

## **APPENDIX E**

**Commission on Wartime Contracting in Iraq and  
Afghanistan, Appendix F of *Final Report to Congress*,  
August 2011**

# Comparing costs of contingency-support services performed by military service members, federal civilians, and contractors

One factor in determining the optimal workforce mix for providing support services in a contingency is the incremental cost of using military service members, federal civilians, and private-sector contractors. But cost-comparison methodologies are controversial and often yield disparate results.

This appendix presents an analysis of the comparative costs of these support options under a number of possible circumstances, including who performs the function, the characteristics of the function, and the characteristics of the particular contingency operation. The analysis leads to three general conclusions:

**1. For contingency operations that can be supported by standing military capabilities, the military is generally the most cost-effective solution.**

This follows since regular pay and benefits of deployed military service members are “sunk” costs—that is, they must be paid whether the person is deployed on contingency duty in Haiti or is training in Alabama.

They are not an addition to the overall cost of the contingency mission. Transport costs and special pay and benefits are incremental costs of the mission. In contrast, the full cost incurred for contractors or new federal civilian hires supporting a contingency operation would be included in the cost of the contingency.

**2. For larger, prolonged contingencies that would require recruiting and hiring additional civilian personnel or increasing military-force strength to meet support needs, contractors are generally more cost effective when employing lower wage local- or third-country nationals.**

For example, in Iraq about 60 percent of contractor personnel perform life- and installation-support work, and another 25 percent or more are engaged in security or construction, or act as translators/interpreters. The vast majority of these personnel are local or third-country nationals (LNs, TCNs), not U.S. citizens. The comparatively low pay and benefits for LNs and TCNs, as compared to military or U.S.-national federal civilians, enable contractors to be less costly than government in such settings.

**3. In other instances, when contractors rely on U.S. citizens to acquire specialized skills or meet other requirements not available from LNs or TCNs, contractor and federal civilian personnel costs are roughly comparable.**

In these circumstances, criteria other than costs will influence the preferred workforce mix between private-sector contractors and federal civilian personnel. Because military “dwell-time” costs—the costs of maintaining back-up personnel to rotate into and out of the contingency area—must be recognized when a contingency is prolonged, the U.S. military will be the most expensive option.

**NOTE:** This research appendix makes no recommendation for or against using contractors. It addresses only the question of *comparing costs* between contractors and government personnel. It notes that such comparisons involve distinctions among the types of costs compared, the duration of the contingency, local labor markets, and other factors. The analysis is based on critical assumptions, and in some cases, limited availability and utility of important data elements.

This appendix does *not* address policy or legal restrictions, risks, appropriateness, mission criticality, organizational efficiency and effectiveness, desired levels of federal control, or other considerations that either could or must take precedence over straightforward cost comparisons.

## Background and introduction

This analysis of the incremental costs incurred to support warfighters in a contingency operation compares the costs of using full-time equivalent (FTE) military members, federal civilians, and contractor personnel. Incremental costs are added costs at the margin, not sunk costs that are included in program or budget totals. Because contingencies are not the same, the composition of incremental costs is not the same either. The costs depend not only on the function to be performed, but also on who performs it, the duration and intensity of the operation, and the force structure available when the contingency begins.

Relatively small-scale/short-lived contingencies, such as the recent contingency in Haiti, can use support capabilities that exist within available expeditionary forces. That is, the lowest-cost solution is to use existing military forces.

The incremental costs of deploying an available military-support capability include transportation, hazardous-duty pay, and other operating costs, but exclude regular pay and benefits. Pay and benefits already incurred by the government are sunk costs: they will not change if deployment for a short contingency is required.

After initial deployment, the military continues to be the lower-cost option if combat-support capability is already available within the military. The incremental operating cost to deploy a military member is estimated to be about \$10,000 per year, depending on distance traveled and family status. Table F-1 shows the incremental costs to deploy a military member. This is far less than hiring a new federal civilian or obtaining support from a contractor.

