

United States Office of Personnel Management



**Human Resources Line of Business
FY 2011 Cost Benefit Analysis (CBA)
Report**

May 2012

a New Day for Federal Service



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1. Executive Summary

During Fiscal Year (FY) 2011, the Office of Personnel Management (OPM) Human Resources Line of Business (HR LOB) initiated an effort to update its Cost Benefit Analysis (CBA). The purpose of the CBA is to calculate cost savings and cost avoidance achieved through the migration of Federal agency human resources (HR) systems and services to payroll providers and Shared Service Centers (SSCs).

OPM launched the HR LOB initiative in 2004 with the vision of achieving modern, cost-effective, standardized, and interoperable HR solutions across the government. The HR LOB has outlined a Concept of Operations (CONOPS), which advocates a shared services model in which designated core HR services – personnel action processing, benefits management, and compensation management – move from agencies to Shared Service Centers (SSCs). The HR LOB established six Federal and four private SSCs to provide HR shared services to the Federal government.

The shared services delivery model enables the government-wide standardization of HR business functions and processes and the systems that support them. This delivery model further supports the HR LOB's four primary strategic goals of improved management, operational efficiencies, cost savings and cost avoidance, and improved customer service.

To measure results against the HR LOB's goal to achieve or increase cost savings and cost avoidance from HR solution activities, the HR LOB updated its CBA study in FY 2011 to reflect recent changes to the Federal shared services environment.

The HR LOB completed an intensive data collection effort to inform the FY 2011 CBA, which included the distribution of a CBA data call template to 27 Federal agencies, in-person meetings with agency representatives to review and clarify data call responses, and the collection and analysis of several external data sources to strengthen the CBA inputs.

The FY 2011 CBA study results calculate a total of over \$1.625 billion in cost savings and cost avoidance through FY 2015 resulting from the migration of Federal agencies to HR shared services. The Federal government can further expect to realize over \$184 million in cost savings per year from these migrations after FY 2015.

As the HR LOB pursues its goal of 100 percent Federal agency adoption of HR shared services, the FY 2011 CBA study continues to prove a positive business case for the value of HR shared services across the government. Currently, 70.8 percent of Federal level agencies are migrating to or are serviced by an SSC for HR services and 99.2 percent are serviced by a payroll provider.¹ However, delays in agency migrations to SSCs have resulted in a significant loss of potential HR cost savings and a delay in the realization of HR cost avoidance.

The results of the FY 2011 CBA study serve as a valuable tool for agencies to use in building a business case for a move to shared services for core HR functions. Similarly, payroll providers and SSCs should use the FY 2011 CBA study data as the basis for requesting and justifying funding to upgrade and modernize their systems in order to better support their customers.

¹ OPM HR LOB December 2011 Agency Alignment Statistics



2. Introduction and Background

2.1. *Human Resources Line of Business (HR LOB) Initiative*

The Office of Personnel Management (OPM) launched the Human Resources Line of Business (HR LOB) initiative in 2004 with the vision of achieving modern, cost-effective, standardized, and interoperable HR solutions across the government. The HR LOB initiative follows a similar model as the e-Payroll initiative, also managed by OPM, which was launched in December 2001 with the comparable goal of consolidating payroll processing systems and activities across the Federal government. Under the e-Payroll initiative, Federal agencies migrated their payroll activities to one of four approved Federal payroll providers:

- Department of Agriculture's National Finance Center (NFC)
- Department of Defense's Defense Finance and Accounting Service (DFAS)
- Department of the Interior's National Business Center (NBC)
- General Services Administration (GSA)

The HR LOB Concept of Operations (CONOPS) describes a service delivery model in which three core HR services – personnel action processing, benefits management, and compensation management – move from agencies to Shared Service Centers (SSCs). This shared services delivery model enables the government-wide standardization of HR business functions and processes and the systems that support them. Agencies using shared services are able to shift their focus from administrative processing and systems administration to improved management, strategic planning, and customer service.

A key driver of the CONOPS was the HR LOB's establishment of six Federal and four private SSCs to provide HR shared services to the Federal government. SSCs must, at a minimum, provide two of the three core HR services – personnel action processing and benefits management – and may also provide compensation management services. Four of the six Federal SSCs were approved under the e-Payroll initiative to provide compensation management services to their customers. The HR LOB continues to provide oversight of the Federal payroll providers following the completion of the e-Payroll initiative in 2009.

