16.405-1 Cost-plus-incentive-fee contracts.

(a) *Description*. The cost-plus-incentive-fee contract is a cost-reimbursement contract that provides for the initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs. This contract type specifies a target cost, a target fee, minimum and maximum fees, and a fee adjustment formula. After contract performance, the fee payable to the contractor is determined in accordance with the formula. The formula provides, within limits, for increases in fee above target fee when total allowable costs are less than target costs, and decreases in fee below target fee when total allowable costs exceed target costs. This increase or decrease is intended to provide an incentive for the contractor to manage the contract effectively. When total allowable cost is greater than or less than the range of costs within which the fee-adjustment formula operates, the contractor is paid total allowable costs, plus the minimum or maximum fee.

(b) Application.

(1) A cost-plus-incentive-fee contract is appropriate for services or development and test programs when-

(i) A cost-reimbursement contract is necessary (see 16.301-2); and

(ii) A target cost and a fee adjustment formula can be negotiated that are likely to motivate the contractor to manage effectively.

(2) The contract *may* include technical performance incentives when it is highly probable that the required development of a *major system* is feasible and the Government has established its performance objectives, at least in general terms. This approach also *may* apply to other *acquisitions*, if the use of both cost and technical performance incentives is desirable and administratively practical.

(3) The fee adjustment formula *should* provide an incentive that will be effective over the full range of reasonably foreseeable variations from target cost. If a high maximum fee is negotiated, the contract *shall* also provide for a low minimum fee that *may* be a zero fee or, in rare cases, a negative fee.

(c) *Limitations*. No cost-plus-incentive-fee contract *shall* be awarded unless all limitations in 16.301-3 are complied with.

Parent topic: 16.405 Cost-reimbursement incentive contracts.