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OFFICE OF MANAGEMENT AND BUDGET
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THE DIRECTOR

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MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Rob Portman
Director

SUBJECT: Update to Civilian Position Full Fringe Benefit Cost Factor, Federal Pay Raise Assumptions, Inflation Factors, and Tax Rates used in OMB Circular No. A-76, "Performance of Commercial Activities"

Office of Management and Budget (OMB) Circular A-76 requires agencies to use standard cost factors to estimate certain costs of government performance. These cost factors ensure that specific government costs are calculated in a standard and consistent manner to reasonably reflect the cost of performing commercial activities with government personnel. This memorandum updates the civilian position full fringe benefit cost factor, the annual federal pay raise assumptions, inflation cost factors, and tax rate information. The update to the civilian position full fringe benefit cost factor is based on actuarial analyses provided by the Office of Personnel Management (OPM). The revised pay raise assumptions and inflation cost factors are based on the President's Budget for Fiscal Year 2007. The tax rates are based on information provided by the Internal Revenue Service.

Civilian Position Full Fringe Benefit Cost Factor

The Circular requires agencies to add the civilian position full fringe benefit cost factor to the basic pay for each full-time and part-time permanent civilian position in the agency cost estimate. This factor is comprised of four separate elements: (1) insurance and health benefits, (2) standard civilian retirement benefits, (3) Medicare benefits, and (4) miscellaneous fringe benefits. OMB has determined, based on information provided by OPM, that the civilian position full fringe benefit cost factor needs to be adjusted upward, from 32.85 percent to 36.45 percent. This adjustment is necessary to account for increases in insurance and health benefits and civilian retirement benefits. The Medicare benefits and miscellaneous fringe benefits elements remain unchanged at this time. The revised cost elements of the civilian position full fringe benefit cost factor are summarized in the table below.

Table. Elements of the Civilian Position Full Fringe Benefit Cost Factor

Element	Previous Cost Factor	Updated Cost Factor
Insurance and Health Benefit[a]	5.7%	6.7%
Standard Civilian Retirement Benefit[b]	24.0%	26.6%
Medicare Benefit	1.45%	1.45%
Miscellaneous Fringe Benefit	1.7%	1.7%
Total Civilian Position Full Fringe Benefits	**32.85%**	**36.45%**

[a]This factor is based on actuarial estimates for the costs of the government paid portion of health insurance under the Federal Employees Health Benefits (FEHB) Program and the Federal Employees Government Life Insurance (FEGLI) Program. This figure is multiplied by the average participation rates in these programs and divided by the average civilian employee's salary (as identified in the President's Budget) to derive a factor as a percentage of basic pay. This factor is based only on costs borne by the government (not enrollee premiums) and only on behalf of active federal employees (not retirees). Increases in government costs for retirees are reflected in the standard civilian retirement benefit cost factor.

[b]The standard civilian retirement benefit cost factor includes the government's accruing cost for pension benefits (Social Security, Thrift Savings Plan, Federal Employees or Civil Service Retirement Systems) and the accruing cost for post-retirement health benefits.

The master tables for COMPARE (the costing software that incorporates the costing procedures of the circular) have been updated to reflect these changes. The updates are available at www.compareA76.com. Agencies shall use the updated COMPARE master tables to calculate and document public and private sector costs in competitions where a performance decision has not been certified by the government by the effective date identified in the *Federal Register* notice accompanying the publication of this memorandum.

OMB intends to conduct periodic reviews of the civilian position full fringe benefit cost factor. OMB is exploring options with OPM for updating this factor on a more regularized schedule.

Accordingly, the following changes are made to OMB Circular A-76.

1. Subparagraphs B.2.f.(1)(a) and (b) of Attachment C are revised to read as follows:

(1) Full-time and Part-time Permanent Civilian Positions. Full-time and part-time permanent civilian positions receive the civilian position full fringe benefit cost factor of 36.45 percent of the position's basic pay. The 36.45 percent civilian position full fringe benefit cost factor is the sum of the standard civilian position retirement benefit cost factor (26.6 percent), insurance and health benefit cost factor (6.7 percent), Medicare benefit cost factor (1.45 percent), and miscellaneous fringe benefit cost factor (1.7 percent).