**Table F-1. Annual incremental costs to deploy a military service member**

<b>Transportation</b>	<b>Hostile fire/ imminent- danger pay</b>	<b>Family separation allowance (if service member has dependents)</b>	<b>Hardship-duty pay: Location, mission, involuntary extension in Iraq</b>	<b>Total</b>
\$2,500	\$2,700	\$3,000	\$2,000	\$10,200

**Source:** Summary of Commission calculations based on Defense data as of July 29, 2011, <http://militarypay.defense.gov>.

Larger-scale/prolonged contingencies, such as those in Iraq and Afghanistan, require recruiting and hiring additional civilian personnel or growing the military force structure because support requirements exceed available government resources. In these cases, contractors are generally more cost-effective. Military and civilian pay and benefits for new recruits/hires under these circumstances are included in incremental government costs. Dwell or rotation costs for the military would also be included to the extent that additional recruitment of personnel is required to fill those positions as the contingency extends beyond established rotation times.

Contractors are especially cost-effective when performing basic life-support functions if lower-priced LNs or TCNs constitute most of a contractor's workforce.<sup>1</sup> In Iraq, for example, three quarters of the contractor workforce consists of LNs and TCNs, who provide nearly all contracted life- and installation-support, security, and construction services.

1. The use of FTE cost comparisons assumes that government and contractor organizations are equally efficient in their use of personnel and other necessary resources. In other words, if a function required 100 military or 100 federal civilian employees to perform, we assume it would require 100 contractor employees. This assumes equivalent skill sets and task proficiency, which is not necessarily true. For example, suppose guarding a forward base requires 100 highly skilled and proficient U.S. military troops. If skill sets or proficiency differ, to provide the same or a comparable level of security, the same function may require 75 or 300 contractor employees (numbers are for illustration only).

Table F-2 summarizes the study findings. For lower- and mid-level-worker skills, contractors employing local or third-country nationals are less costly than military or federal civilian employees. However, when contractors employ U.S. citizens in higher-skill positions (as may be the case with communications support and professional services), their costs are roughly equivalent to military and federal civilians in comparable grade levels. The military is substantially more expensive when the contingency extends beyond rotation cycles and dwell costs are recognized.

**Table F-2. Annual cost comparison for larger scale/prolonged contingency**

Skill level	Work example	Contractor billing rate	Military FTE costs	Federal civilian FTE costs
<b>Lower</b>	Food service	LN = \$35,700 TCN = \$67,600	E-3 (Private 1/C) = \$86,671 (\$251,758 with dwell)	WG (wage-grade, \$13/hr base) = \$81,189
<b>Middle</b>	Construction: plumber, electrician	LN = \$35,700 TCN = \$67,600	E-4 (Corporal) = \$97,439 (\$283,037 with dwell)	WG (\$22/hr base) = \$137,397
<b>Higher</b>	Communications support	U.S. citizen = \$185,700 to \$231,600	O-3 (Army Captain) = \$175,335 (\$509,309 with dwell)	GS-12, Step 5 = \$178,502

**Source:** Contractor billing rate, see Table F-7; Military FTE costs, see Table F-4; Federal civilian FTE costs, see Table F-5.

Conclusions are based on the comparative cost of FTE workers supporting a large-scale/prolonged contingency. Comparative costs for military, federal civilian, and private-sector contractor FTEs are an approximation for the total organizational cost of performance for an activity. Data to compare the total organizational cost of performance, which depends on relative overall efficiency, are generally not available.

Cost differences can be substantial in their impact and are very sensitive to Defense's practice with regard to deployment times and refresh/training times at home, termed "dwell times," as discussed below.

### Methodology: Cost-concepts and scenarios

Our general concept for measuring support costs associated with a contingency is to count those incremental costs that would be incurred in supporting a contingency operation—costs that would otherwise be absent. Costs included in this concept depend on the nature of the contingency, particularly its intensity and duration. Two possible scenarios are set out below.

