ANALYSIS

Item 32: Public Employees Retirement Ssytem

Modernization Program

Analyst: John Borden and Sean McSpaden

Request: Increase Other Funds expenditure limitation for the Public Employees Retirement System by $1,800,968 for the Core Retirement System Modernization Program and the Legacy Stabilization and Technology Readiness Project.

Analysis: The Public Employee Retirement System (PERS) is requesting an increase in Other Funds expenditure limitation in the amount of $1.8 million for supplemental funding for the Core Retirement System Modernization Program and the Legacy Stabilization and Technology Readiness Project (LSTR).

This request was originally deferred by the Interim Joint Committee on Ways and Means in January 2026 (Item #51), primarily because of timing and lack of definitive information. Until vendor responses to a request for proposals (RFP) for the commercial-off-the-shelf (COTS) pension administration system (PAS) are received or a contract for a new PAS solution is signed, PERS will not have an understanding of the programing languages, frameworks, databases, and tools ("technology stack") the PAS solution vendor plans to deploy. Until those actions occur, PERS won't be able to conduct fit-gap workshops delineating what functionality the COTS PAS will address compared to the full functionality PERS requires to enable the replacement of the legacy PAS (ORION/jClarety) and associated systems. During the 2026 session, the Legislature approved a request by PERS to hire a vendor to assist the agency with the development of an RFP for the COTS PAS. The COTS PAS solution will not be selected until late 2027.

<u>Background – Core Retirement System Modernization Program</u>

PERS initiated the Core Retirement System Modernization Program in the 2021-23 biennium to replace the Oregon Retirement Information Online Network (ORION), which was deployed in 2004 and is a complex system of databases and applications. The PERS modernization effort is far more extensive than replacing the functionality of the current PAS (ORION/jClarety). As currently envisioned, the effort also includes fully modernizing PERS' total business environment (e.g., business process re-engineering), technical infrastructure, network, security, desktop service, and data domains as well as modernizing (upskilling and reskilling) staff resources to be able to use, maintain, and support PERS' business and technical assets.

After a major strategic reset in spring 2025, the PERS Modernization Program is expected to take 8 to 10 years to complete. However, a comprehensive schedule has not yet been defined or validated. The total cost of the program has also not yet been comprehensively defined, with the most current estimate for solely replacing the PAS being $180.7 million (not including many other non-COTS PAS cost factors). The total cost of replacing the PAS will be known once PERS completes the PAS RFP process, which should conclude late 2027. The entire PERS Modernization Program is projected to be completed by December 31, 2034.

PERS has identified an estimated 2,500 functional requirements that a COTS PAS solution would have to meet to replace ORION/jClarety. However, an indeterminate number of requirements may ultimately not be met by the COTS PAS solution and would then have to be addressed outside of it (e.g., possibly the insourcing of the Individual Account Program and Customer Relationship Management) via custom development or through the acquisition and deployment of one or more additional COTS solutions.

The extent that the COTS PAS will be configured or customized is yet to be determined, as is the impact of such decisions on the long-term operation and maintenance cost of the solutions. Clarity on these important aspects of the program will largely be driven by vendor responses to an as-yet undeveloped and unreleased RFP for the PAS solution. PERS estimates that a PAS solution will replace only 70% to 80% of the agency’s needed functionality and that the remainder may need to be developed in house. The 20% to 30% of in-house development is a preliminary rough judgement by PERS and cannot be quantified or validated until the contract for a COTS PAS is finalized. A modernization effort of the scale, scope, complexity, cost, and risk proposed by PERS has a highly elevated risk profile.

PERS’ Information Services Division (ISD), Development and Operations Section, is planned to play a core role in the custom development of non-COTS PAS applications by developing, testing, and deploying ancillary or gap applications (20% to 30% of in-house development), as well as interfacing with the COTS PAS vendor. This section currently has a staff of 15 positions (15.00 FTE), which includes one information system specialist (ISS) 8, five ISS 7, five ISS 6, and four ISS 5 positions. PERS had a consulting firm complete an assessment of the ISD, Development and Operations Section, which made recommendations to “strengthen technology capabilities and prepare the agency for future technology modernization initiatives,” according to the agency.

