

DEFENSE BUDGET PRIORITIES AND CHOICES



JANUARY 2012

We developed a defense strategy that transitions our defense enterprise from an emphasis on today's wars to preparing for future challenges, protects the broad range of U.S. national security interests, advances the Department's efforts to rebalance and reform, and supports the national security imperative of deficit reduction through a lower level of defense spending – Introduction to DoD's Strategic Guidance, January 2012

INTRODUCTION

From New Strategic Guidance to Budget Choices

The Defense Department's current strategic guidance was driven by the approaching end of a decade of war, a changing technological and geopolitical landscape, and the national security imperative of deficit reduction. The Department's investment choices for FY 2013-2017 were derived from this guidance and conform to the 2011 Budget Control Act's requirement to reduce Defense Department future expenditures by approximately \$487 billion over the next decade or \$259 billion over the next five years. Reflecting these reductions, the Department will request funding of \$525 billion for FY 2013, rising to \$567 billion by FY 2017.

Achieving these savings is hard, but manageable. It is *hard* because we have to accept many changes and reductions in areas that previously were sacrosanct. Collectively, the changes align our investments to strategic priorities and budgetary goals, but individually, each one requires a difficult adjustment. It is *manageable* because the resulting joint force, while smaller and leaner, will remain agile, flexible, ready, innovative, and technologically advanced. It will be a force that is:

- Adaptable and capable of deterring aggression and providing a stabilizing presence, especially in the highest priority areas and missions in the Asia-Pacific region and the Middle East, while still ensuring our ability to maintain our defense commitments to Europe and other allies and partners
- Ready, rapidly deployable, and expeditionary such that it can project power on arrival
- Capable of defending the homeland and providing support to civil authorities
- Possessing cutting-edge capabilities that exploit our technological, joint, and networked advantage
- Able to reconstitute quickly or grow capabilities as needed
- Above all, manned and led by the highest quality professionals

Historical Context

After every major conflict, the U.S. military has experienced significant budget draw downs. The new budget level for the Defense Department will rise from FY 2013 to FY 2017; however, total U.S. defense spending, including both base funding and war costs, will drop by about 22% from its peak in 2010, after accounting for inflation. By comparison, the 7 years following the Vietnam and Cold War peak budgets saw a similar magnitude of decline on the order of 20 to 25%.

However, there are several significant differences between the circumstances we face today and the post-Cold War drawdown. On the positive side, in contrast to the end of the Cold War when the reductions came entirely out of the base defense budget, under the new plan the base budget will roughly match or slightly exceed inflation after FY 2013. The cuts from today's overall defense spending levels are coming primarily from reduced war-related requirements and are reflected in lower OCO budget levels. On the other hand, while the Cold War drawdown occurred as America's major military rival was in severe decline, today the U.S. military is still fighting in Afghanistan, countering violent extremism in other areas, and confronting a variety of emerging security challenges. Moreover, the post-Cold War drawdown was preceded by a decade-long defense build-up that emphasized procurement and modernization, resulting in a smaller but mostly new, relatively unused, and technically superior inventory of U.S. military equipment. By contrast, notwithstanding the large budget increases in the base defense budget over the past decade – including funding for weapons development and acquisition – we still have significant gaps in modernization that will need to be filled in coming years.

In preparing this budget, we endeavored to avoid the mistakes of previous draw downs that attempted to maintain more force structure than the budget could afford. Readiness suffered as a result, leading to a hollow force, which took years of investment to reverse. Our approach to readiness recognizes that after a decade of focus on counter-insurgency operations, the U.S. armed forces must re-hone other capabilities needed for a wider spectrum of missions and adversaries.

We will resist the temptation to sacrifice readiness in order to retain force structure, and will in fact rebuild readiness in areas that, by necessity, were de-emphasized over the past decade

-DoD Strategic Guidance, January 2012

Protecting readiness also requires resetting damaged and worn equipment after years of war. Though this budget seeks to meet all of these compelling (and competing) demands, this is an area that will require continued monitoring.

