

BUDGET BULLETIN

SENATE COMMITTEE ON THE BUDGET
CHAIRMAN MIKE ENZI | @BUDGETBULLETIN

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President’s Budget: National Security, International Affairs

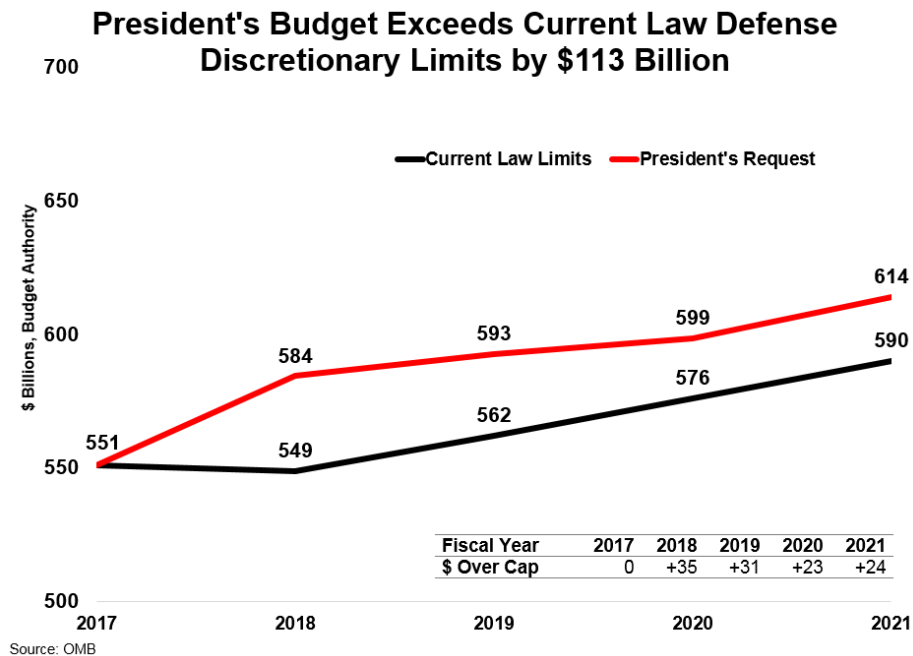
by Senate Budget Committee Republican Staff

EDITOR’S NOTE: All Years Are Fiscal Years Unless Otherwise Stated.

National Defense

The [president’s budget](#) requests \$551.1 billion in regular discretionary budget authority for national defense in 2017, a \$3 billion (0.5 percent) increase from 2016 levels. Spending for national defense supports the military activities of the Department of Defense (DOD), the nuclear-weapons related activities of the Department of Energy and the National Nuclear Security Administration (NNSA), and defense-related activities in other departments of the federal government. As in years past, spending for DOD, \$523.9 billion for 2017, makes up approximately 95 percent of discretionary spending on national defense.

Spending for national defense is controlled through the defense category (revised security) of the Budget Control Act of 2011. The president’s request of \$551.1 billion is equal to the amount allowed under the BCA’s caps this year, as modified by the [Bipartisan Budget](#)



[Act of 2015](#). From 2018 to 2021, the remaining years of the BCA period, the president’s requested defense levels are \$113 billion higher than the limits currently allowed under the law.

The president's budget request of \$523.9 billion for base DOD spending is \$2.2 billion (0.4 percent) higher than the amount enacted for 2016.

[DOD's 2017 request](#) is \$23.4 billion less than the estimated 2017 figures in last year's Future Years Defense Program (when a projected \$1.6 billion transfer to NNSA is included). The reason for this difference is attributable to the fact that last year's

FYDP did not adhere to any of the spending constraints imposed by the BCA, while this year the president is requesting levels consistent with the most recent budget deal. According to the [DOD Comptroller's Office](#), the DOD was able to craft its budget request at the budget deal's levels by taking advantage of built-in relief from overseas contingency operation (OCO) funding provided in the BBA15, savings from favorable economic and fuel estimates, new efficiencies, and a series of changes that required only \$11 billion in net program spending reductions (largely in modernization accounts).