- **Small-scale/short contingency:** Here the contingency can be carried out by deployment of available government resources (military and federal civilians) and even if rotation of original personnel/units occurs, replacement personnel/units are available in the existing force. In this scenario, incremental costs for government personnel include transportation, hazardous-duty pay, and post-differential/danger/overtime pay for civilians, but *exclude* normal military and civilian salary and benefits. Salary and benefits for existing military and civilians are incurred irrespective of whether there is a contingency operation.

Substituting contractors would imply incurring incremental costs representing the full personnel costs involved (salary and benefits), plus overhead and profit, the cost of contract administration, and operating costs similar to those incurred by the government. In this situation, the use of government-only deployable resources without contractor support would be the most

cost-effective alternative for support during the contingency. Of course, when no contingency exists, peacetime costs of the government forces would continue to be incurred.<sup>2</sup>

- **Large-scale/prolonged contingency:** The contingency operation in this second scenario is so extensive that the available force structure would have to be augmented by new recruits, civilian hires, or contractors to meet the support requirement.

First, the operation would be sufficiently long that stateside rotation of military personnel to fulfill dwell requirements becomes necessary and thus substantial dwell costs would be incurred. Dwell costs depend on the length of deployment, rotational time at home, and the length of the contingency. For example, one-year deployments followed by a two-year rotation require three FTEs to support a contingency lasting three years or more.

Extending deployments and reducing rotation time reduces dwell costs but creates issues for retention, recruiting, and morale. Also, using personnel during stateside rotation to satisfy requirements that otherwise would require a new hire reduces dwell costs. Calculations were made using a dwell-multiple of three assuming a one-year deployment followed by a two-year rotation.

Second, in the case of the federal civilian solution, incremental costs include salary and benefits of the new civilian hires required to backfill the deployed civilian's position at home. Civilian costs would also include overtime, post differential, and danger pay.

The third alternative would be to contract for the required support. The cost of this alternative would include contractor personnel pay and benefit costs, overhead, profit, and contract administration costs incurred by the government.

## Findings

The following cost analysis applies to a large-scale/prolonged-contingency scenario. It is based on current policy that the combat-support and combat service-support portion of standing military forces be maintained at a low level (to avoid high peacetime costs and maximize combat capabilities) and augmented as needed by contractors. Under this policy, providing support services by using government personnel (military or civilian) would require increasing the force structure or hiring additional civilian employees, or both. All cost elements (especially pay and benefits) would be incurred for the contingency and are thus used in our comparisons.

## Military costs

Determining the cost of military personnel is complex because of the variety of special-pay categories—benefits that extend beyond the affected military department, even beyond Defense, and family situations of military members. Military compensation is unusual in that a high proportion is paid in the form of benefits—some paid out for a lifetime—rather than cash. The cash-compensation portion is relatively modest, so the actual cost used in comparative analysis depends heavily on which benefits are included. In general, military personnel receive base pay according to their rank and years of service. They also receive allowances for subsistence and housing (adjusted for locality), and may also be entitled to other special types of pay.

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2. An exception to this concept would be the deployment of Guard and/or Reserve units. Their personnel would be paid on a full-time basis as opposed to much lower pay and benefit expenses during non-active status. Thus, most of their pay and benefits would be incremental in a contingency operation.

There are several alternatives typically used to determine the cost of a military member: cash compensation, regular military compensation, composite (also called programmed) rate, and the full cost to the government. In 2007, the Congressional Budget Office (CBO) summarized the most common methods of determining military compensation.<sup>3</sup> The most comprehensive method was used in this study: the full cost to the government.

**Cash compensation:** This typically includes basic pay, plus the basic allowance for subsistence, plus the basic allowance for housing (based on location and dependent status).

