

Prepaid Wireless: Exactly What's Needed For Universal Service

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Introduction

For over twenty-five years, the Federal Government has assisted low income Americans gain access to the telephone system that knits the nation together.¹ The modern Low Income program (Lifeline and Link Up) was created in 1996 as part of the formal, explicit Universal Service program established by the Telecommunications Act of 1996. It is intended to help ensure that “[q]uality services [will] be available at just, reasonable, and affordable rates” for *all* citizens.² In the years since passage of the 1996 Act, services supported by the Low Income program have grown more varied and sophisticated as technology has evolved. Much of this change has been driven by consumers themselves. Like everyone else, low income consumers look for new ways of communicating, new technologies, and new service offerings. And like everyone else, low income consumers know that they need wireless services to navigate in today’s economy.

The goals of the Universal Service program remain undiminished today, but whereas 25 years ago all that was really at issue was plain old wired telephone service, today the program operates in a communications industry that continues to evolve at an ever-increasing pace. It is a testament to Congress’s foresight – in declaring Universal Service to be an “evolving” standard, and one that is not bound to any particular technology – that the program has adapted and has

¹ The Lifeline program was created by the FCC in 1984. *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission’s Rules and Establishment of a Joint Board*, Recommended Decision, CC Docket nos. 78-72 and 80-286, 49 Fed. Reg. 48325 (rel. November 23, 1984) (recommending the adoption of federal Lifeline assistance measures); Decision and Order, CC Docket nos. 78-72 and 80-286, FCC 84-637, 50 Fed. Reg. 939 (rel. December 28, 1984) (adopting the Joint Board’s recommendation).

² 47 U.S.C. § 254(b).

come to encompass wireless services for low income Americans. Wireless, especially prepaid wireless, is one of the best tools presently available to combat the communications divide. Prepaid wireless has introduced new services and new power to low income customers, and they have responded positively and overwhelmingly. The result is an enlivened Low Income program—that makes these services possible for these consumers—that is on course to complete the goal of connecting all Americans in a wireless century.

Wireless Telephone Service is Ubiquitous

Wireless telephone service is now the dominant form of communication in the nation. According to the Federal Communications Commission, 90% of Americans have a mobile device.³ The availability of this technology is virtually universal: 99.6% of Americans live and work in areas that are covered by one or more mobile voice providers.⁴ Now that wireless service has become ubiquitous, it is quickly displacing the older wireline system. Wireline service has been declining for years, and currently one quarter of American households have “cut the cord” and rely on wireless voice service alone.⁵ In 2009, the number of American households that had only wireless phones exceeded the number that had only landlines for the first time.⁶ Twenty or even ten years ago that would have been remarkable – the majority of Americans have both landline and wireless but among those who have only one service, there are *more* that choose wireless-only than choose landline-only. And, this balance will only continue to tilt in favor of wireless: fifteen percent of those who retain wireline service report that they

³ FCC 10-81, “Annual Report and Analysis of Competitive Market Conditions with Respect to Mobile Wireless, including Commercial Mobile Services,” 20 May 2010, p.5, p.11

⁴ *Id.*, p.7

⁵ *Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July–December 2009*, by Stephen J. Blumberg, Ph.D., and Julian V. Luke, Division of Health Interview Statistics, National Center for Health Statistics

⁶ Amy Farnsworth, *A cellphone plan to bridge digital divide: Firms and feds offer free connections to customers shut out by high costs*, Christian Science Monitor, July 2, 2009.

receive all or almost all of their calls on wireless telephones.⁷ Wireline is a “legacy” service – it’s not going away entirely any time soon, but it is shrinking, not growing, as it is displaced by wireless service throughout the population.

It’s not surprising that customers prefer wireless to landline by such a large margin. Wireless service by its very nature is portable, and it has allowed Americans to adapt to a new era of ubiquitous and constant connectivity, something that was never possible with landline service. Wireless service also engenders more excitement than wireline service ever could, with new technology – both more robust handsets and associated features implemented in hardware, as well as new network capabilities – expanding the possibilities of communication and related economic productivity year after year. Even the lowest-priced wireless handsets offer features that landline phones don’t, such as text messages, built-in phonebooks, and mobile voicemail. The cost of wireless service has also decreased dramatically, making it easily affordable for the majority of Americans.⁸ At the same time, consumer satisfaction with wireless offerings has reached higher levels.⁹ The wireless industry’s dramatic rise is not a fluke; it is the result of millions of Americans—especially those on limited budgets—making the rational decision to choose a mobile, technologically advanced product over the increasingly antiquated and wall-bound Twentieth Century telephone system.