Complete, Balanced Package

As a result of a thorough process that was guided by the strategy and that left no part of the budget unexamined, we have developed a well-rounded, balanced package. There is no room for modification if we are to preserve the force and capabilities that are needed to protect the country and fulfill the missions of the Department of Defense. A change in one area inevitably requires offsetting changes elsewhere, unbalancing the overall package. This package includes reductions across the following three areas that form the outline of this paper.

- More disciplined use of defense dollars
- Strategically driven shifts in force structure and modernization
- The All Volunteer Force

MORE DISCIPLINED USE OF DEFENSE DOLLARS

In developing the President's budget request for FY 2013-2017, we first turned to where DoD could reduce excess overhead, operations expenses, and personnel costs across the defense enterprise, and achieve better buying power in our acquisition of systems and services. As careful stewards of the American taxpayer's dollars, DoD's leaders should take these actions irrespective of budget pressures. Clearly, the more savings realized in this area, the less spending reductions required for modernization programs, force structure, and military compensation.

The Department must continue to reduce the "cost of doing business"...before taking further risk in meeting the demands of the strategy.
-DoD Strategic Guidance, January 2012

This was a continuation of the effort begun in 2010, which identified more than \$150 billion in savings over five years allocated among the three military departments, the defense agencies, combatant commands, and the Secretary's staff. This left less room for additional reductions to meet the new target of \$259 billion over FY13-17. Nonetheless, we did find about \$60 billion in new projected savings over FY13-17. Examples include:

- More skillful contracting practices to increase competition, reduce costs, and increase buying power
- Better use of information technology
- Better use of business and enterprise systems
- Streamlined staff
- Limitations on official travel
- Better inventory management

- Reductions in contract services
- Deferral of some military construction to align our facilities more closely with the size and posture of our future force
- Reductions in planned civilian pay raises

Beyond the roughly \$60 billion in efficiencies and overhead savings, we eliminated a number of poorly performing programs described later in the paper.

The proposed force structure reductions described below also suggest the need for a corresponding reduction in the military's facilities infrastructure. We cannot afford to sustain infrastructure that is excess to our needs in this budget environment. Therefore, the President will request that Congress authorize use of the Base Realignment and Closure (BRAC) process with a goal of identifying efficient savings that can be reinvested in higher priorities as soon as possible.

APPLICATION OF STRATEGIC GUIDANCE TO FORCE STRUCTURE & INVESTMENT

It is not possible to accommodate a budget reduction of the magnitude called for by the Budget Control Act without scaling down force structure and delaying, decreasing, or in some cases eliminating investments. The strategic guidance was written to guide these reductions in a manner that minimizes the risk to our ability to protect U.S. interests in an evolved national security environment.

This strategic guidance...is intended as a blueprint for the Joint Force in 2020, providing a set of precepts that will help guide decisions regarding the size and shape of the force over subsequent program and budget cycles, and highlighting some of the strategic risks that may be associated with the proposed strategy.

-DoD Strategic Guidance, January 2012

The department's leadership and subject matter experts assessed the potential strategic, military and programmatic risks associated with each budget decision in accordance with five major tenets within the President's strategic guidance.

- I. Rebalance force structure and investments toward the Asia-Pacific and Middle East regions while sustaining key alliances and partnerships in other regions
- II. Plan and size forces to be able to defeat a major adversary in one theater while denying aggression elsewhere or imposing unacceptable costs
- III. Protect key investments in the technologically advanced capabilities most needed for the future, including countering anti-access threats
- IV. No longer size active forces to conduct large and protracted stability operations while retaining the expertise of a decade of war

- V. To the extent possible, structure major adjustments in a way that best allows for their reversal or for regeneration of capabilities in the future if circumstances change

