



Function 050: **National Defense**

Reduce Civilian Overhead in Department of Defense (DOD)

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$1,200	\$2,154	\$2,807	\$3,263	\$3,263	\$3,263	\$3,263	\$3,263	\$3,263	\$3,263	\$12,687	\$29,002

Heritage Recommendation:

The Department of Defense (DOD) can reduce the size of the defense workforce by finding efficiencies in the civilian workforce. This proposal saves \$1.2 billion in 2016, and \$29.0 billion over 10 years.

Rationale:

Since 2001, the total number of civilian employees in the DOD has grown 14 percent. During the same period, the total Active Military was reduced by 5 percent. Today, 36 percent of the DOD workforce is composed of civilians, totaling 782,000 people.

The DOD needs to once again “right size” the total DOD workforce. Secretaries of Defense Robert Gates and Chuck Hagel both announced plans to reduce the number of civilian employees during their tenure. Most recently, Secretary Hagel proposed to cut 20 percent of overhead in his office. The current DOD proposal is to reduce the civilian staff by just under 10,000 employees a year. This would be a comparable rate to future military end-strength reductions.¹⁶ However, given the disproportionate growth in the civilian workforce in the past, the timing of the reductions should be moved up by one year and an additional reduction of 5,000 full-time equivalents (FTEs) be added in 2020.

This will not be as simple as cutting equal numbers of positions across all offices in the DOD. The department will need to devise a plan that outlines its strategic priorities, and where to find efficiencies and remove unnecessary duplication.

Additional Reading:

- Mackenzie Eaglen and Julia Pollack, “How to Save Money, Reform Processes, and Increase Efficiency in the Defense Department,” Heritage Foundation *Background* No. 2507, January 10, 2011, <http://www.Heritage.org/research/reports/2011/01/how-to-save-money-reform-processes-and-increase-efficiency-in-the-defense-department>.
- James Jay Carafano, “The Pentagon’s Greatest Challenge (And It’s Not ISIS or China),” *The National Interest*, November 4, 2014, <http://nationalinterest.org/feature/the-pentagons-greatest-challenge-its-not-isis-or-china-11599>.

Calculations:

Savings are expressed as budget authority and were calculated based on civilian reduction projections found on page 9 in Assistant Secretary of the Army, Manpower and Reserve Affairs, “The Department of Defense Report on the Civilian Personnel Workforce and Contracted Services Reductions in the Fiscal Year 2015 Budget,” September 16, 2014, <http://www.asamra.army.mil/scra/documents/20140916USDsec955%20Report.pdf>. The Heritage proposal accelerates the proposed reductions by one year, realizing the 2016 and 2017 reductions in 2016, and also adding an additional reduction of 5,000 FTEs in 2020. The number of FTE reductions is multiplied by the average FTE cost of \$91,178.

Cut Funding for Non-Combat Related Research

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$135	\$135	\$136	\$137	\$141	\$144	\$147	\$151	\$154	\$156	\$684	\$1,436

Heritage Recommendation:

The Defense Department should cut funding to research to programs that are not related to increasing military capabilities. This proposal saves \$135 million in 2016, and \$1.4 billion over 10 years.

Rationale:

The Defense Department has the largest research and development budget of the federal government, equaling just under \$70 billion a year. While the vast majority of this amount goes toward developing advanced military systems or technologies that have battlefield applications, each year, the DOD spends money on various projects that have no reason to be funded from the defense budget. In many cases, these projects are already being funded by other federal departments. For example, the DOD currently has \$45 million worth of grants available to support breast cancer research.¹⁷ Other examples include grants to promote science, technology, engineering, and math (STEM) education, and prostate cancer research.

In addition, the DOD spends significant amounts of money on green-energy initiatives. While finding alternative fuels could be extremely beneficial to the troops and reduce DOD energy costs, these projects should be limited to those focused on providing cost-efficiencies, or improving warfighting capabilities. However, some of the DOD's programs are more focused on promoting green energy than military capabilities. One example is the current mandate that requires 25 percent of electricity used by the DOD to come from renewable sources by 2025. Congress should repeal this mandate.

