

**Study Shows DFAS to Save Taxpayers \$100 Million:  
Independent Report Recommends Retaining Contractor for Retired and  
Annuitant Pay**

WASHINGTON, DC (Oct. 21) – A recently released Center for Naval Analyses study shows Defense Finance and Accounting Service should continue to operate military Retired and Annuitant Pay Services through its contractor, Affiliated Computer Services.

DFAS asked CNA in June to do an independent review of this controversial public-private competition. After the contractor had started to perform, the DoD IG identified an error in the estimate of the in-house cost. The IG reported that, had the error not been made, DFAS might have kept the work in-house. CNA was asked to evaluate the potential courses of action, given the contractor has been performing the work for two years

CNA is a non-profit, federally funded research and development center operated by the CNA Corporation. Since 1942, CNA has provided independent "full-service" research and analysis to the Department of Defense and federal government in areas of national interest including analyzing performance in Desert Storm and Operation Iraqi Freedom, base closure, military compensation and health benefits, and competitive sourcing.

According to the CNA study, adjusting costs to reflect an observed decrease in systems software workload gives a \$42 million advantage to the contractor over the 10-year contract period when compared to the government's proposal. When compared to the cost of performing this function prior to the competition, the expected cost to the taxpayer will be about \$100 million less over the 10-year contract period.

The CNA analysis weighed several factors and concluded that retaining the current contractor to operate Retired and Annuitant Pay is the best solution. According to the study, DFAS should retain the contract operations because:

- The actual cost of the contract is less than projected in the prior cost comparison and will continue to decrease based on fewer software changes requested by DFAS.
- With each passing year, the contract becomes less expensive when compared to the government's own in-house proposal in 2001.
- As measured by customer satisfaction, performance is as good or slightly better than prior to the contract.
- Retaining the current contractor is consistent with current A-76 policy and procurement rules.

- This option has the least negative effect on the prior government employees. All were offered re-assignment within DFAS, separation or retirement incentives or and/or employment with the contractor.
- Given the early retirement benefits and separation benefits provided many of the original workers, reconstituting the prior government organization would be very difficult. It would require waivers from the Office of Management and Budget and Office of Personnel Management, and it is not likely they could be granted.

CNA analyzed four options to provide military retired and annuitant pay services: 1. Retain the current contractor, 2. Return the operation to the government without competition, 3. Conduct a new A-76 competition, and 4. Recompete among only private industry firms. The second, third and fourth options had potentially adverse outcomes for the American taxpayer, employees performing retired and annuitant pay work, future competitions, and operational performance serving America's military retirees and annuitants.

"Leaving the current contractor in place allows DFAS to continue delivering quality pay and entitlements to America's military retirees and annuitants at the best value," said Thomas R. Bloom, director of DFAS. "This experience has provided some valuable lessons about the complexity of the A-76 process and we have taken care to apply those lessons. We will continue to review the contractor's performance and evaluate our options annually."

ACS began contract operations for Retired and Annuitant Pay Operations Jan. 28, 2002.

#### **Related Sites**

CNA -- <http://www.cna.org>

DFAS -- <http://www.dfas.mil>

ACS -- <http://www.acs-inc.com>