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Alternative Compensation Terminology:

Considerations for Education Stakeholders,
Policymakers, and the Media

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By Cortney Rowland and Amy Potemski, Learning Point Associates

Introduction

Schools, districts, and states across the nation are changing the way educators are paid. Through the Teacher Incentive Fund (TIF) and other publicly and independently funded programs, educators at every level are designing and implementing modified pay and reward structures for teachers and principals. Sometimes these initiatives are called “merit pay” and sometimes they are referred to as “pay for performance.” In other situations, one might hear a program referred to as “differentiated compensation.” Currently, the field uses dozens of expressions to describe these different reform efforts, including the following:

- Merit pay
- Performance pay, pay for performance, or performance-based compensation
- Alternative compensation
- Differential pay (including “knowledge- and skills-based pay”)
- Teacher incentives or incentive pay
- Teacher bonuses

The discussion about what this all means and the terms that are used to describe these efforts have taken on a life of their own. The vocabulary can be confusing and imprecise, and it potentially gets in the way of a productive discussion about the substantive issues of reforming teacher pay. The misuse of these terms by education stakeholders,

policymakers, and the media as well as the frequent misrepresentation of programs based on incorrect terminology have created two unfortunate situations: (1) the terms themselves are losing meaning, and (2) reform efforts are faltering before they even begin, in part because they are incorrectly described.

The Center for Educator Compensation Reform (CECR) has a key role in shaping the conversation about reforming teacher and principal pay and can guide the dialogue about vocabulary and terminology related to alternative compensation. CECR is the national, federally funded center charged with providing technical assistance to the TIF grantees in implementing alternative compensation programs. CECR’s other responsibility is to raise national awareness about important issues related to teacher and principal compensation reform. CECR believes that the discussion on alternative compensation (i.e., any method of paying teachers or principals that is different from the traditional salary schedule) cannot be furthered without revisiting the historical development of performance pay programs, demonstrating how pay reform efforts are considered and discussed today, and—most important—providing suggestions for how the education community might communicate more productively about alternative compensation in the future.

Although all of the terms in the list above are important for a discussion about the terminology

of educator pay reform, this paper focuses primarily on the first two terms, *merit pay* and *performance pay* because they are the most commonly used when discussing programs and initiatives related to alternative compensation. Furthermore, these terms are used interchangeably, and little effort is made to distinguish their meaning. When it comes to alternative compensation terminology, particularly the use of the terms “merit pay” and “performance pay,” this Emerging Issues paper puts forth the following three points for policymakers, education stakeholders, and the media to consider:

- CECR argues for the *discontinuation of the term “merit pay.”* “Merit pay” is an outdated term that typically refers to teacher pay based on principal evaluations, which have traditionally been rife with problems.
- CECR suggests that when stakeholders, policymakers, and the media describe an alternative compensation system, they *use terms consistently.* Those individuals working on the development and/or implementation of a program should develop a communication plan that uses clear and consistent language to describe the title, goals, and design features of the program. A well-constructed plan can ensure the consistent use of terminology and must be widely shared with the public and media. The public and the media should consider such plans when communicating about alternative compensation programs to further ensure the consistent use of terminology.
- CECR recommends that stakeholders, policymakers, and the media *include a description of the specific measure of performance* to be rewarded when they describe alternative compensation programs. For example, will teachers receive performance awards based on student test scores, principal evaluations, or a

combination of both? Including language about specific performance measures will allow those who communicate about alternative compensation to share a clear message of program design with audiences, instead of allowing audiences to speculate about what a program entails based on general or misleading terms.

Please see the Appendix for a glossary of terms related to alternative compensation.

Background on the Terms “Merit Pay” and “Performance Pay”

The single-salary schedule was created in 1921 to mitigate unfair pay practices. It was originally called the “position-automatic schedule” and created a uniform system of steps and lanes based on level of education and years of experience (Hassel, 2002; Koppich, 2008; Podgursky & Springer, 2007). Historically, secondary school teachers, who were usually men, received higher pay than elementary school teachers, who were usually women. In addition to correcting these frequent gender disparities in pay, the single-salary schedule also sought to remedy inequalities in pay based on race.

