MISSION OUTWEIGHS THE PAYCHECK

The Relationship Between Pay Satisfaction and Employee Engagement in Local Government

2026 Local Government Workforce Survey
May 2026

Executive Summary

A foundational assumption in workforce management is that satisfied employees are more engaged at work, whereas dissatisfied employees disengage. This white paper examines that assumption directly, using data from a survey of 500 local government employees conducted in May 2026. The findings are more nuanced and, in some cases, more alarming than the conventional model predicts.

Pay satisfaction and work engagement are positively and significantly correlated overall (Spearman's r = 0.21, $p < 0.001$), confirming the relationship. But the effect is modest, pay satisfaction explains only about 4.3% of variance in engagement, and its structure reveals important patterns that compensation and HR leaders would find useful.

Three findings stand out. First, the relationship is not linear: engagement climbs meaningfully only at the highest levels of pay satisfaction, while remaining relatively flat across the dissatisfied-to-satisfied range. Second, and most critically, more than half of pay-dissatisfied employees (56.9%) still report high engagement (8 or above on a 10-point scale). The public sector workforce is absorbing substantial discontent over compensation through mission-driven commitment. Third, this buffer is not evenly distributed: for school district employees, pay satisfaction and engagement are effectively uncorrelated (r = 0.10, p = 0.181), meaning school districts cannot assume that addressing compensation will move the engagement needle, nor that high engagement signals compensation adequacy.

The core implication is this: high engagement scores are a poor proxy for compensation health in the local government sector. Organizations that rely on engagement surveys to detect compensation problems will systematically underestimate the risk until it manifests as turnover.

Background and Methodology

This analysis draws on survey responses from 500 local government and public sector employees collected in May 2026. The sample includes employees from school districts, cities and municipalities, counties, special districts, and other public-sector organizations. Two focal variables are examined throughout:

Pay Satisfaction was measured on a five-point Likert scale (1 = Very Dissatisfied, 5 = Very Satisfied), with respondents rating their satisfaction with their current compensation. The overall results for the entire sample appear in Exhibit 1 below.

Work Engagement was measured on a 1–10 numeric scale, with respondents asked to rate their overall level of engagement at work. For analytical purposes, scores of 8–10 are classified as high engagement and scores of 1–4 as low engagement.

Statistical methods include Spearman rank correlation (primary measure, appropriate for ordinal data), Pearson correlation (reported for comparison), simple linear regression, one-way ANOVA, and Kruskal-Wallis H-test. Pairwise comparisons use the Mann-Whitney U test with the Bonferroni correction. Employer-type subgroup analyses are conducted for school districts ($n = 174$), cities/municipalities ($n = 151$), counties ($n = 129$), and special districts ($n = 13$). Special district findings are directional only due to the small sample.

Exhibit 1
Distribution of Pay Satisfaction Across Full Sample

Pay Satisfaction Level	N	% of Sample
Very Dissatisfied	39	7.8%
Dissatisfied	114	22.8%
Neutral	125	25.0%
Satisfied	177	35.4%
Very Satisfied	45	9.0%

Findings

The Overall Relationship: Significant, Positive, and Modest

Exhibit 2 summarizes the level of engagement for each pay satisfaction category.

Across all respondents, pay satisfaction and work engagement are positively and significantly correlated. The Spearman rank correlation is $r = 0.207$ ($p < 0.001$), and the Pearson correlation yields the same result ($r = 0.208$, $p < 0.001$). Both measures confirm a consistent directional relationship: as pay satisfaction rises, engagement tends to increase.

However, the magnitude of this relationship is modest. A linear regression of engagement on pay satisfaction estimates that each one-unit increase in pay satisfaction corresponds to approximately +0.36 points on the 10-point engagement scale (intercept = 6.72). The model's R^2 of 0.043 indicates that pay satisfaction accounts for roughly 4.3% of the variance in engagement, which is statistically significant, but leaves 95.7% of the engagement variation unexplained by other factors. Pay matters, but it is far from determinative.

The group-level test (one-way ANOVA: $F = 6.47$, $p < 0.0001$; Kruskal-Wallis: $H = 29.31$, $p < 0.0001$) confirms that mean engagement differs significantly across the five pay satisfaction categories. The effect size from the Kruskal-Wallis test ($\eta^2 = 0.051$) is classified as small-to-medium, consistent with the correlation results.

Exhibit 2
Work Engagement by Pay Satisfaction Level

Pay Satisfaction	N	Mean Engagement (1–10)	% Highly Engaged (8–10)	% Low Engagement (1–4)
Very Dissatisfied	39	7.26	59.0%	15.4%
Dissatisfied	114	7.40	56.1%	9.6%
Neutral	125	7.80	61.6%	5.6%
Satisfied	177	8.01	74.0%	5.6%
Very Satisfied	45	8.89	82.2%	2.2%

A Threshold Effect: Engagement Jumps Only at Peak Pay Satisfaction

Examining the mean engagement scores by satisfaction level reveals that the relationship is not uniformly linear. Mean engagement rises gradually from 7.26 (Very Dissatisfied) to 7.40 (Dissatisfied) to 7.80 (Neutral) to 8.01 (Satisfied), a range of less than a point across four categories spanning the full width of dissatisfaction to satisfaction. The jump to Very Satisfied (8.89) is comparatively steep, representing a 0.88-point increase from Satisfied to Very Satisfied versus a 0.75-point cumulative increase across the prior four levels combined.

