



September 2010

Document **K37**

ROI CASE STUDY HIGHROADS GENERAL DYNAMICS

THE BOTTOM LINE

Adopting HighRoads SPD Service enabled General Dynamics to reduce headcount, improve productivity, and eliminate fees to outside consultants for the processing of data related to summary plan descriptions (SPDs).

ROI: 116%

Payback: 11 months

Average annual benefit: \$1,229,838

THE COMPANY

General Dynamics designs, manufactures, and markets business aircraft, military aircraft, combat vehicles, combat systems, military ships, commercial ships, and information systems.

THE CHALLENGE

In early 2006, the benefits staff at General Dynamics determined that the creation of SPDs was too disruptive and costly. One of the directors in the benefits department felt that although the documents should have been readily drafted based on annual negotiations and agreements with benefits providers, the process had taken on a life of its own that was too expensive. Creation of an SPD required employees to manage tasks completed by three outside firms. A benefits consulting firm extracted data from contracts for conversion to SPDs. Another drafted the SPDs. A law firm was paid to ensure that all procedures and documentation were compliant with the Employee Retirement and Income Security Act (ERISA). Because the process was so lengthy, it was both costly and error prone. Worse, SPDs were typically not available to employees during the annual enrollment period.

THE STRATEGY

In order to create SPDs more rapidly and cost effectively, General Dynamics chose to adopt HighRoads SPD Service. HighRoads was selected because General Dynamics had been using HighRoads for tools to gather renewal data and was pleased with this service. General Dynamics was confident that this knowledge and experience would enable the HighRoads SPD Service to create a more cost-effective SPD creation process.

General Dynamics adopted HighRoads SPD Service over a 9-month period. The project was completed by a team of four General Dynamics employees who spent

TOPICS

Employee Management
Applications
Software as a Service

less than half their time on the project and were assisted by consultants from HighRoads, Hewitt, and external legal counsel. Adoption of the service required:

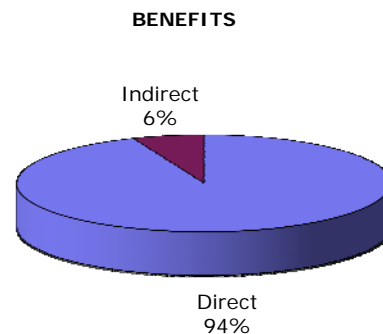
- Plan analysis. All of the company's plans, which included HMOs, PPOs, and various types of insurance and retirement services, were examined. The team identified data sources that could be reformatted as SPD content. The team also identified similarities among the plans so that templates could be built.
- Template creation. Based on similarities among the plans, templates were built so that SPDs could be created by pasting or writing data into standardized forms.
- Data extraction. Data was inserted into the templates from sources that included existing plan agreements and legal agreements from recently completed negotiations.
- SPD publication. SPDs were then published over the Web and in hard copy by Hewitt. A matrix was created to determine the plan eligibility of each employee so that SPDs were properly published on an employee-by-employee basis.

All of the SPDs were published in time for use by employees during the enrollment period for the 2006 to 2007 coverage year.

KEY BENEFIT AREAS

Using the HighRoads SPD Service enabled General Dynamics to reduce the costs of personnel and consulting required to create SPDs. Specific benefits of the service include:

- Improved productivity. Because SPDs are now created using templates and data is automatically extracted by HighRoads, significantly less labor is required for SPD creation. Before the deployment, two benefits employees dedicated all of their time to the process. After the deployment, one of the employees retired and was not replaced. The other employee now spends only 25 percent of her time on SPD-related tasks.

