

Eliminating Phonelessness in Canada: Possible Approaches

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INTRODUCTION

Why Phonelessness is a problem

It is widely recognized that universality of telephone service brings with it tremendous economic and social benefits not just to the connected individuals but also to society at large. Conversely, phonelessness carries with it important social and economic costs.

At the individual level, a connection to the telephone network is needed for access to emergency services and employment. People living without phones face more health, safety, education, and employment challenges, as well as limits on social contact and participation in community life. Telephone service is an important tool of empowerment, especially for the unemployed, single parents, elderly, physically disabled, and others with limited mobility. Equality of opportunity depends on it. No one disputes that, in this day and age, telephone is an essential service for Canadians.

At the broader economic and social level, universality of telephone service enhances the value of the network itself: the more people connected, the more valuable the network. Ensuring that everyone can have telephone service in their home reduces social marginalization and all of the costs that such marginalization brings with it. Combating phonelessness is not just a matter of welfare; it is wise economic policy that ultimately improves overall productivity, health and education of society.

The delivery of social services is seriously affected by phonelessness. Social workers need to communicate with their clients in a timely and efficient manner. Their inability to do so by telephone adds significantly to the costs of administering and delivering social assistance in Canada.

Moreover, the federal government itself increasingly expects Canadians to have telephone access and to be connected to the Internet. While the federal government's policy is to enable citizen access to government information and services through a variety of means including online, telephone, in-person and mail,¹ often the only way for individuals to access specific government information is either by telephone or via the Internet. In any case, telephone access has consistently shown to be one of the preferred means of access to information, services, and program information by the public.² This is not surprising, given its ease of use and efficiency.

¹ For example, see Vision for HRDC, 1998, *Practical Vision and Action Plan*, Working Draft, HRDC, June 22, 1998; *Government On-Line and Canadians*, Canada, January 2002, p. 2.

² *The Dual Digital Divide: The Information Highway in Canada*, PIAC, 2000, p.24. Note that 45% of this group with incomes below \$20,000 per year cite cost as the main barrier.

For all these reasons, phonelessness is a social policy problem that needs to be addressed by the federal government. In particular, it has serious implications for employment, skills development, and the delivery of social services, all of which are central components of HRDC's mandate.

Phonelessness and the digital divide

In the 1990's, the federal government developed a policy framework for the emerging "information highway", the main themes of which were: to facilitate Canada's transition to a knowledge society; to make Canada the most connected nation in the world; and to realize economic growth and competitiveness domestically and internationally. This policy framework was formalized in 1998 into the "Connecting Canadians" agenda, an important component of which focused on expanding access to the Internet, and all the information and services provided therein.³ One particular program funded under this agenda is the Community Access Program, which has established public Internet access sites in communities across the country. However, no subsidized program has yet been established to deal with the more basic phonelessness problem.⁴

Phonelessness is an important gap that needs to be bridged if the federal government's goal of "Connecting Canadians" is to be fully realized. Telephone access is currently the major means of gaining access to online services for Canadians. While alternatives (e.g., cableTV) exist, they tend to be more costly than the basic Internet access services offered over telephone lines. Thus, if a household cannot afford telephone service, it is unlikely to have Internet access either.

The presence of a social group that faces access barriers due to cost is not unique to telephone; it has also emerged with Internet access. Of those Canadians not connected to the Internet from home (about 40% of the population), 38% identify cost as the main barrier.⁵ The demographics of this group (i.e., low income, low literacy, low education levels, variable employment, etc.) are similar to those who are phoneless. Individuals in these circumstances form one of the core client groups of Human Resources Development Canada (HRDC).

Phonelessness in Canada

Canada prides itself on the "connectedness" of its population. With an estimated telephone household penetration rate of over 98%,⁶ it would appear that virtually

³ *Backgrounder*, Canada's Information Highway Strategy, Industry Canada, 1977; *Speech From the Throne*, September 23, 1997; *Building the Information Society: Moving Canada into the 21st Century*, Canada, p. 16).

⁴ The CRTC has, however, addressed the issue – see below.

⁵ *Rethinking the Information Highway*, Ekos Research Associates, 2001.

⁶ Statistics Canada, Survey of Household Spending (SHS) and Residential Telephone Service

all Canadians are connected to the telephone network. Indeed, on the basis of these statistics, Canada's major telephone companies take the position that "basic telephone service continues to be affordable", implying that no action is needed with respect to phonelessness.⁷

However, a closer examination of available statistics reveals that penetration rates are significantly lower among low income households (95% - 96% across all Canadian provinces⁸), and in certain parts of the country (e.g., Nunavut: 81.4% overall, \pm 6.2%⁹). Regional variations also appear when looking just at low income households, as the Table below shows.

**Estimated wireline and/or wireless telephone penetration rates
among low income households in Canada¹⁰**

	SHS, 2000 1 st Income Quintile	RTSS, May 2001 Family Income < LICO	RTSS, May 2001 All households
Canada	95.0%	96.0%	98.9%
Newfoundland	89.0%	95.3%	98.6%
PEI	96.3%	93.4%	98.0%
Nova Scotia	96.5%	94.5%	98.3%
New Brunswick	93.5%	96.0%	98.8%
Quebec	92.0%	95.1%	98.4%
Ontario	98.5%	97.6%	99.3%
Manitoba	91.8%	93.9%	98.4%
Saskatchewan	95.7%	96.1%	98.5%
Alberta	97.5%	97.6%	99.3%
British Columbia	92.9%	94.5%	98.6%

Survey (RTSS), as reported in Bell Canada et al, *2001 Monitoring Report*, filed pursuant to Order CRTC 2000-393, (Feb.2002). The most recent results (RTSS, May 2001) estimate an overall penetration rate (wireline or wireless) of 98.9% (\pm 0.2%). Estimates based on the 2000 SHS are 98.8% (wireline or wireless), and 97.7% (wireline only). See Bell et al, Tables 3-2A and 2-5D. These figures exclude significant portions of the Canadian population with low subscribership rates, as explained below. Moreover, the fact that these estimates are survey-based means that they are subject to sampling error, and are therefore not 100% reliable.

⁷ Bell Canada et al, *2001 Monitoring Report*, *op cit*, para.2-74. This report is accessible on the CRTC website at: http://www.crtc.gc.ca/ENG/Proc_rep/TELECOM/1999/8665/B20-01.htm.

⁸ Bell et al, *op cit*, Tables 2-5D and 3-2B. According to the 2001 RTSS results, 96.0% (\pm 0.6%) of Canadian households with incomes below the Statistics Canada Low Income Cut Off (LICO) had either wireline or wireless service. The most recent SHS results (2000) indicate that 95.0% of households in the lowest income quintile had either wireline or wireless service, while 91.8% had wireline service.

⁹ *Ibid.*, Table 2-5C (most recent results: SHS, 1999).

¹⁰ *Ibid.*, Tables 2-5D and 3-2B.

Moreover, these estimates of telephone penetration rates among low income households exclude important segments of the low income population for which penetration rates are likely even lower. Specifically excluded from Statistics Canada's Residential Telephone Service Survey (RTSS) coverage are residents of the Yukon, Northwest Territories and Nunavut, persons living on Indian Reserves, full-time members of the Canadian Armed Forces and inmates of institutions. These groups together represent an exclusion of approximately 2% of the population aged 15 or over.

Specifically excluded from Statistics Canada's Survey of Household Spending (SHS) coverage are residents of Indian reservations and Crown lands, residents of institutions (e.g. seniors' homes, long-term care hospitals), individuals living permanently in hotels or boarding houses, armed forces members living on military bases, and individuals living in specialized (e.g., religious) communities.

