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The Full Cost of Military Personnel

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March 2016
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IDA Document NS D-5764
H 16-000363



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The Full Cost of Military Personnel

Stanley Horowitz

Personnel cost includes much more than pay

- Direct vs. Indirect
 - Direct costs are clearly linked to the compensation of individuals
 - Indirect costs cover overhead expenses not tracked to individuals
- Current vs. Deferred
 - Current compensation goes to people now serving in the military
 - Deferred compensation goes to veterans, people who have completed their service
- In the Defense Department budget vs. in the budget of other government departments

Current Direct Costs of Military Personnel

Basic pay

Basic allowance for housing

Basic allowance for subsistence

Other allowances

Special pays

Incentive pays

Permanent change of station costs

Separation pay

Other

We often do not use the right costs in budgeting for personnel

- Standard practice relies on a single direct cost per officer and enlisted member for each Service
- This may not accurately reflect marginal cost
 - Variation in mix of ranks. A rifle company is relatively cheap.
 - Variation by occupational specialty. Electronics technicians and pilots are expensive to train.
 - Retired pay accrual. Junior enlisted personnel are unlikely to stay until retirement.
- Decisions involving various kinds of organizations will be better if the personnel costs used reflect the personnel in them
- Charging organizations the marginal cost of personnel would discourage excess demand for personnel

It can be expensive to get and keep people with marketable skills

| SPECIAL PAYS FOR HEALTH PROFESSIONAL OFFICERS (note) | | | | | | | | | |
|--|-------------|---|---------------------|------------------------------|---|---------------------------|---------------------|---------------------|-------------|
| Variable Special Pay (Medical Officers) | | | | | | | | | |
| Pay Grade | Under 3 | 3 But Less Than 6 | 6 But Less Than 8 | 8 But Less Than 10 | 10 But Less Than 12 | 12 But Less Than 14 | 14 But Less Than 18 | 18 But Less Than 22 | 22 and Over |
| Intern | 100.00 | | | | | | | | |
| Thru O-6 (not an intern) | | 416.67 | 1,000.00 | 958.33 | 916.67 | 833.33 | 750.00 | 666.67 | 583.33 |
| Above O-6 | 583.33 | <i>For other pays or specific requirements for the pay cited in this table, go to the web at: http://www.dtic.mil/comptroller/fmr/07a/index.html</i> | | | | | | | |
| Variable Special Pay (VSP) (Dental Officers) | | | | | | | | | |
| Pay Grade | Under 3 | 3 But Less Than 6 | 6 But Less Than 8 | 8 But Less Than 12 | 12 But Less Than 14 | 14 But Less Than 18 | 18 & Over | | |
| Intern | 250.00 | | | | | | | | |
| Thru O-6 (not an intern) | | 583.33 | 583.33 | 1,000.00 | 833.33 | 750.00 | 666.67 | | |
| Above O-6 | 583.33 | | | | | | | | |
| Board Certified Pay Special Pay (Medical and Dental Officers) | | | | | Additional Special Pay (ASP) (Dental Officers) | | | | |
| Pay Grade | Under 10 | 10 But Less Than 12 | 12 But Less Than 14 | 14 But Less Than 18 | 18 & Over | Pay Grade | Under 3 | 3 But Less Than 10 | 10 & Over |
| All Grades | 208.33 | 291.67 | 333.33 | 416.67 | 500.00 | All Grades | 4,000.00 | 6,000.00 | 15,000.00 |
| Incentive Special Pay (Medical Officers) | | | | | | | | | |
| Specialty | Annual Amt | Specialty | Annual Amt | Specialty | Annual Amt | Specialty | Annual Amt | | |
| Anesthesiology | \$36,000.00 | Internal medicine | 14,000.00 | Otolaryngology | 30,000.00 | Subspecialty Category I | 36,000.00 | | |
| Dermatology | 18,000.00 | Neurology | 14,000.00 | Pathology | 16,000.00 | Subspecialty Category II | 28,000.00 | | |
| Emergency medicine | 26,000.00 | Neurosurgery | 36,000.00 | Pediatrics | 12,000.00 | Subspecialty Category III | 23,000.00 | | |
| Family practice | 13,000.00 | OB/GYN | 31,000.00 | Prev/Occ/Phys Med & Aero Med | 13,000.00 | Subspecialty Category IV | 14,000.00 | | |
| Gastroenterology | 26,000.00 | Ophthalmology | 28,000.00 | Psychiatry | 15,000.00 | Urology | 28,000.00 | | |
| General surgery | 29,000.00 | Orthopedics | 36,000.00 | Radiology | 36,000.00 | | | | |
| Multiyear Special Pay (Medical Officers) | | | | | | | | | |
| | Level 1 | | Level 2 | | Level 3 | | Level 3 | | |
| 4 Year Agreement | 14,000.00 | | 10,000.00 | | 8,000.00 | | 0 | | |
| 3 Year Agreement | 13,000.00 | | 9,000.00 | | 7,000.00 | | 0 | | |
| 2 Year Agreement | 12,000.00 | | 8,000.00 | | 6,000.00 | | 0 | | |

