

**Making Teaching  
Worth It:  
Reimagining Educator  
Compensation Practice  
For The 21st Century**

**Ed Policy Project**

**Birmingham Education Foundation**



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The Birmingham Education Foundation is a non-profit 501(c)3 dedicated to increasing the number of students in Birmingham City Schools that are on the path to college, career, and life readiness. We believe that this is only possible by creating a diverse network of people who demand excellence for students and encourage others to do the same.

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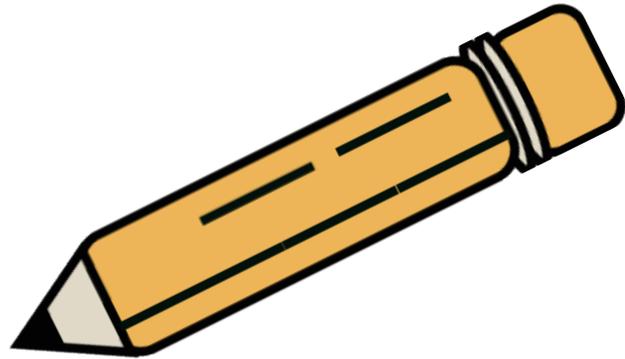
# Making Teaching Worth It: Reimagining Educator Compensation Practice For The 21st Century

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# EXECUTIVE SUMMARY



For the better part of the last two decades, school systems across the nation have been contending with a chronic and pervasive public teacher shortage.<sup>1</sup> Alabama is no exception. What started as subject-specific staffing challenges centered largely in rural and high-poverty systems has expanded to touch nearly every subject area and district location.<sup>2</sup> In 2018, Alabama State Superintendent Dr. Eric Mackey formed the Alabama Teacher Shortage Task Force to examine the growing shortfall in the state's public educator workforce. According to the group's September 2019 Report, 89% of Alabama's 138 districts struggled to fill their teacher vacancies with qualified candidates.<sup>3</sup> Every year, approximately 8% of Alabama teachers leave the profession, and perhaps most disturbingly, the future workforce pool appears to be rapidly contracting.<sup>4</sup> Rather than encouraging students to consider teaching, many adults are actively dissuading young people from pursuing teaching as a career path. In a 2018 PDK/Gallup poll, 55% of current teachers and, for the first time in the poll's 50-year history, a majority of parents (54%) indicated that they would not want their children to enter the profession.<sup>5</sup> Though the vast majority of respondents held teachers in high regard, they also determined that becoming a public school teacher simply wasn't, in their estimation, 'worth it.'<sup>6</sup>

Making a career as an American public school teacher 'worth it' stands as one of the great policy challenges of the 21st century. While salary is certainly not the only factor, teacher compensation nonetheless plays a critical role in the strength and stability of the teacher labor supply. Current teacher compensation practices (salary levels, pay structures, fringe plans, and other employee incentives) are not sustaining the skilled workforce necessary to properly staff the nation's schools. While some policymakers continue to argue about whether current public school teacher compensation is already 'fair' or 'good enough,' the economic reality is clear. The status quo of teacher pay, both in Alabama and nationally, is insufficient because the profession is unable to reliably recruit and retain the skilled workforce needed to staff the country's classrooms. In the 21st-century labor market place, Alabama's K-12 public schools are losing their ability to effectively compete. More than minor policy tweaks, teacher compensation demands a fundamental reconceptualization. Faced with the current teacher workforce crisis, Alabama is well-positioned to be a leader for change. By thoughtfully reexamining and, ultimately, redesigning teacher compensation practices, the state can reinvigorate the appeal of the profession for a new generation.

# UNDERSTANDING THE BASICS OF TEACHER COMPENSATION

Public school teachers occupy a unique space in the labor landscape, and as such, it is worth taking a moment to cover the essential features of how public educators are compensated. At the most basic level, teacher compensation represents a combination of both salary and benefits. Current public educator compensation includes the following components:

## Teacher Salaries

Thirty-six states (and the District of Columbia) create salary schedules as part of a collective bargaining framework, and approximately 50% of US public school teachers belong to a union or employee association.<sup>7</sup> As a result, most public school teachers do not negotiate their salaries on an individual basis. Alabama’s employee association is the Alabama Education Association (AEA). The organization exists to support and advance the interests of the state’s public educators, but the AEA does not formally negotiate teachers’ salaries or contracts.<sup>8</sup> Alabama is one of seven states that explicitly prohibits collective bargaining.<sup>9</sup> Authority over teacher pay rates resides with the Alabama Legislature. Each year, as part of the state’s annual education budget process, the legislature determines the minimum salary schedule for state public school teachers. Alabama is one of seventeen states that maintains a statewide minimum salary schedule.<sup>10</sup>

Whether negotiated through a contract or assigned by the state, teachers’ pay is typically based on “step and lane” salary schedules specific to the district where they are employed.<sup>11</sup> “Steps” are the salary levels that districts tie directly to time in the system (i.e., teachers’ years of service); “lanes” are the differentiated salary pay rates offered for various levels of advanced education (master’s degrees, PhDs, etc.). In Alabama, individual districts with additional resources may elect to pay teachers more than the minimum.<sup>12</sup> In 2017-18, fifteen Alabama districts offered salaries above the minimum pay schedule.<sup>13</sup> The chart below compares the early salary trajectory (FY2020) for a teacher holding a Bachelor’s Degree in three local districts vs. the state-mandated minimum schedule.