The single-salary schedule is still the dominant method for how teachers are compensated in the United States. In fact, Podgursky (2007) notes that 96 percent of all school districts use a single-salary schedule to pay their teachers. In the late 1970s and early 1980s, the idea of “merit pay” began to receive widespread, national attention. At that time, the term “merit pay” referred to linking teacher pay (in the form of salaries or bonus payments) to performance, as measured by principal evaluations. Podgursky and Springer (2007) note that one of the drivers in increased national attention was that single-salary schedules did not provide school leaders the flexibility to modify a teacher’s pay based on both performance and on the realities of a changing labor market. Another factor in the



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increased attention to merit pay was a recommendation in the seminal report *A Nation at Risk* (National Commission on Excellence in Education, 1983) that proposed reforming teacher pay so teaching could be competitive with other professions, sensitive to market demands, and based on teacher performance. The report favored a system of teacher evaluation based on effective standards of teaching that include peer review, not just supervisory evaluation.

This recommendation was timely, as supervisory evaluations proved to be controversial in most of the early merit pay programs. In 1978, 115 school districts used a form of merit pay (Porwoll, 1979, as cited in Murnane & Cohen, 1985), and in a follow-up survey to the same districts in 1983, researchers found that 47 were still implementing the programs (Calhoun & Protheroe, 1983, as cited in Murnane

& Cohen, 1985). During this five-year span, the majority of the programs used principal evaluations to determine bonus payments. Educators, however, commonly viewed the evaluations as biased and subjective; the resulting judgments often were not based on a standard rubric and instead followed the theory that principals know a good teacher when they see one (Baratz-Snowden, 2007). In the end, most of the early merit pay programs failed, forever affecting the connotation of the term “merit pay.”

Around this time (the mid-1980s), research indicated a slight shift in the discussion around pay reform, namely that there were now two major types of merit pay: old-style merit pay and new-style merit pay. Old-style merit pay referred to the kind of alternative pay discussed above, which ties teachers’ performance pay to outcomes on principal evaluations. In contrast, new-style merit pay referred to linking teacher pay to students’ standardized test scores (Bacharach, Lipsky, & Shedd, 1984; Murnane & Cohen, 1985). At this point, the phrases “pay for performance” and “performance-based pay” gained momentum, perhaps in an effort to move away from the term “merit pay” or in an attempt to more specifically define the concept. Stakeholders commonly use the terms “merit pay” and “pay for performance” today. Although old-style merit pay is largely referred to only as “merit pay,” new-style merit pay is often referred to as both “merit pay” and “pay for performance,” suggesting a frequent overlap in terms, which potentially leads to confusion.

More recently, “merit pay” and “performance pay” are often used as umbrella terms to denote any program that provides differential or additional compensation to teachers and administrators. The terms have taken on different meanings when used in different contexts or by different stakeholders. For example, a few news articles from 2008 show the use of both terms within a single article. One article used the terms “performance-based bonuses,” “pay for performance,” and “merit pay” to describe

alternative compensation programs designed to reward teachers for teaching in hard-to-staff schools and classrooms as well as to reward teachers and principals for improving student test scores (Bowie, 2008). In addition, two articles discussing Denver’s Professional Compensation (ProComp) program refer to the program as “performance pay” as well as “merit pay” (Honawar, 2008a, 2008b). The inconsistent use of these terms makes it unclear what type of program is being proposed or implemented and has the potential to discourage productive discussion between education stakeholders. Using “merit pay” and “performance pay” as interchangeable terms can muddle the conversation. The reform efforts to which the two terms refer signal very different contexts, as CECR Policy Director James W. Guthrie, Ph.D., recently outlined in a presentation at the 2009 Highly Qualified Teachers & ESEA Title II National Conference. Table 1 is an adaptation of a table included in Dr. Guthrie’s presentation.

Table 1. Differences Between 1980s Merit Pay and 21st Century Performance Pay

Condition	1980s “Merit Pay”	21st Century “Performance Pay”
Locus of initiative	District administration	State and federal policy
Inducements	Rhetorical/bully pulpit	State and federal cost sharing
Politics	Local	High politics at a variety of levels
Performance measurement	Idiosyncratic/subjective	Generally objective (e.g., state standards/state tests)
Union posture	Strongly opposed	Mixed
Reward target	Individual	Individual and collective
Reward amount	Trivial	Trivial to significant
Magnitude	Approximately 200 local districts	Approximately five states and 2,000 local districts
Public visibility	Low	Substantial

Understanding the Stakeholder Perspective

Another reason why education stakeholders, policymakers, and the media should be careful about which terms they use to describe alternative compensation programs is that stakeholder perspectives and support vary depending on the type of program being discussed. Those who communicate about alternative compensation programs should understand these varying perspectives prior to sharing information about program details. Otherwise, those communicating about the programs run the risk of using incorrect or unclear terminology that produces a knee-jerk reaction and can cause audience disenchantment.