Many of the population categories excluded from these surveys tend to be low income, and are therefore likely exhibit telephone subscribership rates much lower than average. For example, 1997 data from the telephone company serving northern Manitoba (MTS) indicates that, while the average penetration rate for Manitoba households at that time was 97.8%, the average penetration rate for Manitoba Keewatinowi Okimakanak (MKO) First Nation communities in northern Manitoba was only 73.16%, up from 65.4% in 1996.¹¹ Eight of the 21 communities surveyed had penetration rates of less than 50%. In a submission to the CRTC, MKO states:

The main reason why people do not have telephones....is cost. Most of the respondents said that they believed the people who did not have phones did not have them because they could not afford them.¹²

Subscribership data on Canada's northern territories is provided via the SHS, but this data is particularly unreliable given that households in very small communities (generally less than 100 households) and in "unorganized areas" are excluded.¹³ The result is that survey coverage is only 81% for the Yukon, 92% for the NWT, and 89% for Nunavut. The most recent subscribership data, limited as they are, are provided below:

¹¹ Manitoba Keewatinowi Okimakanak (MKO), *Building Opportunities in the MKO First Nations Communities*, submission to the CRTC in re Telecom Public Notice 97-42, pp.21-22.

¹² *Ibid.*, p.21.

¹³ Given their remote location, it is likely that these excluded households exhibit significantly lower subscribership than average.

	SHS 1999 (wireline and/or wireless service) ¹⁴	
	Overall	Lowest income quintile
Yukon	99.0%	95.1%
NWT	96.8%	88.6%
Nunavut	81.4%	Note ¹⁵

Overall, the most recent survey data¹⁶ indicates that 68% of those who don't subscribe to local phone service in Canada's ten provinces cite affordability as the reason. Noting the restricted coverage, and therefore inherent bias, of these surveys, it can be conservatively concluded that *at least* 0.8% of Canadian households, or over 100,000 households, do not subscribe to residential telephone service because they can't afford it.¹⁷ How many more can't afford basic phone service is not clear, due to the significant gaps in survey samples.

According to the Statistics Canada surveys, the vast majority (87.9%) of phoneless households have incomes below the Statistics Canada LICO.¹⁸ There is no question, then, that the predominant characteristic of phonelessness in Canada is low income. Other socio-economic and demographic characteristics that differentiate subscribers from non-subscribers include: fewer earners per household, greater reliance on government transfer payments as the major source of income, fewer household members, majority living in rented apartments, greater mobility, younger age of the survey respondent, and larger proportion composed of a single male.¹⁹

The charges most frequently cited as being difficult to afford by non-subscribing households who indicate they can't afford telephone service are: the basic monthly charge (69.3%), the installation charge (60.0%), and security deposits (44.1%). Less frequently cited are long distance (toll) charges (29.7%), optional features (27.8%) and other (14.2%).²⁰

Statistics Canada's subscribership data confirm anecdotal evidence from Food Banks, advocacy groups, social workers and others that there are many low income individuals and families in Canada who cannot afford basic telephone service. For example, in 1996, a number of organizations representing low

¹⁴ Ibid., Table 2-5C.

¹⁵ Sample size too small to provide statistically reliable estimate.

¹⁶ May 2001 RTSS.

¹⁷ Of all non-subscribers, 68% cite affordability as the reason. A further 6% cite moving as the reason. Others either don't want or don't need telephone service.

¹⁸ Statistics Canada Low Income Cut Off.

¹⁹ Bell et al, 2001 Monitoring Report, para.2-78, Table 2-6C, Figures 2-1 to 2-12, based on SHS data.

²⁰ Bell et al, 2001 Monitoring Report, Table 3-5B (based on May 2001 RTSS).

income Canadians conducted a survey of their members and constituents.²¹ 48 of 294 respondents (16.4%) did not have telephone service. In 1997, the Winnipeg Harvest 1997 survey of people using emergency food programs found that 30.3% were “no longer able to afford a telephone”.²²

A 1998 study in Edmonton found significant numbers of families without phone service (200 out of 250 respondents at one community centre).²³ 84% of those without phones said they needed one, but couldn’t afford it due to the deposit requirement (77%), the monthly charge (43%), or inability to pay arrears (50%). Yet, telephone service was considered essential by these citizens for health reasons (63%), because of children in schools (85%), and in order to find employment (45%). Those without phones relied upon neighbours (73%), community centre phones (81%), a nearby relative (45%), and payphones (44%) for emergency calls.

These statistics, however, tell little about the extent of the affordability problem for low income Canadians. Because telephone service in Canada is an essential service, the penetration rate of basic phone service is not the most meaningful measure of its affordability. People who can’t afford telephone service cannot afford to be without it, either. Anecdotal evidence from low income consumers suggests that people sacrifice other essentials, such as food and prescription drugs, in order to pay telephone bills.²⁴

Another indication of affordability is the percentage of household income consumed by basic telephone service charges. Statistics Canada data shows that, while the proportion of household expenditure on telephone services for all households was 1.4% in 2000, it was 3.1% for households in the lowest income quintile.²⁵ This comparison likely understates the disparity, since “telephone services” includes the full range of services, not just basic (e.g., enhanced services, long distance, equipment, wireless, fax, etc.), and lower income households spend much less than higher income households on telephone services.

In any case, it is clear that those without telephone service for affordability reasons constitute the mere “tip of the iceberg”; many more Canadian households are struggling to keep phone service in the face of ever-increasing basic rates.

²¹ BCOAPO et al, *Perceptions of Telephone Service by Low Income Consumers*, Membership/Constituent survey conducted by BCOAPO et al (Ottawa: Feb.1996).

²² Winnipeg Harvest, *The News Basket*, date unclear, citing as source “Hunger Barometer, 1997 Survey of People Using Emergency Food Programs”.

²³ “Phone in Every Home” Survey Results, conducted at the Norwood Community Service Centre, March 1998, unpublished.

²⁴ See BCOAPO et al, *op cit*.

²⁵ Bell et al, *op cit*, para.2-51, Table 2-9. Note that these figures reflect only those households not reporting zero expenditure on telephone services.

Canadians' attitudes toward subsidizing phone service to low income households

PIAC has conducted market research in the past on Canadians' attitudes toward the concept of subsidizing telephone service to low income households. In Feb. 1996, PIAC commissioned a national survey by Ekos Research on this and related issues.²⁶ In that survey, 80% of respondents said that providing basic local service to low income households at a cheaper rate is a good way of making it affordable to low income Canadians. The most popular source of funding for such a subsidy was telephone company revenues (55%), followed by ratepayers (20%), and taxpayers (16%). When asked if they would be willing to pay an extra 2% of their phone bill to ensure that low income households can afford basic phone service, 51% were, while 46% were not.

In 1999, PIAC again tested Canadian public opinion on this issue. In that survey, 73% of respondents would support subsidized service for low income families who cannot afford a phone. 63% said they would be willing to pay an extra 25¢/mo., while 55% would be willing to pay an extra \$1/mo. for this purpose.²⁷

CANADIAN INITIATIVES TO COMBAT PHONELESSNESS

CRTC and Telephone Company initiatives

In response to concerns about the affordability of increasing rates for basic telephone service, the CRTC initiated a proceeding in 1995 to examine the problem and potential solutions.²⁸ After a lengthy public process in which consumer organizations proposed a targeted subsidy program while telephone companies proposed lower priced "budget services" (local only and pay-per-use), the Commission issued a decision in which it favoured the targeted subsidy approach, but found that the problem was not yet sufficiently critical to warrant such a subsidy.²⁹

In its decision, the Commission rejected the "budget service" approach to affordability concerns, reasoning that:

....the local measured service budget options proposed by some companies would be attractive only to those consumers with low volume usage requirements while the flat rate options, with additional charges for toll access, as proposed by others, would be attractive to consumers who either make no use or else very little use of toll services. Those consumers, however, do not necessarily

²⁶ Ekos Research Associates Inc., *Survey of Consumer Perceptions Surrounding Telephone Service*, Report to PIAC et al (Ottawa, Feb. 15, 1996).

²⁷ Ekos Research, proprietary survey for PIAC, 1999.

²⁸ Telecom Public Notice CRTC 95-49 .

²⁹ Telecom Decision CRTC 96-10.

represent low income households where affordability is more likely to be a problem.³⁰

Moreover, the Commission noted that the “budget service” proposals:

(1) do not provide for the elements of basic telephone service considered essential by interested parties, (2) would increase the revenue shortfall in the Utility Segment, and (3) would not effectively target low-income Canadians.....³¹

It therefore concluded that “a targeted subsidy program would be the preferred approach to addressing problems of affordability of local residential telephone services should an affordability problem arise in Canada”.³² In the meantime, the CRTC ordered the telephone companies to:

- monitor penetration rates and other indicators of affordability of telephone service in Canada;
- offer a toll blocking service to all residential subscribers at no charge, and with a deactivation fee of no more than \$10; and
- offer all residential customers the option of paying connection charges in installments over six months.