The approved HR LOB SSCs are as follows:

Public Sector SSCs

- Department of Agriculture's National Finance Center (NFC)
- Department of Defense's Defense Civilian Personnel Advisory Service (DCPAS) in partnership with the Defense Finance and Accounting Service (DFAS)
- Department of Health and Human Services' (HHS) Program Support Center (PSC)
- Department of the Interior's National Business Center (NBC)
- Department of the Treasury's HR Connect and Bureau of the Public Debt (BPD)
- General Services Administration (GSA)

Private Sector SSCs

- Accenture National Security Services
- Allied Technology Group, Inc.
- Carahsoft Technology Corporation
- International Business Machines (IBM)



The shared services delivery model further supports the HR LOB’s four primary strategic goals:

1. **Improved Management:** Improve the government-wide strategic management of human capital, resulting in faster decision making, more informed policy making, more effective workforce management, and improved alignment of resources with agency missions.
2. **Operational efficiencies:** Achieve or increase operational efficiencies in the acquisition, development, implementation, and operation of human resources management systems, resulting in improved servicing ratio and response times, reduced cycle times, and improved automated reporting.
3. **Cost Savings and Cost Avoidance:** Achieve or increase cost savings and cost avoidance from HR solution activities, resulting in reduced duplicative software, hardware, operations, and labor resources and an increased competitive environment.
4. **Improved Customer Service:** Improve customer service, resulting in increased accessibility to client and value, improved communication and responsiveness, enhanced quality, timeliness, accuracy, and consistency.

2.2. CBA Purpose and Background

The HR LOB Cost Benefit Analysis (CBA) was originally developed by the Office of Management and Budget (OMB) in FY 2004 in order to calculate cost savings and cost avoidance realized by the Federal government from the migration of agency HR services to payroll providers and SSCs. To measure results against the HR LOB’s strategic goal to achieve or increase cost savings and cost avoidance from HR solution activities, the HR LOB revised the original FY 2004 CBA in FY 2009 to reflect changes in the Federal shared services environment, as a number of large Federal agencies completed their migrations to payroll providers and SSCs between FY 2004 and FY 2009.

In FY 2011, the HR LOB again initiated an effort to update the CBA, the results of which are reported in this document.

3. FY 2009 CBA Results

The FY 2009 CBA calculated over \$1.373 billion in cost savings and cost avoidance through FY 2015 from Federal agency migrations to payroll providers and SSCs.

Table 1: FY 2009 CBA Results

Planning Costs	(\$59,038,853)
Cost Savings	\$1,183,409,104
Cost Avoidance	\$626,290,891
Other Costs	(\$377,429,568)
Total	\$1,373,231,574

The following 22 agencies were asked to participate in the FY 2009 CBA data call and were considered in the CBA cost savings and avoidance calculations:

- Department of Homeland Security (DHS)



- Department of Commerce (DOC)
- Department of Defense (DOD)
- Department of Energy (DOE)
- Department of the Interior (DOI)
- Department of Justice (DOJ)
- Department of Labor (DOL)
- Department of State (DOS)
- Department of Transportation (DOT)
- Department of Education
- Environmental Protection Agency (EPA)
- Department of Health and Human Services (HHS)
- Department of Housing and Urban Development (HUD)
- Department of the Treasury
- Department of Veterans Affairs (VA)
- General Services Administration (GSA)
- National Aeronautics and Space Administration (NASA)
- National Science Foundation (NSF)
- Office of Personnel Management (OPM)
- Social Security Administration (SSA)
- United States Agency for International Development (USAID)
- United States Department of Agriculture (USDA)

The FY 2009 CBA results were based on several key assumptions detailed below. All assumptions support a conservative approach to calculating cost savings and avoidance and reflect available information and understanding of the Federal shared services environment at the time of the FY 2009 CBA study.

- Cost savings and cost avoidance were calculated for the period starting in FY 2005 and ending in FY 2015.
- All costs were discounted to 2008 dollars using a real discount rate of 2.4 percent in order to present a consistent view of data, projections, and the time value of money.
- Agency migrations to payroll providers or SSCs were considered complete upon the full implementation of provider systems and retirement of the replaced legacy systems. For those agencies that did not or could not provide an actual or projected migration completion date, the HR LOB projected a migration completion date based on best available information and input from agencies. The HR LOB assumed that the migrations of all agencies participating in the FY 2009 CBA study to payroll providers and SSCs would be completed by FY 2015.
- Cost savings and cost avoidance were calculated using cost per employee as a base unit. Costs per employee were developed using December 2008 FedScope population data.² Agencies that did not provide a response to the FY 2009 CBA data call or that did not provide costs in a category necessary for calculation of cost savings or cost avoidance

² FedScope is an online database managed by OPM that contains statistical information on the size and composition of the Federal civilian workforce.



were assigned a weighted mean cost per employee, calculated by weighting the average cost per employee for other agencies by relative agency population count.

