A Brief Overview of Educator Compensation

This narrative provides context for NBOA's Mission-Anchored Compensation Strategies research findings and resources. It provides a review of foundational funding differences in public and independent schools, a brief history of compensation models and a "glossary" of terms used to describe compensation models.

A Review of School Funding Models

School budgets for compensation in public and independent schools are derived from different revenue sources. Public school administrators, faculty and staff in the United States are paid with taxpayer dollars, mainly from property taxes. Public schools may receive additional funds from local, state and federal allocations —with funding streams being almost exclusively taxpayer driven.

Independent schools are just that – independent – and many resist taking state or federal monies as part of their philosophy to remain free from government "strings" attached to their operations and curricula. Instead, independent schools depend on the revenue that they generate, with tuition serving as their largest source of revenue. In the 2021-22 school year, net tuition and fees accounted for 79% of independent schools' revenue, according to NBOA's data analysis platform, Business Intelligence for Independent Schools (BIIS). Yet, nearly every independent school's stated tuition price is less than the cost of actually educating a student, as NBOA Executive Vice President James Palmieri, Ed.D., explains in NBOA's book "The Business of Independent Schools: A Leader's Guide."

That practice creates a gap between total tuition revenue and the expenses to operate the school, including the No. 1 expense of funding compensation for administrators, faculty and staff. To fill the gap, schools turn to additional revenue sources, usually annual fund campaigns, endowment returns, and/or auxiliary programming. Schools that lack a sizeable endowment, robust fundraising or other significant alternative revenue sources will find it increasingly difficult to provide their faculty and staff with competitive wages and benefits, without raising tuition. To surmount those obstacles, some schools are exploring alternative ways of doing business, including charging what it costs, implementing indexed tuition models, merging with another school, or even reducing tuition to attract more students (a plan that usually requires a substantial endowment).

It's also important to note that private school teachers earn up to 30% less than teachers in public schools. In the 2020-21 school year, the average annual base salary for public school teachers was $61,600, compared to $46,400 for private school teachers, according to the National Center for Education Statistics (NCES). It's important to note, however, that this disparity was influenced by historic infusions of federal funding into public schools to account for challenges associated with the Covid pandemic. That same NCES study points out tradeoffs influencing both groups. Public school teachers might have higher salaries but also larger class sizes. Private school teachers, on the other hand, might be paid less, but "unobservable characteristics" such as smaller class sizes, more influence or autonomy over curricula and the perception of a more collegial and collaborative environment can be seen as counterbalancing any "wage sacrifice."

Another difference between public and private schools involves the prevalence of unions. Compensation in public education is often influenced by collective bargaining agreements between a school district and a teachers' union and is most often determined by years of professional service and degrees attained. Conversely, unions are uncommon in independent schools, as most independent schools are nonprofit organizations that are not governed by school district officials, but rather by an autonomous board of trustees. And unlike schools in most public-school districts, individual independent schools' administrators and boards have the freedom and flexibility make their own decisions on compensation for faculty, staff and leadership team members, guided by data. The business officer for example, will provide projections on tuition revenue and other sources of income such as endowment and fundraising and will work with the head of school to craft an annual operating budget proposal for the board finance committee's revisions and approval. That proposed budget goes to the full board for final approval, inclusive of an amount available for faculty and staff raises or bonuses.

A Concise History of Compensation Models in U.S. Schools

The practice of paying educators based on their years of experience and degrees has been the norm for more than 100 years. This practice was popularized by public schools as a means of anchoring educator pay in a set of standardized, objective criteria. The single-salary schedule in education has its origins in the early 20th century. Prior to this time, educators' pay was inconsistent, influenced by factors such as gender, grade level taught, subject expertise, or political alignment with the school principal or district officials. However, in the 1920s, this began to change with the advent of the single-salary schedule. This compensation structure aimed to ensure equal pay for equal work, irrespective of the teacher's gender or the grade level they taught. Dubbed "step and lane," this salary system was nearly universally adopted after World War II, becoming a common practice in the United States and many other countries worldwide. The National Education Association played a significant role in promoting the single-salary schedule, emphasizing its potential to provide fair compensation for all educators, based on years of experience and education level rather than other, more arbitrary factors, according to research by Julia Koppich, Ph.D.

