

**§ 101-27.304 Criteria for economic retention limits.**

If, after taking action as provided in § 101-27.303-2, the quantity of an item in long supply is still greater than 10 percent of the total stock for the item, the inventory manager shall establish an economic retention limit for the item in accordance with the provisions of this § 101-27.304. The economic retention limit shall be used to determine which portion of the inventory may be economically retained and which portion should be disposed of as excess.

**§ 101-27.304-1 Establishment of economic retention limit.**

An economic retention limit must be established for inventories so that the Government will not incur any more than the minimum necessary costs to provide stock of an item at the time it is required. Generally, it would be more economical to dispose of stock in excess of the limit and procure stock again at a future time when the need is more proximate rather than incur the cumulative carrying costs.

(a) The agency managing a centrally managed or agency managed item shall establish an economic retention limit so that the total cumulative cost of carrying a stock of the item (including interest on the capital that is tied up in the accumulated carrying costs) will be no greater than the reacquisition cost of the stock (including the procurement or order cost). Consideration should be given to any significant net return that might be realized from present disposal of the stock. Where no information has been issued, the net return from disposal is assumed to be zero. Guidelines for setting stock retention limits are provided in the following table and explanatory remarks that follow:

| Annual carrying costs as a percentage of item reacquisition costs | Economic retention limit in years of supply                        |    |    |
|-------------------------------------------------------------------|--------------------------------------------------------------------|----|----|
|                                                                   | Net return on disposal as a percentage of item reacquisition costs |    |    |
|                                                                   | 0                                                                  | 10 | 20 |
| 10.....                                                           | 8½                                                                 | 7½ | 6½ |
| 15.....                                                           | 6                                                                  | 5½ | 4½ |
| 20.....                                                           | 4½                                                                 | 4½ | 3½ |
| 25.....                                                           | 3½                                                                 | 3½ | 3  |

NOTE: The entries in the tables were calculated by determining how long an item must be carried in inventory before the total cumulative carrying costs (including interest on the additional funds that would be tied up in the accumulated annual carrying costs) would exceed the acquisition costs of the stock at that time (reacquisition costs). For example, assuming no net return from disposal, the accumulated carrying costs computed at the rate of 15 percent per year on the reacquisition cost of the stock and compounded annually at 4½ percent (GSA's recommended rate of interest on Government investments) would be:

| Years  | Compounded carrying cost as a percentage of reacquisition costs | Accumulated costs as a percentage of reacquisition costs |
|--------|-----------------------------------------------------------------|----------------------------------------------------------|
| 1..... | 15.7                                                            | 15.7                                                     |
| 2..... | 16.4                                                            | 32.1                                                     |
| 3..... | 17.1                                                            | 49.2                                                     |
| 4..... | 17.9                                                            | 67.1                                                     |
| 5..... | 18.7                                                            | 85.8                                                     |
| 6..... | 19.5                                                            | 105.3                                                    |

At 15 percent a year, accumulated carrying costs would be equivalent to the reacquisition costs after 6 years. Six years is, therefore, the economic retention limit for items with a 15 percent annual carrying cost rate. Where an activity has not yet established an estimate of its carrying cost, an annual rate of 10 percent may be used as an interim rate thereby resulting in an economic retention limit of 8½ years when the net return on disposal is zero. The elements