In a 2003 public opinion poll, Public Agenda (Farkas, Johnson, & Duffett, 2003) asked teachers the extent to which they favor rewarding financial incentives to teachers for a variety of different activities or levels of performance, such as receiving National Board Certification (through the National Board for Professional Teaching Standards) or teaching in hard-to-staff schools. Teachers were more likely to “strongly” or “somewhat” favor giving financial incentives to teachers who consistently receive outstanding principal evaluations (62 percent) than they were to giving financial incentives to teachers whose students routinely score higher than similar students on standardized tests (38 percent). Data from that same report show that teachers are more likely to support pay for filling positions in high-needs schools and for additional roles and responsibilities (e.g., National Board Certification) than additional pay for teaching in hard-to-fill subject areas. Given these differing attitudes about types of alternative compensation, education stakeholders, policymakers, and the media need to be careful about which terms they use to describe planned reforms, because teacher attitudes about certain terms may affect how they respond to proposed reforms.

The unions that represent teachers already appear to be making an effort to carefully use available terms to discuss different types of alternative compensation as a way to delineate which types of reform they do and do not support. For example, the American Federation of Teachers (AFT) states that it supports pay for National Board Certification, for teaching in school and subject shortage areas, for mentoring and professional development, for schoolwide performance, and for knowledge and skills, but not for individual pay based on student or classroom performance (AFT, 2008). AFT also has stated that it recognizes the difficulties schools face attracting and retaining teachers, in part because of the lack of competitive pay that teaching offers candidates. Further, AFT acknowledges that the single-salary schedule has its drawbacks and that the education community needs new ways to think about compensation for teachers (AFT, 2008). Combined, these statements clearly express AFT's policy position on performance pay, and its careful use of terminology avoids confusion about its stance on any particular component of a pay structure.

Similarly, the National Education Association (NEA) has published a statement that distinguishes between different types of alternative compensation, and its positions on these different methods of compensation vary (Flannery & Jehlen, 2008). For example, NEA does not support pay based on evaluations or student test scores, or for hard-to-fill subjects. On the other hand, NEA supports additional pay for National Board Certification or advanced degrees, for taking on mentoring responsibilities or acquiring new knowledge through professional development, and for incentives to attract teachers to hard-to-staff schools. In general, NEA's position on alternative compensation is similar to AFT's position, although NEA does not support alternative pay for subject-shortage areas (Flannery & Jehlen, 2008).

Although the national union stance on alternative compensation is important, on-the-ground local union engagement is essential to any program's

design and implementation. Local union leaders are an important communication vehicle—teachers often look to their local union leader for guidance or clarification about new programs and initiatives—and should be considered a major stakeholder in any compensation reform effort, not only in those states requiring collective bargaining (Koppich & Prince, 2007). Therefore, it is important for education stakeholders, policymakers, and the media to understand how local union leaders view compensation reform and to use clear, concise terminology.

In a study of local union leaders from six states, researchers found that teacher union presidents are more likely to support pay plans based on *school-wide* performance rather than on *individual teacher* performance; in addition, the leaders indicated that they are likely to support providing additional compensation for teachers to take on extra roles



Using incorrect or unclear terminology produces a knee-jerk reaction and can cause audience disenchantment.

within the school (Johnson, Donaldson, Munger, Papay, & Qazilbash, 2007). In this same study, most of the local union leaders indicated concern over providing bonuses to teachers based on student performance or based on principal evaluations. Respondents' opinions varied in terms of incentives for teachers in hard-to-staff schools. Some leaders reacted favorably to the idea, and their districts even implemented these types of programs. Other leaders felt that the incentives might stigmatize hard-to-staff schools even further. Still others questioned the fairness of some programs: Newer teachers received incentives, while teachers in the same schools for many years did not receive any recognition in terms of pay. Union leaders expressed hesitance to adopt reforms to the single-salary schedule (such as the programs in Denver and Minneapolis); they were more likely to support programs that provide additional compensation on top of base pay, instead of reforming the entire salary schedule (Johnson et al., 2007). The union leaders' strong opinions on these specific components of alternative compensation plans varied widely depending on the type of incentive offered. Clearly describing each piece of a compensation system is key to realizing honest feedback from the education community.