Monitoring Reports

Since that decision, Bell Canada and its affiliated companies have filed regular “monitoring reports” with the Commission. These reports summarize Statistics Canada data which suggest that there has been no significant change in telephone subscribership over the past five years, despite ever-increasing rates for basic service (confirming the essential nature of basic telephone service to Canadians).³³ The rate of phonelessness has remained relatively constant, as has the correlation with low income. These reports do show, however, a significant shift in the primary source of affordability problems over the past five years, from toll rates to basic local rates. (This is not surprising, given the significant increases to basic local rates, and decreases to toll rates, over this period. It may also reflect the availability of toll blocking to residential subscribers at no charge.) Up-front charges for connection remain a significant obstacle to telephone subscribership among those without phones.

Bill Management Tools

Expressing a desire to improve the promotion of installment payment and toll blocking services so as “to ensure that customers can more easily obtain

³⁰ Ibid., p.10.

³¹ Ibid., p.11.

³² Ibid., p.14.

³³ See http://www.crtc.gc.ca/eng/Proc_rep/TELECOM/1997/PART7/dec96-10.htm

telephone service or remain on the network”, the Commission established a Committee in March 2001 “to look at new initiatives to promote Bill Management Tools (BMTs) and facilitate access to telephone service”.³⁴ The Commission set out the objectives of the Committee as threefold:

- optimizing Bill Management Tools through better promotion and/or additional tools,
- improving the design and content of customer bills, and
- implementing other consumer literacy initiatives.

The Committee’s work during 2001 has resulted in a strategy to improve the promotion of Bill Management Tools (still limited to installment payment plans for connection fees, and toll blocking), but has not yet addressed the second two objectives set out the by CRTC. It is not clear what further work will be accomplished by this Committee, given resistance by telephone companies.

Bad Debt Repayment Plans

Some telephone companies have taken action on their own initiative to address phonelessness in their territories. For instance, SaskTel, a provincial crown corporation, offers a “Bad Debt Repayment Plan” to residential customers who have been disconnected for non-payment, and whose accounts have been sent to a collection agent. The plan is available to customers only once per lifetime, and is an alternative to up-front repayment of arrears and/or security deposits. Customers taking advantage of it must agree to (and comply with) a repayment schedule involving monthly payments (the amount of the payment depends on the amount owing)³⁵. No interest is applied to the arrears, but late payment charges do apply to missed installment payments. Customers are provided with local telephone service and access to toll-free numbers, but cannot make long distance calls (except via prepaid calling cards), calls to 900 numbers or directory assistance. Up to \$13/mo. in optional services is permitted. As of July 2001, SaskTel reported that 50% of its BDRP customers were adhering to the program, 45% had defaulted, and 5% had gone on to re-establish accounts in good order.

MTS, the incumbent local telephone company in Manitoba, offers a similar service to customers in arrears, but does not apply a once/lifetime limit, does not allow any optional services, and applies interest to outstanding balances.

³⁴ Letter dated March 15th, 2001, <http://www.crtc.gc.ca/archive/eng/Letters/2001/lt010315.htm> .

³⁵ Monthly payments are \$10 for debts of less than \$250, \$25 for debts of \$250-\$999, and \$50 for debts of \$1,000 or more.

Community Initiatives

Free or low-cost Voice Mail

A number of community groups have set up low cost voice mail services for those without phones. Toronto's "Metro Voice Mail Project", for example, started up in 1995 with financial assistance from the United Way and at-cost provision of voice mail by Voice-Link, a commercial voice mail provider. According to a 1997 news report, the service had app. 1,000 subscribers at that time. It cost \$10 for three months, allowed subscribers to access messages 24 hours/day from any touch-tone phone, and was available through 17 community agencies throughout Metro Toronto.³⁶

Similar initiatives exist in Hamilton, Ottawa, Vancouver, Boston and Seattle. Ottawa's program, which commenced in June 2000, offers three months of personal voice mail for \$5.00. "Contact Ottawa" is financed by the City of Ottawa and is available through local community agencies. It currently serves app.640 clients.³⁷

Studies of Phonelessness

In 1998, the Central Community Health Council in Edmonton initiated a study of phonelessness in the Edmonton area, which resulted in a report on the extent, nature, and depth of the problem.³⁸ On the basis of this report, efforts were made, under an initiative entitled "A Phone in Every Home", to improve telephone service subscribership among low income families in Edmonton. These efforts involved several meetings with telephone company officials, with no apparent progress. Food Banks have also, at times, polled their customers to determine how many have phone service at home.³⁹

Market Initiatives

Prepaid local phone service

Disconnected customers who cannot afford the large security deposits and/or repayments required of them by their previous local telephone company, but who can afford a large monthly fee for basic phone service, present a market opportunity. Across Canada, a company called "Canada Reconnect" offers prepaid local phone service to such customers for \$74.95/mo., renewable on a month-to-month basis. Set-up fees range from \$19 to \$59 depending on the province. Payment can only be made by Canada Post money order or direct deposit. Customers of Canada Reconnect cannot make long distance calls, other than via a prepaid calling card. Collect calls are blocked. Directory

³⁶ Laurie Monsebraaten, "Voice mail lets the phoneless keep in touch", *Toronto Star*, May 15, 1997, p.B6.

³⁷ Interview with program coordinator, "Contact Ottawa" (Vanier Community Resource Centre, 744-2892).

³⁸ "A Phone in Every Home: Telephone Access is an Essential Service", 1998.

³⁹ See, for example, Winnipeg Harvest Food Bank's newsletter.

assistance and other pay-per-use services are accessible, but Canada Reconnect applies a \$2 usage fee to them.⁴⁰

APPROACHES TAKEN IN OTHER JURISDICTIONS

The USA: Low Income Support⁴¹

The USA has an extensive system of programs designed to assist low income households get on and stay on the telephone network. This system centers around the “Lifeline” and “Link-Up” programs administered by the Federal Communications Commission (FCC), in conjunction with states and local telephone companies. The Lifeline program was established in 1984, and “Link-Up America” was added in 1987. In 1997, pursuant to procedures set up under the *Telecommunications Act of 1996*, the FCC expanded the Lifeline program so as to provide federal support regardless of state participation.⁴² In June 2000, the Commission expanded these programs to provide additional discounts to those living on Indian reservations.

Together with a toll limitation service, these discount programs are known together as the FCC’s “Low Income Program”. This program has provided almost \$600 million in support to over 5 million customers each year since 1986. Over 1500 telephone companies participate, including competitive and wireless service providers. However, in order to participate, carriers must be designated as “Eligible Telecommunications Carriers” by their state regulatory commission (or the FCC, in the case of tribal lands) and must make quarterly filings with the Universal Service Administrative Company, a not-for-profit corporation overseen by the FCC.

Benefits

The federal **Lifeline** program reimburses telephone companies for discounting consumers’ monthly phone bills by an amount ranging from \$5.25 to \$7.85. Eligible subscribers may also qualify for an additional \$3.50 per month in matching support from their state.⁴³ Typical total Lifeline support is \$10.50 per month. Customers on tribal lands can receive up to \$36.35 in monthly support depending on state participation, such that most can obtain basic phone service for \$1 per month.

⁴⁰ See <http://www.canadarreconnect.com> .

⁴¹ Information in this section is taken from a variety of documents available on the FCC and related websites – see http://www.fcc.gov/ccb/universal_service/lowincome.html , <http://www.fcc.gov/cib/consumerfacts/lowincome.html> , <http://www.universalservice.org/li/overview/> ,

⁴² FCC Order 97-157 (May 1997).

⁴³ See Appendix A, showing which states provide matching support (and amounts provided).

Lifeline service must include single-party service, voice grade access to the public switched telephone network, Dual Tone Multifrequency signaling or its functional digital equivalent, access to emergency services, access to operator services, access to interexchange service, access to directory assistance, and toll limitation.