Indirect military personnel costs are high (\$M 2007)

| | |
|---------------------------------|---------------|
| Medical Support | 8,029 |
| Schools for Dependents | 1,586 |
| Commissaries | 1,145 |
| Family Housing | 4,187 |
| Educational Impact Aid | 1,228 |
| Total Personnel Support | 16,175 |
| | |
| Personnel Administration | 2,887 |
| | |
| Military Education and Training | 16,125 |
| | |
| Total Indirect Cost | 35,187 |

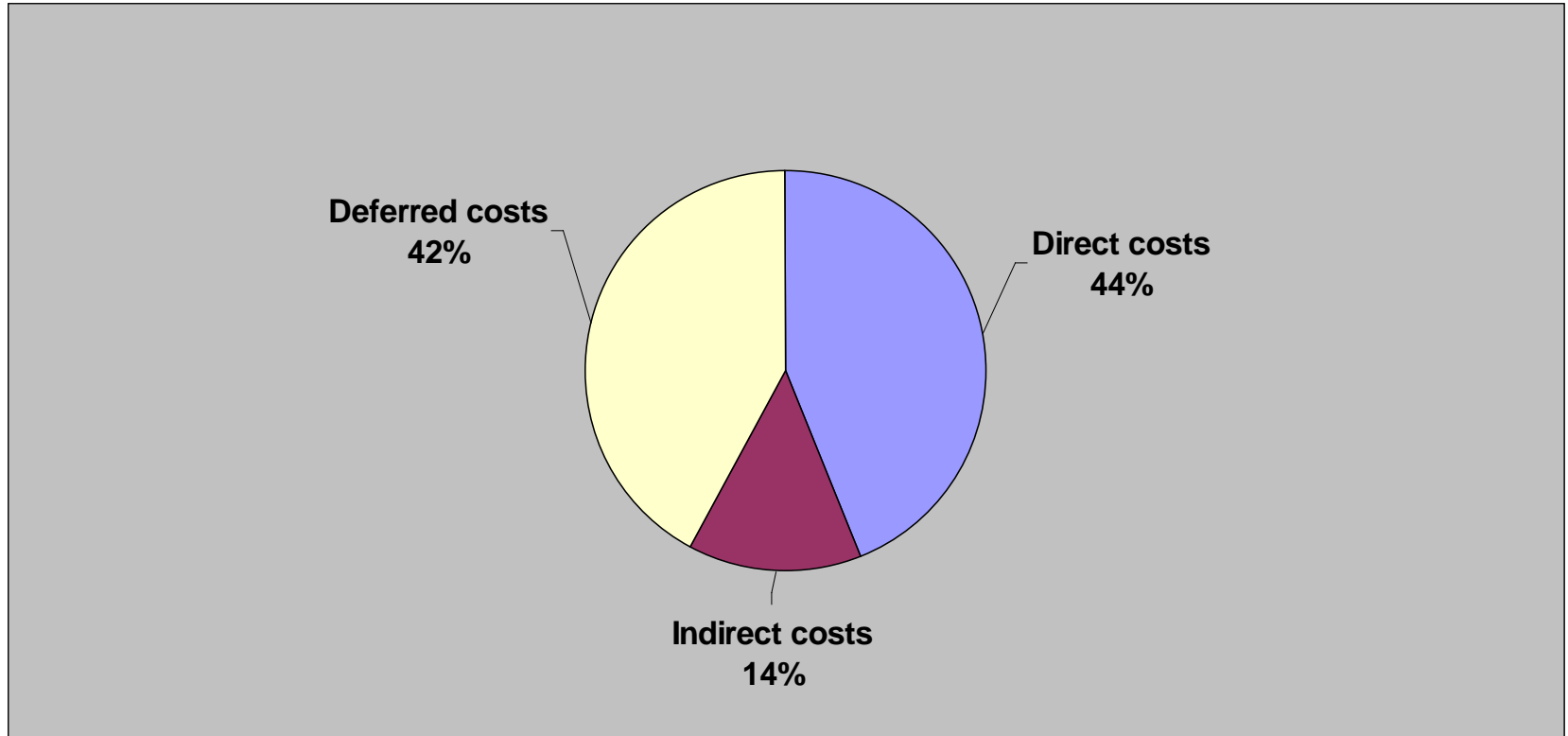
Does not include direct cost of military personnel in these categories – please forgive the old data

We keep paying after people leave the military

| | |
|--|----------------|
| Medical Costs for Retirees and Their Families | 12,044 |
| | |
| Department of Veterans Affairs | 70,410 |
| Department of Labor – Veterans Employment and Training | 222 |
| Department of the Treasury – Unfunded Retirement Liabilities | 23,180 |
| Total Outside Department of Defense Budget | 93,812 |
| | |
| Total Deferred Costs | 105,856 |

The Department of Veterans Affairs budget is \$163 billion for 2016!

Costs related to military personnel – FY 2007



Total = \$251 Billion

Today deferred costs are a much larger percent

Conclusions concerning military personnel costs

- Variable costs are difficult to calculate, and depend on details of the question at hand
- Indirect costs are important
- Personnel cost much more than is generally recognized
- Much of the cost is deferred
- Some is not in the DoD budget
- Organizations often get military personnel for free
- This likely distorts many decisions

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OMB No. 0704-0188*

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