From the 1950s to 2000, the step and lane compensation system remained the nearly universal model in U.S. schools – in both public and independent schools. During this period, raises were typically associated with seniority and additional educational attainment, such as obtaining a master's or doctoral degree. There was minimal variation in salaries among teachers within the same district who had comparable experience and education. However, towards the end of this period, there was growing recognition of the limitations of this system, with critiques highlighting its failure to account for teacher effectiveness, specialties and contributions to student learning outcomes. During the turn of the 21st century, these limitations prompted renewed discussions into alternative, more differentiated compensation models that could address these shortcomings, according to research by Allan Odden, Ph.D. and Carolyn Kelley, Ph.D.

In recent decades, educator compensation systems in the U.S. have undergone notable changes, evolving from the traditional single-salary schedule towards more differentiated and performance-based pay structures. The new compensation models have been explored to address shortcomings of step and lane approach, which often does not account for teachers' effectiveness, special skills, or contributions to the school community. These models include pay for performance, knowledge-and skills-based pay, career ladder (banded) models and market-based incentives that would address issues such as retention or hard-to-staff schools or subjects. Amid growing concerns about educational quality and student outcomes, there was an increasing emphasis on linking teacher pay to performance metrics, including student achievement and instructional quality. Policies like the No Child Left Behind Act and Race to the Top initiative spurred these changes, incentivizing states and school districts to implement evaluation and compensation systems that factored in measures of teacher effectiveness, according to Dan Goldhaber, Ph.D. and Kecia Hayes, Ph.D.

This period saw a proliferation of experiments with merit pay, bonuses and incentives aimed at attracting and retaining high-quality teachers, especially in high-need subjects and underserved schools. However, these performance-based compensation models also faced challenges, including concerns about the validity and fairness of teacher evaluations and the unintended consequences of high-stakes testing. The largest recent investment in funds to support innovation and research into educator compensation is the federally funded Teacher Incentive Fund (TIF) program. Established in 2006 by the U.S. Department of Education, TIF was designed to support the development and implementation of performance-based compensation systems for teachers and principals. The primary goal of the TIF was to reform educator compensation systems to reward effectiveness, increase the number of highly effective educators in high-need schools, and improve student achievement. The program aimed to attract and retain high-quality educators, particularly in low-income, disadvantaged schools and hard-to-staff subjects, according to research by James Guthrie, Ph.D., Peter Witham, Ed.D., and Patrick Schuermann, Ed.D.

The Center for Educator Compensation Reform (CECR) was established to provide technical assistance and support to the U.S. Department of Education and schools or districts that were recipients of the Teacher Incentive Fund (TIF) grants. The

CECR aimed to guide and support the design, implementation and evaluation of performance-based teacher and principal compensation systems. The primary objective of CECR was to facilitate the effective implementation of innovative educator compensation models that focused on performance and student achievement. It acted as a resource center, offering a wealth of information, tools, and technical assistance to educators, policymakers, and other stakeholders involved in the creation and management of performance-based compensation systems. The innovation and evaluation spurred by TIF and supported by CECR is ongoing today by practitioners and researchers exploring the link between educator pay and the needs and goals of our education systems, according to recent research by Eugene Garcia, Ph.D. and Stephen Thompson, Ph.D.

Definitions of Common Compensation Models

Compensation is defined as the total amount an independent school pays its individual faculty and staff. In its broadest definition, compensation encompasses all forms of remuneration, which might include salary, stipends, bonuses, commissions, profit sharing, deferred compensation, housing, paid time off, expense accounts, car and gas allowances, retirement plans, insurance and other benefits. A school's compensation model, or system, is the structure behind that compensation, as Amber Stockham, director of human resources programs for NBOA, pointed out in the 2020 webinar "Mission-Based Compensation."

How compensation models are designed can be as diverse as each independent school's mission. Many independent schools employ hybrid systems that feature elements of more than one compensation model. What follows is a glossary of some common definitions of compensation models in use today in independent schools, based on articles, research publications and NBOA information gleaned from member schools and education experts.

Discretionary/Negotiated

This type of model is unstructured. It is characterized by its lack of structure, because in most cases salary decisions are made on an individual basis at the discretion of one decision maker, usually the head of school. Factors that determine an individual's salary may include experience, degrees earned or market conditions – or more subjective criteria such as the employee's negotiating skill or perceived likeability or impact.

The pros of a discretionary/negotiated system are its flexibility, which might aid retention, and its nimbleness, which can help recruit and retain talent. Salaries can also be adjusted to reflect the school's financial situation. Schools that employ this type of system, however, face the risk of legal action over wage discrimination, made even riskier by the lack of structure that would justify pay differences. Faculty and staff members who are skilled at negotiating or self-advocacy may receive better compensation than their less vocal colleagues, or the decision-maker may financially favor one employee over another, even if the lower-paid employee is highly qualified and successful.