Additional Reading:

- Senator Tom Coburn, "Department of Everything," November 2012, http://www.coburn.senate.gov/public/index.cfm?a=Files.Serve&File_id=00783b5a-f0fe-4f80-90d6-019695e52d2d.
- Brian Slattery and Michaela Dodge, "Biofuel Blunder: Navy Should Prioritize Fleet Modernization over Political Initiatives," Heritage Foundation *Issue Brief* No. 4054, September 24, 2013, <http://www.Heritage.org/research/reports/2013/09/navy-s-green-fleet-a-biofuel-blunder>.
- Jack Spencer, "Capability, Not Politics, Should Drive DOD Energy Research," Heritage Foundation *WebMemo* No. 3299, June 22, 2011, <http://www.Heritage.org/research/reports/2011/06/capability-not-politics-should-drive-dod-energy-research>.

Calculations:

Savings are expressed as budget authority and include a total of program and grant costs based on FY 2015 figures from "Department of Defense Budget Fiscal Year 2015: RDT&E Programs (R-1)," March 2014, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015_r1.pdf, and open DOD grant opportunities found at Federal Grants, <http://www.federalgrants.com>. Total savings figures for 2016-2025 have been increased at the same rate as discretionary spending growth, according to the CBO's most recent August 2014 baseline.

Cut Commissary Subsidies

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$500	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$4,500	\$9,500

Heritage Recommendation:

The Defense Department should cut subsidies to its commissaries. This proposal saves \$500 million in 2016, and \$9.5 billion over 10 years.

Rationale:

The DOD currently has an extensive and separate retail network to serve those in the military and their dependents. There are four different retail systems operated by the DOD. One of them, the commissaries, is a network of grocery stores, available to all branches of the military. In addition to commissaries, the military has three separate exchanges, or general retail stores, one for the Army and Air Force, one for the Navy, and another for the Marine Corps.

Commissaries and exchanges are managed differently. All three of the exchanges are self-sustaining, relying on the revenue from their sales rather than direct appropriations. Commissaries, which are run by the Defense Commissary Agency (DeCA), rely on an annual subsidy to pay for their civilian workforce. Unlike the exchanges, the commissaries do not mark up the prices enough to fully fund their operations.

The Obama Administration's recommendation to cut subsidies to defense commissaries and strive toward streamlining the various systems into a single network is on the right track.¹⁸

Additional Reading:

- Mackenzie Eaglen and Julia Pollack, "How to Save Money, Reform Processes, and Increase Efficiency in the Defense Department," Heritage Foundation *Backgrounder* No. 2507, January 10, 2011, <http://www.Heritage.org/research/reports/2011/01/how-to-save-money-reform-processes-and-increase-efficiency-in-the-defense-department>.
- Congressional Budget Office, "Reducing the Deficit: Spending and Revenue Options," March 2011, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12085/03-10-reducingthedeficit.pdf>.

Calculations:

Savings are expressed as budget authority, and are from the DOD's plans to reduce commissary subsidies by \$1 billion over a three-year period, fully implemented in 2017 as described in chapter 5, page 6, in the "United States Department of Defense Fiscal Year 2015 Budget Request Overview," http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015_Budget_Request_Overview_Book.pdf.

Close Domestic Dependent Elementary and Secondary Schools (DDESS)

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$583	\$585	\$586	\$593	\$607	\$620	\$633	\$650	\$663	\$675	\$2,954	\$6,195

Heritage Recommendation:

Close the Defense Department's Domestic Dependent Elementary and Secondary schools (DDESS) on military bases in the continental United States. This proposal saves \$583 million in 2016, and \$6.2 billion over 10 years.

Rationale:

The Pentagon's DDESS currently operates 63 schools on military bases in the United States, Puerto Rico, and Cuba. The majority of these, 58 schools, are in South Carolina, Virginia, Georgia, Alabama, Kentucky, and North Carolina. These schools were necessary following World War II because, while the military was racially integrated, the school districts in those states were not. That justification has long since disappeared. Today, the dependents of military members in all other states attend local public schools.