Wireless Provides Special Advantages for Low Income Americans

Congress took specific steps to ensure that low income Americans aren’t left out of the wireless revolution. Like other wireless customers, low income Americans enjoy the better

⁷ *Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July–December 2009*, by Stephen J. Blumberg, Ph.D., and Julian V. Luke, Division of Health Interview Statistics, National Center for Health Statistics

⁸ CTIA, Semi-annual wireless industry survey, *available at* <http://www.ctia.org/advocacy/research/index.cfm/AID/10316>

⁹ CTIA, *The Wireless Industry Facts: An Independent Review*, *available at* http://files.ctia.org/pdf/082010_Independent_Assessment_of_Wireless_Industry.pdf

handsets and added features that come with wireless service. But wireless also provides critical benefits for low income Americans that improve their security, mobility, and economic welfare in ways that are particularly important to them in light of the economic and at times social challenges they face. Numerous studies have demonstrated that wireless phones help low income Americans in profound ways, and that they recognize it.

First, wireless phones provide and enhance physical, personal security. Survey respondents prefer wireless to landline for emergency uses by more than three to one, and forty-eight percent of Americans have already used a wireless phone in an emergency.¹⁰ Wireless phones have been called a “lifeline” for the homeless, who use them to call for help and to report assaults.¹¹ Studies have called wireless phone service “essential” to low income Americans, largely because it provides a constant connection with family, friends, and others who can offer support and protection when needed.¹²

Second, low income Americans benefit, even more than other wireless customers, from the mobility of their phones. Low income customers often spend less time during the day at a fixed location like a home or a desk. If unemployed, a wireless service is more useful than a landline service, as discussed below. But employed Americans with lower incomes will more likely be in jobs that do not come with an office phone available to them. This is particularly true for the homeless. For homeless Americans, wireless service is the only realistic means of

¹⁰ Amy Farnsworth, *A cellphone plan to bridge digital divide: Firms and feds offer free connections to customers shut out by high costs*, Christian Science Monitor, July 2, 2009; Sullivan, N.P. *Cell phones provide significant economic gains for low-income American households: A review of literature and data from two new surveys* at 15; available at http://www.newmilleniumresearch.org/archive/Sullivan_Report_032608.pdf (“Sullivan Report”)

¹¹ Petula Dvorak, *D.C. Homeless People Use Cellphones, Blogs and E-mail to Stay on Top of Things*, Washington Post, March 23, 2009.

¹² Janice A. Hauge, et al., *Whose call is it? Targeting universal service programs to low-income households’ telecommunications preferences*, 33 Telecomm. Pol’y 129, 130 (2009), available at http://warrington.ufl.edu/purc/purcdocs/papers/0805_Hauge_Whose_Call_is.pdf

voice communication, especially as payphones disappear.¹³ Advocates report that wireless phones are crucial for the homeless, who use them to stay in touch with their families, arrange appointments for medical care, and pay bills.¹⁴

Wireless service is also very important in helping low income Americans get and keep jobs. Unless they have a wireless phone and accessible voicemail, low income job applicants are at a serious disadvantage during the process of seeking and setting up job interviews, as well as making and receiving the follow-up calls that are an integral part of actually getting hired. A mobile phone allows prospective employees to respond immediately to potential employers and, once hired, allows them to stay in contact with their employers and to better manage their schedules. In this respect, inbound use of wireless phones – the ability to receive calls – is just as critical as the ability to call others. Once they are employed, low income Americans use their wireless phones to contact employers and co-workers. In this regard, most wireless customers use their phones for work-related calls, and it would be difficult to imagine navigating the responsibilities and assignments of the work world without a mobile telephone.¹⁵

Another way wireless is useful to low income Americans is as a tool for obtaining the most effective access to other social services for which they are targeted. A wireless service allows low income families to have reliable communication with government or medical offices, since they will not have to sit near a wired phone – which may not be an option in any case – and since, if they do miss a call, there is typically Caller ID and voice mail available to facilitate the exchange of information and any necessary call-backs.

Prepaid billing is perhaps the most important aspect of wireless service for low income Americans. As the observers have noted, the flat fees attached to most contractual postpaid

¹³ Kevin Graham, *Wireless a Lifeline for Homeless*, St. Petersburg Times, April 9, 2007.

¹⁴ *Id.*

¹⁵ Sullivan Report at 22.

plans are disproportionately onerous on low income customers.¹⁶ By contrast, prepaid wireless service costs only as much as a customer can afford. The low income customer does not have to commit to pay for more service than she will likely use, and does not have to worry about bill shock if the unduly-large monthly commitment becomes too onerous. With pre-paid, the financial burden is both precise and fair. This is a crucial benefit to families who must count every dollar each month. The FCC itself has noted that the “prepaid feature, which essentially functions as a toll control feature, may be an attractive feature to Lifeline-eligible consumers who are concerned about usage charges or long-term contracts.”¹⁷ With prepaid, low income customers can purchase only as many minutes as they need for their phone.