In addition, this discretionary/negotiated approach has few budget or market controls, which can lead to skyrocketing budgets or financially instability over time. Morale may also suffer due to lack of transparency and structure and among employees who are paid less than a colleague performing the same duties.

Single-Salary Schedule / Step and Lane System

Under a single-salary (or scale) compensation model, also referred to as a step and lane system, faculty and staff with similar qualifications, such as degrees attained and years of experience, are paid the same. Teachers may also receive additional compensation for taking on additional responsibilities, such as coaching or leading extracurricular activities. This is the most common type of compensation model in public school districts where collective bargaining agreements are the norm. It has traditionally been a popular strategy in independent schools as well.

The advantages of the single-salary system are its predictability, simplicity and ease of implementation for administrators, and ease of understanding, transparency and equity for faculty and staff. On the other hand, increases are baked into the model, which could put a strain on schools facing shortfalls or other budget challenges. This model does not reward faculty and staff for acquiring additional skills once they have reached the model's top degree or experience level. In addition, single-salary systems are usually not competitive in a tight job market due to their lack of flexibility and opportunity for rewarding performance or additional skills, Stockham noted.

In the CECR report "Paying for and Sustaining a Performance-Based Compensation System," Guthrie and Prince found "There is little empirical support for compensation policies that automatically reward teachers for degrees and experience." If there is a relationship between experience and student achievement, it occurs mainly during a teacher's first few years in the classroom.

The constraints of the single-salary system gave rise to the use of stipends as a way to provide additional pay. Stockham, however, notes that the stipend system means teachers and staff are doing more work to earn more money rather than striving to improve the work they were hired to do. That practice of doing more work to earn more defeats the purpose of the single-salary system, which is to pay everyone the same based on experience and education, and can also lead to burnout. This system also can discourage professional growth beyond attaining the maximum educational degree in the system.

Banding

Banding is the most common compensation model used across all industries in the United States, Stockham notes. All roles in an organization are placed in bands that define the minimum to maximum pay ranges. Bands create consistency in pay for employees who perform similar work, while allowing some flexibility to attract and retain top talent by giving administrators a range of pay within bands. For employees, banding also offers transparency. They can see the limits of their pay within their assigned band and what is required to move to a higher band.

Banding can lead to less predictable salary expenses compared to step and lane models, but more predictability compared to the discretionary model, if managers do not have concrete budgets. In those cases, some managers may be tempted to award higher pay to employees they favor, risking wage discrimination. Others might be tempted to reward all their employees with the highest pay on the band. A strong evaluation system and processes that ensure that the evaluation system is linked to the compensation system can prevent those problems.

Broad-banding

The broad-banding model is an offshoot of banding that has gained interest in independent schools. It features larger bands to allow for more discretion in determining salaries. These models typically have fewer but larger bands – perhaps four to five. In one example from the NBOA Net Assets article "Independent School's Next Top Model," the bands might start "beginning teacher" and ending with "master teacher" or "faculty leader." Each band anticipates the number of years a teacher should need to advance to the next band, usually four to five years based on performance metrics and goal achievements. Within each band, the head, principal or division head evaluating a particular teacher has leeway in setting individual salaries.

Some schools, including Graland School and the for-profit Avenues The World School, use "spheres" rather than bands. Graland's head of school Josh Cobb, writing in NAIS Independent School magazine on "Reimagining and Implementing a New Faculty Model," explained that the system adopted in 2019-20 moves away from the "linear ascent" of the band system. Instead, it features "a spherical design that rippled out from the 'core' of what we value — mastery in the classroom." The system is designed to reflect the school's educational values, inspire teaching excellence, and recognize faculty innovation, collaboration and growth.

Both banded and broad-banding models of compensation support the implementation of "career-ladders" in education – the provision of professional "pathways" for educators that allows them to take on increased responsibilities or make added contributions, often accompanied by increased compensation, while remaining in the classroom or their functional domain. For example, career ladders provide opportunities for professional growth and development, enabling teachers to advance their careers within the education system without necessarily moving into administrative positions. As researchers Ingersoll and Collins, teachers can climb the "ladder" or move through the "lattice" by achieving specific milestones, such as earning advanced degrees, obtaining additional certifications, demonstrating effectiveness in the classroom, or taking on leadership roles like mentoring new teachers or leading professional development initiatives. These systems aim to retain experienced and skilled educators, recognize and reward excellence, and improve educational outcomes by leveraging the expertise of accomplished teachers.

