



AMERICAN INSTITUTES FOR RESEARCH®

Education, Human Development,  
and the Workforce

September 2012

---

# Indirect Compensation for Teachers

**Courtney Rowland King**

# Indirect Compensation for Teachers

September 2012

Courtney Rowland King



AMERICAN INSTITUTES FOR RESEARCH®  
1000 Thomas Jefferson Street NW  
Washington, DC 20007-3835  
202.403.5000 | TTY 877.334.3499  
[www.air.org](http://www.air.org)

Copyright © 2012 American Institutes for Research. All rights reserved.

2865\_09/12

# Contents

	Page
<b>Introduction.....</b>	<b>2</b>
<b>Overview of Total Teacher Compensation and Definitions of Indirect Compensation .....</b>	<b>3</b>
<b>Indirect Compensation: Strengths, Weaknesses, and Strategies for Implementation .....</b>	<b>4</b>
<b>Examples of Indirect Compensation in Education .....</b>	<b>5</b>
<b>Conclusion .....</b>	<b>7</b>
<b>References.....</b>	<b>8</b>

## Introduction

It is hard not to notice the persistent and often controversial discussions taking place in states and cities across the country around how to pay teachers—who should get what for how much and when. For example, in September 2012, Chicago teachers went on strike for more than one week, in part over the issue of compensation. How can we create teacher compensation systems that are rewarding, motivating, and feasible to implement? A multitude of ideas, programs, and reform strategies around teacher compensation are being developed and tried around the country. However, one aspect of compensation is consistently missing from the conversation—indirect compensation.

Indirect compensation is a benefit provided to employees that does not directly affect salary or take-home pay. Other terms for indirect compensation are fringe benefits (Rebores & Walmsley, 2010) or perks. Examples of indirect compensation include commuter benefits, food, education assistance, or child care. In education, indirect compensation—where it exists at all—is typically restricted to loan forgiveness or housing subsidies. A review of education reform literature and a wide range of compensation policy initiatives for teachers suggests that indirect compensation is an underused strategy to support overall compensation reform initiatives.

This issue brief begins with an overview of the total compensation package typical for teachers as well as a variety of definitions of indirect compensation. Following that is a discussion of the strengths and weaknesses of offering indirect compensation as well as strategies for implementation, both taken from noneducation-based literature. The issue brief then provides several examples of indirect compensation efforts that occurred in education in the early 2000s. Last, there is a short conclusion pertaining to the use of indirect compensation for teachers.

## Overview of Total Teacher Compensation and Definitions of Indirect Compensation

K–12 Talent Manager for Battelle for Kids and *Education Week*, Emily Douglas, suggests a typical teacher’s total compensation package has five components (Douglas, 2011):

- *Base pay*: Base pay is a teacher’s basic, guaranteed annual salary. It is generally intended to reflect the market value of the skills, knowledge, or abilities required to do a job. The vast majority of base pay systems in education are linked to teachers’ education level and years of experience. Base pay typically comprises about 80 percent to 85 percent of total compensation.
- *Cost-of-living adjustment (COLA)*: A COLA can be a one-time bonus or base pay increase meant to cover inflation or market-required changes to an organization’s pay system. When offered for teachers, COLAs are often built into collective bargaining agreements. In recent years, COLAs have been offered less frequently as a component of compensation.
- *Bonuses*: Bonus pay is usually provided as a one-time lump sum awarded to employees for performance based on set criteria.
- *Supplemental pay*: Supplemental pay is compensation provided to employees for extra duties, responsibilities, or time spent working. Common variations of this include coaching, mentoring, or working extended day or extended year programs.
- *Indirect compensation*: Indirect compensation is a nonmonetary benefit provided by an organization to its employees. Examples can include health insurance, life insurance, retirement benefits, paid time off, discounts for goods and services, etc. Some of these benefits (e.g., defined retirement annuities) are becoming increasingly costly to provide.

Other authors divide the above definition of indirect compensation into two parts: monetary and nonmonetary (e.g., Wunsch, 2009; Jensen, McMullen, & Stark, 2007). Monetary benefits include health insurance, retirement, workers’ compensation, life insurance, and paid vacation. Another monetary example of indirect compensation is education assistance, which can come in the form of tuition reimbursement, financial backing to a college scholarship program, or educational loans for the children of employees. Nonmonetary examples of indirect compensation include flexible work hours, telecommuting, child care opportunities, sabbaticals, and recognition programs. Recognition programs can be formal or informal and have evolved from tenure-based “thank you” programs to ones that focus on employee engagement, outstanding performance, and reinforcing desired behaviors and work climate (Jensen et al., 2007). Nonmonetary, indirect compensation, including recognition programs, can lead to improvements in organizational culture, has an intrinsic value, and can provide career opportunities (Wunsch, 2009).

The private sector provides many examples of indirect compensation. For example, two of the country’s top companies to work for—SAS and Google—offer several creative perks for their employees, including on-site health care, child care, summer camp for employees’ children, car cleaning, laundry and dry cleaning, and state-of-the-art workout facilities (CNN Money, 2011).

