



The Federal Lifeline Program: Changes, Challenges, Opportunities

FCBA Presentation November 14, 2012

Brief Overview



- Lifeline provides subsidies to lower retail rates of voice telecommunications services to low income people
 - Qualify based on
 - participation in another social program (e.g., food stamps) or
 - certain income level (most states 135% of federal poverty guidelines)
 - Carrier must be an “eligible telecommunications carrier” (ETC) and offer “voice telephony”
- Evolved from long-standing policy of universal service, which historically was focused on:
 - Service for all areas, including rural
 - Cheap local telephone service
 - historical cross subsidy from long distance services

The Olden Days of USF: Ma Bell



"One policy,
one system,
universal service"



A Highway of Communication

It goes by your door. Every home, every office, every factory, and every farm in the land is on that great highway or within reach of it. It is a highway of communication and every Bell Telephone is a gateway by which it can be reached.

Millions of messages travel over this highway every day. In the great cities they follow one another like the bullets from a machine gun, and over the wide reaches of the country they fly with the speed of shooting stars.

The Bell service carries the thoughts and wishes of the people from room to room, from house to house, from community to community, and from state to state.

This service adds to the efficiency of each citizen, and multiplies the power of the whole nation.

The Bell system brings eighty million men, women and children into one telephone commonwealth, so that they may know one another and live together in harmonious understanding.

A hundred thousand Bell employees are working all the time on this highway of communication. Every year it is made longer and broader, and its numerous branches are more widely extended. Every year it is furnished with a larger number of telephone gateways and becomes the means of greater usefulness.

The Bell Long Distance Telephone will meet your new needs and serve your new purposes. It means—one policy, one system, universal service. Every Bell Telephone is the center of the system.

**AMERICAN TELEPHONE AND TELEGRAPH COMPANY
AND ASSOCIATED COMPANIES**

Brief History of Lifeline



- ~~Obamaphone~~ *Reaganphone*
 - Federal Lifeline created in 1985
- 1996 Act introduced competition for residential market and created the modern Lifeline/Link Up program
 - ILECs saw Lifeline as a burden
- In the 2000s, wireless grew exponentially and wholesale pricing dropped
- 2008 severe economic recession
 - 1 in 8 on food stamps
- 2008 Lifeline participation expanded

A Closer Look at the Market



- Historically low participation in Lifeline: 29% 2009
 - 7 M households enrolled in Lifeline
 - 24.5 M eligible households (USAC est.)
- End 1Q 2012: approx. 57% participation
 - 17 M households enrolled in Lifeline
 - Roughly 30 million eligible households
 - Based on food stamp eligibility (not participation due to under-enrollment)
- Conclusion:
 - Still approx. 13 million households unserved
 - gap is rapidly closing on historically low participation

Soft Labor Market Key Driver



“Why Have SNAP [Food Stamp] Participation and Spending Increased So Much?”

Almost two-thirds of the growth in spending on SNAP benefits between 2007 and 2011 stemmed from the increase in the number of participants. *Labor market conditions deteriorated dramatically between 2007 and 2009 and have been slow to recover*, since 2007, both the number of people eligible for the program and the share of those who are eligible and who participate in the program have risen.

About one-fifth of the growth in spending can be attributed to temporarily higher benefit amounts enacted in the American Recovery and Reinvestment Act of 2009. The remainder stems from other factors, such as *higher food prices and lower income among beneficiaries*, both of which have boosted benefits.”