<u>Background – Legacy Stabilization and Technology Readiness Project</u>

LSTR was established to partially maintain legacy information technology (IT) applications and will need to be maintained for the next 8 to 10 years or until the implementation of a modern PAS and other associated applications. This initiative reflects the limited investments PERS needs to maintain existing PAS operations until the current systems and applications are decommissioned.

PERS has not identified any mission-critical systems or applications that are in urgent need (i.e., highly likely to fail with significant impacts) of upgrade or replacement. In addition, no formal risk assessment has been conducted by the agency on its full range of business and technology architectural assets. However, as PERS' legacy systems continue to age, they will become more susceptible to downtime events until replaced.

The primary support for legacy IT applications will come from PERS' ISD and the division's legislatively approved budget. The nexus between the LSTR and the agency's normal operating budget remains to be fully defined, but there will be a substantial overlap of duties and responsibilities, especially with ISD. The line of authority between the operation and modernization staff related to roles and responsibilities and cost apportionment between the PERS Modernization Program and the agency's operating budget remain unclear.

Investments in LSTR must be balanced against the eventual decommissioning of the existing legacy systems. Future ISD resourcing remains dependent upon the COTS PAS solution, what applications fall outside of the COTS PAS solution, and potentially ongoing operation and maintenance costs of both the COTS PAS and any ancillary or non-COTS PAS applications.

LSTR has a 2025-27 legislatively approved budget of $7.6 million Other Funds. There are no positions or FTE budgeted for LSTR, as the project is managed by ISD. Current funding for LSTR is for the following projects: User Interface and User Experience ($3.7 million), Foundational Architecture Documentation ($1.9 million), Data Cleaning and Migration ($938,000), Identify and Access Management Solutions and Subscriptions ($735,280), and Contingency ($318,500).

In late April or early May 2026, the PERS team met with the Department of Administrative Services, Office of Enterprise Information Services (DAS-EIS), about the PERS plan for development and operations (DevOps). DAS-EIS offered "solid support" for the direction PERS is taking for this systems development and support operations initiative but identified areas that will require additional technical review in the future. PERS and DAS-EIS agreed to meet on a recurring basis following the outcome of the June 2026 Emergency Board meeting.

Request Analysis

PERS is requesting funding for LSTR and seven DevOps items totaling $1.8 million Other Funds, including $395,388 (22%) for software and $1.4 million for contractor/consultants (78%), to be expended between July 1, 2026, and June 30, 2027. The request is summarized in the following table:

Core Retirement System Modernization Program and Legacy Stabilization and Technology Readiness Project (July 2026–June 2027)	Funding Request
Software: GitHub Advanced Security Licenses	$39,600
Software: GitHub Enterprise Licenses (Code Development)	$11,088
Software: Test Automation – Application Programming Interface	$57,000
Software: Observability and Monitoring Tooling	$192,000
Software: Container Platform (Automated Continuous Integration/ Continuous Delivery/Deployment)	$96,000
Contractor: One Platform Engineering (Automation and Configuration)	$702,640
Contractor: One Quality Assurance Engineer (Automated Continuous Integration/Continuous Delivery/Deployment)	$702,640
Total	**$1,800,968**

The PERS request supplements the agency's existing investment in a GitHub product from the Microsoft Corporation, which offers a suite of products and provides state-employee PERS developers with a consolidated platform to create, store, manage, and share application code. This request represents only the initial phase of ISD, Development and Operations Section, readiness investment. More specifically, the agency's request includes software purchase, software installation, and consultants to assist in their tool readiness (e.g., training). The details are as follows:

- Microsoft/GitHub Enterprise Licenses: Licenses to update code management and security practices, including those related to a process referred to as "automated continuous integration/continuous delivery/deployment."
- Microsoft/Security Enhancement: Adoption of enhanced security measures for cloud-based repositories.
- Microsoft/Application Programming Interface Testing: Introduction of a testing tool to integrate hybrid integration platform architecture design or third-party systems with the COTS PAS solution.