Pairwise testing confirms this pattern statistically. After a Bonferroni correction, the Very Satisfied group is significantly more engaged than all other groups (all adjusted $p < 0.01$). By contrast, no statistically significant difference in engagement is detectable among the four lower satisfaction categories (Very Dissatisfied, Dissatisfied, Neutral, Satisfied) after correction. This threshold suggests that partial improvements in compensation, moving employees from dissatisfied to satisfied, may yield only modest engagement returns, whereas bringing compensation to genuinely competitive or above-market levels is where engagement benefits are concentrated.

The Mission-Capital Buffer: Dissatisfied Workers Who Stay Engaged

The most operationally significant finding in this analysis concerns what happens at the individual level among pay-dissatisfied employees. Of the 153 respondents (30.6 percent of the full sample) who rated their pay satisfaction as Dissatisfied or Very Dissatisfied, 56.9 percent still reported high work engagement (8 or above on the 10-point scale). Among pay-satisfied employees (Satisfied or Very Satisfied, $n = 222$), the comparable figure was 75.7 percent. The gap is meaningful, about 19 percentage points, but the baseline for dissatisfied employees is far higher than a simple compensation-drives-engagement model would predict.

This pattern points to a phenomenon well-documented in public administration research but rarely quantified so directly: mission-driven motivation serves as a buffer against discontent with compensation. Public sector workers, particularly those in direct service roles, often derive substantial intrinsic satisfaction from their work's purpose, serving communities, educating children, and maintaining public safety, which sustains engagement even when financial rewards fall short.

The buffer is real and substantial. But it poses a critical risk to workforce planning: organizations that use engagement scores as a proxy for compensation adequacy will systematically underestimate the extent of dissatisfaction with compensation. A workforce where 57% of financially dissatisfied employees are still highly engaged looks, from an engagement dashboard, like a healthy organization. The compensation risk is invisible until it materializes as turnover, at which point the mission-capital reserve has already been depleted.

Variation by Employer Type: Four Different Relationships

The aggregate relationship between pay satisfaction and engagement masks substantial heterogeneity across employer types. The correlation between the two variables ranges from non-significant to very strong, depending on the organizational context, with direct implications for how each employer type should interpret its own engagement and compensation data.

Exhibit 3
Pay Satisfaction–Engagement Correlation by Employer Type

Employer Type	N	Spearman r	p-value	Mean Engagement	Mean Pay Sat
School District	174	0.102	0.181 (ns)	8.25	2.91
City / Municipality	151	0.226	0.005 (**)	7.31	3.36
County	129	0.395	< 0.001 (***)	7.74	3.12
Special District	13	0.753	0.003 (**)	8.31	3.23

School Districts: Decoupled. The correlation between pay satisfaction and engagement for school district employees is 0.102 and not statistically significant ($p = 0.181$). This is the most striking finding in the employer-type analysis. School districts simultaneously report the lowest pay satisfaction (mean 2.91 on a 5-point scale) and the highest engagement (mean 8.25/10) of any employer group. These two dimensions are operating independently. Among school district respondents, 38.5 percent are dissatisfied with their pay, yet 77.0 percent are highly engaged, and 28.2 percent are simultaneously pay-dissatisfied and highly engaged, the highest rate of any employer type. The engagement-compensation decoupling in school districts is not a statistical artifact; it reflects a workforce whose commitment to students and the educational mission operates largely on a separate channel from the experience of compensation.

Cities and Municipalities: Moderate Coupling. Among city employees, pay satisfaction and engagement correlated at $r = 0.226$ ($p = 0.005$), a significant and meaningful though still modest correlation. City employees show the lowest mean engagement of any employer group (7.31/10) alongside the highest mean pay satisfaction (3.36/5), an inverse of the school district pattern. For city workforce leaders, there is a clearer signal that engagement and compensation are moving together: efforts to improve pay satisfaction in this sector are more likely to produce measurable engagement returns than similar investments in school districts.

Counties: Stronger Coupling. County employees show the strongest significant correlation of the three main employer types ($r = 0.395$, $p < 0.001$). This means that in county organizations, pay satisfaction is more tightly bound to overall work motivation than elsewhere. County employees also present a distinct profile examined in detail in the companion white paper: nearly half (49.6 percent) perceive their pay as below market, yet mean pay satisfaction is moderate. The stronger pay–engagement link in counties suggests that addressing dissatisfaction with compensation in that sector would likely yield more direct engagement dividends than comparable investments in school districts.

