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WIRELINE COMPETITION BUREAU ISSUES FINAL REPORT ON LIFELINE PROGRAM SAVINGS TARGET

WC Docket No. 11-42

The Wireline Competition Bureau (Bureau) hereby provides its report on the implementation of the major reforms adopted by the Commission in the *Lifeline Reform Order* and on whether these reforms resulted in the Commission meeting its $200 million savings target for 2012.[1] The Bureau is pleased to report that the Commission exceeded its savings target goal, generating over $213 million in savings to the Universal Service Fund (Fund) in 2012 compared to projected distributions to Eligible Telecommunications Carriers (ETCs) in the absence of reform.[2] As explained below, additional savings from these reforms will accrue in 2013 and later years.

I. BACKGROUND

The Commission adopted the *Lifeline Reform Order* on January 31, 2012. Many of the reforms became effective on April 2, 2012, while several of the reforms which likely had the largest impact on the size of the Fund became effective June 1, 2012.[3] In the *Order*, the Commission adopted reforms to substantially reduce the amount of waste, fraud and abuse in the program. The Commission also adopted a target of saving $200 million in 2012 through the reforms, as compared to the program's *status quo* path in the absence of reform.[4] To ensure accountability, the Commission directed the Bureau to provide to each Commissioner an interim report, no later than six months after adoption of the *Order*, analyzing the reforms' progress in meeting the savings target.[5] On July 31, 2012, the Bureau issued an interim report and concluded that the Commission was on track to meet its savings target. Specifically, the Bureau estimated that the reforms allowed the program to realize $42.75 million in savings from January 2012 through July 2012.[6] The Commission also directed the Bureau to provide a final report by January 31, 2013 to each Commissioner evaluating the impact of the reforms and whether the Commission had met

[1] *See Lifeline and Link Up Reform and Modernization et al.*, WC Docket Nos. 11-42 et al., CC Docket No. 96-45, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6809, para. 358 (2012) (*Lifeline Reform Order* or *Order*).

[2] *See id*. at 6808-09, para. 357, nn.959, 961.

[3] *See* 77 Fed. Reg. 19125 (Mar. 30, 2012) (correcting 77 Fed. Reg. 12952 (Mar. 2, 2012)).

[4] *See Lifeline Reform Order*, 27 FCC Rcd at 6809, para. 358.

[5] *See id.*

[6] *See Wireline Competition Bureau Issues Progress Report On The Lifeline Program Savings*, WC Docket No. 11-42 et al., CC Docket No. 96-45, Public Notice, 27 FCC Rcd 8952 (Wireline Comp. Bur. 2012).

its savings target; and, if not, analyzing the causes, providing options for realizing additional savings, and making specific recommendations for corrective action.[7]

II. DISCUSSION

In the *Lifeline Reform Order*, the Commission estimated that the Fund would disburse $2.4 billion in 2012 in Lifeline support in the absence of reform, with disbursements increasing further in 2013 and 2014.[8] The Commission also estimated that the reforms set forth in the *Order* would reduce disbursements by $200 million in 2012, resulting in disbursements of approximately $2.2 billion in 2012.[9] A review of the Universal Service Administrative Company's (USAC's) 2012 monthly low-income disbursements attached hereto as an Appendix shows that over $213 million was saved in 2012 as a direct result of the Commission's reforms.[10] Moreover, disbursement data from January 2013, and expected further reductions in disbursements in February 2013 from the 2012 recertification process, indicates that the reforms will continue to reduce the size of the Fund in 2013.[11] Below, we discuss the impact on the Fund of specific reforms.