- <u>Microsoft/Container Platform Subscription:</u> Provides training to ISD to enable applications to execute consistently across different test or production environments based on standardized data and configuration file repositories. Development will occur next biennium.
- <u>Microsoft/System Performance:</u> Provides comprehensive system performance information to detect issues and minimizing "system" or application downtime.
- <u>Platform Engineer Consultant:</u> Provides training in the expansion of Microsoft/GitHub practices, reassess observability tools, boost automation, and advance platform engineering goals.
- <u>Quality Assurance Testing Consultant:</u> Provides training to accelerate PERS' adoption of automated application programming interface testing tool testing and quality assurance practices.

PERS states that this request is strategically vital to the PERS Modernization Program and that the agency's ISD, Development and Operations Section, does not currently have any cloud-based computing capability. PERS contends that for the PERS Modernization Program to be successful, such an in-house capability must be acquired in advance of the agency's acquisition of a COTS PAS solution, which will allow for the agency to manage the deployment, release(s), and customization and configuration of the COTS PAS. Additionally, an in-house cloud-based computing capability will allow for non-COTS PAS application development, testing, and deployment as well as provide for the interface with the COTS PAS vendor.

The Emergency Board would benefit by receiving a report from PERS that more completely defines that agency's cloud-based approach, including but not limited to future one-time and ongoing costs and the agency's plan to transition to in-house services and away from contract services. Additionally, there should be a cost-benefit analysis of PERS assuming native operational control over the 70% to 80% of services estimated to be provided by the COTS PAS versus having the COTS PAS vendor itself be contracted to provide such services, as is the case with the Department of Revenue's Core System Replacement Project.

Recommendation: The Legislative Fiscal Office recommends that the Emergency Board increase Other Funds expenditure limitation for the Public Employees Retirement System, on a one-time basis, by $1,800,968, for the Core Retirement System Modernization Program and the Legacy Stabilization and Technology Readiness Project, with instruction that the Public Employees Retirement System is to report to the Emergency Board in September 2026 with a comprehensive report on the agency's cloud-based computing strategy and costs.

Request: Increase Other Funds expenditure limitation by $1,800,968 for the Legacy Stabilization and Technology Readiness program within the Core Retirement System Applications Division to implement DevOps tools.

Recommendation: Approve the request.

Discussion: The Oregon Public Employees Retirement System (PERS) is seeking a one-time increase of $1,800,968 Other Funds expenditure limitation to support DevOps Technology Readiness activities within the PERS Modernization Program. This request falls under the Legacy Stabilization and Technology Readiness appropriation within the Core Retirement System Applications (CSRA) division.

PERS is undergoing a long-term transformation to enhance operational efficiency and modernize service delivery. Among the many projects in this Modernization program is the replacement of the agency's aging pension administration system (PAS), jClarety. The Modernization effort is projected to last 8-10 years. As part of early planning work, the agency conducted a multi-year options analysis and determined that a modern commercial off-the-shelf (COTS) system would best meet operational, financial, and functional needs. However, because a COTS solution is expected to cover only 70–80% of PERS's 2,500 business requirements, significant custom development and integration work will remain. Based on this, PERS believes that strengthening the agency's Information Services Division (ISD) Development and Operations (DevOps) Section's capabilities is essential to ensure these customized components can be built, tested, and deployed securely and efficiently.

To prepare for this modernization, PERS previously engaged consultant firms, including AHEAD, to assess current IT processes and recommend improvements. Their assessments emphasized the need for a mature DevOps framework to support scalable development, secure deployments, traceability, automation, and alignment with cloud-ready infrastructure. To identify the appropriate tools to meet these needs, PERS is working with the Department of Administrative Services Enterprise Information Services, to ensure the solutions adopted by the agency align with industry and enterprise best practices.

Implementing these new tools, acquiring software licenses, and procuring expert support require additional Other Funds expenditure limitation. Of the requested increase, $360,968 is designated for new software applications and subscriptions, with the remaining $1,440,000 supporting two contractors who will facilitate implementation and train ISD's DevOps workforce over the 2025–27 biennium. Funding for this request comes from 1) earnings from the Oregon Public Employees Retirement Fund or, in years where earnings are insufficient to pay for agency operations, 2) charges to participating employers.

This request was originally considered during the January 2026 meeting of the Interim Joint Committee on Ways and Means Subcommittee on General Government in advance of the 2026 Legislative Session. At that time, the request was deferred to a later date due to concerns around the need for clearer agency justification of why the request was needed at that time.

