

## How effective are financial incentives for teachers?

### Linking teacher pay to student performance has become popular, but evidence on its effectiveness is mixed

Keywords: teacher incentives, student achievement, pay-for-performance, merit pay

#### ELEVATOR PITCH

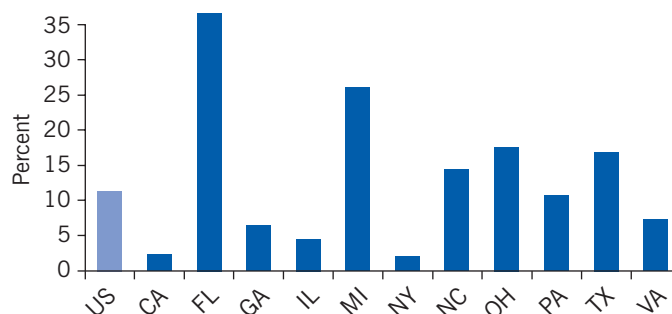
Concerns about poor student performance have led schools to diverge from traditional teacher compensation and base a portion of pay on student outcomes. In the US, the number of school districts adopting such performance-based financial incentives has increased by more than 40% since 2004. Evidence on individual incentives in developed countries is mixed, with some positive and some negligible impacts. There is less evidence for developing countries, but several studies indicate that incentives can be highly effective and far cheaper to implement. Innovative incentive mechanisms such as incentives based on relative student performance show promise.

#### KEY FINDINGS

##### Pros

- + Incentives can effectively improve student performance if they are designed well.
- + In developing countries, paying teachers for student performance has been shown to be highly effective at low cost.
- + Incentives based on the collective performance of small groups of teachers strike a balance between loss of effectiveness from free-riding teachers and gains in effectiveness from teachers cooperating with each other.
- + Innovative incentive mechanisms based on loss rather than gain or on relative student performance show promise for high effectiveness but are yet to be rigorously evaluated.

Across US states, the share of districts with performance incentives varies widely, 2011/2012 (largest states)



Note: New Jersey is missing due to insufficient data.

Source: Schools and Staffing Survey 2011–2012. Online at: [http://nces.ed.gov/surveys/sass/tables/sass1112\\_2013311\\_d1s\\_005.asp](http://nces.ed.gov/surveys/sass/tables/sass1112_2013311_d1s_005.asp)

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##### Cons

- Overall, evidence on individual incentives in developed countries is mixed, with some positive and some negative impacts.
- In countries with high teacher salaries, incentives need to be large to elicit a response, which could make them too expensive for general use.
- Incentives based on the collective performance of large groups of teachers have been shown to have little impact on achievement and in some cases even generate negative impacts.
- There is no evidence that incentives tied to specific exams result in improvements in other measures of academic performance, suggesting a lack of general improvements in knowledge.

#### AUTHOR'S MAIN MESSAGE

Financial incentives for teachers can be effective if appropriately designed, but poorly designed incentives yield little benefit. Policymakers should avoid threshold-based incentives, such as meeting a target or doing better than other teachers, and instead favor systems based on incremental improvements in student performance. To avoid having teachers focus on any one specific measure at the expense of broad learning, incentives should be aligned with multiple outcomes that are both objective and subjective. If group incentives are used rather than individual incentives, the groups should be kept small: based on grade and subject, for example.