CTIA
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TESTIMONY OF SCOTT BERGMANN
VICE PRESIDENT OF REGULATORY AFFAIRS,
CTIA – THE WIRELESS ASSOCIATION®

on

“LIFELINE: IMPROVING ACCOUNTABILITY AND EFFECTIVENESS”

before the

UNITED STATES SENATE COMMITTEE ON COMMERCE, SCIENCE & TRANSPORTATION

SUBCOMMITTEE ON COMMUNICATIONS, TECHNOLOGY, INNOVATION, AND THE INTERNET

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Chairman Wicker, Ranking Member Schatz, and members of the Subcommittee, on behalf of CTIA – The Wireless Association® ("CTIA"), thank you for the opportunity to speak with you today on the subject of the Federal Universal Service Fund's (USF) Lifeline program.

Throughout its history, the Lifeline program has helped advance the goal of ensuring that every American has access to telecommunications services that enable public safety, health care, educational, occupational, and other important communications for low-income consumers. The wireless industry plays an increasingly important role in furthering that objective. CTIA looks forward to working with the Subcommittee, the Federal Communications Commission ("Commission" or "FCC"), and other industry stakeholders to ensure that the FCC's Lifeline program is run in an efficient, responsible manner that fulfills the mission of connecting all Americans to essential communications services.

Today, my testimony will focus on three areas. First, I will discuss how wireless has become the communications platform of choice for consumers, including the low-income, people with disabilities, older adult, and minority communities. Second, I will provide a brief history of the Lifeline program and demonstrate that wireless has brought competition and efficiency to the Lifeline program. Third and finally, I will offer CTIA's views on additional steps the FCC should consider to further improve administration of the Lifeline program and meet the evolving needs of low-income consumers.

Wireless is the 21st Century Communications Platform of Choice

As the Subcommittee is aware, consumers increasingly view wireless as their primary means of communications, particularly for low-income and diverse, underserved communities. Year-over-year, the Center for Disease Control reports indicate that the number of households relying exclusively on a wireless connection for voice services is increasing, up to 44% of U.S. households by July 2014. (CDC Wireless Substitution: Early Release Estimates from the National Health Interview Survey, January – June 2014, released December 2014). Indeed, the CDC report demonstrates that low-income consumers are significantly more likely to reside in wireless-only households than other consumers, with over 59% of adults living in poverty relying exclusively on wireless services.

The findings of the Pew Internet & American Life Project illustrate the importance of mobile wireless services to low income consumers. Pew found that approximately 60% of Americans with incomes less than $30,000 per year use wireless for occupational or health reasons compared to 30% of Americans earning more than $75,000 per year. That is, low-income consumers are roughly twice as likely to use mobile wireless services for work and health reasons as their more affluent counterparts.

A growing number of consumers are also using their wireless service as their on-ramp to the Internet. According to the Pew Internet & American Life Project, 13% of Americans with incomes of less than $30,000 per year are "totally smart-phone dependent," while another 24% of low-income consumers report that they primarily rely on the smartphone for Internet access and have limited options other than their cell phones for getting online. An additional 19% of low income Americans report using smartphones to access the Internet but have no Internet access at home.

In particular, wireless empowers people with disabilities, older adults, and underserved communities. Specifically, some reports suggest that more than 84% of people with disabilities own a wireless device. (Wireless Technology Use and Disability: Results from a National Survey, Wireless RERC, released 2013). In addition, 77% of older adults have a cell phone, up from 69% in April 2012. (Pew Internet Research Report, Older Adults and Technology Use, April 3, 2014). Importantly, African American and Latino/Hispanic consumers are significantly more likely to rely exclusively on wireless broadband, according to recent data from Pew.

Wireless and the Lifeline Program

The Evolution of the Lifeline Program.

The Lifeline program was created by the FCC in 1985 to ensure that any increase in local rates that occurred following the break-up of the Bell System would not put phone service out of reach for low-income households. The FCC was concerned that changes in the long distance industry structure could force low-income consumers to drop voice service, which, the FCC found, "had become crucial to full participation in our society and economy."

That notion – that access to telecommunications service is essential to full participation in our economy – led Congress to enact Section 254 of the Act as part of the Telecommunications Act of 1996, which includes specific universal service principles to ensure that low-income consumers have access to telecommunications service. The 1996 amendments also directed the FCC to consider "such other principles as the Joint Board and the Commission determine are necessary and appropriate." Upon the recommendation of the Federal-State Joint Board, the Commission adopted rules that universal service support mechanisms should be "competitively neutral" and "not unfairly advantage one provider, nor favor one technology." The Commission also endorsed the Joint Board's recommendation that "all eligible telecommunications carriers, not just ILECs, should be able to receive support for serving qualifying low-income consumers."