Not only are these schools unnecessary, they are inefficient.¹⁹ The Fiscal Commission estimates that the cost per student in FY 2015 will be \$81,000, far higher than the \$11,000 average cost per student in the rest of the country. The department is now rebuilding the schools and plans on opening two new schools in Virginia and North Carolina in FY 2015.²⁰

There is no need for the military to be operating schools in these states and the Pentagon should promptly close the schools and transfer military dependents into the local school systems.

Additional Reading:

- Fiscal Commission, "\$200 Billion in Illustrative Savings [for 2015]," November 12, 2010, http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/Illustrative_List_11.10.2010.pdf.
- Senator Tom Coburn, "Department of Everything," November 2012, http://www.coburn.senate.gov/public/index.cfm?a=Files.Serve&File_id=00783b5a-f0fe-4f80-90d6-019695e52d2d.

Calculations:

Savings are expressed as budget authority based on the FY 2014 estimated spending level as found on page DoDDE-368 of Department of Defense, "Fiscal Year 2015 Budget Estimates Department of Defense Dependents Education (DoDDE)" http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/budget_justification/pdfs/01_Operation_and_Maintenance/O_M_VOL_1_PART_1/DoDDE_PB15.pdf. Spending levels have been increased at the same rate as discretionary spending for 2016-2025, according to the CBO's most recent August 2014 baseline spending projections.

Reform Military Compensation

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$2,100	\$3,300	\$4,100	\$4,900	\$5,800	\$6,700	\$7,600	\$8,600	\$9,732	\$11,012	\$20,200	\$63,844

Heritage Recommendation:

Congress must reform military compensation to stop wasteful cost growths and better align the entire compensation system with the needs of today's soldiers. This proposal saves \$2.1 billion in 2016, and \$63.8 billion over 10 years.

Rationale:

Active-duty soldiers receive compensation for their service in several ways: basic pay, health care, retirement, and additional non-pay benefits, such as education. In the past several decades, the cost for military personnel has grown drastically. From 2001 to 2012, the costs are estimated to have risen by 42 percent.²¹ The cost growth has become very problematic for the Department of Defense. In order to keep these costs from consuming the entire Pentagon budget, the military has responded the only way it can—by cutting end strength. This is not a viable solution, as military end strength must be determined by military requirements and strategy.

Congress must reform the various compensation systems. This is not simply a cost-cutting exercise. The fact is that some of these systems were originally crafted when the DOD was created and are truly outdated. For example, the DOD retirement benefit is still a pension system from 1920 that provides no benefits to those who leave the military with fewer than 20 years of service.²² Most of the private sector no longer uses a pension system; furthermore, the average person today will change jobs every 4.4 years.²³ Reforms are necessary to align the military compensation system with today's generation in order to better recruit and retain soldiers.

There have been many proposals for compensation reform. Many of these have merits; however the exact reform package should be informed by the findings of the Military Compensation and Retirement Modernization Commission, which will release a report in February 2015.

In general, compensation reform should:

- Consider all aspects of soldier compensation, including basic pay, retirement, health care, and other non-pay benefits;
- Reforms should reduce costs to the military in order to afford the necessary end strength to meet military requirements; and
- Reforms should not merely cut costs but should enforce a strong recruitment and retention system to sustain the all-volunteer force.

The estimates above are an example of possible savings from CBO's reform proposals for TRICARE and basic pay. The exact savings will be based on the details of the plan.



Additional Reading:

- Baker Spring, “Saving the American Dream: Improving Health Care and Retirement for Military Service Members and Their Families,” Heritage Foundation *Backgrounder* No. 2621, November 17, 2011, <http://www.Heritage.org/research/reports/2011/11/saving-the-american-dream-improving-health-care-and-retirement-for-military-service-members>.
- Congressional Budget Office, “Options for Reducing the Deficit: 2014 to 2023,” November 13, 2013, <https://www.cbo.gov/budget-options/2013/44687>.

Calculations:

Savings include two budget options found on pages 58 and 236 of Congressional Budget Office, “Options for Reducing the Deficit: 2014 to 2023,” November 13, 2013, <https://www.cbo.gov/budget-options/2013/44687>. These options include Option 2: Cap Increases in Basic Pay for Military Service Members and Option 12: Modify TRICARE Enrollment Fees and Cost Sharing for Working-Age Military Retirees. The CBO provides savings estimates through 2023. We assume the same rate of growth in savings for 2024 and 2025 as occurred in 2023.