I. REBALANCE TOWARD THE ASIA-PACIFIC AND MIDDLE EAST REGIONS

Asia-Pacific/Middle East Emphasis

The focus on the Asia-Pacific region places a renewed emphasis on air and naval forces while sustaining ground force presence. The Middle East has been dominated by ground force operations over the last decade; however, as we gradually transition security in Afghanistan and reestablish peacetime ground force presence, this region will also become increasingly maritime. Therefore we:

- Maintained the current bomber fleet
- Maintained the aircraft carrier fleet at 11 ships and 10 air wings
- Maintained the big-deck amphibious fleet
- Sustained Army and Marine Corps force structure in the Pacific, while maintaining persistent presence in the Middle East
- Budgeted to forward station Littoral Combat Ships in Singapore and patrol craft in Bahrain
- Funded development of a new afloat forward staging base that can be dedicated to support missions in areas where ground-based access is not available, such as counter-mine operations

While the U.S. military will continue to contribute to security globally, we will of necessity rebalance toward the Asia-Pacific region...the United States will continue to place a premium on U.S. and allied military presence in – and support of – partner nations in and around [the Middle East].

-DoD Strategic Guidance, January 2012

For these forces to remain capable, we had to invest in capabilities required to maintain our military's continued freedom of action in the face of new technologies designed to frustrate access advantages. Consequently, we increased or protected investment in capabilities that preserve the U.S. military's ability to project power in contested areas and strike quickly from over the horizon, including:

- Funding for the new bomber
- Design changes to increase cruise missile capacity of future Virginia-class submarines
- Design of a conventional prompt strike option from submarines
- Upgraded radars for tactical aircraft and ships
- Improved air-to-air missiles
- New electronic warfare and communications capabilities

To ensure sufficient resources to protect these strategic priorities, we will reduce the number of ships by slowing the pace of building new ships and by accelerating the retirement of some existing ships. These include:

- Retiring 7 cruisers early – 6 did not have ballistic missile defense (BMD) capability, and the seventh with BMD capability is in need of costly hull repairs
- Slipping a large deck amphibious ship (LHA) by 1 year
- Slipping 1 new Virginia class submarine outside the FYDP
- Reducing Littoral Combat Ships by 2 ships in the FYDP
- Reducing Joint High Speed Vessels by 8 in the FYDP
- Retiring 2 smaller amphibious ships (LSD) early and moving their replacement outside the FYDP

With respect to tactical air forces, we concluded that DoD could, at minimal risk, disestablish six Air Force tactical-air fighter squadrons (out of 60) and one training squadron. As we reduce air force structure, we are protecting aircraft with multi-role capabilities versus niche capabilities. The resultant force will be capable of handling our most demanding contingency plans including homeland defense.

Europe & Global Partnerships

We will continue to invest in our responsibilities to the NATO alliance. We will adjust the posture of land forces in Europe in concert with overall Army transformation including eliminating two heavy brigades forward-stationed there. DoD will nevertheless maintain NATO Article 5 commitments

and ensure interoperability with allied forces by allocating a U.S.-based brigade to the NATO Response Force and by rotating U.S.-based units to Europe for training and exercises. We will also forward station ballistic missile defense ships in Rota, Spain.

Most European countries are now producers of security rather than consumers of it... our posture in Europe must also evolve.

-DoD Strategic Guidance, January 2012

Across the globe we will seek to be the security partner of choice, pursuing new partnerships with a growing number of nations including those in Africa and Latin America. Whenever possible, we will develop innovative, low-cost, and small-footprint approaches to achieve our security objectives, relying on exercises, rotational presence, and advisory capabilities. We will preserve our key partnership development efforts, including:

- “Smart Defense” NATO initiatives such as Alliance Ground Surveillance
- National Guard State Partnership Program

- Five Regional Centers for Strategic Study that provide relationship-building opportunities to international students
- COCOM Exercise and Engagement program that funds participation in exercises with partner nations
- Global Security Contingency Fund in conjunction with the State Department
- Security Force Assistance Program

Additionally, the gradual drawdown of the post 9/11 wars will release more Special Operations Forces (SOF) capacity to partner in other regions. Furthermore, though the Army will decrease its current European footprint by two heavy brigades, it will establish and maintain a new rotational presence in Europe and capitalize on existing training opportunities with our allies and partners. The Army will also align Brigade Combat Teams with each regional Combatant Command – establishing language and cultural expertise to better shape the security environment.

