16.402-1 Cost incentives.

- (a) Most incentive contracts include only cost incentives, which take the form of a profit or fee adjustment formula and are intended to motivate the contractor to effectively manage costs. No incentive contract *may* provide for other incentives without also providing a cost incentive (or constraint).
- (b) Except for award-fee contracts (see $\underline{16.404}$ and $\underline{16.401}$ (e)), incentive contracts include a target cost, a target profit or fee, and a profit or fee adjustment formula that (within the constraints of a price ceiling or minimum and maximum fee) provides that-
- (1) Actual cost that meets the target will result in the target profit or fee;
- (2) Actual cost that exceeds the target will result in downward adjustment of target profit or fee; and
- (3) Actual cost that is below the target will result in upward adjustment of target profit or fee.

Parent topic: 16.402 Application of predetermined, formula-type incentives.