The president's budget includes three significant proposals related to reforming military compensation and benefits that affect direct spending and revenue: military retirement modifications, TRICARE pharmacy co-payment increases, and instituting TRICARE-for-Life enrollment fees.

The budget modifies the new blended military retirement system created by the National Defense Authorization Act of 2016 (NDAA). While DOD has expressed support for the new retirement system, it is requesting changes in this budget before the new system begins on January 1, 2018. DOD requests an increase to 5 percent of Thrift Savings Plan (TSP) government matching rates for participants. The NDAA provided a 1 percent automatic contribution from the service member and up to 4 percent matching contribution from the federal government. This request would bring total contributions to a service member's TSP to 6 percent. The department would also delay the start date for government matching of TSP to the first day of a service member's fifth YOS (year of service). Current law directs matching to begin on the first day of the third YOS. Furthermore, the department's budget includes extending TSP matching contributions until a member retires from service. Current law terminates matching contributions at 26 YOS. Finally, the department requests flexibility in the application of continuation pay, whereas the NDAA directs a minimum continuation payment to all members at 12 YOS. The president's

Department of Defense Base Budget

(\$ Billions, Budget Authority)

<u>By Appropriations Title</u>	2016	2017	Delta
	Enacted	Request	2017-2016
Military Personnel	135.3	135.3	-0.1
Operation and Maintenance	197.5	205.9	8.4
Procurement	110.7	102.6	-8.2
RDT&E	68.8	71.4	2.6
Revolving Funds	1.2	1.4	0.2
Military Construction	6.9	6.1	-0.8
Family Housing	1.3	1.3	0.1
Total	521.7	523.9	2.2

<u>By Department</u>			
Army	123.3	123.0	-0.3
Navy	159.3	155.4	-4.0
Air Force	145.7	151.1	5.4
Defense-Wide	93.4	94.5	1.1
Total	521.7	523.9	2.2

budget estimates that the modifications to the military retirement system would increase mandatory national defense spending by \$710 million, increase offsetting receipts by \$5.2 billion (from greater accrual payments into the Military Retirement Fund), and reduce revenues by \$1.1 billion over 10 years.

The president's budget also requests changes to military healthcare benefits. The budget recommends an increase in TRICARE pharmacy co-payments for active duty families (but not the active duty service member) and all retirees. DOD believes these increases will incentivize greater usage of mail order and generic drugs. A similar proposal was included in previous budget requests, and the 2016 NDAA included modest increases on which the 2017 budget builds. Further, the budget proposes an annual enrollment fee for TRICARE-for-Life (TFL) coverage for retirees and their family members age 65 and older (with full grandfathering of those Medicare-eligible retirees who are already receiving TRICARE benefits at the time of enactment). TFL is designed as a wraparound program for military retirees who are eligible for Medicare and currently does not require an enrollment fee or annual premium. The 2016 president's budget included an enrollment fee recommendation, but it was not included in last year's NDAA. These health care proposals are estimated to reduce mandatory health spending by \$5.4 billion and decrease offsetting receipts by \$7.4 billion (from reducing accrual payments into the Medicare-Eligible Retiree Health Care Fund).

International Affairs

The president's budget [requests \\$39.3 billion](#) in regular nondefense discretionary spending for international affairs programs. A large portion of the funding, which supports the budgets of the Department of State and USAID, will be used to strengthen global partners, combat violent extremism, and support security measures for U.S. embassies and consulates. The 2017 proposed base funding levels within the foreign affairs accounts are an overall decrease of \$443 million from 2016 levels. This decrease is occurring even in the wake of the enactment of the BBA15, which increased nondefense discretionary by \$15 billion for 2017. This could be explained by the substantial increase in nondefense discretionary overseas contingency operations (discussed further below). To that point, although the Embassy Security and Construction and Bilateral Economic Assistance regular amounts decreased from last year's estimates, their respective OCO requests increased by a combined \$1 billion.

