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# Subsidized Cell Phones Provide Significant Economic Gains for Poor and Near-Poor Americans

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**by Nicholas P. Sullivan**

*Nicholas P. Sullivan is a Fellow at the Center for Emerging Market Enterprises at The Fletcher School (Tufts University), specializing in financial inclusion. He is the author of *You Can Hear Me Now, How Microloans and Cell Phones Are Connecting the World's Poor to the Global Economy* (Jossey-Bass, 2007), and "Cell Phones Provide Significant Economic Gains for Low-Income American Households" (New Millennium Research, 2008).*

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## Executive Summary

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Lifeline Assistance is a joint federal program operated by the Federal Communications Commission (FCC) and state public utility commissions that ensures telephone service is available and affordable for low-income subscribers within 135% of the federal poverty guidelines. In 2008, recognizing the seismic national shift in phone usage away from landline and toward wireless, the FCC for the first time opened up the Lifeline Assistance program to prepaid mobile operators. The FCC's same average \$10 per month discount on service now applies to wired or wireless phones. This paper focuses on the latter.

**The broad question asked in this report is:** *Whether or not a person who qualifies for a federal poverty program already has a cell phone, does a free cell phone loaded with varying amounts of free minutes make a quantifiable difference in that person's financial life?*

**The general answer is:** *Yes, for about half the population surveyed, the subsidized cell phone has been an important economic tool, which generates an average of \$259 per year. If all 28.5 million adults eligible for Lifeline Assistance were to take advantage of the program and earn at the same rate and level as our sample, it would result in \$3.7 billion in fresh income for the poor and near poor. In large states, such as New York, Florida, and California, the gains would exceed \$250 million. By this measure, the program is already paying for itself.*

The first telecom operator to offer subsidized cell phones that were free for low-income Americans was TracFone (a subsidiary of América Móvil), through its SafeLink Wireless program, starting in August 2008. SafeLink now operates in 31 states (plus Washington, D.C., and Puerto Rico), and has distributed more than 3 million subsidized cell phones.

A new November 2010 survey of 5,541 SafeLink Wireless customers, found that:

- About half of SafeLink users (49%) said the cell phone had “improved their financial situation by helping them find or keep work.” For those working or looking for work, the numbers were higher (63%); surprisingly, even the retired (39%) and disabled (38%) said the phone had helped improve their financial situation. More African Americans (57%) than white Americans (43%) said the phone had improved their financial situation.

- The average amount of money earned in the last year by SafeLink users was \$259, according to the survey results. However, since a third of respondents have had their subsidized phones for less than six months, and there is a clear correlation between length of ownership and income gains, we expect that over time that average is likely to easily exceed \$300 (as it already does in several states). In addition, the number of free minutes offered was initially 68, but has been increased in many states to 250; given the correlation between usage and income, this will also positively affect average earnings.
- Given the expected increase in eligible subscribers, based on the recent revamped numbers in poverty, and assuming the increased pay with increased usage and minutes, the actual potential benefits are more likely in the \$5 billion range.
- An estimated 30% of the annual \$1.2 billion in Lifeline spending subsidies to low-income Americans is now allocated to wireless phones. That means Lifeline's \$360 million "investment" in information and communications technology (ICT) for the poor and a segment of the near poor generates a "net return" of \$388 million.

The question of how subsidized phones impact the poor has recently taken on more urgency given the lingering and deep recession. The U.S. Census Bureau reports that 44 million Americans are now considered to be living in poverty (2009 data), the highest number in poverty in the 51 years this number has been tracked by the U.S. Census Bureau.<sup>1</sup>

In addition, an increasing number of poor Americans live in wireless-only households. Adults living in poverty (36.3%) and adults living in near poverty (29.0%) are more likely than higher-income adults (19.6%) to be living in households with only wireless telephones, according to the Centers for

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<sup>1</sup> *Income, Poverty, and Health Insurance Coverage in the United States: 2009, Current Population Reports*, US Census, September 2010

Disease Control and Prevention (CDC) annual National Health Survey.<sup>2</sup> This survey and accompanying report are a follow-up to the initial “Sullivan Report” (April 2008), “Cell Phones Provide Significant Economic Gains for Low-Income American Households”. Although not directly comparable, the two surveys have broad areas of agreement and consistent findings. Both indicate that the cell phone is a very powerful economic tool for poor and low-income Americans.

When the FCC initiated Lifeline for low-income Americans in 1984, the goal was twofold: 1) reduce rates for all residents in rural areas, which are more expensive to cover than urban areas; 2) reduce rates for low-income residents everywhere, as a matter of health and safety. Now, a third goal should be added: improving the financial situation of the poor.