SYSTEM	Starting Salary (BA/BS)	Year 2	Year 3	Year 4	Year 5	Year 6	Salary Differential (after 6 yrs)
Birmingham City	\$41,592	\$41,888	\$46,224	\$46,573	\$46,894	\$48,949	\$14,633
Homewood	\$42,685	\$43,048	\$43,411	\$46,294	\$46,729	\$47,257	+\$11,937
Mtn. Brook	\$41,310	\$41,549	\$41,796	\$46,539	\$46,979	\$47,413	+\$8,099
AL Minimum	\$40,873	\$40,873	\$40,873	\$44,956	\$44,956	\$44,956	--

*Source: Birmingham City Schools 2019-2020 Salary Schedule, Homewood City Schools Certificated Salary Schedule 2019-2020, Mountain Brook City Schools Certificated Employees (FY2020), and ALSDE FY2020 Foundation Program State Minimum Salary Schedule.*

Notably, the data suggest the following: (1) that systems with a strong local revenue stream often choose to invest additional dollars in teacher compensation and (2) that systems that can afford to supplement beyond the minimum pay scale often offer both higher starting salaries and annual (if modest) pay increases.

## Teacher Benefits

In addition to salary, benefits represent an important part of teacher compensation. Public educators' benefits typically include employer costs for retirement plans, health insurance, life insurance, and payroll taxes. Public school teachers tend to earn a higher share of their compensation from benefits than employees from other sectors.<sup>14</sup> A 2018 Economic Policy Institute (EPI) study estimated that public educators enjoyed roughly an 8.4% 'benefit advantage' compared to other workers, meaning the value of their benefits was equivalent to an additional 8.4% more in earnings.<sup>15</sup> Health care offers an instructive example. According to 2018 Kaiser Health figures, the average Alabama individual employee contribution for employer-provided health care for an individual was \$1,453 annually; by contrast, a single Alabama teacher paid \$360 per year in premiums.<sup>16</sup>

It is the teacher pension, though, that distinguishes teacher benefits from those typically earned by employees in other sectors. Unlike most private employees, 89% of public educators in the US participate in some form of defined benefit retirement program or pension; in 38 states, it is the only available option.<sup>17</sup> Unlike defined contribution plans (e.g., 401(k) retirement plans), pension plans guarantee a certain monthly payout to retirees -- a benefit that continues for the duration of the retiree's life. Ultimately, pension payments are determined by a formula and are calculated based on both the number of years worked, an average salary rate and a multiplier. In Alabama, public educators belong to the Teachers Retirement System (TRS) as either Tier I participants (those employed in the system prior to January 1, 2013) or Tier II participants (those enrolled on or after that date).<sup>18</sup> Teachers' contributions to the plan are mandatory. The Retirement Systems of Alabama (RSA) oversees TRS and, roughly speaking, teacher pension benefits are calculated as follows:



Source: Retirement Systems of Alabama (RSA)

In a simplified example, a 20-year, Tier I teacher whose top three earnings years averaged \$50,000 would, beginning at age 60, expect to receive an annual pension payout of \$21,250.

The chart below contrasts the two tiers of teacher pension plans currently operating in Alabama.

Tier Type	TRS Active Members	Required Annual Salary Contribution (Employee)	Minimum Vesting Period	Minimum Age Required to Receive Pension	Employer Contribution Rate (as a % of salary) for FY 2020
Tier I	95,610	7.5%	10 years	60 (or 25 years of service at any age).	12.43%
Tier II	41,551	6.0%	10 years	62 (no service substitution).	11.34%

*Note: Not all TRS members are public school teachers; TRS also includes employees from Alabama's state college and University system. Source: 2018 RSA Actuary Annual Valuation Report.*

In order to be 'vested' (i.e., claim the pension benefit) in Alabama, all teachers must work a minimum of 10 years in the TRS system.<sup>19</sup> Teachers who leave the system prior to the minimum service period forfeit their right to collect a pension. A Tier II teacher who serves 8 years and moves to another state, for example, would only be eligible to recuperate their personal contributions plus nominal interest; the employer contribution is effectively lost.<sup>20</sup> At the opposite extreme, a Tier I Alabama teacher who began working in 1994 at age 22 could leave the classroom in FY2019 (at 47) and collect an annual pension for the remainder of his or her life.<sup>21</sup>

# STATE CONTEXT

At a time when consensus around any public policy issue is rare, Alabama education stakeholders agree on this point: the state has a significant and deepening teacher shortage crisis. Increasingly, the state struggles to fill current teacher vacancies with properly-qualified candidates. The findings from the Alabama Teacher Shortage Task Force’s recently-released report are alarming. According to the report, in 2017-18:

- Thirty percent of all state classrooms were led by educators teaching ‘out of field.’
- 1700 Alabama secondary education teachers were “not certified to teach the English, math, social studies, science or special education classes they were assigned.”
- The percentage of Alabama students completing teacher education programs (since 2010) had dropped 40%.
- A mere 523 new secondary teaching certificates were issued *in the entire state*.<sup>22</sup>

While the reasons underlying the teacher shortage are complex and multi-faceted, teacher compensation remains central to the crisis. What and how teachers are paid in Alabama is directly and intimately connected to the state’s inability to fill and maintain its public educator ranks. Ultimately, finding long-term solutions to the state’s teacher shortfall means understanding how teacher compensation levels and practices have contributed (and continue to contribute) to the current workforce deficit.

The connection between the state’s teacher shortage crisis and teacher compensation practices can be summarized in three simple statements:

1. Current Alabama public school teacher salaries are too low to attract sufficient applicants into the educator pipeline.
2. Current Alabama teacher compensation structures do not provide the incentives necessary to sustain a stable and robust educator workforce.
3. Current Alabama teacher compensation practices make inefficient use of the financial resources already available to pay teachers.