II. CONFRONTING AGGRESSION

Reduced force structure will result in less capacity to conduct operations in multiple regions. Accordingly, the strategic guidance calls for a fresh approach to the traditional “two war” force-sizing construct that had shaped defense planning since the end of the Cold War. If we are engaged in a major combat operation in one theater, we will have the force necessary to confront an additional aggressor by

As a nation with important interests in multiple regions, our forces must be capable of deterring and defeating aggression by an opportunistic adversary in one region even when our forces are committed to a large- scale operation elsewhere.
-DoD Strategic Guidance, January 2012

denying its objectives or imposing unacceptable costs. This evolution not only recognizes the changing nature of the conflicts in which the U.S. must prevail, but it also leverages new concepts of operation enabled by advances in space, cyberspace, special operations, precision-strike, and other capabilities.

This strategic precept puts a premium on self- and rapidly-deployable forces that can project power and perform multiple mission types. This reinforces the need to maintain existing numbers of aircraft carriers, large-deck amphibious ships, and bombers. Furthermore, as the Marine Corps withdraws from the ground in Afghanistan, it will return to an afloat posture, with the capability to rapidly respond to crises as they emerge. These choices are consistent with our strategic emphasis on the Asia-Pacific region and the Middle East, but are applicable anywhere on the globe where U.S. national security or vital interests are threatened.

Mobility Aircraft Implications

The strategic guidance places a premium on forces present or able to rapidly reposition to deter aggression and respond as needed. It recognizes that we do not need to retain the airlift capacity to support two large, simultaneous and rapidly developing ground campaigns. When faced with competing demands, we can prioritize and phase movements. Air mobility studies have also shown significant excess capacity in the U.S. airlift fleets. As a result we are reducing the airlift fleet by:

- Retiring 27 aging C-5As, resulting in a fleet of modernized 52 C-5Ms and 222 C-17s
- Retiring 65 of the oldest C-130s, resulting in a fleet of 318 C-130s
- Divesting 38 C-27s

These reductions enable the Department to streamline and standardize our airlift fleet by reducing the number of different types and eliminating the need to operate, sustain, and maintain aircraft excess to the requirements of the new strategy. Even when supporting a major war, we will have the lift available to move additional capability to another region.

Example: The new strategic guidance emphasizes flexibility and adaptability. The **C-27J** was developed and procured to provide a niche capability to directly support Army urgent needs in difficult environments such as Afghanistan where we thought the C-130 might not be able to operate effectively. However, in practice, we did not experience the anticipated airfield constraints for C-130 operations in Afghanistan and expect these constraints to be marginal in future scenarios. Since we have ample inventory of C-130s and the current cost to own and operate them is lower, we no longer need—nor can we afford—a niche capability like the C-27J aircraft. The Air Force and the Army will establish joint doctrine relating to direct support.

Strategic Deterrence

Under the new strategic guidance, we will maintain a safe, secure, and effective nuclear deterrent. This budget protects all three legs of the Triad – bombers that provide both conventional and nuclear deterrence, intercontinental ballistic missiles (ICBM), and ballistic missile submarines. To this end, we are committed to the procurement of a new bomber. However, we will delay the new Ohio submarine replacement by two years without undermining our partnership with the UK. While this delay will create challenges in maintaining current at-sea presence requirements in the 2030s, we believe this risk can be managed. An ongoing White House review of nuclear deterrence will address the potential for maintaining our deterrent with a different nuclear force.

