



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

MAY 14 2025

MEMORANDUM FOR SENIOR PENTAGON LEADERSHIP
COMMANDERS OF THE COMBATANT COMMANDS
DEFENSE AGENCY AND DOD FIELD ACTIVITY DIRECTORS

SUBJECT: Implementation of a 15% Indirect Cost Cap on Assistance Awards to Institutions of Higher Education

The Department of Defense (DoD) is the steward of the most critical budget in the Federal Government — the budget that defends our Nation, equips our warfighters, and secures our future. That stewardship demands discipline. It demands accountability. And it demands that we say no to waste.

Effective immediately, the Department will pursue a lower cap on indirect cost rates for all new financial assistance awards to institutions of higher education, consistent with federal regulation. These changes position the DoD to save up to \$900M per year on a go-forward basis.

Our objective is not only to save money, but to repurpose those funds — toward applied innovation, operational capability, and strategic deterrence. We owe it to our Service members, and we owe it to the American people.

Legal Authority and Implementation for New Awards

Pursuant to 2 C.F.R. § 200.414(c), the Department has an avenue to deviate from institutionally negotiated indirect cost rates when it determines such deviation is necessary and justified. We seek to exercise that authority now. No later than 21 days from the date of this memorandum, I direct the Under Secretary of Defense for Research and Engineering (USD(R&E)) to:

1. **Notify the Office of Management and Budget** of our intent to cap indirect cost rates for all new financial assistance awards to institutions of higher education at 15% or lower, in accordance with regulatory requirements.
2. **Develop and publish formal policy guidance** — including procedures, decision criteria, and justifications — that will govern all DoD deviations from negotiated rates.
3. **Ensure that guidance is public** and integrated into all upcoming grant solicitations, including Notices of Funding Opportunity.
4. **Ensure new awards to institutions of higher education contain the newly established standard cap.**



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Renegotiation of Existing Awards: Legally Grounded, Aggressively Pursued

We will not stop at new grants. Meaningful savings can also be achieved by revisiting the terms of existing awards to institutions of higher education. Accordingly, no later than 30 days from the date of this memorandum, I direct the USD(R&E) and DoD Components that manage DoD-funded financial assistance awards to:

- **Initiate a Department-wide effort** to renegotiate indirect cost rates on existing financial assistance awards to institutions of higher education. Wherever cooperative, bilateral modification is possible, it shall be pursued.
- **Where bilateral agreement is not achieved**, identify and recommend lawful paths to terminate and reissue the award under revised terms, provided this action aligns with agency priorities and is authorized under 2 C.F.R. § 200.340(a).
- **Complete renegotiations or terminations** for all contracts by 180 days from the date of this memorandum.

Every dollar we redirect from overhead to outcomes strengthens the United States military. We are cutting bureaucratic fat so that we can build muscle. That is what leadership demands — and what national defense requires.

A handwritten signature in dark ink, appearing to read 'PBJ' followed by a stylized flourish.