Given all of the above information, stakeholders, policymakers, and the media must make certain that they are clear about exactly what kind of reform they are discussing when they raise issues of compensation reform with local unions. If those communicating about alternative compensation do not use terms that specifically describe the type of reform they wish to implement, they may create unnecessary antagonism or confusion within the ranks of the union, whose members may support some types of reform but not others. For example, an *Omaha World Herald* article (Saunders, 2008) indicated that a panel was currently fleshing out plans for a "merit pay" program in the area. This article prompted the Omaha Education Association to clarify in its bimonthly publication that it does not support "merit pay" (Fennell, 2008). A lack of understanding among local union leaders about

alternative compensation programs as a result of miscommunication or unclear language often damages possibilities for a productive, nuanced discussion about the specific design or goals of a program.

Remedying the Problem

Up to this point, this paper has discussed problems related to alternative compensation terminology but has not discussed how to remedy these problems. In an effort to move toward a more consistent strategy for discussing alternative compensation, particularly around the use of the terms "merit pay" and "performance pay," CECR offers two solutions:

Solution 1:

Discontinue Use of the Term "Merit Pay" and Apply Consistent Language When Communicating About Alternative Compensation

Because early efforts at merit pay created sharp divisions about subjective evaluations tied to pay, continued use of the term carries with it a set of negative connotations that prove difficult to transcend. To further the discussion about alternative compensation, CECR suggests that the education field discontinue the use of the term "merit pay." In an effort to avoid the negative connotations associated with the merit pay plans of the 1970s and 1980s, pay reform efforts in place today mostly avoid the use of the term "merit pay" in favor of other descriptive terms that do not invoke opposition. For example, Denver's program is called Professional Compensation or ProComp. In a November 2007 speech on education in New Hampshire, then presidential candidate Barack Obama expressed support for rewarding teachers based on student performance. The speech indicated that multiple measures of student performance are necessary, including student achievement gains, additional teacher roles and responsibilities, and increased knowledge and skills; but Obama avoided using the term "merit pay," seemingly because of

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negative connotations. *ABC News* analysts wrote, “He completely avoided the term ‘merit pay’” (Davis & Miller, 2007). Koppich and Prince (2007) note that “the term ‘merit pay’ has an unfortunate recent history in education. The term itself, rightly or wrongly, raises red flags with teachers. Avoiding this term just makes sense.”

Another critical argument for avoiding the term “merit pay” is that most teachers are wary of pay plans based on a single factor, and inaccurate or ambiguous terminology often reduces alternative pay plans to the least common denominator. The terms “performance pay” and “merit pay” are often associated solely with one type of alternative compensation—that which is based on subjective evaluations or on test scores. However, not all alternative compensation is pay based on test scores; some of the more successful pay plans have rewarded teachers for multiple factors: additional responsibilities, knowledge, and skills; hard-to-fill positions; and performance. The assumptions associated with these singular terms—that student standardized tests or principal evaluations will determine the teacher’s success—can reduce the discussion of alternative pay options to a debate limited to disagreements about only these two methods of implementing alternative compensation.

CECR realizes that for many reasons, completely retiring the use of the term “merit pay” is unlikely to happen. In that case, CECR suggests that education stakeholders, policymakers, and the media ensure the use of clear and consistent terms that reflect program components to describe alternative compensation programs. For example, those who communicate about compensation programs should use uniform terminology pertaining to the title, goals, and design features of the program in program documents, on websites, in media outlets, and in meeting discussions. Individuals charged with designing and implementing alternative compensation programs should choose language carefully (Koppich & Prince, 2007). Imprecise use of terminology is one of the fastest ways to doom a program. Those charged with designing and implementing an alternative compensation program should consider developing a communication plan that reflects this suggestion and then sharing that communication plan with stakeholders and the media.