**Regular military compensation:** This includes basic pay, housing, and subsistence allowances, plus the tax advantages (foregone government revenue) on those allowances. This can also be extended to include state and local tax benefits. Benefits are added to these cash amounts. According to the CBO, "Data suggest that military personnel receive about 50 percent of their total compensation in such benefits."<sup>4</sup>

**Composite Rate (or Programmed Amount):** This consists of average basic pay plus retired-pay accrual, Medicare-Eligible Retiree Health Care (MERHC) accrual, basic allowance for housing, basic allowance for subsistence, incentive and special pay, permanent change of station expenses, and miscellaneous pay. It includes a per capita cost of \$5,560 of MERHC accrual.<sup>5</sup> These rates are summarized in the Annual Defense Composite Rate (also known as the Programmed Amount).<sup>6</sup>

**Full cost to Defense:** Directive-Type Memorandum (DTM) 09-007 adds other factors to the composite rate to present a fuller accounting of the cost of military personnel. It adds costs for recruitment and advertising, training, subsidized groceries (commissaries), education assistance, child-development services, and other costs that are incurred through the provision of non-monetary benefits to military members.<sup>7</sup> This equates to the full cost to Defense.

**Full cost to the government:** The referenced DTM 09-007 defines full cost to the government by adding other departments' costs to those shown above. Included are:

- Department of Education for impact aid to schools,
- Department of Labor for training and employment of veterans,
- Department of the Treasury payments into the Military Retirement Fund, and
- Department of Veterans Affairs for veterans' benefits.<sup>8</sup>

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3. Congressional Budget Office Pub. No. 2665, "Evaluating Military Compensation," June 2007, 2.

4. Ibid.

5. Office of the Under Secretary of Defense, Program/Budget, memorandum, "Department of Defense (DoD) Military Personnel Composite Standard Pay and Reimbursement Rates FY 2009."

6. Office of the Secretary of Defense, Cost Assessment and Program Evaluation, Directive-Type Memorandum (DTM) 09-007, "Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support," January 29, 2010, 23.

7. Ibid., 24.

8. Ibid., 24-25.

These military cost concepts are summarized in Table F-3.

**Table F-3. Summary of cost concepts for military members**

<b>Military Cost Concept</b>	<b>Definitions</b>
Cash compensation	Basic pay, basic allowance for housing (BAH), basic allowance for subsistence (BAS)
Regular military compensation	<i>Adds to above:</i> Federal-tax advantage on BAH, BAS
Composite Rate	<i>Adds to above:</i> Retired-pay accrual, MERHC accrual, incentive and special pay, permanent change-of-station expenses, and miscellaneous pay <i>Deletes from above:</i> Federal tax advantage on BAH, BAS
Full cost to Defense	<i>Adds to above:</i> Costs for recruitment and advertising, training, subsidized groceries (commissaries), education assistance, child-development services, and other costs that are incurred through the provision of non-monetary benefits to military members
Full cost to the government	<i>Adds to above:</i> Department of Education for impact aid to schools, Department of Labor for the training and employment of veterans, Department of the Treasury payments into the Military Retirement Fund, and Department of Veterans Affairs for veteran's benefits

**Sources:** Office of the Secretary of Defense, Cost Assessment and Program Evaluation, Directive-Type Memorandum (DTM) 09-007, "Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support," January 29, 2010, 24-25; Congressional Budget Office Pub. No. 2665, "Evaluating Military Compensation," June 2007, 2.

The total amount of overhead cost, such as that for headquarters operations, incurred by the government for each service member is not included in any of the cost definitions above. While presumably small for each individual, it is an unknown factor when comparing military to contractor costs, where all such costs are included in the contractor's billing rates. OMB Circular A-76, in the computations program COMPARE, uses a factor of 12 percent for overhead for government employees. We have adopted this rate as a starting point in our analysis.

Although none of the basic costing methodologies discussed above focus on the special-pay rates that are likely applicable in contingency operations, we need to include them in our discussion. In certain areas, a member of the uniformed services may be entitled to Hostile Fire/Imminent Danger pay at the rate of \$225 per month.<sup>9</sup> This would be \$2,700 over 12 months.

A service member with dependents who serves an unaccompanied tour of duty may be entitled to a family-separation allowance (FSA) of \$250 per month. FSA accrues from the day of departure from the home station and ends the day prior to arrival at the home station.<sup>10</sup> This would total \$3,000 over 12 months.