III. PROTECT NEW CAPABILITIES & INVESTMENTS

Although our force will be smaller, it will employ both lessons from recent conflicts and new technologies developed to confront the most lethal and disruptive threats of the future. Meeting the requirements of the new strategic guidance entailed *increasing* funding for a few key capabilities while *protecting* others at existing levels or making comparatively modest reductions. Inevitably, investing in these high-priority areas requires deeper offsetting reductions in areas of lesser priority.

The Joint Force... will have cutting edge capabilities, exploiting our technological, joint, and networked advantage...

-Cover Memo, DoD Strategic Guidance, January 2012

Counter-terrorism. Because we will continue to be engaged in counter terrorism operations around the globe, we protected key components of the force that are adept in executing this mission:

- Special Operations Forces – critical to U.S. and partner counter terrorism operations and a variety of other contemporary contingencies
- Unmanned Air Systems – fund enough trained personnel, infrastructure, and platforms to sustain 65 USAF MQ-1/9 combat air patrols (CAPs) with a surge capacity of 85; the Predator aircraft was retained longer than previously planned, allowing us to slow the buy of the Reaper aircraft and gain some savings; we also protected funding for the Army’s unmanned air system, Gray Eagle
- Sea-based unmanned intelligence, surveillance and reconnaissance (ISR) systems such as Fire Scout – important ISR assets where ground basing is not available
- Advanced ISR—new unmanned systems with increased capabilities

Cyber operations. The strategic guidance highlights the increasing importance of cyber operations. As a result, cyber is one of the few areas in which we actually increased our investments, including in both defensive and offensive capabilities.

Power projection. Our ability to project power is a key component of our strategic guidance. We protected important capabilities like the new bomber, upgrades to the small diameter bomb, aircraft carriers, surface combatant modernization, and cyber capabilities. We also protected capabilities that allow us to project power in denied environments. In addition to those discussed earlier, such as funding for the new bomber and increasing the cruise missile capacity of future submarines, we protected anti-submarine warfare and counter-mine capabilities.

Missile defense. Missile defense programs provide the capability to defend our homeland, support our allies, and protect U.S. military forces when operating in regions across the globe. Despite its importance, we were not able to protect all of the funding in this area. We protected investments in homeland defense and the Phased Adaptive Approach for missile defense in Europe aimed at protecting our allies. We reduced spending and accepted some risk in deployable regional missile defense and will increase reliance on allies and partners in the future.

Space systems. Space systems are critical to our surveillance, communications, positioning and networking capabilities. Therefore, we protected funding for upgrades to the Global Positioning System (GPS), the Space Based Infrared System (SBIRS) and the Advanced Extremely High Frequency (AEHF) satellite programs.

Counter weapons of mass destruction. We protected investment in this area and expanded its scope in the area of biological weapons.

Science and technology. The Department believes that accelerating trends in both technology development and a dynamic threat environment dictate that we must maintain our edge by protecting our investments in development of future capabilities. As such, science and technology programs are largely protected within this budget.

Reasonable Reductions / Responsible Risks

In order to sustain the highest priority investments, we made substantial reductions to programs that:

We have sought to differentiate between those investments that should be made today and those that can be deferred.
-DoD Strategic Guidance, January 2012

Are experiencing schedule, cost, or performance issues:

- Joint Strike Fighter – committed to the JSF program of record that includes all three variants, but slowed procurement to complete more testing and make developmental changes to minimize concurrency issues before buying in significant quantities
- Army Ground Combat Vehicle – delayed by protest, thus freeing up available funding for other priorities
- Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System (JLENS) - curtailed due to concerns about program cost and operational mobility

Are offering or augmenting capability that already exists, but at significantly higher cost:

- Joint Air-to-Ground Munition (JAGM) – significantly reduced, but limited funding sustained to enable lower cost alternatives such as Hellfire
- Global Hawk Block 30 – terminated (see example below)

