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## FY2016 Defense Budget Update

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### Agenda

- Defining the defense budget
- The defense budget in context
- Weapons procurement issues



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Unless otherwise specified, all dollar amounts presented in this briefing refer to:

- **Budget Authority**, that is, the amounts Congress appropriates, as distinguished from the amounts the government spends (which are *outlays*)
- **Current Dollars**, that is, amounts compared across several years are not adjusted to compensate for price increases that are the result of inflation
- **Department of Defense data**, available at the DOD web-site: <http://comptroller.defense.gov>



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## Which “Defense Budget”?

*(President’s FY2016 budget request / budget authority)*

<b>National Defense Budget Function</b> <i>(function 050)</i>	<b>\$620.9 B</b>
▪ \$592.3 B for DOD-Military	
▪ \$20.5 B for Energy Dept. nuclear activities	
▪ \$8.1 B for other defense-related activities	




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<b>DOD Base Budget – Discretionary</b>	<b>\$534.3 B</b>
<ul style="list-style-type: none"> <li>▪ DOD Appropriations Bill</li> <li>▪ Military Construction/VA Appropriations Bill</li> <li>▪ Permanent Appropriation (TRICARE-for-Life -- \$6.2 B)</li> </ul>	


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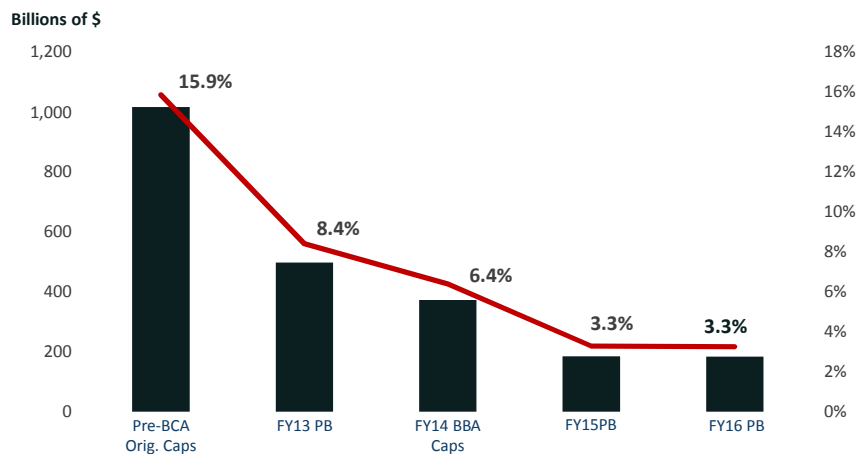
## FY2016 Defense Request and Budget Control Act (BCA) Statutory Limits

- Since 2011 enactment, BCA caps on defense spending has dominated debate.
- ***If appropriated level breaches limits, President must cut defense spending across-the-board.***
- FY2016 request exceeds caps by \$38 billion but Congress could avoid sequestration by reducing request by 6.8%.
- Over FY16-FY21 cap period, defense request exceeds caps by \$183 billion or 3.3%.