Developing sustainable state policy solutions to remedy those conditions will be anything but simple, but this policy report does not purport to offer easy answers. Rather, the report seeks to highlight the connections between teacher salaries and the teacher workforce crisis, to provide greater context to the question of adequacy surrounding Alabama teacher pay, to enumerate the most salient challenges facing teacher compensation practice, and to raise questions about the mechanisms that have long defined how Alabama teachers are compensated. As Alabama’s teacher shortage crisis intensifies, the state’s ability to stem that crisis will depend on whether or not it can effectively address the critical issues surrounding teacher compensation.

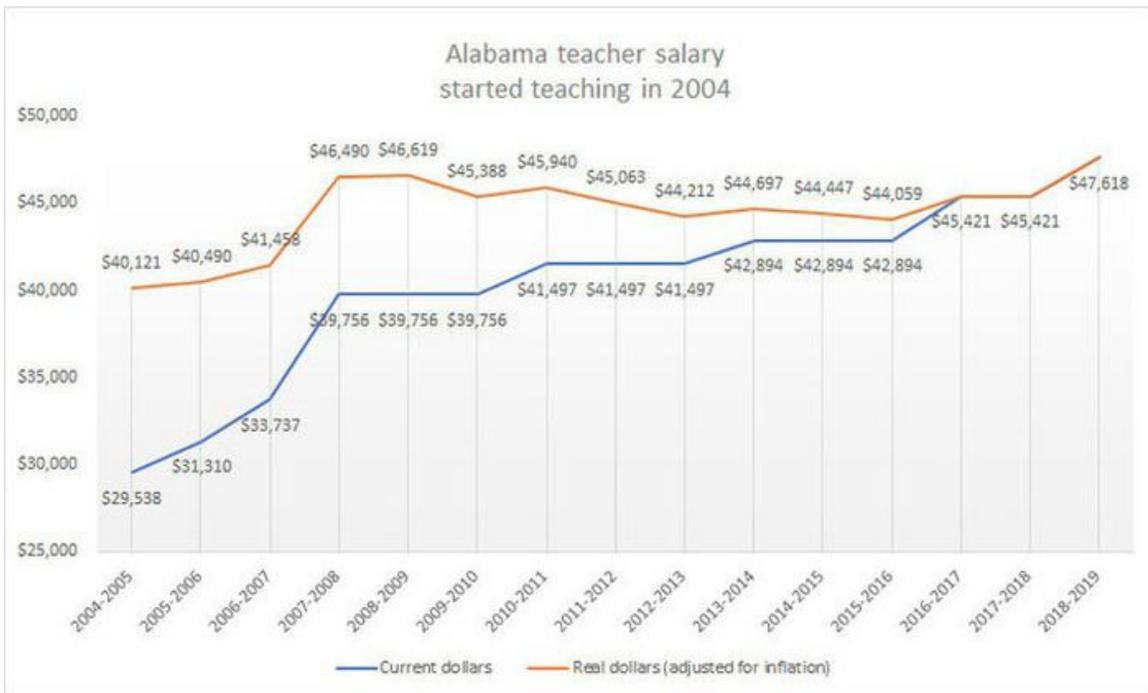
# COMPENSATION IN CONTEXT

## ***How do we know that Alabama teacher salaries are too low?***

The current adequacy of Alabama public school teacher salary levels can be gauged in several ways, each offering a different insight into the sufficiency of state teacher pay.

**Real wages** represent an individual’s ‘purchasing power’ or inflation-adjusted income over time.<sup>23</sup> Nationally (adjusting for inflation), the average *starting* salary for all US teachers decreased 2.91% in the past decade, while the average salary of all teachers fell 4.5%.<sup>24</sup> Between 2008 and 2018, the real wage picture for Alabama’s public educators was even more bleak. During that time, inflation-adjusted average salaries for Alabama teachers dropped 8.5%.<sup>25</sup>

The graph below charts the current earnings vs. the real dollar earnings of an Alabama educator who started in 2004. Again, the graph reveals the nominal wage rise/real wage erosion experienced by Alabama teachers over much of the last decade. After a decade-long slide, the purchasing power of Alabama teachers has only now begun to stabilize. FY2019 marked the first year that the value of Alabama’s teachers’ salaries finally climbed back to 2008 levels.<sup>26</sup> Simply put, relative to past earnings, it took Alabama teachers a decade to simply return to the starting line.



Source: Trisha Powell Crain, “Alabama teacher salaries worth less than a decade ago,” AL.com, May 9, 2018 (updated March 6, 2019), [https://www.al.com/news/2018/05/alabama\\_teacher\\_salaries\\_worth.html](https://www.al.com/news/2018/05/alabama_teacher_salaries_worth.html).

Over the past two years, Alabama’s spending on teacher salaries has been on an upward trajectory. To their credit, Alabama legislators have recognized the critical need for state teacher salary increases and, in response to that need, voted to authorize teacher pay raises in four of the last six years.<sup>27</sup> In April 2018, the Legislature approved a 2.5% teacher raise; a year later, they approved

a 4% pay increase, pushing the starting salary for first-year Alabama teachers with a Bachelor’s Degree above \$40,000/yr for the first time in state history.<sup>28</sup> Alabama state policy is assuredly moving in the right direction regarding teacher compensation, but teacher pay levels still have a long way to go. Alabama teacher salary levels remain well below where they need to be to effectively compete for qualified talent.

