleets; and the Armored Multi-Purpose Vehicle, the Paladin Integrated Management and Stryker Double-V Hull

Under Sequestered Budget Levels

- ❖ Continues Tiered Readiness resourcing
- ❖ Provides a Contingency Force where only 9 of ~30 Active Component BCTs are ready at a given time; supports only priority Global Force Management Missions
- ❖ Accelerates the drawdown of the Active Component
- ❖ Cuts Modernization Accounts by ~12%
- ❖ Supports only critical life, health, and safety repairs to facilities

Impact of Sequestration on Army - II

The Army has three major challenges due to the budget uncertainty

- 1. The “velocity of instability” has substantially increased since the FY16 spending cap was set almost four years ago; the cap simply has not kept pace with the geopolitical reality unfolding around the world.**
- 2. Near Term. The FY16 President’s Budget partially mitigates the risks inherent with funding reductions under Sequestration levels.**
 - Begins to restore the balance between end strength, readiness, and modernization**
 - Provides resources to start rebuilding readiness that has deteriorated over the past several years-readiness that is imperative to maintain strategic and operational flexibility**
 - Focuses modernization efforts on the Soldier and Mission Command elements and begins to restore funding in modernization that remains near historic lows**
- 3. Long Term. Sequestration in FY16-FY23 dramatically suppresses defense spending without acknowledging the world in which we live.**
 - The Army has no major new modernization programs until the next decade.**
 - Continued sequestration will reduce the force to 420K AC/315K ARNG/185K USAR, jeopardizing the Army’s ability to execute even one prolonged multiphase contingency operation.**

Support of the President’s Budget Moderates the Risks to Today’s Threats to National Security

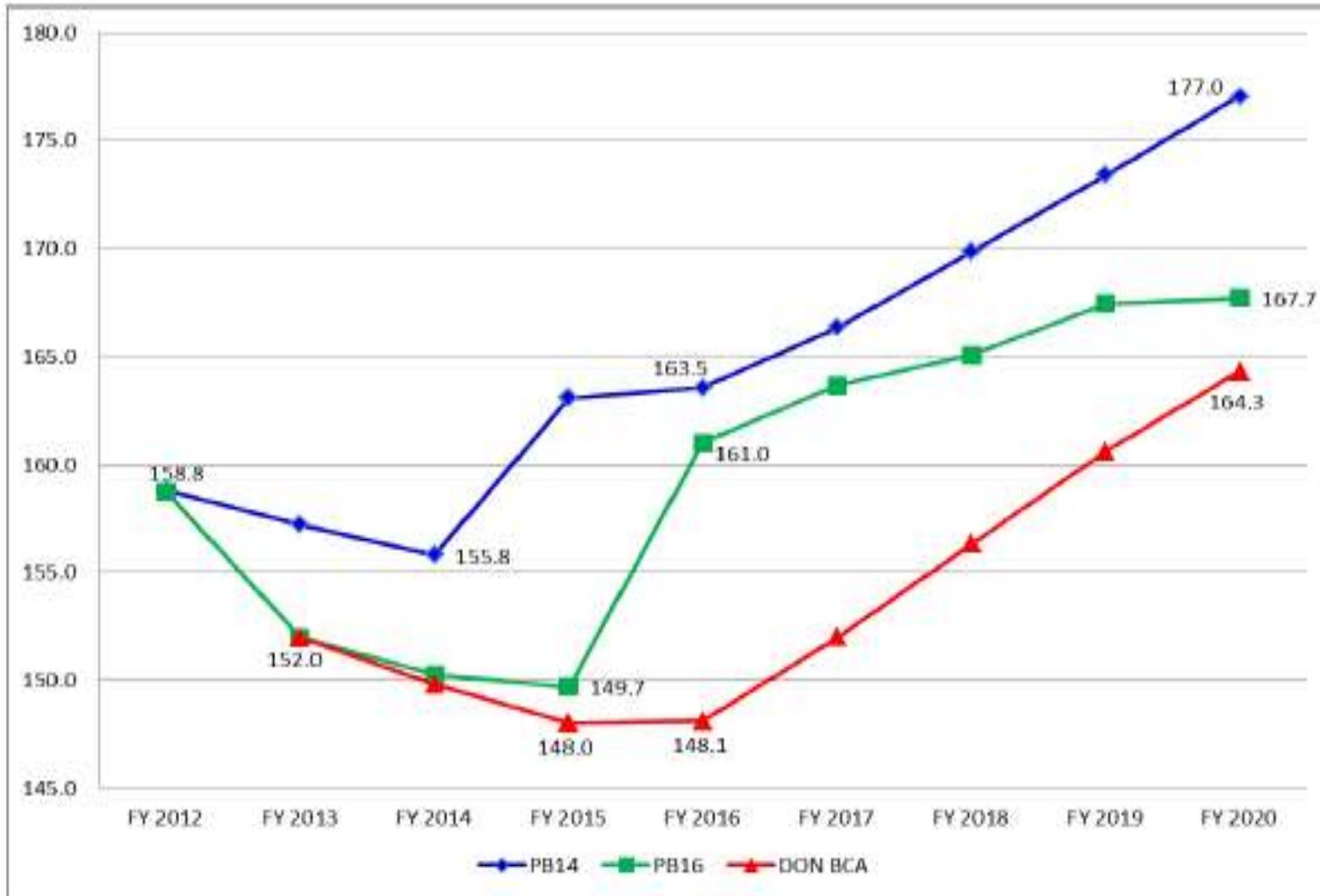
Impact of Sequestration on Army - III

- ❖ **Continuation of end strength drawdown impacts Active Component and Army National Guard in FY16**
- ❖ **Reduced end strength necessitates force structure changes in order to preclude a hollow force**
- ❖ **Request focuses on supporting defense strategy while continuing to reorganize force structure in all three components culminating with a combined FY16 end strength of 1,015,000**

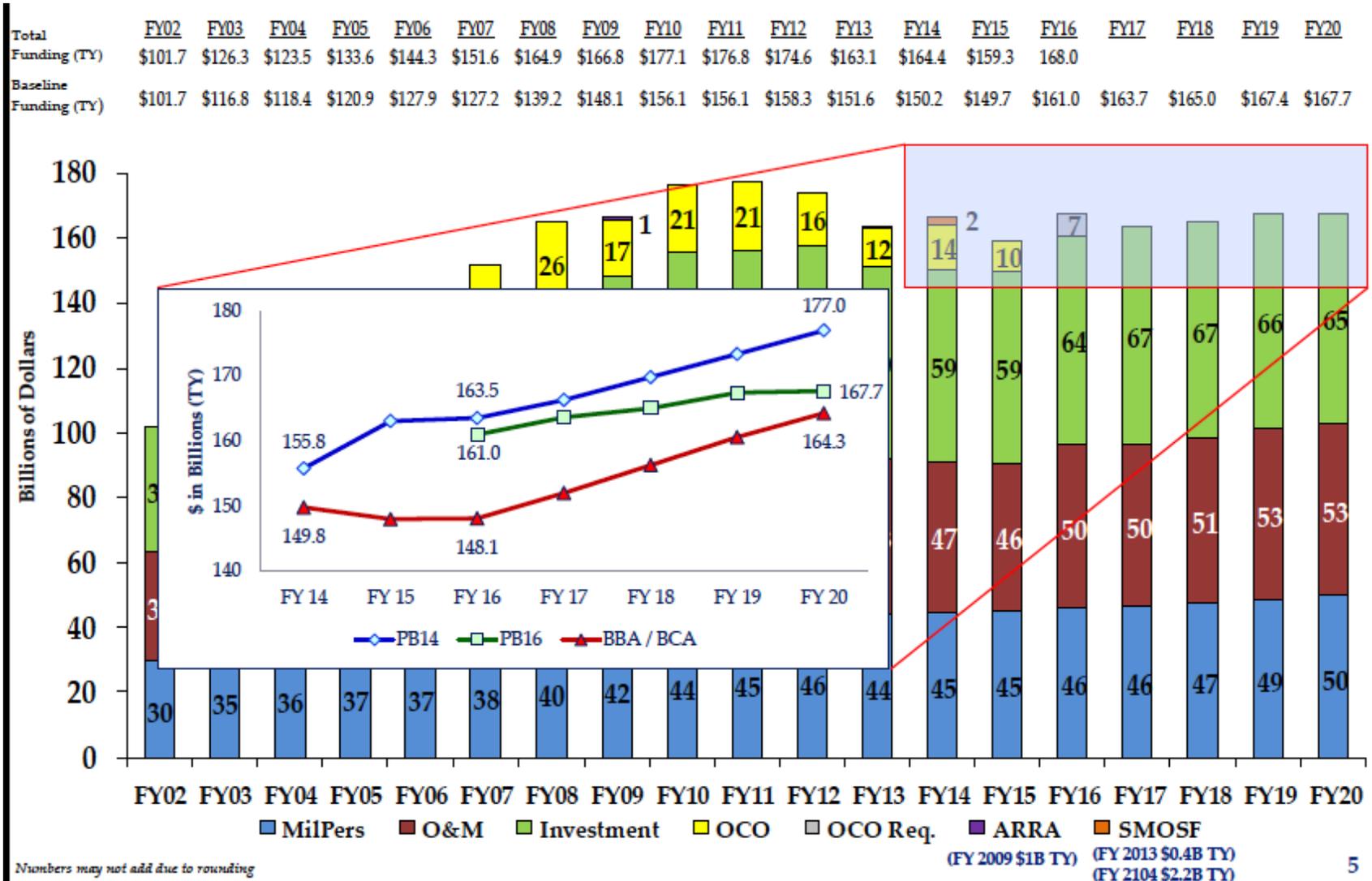
Component	FY14	FY15	FY16
Active Army	508,210	490,000	475,000
<i>Base</i>	<i>490,000</i>	<i>490,000</i>	<i>475,000</i>
<i>OCO</i>	<i>18,210</i>		
Army National Guard	354,072	350,200	342,000
Army Reserve	195,449	198,000	198,000

Rate Increases (Effective 1 Jan 16)	FY 16
Basic pay	1.3%
Basic allowance for housing	1.2%
Basic allowance for subsistence	3.4%

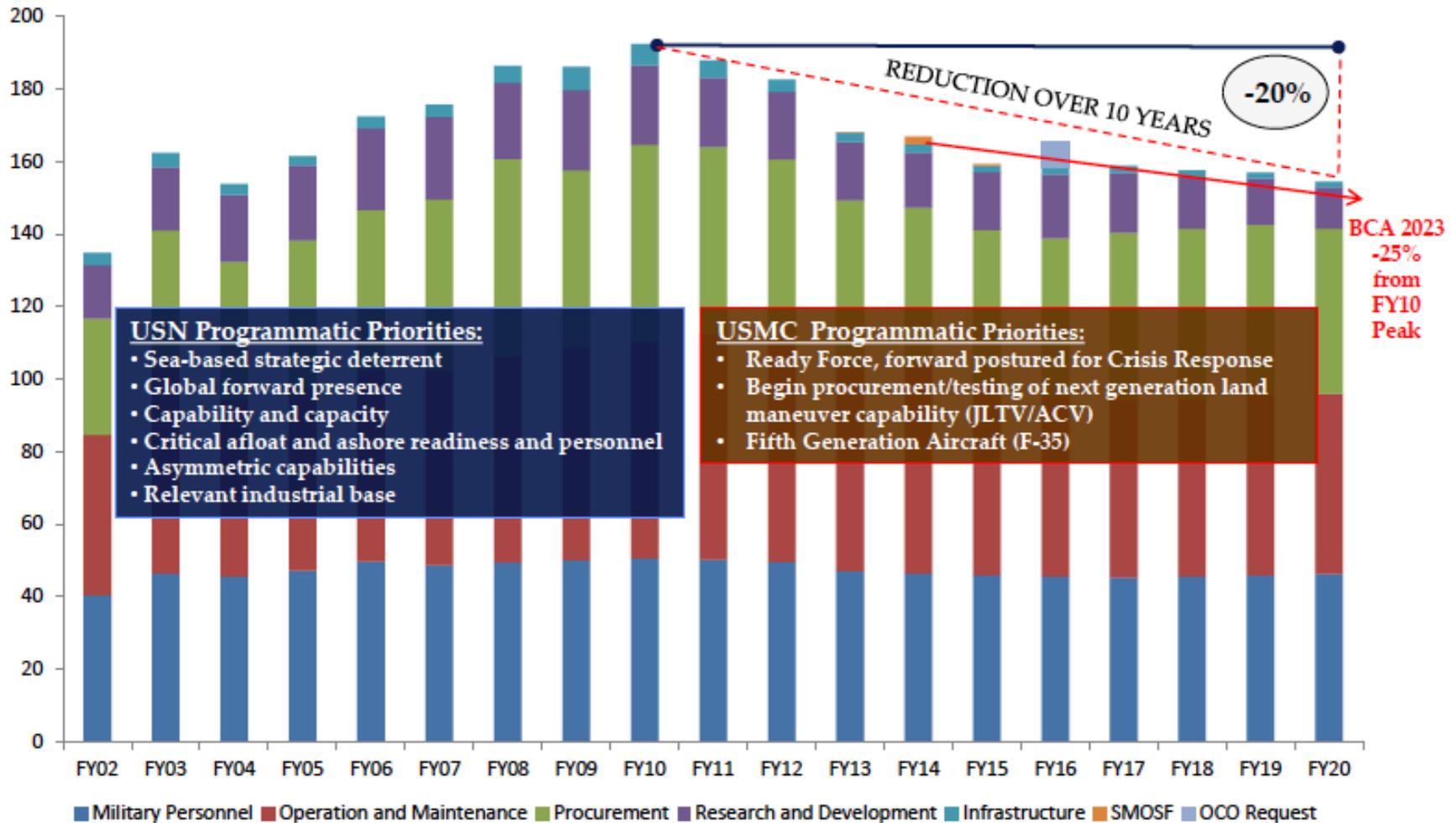
US Navy : Impact of BCA: FY2012-2020 - I



US Navy : Impact of BCA on Topline: FY2002-2020



US Navy : Impact of BCA: FY2012-2020 - II



PB16: Challenging Fiscal Context; Dynamic Security Context

US Navy & Marine Corps: Higher Manning without BCA Constraint

Navy Personnel Strength

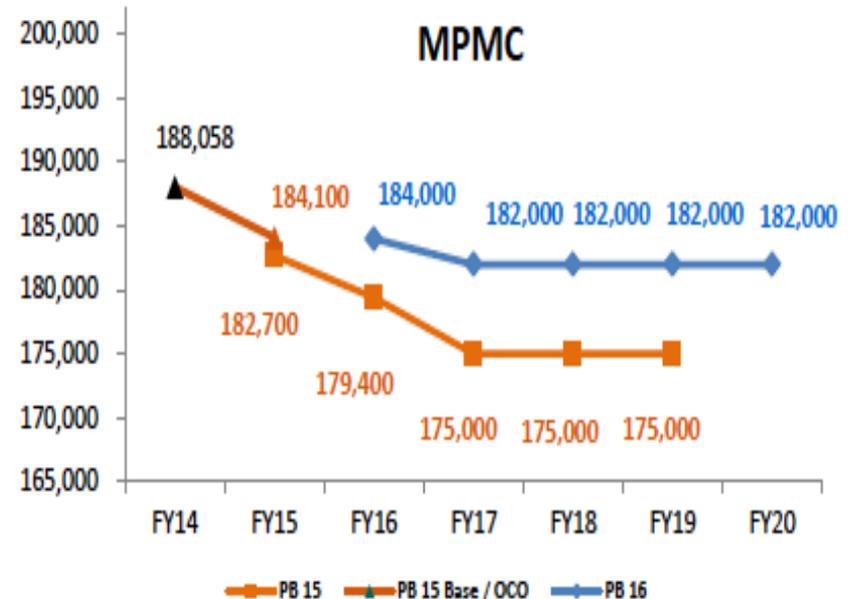
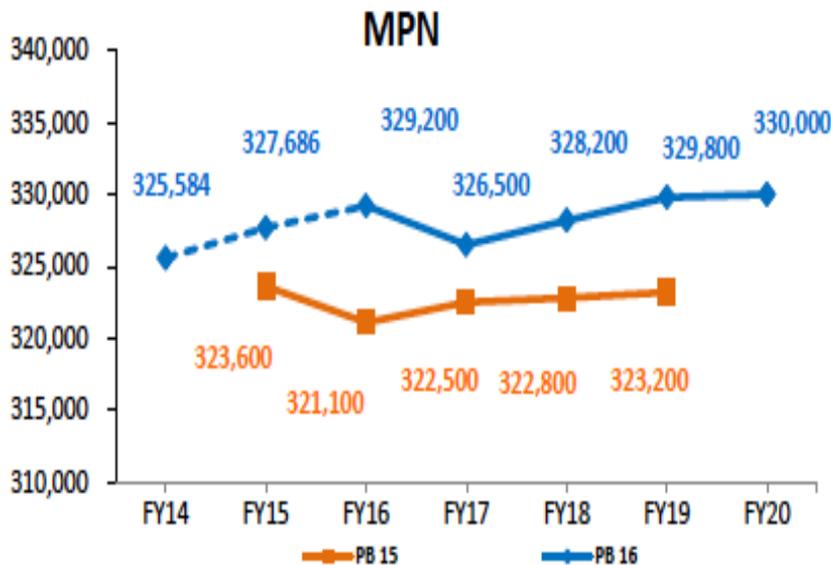
Aligns with force structure decisions:

- FY16 Active end strength 329.2K
 - Fit / Fill funded at 92% / 95%
- Restores 1 CVN, 1 CVW; stands up a CVN MH-60R squadron
- Supports CG/LSD Mod Plan; funds FY16 E/S for 9 CGs
- FY16 Reserve end strength 57.4K

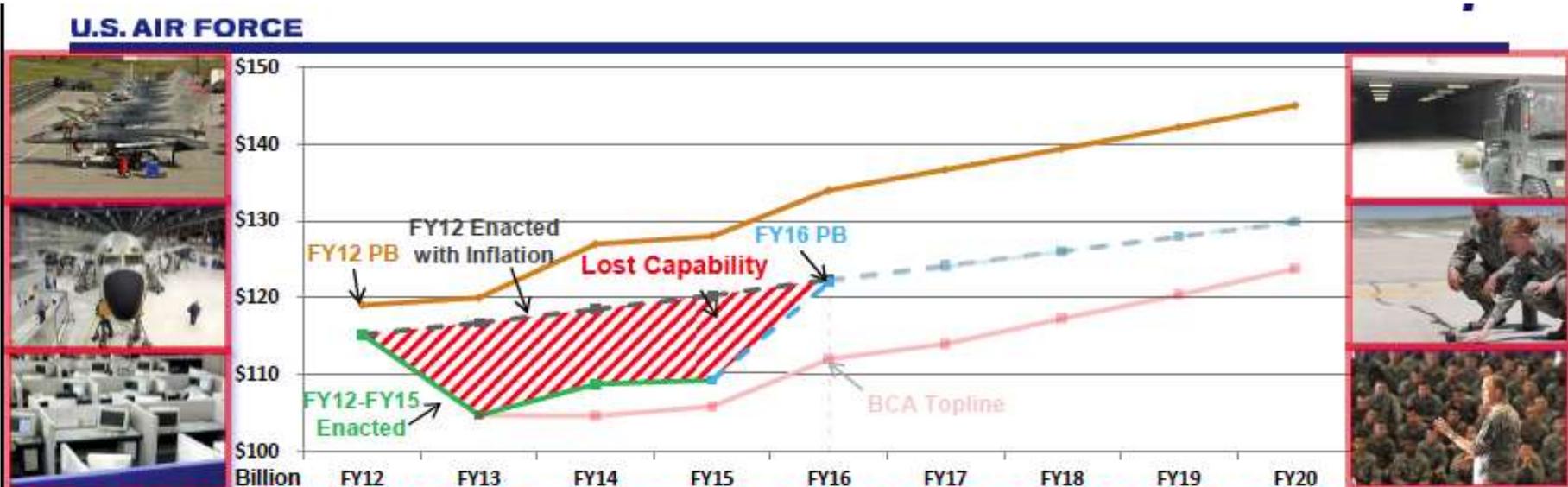
Marine Corps Personnel Strength

Focused on forward presence and crisis response:

- FY16 Active end strength 184K
- Supports 1:2 deployment-to-dwell
 - Agile and ready today
- FY16 Reserve end strength 38.9K



Impact of Sequestration on Air Force - I



FY13 Sequester: Large immediate cuts

- Readiness dropped to lowest level since early 1980s
- Stood down flying squadrons for 3+ months
- Deferred aircraft & engine depot maintenance
- Deferred airfield & infrastructure repairs
- Delayed critical modernization programs
- Broke faith with civilian Airmen – furloughed employees for 6 days with no pay restoral

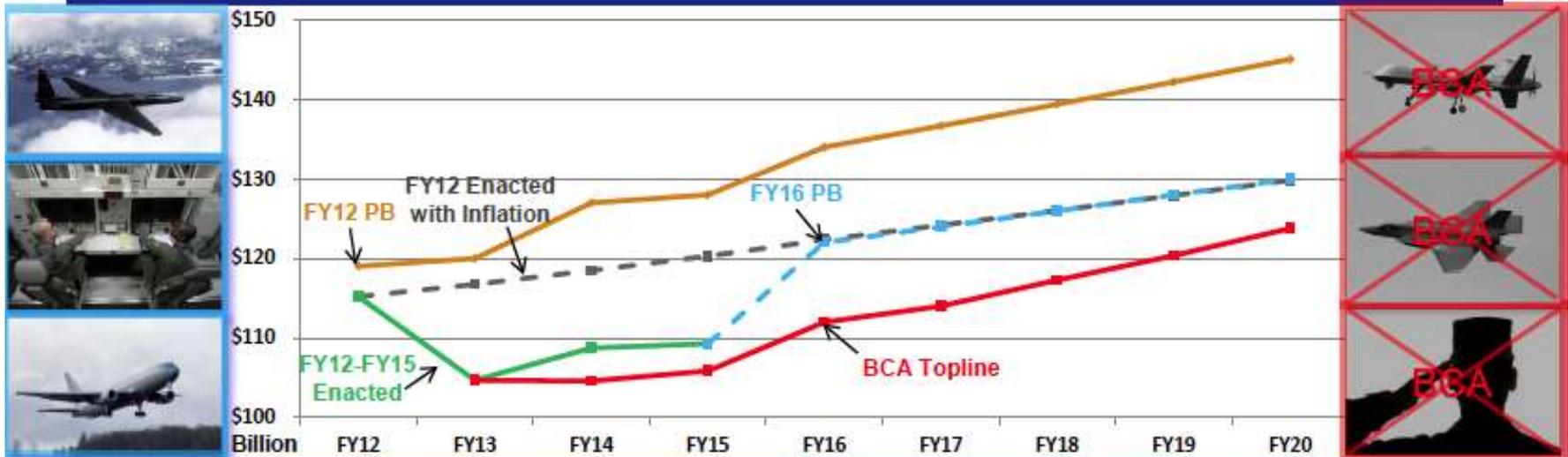
FY14 / 15 Bipartisan Budget Act: Temp relief

- Started readiness recovery
- Protected top modernization priorities
- Allowed some increase of munition levels
- Still had to make tough choices:
 - Divested entire fleets (i.e. A-10)
 - Reduced military endstrength by 24K
 - Reduced management headquarters by 20%
- Continued risk in base support and FSR&M

The capability gap is closing...if we let the gap narrow, we won't be able to recover before they pass us

Impact of Sequestration on Air Force - II

U.S. AIR FORCE



At FY16 PB Levels:

- Restores capacity to meet CCDR's most urgent needs (e.g., U-2, E-3) while enhancing capability & re-building readiness
 - Must still reduce some force structure to meet budget targets (e.g., A-10, EC-130H)
- Maintains Flying Hours & Weapon Sys Sustainment funding to continue gradual path of full-spectrum readiness recovery
- Preserves top recapitalization programs (KC-46, F-35A, LRS-B)
- Invests in nuclear enterprise (ICBM, Nuclear C3, & B-2 mods)
- Advances Space, Cyber, ISR, CRH, & Preferred Munitions (e.g., SBSS, AEHF, SBIRS, FAB-T, adaptive eng., & MQ-9 CAPs)
- Addresses facility sustainment shortfalls & repair backlog
- Stops downsizing – we are as low as we can go
- Invests in Guard and Reserve

Begins recovery in readiness and investments

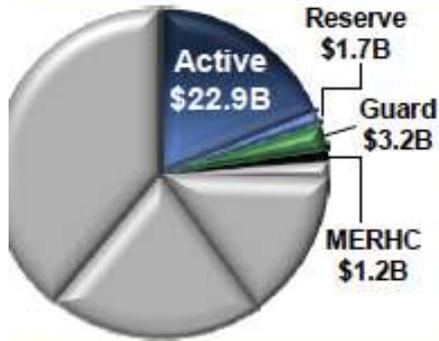
At FY16 BCA Levels:

- Loss of Global Vigilance...reduced ISR capability
 - Forced to divest RQ-4 Blk 40, and cut Blk 30 modifications
 - Reduces ISR capacity by 10 CAPs: equiv to Iraq/Syria today
- Loss of Global Reach...cannot react anywhere, anytime
 - Retire KC-10 fleet; (13% refueling booms, 21% fuel capacity)
 - AF-wide infrastructure/installation spt continues to degrade
 - Defers Presidential Aircraft Recapitalization
- Loss of Global Power...adversaries close in on our advantage
 - Slows readiness recovery due to cuts in Flying Hours, Weapon System Sustainment, ranges & munitions
 - Cuts fighter recapitalization (F-35As); squadron of fighters
 - Reduces investments in Space programs, Cyber mission areas, nuclear enterprise, Science & Tech & Adaptive Engine

Too small, less ready, less capable...unable to execute defense strategy

Impact of Sequestration on Air Force - III

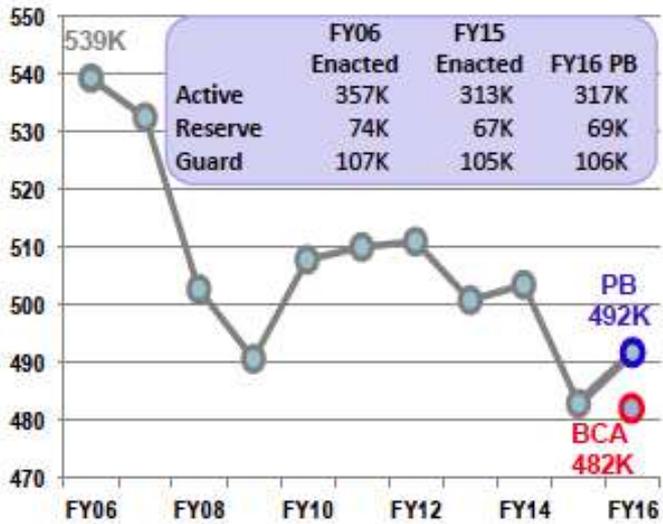
U.S. AIR FORCE



Category (\$B)	FY15	FY16
	Enacted	PB
Pay and Allowances	26.1	26.5
Permanent Change of Station	1.2	1.2
Medicare Eligible Retiree Health Care	1.4	1.2
Other Military Pay	0.1	0.1
Total	28.8	29.0



PB: Matches people to force structure to remain ready today...supports 492K Total Force Airmen



Stabilize the Force: Maintains Total Force structure that aligns with National Defense strategy, maximizing the Air Force's Air, Space, and Cyber capabilities to meet current and future operational commitments

- Restores end strength authorizations from 483K in FY15 to 492K in FY16
 - Funds 900+ billets to further strengthen our Nuclear Enterprise
 - Increases Cyber 200+ billets to counter worldwide cyber threats
 - Restores 2,900+ force structure billets (U-2, F-15C, MQ-9, E-8, & E-3)
- Synchronizes military force size with mission
 - Optimizes Total Force to address geopolitical realities, global demands – increases Guard and Reserve
 - Airmen leading full spectrum engagement - from combat missions and humanitarian operations to protecting the homeland
 - Pay raise for Active Duty and other QoL (bonuses & special pay)

BCA: Too small now...won't meet DSG with BCA level force – need to stop downsizing

Impact of Sequestration on Air Force - IV

U.S. AIR FORCE



AIRCRAFT	FY15	FY16 PB	FY16 BCA
F-35A Lightning II	28	44	30
KC-46A Tanker	7	12	12
MC-130J Recapitalization	2	8	8
MQ-9A Reaper	24	29	20
HC-130J Recapitalization	4	5	5
C-130J Super Hercules	7	14	14
Total	72	112	89
SPACE	FY15	FY16 PB	FY16 BCA
GPS III	1	1	1
EELV	4	5	4
Total	5	6	5
WEAPONS	FY15	FY16 PB / OCO	FY16 BCA
JDAM	4,333	6,341 / 5,953	3,744
AGM-114 Hellfire	381	3,756 / 2,500	400
AIM-9X Sidewinder	303	506	370
AIM-120D AMRAAM	200	262	262
AGM-158 JASSM	215	360	260
Small Diameter Bomb	144	1,942 / 63	1,942
Total	5,576	13,167 / 8,516	6,978

The Great Readiness Mystery:

“Trust Me”?

The Great Readiness Mystery: “Trust Me”

A close look at the readiness data in the budget request shows that far too many statements are vague promises of future improvement with so little content that they add up to “trust me.”

The most flattering comment that can be made of the readiness data provided by OSD and the services is that they cumulative add up to an inchoate mess.

- *There are no real trend data showing the decline caused by past cuts or the future trend. To the extent there is anything at all, it is almost always a FY2014-FY2016 snapshot.*
- *There is far too little effort to provide consistency. Mission related metrics, or an explanation in detail of the risks inherent in the President’s FY2016 FYDP request and how this compares with the impact of actually going down to the BCA level.*
- *Each service provides a different type of short-term snapshot of readiness provides and improvements with no consistency in format or effort to show all aspects of readiness in a total force context*
- *No mention made of the need to address the scale and nature of mass rises in cost, and in the share of defense spending identified in CBO studies.*

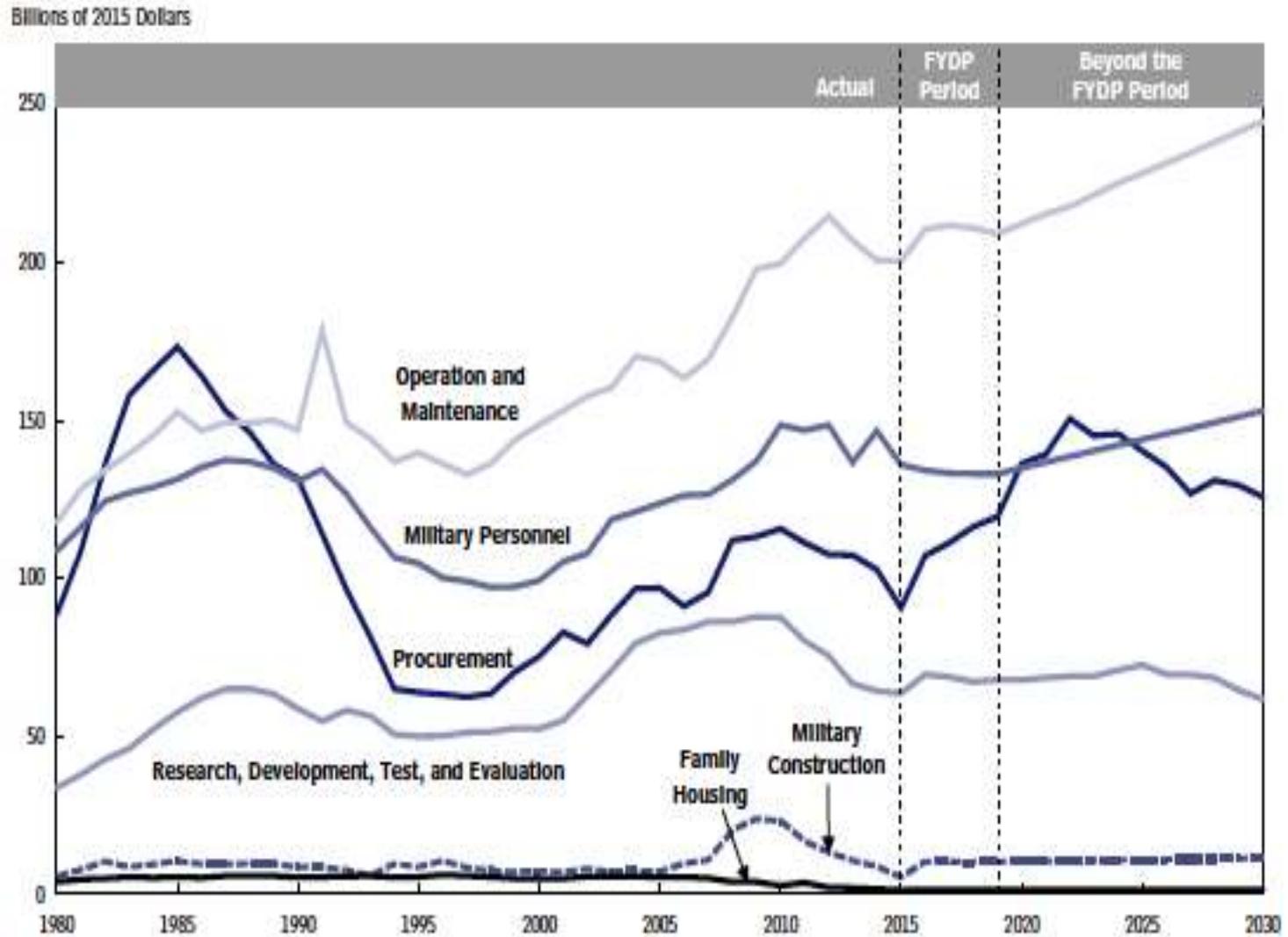
The Department and Services fail to address the steady and massive rises in the cost of full spectrum readiness reflected in CBO trend analysis, or suggest changes and reforms that could control such costs.

Budget documents say the FY2016 request will “Sustain the path to full spectrum readiness,” but it is far from clear what this means or what improvements will actually take place and when.

- Full readiness in some cases is explicitly deferred to at least FY2023.
- Rises in Tricare and retirement accounted for 26% of the total 2000-2014 cost rises in military personnel.
- Rises in Military Health and fuel costs accounted for 53% of the 2000-2014 rises in O&M costs.

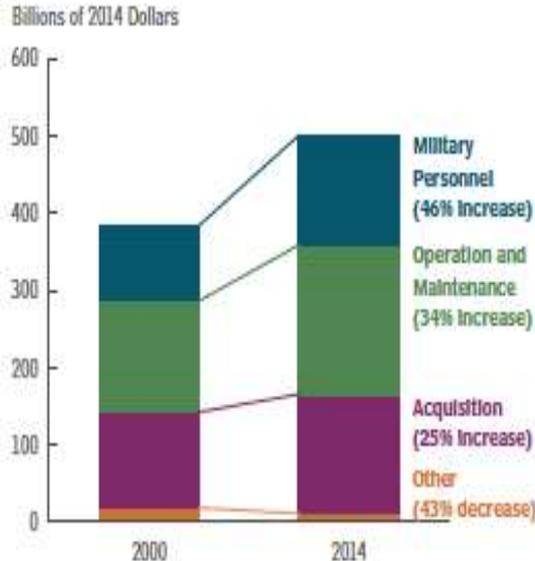
There is a clear need to improve readiness reporting, standardize full reporting on full spectrum readiness over a longer period of time, and ensure that readiness reporting is not separated from maintaining actual force levels.

CBO Breakout of Baseline Spending by Category Based on FY2015



Key Sources of Spending Growth: 2000-2014

The Department of Defense's Inflation-Adjusted Base Budget, Fiscal Years 2000 and 2014

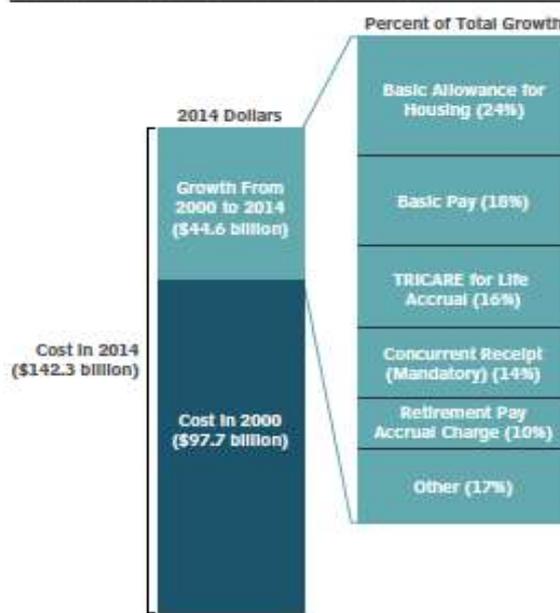


Source: Congressional Budget Office.

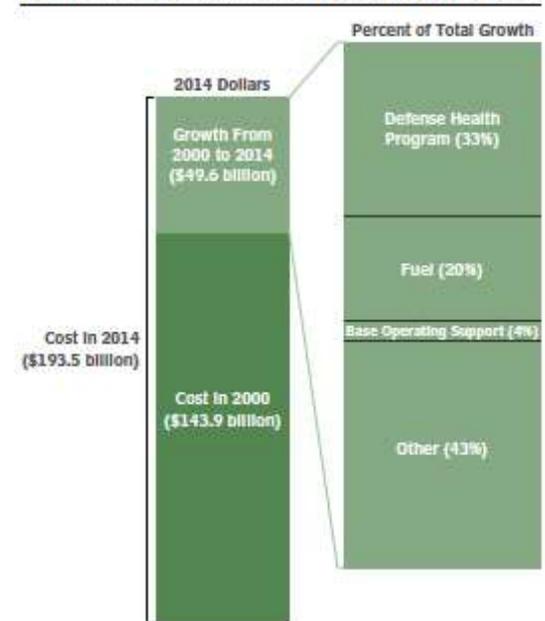
Notes: Acquisition includes appropriations for procurement and for research, development, test, and evaluation. Other includes appropriations for military construction, for family housing, and for revolving, management, and other funds.

Inflation adjustments to the 2000 values are based on the gross domestic product price index.

Sources of Growth in Military Personnel Costs, Fiscal Years 2000 to 2014



Sources of Growth in Operation and Maintenance Costs, Fiscal Years 2000 to 2014



Acquisition Budgets Grew by 25 Percent From 2000 to 2014. Together, the budgets for procurement and for research, development, test, and evaluation—which make up what CBO refers to as the acquisition portion of DoD’s budget—grew by 25 percent (or \$31 billion) in real terms between 2000 and 2014. Although funding for acquisition might rise or fall rapidly, a steady upward trend can be observed when acquisition funding is viewed over the past six decades. From 1948—the earliest data available to CBO—through 2014, funding per service member for acquisition increased by about 2 percent per year in real terms, on average. Similarly, real acquisition funding per service member increased by an average of 1.6 percent per year in the base budget between 2000 and 2014. Many factors have probably contributed to the long-term upward trend in acquisition funding per service member. Several that have been identified by analysts include the following: (1.) Increasing complexity in weapon systems; (2) Shrinking quantities of weapon systems purchased (because the size of the military has declined over time), which has led to higher unit costs and, thus, higher costs per service member; (3) Decreasing numbers of companies that compete to produce weapon systems; and (4) Shifting of noncombat jobs from the military to federal civilians and contractors, which reduced the number of service members, but not the amount of weapons needed.