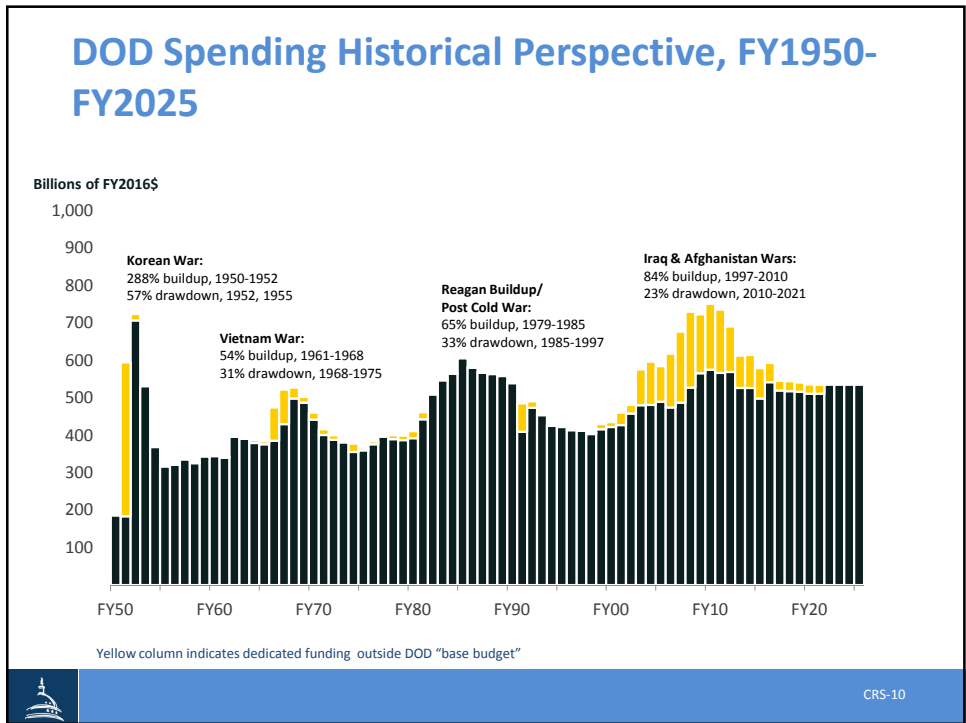
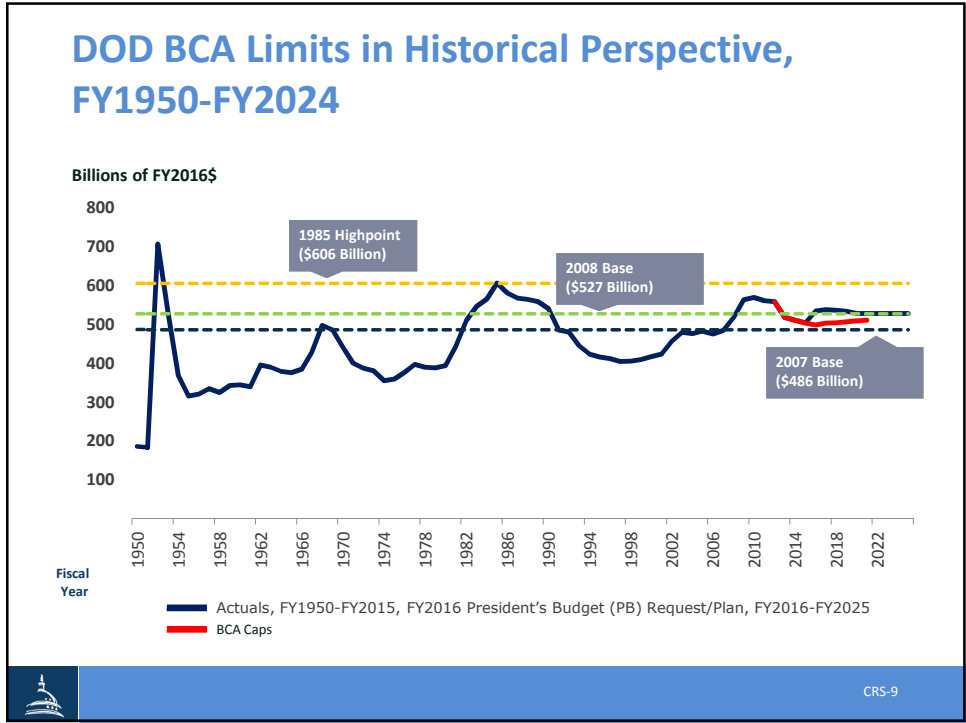
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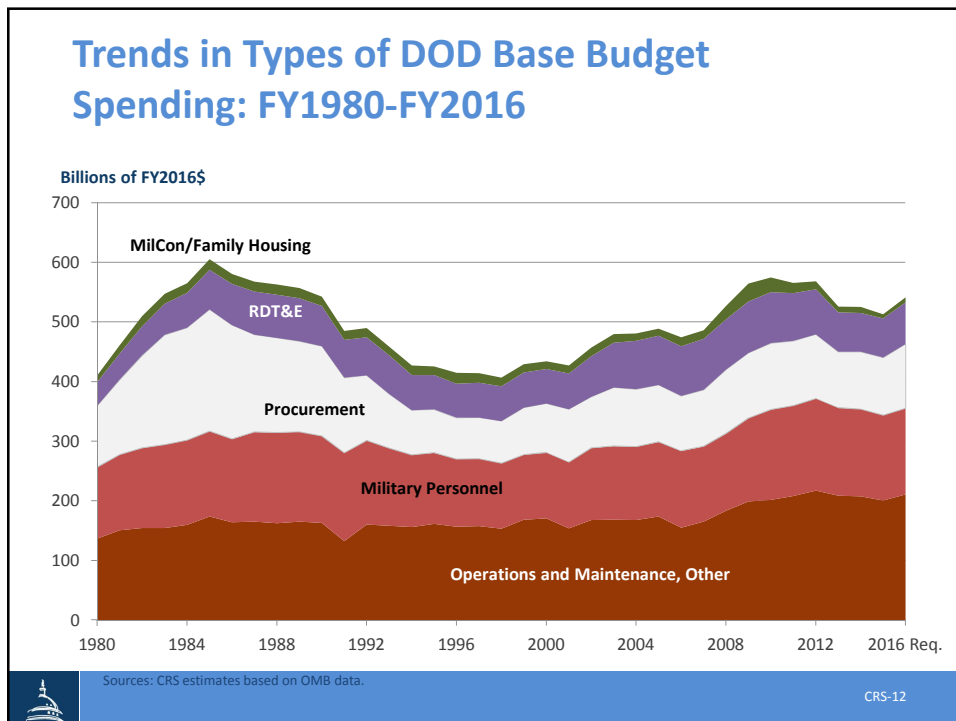
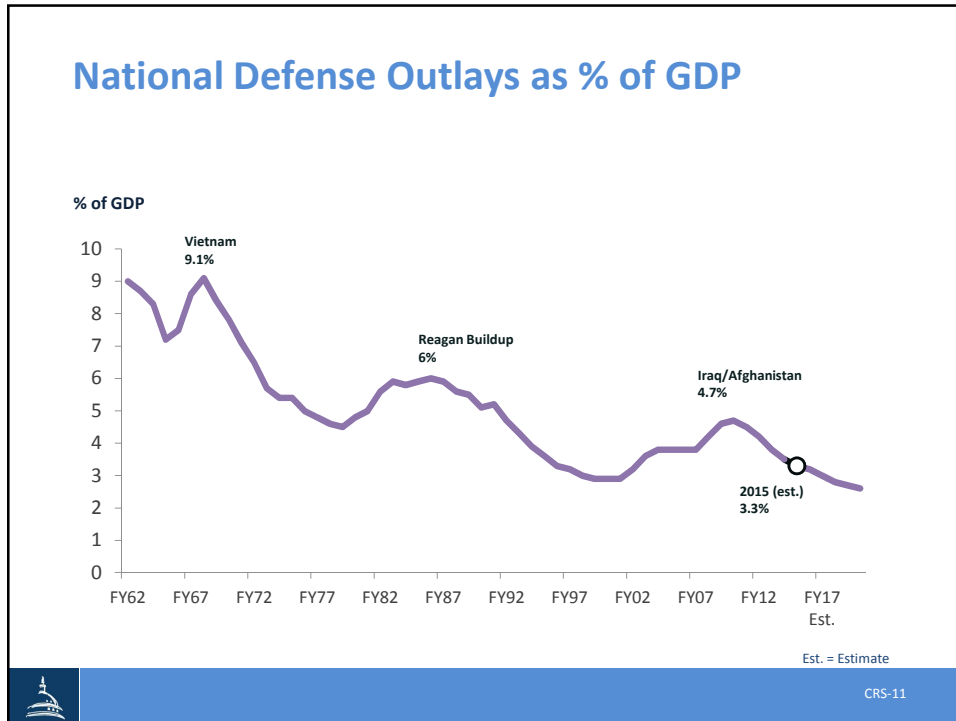
## Gap Between BCA Caps and President's Budget (PB) Plans Narrows, FY2012-FY2016