To date, only 35 states (plus Washington, D.C., and Puerto Rico) have allowed Lifeline Assistance for cell phones, which means that the remaining 15 states are both limiting the ability of their poorest to earn money—and adding to their own state-funded liabilities for social programs. For example, our polling data shows that in the last year, New York’s poorest residents added \$260 million in fresh income; Pennsylvania, \$182 million; and Alabama, \$92 million (see Appendix A, “Potential Lifeline Subscriber Earnings by State”). At a time when states are strapped and suffering from a range of deficit liabilities, new income on this level should be a welcome outcome.

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<sup>2</sup> *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey*, July 2009-December 2009, Centers for Disease Control and Prevention, Stephen J. Blumberg, Ph.D., and Julian V. Luke (<http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless200912.htm>)

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## Overview

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Most of the recent studies on the impact of cell phones on poor populations have focused on the developing world, where the sales growth and penetration of cell phones have been exponential and dramatic, where landline penetration is negligible, and where the vast majority of the world's poor reside. The impact has been dramatic and measurable.

Few studies have looked at the impact of cell phones on the poor in America. One major exception was a study on economic gains for low-income Americans (the 2008 “Sullivan Report”<sup>3</sup>), which found that nearly a third of those working attributed an increase in income or work to their cell phone. In a survey for the study by Opinion Research Corp., (ORC) far more respondents in blue-collar jobs cited gains (40%) than white-collar professionals (27%). Respondents who reside in households making less than \$35,000—and who reported that the phone helped them make money—earned an average of \$530 a year, which translated into an aggregate economic benefit of \$4.5 billion for cell owners in that cohort. Those numbers suggested that if those without cell phones were to use them and earn at the same rate, it would add \$2.9 billion to household income.

Those promising results clearly position the cell phone as a powerful economic tool for the poor and near poor. Two other recent surveys bear this out. A nationwide survey by Assurance Wireless (a subsidiary of Sprint Nextel), conducted by PKS Research Partners, found that 80% of adults with an income of less than \$25,000 are just as likely as those with higher incomes to use their phone for employment searches. And a survey by the Pew Research Center in April and May of 2010 found that 46% of households earning less than \$30,000 are wireless Internet users (either using a laptop with Wi-Fi or a cell phone). This is a lower percentage than amongst households making \$75,000 or more, where 80% are wireless Internet users, but nonetheless indicates the depth and importance of information communications technology at all levels of society.

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<sup>3</sup> “Cell Phones Provide Significant Economic Gains for Low-Income American Households” (New Millennium Research, 2008).

This study, based again on a survey by ORC, is a sequel to the first Sullivan Report, with a slightly different focus. This study focuses on recipients of cell phones that have been subsidized through the Federal Communications Commission's (FCC) Lifeline Assistance program, and considers the extent to which these cell phones have helped recipients make more money or find work. Because qualified recipients typically (with some minor variations by state) must be within 135% of federal guidelines for poverty<sup>4</sup> (or qualify for a federal program such as Medicaid, food stamps, or SSI), this study is focused exclusively on the benefits of cell-phone ownership amongst the poor and a segment of the near poor.<sup>5</sup>

The broad question asked is: *Whether or not a person who qualifies for a federal poverty program already has a phone, does a free cell phone loaded with varying amounts of free minutes make a quantifiable difference in that person's financial life?*

The general answer is: *Yes, for about half the population surveyed, the cell phone has been an important economic tool, which generates an average of \$259 per year. If all 28.5 million adults eligible for Lifeline Assistance were to take advantage of the program and earn at the same rate and level as our sample, it would result in \$3.7 billion in fresh income for the poor and near poor. In large states, such as New York, Florida, and California, the gains would exceed \$250 million.*

### **Phone Distribution Patterns Amongst the Poor**

As a matter of policy, the question of how subsidized phones impact the poor has recently taken on more urgency given the lingering and deep recession. The U.S. Census Bureau reports that the percentage of Americans living in poverty reached 14.3 percent in 2009—the highest level in 15 years.

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<sup>4</sup> Less than \$19, 670 for a couple; less than \$29,768 for a family of four

<sup>5</sup> The Centers for Disease Control and Prevention identifies the “near poor” as those with income between 100% and 200% of the poverty level; this study focuses on people at 135% of poverty-level income or less.