As long as the consumer pays the local phone portion of the bill, local phone service cannot be disconnected. If a consumer is unable to pay the entire phone bill at once, any payment made is applied first to the local phone portion of the bill. The phone company may block any further toll calls until all toll arrears have been paid.

In addition, carriers providing lifeline service may not collect a service deposit in order to initiate Lifeline service if the eligible customer voluntarily elects toll blocking.

Link Up reimburses telephone companies for discounting connection charges to eligible customers by up to 50% (not to exceed \$30). Customers on tribal lands are eligible for a further \$70 on connection fees. In addition, Link-Up customers can schedule deferred payments of up to \$200 over one year, with the customary interest charges financed by federal support.

The same limitations on disconnection of local service for non-payment of toll charges apply to Link Up subscribers as to Lifeline subscribers.

Toll Limitation Service service compensates telephone companies for offering toll limitation services to low-income customers for free. Carriers are required to provide at least one type of toll limitation services (i.e., either *toll blocking*, which prevents the placement of any long-distance calls, or *toll control*, which limits the amount of long-distance calls to a pre-set amount selected by the consumer). In addition, no-cost blocking of 900 number calls must be offered. Compensation is based on the carrier's incremental cost of providing toll-limitation services.

Eligibility

Eligibility criteria for both Lifeline and Link-Up vary by state – see Appendix B: “State Profiles” for details. Although states have some latitude, qualification criteria must be based on income or factors directly related to income. Typically, eligibility is “piggy-backed” on means testing for other low income support programs such as Medicaid and food stamps – i.e., households already eligible for such programs are also eligible for Lifeline or Link-Up discounts. Some states (e.g., California), however, base eligibility directly on household income.

To receive Lifeline and Link Up in a state that does not mandate state Lifeline support, a consumer must participate in one of the following five programs: Medicaid; food stamps; Supplemental Security Income (SSI); federal public

housing assistance; or the Low-Income Home Energy Assistance Program (LIHEAP). Those living on federally recognized Indian reservations qualify to receive federal Lifeline support if they certify that they receive benefits from one a number of specific federal assistance programs.

The FCC is currently reviewing this requirement with a view to possibly expanding it to individuals who are *eligible* for any such program, rather than limiting it to those who *participate* in any of the listed programs. It is also considering whether Lifeline customers should be removed as soon as they no longer meet the eligibility standards, or whether Lifeline enrollment should be guaranteed for a specified minimum period of time.⁴⁴

In all cases, Lifeline support is available only to the named subscriber in the household, and only where that subscriber is not named as a dependent on someone else's tax return.

Link Up benefits are only available for one line per household, and only at the subscriber's primary residence. Eligible customers may receive the reduction in connection charges more than once only if they change residences. Link-up does not eliminate or reduce applicable security deposits. As with Lifeline service, an eligible participant cannot be listed as a dependent on someone else's tax return.

Application/Verification Process

State-administered Lifeline/Link-Up programs vary in terms of application and verification procedures. As discussed below, some states automatically enroll all individuals who are on social assistance. Others require an application by the customer.

In order to receive Lifeline or Link-Up support under federal criteria, a consumer must certify in writing that he/she participates in at least one of the qualifying federal programs. The consumer must identify that program or programs and must agree to notify the carrier if he/she ceases to participate in the identified program.

The FCC is currently considering whether an individual's eligibility to receive Lifeline/Link-Up support should be verified, and if so, what verification measures should be taken (e.g., requiring the customer to provide a copy of a food stamp coupon).

⁴⁴ FCC Public Notice FCC 01J-2, CC Docket No. 96-45, "Federal-State Joint Board on Universal Service Seeks Comment on Review of Lifeline and Link-Up Service for all Low-Income Consumers", released Oct.12, 2001. Comments on this Public Notice are due Dec.31, 2001 and Reply Comments, Feb.28, 2002.

Publicity and Outreach

Carriers offering Lifeline and Link Up are required by the FCC to publicize the availability of those programs in a manner reasonably designed to reach those most likely to qualify for support. Outreach efforts vary among states, with California's "Lifeline Marketing Board" and a small Alaskan phone company offering examples of particularly effective initiatives in this regard. (See below for further details on state initiatives.) The FCC is now seeking comment on "whether more extensive consumer education and outreach efforts are necessary to increase participation in the Lifeline/Link-Up program."⁴⁵

Funding

The FCC's "Low Income Support" programs are funded by the "Federal Universal Service Fund", to which all telecommunications companies that provide service between states (including local and long distance companies, wireless providers, paging companies, and payphone providers) must contribute. Companies pay a specific percentage of their interstate and international revenues into the Fund. This percentage changes each quarter, depending on the needs of the Fund.⁴⁶

The federal portion of the program is funded by the federal universal service support mechanisms which include contributions from all interstate telecommunications carriers and providers of interstate telecommunications, including payphone aggregators and private network operators that offer service to others for a fee on a non-common carrier basis. These carriers and service providers may pass on the expenses of these charges to their customers through a line item charge on the customer bill, but are not required to do so.

States fund their portion of Lifeline service costs either through a surcharge on intrastate telecommunications carriers, or through an end-user surcharge. Alaska, for example, applies a 1.8% "Universal Service Fund" surcharge on the intrastate end user revenues of all telecommunications public utilities under state jurisdiction. As with the federal charge, Alaskan utilities are permitted but not required to pass the surcharge through to customers. California applies the surcharge for its "Universal Lifeline Telephone Service" directly to end-users. This "all-end-user surcharge" is then remitted by telecommunications carriers to the program administrator. In contrast, Georgia bans end-user surcharges for this purpose; instead, companies are expected to cover the cost of it through their general revenues.

⁴⁵ FCC Public Notice, *op cit*, p.7.

⁴⁶ The Universal Service Fund is also used to provide funding for three other programs: High-Cost Areas, Schools and Libraries, and Rural Health Care.

Results

In 2000, an estimated 5.9 million U.S. households paid reduced local rates under the low-income provisions of the Lifeline programs. Since the inception of the Link-Up program in 1987, app. 10.6 million low-income consumers have initiated telephone service under the program. In a recent study, the Missouri Office of Public Counsel estimated that 26 percent of households with incomes below 150 percent of the federal poverty level take advantage of the Lifeline/Link-Up program in that state.⁴⁷

State Variations on and Supplements to Lifeline/Link-Up⁴⁸

Lifeline/Link-Up Benefits

In addition to providing “matching support” under the federal Lifeline program, number of states supplement the required benefits under Lifeline/Link-Up service with such additional benefits as:

- free connection (e.g., The Public Utility Commission of Ohio’s “Service Connection Assistance” program, Wisconsin)
- no deposit required for Lifeline service (e.g., Ohio PUC, Tennessee Public Service Commission)
- a greater dollar discount than required under the program (e.g., Massachusetts Dept. of Public Utilities, New Mexico Carrier Exchange Group)
- continuation of discounted service for a specified period after disqualification (e.g., the Florida Public Service Commission requires that basic service be provided at 70% of the regular rate for one year after a customer ceases to qualify for Lifeline)
- a payment plan for arrears (e.g., Texas Public Utility Commission)

In at least one case, an alternative discount plan for basic service is offered by a particular telephone company: in the District of Columbia, Verizon offers basic service to qualifying D.C. residents for \$3 per month under its “Economy II” program. Seniors 65 years and older pay only \$1 per month for the service, which includes unlimited calling in the Washington metropolitan area.⁴⁹

⁴⁷ FCC Public Notice, *op cit*, p.3.

⁴⁸ The information below, unless otherwise footnoted, is taken from publications on state utility regulator websites and Weinhaus et al, *Calculations and Sources for Closing the Gap: Universal Service for Low Income Households*, Telecommunications Industries Analysis Project, August 1, 2000.

⁴⁹ While the origin of this program is not clear, it is likely that the program was offered by Verizon in D.C. as part of a regulatory process before the D.C. Public Service Commission.

