

## Setting Tuition and Determining Teacher Pay Raises for 2025-26

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This finance article comes out in the first week of October each year. It is intended as discussion points for the Finance Committee, your business manager, and the Board itself. It provides background for the tuition increase you will soon be announcing. At a minimum, that increase must ensure that your total operations budget maintains its value. And since 70%-80% of the operations budget is composed of compensation, the article also provides recommendations for teacher / staff pay raises. Both the USA and Canada are reaching a crisis point with not enough teachers coming into the profession. For the first time since records have been kept, a majority of parents no longer want their children to go into teaching. Maintaining competitive teacher compensation is crucial for the retention and recruitment of teachers, not just the best.

The Christian school budget is a Kingdom document, a moral document, and an arithmetic document. Its primary purpose is to empower the school to deliver its mission with excellence (Kingdom). Its secondary purpose is to ensure that the school acts in a Christian way in all its actions and, in particular, in relation to its employees (moral). Its final purpose is to ensure that Trustees carry out their fiscal responsibility in balancing the school's finances. In other words, it is not just a balance sheet or an audit statement. It is, rather, the expression of the mission and a clear statement of the priorities set by the school to fulfill that mission. "For where your treasure is, there your heart will be also" (Matthew 6:21).

Tuition is the primary source of income the school has. It must be set with the strategic interests of the next generation of children in mind. It must meet today's needs with an understanding of the future. It must be both a today and a next-five/ten-years decision.

Tuition setting is a formula, not a conversation. That doesn't make it easy. It does make it simple. Like it or not, the Christian school's tuition must go up by the Operations Tuition Increase. This number is based on the external economic realities of inflation and the rate of productivity increase. The annual tuition increase maintains the power of the school's current operations budget. It allows you to continue to do what you are doing at the same level of excellence. You have no control over this number. It is what it is.

We must add to that our ambitions for mission excellence. Boards and school leaders want their schools to improve, to add program, to add people, to add infrastructure. Whether this is

'good' or 'bad', we must understand that adding ongoing operations items to the budget is a choice. You have control over that. If you want it, tuition must increase to pay for it. The Operations Tuition Increase is not in your control. Adding Strategic Items is in your control.

Note: if Boards ignore these economic realities, the current Trustees may not pay the price. Make no mistake, those who inherit your decision will have to. While you can ignore these numbers tactically i.e., for this year, at seemingly no cost, strategically, you are pointing your school at a cliff. The chicken always comes home to roost. Future Trustees will have to deal with your current decision making. Every school has examples of this already in their own histories.

## Tuition Increase Recommendation

### **Inflation = 3.32%**

CSM uses a standard rear view mirror calculation from June to July of the previous year – see chart below.

Note: Canada CPI-median over the same time period is 2.6%.

### **Rate of Productivity Increase = 2.08%**

CSM uses a five year rolling average based on data provided by the St. Louis Federal Bank – see chart below.

Note: Canada RPI over the same time period is 0.6%.

### **Operations Tuition Increase = 5.4%**

This retains the power of your current operations expense budget only. It does not add value to your budget.

Canada data = 3.2% (CPI-median+RPI)

To this Operations Tuition Increase (OTI), add any Strategic Items (SI) costs that are fulfilled through tuition i.e. that are added into the operations expense budget.

### **Actual Tuition Increase = OTI 5.4% plus SI% (Canada 3.2%)**

## Teacher Compensation Increase Recommendation

Nominally, this is inflation plus rate of productivity increase i.e. 5.4%.

Our recommendation is always to match teacher salary increase *including the cost of benefits* to the Operations Tuitions Increase. Note that this increases the total pot of compensation money – it does not mean that everyone's salary/benefits will necessarily increase by this amount.

Note: for those in Canada, there is a persistent wage differential between Canada and the USA that has continued and even increased over time. Data from Canada typically shows a lower rate of wage increase.