Sources: CRS estimates based on OMB, CBO, and DOD data.

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## Choices to Respond to BCA Caps

### Congressional choices:

#### 1) Raise the BCA caps

- Caps raised in American Taxpayer Relief Act (ATRA) in 2013 and the Bipartisan Budget Act (BBA) in 2014.
- Increases reduced overall BCA savings by \$46 billion or about 1%.
- Sets DOD on path of level nominal spending.

#### 2) Accept Administration proposal to raise defense caps by \$183B over decade and substitute tax changes.

#### 3) Approve request and accept across-the-board sequestration cuts to achieve BCA savings.

#### 4) Avoid sequester by reducing President's Defense request to meet caps.

- DOD argues that meeting caps would increase risk in achieving strategy and require cuts to readiness, force structure and modernization.



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## Many options proposed to reduce defense spending

- New report from Military Compensation and Retirement Commission (MCRMC) proposes retirement, health, and other changes that would save \$4.4 billion in FY2016 and \$30.9 billion from FY2016-FY2020.
- Changes to force structure or size of military could range from fewer carriers to smaller Army.
- Modernization plans by could include cancelling systems, delaying weapon system purchases or RDT&E.
- Delay DOD's plans to return to "full spectrum" readiness training units for large-scale conflicts.
- Reduce excess infrastructure with new round of base closures.
- Achieve additional efficiencies in operating costs and acquisition practices.



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## 2014 QDR

- 5 Strategic Priorities:
  - Rebalance to the Asia-Pacific region.
  - Maintain a strong commitment to European and Middle Eastern security and stability.
  - Sustain a global counterterrorism campaign.
  - Strengthen key allies and partnerships.
  - Prioritize key modernization efforts.



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## 2014: The Year of Geopolitical Surprises

- March 2014: Russia's unconventional campaign to destabilize Crimea and the Ukraine.
- June 2014: ISIS launches an offensive into Iraq.
- August 2014 : Ebola outbreak in West Africa.
- On top of an already volatile security environment:
  - Afghan drawdown and mission transition.
  - Negotiations with Iran over nuclear program.
  - China's actions in the East and South China Seas.
  - Unrest in Middle East and Africa.
  - Growing cyber threats: e.g., Sony hack in November and December.



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## The Military Response

- Operation Atlantic Resolve : Since April 2014, rotating forces to Poland, Lithuania, Latvia, and Estonia to conduct training exercises designed to reassure allies. Additional military equipment being prepositioned in region.
- Operation Inherent Resolve : Multi-national air strikes in Iraq and Syria to combat ISIS: Multi-national efforts to train and equip Iraqi forces.
- Operation Unified Assistance : Since September 2014, deployed U.S. military forces to Liberia to work in conjunction with other U.S. and international aid efforts; train health care workers; establish treatment centers.



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## Major Weapons Programs

- Information reflects proposals at request level  
*Not BCA-compliant*



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## Aircraft (1)

- 57 F-35s requested (\$10.6B)
  - 44 AF, 9 USMC, 4 Navy; 2 more than projected last year
  - HASC and SASC added 6 USMC; HAC-D added 6 USMC, 2 Navy
- A-10s again proposed for retirement (by FY19)
  - HASC, SASC, & SAC-D added funds to keep A-10s operating
    - (but from other Air Force priorities)
- Long-Range Strike Bomber contract to be awarded this ~~spring~~ ~~summer~~ fall
  - FY16-20 plan largely follows previous requests (\$1.2B in FY16)
  - HASC, SASC, & HAC-D cut 465M due to contract award delay
- No F/A-18E/Fs or EA-18Gs requested
  - HASC and SASC added 12 Gs; HAC-D added 7 Gs, 5 E/Fs