OSD: “Sustains the Path to Full Spectrum Readiness” - I

- **Army:**
 - Maximize high-end collective training exercises and home station training, resulting in 6 additional fully ready Brigade Combat Teams at the end of FY 2014
 - PB 2016 training plan that allows Army to regain full-spectrum training proficiency by FY 2020
- **Navy:**
 - Level-loaded maintenance requirements in order to ensure consistent and long-term sustainable maritime presence
 - PB 2016 supports maintenance periods required for a healthy balance between presence and surge capability in the outyears
- **Marine Corps:**
 - Fully funded crisis response activities required to provide rapid and agile support to Combatant Commanders
 - PB 2016 continues to grow Marine Corps’ crisis response operational concept and capabilities, and addresses readiness issues of its non-deployed forces over the next 5 years

OSD: “Sustains the Path to Full Spectrum Readiness” - II

- **Air Force:**
 - PB 2016 fully funds executable flying hours and weapon system sustainment to support full-spectrum readiness by FY 2023, although time is needed to regain combat readiness
 - Increases investment in range infrastructure and capabilities, simulators, and critical skills training such as Red Flag exercises
- **SOCOM:**
 - Reinstated language and cultural expertise training and continues to enhance Special Operations Forces (SOF) support to the Geographic Combatant Commanders
 - PB 2016 increases Flying Hour Program funding for SOF aviation, optimizes training and engagement opportunities, and fully mans SOF components at the Combatant Commands

PB 2016 request allows Services to continue building on progress made over the last year, but readiness gains are fragile

FY2016 Global Presence and OCO Trends

**No Clear Plan for Shaping
the Force to Fit the Mission
and needs of Combatant
Commands**

FY2016 Global Presence and OCO Trends: No clear Plan for Shaping the Force to Fit the Mission and needs of Combatant Commands

DoD and the services provide a great deal of detail on total forces, deployments, and OCO spending, but no future plans, no links to a strategy, and goals for given combatant commands.

No effort is made to address specific goals for the “rebalancing to Asia,” creating a stable base of USCENTCOM forces, dealing new tensions with Russia.

Korea – a key contingency requirement is not addressed.

Some passing factoids:

- The budget projects \$50.9 billion in spending with \$3.8 billion to aid Afghan forces, \$5.3 billion to fight ISIL, \$2.1 billion for counterterrorism partnerships. The remaining \$40 billion plus offers major slush fund opportunities.
- The US Army has seen OCO spending cut from \$121 billion in FY2008 to \$21 billion in FY2016. It still sustains a substantial global presence, with 27,360 in Europe, 7,990 in Afghanistan, 1,700 in Iraq, 13,030 in the rest of the Middle East, 2,340 in Japan, and 19,480 in South Korea.
- Navy ship deployments will rise from 99 out of 279 ships today to 103 of 282 in FY2016. Navy Air strength will increase from 3,947 in FY2014 to 4,056 in FY2016.
- Fully funding the FY2016 request would avoid cuts in Marine Corp active strength from 182,000 to 175,000.
- The Air Force stations some 71,000 personnel overseas, and flew nearly 20,000 closer air support and 35,000 IS&R missions in 2015.

Wherever we are now is the right strategy, force strength, and basis for strategic partnerships? Really!

OSD Summary of FY2016 Global and Regional Priorities

Build Security Globally

The Budget supports DoD's efforts to preserve regional stability, deter adversaries, support allies and partners, and cooperate with others to address common security challenges. This includes:

- Continuing to rebalance the Department's posture and presence to the Asia-Pacific region to include implementing the US-Philippines Enhanced Defense Cooperation Agreement entered into force in July 2014 and the Force Posture Agreement signed with Australia in August 2014 that will increase engagement with allies and partners throughout the region.
- Maintaining a focus on the security of allies and partners in the Middle East to include continuing to provide ballistic missile defense support to Israel.
- Working with NATO allies and other European partners to promote regional security, Euro-Atlantic integration, enhanced military capabilities, and enhanced interoperability to include strengthening capabilities to counter Russian aggressive actions and pressure.

OSD Summary of FY2016 Power Projection Goals

The Budget supports the Department's efforts to project power around the world, deter and, if necessary, defeat aggression in multiple regions, and disrupt and destroy terrorist networks. This includes:

- Investing to ensure that U.S. forces are capable of conducting the full range of operations on land, sea, and air with the best technological equipment available by procuring twelve KC-46 tankers, building nine ships, modernizing the Army's helicopter fleet, enhancing cyber capabilities, and numerous innovative capabilities.
- Countering advanced anti-access and area-denial challenges by continuing to invest in fifth-generation fighters (i.e., procure 57 Joint Strike Fighters in FY 2016) and long range strike aircraft, survivable persistent surveillance, and electronic warfare capabilities.
- Rebalancing intelligence, surveillance, and reconnaissance capabilities to invest in systems that are effective in highly contested environments while sustaining capabilities needed for more permissive environments.
- Enabling the Department, particularly the Special Operations Forces, to conduct sustained, distributed counterterrorist operations against emerging transnational threats and build the capacity of U.S. partners to conduct such operations.
- Continuing to restore readiness so the Services have all of the expanded capabilities needed to counter 21st century threats.

OSD Summary of FY2016 Overseas Contingency Operations (OCO)

- Included with this Budget Request
 - \$50.9 billion
 - Continues decline since FY 2010
 - Reflects continued operational demands on U.S. forces
- Continues responsible transition in Afghanistan
 - Includes training and equipping of Afghan security forces (\$3.8 billion)
- Funds Counter-ISIL Operations (\$5.3 billion)
 - Includes training and equipping of Iraqi forces and vetted moderate Syrian opposition (\$1.3 billion)
- Includes Counterterrorism Partnerships Fund (\$2.1 billion)
- Continues European Reassurance Initiative (\$789 million)
- Funds International support (\$1.7 billion)
 - Coalition Support Fund
- Resets/retrogrades equipment (\$7.8 billion)
- If sequestration lifted, plan to transition enduring costs currently funded in the OCO budget to the base budget beginning in 2017 and ending by 2020



OSD Summary of FY2016 OCO Goals

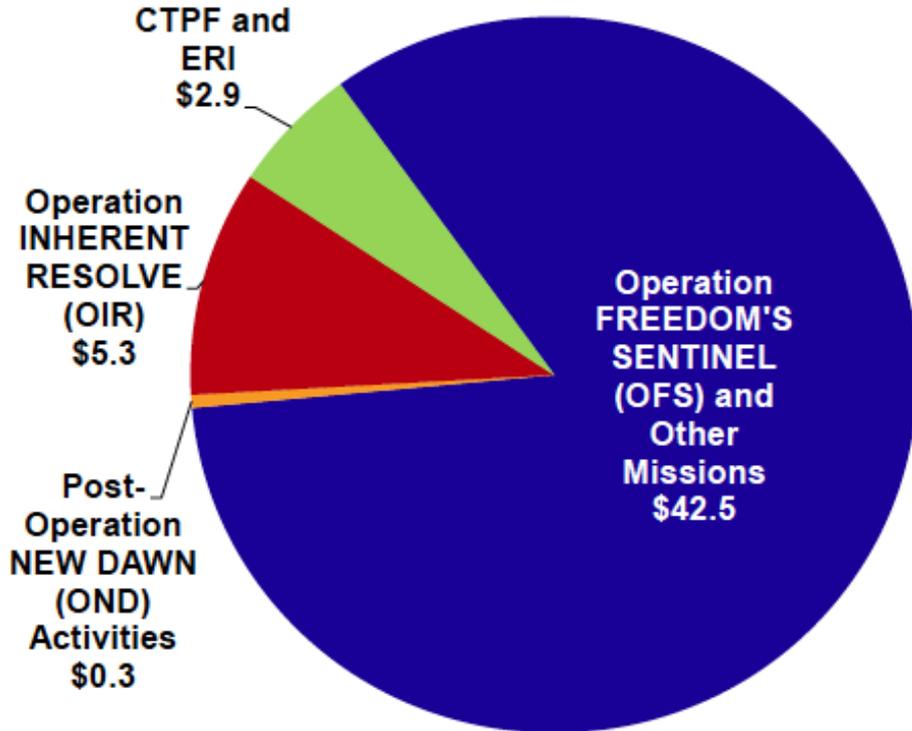
The Overseas Contingency Operations Budget request of \$51 billion supports the Department's efforts to transition from a combat mission to a train, advise, and assist mission in Afghanistan; to assist Iraq and other partners to combat terrorist groups such as the Islamic State of Iraq and the Levant (ISIL); and to support European allies in their efforts to counter Russia's aggressive actions and pressure. This includes:

- Supporting U.S. military operations and forward presence in Afghanistan and the U.S. Central Command area of responsibility to support the NATO Resolute Support mission, which is focused on training, advising, and assisting the Afghan National Security Forces and jointly carrying out counterterrorism operations against the remnants of al Qaeda.
- Building the capacity of the Iraqi and vetted Syrian Opposition forces to defeat ISIL.
- Continuing to support the President's initiative to develop a sustainable and effective approach to combating terrorism, with a focus on enabling and empowering partners facing terrorist threats.
- Continuing to support the President's European Reassurance Initiative to bolster and reassure NATO allies and partner states in Europe against Russia's aggressive actions by funding increased military exercises, training, and rotational presence in Europe.

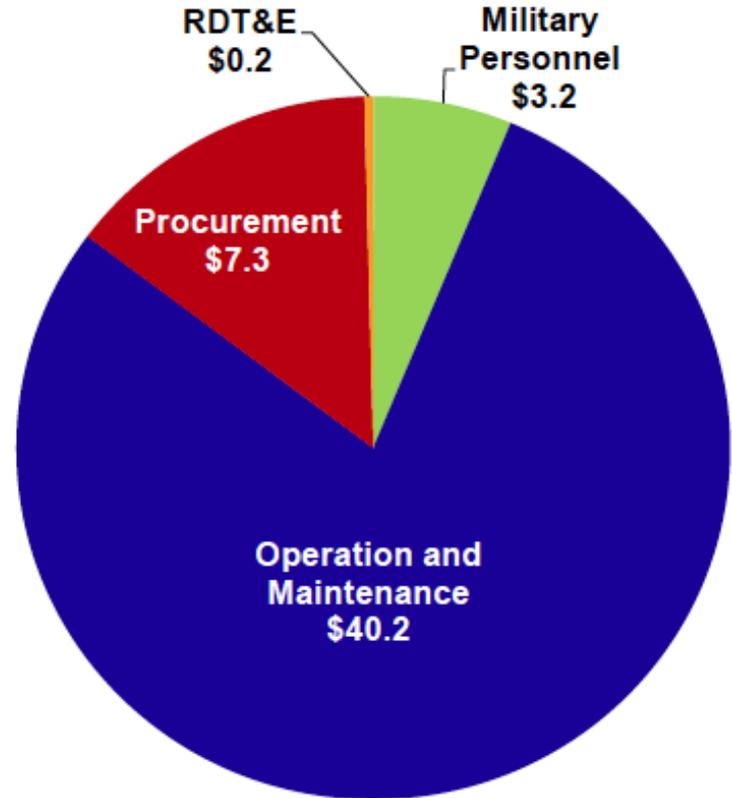
Breakout of FY2016 OCO Spending in BA

(Dollars in Billions)

By Operation



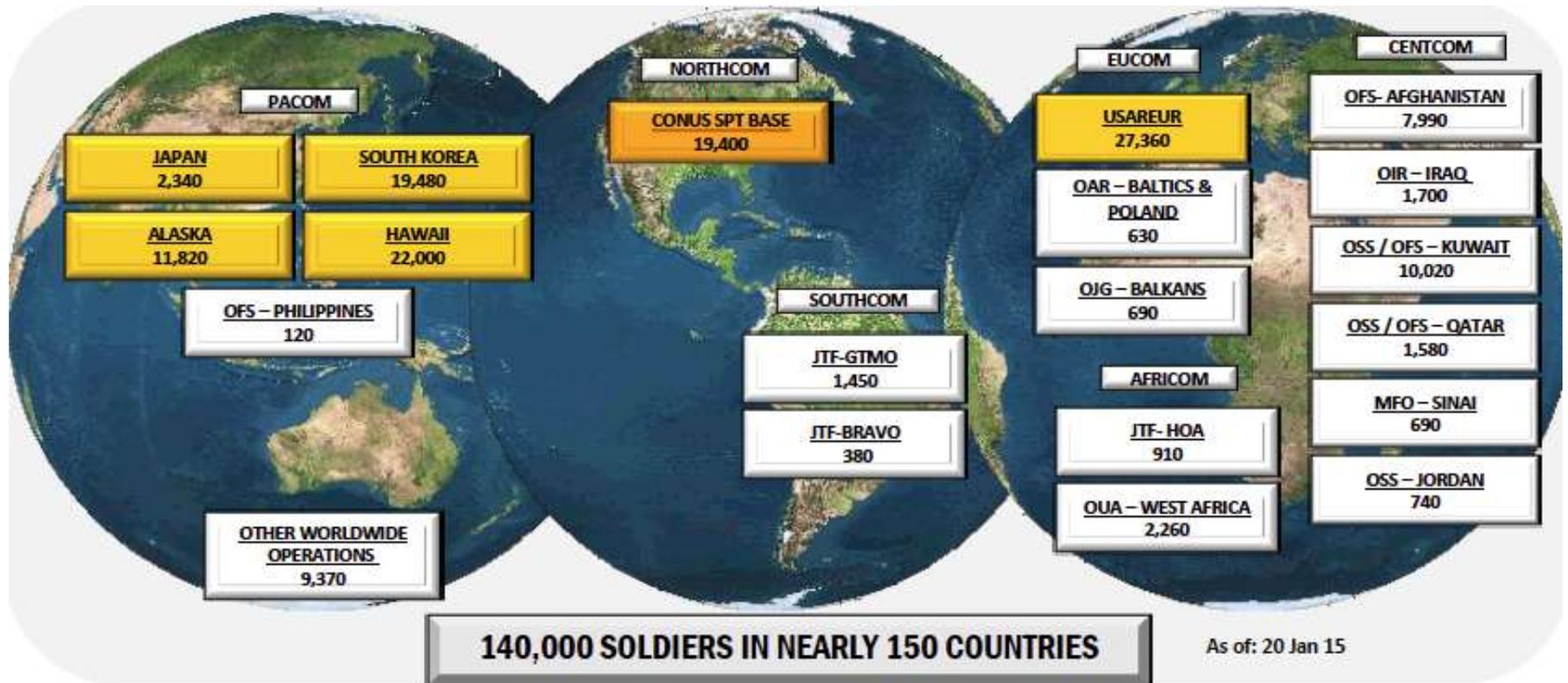
By Appropriation



OCO Request: \$50.9 billion

CTPF: Counterterrorism Partnerships Fund
 ERI: European Reassurance Initiative

US Army Global Presence



- ❖ The world is experiencing an increased velocity of instability
- ❖ America's Army remains indispensable to National Defense
- ❖ Nine of ten active Army division headquarters are actively engaged around the world
- ❖ The Army is the backbone of the Joint Force, providing command and control to Joint Forces, setting and sustaining theaters, and securing and controlling people and terrain

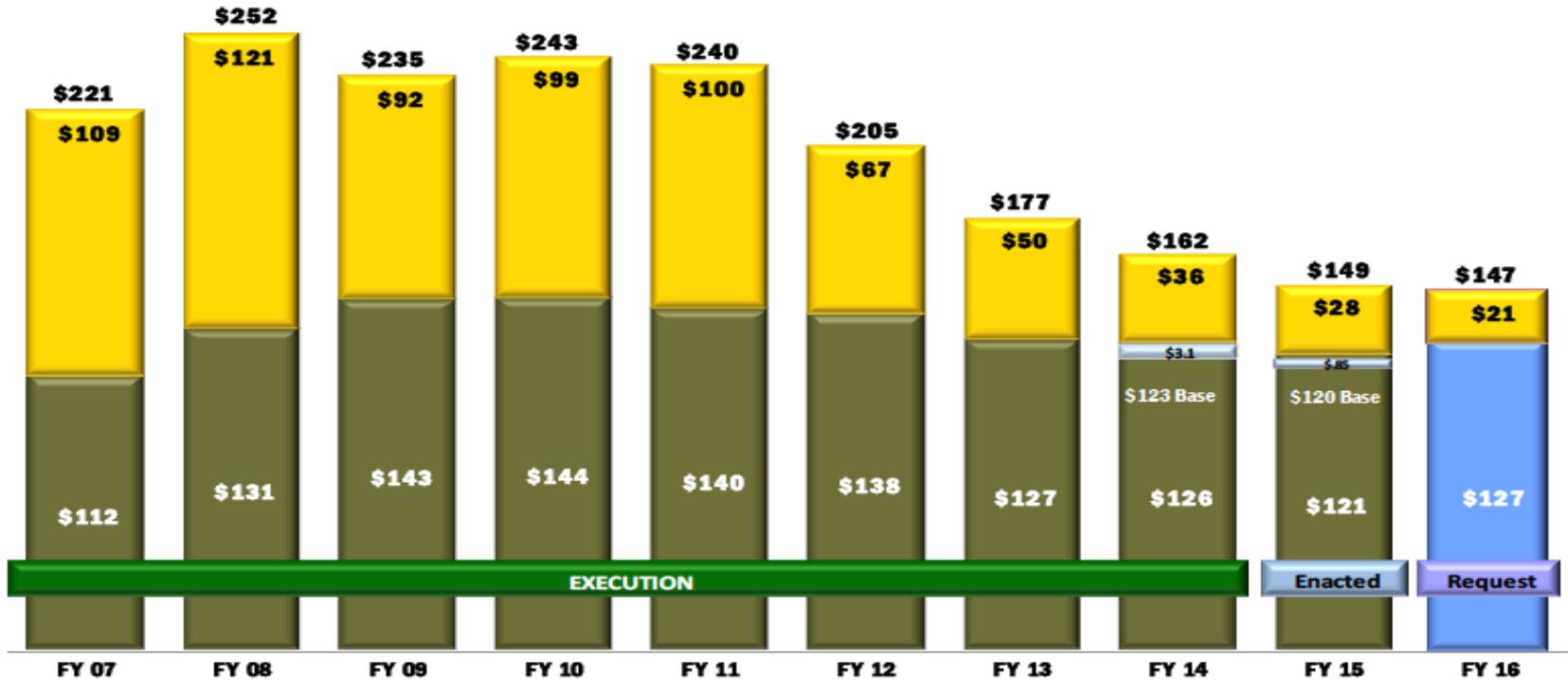
Army OCO Program in FY2016

OVERSEAS CONTINGENCE OPERATIONS BUDGET REQUEST

- ❖ Military Personnel budget request primarily funds entitlements; pay and allowances, training, and administrative support for Reserve Component Soldiers.
- ❖ Operations and Maintenance budget request funds support Operation FREEDOM'S SENTINEL (Afghanistan); Operation INHERENT RESOLVE (Targeted operations against Islamic State in Iraq and the Levant terrorists); European Reassurance Initiative; Operation SPARTAN SHIELD (supporting Regionally Aligned Forces concept with partners in the Arabian Gulf region), and Iraq and Syria Train and Equip Support missions. These missions continue to evolve in response to the volatility of current events throughout those regions.
- ❖ Research, Development, and Acquisition account funds battle losses and ammunition.
- ❖ Afghanistan Security Forces Fund provides assistance to the security forces of Afghanistan.
- ❖ Iraq Train and Equip Fund supports efforts to counter the Islamic State in Iraq and the Levant.
- ❖ Syria Train and Equip Fund supports efforts to counter the Islamic State in Syria and the Levant.
- ❖ Joint Improvised Explosive Device Defeat Fund supports JIEDDO's ability to find and procure solutions to existing and emerging capability gaps in order to counter IEDs, terrorism, and insurgency threat