### **Teacher Compensation Increase = 5.4% (Canada 3.2%)**

## Staff and Administration Compensation Increase Recommendation

The rate at which compensation should increase for staff and administration operates in a different competitive environment than that of teachers. Compensation increases are initially set at rate of inflation as a COLA increase. Beyond that, for staff it should reflect local market conditions specifically for those positions. For administration, it should reflect industry norms for administration based on the cost of replacement should an employee leave. Again, this is a pot of money that is disbursed as is appropriate. It is not intended necessarily to be an equal distribution.

**Staff and Administration Increase = 3.32% (Canada 2.6%)**

### Commentary

The beginning point for setting tuition is inflation. For the purposes of this annual calculation, CSM uses the average inflation from July of the previous year to June of the current year and a consistent source (usainflationcalculator.com). This is therefore always a lagging indicator. Schools can choose their own parameters and source – once chosen, the same data must be used year to year.

	Inflation	2023-24											
July	August	September	October	November	December	January	February	March	April	May	June	Average	
3.20%	3.70%	3.70%	3.20%	3.10%	3.40%	3.10%	3.20%	3.50%	3.40%	3.30%	3.00%	3.32%	

<https://www.usinflationcalculator.com/inflation/current-inflation-rates/>

Inflation, or the Consumer Price Index, is more than just a simple number. It has a built-in “productivity factor.” It assumes that the work force is increasingly productive as machine intelligence, computers, streamlined mechanical devices, and other labor-saving developments provide greater output with same or fewer working hours needed. The more efficient business becomes, the more inflation is stabilized or reduced. Where this is true, these industries are called progressive industries – businesses that raise productivity each year and are able as a result to pay their employees at a rate higher than the rate of inflation. The outcomes of progressive industries become obvious. The only way such wage increases are possible is if the worker produces more during the same time period.

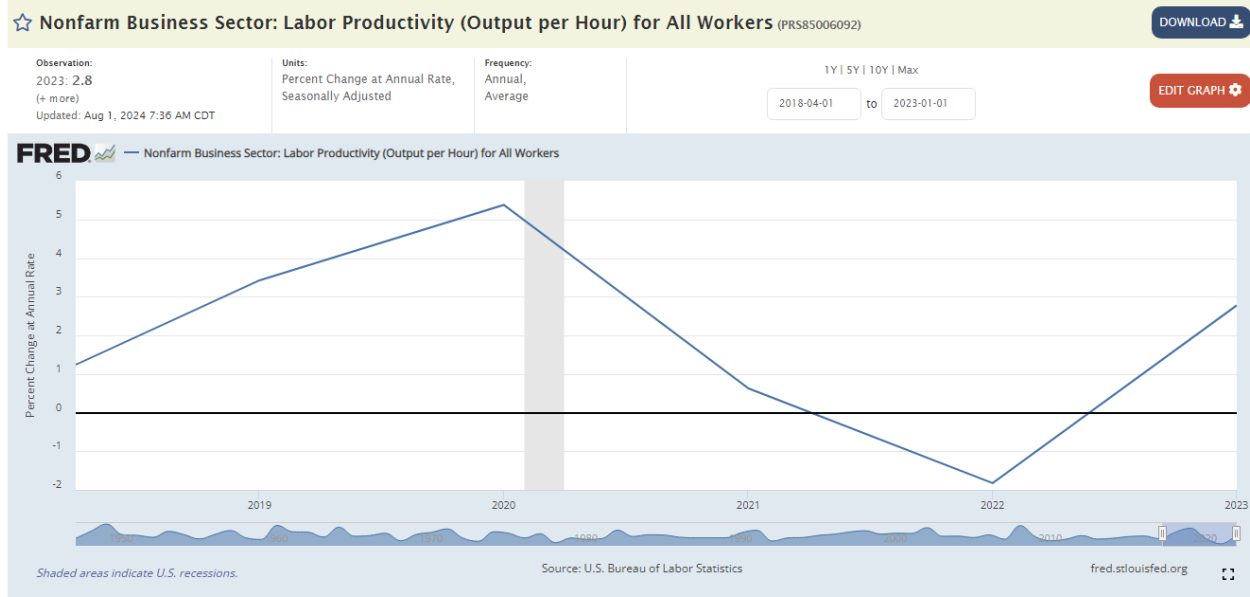
But there are also what are termed stagnant industries, like education. Education differs from progressive industries in that it is people-intensive and not product-driven. Education cannot offset the total true effects of inflation by increased efficiency – the classroom still consists of a teacher and a group of students. If more students enroll, we create more sections with more teachers. Furthermore, even as the demand for additional programs (and teachers) occurs, schools tend not to remove any of the existing programs to lessen the budgetary crunch. Costs go up even when productivity remains static. This problem is termed Baumol’s Cost Disease.