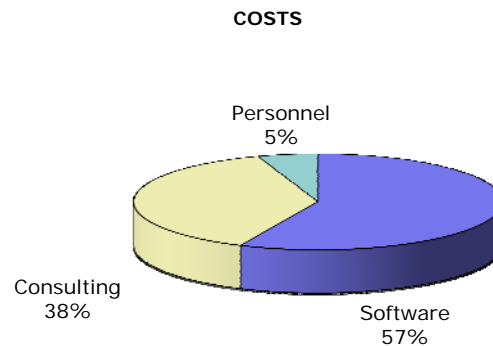


TOTAL: \$3,689,513

- Reduced consulting fees. Before the deployment, one of the consultants used by General Dynamics was paid \$1 million annually just to manually extract data from plan documents and build SPD content. Now that General Dynamics automates such data extraction and uses HighRoads templates, this cost has been eliminated.

KEY COST AREAS

Key cost areas for the deployment included software, consulting, and personnel. The deployment was completed over a 9-month period by four General Dynamics employees. They were assisted in plan analysis, data extraction, and template creation by three HighRoads consultants and two Hewitt consultants. Software costs consisted of annual subscription fees for HighRoads SPD Service.



TOTAL: \$1,450,343

BEST PRACTICES

The project team's aggressive use of both templates and consolidation were critical success factors in the deployment. Prior to the adoption of HighRoads SPD Service, General Dynamics had 500 plans for benefits related to health and welfare. In order to make annual SPD creation manageable for these benefits, the project team analyzed all of the existing plans. By finding similarities among these plans, the team was able to build templates that significantly accelerated both the creation of SPDs for plans and their maintenance in following years. In fact, the team leader estimates that this shortened the project cycle time by three months. Analysis of all existing plans also identified opportunities for the elimination of redundant plans. With fewer plans in place, the team was able to reduce the number of benefits for which SPDs were required.

CALCULATING THE ROI

Nucleus calculated the costs of software, consulting, and personnel over a 3-year period to quantify the total amount invested by General Dynamics in HighRoads SPD Service.

Direct benefits included eliminated fees for SPD-related consulting services and the reduction to payroll department costs caused by the retirement of a benefits administrator who was not replaced as a result of efficiencies caused by HighRoads SPD Service. Indirect benefits consisted of the improved productivity of another benefits administrator who now spends 25 percent of her time, rather than 100 percent of her time, on SPD-related tasks. This benefit was calculated based on her fully-loaded annual cost and reduced by a correction factor to take into account the fact that not all time saved will be converted into additional time worked.

DETAILED FINANCIAL ANALYSIS

GENERAL DYNAMICS

SUMMARY

Project:	HighRoads
Annual return on investment (ROI)	116%
Payback period (years)	0.94
Average annual benefit	1,229,838
Average annual total cost of ownership	483,448

ANNUAL BENEFITS	Pre-start	Year 1	Year 2	Year 3
Direct	0	1,153,900	1,153,900	1,153,900
Indirect	0	75,938	75,938	75,938
Total Benefits Per Period	0	1,229,838	1,229,838	1,229,838

DEPRECIATED ASSETS	Pre-start	Year 1	Year 2	Year 3
Software	0	0	0	0
Hardware	0	0	0	0
Total Per Period	0	0	0	0

DEPRECIATION SCHEDULE	Pre-start	Year 1	Year 2	Year 3
Software	0	0	0	0
Hardware	0	0	0	0
Total Per Period	0	0	0	0

EXPENSED COSTS	Pre-start	Year 1	Year 2	Year 3
Software	275,000	275,000	275,000	0
Hardware	0	0	0	0
Consulting	549,000	0	0	0
Personnel	76,343	0	0	0
Training	0	0	0	0
Other	0	0	0	0
Total Per Period	900,343	275,000	275,000	0

FINANCIAL ANALYSIS	Pre-start	Year 1	Year 2	Year 3
Net cash flow before taxes	(900,343)	954,838	954,838	1,229,838
Net cash flow after taxes	(450,171)	477,419	477,419	614,919
Annual ROI - direct and indirect benefits				116%
Annual ROI - direct benefits only				108%
Net present value (NPV)				730,292
Payback (years)				0.94
Average annual cost of ownership				483,448
3-year IRR				96%

FINANCIAL ASSUMPTIONS

All government taxes	50%
Discount rate	15%