Special Districts: High Sensitivity, Low Confidence. The correlation for special district employees (0.753; p = 0.003) was by far the strongest among all groups. If this relationship holds across larger samples, it would imply that special district employees' engagement is highly sensitive to satisfaction with compensation, making pay investments in that sector particularly leveraged. However, with only 13 respondents, this finding must be treated as directional. Replication in a larger special district sample is warranted before drawing firm strategic conclusions.

Discussion and Strategic Implications

Implication 1: Rethink Engagement Surveys as Compensation Signals

The data make clear that engagement scores and compensation adequacy measure largely different things in local government, particularly in school districts. An organization reviewing its annual engagement survey and seeing scores of 8 or higher should not conclude that its compensation strategy is working. It may instead be observing the product of mission commitment that is temporarily insulating the workforce from financial dissatisfaction. The correct response to high engagement alongside dissatisfaction with compensation is not reassurance; it is urgency.

HR and compensation leaders should track engagement and pay satisfaction as independent metrics, report them side by side, and flag any divergence, particularly when high engagement coexists with below-market pay perceptions or high dissatisfaction rates. Simultaneously monitoring both metrics is more informative than either alone.

Implication 2: Target the Threshold, Not Just the Floor

The threshold effect identified in this analysis has direct implications for resource allocation. If the goal of compensation investment is to improve engagement, the data suggests that moving employees from dissatisfied to neutrally satisfied may yield relatively limited engagement returns; the engagement difference between these groups is not statistically distinguishable. The engagement premium is concentrated among employees who are Very Satisfied with their pay and whose compensation is genuinely competitive or above-market.

This does not argue against addressing pay dissatisfaction, reducing turnover risk, and improving equity as sufficient justifications. But it does suggest that organizations evaluating compensation investments through an engagement lens should set their targets accordingly: partial fixes that move employees from Poor to Adequate pay may not show up in engagement metrics, while investments that bring compensation to a genuinely competitive position are more likely to generate measurable workforce returns.

Implication 3: The Mission-Capital Reserve Is Finite

The finding that most pay-dissatisfied local government employees remain highly engaged is not a reason for complacency; it is a reason for concern. Mission capital is a form of organizational equity: valuable, difficult to build, and prone to being spent faster than it can be replenished.

Public sector workforce research consistently shows that dissatisfaction with compensation erodes mission commitment over time, particularly as employees age, accumulate financial obligations, gain experience that makes them more valuable to the private market, or witness peers leaving for bettercompensated roles. The current survey captures a moment in time; it cannot determine how long the mission buffer has been absorbing compensation discontent or how close it is to depletion. Organizations should treat the current high engagement among dissatisfied employees as a lagging indicator of past goodwill, not a leading indicator of future stability.

The practical recommendation is proactive investment rather than reactive: address compensation gaps before engagement scores decline, not after. By the time mission capital has been exhausted and engagement has dropped, the organization is likely already experiencing elevated turnover among its most experienced and committed workers, precisely those whose departures are most costly and hardest to reverse.

Implication 4: Tailor Strategy by Employer Type

The heterogeneity in pay-engagement correlations across employer types argues against a one-size-fits-all compensation strategy. School districts face the most acute compensation dissatisfaction and the weakest pay–engagement link, meaning compensation investments are most urgently needed from an equity and retention standpoint, but may not produce visible engagement improvements that leaders often use to justify budget requests. School district advocates should frame compensation investments in terms of market competitiveness and workforce sustainability, not in terms of engagement improvement.

Counties, with a stronger pay-engagement link and widespread below-market perceptions, represent a sector where compensation investment is both needed and more likely to produce measurable engagement returns, providing a stronger evidence base for making the case to budget authorities. Cities with lower engagement and higher pay satisfaction may benefit more from investigating non-compensation drivers of engagement, such as work design, management quality, advancement opportunities, and organizational culture.

Conclusion

The relationship between pay satisfaction and work engagement in the local government workforce is real, significant, and insufficient. It is real because the correlation is statistically confirmed and directionally consistent. It is significant because the threshold effect and employer-type heterogeneity provide actionable strategic guidance. And it is insufficient because pay satisfaction explains only 4.3 percent of the variance in engagement, more than half of dissatisfied employees remain highly engaged, and, in school districts, the relationship effectively disappears.

The central lesson of this analysis is that the local government workforce has a substantial reserve of mission-driven commitment that is currently absorbing discontent over compensation, but that reserve is not infinite, not uniformly distributed, and not visible on engagement dashboards. The organizations best positioned to sustain their workforce over the next decade are those that recognize this dynamic now, invest in compensation proactively rather than reactively, and monitor pay satisfaction and engagement as complementary but distinct signals of workforce health.

The data do not suggest that compensation is the only thing that matters; clearly, it is not, when the majority of pay-dissatisfied public servants remain highly engaged. But they do suggest that using engagement scores to infer that compensation is adequate is a category error that local government organizations can no longer afford to make.