PERS asserts that the DevOps Readiness initiative is time-sensitive due to its nexus with other key modernization work. Although the PAS vendor will not be selected until late 2027, PERS believes the remainder of the 2025-27 biennium provides an opportunity to establish foundational tools, governance, and training. Industry practice indicates that a full DevOps rollout for a 15-member team typically requires 10–12 months, using a phased approach that begins with a "Train-the-Trainer" model. Without this upfront investment, the agency argues, the modernization effort faces heightened risks—such as increased costs, integration challenges, deployment errors, and delays—once the PAS implementation begins.

Legal Reference: Increase the Other Funds expenditure limitation established by chapter 552, section 1(6)(d), Oregon Laws 2025, for the Public Employees Retirement System, Core Retirement System: Legacy Stabilization and Technology Readiness, by $1,800,968 for the 2025-27 biennium.

Oregon
Tina Kotek, Governor

Public Employees Retirement System
Headquarters
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
888-320-7377
TTY (503) 603-7766
www.oregon.gov/pers

May 11, 2026

The Honorable Senator Rob Wagner, Co-Chair
The Honorable Representative Julie Fahey, Co-Chair
Emergency Board
900 Court Street NE, H-178
Salem, OR 97301

Dear Senator Wagner and Representative Fahey:

Nature of the Request

PERS requests that Other Funds expenditure limitation for the PERS Modernization Program - Legacy Stabilization and Technology Readiness appropriation under the Core Retirement System Applications (CSRA) Division be increased by $1,800,968. This limitation increase will support IT Professional Services and software licensing under the Modernization Program.

Background

The Oregon Public Employees Retirement System (PERS) is working on modernizing its Pension Administration System (PAS). The current PAS, jClarety, is over 20 years old and poses an operational and financial risk for both the agency and the State of Oregon. Technical debt, limited flexibility, and rising maintenance costs have hindered the agency's ability to provide efficient and timely services to Oregon's 420,000+ members and 900+ participating employers.

The PERS Modernization Program under the Core Retirement System Application (CSRA) received expenditure limitation of $7,833,071 for the 2025-27 budget cycle and additional funding of $6,688,780 under CRSA for Legacy Stabilization and Technology Readiness to prepare for Modernization implementation.

In July 2025, the PERS Modernization Program underwent a strategic shift, initiating the first significant step towards updating its current pension administration system, jClarety, to a commercial-off-the-shelf (COTS) solution. This transformation is expected to take approximately eight to ten years and will require integration across technology, operations, policy, and personnel.

The strategic shift started when PERS engaged a third-party vendor to develop an options decision framework to support the selection of a new Pension Administration System. Between January and June of 2025, PERS conducted a comprehensive analysis of potential solutions, and the Modernization Executive Steering Committee (MESC) evaluated whether to upgrade the existing system or adopt a commercial off-the-shelf (COTS) solution. After assessing cost, functionality, and implementation speed, the PERS Executive Leadership Team (ELT) and the MESC jointly decided on July 2, 2025, to move forward with a COTS solution. PERS received additional funding in the February 2026 session to move forward with data cleaning initiatives and an RFP to hire a PAS vendor. This was done with the understanding that an agency request would be brought forward for consideration in the June 2026 legislative days for DevOps readiness. The additional planning resulted in the identification of new work efforts – Development Operations (DevOps) Technology Readiness – that require investment approval.

Agency Action

To support and continue its DevOps Technology Readiness for the rest of the 2025-27 biennium, PERS requests Other Funds expenditure limitation increase under the Legacy Stabilization and Technology Readiness Appropriation be increased by $1,800,968 to purchase a limited amount of software subscriptions and licenses and hire 2 contractors.

- Microsoft subscriptions and licenses for new software will cost a total of $360,968 for the 2025-27 biennium. The work is anticipated to start in June of 2026 and is requesting minimal licenses to lay the initial DevOps foundation
- Two contractors are estimated to cost a total of $1,440,000 ($720,000 per contractor/per year) during the 2025-27 biennium. If the legislature approves, the work is anticipated to start in July of 2026.

