



What do Nashville and other cities and districts need to consider to make PFP programs sustainable?

**Cynthia D. Prince
Vanderbilt University
Nashville Teacher Compensation Reform Forum
August 7, 2009**



Two aims

1. Avoid costly mistakes by making accurate and reasonable cost projections.
2. Begin planning early to secure adequate and stable funding.

Different procedures used to estimate costs of different types of pay plans

Examples:

1. **Open-ended** – possible for many eligible participants to earn an award
2. **Tournament** – restricts costs by placing a cap on the percentage of individuals or schools that can qualify for awards
3. **Premium pay plans** – offer additional compensation to teachers willing to work in hard-to-staff schools or teach hard-to-fill subjects

Why project the costs of an alternative compensation plan?

1. Provides reassurance that the compensation system is affordable, especially if planning to scale up.
2. Provides reassurance to teachers that states and districts will be able to deliver rewards as promised.
3. Reduces risk, e.g.,
 - financial losses
 - legal action and penalties
 - loss of credibility

What choices do states/districts have if they underestimate costs?

1. increase the budget (preferred)
2. reduce the amount of the award that each teacher/school receives (acceptable, but second best)
3. change the qualification requirements so that fewer teachers/schools qualify for bonuses (not recommended)
4. don't pay some teachers who legitimately earned performance bonuses (unacceptable)

Sources: Odden and Wallace, 2006; Guthrie and Prince, 2008



Advice

1. There is no “average” percentage you can reliably use to predict how many will qualify.
2. Be conscious of your maximum program costs so that you are prepared to pay financial awards to everyone who earns them.
3. Consider a pilot or dry-run year to identify and correct any problems.
4. Recalibrate the compensation system periodically.
5. Resist pressure to lower standards in order to allow more teachers to qualify for awards.
6. Consider collecting prior performance data to estimate the *probability* of test score improvement.



Be aware of additional potential costs of operating a performance-pay system

1. costs for paying into a state or district pension fund if bonuses count toward retirement
2. employer's share of taxes and other federal withholdings
3. extra costs associated with administration (e.g., accounting, payroll, research, assessment)
4. funds to design new tests and teacher evaluation systems

How should districts and states structure the payments?

- Teachers may strongly prefer increases to their base pay over bonuses.
- However:
 - Bonuses make the payment contingent on improving performance each year.
 - It is difficult to predict who will be top performers – and the appropriate recipients of performance awards – over the next several years.



Potential strategies for sustaining a new compensation system

1. redeploy existing resources
2. redirect future expenditures
3. repackage existing state and federal categorical program funds
4. seek additional public funding
5. seek philanthropic or corporate support
6. replace core components of the single salary schedule with performance-pay elements



Recommendations

1. Balance teachers' desires for pay systems to be as inclusive as possible with administrators' desires to control costs and stay within budget.
2. No matter what type of pay plan is chosen, rigorously project program costs, year by year.
3. Be prepared to pay financial awards to everyone who earns them.

Recommendations (cont.)

4. Pay rewards as close to the period of performance as practicable, but allow enough time for:
 - reasonable delivery of data
 - rigorous quality-control checks
5. Begin planning early to secure adequate and stable funding.
6. States should ensure that any “hidden” costs are not prohibitively expensive and are not simply passed down to districts.