William Baumol, renowned economist at New York University, developed data that indicated costs in service-related businesses inherently rise faster than in product-oriented industries. This occurs because productivity in the labor-intensive service sector tends to lag behind manufacturing, and salaries in the service sector have to keep up with salaries in more productive industries. In short, employment costs for health care, entertainment, insurance, law enforcement, orchestras, and education will always rise faster than overall inflation because of this competitive environment.

More recently, economists Jack E. Triplett and Barry P. Bosworth reaffirmed Baumol’s findings and inferences concerning productivity. They claim the problem comes in the “mismeasurement of output.” How do you measure the productivity of a teacher, and thus quantify the salary cost? For tech-savvy teachers, computers can possibly improve productivity in the classroom. But labor-intensive industries (like education) have a limited ability to benefit from technological advances and inevitably experience higher real costs. The CPI can reflect the costs of producing automobiles or computers, but it is clearly a poor base for setting tuitions (which are largely determined by teacher/staff compensation given that compensation represents 70%-80% of the total operating expenses).

The biggest challenge in the school’s budget is the school’s ability to pay a competitive wage. Since the job market is a competitive one, and workers tend to move towards jobs that compensate the best for their educational and skill levels, education is at a disadvantage when it comes to attracting the best workers since it is a stagnant industry.

With this in mind, we therefore know that OTI must go up by the rate of inflation plus the rate of productivity increase (ROI + RPI).



We use a rolling average of five years to calculate the rate of productivity increase. This evens out significant ups and downs, typically caused by asymmetrical events.

Rate of Productivity Increase 2019-2023						
	2019	2020	2021	2022	2023	Average
	3.4	5.4	0.6	-1.8	2.8	<b>2.08</b>

For salary, we turn to a recent commentary (2019) by Neel Kashkari of the Federal Bank of Minneapolis. He wrote in the Wall Street Journal: “The price of labor – wages and other compensation – should rise at a rate roughly equal to productivity growth plus inflation.” Here is wage growth over the same period of inflation that we have used.

Rate of Wage Growth 2023-4 (year over year)												
2023						2024						
July	August	September	October	November	December	January	February	March	April	May	June	Average
6.0	5.8	5.4	5.5	5.8	6.2	4.9	4.97	5.0	4.7	4.9	4.7	<b>5.3</b>

[United States Wages and Salaries Growth \(tradingeconomics.com\)](https://tradingeconomics.com)

If we take the wage and salary growth average of 5.3% and subtract inflation (3.32%) to discover real wage growth, we arrive at 1.98% which is lower than the rate of productivity increase (2.8%) this year and comparable to the rolling average (2.08%). Historically, over time, these two numbers – productivity increase and compensation - track closely.

We note too a recent study by the Economic Policy Institute showing that teachers had a wage penalty (21.4%) compared with workers of similar education although they had a benefits advantage of 8.4%. It is unlikely that in our Christian schools, teachers have a benefits advantage, and they almost surely have a wage penalty of at least 10%. For our schools, it is a double disadvantage. Public school benefits are now around 29% of compensation; for our schools, we rarely see benefits that hit even 20% of a lower compensation.

ROI plus RPI plus SI (the strategic tuition increase determined by items in the school’s Strategic Plan) is the rate at which the Christian school must raise tuition. By considering it in this way, tuition calculation becomes less qualitative and far more quantitative.