## Indirect Compensation: Strengths and Implementation Strategies

Different types of rewards serve different purposes and produce different results (Jensen et al., 2007). Human resource administrators across all sectors generally view indirect compensation as a retention benefit as opposed to one that motivates people to greater performance (Rebore & Walmsley, 2010). However, recognition and nonmonetary rewards can be effective motivators and help drive performance (Jensen et al., 2007). The chance for employees to deliver excellent performance and be recognized is a powerful management tool that is not utilized enough, particularly in education. Recognition programs can also reinforce desired behaviors and work cultures that can promote the organization as an employer of choice (Jensen et al., 2007). Recognition programs also tend to be less costly than other types of indirect compensation.

Indirect compensation can exert some recruitment power. For example, the benefits package of any job can be both a significant recruitment *and* retention tool if the organization adequately explains the value of the benefits to candidates as well as publicizes the value of benefits to existing employees (Jensen et al., 2007). Additionally, tuition reimbursement may attract ambitious young people because it provides a way to begin a career and also pay off or continue an expensive education.

Total compensation packages should include a combination of tangible and intangible benefits that meet the needs of specific employees (Jensen et al., 2007; Rebore & Walmsley, 2010). Employees will commit to a compensation package if they believe it to be important and they feel they have reasonable control over achieving its components. Including indirect compensation in a teacher's total compensation package depends on culture, reward vehicles, and overall compensation strategy (Jensen et al., 2010). To know if indirect compensation would work or what types of indirect compensation would be most effective, districts and states might consider teacher focus groups or surveys.

Experts recommend a variety of planning and implementation strategies when developing compensation packages for teachers, including indirect compensation.

- Districts and states should create objectives as well as a compensation package “architecture” (Odden & Wallace, 2008). Setting objectives means defining what each aspect of the compensation system intends to accomplish, including the rationales for providing indirect compensation options. A compensation package “architecture” should include a set of guiding principles for the design and operation of each element of the total compensation package, including indirect compensation (Jensen et al., 2007; Odden & Wallace, 2008).
- Districts and states should communicate early and often when it comes to indirect compensation components, including the objectives and intended impact of components (Jensen et. al., 2007).
- Financial projections are important. Districts and states should be careful about offering indirect compensation opportunities that are unsustainable. Taking away soft benefits after employees have already received them can generate frustration (Jensen et al., 2007).

## Examples of Indirect Compensation in Education

Indirect compensation first emerged as a recruitment and retention tool in education during the 1990s and early 2000s. Interest in incentive pay increased at the time as districts and states struggled with massive teacher retirements and teacher shortages, particularly in hard-to-staff schools and subject areas (Odden & Wallace, 2008). *Education Week's 2003 Quality Counts* showed that seven states (one pilot) offered some sort of housing assistance (loans, low-interest mortgages, tax credits). Several districts in the *Quality Counts* sample offered either school assistance (tuition reimbursement and scholarships) or housing assistance. Examples of indirect compensation initiatives in education have included:

- In 2006, **New York City Department of Education** began offering **housing subsidies** of up to \$14,600 to recruit new mathematics, science, and special education teachers to work in high-needs schools. According to the district's website, the initiative is still active. When the program was launched, city officials hoped that the subsidies would help fill up to 600 positions that were held at the time by unqualified staff (Herszenhorn, 2006). Teachers need at least two years of experience to qualify, and the program allows them to live wherever they want within the metropolitan region; however, participants must commit to work for three years in one of New York City's high-needs middle or high schools. The city projected that the housing assistance would cost about \$15,000 per teacher, including federal payroll taxes and other ancillary charges, for a total of perhaps \$1.5 million a year (Herszenhorn, 2006).
- In the early 2000s, housing prices in the **Santa Clara (CA) Unified School District** were contributing to high attrition rates among teachers. After training, many teachers would transfer to another district where they could live more comfortably. To counter the problem, the Santa Clara school district teamed up with Intel Corporation to provide a **mortgage-assistance program** that offered five-year, interest-free secondary mortgage loans with monthly payments of up to \$500 (Chamberlain, 2005). The district financed the program by selling a \$10 million bond to Intel, which agreed to receive below-market interest. The district used the difference between what it paid Intel and what it earned on the investment to contribute \$500 monthly for five years toward the mortgage payment of teachers who bought homes in Santa Clara County and the surrounding area (Santa Clara County, 2009). At the end of five years, the teachers began repaying the district and the repaid funds are used to help other teachers. The district asserts that the program has eased the teacher attrition rate (Chamberlain, 2005). A 2009 report found that the program was mismanaged, and loan funding was temporarily suspended (Santa Clara County, 2009). A second phase of the project has since begun.
- In 2000, the **California** legislature created a **teacher tax credit** of \$250 to \$1,500, depending on a teacher's years of experience, although one must have at least four years of experience to be eligible for the credit. The tax credit was intended to combat high out-of-pocket classroom expenses and low teacher retention rates (Steel, 2007). The credit was not available in 2002, was applicable for the 2003 year, and then was suspended for 2004–09.