4. FY 2011 CBA Development

4.1. Data Collection

In order to complete the FY 2011 update of the CBA, the HR LOB collected data from several sources as inputs for the CBA model. The HR LOB performed its FY 2011 CBA data collection efforts in four phases:

- *Phase One:* Select Federal agencies to participate in the FY 2011 CBA data call
- *Phase Two:* Distribute the FY 2011 CBA data call template to selected agencies
- *Phase Three:* Hold in-person meetings with selected agencies to review and clarify data call template submissions
- *Phase Four:* Consolidate and validate agency data call information and other source data

4.1.1. Data Collection: Phase One

In preparation for the data collection phase of the CBA study, the HR LOB developed a data call template to be distributed to 27 agencies selected to participate in the FY 2011 CBA data call:

- Department of Homeland Security (DHS)
- Department of Commerce (DOC)
- Department of Defense (DOD)
- Department of Energy (DOE)
- Department of the Interior (DOI)
- Department of Justice (DOJ)
- Department of Labor (DOL)
- Department of State (DOS)
- Department of Transportation (DOT)
- Department of Education
- Environmental Protection Agency (EPA)
- Department of Health and Human Services (HHS)
- Department of Housing and Urban Development (HUD)
- Department of the Treasury
- Department of Veterans Affairs (VA)
- General Services Administration (GSA)
- National Archives and Records Administration (NARA)
- National Aeronautics and Space Administration (NASA)
- Nuclear Regulatory Commission (NRC)
- National Science Foundation (NSF)
- Office of Personnel Management (OPM)
- Peace Corps
- Small Business Administration (SBA)
- Smithsonian Institution
- Social Security Administration (SSA)
- United States Agency for International Development (USAID)
- United States Department of Agriculture (USDA)



Agencies asked to participate in the data call were selected based on their representation of a range of cost and HR solution environments and their combined ability to reflect cost savings and cost avoidance for the Federal government as a whole. According to December 2011 FedScope employment data, the 27 agencies selected to participate in the FY 2011 CBA data call make up 98.2 percent of the total Federal government population.

4.1.2. *Data Collection: Phase Two*

The FY 2011 CBA data call template was designed to elicit key HR information technology (IT) system and cost information from agency respondents. Selected questions from the data call are highlighted below:

- 1. HR System Name?** Data call respondents were asked to populate a list of HR information systems³ used by their agency.
- 2. What is this system used for?** Data call respondents were asked to describe the uses of each of the systems listed.
- 3. What are your plans for this system?** Data call respondents were asked to select their plans for each of the systems listed from the following options: 'Maintain', 'Upgrade', 'Replace and Retire', or 'Migrate and Retire'.
- 4. Actual / Estimated Date of Migration?** If data call respondents selected 'Migrate and Retire' in answer to Question 3 for any of the systems listed, respondents were asked to enter the actual or projected fiscal year of migration.
- 5. Date of System Retirement?** If data call respondents selected 'Replace and Retire' or 'Migrate and Retire' in answer to Question 3 for any of the systems listed, respondents were asked to enter the actual or projected fiscal year of system retirement.
- 6A. Do you own and operate this system?** Data call respondents were asked to select 'Yes' for any systems listed for which their agency has ownership or operational responsibility or 'No' for any systems listed for which another agency or SSC has ownership or operational responsibility.
- 6B. If you do not own and operate this system, who does?** If data call respondents selected 'No' in response to Question 6A for any of the systems listed, respondents were asked to provide the name of the agency or SSC with ownership of or operational responsibility for the system.
- 7. Development / Modernization / Enhancement Cost⁴ (FY 2007 – FY 2012)?** Data call respondents were asked to provide actual or budgeted Development / Modernization / Enhancement (D/M/E) costs for each of the systems listed for all fiscal years 2007 through 2012.

³ Information System is defined as a discrete set of information technology, data, and related resources, such as personnel, hardware, software, and associated information technology services organized for the collection, processing, maintenance, use, sharing, dissemination or disposition of information. [OMB Circular No. A-11 (2008) Page 6 of Section 53]

⁴ Development / Modernization / Enhancement (DME) is defined as the program cost for new investments, changes or modifications to existing systems to improve capability or performance, changes mandated by the Congress or agency leadership, personnel costs for investment management, and direct support. For major IT investments, this amount should equal the sum of amounts reported for planning and acquisition plus the associated FTE costs reported in the exhibit 300. [OMB Circular No. A-11 (2008) Page 11 of Section 53]



8. Steady State System Spending⁵ Cost (FY 2007 – FY 2012)? Data call respondents were asked to provide actual or budgeted Steady State System Spending costs for each of the systems listed for all fiscal years 2007 through 2012. Steady State System Spending costs are costs incurred through the regular maintenance or upkeep of a system over its lifetime or can be the fees paid to another agency or SSC for the use of a system or for services provided.

9. Actual / Estimated HR system replacement / upgrade cost? Data call respondents were asked to provide the actual or estimated cost to replace or upgrade each of the systems listed.

10. Actual / Estimated total migration cost? Data call respondents were asked to provide the actual or estimated cost to migrate each of the systems listed to an SSC. Migration costs include the cost incurred by the migrating agency and the SSC.

12A. Did you develop this system? Data call respondents were asked to select ‘Yes’ if their agency developed any of the systems listed or ‘No’ if the system was purchased from another entity that developed the system.

12B. If not, who is the primary vendor of the system? If data call respondents selected ‘No’ in response to Question 12A for any of the systems listed, respondents were asked to provide the name of the developer or vendor of the system.

14A. When was the system implemented? Data call respondents were asked to provide the fiscal year in which each of the systems listed were implemented at their agency.