Prepaid Wireless—Bridging the Communications Divide

The advantages of wireless service are not lost on low income Americans. Quite the contrary: low income customers are migrating quickly to wireless, and their rate of switching to wireless only – that is, “cutting the cord” – is higher than that of the rest of the population.¹⁸ When asked, low income families confirm that if they can only have one phone, they want it to be wireless.¹⁹ They also want it to be prepaid. In the last few years, the increase in prepaid subscribership has been particularly high in low income households, which makes sense. Studies

¹⁶ Reply Comments of the Minority Media and Telecommunications Council, *In the Matter of Fostering Innovation and Investment in the Wireless Communications Market; A National Broadband Plan for Our Future*, Notice of Inquiry, GN Docket Nos. 09-157, 09-51, FCC 09-66 (rel. Aug., 27, 2009).

¹⁷ *In the Matter of Federal-State Joint Board on Universal Service, TracFone Wireless, Inc. Petition for Designation as an Eligible Telecommunications Carrier in New York, Florida, Virginia, Connecticut, Massachusetts, Alabama, North Carolina, Tennessee, Delaware, New Hampshire, Pennsylvania and the District of Columbia*, CC Docket No. 96-45, FCC 08-100, Released April 11, 2008.

¹⁸ Hauge at 141; *Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July–December 2009*, by Stephen J. Blumberg, Ph.D., and Julian V. Luke, Division of Health Interview Statistics, National Center for Health Statistics.

¹⁹ Hauge at 136.

have shown that low income customers choose prepaid in higher numbers than any other group.²⁰

The success of prepaid wireless among this segment of the population is borne out by a recent study that found that the penetration of prepaid service in low income Floridian households has doubled over the past three years.²¹ The prepaid wireless industry is also growing quickly as a whole: two out of three new wireless subscribers choose prepaid.²² As the FCC predicted, the ability to control costs is the big reason that prepaid wireless has been so successful among low income purchasers.²³ Being able to decide how much or how little to spend on phone service from month to month allows low income families to manage their costs and phone usage in accordance with family budget. By pre-paying, they can control the cost of critical wireless service on a highly granular level, down to the dollar and the minute.²⁴

Crucially, minority populations are of particular interest in any policy discussion concerning prepaid wireless and the digital divide. First, minorities have a higher wireless penetration rate than the overall population.²⁵ Additionally, the Low Income program is of particular relevance in combating the communications divide in minority populations because they suffer from higher poverty rates. For example, the poverty rate for Latinos in was 23.2 percent and 24.7 percent for African-Americans in 2008, compared to the overall poverty rate of

²⁰ *Id.* at 138.

²¹ *Id.* at 137.

²² Marguerite Reardon, *Prepaid wireless outpaces contract service*, CNET News, April 5, 2010, available at http://news.cnet.com/8301-30686_3-20001793-266.html

²³ Hauge at 139.

²⁴ As the National Consumers League has written, “[p]repaid wireless service is a good option for low-income consumers because there are no long-term contracts, no credit checks, and no early termination penalties or late payment fees. With prepaid service, people pay only for the service that they can afford.” Comments to the Federal Communications Commission from the National Consumers League *In the matter of Federal-State Joint Board on Universal Service*, CC Docket 96-45, WC Docket 03-109, September 17, 2004.

²⁵ Hauge at 135.

13.2 percent.²⁶ Prepaid wireless is crucial to narrowing the communications divide due to its unique mix of affordability and ease of use allows it to achieve high penetration in minority communities.

Prepaid Wireless as Low Income Eligible Telecommunication Carriers (“ETCs”)

The overwhelming success of prepaid wireless among low income households has rejuvenated the Lifeline and Link Up programs. Unlike the High Cost program, Lifeline and Link Up payments are directly tied to the exact number of qualifying low income customers that an ETC serves.²⁷ Thus, while growth in the High Cost program might well be a basis for concern – if costs are so high, and growing, perhaps there is an underlying inefficiency in how the service is providing – growth in the Low Income program means that more and more of the population the program is trying to reach, is actually being reached. This is a success, not a problem. And, where states have approved prepaid wireless providers as eligible telecommunications carriers (ETCs), participation rates in these programs have jumped. Texas saw an immediate 10% increase in Lifeline participation when it began approving wireless ETCs.²⁸ In Florida, the combination of automatic enrollment and the approval of SafeLink, a prepaid wireless phone provider, to be a Lifeline ETC, led to a increased participation rate of 236% in a single year.²⁹