Solution 2:

Clearly Define Program Performance Measures When Discussing Alternative Compensation Programs

It is absolutely vital for stakeholders, policymakers, and the media to understand and define the term “performance”—the basis for most programs—when sharing information with the public about an alternative compensation system. For example, literature on performance pay from other fields is based on economic theory that distinguishes between payment for inputs and payment for outputs, defining “performance pay” as the latter (Lazear, 2000; Podgursky & Springer, 2007). Furthermore, economists propose that there is a difference between “performance pay” and “merit pay.” “Performance pay” is used in situations where there are specific measurable outcomes, and “merit pay” is the term used for less easily measured activities (Chamberlin, Wragg, Haynes, & Wragg, 2002).



In certain high-needs schools and subject areas such as mathematics and science, several programs offer incentive pay for teachers in hard-to-staff schools and/or subject areas. Researchers mostly use the term “market pay” to describe these programs.

The term “performance” can refer to many different things, depending on the context. In education, the definition of “performance” generally splits into two categories: teacher performance indicators and student performance indicators. Another way to think about *teacher performance* is a definition offered by Goe, Bell, and Little (2008)—it is either the interaction that occurs in the classroom between teachers and students, or it is a teacher’s professional activities within the larger school or community. In some cases, teacher performance also is measured by other outcomes that focus on a teacher’s role in the school, such as school leadership roles or taking on the task of strengthening relationships with parents (Goe et al., 2008). These components also fit under what some researchers call knowledge- and skills-based pay (Heneman, Milanowski, & Kimball, 2007; Podgursky & Springer, 2007).

Student performance, on the other hand, focuses on outputs, including measures of student performance on standardized achievement tests, graduation rates, or other measures of student outcomes. It also can include indicators at the school level measured against schoolwide goals for student achievement,

graduation rates, or attendance rates. Student achievement can be measured in multiple ways, including student gains on standardized tests, value-added scores, and other district- or state-established student performance indicators (Baratz-Snowden, 2007; Goe et al., 2008; Hassel, 2002; Heneman et al., 2007; Podgursky & Springer, 2007).

In addition, there is a type of *nonperformance*-related alternative compensation that is commonly implemented across the country and is important to note here. In response to teacher shortages in certain high-needs schools and subject areas such as mathematics and science, several programs offer incentive pay for teachers in hard-to-staff schools and/or subject areas. Researchers mostly use the term “market pay” to describe these programs (Baratz-Snowden, 2007; Podgursky, 2008); however, some use the term “differential pay” to indicate different pay for different types of teachers, either by subject area or by school (Hassel, 2002). Alternative compensation programs, including merit pay and performance pay, are almost always based on some measure of performance pay or market pay. As discussed above, teachers, union

leaders, and other education stakeholders have a range of perspectives when it comes to which measures of performance they support for compensation reform programs. Using terms such as “merit pay” and “performance pay” invokes specific assumptions about how certain performance measures are used to reward teachers and principals. Unless those who communicate about alternative compensation programs are clear about what is meant by performance when discussing current or proposed programs, audiences will commonly make those assumptions. Clarity is critical to creating a constructive dialogue around alternative pay plans.

To add further confusion, recent media coverage and research reports use the blanket term “classroom performance” to define “merit pay” or “performance pay” instead of focusing on some measure of teacher performance or student test scores specifically. For example, one 2007 news article defined “merit pay” as “compensating teachers for classroom performance rather than their years on the job and coursework completed” (Dillon, 2007, p. 1). The author did not define “classroom performance,” leaving the reader to decide whether or not it means tying pay to the in-class behavior of teachers or the performance of a group of students (as a class). The lack of a definition from the author for “classroom performance” triggers individual consumers of the information to decide its meaning on their own.

Table 2 provides education stakeholders, policymakers, and the media with a guide for communicating about specific performance measures that comprise an alternative compensation program. After all, it is the performance measures that often resonate the most with individuals consuming

information about alternative compensation. CECR suggests that when individuals communicate about alternative compensation, they include information about the following:

- What is being rewarded?
- At what level is the input or outcome measured?
- Who is being rewarded?