Impact of Shifts in OCO Spending on Army

FY 2007 — FY 2016



Overseas Contingency Operations

Base

FY 2014 Actual Base Executed total includes \$3.10B in OCO funding used for Base purposes

FY 2015 Base Enacted total includes \$850M in OCO funding to be used for Base purposes

Army OCO Program in FY2016

Request (\$M)	FY13 Actuals	FY14 Actuals	FY15 Enacted	FY16 Request
Military Personnel (MILPERS)	8,798	5,593	3,511	2,019
Operation & Maintenance (O&M)	31,767	23,636¹	17,628²	11,468
Research, Development, & Acquisition (RDA)	2,105	1,802	1,150	1,627
Military Construction, Army (MCA)	-	-	37	-
Working Capital Fund (ACWF)	43	49	-	-
Army Total	42,713	31,080	22,326	15,114
Passthrough / Transfer Accounts				
Afghan Security Forces Fund	4,946	3,962	4,109	3,762
Iraq Train & Equip Fund	-	-	1,618	715
Syria Train & Equip Fund	-	-	-	600
Joint Improvised Explosive Device Defeat Fund	1,384	879	444	493
Afghanistan Infrastructure Fund	325	199	-	-
All Army Appropriations	49,368	36,120	28,497	20,685

▶ **OCO Request** ◀
\$20.6B

1: Does not include \$3.1B OCO for Base Requirements 2: Does not include \$.85B OCO for Base Requirements

❖ Operation FREEDOM's SENTINEL

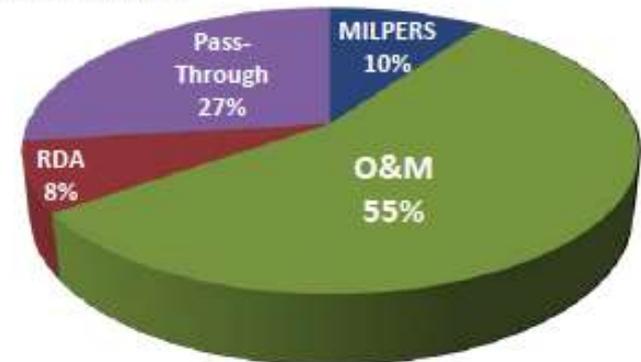
- Operation FREEDOM's SENTINEL – Afghanistan, Horn of Africa, Philippines
- Operation Spartan Shield

❖ Operation INHERENT RESOLVE

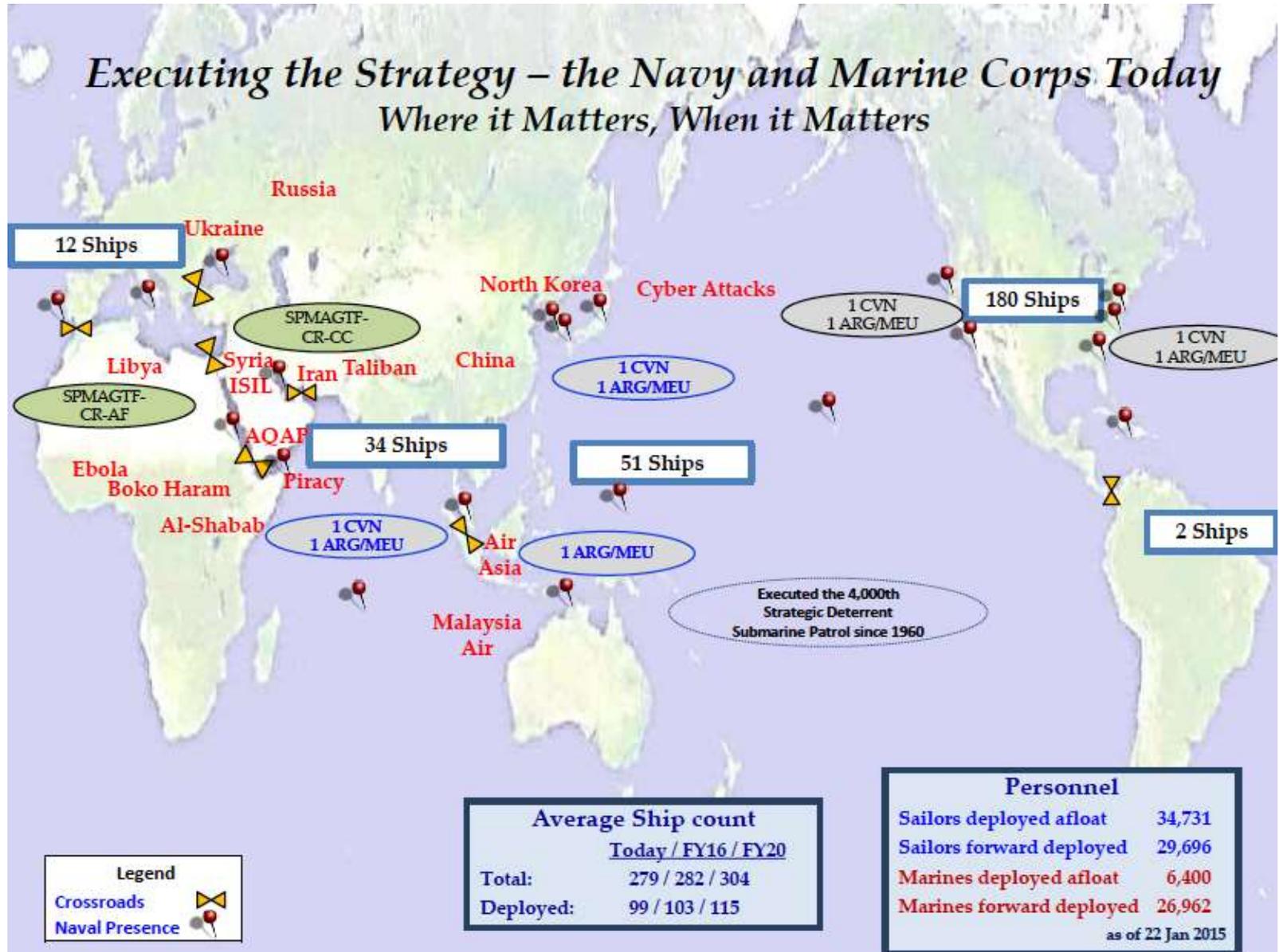
- Iraq Train and Equip Support

❖ European Reassurance Initiative

❖ Training for Moderate Syrian Opposition



US Navy Global Presence

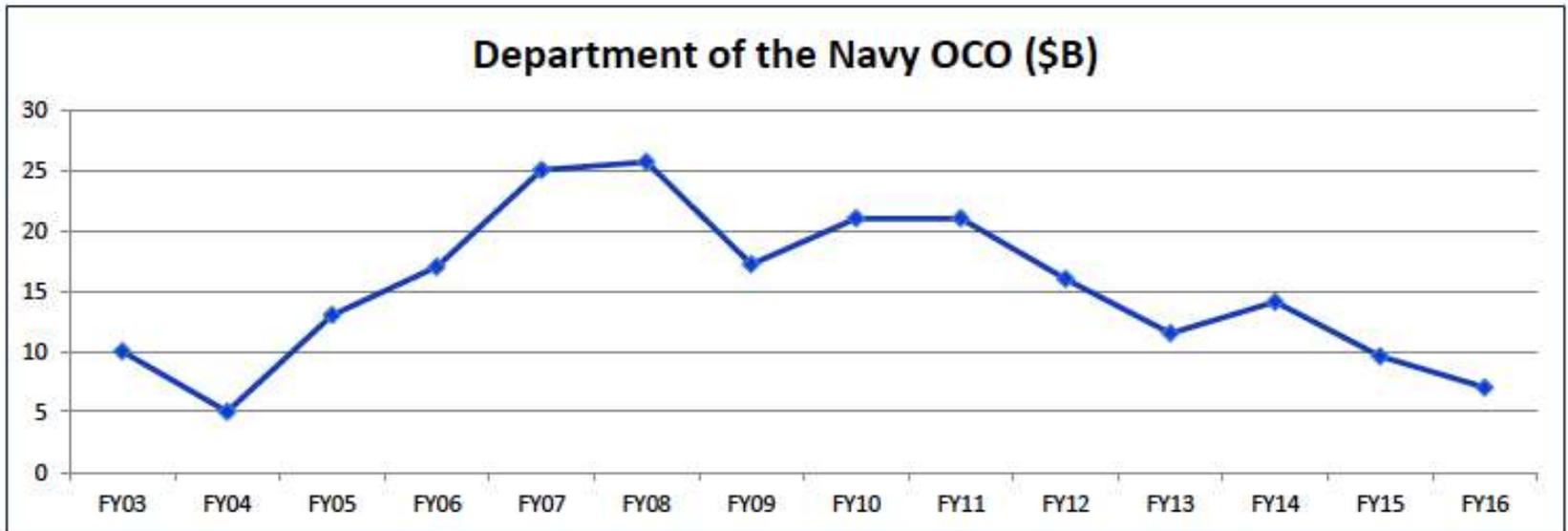


US Navy OCO in FY2003-FY2016

Navy: \$5.7B

FY 2016 Request
\$7.0B

USMC: \$1.3B



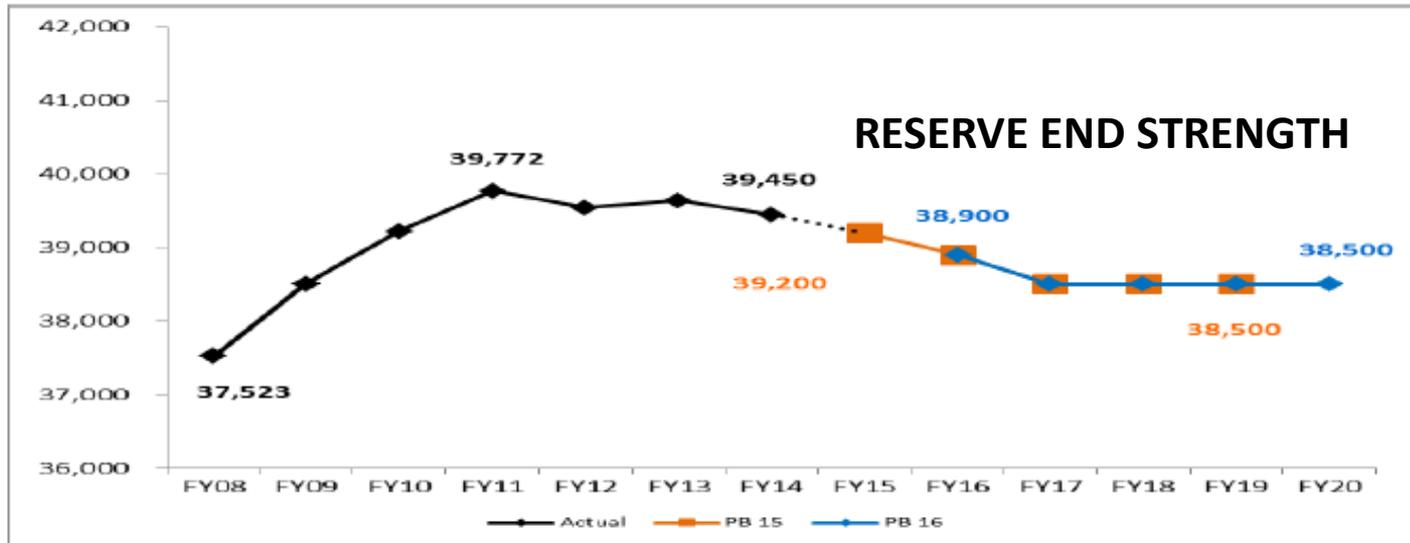
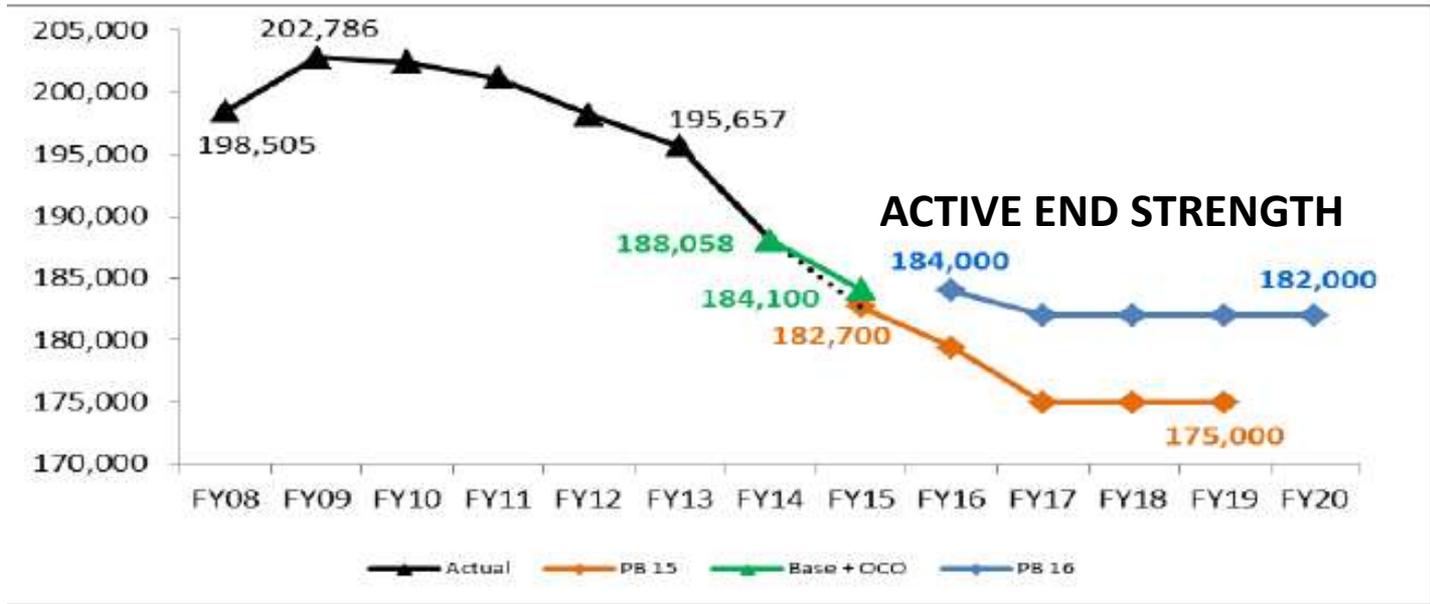
US Navy Battle Force Ships: FY2014-FY2016

Category	Ship Type	FY 2014	FY 2015	FY 2016
Aircraft Carriers	CVN	10	10	11
Aircraft Carrier Total		10	10	11
Fleet Ballistic Missile Submarines	SSBN	14	14	14
Guided Missile (SSGN) Submarines	SSGN	4	4	4
Nuclear Attack Submarines	SSN	55	54	53
Submarine Total		73	72	71
Cruisers	CG	22	22	22
Destroyers	DDG	62	62	65
Large Surface Combatants Total		84	84	87
Frigates	FFG	10	-	-
Littoral Combat Ships	LCS	4	6	11
Mine Countermeasures Ships	MCM	12	11	11
Small Surface Combatants Total		26	17	22
Amphibious Warfare Assault Ships	LHA	2	1	1
Amphibious Assault Ships	LHD	8	8	8
Amphibious Transport Docks	LPD	9	9	10
Dock Landing Ships	LSD	12	12	12
Amphibious Warfare Ships Total		31	30	31
Dry-Cargo Ammunition Ships	T-AKE	12	12	12
Oilers	T-AO	15	15	15
Fast Combat Support Ships	T-AOE	3	2	2
Combat Logistics Ships Total		30	29	29
Afloat Forward Staging Base (Interim)	AFSB (I)	1	1	1
Submarine Tenders	AS	2	2	2
Joint High Speed Vessels	JHSV	4	5	7
Command Ships	LCC	2	2	2
Mobile Landing Platforms	MLP	2	3	3
Surveillance Ships	T-AGOS	5	5	5
T-AKEs for Maritime Prepositioning	T-AKE MPS	2	2	2
Salvage Ships	T-ARS	4	4	4
Fleet Ocean Tugs	T-ATF	4	4	4
High Speed Transport Ships	HST	1	1	1
Command and Support Ships Total		27	29	31
Battle Force Ships		281	271	282

US Navy Air Strength: FY2014-FY2016

Type Model Series Category	FY 2014	FY 2015	FY 2016
ANTI SUB	3	3	3
ATTACK	151	144	142
BAMS-D	4	4	4
Exec ROTARY WING	19	19	19
Experimental	2	2	2
FIGHTER	97	119	130
IN FLIGHT REFUEL	81	78	79
OTHER	1	1	1
PATROL	139	149	165
ROTARY WING	1,312	1,375	1,356
STRIKE FIGHTER	1,199	1,171	1,150
TRAINING JET	284	285	281
TRAINING PROP	310	290	311
TRAINING UTILITY	25	25	17
TRANSPORT	108	117	118
UAS Combat support	68	105	110
UAS Patrol	-	4	4
UAS ROTARY WING	22	41	41
UTILITY	25	24	24
WARNING	97	100	99
Total	3,947	4,056	4,056

US Marine Corps Personnel: FY2014-FY2016



Air Force Total Force Effort 2016



- More than 25,000 Airmen support contingencies around the world – Active, Guard & Reserve
- Nearly 71,000 Airmen are forward stationed overseas
- 205,000 Airmen directly support Combatant Commander requirements from home stations
- We're smaller but busier & older than ever...in 2014 the Air Force:
 - Flew nearly 20,000 Close Air Support sorties in Afghanistan, Iraq and Syria
 - 35,000 ISR missions in CENTCOM
 - Employed almost 4,000 munitions for OIR alone
 - 109,000 mobility/tanker sorties – 172,000,000 gallons of fuel
 - Airlifted more than 6,000 wounded warriors & civilians

Smallest, oldest, busiest now more than ever...need PB level for recovery

Air Force Total Aircraft Strength FY2015-FY2016

Air Force Aircraft Inventory

Active Air Force					
Aircraft	FY15	FY16	Aircraft	FY15	FY16
A-10	143	0	E-4	4	4
B-1	61	61	E-9	2	2
B-2	20	20	F-15	322	317
B-52	58	58	F-16	570	570
C-5	36	36	F-22	165	165
KC-10	59	59	F-35	74	102
C-12	27	28	G-15	5	5
C-17	170	170	G-16	19	19
C-20	6	5	UH-1	96	96
C-21	17	17	HH-60	70	74
C-25	2	2	HHX	0	4
C-32	4	4	QF-16	25	27
C-37	12	12	MQ-1	110	110
C-40	4	4	RQ-4	33	33
C-46	0	11	MQ-9	227	228
C-130H	53	34	T-1	178	178
C-130J	124	144	T-6	445	445
C-130N	2	2	T-38	506	506
C-130P	4	0	T-41	4	4
C-130U	13	12	T-51	3	3
C-130W	12	12	T-53	25	25
C-135	186	186	U-2	32	32
CV-22	46	49	UV-18B	3	3
E-3	31	31			

Air National Guard		
Aircraft	FY15	FY16
A-10	85	64
C-17	34	34
C-21	2	2
C-26	11	11
C-32	2	2
C-40	3	3
C-130H	152	150
C-130J	23	23
C-130N	6	6
C-130P	7	7
C-135	172	172
E-8	16	16
F-15	142	137
F-16	336	336
F-22	20	20
HH-60	17	18
MQ-1	35	35
MQ-9	16	35