Military Hardship Duty Pay (HDP) is based on several considerations. HDP based on location (HDP-L) is intended to recognize extraordinarily arduous living conditions, excessive physical hardship, or unhealthy conditions, and ranges from \$50 to \$150 per month based on the level of hardship. HDP based on mission (HDP-M) is paid for performing designated hardship missions. HDP of \$200 per month based on involuntary extension in Iraq is paid to those serving beyond a 12-month deployment. The maximum total of all three HDPs cannot exceed \$1,500 per month.<sup>11</sup>

9. Office of the Under Secretary of Defense, Personnel and Readiness, Military Compensation, "Hostile Fire/Imminent Danger Pay (HFP/IDP)," as of July 29, 2011, <http://militarypay.defense.gov>.

10. Office of the Under Secretary of Defense, Personnel and Readiness, Military Compensation, "Family Separation Allowance," as of July 29, 2011, <http://militarypay.defense.gov>.

11. Office of the Under Secretary of Defense, Personnel and Readiness, Military Compensation, "Hardship Duty Pay (HDP)," as of July 29, 2011, <http://militarypay.defense.gov>.

In its military-compensation study, CBO added about 5 percent to total pay for these special pay rates, and we are adopting the same approach.

Based on the above, we recommend estimating military pay as shown in Table F-4. This starts with the readily available Annual Defense Composite Rate. It adds the adjustments to calculate the cost to Defense and the overall cost to the government for the military member. Then we add the factors for overhead and special-pay rates typical of a contingency operation. We did not include any treatment of the revenue consequences for the government of not taxing military benefits.

A major factor in the cost of the military is dwell time, or the time spent between deployments. This time is necessary for rest, recovery, and family time following a combat deployment, and for training and preparation time for the next deployment. At times, for example, the Army's goal has been to have 12-month deployments with 24 months of dwell time, or a 1-to-2 dwell ratio. In order to always have a unit deployed, an additional two units are required to provide sufficient dwell time. However, the Army has sometimes only been able to achieve a 1-to-1.2 dwell ratio and has said that in the future it wants to have a 1-to-2.5 dwell ratio. The calculations below used the 1-to-2 dwell ratio, but the total cost changes considerably if either 1-to-1.2 or 1-to-2.5 were used. In addition to length of deployment and dwell time, dwell costs are reduced if personnel are used during home rotation to satisfy home-based requirements that would otherwise require a new hire or a private contractor.

**Table F-4. Example of military FTE cost estimates**

	<b>O-3</b> (Army Captain)	<b>E-4</b> (Corporal)	<b>E-3</b> (Private 1/C)
Annual Defense Composite Rate (2010 dollars)	\$122,616	\$56,378	\$47,221
Adjustments from DTM 09-007 for Defense costs (2008 dollars)*	16,997	16,997	16,997
Additional adjustments from DTM 09-007 for other costs to the government (2008 dollars)**	12,659	12,659	12,659
Overhead (12 percent on Composite Rate)	14,715	6,765	5,667
<b>Total FTE cost in United States</b>	<b>\$166,987</b>	<b>\$92,799</b>	<b>\$82,544</b>
Contingency special pay (5 percent)	8,349	4,640	4,127
<b>Total FTE cost for year deployed</b>	<b>\$175,335</b>	<b>\$97,439</b>	<b>\$86,671</b>
Total with dwell ratio at 1-to-2***	\$509,309	\$283,037	\$251,758

**Notes:** \*Adjustments include costs for health care, education assistance, discount groceries, child development, training, recruitment and advertising, defense education activity and family assistance, manpower management, and other personnel support.

\*\*Child education-impact aid (\$928), Veterans' employment and training (\$9), Treasury contribution to retirement (\$7,119), Treasury contribution for concurrent receipts (\$1,236), Veterans' benefits (\$3,367), totaling \$12,659.

\*\*\* Total costs include special pay for the one year deployed.