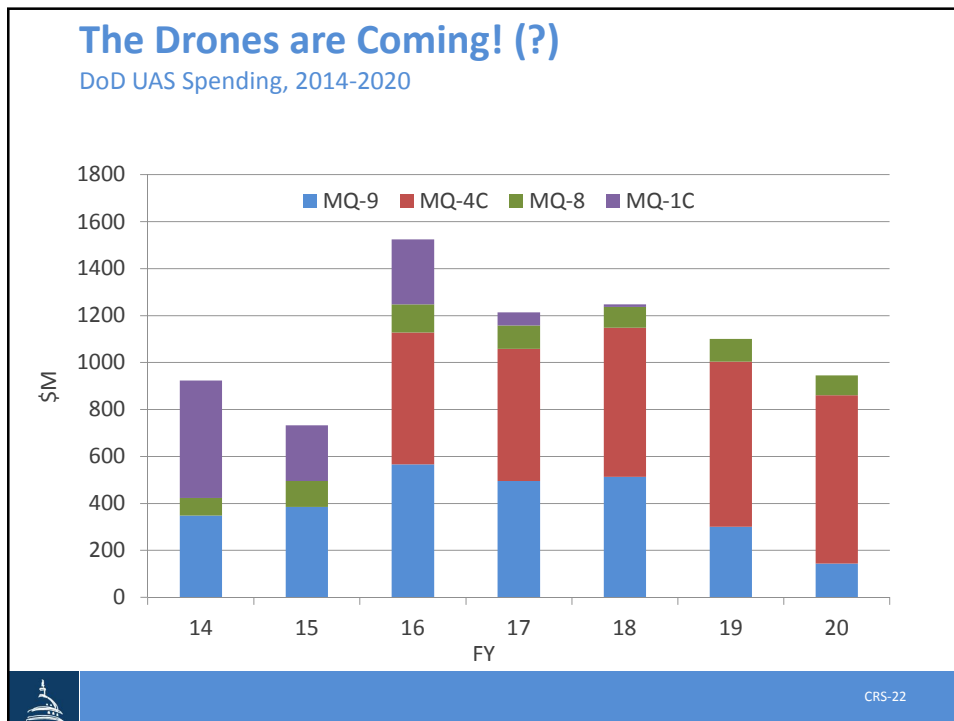
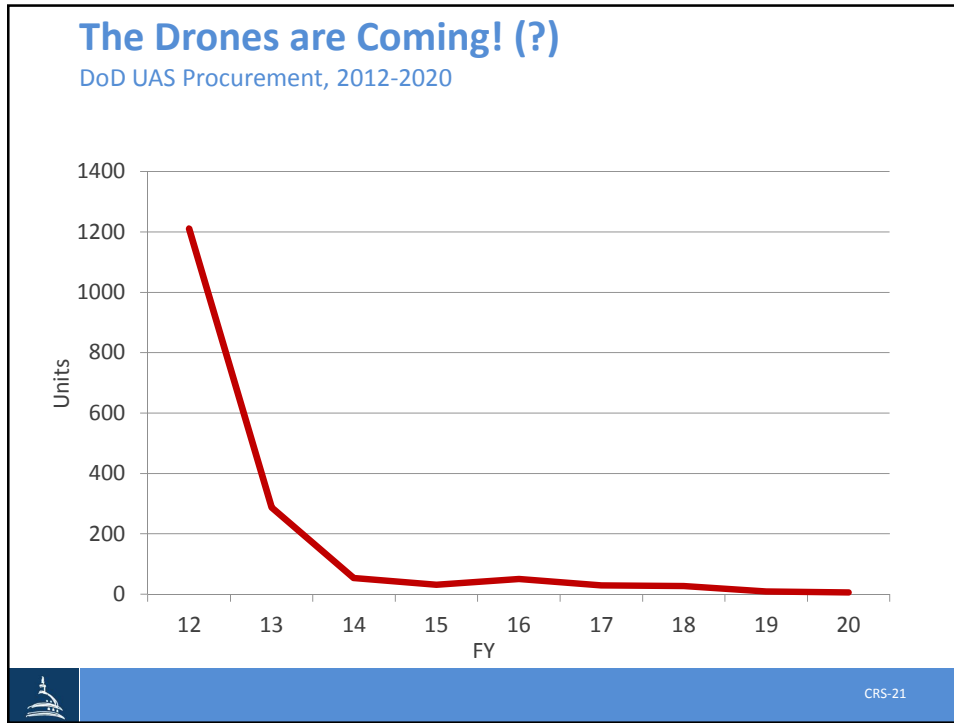
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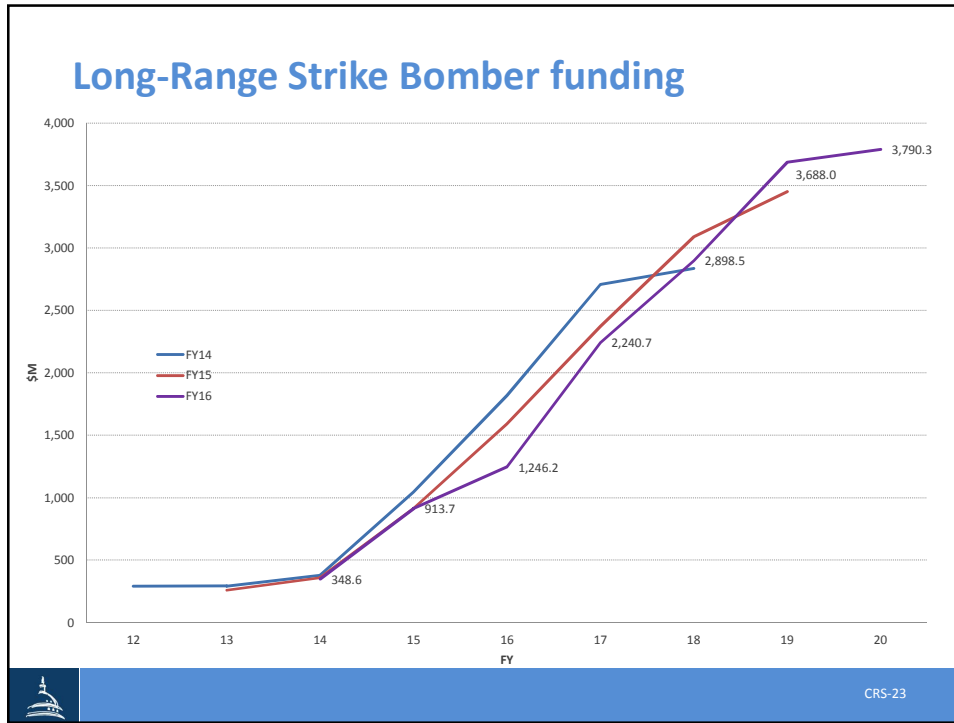
## Aircraft (2)

