

Considerations related to Agreement with Accenture

The Prior Term Extensions (One Year and 11 Months): The original term of the Agreement with Accenture was five years, commencing on October 10, 2006, and ending on October 9, 2011. At the Board's May, 2010 meeting, the Board agreed to extend the term by one year, from October 9, 2011 to October 9, 2012, to accommodate a projected delay in the System Go Live date. CalPERS' goals in executing that one-year extension included keeping the Agreement in effect until the System Warranty had expired, and keeping the Agreement in effect until all moneys in a holdback fund had been paid out to Accenture. Then, at the Board's December, 2010 meeting the Board agreed to extend the term by approximately 11 additional months, to September 13, 2013, in connection with the parties agreement at that time to allow the System to be delivered in three major Releases. CalPERS' goals in executing that second term extension included keeping the Agreement in effect until September 13, 2013, so as to cover (i) the new (extended) System Warranty Period that was tied to the new later Releases of the System, (ii) the time period until the holdback was expected to be fully paid out in May 2013, and (iii) the time period during which Accenture was expected to be providing System Support under the first 2-year Maintenance and Operations support option until September 2013.

New Term Extension—For Additional Year of Proposed Maintenance and Operations Support and Transitional Support and Training Work: As discussed above, we are proposing to extend the term of the Agreement with Accenture by one year, to September 13, 2014, to keep the Agreement in effect during the time period during which Accenture would provide the proposed additional Maintenance and Operations support and System enhancement, transitional support and training work. The PSR team believes it is in CalPERS' interest to have the Agreement remain in effect until September 13, 2014, so as to cover these items. Accenture has indicated its willingness to keep the Agreement in effect until this date.

If the Board grants this request, CalPERS and Accenture will amend the PSR Agreement to make the new end date of the Agreement September 13, 2014.

The Board's Authority: The Board has adopted policy resolutions (Board Resolution No. 92-04B-4 and Board Resolution 92-04B-1), which together provide that CalPERS' contracts for goods and/or services shall have terms not to exceed five years, with certain exceptions, including when the Board has made an affirmative decision that a longer term is necessary to fulfill the Board's duty to serve the interests of CalPERS' members and beneficiaries.

When the Board makes such an affirmative decision, Resolution No. 92-04B-4 mandates that the Board consider the following two factors, and any other factors that the Board may deem prudent under the particular circumstances:

1. The impact of a term longer than five years on CalPERS' interests in obtaining quality services at a reasonable cost; and
2. CalPERS' ability to monitor the performance of any contractor with such a lengthy contract term, and to take corrective action (including expeditious termination of the contract) if necessary to fulfill the Board's fiduciary duties.

Support for the New Term Extension:

1. The Longer Term is Necessary to Fulfill the Board's Duty to Serve the Interests of CalPERS' Members and Beneficiaries.
 - CalPERS' members and beneficiaries will benefit from the PSR Agreement remaining in effect during the extended period by enabling such members and beneficiaries to have access to a System that will be receiving the additional Maintenance and Operations support and System enhancements.
 - CalPERS' members and beneficiaries will also benefit from the PSR Agreement remaining in effect during the extended period by enabling CalPERS staff to be better trained on the System, and by enabling CalPERS to implement its long-term System support strategy and fulfill CalPERS' commitment to reducing its reliance on contractors.
2. A Longer Term Will Serve CalPERS' Interests in Obtaining Quality Services at a Reasonable Cost.
 - Extending the term of the PSR Agreement to cover the period during which Accenture will provide additional Maintenance and Operations support, and System enhancements and other transitional services will serve CalPERS' interests in obtaining quality services at a reasonable cost because CalPERS has negotiated rates for these services that are very competitive with current rates for comparable IT projects, for which rates are reflecting upward pressure, in particular in the Sacramento market. We have surveyed the market, to gain confidence that the hourly rates negotiated for these new services are fair and reasonable rates given current market conditions.
3. CalPERS' Ability to Monitor Accenture's Performance and Take Any Necessary Corrective Action Will Not Be Diminished under a Longer Term.
 - The PSR team anticipates that CalPERS will be intensely focused on the performance of the my|CalPERS System during the next two years, including during the additional proposed year, in order to address any concerns with the new System that may come to light during this

period. Accordingly, a lack of focus in monitoring Accenture's performance under the PSR Agreement during the proposed additional one-year period is not likely to be a problem for CalPERS.

- CalPERS will have the ability to take corrective action during the one-year extension term that is the subject of this Agenda Item. If during this period CalPERS discovered a defect that gave rise to a claim under the Agreement, and if the Agreement were not in effect, enforcing CalPERS' rights under the Agreement might be more difficult. Questions could be raised concerning the continuing applicability of various provisions of the Agreement, such as indemnity, limitation of liability, and dispute resolution. Leaving the Agreement in effect during this period would help put such questions to the side.
- As for CalPERS' rights of termination during the proposed additional one-year period, the PSR Agreement has always contained a provision giving CalPERS the right to terminate the Agreement at CalPERS' option at any time. This provision is not proposed to be changed. If CalPERS were to terminate the Agreement without cause at a time before Accenture substantially completes its work under the Agreement and is paid for its work, CalPERS might owe Accenture certain payments. But during the one-year extension period, it is highly likely that Accenture will have already delivered all key Deliverables and that CalPERS will have incurred obligations to pay out the holdback because the Deliverables will have met the relevant acceptance criteria. Accordingly, amounts that CalPERS might owe Accenture in a termination during the one-year extension period likely be much smaller than they would have been earlier during the project.
- The PSR Agreement is also terminable by CalPERS in case of a material default by Accenture. This provision is not proposed to be changed.