Are entering service before they are needed:

- Defense Weather Satellite System (DWSS) – terminated because premature to need
- Army aviation – delayed helicopter modernization by three to five years

Or are deemed excess to requirements:

- Commercial satellite imagery – reduced purchases for capacity excess to requirements, but will still be substantially increasing coverage beyond today's capability
- HMMWVs – terminated upgrades and focused modernization resources on the Joint Light Tactical Vehicle

Example: When we initially invested in the **Global Hawk Block 30** program, it held the promise of providing essentially the same capability as the U-2 manned aircraft for significantly less money to both buy and operate. As the program has matured, these cost savings have not materialized and, at best, we project the future cost of Global Hawk Block 30 operations to be comparable with the U-2. In this five-year budget, the cost of the Global Hawk program would significantly exceed the cost of the U-2 so we cancelled Global Hawk Block 30 and extended the U-2 program. Although this is a significant disappointment, our experience with Global Hawk Block 30 will help other Global Hawk programs like the Air Force Global Hawk Block 40, NATO's Alliance Ground Surveillance (AGS), and the Navy's Broad Area Maritime Surveillance (BAMS).

IV. FORCES NOT SIZED FOR LONG-TERM STABILITY OPERATIONS

In response to the demands of the Afghanistan and Iraq campaigns, active Army end-strength increased by 95,000 and Marine Corps end-strength by 30,000. The U.S. military commitment in Iraq is complete and a security transition in Afghanistan is underway. In this budget, we plan to reduce the size of the active Army from a post-9/11 peak of about 570,000 in 2010 to 490,000 and the active Marine Corps from a peak of about 202,000 to 182,000. The Army plans to remove at least

Our planning envisages forces that are...able to secure territory and populations and facilitate a transition to stable governance on a small scale for a limited period...[but] U.S. forces will no longer be sized to conduct large- scale, prolonged stability operations
-DoD Strategic Guidance, January 2012

eight Brigade Combat Teams from its existing structure; however, the future organizing construct of the Army is under review. Even with these reductions, the Army and Marine Corps will be larger than they were in 2001.

While the U.S. does not anticipate engaging in prolonged, large-scale stability operations – requiring a large rotation force – in the near- to mid-term, we cannot rule out the possibility. If such a campaign were to occur, we would respond by mobilizing the Reserve Component and, over time, regenerating Active Component end strength. Additionally, even as troop strength draws down, the Army, Marine Corps, and U.S. Special Operations Command will preserve expertise in security force assistance and counterinsurgency training.

These lessons apply to procurement as well; for example, the kind of troop transport vehicles needed to succeed and survive in an irregular warfare environment are included in the Army and Marine Corps modernization plans.

V. PROTECTING THE POTENTIAL FOR FUTURE ADJUSTMENTS

We will retain, to the extent possible, the ability to adjust or reverse force structure and modernization changes being made today to preserve flexibility for tomorrow. The Army and Marine Corps are both working to retain a slightly more senior force by retaining mid-grade NCOs and commissioned officers even as their overall end strength decreases. The Army is preserving the organizational structure and training force upon which it may build if required. In this way, they will have the structure and cadre of experienced leaders necessary to build upon if we have to re-grow the force quickly.

The concept of “reversibility”....is a key part of our decision calculus...DoD will manage the force in ways that protect its ability to regenerate capabilities that might be needed to meet future, unforeseen demands, maintaining intellectual capital and rank structure that could be called upon to expand key elements of the force
-DoD Strategic Guidance, January 2012

Reserve Component

A smaller active force requires a capable and ready Reserve Component. Among other applications, a strong Reserve Component is a vital element of the concept of reversibility embedded in the strategic guidance. Consequently, we are making only marginal reductions in the Army reserve and Army National Guard and no reductions to the Marine Corps Reserve. Furthermore, we will leverage the operational experience and institute a progressive readiness model in the National Guard and Reserves in order to sustain increased readiness prior to mobilization. In particular, we will maintain key combat support capabilities such as sustainment as well as combat service support capabilities such as civil affairs maintained at a

high readiness level in the Reserve Component. Similarly, the Air Force is balancing the size of its reserve and active components, including aircraft and manpower reductions, and adjusting the alignment of missions and installations to sustain the operational Reserve Component for the long term. The Air Force will augment the readiness of their reserves by increasing Active-Reserve Component associations.