Increase Use of Performance-Based Logistics

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$9,000	\$10,362	\$11,930	\$13,736	\$15,816	\$18,210	\$20,966	\$24,139	\$27,793	\$32,000	\$60,844	\$183,952

Heritage Recommendation:

The Department of Defense should increase the use of the performance-based logistics method in weapon systems maintenance and sustainment. This proposal saves \$9 billion in 2016, and \$184.0 billion over 10 years.

Rationale:

To operate a weapon system, the DOD must pay for the full life-cycle cost of the equipment, which includes the development and procurement of the system, as well as the far more costly maintenance and sustainment of the weapon system. In fact, the DOD spends about \$90 billion on maintenance and sustainment of weapon systems each year.²⁴

Performance-based logistics (PBL) is a proven method used for sustainment work that enhances the military capability and availability of weapon systems at a lower cost. Rather than measuring stovepipe metrics, such as number of aircraft repaired or the quantity of repair parts acquired, the PBL approach uses metrics that measure whether the system is meeting the capability requirements for the warfighters. In other words, the PBL method emphasizes the readiness of the platform as the desired outcome.

The benefits of PBL have been known in the Pentagon for a while, and are even listed as the preferred practice in the DOD's acquisition regulations. A DOD report has also verified that PBL practices, when implemented correctly, lead to both cost savings and improved system performance.²⁵ That being said, PBL is not appropriate for all systems and should be judiciously applied. Furthermore, there are existing barriers and cultural biases against PBL that would make a universal application unfeasible. For those reasons, cost savings for the effort vary from \$9 billion a year to \$32 billion a year.²⁶

Additional Reading:

- Baker Spring, "Performance-Based Logistics: Making the Military More Efficient," Heritage Foundation *Backgrounder* No. 2411, May 6, 2010, <http://www.Heritage.org/research/reports/2010/05/performance-based-logistics-making-the-military-more-efficient>.
- Mackenzie Eaglen and Julia Pollack, "How to Save Money, Reform Processes, and Increase Efficiency in the Defense Department," Heritage Foundation *Backgrounder* No. 2507, January 10, 2011, <http://www.Heritage.org/research/reports/2011/01/how-to-save-money-reform-processes-and-increase-efficiency-in-the-defense-department>.

Calculations:

Savings are expressed as budget authority and were calculated based on a range of estimated savings from the reports: John Boyce and Allan Banghart, "Performance Based Logistics and Project Proof Point," *Defense AT&L: Product Support Issue* (March–April 2012), http://www.dau.mil/pubscats/ATL%20Docs/Mar_Apr_2012/Boyce_Banghart.pdf, and Aerospace Industries Association, "Modernizing Defense Logistics," June 25, 2009, https://www.aia-aerospace.org/assets/paper_v1_0_6_25_09_rr.pdf. The estimates of cost savings range from a notably conservative or low level of \$9 billion per year to \$32 billion per year. Heritage conservatively assumes that the DOD would initially realize the lowest range of these savings, at \$9 billion per year, with that figure growing to \$32 billion over the 10 year period (growing at an annual rate of 15.1 percent).

Focus the Department of Energy's National Nuclear Security Administration Spending on Weapons Programs

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$529	\$655	\$908	\$909	\$1,039	\$1,172	\$1,307	\$1,445	\$1,585	\$1,729	\$4,040	\$11,278

Heritage Recommendation:

The Department of Energy's National Nuclear Security Administration should halt growth in its programs that do not directly contribute to the country's nuclear weapons programs. This proposal saves \$529 million in 2016, and \$11.3 billion over 10 years.