**Relative wages** is a measure of how Alabama teacher compensation compares to that of peers in other states and other professions. According to the most recent National Education Association (NEA) Rankings and Estimates Report, 2018-19 average teacher salaries in nearby southeastern states ranked as follows:

RANK	STATE	2018-19 Average Teacher Salary
1	Georgia	\$57,137
2	Tennessee	\$53,980
3	Arkansas	\$51,019
4	Louisiana	\$50,923
5	Alabama	\$50,810
6	Florida	\$48,395
7	Mississippi	\$45,574

*Source: National Education Association 2019 Rankings and Estimates Report*

The average Alabama public teacher salary ranks 5th among 7 states in the region.<sup>29</sup> Notably, Alabama’s salary averages are significantly behind two of its closest neighbors: Tennessee and Georgia. Though the chart’s salary figures do not reflect the 4% pay raise issued to Alabama teachers for FY2020, they also do not reflect the teacher pay increases implemented in other states for that same year.<sup>30</sup> Despite the most recent pay raise, Alabama’s relative position has not improved. For FY2020, for example, Georgia approved a \$3,000 across-the-board pay raise for its teachers, further widening the already substantial average pay gap between the two states.<sup>31</sup> Even states that have traditionally lagged behind Alabama in teacher compensation are suggesting dramatic hikes in teacher salary levels. In Florida, Governor Ron DeSantis’ FY2021 budget proposal includes a dramatic \$10,000 boost to public teachers’ starting salaries in the state.<sup>32</sup> If passed, Florida teachers would begin at \$47,500 annually, almost 20% above what Alabama first-year teachers currently earn.<sup>33</sup> Alabama’s teacher salaries are already below average for the region and, as other states invest more in their public educator workforce, Alabama is in danger of losing additional educator talent to nearby states.

Comparing salaries across professions can be tricky business and is not, in most instances, a particularly useful analytical exercise. To understand the adequacy of Alabama teacher compensation, however, there is value in contrasting teacher pay with those in other fields. Doing so, particularly within the confines of a narrow local lens, mimics the personal economic considerations that a high school graduate might make in deciding what career path to pursue. While there is no perfect ‘apple-to-apples’ equivalent to public school teachers, Registered Nurses (RNs) come close. RNs share credentialing expectations and educational requirements similar to those found in

teaching. Juxtaposing the early income statistics of a Birmingham City Schools high school teacher vs. a Greater-Birmingham area RN can provide real-world insight into why young people are failing to enter the classroom.

Like teachers, RNs must hold a degree (either a 2-year Associate’s Degree or a 4-year Bachelor’s of Science Degree), must complete professionally-specific coursework requirements (including a practicum), and must successfully pass a certification exam.<sup>34</sup> Both professions are considered critical to the successful functioning of foundational institutions. Additionally, nursing is a profession historically dominated by women that has suffered from both a gender pay gap and significant workforce supply challenges.<sup>35</sup>

According to the most recent available Bureau of Labor Statistics (BLS) report, the average annual RN salary (2018) in Alabama was \$59,470, which is more than 16% higher than the average state salary for teachers.<sup>36</sup> Narrowing the lens further and looking exclusively at Birmingham-specific statistics puts that compensation differential into greater focus. Setting 2019 Birmingham metro RN salary data from salary.com alongside the FY2020 BCS teacher salary schedule (see chart below) yields a dramatic side-by-side comparison. The compensation for a Birmingham RN exceeds that of a Birmingham public school teacher on every metric.

### Registered Nurses vs. Public Educators: A Compensation Snapshot

Position	Starting Salary	After 5 years	After 7 years	Predicted 10-year Salary Growth
RN (with BS) <i>in Birmingham:</i>	\$59,282 (RN I)	\$70,770 (RN II)	\$82,555 (RN III)	12% (national estimate) <small>Source: Bureau of Labor Statistics</small>
Birmingham City Schools Teacher (with BS or BA):	\$41,592	\$46,894	\$49,585	3% - 4% (national estimate) <small>This is a national estimate - the range reflects differences between primary and secondary ed. Source: Bureau of Labor Statistics.</small>

Source: [salary.com RN Birmingham Metro RN salary data](#) as compiled by [topregisterednurse.com](#) and the [Birmingham City Schools 9 month Salary Schedule 2019-2020](#).

According to general compensation practice in the industry, RN IIs require 2-4 years of experience; RN IIIs require 4-7 years of experience.<sup>37</sup> Notably, RN levels are not explicitly tied to completing advanced degrees. Instead, professional progression typically requires a minimum period of experience, a demonstration of on-the-job competency, and, for some RN III positions, some specialty-specific certification (e.g., Advanced Cardiac Life Support).<sup>38</sup> Importantly, these certification requirements involve a far lower commitment of money and time than a graduate degree. Certification modules often range in the hundreds of dollars, with course content completion measured in hours or days. For RNs, career advancement is linked to satisfactory performance and additional workplace responsibilities. As RNs gain experience and display effectiveness in their positions, they assume a greater leadership role and expand the scope of their practice. When advanced training for RNs is required, it is most-often targeted and intimately related to their work.

Salary.com figures, of course, may not reflect the full range of RN compensation for the Birmingham Metro region. Yet even the more comprehensive, more conservative figures from the most recent (2018) Bureau of Labor Statistics show the substantial local salary range differences between RNs and educators (see chart below).