14B. When was the last major upgrade? Data call respondents were asked to provide the fiscal year in which the last major upgrade of each of the systems listed took place. A major upgrade is one that occurs outside of the habitual maintenance or upkeep of a system over its lifetime.

14C. Do you have any planned upgrades? Data call respondents were asked to respond ‘Yes’ if a major upgrade is planned for any of the systems listed or ‘No’ if no major upgrades are planned.

4.1.3. Data Collection: Phase Three

After data call respondents submitted their agency’s completed data call template, the HR LOB held in-person meetings with each agency to clarify data call responses and request additional information as needed. The HR LOB received data call responses from all but four agencies: DOD, DOE, HHS, and SBA.

4.1.4. Data Collection: Phase Four

After collecting CBA data call templates and holding follow-up meetings with agencies, the HR LOB reviewed each agency’s final data call submission to identify data gaps or discrepancies. To

⁵ Steady State (SS) is defined as maintenance and operation costs at current capability and performance level including costs for personnel, maintenance of existing information systems, corrective software maintenance, voice and data communications maintenance, and replacement of broken IT equipment. For major IT investments, this amount should equal the amount reported for maintenance plus the associated FTE costs reported in the exhibit 300. [OMB Circular No. A-11 (2008) Page 11 of Section 53]



strengthen the CBA model and to compensate for data weaknesses, the HR LOB used several supplementary sources of information to inform the CBA:

Agency Exception Business Cases (EBCs)

Agencies planning to migrate to an SSC for core HR services must submit an Exception Business Case (EBC) to OPM and OMB for approval, which provides full justification for the selection of a particular SSC. Agencies are asked to provide a detailed cost benefit analysis for all alternatives considered, which includes legacy system costs, legacy system replacement costs, migration costs, and projected SSC fees. Agency EBC cost benefit analyses were used to supplement missing or incomplete cost data and to verify reported costs in the CBA data call responses from agencies.

Electronic Capital Planning and Investment Control (eCPIC)

The Electronic Capital Planning and Investment Control (eCPIC) system is a web-based, government-owned technology system application designed to help agencies manage and evaluate their initiatives, portfolio management processes, and submission of budget data to OMB. The HR LOB's eCPIC budget data was used as an input for initiative planning costs in the CBA.

e-Payroll Data

Under the e-Payroll initiative, OPM collected large amounts of data on the cost and schedule of agency migrations to payroll providers that were initiated and completed between FY 2002 and FY 2010. E-Payroll data was used to supplement CBA data call responses from agencies.

FY 2009 Cost Benefit Analysis (CBA)

The HR LOB issued a data call in FY 2009 to gather information to inform the FY 2009 CBA study. FY 2009 CBA data call information was used to supplement missing or incomplete cost data in the FY 2011 CBA data call responses and as replacement data for those agencies that responded to the FY 2009 CBA data call but did not respond to the FY 2011 CBA data call.

HR LOB Agency Alignment Statistics

The HR LOB publishes Agency Alignment statistics on a quarterly basis, which document the alignment of Federal agencies with payroll providers and SSCs. The Agency Alignment statistics were used to verify the alignment of agencies participating in the CBA data call.

HR LOB Federal Payroll Benchmarking Report

In 2008, 2009, and 2011, the HR LOB published Federal Payroll Benchmarking Reports, which document the performance of Federal payroll providers relative to comparable industry benchmarks. The study collects data on 'Payroll Price per Employee Serviced' from each of the Federal payroll providers, which was used in place of missing or incomplete payroll provider fees data in the FY 2011 CBA data call responses from agencies.

Migration Deliverables

The HR LOB provides managing partner oversight of agency migrations to SSCs. As a part of this activity, migrating agencies are required to submit a set of Migration Deliverables reports to the HR LOB, which provide the HR LOB with current cost and schedule information for ongoing migrations. Migration Deliverables reports data was used to verify and update 'Actual / Estimated Date of Migration' and 'Actual / Estimated Total Migration Cost' reported in the FY 2011 CBA data call responses from agencies.

OMB Circular No. A-94, Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs



OMB provides guidance to Federal agencies for conducting benefit-cost and cost-effectiveness analyses. OMB Circular No. A-94 guidance was used to select an appropriate discount rate with which to discount CBA costs to base year dollars.

OMB Circular No. A-94 Appendix C, December 2011, Discount Rates for Cost-Effectiveness, Lease Purchase, and Related Analyses

Per OMB guidance in OMB Circular No. A-94, Real Interest Rates on Treasury Notes and Bonds of Specified Maturities rates were used in the CBA to discount costs to base year dollars.

OMB IT Dashboard

OMB’s IT Dashboard enables agencies to view details of Federal IT investments. Federal IT investment data from the OMB IT Dashboard was used to supplement HR systems lists in FY 2011 CBA data call responses from agencies. Agency reported HRIT system inventories were compared against IT investments reported in the IT Dashboard with mappings to FEA BRM Sub-Functions related to HR.