In other cases, additional benefits are available only where the customer meets other requirements, such as having no more than one access line in the household⁵⁰, or accepts restrictions in their service. The following examples are illustrative:

- free local telephone installation, but no optional services permitted (e.g., Michigan Public Service Commission; Ameritech's "USA" Plan 1 in Ohio)
- a payment plan for arrears, but only if toll blocking is accepted (e.g., Verizon, New Jersey)
- waiver of connection charges over \$5 and of deposit for local service, but no optional services permitted unless medically necessary (Verizon, New Jersey)

Eligibility for Lifeline/Link-Up

As noted above, states are free to set eligibility requirements for Lifeline service,⁵¹ as long as the requirements are income-related, ensuring that the service is targeted to those in need. In addition to "piggybacking" on existing means-tested social assistance programs to determine eligibility for Lifeline and Link-Up, many states accept Lifeline customers based on household income, either instead of, or as an alternative to, participation in another government social assistance program.⁵²

As well, "piggy-backing" on existing welfare programs can take different forms: either mere eligibility for the program, or actual receipt of assistance, can be required. Most states make Lifeline available only to those actually receiving social assistance. Some, such as New York, make Lifeline available to all those who are eligible for welfare programs.

Some states extend Lifeline service to a broader range of customers than required under the FCC's eligibility guidelines. Thus, for example, Arizona and Minnesota offer the discount rate to elderly and disabled customers, as well as those meeting the income criteria.

Application Process for Lifeline/Link-Up

Most states require customers to apply for Lifeline service in order to get it, resulting in lower take-up rates than expected (due to ignorance of the program or of how to go about applying). At least one state, however, automatically

⁵⁰ e.g., Ameritech's "Universal Service Assistance" Plans 1 and 2, Ohio; Verizon New Jersey's "New Lifeline Plan" (offer made to New Jersey Board of Public Utilities, July 2000)

⁵¹ These requirements are then applicable to both federal and state Lifeline programs.

⁵² e.g., California Public Utilities Commission (income only), Michigan Public Service Commission (income only), Minnesota Public Utilities Commission (either social assistance or income), Tennessee (income or social assistance).

enrolls in the Lifeline program all those on state social assistance programs.⁵³ This is an efficient and effective way of ensuring that at least this group of needy consumers benefits from Lifeline service. In Wisconsin, the local phone company includes Lifeline as an explicit option when customers order service.

Verification of Eligibility for Lifeline/Link-Up

States approach verification of eligibility when consumers apply for Link-Up or Lifeline service in different ways. The most common approach is to require applicants to provide proof of current participation in one of the eligible assistance programs, or of household income if applicable. Such proof can be a photocopy of material verifying participation in a social assistance plan, or of the most recent federal income tax return.

For instance, in order to verify eligibility for its “Economy II” program in D.C., Verizon requires proof of income in the form of an employer’s letter, a “W-2 Form”, a paycheck stub, an unemployment compensation letter, an award letter, or “other formal verification”. Participants must reapply for certification each year.

At the other end of the spectrum, California relies upon self-certification by the individual subscriber, with no verification check.⁵⁴

In Wisconsin, the local phone company works with the Dept. of Revenue and Dept. of Workforce Development to verify customer participation in one of the listed social assistance programs. The Tennessee Regulatory Authority uses the Dept. of Human Services database for re-verification purposes (i.e., to determine which customers remain eligible for Lifeline). In Washington, the phone company verifies eligibility via individual phone calls to the relevant social service agency.

Marketing/Outreach of Lifeline/Link-Up

As noted above, the FCC requires that carriers offering Lifeline service “publicize the availability of those programs in a manner reasonably designed to reach those most likely to qualify for support”. Some states and companies go to much greater effort than others to spread awareness of the program and thus increase take-rates among the target population. For example, California established a “Lifeline Marketing Board” in 1997 to oversee promotion of its Lifeline program among the target population. The “ULTS Marketing Board” is tasked with devising competitively neutral marketing strategies and overseeing marketing campaigns, with the aim of achieving a 95% telephone subscribership rate among all residential customer groups, especially low income households. It had

⁵³ The New York Public Service Commission runs an automatic enrollment system, using computer matching between the Dept. of Social Services and the local phone company’s database.

⁵⁴ The largest local telephone company in South Dakota does likewise.

an approved budget of \$5 million in 1998, \$7.4 m. in 1999, and a recommended budget of \$6.2 m. in 2000.⁵⁵

According to a 1999 study,⁵⁶, Tennessee planned in 2000 to establish a “Manager of Consumer Outreach” position, the focus of which would be Lifeline and Link-Up program outreach. The following are examples of specific types of outreach.

(a) Notification via Social Service Agencies

In Vermont, to all individuals enrolling in state social assistance programs are asked whether they want Lifeline or Link-Up service. In Illinois, information on Lifeline and Link-Up is mailed to all state Medicaid recipients. Similarly, The Tennessee Regulatory Authority mails information on Lifeline and Link-Up services to all identified low-income households. The Wisconsin Public Service Commission also works with social service agencies to mail information on Lifeline directly to eligible customers.

(b) Notification to Telephone Customers

Vermont also requires local exchange companies to send to all customers annual notices of how to apply for Lifeline service. In South Dakota, the phone company sends a letter to every new customer to make them aware of the Lifeline program.

(c) Public Announcements and Advertising

Wide distribution of pamphlets describing the program is a common form of outreach. The District of Columbia and Rhode Island provide information on Lifeline and Link-Up at community centres, public schools, churches, job and health fairs, community festivals, senior citizen events, and neighborhood commission meetings, in addition to advertising in local newspapers.

Given that many eligible households are not fluent in English, it is important that outreach efforts are made in all relevant languages. The Californian and Tennessee regulatory authorities provide information on Lifeline and Link-Up in multiple languages, both in written form and via public service announcements on radio and television.

(d) Direct Personal Contact with Target Households

In Alaska, United Utilities (a small local phone company) has undertaken a unique and highly successful outreach effort focused on the largely native

⁵⁵ California Public Utilities Commission, *Universal Service Report to the Governor and the Legislature*, Dec.1, 1999, p.12.

⁵⁶ Weinhaus et al, *op cit*, FN 32.

American population in its serving territory. Company personnel went door to door with translators to explain the Lifeline program, and how customers can sign up. Subscriberhip in United's service area significantly increased as a result.⁵⁷

Administration of the Lifeline Program

Some states have created an oversight or advisory body to monitor and assess the Lifeline program on an ongoing basis. In California, for example, the Universal Lifeline Telephone Service (ULTS) program is overseen by an Administrative Committee with representation from telephone companies and community groups. The Committee employs a trustee to handle incoming and outgoing funds, and full time external staff to handle the day-to-day activities of the program.⁵⁸

In Ohio, the Ameritech-Ohio Lifeline program is overseen by an Advisory Committee made up of company, consumer and low-income representatives (a representative from the Ohio Public Utility Commission has ex-officio status). The Advisory Committee is mandated with evaluating the Lifeline program, and advising the regulatory on such issues as:

- Promotional, educational and training programs;
- Adequate notice to measured rate service customers as to the availability of flat rate services, and whether the customer would be better off under the flat rate option;
- Enrolment procedures; and
- A benchmark for evaluating the success of the Lifeline program and its enrolment.

According to an expert on low income assistance programs, the Ameritech-Ohio Lifeline Advisory Committee "has played a critical role in ensuring the proper implementation of the ... program", through its "watchdog role over program implementation."⁵⁹

Other Services:

(a) Prepaid Local Phone Service

In Texas, customers with an outstanding telephone bill who have been disconnected or are about to be disconnected can apply for "Prepaid Local Telephone Service", under which:

⁵⁷ Personal communication with Alaskan state utility consumer advocate.

⁵⁸ California Public Utilities Commission, *Universal Service Report to the Governor and the Legislature*, Dec.1, 1999, p.12.

⁵⁹ Roger Colton, *Direct Testimony* on behalf of the New Jersey Division of the Ratepayer Advocate, New Jersey Board of Public Utilities, Docket No. TO01020095 (May 15, 2001).

- all long distance calls are blocked,
- no optional services are permitted,
- reconnection fees and two months of local phone service charges must be paid up front, and
- a deferred payment plan for the outstanding local debt to the local phone company must be arranged.