Air Force Reserve		
Aircraft	FY15	FY16
A-10	55	55
B-52	18	18
C-5	22	16
C-17	18	18
C-40	4	4
C-130H	56	56
C-130J	20	20
C-130N	1	1
C-130P	5	5
C-135	70	70
F-16	53	53
HH-60	15	16

Air Force Core Mission	Supporting Weapon Systems
Air and Space Superiority	F-15C/D, F-22, T-X, Combat Rescue Helicopter (CRH), AIM-120D, AIM-9X, Global Positioning System (GPS), Space Based Infrared System (SBIRS), Space Based Space Surveillance (SBSS) Follow-on, Joint Space Operations Center (JSPOC), Weather System Follow-on (WSF) Evolved Expendable Launch Vehicle (EELV)
ISR	U-2, MQ-1, MQ-9, MC-12, RC-26, and RQ-4
Rapid Global Mobility	AC/MC-130, C-17, C-5, C-27, CV-22, KC-135, and KC-46
Global Strike	F-15E, F-16, F-35, B-1B, B-2, B-52, Long Range Strike Bomber (LRS-B), and Intercontinental Ballistic Missiles (ICBM)
Command and Control	E-4B, E-3B/C/G, E-8, secured networks, command centers, theater air control system, control and reporting center, air traffic control centers, air operations centers

Air Force OCO Activity 2016

Category (\$B)	FY15	FY16
	Enacted	PB
Procurement / RDT&E / MILCON	1.3	0.8
Military Personnel	0.7	0.7
Operation and Maintenance	10.2	9.2
Working Capital Fund	0.0	0.0
Total	\$12.2	\$10.7



PB: Supports President's comprehensive strategy to confront threats to U.S. security & interests

	FY16	Qty
Flying / Support Operations		
Flying Hours	\$2,855	194K
WSS	\$1,779	N/A
Ops Support	\$4,534	N/A
Procurement / RDT&E		
MQ-9	\$83	N/A
JCREW	\$119	N/A
Hellfire	\$280	2,500
JDAM	\$184	5,953

- Current Operations:**
- Operation FREEDOM'S SENTINEL (OFS) – formerly ENDURING FREEDOM (OEF)
 - Operation INHERENT RESOLVE (OIR)
 - European Reassurance Initiative (ERI)
 - Post-Operation NEW DAWN (OND) Activities
- Support to Current Operations:**
- Funds day-to-day basics for on-going contingencies
 - Delivers critical C2, ISR and Airpower to US and Coalition forces
 - Rapid Global Mobility & Global Reach; delivers personnel, supplies & airpower on time
- Major Requirements:**
- Flying hours and Weapon System Sustainment (WSS) – funds WSS at 91% w/ base
 - Operating Support for six enduring locations
 - MQ-9 extended range kits & Joint Counter RCIED Electronic Warfare systems (JCREW)
 - Replenish Hellfire missiles and Joint Direct Attack Munitions expended in current ops

BCA: Baseline decrease puts today's readiness at risk

Soldier Benefits vs. Enough Soldiers

**No Clear Approach is Shown for
Setting Personnel Levels, Tailoring
Them to a Strategy or Mission
Priorities, or Dealing with
Compensation**

Soldier Benefits vs. Enough Soldiers: No Clear Approach is Shown for Setting Personnel Levels, Tailoring Them to a Strategy or Mission Priorities, or Dealing with Compensation

The FY2016-FY2020 program seems to do little more than push the service share of military manpower back to prewar levels with no indication that strategy affects the service share of military personnel or spending, or any adjustments will take place in the role of active and reserve forces.

- Total active duty military end-strength will drop from 1,338,200 in FY2004 to 1,305,200 in FY2016, and 1,273,200 in FY2020.
- Total reserve military end-strength will drop from 824,400 in FY2004 to 811,000 in FY2016, and 798,000 in FY2020

No clear plan emerges for adjusting the balance of active and reserve forces, and virtually all budget data focus on the active forces.

However, a variety of data and metrics warn that cost per soldier may have risen beyond an affordable level, and savings are needed to maintain adequate force strength.

- A boom and bust cycle has developed in military pay increases.
- Operations costs per soldier more than doubled in FY2015 dollars between 1980 and 2015.

Compensation reform seems to look very much like mixing cuts to personnel numbers with cuts in compensation other than pay in order to minimize its visibility to the soldier.

The risks inherent in having too few military personnel relative to increased compensation are never addressed.

Civilian “equivalents” continue to increase with no clear assessment or plan, and without any data on the growth of dependence on civilian contractors.

The end result continues to be rises in compensation and operating costs per soldier that threaten the ability to fund a large enough, and ready enough, force to meet serious contingency needs. The US must have enough soldiers to field forces large enough to win and protect each other.

Trend in Personnel by Service

FY 2014 - FY 2020 Base + OCO Budget (Active Duty End Strength in Thousands)

Total Program (Base + OCO)	FY 2014 ^{1f}	FY 2015 ^{2f}	FY 2016	Δ FY15-16	FY 2017	FY 2018	FY 2019	FY 2020
Army	508.2	490.0	475.0	-15.0	460.0	450.0	450.0	450.0
Navy	325.6	323.6	329.2	+5.6	326.5	328.2	329.8	330.0
Marine Corps	188.1	184.1	184.0	-0.1	182.0	182.0	182.0	182.0
Air Force	316.3	313.0	317.0	+4.0	314.3	313.0	311.2	311.2
TOTAL	1,338.2	1,310.7	1,305.2	-5.5	1,282.8	1,273.2	1,273.0	1,273.2

Source: FY 2016 President's Budget

Numbers may not add due to rounding

Reserve Component End Strength - Actual & Authorized (End Strength in Thousands)

Program	FY 2014 Actual	FY 2015 Estimate	FY 2016	Δ FY15-16	FY 2017	FY 2018	FY 2019	FY 2020
Army Reserve	195.4	198.0	198.0	—	195.0	195.0	195.0	195.0
Navy Reserve	59.3	57.3	57.4	+0.1	58.0	58.9	58.9	58.9
Marine Corps Reserve	39.5	39.2	38.9	-0.3	38.5	38.5	38.5	38.5
Air Force Reserve	69.8	67.1	69.2	+2.1	66.8	66.8	66.5	66.5
Army National Guard	354.1	350.2	342.0	-8.2	335.0	335.0	335.0	335.0
Air National Guard	106.4	105.0	105.5	+0.5	104.2	104.0	104.1	104.1
TOTAL	824.4	816.8	811.0	-5.8	797.5	798.2	798.0	798.0

Total Civilian Full-Time Equivalents (U.S. and Foreign Nationals Hires)

Program (Base + OCO)	FY 2014*	FY 2015	FY 2016**	Δ FY15-16
Army	207,116	209,252	205,416	-3,836
Navy	172,591	178,051	180,780	+2,729
Marine Corps	20,869	20,420	20,264	-156
Air Force	166,597	169,559	169,888	+329
Defense Wide	188,913	199,559	196,998	-2,561
TOTAL FTEs	756,086	776,841	773,346	-3,495
TOTAL CIV PAY \$ Million ***	76,001	78,540	79,483	+943

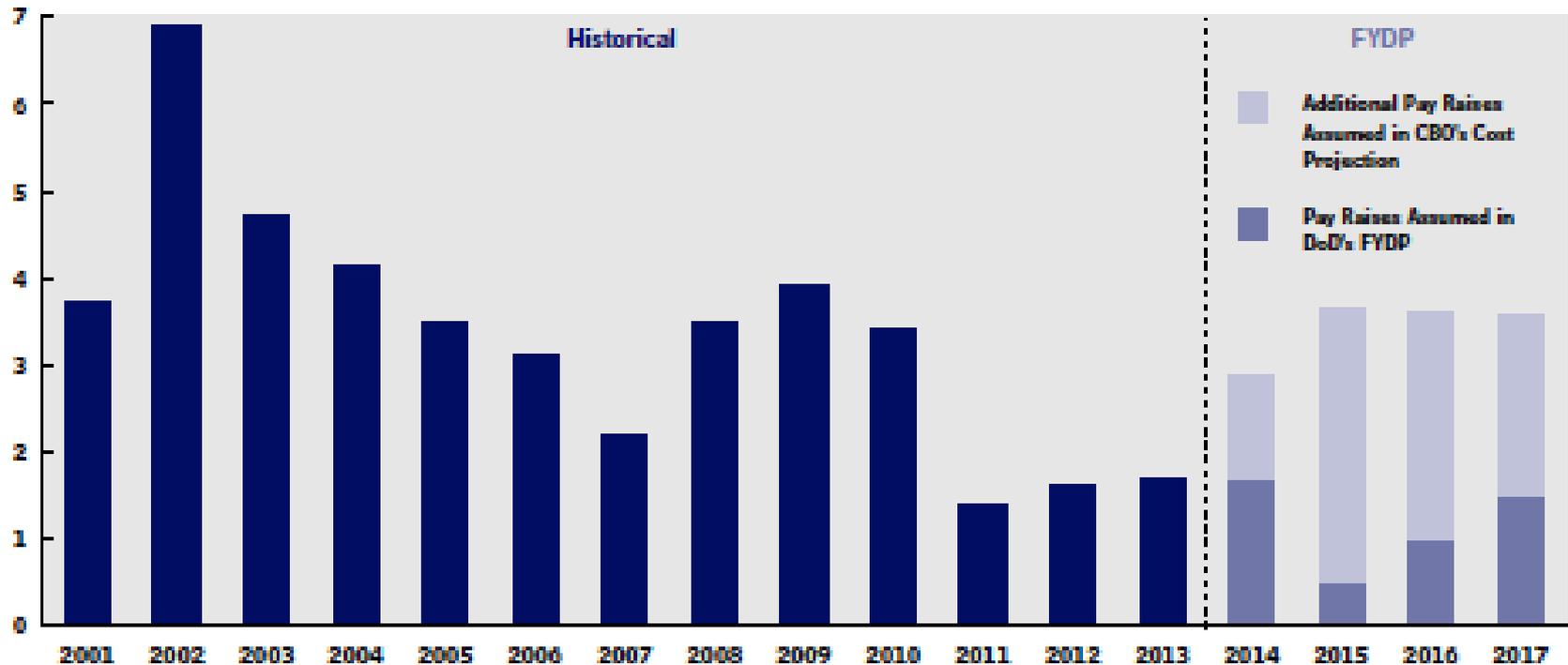
Source: FY 2016 President's Budget

Numbers may not add due to rounding

CBO Projection of Annual Increases in Military Basic Pay: 2001-2017

Annual Percentage Increases in Military Basic Pay

(Percent)

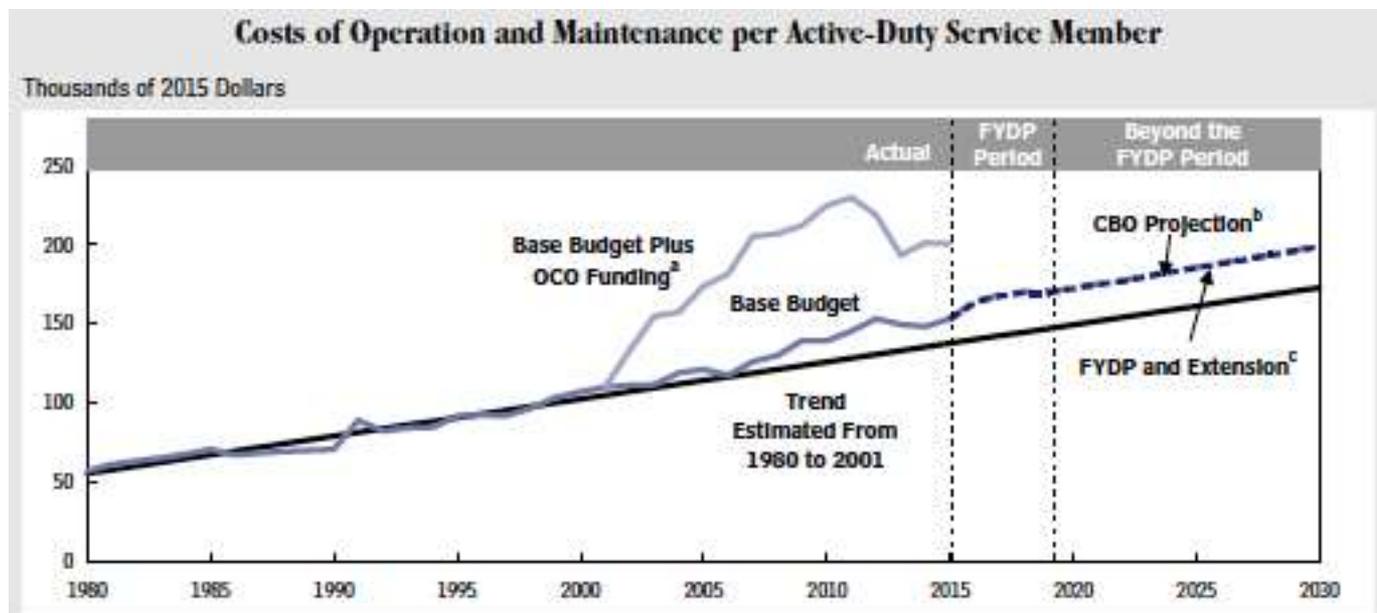


Source: Department of Defense.

Notes: Basic pay is the main (and typically the largest) component of military pay. All service members receive basic pay, the amount of which depends on the member's pay grade—based on military rank—and on the number of years that he or she has served.

DoD = Department of Defense; FYDP = Future Years Defense Program.

CBO Projection of Real Rise in Operations Costs per Active Duty Service Member in Base Budget: 1980-2022



Note: FYDP = Future Years Defense Program; FYDP period = 2015 to 2019, the years for which the Department of Defense's (DoD's) plans are fully specified.

a. For 2002 to 2015, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. No OCO funding is shown for 2016 and later.

b. The CBO projection of the base budget incorporates costs that are consistent with DoD's historical experience.

c. For the extension of the FYDP from 2020 to 2030, CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with CBO's projections of price and compensation trends in the overall economy when the department's estimates are not available.

Beyond the FYDP period, projected growth in O&M costs per active-duty service member slows substantially from the rate projected in the FYDP, although it still exceeds the historical rate of \$2,300 per year. From 2019 to 2030, such costs grow by more than \$2,600, annually, in both the CBO projection and the FYDP and extension. Those projections assume that active-duty end strength does not change after 2019. Therefore, the growth in O&M costs per service member stems entirely from CBO's projection of growth in the total O&M budget (specifically, growth of civilian compensation, portions of the Military Health System, and other O&M). Throughout those years, O&M costs per service member would average about \$25,000 above the amount implied by the historical trend, or about \$2,000 more than the average during the FYDP period.

OSD Summary of Pursuing Compensation Reform

The Department continues to take action to slow the growth rate of personnel costs

Guiding Principles Continue to recruit and retain high quality All Volunteer Force. Continue to support service member families

Use any savings to “keep our Armed Forces the best-trained, best led, and best-equipped fighting force” – (President Obama)

Due to the timing of its release, DoD proposals were not informed by work of independent Military Compensation and Retirement Modernization Commission (MCRMC) DoD will provide an analysis of MCRMC recommendations as required by law.

- **FY 2016 Budget request savings (FY16, \$1.7B; FYDP \$18.2B) FY16 Basic Pay raise 1.3%** (FY 2016, \$0.7B; FYDP, \$4.3B)
- **Slow growth in Basic Allowance for Housing** – an additional 4% out-of-pocket above 1% authorized by Congress in FY 2015 (FY 2016, \$0.4B; FYDP, \$3.9B)
- **Reduce Commissary Operating costs and subsidy** through efficiencies and revenue generating opportunities gained through legislative changes (FY2016, \$0.3B; FYDP, \$4.4B)
- **Consolidate TRICARE healthcare plans** with altered deductibles/co-pays to encourage beneficiaries to seek care in the most appropriate setting and improve the overall continuity of care. (FY 2016, -\$0.1B; FYDP, \$3.1B)
- **Implement modest annual fees for TRICARE-For-Life** coverage for retirees 65 and over (FY 2016, \$0.1B; FYDP, \$0.4B)
- **Additional changes to pharmacy co-pay structure** for retirees and active duty family members above the FY 2015 authorized level to further incentivize the use of mail order and generic drugs (FY 2016, \$0.3B; FYDP, \$2.0B)

OSD Summary of Efforts to Bring Military Compensation Under Control

Principles followed:

- **No one's pay and allowances are cut**
- **Fully support All-Volunteer Force**
- **•Compensation sufficient to recruit and retain needed personnel**
- **Use savings to pay for training and maintenance**
 - **Major initiatives –Basic pay raise limited to 1% in FY 2015, also limits beyond**
 - **Exception: General Officer/Flag Officer pay frozen in FY 2015**
- **Slow growth in Basic Allowance for Housing until out of pocket averages 5%**
 - **Eliminate renters insurance from Basic Allowance for Housing rates**
- **Reduce commissary subsidy by \$1 billion over three years •No direction to close commissaries**
- **Consolidate TRICARE healthcare plans with altered deductible/co-pays**
- **Resubmit previous TRICARE-For-Life and pharmacy proposals •But not previous TRICARE Prime fee increases**

FY2015 PB Military Compensation Proposals

(Dollars in billions)

Proposal	FY 2015 Savings	FY15 – FY19 Savings
Modest Military Pay Raises through FY 2019	0.0	3.8
FY 2015 General Officer/Flag Officer Pay Freeze	<0.01	<0.01
Slow BAH Growth	0.4	5.0
Reduce Commissary Subsidy	0.2	3.9
Consolidated TRICARE Health Plan ¹²	0.8	9.3
Total Compensation Proposal Savings	1.5	22.1
Travel Efficiencies	0.1	0.7
Total Reform Savings	1.6	22.8
Less PB14 TRICARE Proposal Savings	-1.7	-10.9
Net Savings¹¹	-0.1	11.9

Numbers may not add due to rounding

¹¹ *Savings compared to PB14 program estimates*

¹² *Includes previously submitted pharmacy co-pay and TRICARE-for-Life (TFL) enrollment fee proposals. Savings compared to current plan costs.*

**Modernization is Not Tied to
Any Clear FYDP or QDR
Force Levels, and Defense
Procurement Cost Trends
Continue to Be a Critical
Problem**

Defense Procurement Cost Trends Continue to Be a Critical Problem

The budget submission does not show the impact of force cuts and cuts in future procurement numbers on the overall force strength for either past or future trends.

- Only a few out of context examples tie procurement to strategy or mission needs.

GAO studies show the total cost of the DoD procurement portfolio has gone down, but because of cuts in procurement activity, not better management of programs and costs.

GAO and CBO studies indicate that the cumulative impact of cost-escalation in procurement in 2015-2030 will make new systems lead “force subtractions” in the total force in areas where cost-effective improvements in technology should produce “force multipliers

- *Defense reform has not produced any consistent reduction in procurement cost escalation and it remains a critical problem.*
- The 10 costliest programs drive procurement costs and are the main source of cost escalation.
- Shipbuilding, UAVs, rotary wing, and satellite systems are key sources of cost-escalation.