- Previous goal of 65 steady-state UAV orbits decreased to 60
  - vs 50 proposed in FY15
  - SASC added \$725 million for UCAS-D and 24 MQ-9s
    - *DOD now talking 90, using MQ-1C & contractors*
- P-8 (16), E-2D (5), KC-46 (12) all on track
- U-2s, scheduled to retire in FY16, now funded through FY19
  - 7 AWACS, previously to be retired in FY15, also now FY19
- JSTARS replacement slipped a year, to FY23
- New:
  - Presidential Aircraft (sole-source contract)
  - Air Force T-X trainer
  - Research initiative for 6<sup>th</sup>-generation fighter



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### Air Force aircraft

	FY14	FY15	FY16
F-35A	19	28	44
MQ-9	12	12	29 (53?)
CV-22	3	0	0
HC-130J	1	4	5
C-130J	6	7	14
MC-130J	4	3	8
AC-130J	5	0	0
KC-46	0	7	12
<b>TOTAL</b>	<b>50</b>	<b>60</b>	<b>112 (136?)</b>

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### Navy/Marine aircraft

	FY14	FY15	FY16
EA-18G	21	12	0 (12?)
F/A-18E/F	0	0	0
F-35B	6	6	9 (15?)
F-35C	4	4	4 (6?)
V-22	23	19	19
H-1 upgrades	22	28	28
MH-60R/S	37	37	29
P-8	16	9	16
E-2D	5	5	5
T-6	29	0	0
KC-130J	1	1	2
MQ-8	2	5	2
MQ-4C	0	0	3
<b>TOTAL</b>	<b>166</b>	<b>126</b>	<b>117 (138?)</b>

### Army aircraft

	FY14	FY15	FY16
MQ-1	23	19	17
UH-72	37	55	28
AH-64	46	35	64
CH-47	29	32	39
UH-60M	70	87	94
<b>TOTAL</b>	<b>205</b>	<b>228</b>	<b>242</b>



## All services (including UAVs)

	FY14	FY15	FY16
Fixed-wing	136	142	177 (234?)
Rotary-wing (incl V-22)	264	293	301
<b>TOTAL</b>	<b>400</b>	<b>435</b>	<b>478 (535?)</b>



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## Ships

- Littoral Combat Ship (LCS)/Frigate program
  - Acquisition plan not yet announced for ships 25-32, to be procured FY16-FY18
  - Navy's new plan to build ships (final 20) as modified LCSs (aka frigates)
- Ohio Replacement (SSBNX) ballistic missile submarine
  - First increment of advance procurement (AP) funding for lead ship deferred from FY16 to FY17
- Ford (CVN-78) class aircraft carrier program
  - Procurement funding for all 3 ships in FY16 budget
  - Managing to program's cost cap
- DDG-51 destroyer
  - Shift to Flight III design with 2<sup>nd</sup> FY16 ship
- LPD-17 amphibious ship
  - FY16 budget requests funding needed to complete cost of 12<sup>th</sup> ship
    - Congress partially funded this ship in FY13 and FY15
- LX(R) amphibious ship (lead ship FY20)
  - Navy decision to use LPD-17 hull as basis for its design
- TAO(X) oiler
  - Lead ship requested for procurement in FY16



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## Ground forces equipment

### Army and Marine Corps Joint Light Tactical Vehicle (JLTV)

Oshkosh just won Low Rate Initial Production (LRIP) contract award for 184 Army and 7 Marine JLTVs.

FY2016: Anticipates a second LRIP buy of 450 Army and 109 Marine JLTVs.

Total procurement quantities (FY2015 to FY2040): Army = 49,909; Marines = 5,500.

### Army Armored Multi-Purpose Vehicle (AMPV): Vietnam-era M-113 personnel carrier replacement.

BAE Systems awarded \$382.2M Engineering, Manufacturing and Development (EMD) contract in December 2014 for 29 vehicles (5 variants). BAE's vehicle is a tracked vehicle.

Could lead to a contract to replace 2,897 M-113s in Armored Brigade Combat Teams (ABCTs).

No contract yet to replace 1,922 M-113s not in ABCTs. Some believe a wheeled variant would be suitable. Army wants an AMPV pure fleet (all tracked).

FY2015 NDAA (Sec. 216): Limits funding until Army provides Congress with a report which, among other things, provides an assessment of the feasibility of incorporating medical wheeled AMPV variants.

### Marine Corps Amphibious Combat Vehicle (ACV)

\$219.1M FY16 RDT&E budget request to support a possible EMD decision (Milestone B) and potential award of an EMD contract and continued studies/technology development to advance high water speed capability.

Total production quantities and total program cost: To be determined.