Still, overall participation in the Lifeline and Link Up programs is still far from what it should be if the program’s goals – all Americans, including low income Americans, having

²⁶ U.S. Census Bureau, *Summary of the Current Population Survey (CPS), 2009 Annual Social and Economic Supplement (ASEC)*, available at <http://www.census.gov/hhes/www/poverty/about/overview/index.html>

²⁷ The High Cost program provides subsidies based on the total amount of cost a carrier incurs (incumbent eligible telecommunications carriers (ETCs)) or total volume of customers (competitive ETCs).

²⁸ Memorandum from Edward Randolph, Director of the Office of Governmental Affairs, to the California Public Utilities Commission on AB 2213 (Fuentes) – Moore Universal Telephone Service Act as Amended (May 26, 2010). available at <http://docs.cpuc.ca.gov/PUBLISHED/REPORT/118920.htm>

²⁹ Florida Public Service Commission news release, *Florida's lifeline enrollment increases dramatically*, December 28, 2009. available at <http://www.psc.state.fl.us/home/news/index.aspx?id=615>

access to modern, effective, affordable communications – are going to be met. Unfortunately, only 32% percent of eligible households took part last year.³⁰ The FCC has attributed this low success rate in part to state restrictions on wireless ETCs, of which it urges reconsideration.³¹ Certainly, new outreach efforts should be encouraged.

Best Practices in the Prepaid Wireless Industry

As the prepaid wireless industry grows in size, its business practices are also evolving. Already, there are a recognizable set of best practices that many companies follow in order to offer the most attractive packages to consumers and to maintain the advantages of prepaid for low income Americans. First, many ETCs offer a reasonable number of minutes upon activation of the phone, and additional minutes can be purchased affordably. Nexus Communications’ (“Nexus”), like most prepaid wireless ETCs, offers additional prepaid cards, whose minutes rollover into the next month if not used, at stores such as Walmart, CVS/Pharmacy, Rent A Center and Giant Eagle.³² Second, Nexus and other wireless ETCs waive the balance of their activation fees not covered by Link Up, and also provide free wireless handsets. This means that the customer can get service (including the phone, if she doesn’t already have one) with no out-of-pocket payment, which completely eliminates any cost barrier to obtaining service. Third, as mentioned before, Nexus and Tracfone (in most markets) provide sixty eight free minutes of service with basic service packages, and unused minutes roll over from month to month for as long as the Lifeline subscriber remains enrolled in the lifeline program. Just recently, Tracfone announced that it is adding additional packages for Lifeline subscribers to choose from,

³⁰ USAC Lifeline Participation Rate Study (2009), *available at* <http://www.usac.org/li/about/participation-rate-information.aspx>

³¹ National Broadband Plan, Chapter 9, at 172.

³² Details of Nexus’ service offerings are available at <https://www.reachoutmobile.com/index.php/site/page/C3/>

including one plan that provides Lifeline subscribers with up to two hundred fifty free minutes every month.

Fourth, as active and responsible participants in the government's Low Income programs, prepaid wireless ETCs support the creation of a national certification and verification database. In addition, prepaid wireless ETCs are helping to eliminate fraud, waste, and abuse from the Low Income program by de-enrolling Lifeline subscribers who do not use the handset for 60 days. This ensures that ETCs will not inadvertently seek USF reimbursements for subscribers who are no longer using their services. Only subscribers who actually use their wireless service will continue to participate in the Lifeline program, and wireless ETCs will only receive Low Income support for those subscribers who remain enrolled in the Lifeline program.

The Challenges that Remain

The rapid growth of prepaid wireless within the Lifeline program has not been without critics. Some have charged that prepaid wireless ETCs have not demonstrated a commitment to consumer value in the services they offer through Lifeline and Link Up, and that the number of minutes offered monthly is too low.³³ Others have noted that the non-contractual nature of the prepaid model makes it difficult to verify that customers remain eligible for government support.³⁴

It's certainly true that prepaid wireless ETCs don't operate like traditional landline ILECs when offering Lifeline services. But over the last few years, low income Americans have

³³ Comments of the Advocates for Basic Legal Equality, et al. *In the Matter of Federal-State Joint Board on Universal Service Seeks Comment on Lifeline and Link-Up Eligibility, Verification, and Outreach Issues Referred to Joint Board*, Public Notice, FCC 10J-2, CC Docket 96-45 and WC Docket 03-109 (FCC rel. June 15, 2010), seeking comment on In Re Federal-State Joint Board on Universal Service, Lifeline and Link Up, Order, FCC 10-72, CC Docket 96-45 and WC Docket 03-109 (FCC rel. May 4, 2010).