Industrial Base Skills

Some domestic manufacturers have key skills in the design and manufacture of military systems that cannot be duplicated elsewhere in the economy or regenerated quickly. In support of the strategic guidance's tenet of reversibility, this budget plan sustains, where possible, these segments of the industrial base. However, the industrial base will require careful monitoring in the future. For example, adding the afloat forward staging base addresses urgent operational shortfalls and will help sustain the shipbuilding industry in the near-term and mitigate the impact of reducing ship procurement in the FYDP.

THE ALL VOLUNTEER FORCE

The All Volunteer Force is the foundation of our military and vital to the security of our nation. But the cost of military personnel has grown at an unsustainable rate over the last decade. Including wartime funding or OCO appropriations, military personnel costs have doubled since 2001, or about 40% above inflation, while the number of full-time military personnel, including activated reserves, increased by only 8% during the same time period. Within the base budget alone (i.e., excluding wartime funding or OCO) during this same time period personnel costs increased by nearly 90%, or about 30% above inflation, while the number of military personnel has increased by only about 3%.

The men and women who comprise the All Volunteer Force have shown versatility, adaptability and commitment...as the department reduces the size of the force, we will do so in a way that respects [their] sacrifices.

-DoD Strategic Guidance, January 2012

In order to avoid unacceptable additional cuts in force structure or investments that could threaten our ability to execute the strategic guidance under the new budget constraints, DoD addressed the growth of personnel-related costs while keeping in mind that:

- The core of the U.S. military is our All Volunteer Force
- Military life entails unique challenges and stresses
- War-related deployments of the past decade have put extraordinary demands on many troops and their families

Wounded Warriors, Families, and Transitioning Veterans

This budget plan sustains or enhances key support programs while reforming and re-organizing others to be more effective and responsive to the needs of troops and their families:

- Wounded Warriors – extra funding added in the base and OCO budgets to enhance the Integrated Disability Evaluation System
- Transition Assistance – reform of the Transition Assistance Program and transition process for all service members through a collaborative DoD-VA initiative that improves career opportunities and readiness focusing on education, technical training, job placement, and entrepreneurship preparation
- Family Support – effective programs sustained, expanded, or improved, including non-clinical counselors, marriage support, new patient support, and stress-reducing recreation for returning troops
- Psychological Health – programs sustained and particularly effective programs, such as those addressing traumatic brain injury and post-traumatic stress disorder, were significantly expanded
- Reserve Component Support – DoD’s Yellow Ribbon Integration Program, which provides services and referrals to reservists, guardsmen, their families, and their employers through each stage of the mobilization cycle
- DOD Schools – facilities being restored and modernized
- Military Commissary System – current number and distribution of stores maintained

Compensation & Benefits

Reductions in the rate of growth in spending on military compensation and other personnel-related costs and benefits in the budget are significantly less than their share of total defense spending. Military compensation and benefits currently account for roughly 1/3 of the defense budget; however, the changes we are making in compensation and benefits account for about 1/9 of the total budget reductions we are making.

As the strain of deployments on a force that has served and sacrificed for over a decade of war are reduced – and the demands on recruitment and retention ease – we have an opportunity to address personnel costs in a way that is fair, transparent, and consistent with DoD’s primary responsibility to protect the nation. These proposals are fully supported by the U.S. military’s uniformed leadership.