Continuation of In-depth Data Validations (*IDVs*). In 2011, the Commission directed USAC to begin conducting state-specific IDVs to detect duplicative Lifeline support.[12] Through this process, USAC matches ETCs' subscriber records within a state to determine if a subscriber is receiving Lifeline support from multiple ETCs, assigns a single default ETC to each subscriber receiving multiple support (the subscriber can override this choice), and instructs the subscriber's other ETC(s) to de-enroll that subscriber from Lifeline support. USAC commenced three "phases" of IDVs prior to the release of the *Lifeline Reform Order*.[13] Building on the success of the IDV process, in the *Lifeline Reform Order* the Commission directed USAC to continue with the state-specific IDVs and de-enroll subscribers receiving duplicative support, until the National Lifeline Accountability Database (database) becomes operational in 2013.[14] Between the January 2012 adoption of the *Order* and the end of the year 2012, USAC completed six phases of IDVs in a total of 23 states, resulting in approximately $45 million in savings.[15]

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[7] *See Lifeline Reform Order*, 27 FCC Rcd at 6809, para. 358.

[8] *See id*. at 6808-09, para. 357, nn.959, 961.

[9] *See id.*

[10] *See* Appendix.

[11] *See id*. (indicating that the Fund disbursed $178,828,341 in January 2013, over $6 million less than December 2012); *infra* (discussing the 2012 recertification process and impact on the Fund).

[12] *See Lifeline and Link Up Reform and Modernization et al.,* WC Docket Nos. 11-42 et al. CC Docket. No. 96-45, Report and Order, 26 FCC Rcd 9022, 9031, para. 16 (2011).

[13] The following states were included in the first three phases of IDVs: Florida and Tennessee (Phase I); Maryland, Michigan, North Carolina, Washington and Wisconsin (Phase II); Alaska, Arkansas, Louisiana, Ohio and Oklahoma (Phase III). Although these IDVs were commenced in 2011, the Fund realized annualized savings in 2012 from the duplicative subscribers de-enrolled as part of the process.

[14] *See Lifeline Reform Order*, 27 FCC Rcd at 6747, para. 211. In the *Order*, the Commission directed USAC to establish a National Lifeline Accountability Database. The database and associated processes will facilitate the "scrubbing" of existing duplicate support and prevent existing Lifeline subscribers from obtaining duplicative Lifeline support. *See id.* at 6734-55, paras. 179-224.

[15] Phase IV included Missouri, Washington, New York and Mississippi. Phase V included Alabama, Louisiana and Pennsylvania. Phase VI included Washington D.C., Illinois, Massachusetts and Virginia. USAC also commenced a Phase VII in 2012, resulting in de-enrollments in late November 2012 in Arizona, Maryland, Michigan, Nevada and

(continued…)

USAC will continue IDVs until the database is operational, which will result in additional savings in 2013.[16]

Elimination of Link Up Support, effective April 2, 2012.[17] Prior to the release of the *Lifeline Reform Order*, Link Up provided qualifying consumers with discounts of up to $30 (up to $100 for qualifying residents of Tribal lands) off the initial costs of installing a single telecommunications connection.[18] In the *Lifeline Reform Order*, the Commission eliminated Link Up support on non-Tribal lands and on Tribal lands for Lifeline-only ETCs, finding that the existing Link Up support mechanism was not the most efficient means to meet the goals of the program.[19] The first savings from Link Up elimination were identifiable in June 2012 when carriers received reimbursement for service provided in April. Link Up disbursements averaged approximately $13.4 million per month from January through May 2012. From June through December, Link Up disbursements declined to approximately $28,000 per month, generating savings of approximately $93 million in 2012.

Cap on Toll Limitation Service (TLS), effective April 2, 2012.[20] In the *Lifeline Reform Order*, the Commission concluded that TLS, through which a consumer can block or limit toll calls, is no longer necessary to protect consumers from disconnection because of non-payment of toll charges, and found that some ETCs were likely charging and receiving reimbursement for TLS in excess of their incremental costs.[21] Therefore, the Commission capped TLS support and set forth a transition plan to eliminate it over a two-year period: Beginning in April 2012, TLS support was set at the lesser of an ETC's incremental cost of providing TLS or $3.00 per month.[22] The cap was reduced to $2.00 per month in 2013, and TLS support will be eliminated at the beginning of 2014.[23] Because ETCs began receiving reduced TLS support for service provided in April, the first impact on the Fund occurred in June 2012. TLS disbursements averaged approximately $685,000 from January through May 2012. From June through December, TLS disbursements declined to approximately $465,000 per month. Therefore, TLS reform generated savings of approximately $1.5 million in 2012. Savings are expected to increase in 2013 and 2014 as TLS support is phased out completely.