Table 2. Questions to Answer When Discussing the Performance Measures of an Alternative Compensation System

What is being rewarded (i.e., definition of performance)?	At what level is the input or outcome measured?	Who is being rewarded?
Teaching performance (e.g., classroom observations, principal evaluation, peer evaluation, lesson plan review)	Teacher or school	Teacher or school
Student outcomes Student learning gains (e.g., value-added measures) <hr/> Student achievement levels subject area or school performance levels) <hr/> Other student outcomes (e.g., graduation, curriculum-specific goals, social/emotional outcomes)	Teacher, grade level, subject area, or school	Teacher, grade level, subject area, or school
School outcomes (e.g., adequate yearly progress, graduation resource development)	School	Teacher or school
Knowledge/skills (e.g., portfolio, National Board Certification, professional development)	Teacher	Teacher
Additional responsibilities (e.g., mentor/master teacher, afterschool teacher, tutoring)	Teacher	Teacher
Hard-to-fill positions Subject area (e.g., English) or grade level <hr/> School type (e.g., high poverty, low performing)	Teacher	Teacher

Conclusion

Inaccurate or ambiguous terminology may alienate key stakeholders and reduce alternative pay plans to the least common denominator. The terms “performance pay” and “merit pay” often are associated with one type of alternative compensation effort, either based on subjective evaluations or on test scores. In fact, some of the more successful alternative pay plans have rewarded teachers for a combination of multiple factors—undertaking additional responsibilities, improving knowledge and skills, assuming hard-to-fill positions, and influencing student performance—and the modern education reform discussion needs to reflect this situation.

Research stresses the importance of engaging stakeholders and building community support for an alternative compensation program. In many cases, stakeholders have different ideas of which components of compensation reform a program should include. A well-constructed communication plan that clearly and consistently conveys the program components, goals, and measures can go a long way to reduce confusion about what a program does or does not include. Media outlets and the public should adhere to information in program communication plans in order to present consistent and accurate information, as many stakeholders obtain

information about programs through local news and online media sources. In some cases, the careless use of the term “merit pay” by the media and other public documents intended to share information about an alternative compensation program sends the wrong message about the design or goals of a program. The term “merit pay” has a regrettable history and should be retired completely if the dialogue about educator pay reform is to advance in any productive way.

Instead, education stakeholders, policymakers, and the media should clearly define performance measures and use that descriptive language to communicate about alternative compensation programs. Audiences of information about alternative compensation programs want to know what is being rewarded, who is being rewarded, and how the inputs and outcomes are measured. Including responses to these kinds of questions can be particularly useful in facilitating clarity around program details.

As states, districts, and schools explore alternative compensation programs as one component of education reform, the public deserves discussion that provides clear information and avoids the pitfalls around the language and terminology of past attempts.

Quick-Reference Glossary of Terms Related to Alternative Compensation

Alternative compensation

Using indicators other than those used in the single-salary schedule (teacher degree and years of experience) to determine teacher pay.

Differential pay

A general term used to describe a different form of pay from the single-salary schedule for teachers who accept assignments in hard-to-staff schools and/or subject areas.

Knowledge- and skills-based pay

Performance-based pay that is based on teacher performance indicators that may include acquiring and demonstrating a new or improved knowledge or skill, taking on a new or enhanced role in a school or district, or excelling at parent or community outreach.

Market pay

Incentive pay for teachers in hard-to-staff schools and/or subject areas.

Merit pay

Often associated with alternative compensation from the 1980s, “merit pay” refers to teacher compensation that is based either on principal evaluations (old-style merit pay) or student standardized test scores (new-style merit pay).

Performance pay, pay for performance, or performance-based compensation

Generally refers to programs created since 2000 that base teachers’ pay on their performance in the classroom. Performance pay can be based on either teacher performance (evaluation, professional development) or student performance indicators (value-added, gains scores on standardized tests; objective evaluations of student performance; or other valid and reliable assessments of student performance).

Teacher bonuses

Additional pay for teachers that goes beyond the traditional single-salary schedule but does not reflect a change in base pay.

Teacher incentives or incentive pay

Another general term for providing teachers with additional compensation beyond the traditional single-salary schedule. Incentive pay can be based on a variety of indicators and is often used as a tool to recruit teachers for particular schools or subject areas.

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Alternative Compensation Terminology: Considerations for Education Stakeholders, Policymakers, and the Media

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By Cortney Rowland and Amy Potemski, Learning Point Associates

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Center for
Educator Compensation
Reform

Allison Henderson, Director

Phone: 888-202-1513

E-mail: cecr@westat.com