International Affairs Base and OCO Budgets				
(\$ Billions, Budget Authority)				
	2015 Enacted	2016 Enacted	2017 Request	Delta 2017-2016
Regular	42.5	39.7	39.3	-0.4
OCO	9.4	14.9	14.9	-0.0
Total	51.9	54.6	54.1	-0.4

Other proposals within the foreign affairs request include \$935 million to support Ukraine in its efforts to combat Russian aggression, \$1 billion to financially assist the governments of Central America to promote economic opportunities for their citizens and address the issues regarding

migration of unaccompanied families and children, and \$3.4 billion in aid to Afghanistan and Pakistan, with an additional \$859.8 million to Pakistan to bolster counter-insurgency missions.

Overseas Contingency Operations

The president's budget requests \$73.7 billion for overseas contingency operations (OCO) in 2017, of which \$58.8 billion is for national defense programs and \$14.9 billion is for international affairs programs. These amounts match the spending levels that were suggested in the last budget deal. In the years following 2017, the president includes placeholders of \$11 billion annually through 2021. These placeholders do not represent actual assumptions made about OCO needs in future years, rather they fulfill the president's long-standing position that OCO funding should be capped at \$450 billion over the 2013-2021 period.



The \$58.8 billion for national defense OCO this year represents flat funding from 2016's OCO levels. According to DOD's request, \$49.2 billion in OCO funding would be used to fund Operation FREEDOM'S SENTINEL (Afghanistan), Operation INHERENT RESOLVE (Iraq and Syria), and provide for their associated in-theater support needs. Included in those figures is \$3.4 billion to support the Afghan National Defense and Security Forces, \$630 million for the [Iraq Train and Equip Fund](#) and \$250 million for the [Syria Train and Equip Fund](#). Of the remaining OCO funds requested, \$5 billion would be used to fund base requirements (down from nearly \$8 billion in 2016), \$1 billion would be used for the Counterterrorism Partnerships Fund, approximately \$200 million would support counterterrorism activities in Africa, and \$3.4 billion would be used for the European Reassurance Initiative (ERI). [ERI funding](#), which totaled \$789

million in 2016, would be used for both assurance and deterrence efforts, namely an increased U.S. military presence in Europe and involvement in bilateral and multilateral exercises with NATO allies and other partners. The largest portion of ERI funding, \$1.9 billion, will be used to increase the amount of prepositioned U.S. combat equipment throughout Europe. At the same time these increased funds are being requested for bolstering U.S. allies in Europe, the latest [report](#) from NATO shows that only five member states (U.S., Estonia, Poland, Greece, and the U.K.) are meeting the 2 percent of GDP guideline for spending on defense.

The \$14.9 billion for international affairs OCO remains flat from 2016 levels, as specified in BBA15. Of this \$14.9 billion, \$5.3 billion is requested for State operations and other related international affairs agencies, and \$9.6 billion is requested for foreign operations. Part of the State operations OCO funding will be directed through Embassy Security and Construction, used to support infrastructure needs at the Department's offices in Kabul. Further spending will be used in worldwide security protection for embassies and consulates, promoting cybersecurity and improved FOIA processing measures. Additional funding will also be used for SIGAR (Special Inspector General for Afghanistan Reconstruction) operations to continue performance oversight of reconstruction programs.

Of the foreign operations OCO request, \$7.5 billion is requested for Bilateral Economic Assistance (Economic Support Fund, International Disaster Assistance, Migration and Refugee Assistance), \$1.9 billion is requested for International Security Assistance (Foreign Military Financing), and \$232 million is requested for USAID's expenses. The OCO request for ESF (\$3.7 billion) will be assigned to support 18 countries, on top of the 35 supported in the regular budget. The top recipient of ESF OCO funding is Afghanistan, which would receive \$1 billion. The OCO request for FMF (\$1 billion) supports 10 countries, on top of the 43 supported in the regular budget. The top recipient of FMF OCO funding is Jordan (\$350 million).