OPM FedScope

OPM FedScope employment data sourced from the Enterprise Human Resources Integration-Statistical Data Mart (EHRI-SDM) was used as an input for cost per employee calculations in the CBA. EHRI defines employment as the number of employees in pay status at the end of the quarter (or end of the pay period prior to the end of the quarter).

5. FY 2011 CBA Results

5.1. Total Cost Savings and Cost Avoidance

The FY 2011 CBA calculates a total of over \$1.625 billion in cost savings and cost avoidance through FY 2015 resulting from the migration of agencies to payroll providers and SSCs.

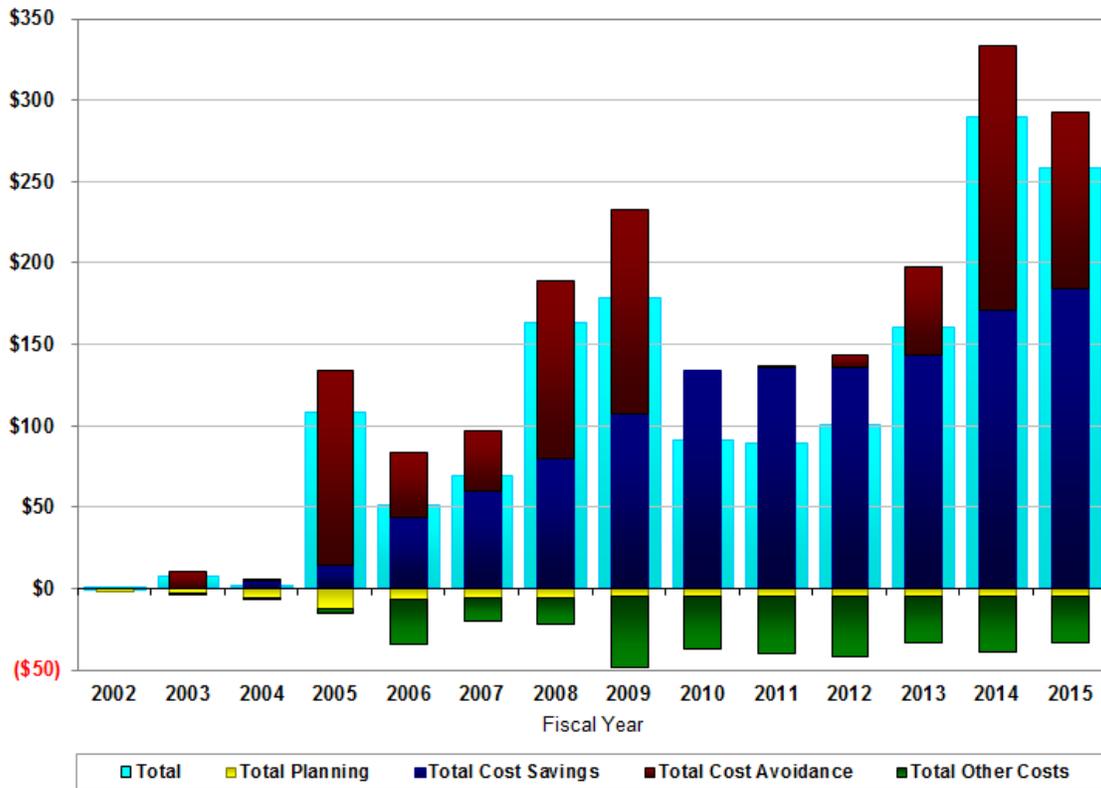
Table 2: FY 2011 CBA Results

Planning Costs	(\$69,640,030)
Cost Savings	\$1,219,243,643
Cost Avoidance	\$776,716,471
Other Costs	(\$300,640,488)
Total	\$1,625,679,576

The results of the FY 2011 CBA are displayed graphically by fiscal year in Figure 1 on the following page. Total cost savings and cost avoidance is equal to the sum of planning costs, cost savings, cost avoidance, and other costs. Total cost savings and cost avoidance rises after FY 2004 with the increase of agency migrations to payroll providers under the e-Payroll initiative, and then drops in FY 2010 when the payroll migrations are completed. Total cost savings and cost avoidance then rises again through FY 2015 as agencies migrate to SSCs under the HR LOB initiative.



Figure 1: Total Cost Savings and Avoidance by Fiscal Year (in millions)



5.2. Methodology

5.2.1. Assumptions

The FY 2011 CBA results are based on several key assumptions detailed below. All assumptions support a conservative approach to calculating cost savings and avoidance.

