

Indirect Cost Pools

Indirect rates are a critical item for a government contractor. Keeping those rates low is the only way to bid competitively and be profitable. So what are some of the major factors a government contractor should consider in developing their indirect rate structure?

- Should I use a two-tier or a three-tier structure? A two-tier structure only applies Overhead and G&A to the project, where fringe on Overhead and Direct Labor is included in the Overhead Pool. A three-tier structure applies Fringe, Overhead, and G&A to the project. The difference is primarily cosmetic and generally boils down to what you are used to seeing.
- Do I need a Handling Pool? I usually recommend that contractors 'run the numbers' to see if the addition of a Handling Pool actually benefits the majority of their contracts or does it help some and hurt others. You generally need a large amount of Material or Subcontractor costs to make this worth your while. Keep in mind that creating a Handling pool will probably increase your G&A rate.
- What should my Multiplier (or Wrap Rate) be? That's a loaded question. This can vary based on the industry you are working in, the type of labor base, and the size of your business. We all know the lower the Multiplier, the more competitive, but that's not always possible. This is where creating a realistic company budget that calculates your budgeted rates is important. This allows you to report against the variances each month.

While the FAR does not prescribe how you calculate your indirect rates, there are traditional methods used by contractors. But it's always important to run the numbers to make sure your rates are competitive. But there must also be a causal/beneficial relationship within the pool structure.