The DevOps workstream has been a foundational element of the PERS Modernization Program. Based on a recommendation by Accenture, in our initial modernization analysis, and further supported during the Solutions Analysis conducted by Gartner, initial efforts began with the engagement of consultant AHEAD, which conducted a comprehensive assessment of current and future state technology processes. Based on this evaluation, AHEAD provided a set of detailed recommendations to strengthen technology capabilities and prepare the agency for future technology modernization initiatives. With the assessment and initial planning phases now complete, PERS is prepared to launch the next phase of work, which is initiating a new project and engaging contractors to implement these recommendations.

DevOps is both a methodology and a toolset that enables the Information Services Division (ISD) to manage its technology assets and deployments, and support Modernization through repeatable, scalable, and secure software development practices. Several peer agencies—such as OHA/DHS (OIS), the Department of Administrative Services (DAS), and the Department of Education—are similarly evolving their App/Dev capabilities by adopting DevOps frameworks. PERS adoption of DevOps will align ISD with industry best practices and support long-term technology objectives which are core to support hybrid and cloud-native infrastructure.

Due to the complexity of PERS's business requirements, it is expected that a COTS PAS will not fully address all ~2,500 documented business requirements. These gaps will need to be addressed through other solutions and supported outside of the new modern PAS. DevOps provides the technical and operational foundation to develop, test, and deploy custom components consistently and securely across both cloud and on-premise environments.

As an important Technology Readiness Activity, DevOps ensures PERS can effectively manage its code, infrastructure, and deployment environments. It supports secure development, version control, traceability, observability, and automation. All are essential to reducing security vulnerabilities, build and deployment errors, minimizing delays, and enabling ISD to work in close coordination with the future PAS vendor. Without a mature DevOps foundation in place, the Modernization Program risks increased costs, extended timelines, and diminished responsiveness to evolving business requirements. Industry best practice for enterprise IT adoption centers on a tiered, multi-month rollout beginning with a "Train-the-Trainer" phase, where 5–10% of staff are empowered as champions to support the broader team. This is followed by role-based "micro-learning" sessions tailored to specific workflows, concluding with an "optimization" phase for advanced features once foundational skills are solidified. For a team of 15 FTEs, such as PERS DevOps, achieving full capability typically requires a 10–12 month lifecycle to account for technical complexity and the gradual acquisition of specialized knowledge.

To avoid these risks, PERS is seeking legislative approval to fund the initial phase of DevOps readiness. This includes acquiring and configuring DevOps tools, enforcing governance, establishing automated testing, and enabling traceability and observability across the DevOps lifecycle. Additionally, contractors will deliver expert-level training to ensure ISD teams are proficient in these practices well before the new PAS vendor is onboard. DevOps readiness will position ISD to collaborate effectively with the new PAS vendor, reducing the likelihood of rework, integration challenges, and costly missteps during deployment.

Since the 2026 legislative session, PERS has met with the LFO IT analyst (March 18, 2026), the CFO (May 4, 2026), and DAS EIS (May 8, 2026) to lay out the DevOps strategy and plan. While all agreed on the need, several stakeholders raised questions about the timing, given the PAS COTS solution will not be selected until late 2027. The 16-month period between the June Emergency Board and PAS vendor onboarding will provide the time DevOps needs to acquire initial tooling and training. This will position the team to work effectively with the vendor to integrate and deliver their solution(s) into the PERS infrastructure. In addition, the PAS COTS solution is expected to deliver only 70–80% of the out-of-the-box capabilities required for modernization; PERS will need to provide the remaining resources, which will require in-house DevOps capabilities.

<u>Action Requested</u>

PERS requests to increase Other Funds expenditure limitation by $1,800,468 for Core Retirement System: Legacy Stabilization and Technology Readiness. A breakdown has been provided below:

Title	Bill	Legislatively Approved	Expenditure Limitation	Requested LAB
Legacy Stabilization & Technology Readiness	SB5534 Section 1(6)(d)	7,626,780	1,800,968	9,427,748

<u>Legislation Affected</u>

Oregon Laws 2025, chapter 552, section 1(6)(d).

Sincerely,

Kevin Olineck, Director
Oregon Public Employees Retirement System