

Understanding Compensation

One aspect of compensation that makes it difficult to talk about is the number of terms that are used interchangeably to describe different aspects of compensation. At its core, compensation consists of two main components:

Fixed Pay

- The basic cash compensation that an employer pays for work performed. This tends to reflect the value of the work rather than performance or individual contribution. Also referred to as base pay.
- Examples in education: Salary schedules, Step-and-lane pay

Variable Pay

- Pay that changes directly with the level of performance or results achieved.
- Examples in education: Sign-on bonus, Position-based stipend for mentors, Differentials for principals based on building size

The following list of terms are provided to help you more easily navigate conversations about compensation.

Compensation Terms

Alternative Salary System

A salary system in which employee base pay increases are determined by factors other than educational attainment and years of service (see *Step-and-Level Salary Schedule*)

Bonus

A one-time payment of direct or indirect compensation that is offered in addition to an individual's base pay

Compensation Strategy

The principles that guide the design and delivery of compensation programs to align it to organizational goals.

Cost-of-Living Adjustment (COLA)

Base pay increase or decrease designed to align pay with changes in the cost of living

Differentiated Compensation

Increased pay designed to incentivize and recognize valued skills, abilities, and behaviors. This term is sometimes used interchangeably with pay for performance, but can also be used to describe pay systems that tie higher compensation levels to teaching hard-to-staff subjects, teaching in high-needs schools, or working other in-demand areas.

Direct Compensation

A monetary incentive or reward

Exempt

A term that refers to jobs that are exempt from the overtime requirements of the Fair Labor Standards Act (FLSA). These jobs meet specific duty criteria for an administrative, executive, professional, or computer professional and are not entitled to overtime pay or compensatory time.

Fixed Pay

The basic cash compensation that an employer pays for work performed. This tends to reflect the value of the work—and not performance or individual contribution. Also referred to as base pay.

Incentive

Direct or indirect compensation promised to an individual or team before an action has been completed to motivate him/her to complete that action or accomplish a certain goal

Indirect Compensation

Pay received in the form of services and benefits (e.g., pensions, health insurance, vacations)

Lagging Compensation Philosophy

When an organization consciously decides to have its pay below external market pay

Leading Compensation Philosophy

When an organization consciously decides to have its pay above external market pay

Market Comparison

Relationship between the pay for an internal job versus a similar job in other organizations (external market)

Merit Pay

Pay increase awarded to an employee based on their performance. Also referred to as pay-for-performance.

Nonexempt

A term that refers to jobs that are subject to the minimum hourly pay and overtime requirements of the Fair Labor Standards Act (FLSA).

Pay for Performance

Pay increase awarded to an employee based on their performance. Also referred to as merit pay.

Pay Form

Method of delivering direct or indirect compensation to an individual (e.g., paper check, direct deposit, etc.)

Pay Range

The defined minimum, midpoint, and maximum pay for a specific position.

Reward

Direct or indirect compensation given to an individual or team after an action has been completed or performed as the result of an effort or attainment of a goal

Seniority

Years of service. It may be position-based (e.g. number of years in a teaching position), organization-based (e.g. number of years with the school district), or industry-based (e.g.

number of years in education). This can be defined by the organization in their labor contracts or based on past precedence.

Step-and-Level Salary Schedule

A salary system in which pay progression is determined by factors such as educational attainment level and seniority. Also known as a Single Salary Schedule or Step-and-Lane Salary Schedule

Strategic Compensation

The alignment of compensation with desired organizational goals

Supplemental Pay

Direct or indirect 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.

Total Compensation

An individual's complete pay package that includes cash, benefits, and services

Variable Pay

Pay that changes directly with the level of performance or results achieved