### Conclusion

The CSM Ox Principle states that the Christian school “has an obligation to:

- provide resources that allow it to deliver the mission with excellence,
- balance its budget,
- compensate its employees honorably and respectfully,
- provide a safe and optimal learning environment,

- minimize / eliminate debt, and
- maintain a reserve.”

Tuition and compensation (salary and benefits) increases should reflect this.

**Note:** The high tuition increases over the last two years continue to drop, tracking inflation and productivity. This year’s tuition increase (5.4%) may seem high given the success of the Fed to reign inflation back to the 2%-3% range. Remember that this is a lagging indicator. If you choose to make your lagging indicator closer to the time of tuition decision, say October, the principles remain identical. And ensure that you maintain whatever parameters you choose.

For those operating Strategic Financial Management planning documents that were designed in earlier years, this current inflation reality must be factored into your decisions and built into your adjusted Strategic Plan / Strategic Financial Management.

Tuition is a calculation, not a conversation. Changing this calculated tuition increase to make it lower forces your school over time into a strategically weaker position, at some point threatening survival in a highly competitive environment. Our schools thrive when they provide excellence; they go out of business when they become “cheap”.

Please contact CSM if you would like help with thinking / through your school’s budget as a Kingdom / Moral / Balanced document that strategically thinks forward.

[christianschoolmanagement@gmail.com](mailto:christianschoolmanagement@gmail.com) will get to us.

We were asked to provide a worked example. Hopefully, the following is relatively easy to follow. If you’re not interested, stop reading now! It’s quite long since there is a lot of relevant detail. We have attempted to leave out anything extraneous to simplify the thinking.

Begin with the basics. These numbers are from an actual 2023 CSM client with whom we were doing Strategic Planning / Strategic Financial Management. Very little has been edited. The projections are entirely CSM’s based on the school’s own actuals. The school is in Michigan so you will be able to translate the tuition into your own geographic setting. It is a K-8<sup>th</sup> grade school with 134 K-5, and 61 in 6-8. Total of 195 children. Average tuition including fees across all age levels is \$8,263.

*Step One*

Total Tuition and Fees	1,295,422
Total Expenses	1,555,231
% Income/Expenses	83.29%

We identify a Key Performance Indicator – the ratio of tuition/fees to expenses (I/E). We do not want that to deteriorate and it needs to improve. We will increase tuition .5% just to continue to close the gap I/E towards the KPI of 102%.

*Step Two*

Total Expenses	1,555,231
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Total Compensation	1,228,631
% Compensation	79.00%

We identify another Key Performance Indicator – the ratio of compensation (salary and benefits) to total expenses. We want that to stay in the 70%-80% range so that the three expense buckets (mission delivery, compensation, fixed costs) stay in the appropriate relationship to each other. It is currently in that range.

### Step Three

	Strategic Items	For Next Year
	Descriptor	
Item 1	Additional support	19,000
Item 2	Donor stewardship	500
Item 3	Reduce the # of asks	7,000
Total		
	<b>Total Compensation</b>	<b>19,000</b>
	<b>Total Other Expenses</b>	<b>7,500</b>

We identify the Strategic Items that are planned for next year that are to be calculated into the tuition increase. This includes planned administrative support, the ability to steward donors, and incorporating financial asks that are made during the year (e.g. a separate year book ask) into the tuition total. Compensation (salary and benefits) and other expenses are separated out since they will rise at different rates. Compensation will rise at ROI and RPI while other expenses will only rise at an average maximum of ROI. Your school's list of strategic items may well be very different and include different kinds of numbers. This is an example and not intended to suggest that all schools follow this model of investment.

### Step Four

<b>Strategic Items</b>	<b>26,500</b>
Number of children	195
Cost per child	136
Current tuition	8,263
% increase per child	1.6%
Improve KPI I/E	0.5%
<b>% increase per child</b>	<b>2.1%</b>

We calculate the cost of the strategic items including the strategic direction of improving the I/E KPI and identify the tuition increase we need to effect them. In this example, the tuition cost per child is 2.1%. We have seen everything from 1% to over 6%. We have never seen a 0% here i.e. the school has nothing that it does not want to improve / add. This will be added to OTI + RPI.