Position (BHM/Hoover Metro Region)	10th Wage Percentile	25th Wage Percentile	50th Wage Percentile	75th Wage Percentile	90th Wage Percentile	Mean Salary (2018)
RN	\$43,550	\$50,590	\$60,550	\$72,530	\$80,960	\$61,920
Teacher (Secondary)	\$40,410	\$46,910	\$54,460	\$60,010	\$63,330	\$53,560

*Source: 2018 Bureau of Labor Statistics.*

What starts as a modest differential at the lowest end of the wage scale (7.5%) expands to a much more dramatic disparity in earnings in the top quarter (21%) and top tenth (28%) of the wage scale.<sup>39</sup> On average, RNs in Birmingham (often with equal or less advanced education) earn over 15% more annually than Birmingham secondary school teachers.<sup>40</sup> Over the course of a career, those numbers add up. Simply put, for a high school graduate, choosing to become a teacher in Birmingham can represent a significant economic sacrifice.

# THE CHALLENGES

While salary levels are important, the thorny issue of teacher compensation extends beyond *how much* teachers are compensated to the matter of what they are compensated *for*. For most public educators, differentiation in compensation has little to do with on-the-job performance. Instead, higher levels of compensation stem predominantly from possession of an advanced degree and years of service in a given district (the so-called “step and lane” salary schedule).<sup>39</sup> While a growing body of educational research underscores the critical role that quality teaching plays in student learning, an equally robust body of research dispels the notion that there is a meaningful correlation between simply possessing an advanced degree and teacher impact in the classroom.<sup>40,41,42</sup>

Many states and some individual districts (including the District of Columbia, Florida, and Colorado) have spent the greater part of the last two decades attempting to better connect teacher pay and teacher practice. All implemented some form of ‘merit pay’ and/or ‘pay for performance’ frameworks.<sup>43</sup> While the idea of compensating employee excellence with higher pay appeals to American workplace values and norms, the development and implementation of fair merit pay efforts - particularly establishing a clear, shared definition of success - has proven to be inordinately complex and fraught with unforeseen consequences.<sup>44</sup> Ultimately, the track record for such systems has been mixed, controversial and, from the perspective of student learning gains, largely inconclusive.<sup>45</sup> Understanding the limited successes, pitfalls, and inherent challenges of merit pay systems is worth exploring in its own right, but a deep dive into the ‘merits’ of merit pay warrants a separate analysis; the focus of this policy report will be on the broader structural issues related to teacher compensation.

The critical challenges currently surrounding teacher compensation are as follows:

## ***Challenge #1: Teaching is becoming a less desirable and less economically viable career option for college graduates, particularly those in STEM fields.***

With low starting salaries, slow wage growth, teacher benefits policies that effectively punish employee mobility, and a tremendous expansion of career options available to women, teaching has lost the tremendous ‘market share’ it once held, particularly for college-educated women. In 1970, 50% of all college-educated women entered the profession; today, that figure is below 10%.<sup>48</sup> The precipitous shift away from teaching extends to both genders. Though women currently represent more than  $\frac{3}{4}$  of the teacher workforce, men are also gravitating away from the profession.<sup>49</sup> As cited earlier, total enrollment in Alabama colleges of education has dropped by 40 percent since 2010.<sup>50</sup>

For college graduates with a degree in a STEM field, teaching makes little economic sense. A fundamental mismatch currently exists between the content knowledge and skills demanded of teachers in these chronic shortage areas and the compensation that those skills can command in other sectors. The average starting salary for college graduates with a bachelor’s degree in engineering, for example, was \$69,188; similarly, other “math and science” majors can expect initial earnings just over 62,000.<sup>51</sup> That substantial compensation differential fuels and accelerates an already severe teacher shortage. It bears repeating that, according to members of Alabama’s Teacher Shortage Task Force, the state currently fills 30% of its classrooms with “out of field” teachers with no certification in the subjects they are asked to teach.<sup>52</sup> Though Alabama offers some federal loan forgiveness

assistance for STEM-trained teachers, such as the Alabama Math and Science Teacher’s Education Program (AMSTEP), the state offers no strategic compensation for teachers in high-shortage subject areas.<sup>53</sup> Additionally, beyond Career Tech fields, the state does not consider relevant subject-area work experiences as a valid factor in calculating additional compensation for would-be career changers.<sup>54</sup>

Here again, what often gets overlooked in the public discussion and framing of the teacher shortage crisis is the intimate connection between qualified applicants and teacher compensation. Faced with limited prospects for closing current staffing gaps in hard-to-fill fields, Alabama State Superintendent Dr. Eric Mackey and a delegation from Alabama traveled to South Korea this fall to explore the possibility of importing math and science educators.<sup>55</sup> The increasingly global staffing effort both exemplifies the extreme severity of the crisis and indirectly highlights the role that money plays in these labor ‘shortages.’ Alabama already produces enough college graduates with degrees in these content areas, but for the vast majority of these qualified individuals, the choice to teach comes at too high a personal financial cost.<sup>56</sup> Absent a higher STEM teacher salary framework and expedited pathways into the classroom, few STEM-trained Alabamians will ever entertain teaching as a possible career.