OSD Summary of Key FY2016 Modernization Programs

- 57 Joint Strike Fighters (\$10.6 billion)
- 16 P-8 aircraft (\$3.4 billion)
- 5 E-2D aircraft (\$1.3 billion)
- KC-46 tanker (\$3.0 billion) and Long Range Strike development (\$1.2 billion)
- 9 ships (\$11.6 billion)
- George Washington (CVN) overhaul (\$678 million)
- Ohio replacement strategic submarine development (\$1.4 billion)
- Littoral Combat Ship capabilities improvements (\$55 million)
- Cyber capabilities enhancements (\$5.5 billion)
- Ground Based Interceptor reliability (\$1.6 billion)
- Army helicopter modernization (e.g., Light Utility Helicopter) (\$4.5 billion)
- Reaper (MQ-9) procurement (\$821 million)



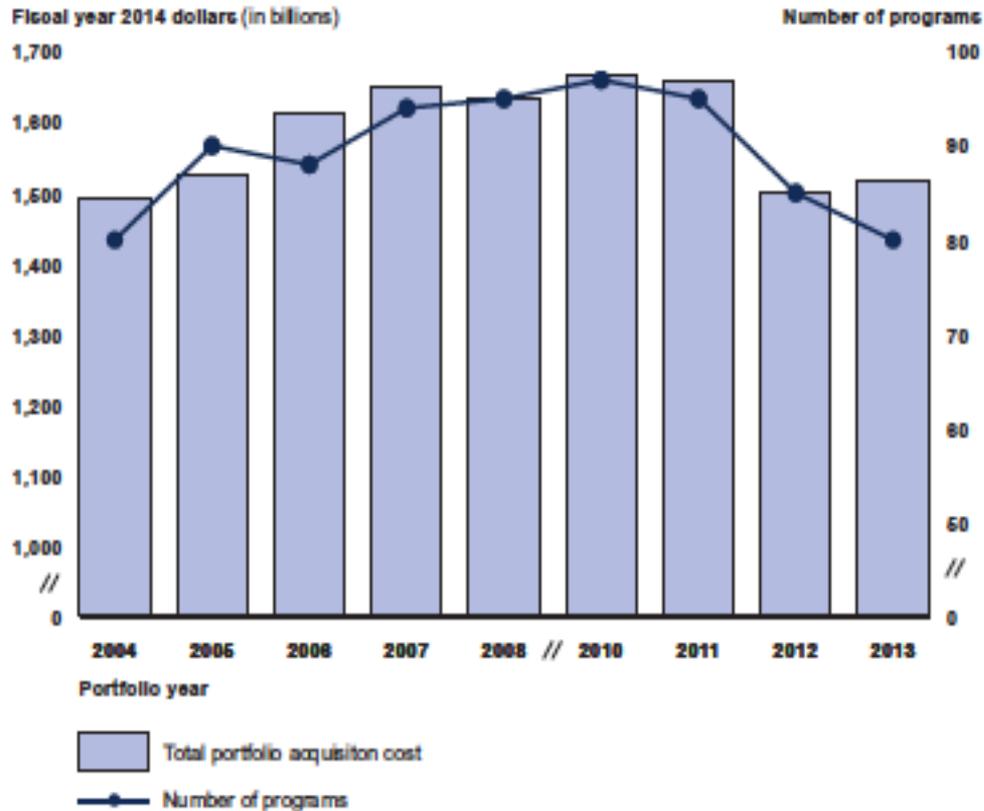
OSD Summary of Other Key Investment Areas

- Funds nuclear enterprise improvements
 - Improve nuclear weapons facilities
 - Enhance ICBM operations with improved manning and safety procedures
 - Accelerate technology improvements
- Invests in space capabilities
 - Space control development
 - Space launch initiatives
 - Develop alternative domestic launch capability
- Improves base resiliency
- Includes additional investment in advanced sensors, communications, and munitions for power projection
- Funds science and technology to manage technological risk



The Cost of DoD Procurement Portfolio is Going Down, But...

DOD Portfolio Cost and Size, 2004-2013 to the Rest of the Current Portfolio



Source: GAO analysis of DOD data.

Note: The 2009 portfolio is excluded because there were no annual SARs released for the December 2008 submission date.

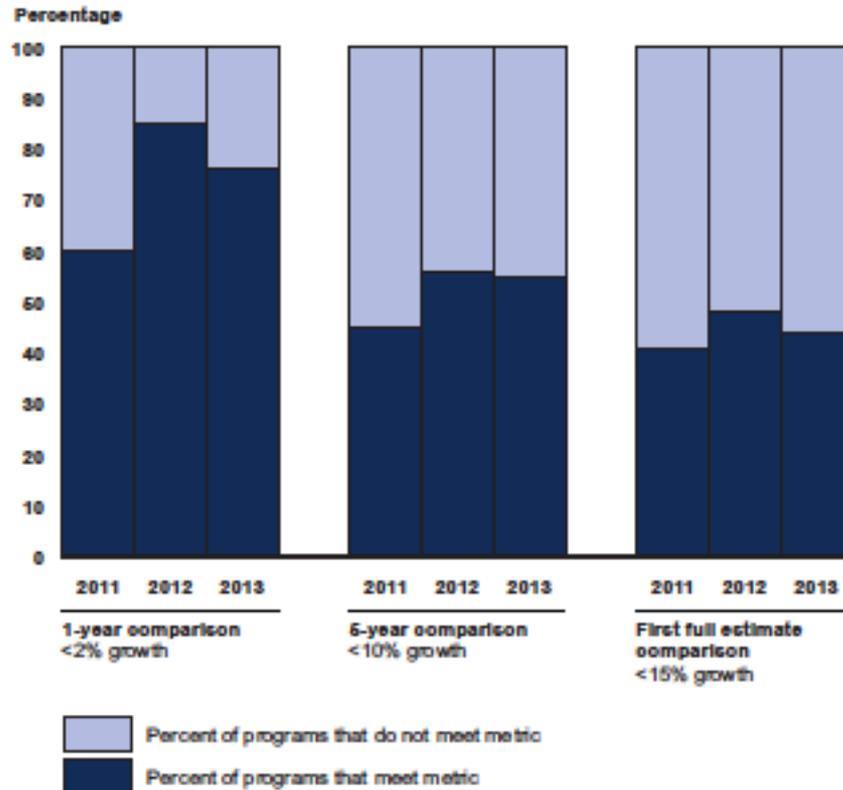
When compared to the 2012 portfolio, the size of DOD’s 2013 portfolio decreased from 85 to 80 programs, but its overall cost has increased by \$14.1 billion, from \$1,501 billion to \$1,515 billion. The decrease in portfolio size follows a trend from the past 3 years. With 80 programs and an estimated total cost of more than \$1.5 trillion, the 2013 portfolio has fewer programs but a larger total acquisition cost when compared to the 2012 portfolio.

Fiscal year 2014 dollars in billions	
2012 portfolio (85 programs)	\$1,501.1
Less cost of 12 exiting programs	-\$73.1
Plus estimated total cost of 7 entering programs	+\$101.8
Less net cost changes of 73 remaining programs	-\$14.4
2013 portfolio (80 programs)	\$1,515.2

The 12 programs that exited the portfolio were AIM-9X Block I, C-130 Avionics Modernization Program, Chemical Demilitarization-Chemical Materials Agency, Cobra Judy Replacement, High Mobility Artillery Rocket System, Joint High Speed Vessel, Joint Tactical Radio System Ground Mobile Radio, Multi-Platform-Radar Technology Insertion Program, National Polar-orbiting Operational Environmental Satellite System, Stryker Family of Vehicles, Thermal Weapons Sight, Warfighter Information Network - Tactical Increment 1. The seven that entered the portfolio were Airborne Warning and Control System Block 40/45 Upgrade, AN/TPS-80 Ground/Air Task Oriented Radar, B61 Mod 12 Life Extension Program Tailkit Assembly, Evolved Expendable Launch Vehicle, Joint Light Tactical Vehicle, Next Generation Operational Control System (GPS OCX), and Ship to Shore Connector.

DOD Has Not Been Able to Reduce Rises in Procurement Costs, It has Cut the Budget and the Number of Programs

Comparison of the Cost Performance of DOD's 2011, 2012, and 2013 Portfolios programs in Comparison to the Rest of the Current Portfolio



Seventy-six percent of the programs in the 2013 portfolio are meeting the one-year cost performance metric by limiting their total acquisition cost growth to less than 2 percent, consistent with the cost decreases and increases explained earlier. Fewer programs, however, are meeting the metrics for limited growth in the past five years and since first full estimates; 55 percent meet the 5-year metric while 44 percent are meeting the since first full estimate metric. This demonstrates that some programs with reduced or stable costs over the past year have previously had one or more cost increases. Programs do not generally experience cost change in a linear fashion with set amounts of increase or decrease every year, rather they have periods of more dramatic change interspersed with periods of stability.

As a whole, aggregate cost performance of the 2013 portfolio has degraded across all three metrics from that observed in the 2012 portfolio. The percentage increase from 2012 to 2013 in programs that do not meet the cost metrics is attributable to two factors. First, many of the 12 programs that are no longer in the portfolio were meeting one or more of the three cost metrics while 2 of the 7 that entered—EELV and G/ATOR—do not meet one or more metrics. Second, performance against the cost metrics has grown worse on some of the ongoing programs. For example, the number of programs that do not meet the 1-year cost growth metric increased by 5—eight programs improved to meet this criterion in 2013 while the cost performance on 13 other programs worsened over the past year.

Past & Future Changes in DOD's 10 Costliest Programs Drive the Cost of the the Rest of the Current Portfolio

Cost Changes in DOD's 10 Costliest Programs in Comparison to the Rest of the Current Portfolio

Fiscal Year 2014 dollars in billions		
Program name	Current total estimated acquisition cost	Change in acquisition cost over the past year
F-35 Joint Strike Fighter	\$332.3	-\$11.5
DDG 51 Arleigh Burke Class Destroyer	107.8	2.4
Virginia Class Submarine	84.4	-2.3
Evolved Expendable Launch Vehicle	63.9	28.1
V-22 Osprey	60.7	0.8
F/A-18E/F Super Hornet	59.7	-1.0
Trident II Missile	55.5	0.6
KC-46 Tanker	44.5	-1.2
CVN 78 Gerald R. Ford Class Aircraft Carrier	36.0	-0.3
P-8A Poseidon	34.3	-0.04
10 costliest programs	\$880.0	\$15.4
Total for rest of the current portfolio	\$635.2	-\$2.8
2013 portfolio total	\$1,515.2	\$12.6

Future Funding and Future Funding Required Due to Cost Growth from First Full Estimates

Fiscal year 2014 dollars in billions		
Program name	Future funding required	Amount of future funding due to cost growth from first full estimates
F-35 Joint Strike Fighter	\$239.6	\$107.0
Evolved Expendable Launch Vehicle	42.9	38.4
KC-46 Tanker	40.8	0
Virginia Class Submarine	28.2	16.2
Joint Light Tactical Vehicle	23.0	0
CH-53K Super Stallion	20.7	7.4
Littoral Combat Ship	19.6	19.6
CVN 78 Gerald R. Ford Class Aircraft Carrier	17.5	0
P-8A Poseidon	16.8	1.7
DDG 51 Arleigh Burke Class Destroyer	14.0	14.0
10 programs with the largest future funding requirements	\$463.2	\$204.3
Totals for rest of portfolio	\$218.8	\$107.3
2013 portfolio total	\$682.0	\$311.6

The 10 highest-cost programs account for 59 percent of the development and procurement cost and the majority of cost growth. DOD has already been appropriated more than \$833 billion for the current portfolio, leaving approximately \$682 billion in costs to be funded, mostly for procurement. Approximately 45 percent of the remaining cost represents growth from first full estimates. Almost two-thirds of the future funding is needed for 10 programs, with 35 percent of the total costs remaining required for the F-35 program alone. A larger share of the current portfolio's cost is now appropriated than had been appropriated for the portfolios from 10 or even 5 years ago. Fifty-five percent of the costs for the 2013 portfolio have already been appropriated, more than \$200 billion more than in the 2004 portfolio. Forty-five percent of the total cost of the current portfolio—or \$682 billion—has not yet been funded and almost 94 percent of the remaining funding—or \$638 billion—is needed for procurement.

Given System Types Drive Cost Rises and Delays in Schedule since First Full Estimates

System type	Total development cost percentage increase	Procurement unit cost percentage increase	Percentage increase in time to deliver initial capabilities
Shipbuilding	113%	19%	53%
Unmanned vehicle	86	22	58
Rotary wing	78	74	30
Satellite	55	85	93
Fixed wing	43	55	34
C4ISR	42	-8	26
Munition	17	-10	16
Missile	13	79	30
Ground	5	62	19

Source: GAO analysis of DOD data.

Note: The procurement unit cost growth estimate was calculated using a weighted average based each program's current procurement cost that gives more expensive programs a greater value. Three of the 80 programs in the current portfolio—Chemical Demilitarization-Assembled Chemical Weapons Alternatives, EELV, and Ship to Shore Connector—were not assessed here as they do not correspond with any of the nine system types used.

Satellite programs show above average growth in development cost, procurement unit cost, and schedule growth since first full estimates when compared to the portfolio as a whole. For example, Wideband Global SATCOM and Space Based Infrared System (SIBRS) High, have each experienced more than 100 percent growth in their development costs while another satellite program, the Advanced Extremely High Frequency (AEHF) Satellite, has experienced almost 200 percent growth in its average procurement unit cost. Three satellite programs have also experienced schedule growth well above the portfolio average of 36 percent with each of them reporting delays of 4 years or more.

Unmanned vehicles have also experienced greater than average schedule delays with three of six unmanned vehicle programs reporting delays of 3 years or more.

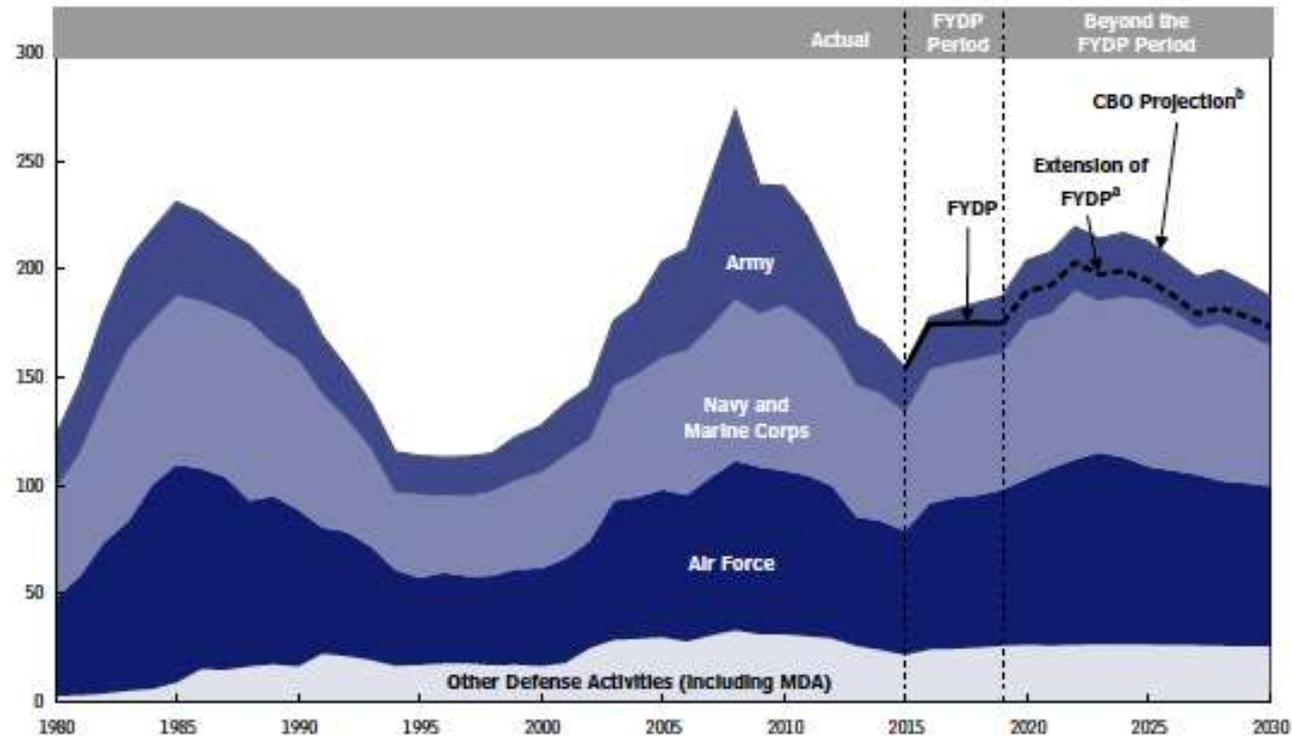
The development cost growth for shipbuilding programs is the greatest among all system types and, at approximately 113 percent, is more than double that experienced by the portfolio as a whole. For example, the DDG 1000 and LCS have experienced more than 342 percent and 148 percent growth, respectively, in development costs from first full estimates. Shipbuilding programs have also experienced significant schedule delays with four out of seven programs reporting delays to the delivery of initial capability of 2 years or more.

Rotary wing systems have also experienced exceptionally high levels of development cost change, with 4 out of 9 rotary wing programs experiencing more than 150 percent growth. Rotary wing programs have also experienced high amounts of growth in procurement unit cost. As an example, both the H-1 Upgrades and CH-47F Improved Cargo Helicopter have each experienced more than 150 percent growth in their average procurement unit cost since first full estimates.

CBO Estimate of Cumulative Impact of Cost Escalation

Costs of DoD's Acquisition Plans, by Military Service

Billions of 2015 Dollars



Under DoD's estimates for the FYDP, real (inflation adjusted) acquisition costs would increase 13 percent, to \$174 billion, in 2016 but then remain essentially constant between 2016 and 2019.

In its extension of the FYDP, CBO estimates that real acquisition costs would increase by an additional 16 percent from 2019 to 2022 but then gradually decline to \$174 billion in 2030.

From 2020 to 2030, total real costs would be 8 percent lower under the extension of the FYDP than under the CBO projection, primarily because of differences in estimates of the costs of new weapon systems.

Specifically, costs for weapon systems that are not yet in full production are typically higher under the CBO projection than under the FYDP and extension because DoD's historical experience shows that the costs of weapon systems are typically higher than estimates made during development

The steep increases in acquisition costs in 2016 and in the years immediately beyond the FYDP period illustrate that DoD has created two classic "bow waves" by constraining acquisition during periods of tight budgets but continuing to plan for more acquisition thereafter. Bow waves beyond the FYDP period had been a common feature of DoD's plans for many years, particularly during periods of flat or declining budgets. For most of the last decade, bow waves largely disappeared because budgets grew steadily. With the Budget Control Act of 2011 restraining the growth of appropriations, however, especially in the near term, a substantial bow wave is again apparent in the years immediately beyond the FYDP period. In addition, the Administration's decision to present plans that adhere to the BCA in 2015 but not in subsequent years has created another bow wave between 2015 and 2016.

Singling Out the Cost of Military Health Care

Singling Out the Cost of Military Health Care

As shown earlier, medical costs have played a critical role in driving up personnel and O&M costs.

Charts for a 2014 CBO study show that,

- Military retiree and family health costs, not wounded warriors, dominate the massive past cost rise.
- Tricare families pay 18-21% of costs of comparable civilians.
- The CBO has examined options that could cut medical costs by over \$100 billion in FY2015-FY2023.

The DoD budget submission provides a volume called Defense Health Program, along with exceptional detail on the cost and structure of the current health program. But, it but does not address longer-term cost trends or plans for reform.