Rationale:

The Department of Energy (DOE) is responsible for the nuclear reactors and weapons that are operated by the Defense Department. Each year, the DOE is allotted about \$16 billion to \$17 billion to fund defense-related activities. The recent negative review of U.S. nuclear forces has now driven the Administration to increase spending in the coming years. While this increase is entirely necessary, it is important that the resources are going to weapons programs, or those directly supporting weapons activities. Heritage recommends returning the following programs to their FY 2014 budget levels:

- Material Recycle and Recovery
- Storage
- Containers
- Secure Transportation Asset
- Environmental Projects and Operations
- Minority Serving Institution Partnership Program
- Information Technology and Cyber Security
- Warhead Dismantlement and Fissile Materials Transparency
- International Nonproliferation Export Control
- Nuclear Safeguards and Security Programs
- Defense Environmental Clean-Up

Additional Reading:

- Michaela Dodge and Baker Spring, "Bait and Switch on Nuclear Modernization Must Stop," Heritage Foundation *Backgrounder* No. 2755, January 4, 2013, <http://www.Heritage.org/research/reports/2013/01/bait-and-switch-on-nuclear-modernization-must-stop>.

Calculations:

Savings are expressed as budget authority and were calculated based on estimated spending levels from the Department of Energy National Nuclear Security Administration's "FY 2015 Congressional Budget Request," <http://energy.gov/sites/prod/files/2014/04/f14/Volume%201%20NNSA.pdf>. Estimated spending is provided through FY 2019. Heritage analysts applied the average growth in baseline defense spending from FY 2015-2024 to FY 2020-2025 spending levels. Savings equal the combined total of placing a hard cap on FY 2014 funding levels for 10 budget components, plus cancelling the Minority Serving Institution Partnership Program.

Endnotes: National Defense

16. U.S. Department of Defense, "The Department of Defense Report on the Civilian Personnel Workforce and Contracted Services Reductions in the Fiscal Year 2015 Budget," September 16, 2014, <http://www.asamra.army.mil/scra/documents/20140916USDsec955%20Report.pdf> (accessed November 12, 2014).
17. Grants.gov, <http://www.grants.gov/web/grants/search-grants.html> (accessed November 12, 2014).
18. U.S. Department of Defense, Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *United States Department of Defense Fiscal Year 2015 Budget Request Overview*, March 2014, pp. 5–6, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015_Budget_Request_Overview_Book.pdf (accessed November 12, 2014).
19. Senator Tom Coburn, "Department of Everything," November 2012, p. 48, http://www.coburn.senate.gov/public/index.cfm?a=Files.Serve&File_id=00783b5a-f0fe-4f80-90d6-019695e52d2d (accessed November 12, 2014).
20. U.S. Department of Defense, *Fiscal Year 2015 Budget Estimates Department of Defense Dependents Education (DoDDE)*, March 2014, p. DODDE 382, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/budget_justification/pdfs/01_Operation_and_Maintenance/O_M_VOL_1_PART_1/DoDDE_PB15.pdf (accessed November 12, 2014).
21. Bipartisan Policy Center and American Enterprise Institute, *Trends in Military Compensation: A Chartbook*, July 18, 2014, p. 13, <http://www.aei.org/publication/trends-in-military-compensation-a-chartbook/> (accessed November 12, 2014).
22. Roy Wallace, David Lyle, and John Smith, "A Framework for Restructuring the Military Retirement System," U.S. Army War College, Strategic Studies Institute, July 2013, p. 2.
23. Jeanna Meister, "Job Hopping Is the 'New Normal' for Millennials: Three Ways to Prevent a Human Resource Nightmare," *Forbes*, August 14, 2012, <http://www.forbes.com/sites/jeannemeister/2012/08/14/job-hopping-is-the-new-normal-for-millennials-three-ways-to-prevent-a-human-resource-nightmare/> (accessed November 12, 2014).
24. John Boyce and Allan Banghart, "Performance Based Logistics and Project Proof Point," *Defense AT&L: Product Support Issue* (March–April 2012), p. 30, http://www.dau.mil/pubscats/ATL%20Docs/Mar_Apr_2012/Boyce_Banghart.pdf (accessed November 12, 2014).
25. Ibid.
26. Baker Spring, "Performance-Based Logistics: Making the Military more Efficient," Heritage Foundation *Backgrounder* No. 2411, May 6, 2010, <http://www.Heritage.org/research/reports/2010/05/performance-based-logistics-making-the-military-more-efficient>; and Boyce and Banghart, "Performance Based Logistics and Project Proof Point."