An additional 4 million Americans found themselves in poverty in 2009, bringing the total to 44 million.<sup>6</sup> That is the highest number in poverty in the 51 years this number has been tracked by the U.S. Census Bureau.<sup>7</sup>

In addition, an increasing number of poor Americans live in wireless-only households. Adults living in poverty (36.3%) and adults living in near poverty (29.0%) are more likely than higher-income adults (19.6%) to be living in households with only wireless phones, according to the Center for Disease Control and Prevention's (CDC) annual National Health Survey.<sup>8</sup> (Overall, 23% of all U.S. households have just cell phones; 60% had both cell and landline phones.) People residing in the South and Midwest are more likely than those in other regions to live in wireless-only homes.

While income is not the only predictor of wireless-only households—where people live, with whom they live, and age are stronger predictors than income, according to the CDC—the percentage of the poor living in wireless-only households has increased from 22% to 36% since 2006. Loss of jobs and credit leads to cut-offs of landline service, and those living on the streets or in homeless shelters have no platform for landline service (except payphones). In Washington, D.C., for example, 30% to 45% of homeless people have cell phones, according to a report in *The Washington Post*.<sup>9</sup> Overall, cell-phone

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<sup>6</sup> Under a revised formula, published in January 2011, which includes the pretax costs of health, transportation, and food, the poverty rate was revised to 15.7%, and 47.8 million people. While this revised formula does not replace the official rate as reported by the U.S. Census, it is likely to increase the number of people eligible for Lifeline Assistance in the next few years.

<sup>7</sup> *Income, Poverty, and Health Insurance Coverage in the United States: 2009*, Current Population Reports, US Census, September 2010

<sup>8</sup> *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey*, July 2009–December 2009, Centers for Disease Control and Prevention, Stephen J. Blumberg, Ph.D., and Julian V. Luke (<http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless200912.htm>)

<sup>9</sup> “D.C. Homeless People Use Cell Phones, Blogs and E-Mail to Stay on Top of Things,” Dvorak, Petula, *The Washington Post*, March 23, 2009

ownership for those living below the poverty level is 73%, compared to 92% for all Americans.<sup>10</sup>

The percentage of adults living in “wireless-mostly” households has also been increasing, and is now at 16.3%. (“Wireless mostly” indicates households that rarely answer the landline phone, or use it almost exclusively for Internet access.) While some of the poor are in this category, adults living in poverty (10.0%) and adults living in near poverty (12.7%) were less likely than higher-income adults (19.2%) to be living in wireless-mostly households.

### **Federal Phone Subsidies for the Poor**

The FCC has long acknowledged the importance of telephones for the poor. The FCC’s Lifeline Assistance is a joint federal program (operated by the FCC and state public utility commissions) created in 1984 as a public-assistance program that ensures telephone service is available and affordable for low-income subscribers. The program, part of the Low Income Program of the Federal Universal Service Fund (USF) and administered by the Universal Service Administrative Company (USAC), was enhanced under the Telecommunications Act of 1996.

Historically, Lifeline provided discounts up to \$10 per month on basic monthly service at a primary residence; the complementary Link-Up America program paid half (up to \$30) of the initial installation fee for a traditional, landline telephone.

In 2008, recognizing the seismic national shift in phone usage away from landline and toward wireless, the FCC for the first time opened up the Lifeline Assistance program to prepaid mobile operators. The same \$10/month discount on service now applies to post-paid wireless or prepaid wireless phones. Even if you already have a landline phone, you could qualify for a

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<sup>10</sup> *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey*, July 2009–December 2009, Centers for Disease Control and Prevention, Stephen J. Blumberg, Ph.D., and Julian V. Luke

Lifeline wireless phone (in most states) if you are within 135% of federal poverty guidelines. That equates to a maximum of \$14,621 for a single-person household to a maximum of \$49,964 for a family of eight (for each additional person, add \$5,049). A recipient may not apply Lifeline to both landline and wireless phones.

The program was started during the Reagan administration. Lifeline, while administered as a federal program, is supported by the USF, which was created by the FCC in 1997 to meet Congressional universal service goals as mandated by the Telecommunications Act of 1996. The Act states that all providers of telecommunications services should contribute to federal universal service in some equitable and nondiscriminatory manner; there should be specific, predictable, and sufficient federal and state mechanisms to preserve and advance universal service; all schools, classrooms, health care providers, and libraries should, generally, have access to advanced telecommunications services; and finally, that the Federal-State Joint Board and the FCC should determine those other principles that, consistent with the 1996 Act, are necessary to protect the public interest.

As of the first quarter of 2010, the USF fee equaled 14.1% of a telecom company's interstate and end-user revenues. The vast proportion of all Lifeline funds—\$4.6 billion in 2010—is directed to lower the cost of rural telephone service for people of all income levels; essentially, higher urban rates subsidize lower rural rates. Total phone subsidies for low-income families totaled \$1.2 billion in 2010; the percentage of people using Lifeline for cell phones rather than landline service was 30% in 2010.