- The **Virginia Department of Education** provides **tuition assistance** of up to \$500 per course for a maximum of two courses per year for special education teachers.
- **Plano School District (TX)** offers teachers **child care** at reduced rates that are 10 percent below market rate (Plano Independent School District, 2012).

These examples and other approaches to teacher indirect compensation seemed to dissipate after a few years, primarily due to low participation rates and loss of funding. As districts and states continue to suffer from budget woes and the tone of teacher pay shifts toward measurable components linked to accountability, there has been little to no recent talk of indirect compensation for teachers. However, indirect compensation may still, in some circumstances, represent an efficient, feasible, or low-cost mechanism to enhance teacher recruitment and retention. Districts and states might consider offering teachers a menu of indirect compensation options that teachers can choose from depending on their personal and career needs.



## **Conclusion**

Indirect compensation initiatives in education have been quite limited, particularly in comparison to some of the private sector companies that widely use these strategies. Where it is found in education, indirect compensation is largely limited to housing subsidies, child care, or student loan forgiveness. The unique economic context of schools may not be as conducive to providing job perks as large businesses like Google. That being said, as states and districts consider new incentives to attract talented professionals to education, increased attention to indirect compensation may be warranted.

## References

- Chamberlain, L. (2005, December 18). Creating housing for teachers. *The New York Times*. Retrieved from [http://www.nytimes.com/2005/12/18/realestate/18nati.html?pagewanted=all&\\_moc.semit yn.www](http://www.nytimes.com/2005/12/18/realestate/18nati.html?pagewanted=all&_moc.semit yn.www)
- CNN Money. (2011). *100 best companies to work for*. Retrieved from [http://money.cnn.com/magazines/fortune/bestcompanies/2011/full\\_list/](http://money.cnn.com/magazines/fortune/bestcompanies/2011/full_list/)
- Douglas, E. (2011, December 6). What makes up total compensation? *Education Week*. Retrieved from [http://blogs.edweek.org/topschooljobs/k-12\\_talent\\_manager/2011/12/what\\_makes\\_up\\_total\\_compensation.html?qs=emily+douglas+compensation](http://blogs.edweek.org/topschooljobs/k-12_talent_manager/2011/12/what_makes_up_total_compensation.html?qs=emily+douglas+compensation)
- Education Week*. (2003). Quality counts 2003: If I can't learn from you; State efforts to recruit and retain qualified teachers. *Education Week*, 22(17), 64–65.
- Glionna, J. M. (2000, June 18). San Francisco to offer rent-subsidized housing to retain teachers. *Los Angeles Times*. Retrieved from <http://articles.latimes.com/2000/jun/18/news/mn-42271>
- Herszenhorn, D. M. (2006, April 19). New York offers housing subsidy as teacher lure. *The New York Times*. Retrieved from <http://www.nytimes.com/2006/04/19/nyregion/19teach.html?pagewanted=all&r=0>
- Jensen, D., McMullen, T., & Stark, M. (2007). *Manager's guide to rewards: What you need to know to get the best for—and from—your employees*. New York: AMACOM Books.
- Odden, A., & Wallace, M. (2008). *How to create world class teacher compensation*. St. Paul, MN: Freeload Press.
- Plano Independent School District. (2012). *Employee child care centers*. Retrieved from <http://www.pisd.edu/staff/child.care/index.shtml>
- Rebore, R. W., & Walmsley, A. L. E. (2010). *Recruiting and retaining generation Y teachers*. Thousand Oaks, CA: Corwin Press. Santa Clara County. (2009–2010). *Management missteps at the Santa Clara Unified School District*. Civil Grand Jury Report.
- Steel, M. (2007, July 26). State should not end teacher tax credit. *San Bernardino County Sun*.
- Wunsch, B. (2009). *Teacher performance-based pay: A review of compensation reform initiatives in education* (White paper). Jefferson County Public Schools.

## ABOUT AMERICAN INSTITUTES FOR RESEARCH

Established in 1946, with headquarters in Washington, D.C., American Institutes for Research (AIR) is an independent, nonpartisan, not-for-profit organization that conducts behavioral and social science research and delivers technical assistance both domestically and internationally. As one of the largest behavioral and social science research organizations in the world, AIR is committed to empowering communities and institutions with innovative solutions to the most critical challenges in education, health, workforce, and international development.

## LOCATIONS

### Domestic

Washington, D.C.  
Atlanta, GA  
Baltimore, MD  
Chapel Hill, NC  
Chicago, IL  
Columbus, OH  
Frederick, MD  
Honolulu, HI  
Naperville, IL  
New York, NY  
Portland, OR  
Sacramento, CA  
San Diego, CA  
San Mateo, CA  
Silver Spring, MD  
Waltham, MA

### INTERNATIONAL

Egypt  
Ethiopia  
Georgia  
Haiti  
Honduras  
Kenya  
Liberia  
Malawi  
Nicaragua  
Pakistan  
South Africa  
Zambia



AMERICAN INSTITUTES FOR RESEARCH®

1000 Thomas Jefferson Street NW  
Washington, DC 20007-3835  
202.403.5000 | TTY 877.334.3499

[www.air.org](http://www.air.org)

*Making Research Relevant*