**Defense Health Program
Fiscal Year (FY) 2016 Budget Estimates
Operation and Maintenance
Introductory Statement**

(\$ in Millions)

<u>Appropriation Summary:</u>	<u>FY 2014¹</u>	<u>Price</u>	<u>Program</u>	<u>FY 2015²</u>	<u>Price</u>	<u>Program</u>	<u>FY 2016³</u>
	<u>Actuals</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>	<u>Growth</u>	<u>Growth</u>	<u>Estimate</u>
Operation & Maintenance ⁴	30,219.2	871.7	-1,078.9	30,012.0	863.6	14.3	30,889.9
RDT&E	1,710.3	30.8	-10.5	1,730.6	29.4	-779.9	980.1
Procurement	<u>705.8</u>	<u>16.4</u>	<u>-413.8</u>	<u>308.4</u>	<u>8.2</u>	<u>56.7</u>	<u>373.3</u>
Total, DHP	32,635.3	918.9	-1,503.2	32,051.0	901.2	-708.9	32,243.3
MERHCF Receipts ⁵	<u>8,766.3</u>			<u>9,126.1</u>			<u>9,486.2</u>
Total Health Care Costs	41,401.6			41,177.1			41,729.5

¹ FY 2014 actuals includes \$715.484 million for OCO.

² FY 2015 estimate excludes \$300.531 million for OCO.

³ FY 2016 request excludes \$272.704 million for OCO.

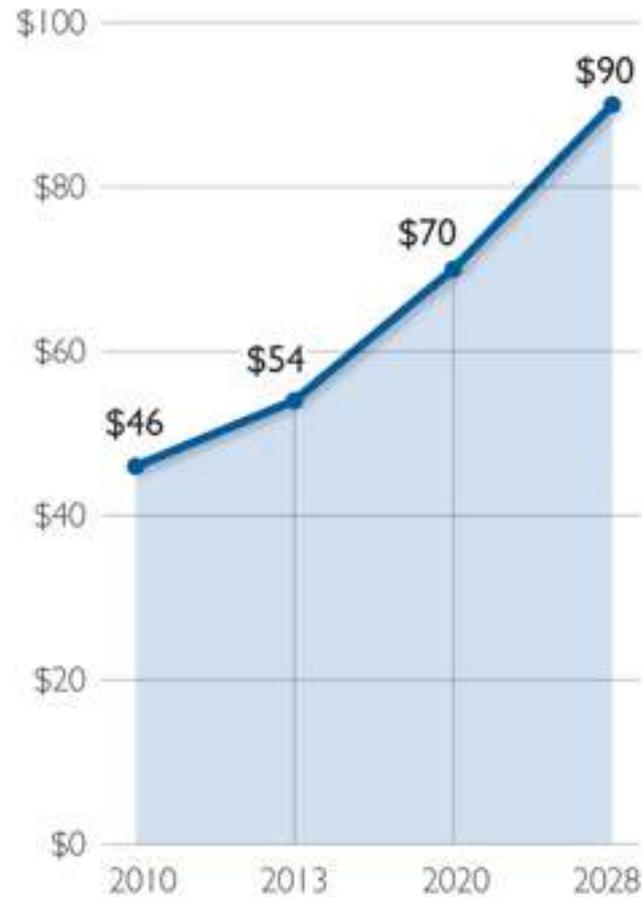
⁴ The Department of Defense transferred O&M funding of \$117.9 million in FY 2014 and will transfer \$117.1 million in FY 2015 and \$120.4 million in FY 2016 to the Joint Department of Defense - Department of Veterans Affairs Medical Facility Demonstration Fund established by section 1704 of Public Law 111-84 (National Defense Authorization Act for FY 2010). Additionally, the Department transferred \$15 million of O&M funding in FY 2014 and will transfer the same amount in FY 2015 to the DoD-VA Health Care Joint Incentive Fund (JIF) as required by Section 8111 of Title 38 of the United States Code (USC) and Section 721 of Public Law 107-314 (National Defense Authorization Act for 2003). Pending congressional action on extending the JIF through FY 2016, \$15 million will be transferred to the JIF.

⁵ Reflects DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) O&M Receipts for FY 2014, FY 2015, and FY 2016.

Projected Military Medical Costs

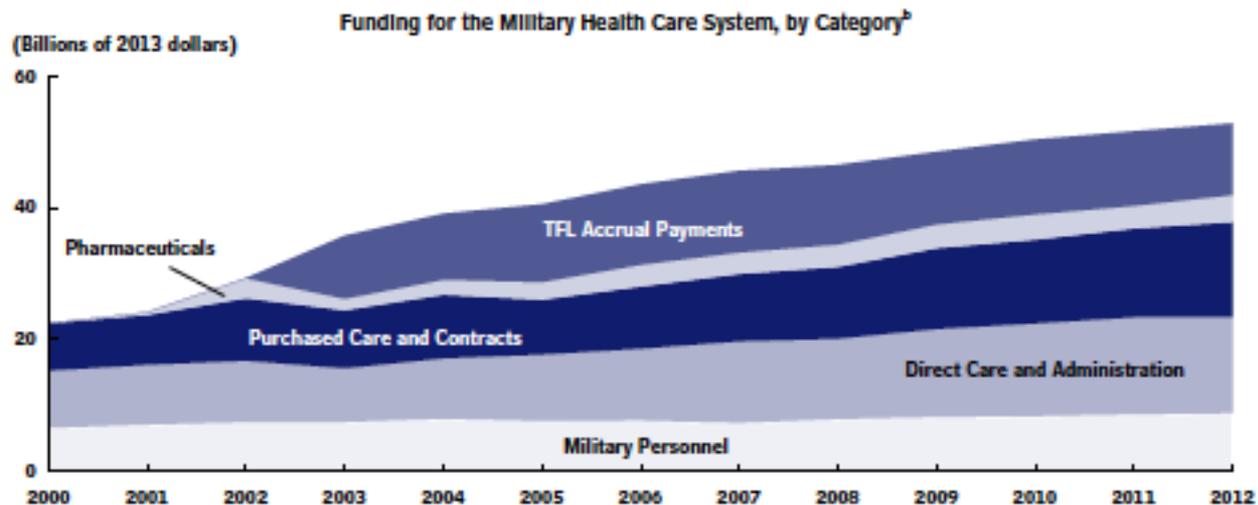
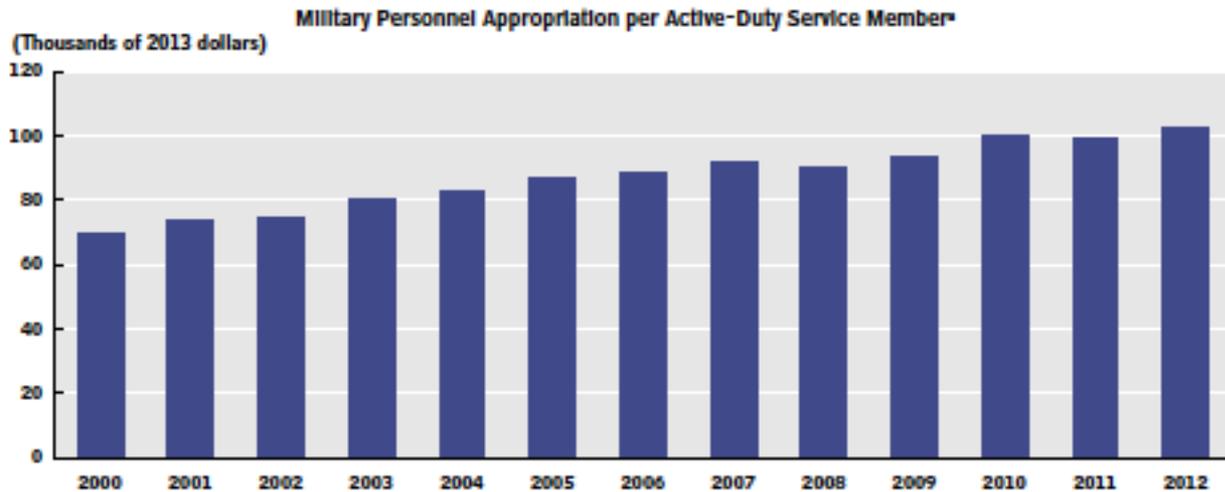
In Billions of 2010 Dollars, Adjusted for Inflation

Source: Congressional Budget Office, "Long-Term Implications of the Fiscal Year 2010 Defense Budget," January 2010, at <http://www.cbo.gov/ftpdocs/108xx/doc10852/01-25-FYDP.pdf> (March 17, 2010).



B 2418  heritage.org

CBO Estimate of rising cost of Military Health Compensation: 2000-2012

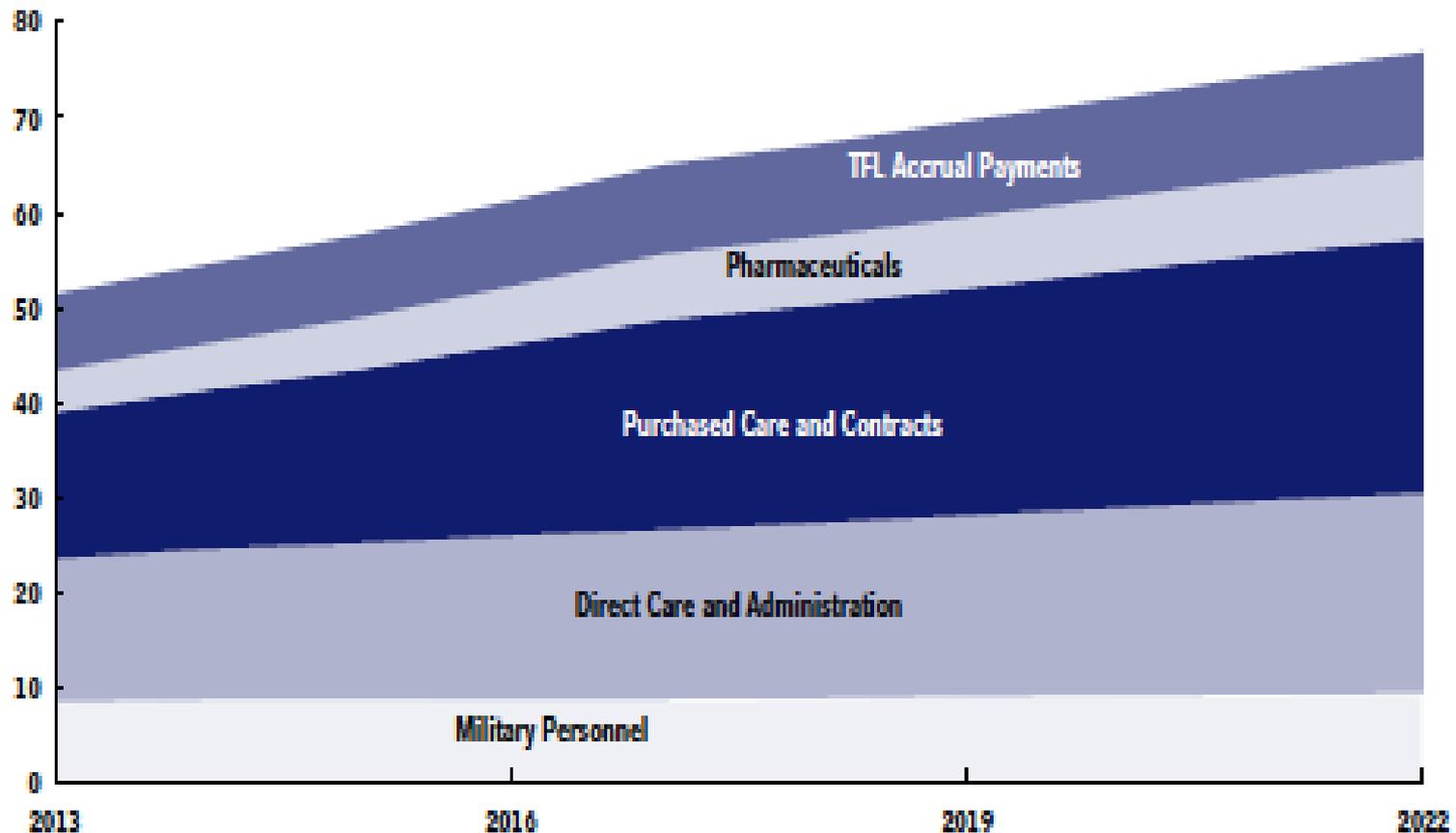


Source: "Coasts of Military Pay and Benefits in the Defense Budget," November 2012, "p. 2

CBO Projection of of Long-Term Cost of Military Health Spending Without Reform & Cost Controls: 2013-2022

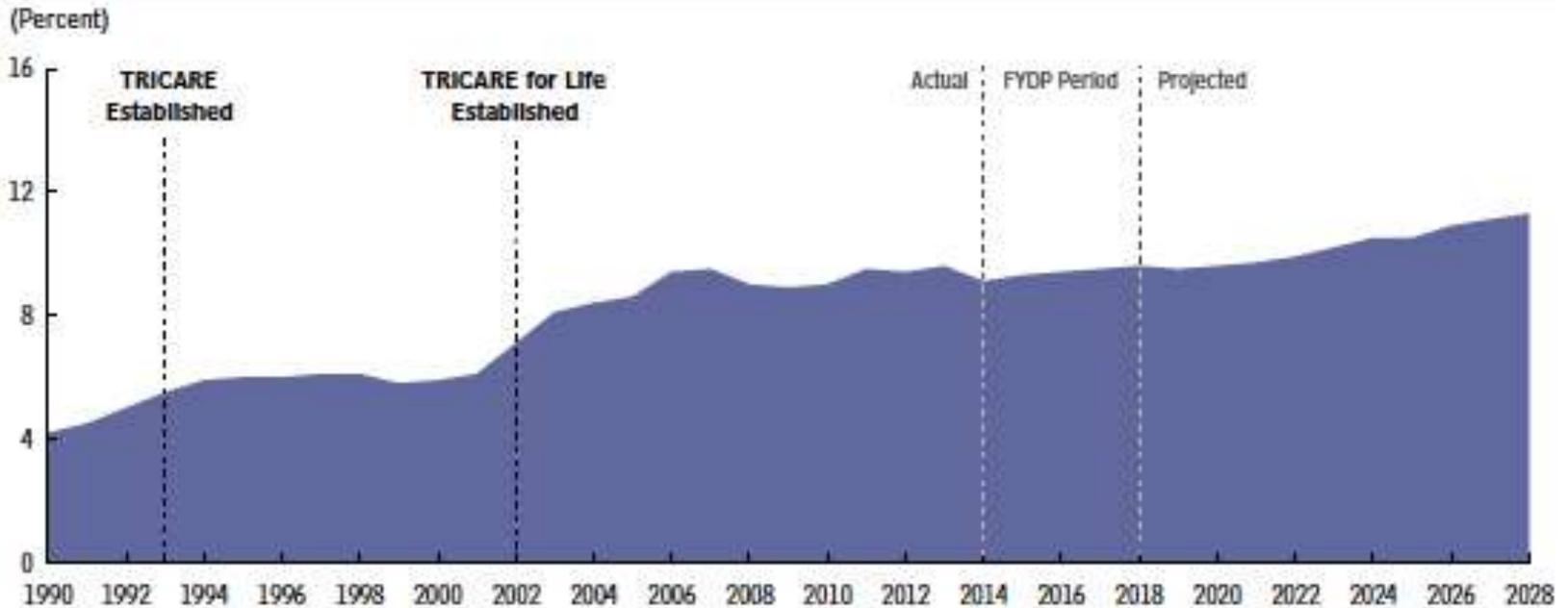
Projected Costs of the Military Health System

(Billions of 2013 dollars)



Source: "Costs of Military Pay and Benefits in the Defense Budget," November 2012, p. 34

Actual and Projected Costs for Military Health Care as a Share of DoD's Base Budget, 1990 to 2028

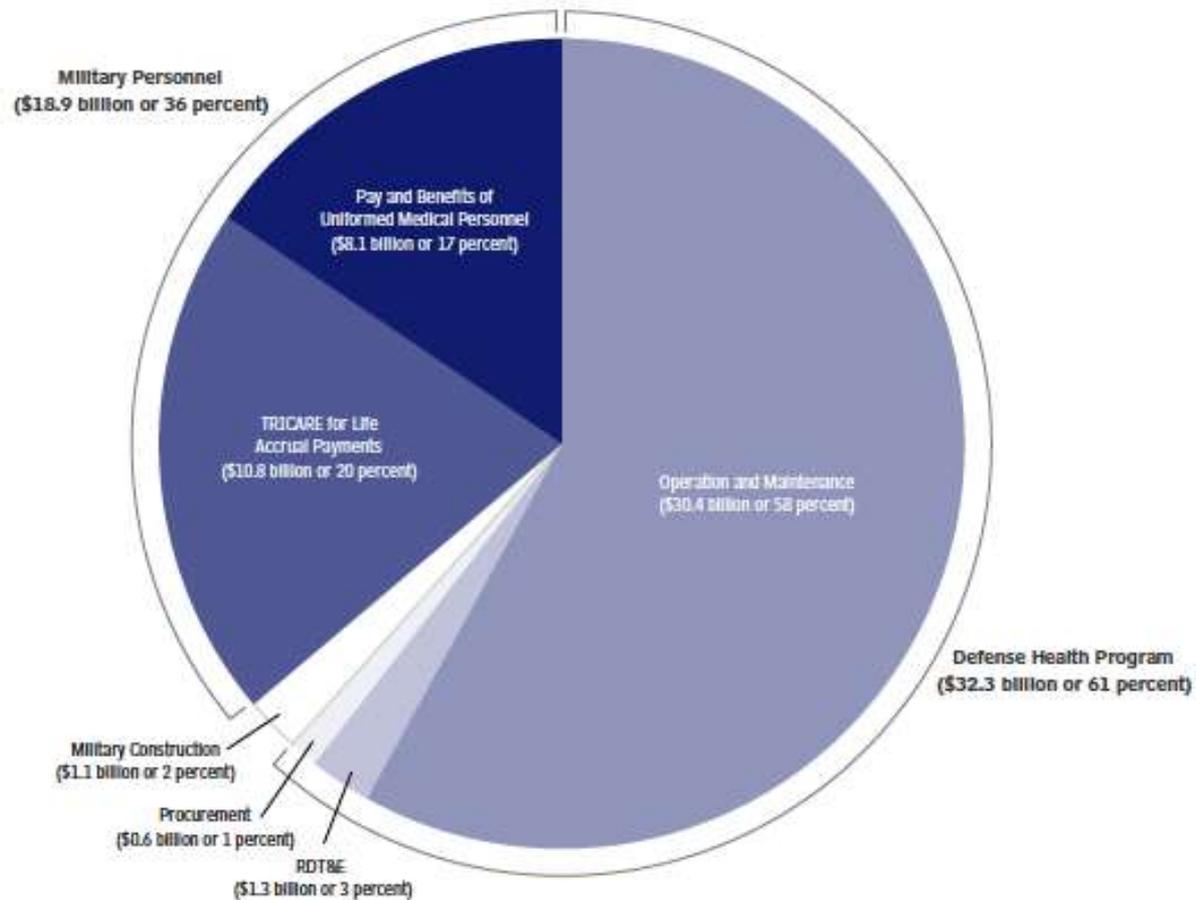


Source: Congressional Budget Office, *Long-Term Implications of the Fiscal Year 2014 Future Years Defense Program* (November 2013), www.cbo.gov/publication/44683.

Notes: In this figure, the FYDP projection spans the five-year period from 2014 through 2018. CBO's projection spans the years 2019 through 2028.

The historical data for military health care include supplemental and emergency funding for overseas contingency operations through 2013, but those funds are not included in CBO's projections.

DoD = Department of Defense; FYDP = Future Years Defense Program.