### Step Five

Total Expenses	1,555,231
ROI plus RPI (OTI)	7.50%
Strategic Items	1.6%
Total Increase in Expenses	9.14%
New Expense Budget	1,697,451

We now determine what the total increase in the operations (expenses) budget is and identify the total expense budget for the following year. This is the 'bucket' of money the Board gives to the Principal to expend. The only restriction on the Principal are the Strategic Items where the Board has strategically directed monies be allocated in a particular way and which must be spent in that way.

*Step Six*

Classroom Teachers	864,000	7.50%	64,800
Administration	170,000	6.30%	10,710
Support Staff	140,000	6.30%	8,820
	1,174,000	Total	84,330

We need to think about the way in which compensation increases since there is a differential between teachers and administration/support staff. The first column identifies the type of employee in each category. The second column gives the total compensation cost for each category. The third column multiplies one by the other to identify the compensation increase that will be allocated in the budget for each.

*Step Seven*

Classroom Teachers	864,000	7.50%	64,800	928,800
Administration	170,000	6.30%	10,710	180,710
Support Staff	140,000	6.30%	8,820	148,820
	1,174,000	Total	84,330	1,258,330
				7.18%

Next year's total for each category of employee is now calculated giving us a new compensation bucket (salary and benefits) in column 5. The total in the 2<sup>nd</sup> column is multiplied by the ROI/RPI in the 3<sup>rd</sup> column giving a final total in the 5<sup>th</sup> column. The compensation bucket is going up by 7.18%. Remember that each employee does not necessarily receive a 7.5% or 6.3% compensation raise. Column 4 identifies the additional \$64,800 (classroom teachers), \$10,710 (administration), \$8,820 (support staff) that can be given out equally or differentially depending on the objectives and methodology the school uses.

*Step Eight*

Total Expenses	1,555,231	1,697,451
Total Compensation	1,228,631	1,258,330
% Compensation	79.00%	74.13%

We can now doublecheck the Key Performance Indicator for compensation ratio to total expenses. It is still in the 70% to 80% range.

*Step Nine*

	Current Year		Next Year
	Actual	Note	Total
Gross Tuition and Fees	1,611,289	9.64%	1,766,692
Financial Aid	315,867	keep ratio	346,331
% Financial Aid	19.60%	keep ratio	19.60%
Net Tuition	1,295,422	Net Tuition	1,420,361
Other Income	126,000	increase 1%	127260
Total Income	1,421,422	Total Income	1,547,621

Look at the tuition picture. Tuition goes up by ROI + RPI + SI = 9.64%. The ratio of financial aid is held steady thus increasing over \$30,000. Other income only goes up 1% recognizing the reality that those incomes operate according to different rules and are often market driven e.g., endowment draw.

Total Tuition and Fees	1,295,422	1,420,361
Total Expenses	1,555,231	1,697,451
% Income/Expenses	83.29%	83.68%

Doublecheck the other Key Performance Indicator (I/E) and identify that it has improved towards the 102% KPI. By improving this half a per cent, philanthropy dollars have also been released improving the budget not just in its strategic direction but also in actual dollars available to spend on improving the child's experience.

*Step Ten*

	Current	Next Year	Per Month
Average Tuition	8,263	9,060	906.00
Increase	9.64%	Increase	<b>79.69</b>

We can now identify what the tuition for 2023-24 is going to be: \$9,060. Year to year, the tuition over a 10 month payment period will increase \$79.69 per month.

### *Final thoughts*

Thinking about the specific Key Performance Indicators to watch out for, the strategic items your school has identified to improve mission delivery with excellence, treat its employees with honor and respect, ensure competitiveness in your market niche, all lead to a final tuition number. This is what it takes. Trustees must remember their next-generation (Ps. 22) stewardship obligation when making this decision. It would be easy to blink and say you won't raise tuition more than 5%. If you do that, and there will be Christian schools who will do that, you literally curse the Board with the burden of recovering the school's financial health that will take at least six years. This is not theoretical. When Boards blink, it takes six years or more to recover. What is the alternative? Over time, the inability to deliver excellence in the classroom; hearing your academic administrator tell you they couldn't hire the best teaching candidates because the salary was too low; putting more and more pressure on your philanthropy director. Sell the message of excellence – don't apologize for the tuition, In fact, barely mention it at all. It's just money. Parents are far more interested in their children than in their bank accounts.