***Challenge #2: How we compensate teachers is often out of alignment with their actual value in the classroom, but finding fair, successful, and sustainable differentiation strategies has proven complicated and controversial.***

According to a recent National Council on Teacher Quality (NCTQ) analysis, school districts across the country spend an estimated \$9.5 billion annually to teachers simply for holding a master’s degree, a credential that evidence tells us often bears little relationship on student learning outcomes.<sup>57</sup> In a recent NCTQ review of the nation’s 124 largest districts, 92% of districts provided additional compensation to teachers holding advanced degrees.<sup>58</sup> Alabama’s current salary schedule (2019-2020) grants new teachers with master’s degrees an additional \$6,192 annually for simply earning that degree from an accredited Alabama provider; the annual differential increases to over \$7,000 for a teacher in his or her 6th year of service.<sup>59</sup> Over a lifetime, that salary boost awards a 25-year teacher approximately \$185,000 in additional wage compensation for a qualification that has no definitive impact on student learning.<sup>60</sup>

Rewarding service years through drawn out ‘salary steps’ offers another example of a possible compensation/impact mismatch. Unsurprisingly, research indicates that teacher effectiveness improves most dramatically during the first three years in the classroom.<sup>61</sup> Research also indicates that educators continue to improve their effectiveness well into their first decade and a half of service (and sometimes beyond). According to a recent survey of the research, fifteen separate studies suggest that teacher experience (even beyond the novice period) plays a statistically significant role in positive student outcomes.<sup>62</sup> Clearly, on the whole, additional teacher experience enhances teacher effectiveness.

Unfortunately, the progression of current teacher salary schedules often does not follow the trajectory of improved teacher effectiveness. Teacher pay schedules are heavily back-loaded compared to the age-earnings profiles of other professions and disproportionately slow in terms of early wage growth.<sup>63</sup> In most school systems, sheer longevity remains the only basis for reaching the top of the pay scale. Deferring salary advancement impedes schools’ ability to adequately

compensate the efforts of high-quality early and mid-service veterans with 3 to 15 years of experience.<sup>64</sup> While no reasonable salary scale should disregard extensive experience or ignore the benefit of advanced coursework that enhances a teacher's craft, the current weight of these components in Alabama teacher compensation calculations is distorted and, in the case of advanced degrees, often disproportionate to its value. By paying a premium for educational credentials that do not necessarily improve teacher practice and by disproportionately rewarding professional endurance over professional value, most US school districts compensate teachers with little attention to actual teacher effectiveness.

### ***Challenge #3 Teacher benefits, particularly the rising cost of funding teacher pensions, plays a significant and often poorly understood role in the rising cost of education.***

How can overall education costs be steadily escalating while teachers simultaneously suffer from wage stagnation? The answer lies with benefits. The latest school finance data reveals that, nationwide, more than 23% of all per pupil current expenditures spending in public schools goes to fund staff pensions and benefits.<sup>65</sup> Between 2005 and 2014, even as overall national spending on education rose a mere 1.6%, national spending on public teacher benefits jumped by 22%.<sup>66</sup> As a result, \$7 billion fewer dollars actually made it into the classroom.<sup>67</sup> While some of this spike reflects a continuing rise in the cost of health care, teacher retirement costs also play an ever-larger role. In 2004, US school districts paid an average of \$530 per pupil to teacher retirement costs; by 2019, that figure is estimated to have reached 1,445.<sup>68</sup>

Despite the rising influx of additional dollars, however, the vast majority of state teacher retirement funds are not fiscally secure. Nationally, teacher pension debt has reached over \$680 billion.<sup>69</sup> South Dakota and Wisconsin are the only two states with fully-funded pensions; only a handful more are considered financially sound.<sup>70</sup> According to financial experts, fiscally stable plans should be 90% funded; the funding for Alabama's teacher pension currently hovers near 70%.<sup>71</sup>

All that accumulated debt comes at a cost. Nationally, two-thirds of every dollar contributed by employers to teacher pension funds goes to servicing the pension debt.<sup>72</sup> According to the most recent actuarial report, in FY2021, Alabama will spend (depending on whether an employee is Tier I or Tier II) between 78%-86% of its employer contribution servicing the teacher pension debt.<sup>73</sup> That means for every employer dollar currently contributed to "retirement benefits," only 11¢-19¢ will actually make it into the fund that will eventually pay teachers retirement costs.<sup>74</sup> Worse, many states are not fully disclosing the extent of insufficiently-funded pensions to employees or the public.<sup>75</sup> Only 15 states publicly report projections for paying off pension debt, and that instability has real-life consequences for would-be teachers and taxpayers.<sup>76</sup>

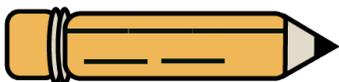
Currently, more than half of all beginning teachers will never vest in their state pension plans.<sup>77</sup> Further, the continued financial instability of most pension plans calls into question the probability that teachers will ultimately be able to enjoy promised future benefits.<sup>78</sup> The tenuous nature of teacher retirement benefits becomes even more alarming when factoring in the little-understood reality that in 15 states, all or most public educators do not participate in Social Security.<sup>79</sup> Forty percent of all US teachers fall into this category.<sup>80</sup> Though teachers in Alabama *do* participate in Social Security, the fact that so many remain outside the system highlights the critical need for reforming teacher retirement mechanisms nationwide.



# POLICY ALTERNATIVES

Recent widespread US teacher labor protests combined with the scale of the national teacher shortage crisis underscore how, to a large extent, no system or state has successfully tackled teacher compensation. There is no single outstanding exemplar for this issue. In most systems, across most states and throughout most regions, chronic public educator shortages exist and teacher compensation challenges persist. Though some states are faring far better than others, no single state can lay claim to having made the sustainable innovations and investments necessary to make public school teaching both professionally appealing and economically secure.