³⁴ Comments of the National Association of National Association of State Utility Advocates *In the Matter of Federal-State Joint Board on Universal Service Seeks Comment on Lifeline and Link-Up Eligibility, Verification, and Outreach Issues Referred to Joint Board*, Public Notice, FCC 10J-2, CC Docket 96-45 and WC Docket 03-109 (FCC rel. June 15, 2010), seeking comment on In Re Federal-State Joint Board on Universal Service, Lifeline and Link Up, Order, FCC 10-72, CC Docket 96-45 and WC Docket 03-109 (FCC rel. May 4, 2010).

announced clearly, in every way possible, that they prefer limited minutes on a wireless phone to unlimited local minutes on a landline phone. Given all the advantages of wireless noted above, this is hardly surprising. The old landline model is simply not useful to most Americans in today's economic and social environment. Likewise, it is true that making sure prepaid wireless customers can be certified and verified through the Low Income system has required some innovative solutions, and may require further adjustments to guard against waste, fraud, and abuse. But this innovation is happening, will continue to happen, and is indicative of the prepaid wireless industry's ability to expand the boundaries of service and the traditional definitions of telephone networks. Fundamentally, the problems identified by critics, mismatching of service offerings to need, and a potential for waste while more effective verification methods are put in place, are simply growing pains. Any new entrant into established programs like Lifeline and Link Up will face these kinds of challenges. But these challenges are far preferable to the problems that would face a wireline-only Lifeline program: quickly decreasing participation and growing irrelevance to the needs of those Americans it is supposed to help. Prepaid wireless has already solved the problems that would otherwise endanger the very existence of the Low Income programs, and it is one of the best tools to combat the communications divide.

Solutions

None of the challenges facing prepaid wireless ETCs is intractable. By following the best practices outlined above, companies like Safelink Wireless, Nexus, and Assurance Wireless already give their customers great value in prepaid wireless phones, and subscription numbers show that low income consumers recognize this value. Many ETCs are also offering new types of packages to Lifeline subscribers, including ones with up to two hundred fifty free minutes ever month, as part of their efforts to respond to the suggestions of consumer groups. The wide

availability of prepaid cards and the increasing competition among providers are also making it easier for customers to find the best choice among phones. State public service commissions can provide another easy way to increase competition among wireless ETCs. Many states, through their implementation of the Lifeline and Link Up programs, already publish the names of qualifying ETCs that customers may choose among.³⁵ State public service commissions could take the next step of publishing the terms of various prepaid plans, which would point out which ETCs' plans offer the best value for state residents. This centralized information repository, combined with the natural competition in a fast-growing industry, would do much to eliminate or reduce cost concerns.

Prepaid wireless ETCs are also playing an active role in the push to reform the eligibility and verification systems that the Lifeline and Link Up programs use to prevent fraud and abuse. A nationally-maintained eligibility database, which wireless ETCs have urged the FCC to implement soon, would resolve any issues associated with subscribers attempting to obtain Lifeline service from more than one carrier simultaneously or when a subscriber is not qualified for the Lifeline program.³⁶

Conclusion

Low Income Americans were among the first to recognize how well prepaid wireless meets their needs by providing security, mobility, and cost control that was not being offered by traditional landline services. Their response has been swift and clear, and the rate at which low

³⁵ See, e.g., Illinois (<http://www.icc.illinois.gov/utility/list.aspx?type=prepaid>), California (<http://www.cpuc.ca.gov/PUC/Telco/Public+Programs/lifelinedetails.htm>)

³⁶ See, e.g. Comments of Leap Wireless International, Inc. and Cricket Communications, Inc.; Comments of Nexus Communications, Inc.; Comments of PR Wireless, Inc.; Comments of TracFone Wireless; CC Docket 96-45 and WC Docket 03-109 (FCC rel. June 15, 2010), *seeking comment on In Re Federal-State Joint Board on Universal Service, Lifeline and Link Up*, Order, FCC 10-72, CC Docket 96-45 and EC Docket 03-109 (FCC rel. May 4, 2010).

income customers abandon landlines in order to make the move to prepaid wireless is increasing. The FCC and many state governments have recognized the trend, and are adapting the Lifeline and Link Up programs so that they can help more low income Americans get jobs and stay employed, better manage their budgets, and care for their families. This constitutes no less than a revolution in the usefulness and desirability of Lifeline and Link Up service for low income Americans