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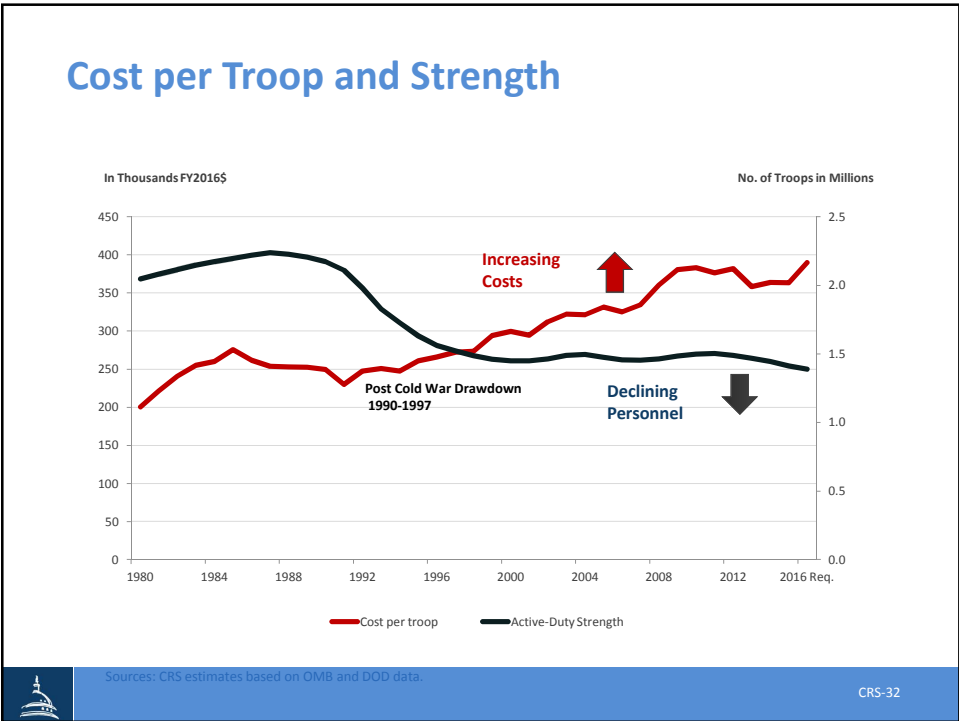
# QUESTIONS?



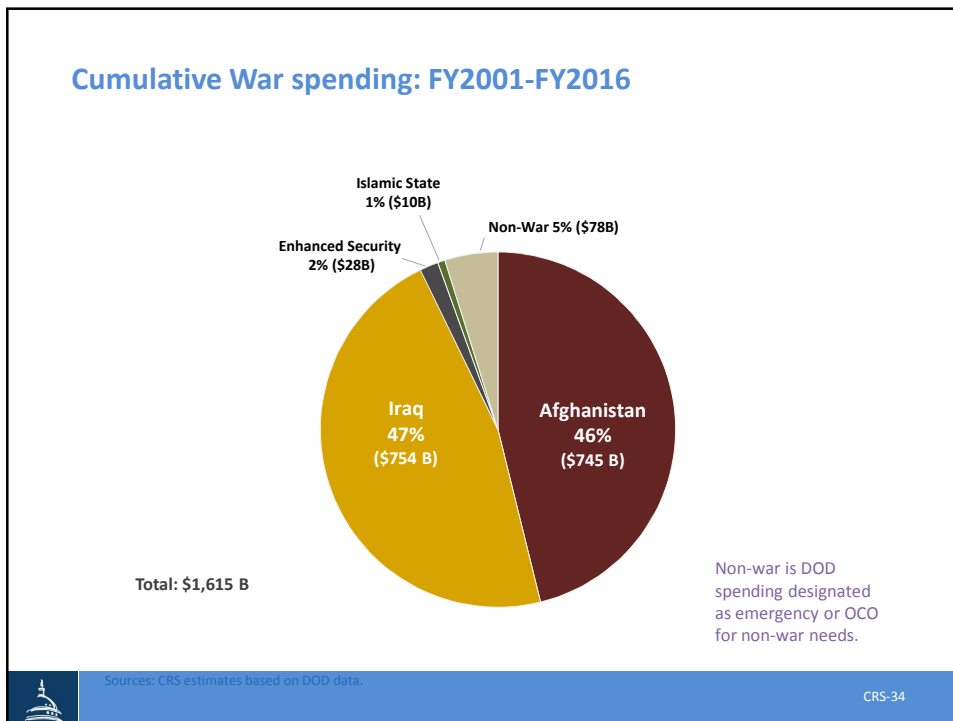
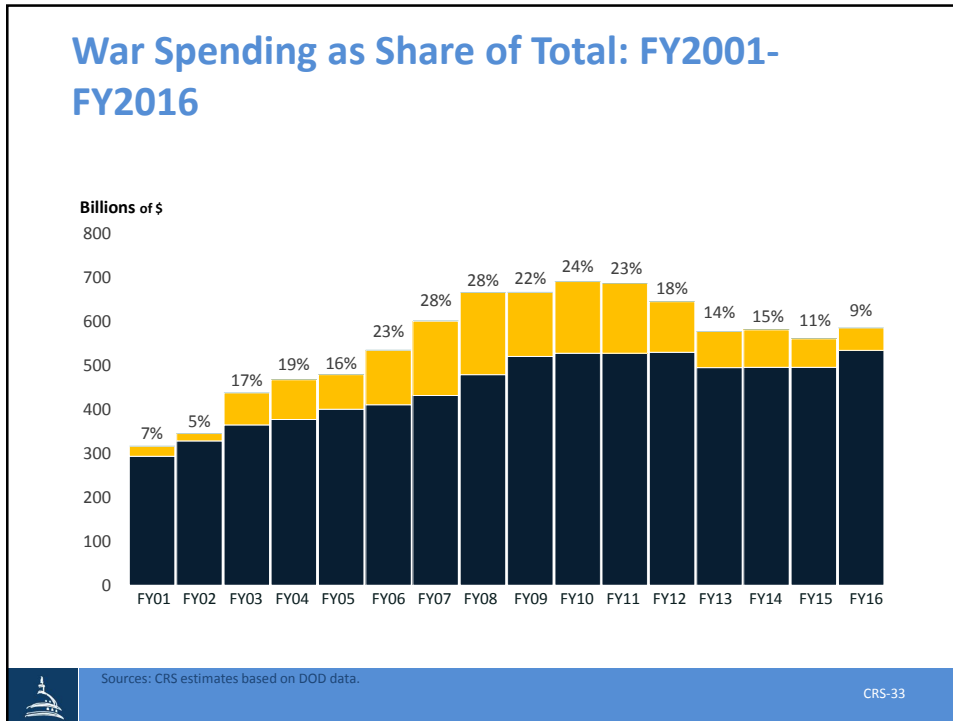
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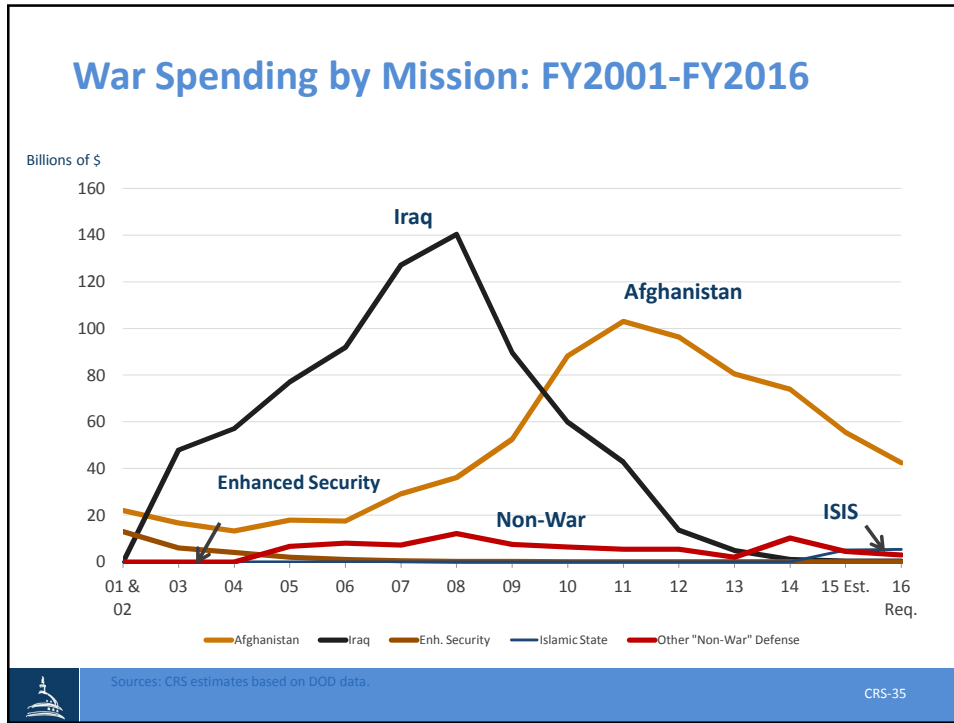
# BACKUPS