- Cost savings and cost avoidance are calculated for the period starting in FY 2002 and ending in FY 2015. The e-Payroll initiative was established in FY 2002 and the HR LOB initiative was established in FY 2004. A model start year of FY 2002 ensures that all cost savings and cost avoidance associated with payroll and HR migrations that occurred under the auspices of the e-Payroll and HR LOB initiatives are captured by the CBA model. The FY 2002 model start year also ensures that all planning costs related to the e-Payroll and HR LOB initiatives are captured by the CBA model.
- All costs are discounted to 2011 dollars using a real discount rate of .4 percent in order to present a consistent view of data, projections, and the time value of money. OMB guidance to Federal agencies for conducting benefit-cost and cost-effectiveness analyses states that a real discount rate that has been adjusted to eliminate the effect of expected inflation should be used to discount constant-dollar or real benefits and costs.⁶

⁶ OMB Circular No. A-94, Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs, Page 8



- Agency migrations to an SSC or payroll provider are considered complete in the month and year that provider systems are fully implemented and the replaced legacy systems are retired. For those agencies that did not or could not provide an actual or projected migration completion date, the HR LOB projected a completion date based on best available information, comparable agency migration timelines, and input from agencies.
- Cost savings for each agency are calculated beginning in the month and year that provider systems are fully implemented and the replaced legacy systems are retired. The fiscal month and year in which an agency has completed its migration to a payroll provider or SSC and has retired its legacy systems marks the complete transition from legacy system spending to provider fees and therefore is the most conservative starting point from which to begin calculating cost savings.
- Cost avoidance is calculated in the year that an agency’s migration to a payroll provider or SSC is completed and its legacy systems are retired. The fiscal year in which an agency completes its migration to a payroll provider or SSC and retires its legacy systems marks the final decision point at which an agency can determine whether or not to go live with a planned migration and is therefore the most appropriate point at which to measure one-time cost avoidance.
- Cost savings and cost avoidance are calculated using cost per employee as a base unit. Costs per employee were developed using FedScope employee population data in the year of corresponding annual costs. Agencies that did not provide a response to the FY 2011 CBA data call or that did not provide costs in a category necessary for the development of the CBA model were assigned a weighted mean cost per employee, calculated by weighting the average cost per employee for other agencies by relative agency population count.
- Cost savings and cost avoidance for NBC customers are captured either as payroll cost savings/cost avoidance or HR cost savings/cost avoidance. If an agency migrated to NBC under the e-Payroll initiative, cost savings are captured in the payroll cost savings/cost avoidance category. If an agency migrated to NBC under the HR LOB initiative, cost savings are captured in the HR cost savings/cost avoidance category. NBC customers migrate payroll and HR simultaneously, due to the nature of NBC’s joint payroll and HR system. Therefore, the measurement of payroll and HR cost savings/cost avoidance for NBC customers must be initiated at the same time.
- Agencies that have not migrated to an SSC are, in some cases, presumed to migrate to a particular SSC in their migration scenarios based on best available information and input from those agencies. Assumptions regarding agency migrations to providers for those agencies with a high likelihood of migrating to a particular provider allows for a better estimate of future provider costs, thereby resulting in a more accurate estimate of cost savings.

5.2.2. *Planning Costs*

Table 3: Planning Costs

e-Payroll	(\$14,570,928)
HR LOB	(\$55,069,102)
Total Planning Costs	(\$69,640,030)



Planning costs are costs associated with the organization and execution of the e-Payroll and HR LOB initiatives and are considered necessary for furthering and enabling agency migrations to payroll providers and SSCs. E-Payroll costs are captured from the start of the initiative in FY 2002 through its completion in FY 2009. HR LOB initiative costs are captured from the start of the initiative in FY 2004 and are projected through FY 2015. Planning costs are subtracted from the overall cost savings and cost avoidance total, as they ultimately add to the total Federal government cost of HR shared services.

5.2.3. *Cost Savings*

Table 4: Cost Savings

Payroll Cost Savings	\$935,576,949
HR Cost Savings	\$283,666,694
Total Cost Savings	\$1,219,243,643

Cost savings reflect the annual savings realized by each agency as a result of migrating to a payroll provider or SSC. Cost savings are calculated by comparing the cost per annum of an agency’s legacy payroll or HR system to the fees it pays to its provider for equivalent services:

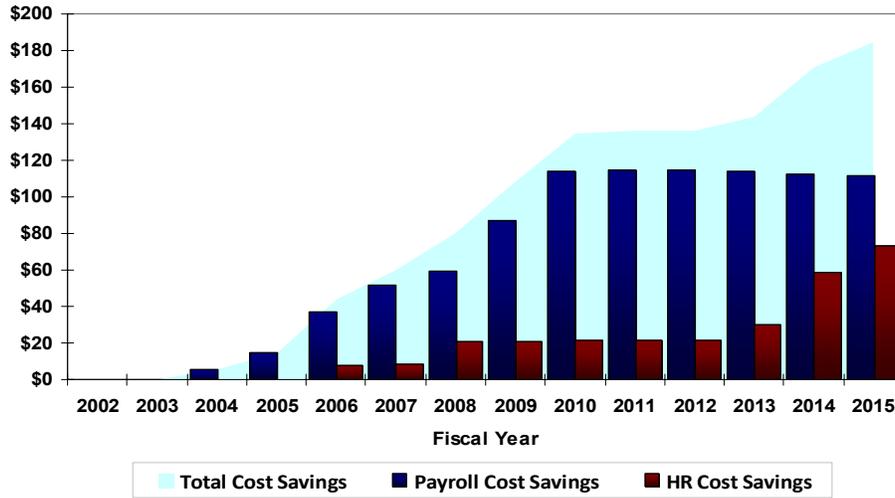
$$\text{Cost Savings} = [\text{Annual Legacy System Cost}] - [\text{Annual Provider Fee}]$$