Transformative progress will require transformative change and, rather than offering overly simplistic answers, the following alternatives establish the two critical touch points that, if teacher compensation is to be strengthened and steadied, must be revised and, arguably, reimagined. These foundational issues include:



## **Alternative #1: Teacher Pay Scale Redesign**

The current teacher pay scale provides neither the compensation incentives that reward effective teaching nor meets the salary growth rates necessary to attract and retain a new generation of teachers. Rational, systemic changes to the pay scale might include:

- *Moving new teachers to their peak salary earlier.* As Jacob Vigdor argues, teaching does not follow the same age-earnings trajectory as other professions.<sup>81</sup> Earnings data show that newly-minted doctors and lawyers are often paid a relatively low starting salary but that their early experience is more quickly rewarded, hitting peak earnings within the first 15 years.<sup>82</sup> As cited earlier, RNs provide a particularly relevant model for an alternative, accelerated salary scale. Research already tells us that, after an initial novice period, most teachers reach high levels of effectiveness within the first decade and a half of teaching.<sup>83</sup> Having their compensation track that steeper, earlier rise will encourage both recruitment and early retention.
- *Developing a separate pay scale for chronically hard-to-fill subject areas.* The subject-specific teacher shortage crisis is a teacher compensation issue and as long as salaries for these positions remain between 50-60% of what future employees can earn in alternative fields, these positions will remain perpetually short of qualified applicants. While teacher salaries may not reach the levels offered by other industries, a sharp, substantial uptick in compensation, combined with more concerted, nimble efforts by colleges of education to recruit and prepare graduates in critical subject areas, would finally make teaching in these fields a viable option.
- *Building in annual incremental increases in teacher pay that prevent wage stagnation and more realistically account for inflation.* Alabama legislators could consider devising a more simplified, three-step salary schedule that builds in a modest factor to stave off inflationary wage depreciation. Adding an additional 1-1.5% to a teacher's base pay annually would help Alabama teachers to keep pace with the cost of living in between salary steps.

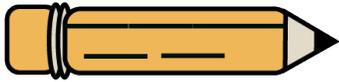
- *Restructuring and capping the current compensation bonuses paid to teachers exclusively for holding advanced degrees.* Providing teachers additional compensation for advanced subject-relevant study, demonstrated classroom effectiveness and a broader scope of professional responsibilities is an efficient use of taxpayer funds; simply paying teachers substantially higher salary levels for holding an advanced degree is not. Moving away from this framework could free up money that could be used to bolster early year salaries and pay for higher pay scales in critical-needs subject areas. In lieu of longevity, teachers might receive salary increases that correlate with advances in professional career pathways and an expansion of teachers' scope of practice (e.g., Master Teacher, Curriculum Designer, etc.). Indeed, a 2008 Alabama Governor's Commission on Quality Teaching (GCQT) report ("Innovations in Teaching: Creating Professional Pathways for Alabama Teachers") outlined the argument for the establishment of just such a model.<sup>84</sup> In a 2019 Teacher Shortage Roundtable, A+ Education Partnership Executive Director Mark Dixon explicitly advanced the idea of educator career pathways as a potential mechanism for boosting teacher compensation and consequently, teacher retention. Developing these pathways, he argued, could incentivize teachers to stay in the classroom rather than pursuing the higher salary levels currently available only through school administration.<sup>85</sup>

### *Benefits*

- The changes would offer greater financial incentives to potential teachers and better meet the compensation needs of new teachers, particularly those with the skill sets most desperately needed in the classroom.
- Rather than degrading standards, revamping the pay scale would elevate interest among accomplished career-changers and talented college graduates alike.
- By limiting compensation for a credential with little demonstrable effect on quality teaching, a revised pay scale would make more efficient and effective use of taxpayer dollars.

### *Considerations*

- Since many current teachers pursued advanced degrees with the understanding that their salaries would increase accordingly, these commitments must be honored. For current teachers, maintaining differentiated pay levels for advanced degrees must be grandfathered in.
- It would be understandable if State Colleges of Education expressed opposition to measures curtailing blanket pay differentials for advanced education degrees. This opposition, however, should be met with a genuine invitation. Institutions of Higher Education (IHEs) have a critical role to play in partnering with school systems to develop less-costly, more targeted education opportunities for teachers that more explicitly inform classroom practice.
- While offsets from limitations on 'advanced degree' pay would free up significant funds for proposed salary restructuring, additional resources must be added to the system. If Alabama is committed to building a healthy public educator workforce, state taxation practice and other state revenue generation efforts must better reflect that priority.
- States should not promise what they cannot reasonably deliver. Adjustments to teacher pay scales need to be thoughtfully calculated to ensure that changes are substantial but, ultimately, sustainable.



## **Alternative #2: Teacher Pension Redesign**

Teacher pensions have become the proverbial ‘elephant in the room’ in terms of teacher compensation spending. In many states, existing state teacher pension plans compel teachers and taxpayers to invest in a fiscally unsound retirement system that has little hope of yielding the financial returns that it promises. To avoid a continued syphoning off of dollars from the classroom and a possible future collapse to the system, Alabama’s teacher pension system must be more thoroughly examined and thoughtfully redesigned. All Alabama stakeholders -- teachers, the AEA, districts, lawmakers, institutions of higher education, students, families, and taxpayers -- have a stake in its reform.