### **Lifeline and Prepaid Cell Phones**

The first prepaid telecom operator to offer subsidized cell phones to the poor for free was TracFone (a subsidiary of América Móvil), through its SafeLink Wireless program, starting in Tennessee in August 2008. SafeLink now operates in 31 states (plus Washington, D.C., and Puerto Rico), and has distributed more than 3 million cell phones. Of the 1,700 companies that offer phone discounts, SafeLink Wireless is second only to AT&T in the number of Lifeline subscribers<sup>11</sup> and has the most Lifeline subscribers in 10 states.

SafeLink Wireless applies the USF subsidy to an allotment of free airtime plans. SafeLink offers up to 250 free minutes per month (up from 68 minutes through June 2010), to use for voice or texting. Safelink also offers a 125-minute plan with the ability to roll over minutes from month to month, and a 68-minute plan that offers international calling to more than 100 locations. Additional minutes can be purchased for 10 to 20 cents, depending on state. In all cases, recipients may keep the SafeLink-provided handset even if they don't qualify for Lifeline the following year. The cell phone offers voicemail, text, three-way calling, call waiting, caller ID, and access to 911 (even if all free minutes have been used).

Sprint Nextel's Assurance Wireless (offered through Virgin Mobile) now operates in 21 states. Assurance Wireless offers 250 free minutes each month (up from 200 minutes through October 2010), with no allowance for texting or international calls. Assurance Wireless also offers customers the ability to increase monthly minutes to 500 for \$5, or 1,000 minutes and 1,000 text messages for \$20.

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## Methodology

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The ORC survey of 5,541 SafeLink Wireless users<sup>12</sup> in 22 states plus Washington, D.C.,<sup>13</sup> was conducted by landline phone between October 25 and November 22, 2010. Respondents were at least 18 years old living in private households in the continental United States. Landline calls were made, rather than cell phone calls, so that those surveyed would not lose valuable minutes on their phones. SafeLink Wireless provided funding for the ORC survey and report.

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<sup>11</sup> SafeLink Wireless website

<sup>12</sup> 12% said they also had a monthly contract phone, and 8% said they had another prepaid phone.

<sup>13</sup> Alabama, Connecticut, Washington, D.C., Delaware, Florida, Georgia, Illinois, Louisiana, Massachusetts, Maryland, Maine, Michigan, Missouri, North Carolina, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Tennessee, Virginia, Wisconsin, West Virginia. Interviews were conducted with roughly 225 people in each of the 22 states, and 93 in D.C.

The breakout was 45% male (2,501) and 55% female (3,040). Of the total, 8% (421) said they were working full-time, 10% (574) were self-described as working part-time, 27% (1,483) were unemployed, 32% (1,781) were disabled, and 23% (1,254) were retired. The small number actually working full-time (8%) and the large number unemployed (27%) or looking for work (16%) could account for the reason income levels are so low in this cohort. Those working full- or part-time were far more likely to be younger, and to have children in the household.

Of those not working, whether due to unemployment, disability, or retirement, 890 were actively looking for work. That yields a total of 995 people working, and 890 looking for work, a total of 1,985 in the “work force”. This is a statistically valid sample of the working population to project numbers to the larger population at a 95% confidence level.

In terms of education, 7% had an 8th grade education or less, 22% had not completed high school, 43% were high school graduates, 20% had some college, 5% were college graduates, and 1% had an advanced degree. In terms of race, 50% were white/Caucasian, 40% black/African American, 11% “other” or “unidentified” and 1% Asian/Asian American. In terms of age, 14% were in the 18- to 34-year-old age bracket, 26% in the 35 to 49 bracket, 35% in 50 to 64 bracket, and 24% were 65 and older.

The relatively small cohort of 18- to 34-year-old respondents (14%) may skew some of the employment numbers lower, as this age bracket has the highest incidence of both full-time (18%) and part-time (24%) workers of any age group. The 18- to 34-year-old segment also showed the highest level of unemployment (46%). The incidence of workers and non-workers by race, on the other hand, is very evenly distributed.

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## Detailed Findings

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The subsidized cell phone is clearly an important economic tool for the poor and near poor. Virtually half (49%) said the phone had helped them to find or keep work, and attribute income gains to the phone. This is true for those working and those looking for work. And while larger numbers of young people (67% of the 18- to 34-year-old segment), females (52%), and African Americans (57%) attributed improved finances to the phone, a significant percentage of all groups cite very positive gains.