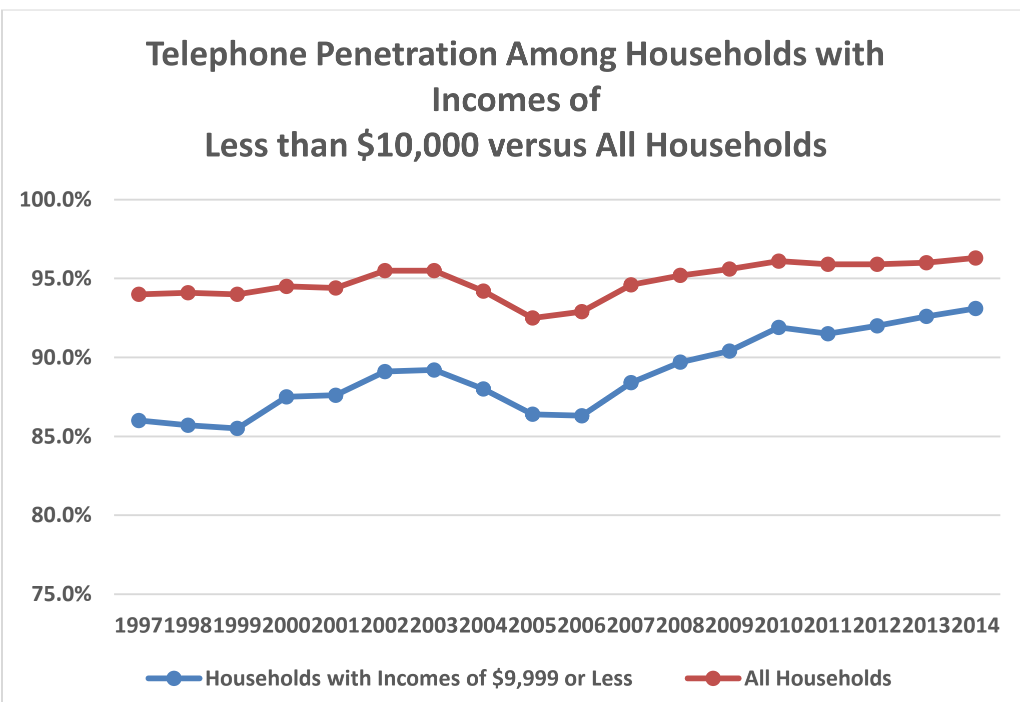
In 2005, the Commission established a framework to enable wireless participation in the federal USF program. First, the FCC permitted wireless providers serving rural areas to be designated as "eligible telecommunications carriers," or "ETCs," making them eligible for support from the high-cost fund and enabling consumers in rural areas to access mobile wireless services. Designation of wireless providers as ETCs was conditioned on the offering of Lifeline services to qualified low-income consumers. Second, in response to the unique challenges posed by Hurricane Katrina, the FCC further modernized the Lifeline program by granting relief from the statutory requirement that a carrier designated as an ETC for purposes of federal universal service support provide service over its own facilities. The Commission concluded that the requirement that a Lifeline provider be facilities-based would impede greater provision of Lifeline services and that forbearance from the facilities requirement would promote competitive market conditions.

In the decade since Hurricane Katrina, the FCC's reforms to the Lifeline program have enabled wireless providers to bring competitive telecommunications services to millions of low-income consumers. Nearly three decades after its creation, and through an evolution shaped by Congress and FCC leaders from both parties, Lifeline has been a critical component in the effort to expand telephone subscribership among low-income consumers. As the NAACP has explained to Congress, without the wireless services made available through the Lifeline program "our most vulnerable populations would not have the ability to call 911, contact prospective and current employers, connect with health, social, and educational services, or keep in touch with family and friends." (Letter from NAACP *et al.* to Chairman Walden and Ranking Member Eshoo, Apr. 23, 2013)

The Lifeline Program Enables Opportunity.

Today, Lifeline enables more than 12 million low-income consumers to communicate with 9-1-1 and medical professionals, seek educational and occupational opportunities, and access critical government services. The impact of the Lifeline program has been especially dramatic with respect to households with incomes of less than $10,000. Telephone penetration for those lowest income households increased from 80% in 1984 to 93.1% in 2014. And the gap in telephone subscribership between low-income households and all households shrank from more than 11% to less than 4%.