(b) Metered Service

For those customers who don't qualify for Lifeline service, a common option in the USA is metered local service, under which customers pay a small monthly fee but are billed per call or per minute of calling. This service, however, does not meet the needs of those low income households whose local usage needs are high. Nor does it assist those who have difficulty controlling the use of their telephone. For these reasons, metered service is not an adequate response to the affordability problem among low income households.

(c) Equipment Subsidies for Visually and Hearing Impaired Customers

Some states offer additional discount services for disabled residents. Texas, for example, offers "Tel-Assistance", a service under which the monthly rate for basic phone service is reduced by 65%. This service is available only to disabled adults whose income is at or below the poverty level.

In Oregon, the "Telecommunication Devices Access Program" purchases and loans (at no cost to eligible recipients) special telecommunications devices to residents who are deaf, hearing and/or speech impaired, or who have other physical disabilities that prevent them from using the telephone. Subsidized devices include TTY, visual signal, large visual display, telebraille, remote-controlled speaker phone, and voice-activated cellular phone.

UK (OfTel)

When examining approaches to phonelessness in the United Kingdom, it is important to appreciate that local service is not provided on a flat monthly rate basis. Instead, all calls are toll calls. Another distinguishing feature of the UK residential telecommunications market is the high penetration of wireless service: about 78% of households own a mobile phone (much higher than in North America).⁶⁰

In this context, efforts to make basic phone service available to those on low incomes are focused on tools for controlling calls and managing bills. The UK telecommunications regulator, OfTel, recently issued a statement on the "Universal Service Obligation", setting out its conclusions as to the level and

⁶⁰ OfTel, "Universal Service Obligation", 30 August 2001, para.1.6

scope of this obligation, and how it can best be met.⁶¹ In brief, Oftel concludes that the universal service goal should continue to be pursued through a variety of means including prepaid service, toll blocking, a discount service for light users, and measures to protect customers from immediate disconnection on the grounds of an unpaid bill.

By regulation, local telephone companies in the UK are required to offer customers “the option of a more restricted package at low cost”. In addition, Oftel requires that “customers of all companies should be able to access emergency services free, receive itemized bills, choose selective call barring, and have access to operator assistance and directory information.”⁶²

Incoming calls only

Since 1998, British Tel (“BT”) has offered a service called “In Contact” which permits incoming calls but bars outgoing calls except to emergency services and other toll-free numbers. Set up fees (£9.99) and quarterly rental fees (£9.25) are significantly lower than for normal service. The aim of this scheme was to make fixed line service available to some households for the first time, and to assist others in avoiding disconnection. The service has not met expectations, however: subscription has only reached 4% of the target level. Clearly, the restrictions on this service are too unattractive even to those experiencing affordability problems.

Prepaid schemes

In 1999, BT began offering an enhancement to the “In Contact” service: the ability to make outgoing calls using a prepaid calling card, combined with an access code. The prepaid card, in £3 denominations, is widely available throughout the UK and can be used with any telephone. A flat rate charge of 10p per minute for national and local calls applies, and charges are broadly similar to payphone charges. As of August 2001, app.2000 new cards had been used on In Contact lines, for app. 40,000 calls.⁶³

In its assessment of this service, Oftel notes that while “the desire to control expenditure does not necessarily link to low income”, those on low incomes welcome the availability of a prepaid option”. It states that “this would appear to be preferable to adopting a means-tested approach, which would be inappropriate for commercial companies to administer.”⁶⁴

⁶¹ Ibid. This Statement is the result of a consultative process initiated by a consultation document found at <http://www.oftel.gov.uk/publications/consumer/uso0900.htm> .

⁶² Ibid., para.1.3.

⁶³ Oftel, Ibid., paras 2.9 - 2.10

⁶⁴ Ibid., para.2.13

Oftel has therefore maintained the requirement for UK local phone companies to offer this service, noting that it will monitor take-up rates and awareness of the service to ensure that they remain appropriate for the target group.

Light User Scheme

This BT scheme was launched in 1993 and had approximately 2 million subscribers as of August 2001. As described by Oftel,

Normal rental charge and installation costs apply but users receive a rebate on the rental if call charges are less than £15.45 per quarter (excluding VAT). For every 1.0p that the call charge falls below this amount, the customer receives a rebate of 1.04p (excluding VAT). The maximum rebate is £16.08 (excluding VAT), and applies where no calls have been charged.⁶⁵

In its August 2001 Statement, Oftel found that while “complex and sometimes confusing”, “LUS is continuing to serve the needs of customers for whom affordability and accessibility are key issues”. Oftel further noted that the service “is particularly suitable for those customers who make few calls. Pensioners make up nearly three-quarters of its customer base.”⁶⁶

Discount services and mobile phones

BT currently limits eligibility for the above-mentioned schemes to customers who do not have telephone service provided by another operator, including a mobile network operator. Considering whether such a restriction is appropriate, Oftel noted that “a mobile phone may provide no more than a lifeline for many households, rather than a substitute for a fixed line phone”. It therefore ordered BT to review such restrictions “to ensure they do not exclude those who have difficulty affording telephone service”.⁶⁷

Disconnection of service

Expressing concern over the rising level of disconnections in the UK, Oftel emphasized that “it is ... essential that appropriate measures are in place to ensure that customers who are genuinely in need and willing to pay are not disconnected”. Specifically, it ordered all service providers to:

- publish codes of practice on debt and disconnection;
- focus on debt prevention and debt management measures;
- provide alternative payment options, particularly pre-payment options; and

⁶⁵ Ibid., para.2.16

⁶⁶ Ibid., paras.2.17, 2.20

⁶⁷ Ibid., para.2.26

- pay special attention to the needs of disabled customers and consult with the Advisory Committee on Telecommunications for Disabled and Elderly People to ensure that effective mechanisms are in place.⁶⁸

THE IMPACT OF TELEPHONE ASSISTANCE PROGRAMS ON SUBSCRIBERSHIP

Telephone assistance programs aim to reduce or eliminate phonelessness by making basic phone service more affordable for low income households. An obvious question is thus: what effect have telephone assistance programs in other jurisdictions had on penetration rates?⁶⁹

Targeted subsidies in the USA appear to have had at least some success in raising penetration levels.⁷⁰ A recent study by the Federal Communications Commission (FCC) concludes that Lifeline programs in the USA have had a significant positive effect on penetration rates, especially among low income households.

The results are consistent and significant. The federal Lifeline program has raised penetration rates and the sizes of the increases are related to the amount of assistance provided.⁷¹

The study used data from 1984 (prior to the implementation of the Lifeline program) through the year 2000, in an effort to “assess the degree of success in making telephone service available to low-income households in each state.” Specifically, it found that:

- Between 1984 and 1997, states with the federal Lifeline program experienced greater increases in telephone penetration than states without Lifeline programs – nearly 1.5% higher for all households and over 3% higher for low-income households.

⁶⁸ Ibid., paras. 2.32., 2.33

⁶⁹ Telephone assistance programs may instead strive simply to make basic phone service more affordable for those on low incomes. Such an approach recognizes the inherent dilemma in trying to assess the affordability of an essential service on the basis of penetration rates: while many cannot afford it, they cannot afford to be without it, either. It suggests that focusing entirely on penetration rates misses the point, by ignoring the affordability challenges faced by the many *subscribing* households who risk disconnection because they cannot afford the monthly rate for basic phone service, but who manage to find some way of paying without the subsidy even if that means sacrificing other essentials.

⁷⁰ See Alexander Belinfante, *Telephone Penetration by Income by State*, FCC (July 2001); and Garbacz and Thompson, “Estimating Telephone Demand with State Decennial Census Data from 1970-1990”, *Journal of Regulatory Economics* (forthcoming, 2002).

⁷¹ Belinfante, *op cit*, p.4

- Effective in 1998, the FCC expanded the Universal Service Fund's Lifeline program by offering states new matching funds. States that have taken the steps necessary to qualify for maximum federal matching funds saw telephone penetration for all households rise nearly one percentage point between 1997 (prior to the expansion of the Lifeline program) and 2000. In these states, low income households benefited even more – with a 2.2% increase in telephone penetration.
- States that did not take the steps necessary to qualify for full federal matching funds saw no significant improvement in telephone penetration rates.