For many respondents (42%), the subsidized SafeLink phone is the first cell phone they have owned, particularly for the older and less-educated cohorts. Having used a SafeLink phone, a third for less than six months, 57% say if they didn't have a SafeLink phone they would be most likely to get a cell phone, with the vast majority opting for a prepaid phone. However, a fifth of all SafeLink subscribers already had either a postpaid or prepaid cell phone, and 41% of those employed full-time have a cell phone in addition to their SafeLink phone, and 71% also have a landline phone.

To be sure, the landline phone is still the phone of choice for these households—58% use a landline phone “most often” to receive calls, and a similar number (55%) to make calls. But, because the cell phone is so new to so many, that pattern is likely to change. Already, 19% said they had purchased extra minutes when their allotment of free minutes (60–250, depending on the state) ran out. Even more, roughly a quarter, of those working or looking for work added more minutes. For people living close to the edge, and dependent on federal subsidies for many aspects of daily life, the impetus to buy more minutes is a strong indication of the perceived and/or real value of the phone in generating income.

### **Work-related Calls**

While “calling family” was cited as the most important benefit of the cell phone (46%), “finding a job” and “staying in touch with your job or employer” was the second most-cited benefit (11%). More strikingly, 49% of the total universe said the cell phone had “improved their financial situation by helping them find or keep work.” For those working or looking for work, the numbers whose financial situation had improved were higher. In the total universe, nearly a quarter (22%) say more than 25% of their cell-phone calls are related to work or money—and for a minority (10%) more than 50% of all calls are work-related. The average percentage of work-related calls was highest amongst part-time workers (38%), which may indicate they are looking for other work to supplement their part-time position. For full-time workers (34%), those looking for work (32%), and 18- to 34-year-olds (31%), roughly one-third of all calls are work-related.

One notable difference from previous studies on prepaid cell phones is the propensity to use advanced phone features. For example, 44% use voicemail; 39% send or receive text messages; 34% use call waiting; and 60% use caller ID. The big surprise is the number who use voicemail, which cuts into minutes, and which other groups have cited as a reason to ignore missed calls. This may reflect a growing sophistication, but more likely suggests a sense of urgency in tracking possible work offers.

### **Income Gains at Micro Level**

How does this usage translate to income gains? Of those who said the phone had improved their financial situation by helping them find or keep work (49%), all but 19% (“don’t know”) cited some phone-related income in the last year, although a third said that income was less than \$100. So, for roughly half of those whose financial situation improved, the gains were non-existent or minimal. It is important to note that the SafeLink program is relatively young, having started in August 2008, and that some states have only been approved in the last year. A third (33%) of respondents have had their SafeLink phone less than six months, 29% for between six months and year, and only 36% for more than a year (2% “don’t know”).

For the other half of respondents whose financial situation improved, 38% cited income gains between \$100 and \$500, with about twice the number making less than \$250 as more than \$250. And 11% cited gains of more than \$500, with about 4% of these saying they had made more than \$1,000 (the highest value interviewers cited).

In the under \$100 category, significant numbers of the retired (38%), unemployed (37%), and disabled (29%) said the phone had helped them earn money in the last year. These earnings could come from spot jobs, and perhaps an attribution of value to the subsidized phone; interviewers did not tease out the source of income for any group.

Factoring in all responses, the average income gained in the last year was \$259. Those working full-time cited average income gains of \$303, but even

those unemployed (\$246) or looking for work (\$257) were only marginally below the mean.

### **Income Gains at Macro Level**

Using ORC's statistically sturdy survey (at 95% confidence level) as a base, we can extrapolate out to the population at large the impact of using a cell phone to generate income. If all Americans eligible for Lifeline Assistance (28.5 million in 2009) were to earn money with their cell phones at the same rate as those in our sample, that would equate to income gains of \$3.7 billion for the poor and a large segment of the near poor.<sup>14</sup>

However, these numbers are likely understated, because so many actual Lifeline Assistance cell phone subscribers have had their phones for less than six months, thus have yet to see the full economic impact. For example, in Louisiana, where 71% of those surveyed said they had had their phones for less than six months, the average earnings were \$197; in Maine, 79% had had the phone less than six months, and average earnings were \$223; in Missouri (62%), average earnings were \$175 (see Appendix: "Potential Lifeline Subscriber Earnings by State").

By contrast, the bigger earners came from states that have offered the program longer. In Wisconsin, only 31% had had their phones less than six months, and earnings averaged \$312; in Pennsylvania (20%), earnings averaged \$303; and in Delaware (21%), \$306. (see chart, State by State Results).