Equal Percentage Increase

Also known as a COLA (Cost of Living Adjustment) compensation model, the equal percentage increase approach means schools have a predictable budget. The system is based on employee qualifications. Employees perceive the system as equitable and find it easy to understand. However, high earners will receive more than low earners. The COLA increase, while reflecting national trends in price increases, may not mirror the cost of living or wage increases in a particular school's area. Those drawbacks can mean that schools fail to compete in their market. Pay may be set based on employee qualifications, but the model does not allow for increases for professional development or for advancement in small schools. That makes it difficult to retain top talent, Stockham noted.

In the post-pandemic inflationary environment, independent school salaries have not kept up with inflation. The latest BIIS data, as of November 2022, indicates that increases in full-time teacher base salaries surpassed the inflation rate from 2018-21, but fell behind this year as inflation ramped up.

Percentage change in full-time teacher base salary compared to inflation rate

	2018	**2019**	**2020**	**2021**	**2022**
Full-time teacher average base salary	1.8%	2.7%	1.0%	1.9%	4.1%
Full-time teacher starting base salary	2.9%	2.3%	1.3%	2.6%	5.0%
Full-time teacher highest base salary	3.3%	2.0%	1.5%	1.5%	3.3%
Inflation rate	1.9	2.3	1.4	7.0	7.1*

*Inflation rate as of November 2022. Source for salary data: NBOA's BIIS data platform.

Equity Adjustments

"Equity adjustments" in pay for educators refer to modifications made to teachers' salaries to ensure fairness, consistency, and comparability in compensation. These adjustments are often necessary to address discrepancies in pay that may arise due to various factors like years of experience, educational qualifications, geographical location, or subject areas taught. The goal is to ensure that educators with similar roles, responsibilities and qualifications receive comparable compensation, and that all teachers are paid fairly in relation to their contributions and the market value of their work. Equity adjustments can also aim to alleviate disparities between the pay of teachers in different regions or schools, ensuring that educators are not disadvantaged based on where they teach.

Performance Pay

According to the U.S. Department of Education's Center for Educator Compensation Reform, performance-based compensation models fall into three categories: "**merit**

pay, which rewards teachers for their performance and that of students; **knowledge and skills-based pay**, which bases increased pay on additional qualifications and demonstrated skills; and **team or group-based incentives**, which provide extra pay for school, grade-level teams or departments within the school." Performance pay often plays a role in banded compensation models, Stockham noted.

According to the CECR study "Paying for and Sustaining a Performance-Based Compensation System," the preponderance of evidence suggests that teachers who have completed graduate degrees are not significantly more effective at increasing student learning than those with no more than a bachelor's degree, with the possible exception of some advanced degrees at the secondary level, particularly subject-specific degrees in math and science. There is a relationship between experience and student achievement, but mainly during the first few years in the classroom. "Thus, diverting at least a portion of the funds that would otherwise be spent on automatic step increases for additional degrees and experience into a sustaining fund for performance pay would make great sense," explains the report.

The term "merit pay" carries negative connotations in the education circles, with "performance pay" the more preferred or common term today, according to a Milken Family Foundation (MFF) report on "The Pros and Cons of Performance-Based Compensation." Concerns include whether it is possible to design a fair evaluation system, whether it's possible to separate current teacher's work from previous teachers', fear that collegiality will be lost in competition for higher salaries, and fear that assessments in certain subjects might lead to narrowing of curriculum.

In developing and implementing performance-based compensation system, it's necessary to project program costs annually. A newly launched teacher compensation program must be affordable beyond the short term; "it must also be sustainable over time," the CECR study notes. Schools also have to deliver on promised incentive program elements. "When a performance reward system dissolves into a matter of pay by chance, then the consequences for morale are terrible."

The term "differentiated pay" also is used in the performance pay context and can include pay for additional roles or responsibilities such as coaching a team or heading a department, hiring incentives for hard-to-staff schools or subject areas, and pay for performance. Controversy can arise when some employees are asked to do more than others and are not paid enough to compensate for the extra time, according to the MFF study.

Conclusion

The COVID-19 pandemic and accompanying economic challenges such as shifting labor demands and educational markets have magnified how quickly the world can change, how rapidly educators can adapt and how critical they are to school and student success. The ongoing development of compensation systems in ways that are intentionally responsive to the evolving needs of educators is integral to nurturing the faculty, staff and leadership team members at the center of ensuring schools can meet their mission-anchored goals.

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