**Sources:** Office of the Under Secretary of Defense, Program/Budget, memorandum, "FY 2009 Department of Defense (DoD) Military Personnel Composite Standard Pay and Reimbursement Rates," August 18, 2008; Office of the Secretary of Defense, Cost Assessment and Program Evaluation, Directive-Type Memorandum (DTM) 09-007, "Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support," January 29, 2010.

## Federal civilian costs

Federal civilian employee costs in an overseas contingency are primarily driven by six factors: grade/step/salary, benefits, post differential, danger pay, overtime hours, and overhead. We used all six factors to develop the total cost to the government for federal civilian employees.

The grade and step of federal civilian employees under the General Schedule (GS) establishes their basic pay rates. When stationed overseas, they are to receive the base pay for their current grade and step.<sup>12</sup> For personnel stationed in the United States, those rates often have locality pay added. When a person is overseas on a temporary basis or may still have dependents living in the United States, employees may still draw locality pay based on the rate for their home station.

Some blue-collar employees in the United States are under the federal wage system of the Office of Personnel Management, which sets their pay based on pay in their local area as determined by the Department of Labor. This group would typically include such trades as plumbers and electricians, and its members are often referred to as wage-grade (WG) employees.

Benefits for federal civilian workers including retirement, health care, Medicare, and insurance are 36.25 percent of an employee's base pay.<sup>13</sup>

When overseas, a federal civilian employee is entitled to post-differential pay established by the Department of State. Typically, the highest rate—35 percent—will apply to a post in a contingency area. Danger pay at 35 percent, also set by the Department of State, will typically apply in a contingency area. An employee may also receive a post cost-of-living allowance; however, there currently is no additional amount for Iraq or Afghanistan.<sup>14</sup>

Overtime pay for work above a regular 40-hour work week is also a part of the compensation for some federal civilian employees. In the early days of a contingency operation, the number of hours may be established as a programmed amount. This may be as high as 40 hours of overtime per week. Overtime is usually paid at a rate of time-and-a-half for the employee, but is capped at the GS-9 step 5 rate of \$32.90 (2010) or the person's regular hourly rate, whichever is more.<sup>15</sup>

It is reasonable to count as an incremental contingency-related cost all of the federal civilian's full salary and benefits while deployed, as the work being done prior to deployment must presumably be done by those remaining, possibly using overtime hours. Funds may be provided to replace the federal civilians at their home stations, but such backfills are problematic because of the difficulties of the federal hiring system and the difficulty of finding new hires with the right skills. If such backfills do occur, we assume the cost of this new hire would generally be the same as the cost of the person replaced. Given this assumption, the deployed civilian's salary and benefits are attributable to the cost of the contingency. As noted, OMB Circular A-76 uses a factor of 12 percent for overhead for government employees.

Finally, because federal civilian employees' compensation is subject to federal income tax, a recoupment of 20 percent (the average tax rate according to the Internal Revenue Service), should be deducted from the compensation costs of these employees to place federal civilian employees on a basis comparable to U.S.-citizen contractor employees or military personnel.

12. Office of Personnel Management, Salary Table 2010-GS, as of July 29, 2011, <http://www.opm.gov>.

13. Office of Management and Budget memorandum M-08-13, "Update to Civilian Position Full Fringe Benefit Cost Factor, Federal Pay Raise Assumptions, and Inflation Factors used in OMB Circular No. A-76, 'Performance of Commercial Activities,'" March 11, 2008.

14. Department of State, "Summary of Allowances and Benefits for U.S.G. Civilians under Department of State Standardized Regulations (DSSR)," as of August 3, 2009, <http://aoprals.state.gov>.

15. Office of Personnel Management, Salary Table 2010-GS, as of July 29, 2011, <http://www.opm.gov>.

Note: Another factor to consider is that these special-payment situations are likely to drive the employee's total compensation above the level of the salary of the Vice President of the United States, \$230,700 for 2010, which is not normally allowed. However, in a contingency operation, it may be likely that this limitation will be waived by Congress, at least for Defense employees. Otherwise, a federal civilian employee reaching this ceiling would have to be replaced in theater with a comparable employee with resulting disruption and additional relocation costs. These costs are not considered in our analysis.