The longer people have the phone the more money they attribute to it. In addition, the more minutes they have to use, the more money they earn. Given that SafeLink has slowly been increasing free minutes from 68 to 250 minutes in several states, that trend will impact earnings.

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<sup>14</sup> 28.5 eligible adults, divided by 2 (roughly half say the phone makes them money) equals 14.25 million. Multiply by \$259 to get \$3.7 billion.

Given the expected increase in eligible subscribers, based on the recent revamped numbers in poverty, and assuming the increased pay with increased usage and minutes, the actual potential benefits are more likely in the \$5 billion range.

While this current study differs in some regards from the initial Sullivan Report (2008), both share a focus on poor and near poor Americans—in the first study, the bottom two quintiles (less than \$35,000 per household); in this study, those at or below 135% of the federal poverty level.

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### Comparison to Previous Study

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There are several major differences between this current study and the Sullivan Report. In the first study, a statistical slice of the whole population was surveyed, although we focused on the lower-income segments. Second, the first survey covered all states, compared to 22 in this survey. Third, the first survey included all cell phones (postpaid and prepaid) that subscribers had bought with their own money, while this study covers only prepaid phones that have been provided by the USAC's Lifeline service. Finally, the first survey covered households; while this current survey has some household questions, it aimed more at individual phone users. Thus, the studies are not directly comparable.

Nonetheless, the two studies have general and broad areas of agreement. For example, in the first survey, of all Americans, 31% of those working said the cell phone helped them make money, while in the second survey of poor and near-poor Americans, far more said the phone helped them make money—49%. But 43% of prepaid users in the first study said the phone helped them make money (compared to 28% of postpaid). Taken together, the two studies indicate that the phone is a more powerful economic tool for those with lower incomes, who are more likely to use a prepaid than postpaid phone.

In the first study, the average income gain attributed to cell phones for those in the bottom two quintiles (less than \$35,000 annual income) was \$530, implying aggregate income gains of \$4.5 billion. (The Lifeline cutoff for a family of 5 is \$34,816, so many potential Lifeline subscribers fall within these two quintiles.) If the 38% of 45.2 million bottom-quintile households that did

not then have cell phones were to start using them, and earn money at the same rate as those households that did own cell phones, it would add \$2.9 billion to household incomes.

In this current study, the average income was \$259 from the SafeLink phone, which projects out to income gains of \$3.7 billion for all adults eligible for Lifeline Assistance.

While these numbers are different, they are relatively consistent. In the three years since the first survey, the percentage of low-income Americans with cell phones has increased dramatically, which means the potential income gains from adding new phones are smaller in the aggregate. In the first study, all respondents had bought their own phone, postpaid or prepaid, as Lifeline did not apply to cell phones at that time; thus, the demographic profile was more upscale than in the current survey. For example, in the first survey, 50% said the phone had helped them earn more than \$500, versus 11% in this study. Finally, in the current study, the majority of respondents have had their SafeLink phones for less than one year, and many for less than six months.

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## Conclusion

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This survey of 5,541 SafeLink subscribers to phones subsidized by the USF, especially when bumped against the previous (2008) survey of cell phone usage amongst lower-income Americans, indicates that the cell phone is a very important economic tool for poor Americans. Even though “staying in touch with family” was cited as the most important aspect of the cell phone by an overwhelming margin, roughly half (49%) said the phone had helped them find or keep work and make money. That response, given that more than half of those surveyed were either retired (23%) or disabled (32%), is very impressive. So is the number of work-related calls, with nearly a quarter (22%) making more than 25% of all calls on work or money issues.

For those who said they did make money, the average gain was \$259. This is clearly a relatively modest gain even for someone living in poverty, and if it resulted from a phone bought at retail might not even cover the costs of using the phone. But, at a time when the country has more people living below the federal poverty limit than ever before, and when people in poverty are much

more likely than the population at large to live in wireless-only households, the positive impact of a cell phone cannot be overstated, especially when aggregated to project potential gains for the entire population.

Consider also that in many states the number of free minutes is capped at 60, and since we can assume a correlation between the amount of minutes used and money earned (from the first Sullivan Report), the income impact might be higher with more minutes over a longer time period. The benefits can be expected to accelerate as the program matures and people own their phones for longer periods.

The survey did not ask for a comparison between landline and cell phone, but it seems that respondents rate them equally. When asked if they didn't have a SafeLink phone what type of phone they would get, 57% said a cell phone (with nearly three out of four saying a prepaid phone), and 59% said a landline phone. Considering that 42% had never owned a cell phone before, this is a sound endorsement of mobile versus fixed-line phone technology. In the slightly more than two years since the Lifeline program was extended to cell phones (as well as landline), the number of Lifeline cell phone customers has risen from 0% to 30%. That increase is doubly impressive considering that the dominant provider, SafeLink Wireless, operates in just 31 states (plus Washington, D.C., and Puerto Rico).