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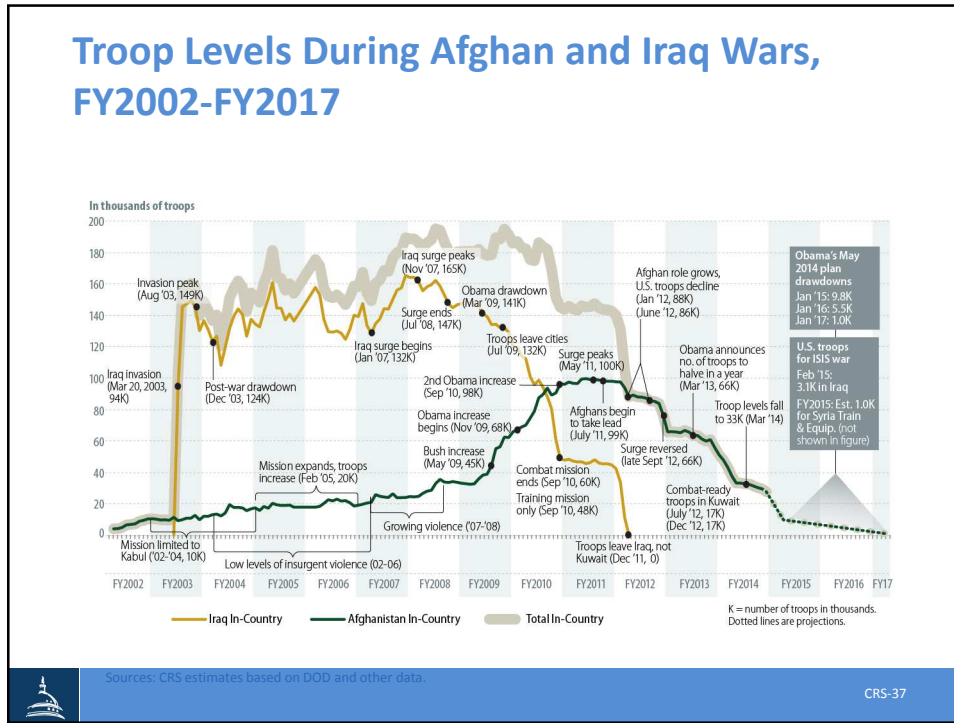








- ### Potential War Spending Issues
- Overlap between war and base budget.
  - FY2016 higher than expected.
  - Flexible funding accounts and Congressional oversight.
  - Transitioning long-term war costs to base.
  - Uncertainties about potential future cost of ISIS and Ukraine and Afghan withdrawal plan.
  - Future war spending paths uncertain.
- CRS-36



