NATIONAL CENTER ON
Performance Incentives

Research Brief

Market-Based Pay Reform for Public School Teachers

July 2008

In "Market-Based Pay Reform for Public School Teachers" — a paper presented at the National Center on Performance Incentives research to policy conference in February — Michael Podgursky, professor of economics at the University of Missouri, examines the effects and unintended consequences of the current compensation system for teachers in the U.S. public education system. He concludes the existing pay structure contributes to several inefficiencies, and in doing so, addresses three key questions:

1. What are the consequences of the single-salary pay schedule?
2. What are the consequences of tenure and district-level wage setting policies?
3. What are the consequences of the current teacher retirement system?

Consequences of the Single-Salary Pay Schedule

The single-salary pay schedule for teachers is a nearly universal feature of the U.S. public education system. Under these schedules, teacher pay is calculated based on years of experience and level of education. Podgursky examines the unintended consequences of this pay structure, including shortages by teaching field, disproportionate distribution of novice teachers in high-poverty schools, and difficulty retaining effective teachers.

Shortages by Teaching Field

Under the single-salary pay schedule, all teachers in a district with the same experience and education level earn the same base pay. At the same time, many districts face chronic teacher shortages in specific subject areas or specialties such as math, science, and special education. Since the single-salary pay schedule does not adapt to these teaching field demands, the teacher market adjusts in terms of quality. This is evidenced by numerous reports of teachers practicing with substandard licenses in the fields of science, math, and special education or "teaching out of the field." Because the rigid salary schedule prevents salaries from adjusting to clear the market, the market clears in terms of teacher quality instead.

Disproportionate Distribution of Novice Teachers

Working conditions often vary widely across a district. Teachers with more seniority tend to exercise the option to move within a district to better working conditions, most often migrating away from high-poverty schools. Novice teachers frequently fill the subsequent openings in these high-poverty schools. One consistent research finding has been that students taught by novice or inexperienced teachers have lower achievement gains than students with more experienced teachers; this is particularly true for the achievement results of students from low socioeconomic backgrounds. Since high poverty schools are generally less desirable places to teach, equalizing pay across all schools in a district means that teacher quality will be unequal. If you want to equalize teacher quality across schools, the standardization of teacher pay should be reconfigured accordingly.

Recruiting and Retaining Effective Teachers

Value-added literature has found significant variation in teacher effectiveness within districts, schools, and even grade levels within a school. Economic theory suggests that if more effective teachers are rewarded on the basis of performance, incumbent teachers would have an incentive to work more effectively to raise their performance. In addition, performance pay may have a positive selection effect by drawing teachers into the workforce who are effective at meeting performance targets, and by retaining those who meet targets. Single salary schedules reward all teachers with the same experience and education level identically, in spite of large differences in teacher effectiveness.

Given current high-stakes accountability pressures on schools to improve student performance, it is not surprising that there is growing interest in the notion of performance pay or other market-based pay for public school teachers. School survey data from the U.S. Department of Education show that there is growing use of market-based pay bonuses by schools and districts.

Consequences of Teacher Tenure and District-Level Wage Setting Policies

Two other institutional features of teacher labor markets increase the economic costs associated with rigid salary schedules.

Teacher Tenure

In a world of employment-at-will or one year contracts, a salary schedule might not be as inefficient. What seems to be a reward for longevity might, in fact, be performance-based. For example, a teacher with 15 years of seniority who had his/her contract up for review 14 times is likely an effective teacher. Ineffective teachers would have been weeded out. However, in public school districts, teachers receive automatic contract renewal after three to five years on the job. Consequently, it becomes difficult to dismiss a teacher for poor job performance once she receives tenure.

District-wide Wage-Setting

Wage-setting for teachers is a centralized practice at the district level. Collective bargaining laws also push wage-setting to the district level by labeling the district as the bargaining unit. This arrangement has two noteworthy implications: first, the wage-setting process is more bureaucratic, and second, the market for teachers becomes more monopolistic. For example, even if a large school district wants to adopt a performance pay system, it is often difficult to design and implement one given the requirement that a district guarantee horizontal "equity" across its many schools.

While the previous sections discuss the implications of current teacher salary strategies, deferred compensation practices also have unintended consequences for the quality of the teacher market.

Consequences of Teacher Pension Systems

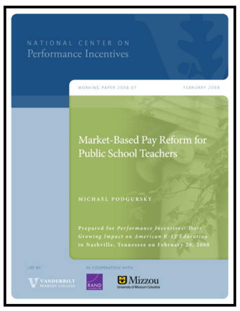
Podgursky explains that retirement benefits are an important component of any strategic compensation plan. Recently, private sector employers have moved away from traditional pension systems (defined benefit, DB) toward individual retirement accounts or defined contribution (DC) plans. The public education system maintains a growing and financially cumbersome DB plan, which was originally designed to reward teachers who stay in the field. This system was based on the premise that there were large returns in teacher experience, or human capital investment.

Podgursky contends that the structure of these teacher pension plans is actually encouraging early teacher retirement of experienced teachers, thus raising the share of novice teachers in the workforce.

More specifically, he found that the incentive structure of pension benefits holds teachers in the profession while they accrue generous retirement benefits until their mid-50s. Then it pushes teachers out of the field by decreasing the benefit of further longevity. In short, more experienced teachers are incentivized to retire early, resulting in an overall lowering of experience in the teaching workforce.

Conclusion

According to Podgursky, human resource policy in education—the recruitment, retention, and motivation of employees—is increasingly recognized as a critical variable for school success. In public K-12 education, the single-salary pay schedule is particularly costly because the factors it rewards, teacher experience and level of education, are not strong predictors of teacher productivity. Podgursky argues that without consideration of the logic or unintended consequences of current teacher compensation policies, school systems will continue to face financial and performance efficiency challenges.



This research brief describes work performed by the National Center on Performance Incentives and documented in "Market-Based Pay Reform for Public School Teachers," by Michael Podgursky, Working Paper 2008-07. The National Center on Performance Incentives is a research and development center funded in part by the United States Department of Education's Institute of Education Sciences (R305A06034). The views expressed in this research brief do not necessarily reflect those of the sponsoring agencies.

The National Center on Performance Incentives is led by Peabody College of Vanderbilt University in partnership with the RAND Corporation and the University of Missouri-Columbia.