In Table F-5 below we provide some examples of total government costs for federal civilian workers using the above assumptions. The GS-12 step 5 is treated as a skilled journeyman-level grade in and among the general-schedule workers. The wage-grade base-pay examples are typical hourly rates the government is currently offering for plumbers, electricians, and food-service workers.<sup>16</sup>

**Table F-5. Examples of total costs for federal civilians in contingency operations**

Row	Item	GS-12, step 5	Wage grade at \$22/hour (plumber/ electrician)	Wage grade at \$13/hour (food service)
1	Annual salary (base)	\$68,310	\$45,914	\$27,131
2	40 hours of overtime (50 weeks)	65,800	66,000	39,000
3	Post differential pay (35 percent)	23,909	16,070	9,496
4	Danger pay (35 percent)	23,909	16,070	9,496
5	Benefits (36.25 percent of row 1)	24,762	16,644	9,835
6	Overhead (12 percent of row 1)	8,197	5,510	3,256
<b>7</b>	<b>Total</b>	<b>\$214,887</b>	<b>\$166,208</b>	<b>\$ 98,214</b>
8	Deduct federal taxes recouped (rows 1 to 4 at 20 percent)	(\$36,385)	(\$28,811)	(\$17,025)
<b>9</b>	<b>Total after taxes</b>	<b>\$178,502</b>	<b>\$137,397</b>	<b>\$81,189</b>

Source: Office of Personnel Management, Salary Table 2010-GS, as of July 29, 2011, <http://www.opm.gov>.

## Contractor costs

The cost of contractor support depends critically on the skill level needed, location, labor-market supply, and other characteristics of the particular contingency operation. Those characteristics influence how much a contractor pays to attract U.S. citizens, as well as the cost and availability of local and third-country nationals. Our comparisons are based on the government's actual experience for obtaining contractor support in Iraq.

**Workforce Composition:** In Iraq, about 25 percent of the contractor workforce consists of LNs. Approximately 25 percent of the workforce are U.S. citizens and the remaining 50 percent TCNs. The vast majority of the contractor workforce (60 percent) is engaged in base-support activities, mainly under the LOGCAP program. Another large portion, nearly 30 percent, divides roughly evenly among security, construction, and translation services.<sup>17</sup>

**Services Performed:** The contract workforce involved in providing support functions tends to be concentrated in one of the nationality categories. Third-country nationals dominate life-support and security services. Iraqi nationals dominate construction and translation services. U.S. citizens dominate

16. Office of Personnel Management, Salary Table 2010-GS, as of July 29, 2011, <http://www.opm.gov>.

17. Brig. Gen. William N. Phillips, Commanding General, Joint Contracting Command-Iraq/Afghanistan, memorandum, "Contractor Support of Multi-National Force-Iraq (MNF-I) Operations," July 17, 2009; Brig. Gen. John F. Wharton, Chief of Staff, U.S. Army Materiel Command, briefing to Commission, January 12, 2009.

communications support. See Table F-6 below for data on headcounts as of June 20, 2009. Shaded cells indicate the numerically dominant value.

**Table F-6. Contractor workforce by activity performed in Iraq**  
As of June 20, 2009

<b>Mission Category</b>	<b>Total (% of total)</b>	<b>U.S. citizen</b>	<b>Iraqi LN</b>	<b>TCN</b>
Base life support	71,783 (60%)	18,093	9,869	43,821
Security	13,145 (11%)	773	3,686	8,686
Construction	10,090 (8%)	184	8,297	1,609
Translators/interpreters	9,128 (8%)	2,390	6,738	0
Logistics/maintenance	3,800 (3%)	2,778	314	708
Training	2,694 (2%)	2,397	54	243
Communications support	2,183 (2%)	2,070	48	65
Transportation	1,616 (1%)	28	1,364	224
Other	5,267 (4%)	2,828	1,670	769
<b>Total</b>	<b>119,706 (100%)</b>	<b>31,541 (26%)</b>	<b>32,040 (27%)</b>	<b>56,125 (47%)</b>

**Note:** Shaded cells represent the leading source of the workforce in each category.

**Source:** Brig. Gen. William N. Phillips, Commanding General, Joint Contracting Command-Iraq/Afghanistan, memorandum, "Contractor Support of Multi-National Force-Iraq (MNF-I) Operations," July 17, 2009, 1.