Usage Requirements, effective May 1, 2012.[24] To ensure that ETCs are only reimbursed for service that is actively utilized by low-income subscribers, ETCs that do not assess or collect a monthly

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West Virginia. Due to the timing of disbursements, Phase VII de-enrollments likely produced little savings in 2012, but will result in more substantial savings in 2013.

16 For the purpose of this report, IDV savings are calculated to run for 12 months from the first month the IDV results in savings. The IDV savings within this 12 month window that also occurred in calendar year 2012 add up to approximately $45 million.

17 *See Lifeline Reform Order*, 27 FCC Rcd at 6859-60, para. 515.

18 *See id*. at 6760-61, para. 242.

19 *See id.* at 6761-67, paras. 245-53.

20 *See id.* at 6756, para. 230.

21 *See id.* at 6756-57, paras. 231-32.

22 *See id.* at 6757, para. 234; 47 C.F.R. § 54.403(c).

23 *See Lifeline Reform Order*, 27 FCC Rcd at 6757, para. 234.

24 *See Wireline Competition Bureau Provides Notice Regarding the Effective Date of Certain Rules Adopted in the Lifeline Reform Order*, WC Docket Nos. 11-42 et al., CC Docket No. 96-45, Public Notice, 27 FCC Rcd 4875, 4877 (Wireline Comp. Bur. 2012) (*Effective Date Public Notice*).

fee from subscribers must de-enroll subscribers who have not used the service for a consecutive 60-day period.[25] The savings from this reform, while likely substantial, cannot be quantified until ETCs subject to this requirement file their Form 555 with USAC by January 31, 2013, indicating the number of subscribers de-enrolled as a result of non-usage.[26]

Proof of Eligibility, Certification and Re-Certification, effective June 1, 2012.[27] In the *Order*, the Commission took three key steps to substantially reduce the number of ineligible subscribers in the Lifeline program. First, prior to enrolling a new subscriber, an ETC must obtain proof of eligibility by either accessing an official source of eligibility data (such as a relevant state database), receiving notice from a state administrator that the consumer is eligible, or reviewing subscriber-provided documents showing proof of eligibility.[28] Second, at the time of enrollment, each new subscriber must make certifications regarding the subscriber's understanding of and compliance with the program rules, including a certification reflecting the subscriber's understanding that only one Lifeline benefit per household is allowed.[29] Third, by the end of 2012, each ETC was required to recertify the eligibility of all subscribers enrolled with that ETC as of June 1, 2012.[30] ETCs must de-enroll Lifeline subscribers whose eligibility they are unable to recertify.[31] By January 31, 2013, ETCs must submit data to USAC reporting the number of subscribers de-enrolled through this process.[32] Assuming that most ETCs de-enrolled in December 2012 or January 2013 those subscribers whose eligibility the ETCs were unable to recertify, the majority of the savings to the Fund from the recertification process will occur with February 2013 disbursements. While the savings from the recertification process cannot yet be fully quantified, 371 ETCs filed their Form 555 with the Commission as of January 24, 2013. Those ETCs de-enrolled an average of approximately 20 percent of their subscriber base during the 2012 recertification process, indicating that the recertification requirement likely produced savings in 2012, with additional substantial savings expected in 2013.[33] Moreover, the reduction in the number of Lifeline subscribers in July through December, compared to the increase in subscribers from January through May, provides a clear indication that these reforms, which became effective June 1, have reduced Lifeline disbursements and will continue to do so going forward.[34]

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[25] *See Lifeline Reform Order*, 27 FCC Rcd at 6769, para. 257; 47 C.F.R. §§ 54.405(e)(3), 54.407(c).