Consider that 30% of the annual \$1.2 billion in Lifeline spending is now allocated to wireless phones; that \$360 million "investment" in information and communications technology (ICT) for the poor and a segment of the near poor generates a "return" of \$388 million.<sup>15</sup> Lifeline's \$240 million

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<sup>15</sup> \$360 million divided by \$120 (the subsidy per customer per year) equals 3 million. Divide by 2 (roughly half say the phone helps them make money) to get 1.5. Multiply by \$259 to get \$388 million.

“investment” in SafeLink Wireless’s 2 million customers generates a \$259 million return.<sup>16</sup> While that return is not large, it does demonstrate that the USF subsidy is productive.

These positive indicators have implications for policy makers. When the FCC initiated Lifeline for low-income Americans in 1986, the goal was twofold: 1) reduce rates for all residents in rural areas, which are more expensive to cover than urban areas; 2) reduce rates for low-income residents everywhere, as a matter of health and safety.

Now, a third goal should be added: improving the financial situation of the poor. The landline phone was never perceived as an economic tool in a residential setting, although of course it was and is in a commercial setting. The cell phone, however, is not just a phone, but a mini computer that is always at hand, which allows its owners mobility and access to information. In an age driven by information communications technology, that access is an economic necessity—one borne out by the results of this study.

To date, 35 states (plus Washington, D.C., and Puerto Rico) have allowed Lifeline Assistance for cell phones, which means that the remaining 15 states are both limiting the ability of their poorest to earn money—and adding to their own state-funded liabilities for social programs. For example, our polling data shows that in the last year, New York’s poorest residents added \$260 million in fresh income, Pennsylvania added \$182 million, and Alabama, \$92 million. At a time when states are strapped and suffering from a range of deficit liabilities, new income on this level should be a welcome outcome.

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<sup>16</sup> 2 million customers multiplied by \$120/yr equals a \$240 million investment. To calculate the return, divide 2 million by 2 to get 1, and multiply by \$259 to get \$259 million.

## Appendix: Potential Lifeline Subscriber Earnings by State

### How to Read This Chart:

The states in regular Roman font are states in which Opinion Research Corporation polling was conducted. The percentage of respondents who said the phone had helped them make money, and the average income earned, are taken from polling data. Given the number of eligible Lifeline Assistance subscribers in each state, we calculate the total potential income in that state, if each potential subscriber were to take advantage of a subsidized cell phone.

The states listed in ALL CAPITAL LETTERS are states in which SafeLink Wireless operates, but were not part of the survey. Using average figures for respondents who said the phone helped them earn money (49%) and average income (\$259), we estimate the total potential income in those states, were each potential subscriber to take advantage of the subsidized phone.

The states listed in *Bold Italics* are states that do not yet allow prepaid wireless cell phone operators to take advantage of Lifeline Assistance. Again, using average numbers from the survey data, we project potential earnings in those states.

For states in which polling was conducted, we show the percentage of respondents who had had their subsidized phones for less than six months. Comparing this figure to the average income shows a correlation between length of ownership and potential income. For states in which actual polling was not conducted, we list average figures for ownership less than six months (33%) and potential income (\$259).