Military Pay. Instead of reducing military pay, we created sufficient room to allow full pay raises in 2013 and 2014 to keep pace with increases in private sector pay. We will achieve some cost savings by providing more limited pay raises beginning in 2015. This will give troops

and their families fair notice and lead time before these proposed changes take effect. We will, therefore, achieve some savings in the later years to invest in force structure and modernization. Despite this change, military personnel will see their pay check increase every year across the FYDP.

Health Care. Military health care has seen rapid growth relative to the rest of the defense budget. Most of the changes made in this budget will not affect active duty personnel or their families. We are also exempting medically retired and survivors of those who died on active duty from all health care changes. Those most affected will be working-age retirees under the age of 65 still likely to be employed in the civilian sector. These proposed changes include:

- Further increasing and adding new enrollment fees for retirees under age 65 in the TRICARE program, using a tiered approach based on retired pay that requires senior-grade retirees to pay more and junior-grade retirees less; the resulting fees remain below comparable civilian equivalents
- Establishing a new enrollment fee for the TRICARE-for-Life program for retirees 65 and older, again using a tiered approach; the resulting fees will be well below comparable civilian equivalents
- Implementing additional increases in pharmacy co-pays in a manner that increases incentives for use of generics and mail order

Retirement. We will ask the Congress to establish a commission with BRAC-like authority to conduct a comprehensive review of military retirement in the context of total military compensation. The goal of the commission would be to recommend changes in order to meet the personnel needs of the DoD in a cost effective manner. DoD strongly supports protecting the retirement benefits of those who currently serve by grandfathering their benefits. Any reforms should only affect future recruits.

CONCLUSION

Clearly the Department was required to make difficult choices in order to provide a balanced force within the constraints of the Budget Control Act. These budget reductions are not without risk, but they were made in a judicious and considered way and guided by sound strategic guidance. The FY13 budget sets the direction for an ongoing process of adaptation, resulting in a Joint Force of 2020. The Joint Force of 2020, while leaner and smaller, will remain agile and ready, comprised of professional Soldiers, Sailors, Airmen and Marines employing cutting edge technology. It will remain the strongest military force in the world, fully capable of protecting America's national security and global leadership in the years to come.

Fact Sheet: The Defense Budget

Budget Control Act Mandated Reductions

- \$487B over 10 years (FY 2012-2021)
- \$259B over 5 years (FY 2013-2017)

Defense Budget over Time¹

\$B	FY01	...	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Base	297		528	528	531	525	534	546	556	567
OCO ²	13		163	159	115	88				
Total	310		691	687	646	614		TBD		

Budget Reduction from Peak FY10 Funding¹

	\$B	FY10	FY17	\$ Change	% Change
Nominal	Base	528	567	39	7%
	OCO	163	44 ³	-119	-73%
	Total	691	611	-80	-12%
Real (\$FY13)	Base	557	529	-28	-5%
	OCO	172	41	-131	-76%
	Total	729	570	-159	-22%

Change from the Base FY12 President's Budget¹

\$B	FY12	FY13	FY14	FY15	FY16	FY17	FY13-17
FY12 Budget	553	571	587	598	611	622	2,987
FY13 Budget	531 ⁴	525	534	546	556	567	2,728
\$ Change	-22	-45	-53	-52	-55	-54	-259
% Change	-4%	-8%	-9%	-9%	-9%	-9%	-9%

Annual Base Budget Changes¹

	\$B	FY12	FY13	FY14	FY15	FY16	FY17	FY13-17
Nominal	FY13 Budget	531	525	534	546	556	567	
	% Change		-1.0%	1.5%	2.3%	1.8%	2.1%	6.8%
Real (\$FY13)	FY13 Budget	538	525	527	531	530	529	
	% Change		-2.3%	0.3%	0.6%	-0.2%	-0.1%	-1.6%

¹ Numbers may not add due to rounding

² OCO: Overseas Contingency Operations

³ Placeholder of \$44B in FY17 for OCO

⁴ Actual amount appropriated by Congress for FY12