The report notes that the increase in subscribership among low income households is undoubtedly attributable in part to factors other than the Lifeline program, but notes that “the increase in those states that adopted Lifeline programs was double that of states that did not adopt such programs”.⁷²

Some US economists have attempted to cast doubt on the effectiveness of Lifeline programs through the use of complex economic models and pooled Census data. These studies deserve a critical analysis which is beyond the scope of this report. The authors of one study suggest that Lifeline programs have had no statistically significant effect on penetration.⁷³ However, this conclusion is suspect given that their model also showed an odd negative effect for Link-Up programs (connection subsidies). A more recent study finds that, while Lifeline programs do increase penetration rates,⁷⁴ the cost per added household is high (\$191 in 1990 and \$1581 in 1998).⁷⁵ The authors of this study note that “a high proportion of program monies go to households that are already on the network and do not plan to leave. How to target those not on the network, while denying payments to those already on the network who are in no danger of leaving is a conundrum.”⁷⁶

In the UK, it is particularly difficult to assess the effect of special “budget” services on fixed line penetration rates, given their limited nature and the relatively high level of mobile phone subscriptions in that country (among both those with and those without fixed line service). While the percent of the UK population living in homes without fixed line phone service has fallen by 14% since the early 1980s (to 5% in 2000)⁷⁷, it is difficult to attribute this to any

⁷² *Ibid.*, p.3.

⁷³ Crandall and Waverman, *Who Pays for Universal Service? When Telephone Subsidies become Transparent*, Brookings Institution Press, Wash.D.C. (2000).

⁷⁴ Surprisingly, the report provides no information on the extent of this effect, other than “for 1990, the results suggest that a ten percent increase in the subsidy would add about 28,585 households to the network...” (Garbacz and Thompson, *op cit.*, p.14).

⁷⁵ Garbacz and Thompson, *op cit.* Note that this study, like the Crandall and Waverman one, assumes that the only goal of the subsidy is to increase subscribership. It assigns no value to the easing of affordability concerns for subscribing households.

⁷⁶ *Ibid.*, pp.14-15.

⁷⁷ Oftel, *Review of universal telephone services*, Sept.2000, para.2.3.

particular cause. Our research turned up no studies attempting to measure the impact of budget services in the UK on penetration rates. In a 2000 study of homes without fixed line service in the UK, 60% said they had mobile phone service, and only about 20% cited affordability as the main reason for not having fixed line service.⁷⁸

Penetration rates in Canada appear not to have been affected by the minimal efforts made to date to facilitate subscribership in this country.

LESSONS TO DATE

While there is clearly no foolproof recipe for eliminating phonelessness, a number of conclusions can be drawn based on the experience to date in Canada, the USA and the UK.

First, an obvious but important demographic reality: **phonelessness is inextricably linked to income**. Any program designed to combat phonelessness should therefore focus on the lower income segment of society. This conclusion is reinforced by the fact that prepaid service is now available for those who can afford it.

Second, while low income is a common feature of non-subscribing households, there are many aspects of the affordability problem. **Different problems require different solutions**, and each should be appropriately targeted. For example, while a discount on the connection fee will help some, others may need methods to control toll calling. While metered service may work for those who make few calls and who have full control over the use of their phone, it is no solution for those who make heavy use of the telephone or who share the use of a line with others. While prepaid service works for some, it does not address the up-front payment problem that many low income households face. An effective approach to phonelessness will entail a variety of offerings, each targeted at a distinct aspect of the problem. No single offering is sufficient to address the entire problem.

In particular, services focusing on providing service to the phoneless (e.g., low cost voice mail, bad debt repayment plans, installation discounts), while clearly beneficial, do not address a key aspect of the current affordability problem in Canada: high monthly rates for basic telephone service.

As well, each offering should be appropriately tailored to the problem it is designed to address, so as not to create perverse incentives and so as to target the program on those for whom it is designed to assist. So, for example, bad debt repayment plans should not reward those who have repeatedly incurred and failed to pay large bills. Discounts on the monthly rate for basic phone service

⁷⁸ Oftel, *Homes without a fixed line phone*, March 2000.

should be available to all households with the same budgetary constraints, not just those who have chosen to do without phone service.

Third, **the more generous the assistance package, and the more effort that goes into promoting it, the more successful it will be** in achieving the goal of making telephone service affordable for all households. This was the finding of a recent study, described in more detail below.

Findings from the TIAP Study on Low Income Support Programs in the USA

The Telecommunications Industries Analysis Project (TIAP), an impartial research forum based in the USA, recently conducted a study into the effectiveness of Lifeline programs in the USA.⁷⁹ The study focused on two questions:

1. Are today's telephone support programs reaching their target of low-income households?
2. What helps low-income households take advantage of the available programs?

The study, which is current as of the end of 1999, found that phonelessness is indeed related to household income: states that have relatively more low-income households have a lower percent of households with telephones. However, a relatively high (or low) percent of low-income households does not affect its success in getting these households to subscribe to Lifeline service.⁸⁰

The study concluded that the percent of low-income households with telephone service increases when states either:

- Increase the amount of financial support per household above the FCC's minimum; or
- Undertake other initiatives specifically designed to increase the penetration of lifeline service (e.g., effective outreach programs, automatic enrolment)

Greater discounts were found to increase Lifeline subscribership by 7.0%, while additional incentives were found to increase it by 25.3%. Taken together, these measures were found to increase the percent of eligible low-income households with telephone service (Lifeline service) by 32.3%.⁸¹

⁷⁹ Weinhaus et al, *op cit*, FN 32.

⁸⁰ *Ibid.*, p.2.

⁸¹ *Ibid.*, p.2.

CHALLENGES IN DESIGNING AND IMPLEMENTING A TELEPHONE ASSISTANCE PROGRAM IN CANADA

A number of challenges face policy-makers in Canada who wish to implement some kind of government or industry-funded program designed to close the phonelessness gap. General challenges include:

- A perception that there is no phonelessness problem in Canada, given high overall penetration rates;⁸²
- A belief that market forces will provide, given that the telecommunications market is now open to competition;⁸³ and
- Resistance from telephone companies to the imposition of any new program or regulatory requirement that will not be profitable for them.

Challenges to the development of a program narrowly focused on households without telephone service center around the concept of fairness: how do you provide a benefit to the phoneless without creating an incentive for subscribing households to disconnect? As noted above, the relatively small number of households without telephone service for affordability reasons is merely the tip of the affordability iceberg; many more low income households are struggling to keep phone service. Providing a benefit to those who have been disconnected for non-payment, as well as those who have chosen to disconnect or not to subscribe for affordability reasons, would create perverse incentives. It would reward those who have failed to manage their finances effectively, while ignoring all those in similar financial straits who have sacrificed in order to maintain their phone service.

As long as a telephone assistance program focuses solely on those without phones, it will create an incentive to disconnect. The extent of this incentive will be greater, the more generous the benefit. In order to eliminate the perverse incentive, the program benefits would have to be so limited as to be pointless.

Challenges to the development of a Lifeline-type program in Canada include:

- Telephone company opposition to any further subsidy burden;
- Ratepayer opposition to any further rate increases (including for this purpose);⁸⁴
- Taxpayer resistance to further social spending by government;
- Determining the appropriate eligibility criteria, and if based on income, the appropriate income threshold;⁸⁵

⁸² See, for example, the CRTC's determination in Telecom Decision CRTC 96-10 that "basic telephone service is currently affordable throughout Canada". Penetration rates have not changed significantly since that ruling.

⁸³ This belief does not prevail in the USA, where the *Telecommunications Act of 1996*, legislation designed to promote competition, significantly expanded universal service requirements.

⁸⁴ See statistics provided earlier in this report on Canadians' willingness to fund such a program; while a majority appear willing to do so, a significant minority are not so keen.

⁸⁵ In Decision 96-10, the CRTC found that making a subsidized rate available to all households

- Minimizing administrative costs while ensuring that the program is appropriately targeted and not abused;
- Concern about potential fraud (if self-certification is relied upon);
- Coordinating the program nationally, with provincial and local authorities as well as telephone service providers.