In particular, since 2005, when the FCC first started permitting wireless carriers to receive Lifeline funds, the gap has nearly halved, from 6.3% to 3.2%. To put this in perspective, for every 1% increase in telephone penetration, approximately 1.2 million households gain access. These low-income consumers realize the value and opportunity to reach critical services and communicate with family and care givers that wireless offers through Lifeline support.



Source: FCC Monitoring Reports

Wireless Brings Competition and Efficiency to the Lifeline Program.

In the decade since wireless entered the federal Lifeline program, competition among wireless ETCs has more than quadrupled available voice minutes from about 60 to 250 and more, including added text messages and other services, such as roaming, while the subsidy amount has remained steady at $9.25 since 2011. In other words, wireless competition has greatly increased the efficiency of the Lifeline program by offering more services to low-income consumers without increasing the subsidy amount.

It may be helpful to clarify that the current Lifeline program only supports voice *services*, not devices. Thus, the Lifeline program does not fund "free cell phones." Nor are smartphones and tablets supported through the Lifeline program. The truth is that some wireless providers offer a basic feature phone at low- or no-cost simply to enable the low-income consumer to access Lifeline-eligible voice services. Lifeline-eligible consumers can choose from a very limited selection of provider-offered phones. For example, Sprint's Assurance® Wireless affiliate offers a single wireless handset – the Kyocera Jax – for use by Lifeline customers and TracFone's Safelink Wireless® provides only two handset options with its Lifeline offering. Commenters can argue whether the existing Lifeline subsidy offers *too little* or *too much*, but wireless competition in the Lifeline program has efficiently and effectively brought innovative products and affordable services to low-income consumers.

The FCC's Reforms to Lifeline Are Successful, but Unfinished.

CTIA's member companies have a significant interest in ensuring that the full range of universal service programs are administered in a responsible manner that prevents waste, fraud, and abuse. Contributions from wireless carriers and their consumers currently make up 44% of the overall federal USF. CTIA has long advocated for reforms to the USF that deter waste, fraud, and abuse to minimize the impact on wireless consumers who support these contributions. CTIA and its members share the view of the Government Accountability Office (GAO), expressed in its recent report, that the FCC has made progress in reforming the Lifeline program to improve its benefits and reduce waste, fraud, and abuse, but also believe there is more work to be done.

Specifically, we supported the FCC in its efforts to enact new Lifeline accountability measures in 2011 and 2012. In particular, CTIA called for and supported the adoption of a "duplicates" database, the National Lifeline Accountability Database ("NLAD"), to address the issue of consumers seeking more than one Lifeline benefit from multiple providers. The NLAD launched for all states in March 2014 and has already demonstrated great success, largely eliminating the problem of consumers receiving multiple Lifeline benefits. The database is a comprehensive list of all Lifeline customers against which a carrier must run a check to make sure they are not signing up a customer who is already receiving the Lifeline benefit. CTIA's position has and always will be that no consumer should "double dip" from the Lifeline program, and the NLAD has been a critical tool in combating misuse of Lifeline funds by consumers.

The Commission also adopted additional reform measures – as described by the GAO in its recent report – which included rules eliminating Lifeline support for more than one connection per household, standards for determining Lifeline eligibility, requirements for ETCs to review Lifeline subscribers' eligibility (something carriers previously were prohibited from doing), a monthly minimum usage requirement that is intended to ensure that support is awarded only in instances that will actually benefit low-income consumers, a requirement that providers annually recertify the eligibility of their Lifeline subscribers, and rigorous audit requirements. The FCC also eliminated subsidies that had been questioned, including toll limitation support and Link-Up support outside of tribal areas. The FCC announced last week that these reforms have reduced Lifeline spending by nearly 24%.

Yet, more work is necessary. In the 2012 Lifeline Reform Order, the Commission directed "the Bureau and USAC to take all necessary actions so that, as soon as possible and no later than the end of 2013, there will be an automated means to determine Lifeline eligibility for, at a minimum, the three most common programs through which consumers qualify for Lifeline." Unfortunately, these efforts have not moved as quickly as with the NLAD. CTIA continues to strongly support the development of an automated mechanism for determining eligibility, which we believe will be the most effective way to improve administration of the program. It is important that the Commission complete its work to create and operationalize an automated eligibility mechanism as soon as possible to continue to reduce fraud and abuse.

Lifeline for the 21st Century

Federal Universal Service Policy Must Recognize Consumer Preferences for Mobile Wireless.