Cost savings begin in the fiscal month and fiscal year that an agency’s migration to a payroll provider or SSC is completed and its replaced legacy systems are retired. The chart below details total payroll and HR cost savings by fiscal year. Payroll cost savings begin earlier than HR cost savings, as payroll migrations were initiated first under the e-Payroll initiative. Migrations to payroll providers were completed by FY 2010, as evidenced in the chart by the gradual decline in payroll cost savings after FY 2010. Cost savings for HR migrations begin in FY 2006 and increase substantially after FY 2012 with the projected completion of several large agency migrations to SSCs.

Migrations to payroll providers and SSCs will continue to generate over \$184 million in cost savings annually after FY 2015, approximately \$111 million of which is attributable to payroll cost savings and \$73 million to HR cost savings.



Figure 2: Cost Savings by Fiscal Year (in millions)



5.2.4. Cost Avoidance

Table 5: Cost Avoidance

Payroll Cost Avoidance	\$301,341,849
HR Cost Avoidance	\$475,374,621
Total Cost Avoidance	\$776,716,471

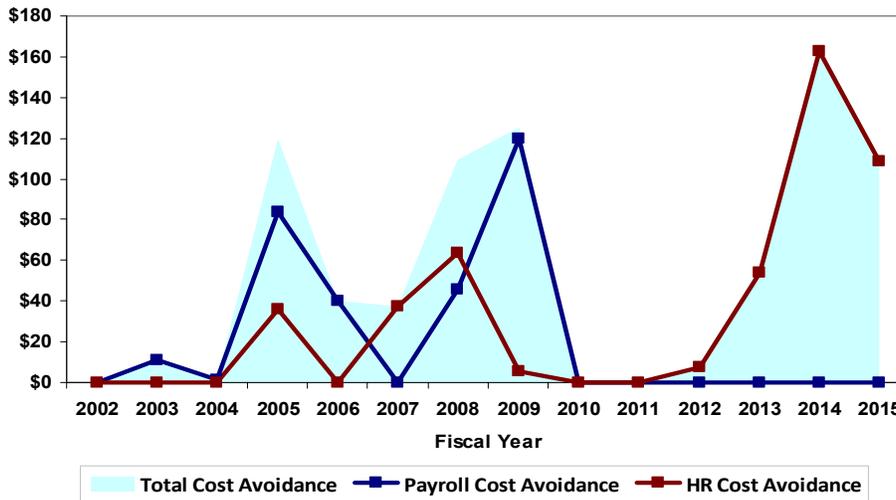
Cost avoidance reflects the one-time savings realized by an agency as a result of migrating to a payroll provider or SSC. Cost avoidance is calculated by comparing the cost to replace an agency’s legacy payroll or HR system to the cost that an agency incurs to migrate to a payroll provider or SSC for equivalent services:

$$\text{Cost Avoidance} = [\text{Legacy System Replacement Cost}] - [\text{Migration to Provider Cost}]$$

Cost avoidance occurs in the fiscal year that an agency’s migration to a payroll provider or SSC is completed and its legacy systems are retired. The chart below details total payroll and HR cost avoidance per year. Similar to cost savings, cost avoidance from payroll migrations is realized earlier than HR cost avoidance because migrations to payroll providers were initiated first under the e-Payroll initiative and were completed by FY 2010, whereas agency migrations to SSCs were initiated in FY 2004 and are still ongoing.



Figure 3: Cost Avoidance by Fiscal Year (in millions)



5.2.5. *Other Costs*

Table 6: Other Costs

Failed Migration Cost	(\$8,181,263)
'Re-migration' Cost	(\$5,605,578)
Provider D/M/E Cost	(\$286,853,646)
Total Other Costs	(\$300,640,488)

The HR LOB took into consideration several agency and provider activities that detract from the overall cost savings and cost avoidance realized by the Federal government. Costs resulting from these activities fall into three categories and are captured as “Other Costs” in the CBA results:

1. *Failed Migration Cost:* Costs associated with failed migrations are considered sunk costs and are subtracted from the overall cost savings and cost avoidance total. A failed migration is defined as the unsuccessful or terminated migration of an agency to a payroll provider or SSC. Failed migrations are not cost efficient or effective and run counter to the goals and progress of the e-Payroll and HR LOB initiatives. Failed migration costs are subtracted from the total cost savings and cost avoidance in order to recognize this activity as such.
2. *'Re-Migration' Cost:* Costs associated with the migration of an agency from one payroll provider or SSC to another are subtracted from the overall cost savings and cost avoidance total. Migrations of agencies from one payroll provider or SSC to another result in a single agency paying migration costs for multiple migrations, which detracts from the total cost savings achieved by that agency.
3. *Provider Development / Modernization / Enhancement (D/M/E) Cost:* Costs incurred by payroll providers and SSCs to develop, modernize, and enhance their systems are subtracted from the overall cost savings and cost avoidance total. These costs ultimately add to the cost to the Federal government to achieve and maintain government-wide HR shared services.