| State                | # Eligible for Lifeline 2009 | % Who Make \$\$ with Cell Phone | % Who Had Phone < 6 Mos | Mean Income from Cell Phone (\$) | Total Potential Income (\$) |
|----------------------|------------------------------|---------------------------------|-------------------------|----------------------------------|-----------------------------|
| Alabama              | 649,105                      | 52                              | 33                      | 273                              | 92,146,946                  |
| <i>Alaska</i>        | 33,050                       | 49                              |                         | 259                              | 4,194,376                   |
| <i>Arizona</i>       | 531,600                      | 49                              |                         | 259                              | 67,465,356                  |
| ARKANSAS             | 407,838                      | 49                              | 33                      | 259                              | 51,758,721                  |
| <i>California</i>    | 2,424,002                    | 49                              |                         | 259                              | 307,630,094                 |
| <i>Colorado</i>      | 315,825                      | 49                              |                         | 259                              | 40,081,351                  |
| Connecticut          | 219,700                      | 50                              | 23                      | 256                              | 28,121,600                  |
| Delaware             | 70,399                       | 51                              | 21                      | 306                              | 10,986,468                  |
| District of Columbia | 68,711                       | 38                              | 30                      | 335                              | 8,746,910                   |
| Florida              | 1,953,211                    | 52                              | 16                      | 268                              | 272,199,485                 |
| Georgia              | 802,193                      | 55                              | 17                      | 255                              | 112,507,568                 |
| <i>Hawaii</i>        | 73,511                       | 49                              |                         | 259                              | 9,329,281                   |
| <i>Idaho</i>         | 143,226                      | 49                              |                         | 250                              | 17,545,185                  |
| Illinois             | 1,052,937                    | 59                              | 50                      | 211                              | 131,080,127                 |
| INDIANA              | 632,767                      | 49                              |                         | 259                              | 80,304,460                  |
| IOWA                 | 322,216                      | 49                              |                         | 259                              | 40,892,433                  |
| KANSAS               | 258,379                      | 49                              |                         | 259                              | 32,790,879                  |
| KENTUCKY             | 595,290                      | 49                              |                         | 259                              | 75,548,254                  |
| Louisiana            | 616,194                      | 54                              | 71                      | 197                              | 65,550,718                  |
| Maine                | 150,993                      | 37                              | 79                      | 223                              | 12,458,432                  |
| Maryland             | 334,607                      | 49                              | 31                      | 276                              | 45,252,251                  |
| Massachusetts        | 481,678                      | 44                              | 16                      | 241                              | 51,077,135                  |
| Michigan             | 905,734                      | 47                              | 12                      | 292                              | 124,302,934                 |
| MINNESOTA            | 424,380                      | 49                              |                         | 259                              | 53,858,066                  |
| MISSISSIPPI          | 421,994                      | 49                              | 33                      | 259                              | 53,555,259                  |
| Missouri             | 658,411                      | 48                              | 62                      | 175                              | 55,306,524                  |
| <i>Montana</i>       | 103,447                      | 49                              |                         | 259                              | 13,128,459                  |
| <i>Nebraska</i>      | 169,817                      | 49                              |                         | 259                              | 21,551,475                  |
| NEVADA               | 190,170                      | 49                              | 33                      | 259                              | 24,134,475                  |
| New Hampshire        | 79,438                       | 43                              | 33                      | 232                              | 7,924,735                   |
| New Jersey           | 519,311                      | 47                              | 27                      | 269                              | 65,656,490                  |
| <i>New Mexico</i>    | 217,361                      | 49                              |                         | 259                              | 27,585,285                  |
| New York             | 1,717,516                    | 55                              | 13                      | 276                              | 260,718,929                 |
| North Carolina       | 996,978                      | 53                              | 19                      | 239                              | 126,287,203                 |
| <i>North Dakota</i>  | 81,934                       | 49                              |                         | 259                              | 10,398,244                  |
| Ohio                 | 1,226,064                    | 52                              | 24                      | 321                              | 204,654,603                 |
| <i>Oklahoma</i>      | 478,704                      | 49                              |                         | 259                              | 60,752,325                  |
| <i>Oregon</i>        | 326,141                      | 49                              |                         | 259                              | 41,390,554                  |
| Pennsylvania         | 1,335,025                    | 45                              | 20                      | 303                              | 182,030,659                 |
| PUERTO RICO          | 812,001                      | 49                              | 33                      | 259                              | 103,051,047                 |
| RHODE ISLAND         | 102,567                      | 49                              | 33                      | 259                              | 13,016,778                  |
| SOUTH CAROLINA       | 494,228                      | 49                              | 33                      | 259                              | 62,722,475                  |
| <i>South Dakota</i>  | 91,423                       | 49                              |                         | 259                              | 11,602,493                  |
| Tennessee            | 713,713                      | 48                              | 15                      | 270                              | 92,497,205                  |
| TEXAS                | 2,277,836                    | 49                              | 33                      | 259                              | 289,080,167                 |
| UTAH                 | 131,458                      |                                 |                         |                                  |                             |
| <i>Vermont</i>       | 58,984                       | 49                              |                         | 259                              | 7,485,659                   |
| Virginia             | 576,607                      | 49                              | 26                      | 252                              | 71,199,432                  |
| WASHINGTON           | 490,581                      | 49                              | 33                      | 259                              | 62,259,635                  |
| West Virginia        | 279,008                      | 51                              | 33                      | 287                              | 40,838,401                  |
| Wisconsin            | 454,084                      | 45                              | 31                      | 312                              | 63,753,394                  |
| <i>Wyoming</i>       | 57,206                       | 49                              |                         | 259                              | 7,260,013                   |
| <b>TOTAL</b>         | <b>28,529,553</b>            |                                 |                         |                                  | <b>3,715,670,945</b>        |