Table F-7 displays data on contractor FTE costs in Iraq—both direct-labor only, and fully loaded and billed. Billable rates per FTE are broken out by workforce nationality, but are reported only for a single point in time and are based on a sample of 1,000 contracts. Billable rates are a representation of the contractor’s full cost to the government and include the contractor’s overhead, other direct costs, and fee. Thus, billable rates are the best basis to compare contractor costs to our computation of military and federal-civilian FTE costs.

**FTE Costs:** Cost information is based on actual contract data on two alternative FTE cost measures: direct-labor cost per FTE and billing-cost per FTE.

The first, direct-labor cost per FTE, comes from the Army Contractor Manpower Reporting Application, where contractors are required to report direct-labor costs per FTE, exclusive of benefits, overhead, general and administrative, and other direct costs.<sup>18</sup> These costs are self-reported by the contractors and vary widely, with an unknown amount for the benefits that would make them more comparable to costs used elsewhere in our analysis. As a result, full use of these data was not possible.

The second measure, billing-cost per FTE, is taken from a July 17, 2009 memorandum from the Commanding General, Joint Contracting Command-Iraq/Afghanistan (JCC I/A) and are partially reproduced in a briefing presented to the Commission by the Chief of Staff, U.S. Army Materiel Command. Billing costs per FTE are based on a data sample of 1,000 contracts compiled by the Theater Financial Management Cost Team. The values presented by these sources coincide, with the exception of the FTE billing costs for U.S. citizens. For U.S. citizens, the two reported values, depending on the source, are \$185,700 or \$231,600.<sup>19</sup>

**Table F-7. Contractor costs in Iraq**  
As of June 20, 2009

	<b>U.S. citizen</b>	<b>Iraqi LN</b>	<b>TCN</b>	<b>All</b>
Direct labor costs per FTE (excludes benefits, overhead, general and administrative, and other costs)	NA	NA	NA	\$66,709 = FY 2008  \$78,228 = FY 2009
Contract billing costs per FTE	\$185,700 or \$231,600	\$35,700*	\$67,600	NA

\* To the extent that LNs live off base and depend on the local economy for housing and subsistence rather than having government-furnished housing, they represent an even lower relative cost to the government.

**Sources:** Brig. Gen. William N. Phillips, U.S. Army, Commanding General, Joint Contracting Command-Iraq/Afghanistan, memorandum, "Contractor Support of Multi-National Force-Iraq (MNF-I) Operations," July 17, 2009, 1; Brig. Gen. John F. Wharton, Chief of Staff, U.S. Army, U.S. Army Materiel Command, briefing to Commission, January 12, 2009.

18. U.S. Army, "FY 2009 Inventory of Contracts for Services."

19. Tyler Stopa and Karl Kalb, Calibre, Theater Financial Management Cost Team, telephone interview with Commission, March 9, 2010.

## Conclusions

Based on the cost assumptions and data analyses presented above, heavy reliance on local nationals and third-country nationals (especially for logistics services and installation support) leads to considerable cost savings compared to the military, federal government civilians, or U.S. citizens used by contractors. Local and third-country nationals also offer significant cost advantages.

For the balance of activities that rely on contractor support using U.S. citizens, the cost advantages of contracting versus performing the function using military or federal civilians is less clear.

- For longer-term contingency operations where dwell costs are recognized, contractors are more cost-effective than military personnel.
- U.S. citizens employed by contractors are cost-comparable with the use of federal employees in similar skill or occupational categories. The relative advantage of one over the other would rest on factors other than FTE (labor) cost. The relative efficiency of the government or contractor organization performing the work in question would determine the more cost-effective source.