The FCC has announced that it will open a proceeding to consider whether Lifeline can effectively encourage providers to offer broadband service to low-income consumers and CTIA and its member companies are committed to this evolution, consistent with Congress's directive to provide an "evolving level" of services through the USF. As the Commission and this Subcommittee examines opportunities for expanding broadband access for low-income consumers, there are a number of important questions that must be addressed and we welcome the opportunity to highlight some of the central considerations.

First, we urge the Commission to ensure any reforms reflect consumers' clear preference for wireless services to meet their voice and data communications needs. As the data on low-income adoption of mobile services described above demonstrates, it is clear that mobile wireless broadband will be integral to developing solutions targeted for low-income consumers. The FCC's reforms must not exclude – intentionally or unintentionally – wireless solutions and should encourage greater wireless participation in the program to meet the needs of low-income Americans.

At the same time, the Commission must carefully balance appropriate subsidy levels and funding requirements to minimize burdens on consumers who fund federal universal service programs. Given that wireless consumers contribute 44% of the overall federal USF, CTIA has a strong interest in ensuring that consumers are not subject to an unreasonable contribution burden. As the Commission and the Subcommittee consider potential increases to the size and scope of programs supported by USF, Congress should continue to evaluate how all of the universal service programs are funded and whether it may be more appropriate to support programs of general benefit to the public out of general revenue funds.

Similarly, the role of carriers in determining eligibility in the Lifeline program is unique across federal low-income support programs. As the FCC considers reform, we are encouraged that the FCC will evaluate transitioning eligibility decisions into the hands of appropriate government agencies. Such an approach could reduce the current significant regulatory burdens and risks for providers interested in participating in the program, and permit opportunities for coordinated enrollment and automatic de-enrollment when participants are no longer eligible to participate in the program.

We look forward to working with this Subcommittee and the FCC as it seeks to evolve this critical program in a manner that is fiscally responsible as well as responsive to Americans' reliance on mobile solutions.

Barriers to the Lifeline Program are Barriers to Communication.

Notwithstanding the Commission's recent reforms, questions have also been raised about additional proposals that may inadvertently act as barriers to low income access to basic communications services. For example, some have suggested that the FCC impose a mandatory minimum charge on Lifeline subscribers. CTIA remains concerned that such approach may have a significantly adverse impact on participation in the Lifeline program. While a minimum charge of $5.00 per month may seem modest to some, it may represent a significant financial burden for those who fall within the income threshold for Lifeline eligibility. For those subscribers who do not have a bank account or credit of any sort, as is the case for a significant number of Lifeline subscribers, the logistics of simply making a co-payment may be an even more formidable challenge. For carriers to accept a co-payment, arrangements will have to be made with retailers and others to accept payment, increasing the cost of program administration, with the also likely effect that consumers will receive fewer minutes of use. Finally, the FCC's recent report on the Broadband Pilot Projects demonstrates the price sensitivity of low-income consumers with respect to broadband services. Unsurprisingly, increasing the cost of service had an adverse impact on low-income participation.

While CTIA appreciates the interest some have expressed in limiting the size of the Lifeline program through a cap or budget on the total amounts that USAC may distribute, CTIA believes that capping the Lifeline program may be counterproductive to encouraging low-income consumers to adopt essential communications services. A cap or budget on the Lifeline program will inherently exclude – or reduce the benefits for – an undetermined number of the eligible low-income consumers. Because the Lifeline program provides support only to means-tested recipients and serves a purpose more akin to other low-income government programs that aren't subject to caps or budgets, it is reasonable for the Commission to distinguish this program from other federal USF programs that are appropriately subject to a cap. Moreover, while there was significant growth in the Lifeline program between 2008 and 2011, that growth correlated to increased demand for other social welfare programs during the economic downturn. As the economy has improved and the 2012 reforms have been implemented, the level of funding authorized for support of Lifeline has reduced from a high of $2.18 billion in 2012 to $1.6 billion in 2014. We believe that a properly administered fund can address fund growth while continuing to meet the Lifeline program's core mission.

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Over the nearly three decades since its creation, the Lifeline program has served an important purpose by enabling low-income consumers to access essential communications services, justifiably earning bi-partisan support. CTIA appreciates the opportunity to work with the Subcommittee, the Commission, and other interested parties to ensure that low-income Americans continue to have affordable access to increasingly essential communications services of the 21st Century. CTIA believes this objective can be accomplished in a way that both recognizes the important role of wireless for low-income Americans <u>and</u> ensures the fiscal integrity of the program, and we look forward to engaging with you to accomplish these objectives.

Thank you for the opportunity to testify today. If CTIA can provide any additional information you would find helpful, please let us know.