<http://www.cbo.gov/publication/43175> (emphasis added)

Wireless a Success



- Cutting the cord:
 - almost 1/3 of households have only wireless service
 - Lifeline population is no different
- Wireless carriers focused on Lifeline market to customers ignored by big carriers
- Big wireless carriers:
 - Don't focus on Lifeline population as a general rule
 - Require credit checks, long term contracts, early termination fees
 - Retail focused on high margin, high-end plans, brand preservation, and the top 30% who buy the majority of smartphones

Prepaid Plans a Success



- Very attractive to Lifeline population as budget control mechanism
- Predominant model internationally for wireless
 - Western Europe & China - 70% prepaid
 - India - 95% prepaid
 - Africa - 99% prepaid
- In US: the not-so-new trend
 - 2011: 1/2 new wireless subscriptions prepaid
 - 2012: 25% of all wireless subscriptions prepaid
- Prepaid in US not limited to telecom—
increasingly normal in debit-credit card industry
 - 8.2% of US households unbanked, 20.1% underbanked (total 28.3%). Total is up from 25.6% in 2009.

Regulatory Changes and Challenges

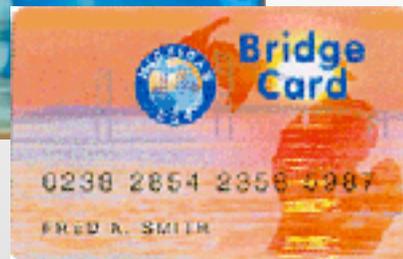


- Feb. 2012 FCC order: Key changes
 - Link Up eliminated (with limited exceptions)
 - Documentation
 - Standard reimbursement rate
 - Lengthy end user certifications and marketing disclosures
 - One-per-household finally codified; parameters for group housing
 - Usage
 - 100% annual re-certification
 - Audits

Documentation is a Challenge



- Qualifying document formats vary significantly, can be difficult to interpret
- Poor people don't have easy access to scanners, faxes, etc.



Social Security Administration
Supplemental Security Income
Important Information

Date: [REDACTED]
Claim Number: [REDACTED]

Type of Payment:
Individual-Disabled

We are writing to tell you about changes in [REDACTED] Supplemental Security Income (SSI) record. The rest of this letter will tell you more about this change.

The Payments of [REDACTED] Will Be As Follows:

| From | Through | Amount Due Each Month |
|------------|------------|--|
| [REDACTED] | Continuing | \$738.00 and \$500 This includes \$344.00 from the State of Iowa. |

Information About [REDACTED] SSI Payments
This action does not change his current payment amount.

[REDACTED] Payment Is Based On These Facts
He has monthly income which must be considered in figuring his eligibility as follows:
His Social Security benefits, before deductions for Medicare premiums, if any, of \$300.00 for [REDACTED] per month.

Supplemental Nutrition Assistance Program (SNAP)
School Clothing Allowance

Medicaid

Handwritten notes: 11/18/99, we get 1,38 not 1,50

Annual Re-Certification is a Challenge



- Need to have subscriber annually fill out form or provide oral certification in most states that subscriber continues to qualify
- Non-response a problem
- Subscriber education key and keeping process quick and easy key to successful annual re-certification
- States with eligibility databases permit carrier to bypass this cumbersome process

Database(s): Regulatory Certainty Ahead



- Once established, much of the uncertainty of serving the Lifeline population will be removed
 - End 2013?
 - ETC designation can take months, sometimes a year, depending on the state
- The 2/5 pent up demand becomes easier to serve
- Single federal database? Two federal: duplicate prevention + qualification?
- State opt-outs?
- Challenges in Establishing:
 - Privacy concerns
 - Getting the states to work together

Shift to Broadband: New Opportunities



- All USF shifting to funding broadband
 - High Cost → the new Connect America Fund
 - Schools and Libraries (“E-rate”) and Rural Healthcare programs already funding broadband
- Pilot to fund broadband through Lifeline to launch late 2012 or early 2013
 - \$25 million
 - 12 months
 - Then, study of what subsidy level needed, end user equipment, etc.

Shift to Broadband: New Opportunities



- May help providers tap into the unserved portions of this market
- Until broadband funded, bundling blessed in Lifeline reform order
 - Lifeline-supported services may be bundled with other, non-supported services such as broadband
 - May help retain subscribers to non-supported services



Questions?

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