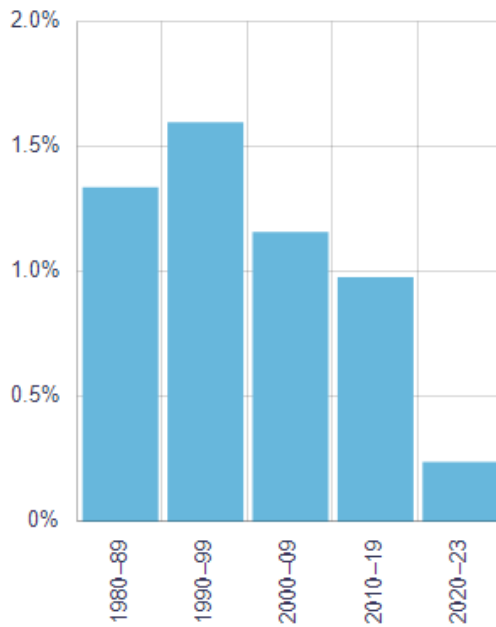
### **Canada Data**

## Rate of Productivity Increase

### Chart 3: Productivity growth in Canada has been

Average annual growth

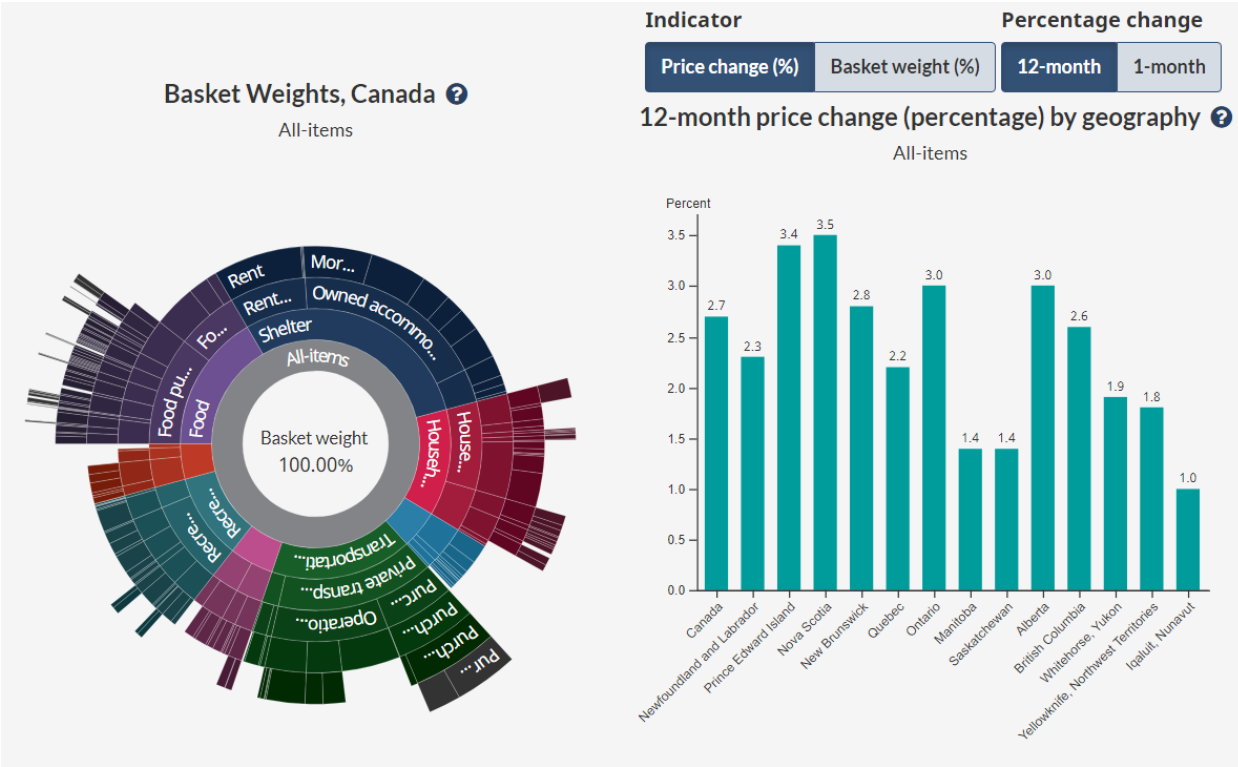
a. Labour productivity growth



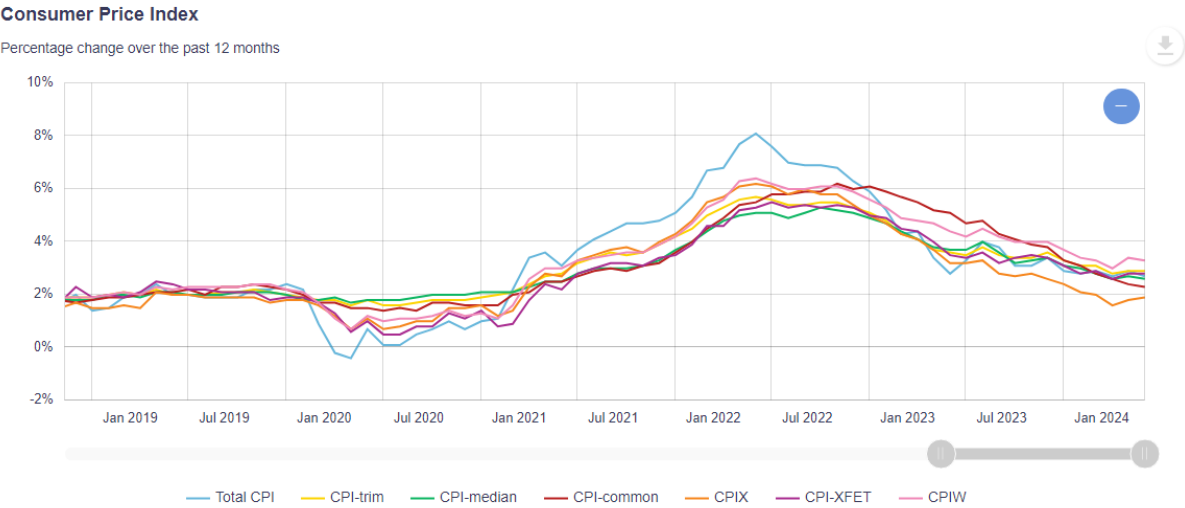
We note that productivity growth in Canada lags the equivalent measure in the USA.

Sources: Statistics Canada and Bank of Canada calculations  
Last observations: panel a, 2023; panel b, 2019

We provide an interesting graphic for Canada CPI to show how variable numbers can be in different regions of the country. This comes from [Latest Snapshot of the CPI \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/52-627-x/2023001/article/00001-eng.htm) A similar case can be made in the USA where each region, and sometimes the urban/rural differences in a region, can be quite significant.



The averaged CPI for Canada comes from [Consumer price index - Bank of Canada](#)



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CSM Mission: For Jesus; Through Mission; With Students

Website: [christianschoolmanagement.org](http://christianschoolmanagement.org)

Email: [christianschoolmanagement@gmail.com](mailto:christianschoolmanagement@gmail.com)

Membership: \$8.67 month

CSM is a 501(c)(3) dedicated to healthy, hopeful Christian schools. It works with Christian schools that have an average tuition K-12 under \$17,248. 10% of its revenues is tithed into the CSMA Foundation in order to assist Christian leaders and schools with advice/counsel and to fund Christian school research. We charge for consulting based on the tuition level of the individual school to make it affordable for all.

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