(a) Retirement Benefit Cost Factors. The standard civilian retirement benefit cost factor represents the cost of the weighted Civil Service Retirement System/Federal Employees Retirement System to the government, based upon the full dynamic normal cost of the retirement systems, the normal cost of accruing retiree health benefits based on average participation rates, social security, and Thrift Savings Plan contributions. The standard civilian retirement benefit cost factor for civilian positions is 26.6

percent of the position's basic pay (20.4 percent retirement pension plus 6.2 percent for retiree health). The retirement cost factors for special class civilian positions are: 37.6 percent of basic pay for air traffic controllers (31.4 percent retirement pension plus 6.2 percent for retiree health) and 39.8 percent of basic pay for law enforcement and fire protection (33.6 percent retirement pension plus 6.2 percent for retiree health).

(b) Insurance and Health Benefit Cost Factor. The insurance and health benefit cost factor for civilian positions, based on actual cost, is 6.7 percent of the position's basic pay (0.2 percent for life insurance benefits and 6.5 percent for health benefits).

2. The following standard cost factors and footnote no. 1 in Figure C.1 of Attachment C, "Table of Standard A-76 Costing Factors," are revised as set forth below:

Table of Standard A-76 Costing Factors

Title	Originating Source	Category of Cost	Factor[1]
Civilian Position Full Fringe Benefit Cost Factor	OMB Transmittal Memoranda	Pay	**36.45%**
Insurance and Health Benefit Cost Factor	OMB Transmittal Memoranda	Pay	**6.7%**
Special Class Retirement Cost Factor (Law Enforcement & Fire Protection)	OMB Transmittal Memoranda	Pay	**39.8%**
Special Class Retirement Cost Factor (Air Traffic Control)	OMB Transmittal Memoranda	Pay	**37.6%**
Standard Civilian Retirement Benefit Cost Factor	OMB Transmittal Memoranda	Pay	**26.6%**

[1] *The factors listed in this column are factors in effect on December 2005.* Agencies should refer to the COMPARE website at www.compareA76.com. for the updated COMPARE master tables and other updated information.

Federal Pay Raise Assumptions

The following Federal pay raise assumptions (including geographic pay differentials) that are in effect for 2006 shall be used for the development of government personnel costs. The pay raise factors provided for 2007 and beyond shall be applied to all government personnel with no assumption being made as to how they will be distributed between possible locality and base pay increases.

Federal Pay Raise Assumptions*

Effective date	Civilian (percent)	Military (percent)
January 2006	3.1	3.1
January 2007	2.2	2.7

* Federal pay raise assumptions have not been established for pay raises subsequent to January 2007. For January 2008 and beyond, the projected percentage change in the Employment Cost Index (ECI), 4.2 percent, should be used to estimate government personnel costs for public-private competitions. In future updates to cost factors in the Circular, as pay policy for years subsequent to 2007 is established, these pay raise assumptions will be revised.

Inflation Factors

The following non-pay inflation cost factors are provided for purposes of public-private competitions conducted pursuant to Circular A-76 only. They reflect the generic non-pay inflation assumptions used to develop the fiscal year 2007 budget baseline estimates required by law. The law requires that a specific inflation factor (GDP FY/FY chained price index) be used for this purpose. These inflation factors should not be viewed as estimates of expected inflation rates for major long-term procurement items or as an estimate of inflation for any particular agency's non-pay purchases mix.

Non-Pay Categories (Supplies, equipment, etc.)

	(percent)
FY 2007	2.2
FY 2008	2.2
FY 2009	2.1
FY 2010	2.1
FY 2011	*2.1

* Any subsequent years included in the period of performance shall use a 2.2% figure, until otherwise revised by OMB.

Tax Rate Tables

The Circular requires that agencies subtract the federal income tax generated for the government from the total cost of private sector performance. The tax rate tables used in connection with public-private competitions have been revised. COMPARE will apply the updated tax rate information to establish the adjusted cost of private sector performance.