### Active Component End Strength

	FY 2001		FY2014			FY2015	FY2016 (Budget Request)
	Authorized 9/30/2001	Actual 9/30/2001	Authorized 9/30/2014	Minimum Authorized 9/30/2014	Actual 9/30/2014	Authorized 9/30/2015	Proposed 9/30/2016
A	480,000	480,801	520,000	510,000	508,210	490,000	<b>475,000</b>
MC	172,600	172,934	190,200	188,000	187,891	184,100	<b>184,000</b>
N	372,642	377,810	323,600	323,600	326,054	323,600	<b>329,200</b>
AF	357,000	353,571	327,600	327,600	316,332	312,980	<b>317,000</b>

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## Proposed Compensation Changes in the President's Budget

### Basic Pay

*Budget proposes a 1.3% increase for FY2016 – 1% lower than the expected increase in the Employment Cost Index (ECI) which is what the statutory formula specifies*

Congress authorized average increases greater than ECI every year for calendar years 2000-2010.

Pay raises for 2011-13 were equal to the ECI.

Pay raises for 2014-15 were below the ECI, as directed by the President using his authority to provide an alternative pay adjustment.

### Housing Allowance (BAH)

*Budget proposes a reduction in BAH over 2-3 years to cover 95% of costs of average housing costs, rather than the current 99%.*

In 1996, housing allowances covered about 80% of average housing costs.

Subsequent statutory changes resulted in BAH covering 100% of average housing costs.

For FY2015, Congress authorized the Secretary of Defense to reduce BAH rates by an amount equal to 1% of average national housing costs.



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## Proposed Compensation Changes in the President's Budget

### Commissaries

The proposed savings “will largely come from efficiencies and operating changes that do not require legislative changes. The most visible impact will be reduction in operating days and hours, with most stores remaining open 5 or more days a week.” (FY2016 Defense Budget Overview, p. 6-7).

The budget also proposes some legislative changes that enable certain transportation charges to be included in the cost of goods and to expand the purposes for which commissary surcharge funds can be expended.



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## Proposed Compensation Changes in the President's Budget

### Consolidated Health Plan – No More Prime/Standard/Extra

No Primary Care Manager. Allows open access to private providers.

Annual Open Season Enrollment and Participation Fee (\$286 Individual/\$572 Individual and Family as of 1/1/2016).

Annual Deductible (\$300 Individual/\$600 Individual and Family)

Copayments based upon Beneficiary Status (Retirees and Family or Active Duty Family Member) and Care Venue (Military Treatment Facility, Network, Out-of-Network)

Catastrophic Cap: ADFM - \$1,500 network/\$2,500 combined, Retirees - \$3,000 network/\$5,000 combined.

Survivors of members who die on active duty and medically retired servicemembers and their families treated like Active Duty Family Members.

### Medicare-Eligible Retirees (age 65 and over)

New Annual Enrollment Fee for TRICARE for Life (current beneficiaries grandfathered)

### Pharmacy Co-Pay Increases

Increases to retail pharmacy copayments over time. MTF pharmacies still free.



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## Military Compensation and Retirement Modernization Commission (MCRMC)

Established by Congress in 2013.

The Commission submitted its final report to the President and Congress on Wednesday, January 29, 2015.

Final report contained 15 recommendations.

Recommendations on the military retirement and health care systems appear to be the most far-reaching.

***President's Budget request does not include Commission recommendations due to timing.***



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## MCRMC Retirement Recommendations

### Current military “longevity” retirement system

Typically requires completing 20 years of service (YOS) – “cliff vesting” -- although there are important exceptions.

Active component (AC) personnel receive their retired pay immediately upon retirement, regardless of age.

Retired pay is equal to 2.5% multiplied by YOS, with the resulting percentage applied to the individual’s “pay base”.

Thus, an AC servicemember with 20 YOS will receive 50% (2.5% x 20) of his or her pay base in retirement.

There is also an option (“Redux”) for servicemembers to receive a \$30,000 career status bonus in the 15th year of service, in exchange for reduced retired pay while under the age of 62.



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## MCRMC Retirement Recommendations

### Proposed changes to the retirement system include:

Reduce the retired pay multiplier from 2.5% to 2.0% per YOS (thus, an AC servicemember with 20 YOS will receive 40% of basic pay in retirement, rather than 50%).

Enhance the Thrift Savings Plan for the military by:

Government provides an automatic 1% of basic pay contribution and matches up to 5% of basic pay contributed by the servicemember.

Automatic and matching contributions vest when the servicemember completes two YOS.

Automatic and matching contributions would cease once the member reaches 20 YOS.



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## MCRMC Retirement Recommendations

### Proposed changes to the retirement system

Add “Continuation Pay” for all servicemembers who reach 12 YOS and are willing to commit to 4 more YOS.

Allow retired servicemembers to accept a lump-sum payment in place of all or part of their annuity until they reach full social security eligibility age, at which point the full annuity would be reinstated.

Currently serving personnel will be “grandfathered” (kept in the current system), but the Commission recommends allowing them to opt into the new system

“The Commission estimates that its retirement recommendation would reduce DOD budgetary costs by \$6.1 billion during FY2016-FY2020 and result in annual steady state savings of \$1.9 billion by FY2046. Federal outlays would increase by \$7.2 billion during FY2016-FY2020, but decrease by \$4.7 billion annually starting in FY2053.”



CRS-45

## MCRMC Health Plan Recommendations

The Commission proposes major changes to the TRICARE program structure, benefits, finance, and administration.

Recommends replacing the current Prime/Standard/Extra with new TRICARE Choice program similar to Federal Employees Health Benefits Program (FEHBP) for military dependents, retirees, and reservists.

Active duty personnel would continue to receive care primarily through Military Treatment Facilities.



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