6. Conclusion

The revised CBA depicts the savings realized by the Federal government from agency migrations of their legacy payroll and HR systems to payroll providers and SSCs. The FY 2011 CBA calculations value total government-wide cost savings and cost avoidance at \$1.625 billion through FY 2015. Migrations to payroll providers and SSCs will continue to generate over \$184 million in cost savings annually after FY 2015.

6.1. *Key Findings and Considerations*

As the HR LOB pursues its goal of 100 percent Federal agency adoption of HR shared services, the FY 2011 CBA study continues to prove a positive business case for the value of HR shared services across the government. Currently, 70.8 percent of Federal agencies are migrating to or are serviced by an SSC for HR services and 99.2 percent are serviced by a payroll provider.⁷ However, delays in agency migrations to SSCs have resulted in a significant loss of potential HR cost savings, a shift of the HR cost savings curve out to the future, and a delay in the realization of cost avoidance.

Delays in large agency migrations to SSCs have a significant impact on the potential cost savings that could be achieved by the Federal government in the short term. The HR LOB estimates that an additional \$56M in cost savings would be realized in FY 2012 if all components of the remaining large unaligned agencies had completed their migrations to an SSC by FY 2011.

The FY 2011 CBA study provides strong financial justification for agencies to move to HR shared services:

- The weighted mean of SSC fees per FTE is \$70.26 lower than the weighted mean of legacy HR system costs per FTE
- The weighted mean of payroll provider fees per FTE is \$178.74 lower than the weighted mean of legacy payroll system costs per FTE

The findings from the FY 2011 CBA focus specifically on cost savings and cost avoidance achieved through the migration of core HR services to payroll providers and SSCs; however, as agencies also migrate non-core services to SSCs, many have reported anecdotally significant benefits – real and intangible – from their migrations of non-core services. Examples of non-core services include: learning management, performance management, talent acquisition, workforce planning, and position classification. Reported benefits from the migration of non-core services to SSCs include, but are not limited to:

- Cost savings associated with the consolidation of non-core system vendor contracts and a reduction in duplicative systems and processes.
- Efficiencies related to the reduction of manual labor associated with HR processes and increased automation of tasks.
- Streamlining of agency HRIT inventories, including a reduction of duplicative HR systems.

⁷ OPM HR LOB December 2011 Agency Alignment Statistics



6.2. *Next Steps and Recommendations*

The HR LOB will continue to drive toward its goal of 100 percent Federal agency alignment with payroll providers and SSCs with an emphasis in three areas:

- **Large agency migrations to SSCs:** Delays in large agency migrations to SSCs have resulted in a significant loss of potential cost savings for the Federal government. The HR LOB will continue to support large agencies in selecting and migrating to SSCs for core HR services through its migration planning, migration oversight, and governance activities.
- **Small and medium-sized agency⁸ migrations to SSCs:** A combined 31.9 percent of small and medium-sized Federal agencies are unaligned with an SSC.⁹ Small and medium-sized agencies are interested in migrating to SSCs in order to relieve the administrative burden of performing HR functions themselves. The HR LOB is working with small and medium-sized agencies to provide opportunities for agencies and SSCs to interact and discuss HR challenges and solutions through its migration planning and governance activities.
- **Agency migrations to SSCs for non-core services:** Although the HR LOB does not track cost savings achieved from the migration of non-core agency services to SSCs, the HR LOB has heard overwhelming anecdotal evidence from agencies as to the benefits of these migrations. The HR LOB will continue to share information between and among SSCs and agencies about non-core offerings through its HRIT Inventory and governance activities.

The HR LOB encourages agencies to use the results of the FY 2011 CBA study as a part of their business cases to senior management to justify a migration to a provider for core HR services. Agencies can adopt a similar approach to the methodology documented in this report as a means of estimating cost savings and cost avoidance for their own agency's migration to shared services.

Similarly, the HR LOB encourages SSCs and payroll providers to use the results of the FY 2011 CBA study as the basis for requesting and justifying funding to upgrade and modernize their systems in order to better support their customers.

The HR LOB will continue to update the results of the CBA study on a periodic basis and will leverage existing HR LOB communications to inform stakeholders of revisions to the cost savings and cost avoidance total. Future updates to the CBA study will primarily incorporate updated migration cost and schedule information received from unaligned agencies and agencies currently migrating to an SSC.

⁸ FedScope defines small agencies as those with fewer than 100 employees and medium-sized agencies as those with 100 to 999 employees

⁹ OPM HR LOB December 2011 Agency Alignment Statistics