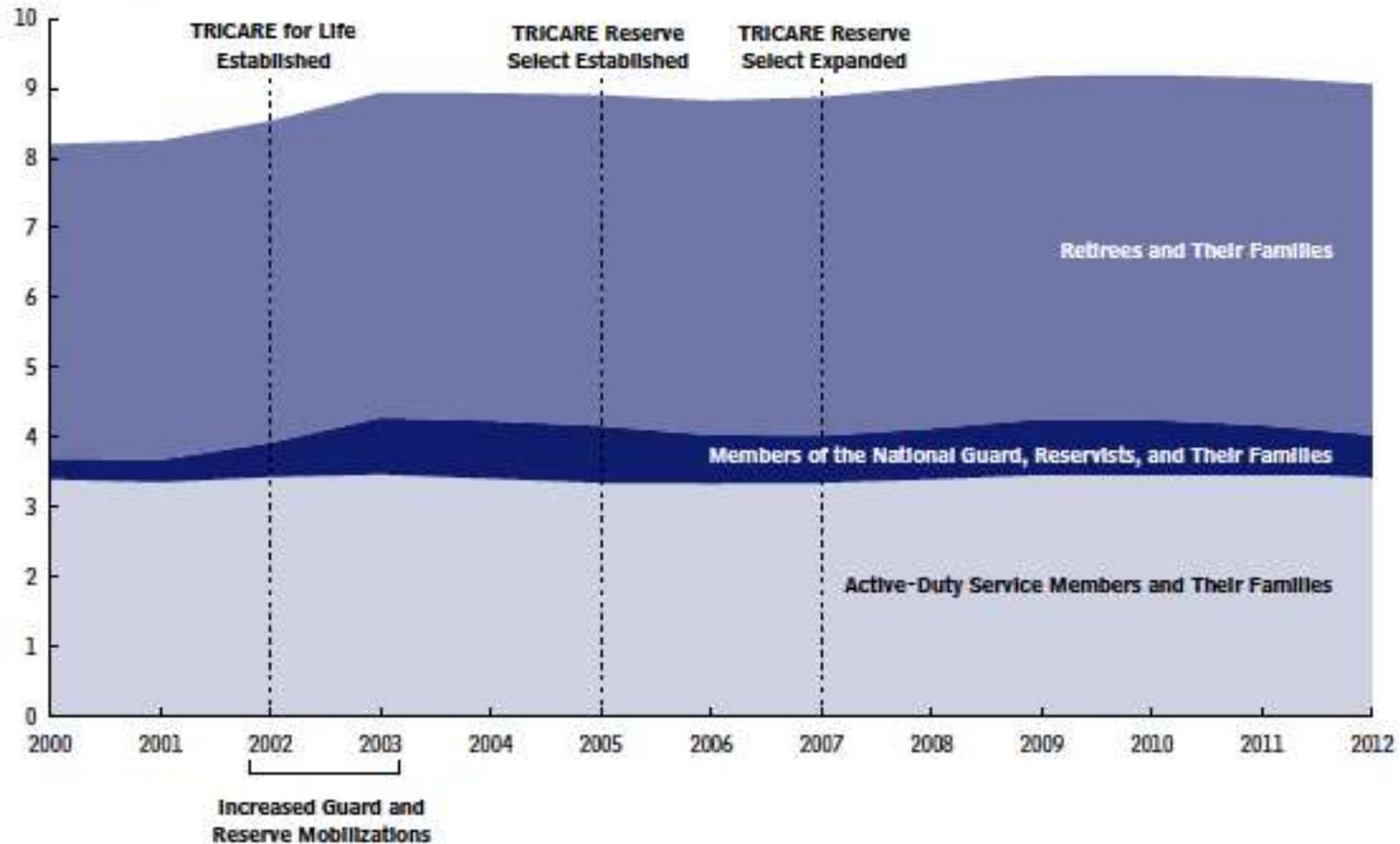
Source: Congressional Budget Office.

Notes: Annual funding for military health care can be divided into two major components. The first, called the Defense Health Program, includes funding for health-related operation and maintenance; procurement; and RDT&E. The second component, Military Personnel, includes funding for the pay and benefits of uniformed personnel who work in the health care system and for accrual payments made on behalf of all military personnel to the Medicare-Eligible Retiree Health Care Fund (which finances the TRICARE for Life benefit for those qualified personnel who retire and become eligible for Medicare). In addition to those two major categories, funding for the construction or replacement of military hospitals, clinics, or other facilities is provided under the "Department of Defense" section of the annual appropriation act for military construction and veterans affairs and related agencies.

RDT&E = research, development, test, and evaluation.

Number of DoD Beneficiaries Eligible for TRICARE, 2000 to 2012

(Millions of people)



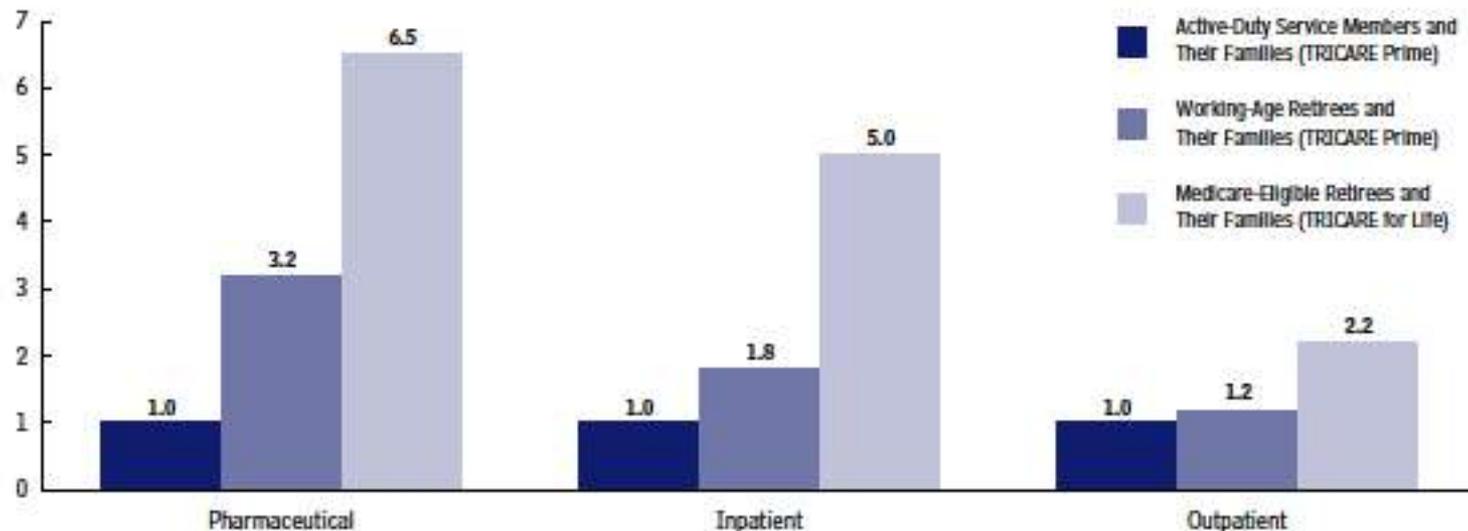
Source: Congressional Budget Office.

Notes: Excludes eligible members of the Coast Guard and the commissioned corps of the Public Health Service and of the National Oceanic and Atmospheric Administration (and their families).

DoD = Department of Defense.

Per Capita Use of TRICARE by Retirees and Their Families Relative to Use by Active-Duty Service Members and Their Families, 2010

(Index)



Source: Congressional Budget Office.

Notes: Use of pharmaceutical, inpatient, and outpatient services by active-duty service members and their families has been normalized to 1 to serve as a benchmark against which to compare use by working-age and Medicare-eligible retirees and their families.

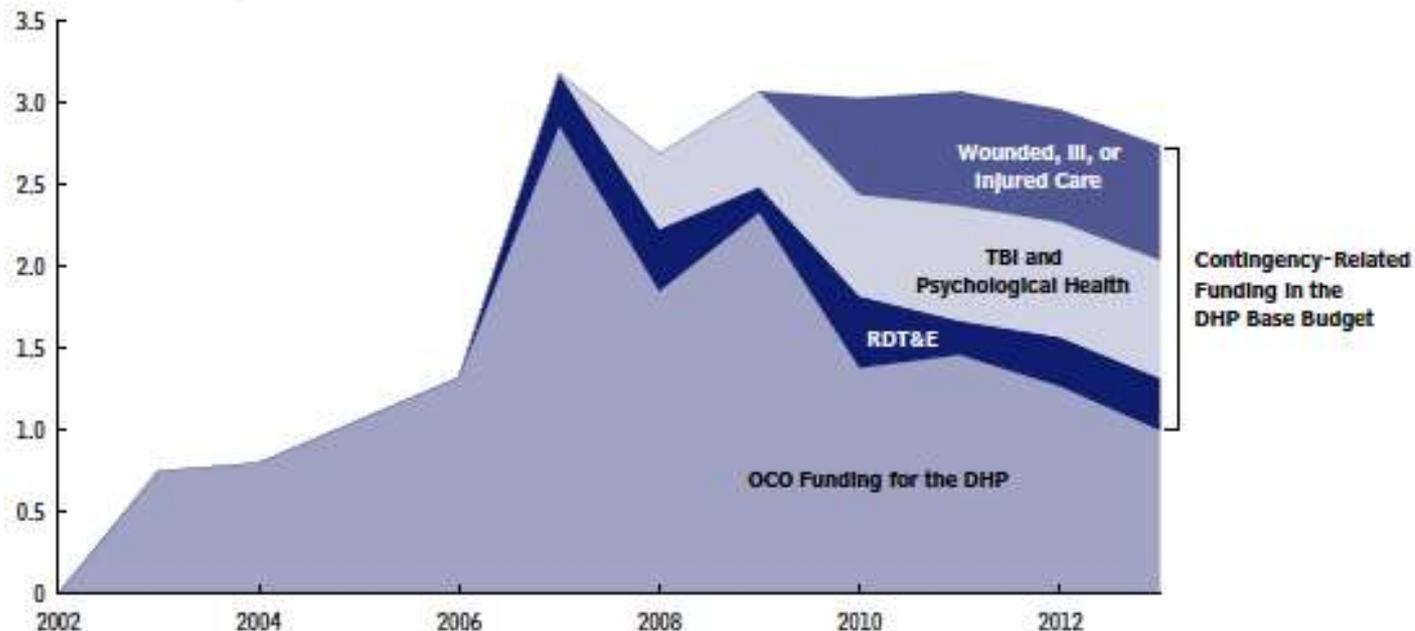
Pharmaceutical use is measured as the number of 30-day equivalent prescriptions per member per year.

Inpatient utilization (that is, treatment requiring admittance to a hospital or other acute care facility) is measured as the relative weighted products (RWPs) per 1,000 people. An RWP ranks the resources used to provide acute care on a common scale by weighting the average cost per inpatient stay by the complexity of the patient's condition. RWPs more accurately reflect differences across beneficiary groups than discharges per capita because they adjust for the intensity of care required.

Outpatient usage (that is, visits for treatments or procedures not requiring hospitalization) is measured by relative value units (RVUs) per person per year. RVUs rank the resources used to provide a service on a common scale. An outpatient visit for primary care has an average RVU value of about 1.5.

Contingency-Related Funding for the Defense Health Program

(Billions of 2014 dollars)



Source: Congressional Budget Office based on data from the Department of Defense.

Notes: The base budget for the DHP includes funding for DoD's routine health-related activities, excluding funding for operations in Iraq and Afghanistan. The DHP has received additional appropriations to support health care costs associated with overseas contingency operations, including operations in Iraq and Afghanistan.

Care for the wounded, ill, or injured was included in OCO funding from 2007 to 2009 and identified separately in regular budget requests beginning in 2010.

Funding for the treatment of traumatic brain injuries and psychological health reported by DoD in 2008 also includes funding for those programs in 2006 and 2007.

These data do not include the costs of care provided in combat areas by the military departments directly because those costs are not part of the DHP.

Data for 2013 are preliminary.

TBI = traumatic brain injury; DHP = Defense Health Program; RDT&E = research, development, test, and evaluation; OCO = overseas contingency operations; DoD = Department of Defense.

Average Annual Costs of Family Coverage Incurred by Military Retirees and Their Civilian Counterparts With Employment-Based Insurance, 2012

(Dollars)

Plan	Premium or Enrollment Fee	Deductibles and Copayments	Total Annual Costs per Family
TRICARE Prime	520	445	965
Civilian HMO	5,080	1,000	6,080
TRICARE as a percentage of civilian plan			16
TRICARE Standard or Extra	0	1,035	1,035
Civilian PPO	4,270	1,295	5,565
TRICARE as a percentage of civilian plan			19

Source: Department of Defense, *Evaluation of the TRICARE Program—Access, Cost, and Quality: Fiscal Year 2013 Report to Congress* (February 2013), pp. 83 and 85.

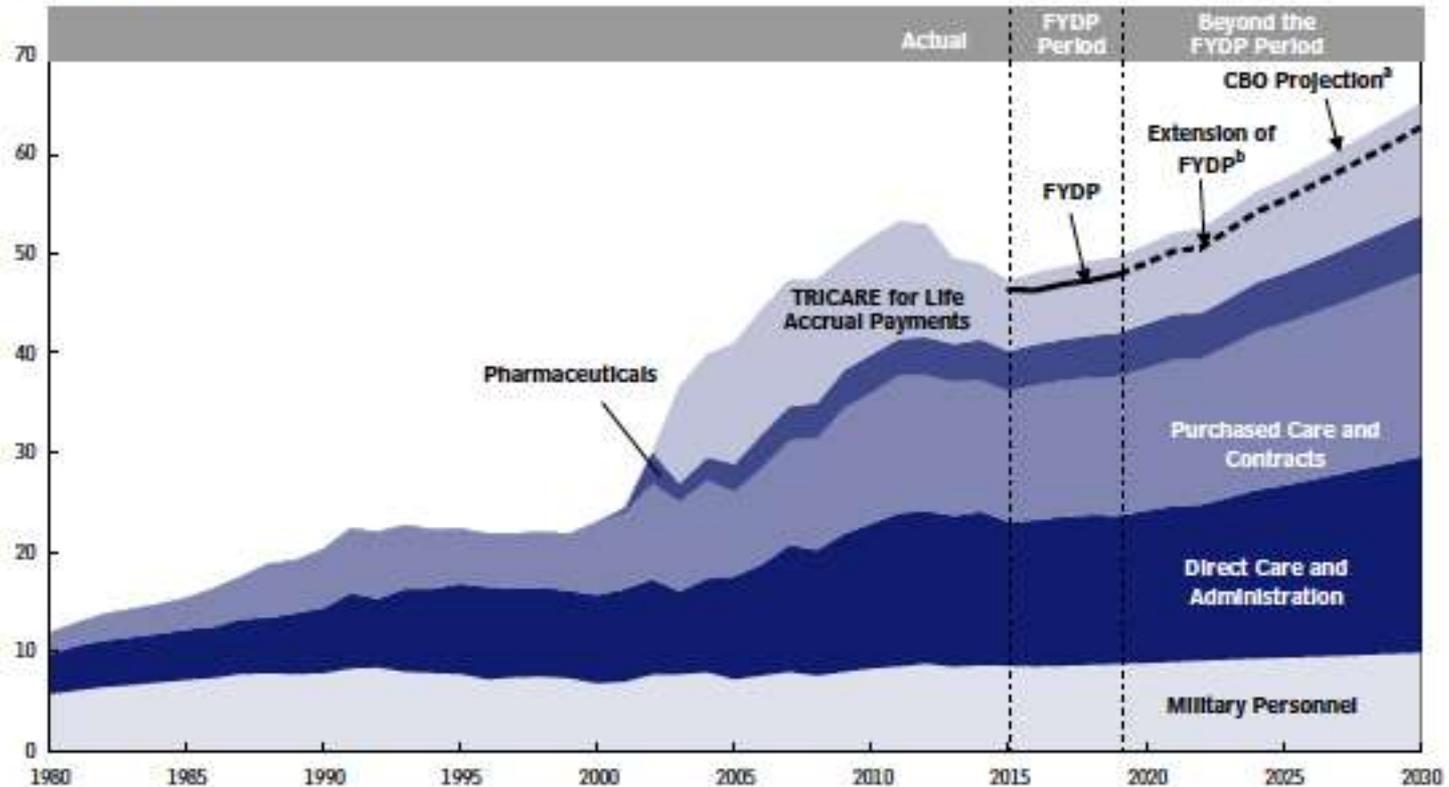
Notes: The Department of Defense adjusted the civilian data to match the age-and-sex distribution and the average family size of the TRICARE population.

HMO = health maintenance organization; PPO = preferred provider organization.

<http://www.cbo.gov/sites/default/files/cbofiles/attachments/44993-MilitaryHealthcare.pdf>

Costs of DoD's Plans for Its Military Health System

Billions of 2015 Dollars



Notes: Supplemental and emergency funding for overseas contingency operations, such as those in Afghanistan and Iraq, is included for 2014 and earlier but not for later years. Before 2001, pharmaceutical costs were not separately identifiable but were embedded in the costs of two categories: "Purchased Care and Contracts" and "Direct Care and Administration." In 2001 and later years, most pharmaceutical costs are separately identifiable, but some of those costs are embedded in the category "TRICARE for Life Accrual Payments."

The amounts shown for the Future Years Defense Program (FYDP) and the extension of the FYDP are the totals for all categories. DoD = Department of Defense; FYDP period = 2015 through 2019, the period for which DoD's plans are fully specified.

a. Each category shows the CBO projection of the base budget from 2015 to 2030. That projection incorporates costs that are consistent with DoD's historical experience.

b. For the extension of the FYDP from 2020 to 2030, CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with CBO's projections of price and compensation trends in the overall economy when the department's estimates are not available.

Cumulative Budgetary Effects of Policy Options That Would Raise Military Retirees' Cost Sharing, 2015 to 2023

(Billions of dollars)

	Change in the Federal Budget			Change in DoD's Budget Authority
	Discretionary Outlays	Mandatory Outlays	Revenues	
Option 1: Increase Medical Cost Sharing for Military Retirees Who Are Not Yet Eligible for Medicare	-19.7	-0.3	-1.6	-24.1
Option 2: Make Military Retirees Ineligible for TRICARE Prime; Allow Continued Use of Standard and Extra With an Annual Fee	-71.0	0.5	-10.5	-89.6
Option 3: Introduce Minimum Out-of-Pocket Requirements for TRICARE for Life	0	-30.7	0	-18.4

Source: Congressional Budget Office.

Notes: The potential spending reductions from these policy options may not be additive; implementing one option could affect the spending in another. These estimates reflect the assumption that each change would go into effect at the beginning of fiscal year 2015.

Budget authority is authority provided by law to enter into obligations that will result in outlays of federal funds. Outlays are payments made to liquidate obligations.

Negative numbers represent reductions in outlays or budget authority or a loss of revenues.

DoD = Department of Defense.

Enrollment in TRICARE Prime by Type of Beneficiary, 2003 and 2012

	Total Number of People Eligible to Enroll in TRICARE Prime (Millions)	Number of Eligible Beneficiaries Enrolled in TRICARE Prime (Millions)	Percentage of Eligible Beneficiaries Enrolled in TRICARE Prime
2003			
Active-Duty Service Members	1.8	1.8	100
Families of Active-Duty Service Members	2.4	1.9	79
Working-Age Retirees and Their Families	3.1	1.2	39
Total	7.3	4.9	67
2012			
Active-Duty Service Members	1.7	1.7	100
Families of Active-Duty Service Members	2.4	2.0	83
Working-Age Retirees and Their Families	3.5	1.6	46
Total	7.6	5.3	70

Source: Department of Defense, *Evaluation of the TRICARE Program—Access, Cost, and Quality: Fiscal Year 2013 Report to Congress* (February 2013), p. 16, and *Evaluation of the TRICARE Program, Fiscal Year 2005 Report to Congress* (March 2005), p. 20.

Notes: Data for people who are not eligible to enroll in TRICARE Prime—particularly members of the National Guard, reservists, and Medicare-eligible beneficiaries, and their respective families—are not included in this table.

Data reflect the average number of people in each year to account for beneficiaries who were eligible or enrolled for only a part of a year.