None of these challenges (to the development of a Lifeline-type program) are insurmountable. It is instructive that the US Lifeline and Link-Up programs have not only survived, but been expanded over the last sixteen years. Surveys show that there is in fact substantial public support in Canada for such a program.

CONCLUSIONS AND RECOMMENDATIONS

In order to achieve the goal of truly universal telephone service in Canada, more effort is needed to close the phonelessness gap. Fortunately, we can learn much from the efforts made by legislators, regulators and companies in other jurisdictions. A review of those efforts suggests that there are three distinct problems that need to be addressed:

- (a) Those who are disconnected and cannot afford the up-front costs of re-connection (including security deposits and bad debt repayment);
- (b) Those who can't afford the ongoing price of basic phone service; and
- (c) Those who can't control the use of their phone.

Currently, only one of these three problems is being effectively addressed, through the CRTC-mandated toll restriction service. Statistics suggest that the other two problems are more significant, and therefore worthy of further attention.

Role of Government

Clearly, market forces are not sufficient on their own to close the phonelessness gap. Despite the fact that telephone service is an essential service in Canada, a small but persistent segment of the population remains without telephone service because they can't afford it. If the government wishes to close this gap, it must take action.

Such action can take one of the following general forms:

- (a) a targeted subsidy program administered directly by the government, with taxpayer funds, through social assistance or other means,

with incomes below the Statistics Canada LICO "would not sufficiently focus the financial assistance to be provided on those who genuinely need it in order to obtain or keep local telephone service": p.14. Instead, the CRTC noted that any such program should be "more narrowly targeted".

- (b) a targeted subsidy program administered by the regulator and funded by such means as a general industry revenue-based levy and/or end-user surcharges (the US approach), or
- (c) regulatory obligations on local telephone service providers to offer lower value, lower cost “budget service” options for those who can’t afford the price of full service (the UK approach).

Our review suggests that the second approach is the most appropriate. If the ultimate goal is to link more households to the telephone network, it makes sense to provide such households with discount rate service (rather than income which can be spent on other needs). Doing so via telephone service providers, as opposed to social assistance agencies, would appear to be the most efficient method.

Tying discount-rate service to lower value service (e.g., local only service, or metered local service) would, if successful, produce a limited form of universality, under which low income households receive a lower level of service, or are reluctant to use the service for fear of running up large bills. This approach was rejected by the CRTC for good reason: it does not respond to the needs of low income users. Moreover, such services would likely still need to be subsidized in order to be offered at a sufficiently meaningful discount.

Key Elements of an Effective Program to combat phonelessness in Canada

Benefits

An effective telephone assistance program in Canada should include a variety of options, each designed to meet a specific need of the target (i.e., low income) population. Such options may be combined in different ways, but should include at a minimum:

- A significant discount (e.g., 50%) rate for basic service;
- Free connection of basic service (or a significant discount on connection fees);
- Free blocking of all toll calls (including 900 and pay-per-use services);
- Waiver of deposit requirements where the subscriber agrees to toll blocking;
- No disconnection of local service for non-payment of toll service;
- Bad debt repayment plans, allowing the subscriber to have basic local service while repaying toll arrears;
- Prepaid local and long distance service options at no premium; and
- Free or very low cost voice mail for those without phones.

Eligibility and Application Process

As noted above, limiting the benefits of an assistance program to those without phone service would create perverse incentives. Consequently, discounts on connection fees and basic monthly charges should be offered to all households meeting certain income criteria, and provided automatically to all households already enrolled in social assistance programs for which the same or more

restrictive income criteria apply. The program should therefore be coordinated with both social service agencies and telephone service providers.

Outreach

Outreach efforts are critical. Individual notification should be conducted through social service agencies as well as telephone companies. Public awareness should be raised through general advertising as well as notices and announcements targeted to the needy population.

Administrative Oversight and Ongoing Evaluation

The program should be overseen by an Advisory Committee with representation from all stakeholders, as is the case in California and Ohio. This Committee should be responsible for assessing the success of the program, and providing advice on how to improve it. The program administrator should report annually on expenditures, subscribership, penetration rates by demographic category, outreach and other relevant activities, so that the effectiveness of the program can be measured on an ongoing basis.

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APPENDIX A

LOW INCOME SUPPORT: STATE-BY-STATE INFORMATION					
STATE	BASIC *	OPTIONAL	STATE MATCHING	FEDERAL MATCHING	TOTAL FEDERAL SUPPORT
ALABAMA	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
ALASKA	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
AMERICAN SAMOA	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
ARIZONA	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
ARKANSAS	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
CALIFORNIA	\$3.50/\$5.00	\$1.75	Varies By Co. By Exchange	Will Vary	
COLORADO	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
CONNECTICUT	\$3.50/\$5.00	\$1.75	\$1.17	\$0.58	\$7.00/\$8.50
DELAWARE	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
DISTRICT OF COLUMBIA	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
FLORIDA	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
GEORGIA	\$3.50/\$5.00	\$1.75	\$3.50 (Bell South/Alltel)	\$1.75	\$7.00/\$8.50
GUAM	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
HAWAII	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
IDAHO	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
ILLINOIS	\$3.50/\$5.00	\$1.75	\$1.50	\$0.75	\$6.00/\$7.50
INDIANA	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
IOWA	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
KANSAS	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
KENTUCKY	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
LOUISIANA	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
MAINE	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
MARYLAND	\$3.50/\$5.00	\$1.75	\$3.50 (Verizon)	\$1.75	\$7.00/\$8.50
MASSACHUSETTS	\$3.50/\$5.00	\$1.75	\$6.00	\$1.75	\$7.00/\$8.50
MICHIGAN	\$3.50/\$5.00	\$1.75	\$2.00	\$1.00	\$6.25/\$7.75
MINNESOTA	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
MISSISSIPPI	\$3.50/\$5.00	\$1.75	\$3.50 (Bell South)	\$1.75	\$7.00/\$8.50
MISSOURI	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75

* Basic rate of \$3.50 for non price cap cos., increased to \$5.00 for price cap cos. eff.

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APPENDIX A

LOW INCOME SUPPORT STATE-BY-STATE INFORMATION

STATE	BASIC*	OPTIONAL	STATE MATCHING	FEDERAL MATCHING	TOTAL FEDERAL SUPPORT*
MONTANA	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
NEBRASKA	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
NEVADA	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
NEW HAMPSHIRE	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
NEW JERSEY	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
NEW MEXICO	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
NEW YORK	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
NORTH CAROLINA	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
NORTH DAKOTA	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
NORTHERN MARIANA IS.	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
OHIO	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
OKLAHOMA	\$3.50/\$5.00	\$1.75	\$1.17	\$0.58	\$5.83/\$7.33
OREGON	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
PENNSYLVANIA	\$3.50/\$5.00	\$1.75	\$2.50 (Verizon)	\$1.25	\$6.50/\$8.00
PUERTO RICO	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
RHODE ISLAND	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
SOUTH CAROLINA	\$3.50/\$5.00	\$1.75	\$3.50 (eff. 10/1/01)	\$1.75	\$7.00/\$8.50
SOUTH DAKOTA	\$3.50/\$5.00	\$1.75	No	-	\$5.25/\$6.75
TENNESSEE	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
TEXAS	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
UTAH	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
VERMONT	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50
VIRGINIA	\$3.50/\$5.00	\$1.75	\$1.75/\$3.50	\$.88/\$1.75	\$6.13/\$7.00 \$7.63/\$8.50
VIRGIN ISLANDS	\$3.50/\$5.00	\$1.75	\$7.05	\$1.75	\$7.00/\$8.50
WASHINGTON	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
WEST VIRGINIA	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
WISCONSIN **	\$3.50/\$5.00	\$1.75	Varies By Co.	Will Vary	
WYOMING	\$3.50/\$5.00	\$1.75	\$3.50	\$1.75	\$7.00/\$8.50

* Basic rate of \$3.50 for non price cap cos., increased to \$5.00 for price cap cos. eff. 7/1/01

** Low income customers in Wisconsin cannot be charged over \$15.00.