Recent events in Kentucky serve as an example of how *not* to approach teacher pension redesign efforts. To be sure, Kentucky’s teacher pension system is in crisis. The system is less than 40% funded, with over \$40 billion in unfunded liabilities.<sup>86</sup> In April 2018, Governor Matt Bevin signed Senate Bill 151 into law. As a last-minute attachment to an unrelated sewer bill, the legislation included language that would overhaul the KY teacher pension system.<sup>87</sup> The bill stated that, beginning in 2019, all new Kentucky teacher hires would be excluded from the standard pension plan and enrolled instead in a hybrid cash-balance plan.<sup>88</sup> Rather than educating the public about the severity of the situation, honestly laying out the current challenges, and involving relevant stakeholders in serious discussions around a viable path toward common sense reform, Bevin elected to dictate drastic policy change and to disparage public educators in the process. Senate Bill 151 was ultimately struck down by the Kentucky Supreme Court.<sup>89</sup> Though the specific political motivations behind Bevin’s particular efforts are unclear, the defeat of the measure serves as a cautionary tale for those seeking to ‘right the ship’ of teacher pension plans. Scapegoating and applying hastily-crafted quick fixes to enormously complex issues like pension reform bear neither good politics nor good policy. Stakeholders must slowly build consensus around grounded, considered reform measures that balance both teacher and taxpayer interests.

The goals of the Alabama teacher pension redesign should be twofold: (1) to develop a realistic timeline for reducing the state’s unfunded pension liability to manageable levels and (2) to create a more flexible, more fiscally secure teacher retirement mechanism for the future. Redesign work might include:

- *Educating Alabamians, especially teachers) about the broad contours of the teacher pension funding situation.* State education stakeholders should understand the fundamentals of state teacher pensions and be made aware of what continuing current practice will cost the state if left unchanged.
- *Mandating that the Retirement Systems of Alabama (RSA) develop and implement a plan to bring Alabama’s pension commitments within 10% of full funding within a decade.* Lawmakers need to be transparent and realistic about the current and future status of the fund.
- *Researching, developing, and ultimately offering a defined contribution plan as an option for Alabama teachers.* Florida, Michigan, Ohio, South Carolina, and Utah currently offer teachers a choice between a defined contribution plan and a defined benefit plan.<sup>90</sup> In Florida, 25% of teachers currently opt into the defined contribution plan by choice.<sup>91</sup> Offering teachers

a different retirement option can both curtail further increases in future liability and give new teachers greater control, portability, and choice over their retirement finances.<sup>92</sup>

- *Investigating the viability of a hybrid or cash balance plan that incorporates elements of both the 401(k) plan and a pension.* A new, bi-partisan bill proposed in New Jersey offers a promising compromise solution. The bill maintains the current teacher pension for teachers with five years or more of service. For teachers with less than five years and for all new teachers moving forward, the defined benefit is offered on the first \$40K of their salary; salary amounts above \$40K are placed into a cash balance plan.<sup>93</sup> The cash balance plan guarantees a 4% return on teachers' investments. The bill strikes a balance between fiscal sustainability and strong teacher support and may offer a potential model for a more viable teacher retirement structure here in Alabama.

### *Benefits*

- If pension spending is modified to more manageable levels, a greater share of education dollars can return to funding teachers' salaries, school programs, and instructional materials for K-12 classrooms.
- Shoring up teacher pension commitments will ensure that an entire generation of Alabama public school teachers will not have the security of their retirement savings threatened. The financial burden of prior pension commitments already overwhelms the system; without measurable change, today's teachers will end up contributing more to the system than they can recuperate in benefits.
- All stakeholders would develop a deeper, more accurate understanding of the issue and be better prepared to create sustainable alternatives.

### *Considerations*

- Since teacher pension reform often involves raising taxes, limiting benefits, or doing both, undertaking the work offers little appeal for state policy makers. Righting the financial ship of teacher pensions will require sacrifice and compromise from teachers and taxpayers alike. Absent advocacy from educational organizations and calls from a concerned constituency, legislators will likely avoid efforts to initiate reform.
- Sustainable solutions must include a wide swath of stakeholders who are well-informed, willing to listen, and open to mutual compromise.
- Time is of the essence. Delaying action only increases the ultimate severity of the problem and, while economic growth and bull markets can close some portion of the funding gaps, the system in its current incarnation remains fundamentally unsustainable.

# Policy Recommendations

- 1. Design a state teacher salary model that incorporates regular incremental annual cost-of-living raises and enables teachers' salaries to adequately keep pace with the annual cost of inflation.** Teachers salaries need regular, basic protections against inflationary pressures. For information regarding where and how additional state resources for such a policy effort might be raised, please refer to our 2019 School Funding Policy Report.
- 2. Redesign Alabama's salary schedule to: (1) scale back the differentials in 'pay lanes' provided solely for advanced degrees, and (2) enable teachers to advance more quickly through the pay scale and reach their peak earnings earlier.** Designers should consider using the A+ Education Partnership's model for professional career pathways as a mechanism for boosting teacher compensation.
- 3. Commission PARCA to conduct a report studying the state's teacher pension program.** The sustainability challenges inherent in Alabama's teacher pension plan cannot be tackled until stakeholders have a realistic assessment of the financial factors at play. A comprehensive, balanced, state-specific, non-partisan analysis would be an invaluable resource around which to begin a discussion on teacher pension reform. A shared set of facts would allow the discussion to be grounded in policy solutions rather than political posturing.
- 4. Begin substantive discussions with relevant stakeholders about future Alabama teacher pension redesign.** Alabama legislators should investigate how hybrid plans, defined contribution plans, and cash-value options for public educators have been working in other states and begin transparent conversations about the possibility of ultimately incorporating some of these options here in Alabama. Statewide education advocacy organizations could play a role by educating teachers about state pension research and actively engaging current educators in substantive discussions about pension redesign. Ultimately, state lawmakers should work to develop teacher compensation practices that better meets the needs of the 21st century teacher workforce.

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