[26] *See Lifeline Reform Order*, 27 FCC Rcd at 6769, para. 257; 47 C.F.R. § 54.405(e)(3).

[27] *See Lifeline Reform Order*, 27 FCC Rcd at 6859-60, para. 515 (stating that section 54.410 would be effective June 1, 2012); *Effective Date Public Notice*, 27 FCC Rcd at 4878.

[28] *See Lifeline Reform Order*, 27 FCC Rcd at 6701-02, paras. 98-100; 47 C.F.R. § 54.410(b)-(c).

[29] *See Lifeline Reform Order*, 27 FCC Rcd at 6709-12, paras. 111-19; 47 C.F.R. § 54.410(d).

[30] *See Lifeline Reform Order*, 27 FCC Rcd at 6714-15, paras. 129-31; 47 C.F.R. § 54.410(f).

[31] *See Lifeline Reform Order*, 27 FCC Rcd at 6717, para. 135; 47 C.F.R. § 54.405(e)(4).

[32] *See Lifeline Reform Order*, 27 FCC Rcd at 6715, para. 130; 47 C.F.R. § 54.416(b).

[33] If the recertification and de-enrollment for non-response or ineligibility occurred prior to November 2012, de-enrollment likely resulted in savings in 2012. ETCs do not indicate on their Form 555 when prior to the December 31, 2012 deadline they performed their recertification, making it unclear when these savings occurred.

[34] According to USAC data, in January 2012, ETCs sought reimbursement for nearly 16 million subscribers, increasing to over 18 million in May. In July, enrollment began to decline with ETCs seeking reimbursement for 17.7 million subscribers. By December, ETCs sought reimbursement for 16.2 million subscribers.

In sum, the reforms exceeded the Commission's ambitious $200 million savings target for 2012, and the Lifeline program is well placed for further savings in 2013 and beyond. IDVs and the elimination of Link Up on non-Tribal lands produced tens of millions of dollars of savings alone, and the Bureau will continue to work with USAC to implement additional IDVs until the database is online. The requirements for subscriber certifications, and for ETCs to provide proof of new subscriber eligibility and to recertify eligibility of their existing subscribers, have also eliminated many ineligible subscribers and produced savings in 2012, with additional, substantial savings likely in 2013 once ETCs complete the 2012 recertification process. A full accounting of the savings from the recertification and usage requirements will become clear once all ETCs have filed their Form 555, due today.

Action by the Chief, Wireline Competition Bureau.

For further information, please contact Jonathan Lechter, Telecommunications Access Policy Division, Wireline Competition Bureau at (202) 418-7387 or TTY (202) 418-0484.

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APPENDIX

Monthly 2012 Low Income Disbursements and Savings Target

Month	Total Disbursed	Notes
January 2012	$175,383,465	
February 2012	$179,004,083	
March 2012	$178,016,135	
April 2012	$181,066,528	
May 2012	$189,898,339	
June 2012	$183,556,282	**Effect on Fund of Link Up Eliminated on Non-Tribal Lands Begins**
July 2012	$191,008,068	
August 2012	$149,351,649	**Effect on Fund of Proof of Eligibility and Certification Begins**
September 2012	$151,546,358	
October 2012	$256,611,030	**Includes "Double Payment" to Transition ETCs to Actual from Projected Support**
November 2012	$165,496,245	
December 2012	$185,113,260	
2012 Total	**$2,186,051,442**	
January 2013	$178,828,341	
February 2013	Not Available	**Available in February; Will Reflect Savings from 2012 Recertification Process.**

Lifeline Order Projected Disbursements in 2012 Without Reform: $2,400,000,000
Lifeline Order Projected Disbursements in 2012 With Reform: $2,200,000,000
Lifeline Order Projected Savings in 2012 With Reform: $200,000,000

Actual Disbursements in 2012 With Reform: $2,186,051,442

Actual Savings in 2012 With Reform: $213,948,558

Actual Savings in 2012 in Excess of Projected Savings: $13,948,558